LAURENTIAN BANK OF CANADA CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2014 AND 2013

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

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

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

Réjean Robitaille, FCPA, FCA
President and
Chief Executive Officer

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

Montréal, Canada
December 10, 2014

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

We have audited the accompanying consolidated financial statements of Laurentian Bank of Canada ("the Bank") which comprise the consolidated balance sheet as at October 31, 2014 and 2013, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended October 31, 2014 and 2013, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
December 10, 2014

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

CONSOLIDATED BALANCE SHEET [1]

As at October 31 (in thousands of Canadian dollars)	Notes	2014	2013
ASSETS			
Cash and non-interest bearing deposits with other banks		$ 126,247	$ 82,836
Interest-bearing deposits with other banks		122,608	126,002
Securities	5 and 29		
Available-for-sale		2,577,017	1,679,067
Held-to-maturity		323,007	648,874
Held-for-trading		1,980,436	2,152,584
		4,880,460	4,480,525
Securities purchased under reverse repurchase agreements	29	1,562,677	1,218,255
Loans	6, 7 and 29		
Personal		6,793,078	7,245,474
Residential mortgage		14,825,541	14,735,211
Commercial mortgage		2,651,271	2,488,826
Commercial and other		2,794,232	2,488,137
Customers' liabilities under acceptances		365,457	271,049
		27,429,579	27,228,697
Allowances for loan losses		(119,371)	(115,590)
		27,310,208	27,113,107
Other			
Premises and equipment	8	68,750	73,261
Derivatives	26	132,809	126,617
Goodwill	9	64,077	64,077
Software and other intangible assets	10	207,188	197,594
Deferred tax assets	19	7,936	21,588
Other assets	11	365,721	407,164
		846,481	890,301
		$ 34,848,681	$ 33,911,026
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	12		
Personal		$ 18,741,981	$ 19,282,042
Business, banks and other		5,781,045	4,645,308
		24,523,026	23,927,350
Other			
Obligations related to securities sold short		1,562,477	1,464,269
Obligations related to securities sold under repurchase agreements		581,861	339,602
Acceptances		365,457	271,049
Derivatives	26	90,840	102,041
Deferred tax liabilities	19	10	9,845
Other liabilities	13	869,029	943,112
		3,469,674	3,129,918
Debt related to securitization activities	7 and 14	4,863,848	4,974,714
Subordinated debt	15	447,523	445,473
Shareholders' equity			
Preferred shares	16	219,633	205,204
Common shares	16	465,854	446,496
Retained earnings		848,905	776,256
Accumulated other comprehensive income		10,127	5,524
Share-based payment reserve	17	91	91
		1,544,610	1,433,571
		$ 34,848,681	$ 33,911,026

[1] Comparative figures reflect the adoption of the amendments to IAS 19, *Employee Benefits*. Refer to Note 4 for further information.

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

Isabelle Courville
Chair of the Board

Réjean Robitaille, FCPA, FCA
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME [1]

For the years ended October 31 (in thousands of Canadian dollars, except per share amounts)	Notes	2014	2013
Interest income			
Loans		$ 1,062,441	$ 1,086,279
Securities		40,753	57,204
Deposits with other banks		751	2,328
Other, including derivatives		41,276	44,338
		1,145,221	1,190,149
Interest expense			
Deposits		449,101	463,603
Debt related to securitization activities		118,269	140,453
Subordinated debt		16,071	16,072
Other		800	1,261
		584,241	621,389
Net interest income		560,980	568,760
Other income			
Fees and commissions on loans and deposits		141,849	133,791
Income from brokerage operations		63,640	60,607
Income from investment accounts		31,658	32,694
Income from sales of mutual funds		29,228	22,501
Insurance income, net	28	19,246	16,881
Income from treasury and financial market operations		16,138	17,877
Other		11,326	12,226
		313,085	296,577
Total revenue		874,065	865,337
Amortization of net premium on purchased financial instruments and revaluation of contingent consideration	30	9,653	4,426
Provision for loan losses	6	42,000	36,000
Non-interest expenses			
Salaries and employee benefits		340,394	358,492
Premises and technology		186,671	171,275
Other		101,383	106,068
Costs related to business combinations	30	12,861	38,244
		641,309	674,079
Income before income taxes		181,103	150,832
Income taxes	19	40,738	31,355
Net income		$ 140,365	$ 119,477
Preferred share dividends, including applicable taxes		10,985	11,749
Net income available to common shareholders		$ 129,380	$ 107,728
Average number of common shares outstanding (in thousands)			
Basic		28,724	28,329
Diluted		28,732	28,338
Earnings per share	20		
Basic		$ 4.50	$ 3.80
Diluted		$ 4.50	$ 3.80
Dividends declared per share			
Common share		$ 2.06	$ 1.98
Preferred share - Series 9		n.a.	$ 0.75
Preferred share - Series 10		$ 0.98	$ 1.31
Preferred share - Series 11		$ 1.00	$ 0.91
Preferred share - Series 13		$ 0.48	n.a.

[1] Comparative figures reflect the adoption of the amendments to IAS 19, *Employee Benefits*. Refer to Note 4 for further information.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME [1]

For the years ended October 31 (in thousands of Canadian dollars)	2014	2013
Net income	$ 140,365	$ 119,477
Other comprehensive income, net of income taxes		
Items that may subsequently be reclassified to the statement of income		
Unrealized net gains on available-for-sale securities, net of tax of $3,151 ($30 in 2013)	9,078	87
Reclassification of net gains on available-for-sale securities to net income, net of tax of $2,646 ($1,020 in 2013)	(5,277)	(2,752)
Net change in value of derivatives designated as cash flow hedges, net of tax of $304 ($9,468 recovery in 2013)	802	(26,039)
	4,603	(28,704)
Items that may not subsequently be reclassified to the statement of income		
Actuarial gains on employee benefit plans, net of tax of $1,633 ($7,571 in 2013)	4,732	20,645
Comprehensive income	$ 149,700	$ 111,418

[1] Comparative figures reflect the adoption of the amendments to IAS 19, *Employee Benefits*. Refer to Note 4 for further information.

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY [1]

For the year ended October 31, 2014

				Accumulated Other Comprehensive Income				
(in thousands of Canadian dollars)	Preferred shares (Note 16)	Common shares (Note 16)	Retained Earnings	Available-for-sale securities	Cash flow hedges	Total	Share-based payment reserve (Note 17)	Total shareholders' equity
Balance as at October 31, 2013	$ 205,204	$ 446,496	$ 776,256	$ 9,536	$ (4,012)	$ 5,524	$ 91	$ 1,433,571
Net income			140,365					140,365
Other comprehensive income (net of income taxes)								
Unrealized net gains on available-for-sale securities				9,078		9,078		9,078
Reclassification of net gains on available-for-sale securities to net income				(5,277)		(5,277)		(5,277)
Net change in value of derivatives designated as cash flow hedges					802	802		802
Actuarial gains on employee benefit plans			4,732					4,732
Comprehensive income			145,097	3,801	802	4,603		149,700
Issuance of share capital	122,071	19,358						141,429
Repurchase of share capital	(107,642)		(2,358)					(110,000)
Dividends								
Preferred shares, including applicable taxes			(10,985)					(10,985)
Common shares			(59,105)					(59,105)
Balance as at October 31, 2014	$ 219,633	$ 465,854	$ 848,905	$ 13,337	$ (3,210)	$ 10,127	$ 91	$ 1,544,610

For the year ended October 31, 2013

				Accumulated Other Comprehensive Income				
(in thousands of Canadian dollars)	Preferred shares (Note 16)	Common shares (Note 16)	Retained Earnings	Available-for-sale securities	Cash flow hedges	Total	Share-based payment reserve (Note 17)	Total shareholders' equity
Balance as at November 1, 2012	$ 303,249	$ 428,526	$ 706,035	$ 12,201	$ 22,027	$ 34,228	$ 227	$ 1,472,265
Net income			119,477					119,477
Other comprehensive income (net of income taxes)								
Unrealized net gains on available-for-sale securities				87		87		87
Reclassification of net gains on available-for-sale securities to net income				(2,752)		(2,752)		(2,752)
Net change in value of derivatives designated as cash flow hedges					(26,039)	(26,039)		(26,039)
Actuarial gains on employee benefit plans			20,645					20,645
Comprehensive income			140,122	(2,665)	(26,039)	(28,704)		111,418
Issuance of share capital	(160)	17,970					(136)	17,674
Repurchase of share capital	(97,885)		(2,115)					(100,000)
Dividends								
Preferred shares, including applicable taxes			(11,749)					(11,749)
Common shares			(56,037)					(56,037)
Balance as at October 31, 2013	$ 205,204	$ 446,496	$ 776,256	$ 9,536	$ (4,012)	$ 5,524	$ 91	$ 1,433,571

[1] Comparative figures reflect the adoption of the amendments to IAS 19, *Employee Benefits*. Refer to Note 4 for further information.

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

CONSOLIDATED STATEMENT OF CASH FLOWS [1]

For the years ended October 31 (in thousands of Canadian dollars)	Notes	2014	2013
Cash flows relating to operating activities			
Net income		$ 140,365	$ 119,477
Adjustments to determine net cash flows relating to operating activities:			
Provision for loan losses		42,000	36,000
Net gain on disposal of available-for-sale securities		(8,290)	(4,290)
Gain on sale of commercial mortgage loans	7	(3,686)	(3,685)
Deferred income taxes		2,681	3,823
Depreciation of premises and equipment		16,107	17,884
Amortization of software and other intangible assets		39,509	37,055
Revaluation of contingent consideration		4,100	—
Change in operating assets and liabilities :			
Loans		(340,032)	(578,511)
Securities at fair value through profit and loss		172,148	(278,962)
Securities purchased under reverse repurchase agreements		(344,422)	(587,053)
Accrued interest receivable		(3,740)	24,303
Derivative assets		(6,192)	41,026
Deposits		595,676	(114,093)
Obligations related to securities sold short		98,208	114,337
Obligations related to securities sold under repurchase agreements		242,259	95,563
Accrued interest payable		(13,424)	(99,982)
Derivative liabilities		(11,201)	1,174
Other, net		802	29,806
		622,868	(1,146,128)
Cash flows relating to financing activities			
Change in acceptances		94,408	59,919
Change in debt related to securitization activities		(110,866)	(1,062,383)
Net proceeds from issuance of preferred shares	16	122,071	—
Repurchase of preferred shares	16	(110,000)	(100,000)
Net proceeds from issuance of common shares	16	72	1,056
Dividends, including applicable income taxes		(60,803)	(54,514)
		(65,118)	(1,155,922)
Cash flows relating to investing activities			
Change in available-for-sale securities			
Acquisitions		(3,339,421)	(2,118,976)
Proceeds on sale and at maturity		2,454,227	3,259,237
Change in held-to-maturity securities			
Acquisitions		(336,335)	(421,598)
Proceeds at maturity		662,202	1,219,475
Proceeds on sale of commercial mortgage loans	7	106,084	98,407
Additions to premises and equipment and software		(64,490)	(96,700)
Change in interest-bearing deposits with other banks		3,394	354,181
		(514,339)	2,294,026
Net change in cash and non-interest-bearing deposits with other banks		43,411	(8,024)
Cash and non-interest-bearing deposits with other banks at beginning of year		82,836	90,860
Cash and non-interest-bearing deposits with other banks at end of year		$ 126,247	$ 82,836
Supplemental disclosure about cash flows relating to operating activities:			
Interest paid during the year		$ 603,473	$ 720,108
Interest received during the year		$ 1,129,180	$ 1,211,346
Dividends received during the year		$ 8,985	$ 7,334
Income taxes paid during the year		$ 19,884	$ 35,371

[1] Comparative figures reflect the adoption of the amendments to IAS 19, *Employee Benefits*. Refer to Note 4 for further information.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at October 31, 2014 and 2013
[All tabular amounts are in thousands of Canadian dollars, unless otherwise indicated]

1. GENERAL INFORMATION

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

The consolidated financial statements for the year ended October 31, 2014 were approved for issuance by the Board of Directors on December 10, 2014.

2. BASIS OF PRESENTATION

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

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

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

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

2.1 BASIS OF CONSOLIDATION

These consolidated financial statements include the assets, liabilities and operating results of the Bank and all of its subsidiaries after elimination of intercompany balances and transactions. The financial statements of the Bank's subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

The Bank controls an entity when it has the power to direct the activities of the entity which have the most significant impact on the entity's risks and/or returns; is exposed to significant risks and/or returns arising from the entity; and is able to use its power to affect the risks and/or returns to which it is exposed.

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

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

(1) AGF Trust Company merged with B2B Bank as of September 1, 2013.

The Bank also consolidates structured entities when applicable consolidation criteria are met. As the Bank meets consolidation criteria it consolidates Venture Reinsurance Ltd, an entity incorporated under the provisions of an act of Barbados, which is partially owned by V.R. Holding Insurance Company Ltd.

