MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended October 31, 2012

SUMMARY OF FINANCIAL RESULTS

OVERVIEW OF FISCAL 2012

For the year ended October 31, 2012, the Bank reported net income of $140.5 million, or diluted earnings of $4.98 per share, compared with $123.7 million, or diluted earnings of $4.65 per share in 2011. Return on common shareholders' equity was 12.1% in 2012, compared with 12.2% in 2011.

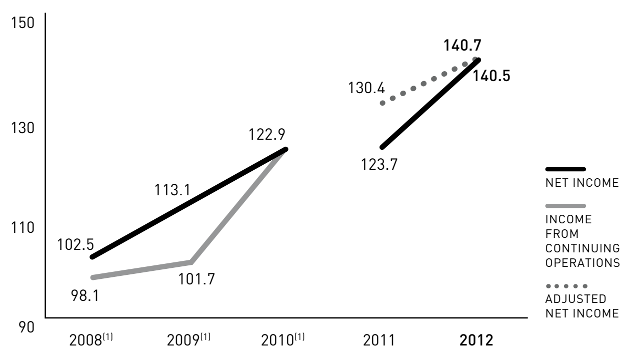
Excluding the adjusting items described below, net income was $140.7 million, up 8% year-over-year, and adjusted return on common shareholders' equity was 12.0%. Adjusted diluted earnings per share totalled $4.98 in 2012 compared to $4.93 in 2011, a 0.05$ increase.

In fiscal 2012, the Bank successfully improved its earnings year-over-year, despite the challenging retail banking and low interest rate environment. During the year, organic growth in loan and deposit volumes and the Bank's business acquisitions of the MRS Companies[1] and AGF Trust Company (AGF Trust) generated strong revenue growth and diversification, which compensated for the persistent pressure on net interest margins resulting from the very low interest rate environment. The excellent credit quality of the Bank's loan portfolios and favourable credit conditions in Canada throughout the year also contributed to these results. In the midst of persistent economic uncertainty, the Bank continued to prudently invest in various initiatives in its business lines while closely controlling costs, with a constant focus on profitable growth to optimize the deployment of its shareholders' equity. During 2012, the Bank also delivered a significant portion of the expected synergies from the integration of the MRS Companies and began to distribute LBC-Mackenzie mutual funds through its Québec branch network under a new distribution agreement. As its efforts now gradually turn to the integration of the AGF Trust business, the Bank will remain focused on materializing the full potential from these business transactions.

The Bank maintained a strong financial position throughout the year and prudently managed its capital in light of the recent acquisitions and significant balance sheet growth. With sound liquidity and capital management, the Bank remains well positioned to pursue its growth initiatives and to meet new regulatory requirements.

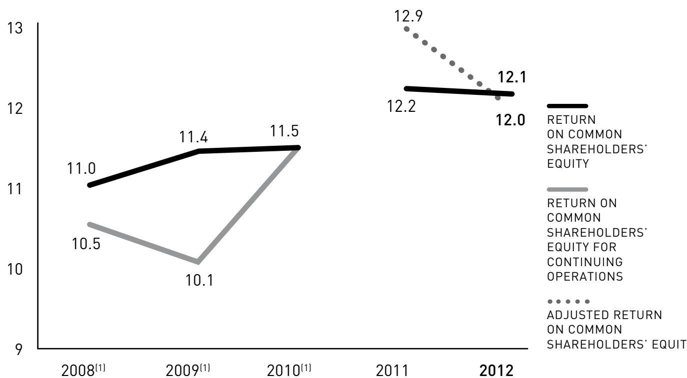
(1) The MRS Companies include the renamed B2B Bank Financial Services Inc., B2B Bank Securities Services Inc. and B2B Bank Intermediary Services Inc. as well as MRS Trust , which merged with B2B Bank as of April 16, 2012.

NET INCOME
(in millions of Canadian dollars)



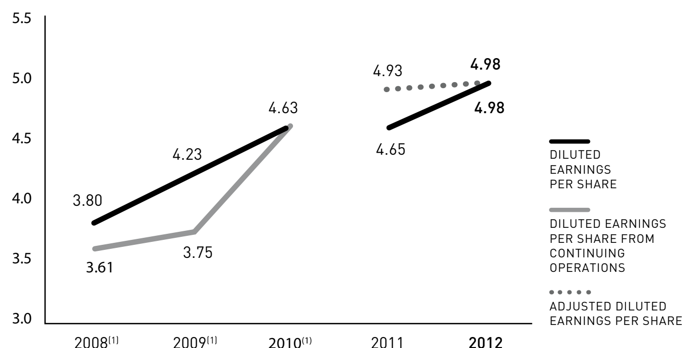
(1) In accordance with previous CGAAP.

RETURN ON COMMON SHAREHOLDERS' EQUITY
(as a percentage)



(1) In accordance with previous CGAAP.

DILUTED EARNINGS PER SHARE
(in Canadian dollars)



(1) In accordance with previous CGAAP.

BUSINESS SEGMENTS

FOR THE YEARS ENDED OCTOBER 31
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PERCENTAGE AMOUNTS)

	OVERVIEW	KEY ACCOMPLISHMENTS
RETAIL & SME-QUÉBEC	The Retail & SME-Québec segment provides a full range of financial products and services, offered through its distribution networks, for retail clients and small and medium-sized enterprises in Quebec. With its network of 157 branches, 26 commercial banking centres and 426 automated banking machines, it operates the third largest retail branch network in Québec.	■ Significant growth in loan portfolios, up more than $750 million over the last twelve months ■ Continued strong credit quality ■ Stable non-interest expenses mitigated the reduced level of earnings ■ Reached the $10 billion milestone in residential mortgage loans ■ Increased SME loans by 17% and SME deposits by 7% ■ Began to offer LBC-Mackenzie mutual funds
REAL ESTATE & COMMERCIAL	The Real Estate & Commercial business segment includes two areas of operation. The first is real estate financing, specializing in financing for condominiums, office buildings, shopping centers and residential developments. The second is commercial financing specializing in financing for medium-sized enterprises across Canada. This segment also offers international services dedicated to the foreign trade activities for the Bank's clients.	■ Recorded solid growth in profitability, with net income up 25% year-over-year ■ Loan losses down more than 80% year-over-year ■ Positioned the energy and infrastructure team as an increasingly important player in its sector ■ Maintained disciplined loan underwriting standards while providing service and response times that are among the most competitive in the industry ■ Invested in human capital, training and staff specialization to further improve the client experience
B2B BANK	The B2B Bank business segment is a leader in providing banking products and investment accounts and services distributed through a network of 27,000 financial advisors and brokers. B2B Bank offers a broad range of banking products from high interest accounts and GICs to mortgages, investment and RRSP loans while B2B Bank Dealer Services offers a comprehensive suite of registered and non-registered investment accounts and services.	■ Increased scale with loans rising by 66% and deposits by 39% over the last twelve months ■ Improved adjusted profitability by 18% year-over-year ■ Transitioned B2B Trust into B2B Bank and launched B2B Bank branded mortgage products ■ Integrated the MRS Companies into B2B Bank ■ Acquired AGF Trust ■ Expanded B2B Bank's distribution network of Financial Advisors and Deposit and Mortgage Brokers by 80% to some 27,000 financial professionals
LAURENTIAN BANK SECURITIES & CAPITAL MARKETS	The Laurentian Bank Securities & Capital Markets business segment acts as an integrated broker serving retail and institutional clients and manages bank-related capital market activities. Its Institutional Fixed Income division has a particularly strong presence in Government and Corporate underwriting, as well as in secondary markets, while the Institutional Equities Group continues to expand in the small cap space. Its Institutional Services Group largely serves small- and mid-sized money managers and brokerage firms.	■ 36% increase in net income year-over-year, in a relatively unfavourable environment ■ Expanded operations, opening an office in Winnipeg to leverage the platform of the Institutional Equity Group ■ Built new relationships and strengthened existing ones with Government and Corporate Fixed Income clients ■ Added a Financial Planning Group to further demonstrate a commitment to providing a full service offering to its investor base ■ Managed risk prudently in volatile markets
OTHER	The Other segment includes the activities of the Bank's various corporate support sectors, mainly Treasury, Credit, Finance, Risk Management, Technology, Operations, Corporate Affairs and Human Resources. Revenues and expenses from these sectors are generally reallocated to the other business segments. However, certain treasury operations such as liquidity management and other corporate activities are reported in this segment.	■ Improvement in net interest income management ■ Non-interest expenses well controlled despite higher employee benefits expenses and ongoing regulatory compliance projects ■ Successfully raised $482 million of capital including two common shares issues, a preferred share issue and a medium term note (subordinated debt) issue ■ Actively managed the Bank's risk-weighted asset and capital structure in order to meet 2013 capital adequacy requirements under Basel III ■ Renewed the collective agreement for a six-year term

PRIORITIES FOR 2013

SEGMENT CONTRIBUTION

RETAIL & SME-QUÉBEC

- Continue to improve operational efficiency through end-to-end process streamlining
- Optimize net interest margin by modifying the product mix and emphasising SME loans
- Increase other income by pursuing cross-selling opportunities
- Continue to exercise tight expense control

TABLE 2

	2012	2011	2010 [1]
Net interest income	$ 310,776	$ 321,578	$ 323,740
Other income	135,121	132,346	129,774
Total revenue	445,897	453,924	453,514
Provision for loan losses	23,978	24,060	40,919
Non-interest expenses	366,994	363,825	352,621
Income before taxes	54,925	66,039	59,974
Income taxes	11,018	14,148	12,961
Net income	$ 43,907	$ 51,891	$ 47,013
Efficiency ratio [2]	82.3%	80.2%	77.8%
Average loans and acceptances	$13,341,941	$12,412,591	$11,688,722
Average deposits	$ 9,589,392	$ 9,146,968	$ 8,580,912

(1) In accordance with previous CGAAP.
(2) Refer to the non-GAAP financial measures section.

REAL ESTATE & COMMERCIAL

- Grow the balance sheet profitably and within acceptable risk parameters
- Specialize the Commercial banking teams to better target the most profitable niches
- Develop new products and sectors to diversify our offer and our revenue streams
- Remain focused on operational and commercial excellence in order to offer a distinctive, value-added client experience and build a best-in-class commercial bank

TABLE 3

	2012	2011	2010 [1]
Net interest income	$ 87,825	$ 90,656	$ 84,475
Other income	34,430	33,738	34,852
Total revenue	122,255	124,394	119,327
Provision for loan losses	3,002	22,677	24,124
Non-interest expenses	31,582	30,211	24,801
Income before income taxes	87,671	71,506	70,402
Income taxes	23,716	20,469	21,313
Net income	$ 63,955	$ 51,037	$ 49,089
Efficiency ratio [2]	25.8%	24.3%	20.8%
Average loans and acceptances	$ 3,374,481	$3,072,592	$2,896,376
Average deposits	$ 511,215	$ 513,690	$ 485,012

(1) In accordance with previous CGAAP.
(2) Refer to the non-GAAP financial measures section.

B2B BANK

- Finalize MRS integration
- Integrate AGF Trust into B2B Bank
- Execute key elements of our strategic plan in order to be well positioned to focus on customer service excellence for 2014

TABLE 4

	2012	2011	2010 [1]
Net interest income	$ 143,593	$ 117,769	$ 114,194
Other income	34,590	8,967	10,419
Total revenue	178,183	126,736	124,613
Gain on acquisition and amortization of net premium on purchased financial instruments	23,795	-	-
Provision for loan losses	6,020	4,343	2,957
Non-interest expenses	106,077	64,040	54,449
Costs related to business combinations and other [2]	21,997	1,349	-
Income before income taxes	67,884	57,004	67,207
Income taxes	18,436	16,149	20,813
Net income	$ 49,448	$ 40,855	$ 46,394
Adjusted net income [3]	$ 49,600	$ 42,056	$ 46,394
Efficiency ratio [3]	71.9%	51.6%	43.7%
Adjusted efficiency ratio [3]	59.5%	50.5%	43.7%
Average loans and acceptances	$ 6,747,686	$5,400,231	$4,973,835
Average deposits	$ 10,863,952	$9,213,139	$9,232,384

(1) In accordance with previous CGAAP.
(2) Integration costs related to the acquisition of the MRS Companies and AGF Trust.
(3) Refer to the non-GAAP financial measures section.

LAURENTIAN BANK SECURITIES & CAPITAL MARKETS

- Accelerate growth in assets under administration
- Grow the footprint in western Canada
- Further integrate activities of the Financial Planning Group into the Retail offering
- Continue to capitalize on the small cap market niche in Institutional Equities

TABLE 5

	2012	2011	2010 [1]
Total revenue	$ 59,902	$ 56,353	$ 61,115
Non-interest expenses	48,439	47,902	46,938
Income before income taxes	11,463	8,451	14,177
Income taxes	2,941	2,180	4,189
Net income	$ 8,522	$ 6,271	$ 9,988
Efficiency ratio [2]	80.9%	85.0%	76.8%
Clients' brokerage assets	$ 2,253,599	$2,153,893	$2,274,998

(1) In accordance with previous CGAAP.
(2) Refer to the non-GAAP financial measures section.

OTHER

- Work towards adopting the Internal Ratings Based approach under Basel II.
- Initiate project to enhance the Bank's performance under the upcoming Basel III Liquidity Management guidelines
- Ensure readiness for FATCA (Foreign Account Tax Compliance Act) and CDIC FID (Fast Insurance Determination) regulatory requirements
- Maximize benefits from the MRS Companies and the AGF Trust acquisitions
- Pursue strategies aiming to further improve employee engagement

TABLE 6

	2012	2011	2010 [1]
Net interest income	$ (14,376)	$ (28,664)	$ (28,429)
Other income	4,782	5,604	7,306
Total revenue	(9,594)	(23,060)	(21,123)
Non-interest expenses	29,374	15,127	25,427
Costs related to business combinations and other [2]	–	7,657	–
Loss before income taxes	(38,968)	(45,844)	(46,550)
Income taxes recovered	(13,644)	(19,507)	(17,007)
Net loss	$ (25,324)	$ (26,337)	$ (29,543)
Adjusted net loss [3]	$ (25,324)	$ (20,872)	$ (29,543)

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

RETAIL & SME-QUÉBEC

The Retail & SME-Québec business segment's contribution to net income was $43.9 million in 2012, compared to $51.9 million for 2011.

Total revenue decreased from $453.9 million in 2011 to $445.9 million in 2012, as lower net interest income more than offset growth in other income. Year-over-year, net interest income decreased by $10.8 million or 3% as the business segment's strong organic growth in loan and deposit volumes throughout the year did not compensate for the compressed margins resulting from the very low interest rate environment and the run-off of higher-margin point-of-sale financing loans. Other income increased by $2.8 million or 2% to $135.1 million in 2012 from $132.3 million a year ago. Higher revenues from card services due to increased fees and transactional volumes, and higher fees on deposits were partly offset by lower credit insurance income resulting from higher claims.

