SUMMARY OF FINANCIAL RESULTS

OVERVIEW OF FISCAL 2013

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

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

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

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

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HIGHLIGHTS OF 2013

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

TABLE 1

CONSOLIDATED RESULTS

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

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

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

ADJUSTING ITEMS

The Bank has designated certain amounts as adjusting items and has adjusted GAAP results to facilitate understanding of its underlying business performance and related trends. The Bank assesses performance on a GAAP basis and on an adjusted basis and considers both to be useful to investors and analysts in obtaining a better understanding of the Bank's financial results and analyzing its growth and profit potential more effectively. Adjusted results and measures are non-GAAP measures. Comments on the uses and limitations of such measures are disclosed in the Non-GAAP Financial Measures section on page 62.

TABLE 2

IMPACT OF ADJUSTING ITEMS

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

	BUSINESS SEGMENT	2013	2012	2011
Impact on net income				
Reported net income		**$ 124,680**	$ 140,508	$ 123,717
Adjusting items, net of income taxes [1]				
Gain on acquisition and amortization of net premium on purchased financial instruments				
Gain on acquisition	B2B Bank	**—**	(16,382)	—
Amortization of net premium on purchased financial instruments	B2B Bank	**3,264**	400	—
Costs related to business combinations and other [2]				
MRS Companies transaction and integration related costs	B2B Bank	**11,655**	13,936	1,201
AGF Trust transaction and integration related costs	B2B Bank	**16,433**	2,198	—
Compensation for the termination in 2012 of a mutual fund distribution agreement	Other	**—**	—	5,465
		31,352	152	6,666
Adjusted net income [1]		**$ 156,032**	$ 140,660	$ 130,383
Impact on diluted earnings per share				
Reported diluted earnings per share		**$ 3.99**	$ 4.98	$ 4.65
Adjusting items [1]		**1.11**	—	0.28
Adjusted diluted earnings per share [1] [3]		**$ 5.09**	$ 4.98	$ 4.93

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

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

(3) The impact of adjusting items on a per share basis does not add due to rounding for the year ended October 31, 2013.

2013 FINANCIAL PERFORMANCE

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

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

TABLE 3

2013 PERFORMANCE INDICATORS

(Excluding adjusting items)

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

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

OUTLOOK AND OBJECTIVES FOR 2014

ECONOMIC OUTLOOK – A BRIEF OVERVIEW

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

HOW WE WILL MEASURE OUR PERFORMANCE IN 2014

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

TABLE 4

2014 FINANCIAL OBJECTIVES

(Excluding adjusting items)

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

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

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

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

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

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

Key assumptions supporting the Bank's objectives

The following assumptions are the most significant items considered in setting the Bank's strategic priorities and financial objectives. The Bank's objectives do not constitute guidance and are based on certain key planning assumptions. Other factors such as those detailed in the Caution Regarding Forward-Looking Statements section at the beginning of the annual report and in the Risk Appetite and Risk Management Framework section could also cause future results to differ materially from these objectives.

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

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

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

Medium term outlook beyond 2014

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

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

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

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

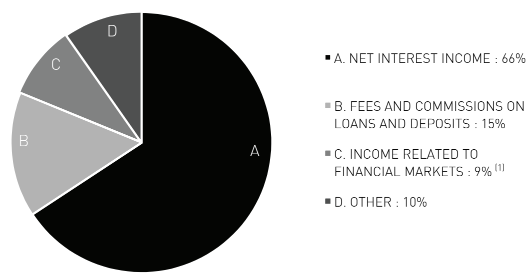
- Grow net income per share by 5% to 10% annually
- Gradually bring the efficiency ratio below 68%
- Generate positive operating leverage
- Maintain strong capital ratios that exceed regulatory requirements

ANALYSIS OF CONSOLIDATED RESULTS

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

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

TOTAL REVENUE MIX
(as a percentage)



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

TOTAL REVENUE

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

NET INTEREST INCOME

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

The compression in net interest margin reflects the repricing of maturing loans and deposits in the sustained very low interest rate environment and a lower volume of residential mortgage loan prepayment penalties, partly offset by the higher-yielding loans in the AGF Trust portfolios and the reduction in lower-yielding liquid assets compared to a year ago. Table 5 provides a summary of net interest income.

The Bank uses derivatives to manage the interest rate risk associated with some of its loan and deposit portfolios. In 2013, interest rate swaps generated revenues of $44.3 million and partly compensated lower interest income resulting from declining interest rates. Depending on interest rate fluctuations and on the portfolio mix in terms of maturity and product types, actual return on portfolios can vary substantially. The Bank uses models to quantify the potential impact of various rate scenarios on future revenues and equity, as explained in the Asset and Liability Management Activities section on page 51 of this MD&A.

TABLE 5

CHANGES IN NET INTEREST INCOME

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

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

TABLE 6

ANALYSIS OF CHANGE IN NET INTEREST INCOME

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

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

OTHER INCOME

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

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

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

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

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

Income from treasury and financial market operations increased by 2% to $17.9 million for fiscal 2013 from $17.5 million in 2012. This increase mainly resulted from higher income from trading activities, while foreign exchange revenues and the contribution from other treasury activities were relatively unchanged year-over-year. Additional information related to the Bank's securities portfolio is presented in Note 5 to the annual consolidated financial statements.

Credit insurance revenues are mainly generated by insurance programs related to loans disbursed by the Bank and related premiums are presented net of claims. These revenues increased by $1.4 million to $16.9 million for fiscal 2013 from $15.5 million in 2012, mainly due to higher premiums reflecting growth in the residential mortgage loan and credit card portfolios, as well as a lower level of claims.

TABLE 7

OTHER INCOME

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

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

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

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

PROVISION FOR LOAN LOSSES

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

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

TABLE 8

PROVISION FOR LOAN LOSSES

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

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

NON-INTEREST EXPENSES

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

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

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

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

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

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

Efficiency ratio

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

TABLE 9

NON-INTEREST EXPENSES

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

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

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

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

INCOME TAXES

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

TABLE 10

RECONCILIATION OF THE INCOME TAX EXPENSE TO THE DOLLAR AMOUNT OF INCOME TAX USING THE STATUTORY RATE

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

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

TRANSACTIONS WITH RELATED PARTIES

The Bank provides loans to directors and officers and their related companies. As at October 31, 2013, these loans totalled $24.3 million. Loans to directors are granted under market conditions for similar risks and are initially measured at fair value. Loans to officers consist mostly of term residential mortgage loans below posted rates, as well as personal loans and personal lines of credit at market rates less a discount based on the type and amount of the loan. Loans to related entities of directors and officers are granted under terms similar to those offered to arm's length parties. The interest earned on these loans is recorded under interest income in the consolidated statement of income. In the normal course of business, the Bank also provides usual banking services to certain directors and officers and their related companies, including bank accounts (deposits) under terms similar to those offered to arm's length parties. As at October 31, 2013, these deposits totalled $5.5 million. The Bank also offers employees a discount on annual credit card fees. In addition, for the year ended October 31, 2013, the Bank paid a rental expense of $2.0 million to a related party. See Note 22 to the annual consolidated financial statements for additional information on related party transactions.

