LAURENTIAN BANK OF CANADA CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2013 AND 2012

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

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

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 risk management and an operating risk management function that ensures proper risk control, related documentation and the measurement of the financial impact of risks. In addition, the internal auditors periodically assess various aspects of the Bank's operations and make recommendations to management for, among other things, improvements to the internal control systems.

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

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

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

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

RÉJEAN ROBITAILLE, FCPA, FCA
President and
Chief Executive Officer

MICHEL C. LAUZON
Executive Vice-President
Chief Financial Officer

Montréal, Canada
December 11, 2013

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

We have audited the accompanying consolidated financial statements of Laurentian Bank of Canada ("the Bank") which comprise the consolidated balance sheet as at October 31, 2013 and 2012, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended October 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2013 and 2012, and its financial performance and its cash flows for the years ended October 31, 2013 and 2012 in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
December 11, 2013

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

CONSOLIDATED BALANCE SHEET

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

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

Isabelle Courville
Chair of the Board

Réjean Robitaille, FCPA, FCA
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended October 31, 2013

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

For the year ended October 31, 2012

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at October 31, 2013 and 2012
[All tabular amounts are in thousands of Canadian dollars, unless otherwise indicated.]

1. GENERAL INFORMATION

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

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

2. BASIS OF PRESENTATION

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

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

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

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

2.1 BASIS OF CONSOLIDATION

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

Consolidated subsidiaries

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

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

(1) AGF Trust Company merged with B2B Bank as of September 1, 2013.
(2) MRS Trust Company merged with B2B Bank as of April 16, 2012

2. BASIS OF PRESENTATION [Cont'd]

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

2.2 USE OF ESTIMATES AND JUDGMENT

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

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

Impairment of assets

Allowances for loan losses

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

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

Other financial assets

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

Refer to Note 3 for further detail on the accounting of available-for-sale and held-to-maturity financial assets.

Goodwill and other intangible assets

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

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

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

2. BASIS OF PRESENTATION [Cont'd]

Post-employment benefits

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

Business combinations

On the date of the acquisition, the acquiree's assets and liabilities have been included in the consolidated balance sheet at fair value. Valuation of the identifiable assets and liabilities of the acquiree upon initial recognition was based on a number of assumptions determined by management such as estimates of future cash flows and discount rates as well as contractual provisions. Changes in assumptions could have had a significant impact on the amount of goodwill, contingent consideration or gain arising on acquisition recognized. Refer to Note 28 for additional information on the assets acquired and liabilities assumed as a result of business combinations.

Income taxes

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

Provisions and contingent liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 FINANCIAL INSTRUMENTS

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

Financial instruments at fair value through profit or loss

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

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

Held-for-trading financial instruments

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

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

Financial instruments designated as at fair value through profit or loss

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

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

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

Available-for-sale financial assets

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

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

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

Held-to-maturity financial assets

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

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

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

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

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

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

Securities lending and borrowing

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

Securities sold short

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

Securities borrowed are not recognized on the consolidated balance sheet. However, when they are sold to third parties, the obligation to return the securities is also recorded as a short sale.

Loans

Loans are non-derivative financial assets with fixed or determinable payments and are generally classified as loans and receivables.

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

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

Renegotiated loans

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

Foreclosed assets

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

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

Derecognition of financial assets

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

Securitization

The Bank regularly transfers pools of residential mortgages under securitization programs. As the Bank retains substantially all the risks and rewards related to the loans, these transactions do not result in derecognition of the mortgages from the Bank's consolidated balance sheet. As such, securitized residential mortgages continue to be recognized in the consolidated balance sheet and accounted for as loans. In addition, these transactions result in the recognition of a debt related to securitization activities when cash is received as a result of the securitization transactions. Refer to note 7 for further detail.

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

Impairment of financial assets

Impairment of available-for-sale financial assets

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

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

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

Impairment of held-to-maturity financial assets

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

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

Impairment of loans

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

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

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

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

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

Collective allowances

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

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

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

Acceptances and customers' liabilities under acceptances

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

Derivatives and hedges

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

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

Hedge accounting

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

Fair value hedges

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

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

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

Cash flow hedges

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

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

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

Deposits

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

Indexed deposit contracts

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

Debt related to securitization activities

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

Subordinated debt

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

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

Measuring the fair value of financial instruments

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

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

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

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

Offsetting of financial assets and liabilities

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

3.2 BUSINESS COMBINATIONS

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

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

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

Purchased loans are subject to impairment assessment, consistent with the Bank's methodology for collective allowances. Increases in initially estimated incurred loan losses are recorded in the provision for loan losses and increase the allowance for loan losses. Decreases in initially estimated incurred loan losses result in a reduction of the provision for loan losses and reduce any previously recorded allowance for loan losses, until the newly recorded allowance is exhausted. Any additional decrease in estimated incurred loan losses is recorded under gain on acquisition and amortization of net premium on purchased financial instruments and increases the carrying amount of the purchased loans.