Loan losses were down marginally to $24.0 million in 2012 compared to $24.1 million in 2011, despite a $0.8 billion or 6% increase in the loan portfolio year-over-year. This continued low level reflects the good credit quality of all loan portfolios and marked improvements in the SME and point-of-sale financing portfolios, which more than offset the higher losses on the credit card portfolio.

Non-interest expenses were up marginally by $3.2 million or less than 1%, from $363.8 million in 2011 to $367.0 million in 2012 as cost control measures, including restructuring initiatives, were taken to mitigate the reduced level of earnings.

REAL ESTATE & COMMERCIAL

The Real Estate & Commercial business segment's contribution to net income improved by $12.9 million, or 25%, to $64.0 million in 2012, compared with $51.0 million in 2011.

Total revenue decreased by $2.1 million, from $124.4 million in 2011 to $122.3 million in 2012. In 2012, strong growth in loan and deposit volumes, notably in the real estate portfolio, did not offset the effect of margin compression stemming from persistently low interest rates. Other income increased by $0.7 million or 2% in 2012 reflecting the combined effect of a $3.2 million gain on the sale of $85.2 million of commercial mortgage loans during the year, partly offset by lower revenue from foreign exchange operations resulting from a relatively stable currency environment.

Loan losses were significantly lower at $3.0 million in 2012, compared with $22.7 million in 2011, a $19.7 million or 87% decrease. This improvement includes the effect of favourable settlements and adjustments to individual allowances and reflects the overall strong health of the loan portfolios as further evidenced by a significantly lower level of impaired loans.

Non-interest expenses increased by $1.4 million, from $30.2 million in 2011 to $31.6 million in 2012. Higher salaries and benefits, hiring fees and rental costs related to investments in the sales force and management development mainly contributed to the overall increase in 2012.

B2B BANK

B2B Bank business segment's contribution to adjusted net income was $49.6 million for 2012, up $7.5 million or 18% from $42.1 million in 2011. Reported net income for 2012 was $49.5 million, compared to $40.9 million in 2011.

Total revenue increased by $51.4 million or 41% to $178.2 million in 2012, compared with $126.7 million in 2011, essentially as a result of B2B Bank's strategic acquisitions of the MRS Companies and AGF Trust. Net interest income increased by $25.8 million compared to last year, mainly due to B2B Bank's significant increase in loan portfolios and deposit portfolios year-over-year. This was partially offset by narrower margins on B2B Bank's deposit portfolios. Other income increased to $34.6 million, essentially as a result of a $26.2 million contribution from MRS-sourced fees related to investment accounts. The gain on acquisition and amortization of net premium on purchased financial instruments amounted to $23.8 million in 2012, essentially reflecting the preliminary allocation of the purchase price of AGF Trust.

Provision for loan losses increased from $4.3 million in 2011 to $6.0 million in 2012. Excluding $3.1 million of loan losses associated with AGF Trust's loan portfolios, loan losses decreased by 32% or $1.4 million, reflecting the underlying quality of B2B Bank's loan portfolios.

Non-interest expenses, as shown in the adjacent table, totalled $106.1 million in 2012, compared to $64.0 million in 2011. Excluding ongoing operating costs related to MRS Companies of $30.1 million and AGF Trust of $8.3 million, non-interest expenses otherwise increased by $3.7 million or 6% year-over-year, mainly from the effect of additional employees required to support non acquisition-related business activity and enhanced service levels. T&I Costs, included in the costs related to business combinations and other line item in the adjacent table, totalled $22.0 million for 2012, of which $19.0 million was related to the MRS Companies and $3.0 million to AGF Trust, compared to $1.3 million a year ago. In 2012, T&I Costs were mainly related to IT systems conversion, legal and communication expenses, as well as to severance costs and other transaction costs.

LAURENTIAN BANK SECURITIES & CAPITAL MARKETS

For the year ended October 31, 2012, the Laurentian Bank Securities & Capital Markets (LBS & CM) business segment's contribution to net income increased to $8.5 million compared to $6.3 million in 2011.

Total revenue increased by 6% from $56.4 million in 2011 to $59.9 million in 2012, as a result of higher underwriting fees and trading income. This was partly offset by reduced retail brokerage income, resulting from a lower level of activity throughout the year. Although market conditions improved compared to 2011, they remained challenging in 2012 as bond market uncertainty persisted and small-cap equity markets were sidelined.

Non-interest expenses increased marginally by $0.5 million to $48.4 million in 2012, as a result of performance-based compensation accruals partly compensated by cost control initiatives.

OTHER

The Other segment posted a negative contribution to net income of $25.3 million in 2012 compared to a negative contribution of $26.3 million in 2011. Excluding a compensation expense of $5.5 million (net of income taxes) for termination in 2012 of a mutual fund distribution agreement, adjusted negative contribution to net income in 2011 was $20.9 million.

Net interest income improved to negative $14.4 million in 2012, compared to negative $28.7 million in 2011, reflecting good market positioning as well as some adjustments to inter-segment transfer pricing initiated in early 2012. Other income in 2012 was $4.8 million, compared to $5.6 million for 2011 and essentially relates to gains on treasury activities.

Non-interest expenses, as shown in the adjacent table, increased by $14.2 million to $29.4 million in 2012. The increase was largely due to higher pension costs and employee benefits expenses related to group insurance programs, as well as to higher professional service fees related to the ongoing project to adopt the internal ratings based approach under Basel II and other regulatory compliance projects. In 2011, T&I Costs, included in the costs related to business combinations and other line item in the adjacent table, related to a $7.7 million compensation expense for the termination in 2012 of a mutual fund distribution agreement.

HIGHLIGHTS OF 2012

- Net income, up 14% to $140.5 million, return on common shareholders' equity of 12.1% and diluted earnings per share of $4.98
- Significant increase in loan portfolios, up 21% year-over-year
- Excellent credit quality as evidenced by loan losses of $33.0 million, down 35% year-over-year
- Acquisitions of the MRS Companies and AGF Trust and $182 million common share issuances
- Excluding adjusting items:
  - Adjusted net income of $140.7 million, up 8% year-over-year
  - Adjusted return on common shareholders' equity of 12.0%
  - Adjusted diluted earnings per share of $4.98, up $0.05 from $4.93 a year earlier

TABLE 1

CONSOLIDATED RESULTS

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

	2012	2011	2010 [1]	VARIANCE 12 / 11
Net interest income	**$531,028**	$504,485	$496,421	5%
Other income	**265,615**	233,862	241,025	14
Total revenue	**796,643**	738,347	737,446	8
Gain on acquisition and amortization of net premium on purchased financial instruments	**23,795**	–	–	n.a.
Provision for loan losses	**33,000**	51,080	68,000	(35)
Non–interest expenses	**604,463**	530,111	504,236	14
Income before income taxes	**182,975**	157,156	165,210	16
Income taxes	**42,467**	33,439	42,269	27
Net income	**140,508**	123,717	122,941	14
Preferred share dividends, including applicable taxes	**12,768**	12,436	12,122	3
Net income available to common shareholders	**$127,740**	$111,281	$110,819	15%
Average number of common shares outstanding (in thousands)				
Basic	**25,634**	23,924	23,921	
Diluted	**25,652**	23,943	23,937	
Earnings per share				
Basic	**$ 4.98**	$ 4.65	$ 4.63	7%
Diluted	**$ 4.98**	$ 4.65	$ 4.63	7%
Return on common shareholders' equity [2]	**12.1%**	12.2%	11.5%	
Adjusted measures				
Adjusted net income [2]	**$140,660**	$130,383	$122,941	8%
Adjusted diluted earnings per share [2]	**$4.98**	$ 4.93	$ 4.63	1%
Adjusted return on common shareholders' equity [2]	**12.0%**	12.9%	11.5%	
Adjusted efficiency ratio [2]	**73.1%**	70.6%	68.4%	

(1) In accordance with previous CGAAP.
(2) Refer to the non-GAAP financial measures section.

ADJUSTING ITEMS

The Bank has designated certain amounts as adjusting items and has adjusted GAAP results to facilitate understanding of its underlying business performance and related trends. The Bank assesses performance on a GAAP basis and on an adjusted basis and considers both to be useful to investors and analysts in obtaining a better understanding of the Bank's financial results and analyzing its growth and profit potential more effectively. Adjusting items below are essentially related to costs and revenues related to the Bank's recent business combination activities. Adjusted results and measures are non-GAAP measures. Comments on the uses and limitations of such measures are disclosed in the Non-GAAP Financial Measures section on page 74.

TABLE 7

IMPACT OF ADJUSTING ITEMS, NET OF INCOME TAXES

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

	BUSINESS SEGMENT	2012	2011	2010[1]
Impact on net income				
Reported net income		**$140,508**	$123,717	$122,941
Adjusting items, net income taxes [2]				
Gain on acquisition and amortization of net premium on purchased financial instruments				
Gain on acquisition	B2B Bank	**(16,382)**	–	–
Amortization of net premium on purchased financial instruments	B2B Bank	**400**	–	–
Costs related to business combinations and other [3]				
MRS Companies transaction and integration-related costs	B2B Bank	**13,936**	1,201	–
AGF Trust transaction and integration-related costs	B2B Bank	**2,198**	–	–
Compensation for the termination in 2012 of a mutual fund distribution agreement	Other	**–**	5,465	–
		152	6,666	–
Adjusted net income [2]		**$140,660**	$130,383	$122,941
Impact on diluted earnings per share				
Reported diluted earnings per share		**$ 4.98**	$ 4.65	$ 4.63
Adjusting items [2]		**–**	0.28	–
Adjusted diluted earnings per share [2]		**$ 4.98**	$ 4.93	$ 4.63

(1) In accordance with previous CGAAP.
(2) Refer to the non-GAAP financial measures section.
(3) Also referred to as Transaction and Integration Costs (T&I Costs).

2012 FINANCIAL PERFORMANCE

The following table presents management's financial objectives for 2012 and the Bank's performance for the year then ended. The actual performance for 2012 includes results of operations of MRS Companies since November 16, 2011, and of AGF Trust since the acquisition on August 1, 2012. However, it excludes the adjusting items related to the MRS Companies and AGF Trust acquisitions detailed in the Adjusting Items section above.

The Bank met its revenue growth, adjusted return on common shareholders' equity and adjusted diluted earnings per share objectives for the year 2012 and posted, for the sixth year in a row, a record profitability level.

This overall satisfactory performance resulted, in part, from increased net interest income due to strong organic and acquisition-related loan and deposit growth year-over-year. Higher other income from the MRS Companies' investment accounts, as well as the excellent credit quality of the Bank's loan portfolio throughout the year also contributed significantly to the attainment of the objectives.

TABLE 8

2012 PERFORMANCE INDICATORS

(excluding adjusting items)

	2012 OBJECTIVES	2012 RESULTS
Revenue growth	> 5%	**8%**
Adjusted efficiency ratio [1]	**73% to 70%**	**73.1%**
Adjusted return on common shareholders' equity [1]	**11.0% to 13.5%**	**12.0%**
Adjusted diluted earnings per share [1]	**$4.80 to $5.40**	**$4.98**

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

OUTLOOK AND OBJECTIVES FOR 2013

ECONOMIC OUTLOOK – A BRIEF OVERVIEW

Management believes that, as significant challenges remain with regards to the United States and Europe, the overall economic growth, based on the gross domestic product (GDP), will likely slow to about 1.8% in Canada in 2012. It is thus anticipated that interest rates will remain at accommodating historically low levels throughout 2013, which should result in continued higher levels of consumption and a relatively lower level of investment over the near future.

CANADIAN REAL GDP GROWTH
(quarter-over-quarter percentage change in real GDP, at annual rates)

Source: Statistics Canada
(1) LBC Economic Research predictions

HOW WE WILL MEASURE OUR PERFORMANCE IN 2013

The following table presents the Bank's objectives for 2013.

TABLE 9
2013 FINANCIAL OBJECTIVES
(excluding adjusting items)

	2012 RESULTS	2013 OBJECTIVES [2]
Revenue growth	8%	> 5%
Adjusted efficiency ratio [1]	73.1%	72.5% to 69.5%
Adjusted net income (in millions of Canadian dollars) [1]	$140.7	$145.0 to $165.0
Adjusted return on common shareholders' equity [1]	12.0%	10.5% to 12.5%
Common equity tier 1 ratio	n.a.	> 7.0%

(1) Refer to the non-gaap financial measures section.
(2) These objectives for 2013 should be read concurrently with the following paragraphs on key assumptions.

Key assumptions supporting the Bank's objectives

The following assumptions are the most significant items considered in setting the Bank's strategic priorities and financial objectives. The Bank's objectives do not constitute guidance and are based on certain key planning assumptions. In addition, uncertainties regarding potential accounting standard changes and potential regulatory changes could cause actual results to differ materially from management objectives. Other factors such as those detailed in the Caution Regarding Forward-Looking Statements and Integrated Risk Management Framework sections of this MD&A could also cause future results to differ materially from these objectives.

In addition to the 2013 expected overall economic conditions presented above, management believes the following factors will underlie its financial outlook for 2013:

- Good organic growth to continue, particularly in our commercial businesses
- Some attrition in the acquired portfolios
- Compressed margin to stabilize during 2013
- Strategies to grow and diversify other income to be maintained
- Loan loss provisions to increase from 2012 low levels and as a result of the addition of the AGF Trust portfolios
- Continued cooling of the housing market, without any severe correction
- Expenses to be tightly controlled
- Regulatory costs to continue to rise to conform to a heightened regulatory environment
- Integration of MRS/AGF Trust to be completed in late 2013 with further synergies to materialize in 2014
- Full year dilution impact of the common share issuances completed in 2012

These targets exclude expected integration costs pertaining to the acquisitions of the MRS Companies and AGF Trust, and amortization of acquisition-related net premium on purchased financial instruments, as detailed in the Financial impact of the acquisition of AGF Trust section on page 38 of this MD&A.

In addition, in light of heightened regulatory capital requirements coming into effect on January 1, 2013, management will continue to focus on its prudent approach to capital management and leverage on its capital optimization initiatives to maintain a Basel III Common Equity Tier 1 ratio above 7%.

ACQUISITIONS

ACQUISITION OF THE MRS COMPANIES

On November 16, 2011, the Bank and Mackenzie Financial Corporation concluded an agreement pursuant to which B2B Bank, a subsidiary of the Laurentian Bank, acquired 100% of the MRS Companies in a share purchase transaction for a cash consideration of $198.7 million. The transaction strengthens B2B Bank's product line as it is a leader in offering loan and deposit products to financial advisors while MRS is among the leaders offering investment account management services to this group.

At the acquisition date, inclusion of the assets and liabilities of the MRS Companies added $333.1 million of loans and $725.5 million of deposits on the Bank's balance sheet. Assets under administration also increased by $20.8 billion, mostly in assets related to self-directed RRSPs. See Note 29 to the annual consolidated financial statements for additional information on this acquisition.

The acquisition of the MRS Companies, after eleven and a half months, is yielding excellent results and contributing to improve revenue diversification as evidenced by the growth in other income and assets under administration. In 2012, excluding adjusting items, the MRS Companies have contributed approximately $7.5 million to the Bank's net income.

