LAURENTIAN BANK OF CANADA CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS AT A GLANCE

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

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

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

RÉJEAN ROBITAILLE, FCPA, FCA
President and
Chief Executive Officer

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

Montréal, Canada
December 5, 2012

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

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Ernst & Young LLP[1]

Chartered Professional Accountants

Montréal, Canada
December 5, 2012

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

CONSOLIDATED BALANCE SHEET [1]

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

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

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

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

Réjean Robitaille, FCPA, FCA
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME [1]

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

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME [(1)]

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (1)

For the year ended October 31, 2012

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

For the year ended October 31, 2011

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS [1]

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. GENERAL INFORMATION

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

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

2. BASIS OF PRESENTATION

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

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

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

2.1 BASIS OF CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and all of its subsidiaries after elimination of intercompany balances and transactions. The financial statements of the Bank's subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies. The consolidated financial statements include the results of B2B Bank Financial Services Inc., B2B Bank Securities Services Inc. and B2B Bank Intermediary Services for the 351-day period and AGF Trust Company for the 92-day period from the dates of acquisition. The results of M.R.S. Trust Company for the 152-day period from the date of acquisition until its merger with B2B Bank are also included in the consolidated financial statements.

Consolidated subsidiaries

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

B2B Bank [1]	Laurentian Trust of Canada Inc.
B2B Bank Financial Services Inc.[2]	LBC Trust
B2B Bank Securities Services Inc.[3]	Laurentian Bank Securities Inc.
B2B Bank Intermediary Services Inc. [4]	LBC Financial Services Inc.
B2B Trustco	LBC Investment Management Inc.
AGF Trust Company	V.R. Holding Insurance Company Ltd

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

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

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

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

2. BASIS OF PRESENTATION [Cont'd]

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

2.2 RECLASSIFICATION OF COMPARATIVE FIGURES

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

Reclassification of certain mortgage loans

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

Investment income related to insurance activities

Investment income related to insurance activities amounting to $0.4 million for the year ended October 31, 2011, which was previously reported as part of credit insurance income, was reclassified to net interest income to better reflect the nature of this income.

2.3 USE OF ESTIMATES AND JUDGMENT

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

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

Impairment of assets

Allowances for loan losses

The allowances for loan losses adjust the value of loans to reflect management's estimate of losses incurred in the loan portfolios. These allowances are dependent upon management's estimates of the amounts and dates of future cash flows, the fair value of guarantees and realization costs, and the interpretation of the impact of market and economic conditions. Considering the materiality of the amounts and their inherent uncertainty, changes in current estimates and assumptions used in determining the allowances for loan losses could produce significantly different levels of allowances.

A detailed description of the methods used to determine the allowances for loan losses can be found in Note 3.

Other financial assets

Financial assets classified in the available-for-sale and held-to-maturity categories are monitored on a quarterly basis to determine whether there is any objective evidence that they are impaired. In evaluating the decline in value, management exercises judgment and takes into account many facts specific to each investment and all the factors that could indicate that there is objective evidence of impairment. The Bank also uses judgment to determine when to recognize an impairment loss. The decision to record an impairment loss, its amounts and the period in which it is accounted for could change if management's assessment of these factors were different. Refer to Note 3 for further detail on the accounting of available-for-sale and held-to-maturity financial assets.

2. BASIS OF PRESENTATION [Cont'd]

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

For intangible assets with finite lives, an impairment test is performed whenever there is an indication that the asset may be impaired. The test compares the recoverable amount of the intangible asset to its carrying amount. If the recoverable amount is less than carrying value, an impairment loss is charged to income.

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

Pension plans and other Employee benefits

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

Business combinations

On the date of the acquisition, the acquiree's assets and liabilities have been included in the consolidated balance sheet at fair value. Valuation of the identifiable assets and liabilities of the acquiree upon initial recognition was based on a number of assumptions determined by management such as estimates of future cash flows and discount rates. Changes in assumptions could have had a significant impact on the amount of goodwill or gain arising on acquisition recognized. Refer to Note 29 for additional information on the assets acquired and liabilities assumed as a result of business combinations.

Income taxes

Deferred income tax assets and liabilities reflect management's estimate of the value of loss carry-forwards, minimum tax carry-overs and other temporary differences. Asset values are determined using assumptions regarding the results of operations of future fiscal years, timing of reversal of temporary differences and tax rates on the date of reversals, which may well change depending on governments' fiscal policies. Moreover, management must assess whether it is more likely than not that deferred income tax assets will be realized prior to their expiration and, based on all available evidence, determine whether a valuation allowance is required on all or a portion of deferred income tax assets. In addition, to determine the provision for income taxes recorded in the consolidated statement of income, management interprets tax legislation in various jurisdictions. The use of different assumptions or interpretations could translate into significantly different income tax expenses.

Provisions and contingent liabilities

Management exercises judgment in determining whether a past event or transaction may result in the recognition of a provision or the disclosure of a contingent liability, for instance in the case of legal actions or pending litigations. Provisions are established when it becomes probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. In addition to Bank management, for provisions related to legal actions or pending litigations, internal and external experts are involved in assessing the probability and in estimating any amounts involved. Changes in these assessments may lead to adjustments to the recognized provisions. In addition, the actual costs of resolving these claims may be substantially higher or lower than the amounts accrued for these claims.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 FINANCIAL INSTRUMENTS

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

Financial instruments at fair value through profit or loss

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

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

Held-for-trading financial instruments

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

Financial instruments designated as at fair value through profit or loss

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

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

Available-for-sale financial assets

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

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

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

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables, which the Bank has the clear intention and ability to hold to maturity. These financial assets, including direct and incremental transaction costs, are initially recognized at fair value on the settlement date and measured subsequently at amortized cost, using the effective interest method, less any impairment losses.

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

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

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

Securities purchased under agreements to resell are not recognized as securities on the consolidated balance sheet and the consideration paid, including accrued interest, is recorded in securities purchased under reverse purchase agreements. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the effective interest method. These agreements are classified as loans and receivables.

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

Securities lending and borrowing

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

Securities sold short

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

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

Loans

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

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

Renegotiated loans

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

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

Foreclosed assets

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

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

Derecognition of financial assets

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

Securitization

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

Impairment of financial assets

Impairment of available-for-sale financial assets

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

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

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

Impairment of held-to-maturity financial assets

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

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

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

Impairment of loans

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

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

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

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

Collective allowances

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

To establish the collective allowance, the Bank uses a model based on the internal risk rating of credit facilities and on the related probability of default factors, as well as the loss given default associated with each type of facility. The probability of default and loss given default factors reflect the Bank's historical experience. The collective allowance is adjusted to reflect changes in the portfolios and credit policies and is maintained for each pool of loans with shared risk characteristics. This estimate includes consideration of economic and business conditions, management's judgment and the risks related to the model.

The allowance related to off-balance sheet exposures, such as letters of guarantee and certain undrawn amounts under approved credit facilities, is recognized in other liabilities.

Acceptances and customers' liabilities under acceptances

Acceptances represent an obligation for the Bank with respect to short-term negotiable instruments issued by the Bank's customers to third parties and guaranteed by the Bank. Acceptances are classified as other liabilities. The recourse against the customer in the event that these obligations give rise to a cash outlay is reported as a corresponding asset and classified as loans and receivables. Commissions earned are recorded in other income in the consolidated statement of income.

Derivatives and hedges

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

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

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

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

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

For these hedging relationships, the changes in the hedged item's fair value attributable to the hedged risk are recognized in the consolidated statement of income under income from treasury and financial market operations with a corresponding adjustment to the carrying amount of the hedged item in the consolidated balance sheet. Changes in fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in fair value of the hedging derivative. When the hedging relationship ceases to be effective or the hedging instrument is sold or terminated early, hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying amount of the hedged item linked to a hedging relationship that ceases to be effective or for which the hedging derivative is terminated or sold is recognized in net interest income in the periods during which the hedged item affects income. Hedge accounting is also discontinued on the sale or early termination of the hedged item, whereupon the cumulative adjustment to the hedged item's carrying amount is immediately recognized in other income.

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

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

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

Deposits

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

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

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

Debt related to securitization activities

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

Subordinated debt

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

Measuring the fair value of financial instruments

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

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

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

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

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expense are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

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

3.2 BUSINESS COMBINATIONS

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

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

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

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

3.3 PREMISES AND EQUIPMENT

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

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

Depreciation

Depreciation is calculated using the straight-line method to write down the cost of premises and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

	Period
Premises	25-40 years
Leasehold improvements	The lesser of term of the lease, plus one initial renewal option, or useful life
Equipment and furniture	3-10 years
Computer hardware	5-10 years

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

Impairment

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

3.4 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of the cost of acquisition over the fair values of the identifiable net assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

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

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

Intangible assets with finite lives are tested for impairment whenever circumstances indicate that the carrying value may not be fully recoverable. When the net carrying amount exceeds the estimated discounted future net cash flows, intangible assets with finite lives are considered impaired and are written down to their recoverable amount.

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

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

3.5 EMPLOYEE BENEFITS

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

Short-term benefits

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

Post-employment benefits

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

Defined benefit pension plans

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

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

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

The value of any pension plan asset is restricted to the sum of any actuarial losses and past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. The cost of providing benefits under the plans is determined for each plan using the projected unit credit actuarial valuation method, which incorporates various parameters such as demographic assumptions, the probability that employees will leave before retirement age, salary inflation, a discount rate, and the general inflation rate.

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

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

Defined contribution pension plans

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

Other post-employment benefits

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

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

3.6 PROVISIONS AND CONTINGENT LIABILITIES

Provisions are liabilities of uncertain timing or amount. They are recognized when the Bank has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated.

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

3.7 INCOME TAXES

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

3.8 EARNINGS PER SHARE

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

3.9 INSURANCE

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

3.10 SHARE-BASED PAYMENTS

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

Compensation expense of equity instruments [share purchase options] is accrued based on the best estimate of the number of instruments expected to vest, with revisions made to that estimate if subsequent information indicates that actual forfeitures are likely to differ from initial estimates. Share purchase options are expensed with a corresponding increase in share-based payment reserve in equity.

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

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

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

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

3.11 ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

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

3.12 TRANSLATION OF FOREIGN CURRENCIES

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

3.13 CASH AND CASH EQUIVALENTS

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

3.14 LEASES

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

3.15 SHARE CAPITAL

Share issue Costs

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

Dividend on common shares

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

4. FUTURES ACCOUNTING CHANGES

The following section summarizes accounting standards which have been issued but are not yet effective. The Bank is currently assessing the impact of the adoption of these standards on its financial statements.

IFRS 9: *Financial Instruments*

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

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

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

4. FUTURES ACCOUNTING CHANGES [Cont'd]

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

In May 2011, the IASB issued, and subsequently amended in June 2012, IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements* and IFRS 12, *Disclosure of Interests in Other Entities*, which are effective for annual periods beginning on or after January 1, 2013, which will be November 1, 2013 for the Bank, and are to be applied retrospectively.

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

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

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

IFRS 13: *Fair Value Measurement*

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

IAS 19: *Employee Benefits*

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

The amendments to IAS 19 eliminate the option to defer the recognition of gains and losses resulting from defined benefit plans, known as the "corridor method", which is presently used by the Bank, and requires that remeasurements be presented in other comprehensive income. Accordingly, actuarial gains and losses would have been recognized in other comprehensive income as they would have occurred. The amendments also require full recognition of past service costs (gains) immediately in net income, and recognition of expected return on plan assets in net income to be calculated based on the rate used to discount the defined benefit obligation. The amendments include additional disclosures that explain the characteristics of the entity's defined benefit plans and risks associated with the plans, as well as disclosures that describe how defined benefit plans may affect the amount, timing and uncertainty of future cash flows, and details of any asset-liability match strategies used to manage risks.