2. BASIS OF PRESENTATION [CONT'D]

2.2 USE OF ESTIMATES AND JUDGMENT

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

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

Impairment of assets

Allowances for loan losses

The allowances for loan losses adjust the value of loans to reflect management's estimate of losses incurred in the loan portfolios. These allowances are dependent upon management's estimates of the amounts and dates of future cash flows, the fair value of guarantees and realization costs, and the interpretation of the impact of market and economic conditions. Assessing the amounts and the dates of future cash flows requires significant management judgment regarding key assumptions, including economic and business conditions, the Bank's historical experience, probability of default, loss given default and exposure at default and where applicable, the realizable value of any guarantee or collateral. Considering the materiality of the amounts and their inherent uncertainty, changes in current estimates and assumptions used in determining the allowances for loan losses could produce significantly different levels of allowances.

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

Other financial assets

Financial assets classified in the available-for-sale and held-to-maturity categories are monitored on a quarterly basis to determine whether there is any objective evidence that they are impaired. In evaluating the decline in value, management exercises judgment and takes into account many facts specific to each investment and all the factors that could indicate that there is objective evidence of impairment. Assessing whether there is objective evidence of impairment requires significant management judgment regarding various factors, which include a significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or financial re-organization, a significant or prolonged decline in fair value below its cost and a loss event. 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 for could change if management's assessment of these factors were different.

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

Goodwill and other intangible assets

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

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

2. BASIS OF PRESENTATION [CONT'D]

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

Post-employment benefits

Valuation of employee benefits for defined benefit pension plans and other post-employment benefits are calculated by the Bank's independent actuaries based on a number of assumptions determined by management such as discount rates, future salary levels, retirement age, mortality rates and health-care cost escalation. The discount rate is determined using a high-quality corporate bond yield curve, whose construction requires significant judgment. Other key assumptions also require significant management judgment. Considering the importance of defined benefit obligations and due to the long term nature of these plans, changes in assumptions could have a significant impact on the defined benefit plan assets (liabilities), as well as on pension plan and other post-employment benefit expenses.

Business combinations

On the date of the acquisition, the acquiree's assets and liabilities have been included in the consolidated balance sheet at fair value. Valuation of the identifiable assets and liabilities of the acquiree upon initial recognition was based on a number of assumptions determined by management such as estimates of future cash flows and discount rates as well as contractual provisions. Assessing the discount rate requires significant management judgment regarding key assumptions, including the cost to raise funds in the current market, the risk premium associated with the loans and the cost to service the portfolios. Changes in assumptions could have had a significant impact on the amount of goodwill, contingent consideration or gain arising on acquisition recognized.

Income taxes

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

Provisions and contingent liabilities

Management exercises judgment in determining whether a past event or transaction may result in the recognition of a provision or the disclosure of a contingent liability, for instance in the case of legal actions or restructuring plans. Provisions are established when management determines that it becomes probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated, considering all relevant risks and uncertainties. Management and internal and external experts are involved in assessing the probability and in estimating any amounts involved. Furthermore, the actual costs of resolving these obligations may be substantially higher or lower than the amounts accrued.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 FINANCIAL INSTRUMENTS

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

Financial instruments at fair value through profit or loss

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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

Held-for-trading financial instruments

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

Financial instruments designated as at fair value through profit or loss

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

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

As at October 31, 2014 and 2013, the Bank had not designated any financial instrument as at fair value through profit or loss.

Available-for-sale financial assets

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

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

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

Held-to-maturity financial assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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

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

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

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

Securities lending and borrowing

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

Securities sold short

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

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

Loans

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

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

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

Renegotiated loans

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Foreclosed assets

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

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

Derecognition of financial assets

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

Securitization

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

Impairment of financial assets

Impairment of available-for-sale financial assets

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

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

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

Impairment of held-to-maturity financial assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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

Hedge accounting

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

Deposits

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Indexed deposit contracts

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

Debt related to securitization activities

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

Subordinated debt

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

Measuring the fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

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

Subsequent to initial recognition, the fair value of financial instruments is best evidenced by quoted prices in active markets when available. This fair value is based on the quoted price within the bid-offer prices that is most representative of fair value in the circumstances. Otherwise, fair value is measured using valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Determining which valuation technique and inputs to apply requires judgment. Valuation techniques include cash flow discounting, comparison with current market prices for financial instruments with similar characteristics and risk profiles and option pricing models. The inputs, among other things, include contractual prices of the underlying instruments, yield curves and volatility factors. The valuations may also be adjusted to reflect the uncertainty in these parameters. In particular, valuation adjustments may be made with respect to the liquidity or counterparty credit risk of financial instruments that have no available quoted prices in active markets. Fair value reflects market conditions on a given date and for this reason cannot be representative of future fair values.

Offsetting of financial assets and liabilities

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

3.2 BUSINESS COMBINATIONS AND GOODWILL

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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

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

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

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

Goodwill is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired, by comparing the recoverable amount of the CGU with its carrying value. The recoverable amount of the CGU is based on its value in use, estimated with the discounted cash flow method. Impairment losses on goodwill are charged to income in the period they are incurred and are not reversed.

3.3 PREMISES AND EQUIPMENT

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

Depreciation

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

	Period
Premises	25-40 years
Leasehold improvements	The lesser of term of the lease, plus one initial renewal option, or useful life
Equipment and furniture	2-10 years
Computer hardware	2-10 years

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Impairment

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is considered to be impaired and it is written down to its recoverable amount. Assets are reviewed to determine whether there is any indication of impairment. Assessing whether such indications exist is subject to management's judgment.

3.4 SOFTWARE AND OTHER INTANGIBLE ASSETS

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

Software is amortized on a straight line basis over its estimated useful life, which ranges from two to ten years. Amortization of software is recorded in the consolidated statement of income under premises and technology. Other intangible assets with finite lives, mainly consisting of contractual relationships with financial intermediaries, core deposits, as well as certain components of the ongoing program to implement the Basel Internal Ratings Based approach to credit risk currently in use, are amortized on a straight-line basis over their estimated useful life, which ranges from three to fourteen years. Amortization of other intangible assets is included in other non-interest expenses.

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

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

3.5 EMPLOYEE BENEFITS

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

Short-term benefits

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

Post-employment benefits

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

Defined benefit pension plans

Typically, defined benefit plans provide benefits based on years of service, age, contribution and average earnings. The defined benefit asset or liability, recognized on the consolidated balance sheet, corresponds to the present value of the plan obligation less the fair value of the plan assets at the balance sheet date. The present value of the defined benefit obligation is measured using the estimated future cash outflows discounted at the rate of high-quality corporate bonds with a maturity approximating the terms of the related defined benefit obligations. The cost of providing benefits under the plans is determined for each plan using the projected unit credit actuarial valuation method, which incorporates various parameters such as discount rates, future salary levels, retirement age, mortality rates and the general inflation rate. Pension plan assets are measured at fair value.

Actuarial gains and losses arise from changes in actuarial assumptions used to determine the plan obligation. Actuarial gains and losses are recognized as they occur in items of other comprehensive income that may not be reclassified subsequently to the consolidated statement of income and are immediately transferred to retained earnings.

The value of any pension plan asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. Any restriction would be recorded as a valuation allowance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Defined benefit costs recognized in the consolidated statement of income under Salaries and employee benefits consist of: [a] current year's service cost, [b] interest expense on the defined benefit obligation, [c] return on plan assets based on the rate used to discount the plan obligation, [d] past service cost and [e] change in the valuation allowance.

Defined contribution pension plans

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

Other post-employment benefits

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

3.6 PROVISIONS AND CONTINGENT LIABILITIES

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

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

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

3.7 INCOME TAXES

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

3.8 EARNINGS PER SHARE

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

3.9 INSURANCE

The Bank is engaged in credit life and disability insurance activities. Insurance premiums are recognized as revenue, net of reinsurance, over the terms of the underlying policies. Insurance claims and changes in policy holder benefit estimates are recorded as incurred. These activities are presented in other income under insurance income, net.

3.10 SHARE-BASED PAYMENTS

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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

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

3.11 ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

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

3.12 TRANSLATION OF FOREIGN CURRENCIES

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

3.13 CASH AND CASH EQUIVALENTS

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

3.14 LEASES

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

3.15 SHARE CAPITAL

Share issue costs

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

Dividend on common shares

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

4. CURRENT AND FUTURE ACCOUNTING CHANGES

4.1 CURRENT ACCOUNTING CHANGES

IAS 19: *Employee benefits*

Effective November 1, 2013 the Bank adopted an amended version of IAS 19, *Employee Benefits*. The amendments to IAS 19 eliminate the option to defer the recognition of gains and losses resulting from defined benefit plans, known as the "corridor method", which was historically used by the Bank, and requires that remeasurements be presented in shareholders' equity. Accordingly, actuarial gains and losses are now recognized as they occur in items of other comprehensive income that may not be reclassified subsequently to the statement of income. The Bank elected to transfer those amounts within retained earnings.

4. CURRENT AND FUTURE ACCOUNTING CHANGES [CONT'D]

The amendments also require full recognition of past service costs or gains immediately in net income, and recognition of expected return on plan assets in net income to be calculated based on the rate used to discount the defined benefit obligation. The amendments include additional disclosures that explain the characteristics of the entity's defined benefit plans and risks associated with the plans, as well as disclosures that describe how defined benefit plans may affect the amount, timing and uncertainty of future cash flows, and details of any asset-liability match strategies used to manage risks. New disclosures required as a result of the adoption of the amended version of IAS 19 are presented in Note 18. Other comparative information in the accompanying notes has been amended accordingly.

These amendments have been applied retrospectively by the Bank as of November 1, 2012 and the impact on the consolidated statement of income, consolidated statement of comprehensive income and consolidated balance sheet for the comparative 2013 period is shown in the tables below. The adoption of this amended standard had no impact on cash flows. Compared to the earlier version of IAS 19, for the year ended October 31, 2014, the adoption of these amendments increased salaries and employee benefits by approximately $7.0 million and resulted in the recognition of net actuarial gains in other comprehensive income of $4.7 million.

Adjustment to the Consolidated Statement of Income for the year ended October 31, 2013

		2013
Increase in salaries and employee benefits	$	7,111
Decrease in income taxes		(1,908)
Decrease in net income	$	(5,203)
Decrease in basic and diluted earnings per share	$	(0.19)

Adjustment to the Consolidated Statement of Comprehensive Income for the year ended October 31, 2013

		2013
Decrease in net income	$	(5,203)
Increase in actuarial gains and losses on employee benefit plans (net of income taxes)		20,645
Increase in comprehensive income	$	15,442

Adjustment to the Consolidated Balance Sheet

		October 31, 2013		November 1, 2012
Decrease in other assets – defined benefit plan assets	$	(34,244)	$	(21,773)
Increase in deferred tax assets		19,590		25,252
Increase in other liabilities – defined benefit plan liabilities		(39,040)		(72,615)
Decrease in other liabilities – other		272		272
Net decrease in retained earnings	$	(53,422)	$	(68,864)

IFRS 10: *Consolidated financial statements*, IFRS 11: *Joint arrangements* and IFRS 12: *Disclosure of interests in other entities*

Effective November 1, 2013 the Bank adopted IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements* and IFRS 12, *Disclosure of Interests in Other Entities*.

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

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

4. CURRENT AND FUTURE ACCOUNTING CHANGES [CONT'D]

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

These standards have been applied retrospectively as of November 1, 2012 and did not have any impact on the Bank's financial position or results.

IFRS 13: ***Fair value measurement***

Effective November 1, 2013, the Bank adopted IFRS 13, *Fair Value Measurement*. IFRS 13 establishes a single source of guidance for fair value measurements when fair value is required or permitted by IFRS and provides for enhanced disclosures when fair value is applied. The prospective application of this standard did not have any significant impact on the Bank's financial position or results. New disclosures required as a result of the adoption of IFRS 13 are presented in Note 23.

IFRS 7: ***Financial instruments: disclosures***

Effective November 1, 2013, the Bank adopted amendments to IFRS 7, *Financial Instruments: Disclosures*, to include new disclosure requirements that are intended to help users to better assess the effect or potential effect of offsetting arrangements on an entity's financial position. New disclosures required as a result of the adoption of the amendments to IFRS 7 are presented in Note 24.

4.2 FUTURE ACCOUNTING CHANGES

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

IFRS 9: ***Financial instruments***

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*, which will be replacing IAS 39 *Financial Instruments: Recognition and Measurement*. This version supersedes all previous versions of IFRS 9 and is effective for annual periods beginning on or after January 1, 2018. IFRS 9 provides requirements for how an entity should classify and measure financial assets and liabilities, as well as a new expected credit loss impairment model. It also introduces certain modifications to the general hedge accounting model.

Classification and Measurement

IFRS 9 requires all financial assets to be classified in three categories (amortized cost, fair value through profit or loss or fair value through other comprehensive income) based on the cash flow characteristics and the business model under which the assets are held.