At the acquisition date, integration and conversion costs were estimated to total $38.0 million, of which one-third would relate to new IT system investments. The Bank recorded $25.1 million of such costs in 2012 and the project is expected to remain on budget. In addition, the integration of the MRS Companies is progressing according to plan, with significant milestones of the system conversion and client integration process and related cost synergies now achieved.

ACQUISITION OF AGF TRUST

On August 1, 2012, B2B Bank acquired 100% of AGF Trust in a share purchase transaction for a cash consideration equal to the net book value of the company at closing of approximately $246.3 million. The agreement also includes a contingent consideration of a maximum of $20.0 million payable over five years if credit quality reaches certain criteria.

AGF Trust provides GICs, term deposits, investment loans and real estate secured loans through some 20,500 financial advisors and 1,050 mortgage brokers nation-wide. At acquisition date, inclusion of the assets and liabilities of AGF Trust added $3.2 billion of loans and $2.8 billion of deposits on the Bank's consolidate balance sheet. The Bank acquired AGF Trust to combine it with B2B Bank in order to further strengthen its position as provider of banking products and services to the Canadian financial advisor community, as well as to improve profitability and geographic diversification.

Considering this transaction, the Bank closed a private placement of common shares with the Caisse de dépôt et placement du Québec and the Fonds de solidarité FTQ for total net proceeds of $115.0 million.

After only 3 months, the acquisition of AGF Trust is already contributing to the Bank's earnings. Integration of most corporate functions is already completed. In 2013, upon the completion of the MRS Companies integration, the efforts will gradually turn to the integration of the AGF Trust operations into B2B Bank in order to optimize the benefits for the Bank and its clients. Total integration and conversion costs should approximate $30.0 to $35.0 million of which $3.0 million was incurred in 2012.

In 2012, excluding adjusting items, AGF Trust contributed approximately $7.3 million to the Bank's net income.

Financial impact of the acquisition of AGF Trust

Under IFRS, the preliminary allocation of the purchase price (the difference between the purchase price and the fair value of assets and liabilities of AGF Trust) resulted in a pre-tax gain of $24.3 million ($16.4 million after income taxes) arising on acquisition as the estimated net fair value of assets and liabilities acquired, exceeded the purchase price. The gain mainly represents the favourable effect of the net premium to reflect current market rates on purchased financial instruments, which was partly offset by the estimated fair value of the contingent consideration initially valued at $5.9 million. The purchase price allocation is based on management's best estimates of the fair value of the assets acquired, liabilities assumed and contingent consideration at the date of acquisition.

The portion of the gain resulting from the revaluation of the purchased financial instruments recorded as part of the gain on acquisition in the fourth quarter of 2012 will be amortized in net income over the estimated remaining term of the purchased financial instruments. The following table presents the expected ensuing impact on the Bank's future reported results that will however be excluded on an adjusted basis.

TABLE 10

SUMMARY OF GAIN ON ACQUISITION AND EXPECTED IMPACT OF AMORTIZATION OF NET PREMIUM ON PURCHASED FINANCIAL INSTRUMENTS

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

	GAIN ON ACQUISITION	EXPECTED IMPACT OF AMORTIZATION OF NET PREMIUM ON PURCHASED FINANCIAL INSTRUMENTS					
	2012	**2012** [1]	2013	2014	2015	2016 to 2022	TOTAL
Net premium on purchased financial instruments	**$30,236**	**$(541)**	$(4,533)	$(5,848)	$(6,025)	$(13,289)	$(30,236)
Contingent consideration	**(5,900)**	**–**	–	–	–	–	–
Increase (decrease) in income before income taxes	**24,336**	**(541)**	(4,533)	(5,848)	(6,025)	(13,289)	(30,236)
Income taxes (recovered)	**7,954**	**(141)**	(1,192)	(1,539)	(1,585)	(3,497)	(7,954)
Increase (decrease) in net income	**$16,382**	**$(400)**	$(3,341)	$(4,309)	$(4,440)	$ (9,792)	$(22,282)

(1) Actual amortization recorded in 2012.

The above reversal schedule could be reviewed to reflect changes in the expected remaining term of the purchased financial instruments, considering actual prepayments or other changes in expected cash flows. In addition, future changes in the estimated fair value of the contingent consideration could impact results.

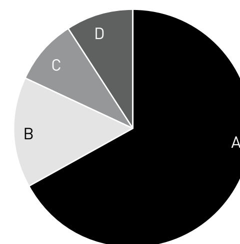
ANALYSIS OF CONSOLIDATED RESULTS

Net income was $140.5 million, or $4.98 diluted per share, for the year ended October 31, 2012, compared with $123.7 million, or $4.65 diluted per share, in 2011. Adjusted net income was up 8% year-over-year to $140.7 million, compared with $130.4 million in 2011, while adjusted diluted net income per share was up $0.05 to $4.98, compared to $4.93 diluted per share, in 2011.

The contribution from the MRS Companies and AGF Trust fuelled the Bank's earnings growth in 2012. When combined with organic growth, excluding adjusting items, the earnings generated by the acquired businesses more than offset the compressed margins stemming from the persistently low interest rate environment throughout the year.

TOTAL REVENUE MIX

(as a percentage)



A. NET INTEREST INCOME 67%
B. FEES AND COMMISSIONS ON LOANS AND DEPOSITS 15%
C. INCOME RELATED TO FINANCIAL MARKETS [1] 9%
D. OTHER 9%

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

TOTAL REVENUE

Total revenue increased $58.3 million or 8% to $796.6 million for the year ended October 31, 2012, compared with $738.3 million for the year ended October 31, 2011. The contribution from the MRS Companies to total revenue amounted to $40.1 million for the year ended October 31, 2012, and the contribution from AGF Trust amounted to $20.0 million, as these strategic acquisitions accelerated the Bank's revenue growth in 2012. Net interest income increased by 5% to $531.0 million, while other income increased by 14% to $265.6 million, as detailed below.

NET INTEREST INCOME

Net interest income increased to $531.0 million for the year ended October 31, 2012, compared with $504.5 million in 2011. This increase is mainly due to the Bank's sustained loan and deposit volume growth year-over-year, of respectively $1.2 billion and $0.5 billion from organic growth and of $3.5 billion for loans and $3.5 billion for deposits from the acquisitions of the MRS Companies and AGF Trust. As further detailed in Table 12, this growth was partly offset by a decrease in net interest margin of 13 basis points year-over-year, from 1.82% in 2011 to 1.69% in 2012. The compression in net interest margin resulted from the persistently low interest rate environment throughout the year and flatter yield curve affecting earnings on low cost deposits and capital funding as well as continued high liquidity levels, partly offset by the acquired higher-margin loans. Table 11 provides a summary of net interest income.

The Bank uses derivatives to manage the interest rate risk associated with some of its loan and deposit portfolios. In 2012, interest rate swaps generated revenues of $59.2 million and partly compensated lower interest income stemming from variable rate loan portfolios resulting from the low interest rate environment. Depending on interest rate fluctuations and on the portfolio mix in terms of maturity and product types, actual return on portfolios can vary substantially. The Bank uses models to quantify the potential impact of various rate scenarios on future revenues and equity, as explained in the Asset and Liability Management Activities section on page 64 of this MD&A.

TABLE 11

CHANGES IN NET INTEREST INCOME

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

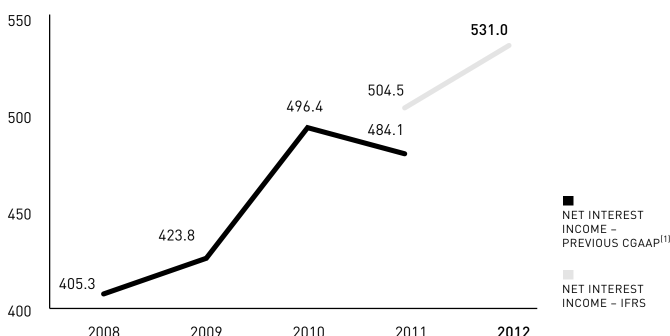
				2012				2011
	AVERAGE VOLUME IN %	AVERAGE VOLUME	INTEREST	AVERAGE RATE	AVERAGE VOLUME IN %	AVERAGE VOLUME	INTEREST	AVERAGE RATE
Assets								
Cash resources and securities	19.4%	$ 6,106,815	$ 77,468	1.27%	19.9%	$ 5,524,512	$ 79,336	1.44%
Securities purchased under reverse repurchase agreements	2.8	892,200	9,098	1.02	2.8	767,328	8,697	1.13
Loans								
Personal	20.6	6,487,719	309,334	4.77	20.4	5,653,917	278,056	4.92
Residential mortgage	40.2	12,637,878	490,708	3.88	40.6	11,296,315	474,897	4.20
Commercial mortgage	7.7	2,418,315	115,907	4.79	8.0	22,210,288	115,035	5.20
Commercial and other	7.0	2,194,881	89,814	4.09	6.9	1,916,815	86,135	4.49
Derivatives	–	–	59,240	–	–	–	61,345	–
Other assets	2.3	726,727	–	–	1.4	399,122	–	–
Total – assets	100.0%	$31,464,535	$1,151,569	3.66%	100.0%	$27,768,297	$1,103,501	3.97%
Liabilities and shareholders' equity								
Demand and notice deposits		$7,896,765	$70,093	0.89%		$ 7,081,569	$ 66,654	0.94%
Term deposits		14,113,459	375,553	2.66		12,776,035	377,809	2.96
Obligations related to securities sold short or under repurchase agreements		1,927,419	1,176	0.06		1,783,774	2,236	0.13
Acceptances		218,879	–	–		181,788	–	–
Other liabilities		571,010	–	–		524,624	–	–
Debt related to securitization activities		5,153,686	163,880	3.18		4,072,629	140,743	3.46
Subordinated debt		250,445	9,839	3.93		276,671	11,574	4.18
Shareholders' equity		1,332,872	–	–		1,071,207	–	–
Total – liabilities and shareholders' equity		$31,464,535	$ 620,541	1.97%		$27,768,297	$ 599,016	2.15%
Net interest income			$ 531,028	1.69%			$ 504,485	1.82%

TABLE 12

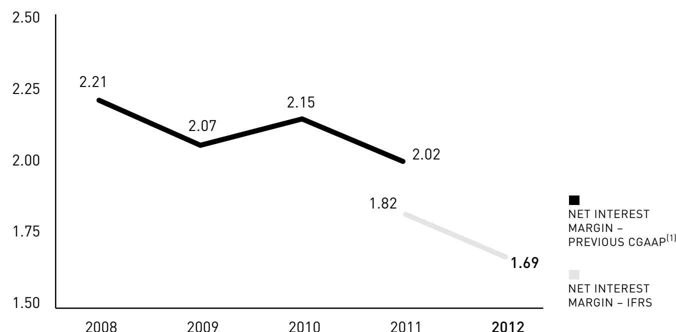
ANALYSIS OF CHANGE IN NET INTEREST INCOME

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

			2012 / 2011
	Increase (decrease) due to change in		
	AVERAGE VOLUME	AVERAGE RATE	NET CHANGE
Assets	$34,490	$ 13,578	$48,068
Liabilities	35,378	(56,903)	(21,525)
Net interest income	$69,868	$(43,325)	$26,543



(1) The difference between previous CGAAP and IFRS mainly results from the difference in accounting treatment for securitization transactions. Refer to Note 30 to the annual consolidated financial statements for additional information.



(1) The difference between previous CGAAP and IFRS mainly results from the difference in accounting treatment for securitization transactions. Refer to Note 30 to the annual consolidated financial statements for additional information.

OTHER INCOME

Other income increased to $265.6 million for the year ended October 31, 2012 from $233.9 million for the year ended October 31, 2011. This includes a $26.2 million contribution to other income from the acquisition of the MRS Companies, largely from fees related to investment accounts.

Fees and commissions on loans and deposits increased by 4% to $120.0 million for fiscal 2012 from $115.0 million in 2011, mainly driven by increased revenues from deposit service charges due to higher fees, while lending fees were slightly lower year-over-year. Card service revenues also contributed to the increase as a result of higher fees and transactional volume.

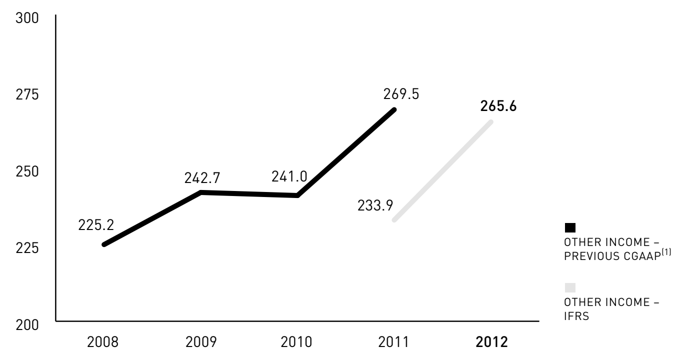
Income from brokerage operations increased by 13% to $54.8 million for fiscal 2012 compared to $48.4 million in 2011. Although market conditions remained very challenging for trading and underwriting activities throughout the year, with continued subdued activity in the fixed income and in the small-cap equity markets, revenues improved relatively year-over-year.

Revenues from registered self-directed plans increased significantly by $21.8 million to $29.1 million for fiscal 2012, compared to $7.3 million earned in 2011. This was a result of the strategic acquisition of the MRS Companies, which allowed the Bank to grow its revenue base and distribution network, and provided diversification to its revenue mix.

Revenues from mutual funds improved by 4% to $18.0 million in fiscal 2012 compared with $17.3 million in 2011. During the year, the Bank's continued efforts resulting in higher mutual fund sales and growth in assets under management. In addition, as principal distributor, the Bank started to distribute a preferred series of LBC-Mackenzie mutual funds in January 2012 in its Québec branch network, setting the base for future growth in this source of revenues.

Income from treasury and financial market operations decreased by $3.4 million to $17.5 million for fiscal 2012 from $20.9 million in 2011. This decrease mainly resulted from lower revenues from foreign exchange markets resulting from relatively more stable rates, which more than offset higher income from structured products, while the contribution from other treasury activities such as secondary liquidity management was relatively unchanged year-over-year. Results in 2011 were also favourably impacted by a $1.3 million gain related to hedging of securitization activities. Additional information related to the Bank's securities portfolio is presented in Note 5 to the annual consolidated financial statements.

Credit insurance revenues are mainly generated by insurance programs related to loans disbursed by the Bank and related premiums are presented net of claims. These revenues decreased by $3.1 million to $15.5 million for fiscal 2012 from $18.6 million in 2011, mainly due to a higher level of claims, which more than offset higher premiums, reflecting growth in the residential mortgage loan portfolio.



(1) The difference between previous CGAAP and IFRS mainly results from the difference in accounting treatment for securitization transactions. Refer to Note 30 to the annual consolidated financial statements for additional information.