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

3.3 PREMISES AND EQUIPMENT

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

Depreciation

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

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

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

Impairment

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is considered to be impaired and it is written down to its recoverable amount. Assets are reviewed to determine whether there is any indication of impairment. Assessing whether such indications exist is subject to management's judgment. No premises or equipment assets were impaired during the years ended October 31, 2013 and 2012.

3.4 GOODWILL, SOFTWARE AND OTHER INTANGIBLE ASSETS

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

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

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

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

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

Intangible assets with finite lives are tested for impairment whenever circumstances indicate that the carrying value may not be fully recoverable. When the net carrying amount exceeds the estimated discounted future net cash flows, intangible assets with finite lives are considered impaired and are written down to their recoverable amount. Projects under development are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. When the net carrying amount exceeds the estimated discounted future net cash flows, projects under development are considered impaired and are written down to their recoverable amount.

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

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

3.5 EMPLOYEE BENEFITS

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

Short-term benefits

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

Post-employment benefits

The Bank has a number of benefit plans, including defined benefit and defined contribution pension plans, as well as other post-employment benefits. Funding is generally provided by both the Bank and the participating employees of the plans.

Defined benefit pension plans

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

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

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

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

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

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

Defined contribution pension plans

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

Other post-employment benefits

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

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

3.6 PROVISIONS AND CONTINGENT LIABILITIES

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

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

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

3.7 INCOME TAXES

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

3.8 EARNINGS PER SHARE

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

3.9 INSURANCE

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

3.10 SHARE-BASED PAYMENTS

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

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

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

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

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

3.11 ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

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

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

3.12 TRANSLATION OF FOREIGN CURRENCIES

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

3.13 CASH AND CASH EQUIVALENTS

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

3.14 LEASES

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

3.15 SHARE CAPITAL

Share issue costs

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

Dividend on common shares

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

3.16 ACCOUNTING CHANGES

IAS 1: Presentation of Financial Statements

In June 2011, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* that require entities to group items presented in other comprehensive income on the basis of whether they might be reclassified to the consolidated statement of income in subsequent periods and items that will not be reclassified to the consolidated statement of income. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The amendments have been adopted by the Bank retroactively as of November 1, 2012. Since the amendments pertain to disclosure requirements only, they had no impact on the Bank's results or financial position.

4. FUTURE ACCOUNTING CHANGES

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

IAS 19: *Employee Benefits*

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

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

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

4. FUTURE ACCOUNTING CHANGES [Cont'd]

IFRS 9: *Financial Instruments*

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

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

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

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

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

In May 2011, the IASB issued, and subsequently amended in June 2012, IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements* and IFRS 12, *Disclosure of Interests in Other Entities*, which are effective for annual periods beginning on or after January 1, 2013, which is November 1, 2013 for the Bank, and are to be applied retrospectively. The adoption of these standards should not have any significant impact on the Bank's financial statements.

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

IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly-controlled Entities – Non-monetary Contributions by Venturers*, and provides guidance for the accounting of joint arrangements that focuses on the rights and obligations of the arrangement, rather than its legal form.

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

IFRS 13: *Fair Value Measurement*

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*, which is effective for annual periods beginning on or after January 1, 2013, which is November 1, 2013 for the Bank, and is to be applied prospectively. IFRS 13 establishes a single source of guidance for fair value measurements when fair value is required or permitted by IFRS and provides for enhanced disclosures when fair value is applied. The adoption of this standard should not have any significant impact on the Bank's financial statements.

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

In December 2011, the IASB issued amendments to IAS 32, *Financial Instruments: Presentation* to clarify its requirements for offsetting financial instruments. The amendments, which address inconsistencies in current practice when applying the offsetting criteria in IAS 32, are effective for annual periods beginning on or after January 1, 2014, which will be November 1, 2014 for the Bank, and are to be applied retrospectively. In addition, in December 2011, the IASB issued related amendments to IFRS 7, *Financial Instruments: Disclosures* to include new disclosure requirements that are intended to help users to better assess the effect or potential effect of offsetting arrangements on an entity's financial position. These amendments are effective for annual periods beginning on or after January 1, 2013, which is November 1, 2013 for the Bank, and are to be applied retrospectively. Since the adoption of these standards pertains to presentation and disclosure requirements only, they should not have any significant impact on the Bank's financial statements.