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

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

IAS 1: *Presentation of Financial Statements*

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

5. SECURITIES

MATURITY SCHEDULE OF SECURITIES

Portfolio of available-for-sale securities

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

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

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

Portfolio of held-to-maturity securities

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

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

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

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

5. SECURITIES [Cont'd]

GAINS AND LOSSES RECOGNIZED IN INCOME

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

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

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

GAINS AND LOSSES RECOGNIZED IN COMPREHENSIVE INCOME

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

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

As at				October 31, 2011
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Securities issued or guaranteed				
by Canada[1]	$ 1,223,334	$ 26,066	$ —	$ 1,249,400
by provinces	410,861	4,286	29	415,118
Other debt securities	303,797	7,396	560	310,633
Asset-backed securities	23,292	1,765	3	25,054
Preferred shares	57,142	1,172	1,385	56,929
Common shares and other securities	48,595	4,596	2,250	50,941
	$ 2,067,021	$ 45,281	$ 4,227	$ 2,108,075

As at				November 1, 2010
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Securities issued or guaranteed				
by Canada[1]	$ 1,429,664	$ 36,866	$ 24	$ 1,466,506
by provinces	407,449	4,498	—	411,947
Other debt securities	132,595	6,996	163	139,428
Asset-backed securities	24,694	1,278	53	25,919
Preferred shares	56,776	2,232	52	58,956
Common shares and other securities	30,932	5,558	385	36,105
	$ 2,082,110	$ 57,428	$ 677	$ 2,138,861

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

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

6. LOANS

LOANS AND IMPAIRED LOANS

As at				Collective allowances		October 31, 2012
	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

As at				Collective allowances		October 31, 2011
	Gross amount of loans	Gross amount of impaired loans	Individual allowances	Against impaired loans	Against other loans	Total allowances
Personal	$ 5,774,207	$ 14,395	$ —	$ 8,192	$ 22,024	$ 30,216
Residential mortgage	11,869,412	17,053	—	546	878	1,424
Commercial mortgage	2,363,808	62,541	22,129	7,175	15,008	44,312
Commercial and other[1]	2,080,117	69,736	47,321	2,644	17,233	67,198
	$ 22,087,544	$ 163,725	$ 69,450	$ 18,557	$ 55,143	$ 143,150

As at				Collective allowances		November 1, 2010
	Gross amount of loans	Gross amount of impaired loans	Individual allowances	Against impaired loans	Against other loans	Total allowances
Personal	$ 5,636,203	$ 16,397	$ —	$ 9,351	$ 22,196	$ 31,547
Residential mortgage	10,859,647	20,914	—	1,937	1,561	3,498
Commercial mortgage	2,166,375	52,706	13,750	2,629	13,201	29,580
Commercial and other[1]	1,856,640	98,106	44,391	7,900	14,651	66,942
	$ 20,518,865	$ 188,123	$ 58,141	$ 21,817	$ 51,609	$ 131,567

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

Foreclosed assets

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

6. LOANS [Cont'd]

INDIVIDUAL ALLOWANCES FOR LOAN LOSSES

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

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

COLLECTIVE ALLOWANCES FOR LOAN LOSSES

Collective allowances against impaired loans

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

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

Collective allowances against other loans

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

(1) Including customers' liabilities under acceptances

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

6. LOANS [Cont'd]

LOANS PAST DUE BUT NOT IMPAIRED

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

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

As at				October 31, 2011
	1 day– 31 days	32 days– 90 days	Over 90 days	Total
Personal loans	$ 98,641	$ 37,630	$ 5,188	$ 141,459
Residential mortgages	257,008	35,773	26,297	319,078
	$ 355,649	$ 73,403	$ 31,485	$ 460,537

As at				November 1, 2010
	1 day– 31 days	32 days– 90 days	Over 90 days	Total
Personal loans	$ 103,203	$ 26,478	$ 7,160	$ 136,841
Residential mortgages	277,957	32,053	32,820	342,830
	$ 381,160	$ 58,531	$ 39,980	$ 479,671

7. LOAN SECURITIZATION

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

CANADA MORTGAGE BOND PROGRAM

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

NHA MBS are amortizing assets that pay back principal and interest cash flows on a monthly basis. For their part, CMBs provide investors with a fixed interest coupon bond with semi-annual interest payments and repayment of principal on a specified maturity date. To address this difference in cash flows, the CHT enters into master swap agreements with approved financial institutions (Swap Counterparties). Under the swap, Swap Counterparties receive the monthly interest flows from the original NHA MBS and the Replacement Assets (see below), and in return provide the CHT with the regular interest payments required to pay out to investors under the terms of the CMB. In addition, under the swap agreement, the Swap Counterparties are responsible to reinvest the monthly principal flows from the NHA MBS on behalf of the CHT. The Swap Counterparties may only carry out this reinvestment in AAA-rated mortgage-backed securities and Canada guaranteed eligible assets (the Replacement Assets). Simultaneously, these Swap Counterparties conclude similar swap agreements with the Bank.

7. LOAN SECURITIZATION [Cont'd]

At the swap coupon settlement date, the Bank therefore pays/receives the difference between the amount collected from the original NHA MBS, as well as from the Replacement Assets, and the amount payable to investors under the terms of the CMB. Because the underlying cash flows associated with these interest rate swaps are captured through the on-balance sheet recognition of the underlying assets and the associated securitization liabilities, these interest rate swaps are not recognized at fair value on the consolidated balance sheet and fair value changes are not recognized in the consolidated statement of income. The underlying cash flows of the interest rate swaps are recognized on an accrual basis as described below. As at October 31, 2012, the notional amount of these swaps was $5.2 billion compared to $4.7 billion as at October 31, 2011 and $3.3 billion as at November 1, 2010.

Assets related to securitization activities

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

Debt related to securitization activities

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

MULTI-SELLER CONDUITS

As part of transactions with multi-seller conduits, the Bank sells fixed rate and variable rate mortgage loans to trusts established for the limited purpose of securitization activities. These trusts fund such purchases mainly through the issuance of asset-backed commercial paper. Funding is reduced as mortgage loans are repaid. To reduce the interest-rate risk associated to the mismatch between the fixed rate mortgage loans and the variable rate funding of the trusts, as well as to reduce the risk related to the timing of the collection of cash flows related to the mortgage loans, the trusts enter into swap agreements with third party swap counterparties. Under the swap agreements, these swap counterparties receive the monthly interest flows from the mortgage loans and in return provide the trusts with the regular interest payments required to pay out to investors under the terms of the asset-backed commercial paper. Simultaneously, these swap counterparties conclude similar swap agreements with the Bank. At the swap coupon settlement date, the Bank therefore pays/receives the difference between the amount collected from the mortgage loans and the amount payable to investors. Because the underlying cash flows associated with these interest rate swaps are captured through the on-balance sheet recognition of the underlying mortgage loans and the associated securitization liabilities, these interest rate swaps are not recognized at fair value on the consolidated balance sheet and fair value changes are not recognized in the consolidated statement of income. The underlying cash flows of the interest rate swaps are recognized on an accrual basis as described below. As at October 31, 2012, the notional amount of these swaps was $0.9 billion compared to $0.04 billion as at October 31, 2011 and $0.2 billion as at November 1, 2010.

Assets related to securitization activities

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

Debt related to securitization activities

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

Guarantees related to securitization activities

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

7. LOAN SECURITIZATION [Cont'd]

FINANCIAL ASSETS AND ASSOCIATED FINANCIAL LIABILITIES NOT QUALIFYING FOR DERECOGNITION

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

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

As at		October 31, 2011
	Carrying amount	Fair value
Residential mortgage loans	$ 3,394,017	$ 3,445,016
Replacement Assets		
Cash and deposits with other banks	9,030	9,030
Securities purchased under reverse repurchase agreements	401,564	401,564
Other securities	885,822	890,582
Debt related to securitization activities	$ (4,760,847)	$ (4,904,049)

As at		November 1, 2010
	Carrying amount	Fair value
Residential mortgage loans	$ 2,715,535	$ 2,775,073
Replacement Assets		
Cash and deposits with other banks	5,740	5,740
Securities purchased under reverse repurchase agreements	190,800	190,800
Other securities	559,457	563,725
Debt related to securitization activities	$ (3,486,634)	$ (3,643,358)

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

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

7. LOAN SECURITIZATION [Cont'd]

LOANS UNDER MANAGEMENT

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

SALE OF COMMERCIAL MORTGAGE LOANS

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

8. PREMISES AND EQUIPMENT

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

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

9. GOODWILL

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

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

IMPAIRMENT TESTING OF GOODWILL

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

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

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

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

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

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

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

10. SOFTWARE AND OTHER INTANGIBLE ASSETS

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

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

11. OTHER ASSETS

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

12. DEPOSITS

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

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

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

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

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

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

13. OTHER LIABILITIES

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

14. DEBT RELATED TO SECURITIZATION ACTIVITIES

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

As at			October 31, 2012	October 31, 2011	November 1, 2010
Maturity	Rate	Nominal Value	Carrying amount	Carrying amount	Carrying amount
Debt related to CMB transactions					
March 2011	4.08 %	$ 51,439	$ —	$ —	$ 51,410
June 2012	4.83	51,712	—	51,680	51,633
June 2012	4.03	66,542	—	66,489	66,410
December 2012	4.58	802,641	802,608	802,987	803,321
June 2013	3.98	249,118	248,925	248,640	248,366
June 2013	3.63	407,499	407,194	406,738	406,299
September 2013	3.58	155,944	155,825	155,699	155,577
December 2013	2.73	301,554	301,132	300,772	300,422
March 2014	2.25	169,231	168,960	168,770	168,584
June 2014	3.18	190,541	190,263	190,101	189,944
July 2014	3.20	62,796	62,746	62,718	62,691
September 2014	2.79	231,046	230,530	230,268	230,013
December 2014	2.80	50,639	50,515	50,459	50,405
March 2015	2.98	150,264	149,951	149,827	149,706
June 2015	3.20	325,637	324,742	324,423	324,115
December 2015	2.49	55,755	55,545	55,482	55,421
December 2015	2.78	351,028	349,682	349,278	—
June 2016	2.80	351,108	349,886	349,572	—
June 2016	2.81	395,984	397,641	398,074	—
December 2016	1.89	315,014	313,746	313,458	—
December 2016	1.88	50,152	50,475	—	—
June 2017	2.10	303,903	302,663	—	—
June 2017	2.11	160,948	162,836	—	—
December 2017	1.74	51,139	50,841	—	—
			5,126,706	4,675,435	3,314,317
Net fair value adjustment [1]			32,657	43,902	—
			$ 5,159,363	$ 4,719,337	$ 3,314,317
Debt related to multi-seller conduits					
Until June 2012	2.07 % [2]		—	41,510	172,317
Until August 2017	1.75 [2]		877,734	—	—
			$ 6,037,097	$ 4,760,847	$ 3,486,634

(1) Carrying value of debt related to securitization activities reflects the impact of interest rate hedges in effective hedge relationships.
(2) The interest rate on the debt related to multi-seller conduits are based on the funding cost of the conduits and corresponded to the rate of the asset-backed commercial paper issued by the conduits, plus related program fees.

15. SUBORDINATED DEBT

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

ISSUANCE

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

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

REDEMPTION

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

ISSUED AND OUTSTANDING

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

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

16. SHARE CAPITAL

AUTHORIZED SHARE CAPITAL

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

COMMON SHARES

Issued and outstanding

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

16. SHARE CAPITAL [Cont'd]

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

Issuance of common shares

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

Subscription receipts and related exchange for common shares

On June 12, 2012, the Bank issued a private placement of 2,867,383 subscription receipts at a price of $41.85 per receipt. Proceeds were placed in escrow until closing of the AGF Trust Company acquisition (see Note 29). Upon the completion of the acquisition on August 1, 2012, subscription receipts were automatically exchanged for 2,867,383 common shares of the Bank for net proceeds of $115.0 million.

PREFERRED SHARES

Issued and outstanding

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

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

Issuance of preferred shares

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

Terms of shares

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

16. SHARE CAPITAL [Cont'd]

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

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

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

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

DECLARED DIVIDENDS

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

(1) Non-cumulative dividends on preferred shares

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

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

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

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

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

16. SHARE CAPITAL [Cont'd]

CAPITAL MANAGEMENT

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

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

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

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

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

As detailed in Note 30, effective November 1, 2011, the Bank adopted IFRS, which impacted its shareholder's equity. The Bank has irrevocably elected to phase-in, over five quarters, the impact of the adjustment to retained earnings arising from the first-time adoption of certain IFRS changes, as allowed by OSFI's transition guidance. As such, for the purposes of calculating capital ratios, the Bank has amortized since November 1, 2011, the eligible portion of the impact of IFRS on capital initially totalling $136.0 million on a straight-line basis over five quarters until January 31, 2013. Regulatory capital is detailed below.