TABLE 13

OTHER INCOME

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

	2012	2011	2010 [1]	VARIANCE 12/11
Fees and commissions on loans and deposits				
Deposit service charges	**$ 57,226**	$ 53,809	$ 54,172	6%
Lending fees	**37,788**	38,542	38,985	(2)
Card service revenues	**24,939**	22,655	20,543	10
Sub-total – fees and commissions on loans and deposits	**119,953**	115,006	113,700	4
Other				
Income from brokerage operations	**54,806**	48,429	52,934	13
Income from registered self-directed plans	**29,079**	7,253	8,680	301
Income from sales of mutual funds	**18,026**	17,308	15,012	4
Income from treasury and financial market operations	**17,531**	20,938	18,035	(16)
Credit insurance income	**15,529**	18,591	17,785	(16)
Other	**10,691**	6,337	8,883	69
Securitization income	**–**	–	5,996	n.a.
Sub-total – other	**145,662**	118,856	127,325	23
Total – other income	**$265,615**	$233,862	$241,025	14%

(1) In accordance with previous CGAAP.

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

A gain on acquisition and the ensuing amortization of net premium on purchased financial instruments amounted to $23.8 million for the year ended October 31, 2012. This includes a $24.3 million pre-tax gain ($16.4 million after income taxes) resulting from the purchase price of AGF Trust, slightly offset by a $0.5 million amortization of acquisition-related net premium on these financial instruments. Refer to the Financial impact of the acquisition of AGF Trust section on page 38 for further details on these items.

PROVISION FOR LOAN LOSSES

The provision for loan losses amounted to $33.0 million for the year ended October 31, 2012 compared to $51.1 million for the year ended October 31, 2011, a significant decrease of $18.1 million or 35% year-over-year despite the strong increase in the Bank's loan portfolio and $3.1 million of loan losses associated with AGF Trust's loan portfolios. This very low level of losses reflects the continued excellent quality of the Bank's loan portfolios and considerable improvements in the commercial portfolios year-over-year. Losses in 2012 represented 0.14% of average loans and acceptances, down from 0.24% in 2011. Although the Bank benefited from favourable credit conditions in 2012, it remains prudent in the current uncertain economic environment and closely monitors its loan portfolio, with a particular focus on the recently acquired portfolio of AGF Trust. The following table details the provision for loan losses from 2010 to 2012.

TABLE 14

PROVISION FOR LOAN LOSSES

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

	2012	2011	2010 [1]
Personal loans	**$25,328**	$23,341	$31,460
Residential mortgage loans	**3,454**	113	3,486
Commercial mortgage loans	**1,527**	17,404	8,729
Commercial and other loans	**2,691**	10,222	24,325
Total – provision for loan losses	**$33,000**	$51,080	$68,000
As a % of average loans and acceptances	**0.14%**	0.24%	0.40%

(1) In accordance with previous CGAAP.

NON-INTEREST EXPENSES

Non-interest expenses totalled $604.5 million for the year ended October 31, 2012, compared to $530.1 million for the year ended October 31, 2011. Excluding T&I Costs of $22.0 million in 2012, and $9.0 million in 2011, and current operating costs related to MRS Companies of $30.1 million and AGF Trust of $8.3 million, non-interest expenses increased by $23.0 million or 4% year-over-year.

Salaries and employee benefits increased by $38.0 million to $320.6 million compared to the year ended October 31, 2011. Increased headcount from the acquisitions of the MRS Companies and, to a lesser extent, of AGF Trust in the fourth quarter of 2012, accounted for $20.4 million or 54% of this increase. Regular salary increases and variable compensation, as well as severance costs, higher pension costs and expenses related to group insurance programs also contributed to the increase year-over-year.

Premises and technology costs increased by $11.7 million to $152.9 million compared to $141.2 million for the year ended October 31, 2011. This increase is mainly due to higher rental and IT costs related to the acquisition of the MRS Companies and AGF Trust and increased square footage of leased premises. Higher IT costs related to ongoing business growth and amortization expense related to completed IT development projects, also accounted for the increase.

Other non-interest expenses increased by $11.7 million to $108.9 million for the year ended October 31, 2012, from $97.3 million for the same period of 2011. Excluding the effect of the acquisitions during 2012, other non-interest expenses were down $1.5 million compared to last year.

T&I Costs for the year ended October 31, 2012 totalled $22.0 million, of which $19.0 was related to the MRS Companies and $3.0 million to AGF Trust, compared to $9.0 million a year ago. In 2012, T&I Costs were mainly related to IT systems conversion, legal and communication expenses for the integration of the MRS Companies, as well as to severance costs and other transaction costs related to the acquisition of AGF Trust. A further $6.1 million of MRS Companies' expenses were capitalized as B2B Bank invested to develop the IT infrastructure and upgrade in the acquired dealer account management system. A year ago, T&I Costs were mainly composed-of a $7.7 million compensation expense for the termination in 2012 of a distribution agreement of mutual funds.

Table 15 illustrates the changes in non-interest expenses from 2010 to 2012.

TABLE 15
NON-INTEREST EXPENSES

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

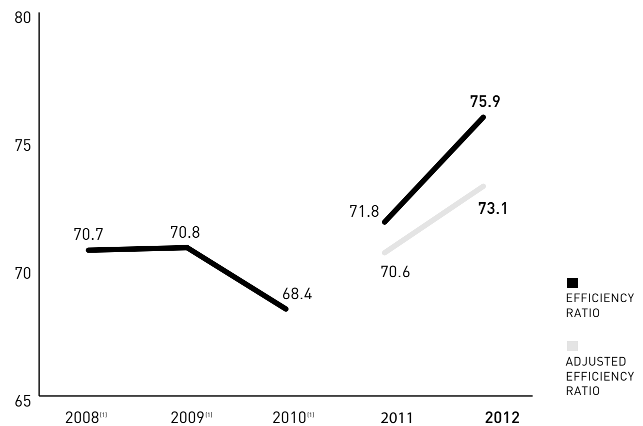
	2012	2011	2010 [1]	VARIANCE 12/11
Salaries and employee benefits				
Salaries	**$214,154**	$192,119	$181,040	
Employee benefits	**64,033**	55,857	55,795	
Performance-based compensation	**42,416**	34,654	39,129	
Sub-total – salaries and employee benefits	**320,603**	282,630	275,964	13%
Premises and technology				
Equipment and computer services	**58,319**	54,234	52,108	
Rent and property taxes	**44,324**	40,101	37,731	
Depreciation	**43,433**	39,967	35,987	
Maintenance and repairs	**5,037**	5,460	5,271	
Public utilities	**1,485**	1,461	1,355	
Other	**321**	(11)	88	
Sub-total – premises and technology	**152,919**	141,212	132,540	8%
Other				
Fees and commissions	**25,813**	24,667	21,700	
Advertising and business development	**23,087**	20,620	22,089	
Taxes and insurance	**21,293**	16,999	16,518	
Communications and travelling expenses	**20,834**	19,582	19,037	
Stationery and publications	**6,232**	5,975	5,962	
Recruitment and training	**3,108**	3,448	4,591	
Other	**8,577**	5,972	5,835	
Sub-total – other	**108,944**	97,263	95,732	12%
Costs related to business combinations and other [2]	**21,997**	9,006	–	144%
Total – non-interest expenses	**$604,463**	$530,111	$504,236	14%
As a % of total revenue (efficiency ratio) [3]	**75.9%**	71.8%	68.4%	
As a % of total revenue (adjusted efficiency ratio) [3]	**73.1%**	70.6%	68.4%	

(1) In accordance with previous CGAAP.
(2) Integration costs related to the acquisition of the MRS Companies and AGF Trust and the compensation for the termination in 2012 a mutual fund distribution agreement.
(3) Refer to the non-GAAP financial measures section.

Efficiency ratio

For the year ended October 31, 2012, the adjusted efficiency ratio was 73.1%, compared with 70.6% for the year ended October 31, 2011. The Bank's 8% revenue growth year-over-year was hampered by the overall low-interest rate environment and margin compression and could not fully compensate for higher expenses from acquired operations incurred throughout the year. The Bank remains nonetheless focused on materializing operating synergies to reap the full benefits from the integration of both the MRS Companies and AGF Trust to increase overall productivity and increase revenues over the next five quarters. The following graph shows the Bank's performance in this regard over the last five years.

EFFICIENCY RATIO
(non-interest expenses as a percentage of total revenue)



(1) In accordance with previous CGAAP.

INCOME TAXES

For fiscal 2012, income tax expense totalled $42.5 million and the effective income tax rate was 23.2%, compared with $33.4 million and 21.3%, respectively, for fiscal 2011. Note 20 to the annual consolidated financial statements provides further information on income tax expense. As detailed in the table below, the increase in the effective tax rate compared to a year-ago mainly results from the lower proportion of revenues from insurance operations, considering the gain on acquisition of AGF Trust, which more than offset the decrease in the statutory rate.

TABLE 16

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

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

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

TRANSACTIONS WITH RELATED PARTIES

The Bank provides loans to directors and officers and their related companies. As at October 31, 2012, these amounted to $15.0 million. Loans to directors are granted under market conditions for similar risks and are initially measured at the fair value. Loans to officers consist mostly of term residential mortgage loans at posted rates less 2%, as well as personal loans and personal lines of credit at market rates less a discount based on the type and amount of the loan. Loans to related entities of directors and officers are granted under terms similar to those offered to arm's length parties. The interest earned on these loans is recorded under interest income in the consolidated statement of income. In the normal course of business, the Bank also provides usual banking services to certain directors and officers and their related companies, including bank accounts (deposits) under terms similar to those offered to arm's length parties. As at October 31, 2012, these amounted to $3.2 million. The Bank also offers employees a subsidy on annual credit card fees. See Note 23 to the annual consolidated financial statements for additional information on related party transactions.

OVERVIEW OF FISCAL 2011

The following analysis presents a comparison between the results for the years ended October 31, 2011, and 2010. Financial results for 2011 were established using IFRS as the basis of accounting, while 2010 data are in compliance with previous Canadian GAAP. Although the conversion to IFRS had no impact on the Bank's operations, it led to significant changes in the measurement and presentation of its performance and financial position, notably with regards to securitization activities and accounting for employee benefits. See Note 30 to the consolidated financial statements for additional information on the impact of the conversion to IFRS.

For the year ended October 31, 2011, the Bank reported net income of $123.7 million, or diluted earnings of $4.65 per share, compared with $122.9 million, or diluted earnings of $4.63 per share in 2010. Return on common shareholders' equity was 12.2% in 2011, compared with 11.5% in 2010.

Excluding the integration costs related to the acquired MRS Companies and the compensation recorded in 2011 for the termination in 2012 of a mutual fund distribution agreement related to the signing of a new distribution agreement for LBC-Mackenzie mutual funds, net income was $130.4 million and return on common shareholders' equity was 12.9%. Excluding these one-time costs, diluted earnings per share totalled $4.93 in 2011.

The Bank reported good results for fiscal 2011, despite the challenging retail banking and low interest rate environment. Already last year, results were affected by interest margin compressions. This impact was, however, generally compensated by the significant increase in loan and deposit volumes, which contributed to support net interest income. Efforts initiated in prior years to increase other income sources such as card service revenues and revenues from mutual fund distribution also yielded good results. Significant improvements in the credit quality of the Bank's loan portfolios also contributed to improve profitability.

ANALYSIS OF QUARTERLY RESULTS

SUMMARY ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF FISCAL 2012

Net income was $45.7 million, or $1.51 diluted per share, for the fourth quarter ended October 31, 2012, compared with $26.7 million, or $0.99 diluted per share, for the fourth quarter of 2011. Adjusted net income was up 8% year-over-year to $36.2 million for the fourth quarter ended October 31, 2012, compared with $33.4 million in 2011, while adjusted diluted net income per share was down 7% to $1.17, compared to $1.26 diluted per share, in 2011. Adjusting items for the quarter are presented in the table below.

See the Adjusting Items section on page 35 and the Non-GAAP Financial Measures section on page 74 for additional information.

TABLE 17

IMPACT OF ADJUSTING ITEMS, NET OF INCOME TAXES, ON THE FOURTH QUARTER RESULTS

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

	BUSINESS SEGMENT	2012	2011
Impact on net income			
Reported net income		**$45,685**	$26,709
Adjusting items, net of income taxes [1]			
Gain on acquisition and amortization of net premium on purchased financial instruments			
Gain on acquisition	B2B Bank	**(16,382)**	–
Amortization of net premium on purchased financial instruments	B2B Bank	**400**	–
Costs related to business combinations and other [2]			
MRS Companies transaction and integration-related costs	B2B Bank	**4,739**	1,201
AGF Trust transaction and integration-related costs	B2B Bank	**1,744**	–
Compensation for the termination in 2012 of a mutual fund distribution agreement	Other	**–**	5,465
		(9,499)	6,666
Adjusted net income [1]		**$36,186**	$33,375
Impact on diluted earnings per share [3]			
Reported diluted earnings per share		**$ 1.51**	$ 0.99
Adjusting items [1]		**(0.34)**	0.28
Adjusted diluted earnings per share [1]		**$ 1.17**	$ 1.26

(1) Refer to the non-GAAP financial measures section.
(2) Also referred to as Transaction and Integration Costs (T&I Costs).
(3) The impact of adjusting items on a per share basis does not add due to rounding for the quarter ended October 31, 2011.

TOTAL REVENUE

Total revenue increased $28.0 million or 15% to $210.4 million in the fourth quarter of 2012, compared with $182.4 million in the fourth quarter of 2011. The contribution from AGF Trust to total revenue amounted to $20.0 million for the fourth quarter of 2012, and the contribution from the MRS Companies amounted to $10.3 million, with the Bank's comparable revenue base essentially unchanged year-over-year.

Net interest income was up 13% to $142.4 million for the fourth quarter of 2012, from $126.4 million in the fourth quarter of 2011, as significant loan and deposit growth year-over-year, both organic and from acquisitions, more than compensated for lower margins. When compared to the fourth quarter of 2011, margins decreased by 14 basis points to 1.62% in the fourth quarter of 2012. During the quarter, the net interest margin continued to be adversely impacted by the very low interest rate environment and relatively high liquidity levels due to the acquisition of AGF Trust and the Bank's recent issuance of subordinated debt and preferred shares. In this context, the addition of $3.3 billion of higher-yielding loans in the AGF Trust portfolios provided support. Other income totalled $68.0 million in the fourth quarter of 2012, compared to $56.0 million in the fourth quarter of 2011, a $12.0 million or 21% year-over-year increase. This includes a $6.7 million contribution to other income from the MRS Companies, largely from investment account fees. Higher income from brokerage operations, higher fees and commissions on loan and deposits, and higher card service revenues have also contributed to the increase year-over-year.

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

The gain on acquisition and ensuing amortization of net premium on purchased financial instruments amounted to $23.8 million in the fourth quarter of 2012, as noted on page 42.

PROVISION FOR LOAN LOSSES

The provision for loan losses decreased by $5.0 million or 38% to $8.0 million in the fourth quarter of 2012, including a $3.1 million provision related to the acquired AGF Trust portfolio, from $13.0 million in the fourth quarter of 2011. This significant improvement reflects continued excellent credit conditions in the Canadian market and the quality of the Bank's loan portfolios, as well as a continued prudent approach to loan provisioning.