OVERVIEW OF FISCAL 2012

For the year ended October 31, 2012, the Bank reported net income of $140.5 million, or diluted earnings of $4.98 per share, compared with $123.7 million, or diluted earnings of $4.65 per share in 2011. Return on common shareholders' equity was 12.1% in 2012, compared with 12.2% in 2011. Results for 2012 were notably favourably impacted by a $24.3 million pre-tax gain ($16.4 million after income taxes) resulting from the acquisition of AGF Trust.

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

In fiscal 2012, the Bank successfully improved its earnings year-over-year, despite the challenging retail banking and low interest rate environment. During the year, organic growth in loan and deposit volumes and the Bank's business acquisitions of the MRS Companies and AGF Trust generated strong revenue growth and diversification, which compensated for the persistent pressure on net interest margins resulting from the very low interest rate environment. The excellent credit quality of the Bank's loan portfolios and favourable credit conditions in Canada throughout the year also contributed to these good results. During 2012, significant efforts were made to integrate the MRS Companies in order to optimize the benefits from the acquisition.

ACQUISITIONS

Acquisition of the MRS Companies

On November 16, 2011, the Bank and Mackenzie Financial Corporation concluded an agreement pursuant to which B2B Bank, a subsidiary of the Laurentian Bank, acquired 100% of the MRS Companies in a share purchase transaction for a cash consideration of $198.7 million. The MRS Companies include the renamed B2B Bank Financial Services Inc., B2B Bank Securities Services Inc. and B2B Bank Intermediary Services Inc., which were branded as B2B Bank Dealer Services, as well as MRS Trust, which was amalgamated with B2B Trust (now B2B Bank) as of April 16, 2012.

The transaction strengthened B2B Bank as the combined entity can now offer the complete suite of financial services, including loan and deposit products, and investment account management services, to its financial advisors. At the acquisition date, inclusion of the assets and liabilities of the MRS Companies added $333.1 million of loans and $725.5 million of deposits on the Bank's balance sheet. Assets under administration also increased by $20.8 billion, mostly in assets related to self-directed RRSPs. See Note 28 to the annual consolidated financial statements for additional information on this acquisition.

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

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

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

Acquisition of AGF Trust

On August 1, 2012, B2B Bank acquired 100% of AGF Trust in a share purchase transaction for a cash consideration equal to the net book value of the company at closing of $246.3 million. The agreement also included a contingent consideration of a maximum of $20.0 million payable over five years if credit quality reaches certain criteria. Considering this transaction, the Bank closed a private placement of common shares for total net proceeds of $115.0 million on that same date.

The Bank acquired AGF Trust in order to further strengthen its position as provider of banking products and services to the Canadian financial advisor community, as well as to improve profitability and geographic diversification. At acquisition date, inclusion of the assets and liabilities of AGF Trust added $3.2 billion of loans and $2.8 billion of deposits on the Bank's consolidated balance sheet. AGF Trust was amalgamated with B2B Bank effective September 1, 2013. See Note 28 to the annual consolidated financial statements for additional information on this acquisition.

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

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

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

ANALYSIS OF QUARTERLY RESULTS

SUMMARY ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF FISCAL 2013

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

TABLE 11

IMPACT OF ADJUSTING ITEMS ON FOURTH QUARTER RESULTS

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

	BUSINESS SEGMENT		2013		2012
Impact on net income					
Reported net income		$	27,167	$	45,685
Adjusting items, net of income taxes [1]					
Gain on acquisition and amortization of net premium on purchased financial instruments					
Gain on acquisition	B2B Bank		—		(16,382)
Amortization of net premium on purchased financial instruments	B2B Bank		744		400
Costs related to business combinations and other [2]					
MRS Companies transaction and integration related costs	B2B Bank		2,028		4,739
AGF Trust transaction and integration related costs	B2B Bank		5,281		1,744
			8,053		(9,499)
Adjusted net income [1]		$	35,220	$	36,186
Impact on diluted earnings per share					
Reported diluted earnings per share		$	0.86	$	1.51
Adjusting items [1]			0.28		(0.34)
Adjusted diluted earnings per share [1]		$	1.14	$	1.17