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

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

17. ADDITIONAL INFORMATION REGARDING OTHER COMPREHENSIVE INCOME

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

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

18. SHARE-BASED PAYMENTS

SHARE PURCHASE OPTION PLAN

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

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

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

No new share options were granted in 2012 and 2011.

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

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

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

18. SHARE-BASED PAYMENTS [Cont'd]

SHARE APPRECIATION RIGHTS PLAN

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

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

Share appreciation rights

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

PERFORMANCE-BASED SHARE UNIT PLAN

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

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

Performance share units

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

RESTRICTED SHARE UNIT PLANS

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

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

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

18. SHARE-BASED PAYMENTS [Cont'd]

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

Restricted share units

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

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

DEFERRED SHARE UNIT PLAN

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

EMPLOYEE SHARE PURCHASE PLAN

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

SHARE-BASED PAYMENT PLAN EXPENSE AND RELATED LIABILITY

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

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

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

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

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

19. POST-EMPLOYMENT BENEFITS

DESCRIPTION OF BENEFIT PLANS

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

The Bank offers other post-employment benefits to its employees such as a salary continuance plan during maternity leave and the payment of group insurance plan premiums during a disability period or maternity leave. In addition, certain retired employees have other retirement benefits, including health and life insurance.

DEFINED BENEFIT PLAN MEASUREMENT DATES

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

DEFINED BENEFIT PLAN OBLIGATIONS

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

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

DEFINED BENEFIT PLAN ASSETS

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

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

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

19. POST-EMPLOYMENT BENEFITS [Cont'd]

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

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

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

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

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

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

EXPERIENCE ADJUSTMENTS

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

ELEMENTS OF DEFINED BENEFIT COSTS RECOGNIZED DURING THE YEAR

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

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

19. POST-EMPLOYMENT BENEFITS [Cont'd]

SIGNIFICANT ASSUMPTIONS FOR PENSION PLANS AND OTHER PLANS

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

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

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

ASSUMED HEALTH CARE COST TREND RATES

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

SENSITIVITY ANALYSIS

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

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

EXPENSE FOR POST-EMPLOYMENT BENEFITS

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

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

20. INCOME TAXES

DEFERRED INCOME TAXES

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

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

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

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

The components of deferred income tax expense are as follows.

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

20. INCOME TAXES [Cont'd]

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

INCOME TAX EXPENSE

Significant components of income tax expense are as follows.

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

20. INCOME TAXES [Cont'd]

RECONCILIATION WITH THE STATUTORY RATE

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

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

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

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

21. EARNINGS PER SHARE

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

For the year ended		October 31, 2012		October 31, 2011
Earnings per share – basic				
Net income	$	140,508	$	123,717
Preferred share dividends, including related income taxes		12,768		12,436
Net income attributable to common shares	$	127,740	$	111,281
Average number of outstanding common shares		25,634,194		23,923,754
Earnings per share – basic	$	4.98	$	4.65
Earnings per share – diluted				
Net income attributable to common shares	$	127,740	$	111,281
Average number of outstanding common shares		25,634,194		23,923,754
Dilutive share purchase options		17,428		19,067
Diluted weighted average number of outstanding common shares		25,651,622		23,942,821
Earnings per share – diluted	$	4.98	$	4.65

The preferred shares Series 9 and Series 10 were convertible into common shares at the Bank's option. However, on November 17, 2010, the Bank irrevocably renounced its right of conversion of these Class A preferred shares into common shares.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of earnings per share.

22. SEGMENTED INFORMATION

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

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

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

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

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

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

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

All transactions between business segments are conducted on an arm's length basis, with inter-segment revenues and costs being eliminated in the Other segment. Transfer pricing regarding the funding of segments' assets and liabilities is based on funding costs which best reflect the nature and maturities of these items. Income and expenses directly associated with each segment are included in determining business segment performance. Corporate expenses are generally allocated pro-rata to each business segment.

For the year ended						October 31, 2012
	Retail & SME-Québec	Real Estate & Commercial	B2B Bank	Laurentian Bank Securities and Capital Markets	Other	Total
Net interest income	$ 310,776	$ 87,825	$ 143,593	$ 3,210	$ (14,376)	$ 531,028
Other income	135,121	34,430	34,590	56,692	4,782	265,615
Total revenue (loss)	445,897	122,255	178,183	59,902	(9,594)	796,643
Gain on acquisition and amortization of net premium on purchased financial instruments	—	—	23,795	—	—	23,795
Provision for loan losses	23,978	3,002	6,020	—	—	33,000
Non-interest expenses	366,994	31,582	106,077	48,439	29,374	582,466
Costs related to business combinations and other(1)	—	—	21,997	—	—	21,997
Income (loss) before income taxes	54,925	87,671	67,884	11,463	(38,968)	182,975
Income taxes (recovered)	11,018	23,716	18,436	2,941	(13,644)	42,467
Net Income (loss)	$ 43,907	$ 63,955	$ 49,448	$ 8,522	$ (25,324)	$ 140,508
Average assets(2)	$ 13,602,664	$ 3,412,510	$ 6,969,602	$ 2,840,776	$ 4,638,983	$ 31,464,535

(1) Costs related to the acquisition of the MRS Companies and AGF Trust Company (see Note 29).

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

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

22. SEGMENTED INFORMATION [Cont'd]

For the year ended						October 31, 2011
	Retail & SME-Québec	Real Estate & Commercial	B2B Bank	Laurentian Bank Securities and Capital Markets	Other	Total
Net interest income	$ 321,578	$ 90,656	$ 117,769	$ 3,146	$ (28,664)	$ 504,485
Other income	132,346	33,738	8,967	53,207	5,604	233,862
Total revenue (loss)	453,924	124,394	126,736	56,353	(23,060)	738,347
Provision for loan losses	24,060	22,677	4,343	—	—	51,080
Non-interest expenses	363,825	30,211	64,040	47,902	15,127	521,105
Costs related to business combinations and other[1]	—	—	1,349	—	7,657	9,006
Income (loss) before income taxes	66,039	71,506	57,004	8,451	(45,844)	157,156
Income taxes (recovered)	14,148	20,469	16,149	2,180	(19,507)	33,439
Net Income (loss)	$ 51,891	$ 51,037	$ 40,855	$ 6,271	$ (26,337)	$ 123,717
Average assets[2]	$ 12,705,708	$ 3,087,813	$ 5,415,340	$ 2,557,806	$ 4,001,630	$ 27,768,297

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

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

23. RELATED PARTY TRANSACTIONS

Related parties of the Bank include:
- key management personnel and their close family members;
- entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members;
- post-employment benefit plans for Bank employees.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, being members of the management committee or board of directors.

The following table presents transactions with related parties.

As at		October 31, 2012		October 31, 2011		November 1, 2010
Loans [1]						
Key management personnel	$	2,333	$	2,833	$	1,957
Entities controlled by key management personnel		12,677		13,234		14,901
	$	15,010	$	16,067	$	16,858
Deposits						
Key management personnel	$	3,146	$	1,669	$	1,180
Entities controlled by key management personnel		65		32		194
	$	3,211	$	1,701	$	1,374

(1) No allowance for loan losses was recorded for these loans.

The Bank provides loans to directors and officers and their related entities. Loans to directors are granted under market conditions for similar risks and are initially measured at fair value. Loans to officers consist mostly of term residential mortgage loans at posted rates less 2%, as well as personal loans and personal lines of credit at market rates less a discount based on the type and amount of the loan. Loans to related entities of directors and officers are granted under terms similar to those offered to arm's length parties. The interest earned on these loans amounts to $0.7 million for the year ended October 31, 2012 ($0.8 million for the year ended October 31, 2011) and is recorded under interest income in the consolidated statement of income.

In the normal course of business, the Bank also provides usual banking services to certain directors and officers, including bank accounts (deposits) under terms similar to those offered to arm's length parties. The interest paid on deposits amounts to $0.1 million for the year ended October 31, 2012 ($0.1 million for the year ended October 31, 2011) and is recorded under interest expense in the consolidated statement of income.

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

For the year ended		October 31, 2012		October 31, 2011
Short-term employee benefits, including salaries	$	6,401	$	4,582
Post-employment benefits		338		242
Share-based payments		2,492		1,379
	$	9,231	$	6,203

24. FINANCIAL INSTRUMENTS – FAIR VALUE

Fair value is defined as the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of valuation inputs (Level 1, 2 or 3) as outlined below. Note 3 details the accounting treatment for each measurement category of financial instruments, as well as the judgment used in measuring the fair value of financial instruments.

CLASSIFICATION OF FAIR VALUE MEASUREMENTS IN THE FAIR VALUE HIERARCHY

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1—Quoted prices in active markets for identical financial instruments.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

DETERMINING FAIR VALUE

For assets and liabilities carried at fair value, the Bank measures such value as follows.

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. When available, the Bank generally uses quoted market prices to determine fair value and classifies such items in Level 1.

If quoted market prices are not available, fair value is based on internally developed valuation techniques that use, where possible, current market-based or independently sourced market inputs, such as interest rates, exchange rates and option volatility. Instruments valued using internal valuation techniques are classified according to the lowest level input or value driver that is significant to the fair value measurement. Thus, an instrument may be classified in Level 3 even though some significant inputs may be observable.

Where available, the Bank may also make use of quoted prices for recent trading activity in positions with the same or similar characteristics to that being valued. The frequency and size of transactions and the amount of the bid-ask spread are among the factors considered in determining the liquidity of markets and the relevance of observed prices from those markets. If relevant and observable prices are available, those valuations would be classified in Level 2. If prices are not available, other valuation techniques are used and items are classified in Level 3. For these assets and liabilities, the inputs used in determining fair value may require significant management judgment. Due to the inherent uncertainty in these estimates, the values may differ significantly from those that would have been used if an active market had existed for the financial instruments.

Valuation methodologies

The following section describes the valuation methodologies used by the Bank to measure certain significant financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

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

Given that quoted prices are not available for such financial instruments, fair value is determined using a discounted cash flow technique. Cash flows are estimated based on the terms of the contract and discounted using appropriate market rates. Since these instruments are recorded at amortized cost, they are not classified in the fair value hierarchy.

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

Securities

When available, the Bank uses quoted market prices to determine the fair value of securities; such instruments are classified in Level 1 of the fair value hierarchy; for example exchange-traded equity securities. For bonds traded over the counter, the Bank generally determines fair value using internal valuation techniques or prices obtained from independent vendors. Where available, the Bank may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Securities priced using such methods are generally classified in Level 2. However, less liquid securities may be classified in Level 3 given that the Bank must then determine the parameters related to certain significant value drivers, including liquidity premiums and credit spreads. For held-to-maturity securities, since these instruments are recorded at amortized cost, they are not classified in the fair value hierarchy.

Loans

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of loans is estimated by discounting cash flows adjusted to reflect prepayments, if any, at the prevailing market interest rates for new loans with substantially similar terms. For certain variable rate loans subject to frequent rate revisions and loans with indeterminate maturities, the fair value is deemed to represent the carrying amount. Since these instruments are recorded at amortized cost, they are not classified in the fair value hierarchy.

Other assets

Other assets consist primarily of cheques and other items in transit and accrued interest receivable. Quoted market prices in an active market are not available for these financial instruments.

The fair value of cheques and other items in transit and accrued interest receivable is determined using the discounted cash flow method. Since these instruments are all recorded at amortized cost, they are not classified in the fair value hierarchy.