NON-INTEREST EXPENSES

Non-interest expenses totalled $165.4 million for the fourth quarter of 2012, compared to $137.2 million for the fourth quarter of 2011. Non-interest expenses during the fourth quarter of 2012 include T&I Costs of $8.8 million and operating expenses related to the MRS Companies of $8.8 million and to AGF Trust of $8.3 million while non-interest expenses in the fourth quarter of 2011 included T&I Costs of $9.0 million.

Salaries and employee benefits increased by $16.7 million or 24% to $87.1 million compared to the fourth quarter of 2011, mainly due to increased headcount from the acquisition of the MRS Companies and AGF Trust. Premises and technology costs increased by $3.7 million to $39.1 million compared to the fourth quarter of 2011. This increase is mainly due to rental and IT costs for the MRS Companies and AGF Trust. Other non-interest expenses increased by $8.0 million to $30.3 million for the fourth quarter of 2012, from $22.3 million for the fourth quarter of 2011. Other non-interest expenses of the MRS Companies and AGF Trust amounted to $5.5 million in the fourth quarter of 2012. The remaining increase is mainly attributable to higher professional service fees related to various initiatives, including costs incurred to initiate the process to adopt the internal ratings based approach under Basel II, as well as other regulatory compliance projects. Higher advertising expenses compared to last year, related to reward points and the changeover from B2B Trust to B2B Bank and higher GST/HST and capital taxes also contributed to the overall increase. In light of a slower revenue growth environment, the Bank continued to exercise disciplined control over expenses.

T&I Costs for the fourth quarter of 2012 totalled $8.8 million and mainly related to IT systems conversion and communication expenses for the integration of the MRS Companies and also included severance and other transaction costs related to AGF Trust of $2.4 million. A year ago, T&I Costs were mainly composed of a $7.7 million compensation expense for the termination in 2012 of a mutual fund distribution agreement.

INCOME TAXES

For the quarter ended October 31, 2012, the income tax expense was $15.1 million and the effective tax rate was 24.9% (and 21.1% on an adjusted basis). The lower tax rate, compared to the statutory rate, mainly resulted from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income and the lower taxation level on revenues from insurance operations. For the quarter ended October 31, 2011, the income tax expense was $5.6 million and the effective tax rate was 17.2% (19.1% on an adjusted basis). Year-over-year, the higher income tax rate for the fourth quarter ended October 31, 2012 results from the lower proportion of revenues from insurance operations and non-taxable dividends considering the gain on acquisition of AGF Trust, partly offset by the 1.5% reduction in Federal income tax rates, effective this year.

ANALYSIS OF THE EVOLUTION OF THE QUARTERLY RESULTS

The Bank's intermediation business provides a relatively steady source of income, stemming from large volumes of loans, deposits and investment accounts not likely to experience significant fluctuations in the short term. However, treasury operations and certain activities related to financial markets, such as trading activities, may result in significant volatility. In addition, variations in market interest rates or equity markets or credit conditions also influence the Bank's results. Other transactions such as business acquisitions, specific events or regulatory developments may also significantly impact revenues and expenses. Given that the second quarter usually consists of only 89 days (90 days in 2012), compared with 92 days for the other quarters, net interest income for that quarter is generally lower. The following table summarizes quarterly results for fiscal 2012 and 2011.

TABLE 18

QUARTERLY RESULTS

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

				2012				2011
	Oct. 31	**July 31**	**April 30**	**Jan. 31**	Oct. 31	July 31	April 30	Jan. 31
Net interest income	**$142,411**	**$129,664**	**$128,324**	**$130,629**	$126,391	$129,426	$122,065	$126,603
Other income	**67,985**	**64,169**	**70,346**	**63,115**	56,031	56,407	61,172	60,252
Total revenue	**210,396**	**193,833**	**198,670**	**193,744**	182,422	185,833	183,237	186,855
Gain on acquisition and amortization of net premium on purchased financial instruments	**23,795**	**–**	**–**	**–**	–	–	–	–
Provision for loan losses	**8,000**	**7,500**	**7,500**	**10,000**	12,999	14,640	11,984	11,457
Non-interest expenses	**156,547**	**141,798**	**143,761**	**140,360**	128,146	133,896	131,986	127,077
Costs related to business combinations and other [2]	**8,830**	**7,157**	**3,350**	**2,660**	9,006	–	–	–
Income before income taxes	**60,814**	**37,378**	**44,059**	**40,724**	32,271	37,297	39,267	48,321
Income taxes	**15,129**	**7,380**	**10,196**	**9,762**	5,562	8,225	8,251	11,401
Net income	**$ 45,685**	**$ 29,998**	**$ 33,863**	**$ 30,962**	$ 26,709	$ 29,072	$ 31,016	$ 36,920
Earnings per share								
Basic	**$ 1.51**	**$ 1.06**	**$ 1.22**	**$ 1.16**	$ 0.99	$ 1.09	$ 1.17	$ 1.41
Diluted	**$ 1.51**	**$ 1.06**	**$ 1.22**	**$ 1.16**	$ 0.99	$ 1.08	$ 1.17	$ 1.41
Net interest margin [1]	**1.62%**	**1.66%**	**1.73%**	**1.75%**	1.76%	1.83%	1.83%	1.86%
Return on common shareholders' equity [1]	**14.2%**	**10.1%**	**12.0%**	**11.5%**	9.9%	11.2%	12.7%	15.2%
Segment net income (loss)								
Retail & SME-Québec	**$ 9,293**	**$ 13,535**	**$ 10,658**	**$ 10,421**	$ 12,594	$ 14,745	$ 11,518	$ 13,034
Real Estate & Commercial	**16,729**	**15,951**	**16,969**	**14,306**	13,408	9,826	13,205	14,598
B2B Bank	**25,193**	**7,255**	**8,129**	**8,871**	8,731	10,879	10,468	10,777
Laurentian Bank Securities & Capital Markets	**2,692**	**1,176**	**2,779**	**1,875**	131	686	2,732	2,722
Other	**(8,222)**	**(7,919)**	**(4,672)**	**(4,511)**	(8,155)	(7,064)	(6,907)	(4,211)
Net income	**$ 45,685**	**$ 29,998**	**$ 33,863**	**$ 30,962**	$ 26,709	$ 29,072	$ 31,016	$ 36,920
Adjusted measures								
Adjusted net income [1]	**$ 36,186**	**$ 35,253**	**$ 36,302**	**$ 32,919**	$ 33,375	$ 29,072	$ 31,016	$ 36,920
Adjusted diluted earnings per share [1]	**$ 1.17**	**$ 1.27**	**$ 1.31**	**$ 1.24**	$ 1.26	$ 1.08	$ 1.17	$ 1.41
Adjusted return on common shareholders equity [1]	**10.9%**	**12.1%**	**13.0%**	**12.4%**	12.7%	11.2%	12.7%	15.2%

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

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

Over the past eight quarters, net income, mainly on an adjusted basis, has generally trended upward, driven mainly by sustained growth in loan and deposit portfolios combined with overall improvements in credit quality. Furthermore, certain specific factors, as detailed below, have affected results during fiscal 2012 and 2011.

2012

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

2011

- In the three last quarters of 2011, net interest income decreased, as strong loan and deposit growth year-over-year did not fully offset lower interest margins resulting from competition in many markets and the low interest rate environment.
- Laurentian Bank Securities & Capital Markets results for the third and fourth quarter were negatively affected by unfavourable market conditions creating a difficult environment for underwriting and trading activities, resulting in lower brokerage and trading revenues.
- On October 14, 2011, the Bank entered into a non-exclusive distribution agreement for a preferred series of LBC-Mackenzie mutual funds as of January 2012. As a result, in the fourth quarter of 2011, the Bank accrued a $7.7 million compensation for the termination in 2012 of a mutual fund distribution agreement.

ANALYSIS OF FINANCIAL CONDITION

Over the past three years, the sustained organic growth in the Bank's businesses, enhanced by business acquisitions in 2012, has steadily increased its earnings, grown its balance sheet and reinforced its capital. In 2012, the Bank prudently raised its capital level to support a significant increase in its balance sheet and maintain a strong capital position. This provides the Bank with the added flexibility to pursue its growth initiatives and to meet increased regulatory capital requirements in 2013.

As at October 31, 2012, the Bank reported total assets of $34.9 billion, compared with $29.0 billion as at October 31, 2011, as shown in Table 19. These changes are explained in the following sections of this MD&A.

TABLE 19

BALANCE SHEET ASSETS

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

	2012	2011	2010 [1]	VARIANCE 12/11
Cash, deposits with other banks and securities	**$ 6,714,004**	$ 5,542,925	$ 4,991,381	21%
Securities purchased under reverse repurchase agreements	**631,202**	720,317	994,674	(12)
Loans				
Personal	**7,806,067**	5,774,207	5,636,203	35
Residential mortgage	**14,169,095**	11,869,412	10,859,647	19
Commercial mortgage	**2,443,634**	2,363,808	2,166,375	3
Commercial and other	**2,150,953**	1,900,977	1,691,190	13
Customers' liabilities under acceptances	**211,130**	179,140	165,450	18
	26,780,879	22,087,544	20,518,865	21
Allowances for loan losses	**(117,542)**	(143,150)	(131,567)	(18)
Total loans	**26,663,337**	21,944,394	20,387,298	22
Other assets	**928,283**	755,574	681,972	23
Balance sheet assets	**$34,936,826**	$28,963,210	$27,055,325	21%
Cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements as a % of balance sheet assets	**21.0%**	21.6%	22.1%	
Total net loans and acceptances as a % of balance sheet assets	**76.3%**	75.8%	75.4%	

(1) In accordance with IFRS as at November 1, 2010.

LIQUID ASSETS

Liquid assets consist of cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements. As at October 31, 2012, these assets totalled $7.3 billion, an increase of $1.1 billion compared to $6.3 billion as at October 31, 2011, a relatively high liquidity level due to the acquisition of AGF Trust and related common share issuance in the fourth quarter of 2012, as well as the Bank's recent issuance of subordinated debt and preferred shares. Overall, the level of liquid assets progressively increased throughout the year, as the Bank maintained diverse funding sources, issued capital instruments prior to Basel III implementation and continued to prudently manage its capital and liquidity levels to support the growth in business activity.

As at October 31, 2012, securities amounted to $6.1 billion, including a portfolio of available-for-sale securities totalling $2.8 billion. Net unrealized gains, included in accumulated other comprehensive income, amounted to $23.5 million as at October 31, 2012.

Additional information on liquidity and funding risk management is included on page 66 of this MD&A.

LOAN PORTFOLIO

Total loans and bankers' acceptances stood at $26.8 billion as at October 31, 2012, a significant increase of $4.7 billion or 21% from $22.1 billion as at October 31, 2011. The Bank recorded another year of strong organic loan growth totalling $1.2 billion in 2012, while the acquisition of the MRS Companies and AGF Trust respectively added $0.3 billion and $3.2 billion to the loan portfolio. Despite headwinds from intense competition throughout the year and recent tightening of mortgage lending rules in Canada, the Bank's efforts and niche approach generated loan growth across all of its business lines, helped by continued favourable market conditions.

Residential mortgage loans stood at $14.2 billion as at October 31, 2012 and increased by $2.3 billion in 2012, including $1.2 billion related to the acquisition of AGF Trust and $1.0 billion resulting from organic growth. The Bank's targeted approach to meet its customers' needs contributed to maintain the growth momentum in this loan portfolio in 2012, reflecting the Bank's strength in the retail market.

Personal loans increased by $2.0 billion or 35% since October 31, 2011, as investment loans and home-equity lines of credit (HELOCs) of $2.2 billion acquired through the MRS Companies and AGF Trust transactions were slightly offset by run-offs of $114.2 million in point-of-sale financing.

Commercial loans, including bankers' acceptances, increased by $282.0 million or 14% from October 31, 2011 while commercial mortgage loans grew by $79.8 million or 3% over the same period, despite loan sales of $85.2 million in 2012.

Impaired loans

Gross impaired loans decreased to $128.0 million in 2012 from $163.7 million in 2011. The decrease in impaired loans reflects the overall improvement in credit quality during the year, notably in the commercial loan portfolio. This was partly offset by the increased volume in the retail portfolio, although purchased loans are not be considered impaired on the acquisition date. Net impaired loans amounted to $10.5 million as at October 31, 2012, compared to $20.6 million as at October 31, 2011, reflecting a higher level of allowances. No allowances were recorded on the purchased $3.2 billion AGF Trust loan portfolio as at the acquisition date. See Note 6 to the annual consolidated financial statements for additional information.

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

OTHER ASSETS

Other assets increased 23% to $928.3 million as at October 31, 2012 from $755.6 million as at October 31, 2011. The year-over-year increase mainly resulted from a higher level of prepaid services and capital expenditures related to IT development projects, including investments in the acquired dealer account management system. Goodwill and intangible assets arising on the acquisition of the MRS Companies also contributed to this increase. This was offset by changes in the fair value of derivatives, which are mainly used to hedge the Bank's exposure to market risks.

DEPOSITS

The deposit portfolio was up 20% or $4.0 billion to $24.0 billion as at October 31, 2012 from $20.0 billion as at October 31, 2011. During the year, the Bank grew its deposit base, both from strategic acquisitions and organic growth, and despite the very low interest rate environment and intense competition in the retail market. Personal deposits increased by $3.8 billion or 24% from October 31, 2011 and stood at $19.4 billion as at October 31, 2012 including $0.7 billion resulting from the acquisition of the MRS Companies, $2.8 billion resulting from the acquisition of AGF Trust, and $0.3 billion generated from organic growth. Excluding the effect of acquisitions, personal deposits, particularly advisor-sourced deposits, grew at a moderate pace, as the Bank relied more heavily on other funding sources such as securitization and capital instruments to support its acquisitions and the organic growth of its loan portfolio throughout the year. Nonetheless, the Bank continued to focus on maintaining its privileged access to the retail market through its Retail & SME-Québec and B2B Bank business segments, a significant asset in light of proposed future increases in regulatory liquidity requirements. Business and other deposits, which include institutional deposits, were up $0.3 billion or 6% from October 31, 2011 to $4.7 billion as at October 31, 2012. During the second quarter of 2012, the Bank raised $200.0 million of three-year senior deposit notes to maintain prudent liquidity. The Bank remains committed to maintain its presence in the institutional money market, since it can provide additional flexibility in funding.

Additional information on deposits and other funding sources is included in the Liquidity and Funding Risk Management sub-section of the Integrated Risk Management Framework section.

OTHER LIABILITIES

Other liabilities were up marginally to $2.9 billion as at October 31, 2012 from $2.7 billion as at October 31, 2011. The year-over-year increase resulted mainly from higher obligations related to securities sold under repurchase agreements.

DEBT RELATED TO SECURITIZATION ACTIVITIES

Debt related to securitization activities increased by $1.3 billion from October 31, 2011 and stood at $6.0 billion as at October 31, 2012, including $0.7 billion resulting from the acquisition of AGF Trust. During the year, the Bank securitized and legally sold $776.3 million of residential mortgage loans, including $207.0 million securitized in the fourth quarter of 2012 through a new multi-seller conduit. In addition, loans totalling $767.0 million were sold as securities held to manage the maturity mismatch of the securitization swap agreements (Replacement Assets) during the year. For additional information on the Bank's debt related to securitization activities, please refer to Note 14 to the annual consolidated financial statements.