Financial liabilities will be classified in the same categories as those currently defined in IAS 39. However, measurement of financial liabilities elected to be measured at fair value has been modified: IFRS 9 requires changes in the fair value of an entity's own credit risk to be recognized in other comprehensive income rather than in profit or loss. Early application of this modification, prior to any other changes in the accounting for financial instruments, is permitted by IFRS 9.

Impairment

IFRS 9 introduces a new expected-loss impairment model. Specifically, IFRS 9 requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses when credit deterioration reaches certain thresholds. The new model is accompanied by enhanced disclosure about expected credit losses and credit risk.

Hedge accounting

IFRS 9 introduces certain modifications for hedge accounting that aims to provide a better link between an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Accounting for macro hedging has been decoupled from IFRS 9 and may be issued as a separate standard. The current hedge accounting requirements under IAS 39 may continue to be applied until the IASB finalizes its macro hedge accounting project. The IFRS 9 hedge accounting model retains the three types of hedging relationships under IAS 39 (fair value, cash flow and net investment hedges), but includes changes to hedge effectiveness testing. The new standard also requires enhanced disclosure about risk management activities.

4. CURRENT AND FUTURE ACCOUNTING CHANGES [CONT'D]

IAS 32: ***Financial instruments: presentation***

In December 2011, the IASB issued amendments to IAS 32, *Financial Instruments: Presentation* to clarify its requirements for offsetting financial instruments. The amendments, which address inconsistencies in current practice when applying the offsetting criteria in IAS 32, are effective for annual periods beginning on or after January 1, 2014, which will be November 1, 2014 for the Bank, and are to be applied retrospectively.

IFRIC 21: ***Levies***

In May 2013, the IFRS Interpretations Committee (IFRIC), with the approval of the IASB, issued IFRIC 21, *Levies*. IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by government, which is accounted for in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014, which will be November 1, 2014 for the Bank, and is to be applied retrospectively.

IAS 39: ***Financial instruments: recognition and measurement***

In June 2013, the IASB issued amendments to IAS 39, Financial Instruments: Recognition and Measurement, which provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedge accounting instrument meets certain criteria. The IAS 39 amendments are effective for annual periods beginning on or after January 1, 2014, which will be November 1, 2014 for the Bank, and are to be applied retrospectively.

IFRS 15: ***Revenue from contracts with customers***

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers,* which establishes a comprehensive framework for the recognition, measurement and disclosure of revenues. IFRS 15 applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments) and replaces, amongst others, the previous revenue standard IAS 18, *Revenue* and the related interpretation on revenue recognition IFRIC 13, *Customer Loyalty Programmes*. The new standard also includes requirements for accounting for some costs that are related to a contract with a customer. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, which will be November 1, 2017 for the Bank.

5. SECURITIES

MATURITY SCHEDULE OF SECURITIES

Portfolio of available-for-sale securities

					2014	2013
	Within 1 year	1 to 5 years	Over 5 years	No specific maturity	Total	Total
Securities issued or guaranteed						
by Canada[1]	$ 1,124,569	$ 4,759	$ —	$ —	$ 1,129,328	$ 661,420
by provinces	433,817	608,316	—	—	1,042,133	642,969
Other debt securities	16,497	135,200	29,267	—	180,964	185,940
Asset-backed securities	6,876	28,960	3,938	—	39,774	33,142
Preferred shares	2,925	4,027	837	92,270	100,059	82,868
Common shares and other securities	—	—	—	84,759	84,759	72,728
	$ 1,584,684	$ 781,262	$ 34,042	$ 177,029	$ 2,577,017	$ 1,679,067

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

Portfolio of held-to-maturity securities

			2014	2013
	Within 1 year	1 to 5 years	Total	Total
Securities issued or guaranteed by Canada[1]	$ 289,339	$ 33,668	$ 323,007	$ 620,784
Asset-backed securities	—	—	—	28,090
	$ 289,339	$ 33,668	$ 323,007	$ 648,874

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

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

5. SECURITIES [CONT'D]

GAINS AND LOSSES RECOGNIZED IN COMPREHENSIVE INCOME

Gains and losses recognized in income from treasury and financial market operations on the portfolio of available-for-sale securities for the years ended October 31.

		2014		2013
Realized net gains	$	8,290	$	4,290
Write-downs for impairment		(367)		(518)
	$	7,923	$	3,772

Unrealized gains and losses recognized in other comprehensive income on the portfolio of available-for-sale securities for the years ended October 31.

		Amortized cost		Unrealized gains		Unrealized losses		2014 Fair value
Securities issued or guaranteed								
by Canada[1]	$	1,129,337	$	65	$	74	$	1,129,328
by provinces		1,041,510		699		76		1,042,133
Other debt securities		175,522		5,561		119		180,964
Asset-backed securities		38,672		1,104		2		39,774
Preferred shares		99,109		1,890		940		100,059
Common shares and other securities		71,592		13,697		530		84,759
	$	2,555,742	$	23,016	$	1,741	$	2,577,017

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

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

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

Refer to Note 23 for additional information on the determination of fair value of securities.

6. LOANS

LOANS AND IMPAIRED LOANS

								Collective allowances				2014
		Gross amount of loans		Gross amount of impaired loans		Individual allowances		Against impaired loans		Against other loans		Total allowances
Personal	$	6,793,078	$	22,359	$	—	$	9,425	$	28,986	$	38,411
Residential mortgage		14,825,541		32,843		—		3,964		7,612		11,576
Commercial mortgage		2,651,271		16,633		3,917		1,884		20,736		26,537
Commercial and other[1]		3,159,689		30,245		18,034		1,965		22,848		42,847
	$	27,429,579	$	102,080	$	21,951	$	17,238	$	80,182	$	119,371

6. LOANS [CONT'D]

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

(1) Including customers' liabilities under acceptances for an amount of $365.5 million ($271.0 million as at October 31, 2013)

Foreclosed assets

Held-for-sale assets acquired in 2014 with respect to impaired loans which are managed for sale in an orderly manner amounted to $3.3 million ($4.7 million in 2013). There were no individual allowances with regards to these loans prior to foreclosure.

INDIVIDUAL ALLOWANCES FOR LOAN LOSSES

			2014	2013
	Commercial mortgage loans	Commercial and other loans[1]	Total individual allowances	Total individual allowances
Balance at beginning of year	$ 9,731	$ 24,535	$ 34,266	$ 47,849
Provision for loan losses recorded in the consolidated statement of income	(2,455)	(1,515)	(3,970)	(4,656)
Write-offs[2]	(3,312)	(4,952)	(8,264)	(8,153)
Recoveries	—	79	79	142
Interest accrued on impaired loans	(47)	(113)	(160)	(916)
Balance at end of year	$ 3,917	$ 18,034	$ 21,951	$ 34,266

(1) Including customers' liabilities under acceptances

(2) No restructured loans were written off during the fiscal years ended October 31, 2014 and 2013.

COLLECTIVE ALLOWANCES FOR LOAN LOSSES
Collective allowances against impaired loans

					2014	2013
	Personal loans	Residential mortgage loans	Commercial mortgage loans	Commercial and other loans[1]	Total collective allowances	Total collective allowances
Balance at beginning of year	$ 7,008	$ 3,122	$ 254	$ 1,665	$ 12,049	$ 12,492
Provision for loan losses recorded in the consolidated statement of income	29,029	3,602	1,890	542	35,063	28,582
Write-offs[2]	(33,503)	(1,633)	—	(44)	(35,180)	(30,458)
Recoveries	7,329	(740)	—	24	6,613	2,499
Interest accrued on impaired loans	(438)	(387)	(260)	(222)	(1,307)	(1,066)
Balance at end of year	$ 9,425	$ 3,964	$ 1,884	$ 1,965	$ 17,238	$ 12,049

(1) Including customers' liabilities under acceptances

(2) No restructured loans were written off during the fiscal years ended October 31, 2014 and 2013.

6. LOANS [CONT'D]

Collective allowances against other loans

	Personal loans	Residential mortgage loans	Commercial mortgage loans	Commercial and other loans[1]	2014 Total collective allowances	2013 Total collective allowances
Balance at beginning of year	$ 32,953	$ 5,884	$ 15,764	$ 14,674	$ 69,275	$ 57,201
Provision loan losses recorded in the consolidated statement of income	(3,967)	1,728	4,972	8,174	10,907	12,074
Balance at end of year	$ 28,986	$ 7,612	$ 20,736	$ 22,848	$ 80,182	$ 69,275

(1) Including customers' liabilities under acceptances

An allowance for undrawn amounts under approved credit facilities is also recorded in other liabilities and amounted to $7.4 million as at October 31, 2014 ($7.5 million as at October 31, 2013).

LOANS PAST DUE BUT NOT IMPAIRED

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

2014	1 day–31 days	32 days–90 days	Over 90 days	Total
Personal loans	$ 82,681	$ 26,571	$ 5,350	$ 114,602
Residential mortgages	232,217	58,137	32,706	323,060
	$ 314,898	$ 84,708	$ 38,056	$ 437,662

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

7. LOAN SECURITIZATION

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

CANADA MORTGAGE BOND PROGRAM

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

7. LOAN SECURITIZATION [CONT'D]

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

Since the underlying cash flows associated with these swap agreements are captured through the on-balance sheet recognition of the underlying assets and the associated securitization liabilities, these swap agreements are not recognized at fair value on the consolidated balance sheet and fair value changes are not recognized in the consolidated statement of income. The underlying cash flows of the swap agreements are recognized on an accrual basis as described below. As at October 31, 2014, the notional amount of these swaps was $4.3 billion ($4.3 billion as at October 31, 2013).

Assets related to securitization activities

As these securitization transactions do not meet derecognition criteria, the securitized mortgage loans remain on balance sheet as residential mortgage loans. However, as the Bank's right, title and interest in the transferred mortgages are legally transferred to the CHT, these are considered pledged assets. Interest income is accrued on these loans as for the Bank's other mortgage loans. In addition, the Replacement Assets are also recorded on balance sheet and considered pledged assets. Interest income is accrued on these securities as for other similar securities. The CMB holders and CMHC have no recourse to other assets of the Bank in the event of failure of debtors to pay when due.

Debt related to securitization activities

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

MULTI-SELLER CONDUITS

As part of transactions with multi-seller conduits, the Bank sells mortgage loans to trusts established for the limited purpose of securitization activities. These trusts fund such purchases mainly through the issuance of asset-backed commercial paper. Funding is reduced as mortgage loans are repaid. To reduce the interest-rate risk associated to the mismatch between the fixed rate mortgage loans and the variable rate funding of the trusts, as well as to reduce the risk related to the timing of the collection of cash flows related to the mortgage loans, the trusts enter into swap agreements with third party swap counterparties. Under the swap agreements, these swap counterparties receive the monthly interest flows from the mortgage loans and in return provide the trusts with the regular interest payments required to pay out to investors under the terms of the asset-backed commercial paper. Simultaneously, these swap counterparties conclude similar swap agreements with the Bank. At the swap coupon settlement date, the Bank therefore pays/receives the difference between the amount collected from the mortgage loans and the amount payable to investors. Because the underlying cash flows associated with these interest rate swaps are captured through the on-balance sheet recognition of the underlying mortgage loans and the associated securitization liabilities, these interest rate swaps are not recognized at fair value on the consolidated balance sheet and fair value changes are not recognized in the consolidated statement of income. The underlying cash flows of the interest rate swaps are recognized on an accrual basis as described below. As at October 31, 2014, the notional amount of these swaps was $0.5 billion ($0.7 billion as at October 31, 2013).

Assets related to securitization activities

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

7. LOAN SECURITIZATION [CONT'D]

Debt related to securitization activities

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

Guarantees related to securitization activities

As part of the transactions with a multi-seller conduit, the Bank has guaranteed the payment and performance of certain obligations and liabilities to the securitization trust. The maximum potential amount of future payments under this guarantee totalled $354.6 million as at October 31, 2014 ($523.4 million as at October 31, 2013).

FINANCIAL ASSETS NOT QUALIFYING FOR DERECOGNITION AND ASSOCIATED FINANCIAL LIABILITIES

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

									2014
		Within 1 year		1 to 5 years		Over 5 years		Total carrying amount		Fair value
Residential mortgage loans	$	1,692,319	$	2,643,614	$	5,679	$	4,341,612	$	4,370,324
Replacement Assets										
Cash and deposits with other banks		14,372		—		—		14,372		14,372
Securities purchased under reverse repurchase agreements		106,489		—		—		106,489		106,489
Other securities		289,339		33,668		—		323,007		323,403
Debt related to securitization activities	$	(685,987)	$	(3,931,492)	$	(246,369)	$	(4,863,848)	$	(4,913,573)

				2013
		Total carrying amount		Fair value
Residential mortgage loans	$	4,241,310	$	4,275,852
Replacement Assets				
Cash and deposits with other banks		12,099		12,099
Securities purchased under reverse repurchase agreements		8,410		8,410
Other securities		648,874		649,388
Debt related to securitization activities	$	(4,974,714)	$	(5,043,715)

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

		2014		2013
Carrying amounts of mortgages transferred during the year related to new financing	$	1,028,779	$	738,458
Carrying amounts of mortgages transferred during the year as Replacement Assets	$	404,768	$	416,232

LOANS UNDER MANAGEMENT

The Bank manages commercial mortgage loans for third parties. The total principal amount of outstanding commercial mortgages loans under management amounted to $224.1 million at the end of fiscal 2014 ($397.9 million in 2013). The Bank is not exposed to any credit risk under the servicing agreements in respect of these loans.