5. SECURITIES

MATURITY SCHEDULE OF SECURITIES

Portfolio of available-for-sale securities

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

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

Portfolio of held-to-maturity securities

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

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

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

GAINS AND LOSSES RECOGNIZED IN INCOME

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

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

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

GAINS AND LOSSES RECOGNIZED IN COMPREHENSIVE INCOME

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

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

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

5. SECURITIES [Cont'd]

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

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

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

6. LOANS

LOANS AND IMPAIRED LOANS

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

												2012
								Collective allowances				
		Gross amount of loans		Gross amount of impaired loans		Individual allowances		Against impaired loans		Against other loans		Total allowances
Personal	$	7,806,067	$	16,863	$	—	$	10,081	$	24,724	$	34,805
Residential mortgage		14,169,095		21,971		—		390		2,254		2,644
Commercial mortgage		2,443,634		36,672		14,070		—		16,406		30,476
Commercial and other[1]		2,362,083		52,517		33,779		2,021		13,817		49,617
	$	26,780,879	$	128,023	$	47,849	$	12,492	$	57,201	$	117,542

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

Foreclosed assets

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

6. LOANS [Cont'd]

INDIVIDUAL ALLOWANCES FOR LOAN LOSSES

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

(1) Including customers' liabilities under acceptances

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

COLLECTIVE ALLOWANCES FOR LOAN LOSSES

Collective allowances against impaired loans

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

(1) Including customers' liabilities under acceptances

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

Collective allowances against other loans

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

(1) Including customers' liabilities under acceptances

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

6. LOANS [Cont'd]

LOANS PAST DUE BUT NOT IMPAIRED

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

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

								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

7. LOAN SECURITIZATION

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

CANADA MORTGAGE BOND PROGRAM

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

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

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

7. LOAN SECURITIZATION [Cont'd]

Assets related to securitization activities

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

Debt related to securitization activities

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

MULTI-SELLER CONDUITS

As part of transactions with multi-seller conduits, the Bank sells fixed rate and variable rate mortgage loans to trusts established for the limited purpose of securitization activities. These trusts fund such purchases mainly through the issuance of asset-backed commercial paper. Funding is reduced as mortgage loans are repaid. To reduce the interest-rate risk associated to the mismatch between the fixed rate mortgage loans and the variable rate funding of the trusts, as well as to reduce the risk related to the timing of the collection of cash flows related to the mortgage loans, the trusts enter into swap agreements with third party swap counterparties. Under the swap agreements, these swap counterparties receive the monthly interest flows from the mortgage loans and in return provide the trusts with the regular interest payments required to pay out to investors under the terms of the asset-backed commercial paper. Simultaneously, these swap counterparties conclude similar swap agreements with the Bank. At the swap coupon settlement date, the Bank therefore pays/receives the difference between the amount collected from the mortgage loans and the amount payable to investors. Because the underlying cash flows associated with these interest rate swaps are captured through the on-balance sheet recognition of the underlying mortgage loans and the associated securitization liabilities, these interest rate swaps are not recognized at fair value on the consolidated balance sheet and fair value changes are not recognized in the consolidated statement of income. The underlying cash flows of the interest rate swaps are recognized on an accrual basis as described below. As at October 31, 2013, the notional amount of these swaps was $0.7 billion compared to $0.9 billion as at October 31, 2012.

Assets related to securitization activities

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

Debt related to securitization activities

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

Guarantees related to securitization activities

As part of the transactions with a multi-seller conduit, the Bank has guaranteed the payment and performance of certain obligations and liabilities to the securitization trust. The maximum potential amount of future payments under this guarantee totalled $523.4 million as at October 31, 2013 ($675.2 million as at October 31, 2012).

7. LOAN SECURITIZATION [Cont'd]

FINANCIAL ASSETS NOT QUALIFYING FOR DERECOGNITION AND ASSOCIATED FINANCIAL LIABILITIES

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

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

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

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

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

LOANS UNDER MANAGEMENT

The Bank manages commercial mortgage loans for third parties. The total principal amount of outstanding commercial mortgages loans under management amounted to $397.9 million at the end of fiscal 2013 ($346.5 million in 2012). The Bank is not exposed to any credit risk under the servicing agreements in respect of these loans.

SALE OF COMMERCIAL MORTGAGE LOANS

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

8. PREMISES AND EQUIPMENT

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

	Premises and Leasehold improvements	Equipment and furniture	Computer hardware	Total
Cost				
As at October 31, 2011	$ 83,498	$ 85,627	$ 134,463	$ 303,588
Additions	5,962	2,658	12,388	21,008
Additions through business combinations (Note 28)	1,721	306	441	2,468
Write offs	(206)	—	—	(206)
As at October 31, 2012	90,975	88,591	147,292	326,858
Additions	11,308	2,352	7,292	20,952
Write offs	(30,393)	(63,067)	(100,544)	(194,004)
As at October 31, 2013	$ 71,890	$ 27,876	$ 54,040	$ 153,806
Accumulated depreciation				
As at October 31, 2011	47,412	75,781	118,687	241,880
Depreciation	4,542	3,118	5,595	13,255
Write offs	(148)	—	—	(148)
As at October 31, 2012	51,806	78,899	124,282	254,987
Depreciation	7,848	3,277	6,759	17,884
Write offs	(30,080)	(62,489)	(99,757)	(192,326)
As at October 31, 2013	$ 29,574	$ 19,687	$ 31,284	$ 80,545
Carrying amount				
As at October 31, 2012	$ 39,169	$ 9,692	$ 23,010	$ 71,871
As at October 31, 2013	$ 42,316	$ 8,189	$ 22,756	$ 73,261