Derivatives

The fair value of over-the-counter derivatives is calculated using prevailing market prices for instruments with similar characteristics and maturities, based on a discounted net value analysis or an appropriate pricing model that factors in the current and contractual prices of the underlying instruments, the time value of money, the yield curve, counterparty credit risk and volatility factors. These derivatives are classified in Level 2 or Level 3 depending on whether the significant inputs to those pricing models include observable or unobservable inputs. Also, certain exchange-traded derivatives, whose fair value is based on quoted market prices, are classified in Level 1 of the fair value hierarchy.

Deposits

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of fixed rate deposits is estimated using discounted cash flows based on prevailing market interest rates for deposits with substantially similar terms. The fair value of deposits without stated maturities or variable rate deposits is deemed to represent their carrying amount. Since these instruments are primarily recorded at amortized cost, they are not classified in the fair value hierarchy.

Obligations related to securities sold short

When available, the Bank uses quoted market prices to determine the fair value of obligations related to securities sold short; such instruments are classified in Level 1. For bonds traded over the counter, the Bank generally determines fair value using internal valuation techniques or prices obtained from independent vendors. Where available, the Bank may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Securities priced using such methods are generally classified in Level 2.

Debt related to securitization activities

Quoted market prices in an active market are not available for debt related to securitization activities. As a result, the fair value of these financial instruments is estimated using internal valuation techniques. Since these instruments are recorded at amortized cost, they are not classified in the fair value hierarchy.

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

Subordinated debt

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of subordinated debt is estimated using discounted cash flows based on prevailing market interest rates for similar issues or rates currently offered for debt securities with the same term to maturity. Since these instruments are recorded at amortized cost, they are not classified in the fair value hierarchy.

SUMMARY

The amounts in the tables below present the fair value of financial instruments of the Bank based on the valuation methods and assumptions as set out above. In addition, pertaining only to the financial instruments recorded at fair value in the financial statements, the tables present their classification in the fair value hierarchy.

As at (in millions of dollars)				October 31, 2012
			Fair value hierarchy level of financial instruments recorded at fair value[1]		
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Assets					
Cash and non-interest-bearing deposits with other banks	$ 91	$ 91	$ n/a	$ n/a	$ n/a
Interest-bearing deposits with other banks	480	480	n/a	n/a	n/a
Securities					
Available-for-sale	2,823	2,823	128	2,694	1
Held-to-maturity	1,447	1,448	n/a	n/a	n/a
Held-for-trading	1,874	1,874	220	1,651	3
Securities purchased under reverse repurchase agreements	631	631	n/a	n/a	n/a
Loans	26,663	26,866	n/a	n/a	n/a
Derivatives	168	168	—	167	1
Other assets	429	429	n/a	n/a	n/a
	$ 34,606	$ 34,810	$ 348	$ 4,512	$ 5
Liabilities					
Deposits	$ 24,041	$ 24,182	$ —	$ 10	$ —
Obligations related to securities sold short	1,350	1,350	9	1,341	—
Obligations related to securities sold under repurchase agreements	244	244	n/a	n/a	n/a
Acceptances	211	211	n/a	n/a	n/a
Derivatives	101	101	1	89	11
Other liabilities	892	892	n/a	n/a	n/a
Debt related to securitization activities	6,037	6,143	n/a	n/a	n/a
Subordinated debt	444	455	—	43	—
	$ 33,320	$ 33,578	$ 10	$ 1,483	$ 11

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

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

As at (in millions of dollars)					October 31, 2011
			Fair value hierarchy level of financial instruments recorded at fair value[1]		
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Assets					
Cash and non-interest-bearing deposits with other banks	$ 82	$ 82	$ n/a	$ n/a	$ n/a
Interest-bearing deposits with other banks	285	285	n/a	n/a	n/a
Securities					
Available-for-sale	2,108	2,108	102	2,005	1
Held-to-maturity	886	891	n/a	n/a	n/a
Held-for-trading	2,182	2,182	223	1,956	3
Securities purchased under reverse repurchase agreements	720	720	n/a	n/a	n/a
Loans	21,944	22,199	n/a	n/a	n/a
Derivatives	228	228	—	226	2
Other assets	291	291	n/a	n/a	n/a
	$ 28,726	$ 28,986	$ 325	$ 4,187	$ 6
Liabilities					
Deposits	$ 20,016	$ 20,228	$ n/a	$ n/a	$ n/a
Obligations related to securities sold short	1,471	1,471	34	1,437	—
Obligations related to securities sold under repurchase agreements	37	37	n/a	n/a	n/a
Acceptances	179	179	n/a	n/a	n/a
Derivatives	130	130	—	118	12
Other liabilities	867	867	n/a	n/a	n/a
Debt related to securitization activities	4,761	4,904	n/a	n/a	n/a
Subordinated debt	243	252	n/a	n/a	n/a
	$ 27,704	$ 28,068	$ 34	1,555	$ 12

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

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

As at (in millions of dollars)						November 1, 2010
			Fair value hierarchy level of financial instruments recorded at fair value(1)			
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Assets					
Cash and non-interest-bearing deposits with other banks	$ 72	$ 72	$ n/a	$ n/a	$ n/a
Interest-bearing deposits with other banks	99	99	n/a	n/a	n/a
Securities					
Available-for-sale	2,139	2,139	89	2,041	9
Held-to-maturity	559	564	n/a	n/a	n/a
Held-for-trading	1,497	1,497	166	1,324	7
Designated as at fair value through profit or loss	625	625	—	625	—
Securities purchased under reverse repurchase agreements	995	995	n/a	n/a	n/a
Loans	20,387	20,670	n/a	n/a	n/a
Derivatives	158	158	—	155	3
Other assets	251	251	n/a	n/a	n/a
	$ 26,782	$ 27,070	$ 255	$ 4,145	$ 19
Liabilities					
Deposits	$ 19,606	$ 19,853	$ n/a	$ n/a	$ n/a
Obligations related to securities sold short	1,362	1,362	7	1,355	—
Obligations related to securities sold under repurchase agreements	60	60	n/a	n/a	n/a
Acceptances	165	165	n/a	n/a	n/a
Derivatives	115	115	—	101	14
Other liabilities	923	923	n/a	n/a	n/a
Debt related to securitization activities	3,487	3,643	n/a	n/a	n/a
Subordinated debt	150	151	n/a	n/a	n/a
	$ 25,868	$ 26,272	$ 7	$ 1,456	$ 14

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

LEVEL TRANSFERS AND RECLASSIFICATION

There were no significant transfers between Level 1 and Level 2 of the hierarchy, or changes in fair value measurement methods during the year.

CHANGE IN LEVEL 3 FAIR VALUE CATEGORY AND SENSITIVITY ANALYSIS

The Bank classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically rely on a number of inputs that are observable either directly or indirectly. Changes in Level 3 financial instruments were not significant for the years ended October 31, 2012 and 2011.

As at October 31, 2012, when other reasonably possible alternative assumptions were available for the valuation models, the Bank used these assumptions to recalculate the fair value of the instruments. The resulting potential increase or decrease in total Level 3 fair value was not significant.

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

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

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

The main risks to which the Bank is exposed in respect of financial instruments are set out below.

- Credit risk
- Liquidity and funding risk
- Market risk
    - *Interest rate risk*
    - *Foreign exchange risk*
    - *Equity risk*

25.1 CREDIT RISK

The use of financial instruments, including derivatives, can result in credit risk exposure representing the risk of financial loss arising from a counterparty's inability or refusal to fully honour its contractual obligations.

The credit risk management policies adopted by the Bank aim at assessing this risk. These policies cover the approval of credit applications by the line of authority concerned, attribution of risk ratings, management of impaired loans, establishment of provisions and risk-based pricing. With respect to loan portfolio diversification, the credit policy sets the guidelines intended to limit credit concentration by counterparty and industry sector, and identifies sectors that are considered riskier and should be avoided. The policies are periodically reviewed and approved by the Risk Management Committee of the Board.

Acting through a risk management group independent of the business segments, the Bank monitors its financial instrument portfolios in terms of both quality and quantity through: [i] mechanisms and policies governing the review of various types of loan files, [ii] risk rating systems, and [iii] pricing analysis.

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

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

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT [Cont'd]

The amount that best represents the Bank's maximum exposure to credit risk as at October 31, 2012 and 2011 and November 1, 2010 without factoring in any collateral held or other credit enhancements, represents the sum of financial assets in the Bank's consolidated balance sheet, plus credit-related commitments as set out below.

As at	October 31, 2012	October 31, 2011	November 1, 2010
Financial assets, as stated in the consolidated balance sheet [1]	$ 34,251	$ 28,388	$ 26,472
Credit-related commitments			
Personal credit facilities	1,852	1,624	1,403
Credit card lines	1,319	1,170	1,004
Undrawn amounts under approved credit facilities	3,158	2,603	2,469
Documentary letters of credit	2,384	4,358	6,670
	$ 42,964	$ 38,143	$ 38,018

(1) Excludes equity securities.

Concentration of credit risk

Concentration of credit risk may exist where a number of counterparties engaged in similar activities are located in the same geographic area or have comparable economic characteristics. Their ability to meet contractual obligations could be compromised by changing economic, political or other conditions. The Bank's operations are located in Canada.

The following table shows loans based on location:

As at	October 31, 2012	October 31, 2011	November 1, 2010
Québec	61 %	65 %	65 %
Other Canadian provinces [1]	39	35	35
Total	100 %	100 %	100 %

(1) Mainly in the province of Ontario.

No single industry segment accounted for more than 3% (3% in 2011) of the total loans and customers' liabilities under acceptances.

Guarantees held in respect of loan portfolios

Nearly 60% of the Bank's residential mortgage loan portfolio is insured by CMHC. Moreover, the Bank holds guarantees in respect of the real estate property for the other conventional mortgage loans. In addition, the value of such loans never exceeds 80% of the property's initially estimated value, in accordance with statutory requirements.

Nearly 77% of the Bank's personal loan portfolio consists of investment loans and home equity lines of credit. Loan underwriting for these loans is subject to a process which allows for the assessment of client credit risk. In addition, the Bank has defined and requires eligible collateral. Specifically, investment loans are collateralized by qualified Canadian mutual funds and home equity lines of credit are collateralized by real estate assets. Also, 9% of the Bank's personal loan portfolio consists of student loans and loans granted under the Immigrant Investor program, which are guaranteed by the federal or provincial governments.

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

Certain guarantees are also held for other personal and commercial loans in accordance with standard banking practices.

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT [Cont'd]

Other guarantees held

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

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

As at October 31, 2012 the approximate market value of collateral pledged to the Bank in connection with assets purchased under reverse repurchase agreements was $631.2 million ($720.3 million as at October 31, 2011 and $994.7 million as at November 1, 2010). All collateral received was re-pledged as security in connection with obligations related to securities sold short.

25.2 LIQUIDITY AND FUNDING RISK

Liquidity and funding risk represents the possibility that the Bank may not be able to gather sufficient cash resources, when required and on reasonable conditions, to meet its financial obligations.

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

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

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT [Cont'd]

Contractual maturities of financial liabilities

The following table shows the principal obligations related to financial liabilities by contractual maturity.