SALE OF COMMERCIAL MORTGAGE LOANS

During the year ended October 31, 2014, the Bank sold a portfolio of commercial mortgage loans with a carrying amount of $102.4 million ($94.7 million for the year ended October 31, 2013) and recognized a $3.7 million gain in other income ($3.7 million in 2013).

8. PREMISES AND EQUIPMENT

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

	Premises and Leasehold improvements	Equipment and furniture	Computer hardware	Total
Cost				
As at October 31, 2012	$ 90,975	$ 88,591	$ 147,292	$ 326,858
Additions	11,308	2,352	7,292	20,952
Write offs	(30,393)	(63,067)	(100,544)	(194,004)
As at October 31, 2013	71,890	27,876	54,040	153,806
Additions	6,552	4,169	1,254	11,975
Write offs	(180)	(250)	(4,270)	(4,700)
As at October 31, 2014	$ 78,262	$ 31,795	$ 51,024	$ 161,081
Accumulated depreciation				
As at October 31, 2012	$ 51,806	$ 78,899	$ 124,282	$ 254,987
Depreciation	7,848	3,277	6,759	17,884
Write offs	(30,080)	(62,489)	(99,757)	(192,326)
As at October 31, 2013	29,574	19,687	31,284	80,545
Depreciation	6,164	3,208	6,735	16,107
Write offs	(66)	(205)	(4,050)	(4,321)
As at October 31, 2014	$ 35,672	$ 22,690	$ 33,969	$ 92,331
Carrying amount				
As at October 31, 2013	$ 42,316	$ 8,189	$ 22,756	$ 73,261
As at October 31, 2014	$ 42,590	$ 9,105	$ 17,055	$ 68,750

Premises and equipment include $0.4 million ($6.3 million in 2013) pertaining to premises under construction yet to be amortized.

Write offs in 2013 were essentially related to fully amortized items no longer in use. Impairment losses on premises and equipment amounted to $0.4 million in 2014 ($1.7 million in 2013).

9. GOODWILL

IMPAIRMENT TESTING OF GOODWILL

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

	As at October 31, 2014 and 2013
Retail unit	$ 29,224
B2B Bank	34,853
Total	$ 64,077

Goodwill remained unchanged in 2014 and 2013.

The Bank tests goodwill for impairment on an annual basis. No impairment losses were recognized in 2014 and 2013.

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

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

9. GOODWILL [CONT'D]

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

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

10. SOFTWARE AND OTHER INTANGIBLE ASSETS

		Software		Other intangible assets		Total
Cost						
As at October 31, 2012	$	426,887	$	24,235	$	451,122
Additions		59,977		15,771		75,748
Write offs		(146,694)		—		(146,694)
As at October 31, 2013		340,170		40,006		380,176
Additions		43,364		9,151		52,515
Write offs		(43,039)		(140)		(43,179)
As at October 31, 2014	$	340,495	$	49,017	$	389,512
Accumulated amortization						
As at October 31, 2012	$	287,886	$	3,263	$	291,149
Amortization		33,629		3,426		37,055
Write offs		(145,622)		—		(145,622)
As at October 31, 2013		175,893		6,689		182,582
Amortization		35,903		3,606		39,509
Write offs		(39,767)		—		(39,767)
As at October 31, 2014	$	172,029	$	10,295	$	182,324
Carrying amount						
As at October 31, 2013	$	164,277	$	33,317	$	197,594
As at October 31, 2014	$	168,466	$	38,722	$	207,188

Software and other intangible assets include $35.3 million in 2014 ($62.6 million in 2013) pertaining to projects under development yet to be amortized.

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

Write offs in 2014 and 2013 essentially related to fully amortized items no longer in use. In addition, specific impairment losses on other intangible assets amounted to $3.4 million in 2014 ($1.1 million in 2013).

11. OTHER ASSETS

		2014		2013
Cheques and other items in transit	$	174,096	$	147,231
Defined benefit plan assets [Note 18]		9,080		10,437
Accrued interest receivable		68,251		64,511
Accounts receivable, prepaid expenses and other items		114,294		184,985
	$	365,721	$	407,164

12. DEPOSITS

				2014
	Demand	Notice	Term	Total
Personal	$ 121,401	$ 5,656,316	$ 12,964,264	$ 18,741,981
Business, banks and other	1,283,208	1,168,490	3,329,347	5,781,045
	$ 1,404,609	$ 6,824,806	$ 16,293,611	$ 24,523,026

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

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

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

Term deposits include deposits maturing at a specific date, particularly term deposits and guaranteed investment certificates, as well as senior unsecured notes.

13. OTHER LIABILITIES

	2014	2013
Accrued interest payable	$ 427,024	$ 440,448
Cheques and other items in transit	119,978	161,760
Defined benefit plan liabilities (Note 18)	62,814	77,820
Accounts payable, accrued expenses and other items	259,213	263,084
	$ 869,029	$ 943,112

14. DEBT RELATED TO SECURITIZATION ACTIVITIES

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

			2014	2013
Maturity	Rate	Nominal Value	Carrying amount	Carrying amount
Debt related to CMB transactions				
December 2013	2.73 %	$ 301,554	$ —	$ 301,496
March 2014	2.25	169,231	—	169,153
June 2014	3.18	190,541	—	190,430
July 2014	3.20	62,796	—	62,775
September 2014	2.79	231,046	—	230,800
December 2014	2.80	50,639	50,630	50,572
March 2015	2.98	150,264	150,207	150,079
June 2015	3.20	325,637	325,412	325,071
December 2015	2.49	55,755	55,677	55,610
December 2015	2.78	351,028	350,526	350,098
June 2016	2.80	351,108	350,542	350,209
June 2016	2.81	395,984	396,742	397,198
December 2016	1.89	315,014	314,347	314,043
December 2016	1.88	50,152	50,321	50,399
June 2017	2.10	303,903	303,183	302,920
June 2017	2.11	160,948	162,038	162,441
December 2017	1.74	51,139	50,954	50,897
December 2017	1.73	49,676	49,569	49,536
June 2018	1.81	249,696	248,969	248,778
June 2018	2.11	211,897	211,126	210,924
December 2018	2.42	226,073	225,085	224,866
December 2018	2.38	236,655	238,386	—
June 2019	2.01	252,259	251,232	—
June 2019	2.01	230,522	229,940	—
September 2019	1.25 [1]	61,484	61,331	—
December 2019	2.07	245,519	244,518	—
			4,320,735	4,248,295
Net fair value adjustment [2]			31,770	21,703
			4,352,505	4,269,998
Debt related to multi-seller conduits				
Until August 2017	1.78 % [3]		511,343	704,716
			$ 4,863,848	$ 4,974,714

(1) The interest rate on the debt related to the CMB transaction maturing in September 2019 is based on the CMB variable coupon rate, determined using the 3-month Canadian Dealer Offered Rate as at October 31, 2014.

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

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

15. SUBORDINATED DEBT

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

ISSUED AND OUTSTANDING

Maturity	Series	Interest rate	Special terms		2014 Carrying amount		2013 Carrying amount
October 2022	2012-1	3.13%	Redeemable at par as of October 19, 2017 [1]; rate to be revised on October 19, 2017 and set at the 90-day bankers' acceptance rate plus 1.46%	$	200,000	$	200,000
November 2020	2010-1	3.70%	Redeemable at par as of November 2, 2015 [1]; rate to be revised on November 2, 2015 and set at the 90-day bankers' acceptance rate plus 1.76%		250,000		250,000
					450,000		450,000
Unamortized issuance costs					(931)		(1,488)
Net fair value adjustment[2]					(1,546)		(3,039)
				$	447,523	$	445,473

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

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

16. SHARE CAPITAL

AUTHORIZED SHARE CAPITAL

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

PREFERRED SHARES

Terms of preferred shares

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

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

The Non-cumulative Class A Preferred Shares, Series 12, are redeemable at the Bank's option, by the payment of an amount in cash for each such share so redeemed of (i) $25 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on December 15, 2022 and on December 15 every five years thereafter, or (ii) $25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date after December 15, 2017, subject to the provisions of the Bank Act and to the prior consent of OSFI. On December 15, 2022 and on December 15 every five years thereafter, the holders of Preferred Shares Series 12 may also convert, subject to the automatic conversion provisions and the right of the Bank to redeem those shares, any or all of these preferred shares into an equal number of Preferred Shares Series 11. The holders of the Preferred Shares Series 12 will be entitled to receive floating non-cumulative preferential cash dividends payable quarterly, as declared by the Board of Directors, at a rate equal to the three-month Government of Canada Treasury Bills rate plus 2.60% per share.

16. SHARE CAPITAL [CONT'D]

The Non-cumulative Class A Preferred Shares, Series 13 (the Preferred Shares Series 13), are redeemable at the Bank's option, on June 15, 2019 and on June 15 every five years thereafter at a price of $25 each together with all declared and unpaid dividends to the date fixed for redemption, subject to the provisions of the Bank Act and to the prior consent of OSFI. On June 15, 2019 and on June 15 every five years thereafter, the holders may elect to convert, subject to the automatic conversion provision, any or all of their Preferred Shares Series 13 into an equal number of Non-Cumulative Class A Preferred Shares, Series 14 (the Preferred Shares Series 14). For the initial five-year period ending on, but excluding, June 15, 2019, the holders of the Preferred Shares, Series 13 will be entitled to receive non-cumulative preferential quarterly dividends yielding 4.3% annually, as and when declared by the Board of Directors of the Bank. Thereafter, the dividend rate will reset every five years to be equal to the then current 5-Year Government of Canada bond yield plus 2.55%.The Bank may be required to convert any or all of the Preferred Shares Series 13 into a variable number of common shares upon the occurrence of a non-viability trigger event.

The Non-cumulative Class A Preferred Shares, Series 14 (the Preferred Shares Series 14), are redeemable at the Bank's option, by the payment of an amount in cash for each such share so redeemed of (i) $25 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on June 15, 2024 and on June 15 every five years thereafter, or (ii) $25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date after June 15, 2019, subject to the provisions of the Bank Act and to the prior consent of OSFI On June 15, 2024 and on June 15 every five years thereafter, the holders may elect to convert, subject to the automatic conversion provision, any or all of their Preferred Shares Series 14 into an equal number of Preferred Shares Series 13. The holders of the Preferred Shares Series 14 will be entitled to receive non-cumulative preferential quarterly dividends at a floating quarterly dividend rate equal to the 90-day Canadian Treasury Bill rate plus 2.55%, as and when declared by the Board of Directors of the Bank. The Bank may be required to convert any or all of the Preferred Shares Series 14 into a variable number of common shares upon the occurrence of a non-viability trigger event.

Issued and outstanding

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

			2014			2013
	Number of shares		Amount	Number of shares		Amount
Class A Preferred shares						
Series 9						
Outstanding at beginning of year	n.a.		n.a.	4,000,000	$	97,885
Repurchase of shares	n.a.		n.a.	(4,000,000)		(97,885)
Outstanding at end of year	n.a.		n.a.	—		—
Series 10						
Outstanding at beginning of year	4,400,000	$	107,642	4,400,000		107,642
Repurchase of shares	(4,400,000)		(107,642)	—		—
Outstanding at end of year	—		—	4,400,000		107,642
Series 11						
Outstanding at beginning of year	4,000,000		97,562	4,000,000		97,722
Net adjustment to issuance cost	n.a.		—	n.a.		(160)
Outstanding at end of year	4,000,000		97,562	4,000,000		97,562
Series 13						
Outstanding at beginning of year	—		—	n.a.		n.a.
Issuance of shares	5,000,000		125,000	n.a.		n.a.
Net issuance costs	n.a.		(2,929)	n.a.		n.a.
	5,000,000		122,071	n.a.		n.a.
	9,000,000	$	219,633	8,400,000	$	205,204

There were no outstanding non-cumulative class A preferred shares, series 12 and series 14 as at October 31, 2014.

16. SHARE CAPITAL [CONT'D]

Repurchase of preferred shares

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

On June 15, 2014, the Bank repurchased 4,400,000 Non-cumulative Class A Preferred Shares, Series 10 at a price of $25 per share, for an aggregate amount of $110.0 million.