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

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

TOTAL REVENUE

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

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

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

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

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

PROVISION FOR LOAN LOSSES

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

NON-INTEREST EXPENSES

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

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

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

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

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

Efficiency ratio

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

INCOME TAXES

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

ANALYSIS OF THE EVOLUTION OF THE QUARTERLY RESULTS

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

TABLE 12

QUARTERLY RESULTS

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

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

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

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

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

2013

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

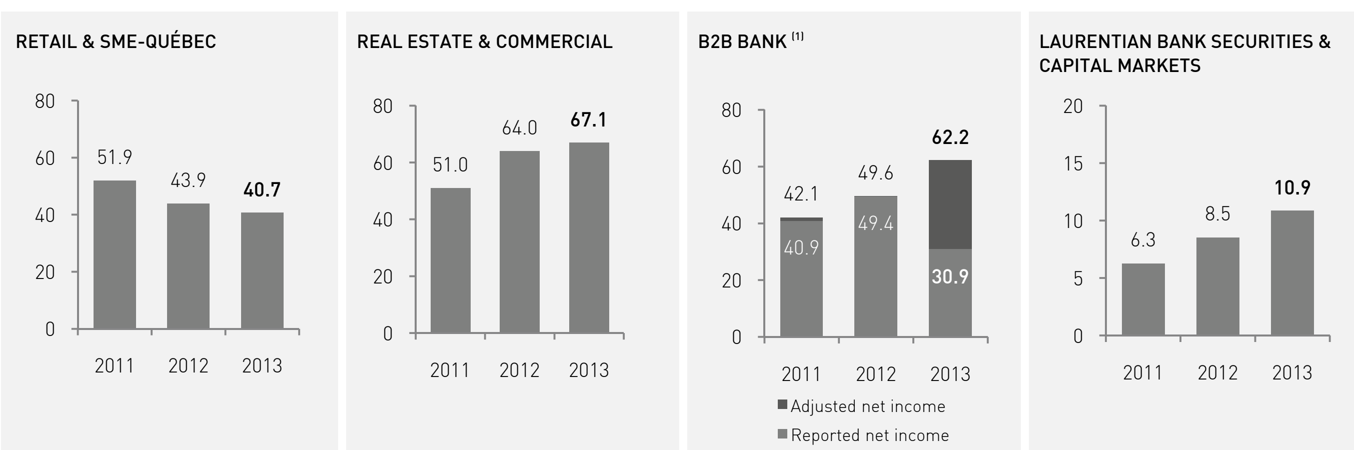
2012

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

BUSINESS SEGMENTS

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

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



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

RETAIL & SME-QUÉBEC

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

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

TABLE 13

SEGMENT CONTRIBUTION

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

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

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

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

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

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

REAL ESTATE & COMMERCIAL

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

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

TABLE 14

SEGMENT CONTRIBUTION

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

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

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

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

B2B BANK

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

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

TABLE 15

SEGMENT CONTRIBUTION

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

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

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

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

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

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

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

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

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

LAURENTIAN BANK SECURITIES & CAPITAL MARKETS

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

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

TABLE 16

SEGMENT CONTRIBUTION

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

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

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

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

OTHER

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

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

TABLE 17

SEGMENT CONTRIBUTION

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

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

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

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

ANALYSIS OF FINANCIAL CONDITION

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

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

LIQUID ASSETS

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

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

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

TABLE 18

BALANCE SHEET ASSETS

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

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

LOAN PORTFOLIO

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

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

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

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

Impaired loans

Gross impaired loans decreased to $99.4 million in 2013 from $128.0 million in 2012, reflecting the continued improvements in credit quality during the year, notably in the commercial loan portfolios. This was partly offset by the increased volume in the retail portfolio, which includes the acquired loan portfolios. Net impaired loans amounted to $53.1 million as at October 31, 2013, compared to $67.7 million as at October 31, 2012. See Note 6 to the annual consolidated financial statements for additional information.

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

OTHER ASSETS

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

TABLE 19

BALANCE SHEET LIABILITIES

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

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

DEPOSITS

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

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

OTHER LIABILITIES

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

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

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

SHAREHOLDERS' EQUITY

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

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

TABLE 20

SHARES ISSUED AND OUTSTANDING

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

Assets under administration and assets under management mainly include assets of clients to whom the Bank provides various administrative services, as well as commercial mortgage loans managed for third parties. Through its subsidiary Laurentian Bank Securities, the Bank also manages retail and institutional investment portfolios. Table 21 below summarizes assets under administration and assets under management. As at October 31, 2013, these items totalled $37.7 billion, up $4.7 billion or 14% compared with October 31, 2012. Fees, commissions and other income related to these assets contribute significantly to the Bank's profitability.

TABLE 21

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

As at October 31 (in thousands of Canadian dollars)

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

Assets related to registered and non-registered investment accounts increased by $4.0 billion compared with last year, essentially as B2B Bank Dealer Services enhanced its product offering and opened new investment accounts for its clients on its integrated dealer account management system. B2B Bank Dealer Services delivers a wide range of investment products and services, to more than 300,000 investors, through its association with more than 27,000 independent advisors and their dealers, across Canada.

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

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

Mortgage loans under management were up $51.4 million or 15%, as increased level of commercial mortgage loans sold during fiscal 2013 more than offset maturities and pre-payments on mortgage loans sold in prior years.

DERIVATIVES

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

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

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

SECURITIZATION ACTIVITIES

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

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

The Bank securitizes residential mortgage loans primarily by participating in the Canada Mortgage Bonds Program (CMB Program) developed by the Canada Mortgage and Housing Corporation (CMHC) and through a multi-seller conduit set up by a large Canadian bank. As the Bank ultimately retains certain prepayment risk, interest rate risk and credit risk (for loans sold to multi-seller conduits only) related to the transferred mortgage loans, these are not derecognized and the securitization proceeds are recorded as securitization liabilities. In effect, the securitization activities carried by the Bank, although using special purpose entities which are not as such consolidated, are nonetheless reflected on the balance sheet.

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

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

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

CREDIT COMMITMENTS AND GUARANTEES

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

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

See Note 27 to the annual consolidated financial statements for further information.

TABLE 22

CREDIT COMMITMENTS AND GUARANTEES

As at October 31 (in thousands of Canadian dollars)

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

(1) Exclude personal credit facilities totalling $1.9 billion ($1.9 billion as at October 31, 2012 and $1.6 billion as at October 31, 2011) and credit card lines amounting to $1.5 billion ($1.3 billion as at October 31, 2012 and $1.2 billion as at October 31, 2011) since they are revocable at the Bank's option.

CAPITAL MANAGEMENT

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

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

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

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

REGULATORY CAPITAL

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

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

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

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

Credit and operational risk

The Bank uses the Standardized Approach in determining credit risk capital and to account for operational risk. In 2012, the Bank initiated the process to adopt the advanced internal ratings-based (AIRB) approach to determine credit risk capital. Currently, the Bank's capital requirements for credit risk under the Standardized Approach are not calculated on the same basis as its industry peers, as larger Canadian financial institutions predominantly use the more favourable AIRB approach. The Bank's adoption of the AIRB approach should strengthen its credit risk management, optimize regulatory capital and provide a level-playing field for credit underwriting activities. Implementation was scheduled in the 2015-2018 time frame and included two deliveries. However, as there is growing uncertainty and discussions around the world about a more risk sensitive, simple and comparable methodology, management has decided to reduce the speed of the AIRB implementation and complete the project in 2018 into one single delivery.

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

TABLE 23

REGULATORY CAPITAL

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

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

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

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

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

TABLE 24

RISK-WEIGHTED ASSETS

As at October 31 (in thousands of Canadian dollars)

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

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

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

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

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

SIGNIFICANT CHANGES TO CAPITAL IN 2013

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

The Bank introduced in December 2012 a Shareholder Dividend and Share Purchase Plan. The plan offers eligible Canadian shareholders of both the Bank's common shares and Class A Preferred Shares the opportunity to have their regular quarterly cash dividends automatically reinvested in additional common shares of the Bank. During the year, the Bank completed the issuance of 384,892 new common shares under the Shareholder Dividend and Share Purchase Plan, for net proceeds of $17.0 million. In addition, 30,000 new common shares were issued under the Share purchase option plan for net proceeds of $1.0 million.