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

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

9. GOODWILL

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

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

9. GOODWILL [Cont'd]

IMPAIRMENT TESTING OF GOODWILL

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

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

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

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

The DCF method uses projections of cash flows, which are discounted to their present value. Cash flow projections are based on financial plans agreed to by management for a three-year period, estimated based on forecast results, business initiatives and planned capital investments and returns to shareholders. Cash flow projections beyond the initial three-year period are assumed to increase at a constant rate using a nominal long-term growth rate of 3%.

The discount rate used is based on the bank-wide cost of capital and further adjusted to reflect current market assessment of the risks specific to each CGU. The discount rates used in our annual impairment test ranged from 10% to 11%.

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

10. SOFTWARE AND OTHER INTANGIBLE ASSETS

	Software	Other intangible assets	Total
Cost			
As at October 31, 2011	$ 371,321	$ —	$ 371,321
Additions	53,675	2,638	56,313
Additions through business combinations (Note 28)	1,891	21,597	23,488
As at October 31, 2012	426,887	24,235	451,122
Additions	**59,977**	**15,771**	**75,748**
Write offs	**(146,694)**	**—**	**(146,694)**
As at October 31, 2013	**340,170**	**40,006**	**380,176**
Accumulated amortization			
As at October 31, 2011	257,372	—	257,372
Amortization	30,514	3,263	33,777
As at October 31, 2012	287,886	3,263	291,149
Amortization	**33,629**	**3,426**	**37,055**
Write offs	**(145,622)**	**—**	**(145,622)**
As at October 31, 2013	**$ 175,893**	**$ 6,689**	**$ 182,582**
Carrying amount			
As at October 31, 2012	$ 139,001	$ 20,972	$ 159,973
As at October 31, 2013	**$ 164,277**	**$ 33,317**	**$ 197,594**

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

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

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

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

11. OTHER ASSETS

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

12. DEPOSITS

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

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

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

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

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

13. OTHER LIABILITIES

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

14. DEBT RELATED TO SECURITIZATION ACTIVITIES

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

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

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

(2) The interest rate on the debt related to multi-seller conduits are based on the funding cost of the conduits and corresponds to the rate of the asset-backed commercial paper issued by the conduits, plus related program fees.

15. SUBORDINATED DEBT

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

ISSUANCE

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

ISSUED AND OUTSTANDING

Maturity	Series	Interest rate	Special terms	2013 Carrying amount	2012 Carrying amount
October 2022	2012-1	3.13%	Redeemable at par as of October 19, 2017 (1); rate to be revised on October 19, 2017 and set at the 90-day bankers' acceptance rate plus 1.46%	$ 200,000	$ 200,000
November 2020	2010-1	3.70%	Redeemable at par as of November 2, 2015 (1); rate to be revised on November 2, 2015 and set at the 90-day bankers' acceptance rate plus 1.76%	250,000	250,000
				450,000	450,000
Unamortized issuance costs				(1,488)	(1,918)
Net fair value adjustment(2)				(3,039)	(4,488)
				$ 445,473	$ 443,594

(1) Subject to the provisions of the Bank Act and to the prior consent of OSFI.

(2) Carrying value of subordinated debt reflects the impact of interest rate hedges in effective hedge relationships.

16. SHARE CAPITAL

AUTHORIZED SHARE CAPITAL

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

PREFERRED SHARES

Terms of preferred shares

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

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

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

16. SHARE CAPITAL [Cont'd]

The Non-cumulative Class A Preferred Shares, Series 12, are redeemable at the Bank's option, by the payment of an amount in cash for each such share so redeemed of (i) $25.00 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on December 15, 2022 and on December 15 every five years thereafter, or (ii) $25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date after December 15, 2017, subject to the provisions of the Bank Act and to the prior consent of OSFI. On December 15, 2022 and on December 15 every five years thereafter, the holders of Preferred Shares Series 12 may also convert, subject to the automatic conversion provisions and the right of the Bank to redeem those shares, any or all of these preferred shares into an equal number of Preferred Shares Series 11. The holders of the Preferred Shares Series 12 will be entitled to receive floating non-cumulative preferential cash dividends payable quarterly, as declared by the Board of Directors, at a rate equal to the three-month Government of Canada Treasury Bills rate plus 2.60% per share. There were no outstanding Non-cumulative Class A Preferred Shares, Series 12 as at October 31, 2013.