Issuance of preferred shares

On April 3, 2014, the Bank issued 5,000,000 Preferred Shares Series 13, at a price of $25 per share for gross proceeds of $125.0 million.

COMMON SHARES

Issued and outstanding

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

		2014		2013
	Number of shares	Amount	Number of shares	Amount
Common shares				
Outstanding at beginning of year	**28,532,412**	**$ 446,496**	28,117,520	$ 428,526
Issuance under the Shareholder Dividend Reinvestment and Share Purchase Plan	**410,587**	**19,387**	384,892	16,952
Net issuance costs	**n.a.**	**(29)**	n.a.	(2)
Issuance under the employee share purchase option plan	**—**	**—**	30,000	1,020
Total common shares	**28,942,999**	**$ 465,854**	28,532,412	$ 446,496

Dividend reinvestment and share purchase plan

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

DECLARED DIVIDENDS

		2014		2013
	Dividend per share	Dividends declared	Dividend per share	Dividends declared
Class A Preferred shares				
Series 9	**n.a.**	**n.a.**	$ 0.750	$ 3,000
Series 10	**$ 0.984**	**$ 4,331**	$ 1.312	5,775
Series 11	**$ 1.000**	**4,000**	$ 0.909	3,636
Series 13	**$ 0.484**	**2,419**	n.a.	n.a.
Total preferred shares		**$ 10,750**		$ 12,411
Common shares	**$ 2.06**	**$ 59,105**	$ 1.98	$ 56,037

On November 6, 2014, the Board of Directors declared regular dividends on the various series of preferred shares to shareholders of record on December 8, 2014.

At its meeting on December 10, 2014, the Board of Directors declared dividends of $0.54 per common share, payable on February 1, 2015, to shareholders of record on January 2, 2015.

16. SHARE CAPITAL [CONT'D]

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

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

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

CAPITAL MANAGEMENT

Management's objective is to maintain an adequate level of capital in a cost-effective structure that: considers the Bank's targeted capital ratios and internal assessment of required capital that is aligned with the Bank's Strategic Plan and shareholders' expectations; is consistent with the Bank's targeted credit ratings; underscores the Bank's capacity to cover risks related to its business operations; provides depositor confidence and produces an acceptable return for shareholders.

The Board of Directors, on the recommendation of the Risk Management Committee, approves annually several capital-related documents, including the Capital Management and Adequacy Policy, the Internal Capital Adequacy Assessment Process, the Stress Testing Program, as well as the Capital Plan. It further reviews capital adequacy on a quarterly basis.

Regulatory capital

The regulatory capital is based on the guideline issued by OSFI originating from the Basel Committee on Banking Supervision (BCBS) regulatory risk based capital framework, commonly referred to as Basel III. Under OSFI's guideline, the Bank must maintain minimum levels of capital depending on various criteria. Tier 1 capital, the most permanent and subordinated forms of capital, must be more predominantly composed of common equity. Tier 1 capital 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. Tier 2 capital consists of supplementary capital instruments and contributes to the overall strength of a financial institution as a going concern.

Under OSFI's guideline, minimum Common Equity Tier 1, Total Tier 1 and Total capital ratios were set at 4.0%, 5.5% and 8.0% respectively for 2014. These ratios include phase-in of certain regulatory adjustments through 2019 and phase-out of non-qualifying capital instruments through 2022, (the "transitional" basis). The guideline also provides for annual increases in minimum capital ratio requirements, which will reach 7.0%, 8.5% and 10.5% respectively in 2019, including the effect of capital conservation buffers.

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

The guideline provides additional guidance regarding the treatment of non-qualifying capital instruments and specifies that certain capital instruments no longer fully qualify as capital as of January 1, 2013. The Bank's Series 11 preferred shares, as well as Series 2010-1 and 2012-1 subordinated Medium Term Notes are considered non-qualifying capital instruments under Basel III and are subject to a 10% phase-out per year since 2013. On April 3, 2014, the Bank issued Preferred Shares Series 13 which fully qualify as Additional Tier 1 capital under Basel III. Also, on June 15, 2014, the Bank repurchased the Preferred Shares Series 10, which were non-qualifying instruments under Basel III.

The Bank has complied with regulatory capital requirements throughout the year ended October 31, 2014. Regulatory capital is detailed below.

16. SHARE CAPITAL [CONT'D]

	2014 All-in basis	2014 Transitional basis	2013 [1] All-in basis	2013 [1] Transitional basis
Common shares	$ 465,854	$ 465,854	$ 446,496	$ 446,496
Share-based payment reserve	91	91	91	91
Retained earnings	848,905	848,905	829,678	829,678
Accumulated other comprehensive income, excluding cash flow hedge reserve	13,338	13,338	9,535	9,535
Deductions from Common Equity Tier 1 capital [2]	(240,964)	(48,193)	(268,141)	n.a.
Common Equity Tier 1 capital	1,087,224	1,279,995	1,017,659	1,285,800
Non-qualifying preferred shares [3]	97,562	97,562	205,204	205,204
Qualifying preferred shares	122,071	122,071	n.a.	n.a.
Deductions from Tier 1 capital	n.a.	(51,262)	n.a.	(64,077)
Additional Tier 1 capital	219,633	168,371	205,204	141,127
Tier 1 capital	1,306,857	1,448,366	1,222,863	1,426,927
Subordinated debt [4]	355,048	355,048	399,429	399,429
Collective allowances	87,546	87,546	88,853	88,853
Deductions from Tier 2 capital	(1,925)	(385)	(16,978)	n.a.
Tier 2 capital	440,669	442,209	471,304	488,282
Total capital	$ 1,747,526	$ 1,890,575	$ 1,694,167	$ 1,915,209

(1) Regulatory capital for 2013 is presented as filed with OSFI and has not been adjusted to include the impact of the adoption of amendments to IAS 19, *Employee Benefits*.

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

(3) There is currently no deduction related to the 10% phase-out per year of non-qualifying capital instruments under Basel III as the phase-out is calculated on the outstanding balance as at January 1, 2013, which included the Preferred Shares Series 9 and Series 10 subsequently repurchased by the Bank.

(4) Net of an amount of $92.5 million ($46.0 million as at October 31, 2013) due to the 10% phase-out per year of non-qualifying capital instruments under Basel III.

17. SHARE-BASED PAYMENTS

SHARE PURCHASE OPTION PLAN

The Bank offers a share purchase option plan to members of its senior management. Under this plan, the exercise price of options for the purchase of common shares must not be less than the market prices of such shares immediately prior to the grant date. The right to exercise the options vests gradually over a maximum five-year period and the options may be exercised at any time up to ten years after they have been granted.

The Bank had initially reserved 1,600,000 common shares for the potential exercise of share purchase options, of which 124,962 were still available as at October 31, 2014 (124,962 as at October 31, 2013). No new share options were granted in 2014 and 2013.

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

	2014 Number of options	2014 Exercise price per option	2013 Number of options	2013 Exercise price per option
Outstanding at beginning of year	20,000	$ 29.47	50,000	$ 29.47
Exercised	—	n.a.	(30,000)	29.47
Outstanding at end of year	20,000	$ 29.47	20,000	$ 29.47
Exercisable at end of year	20,000	$ 29.47	20,000	$ 29.47

All outstanding options as at October 31, 2014 are expiring in December 2016.

17. SHARE-BASED PAYMENTS [CONT'D]

SHARE APPRECIATION RIGHTS PLAN

The Bank offers a share appreciation rights (SARs) plan to members of its senior management. These SARs may be cash settled for an amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs vest over a maximum period of five years and can be exercised over a maximum period of ten years. The fair value of SARs is measured using the Black-Scholes-Merton option pricing model, taking into account the terms and condition upon which the instruments were granted, including the dividend yield. The expense related to these units was recognized in net income over their vesting period with a corresponding liability recognized on the balance sheet. At each reporting date, until the liability is settled, the liability is remeasured with changes in fair value recognized in the consolidated statement of income. No SARs were granted during 2014 and 2013.

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

Share appreciation rights

	Weighted average exercise price	Number of SARs outstanding	Weighted average remaining contractual life (years)	Number of SARs exercisable
2014	**$ 37.01**	**138,460**	**3.11**	**138,460**
2013	$ 36.51	185,847	3.92	178,597

PERFORMANCE-BASED SHARE UNIT PLAN

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

The following table summarizes the Bank's PSU plan activities for the years ended October 31.

Performance share units

	Number of units granted	Value of units granted	Vesting date
2014	**174,730**	**$ 47.10**	**December 2016**
2013	191,167	$ 45.07	December 2015

The number of units outstanding as at October 31, 2014 was 526,723 of which 67,344 units were legally vested under the deferred version of the plan (385,701 units as at October 31, 2013 of which 61,256 units were legally vested).

RESTRICTED SHARE UNIT PLANS

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

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

17. SHARE-BASED PAYMENTS [CONT'D]

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

The following table summarizes the Bank's RSU plans activities for the years ended October 31.

Restricted share units

	Plan	Number of units converted [1]	Number of units granted		Value of units granted	Vesting date
2014	Senior management	53,409	33,925	$	47.05	December 2016
	Capital markets	30,056	—	$	47.08	n.a.
2013	Senior management	51,572	35,503	$	45.06	December 2015
	Capital markets	27,904	—	$	45.07	n.a.

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

The number of units outstanding for Senior Management as at October 31, 2014 was 293,760 of which 199,997 units were legally vested under the deferred version of the plan (259,586 units as at October 31, 2013 of which 175,007 units were legally vested). The number of units outstanding for Capital markets as at October 31, 2014 was 58,996, all of which were vested (53,272 units as at October 31, 2013, all of which were vested).

DEFERRED SHARE UNIT PLAN

The Bank offers a deferred share unit plan to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his or her remuneration in the form of deferred share units which can be settled in cash or common shares. The deferred share units are converted when the holder steps down from the Board of Directors. In 2014, 2,036 deferred share units were redeemed and settled in cash (1,558 units in 2013). In 2014, the Bank granted 7,384 deferred share units as compensation (7,094 in 2013). As at October 31, 2014, there were 24,187 units (18,839 units in 2013) outstanding with a total value of $1.2 million ($0.9 million in 2013).

EMPLOYEE SHARE PURCHASE PLAN

The Bank offers an employee share purchase plan. Under this plan, employees who meet the eligibility criteria can contribute up to 5% of their annual gross salary by way of payroll deductions. The Bank matches 30% of the employee contribution amount, up to a maximum of $1,500 per year. The Bank's contributions vest to the employee two years after each employee contribution. The Bank's contributions, totalling $0.6 million during fiscal 2014 ($0.5 million in 2013), are recognized in salaries and employee benefits. The average value of the granted shares under this plan was $47.63 in fiscal 2014 ($44.18 in 2013).

SHARE-BASED PAYMENT PLAN EXPENSE AND RELATED LIABILITY

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

		2014		2013
Expense arising from cash-settled share-based payment transactions	$	11,584	$	9,474
Effect of hedges		(3,702)		(2,596)
	$	7,882	$	6,878

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

The carrying amount of the liability relating to the cash-settled plans was $37.8 million as at October 31, 2014 ($29.1 million as at October 31, 2013).

The intrinsic value of the total liability related to legally vested rights and units was $15.8 million as at October 31, 2014 ($13.4 million as at October 31, 2013).

18. POST-EMPLOYMENT BENEFITS

DESCRIPTION OF BENEFIT PLANS

Pension plans

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

Pension plans are registered with OSFI and are subject to the federal Pension Benefits Standards Act, 1985. They are also registered with the Régie des rentes du Québec (RRQ) and are subject to the Québec Supplemental Pension Plan Act. The Bank's Human resources and corporate governance committee of the Board has the responsibility to ensure that management implements appropriate internal oversight systems with a view to adequately manage pension plans in accordance with the laws and regulations in effect.

Other group plans

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

RISKS ASSOCIATED WITH PENSION PLANS

Pension plans expose the Bank to a broad range of risks. These risks are managed with the objective of meeting pension benefit obligations, while maintaining a reasonable risk profile for the Bank. The pension obligation is mainly subject to demographic risks such as salary inflation and longevity improvements. In addition, the obligation is impacted by the discount rate. Pension plan assets are subject to market risks and more precisely to equity value, long-term interest rates and credit spreads. To manage risks associated with the pension obligation, the Bank monitors its plan benefits and makes adjustments with the objective of optimizing the overall employee benefits. Defined benefit pension plan assets are invested in order to meet pension obligations. To manage the predominant interest rate risk, the Bank has adopted a liability-driven investment policy. This approach provides more control over the plan's financial position by investing in assets that are correlated with liabilities and that allow a reduction in volatility. Factors taken into consideration in developing the asset allocation include but are not limited to the following:

(i) the nature of the underlying benefit obligations, including the duration and term profile of the liabilities;
(ii) the member demographics, including normal retirement age, terminations, and mortality;
(iii) the financial position of the pension plans; and
(iv) the diversification benefits obtained by the inclusion of multiple asset classes.