Repurchase of preferred shares

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

DIVIDENDS

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

TABLE 25

SHARE DIVIDENDS AND PAYOUT RATIO

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

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

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

RISK APPETITE AND RISK MANAGEMENT FRAMEWORK

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

RISKS THAT MAY AFFECT FUTURE RESULTS

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

Emerging risks

Economic climate in Canada

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

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

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

Legal and regulatory developments

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

RISK MANAGEMENT FRAMEWORK

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

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

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

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

RISK APPETITE

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

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

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

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

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

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

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

INTEGRATED STRESS TESTING PROGRAM

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

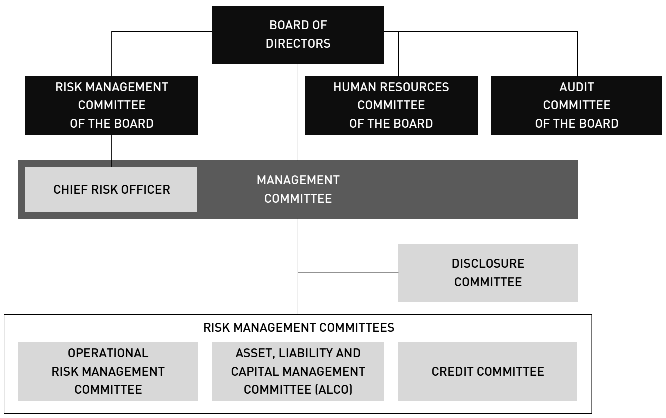
The Bank implemented in 2013 an Integrated Stress Testing Program that evaluates a range of scenarios of different severities resulting from deteriorating economic conditions. Impacts on liquidity, market and credit risks are determined and aggregated to give a view of such scenarios on the Bank's profitability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

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

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

GOVERNANCE STRUCTURE

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



Roles and responsibilities of the Board of Directors' committees

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

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

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

Roles and responsibilities of Internal Risk Management committees

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

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

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

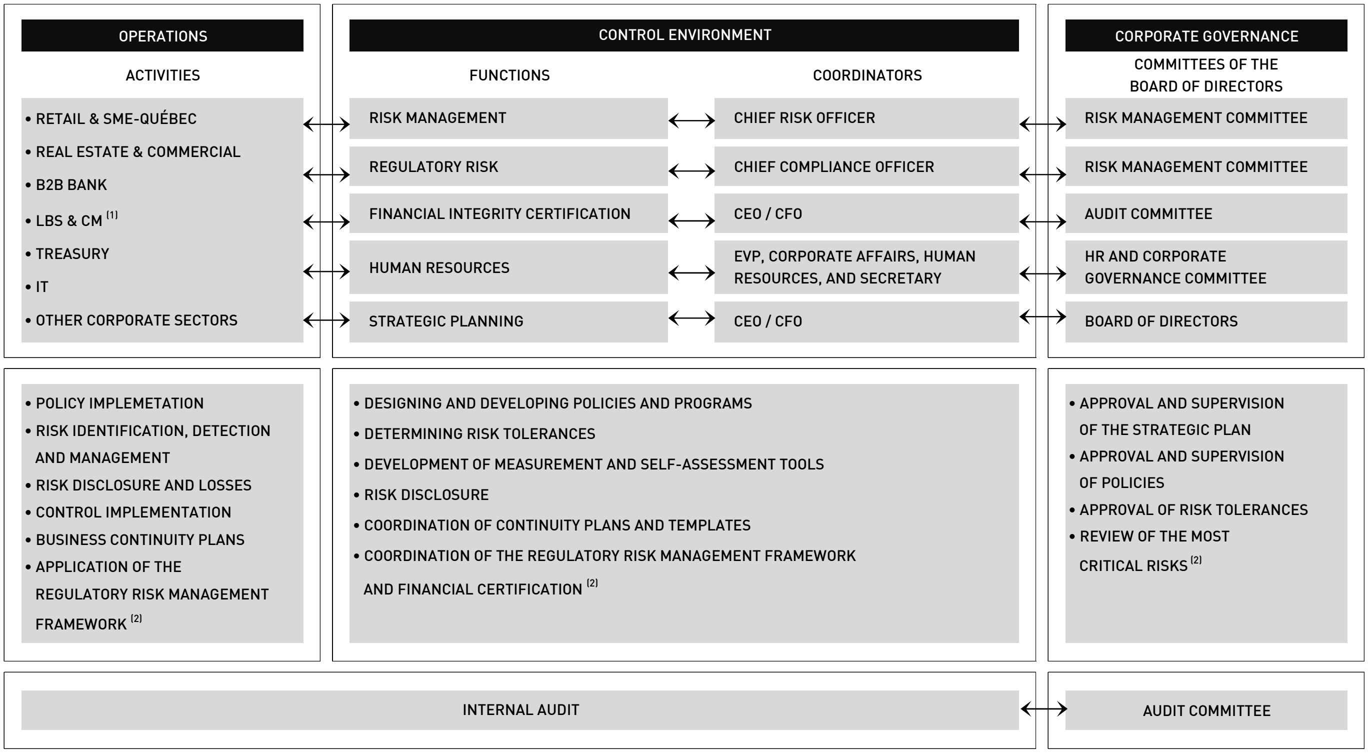
The **Asset, Liability and Capital Management Committee (ALCO)** is responsible for assuring compliance with the interest rate structural risk management limits. It recommends hedging strategies to maintain the risk level within the Board of Director's approved limits. It also supervises liquidity management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

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

GOVERNANCE FUNCTIONS SUPPORTING RISK MANAGEMENT

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

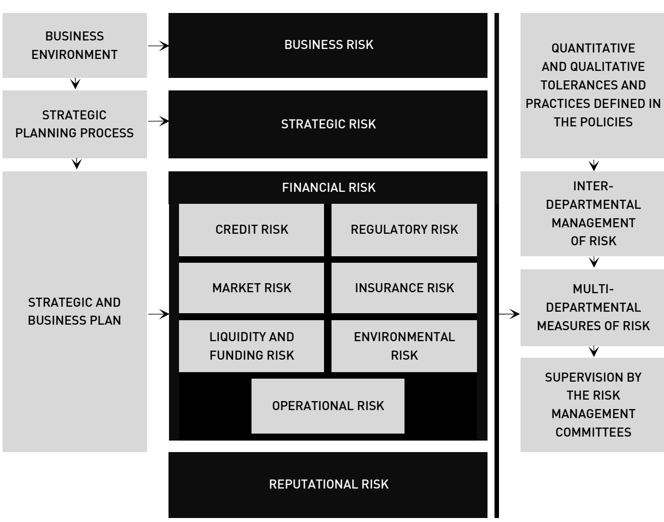
The Internal Audit Department also plays a key role, as it is responsible for implementing and maintaining a reliable and comprehensive system to adequately monitor the effectiveness of controls exercised within the different Framework functions. In addition, regulatory and statutory requirements are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



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

RISK MANAGEMENT PROCESS

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



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

BUSINESS AND STRATEGIC RISK MANAGEMENT

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

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

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

CREDIT RISK MANAGEMENT

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

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

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

Loan-related credit risk

The Bank uses expert systems to support the decision-making process for most underwriting for consumer credit, residential mortgage loans and credit cards, as well as small commercial loans. With regard to commercial loans, applications are also analyzed on a case-by-case basis by specialized teams. Each month, the Bank's Credit Committee reviews impaired loans and performs high-level analyses on loans where payment is past due by 90 days or more. Collection processes are centralized and are based on specialized expertise.