SUBORDINATED DEBT

As at October 31, 2012, subordinated debt increased to $443.6 million, compared with $242.6 million as at October 31, 2011. On October 19, 2012 the Bank completed the issuance of $200.0 million Medium Term Notes (Subordinated Indebtedness) Series 2012-1, due October 19, 2022. The subordinated debt is an integral part of the Bank's regulatory capital and affords its depositors additional protection.

SHAREHOLDERS' EQUITY

Shareholders' equity was $1,541.1 million as at October 31, 2012, compared with $1,218.3 million as at October 31, 2011. The 26% increase mainly resulted from common and preferred share issuances in 2012. Internal capital generation, which more than offset the decrease in accumulated other comprehensive income (AOCI), also contributed to the increase in shareholders' equity. The Capital management section provides additional information on the capital transactions of 2012 and other capital-related matters.

The Bank's book value per common share, excluding AOCI, appreciated to $42.81 as at October 31, 2012 from $39.59 as at October 31, 2011. The table below provides the details of the share capital.

TABLE 20

SHARES ISSUED AND OUTSTANDING

As at November 30, 2012 (in number of shares/options)

Preferred shares	
Series 9	4,000,000
Series 10	4,400,000
Series 11	4,000,000
Total preferred shares	12,400,000
Common shares	28,117,520
Options	50,000

OFF-BALANCE SHEET ARRANGEMENTS

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

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

Assets under administration and assets under management mainly include assets of clients to whom the Bank provides various administrative services, as well as commercial mortgage loans managed for third parties. Through its subsidiary Laurentian Bank Securities, the Bank also manages retail and institutional investment portfolios. Table 21 below summarizes assets under administration and assets under management. As at October 31, 2012, these items totalled $33.0 billion, up $20.9 billion compared with October 31, 2011. Fees, commissions and other income related to these assets contribute significantly to the Bank's profitability.

TABLE 21

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

As at October 31 (in thousands of Canadian dollars)

	2012	2011
Registered and non-registered investment accounts	**$28,206,015**	$ 7,616,790
Clients' brokerage assets	**2,253,599**	2,153,893
Mutual funds	**2,110,528**	1,864,577
Mortgage loans under management	**346,436**	300,134
Institutional assets	**76,912**	115,130
Other – Personal	**14,277**	25,382
Total – assets under administration and assets under management	**$33,007,767**	$12,075,906

Assets related to registered and non-registered investment accounts increased by $20.6 billion compared with last year, essentially as a result of the acquisition of the MRS Companies. With this acquisition, B2B Bank now delivers a wide range of investment products and services, to more than 300,000 investors, through its association with more than 27,000 independent advisors and their dealers, across Canada.

Clients' brokerage assets increased by $99.7 million or 5%, as a result of better market performance in 2012 and business development activities.

Mutual fund assets under administration increased by $246.0 million or 13% during fiscal 2012. The new distribution agreement of a preferred series of LBC-Mackenzie mutual funds signed at the beginning of the year, combined with the Bank's efficient distribution network and overall good market conditions in 2012, resulted in strong volume growth over the last twelve months.

Mortgage loans under management were up $46.3 million or 15%, as increased level of commercial mortgage loans sold during fiscal 2012 more than offset maturities and pre-payments on mortgage loans sold in prior years.

DERIVATIVES

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

All derivatives are recorded in the balance sheet at fair value. Derivative values are calculated using notional amounts. However, these amounts are not recorded in the balance sheet, as they do not represent the actual amounts exchanged. Likewise, notional amounts do not reflect the credit risk related to derivatives, although they serve as a reference for determining the amount of cash flows to be exchanged. The notional amounts of the Bank's derivatives totalled $16.1 billion as at October 31, 2012 with a net positive fair value at $66.8 million.

Notes 24 to 26 to the annual consolidated financial statements provide further information on the various types of derivative products and their recognition in the consolidated financial statements.

SECURITIZATION ACTIVITIES

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

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

The Bank securitizes residential mortgage loans primarily by participating to the Canada Mortgage Bonds Program (CMB Program) developed by the Canada Mortgage and Housing Corporation (CMHC) 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 (for loans sold to multi-seller conduits only) related to the transferred mortgage loans, these are not derecognized and the securitization proceeds are recorded as securitization liabilities. In effect, the securitization activities carried by the Bank, although using special purpose entities which are not as such consolidated, are nonetheless reflected on-balance sheet.

As at October 31, 2012 the carrying amount of residential mortgage loans securitized and legally sold as part of the CMB Program amounted to $3.6 billion ($3.4 billion as at October 31, 2011) and the carrying amount of Replacement Assets amounted to $1.5 billion ($1.3 billion as at October 31, 2011). As at October 31, 2012, the carrying amount of securitized residential mortgage loans legally sold to multi-seller conduits amounted to $0.9 billion (35.8 million as at October 31, 2011). The securitization liability related to these transactions amounted to $6.0 billion as at October 31, 2012 ($4.8 billion as at October 31, 2011).

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

Notes 7, 14 and 28 to the annual consolidated financial statements provide additional information on these transactions.

CREDIT COMMITMENTS AND GUARANTEES

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

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

See Note 28 to the annual consolidated financial statements for further information.

TABLE 22

CREDIT COMMITMENTS AND GUARANTEES

As at October 31 (in thousands of Canadian dollars)

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

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

CAPITAL MANAGEMENT

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

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

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

REGULATORY CAPITAL

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

Regulatory capital requirements impose minimum levels of capital that have to be taken into consideration with the other factors mentioned above when assessing the Bank's capital adequacy. Under BCBS standards, banks must maintain a minimum Tier 1 capital ratio of 4% and a total capital ratio of at least 8%. OSFI requires that Canadian deposit-taking financial institutions maintain a minimum Tier 1 capital ratio of 7% and a total capital ratio of at least 10%. As at October 31, 2012, these ratios stood at 10.9% and 14.7% respectively for the Bank.

The Bank opted for the Standardized Approach in determining credit risk capital and to account for operational risk. In 2012, the Bank initiated the process to adopt the advanced internal ratings based (AIRB) approach to determine credit risk capital under Basel II. Currently, the Bank's capital measures under the Standardized Approach are not calculated on the same basis as its industry peers, as the AIRB approach is predominantly used in Canadian financial institutions. The Bank's adoption of the AIRB approach should strengthen its credit risk management, improve comparability, optimize regulatory capital and provide a level-playing field for underwriting activities.

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

SIGNIFICANT CHANGES IN 2012

Transition to IFRS

The IFRS conversion had a significant impact on the Bank's shareholders' equity, as new accounting standards led to a reduction of retained earnings of $135.2 million. Considering that the Bank had a strong capital position at the transition date, no specific measures were necessary to address the effect on regulatory capital ratios. Moreover, earlier in 2011, the Bank elected to phase-in the effect of the adjustments over a five-quarter period for purposes of calculating ratios, as permitted by OSFI. Excluding the remaining transitional provision of $27.2 million as at October 31, 2012, the Tier 1 capital ratio and total capital ratio would have been 10.7% and 14.5%, respectively.

Upon adoption of IFRS on November 1, 2011, the Bank's assets increased by the amount of securitized residential mortgage loans and replacements assets under administration. For purposes of the Asset to Capital Multiple (ACM) calculation, securitized mortgages sold through the CMB program on or before March 31, 2010 were excluded as permitted by OSFI. However, securitized mortgages sold after that date are now included in the ACM calculation and contributed to the increase in the ACM, which stood at 16.3 as at October 31, 2012.

Acquisition of the MRS Companies and AGF Trust Company

As part of the business acquisition process, thorough analyses are completed to identify potential capital implications and to draw plans to ensure that an adequate level of capital is maintained. The acquisitions of the MRS Companies and AGF Trust significantly increased the Bank's balance sheet and risk-weighted assets for regulatory capital ratios calculation purposes. Although no immediate specific measures were taken for the MRS Companies acquisition, the Bank completed a private placement of common shares with the Caisse de dépôt et placement du Québec and the Fonds de solidarité FTQ for net proceeds of $115.0 million simultaneously with the closing of the AGF Trust acquisition to strengthen its capital.

Issuance of common shares, preferred shares and Medium Term Notes

Earlier this year, in February, the Bank had completed a common share issue for net proceeds of $60.9 million, consistent with its prudent approach to managing capital and objective to maintain capital ratios above new regulatory requirements as detailed below.

In addition, in October 2012, the Bank completed the issuance of $200.0 million principal Medium Term Notes (Subordinated Indebtedness) Series 2012-1 and $100.0 million preferred share Series 11. These issuances optimize the Bank's capital structure ahead of the onset of Non-Viability Contingent Capital requirements under Basel III and support its future balance sheet expansion.

PROPOSAL FOR NEW CAPITAL AND LIQUIDITY REGULATORY MEASURES

In August 2012, OSFI issued its draft capital adequacy requirements guideline drawn on the BCBS capital guidelines, commonly referred to as Basel III. These new requirements will take effect in January 2013 and will generally provide more stringent capital adequacy standards. In its draft guideline, OSFI indicated that it expects deposit-taking institutions to meet the Basel III capital requirements early in the Basel III transition period beginning January 1, 2013, including a new minimum 7% Common Equity Tier 1 ratio target (4.5% minimum plus 2.5% capital conservation buffer).

These guidelines provide additional guidance regarding the treatment of non-qualifying capital instruments and specify that certain capital instruments will no longer qualify fully as capital beginning on January 1, 2013. The Bank's non-common capital instruments will be considered non-qualifying capital instruments under Basel III and will therefore be subject to a 10% phase-out per year beginning in 2013. These non-common capital instruments include Series 9, 10 and 11 preferred shares, as well as Series 2010-1 and 2012-1 subordinated Medium Term Notes.

Considering the Bank's capital position and the nature of its operations, and based on current understanding of the Basel III rules, management believes that the Bank is well positioned to meet upcoming capital requirements. The pro forma Common Equity Tier 1 ratio, as at October 31, 2012, stood at 7.4% when applying the full Basel III rules applicable in 2019 (i.e., without transition arrangements). Given the evolving nature of international capital rules and the projected outlook for balance sheet expansion, the Bank will nonetheless remain cautious with respect to capital deployment.

In December 2009, the BCBS published proposals on new liquidity requirements, which introduced new global liquidity standards. Updates were also published in 2010, providing additional information. At this stage, it is still too early to determine their definitive impact on liquidity requirements, considering the proposals are yet to be finalized at both the international (BCBS) and national (OSFI) levels and may further change between now and when the final rules take effect. Nevertheless, the Bank initiated in 2012 a gap analysis to highlight anticipated differences between the current liquidity requirements and its liquidity data and reporting systems.

TABLE 23

RISK-WEIGHTED ASSETS

As at October 31 (in thousands of Canadian dollars)

2012

	0%	20%	35%	50%	75%	100%	150%	225%	TOTAL	RISK-WEIGHTED ASSETS
Exposure class										
Corporate	$ –	$ 143,274	$ –	$62,978	$ –	$4,496,408	$14,748	$ –	$ 4,717,408	$ 4,578,674
Sovereign	5,197,071	227,294	–	–	–	–	–	–	5,424,365	45,459
Bank	–	774,649	–	–	–	443	–	–	775,092	155,373
Retail residential mortgage loans	8,427,180	–	5,709,414	–	28,627	23,527	–	–	14,188,748	2,043,292
Other retail	695,949	–	–	–	3,451,949	15,307	–	–	4,163,205	2,604,269
Small business entities treated as other retail	89,470	–	–	–	1,157,776	47,598	–	–	1,294,844	915,930
Equity	–	–	–	–	–	348,663	–	–	348,663	348,663
Securitization	–	55,312	–	7,196	–	183	–	2,132	64,823	19,640
Other assets	82,544	123,866	–	–	–	646,744	–	–	853,154	671,517
	14,492,214	1,324,395	5,709,414	70,174	4,638,352	5,578,873	14,748	2,132	31,830,302	11,382,817
Derivatives	3,741	235,759	–	–	–	10,494	–	–	249,994	57,646
Credit-related commitments	33,608	9,000	–	–	–	600,921	–	–	643,529	602,720
Operational risk										1,393,250
	$14,529,563	$1,569,154	$5,709,414	$70,174	$4,638,352	$6,190,288	$14,748	$2,132	$32,723,825	$13,436,433

Balance sheet items	
Cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements	$ 725,449
Personal loans	2,996,307
Residential mortgage loans	2,536,591
Commercial mortgage loans, commercial loans and acceptances	4,569,207
Other assets	555,263
	$11,382,817

2011[1]

	0%	20%	35%	50%	75%	100%	150%	225%	TOTAL	RISK-WEIGHTED ASSETS
Exposure class										
Corporate	$ 1,544	$ 42,297	$ –	$59,791	$ –	$4,142,379	$9,910	$ –	$ 4,255,921	$ 4,195,599
Sovereign	3,544,374	255,875	–	–	–	–	–	–	3,800,249	51,175
Bank	–	396,122	–	–	–	–	–	–	396,122	79,224
Retail residential mortgage loans	4,062,669	–	4,202,215	–	–	44,114	–	–	8,308,998	1,514,889
Other retail	697,649	–	–	–	2,358,500	9,575	–	–	3,065,724	1,778,450
Small business entities treated as other retail	88,901	–	–	–	1,097,389	–	–	–	1,186,290	823,042
Equity	–	–	–	–	–	326,422	–	–	326,422	326,422
Securitization	–	26,366	–	24	–	2,816	–	1,788	30,994	12,124
Other assets	70,653	128,904	–	–	–	490,024	–	–	689,581	515,805
	8,465,790	849,564	4,202,215	59,815	3,455,889	5,015,330	9,910	1,788	22,060,301	9,296,730
Derivatives	–	359,411	–	–	–	22,127	–	–	381,538	94,009
Credit-related commitments	33,678	6,000	–	–	–	520,944	–	–	560,622	522,144
Operational risk										1,159,088
	$8,499,468	$1,214,975	$4,202,215	$59,815	$3,455,889	$5,558,401	$9,910	$1,788	$23,002,461	$11,071,971

Balance sheet items	
Cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements	$ 588,745
Personal loans	2,076,397
Residential mortgage loans	2,482,595
Commercial mortgage loans, commercial loans and acceptances	3,631,925
Other assets	517,068
	$ 9,296,730

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

TABLE 24

REGULATORY CAPITAL

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

	2012	2011 [1]	VARIANCE 12/11
Tier 1 capital			
Common shares	$ 428,526	$ 259,492	65%
Share-based payment reserve	227	227	–
Retained earnings	774,899	818,207	(5)
Non-cumulative preferred shares	303,249	210,000	44
Goodwill	(64,077)	(53,790)	19
Securitization-related and other deductions	(9,764)	(16,911)	(42)
	1,433,060	1,217,225	18
Adjustment for transition to measurement base under IFRS	27,193	–	n.a.
Total Tier 1 capital (A)	1,460,253	1,217,225	20
Tier 2 capital			
Subordinated debt	443,594	242,512	83
Collective allowances	75,752	73,602	3
Securitization-related and other deductions	(5,539)	(16,499)	(66)
Total Tier 2 capital	513,807	299,615	71
Total regulatory capital – BIS (B)	$ 1,974,060	$ 1,516,840	30%
Total risk-weighted assets (C)	$13,436,433	$11,071,971	
Tier 1 BIS capital ratio (A/C)	10.9%	11.0%	
Total BIS capital ratio (B/C)	14.7%	13.7%	
Assets to capital multiple	16.3x	16.2x	

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

DIVIDENDS

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

On December 5, 2012, the Bank announced the introduction of its Shareholder Dividend and Share Purchase Plan. The plan offers eligible Canadian shareholders of both the Bank's common shares and Class A Preferred Shares the opportunity to have their regular quarterly cash dividends automatically reinvested in additional common shares of the Bank. At its meeting held on December 5, 2012, the Board of Directors approved a $0.02 per share increase to the quarterly dividend on common shares and thus declared a dividend of 0.49$ per common share, and elected to issue common shares under the plan from treasury at a 2% discount from the average market price.