In addition, a portion of the plans' assets can be invested in other asset classes, such as common shares, emerging market equities, high-yield fixed income securities, private equity or debt investments, as well as other alternative investments to improve potential returns.

FUNDING REQUIREMENTS

The Bank's pension plans are funded by both employee and employer contributions, which are determined based on the financial position and the funding policy of the plan. The employer contributions must be sufficient to cover the value of the obligations that currently accrue in the plan, including fees paid by the plan, as well as special contributions required to amortize any deficit. The Bank assumes all the risks and costs related to the pension plans, including any deficit.

DEFINED BENEFIT PLAN MEASUREMENT DATES

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

18. POST-EMPLOYMENT BENEFITS [CONT'D]

DEFINED BENEFIT PLAN OBLIGATIONS

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

	2014 Pension plans	2014 Other plans	2013 Pension plans	2013 Other plans
Change in defined benefit obligation				
Defined benefit obligation at beginning of year	$ 517,671	$ 35,026	$ 517,092	$ 34,690
Current service cost	14,272	53	14,700	55
Past service cost	1,189	—	—	—
Interest expense	23,661	1,340	22,878	1,279
Benefits paid	(32,006)	(1,396)	(25,554)	(1,210)
Employee contributions	3,230	—	3,372	—
Actuarial losses (gains) arising from changes in assumptions				
Demographic	6,905	287	7,798	1,118
Economic	22,193	1,160	(17,620)	(1,077)
Actuarial losses (gains) arising from plan experience	(2,714)	(304)	(4,995)	171
Defined benefit obligation at end of year	$ 554,401	$ 36,166	$ 517,671	$ 35,026

DEFINED BENEFIT PENSION PLAN ASSETS

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

	2014	2013
Change in fair value of pension plan assets		
Fair value of plan assets at beginning of year	$ 485,314	$ 447,123
Interest income (at prescribed rate)	22,191	19,739
Actuarial gains arising from the difference between the actual return on plan assets and interest income	33,784	13,664
Administration costs (other than costs of managing plan assets)	(1,009)	(1,166)
Bank contributions	25,329	28,136
Employee contributions	3,230	3,372
Benefits paid	(32,006)	(25,554)
Fair value of plan assets at end of year	$ 536,833	$ 485,314

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

	2014 Pension plans	2014 Other plans	2013 Pension Plans	2013 Other Plans
Fair value of plan assets	$ 536,833	$ —	$ 485,314	$ —
Defined benefit obligation	554,401	36,166	517,671	35,026
Funded status – plan deficit	(17,568)	(36,166)	(32,357)	(35,026)
Defined benefit plan assets included in other assets	9,080	—	10,437	—
Defined benefit plan liabilities included in other liabilities	$ 26,648	$ 36,166	$ 42,794	$ 35,026

18. POST-EMPLOYMENT BENEFITS [CONT'D]

DEFINED BENEFIT PLAN COSTS RECOGNIZED DURING THE YEAR

		2014		2013
	Pension plans	Other plans	Pension plans	Other plans
Amounts recognized in income				
Current service cost	$ 14,272	$ 53	$ 14,700	$ 55
Past service cost	1,189	—	—	—
Administration costs (other than costs of managing plan assets)	1,009	—	1,166	—
Interest expense	23,661	1,340	22,878	1,279
Interest income (at prescribed rate)	(22,191)	—	(19,739)	—
Loss (gain) on short-term employee benefits	—	108	—	(53)
	17,940	1,501	19,005	$ 1,281
Amounts recognized in other comprehensive income				
Actuarial gain (loss) on defined benefit obligation	26,384	1,035	(14,817)	265
Actuarial gain on plan assets	(33,784)	—	(13,664)	—
	(7,400)	1,035	(28,481)	265
Total defined benefit cost	$ 10,540	$ 2,536	$ (9,476)	$ 1,546

The Bank expects to contribute $19.5 million to its defined benefit pension plans for the year ending October 31, 2015.

ASSET ALLOCATION OF DEFINED BENEFIT PENSION PLANS

	2014	2013
Asset category		
Cash and cash equivalents	$ 10,455	$ 4,680
Equity funds	124,037	155,376
Debt securities		
Canadian governments and other public administration	72,188	69,279
Corporate and other	296,567	223,295
Other	33,586	32,684
	$ 536,833	$ 485,314

Equity funds include $0.4 million in equity securities of the Bank as at October 31, 2014, ($0.2 million as at October 31, 2013). All plan assets are not quoted in active markets.

SIGNIFICANT ASSUMPTIONS FOR PENSION PLANS AND OTHER PLANS

	2014	2013
Weighted average of assumptions to determine benefit obligation		
Discount rate at end of year	4.25 %	4.55 %
Rate of compensation increase	2.75 %	2.75 %
Weighted average of assumptions to determine benefit expense		
Discount rate	4.55 %	4.40 %
Rate of compensation increase	2.75 %	3.50 %

For 2014, the weighted average financial duration of the pension plans was approximately 14.3 years (14.0 years in 2013).

18. POST-EMPLOYMENT BENEFITS [CONT'D]

ASSUMED HEALTH CARE COST TREND RATES

	2014	2013
Assumed annual rate of increase in the cost of health care benefits	7.6 %	8.0 %
Level to which it should decline and at which it is assumed to subsequently stabilize	5.0 %	5.0 %
Year that the rate is assumed to stabilize	2027	2027

SENSITIVITY ANALYSIS

Due to the long-term nature of post-employment benefits, there are significant uncertainties related to the recognition of balances surrounding the assumptions used.

Discount rates could have a significant impact on the defined benefit plan assets (liabilities) as well as, depending on the funding status of the plan, on pension plan and other post-employment benefit expenses. The following table summarizes the impact of a 0.25 percentage point change in this key assumption on the defined benefit plan obligation and cost for the year ended October 31, 2014.

	Impact of a potential change of 0.25% to the discount rate[1]	
	Obligation	Cost
On Pension Plans	$ 19,821	$ 1,568
On Other Plans	$ 989	$ (34)

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

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The following table summarizes the impact of a one percentage point change in this key assumption on the defined benefit plan obligation and cost for the year ended October 31, 2014, with all other assumptions remaining constant.

	1% increase	1% decrease
Increase (decrease) in total of service and interest expense	$ 120	$ (101)
Increase (decrease) in defined benefit obligation	$ 3,090	$ (2,613)

EXPENSE FOR POST-EMPLOYMENT BENEFITS

The total expense recognized for post-employment benefit plans was as follows.

	2014	2013
Defined benefit pension plans	$ 17,940	$ 19,005
Defined contribution pension plans	6,559	6,851
Other plans	1,501	1,281
	$ 26,000	$ 27,137

19. INCOME TAXES

DEFERRED INCOME TAXES

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

	2014	2013
Deferred income tax assets		
Allowances for loan losses	$ 30,504	$ 27,733
Defined benefit plan liabilities	14,413	18,001
Amount related to share-based payments	10,555	8,101
Provisions	9,669	8,717
Premises and equipment	5,895	7,086
Derivatives	1,165	1,468
Deposits	648	2,062
Other temporary differences	3,827	3,300
	76,676	76,468
Deferred income tax liabilities		
Software	31,214	22,603
Deferred charges	20,723	23,298
Other intangible assets	6,138	4,406
Loans	5,513	8,225
Securitization and securities	4,673	5,704
Other temporary differences	489	489
	68,750	64,725
Deferred income taxes, net	$ 7,926	$ 11,743

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

	2014	2013
Deferred income tax assets	$ 7,936	$ 21,588
Deferred income tax liabilities	(10)	(9,845)
Deferred income taxes, net	$ 7,926	$ 11,743

The components of deferred income tax expense recorded in the consolidated statement of income are as follows.

	2014	2013
Deferred income tax expense		
Software	$ 8,611	$ 6,611
Other intangible assets	1,732	4,538
Deposits	1,414	3,110
Defined benefit plan liabilities	1,306	2,444
Premises and equipment	1,191	1,352
Allowances for loan losses	(2,771)	(2,152)
Loans	(2,712)	(4,079)
Deferred charges	(2,575)	(2,307)
Amount related to share-based payments	(2,511)	(2,442)
Securitization and securities	(1,137)	(648)
Provisions	(952)	(2,812)
Other temporary differences	1,085	208
	$ 2,681	$ 3,823

Income tax loss carry-forwards were $1.1 million as at October 31, 2014 ($1.3 million as at October 31, 2013).

19. INCOME TAXES [CONT'D]

INCOME TAX EXPENSE

Significant components of the income tax expense recorded in the consolidated statement of income for the years ended October 31.

		2014		2013
Current income taxes				
Income tax expense for the year	$	37,094	$	23,095
Previous years income tax expense adjustment		963		4,437
		38,057		27,532
Deferred income taxes				
Origination and reversal of temporary differences		3,541		8,314
Previous years income tax (recovery) adjustment		(860)		(4,491)
		2,681		3,823
	$	40,738	$	31,355

Significant components of the income tax expense recorded in the consolidated statement of comprehensive income for items related to other comprehensive income, for the years ended October 31.

		2014		2013
Items that may subsequently be reclassed to the statement of income				
Income taxes related to change in unrealized gains on available-for-sale securities	$	3,151	$	30
Income taxes (recovery) related to reclassification of net gains on available-for-sale securities to net income		(2,646)		(1,020)
Income taxes (recovery) related to net change in value of derivatives designated as cash flow hedges		304		(9,468)
	$	809	$	(10,458)
Items that may not subsequently be reclassed to the statement of income				
Income taxes related to actuarial gains on employee benefit plans		1,633		7,571
	$	2,442	$	(2,887)
Composition of income taxes				
Current income taxes (recovery)	$	400	$	(1,246)
Deferred income taxes (recovery)		2,042		(1,641)
	$	2,442	$	(2,887)

Significant components of the income tax expense recorded in the consolidated statement of changes in shareholders' equity for the years ended October 31.

		2014		2013
Income taxes on preferred share dividends				
Current income tax expense (recovery)	$	235	$	(662)
Income taxes on issuance of common and preferred shares				
Current income taxes (recovery)		(227)		(12)
Deferred income taxes (recovery)		(908)		(49)
		(1,135)		(61)
	$	(900)	$	(723)

RECONCILIATION WITH THE STATUTORY RATE

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

		2014				2013		
		Amount				Amount		
Income taxes at statutory rates	$	48,476	26.8	%	$	40,340	26.7	%
Change resulting from:								
Income related to foreign insurance operations		(5,612)	(3.1)			(4,823)	(3.2)	
Dividends and tax-exempt gains		(4,354)	(2.4)			(4,147)	(2.7)	
Other, net		2,228	1.2			(15)	—	
Income taxes as reported in the consolidated statement of income	$	40,738	22.5	%	$	31,355	20.8	%

19. INCOME TAXES [CONT'D]

Income earned on foreign insurance operations would generally be taxed only upon repatriation to Canada. Since the Bank's management does not expect to repatriate income accumulated after July 27, 2006 and based on current tax interpretation, no deferred income tax expense and related provision have been recognized on such income. Income taxes that would be payable if all unremitted earnings were repatriated were estimated at $34.8 million as at October 31, 2014 ($29.2 million as at October 31, 2013).

20. EARNINGS PER SHARE

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

	2014	2013
Earnings per share – basic		
Net income	$ 140,365	$ 119,477
Preferred share dividends, including applicable taxes	10,985	11,749
Net income attributable to common shareholders	$ 129,380	$ 107,728
Average number of outstanding common shares (in thousands)	28,724	28,329
Earnings per share – basic	$ 4.50	$ 3.80
Earnings per share – diluted		
Net income attributable to common shareholders	$ 129,380	$ 107,728
Average number of outstanding common shares (in thousands)	28,724	28,329
Dilutive share purchase options (in thousands)	8	9
Diluted weighted average number of outstanding common shares (in thousands)	28,732	28,338
Earnings per share – diluted	$ 4.50	$ 3.80

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

21. SEGMENTED INFORMATION

The Bank determines its reportable segments based on the different services it provides to individuals, businesses, financial intermediaries and institutional clients. The three business segments of the Bank are: Personal & Commercial, B2B Bank and Laurentian Bank Securities & Capital Markets. The Bank's other activities are grouped into the Other sector.

Commencing November 1, 2013, the Bank reports its retail and commercial activities, which were previously reported in the Retail & SME-Québec and Real Estate & Commercial business segments, in the newly formed Personal & Commercial segment. The new business segment better reflects the interdependencies associated with these activities. The B2B Bank and Laurentian Bank Securities & Capital Markets segments were not affected by this realignment. Furthermore, certain restructurings implemented in the fourth quarter of 2013 resulted in minor adjustments to segment allocations. Comparative figures were reclassified to conform to the current presentation.