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

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

In addition to individual allowances, the Bank maintains collective allowances to cover impairment for all individually insignificant loans as well as loans that have been assessed for impairment individually and found not to be impaired. The collective allowances cover impairment due to incurred but not identified loss events for which there is objective evidence but whose effects are not yet evident. To establish collective allowances, the Bank uses models based on the internal risk rating of credit facilities and on the related probability of default factors, as well as the loss given default associated with each type of facility.

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

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

The loan portfolio mix is detailed in the following pages.

Derivative-related credit risk

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

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

Exposure to credit risk

The amount that best represents the Bank's maximum exposure to credit risk as at October 31, 2013 and 2012 without factoring in any collateral held or other credit enhancements, represents the sum of financial assets in the Bank's consolidated balance sheet, plus credit-related commitments as set out below.

TABLE 26

MAXIMUM EXPOSURES TO CREDIT RISK

As at October 31 (in millions of Canadian dollars)

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

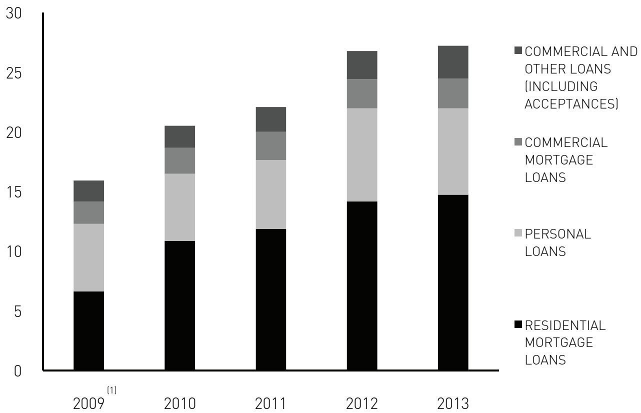
(1) Excludes equity securities.

Loan portfolio mix

The Bank's loan portfolio consists of personal loans, residential mortgage loans, commercial mortgage loans and commercial loans, including bankers' acceptances. The loan portfolio mix as at October 31, 2013 remained relatively unchanged compared with a year ago. Residential mortgage loans mainly include retail mortgage loans secured by one- to four- unit dwellings.

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

LOAN PORTFOLIO MIX
(in billions of Canadian dollars)



(1) In accordance with previous CGAAP.

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

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

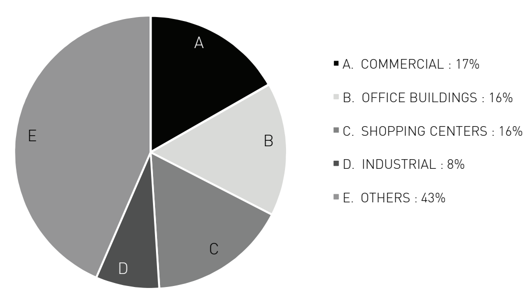
Residential mortgage loans
As shown in Table 27 on page 48, the residential mortgage loan portfolio increased by $0.6 billion or 4% during fiscal 2013. This slower growth rate compared to a year ago is due in part to the tightening of mortgage lending rules introduced by the federal government in the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

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

In 2013, the Bank continued to grow its presence in the real estate market by capitalizing on growth opportunities in the Canadian real estate mid-market. This played a key role in improving the Bank's profitability as commercial activities provide higher margins. Going forward, the Bank will continue to leverage its solid client base and focus on serving its long-established clientele and, when appropriate, to respond to the increase in the size of real estate development projects.

This portfolio also contributes to improve geographic diversification across Canada and therefore enhances, in this regard, the overall profile of the Bank. As at October 31, 2013, the proportion of the portfolio granted in Ontario and Western Canada represented 71% of the total commercial mortgage loan portfolio and 29% in Québec (72% in Ontario and Western Canada and 28% in Québec as at October 31, 2012). The average loan carrying value was $1.8 million as at October 31, 2013 ($1.9 million as at October 31, 2012).

COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE
(as a percentage)



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

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

See Table 27 for additional information.

TABLE 27

DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO AND INDUSTRY

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

2013

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

2012

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

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

(2) Recorded in the consolidated statement of income.

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

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

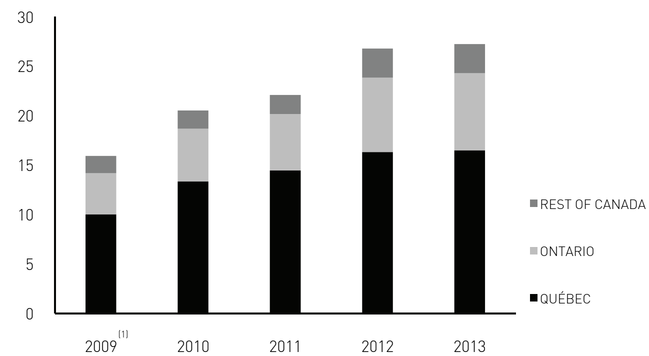
See Note 6 to the annual consolidated financial statements for additional information.

Geographic distribution of loans

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

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

GEOGRAPHIC DISTRIBUTION OF LOANS
(in billions of Canadian dollars)



(1) In accordance with previous CGAAP.

TABLE 28

GEOGRAPHIC DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO

As at October 31 (in thousands of Canadian dollars)

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

Insurance and guarantees held in respect of loan portfolios

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

CMHC offers a mortgage loan insurance program that ultimately aims to improve access to affordable mortgage loan financing for Canadians. As an approved lender under the program, the Bank benefits from insurance coverage, thereby reducing its overall credit risk. The Bank also insures pools of mortgage loans through a specific CMHC insurance program. Moreover, by maintaining a high proportion of insured residential mortgage loans, the Bank retains its capacity to engage in securitization operations to finance its activities at optimal cost and manage its cash resources. By the end of fiscal 2013, nearly 60% of residential mortgage loans secured by one to four unit dwellings were insured, essentially by CMHC, a level relatively unchanged compared to 2012. The Bank also holds guarantees in respect of the real estate property for the other conventional mortgage loans, including HELOCs, whose loan value never exceeds 80% of the initially estimated value of the property, in accordance with legal requirements.