As at					October 31, 2012
	Demand	Term			
	and notice	Under 1 year	1 to 5 years	Over 5 years	Total
Deposits	$ 8,027,827	$ 7,426,743	$ 8,532,076	$ 54,797	$ 24,041,443
Obligations related to securities sold short	—	1,349,932	—	—	1,349,932
Obligations related to securities sold under repurchase agreements	—	244,039	—	—	244,039
Debt related to securitization activities	—	1,862,564	4,117,820	56,713	6,037,097
Subordinated debt	—	—	450,000	—	450,000
Derivatives[1]	—	6,772	11,661	145	18,578
	$ 8,027,827	$ 10,890,050	$ 13,111,557	$ 111,655	$ 32,141,089

As at					October31, 2011
	Demand	Term			
	and notice	Under 1 year	1 to 5 years	Over 5 years	Total
Deposits	$ 7,364,017	$ 5,871,925	$ 6,753,637	$ 26,702	$ 20,016,281
Obligations related to securities sold short	—	1,471,254	—	—	1,471,254
Obligations related to securities sold under repurchase agreements	—	36,770	—	—	36,770
Debt related to securitization activities	—	203,580	4,243,809	313,458	4,760,847
Subordinated debt	—	—	250,000	—	250,000
Derivatives[1]	—	11,986	23,311	(422)	34,875
	$ 7,364,017	$ 7,595,515	$ 11,270,757	$ 339,738	$ 26,570,027

As at					November1, 2010
	Demand	Term			
	and notice	Under 1 year	1 to 5 years	Over 5 years	Total
Deposits	$ 6,970,513	$ 5,534,083	$ 7,082,806	$ 18,268	$ 19,605,670
Obligations related to securities sold short	—	1,362,336	—	—	1,362,336
Obligations related to securities sold under repurchase agreements	—	60,050	—	—	60,050
Debt related to securitization activities	—	223,727	3,207,486	55,421	3,486,634
Subordinated debt	—	150,000	—	—	150,000
Derivatives[1]	—	6,086	8,595	(346)	14,335
	$ 6,970,513	$ 7,336,282	$ 10,298,887	$ 73,343	$ 24,679,025

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

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT [Cont'd]

The Bank is also exposed to liquidity risk when it contracts credit commitments. As at October 31, 2012, these commitments amounted to approximately $3.2 billion ($2.6 billion as at October 31, 2011 and $2.5 billion as at November 1, 2010), excluding personal credit facilities and credit card lines since they are revocable at the Bank's option.

25.3 MARKET RISK

Market risk represents the financial losses that the Bank could incur following unfavourable fluctuations in the value of financial instruments subsequent to changes in the underlying factors used to measure them, such as interest rates, exchange rates or equity prices. Exposure to market risk arising from trading, investment, financing and asset and liability management activities is mainly monitored by notional limits, stress testing and various other sensitivity measures, such as value at risk.

Interest rate risk

Asset and liability management activities are designed to control structural interest rate risk, which corresponds to the potential negative impact of interest rate movements on the Bank's revenues and/or economic value of its capital. This risk is mainly attributable to differences in maturity dates or re-pricing dates of balance sheet and off-balance sheet items along with the options embedded in certain banking products, notably loan prepayment clauses and deposit redemption clauses. To manage this risk, various treasury and derivative instruments, mainly interest rate swaps, futures and options, are used to modify the interest rate characteristics of the underlying instruments in the balance sheet and to cover the inherent risk of options embedded in loan and deposit products. The Bank periodically assesses the effect on the economic value of common shareholders' equity and on its net interest income of a sudden and sustained 1% parallel change of the interest rate curve. The table below presents the estimated effect of such a change as at October 31.

The estimates are based on a number of assumptions and factors, consistent with the guidelines approved by the Management Committee, which include:

- Floor levels for deposit liabilities;
- For net interest income simulations, the renewal of matured loans and deposits at current market terms;
- On- and off-balance sheet assets and liabilities are generally considered to mature on the earlier of their contractual re-pricing or maturity date.

Sensitivity analysis of the structural interest rate risk

As at				October 31, 2012				October 31, 2011
		Effect on net interest income (1)		Effect on the economic value of common shareholders' equity (2)		Effect on net interest income (1)		Effect on the economic value of common shareholders' equity (2)
Change in interest rates								
Increase of 100 basis points	$	16,701	$	(19,710)	$	21,735	$	(16,670)
Decrease of 100 basis points	$	(14,948)	$	20,833	$	(24,138)	$	18,324

(1) Over the next 12 months
(2) Net of income taxes

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT [Cont'd]

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

As at (in millions of Canadian dollars)	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total October 31, 2012
Assets							
Cash, deposits and securities	$ 2,187	$ 2,993	$ 1,153	$ 219	$ 80	$ 83	$ 6,715
Actual return		1.0 %	1.2 %	1.9 %	3.0 %		
Securities purchased under reverse repurchase agreements	631	—	—	—	—	—	631
Loans	10,732	1,466	3,698	9,911	166	690	26,663
Actual return		4.3 %	4.5 %	4.1 %	5.0 %		
Other assets	—	—	—	—	—	928	928
Total	13,550	4,459	4,851	10,130	246	1,701	34,937
Actual return		2.1 %	3.7 %	4.1 %	4.4 %		
Liabilities and equity							
Deposits	3,056	3,270	5,806	11,183	55	671	24,041
Actual return		1.5 %	2.0 %	2.1 %	3.6 %		
Treasury items	1,594	—	—	—	—	—	1,594
Actual return		— %	— %	— %	— %		
Other liabilities	—	39	79	155	—	1,007	1,280
Actual return		2.5 %	2.6 %	2.5 %	— %		
Debt related to securitization activities	—	878	985	4,118	56	—	6,037
Actual return		4.3 %	3.2 %	2.3 %	1.7 %		
Subordinated debt and equity	—	—	100	660	—	1,225	1,985
Actual return		— %	— %	2.4 %	— %		
Total	4,650	4,187	6,970	16,116	111	2,903	34,937
Actual return		2.1 %	2.2 %	2.1 %	2.6 %		
Swaps, net	—	(7,766)	2,029	5,787	(50)	—	—
Sensitivity gap	8,900	(7,494)	(90)	(199)	85	(1,202)	—
Cumulative gap	$ 8,900	$ 1,406	$ 1,316	$ 1,117	$ 1,202	$ —	$ —

As at (in millions of Canadian dollars)	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total October 31, 2011
Assets	$ 11,318	$ 2,623	$ 3,674	$ 9,604	$ 275	$ 1,469	$ 28,963
Actual return		2.6 %	4.3 %	4.2 %	5.1 %		
Liabilities and equity	4,489	2,839	5,258	13,442	340	2,595	28,963
Actual return		1.6 %	1.9 %	1.6 %	0.3 %		
Swaps, net	—	100	(5,700)	4,695	905	—	—
Sensivity gap	6,829	(116)	(7,284)	857	840	(1,126)	—
Cumulative gap	$ 6,829	$ 6,713	$ (571)	$ 286	$ 1,126	$ —	$ —

As at (in millions of Canadian dollars)	Floating	0to 3months	Over 3months to1year	Over 1year to5years	Over 5years	Non-interest sensitive	Total November 1, 2010
Assets	$ 10,604	$ 1,768	$ 3,019	$ 10,264	$ 294	$ 1,106	$ 27,055
Actual return		3.3 %	4.6 %	4.2 %	5.1 %		
Liabilities and equity	4,309	3,018	4,982	12,066	73	2,607	27,055
Actual return		2.0 %	2.2 %	1.9 %	0.9 %		
Swaps, net	(12)	(4,597)	1,657	2,891	61	—	—
Sensivity gap	6,283	(5,847)	(306)	1,089	282	(1,501)	—
Cumulative gap	$ 6,283	$ 436	$ 130	$ 1,219	$ 1,501	$ —	$ —

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT [Cont'd]

Maturity assumptions

Assets, liabilities and equity are shown at the earlier of the date of maturity or contractual revaluation while taking into consideration estimated redemptions or prepayments, except for the following:

- Deposits for which the interest rates are not indexed on a specific rate and which can be non-sensitive to changes in market rates are classified based on the historical trends in balances;
- Subordinated debt for which interest rates can be revised at a future date are classified at the re-pricing date;
- Preferred shares are classified using the date on which they become redeemable.

Foreign exchange risk

Foreign exchange risk is the losses that the Bank may incur subsequent to adverse exchange rate fluctuations. It originates mainly from foreign exchange positions held by the Bank to support the supply of products and services in currencies other than the Canadian dollar, trading operations and, to a lesser extent, mismatches in currencies of balance sheet and off-balance sheet assets and liabilities, as well as mismatches in receipts and payments of funds in foreign currencies. This risk is monitored using notional limits and other sensitivity analysis for trading operations. Financial instruments denominated in U.S. dollars are detailed below.

As at (in thousands of Canadian dollars)	October 31, 2012	October 31, 2011	November 1, 2010
Assets			
Cash and Securities	$ 117,148	$ 92,090	$ 143,406
Loans	93,992	81,332	82,738
Other	5,759	23,711	26,980
	$ 216,899	$ 197,133	$ 253,124
Liabilities			
Deposits	$ 202,612	$ 175,393	$ 150,697
Obligations related to securities sold short	4,039	22,173	99,983
Other	428	278	235
	$ 207,079	$ 197,844	$ 250,915

In addition, U.S. dollar exposure related to derivatives is limited as these contracts are bought and sold mainly to meet specific customer needs. As at October 31, the effect of a sudden 5% change in foreign exchange rates would have no significant impact on net income and shareholder's equity.

Assets and deposit liabilities denominated in other foreign currencies, primarily in euros, amount to $12.1 million ($23.3 million as at October 31, 2011 and $10.8 million as at November 1, 2010) and $13.2 million ($12.7 million as at October 31, 2011 and $5.6 million as at November 1, 2010) respectively. Currencies other than U.S. dollars are generally bought and sold solely to meet specific customer needs. As a result, the Bank has limited exposure to these currencies.

Equity risk

Equity risk is the financial loss that the Bank may incur subsequent to adverse fluctuations in certain equity prices or the stock market in general. The Bank's equity positions consist primarily of Canadian publicly traded securities and, as a result, portfolio sensitivity mainly correlates to Canadian stock market performance. A portion of the Bank's equity positions is used to hedge index-linked deposits. The residual portion represents less than 3% (less than 3% as at October 31, 2011 and less than 3% as at November 1, 2010) of the total securities portfolio. A fluctuation in the Canadian stock market of 10% could have a $5.3 million impact on the Bank's shareholders' equity.

26. DERIVATIVES AND HEDGING

In the normal course of business, the Bank enters into various contracts and commitments in order to protect itself against the risk of fluctuations in interest rates, foreign exchange rates and indexes used to determine the return of index-linked deposits, as well as to meet its customers' demands and to earn trading income, as described below.

The various derivatives listed in the tables below are as follows:

[i] Interest rate swaps involve the exchange of fixed and floating interest payment obligations based on a predetermined notional amount for a specified period of time. Foreign exchange swaps involve the exchange of the principal and fixed or floating interest payments in different currencies.

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

[iii] Futures are commitments to purchase or deliver a financial instrument on a specified future date at a specified price. Futures are traded in standardized amounts on organized exchanges and are subject to daily cash margining.

[iv] Foreign exchange forward contracts are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a pre-determined rate.

[v] Total return swaps involve floating payments based on changes in the value of a reference asset or group of assets, including any associated return such as dividends, in exchange for amounts based on prevailing market funding rates.

The following tables present the notional amounts associated with the derivatives. The amounts are not indicative of the potential gain or loss related to the credit or market risk of these instruments.

AGGREGATE NOTIONAL AMOUNTS

As at (in millions of Canadian dollars)						October 31, 2012
	Period to maturity					
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Designated as hedge contracts [1]	Other contracts [2]
Interest rate contracts						
Over-the-counter contracts						
Swaps	$ 4,473	$ 7,672	$ 1,145	$ 13,290	$ 10,581	$ 2,709
Exchange-traded contracts						
Futures	106	—	—	106	—	106
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	1,324	27	—	1,351	—	1,351
Forwards	784	12	—	796	—	796
Options purchased	135	—	—	135	—	135
Options written	135	—	—	135	—	135
Equity- and index-linked contracts						
Options purchased	22	5	—	27	—	27
Options written	18	81	—	99	—	99
Total return swaps	182	20	—	202	—	202
	$ 7,179	$ 7,817	$ 1,145	$ 16,141	$ 10,581	$ 5,560

(1) Include notional amounts of $0.2 billion related to basis swaps at October 31, 2012.
(2) Include derivatives used in trading operations to meet customer demands and to earn trading income, as well as derivatives used to manage the Bank's risk exposures that are not designated in hedge relationships.