The Personal & Commercial segment caters to the financial needs of business clients across Canada and retail clients in Québec. The Bank serves retail clients mainly through a network of branches and ATM, providing a full range of savings, investment and financing products. Electronic and mobile services, as well as transactional, card and insurance products complete the offering. Small businesses and larger companies, along with real estate developers are provided with a suite of financing options, including leasing solutions. Services such as deposits, cash management and foreign exchange complete the offering.

The B2B Bank segment supplies banking and financial products to independent financial advisors and non-bank financial institutions across Canada.

Laurentian Bank Securities & Capital Markets segment consists of the Laurentian Bank Securities Inc. subsidiary, a full-service broker, and the Bank's capital market activities.

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

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

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

					2014
	Personal & Commercial	B2B Bank	Laurentian Bank Securities & Capital Markets	Other	Total
Net interest income	$ 394,961	$ 177,567	$ 3,324	$ (14,872)	$ 560,980
Other income	202,677	35,361	65,082	9,965	313,085
Total revenue (loss)	597,638	212,928	68,406	(4,907)	874,065
Amortization of net premium on purchased financial instruments and revaluation of contingent consideration	—	9,653	—	—	9,653
Provision for loan losses	33,235	8,765	—	—	42,000
Non-interest expenses	411,040	125,330	54,332	37,746	628,448
Costs related to business combinations (see Note 30)	—	12,861	—	—	12,861
Income (loss) before income taxes	153,363	56,319	14,074	(42,653)	181,103
Income taxes (recovery)	36,251	16,313	3,777	(15,603)	40,738
Net income (loss)	$ 117,112	$ 40,006	$ 10,297	$ (27,050)	$ 140,365
Average assets[1]	$ 18,154,650	$ 8,858,800	$ 3,189,394	$ 3,820,421	$ 34,023,265

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

21. SEGMENTED INFORMATION [CONT'D]

	Personal & Commercial	B2B Bank	Laurentian Bank Securities & Capital Markets	Other	Total
					2013
Net interest income	$ 386,848	$ 190,928	$ 4,123	$ (13,139)	$ 568,760
Other income	191,261	36,705	63,708	4,903	296,577
Total revenue (loss)	578,109	227,633	67,831	(8,236)	865,337
Amortization of net premium on purchased financial instruments	—	4,426	—	—	4,426
Provision for loan losses	21,438	14,562	—	—	36,000
Non-interest expenses[1]	424,412	132,188	53,407	25,828	635,835
Costs related to business combinations (see Note 30)	—	38,244	—	—	38,244
Income (loss) before income taxes	132,259	38,213	14,424	(34,064)	150,832
Income taxes (recovery)	30,342	10,290	3,572	(12,849)	31,355
Net income (loss)	$ 101,917	$ 27,923	$ 10,852	$ (21,215)	$ 119,477
Average assets[2]	$ 17,614,241	$ 9,338,540	$ 3,073,257	$ 4,172,639	$ 34,198,677

(1) The Bank retroactively adjusted its corporate expenses allocation methodology. As a result, non-interest expenses amounting to $4.0 million in 2013, which were previously reported in the Other sector, were reclassified to the B2B Bank business segment. This change generated a $2.9 million decrease in B2B Bank's net income and a $2.9 million increase in the Other sector's net income in 2013.

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

22. RELATED PARTY TRANSACTIONS

Related parties of the Bank include:

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

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

The following table presents transactions with related parties.

	2014	2013
Loans [1]		
Key management personnel	$ 2,435	$ 2,886
Entities controlled by key management personnel	22,122	21,401
	$ 24,557	$ 24,287
Deposits		
Key management personnel	$ 3,550	$ 4,888
Entities controlled by key management personnel	92	639
	$ 3,642	$ 5,527

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

The Bank provides loans to key management personnel and their related entities. Loans to directors are granted under market conditions for similar risks and are initially measured at fair value. Loans to officers consist mostly of term residential mortgage loans, as well as personal loans, at market rates less a discount based on the type and amount of the loan. Loans to entities controlled by key management personnel are granted under terms similar to those offered to arm's length parties. The interest earned on these loans amounted to $1.1 million for the year ended October 31, 2014 ($1.1 million for the year ended October 31, 2013) and was recorded under interest income in the consolidated statement of income.

22. RELATED PARTY TRANSACTIONS [CONT'D]

In the normal course of business, the Bank also provides usual banking services to key management personnel, including bank accounts (deposits) under terms similar to those offered to arm's length parties. The interest paid on deposits amounted to $0.1 million for the year ended October 31, 2014 ($0.1 million for the year ended October 31, 2013) and was recorded under interest expense in the consolidated statement of income.

In addition, for the year ended October 31, 2014, the Bank paid a rental expense of $2.1 million to a related party ($2.0 million for the year ended October 31, 2013).

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

		2014		2013
Short-term employee benefits, including salaries	$	5,643	$	5,782
Post-employment benefits		1,716		392
Share-based payments		5,069		5,190
	$	12,428	$	11,364

23. FINANCIAL INSTRUMENTS – FAIR VALUE

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. Note 3 details the accounting treatment for each measurement category of financial instruments, as well as the estimates and judgment used in measuring the fair value of financial instruments.

CLASSIFICATION OF FAIR VALUE MEASUREMENTS IN THE FAIR VALUE HIERARCHY

Fair value measurements are categorized into levels within a fair value hierarchy based on the valuation inputs used. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. These two types of inputs create the following fair value hierarchy:

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

DETERMINING FAIR VALUE

Certain assets and liabilities, primarily financial instruments, are carried on the consolidated balance sheet at their fair value. All other financial instruments are carried at amortized cost and the fair value is disclosed below. The following section discusses how the Bank measures fair value.

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

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

23. FINANCIAL INSTRUMENTS – FAIR VALUE [CONT'D]

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

Valuation methodologies

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

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

Given that quoted prices are not available for such financial instruments, fair value is determined using a discounted cash flow technique. Cash flows are estimated based on the terms of the contract and discounted using appropriate market rates.

Securities

When available, the Bank uses quoted market prices to determine the fair value of securities; such instruments are classified in Level 1 of the fair value hierarchy; for example exchange-traded equity securities. For bonds traded over the counter, the Bank generally determines fair value using internal valuation techniques or prices obtained from independent vendors. Where available, the Bank may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Securities priced using such methods are generally classified in Level 2. However, less liquid securities may be classified in Level 3 given that the Bank must then determine the parameters related to certain significant value drivers, including liquidity premiums and credit spreads.

Loans

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

Other assets

Other assets consist primarily of cheques and other items in transit and accrued interest receivable. Quoted market prices in an active market are not available for these financial instruments. The fair value of cheques and other items in transit and accrued interest receivable is determined using the discounted cash flow method.

Derivatives

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

Deposits

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

23. FINANCIAL INSTRUMENTS – FAIR VALUE [CONT'D]

Obligations related to securities sold short

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

Debt related to securitization activities

Quoted market prices in an active market are not available for debt related to securitization activities. As a result, the fair value of these financial instruments is estimated using discounted cash flows based on prevailing market interest rates for similar issues or rates currently offered for debt securities with the same term to maturity.

Subordinated debt

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

FAIR VALUE HIERARCHY

Financial assets and liabilities measured at fair value on the consolidated balance sheet

The following table presents the fair value hierarchy of financial instruments measured at fair value on a recurring basis using the valuation methods and assumptions as set out above.

				2014
(in millions of Canadian dollars)	Level 1	Level 2	Level 3	Total
Assets				
Securities				
Available-for-sale	$ 184	$ 2,393	$ —	$ 2,577
Held-for-trading	67	1,913	—	1,980
Derivatives	2	130	1	133
Liabilities				
Obligations related to securities sold short	14	1,548	—	1,562
Derivatives	$ 1	$ 66	$ 24	$ 91

				2013
(in millions of Canadian dollars)	Level 1	Level 2	Level 3	Total
Assets				
Securities				
Available-for-sale	$ 155	$ 1,524	$ —	$ 1,679
Held-for-trading	277	1,875	1	2,153
Derivatives	1	125	1	127
Liabilities				
Obligations related to securities sold short	21	1,443	—	1,464
Derivatives	$ 1	$ 78	$ 23	$ 102

Level transfers and reclassification

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

23. FINANCIAL INSTRUMENTS – FAIR VALUE [CONT'D]

Change in level 3 fair value category and sensitivity analysis

The Bank classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically rely on a number of inputs that are observable either directly or indirectly. Transfers in and out of Level 3 can occur as a result of additional or new information regarding valuation inputs and changes in their observability. Changes in Level 3 financial instruments were not significant for the years ended October 31, 2014 and 2013.

As at October 31, 2014, the Bank considered other reasonably possible alternative assumptions for the valuation models to recalculate the fair value of the instruments and concluded that the resulting potential increase or decrease in total fair value classified in Level 3 was not significant.

Financial assets and liabilities not measured at fair value on the consolidated balance sheet

Financial assets and liabilities not measured at fair value include held-to-maturity securities, loans, deposits, debt related to securitization activities and subordinated debt. For these instruments, fair values are calculated for disclosure purposes only, and the valuation techniques are disclosed above. Their classification in the fair value hierarchy is disclosed in a separate table below. The Bank also determined that the carrying value approximates the fair value for the following assets and liabilities as they are usually liquid floating rate financial instruments and are generally short term in nature: cash and non-interest-bearing deposits with other banks, interest-bearing deposits with banks, securities purchased under reverse repurchase agreements, other assets, obligations related to securities sold under repurchase agreements and acceptances.

The following table presents financial instruments which are not recorded at fair value on the consolidated balance sheet and their classification in the fair value hierarchy.

					2014		2013
(in millions of Canadian dollars)	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value
Assets							
Held-to-maturity securities	$ 323	$ 323	$ –	$ 323	$ —	$ 649	$ 649
Loans	27,310	27,486	–	—	27,486	27,113	27,279
Liabilities							
Deposits	24,523	24,644	–	24,644	—	23,927	24,049
Debt related to securitization activities	4,864	4,914	–	4,914	—	4,975	5,044
Subordinated debt	$ 448	$ 456	$ –	$ 456	$ —	$ 445	$ 455

24. FINANCIAL INSTRUMENTS – OFFSETTING

The following table presents information about financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement and the effect or potential effect of set-off rights.

												2014
							Amounts not offset in the consolidated balance sheet					
		Gross recognized amounts		Gross amounts offset in the consolidated balance sheet		Net amounts presented in the consolidated balance sheet [1]		Impact of master netting agreements [2]		Financial collateral received or pledged		Net amounts
Financial assets												
Securities purchased under reverse repurchase agreements	$	3,199,119	$	1,636,442	$	1,562,677	$	13,187	$	1,549,134	$	356
Derivatives		119,873		—		119,873		52,307		33,846		33,720
	$	3,318,992	$	1,636,442	$	1,682,550	$	65,494	$	1,582,980	$	34,076
Financial liabilities												
Obligations related to securities sold under repurchase agreements	$	2,218,303	$	1,636,442	$	581,861	$	13,187	$	568,674	$	—
Derivatives		62,206		—		62,206		52,307		1,904		7,995
	$	2,280,509	$	1,636,442	$	644,067	$	65,494	$	570,578	$	7,995

												2013
							Amounts not offset in the consolidated balance sheet					
		Gross recognized amounts		Gross amounts offset in the consolidated balance sheet		Net amounts presented in the consolidated balance sheet [1]		Impact of master netting agreements [2]		Financial collateral received or pledged		Net amounts
Financial assets												
Securities purchased under reverse repurchase agreements	$	2,232,053	$	1,013,798	$	1,218,255	$	3,374	$	1,214,881	$	—
Derivatives		103,764		—		103,764		48,476		22,212		33,076
	$	2,335,817	$	1,013,798	$	1,322,019	$	51,850	$	1,237,093	$	33,076
Financial liabilities												
Obligations related to securities sold under repurchase agreements	$	1,353,400	$	1,013,798	$	339,602	$	3,374	$	336,228	$	—
Derivatives		69,881		—		69,881		48,476		8,349		13,056
	$	1,423,281	$	1,013,798	$	409,483	$	51,850	$	344,577	$	13,056

(1) Excludes financial assets and financial liabilities that are not subject to a master netting agreement or similar agreement.

(2) Carrying amount of financial assets and financial liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria, as these agreements give a right of set-off that is enforceable only following a specified event of default or in other circumstances not expected to arise in the normal course of business.