As at October 31, 2013, the estimated average loan-to-value ratio was 65% and 52% for insured and uninsured residential mortgage loans respectively.

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

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

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

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

Loan underwriting for HELOCs and point-of-sale financing loans allows for the assessment of client credit risk. In addition, real estate assets and other assets collateralize these loans. Finally, 8% of the Bank's personal loan portfolio consists of student loans and loans granted under the Immigrant Investor Program, which are guaranteed by the federal or provincial government.

Other guarantees held

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

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

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

MARKET RISK MANAGEMENT

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

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

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

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

Policies and standards

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

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

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

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

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

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

Limits on notional amount

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

Value at Risk

VaR corresponds to the potential loss the Bank may incur over a one-day period, with a confidence level of 99%. Consequently, chances that real losses incurred on any given day exceed the VaR are theoretically 1%. To calculate the VaR, historical simulations that implicitly take into account correlations between various risk factors are performed. The VaR is based on 300 days of historical data. VaRs are calculated daily for all financial market activities. The Bank uses backtesting processes to compare theoretical profits and losses to the results of the VaR for trading activities. This allows validation of the VaR model's statistical hypotheses. These tests are conducted for each specific business unit and each risk factor, as well as for the entire trading portfolio. The theoretical change in profits and losses is generated using the daily price movements, and on the assumption that there is no change in the composition of the trading portfolio.

Stress testing and other sensitivity measures

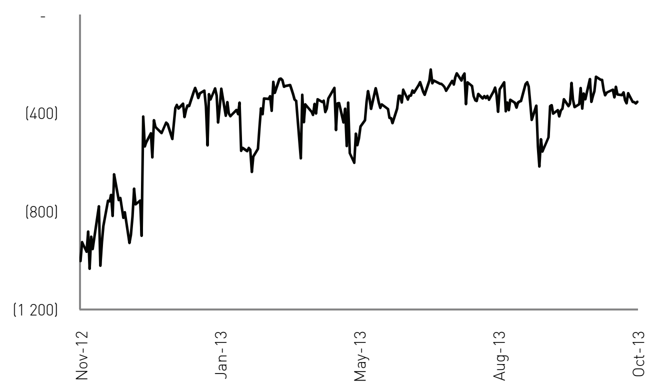
Parallel to VaR calculations, the impact of stress tests on profits and losses is assessed for the trading and investment portfolios and the ensuing results are used to assess the impact of exceptional but plausible market situations. Stress tests constitute a complementary risk measure to VaR and strive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

Trading activities

Trading activities are aligned with the needs of the Bank and its customers. The market risk associated with trading activities ensues from activities for which the Bank acts as the principal or agent for its customers. These activities are primarily carried out by the Laurentian Bank Securities and Capital Markets segment and, to a lesser extent, by the Bank's Corporate Treasury. The graph below presents the daily total VaR of the trading portfolio for the 2013 fiscal year.

DAILY TRADING VaR OVER THE LAST 12 MONTHS

(in thousands of Canadian dollars)



Asset and liability management activities

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

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

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

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

Structural risk is globally managed by the Bank's Corporate Treasury and monitored by the ALCO and Management Committee in accordance with the Structural Risk Management Policy, which is approved by the Risk Management Committee of the Board. This policy defines limits relative to the measurement of the economic value of shareholders' equity and net interest income risks. Risk limits are based on measures calculated by simulating the impact of immediate and sustained parallel movements of 100 basis points in rates for all maturities. Net interest income risk measures the negative impact on net interest income from interest rate movements over the next 12 months. Economic value of shareholders' equity risk measures the net negative impact on the present value of balance sheet and off-balance sheet assets and liabilities.

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

To ensure sound management of structural risk, a repricing gap report is produced weekly. This statement is then used as the basis for the simulation analysis of the impact of interest rate variation on net interest income and economic value of common shareholders' equity. One of the simulation exercises consists of subjecting the Bank's balance sheet to sudden parallel and sustained 1% and 2% increases and decreases in interest rates. For example, as at October 31, 2013, for all portfolios, a 1% increase in interest rate would have triggered an increase of approximately $10.0 million in net interest income before taxes over the next 12 months and a $22.7 million negative impact on the economic value of common shareholders' equity. As a result of the ongoing low interest rate levels at year end, the rate sensitivity analysis provides certain asymmetrical results with regards to the impact on net interest income over the next 12 months. Table 29 below details other interest rate movements. These results reflect senior management's efforts to take advantage of anticipated short-term and long-term interest rate movements, while maintaining the sensitivity to these fluctuations well within approved limits. The Bank's interest rate gap position as at October 31, 2013 is presented in Note 24 to the annual consolidated financial statements.

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

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

TABLE 29

SENSITIVITY OF THE STRUCTURAL INTEREST RATE RISK

As at October 31 (in thousands of Canadian dollars)

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

(1) Over the next 12 months

(2) Net of income taxes

Foreign exchange risk

Foreign exchange risk is monitored using notional limits and other sensitivity analysis for trading operations. Assets and liabilities denominated in U.S dollars amount to $219.3 million ($216.9 million as at October 31, 2012) and $223.1 million ($207.1 million as at October 31, 2012) respectively. In addition, U.S. dollar exposure related to derivatives is limited as these contracts are bought and sold mainly to meet specific customer needs. As at October 31 2013, the effect of a sudden 5% change in foreign exchange rates would have no significant impact on net income and shareholder's equity.

Assets and deposit liabilities denominated in other foreign currencies, primarily in euros, amount to $13.8 million ($12.1 million as at October 31, 2012) and $10.4 million ($13.2 million as at October 31, 2012) respectively. Currencies other than U.S. dollars are generally bought and sold solely to meet specific customer needs. As a result, the Bank has very limited exposure to these currencies.