Issued and outstanding

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

			2013			2012
	Number of shares		Amount	Number of shares		Amount
Class A Preferred shares						
Series 9						
Outstanding at beginning of year	4,000,000	$	97,885	4,000,000	$	97,885
Repurchase of shares	(4,000,000)		(97,885)	—		—
Outstanding at end of year	—		—	4,000,000	$	97,885
Series 10						
Outstanding at beginning and end of year	4,400,000		107,642	4,400,000		107,642
Series 11						
Outstanding at beginning of year	4,000,000		97,722	—		—
Issuance of new shares	—		—	4,000,000		100,000
Issuance costs, net of income taxes	n/a		(160)	n/a		(2,278)
Outstanding at end of year	4,000,000		97,562	4,000,000		97,722
Total preferred shares	8,400,000	$	205,204	12,400,000	$	303,249

Repurchase of preferred shares

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

Issuance of preferred shares

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

16. SHARE CAPITAL [Cont'd]

COMMON SHARES

Issued and outstanding

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

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

Issuance of common shares under a public offering

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

Issuance of common shares under a private placement

On June 12, 2012, the Bank issued a private placement of 2,867,383 subscription receipts at a price of $41.85 per receipt. Proceeds were placed in escrow until closing of the AGF Trust Company acquisition (see Note 28). Upon the completion of the acquisition on August 1, 2012, subscription receipts were automatically exchanged for 2,867,383 common shares of the Bank for net proceeds of $115.0 million.

Dividend reinvestment and share purchase plan

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

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

DECLARED DIVIDENDS

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

(1) Non-cumulative dividends on preferred shares

16. SHARE CAPITAL [Cont'd]

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

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

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

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

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

CAPITAL MANAGEMENT

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

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

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

Each year, the Risk Management Committee of the Board of Directors reviews and approves several capital-related documents, including the Capital Management and Adequacy Policy, the ICAAP, the Stress Testing Program, the Business and Financial Three-Year Plan, as well as the Capital Plan. It reviews capital adequacy on a quarterly basis. Senior management monitors regulatory capital ratios on a monthly basis through the ALCO. The Risk Management Department oversees the Bank's Capital Management Framework. This oversight includes monitoring capital limits and adequacy as well as developing and implementing the Capital Management and Adequacy Policy, ICAAP and the Stress Testing Program. The Bank's Treasury Department develops the Capital Plan and manages capital on an ongoing basis.

The regulatory capital calculation is determined based on the guidelines issued by OSFI originating from the Basel Committee on Banking Supervision (BCBS) regulatory risk based capital framework. As of January 2013, the Bank adopted the new capital adequacy requirements drawn on the BCBS capital guidelines initially issued in December 2010, and commonly referred to as Basel III. Under this new framework, Tier 1 capital, the most permanent and subordinated forms of capital, must be more predominantly composed of common equity. Tier 1 capital now consists of two components: Common equity Tier 1 and Additional Tier 1, to ensure that risk exposures are backed by a high quality capital base and to provide transparency. Tier 2 capital consists of supplementary capital instruments and will continue to contribute to the overall strength of a financial institution as a going concern.

16. SHARE CAPITAL [Cont'd]

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

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

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

Regulatory capital

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

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

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

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

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

17. SHARE-BASED PAYMENTS

SHARE PURCHASE OPTION PLAN

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

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

The Bank had initially reserved 1,600,000 common shares for the potential exercise of share purchase options, of which 124,962 were still available as at October 31, 2013 (124,962 as at October 31, 2012).

No new share options were granted in 2013 and 2012.

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

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

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

17. SHARE-BASED PAYMENTS [Cont'd]

SHARE APPRECIATION RIGHTS PLAN

The Bank offers a share appreciation rights (SARs) plan to members of senior management of the Bank and its subsidiaries. These SARs may be cash settled for an amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs vest over a maximum period of five years and can be exercised over a maximum period of ten years. The fair value of SARs is measured using the Black-Scholes-Merton option pricing model, taking into account the terms and condition upon which the instruments were granted, including the dividend yield. The expense related to these units is recognized in net income over their vesting period with a corresponding liability recognized on the balance sheet. At each reporting date, until the liability is settled, the liability is remeasured with changes in fair value recognized in the consolidated statement of income. No SARs were granted during 2013 and 2012.