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

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

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

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT [CONT'D]

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

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

(in millions of Canadian dollars)							2014
	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash, deposits and securities	$ 2,200	$ 1,480	$ 1,021	$ 326	$ 37	$ 66	$ 5,130
Actual return		1.0 %	1.0 %	2.0 %	3.4 %		
Securities purchased under reverse repurchase agreements	1,563	—	—	—	—	—	1,563
Loans	10,945	1,765	4,193	9,462	118	827	27,310
Actual return		3.8 %	3.8 %	3.5 %	4.5 %		
Other assets	—	—	—	—	—	846	846
Total	14,708	3,245	5,214	9,788	155	1,739	34,849
Actual return		2.5 %	3.3 %	3.5 %	4.2 %		
Liabilities and equity							
Deposits	3,192	3,829	6,048	10,621	133	700	24,523
Actual return		1.0 %	1.8 %	1.9 %	3.3 %		
Treasury items	2,144	—	—	—	—	—	2,144
Other liabilities	—	35	61	121	1	1,108	1,326
Actual return		2.2 %	2.2 %	2.3 %	3.2 %		
Debt related to securitization activities	—	655	476	3,488	245	—	4,864
Actual return		0.4 %	3.2 %	2.3 %	2.2 %		
Subordinated debt and equity	—	—	—	675	—	1,317	1,992
Actual return		— %	— %	2.3 %	— %		
Total	5,336	4,519	6,585	14,905	379	3,125	34,849
Actual return		0.9 %	1.9 %	2.0 %	2.6 %		
Swaps, net	—	(9,610)	3,681	5,719	210		—
Sensitivity gap	9,372	(10,884)	2,310	602	(14)	(1,386)	—
Cumulative gap	$ 9,372	$ (1,512)	$ 798	$ 1,400	$ 1,386	$ —	$ —

(in millions of Canadian dollars)							2013
	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets	$ 13,870	$ 2,728	$ 4,779	$ 10,667	$ 173	$ 1,694	$ 33,911
Actual return		2.6 %	3.5 %	3.8 %	4.5 %		
Liabilities and equity	4,922	3,568	6,536	15,598	292	2,995	33,911
Actual return		1.3 %	2.0 %	2.1 %	2.7 %		
Swaps, net	—	(8,845)	2,683	6,041	121	—	—
Sensivity gap	8,948	(9,685)	926	1,110	2	(1,301)	—
Cumulative gap	$ 8,948	$ (737)	$ 189	$ 1,299	$ 1,301	$ —	$ —

Maturity assumptions

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

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

26. DERIVATIVES AND HEDGES

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

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

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

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

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

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

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

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

26. DERIVATIVES AND HEDGES [CONT'D]

AGGREGATE NOTIONAL AMOUNTS

(in millions of Canadian dollars)						2014
	Period to maturity					
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Designated as hedge contracts [1]	Other contracts [2]
Interest rate contracts						
Over-the-counter contracts						
Swaps	$ 4,360	$ 7,234	$ 1,252	$ 12,846	$ 11,679	$ 1,167
Exchange-traded contracts						
Futures	9	10	—	19	—	19
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	955	76	—	1,031	—	1,031
Forwards	1,413	27	—	1,440	—	1,440
Options purchased	101	12	—	113	—	113
Options written	67	12	—	79	—	79
Equity- and index-linked contracts						
Options purchased	17	20	—	37	—	37
Options written	117	130	—	247	—	247
Total return swaps	23	16	—	39	3	36
	$ 7,062	$ 7,537	$ 1,252	$ 15,851	$ 11,682	$ 4,169

(1) Include notional amounts of $0.5 billion related to basis swaps at October 31, 2014.

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

(in millions of Canadian dollars)						2013
	Period to maturity					
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Designated as hedge contracts [1]	Other contracts [2]
Interest rate contracts						
Over-the-counter contracts						
Swaps	$ 3,222	$ 8,024	$ 1,370	$ 12,616	$ 10,320	$ 2,296
Exchange-traded contracts						
Futures	459	—	—	459	—	459
Options written	250	—	—	250	—	250
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	1,114	26	—	1,140	—	1,140
Forwards	1,946	27	—	1,973	—	1,973
Options purchased	237	—	—	237	—	237
Options written	183	—	—	183	—	183
Equity- and index-linked contracts						
Options purchased	13	11	—	24	—	24
Options written	57	144	—	201	—	201
Total return swaps	207	17	—	224	2	222
	$ 7,688	$ 8,249	$ 1,370	$ 17,307	$ 10,322	$ 6,985

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

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

26. DERIVATIVES AND HEDGES [CONT'D]

FAIR VALUE OF DERIVATIVES

			2014
			Fair value
	Favourable	Unfavourable	Net amount
DESIGNATED AS HEDGE CONTRACTS			
Fair value hedges			
Interest rate contracts			
Swaps	$ 55,207	$ (2,700)	$ 52,507
Cash flow hedges			
Interest rate contracts			
Swaps	22,191	(11,840)	10,351
Equity- and index-linked contracts			
Total return swaps	160	—	160
OTHER CONTRACTS [1]			
Interest rate contracts			
Swaps	30,271	(28,792)	1,479
Foreign exchange contracts			
Foreign exchange swaps	9,543	(13,299)	(3,756)
Forwards	11,929	(8,833)	3,096
Options purchased	337	—	337
Options written	—	(111)	(111)
Equity- and index-linked contracts			
Options purchased	2,287	—	2,287
Options written	—	(25,255)	(25,255)
Total return swaps	884	(10)	874
Total	$ 132,809	$ (90,840)	$ 41,969

			2013
			Fair value
	Favourable	Unfavourable	Net amount
DESIGNATED AS HEDGE CONTRACTS			
Fair value hedges			
Interest rate contracts			
Swaps	$ 43,351	$ (6,093)	$ 37,258
Cash flow hedges			
Interest rate contracts			
Swaps	21,189	(19,303)	1,886
Equity- and index-linked contracts			
Total return swaps	175	—	175
OTHER CONTRACTS [1]			
Interest rate contracts			
Swaps	29,402	(21,742)	7,660
Foreign exchange contracts			
Foreign exchange swaps	7,205	(4,479)	2,726
Forwards	21,646	(21,124)	522
Options purchased	812	—	812
Options written	—	(537)	(537)
Equity- and index-linked contracts			
Options purchased	1,432	—	1,432
Options written	—	(22,979)	(22,979)
Total return swaps	1,405	(5,784)	(4,379)
Total	$ 126,617	$ (102,041)	$ 24,576

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

26. DERIVATIVES AND HEDGES [CONT'D]

INFORMATION REGARDING HEDGING RELATIONSHIPS

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

Fair value hedges

The Bank uses interest rate swaps to hedge changes in fair value of assets, liabilities or firm commitments. The notional amount of swap contracts designated as hedging instruments in fair value hedges was $4.4 billion as at October 31, 2014 ($3.6 billion as at October 31, 2013).

The following table presents ineffectiveness related to fair value hedges.

		2014		2013
Gains (losses) recognized on hedging instrument	$	(13,777)	$	8,292
Gains (losses) recognized on hedged item		14,121		(8,174)
Ineffectiveness gains recognized in net income	$	344	$	118

Cash flow hedges

The Bank uses interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability. The Bank also uses total return swaps to hedge the variability in cash flows related to the RSU and PSU plans. The notional amount of swap contracts designated as hedging instruments in cash flow hedges was $6.9 billion as at October 31, 2014 ($6.3 billion as at October 31, 2013).

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

Ineffectiveness losses related to cash flow hedges of $0.5 million was recognized in net income for the year ended October 31, 2014 (ineffectiveness gains of $0.5 million in 2013).

The remaining balance of accumulated other comprehensive income related to cash flow hedges as at October 31, 2014 is expected to be reclassified to the consolidated statement of income over the next 5 years.

CREDIT EXPOSURE

(in millions of Canadian dollars)						2014						2013
		Replacement cost [1]		Credit equivalent amount [2]		Risk-weighted amount [3]		Replacement cost [1]		Credit equivalent amount [2]		Risk-weighted amount [3]
Interest rate contracts	$	112	$	183	$	39	$	97	$	171	$	36
Foreign exchange contracts		22		53		24		33		69		33
Equity-and index-linked contracts		3		8		2		1		18		4
		137		244		65		131		258		73
Impact of master netting agreements		(65)		(113)		(23)		(62)		(122)		(25)
	$	72	$	131	$	42	$	69	$	136	$	48

(1) Represents what it would cost to replace transactions at prevailing market conditions in the event of a default. This is the favourable fair market value of all outstanding contracts, excluding options written since they do not constitute a credit risk.

(2) Represents the sum of (i) the total replacement cost of all outstanding contracts and (ii) an amount representing the assessed potential future credit risk, using guidelines issued by OSFI.

(3) Represents the credit risk equivalent amount weighted based on the creditworthiness of the counterparty, as prescribed by OSFI.

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

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

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

		2014		2013
Net interest income	$	21,488	$	23,253
Other income included in:				
Income from brokerage operations		17,439		19,589
Income from treasury and financial market operations		4,211		5,600
	$	21,650	$	25,189

28. INSURANCE INCOME

Insurance income reported in other income in the consolidated statement of income is detailed as follows.

		2014		2013
Insurance revenues	$	30,603	$	29,980
Claims and expenses		(11,357)		(13,099)
Insurance income, net	$	19,246	$	16,881

29. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

CREDIT-RELATED COMMITMENTS

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

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

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

GUARANTEES

Standby letters of credit and performance guarantees

In the normal course of its operations, the Bank offers its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that clients cannot meet their obligations to third parties. The term of these guarantees varies according to the contracts and normally does not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. The maximum potential amount of future payments under these guarantees totalled $125.3 million as at October 31, 2014 ($133.5 million as at October 31, 2013).

29. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES [CONT'D]

Derivatives

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank sells put options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of foreign currencies at a predetermined price. The term of these options does not exceed 12 months. These options are recorded at fair value, which reflects the estimated amount of future payments under these derivatives as at the date of the valuation. The maximum potential amount of future payments under these derivatives, corresponding to the notional value of outstanding contracts, totalled $34.8 million as at October 31, 2014 ($109.6 million as at October 31, 2013).

Other indemnification agreements

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

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

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

						2014
		Premises		Information technology service contracts[1]		Other
Due within one year	$	62,239	$	54,346	$	7,468
Due within 1 to 5 years		178,723		108,088		10,637
Due after 5 years		76,615		1,718		—
		317,577		164,152		18,105
Less: Future minimum sublease payments to be received		(20,444)		—		—
Total	$	297,133	$	164,152	$	18,105

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

Payments under these commitments recognized as an expense amounted to $55.4 million for the year ended October 31, 2014 ($59.3 million for the year ended October 31, 2013).

FINANCIAL ASSETS PLEDGED AS COLLATERAL

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

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

		2014		2013
Pledged assets:				
To participate in clearing and payment systems	$	355,020	$	250,873
For obligations related to securities sold under repurchase agreements and for securities borrowed		1,401,139		685,532
For obligations related to derivatives in a liability position		63,414		61,625
	$	1,819,573	$	998,030
Pledged assets are detailed as follows:				
Securities	$	1,610,137	$	750,368
Residential mortgage loans (NHA MBS)		209,436		247,662
	$	1,819,573	$	998,030

29. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES [CONT'D]

CONTINGENT LIABILITIES

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

Marcotte v. Banks

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

On September 19, 2014, the Supreme Court of Canada unanimously concluded that the Bank had properly disclosed the fees charged to their credit card holders regarding the conversion of foreign currency transactions into Canadian dollars. The Bank did not incur any monetary losses in this case. The judgment also concluded that the CPA is constitutionally applicable to federally regulated financial institutions.

30. BUSINESS COMBINATIONS

CONTINGENT CONSIDERATION

On August 1, 2012, the Bank acquired 100% of the outstanding shares of AGF Trust Company (AGF Trust) from AGF Management Limited. The agreement included a contingent consideration of a maximum of $20.0 million over five years if credit quality reached certain criteria, which was initially valued at $5.9 million. The contingent consideration was recognized in other liabilities and amounted to $5.9 million as at October 31, 2013. On May 30, 2014, the Bank reached an agreement with AGF Management Limited to settle the contingent consideration for a total amount of $10.0 million. To reflect this agreement, the Bank recorded an additional $4.1 million non tax-deductible charge in 2014 under the amortization of net premium on purchased financial instruments and revaluation of contingent consideration line-item.

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

In 2012, the allocation of the purchase price of AGF Trust resulted in a gain of $24.3 million ($16.4 million net of income taxes) arising on acquisition as the estimated fair values of the net assets acquired exceeded the purchase price. The gain mainly represented the favourable effect of the discount or premium to reflect the then current market rates on purchased financial instruments, partly offset by the initial estimated fair value of the contingent consideration. The unamortized portion of the gain resulting from the revaluation of the purchased financial instruments of $19.3 million is being amortized in net income over the estimated remaining term of the purchased financial instruments of 8 years and amounted to $5.6 million for the year ended October 31, 2014 ($4.4 million for the year ended October 31, 2013).

COSTS RELATED TO BUSINESS COMBINATIONS

In 2014, the Bank incurred costs related to IT systems conversion, salaries, professional fees, employee severances and relocation costs and other expenses for the integration of former AGF Trust operations. These costs were recognized directly in net income, under Costs related to business combinations.