DIVIDENDS DECLARED PER COMMON SHARE
(in Canadian dollars)

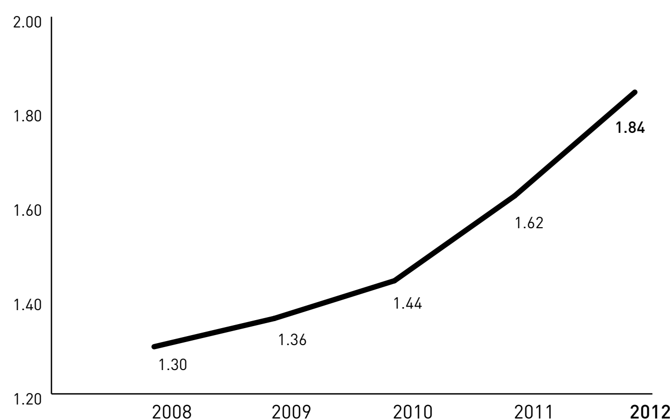


TABLE 25

SHARE DIVIDENDS AND PAYOUT RATIO

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

	2012	2011	2010 [1]
Dividends declared on preferred shares	$11,775	$11,775	$11,775
Dividends declared per common share	$1.84	$1.62	$1.44
Dividends declared on common shares	$47,212	$38,757	$34,446
Payout ratio [2]	37.0%	34.8%	31.1%

(1) In accordance with previous CGAAP.
(2) Refer to the non-GAAP financial measures section.

INTEGRATED RISK MANAGEMENT FRAMEWORK

Risk management is essential for the Bank to achieve its financial objectives and protect its reputation. In this context, and to enable senior management to assure the existence of sound practices favourable to efficient and prudent management of its operations and major risks, the Bank has developed an Integrated Risk Management Framework (the "Risk Framework").

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

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

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

RISK APPETITE

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

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

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

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

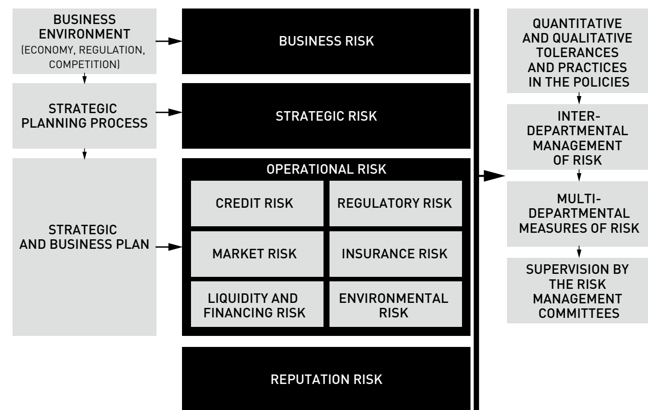
Risk capacity is determined by the availability of resources to assess and mitigate the risks as well as absorbing significant losses.

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

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

RISK MANAGEMENT PROCESS

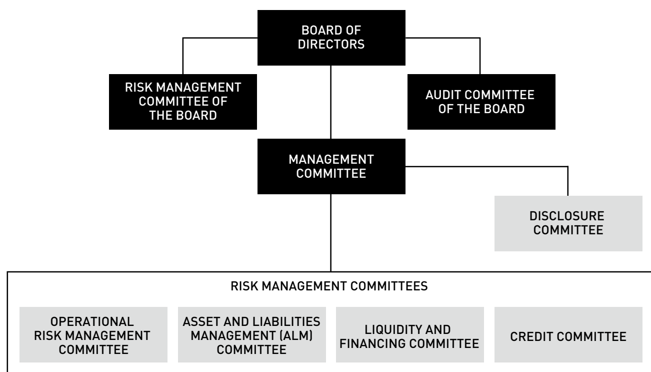
The Bank's risk management process, as illustrated below, is closely tied to the strategic planning process from which the Bank's strategic and business plan is defined. Policies approved by the Board describe tolerances, measures and responsibilities for each significant risk. These policies are implemented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



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

GOVERNANCE STRUCTURE

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



ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS' COMMITTEES

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

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

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

ROLES AND RESPONSIBILITIES OF INTERNAL RISK MANAGEMENT COMMITTEES

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

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

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

The **ALM Committee** is responsible for assuring compliance with the interest rate structural risk management limits. It recommends hedging strategies to maintain the risk level within the Board's approved limits.

The **Liquidity and financing Committee** supervises liquidity management at the subsidiary and Bank level. It is also responsible for managing the Bank's financing needs and reviewing the liquidity contingency plan.

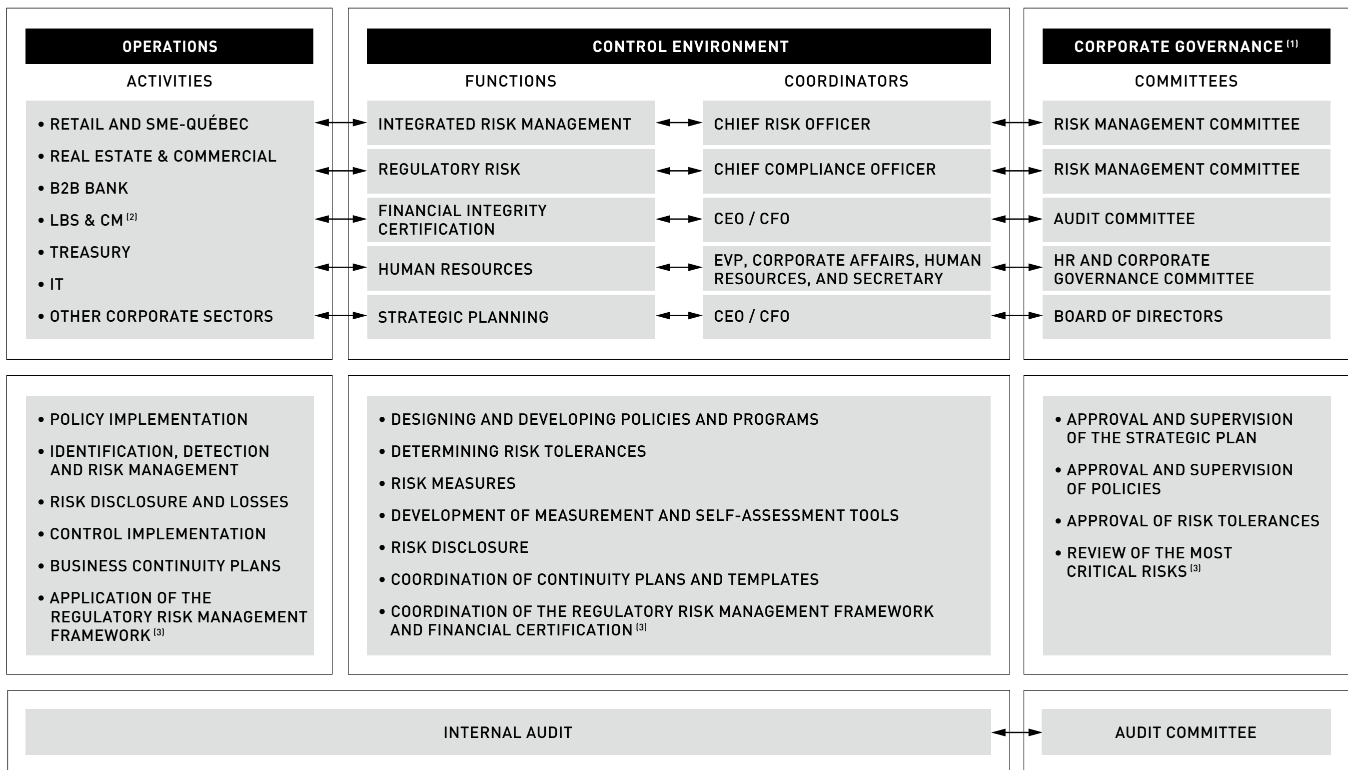
The **Disclosure Committee** is responsible for reviewing and approving the Bank's financial information subject to public or regulatory disclosure. The Disclosure Committee also elaborates the related communication strategies.

GOVERNANCE FUNCTIONS SUPPORTING INTEGRATED RISK MANAGEMENT

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

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

CORPORATE CONTROL AND GOVERNANCE STRUCTURE



(1) Corporate governance provided by the Board of Directors and its committees.
(2) Laurentian Bank Securities and Capital Markets
(3) This list of functions is not exhaustive.

STRATEGIC AND BUSINESS RISK MANAGEMENT

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

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

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

CREDIT RISK MANAGEMENT

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

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

The authorization process for loans and counterparties is centralized. The Bank uses expert systems to support the decision-making process for most underwriting for consumer credit, residential mortgage loans and credit cards, as well as small commercial loans. With regard to commercial loans, applications are also analyzed on a case-by-case basis by specialized teams. Through its Credit Risk Management Department, the Bank monitors its financial instrument portfolios on a qualitative and quantitative basis through: [i] mechanisms and policies governing the review of the various types of files; [ii] risk rating systems, and [iii] pricing analysis. Each month, the Bank's Credit Committee reviews impaired loans and performs high-level analyses on loans where payment is past due by 90 days or more. Collection processes are centralized and are based on specialized expertise.

The Bank has various risk management tools at its disposal. These include a 19-level risk rating system used to evaluate all types of commercial credit. Above a specific rating, files are considered to be under credit watch and are managed according to specific procedures. With regard to the portfolios' quality, a loan is considered impaired when interest payments

are past due by three months or more, or if senior management considers that there is reasonable doubt that all principal will be repaid at maturity.

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

In addition to individual allowances, the Bank maintains collective allowances to cover impairment for all individually insignificant loans as well as loans that have been assessed for impairment individually and found not to be impaired. The collective allowances cover impairment due to incurred but not identified loss events for which there is objective evidence but whose effects are not yet evident. To establish collective allowances, the Bank uses 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. Additional information on impaired loans and allowances is provided in Tables 26 and 27.

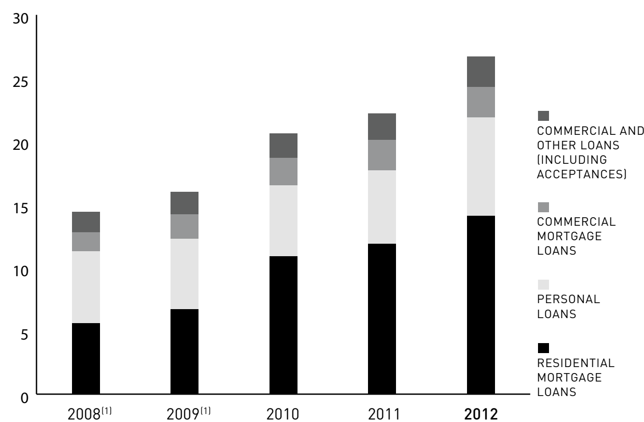
Diversification is one of the fundamental principles of risk management. To this effect, the Credit Policy establishes guidelines to limit concentration of credit by counterparty and sector of activity, and identifies sectors considered risky and thus to be avoided. The loan portfolio mix is detailed in the following graphs.

Loan portfolio mix

The Bank's loan portfolio consists of personal loans, residential mortgage loans, commercial mortgage loans and commercial loans, including bankers' acceptances. The acquisition of significant volumes of personal and residential mortgages loans in 2012 slightly shifted the weight of these portfolios in the loan portfolio mix as at October 31, 2012 when compared with a year ago. Residential mortgage loans mainly include retail mortgage loans.

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

LOAN PORTFOLIO MIX
(in billions of Canadian dollars)

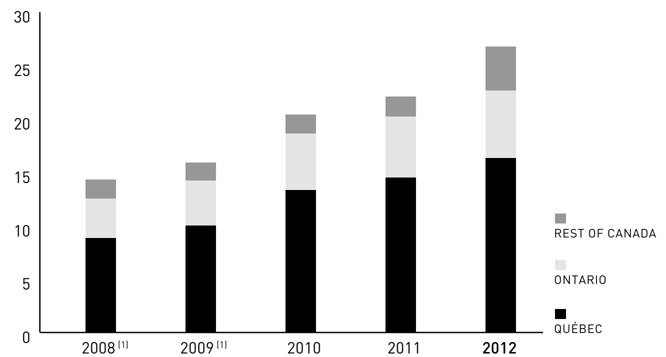


(1) In accordance with previous CGAAP.

Geographic distribution

The Bank operates across Canada. In Québec, it offers most of its lending products mainly through its retail branch network and commercial banking centers. Throughout Canada, the Bank extends its real estate and commercial operations through several other commercial banking centers in Ontario, Alberta and British Columbia. The Bank also offers its products to a wide network of independent financial intermediaries across Canada through B2B Bank. As at October 31, 2012, the proportion of loans granted to borrowers in Québec represented 61% of total loans, while loans granted to borrowers in the rest of Canada stood at 39% (65% and 35% respectively as at October 31, 2011). This significant change mainly results from the acquisitions of AGF Trust and MRS Companies, which further contributed to the Bank's geographic diversification.

GEOGRAPHIC DISTRIBUTION OF LOANS
(in billions of Canadian dollars)



(1) In accordance with previous CGAAP.

Insurance and guarantees

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

CMHC offers a mortgage loan insurance program that ultimately aims to improve access to affordable mortgage loan financing for Canadians. As an approved lender under the program, the Bank benefits from insurance coverage, thereby reducing its global credit risk and improving its capital ratios. The Bank also insures pools of mortgage loans through a specific CMHC insurance program. Moreover, by maintaining a high proportion of insured residential mortgage loans, the Bank retains its capacity to engage in securitization operations to finance its activities at optimal cost and manage its cash resources. By the end of fiscal 2012, 60% of residential mortgage loans were insured, essentially by CMHC, a level relatively unchanged compared to 2011. The Bank considers that it holds excellent guarantees for the other conventional mortgage loans, including HELOCs, whose loan value never exceeds 80% of the initially estimated value of the property, in

accordance with legal requirements. As at October 31, 2012, the estimated average loan-to-value ratio was 66% and 47% for insured and uninsured residential mortgage loans respectively.