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

Share appreciation rights

	Weighted average exercise price	Number of SARs outstanding	Weighted average remaining contractual life (years)	Number of SARs exercisable
2013	**$36.51**	**185,847**	**3.92**	**178,597**
2012	$34.95	305,537	4.37	263,912

PERFORMANCE-BASED SHARE UNIT PLAN

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

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

Performance share units

	For the years ended October 31			As at October 31
	Number of units granted	Value of units granted	Vesting date	Number of units outstanding
2013	**191,167**	**$45.07**	**December 2015**	**385,701**
2012	85,268	$43.84	December 2014	238,114

RESTRICTED SHARE UNIT PLANS

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

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

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

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

17. SHARE-BASED PAYMENTS [Cont'd]

Restricted share units

		For the years ended October 31				As at October 31	
	Plan	Number of units converted [1]	Number of units granted	Value of units granted	Vesting date	Number of units outstanding	Number of units vested
2013	Senior management	51,572	35,503	$ 45.06	December 2015	259,586	241,925
	Capital markets	27,904	—	$ 45.07	n/a	53,272	53,272
2012	Senior management	41,422	28,004	$ 43.82	December 2014	242,298	209,854
	Capital markets	20,952	—	$ 43.84	n/a	39,365	39,365

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

DEFERRED SHARE UNIT PLAN

The Bank offers a deferred share unit plan to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his or her remuneration in the form of deferred share units which can be settled in cash or common shares. The deferred share units are converted when the holder steps down from the Board of Directors. In 2013, 1,558 deferred share units were redeemed and settled in cash (nil in 2012). In 2013, the Bank granted 7,094 deferred share units as compensation (6,127 in 2012). As at October 31, 2013, there were 18,839 units (13,303 in 2012) outstanding with a total value of $0.9 million ($0.6 million in 2012).

EMPLOYEE SHARE PURCHASE PLAN

The Bank offers an employee share purchase plan. Under this plan, employees who meet the eligibility criteria can contribute up to 5% of their annual gross salary by way of payroll deductions. The Bank matches 30% of the employee contribution amount, up to a maximum of $1,500 per year. The Bank's contributions vest to the employee two years after each employee contribution. The Bank's contributions, totalling $0.5 million during fiscal 2013 ($0.5 million in 2012), are recognized in salaries and employee benefits. The average value of the granted shares under this plan was $44.18 in fiscal 2013 ($45.24 in 2012).

SHARE-BASED PAYMENT PLAN EXPENSE AND RELATED LIABILITY

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

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

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

The carrying amount of the liability relating to the cash-settled plans as at October 31, 2013 was $29.1 million ($22.8 million as at October 31, 2012).

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

18. POST-EMPLOYMENT BENEFITS

DESCRIPTION OF BENEFIT PLANS

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

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

18. POST-EMPLOYMENT BENEFITS [Cont'd]

DEFINED BENEFIT PLAN MEASUREMENT DATES

The Bank measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at October 31 of each year. The most recent actuarial valuations were performed as at December 31, 2012 for pension plans and as at December 31, 2011 for other plans. The next required actuarial valuation for funding purposes will be as at December 31, 2013 for all funded plans. For other plans, the next required actuarial valuation will be as at December 31, 2014.

DEFINED BENEFIT PLAN OBLIGATIONS

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

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

DEFINED BENEFIT PLAN ASSETS

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

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

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

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

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

18. POST-EMPLOYMENT BENEFITS [Cont'd]

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

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

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

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

EXPERIENCE ADJUSTMENTS

			2013				2012
		Pension plans		Other plans		Pension plans		Other plans

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

ELEMENTS OF DEFINED BENEFIT PLAN COSTS RECOGNIZED DURING THE YEAR

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

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

SIGNIFICANT ASSUMPTIONS FOR PENSION PLANS AND OTHER PLANS

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

	2013	2012
Weighted average of assumptions to determine benefit expense		
Discount rate at end of year	4.40 %	5.25 %
Expected long-term rate or return on plan assets	7.00 %	7.25 %
Rate of compensation increase	3.50 %	3.50 %

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

ASSUMED HEALTH CARE COST TREND RATES

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

18. POST-EMPLOYMENT BENEFITS [Cont'd]

SENSITIVITY ANALYSIS

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have had the following effects for the year ended October 31, 2013.

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

EXPENSE FOR POST-EMPLOYMENT BENEFITS

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

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

19. INCOME TAXES

DEFERRED INCOME TAXES

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

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

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

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

19. INCOME TAXES [Cont'd]

The components of deferred income tax expense are as follows.

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

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

INCOME TAX EXPENSE

Significant components of income tax expense are as follows.

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

19. INCOME TAXES [Cont'd]

RECONCILIATION WITH THE STATUTORY RATE

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

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

Income earned on foreign insurance operations would generally be taxed only upon repatriation to Canada. Since the Bank's management does not expect to repatriate income accumulated after July 27, 2006 and based on current tax interpretation, no deferred income tax expense and related provision have been recognized on such income. Income taxes that would be payable if all unremitted earnings were repatriated were estimated at $29.2 million as at October 31, 2013 ($24.4 million as at October 31, 2012).