26. DERIVATIVES AND HEDGING [Cont'd]

As at (in millions of Canadian dollars)						October 31, 2011
	Period to maturity					
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Designated as hedge contracts [1]	Other contracts [2]
Interest rate contracts						
Over-the-counter contracts						
Swaps	$ 4,483	$ 9,317	$ 1,371	$ 15,171	$ 8,258	$ 6,913
Exchange-traded contracts						
Futures	244	—	—	244	—	244
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	1,875	54	—	1,929	—	1,929
Forwards	525	37	—	562	—	562
Options purchased	556	—	—	556	—	556
Options written	530	—	—	530	—	530
Equity- and index-linked contracts						
Options purchased	25	21	4	50	—	50
Options written	39	76	4	119	—	119
Total return swaps	185	17	—	202	—	202
	$ 8,462	$ 9,522	$ 1,379	$ 19,363	$ 8,258	$ 11,105

As at (in millions of Canadian dollars)						November 1, 2010
	Period to maturity					
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Designated as hedge contracts [1]	Other contracts [2]
Interest rate contracts						
Over-the-counter contracts						
Swaps	$ 3,488	$ 4,783	$ 489	$ 8,760	$ 7,505	$ 1,255
Exchange-traded contracts						
Futures	19	—	—	19	—	19
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	4,604	35	—	4,639	—	4,639
Forwards	796	46	—	842	—	842
Options purchased	265	—	—	265	—	265
Options written	268	—	—	268	—	268
Equity- and index-linked contracts						
Options purchased	6	33	5	44	—	44
Options written	54	94	5	153	—	153
Total return swaps	130	5	—	135	—	135
	$ 9,630	$ 4,996	$ 499	$ 15,125	$ 7,505	$ 7,620

(1) Include notional amounts of $0.6 billion related to basis swaps as at October 31, 2011 and $1.2 billion as at November 1, 2010.

(2) Include derivatives used in trading operations to meet customer demands and to earn trading income, as well as derivatives used to manage the Bank's risk exposures that are not designated in hedge relationships.

26. DERIVATIVES AND HEDGING [Cont'd]

FAIR VALUE OF DERIVATIVES

As at (in millions of Canadian dollars)			October 31, 2012
			Fair value
	Favourable	Unfavourable	Net amount
DESIGNATED AS HEDGE CONTRACTS			
Fair value hedges			
Interest rate contracts			
Swaps	$ 43	$ (5)	$ 38
Cash flow hedges			
Interest rate contracts			
Swaps	32	(19)	13
OTHER CONTRACTS (1)			
Interest rate contracts			
Swaps	42	(34)	8
Foreign exchange contracts			
Foreign exchange swaps	15	(11)	4
Forwards	9	(11)	(2)
Options purchased	2	—	2
Options written	—	(1)	(1)
Equity- and index-linked contracts			
Options purchased	1	—	1
Options written	—	(11)	(11)
Total return swap	—	—	—
TOTAL (2)	$ 144	$ (92)	$ 52

As at (in millions of Canadian dollars)			October 31, 2011
			Fair value
	Favourable	Unfavourable	Net amount
DESIGNATED AS HEDGE CONTRACTS			
Fair value hedges			
Interest rate contracts			
Swaps	$ 49	$ (8)	$ 41
Cash flow hedges			
Interest rate contracts			
Swaps	68	(35)	33
OTHER CONTRACTS (1)			
Interest rate contracts			
Swaps	55	(37)	18
Foreign exchange contracts			
Foreign exchange swaps	20	(15)	5
Forwards	6	(10)	(4)
Options purchased	10	—	10
Options written	—	(10)	(10)
Equity- and index-linked contracts			
Options purchased	2	—	2
Options written	—	(12)	(12)
Total return swap	—	—	—
TOTAL (2)	$ 210	$ (127)	$ 83

(1) Include derivatives used in trading operations to meet customer demands and to earn trading income as well as derivatives used to manage the Bank's risk exposures that do not qualify for hedge accounting.
(2) Excluding accrued interest.

26. DERIVATIVES AND HEDGING [Cont'd]

As at (in millions of Canadian dollars)			November 1, 2010
			Fair value
	Favourable	Unfavourable	Net amount
DESIGNATED AS HEDGE CONTRACTS			
Fair value hedges			
Interest rate contracts			
Swaps	$ 25	$ (7)	$ 18
Cash flow hedges			
Interest rate contracts			
Swaps	32	(15)	17
OTHER CONTRACTS [1]			
Interest rate contracts			
Swaps	6	(5)	1
Foreign exchange contracts			
Foreign exchange swaps	63	(51)	12
Forwards	6	(12)	(6)
Options purchased	4	—	4
Options written	—	(4)	(4)
Equity- and index-linked contracts			
Options purchased	3	—	3
Options written	—	(14)	(14)
Total return swap	—	—	—
TOTAL [2]	$ 139	$ (108)	$ 31

(1) Include derivatives used in trading operations to meet customer demands and to earn trading income as well as derivatives used to manage the Bank's risk exposures that do not qualify for hedge accounting.
(2) Excluding accrued interest.

Note 25 hereto provides additional disclosures on the credit risk related to derivatives and how it is assessed.

INFORMATION REGARDING HEDGING RELATIONSHIPS

The swap contracts designated as hedging instruments are used by the Bank primarily for purposes of balance sheet matching and minimizing volatility in net interest income. The value of such swap contracts can vary significantly.

Fair value hedges

The Bank uses interest rate swaps to hedge changes in fair value of assets, liabilities or firm commitments. The notional amount of swap contracts designated as hedging instruments in fair value hedges was $4.4 billion as at October 31, 2012 ($2.4 billion as at October 31, 2011 and $2.2 billion as at November 1, 2010).

The following table presents gains or losses related to fair value hedges.

For the year ended	**October 31, 2012**	October 31, 2011
Gains (losses) recognized on hedging instrument	**$ 2,435**	$ (35,717)
Gains (losses) recognized on hedged item	**(3,256)**	36,218
Ineffectiveness recognized in net income	**$ (821)**	$ 501

26. DERIVATIVES AND HEDGING [Cont'd]

Cash flow hedges

The Bank uses interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability. The notional amount of swap contracts designated as hedging instruments in cash flow hedges was $6.0 billion as at October 31, 2012 ($5.3 billion as at October 31, 2011 and $4.1 billion as at November 1, 2010).

Changes in fair value of interest rate swaps designated as cash flow hedging instruments could result in significant changes in accumulated other comprehensive income, in shareholders' equity.

The following table presents gains or losses related to cash flow hedges.

For the year ended	October 31, 2012	October 31, 2011
Ineffectiveness recognized in net income	$ 1,166	$ (39)

The remaining balance of accumulated other comprehensive income related to cash flow hedges as at October 31, 2012 is expected to be reclassified to the consolidated statement of income over the next 7 years.

CREDIT EXPOSURE

(in millions of Canadian dollars)

As at	2012			2011			2010		
	Replacement cost [1]	Credit equivalent amount [2]	Risk-weighted amount [3]	Replacement cost	Credit equivalent amount	Risk-weighted amount	Replacement cost	Credit equivalent amount	Risk-weighted amount
Interest rate contracts									
Swaps	$ 117	$ 173	$ 36	$ 172	$ 240	$ 49	$ 63	$ 94	$ 20
Foreign exchange contracts									
Foreign exchange swaps	15	30	5	20	41	9	63	110	23
Fowards	9	17	10	6	13	10	6	16	11
Options purchased	2	3	1	10	15	11	4	6	3
Equity-and index-linked contracts									
Options purchased	1	2	—	2	5	1	3	6	1
Total return swaps	—	13	3	—	12	2	—	8	2
	$ 144	$ 238	$ 55	$ 210	$ 326	$ 82	$ 139	$ 240	$ 60

(1) Represents favourable fair market value, excluding the impact of master netting agreements. Options written are excluded since they do not constitute a credit risk.
(2) Includes (i) the total positive replacement value of all outstanding contracts and (ii) an amount representing the assessed potential credit risk.
(3) Using guidelines issued by OSFI.

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

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

The following table presents the income related to these instruments. Income comprises net interest income as well as other income included in income from treasury and financial market operations or in income from brokerage operations. Income excludes underwriting fees and commissions on securities transactions.

For the year ended		October 31, 2012		October 31, 2011
Net interest income	$	18,890	$	12,762
Other income included in:				
Income from brokerage operations		18,501		11,963
Income from treasury and financial market operations		7,743		5,819
	$	26,244	$	17,782

28. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

CREDIT-RELATED COMMITMENTS

The Bank uses certain off-balance sheet credit instruments as a means of meeting the financial needs of its customers. Undrawn amounts under approved credit facilities represent a commitment to make credit available in the form of loans or other credit instruments for specific amounts and maturities, subject to specific conditions.

Documentary letters of credit are documents issued by the Bank on behalf of customers, authorizing a third party to draw drafts to a stipulated amount under specific conditions. These letters are guaranteed by the underlying shipments of goods.

The amounts of credit-related commitments represent the maximum amount of additional credit that the Bank could be obliged to extend. These amounts are not necessarily indicative of credit risk as many of these commitments are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon.

Refer to Note 25.1 for additional information on credit-related commitments.

GUARANTEES

Standby letters of credit and performance guarantees

In the normal course of its operations, the Bank offers its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that clients cannot meet their obligations to third parties. The term of these guarantees varies according to the contracts and normally does not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. No specific provision is currently recorded with regard to these guarantees. The maximum potential amount of future payments under these guarantees totalled $149.3 million as at October 31, 2012 ($146.8 million as at October 31, 2011 and $175.2 million as at November 1, 2010).

Derivatives

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank sells put options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of foreign currencies at a predetermined price. The term of these options does not exceed 12 months. No specific provision is recorded with respect to these derivatives. The maximum potential amount of future payments under these derivatives, corresponding to the notional value of outstanding contracts, totalled $98.7 million as at October 31, 2012 ($213.3 million as at October 31, 2011 and $201.8 million as at November 1, 2010).

Other indemnification agreements

In the normal course of its operations, the Bank provides indemnification agreements to counterparties in certain transactions such as purchase contracts, service agreements and sales of assets. These indemnification agreements require the Bank to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The Bank also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their being, or having been, directors or officers at the request of the Bank. The terms of these indemnification agreements vary based on the contract. The nature of the indemnification agreements prevents the Bank from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, the Bank has not made any significant payments under such indemnification agreements. No amount has been accrued with respect to these indemnification agreements.

28. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES [Cont'd]

LEASE COMMITMENTS, SERVICE CONTRACTS FOR INFORMATION TECHNOLOGY SERVICES AND OTHER CONTRACTS

Minimum future payments under leases, service contracts for outsourced technology services and other contracts are as follows.

As at				October 31, 2012
		Premises		Information technology service contracts[1]		Other
Due within one year	$	49,868	$	13,170	$	9,951
Due within 1 to 5 years		175,062		66,458		32,741
Due after 5 years		81,065		3,227		5,980
Total	$	305,995	$	82,855	$	48,672

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

Payments under these commitments recognized as an expense amounted to $44.3 million for the year ended October 31, 2012 ($40.1 million for the year ended October 31, 2011).

FINANCIAL ASSETS PLEDGED AS COLLATERAL

In the normal course of its operations, the Bank pledges financial assets presented in the consolidated balance sheet. This collateral security is pledged under the usual terms that provide, among other things, that the Bank bear the risks and rewards related to the collateral security and the pledged assets be returned to the Bank when the terms and conditions requiring them to be pledged as security cease to apply.

Financial assets pledged as collateral under securitization operations are detailed in Note 7. The following table details the financial assets pledged as collateral under other arrangements.

As at		October 31, 2012		October 31, 2011		November 1, 2010
Pledged assets:						
To participate in clearing and payment systems	$	487,651	$	320,348	$	337,376
For obligations related to securities sold under repurchase agreements and for securities borrowed		765,861		1,130,896		179,334
For obligations related to derivatives in a liability position		74,569		96,785		95,362
	$	1,328,081	$	1,548,029	$	612,072
Pledged assets are detailed as follows:						
Securities	$	1,048,266	$	1,438,807	$	354,040
Residential mortgage loans (unsold NHA MBS)		279,815		109,222		258,032
	$	1,328,081	$	1,548,029	$	612,072

CONTINGENT LIABILITIES

The Bank and its subsidiaries are also involved in various legal actions and claims, including some with regulatory bodies. Many of these disputes are related to loans granted by the Bank and are in reaction to steps taken by the Bank to collect delinquent loans and realize the underlying collateral. Certain claims have also been brought against the Bank, particularly with respect to trustee operations related to portfolio administration and the charging of certain bank fees. Management considers that adequate provisions have been set aside to cover any potential losses and any amounts that might not be recoverable from insurance companies, as the case may be, in connection with these actions.