Equity risk

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

LIQUIDITY AND FUNDING RISK MANAGEMENT

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

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

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

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

Regulatory developments concerning liquidity

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

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

Detailed information on liquid assets

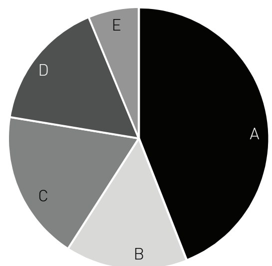
The Bank's liquid assets consist of cash and non-interest bearing deposits with other banks, interest-bearing deposits with other banks, securities, as well as securities purchased under reverse repurchase agreements. As at October 31, 2013, these assets totalled $5.9 billion, a decrease of $1.4 billion compared to the relatively higher level held on October 31, 2012. This decrease is mainly due to a reduction in low-yielding replacement assets that were used to reimburse $1.6 billion of matured debt related to securitization activities during the year ended October 31, 2013. In addition, the Bank reduced the overall level of liquid assets over the past twelve months to fund its loan growth. The relatively higher level of liquidity in 2012 was due to the acquisition of AGF Trust, as well as the Bank's issuance of capital instruments prior to the initial Basel III implementation on January 1, 2013. Close to 78% of the Bank's liquid assets are composed of marketable securities issued or guaranteed by the Canadian government, provinces or municipal corporations. Liquid assets provide the Bank with flexibility to manage its loans and deposit portfolio maturities and commitments, and meet other current operating needs. Management of the liquid assets, both in terms of optimizing levels and mix, contributes significantly to the Bank's results. In addition, held-for-trading portfolios offer fixed-income and equity trading opportunities.

Funding

The Bank relies mainly on retail deposits (both branch and independent advisor-sourced) to fund its operations. Retail deposits continue to be a particularly stable source of funding for the Bank. This funding strategy is also well aligned with upcoming regulatory requirements, which recognize these deposits as the most stable funding source. This should contribute to shouldering the impact of Basel III liquidity rules, which will need to be adhered to starting in 2015, as discussed in the Liquidity and Funding Risk Management section above. As at October 31, 2013, personal deposits represented 81% of the Bank's total deposit portfolio.

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

FUNDING SOURCES
(as a percentage)



Personal deposits

Total personal deposits decreased slightly to $19.3 billion as at October 31, 2013, compared with $19.4 billion as at October 31, 2012. The Bank continues to focus on maintaining its privileged position in the retail market and independent advisor-sourced deposit market through its Retail & SME-Québec and B2B Bank business segments in light of future regulatory liquidity requirements. A significant proportion of these deposits are insured by the Canada Deposit Insurance Corporation, up to $100,000 per client, per regulated deposit-taking financial institution.

Business, banks and other deposits

Deposits from businesses, banks and other decreased marginally since October 31, 2012 to $4.6 billion as at October 31, 2013, due to the maturity and non-renewal of certain notes which more than offset the issuance of two senior deposit notes during the year. These issuances will contribute to maintain diversification of the Bank's funding sources and to the active management of its liquidity levels.

TABLE 30

DEPOSITS

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

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

Credit ratings

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

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

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

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

TABLE 31

CREDIT RATINGS [1]

As at December 9, 2013

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

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

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

Contractual obligations

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

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

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

TABLE 32

CONTRACTUAL OBLIGATIONS

As at October 31 (in thousands of Canadian dollars)

2013

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

2012

		TERM				
	DEMAND AND NOTICE	UNDER 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Financial liabilities						
Deposits	$ 8,027,827	$ 7,426,743	$ 6,958,318	$ 1,573,758	$ 54,797	$ 24,041,443
Obligations related to securities sold short	—	1,349,932	—	—	—	1,349,932
Obligations related to securities sold under repurchase agreements	—	244,039	—	—	—	244,039
Debt related to securitization activities	—	1,862,564	1,828,849	2,288,971	56,713	6,037,097
Subordinated debt	—	—	—	450,000	—	450,000
Derivatives[1]	—	6,353	9,481	3,266	159	19,259
Sub-total - financial liabilities	8,027,827	10,889,631	8,796,648	4,315,995	111,669	32,141,770
Other contractual obligations						
Commitments under leases, technology services and other contracts	—	72,989	131,700	142,561	90,272	437,522
Total	$ 8,027,827	$ 10,962,620	$ 8,928,348	$ 4,458,556	$ 201,941	$ 32,579,292

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

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

OPERATIONAL RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

Outsourcing management

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

REGULATORY RISK MANAGEMENT

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

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

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

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

INSURANCE RISK MANAGEMENT

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

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

ENVIRONMENTAL RISK MANAGEMENT

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

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

REPUTATIONAL RISK MANAGEMENT

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

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

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

ADDITIONAL RISKS

Competition

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

Cybersecurity

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

Business continuity

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

Technological development

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

Ability to attract and retain key employees

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

Business infrastructure

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

Model risk

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

Other factors

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

As at October 31, 2013, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the effectiveness of DC&P, in accordance with regulation MI 52-109, and based on that evaluation, concluded that they were effective and adequately designed at that date.

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

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

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

Changes to Internal Control over Financial Reporting

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies followed by the Bank are outlined in Notes 2 and 3 to the annual consolidated financial statements. Some of these accounting policies are deemed critical as they require management to make estimates that, by their very nature, involve uncertainties. Changes in these estimates could materially affect the Bank's consolidated financial statements. The critical accounting policies that require management's judgment and estimates are described below.

IMPAIRMENT OF FINANCIAL ASSETS

Allowances for loan losses

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

Considering the materiality of the amounts and their inherent uncertainty, changes in current estimates and assumptions used in determining the allowances for loan losses could produce significantly different levels of allowances. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments and may consequently entail a significant increase or a decrease in the allowances for loan losses in the consolidated statement of income for a given fiscal year. A detailed description of the methods used to determine the allowances for loan losses can be found in Note 3 to the annual consolidated financial statements, and in the Credit Risk Management section on page 45 of this MD&A.

Management has developed a valuation model to establish collective allowances, based on the internal risk rating of credit facilities and on the related probability of default factors, as well as the loss given default associated with each type of facility. The probability of default and loss given default factors reflect the Bank's historical experience. Changes in assumptions and parameters to this model could have produced different valuations.

This critical accounting estimate affects all business segments.

Other financial assets

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

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

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

MEASURING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

These critical accounting estimates mainly affect the Laurentian Bank Securities & Capital Markets and Other segments. Additional information on the calculation of fair value is provided in Notes 3 and 23 to the annual consolidated financial statements.

PENSION PLANS AND OTHER EMPLOYEE BENEFITS

Valuation of employee benefits for defined benefit pension plans and other post-employment benefits is calculated by the Bank's independent actuaries based on a number of assumptions determined annually by management such as discount rates, expected returns on plan assets, future salary levels and health-care cost escalation. These assumptions are reviewed annually in accordance with accepted actuarial practice and approved by management.

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

In accordance with current IFRS as at October 31, 2013, actual results that differed from the expected results as determined using the assumptions were accumulated and amortized over future periods and therefore affected actual costs for these periods. As at October 31, 2013, the net amount of the unamortized actuarial loss was $72.9 million ($94.0 million in 2012) for pension plans, and for other benefits, the net amount of the unamortized actuarial gain was less than $0.1 million (gain of $0.3 million in 2012). As of November 1, 2013, the Bank will adopt the revised IAS 19, Employee Benefits standard. See below for further information on this topic.