20. EARNINGS PER SHARE

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

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

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

21. SEGMENTED INFORMATION

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

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

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

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

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

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

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

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

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

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

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

21. SEGMENTED INFORMATION [Cont'd]

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

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

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

22. RELATED PARTY TRANSACTIONS

Related parties of the Bank include:

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

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, being members of the Management Committee or Board of Directors.

The following table presents transactions with related parties.

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

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

The Bank provides loans to directors and officers and their related entities. Loans to directors are granted under market conditions for similar risks and are initially measured at fair value. Loans to officers consist mostly of term residential mortgage loans below posted rates, as well as personal loans and personal lines of credit at market rates less a discount based on the type and amount of the loan. Loans to related entities of directors and officers are granted under terms similar to those offered to arm's length parties. The interest earned on these loans amounts to $1.1 million for the year ended October 31, 2013 ($0.7 million for the year ended October 31, 2012) and is recorded under interest income in the consolidated statement of income.

In the normal course of business, the Bank also provides usual banking services to certain directors and officers, including bank accounts (deposits) under terms similar to those offered to arm's length parties. The interest paid on deposits amounts to $0.1 million for the year ended October 31, 2013 ($0.1 million for the year ended October 31, 2012) and is recorded under interest expense in the consolidated statement of income.

22. RELATED PARTY TRANSACTIONS [Cont'd]

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

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

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

23. FINANCIAL INSTRUMENTS – FAIR VALUE

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

CLASSIFICATION OF FAIR VALUE MEASUREMENTS IN THE FAIR VALUE HIERARCHY

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

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

DETERMINING FAIR VALUE

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

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

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

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

Valuation methodologies

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

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

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

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

Securities

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

Loans

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

Other assets

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

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

Derivatives

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

Deposits

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

Obligations related to securities sold short

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

Debt related to securitization activities

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

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

Subordinated debt

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

SUMMARY

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

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

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

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

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

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

LEVEL TRANSFERS AND RECLASSIFICATION

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

CHANGE IN LEVEL 3 FAIR VALUE CATEGORY AND SENSITIVITY ANALYSIS

The Bank classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically rely on a number of inputs that are observable either directly or indirectly. Changes in Level 3 financial instruments were not significant for the years ended October 31, 2013 and 2012.

As at October 31, 2013, when other reasonably possible alternative assumptions were available for the valuation models, the Bank used these assumptions to recalculate the fair value of the instruments. The resulting potential increase or decrease in total Level 3 fair value was not significant.

24. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

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

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

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

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

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

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

(in millions of Canadian dollars)	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total 2013
Assets							
Cash, deposits and securities	$ 2,343	$ 1,247	$ 764	$ 213	$ 50	$ 73	$ 4,690
Actual return		1.0 %	1.0 %	2.0 %	3.8 %		
Securities purchased under reverse repurchase agreements	1,218	—	—	—	—	—	1,218
Loans	10,309	1,481	4,015	10,454	123	731	27,113
Actual return		4.0 %	4.0 %	3.8 %	4.8 %		
Other assets	—	—	—	—	—	905	905
Total	13,870	2,728	4,779	10,667	173	1,709	33,926
Actual return		2.6 %	3.5 %	3.8 %	4.5 %		
Liabilities and equity							
Deposits	3,118	2,512	5,823	11,736	66	672	23,927
Actual return		1.4 %	1.9 %	2.0 %	3.4 %		
Treasury items	1,804	—	—	—	—	—	1,804
Other liabilities	—	27	60	134	1	1,066	1,288
Actual return		2.3 %	2.2 %	2.3 %	3.3 %		
Debt related to securitization activities	—	1,029	653	3,068	225	—	4,975
Actual return		0.9 %	2.9 %	2.5 %	2.5 %		
Subordinated debt and equity	—	—	—	660	—	1,272	1,932
Actual return		— %	— %	2.4 %	— %		
Total	4,922	3,568	6,536	15,598	292	3,010	33,926
Actual return		1.3 %	2.0 %	2.1 %	2.7 %		
Swaps, net	—	(8,845)	2,683	6,041	121		—
Sensitivity gap	8,948	(9,685)	926	1,110	2	(1,301)	—
Cumulative gap	$ 8,948	$ (737)	$ 189	$ 1,299	$ 1,301	$ —	$ —

(in millions of Canadian dollars)	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total 2012
Assets	$ 13,550	4,459	4,851	10,130	246	1,701	34,937
Actual return		2.1 %	3.7 %	4.1 %	4.4 %		
Liabilities and equity	4,650	4,187	6,970	16,116	111	2,903	34,937
Actual return		2.1 %	2.2 %	2.1 %	2.6 %		
Swaps, net	—	(7,766)	2,029	5,787	(50)	—	—
Sensivity gap	8,900	(7,494)	(90)	(199)	85	(1,202)	—
Cumulative gap	$ 8,900	$ 1,406	$ 1,316	$ 1,117	$ 1,202	$ —	$ —