With regards to the class action in the matter *Marcotte v. Banks*, on August 2, 2012, the Court of Appeal of Québec overturned the judgment of the Superior Court and dismissed a class action against six Canadian financial institutions, including the Bank, with regard to fees charged by the six banks to their credit card holders on conversion of foreign currency transactions into Canadian dollars. The judgment of the Court of Appeal confirmed Laurentian Bank position by acknowledging the business practice as sound and reasonable. As a result, the Bank does not anticipate to incur any loses on this case. Leave to appeal from Court of Appeal judgment to the Supreme Court of Canada is sought by many parties including Marcotte, the Attorney General of the Province of Quebec and some banks.

29. BUSINESS COMBINATIONS

ACQUISITION OF THE MRS COMPANIES[1]

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

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

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

ACQUISITION OF AGF TRUST COMPANY

On August 1, 2012, the Bank acquired 100% of the outstanding shares of AGF Trust Company (AGF Trust). The agreement also includes a contingent consideration of a maximum of $20.0 million over five years if credit quality reaches certain criteria. AGF Trust, previously part of AGF Management Limited, offers retail loan and deposit products through financial advisors, mortgage brokers and deposit brokers. The Bank acquired AGF Trust to combine it with B2B Bank in order to further strengthen its position as provider of banking products and services to the Canadian financial advisor community, as well as to improve profitability and geographic diversification.

The preliminary allocation of the purchase price resulted in a gain of $24.3 million ($16.4 million net of income taxes) arising on acquisition as the estimated fair values of the net assets acquired exceeded the purchase price, mainly attributable to the limited number of potential acquirers and expected costs related to increased regulatory requirements. The gain mainly represents the favourable effect of the discount or premium to reflect current market rates on purchased financial instruments, which was partly offset by the estimated fair value of the contingent consideration. The purchase price allocation is preliminary, and is based on management's best estimates of the fair values of the assets acquired and liabilities assumed at the date of the acquisition. Therefore, the gain of $24.3 million could be modified following the completion of the purchase price allocation. AGF Trust is part of the B2B Bank reportable segment; the gain associated with this transaction was allocated to this segment.

[1] The MRS Companies included: M.R.S. Inc.; M.R.S. Trust Company; M.R.S. Securities Services Inc.; and M.R.S. Correspondent Corporation. M.R.S. Trust Company was subsequently merged with B2B Bank as of April 16, 2012.

29. BUSINESS COMBINATIONS [Cont'd]

The estimated fair value of the assets acquired and liabilities assumed at the dates of acquisition were as follows.

	MRS Companies	AGF Trust
ASSETS		
Interest-bearing deposits with other banks	$ 426,654	$ 410,686
Securities	145,567	382,841
Loans [1] [2]	333,073	3,179,124
Premises and equipment	262	2,206
Derivatives	–	13,191
Software and other intangible assets	23,028	460
Other assets	15,034	21,556
	943,618	4,010,064
LIABILITIES		
Deposits	725,540	2,764,135
Derivatives	–	1,242
Deferred tax liabilities	4,227	7,206
Other liabilities	30,011	94,641
Debt related to securitization activities	–	700,717
Subordinated debt	20,000	109,500
	779,778	3,677,441
Preferred shares	–	64,000
Total identifiable net assets acquired	163,840	268,623
Goodwill (gain net of income taxes) arising on acquisition	34,853	(16,382)
Total purchase consideration	$ 198,693	$ 252,241
Cash paid	$ 198,693	$ 246,341
Contingent consideration	–	5,900
Total purchase consideration	$ 198,693	$ 252,241

(1) As at November 16, 2011, gross amount of MRS Companies' loans was $335.3 million.
(2) As at August 1, 2012, gross amount of AGF Trust's loans was $3,152.0 million.

The following table presents the contribution of the MRS Companies and AGF Trust to the consolidated financial statements.

For the year ended		October 31, 2012
	MRS Companies	AGF Trust
Contribution from date of acquisition [1]		
Total revenue	$ 40,115	$ 19,993
Net income	$ 7,522	$ 7,301
Contribution if the acquisition had occurred on November 1, 2011 [2]		
Total revenue	$ 42,000	$ 77,000
Net income	$ 8,000	$ 22,000

(1) Approximate results of the MRS Companies for the 351-days period and of AGF Trust for the 92-days period from dates of acquisition.
(2) In determining this estimate, management has assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on November 1, 2011.

During the year, the Bank incurred acquisition-related costs as well as salary, information technology and other integration costs to integrate the operations of MRS Companies and AGF Trust within the Bank. These costs were recognized directly in net income, under Costs related to business combinations and other. As of October 31, 2011, with regards to these transactions the Bank had incurred a $7.7 million charge for termination in 2012 of a distribution agreement.

30. ADOPTION OF IFRS

The Bank has adopted IFRS effective November 1, 2011. For periods up to and including the year ended October 31, 2011, the Bank prepared its consolidated financial statements in accordance with previous Canadian generally accepted accounting principles (Canadian GAAP). The Bank's consolidated financial statements for the year ended October 31, 2012 are the first annual financial statements prepared in accordance with IFRS. The Bank's transition date was November 1, 2010 (the transition date) and the Bank has prepared its opening consolidated balance sheet as at that date. These financial statements have been prepared in accordance with accounting policies described in Note 3.

This note explains how the transition from Canadian GAAP to IFRS affected the Bank's reported consolidated balance sheet and consolidated equity as at November 1, 2010 and October 31, 2011, as well as consolidated income and comprehensive income for the year ended October 31, 2011.

30.1 EXEMPTIONS AND EXCEPTIONS UNDER IFRS 1

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

Optional exemptions to retrospective application

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

a) Securitization

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

b) Designation of financial instruments

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

Under Canadian GAAP, certain securities held as economic hedges of off-balance sheet securitization activities were designated as at fair value through profit or loss to reduce a recognition inconsistency that would otherwise have arisen from measuring these assets on a different basis than related seller-swaps. Under IFRS, these past securitization transactions do not meet the derecognition requirements and related seller swaps are not recognized on-balance sheet anymore. In order to realign revenue recognition for these transactions, the Bank re-designated these securities as available-for-sale. In addition, the accounting for past securitization transactions under IFRS led to the initial recognition and classification of replacement assets as detailed in Note 30.6(a).

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

30. ADOPTION OF IFRS [Cont'd]

c) Business combinations
IFRS 1 provides the option to apply IFRS 3, *Business Combinations*, prospectively from the transition date or retrospectively back to any prior business combination provided that IFRS 3 is applied consistently from that business combination through the transition date. The Bank opted to apply this exemption and elected November 1, 2000 as the date to restate prior business combinations. The value of goodwill and intangible assets was amended on the transition date as described in Note 30.6(e).

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

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

Mandatory exceptions to retrospective application

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

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

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

30. ADOPTION OF IFRS [Cont'd]

30.2 RECONCILIATION OF BALANCE SHEET BETWEEN CANADIAN GAAP AND IFRS

The following tables present the reconciliation of the balance sheet according to Canadian GAAP and the balance sheet recorded in accordance with IFRS. See Note 30.6 for an explanation of the nature of adjustments and reclassifications.

As at October 31, 2011

	Item [1]	Canadian GAAP [2]	Adjustments	Reclassifications	IFRS
ASSETS					
Cash and non-interest bearing deposits with other banks		$ 81,600	$ —	$ —	$ 81,600
Interest-bearing deposits with other banks	a)	276,429	9,030	—	285,459
Securities					
Available-for-sale	a)	1,096,333	—	1,011,742	2,108,075
Held-to-maturity	a)	—	885,822	—	885,822
Held-for-trading		2,181,969	—	—	2,181,969
Designated as at fair value through profit or loss	a)	1,011,742	—	(1,011,742)	—
		4,290,044	885,822	—	5,175,866
Securities purchased under reverse repurchase agreements	a)	318,753	401,564	—	720,317
Loans					
Personal	n)	5,768,787	—	5,420	5,774,207
Residential mortgage	a), n)	8,378,029	3,394,017	97,366	11,869,412
Commercial mortgage		2,363,808	—	—	2,363,808
Commercial and other		1,900,977	—	—	1,900,977
Customers' liabilities under acceptances		179,140	—	—	179,140
		18,590,741	3,394,017	102,786	22,087,544
Allowances for loan losses	d)	(149,743)	1,000	5,593	(143,150)
		18,440,998	3,395,017	108,379	21,944,394
Other					
Premises and equipment	m)	64,752	(3,044)	—	61,708
Derivatives	a)	228,704	(443)	—	228,261
Goodwill	e)	53,790	(24,566)	—	29,224
Software and other intangible assets	f), m)	123,357	(9,408)	—	113,949
Deferred tax assets	j)	—	19,876	(15,716)	4,160
Other assets	a), c), e), j), n)	612,024	(186,806)	(106,946)	318,272
		1,082,627	(204,391)	(122,662)	755,574
		$ 24,490,451	$ 4,487,042	$ (14,283)	$ 28,963,210
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits					
Personal	a), b)	$ 15,610,012	$ (159)	$ —	$ 15,609,853
Business, banks and other	a)	4,457,406	(50,978)	—	4,406,428
		20,067,418	(51,137)	—	20,016,281
Other					
Obligations related to securities sold short		1,471,254	—	—	1,471,254
Obligations related to securities sold under repurchase agreements		36,770	—	—	36,770
Acceptances		179,140	—	—	179,140
Derivatives	a)	246,475	(116,506)	—	129,969
Deferred tax liabilities	j)	—	(17,244)	23,606	6,362
Other liabilities	a), c), d), g), i), j), k), l)	912,190	27,419	(37,889)	901,720
		2,845,829	(106,331)	(14,283)	2,725,215
Debt related to securitization activities	a)	—	4,760,847	—	4,760,847
Subordinated debt	b)	242,512	39	—	242,551
Shareholders' equity					
Preferred shares	o)	210,000	—	(4,473)	205,527
Common shares	o)	259,492	—	(6,891)	252,601
Share-based payment reserve		227	—	—	227
Retained earnings	o), p)	818,207	(135,200)	11,364	694,371
Accumulated other comprehensive income	a), b), h), j)	46,766	18,824	—	65,590
		1,334,692	(116,376)	—	1,218,316
		$ 24,490,451	$ 4,487,042	$ (14,283)	$ 28,963,210

(1) See items in Note 30.6 Nature of adjustments
(2) See Reclassification of comparative figures in Note 2 Basis of presentation