Discount rates stood at 4.55% as at October 31, 2013 and 4.40% as at October 31, 2012. The expected long-term rate of return on plan assets was 7.00% for fiscal 2013 (7.25% for fiscal 2012). The trend rate of the estimated annual growth of health-care costs covered, per participant, has been set at 8,0% for 2013 (8.0% for 2012). According to the accepted assumption, this rate should decrease progressively, reaching 5.0% in 2027 and remaining at that level thereafter.

Considering the importance of defined benefit obligations and plan assets, changes in assumptions could have a significant impact on the defined benefit assets (liabilities), as well as, depending of the funding status of the plan, on pension plan and other post-employment benefit expenses. Table 33 summarizes the impact that a 0.25% increase or decrease in the key assumptions would have had on defined benefit obligations as at October 31, 2013 and related defined benefit pension plan costs for 2013.

TABLE 33

SENSITIVITY ANALYSIS

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

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

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

This critical accounting estimate affects all business segments. Further information on the Bank's pension plans and other post-employment benefits can be found in Note 18 to the annual consolidated financial statements.

BUSINESS COMBINATIONS

On the acquisition dates, the acquiree's assets and liabilities have been included in the consolidated balance sheet at fair value. Valuation of the identifiable assets and liabilities of the acquiree and contingent consideration upon initial recognition was based on a number of assumptions determined by management such as estimates of future cash flows and discount rates as well as contractual provisions. Changes in assumptions could have had a significant impact on the amount of the gain on acquisition or goodwill recognized.

This critical accounting estimate affects the B2B Bank segment. Refer to Note 28 to the annual consolidated financial statements for additional information on the assets acquired and liabilities assumed as a result of business combinations.

PROVISIONS AND CONTINGENT LIABILITIES

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

Provisions are accrued when the Bank has a present legal and constructive obligation as a result of a past event or transaction, when it is both probable that an outflow of resources will be required to settle the obligation and the amount can be reasonably estimated. If the reliable estimate of loss involves a range of potential outcomes within which a specific amount within the range appears to be a better estimate, that amount is accrued. If no specific amount within the range appears to be a better estimate, the mid-point in the range is accrued. In addition to Bank's management, internal and external legal experts are involved in assessing the probability and in estimating any amounts involved for provisions related to legal actions or pending litigations.

Contingent liabilities arise when it is not possible either to determine whether an obligation, as a result of a past event or transaction, is probable or to reliably estimate the amount of loss, in which case, no accrual can be made. The Bank and its subsidiaries are involved in various legal actions in the ordinary course of business, many of which are loan-related, as well as in certain class action suits mainly related to card services. These actions may have a material adverse effect on the financial condition of the Bank even though no provisions may have been accrued. In addition, the Bank must continuously assert its fiscal obligations in various jurisdictions, which considering evolving interpretations, may lead to different income tax consequences.

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

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

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Goodwill

As at October 31, 2013, the balance of goodwill stood at $64.1 million, unchanged compared to October 31, 2012. Goodwill is subject to an impairment test annually, unless certain specific criteria are met, as described in Note 3 to the annual consolidated financial statements.

For the purpose of impairment testing, goodwill is allocated to the Bank's cash generating units (CGUs), which represent the lowest level within the Bank at which goodwill is monitored for internal management purposes. As at October 31, 2013, $34.9 million was allocated to the B2B Bank segment, and $29.2 million was allocated to a part of the Retail & SME-Québec segment referred to as the Retail unit, which encompasses all branch activities and other retail banking activities in Québec. The test compares the recoverable amount of the CGU to the carrying amount of its net assets. If the recoverable amount is less than carrying value, an impairment loss is charged to income.

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

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

No impairment charge was reported in fiscal 2013 or in fiscal 2012. If need be, the amount of the losses in value would be recorded as a non-interest expense for Retail & SME-Québec or B2B Bank, under other expenses.

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

Other intangible assets and other assets

Other intangible assets with finite lives are also tested for impairment whenever circumstances indicate that the carrying value may not be fully recoverable. As it conducts this test, management evaluates the future cash flows it expects to realize from these assets, along with their possible disposition. When the net carrying amount exceeds the estimated discounted future net cash flows, intangible assets with finite lives are considered impaired and are written down to their recoverable amount. An impairment charge of $1.1 million related to discontinued IT projects was reported in fiscal 2013, while no significant charge was reported in fiscal 2012.

Management also periodically reviews the value of the Bank's other assets, such as fixed assets and other deferred charges, in order to identify potential losses in value and to validate the related amortization periods. Impairment charges of $1.7 million essentially related to discontinued IT projects and to the branch network optimization were reported in fiscal 2013, while no significant charge was reported in fiscal 2012. In addition, as a result of the decision to relocate B2B Bank employees, amortization periods for certain leasehold improvements, equipment and furniture were reduced in accordance with their new estimated useful life. This led to a $3.3 million additional depreciation charge in 2013.

Changes in estimates and assumptions could significantly impact results.

FUTURE CHANGES TO ACCOUNTING POLICIES

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

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

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

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

NON-GAAP FINANCIAL MEASURES

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

Return on common shareholders' equity

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

Book value per common share

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

Net interest margin

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

Efficiency ratio and operating leverage

The Bank uses the efficiency ratio as a measure of its productivity and cost control. This ratio is defined as non-interest expenses as a percentage of total revenue. The Bank also uses operating leverage as a measure of efficiency. Operating leverage is the difference between total revenue and non-interest expenses growth rates. Quarterly growth rates are calculated sequentially (i.e. current period versus the immediately preceding period).

Dividend payout ratio

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

Dividend yield

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

Adjusted financial measures

Certain analyses presented throughout this document are based on the Bank's core activities and therefore exclude the effect of certain amounts designated as Adjusting items, as detailed in the Adjusting items section on page 19 of this MD&A.

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

BASIS OF PRESENTATION

This Management's Discussion and Analysis (MD&A), dated December 11, 2013, refers to the results of operations and financial condition of the Bank for the year ended October 31, 2013 and presents the views of the Bank's management. The information for the years ended October 31, 2013, 2012 and 2011 is presented on the same basis as in the annual consolidated financial statements and has been prepared in accordance with Canadian generally accepted accounting principles, which are the International Financial Reporting Standards (IFRS). The information related to prior periods is presented using previous Canadian generally accepted accounting principles (CGAAP). All information conforms to the accounting requirements of OSFI.

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

Additional information on Laurentian Bank of Canada, including the Annual Information Form for the year ended October 31, 2013, can be found on the Bank's website at www.laurentianbank.ca and on SEDAR at www.sedar.com.