Maturity assumptions

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

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

25. DERIVATIVES AND HEDGING

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

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

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

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

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

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

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

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

25. DERIVATIVES AND HEDGING [Cont'd]

AGGREGATE NOTIONAL AMOUNTS

(in millions of Canadian dollars) 2013

Notional amount	Period to maturity: Within 1 year	1 to 5 years	Over 5 years	Total	Designated as hedge contracts [1]	Other contracts [2]
Interest rate contracts						
Over-the-counter contracts						
Swaps	$ 3,222	$ 8,024	$ 1,370	$ 12,616	$ 10,320	$ 2,296
Exchange-traded contracts						
Futures	459	—	—	459	—	459
Options written	250	—	—	250	—	250
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	1,114	26	—	1,140	—	1,140
Forwards	1,946	27	—	1,973	—	1,973
Options purchased	237	—	—	237	—	237
Options written	183	—	—	183	—	183
Equity- and index-linked contracts						
Options purchased	13	11	—	24	—	24
Options written	57	144	—	201	—	201
Total return swaps	207	17	—	224	2	222
	$ 7,688	$ 8,249	$ 1,370	$ 17,307	$ 10,322	$ 6,985

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

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

(in millions of Canadian dollars) 2012

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

(1) Include notional amounts of $0.2 billion related to basis swaps as at October 31, 2012.

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

25. DERIVATIVES AND HEDGING [Cont'd]

FAIR VALUE OF DERIVATIVES

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

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

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

(2) Excluding accrued interest.

25. DERIVATIVES AND HEDGING [Cont'd]

INFORMATION REGARDING HEDGING RELATIONSHIPS

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

Fair value hedges

The Bank uses interest rate swaps to hedge changes in fair value of assets, liabilities or firm commitments. The notional amount of swap contracts designated as hedging instruments in fair value hedges was $3.6 billion as at October 31, 2013 ($4.4 billion as at October 31, 2012).

The following table presents ineffectiveness related to fair value hedges.

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

Cash flow hedges

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

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

The following table presents ineffectiveness related to cash flow hedges.

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

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

25. DERIVATIVES AND HEDGING [Cont'd]

CREDIT EXPOSURE

(in millions of Canadian dollars)

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

(1) Represents favourable fair market value. Options written are excluded since they do not constitute a credit risk.

(2) Includes (i) the total positive replacement value of all outstanding contracts and (ii) an amount representing the assessed potential credit risk.

(3) Using guidelines issued by OSFI.

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

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

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

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

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

27. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

CREDIT-RELATED COMMITMENTS

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

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

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

Refer to Note 24 for additional information on credit-related commitments.

GUARANTEES

Standby letters of credit and performance guarantees

In the normal course of its operations, the Bank offers its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that clients cannot meet their obligations to third parties. The term of these guarantees varies according to the contracts and normally does not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. No specific provision is currently recorded with regard to these guarantees. The maximum potential amount of future payments under these guarantees totalled $133.5 million as at October 31, 2013 ($149.3 million as at October 31, 2012).

Derivatives

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank sells put options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of foreign currencies at a predetermined price. The term of these options does not exceed 12 months. No specific provision is recorded with respect to these derivatives. The maximum potential amount of future payments under these derivatives, corresponding to the notional value of outstanding contracts, totalled $109.6 million as at October 31, 2013 ($36.5 million as at October 31, 2012).

Other indemnification agreements

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

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

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

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

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

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

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

FINANCIAL ASSETS PLEDGED AS COLLATERAL

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

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

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

CONTINGENT LIABILITIES

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

Marcotte v. Banks

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

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

On August 2, 2012, the Court of Appeal of Québec allowed the defendant bank's appeals in part and overturned the trial judgment against the Bank. The judgment of the Court of Appeal confirmed the Bank's position by acknowledging its business practice as sound and reasonable. As a result, the Bank does not anticipate to incur any loses on this case. Leave to appeal from Court of Appeal judgment to the Supreme Court of Canada has been granted.

28. BUSINESS COMBINATIONS

ACQUISITION OF THE MRS COMPANIES[1]

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

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

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

ACQUISITION OF AGF TRUST COMPANY

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

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

The allocation of the purchase price of AGF Trust resulted in a gain of $24.3 million ($16.4 million net of income taxes) arising on acquisition as the estimated fair values of the net assets acquired exceeded the purchase price. The gain mainly represented the favourable effect of the discount or premium to reflect the then current market rates on purchased financial instruments, partly offset by the initial estimated fair value of the contingent consideration. The portion of the gain resulting from the revaluation of the purchased financial instruments is being amortized in net income over the estimated remaining term of the purchased financial instruments and amounted to $4.4 million for the year ended October 31, 2013 ($0.5 million for the year ended October 31, 2012).

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

Contingent consideration

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

Costs related to business combinations

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

(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.