30. ADOPTION OF IFRS [Cont'd]

									As at November 1, 2010
	Item [1]		Canadian GAAP [2]		Adjustments		Reclassifications		IFRS
ASSETS									
Cash and non-interest bearing deposits with other banks	a)	$	70,537	$	1,907	$	—	$	72,444
Interest-bearing deposits with other banks	a)		95,561		3,833		—		99,394
Securities									
Available-for-sale	a), h)		1,103,744		1,281		1,033,836		2,138,861
Held-to-maturity	a)		—		559,457		—		559,457
Held-for-trading			1,496,583		—		—		1,496,583
Designated as at fair value through profit or loss	a)		1,658,478		—		(1,033,836)		624,642
			4,258,805		560,738		—		4,819,543
Securities purchased under reverse repurchase agreements	a)		803,874		190,800		—		994,674
Loans									
Personal	n)		5,630,788		—		5,415		5,636,203
Residential mortgage	a), n)		8,055,034		2,715,535		89,078		10,859,647
Commercial mortgage			2,166,375		—		—		2,166,375
Commercial and other			1,691,190		—		—		1,691,190
Customers' liabilities under acceptances			165,450		—		—		165,450
			17,708,837		2,715,535		94,493		20,518,865
Allowances for loan losses	d)		(138,143)		840		5,736		(131,567)
			17,570,694		2,716,375		100,229		20,387,298
Other									
Premises and equipment	m)		58,536		(2,809)		—		55,727
Derivatives	a)		162,610		(4,544)		—		158,066
Goodwill	e)		53,790		(24,566)		—		29,224
Software and other intangible assets	f), m)		112,369		(10,698)		—		101,671
Deferred tax assets	j)		—		18,416		29,579		47,995
Other assets	a), c), e), j), n)		585,362		(172,001)		(124,072)		289,289
			972,667		(196,202)		(94,493)		681,972
		$	23,772,138	$	3,277,451	$	5,736	$	27,055,325
LIABILITIES AND SHAREHOLDERS' EQUITY									
Deposits									
Personal	a), b)	$	15,396,911	$	(42,060)	$	—	$	15,354,851
Business, banks and other			4,250,819		—		—		4,250,819
			19,647,730		(42,060)		—		19,605,670
Other									
Obligations related to securities sold short			1,362,336		—		—		1,362,336
Obligations related to securities sold under repurchase agreements			60,050		—		—		60,050
Acceptances			165,450		—		—		165,450
Derivatives	a)		199,278		(84,043)		—		115,235
Deferred tax liabilities	j)		—		(13,977)		41,520		27,543
Other liabilities	a), c), d), g), i), j), k), l)		947,879		33,844		(35,784)		945,939
			2,734,993		(64,176)		5,736		2,676,553
Debt related to securitization activities	a)		—		3,486,634		—		3,486,634
Subordinated debt			150,000		—		—		150,000
Shareholders' equity									
Preferred shares	o)		210,000		—		(4,473)		205,527
Common shares	o)		259,363		—		(6,891)		252,472
Share-based payment reserve			243		—		—		243
Retained earnings	o), p)		741,911		(131,428)		11,364		621,847
Accumulated other comprehensive income	a), b), h), j)		27,898		28,481		—		56,379
			1,239,415		(102,947)		—		1,136,468
		$	23,772,138	$	3,277,451	$	5,736	$	27,055,325

(1) See items in Note 30.6 Nature of adjustments
(2) See Reclassification of comparative figures in Note 2 Basis of presentation

30. ADOPTION OF IFRS [Cont'd]

30.3 RECONCILIATION OF STATEMENT OF INCOME BETWEEN CANADIAN GAAP AND IFRS

The following table presents the reconciliation of results according to Canadian GAAP and the results recorded in accordance with IFRS. See Note 30.6 for an explanation of the nature of adjustments.

		For the year ended October 31, 2011		
	Item[1]	Canadian GAAP[2]	Adjustments	IFRS
Interest income				
Loans	a), d)	$ 808,995	$ 153,825	$ 962,820
Securities	a)	62,181	11,878	74,059
Deposits with other banks	a)	5,233	44	5,277
Other, including derivatives	a), b)	66,475	(5,130)	61,345
		942,884	160,617	1,103,501
Interest expense				
Deposits		444,463	—	444,463
Debt related to securitization activities	a)	—	140,743	140,743
Subordinated debt		11,574	—	11,574
Other, including derivatives		2,236	—	2,236
		458,273	140,743	599,016
Net interest income		484,611	19,874	504,485
Other income				
Fees and commissions on loans and deposits	k)	116,595	(1,589)	115,006
Securitization income		48,429	—	48,429
Income from brokerage operations	a)	35,486	(35,486)	—
Credit insurance income		18,591	—	18,591
Income from treasury and financial market operations	a), b), h)	18,973	1,965	20,938
Income from sales of mutual funds		17,308	—	17,308
Income from registered self-directed plans		7,253	—	7,253
Other income		6,337	—	6,337
		268,972	(35,110)	233,862
Total revenue		753,583	(15,236)	738,347
Provision for loan losses	d)	47,000	4,080	51,080
Non-interest expenses				
Salaries and employee benefits	c), g)	293,930	(11,300)	282,630
Premises and technology	j), m)	140,839	373	141,212
Other	a), d), f), k)	99,910	(2,647)	97,263
Costs related to an acquisition and other	e)	8,180	826	9,006
		542,859	(12,748)	530,111
Income before income taxes		163,724	(6,568)	157,156
Income taxes		36,235	(2,796)	33,439
Net income		$ 127,489	$ (3,772)	123,717
Preferred share dividends, including applicable taxes		12,436	—	12,436
Net income available to common shareholders		$ 115,053	$ (3,772)	111,281
Average number of common shares outstanding (in thousands)				
Basic		23,924	—	23,924
Diluted		23,943	—	23,943
Earnings per share				
Basic		$ 4.81	$ (0.16)	$ 4.65
Diluted		$ 4.81	$ (0.16)	$ 4.65

(1) See items in Note 30.6 Nature of adjustments
(2) See Reclassification of comparative figures in Note 2 Basis of presentation

30. ADOPTION OF IFRS [Cont'd]

30.4 RECONCILIATION OF COMPREHENSIVE INCOME BETWEEN CANADIAN GAAP AND IFRS

The following table presents the reconciliation between the comprehensive income presented according to Canadian GAAP and the comprehensive income presented in accordance with IFRS. See Note 30.6 for an explanation of the nature of adjustments.

For the year ended	Item [1]	October 31, 2011
Comprehensive income – Canadian GAAP		$ 146,357
Adjustments to net income		
Securitization	a)	(13,000)
Hedge accounting	b)	150
Employee benefits	c)	7,803
Loan loss provisioning	d)	24
Business combination	e)	(826)
Consolidation of B2B Trust	f)	870
Share-based payments	g)	421
Securities	h)	319
Tax accounting	j)	796
Other	k), l), m)	(329)
		(3,772)
Adjustments to other comprehensive income, net of income taxes		
Unrealized net gains (losses) on available-for-sale securities	a), b), h), j)	(9,758)
Net change in value of derivatives designated as cash flow hedges	b), j)	101
		(9,657)
Comprehensive income – IFRS		$ 132,928

(1) See items in Note 30.6 Nature of adjustments.

30.5 RECONCILIATION OF EQUITY BETWEEN CANADIAN GAAP AND IFRS

The following table presents the reconciliation of equity recorded according to Canadian GAAP and equity recorded in accordance with IFRS. See Note 30.6 for an explanation of the nature of adjustments.

As at	Item [1]	October 31, 2011	November 1, 2010
Shareholders' equity – Canadian GAAP		$ 1,334,692	$ 1,239,415
Effect on retained earnings			
Securitization	a)	(14,543)	(1,543)
Hedge accounting	b)	13	(138)
Employee benefits	c)	(86,734)	(94,537)
Loan loss provisioning	d)	(1,539)	(1,563)
Business combination	e)	(22,061)	(21,234)
Consolidation of B2B Trust	f)	(6,861)	(7,731)
Share-based payments	g)	(156)	(577)
Securities	h)	(889)	(1,208)
Tax accounting	j)	(758)	(1,553)
Other	k), l), m)	(1,672)	(1,344)
		(135,200)	(131,428)
Effect on the consolidated accumulated other comprehensive income, net of income taxes			
Available-for-sale reserve	a), b), h), j)	18,645	28,403
Cash flow hedge reserve	b), j)	179	78
		18,824	28,481
Shareholders' equity – IFRS		$ 1,218,316	$ 1,136,468

(1) See items in Note 30.6 Nature of adjustments.

30. ADOPTION OF IFRS [Cont'd]

30.6 NATURE OF ADJUSTMENTS

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

a) Securitization

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

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

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

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

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

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

30. ADOPTION OF IFRS [Cont'd]

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

Principal line items impacted – Balance sheet

As at	October 31, 2011	November 1, 2010
ASSETS		
Increase in residential mortgage loans	$ 3,394,017	$ 2,715,535
Replacement assets		
Increase in cash and non-interest-bearing deposits with other banks	—	1,907
Increase in interest-bearing deposits with other banks	9,030	3,833
Increase in held-to-maturity securities	885,822	559,457
Increase in securities purchased under reverse repurchase agreements	401,564	190,800
	1,296,416	755,997
Decrease in derivatives	(443)	(4,544)
Decrease in other assets (retained interests and other)	(98,273)	(74,688)
Increase in total assets	$ 4,591,717	$ 3,392,300
LIABILITIES AND SHAREHOLDERS' EQUITY		
Decrease in personal deposits	$ (332)	$ (42,313)
Decrease in business, banks and other deposits	(50,978)	—
Increase in debt related to securitization activities	4,760,847	3,486,634
Decrease in derivatives	(116,506)	(84,043)
Increase (decrease) in other liabilities	(4,084)	8,237
Increase in total liabilities	4,588,947	3,368,515
Increase in shareholders' equity		
Decrease in retained earnings	(14,543)	(1,543)
Increase in accumulated other comprehensive income	17,313	25,328
	2,770	23,785
Increase in liabilities and shareholders' equity	$ 4,591,717	$ 3,392,300

Principal line items impacted – Statement of income

For the year ended	October 31, 2011
Increase in interest income	
Increase in interest income due to the recording of the securitized residential mortgage loans and replacement assets	$ 161,650
Decrease in other interest income, including derivatives	(5,130)
	156,520
Increase in interest expense	
Increase in interest expense related to the recording of the debt related to securitization activities	140,743
Increase in net interest income	15,777
Decrease in other income	
Reversal of gains on sales and other income related to securitization activities	(35,486)
Other	1,310
	(34,176)
Increase in non-interest expenses	212
Decrease in income taxes	(5,611)
Decrease in net income	$ (13,000)

30. ADOPTION OF IFRS [Cont'd]

b) Hedge accounting

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

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

c) Employee benefits

Actuarial gains and losses

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

Vested past service costs

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

Transitional obligation

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

Fair value of plan assets

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

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

The status of the plans as at October 31, 2011 and November 1, 2010 is presented in Note 19.

30. ADOPTION OF IFRS [Cont'd]

d) Loan loss provisioning

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

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

The table below reflects the variation of the allowance due to the improved methodology for year ended October 31, 2011 and the effect of reclassifications to net interest income and other non-interest expenses.

For the year ended		October 31, 2011
Increase in net interest income (accretion on impaired loans)	$	4,097
Increase in provision for loan losses		(4,080)
Decrease in other non-interest expenses (allowances for undrawn amounts)		143
		160
Increase in income taxes		(136)
Increase in net income	$	24

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

e) Business combination

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

Under Canadian GAAP, the Bank applied section 1581, *Business combination*, whereby acquisition costs were permitted to be capitalized. Under IFRS, acquisition costs related to the MRS transaction incurred during the year ended October 31, 2011 (see Note 29) amounting to $0.8 million, previously presented with other assets, were expensed in the consolidated statement of income.

30. ADOPTION OF IFRS [Cont'd]

f) Consolidation of B2B Trust

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

g) Share-based payments

Under Canadian GAAP, for the stock appreciation rights (SARs) settled in cash, the excess of the share price over the exercise price, reviewed on an ongoing basis, was recognized in income during the SARs' vesting period. Under IFRS, the Bank is required to recognize as an expense the fair value of SARs during the vesting period. The Bank measures the fair value of the SARs using the Black and Scholes option pricing model, taking into account the terms and conditions upon which the SARs were granted. This difference led to an increase in other liabilities of $0.8 million as at November 1, 2010, and an increase of $0.2 million as at October 31, 2011, and resulted in related adjustments to retained earnings and net income.

h) Securities

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

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

i) Contingencies

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

j) Income taxes

The adjustment to total equity at the transition date essentially reflects the total tax recovery on all the adjustments from Canadian GAAP to IFRS.

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

k) Customer loyalty programs

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

30. ADOPTION OF IFRS [Cont'd]

l) Operating lease incentives

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

m) Premises and equipment and software

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

n) Reclassification of loan origination fees

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

o) Reclassification of share issuance costs

Share issuance costs, net of income taxes, previously presented in equity as a deduction of retained earnings, were reclassified in equity as a deduction of the shares issued. This reclassification amounted to $4.5 million as at November 1, 2010 and October 31, 2011 for preferred shares and $6.9 million as at November 1, 2010 and October 31, 2011 for common shares.

p) Retained earnings

The adjustment to retained earnings at the transition date reflects the net impact of the adjustments from Canadian GAAP to IFRS listed above. See Note 30.5.

q) Adjustments to the consolidated statement of cash flows

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