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

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

B2B Bank's investment loan portfolio consists mainly of mutual fund loans. Loan underwriting is subject to a rigorous process that allows for the efficient assessment of client credit risk. Authorizations are heavily based on clients' loan servicing ability and overall financial strength, mainly based on credit scoring. Moreover, the portfolio is periodically analyzed to identify potential credit issues. In addition, loans are collateralized by a comprehensive list of eligible mutual and segregated funds. Stricter credit criteria must be met as loan-to-value ratios increase. For loans where disbursements are significant, additional personal income and net worth information are usually required. For the recently acquired investment loan portfolio, loan underwriting was relying more heavily on collateral but however remains subject to a rigorous process.

Loan underwriting for home equity lines of credit and point-of-sale financing loans allows for the assessment of client credit risk. In addition, real estate assets and other assets collateralize these loans. Also, 9% of the Bank's personal loan portfolio consists of student loans and loans granted under the Immigrant Investor Program, which are guaranteed by the federal or provincial government.

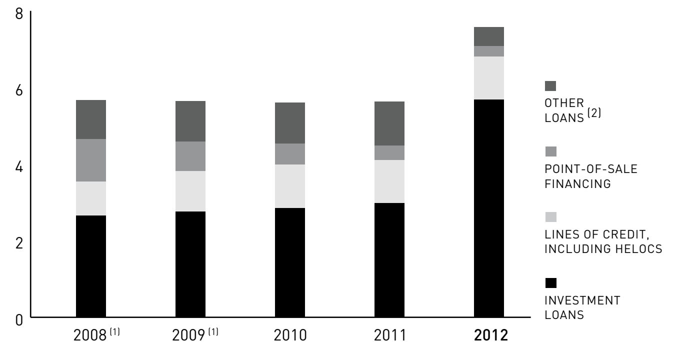
Changes in loan portfolio mix

Personal loans

As at October 31, 2012, the personal loan portfolio was $7.8 billion, a significant increase of $2.0 billion or 35% compared to October 31, 2011. Investment loans and HELOCs acquired through the MRS Companies and AGF Trust transactions increased B2B Bank's loan portfolio by $2.2 billion, which more than offset the continued run-off of $114.2 million in the point-of-sale financing portfolio, reflecting management's decision to gradually exit these higher-risk operations. The Bank's business development efforts to meet customers' needs also generated growth in HELOCs during the year.

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

PERSONAL LOAN PORTFOLIO MIX
(in billions of Canadian dollars)



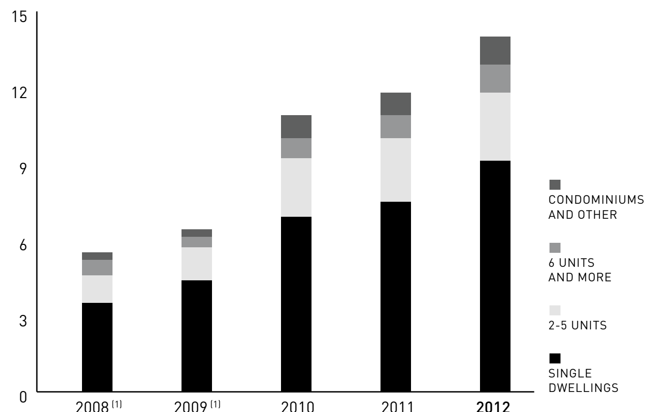
(1) In accordance with previous CGAAP.
(2) Including credit card loans, student loans, loans granted under the Immigrant investor Program and other loans

Residential mortgage loans

As shown in Table 26 on page 62, the residential mortgage loan portfolio increased by $2.3 billion or 19% during fiscal 2012. During the year, with its targeted and client-oriented approach in the Retail and B2B Bank business segments, the Bank continued its development and increased its residential mortgage loan portfolio organically by $1.1 billion. Very low interest rates and relatively stable employment also provided a favourable environment for the Bank to capitalize on various growth opportunities and respond to mortgage loan demand. While headwinds from recent tightening in mortgage lending rules and slower growth in housing prices and activity are challenges to loan growth, the Bank remains confident it can leverage its growth capabilities such as the mobile banker group to further grow profitably this portfolio, albeit at a slower rate.

The acquisition of the MRS Companies in 2012 added $0.1 billion of residential mortgage loans with a similar profile to B2B Bank's originated loan portfolio. The acquisition of AGF Trust added $1.2 billion to B2B Bank's portfolio. Similar to the purchased investment loans, acquired mortgage loans of AGF Trust carry a higher risk/return profile and are expected to have an overall positive impact on the future return profile of this portfolio.

RESIDENTIAL MORTGAGE LOANS BY PROPERTY TYPE (2)
(in billions of Canadian dollars)



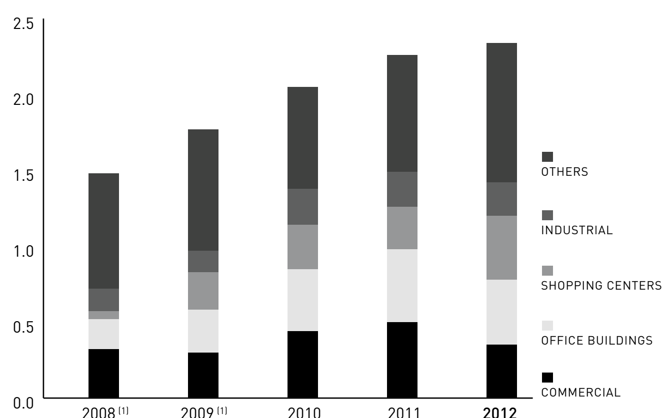
(1) In accordance with previous CGAAP.
(2) As reported on the consolidated balance sheet.

Commercial mortgage loans
Commercial mortgage loans increased by $79.8 million or 3% from fiscal 2011, totalling $2.4 billion as at October 31, 2012, despite loan sales of $85.2 million in 2012. Through its Real Estate & Commercial business segment, the Bank continued to generate strong growth in this portfolio. In 2012, the proportion of fixed term loans within this portfolio increased to 48%, from 53% at the end of fiscal 2011. This mix of loans provide for a good balance between portfolio volume stability and optimisation of interest margins.

This growing presence in the real estate market has played a key role in improving the Bank's profitability in recent years as the Bank continues to leverage on its solid client base to capitalize on growth opportunities in the Canadian real estate mid-market. The Bank continues to focus on better serving its clientele and, when appropriate, to respond to the increase in the size of real estate development projects.

This portfolio also contributes to improve geographic diversification across Canada and therefore enhances, in this regard, the overall profile of the Bank. As at October 31, 2012, the proportion of the portfolio granted in Ontario and Western Canada represented 72% of the total commercial mortgage loan portfolio and 28% in Québec (75% in Ontario and Western Canada and 25% in Québec as at October 31, 2011). The average loan carrying value was $1.9 million as at October 31, 2012 ($2.0 million as at October 31, 2011).

COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE
(in billions of Canadian dollars)



(1) In accordance with previous CGAAP.

Commercial loans
As at October 31, 2012, the portfolio of commercial loans, including bankers' acceptances, amounted to $2.4 billion, up $282.0 million from $2.1 billion as at October 31, 2011. This increase results mainly from the small and medium enterprise business in Québec and, to a lesser extent, from mid-market lending across Canada. In 2012, targeted investments in the SME Québec business line contributed to increase loans by $198.7 million or 17%.

As presented in Table 26, the portfolio covers a wide range of industries, with no specific industry representing more than 30% of the overall portfolio.

Impaired loans
Gross impaired loans decreased by $35.7 million since the beginning of the year, totalling $128.0 million as at October 31, 2012. The decrease in impaired loans reflects the overall improvement in credit quality during the year, notably in the commercial loan portfolio, which more than offset the impact of the Bank's increased volume in the retail portfolio. Retail portfolios also performed well as the Bank continued to reduce exposure to the point-of-sale financing market. In addition, borrowers continued to benefit from favourable employment conditions in Canada and a low interest rate environment.

Since October 31, 2011, individual allowances decreased by $21.6 million to $47.8 million. Over the same period, collective allowances decreased by $4.0 million, despite a $3.2 million increase related to the acquisition of the loan portfolio and allowances of the MRS Companies and $3.1 million in new provisions related to the AGF Trust portfolio. Collective allowances reflect management's estimate of losses incurred due to the deterioration in credit quality in the individually insignificant loan portfolios and for loans that have been assessed for impairment individually and found not to be impaired.

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

TABLE 26

DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO AND INDUSTRY

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

2012

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	INDIVIDUAL ALLOWANCES	COLLECTIVE ALLOWANCES	NET IMPAIRED LOANS	PROVISION FOR LOAN LOSSES [1]
Personal	$ 7,806,067	$ 16,863	$ –	$34,805	$(17,942)	$25,328
Residential mortgage	14,169,095	21,971	–	2,644	19,327	3,454
Commercial mortgage	2,443,634	36,672	14,070	16,406	6,196	1,527
	24,418,796	75,506	14,070	53,855	7,581	30,309
Commercial and other (including acceptances)						
Manufacturing	186,935	19,167	18,377	1,745	(955)	3,046
Transformation and natural resources	111,130	15,672	10,988	350	4,334	1,954
Agriculture	259,402	10,084	494	3,266	6,324	(178)
Public utilities	54,316	–	–	73	(73)	–
Wholesale and retail	423,456	1,508	1,507	2,525	(2,524)	6
Construction	174,578	1,378	315	1,973	(910)	266
Financial services	140,934	903	237	1,646	(980)	34
Real estate, renting and lease	533,953	248	153	1,851	(1,756)	(2,981)
Other services and government	326,387	1,687	475	23	1,189	327
Transportation and communication	109,184	722	614	600	(492)	(347)
Other	41,808	1,148	619	1,786	(1,257)	564
	2,362,083	52,517	33,779	15,838	2,900	2,691
Total	$26,780,879	$128,023	$47,849	$69,693	$10,481	$33,000
As a % of loans and acceptances		0.48%			0.04%	

(1) Recorded in the consolidated statement of income

2011

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	INDIVIDUAL ALLOWANCES	COLLECTIVE ALLOWANCES	NET IMPAIRED LOANS	PROVISION FOR LOAN LOSSES [1]
Personal	$ 5,774,207	$ 14,395	$ –	$30,216	$(15,821)	$23,341
Residential mortgage	11,869,412	17,053	–	1,424	15,629	113
Commercial mortgage	2,363,808	62,541	22,129	22,183	18,229	17,404
	20,007,427	93,989	22,129	53,823	18,037	40,858
Commercial and other (including acceptances)						
Manufacturing	220,064	19,556	17,399	4,906	(2,749)	(324)
Transformation and natural resources	122,304	23,658	14,303	16	9,339	7,263
Agriculture	225,876	5,845	982	3,649	1,214	235
Public utilities	58,451	53	53	80	(80)	(947)
Wholesale and retail	357,167	8,953	4,951	3,987	15	4,242
Construction	166,400	1,508	1,349	968	(809)	(33)
Financial services	86,219	618	283	322	13	11
Real estate, renting and lease	437,349	5,237	4,395	2,577	(1,735)	1,016
Other services and government	274,188	1,020	501	25	494	(232)
Transportation and communication	93,032	3,208	3,046	649	(487)	(775)
Other	39,067	80	59	2,698	(2,677)	(234)
	2,080,117	69,736	47,321	19,877	2,538	10,222
Total	$22,087,544	$163,725	$69,450	$73,700	$ 20,575	$51,080
As a % of loans and acceptances		0.74%			0.09%	

(1) Recorded in the consolidated statement of income

TABLE 27

GEOGRAPHIC DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO

As at October 31 (in thousands of Canadian dollars)

	2012		2011	
	GROSS AMOUNT OF LOANS	**GROSS AMOUNT OF IMPAIRED LOANS**	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS
Québec				
Personal	**$ 3,217,193**	**$ 4,810**	$ 2,708,552	$ 3,550
Residential mortgage	**10,463,663**	**17,372**	9,478,340	9,725
Commercial mortgage	**682,144**	**11,886**	589,798	11,760
Commercial and other (including acceptances)	**1,948,530**	**43,300**	1,688,431	54,417
	16,311,530	**77,368**	14,465,121	79,452
Rest of Canada				
Personal	**4,588,874**	**12,053**	3,065,655	10,845
Residential mortgage	**3,705,432**	**4,599**	2,391,072	7,328
Commercial mortgage	**1,761,490**	**24,786**	1,774,010	50,781
Commercial and other (including acceptances)	**413,553**	**9,217**	391,686	15,319
	10,469,349	**50,655**	7,622,423	84,273
Total	**$26,780,879**	**$128,023**	$22,087,544	$163,725

MARKET RISK MANAGEMENT

Market risk represents the financial losses that the Bank could incur following unfavourable fluctuations in the value of financial instruments subsequent to changes in the underlying factors used to measure them, such as interest rates, exchange rates or equity prices. This risk is inherent to the Bank's financing, investment, trading and asset and liability management (ALM) activities. With the exception of ALM activities, market risk doesn't contribute significantly to the Bank's risk profile.

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

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

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

Policies and standards

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

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

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

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

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

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

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

Value at Risk

VaR corresponds to the potential loss the Bank may incur over a one-day period, with a confidence level of 99%. Consequently, the chances that real losses incurred on any given day exceed the VaR are theoretically 1%. To calculate the VaR, historical

simulations that implicitly take into account correlations between various risk factors are performed. The VaR is based on 300 days of historical data. VaRs are calculated daily for all financial market activities. The Bank uses backtesting processes to compare theoretical profits and losses to the results of the VaR for trading activities. This allows validation of the VaR model's statistical hypotheses. These tests are conducted for each business segment and each risk factor, as well as for the entire trading portfolio. The theoretical change in profits and losses is generated using the daily price movements, and on the assumption that there is no change in the composition of the portfolio.

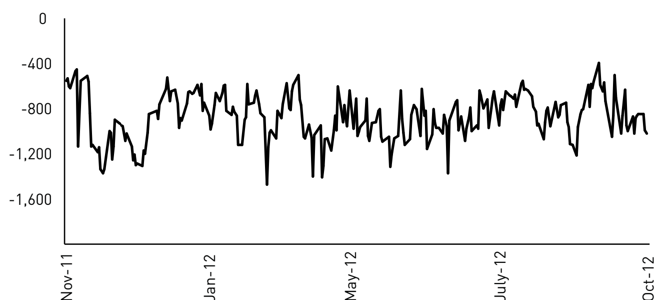
Stress tests and sensitivity measures

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

Trading activities

Trading activities are aligned with the needs of the Bank and its customers. The market risk associated with trading activities ensues from activities for which the Bank acts as the principal or agent for its customers. These activities are primarily carried out by Laurentian Bank Securities and Capital Markets segment and, to a lesser extent, by the Bank's Corporate Treasury. The graph below presents the daily total VaR of the trading portfolio for the 2012 fiscal year.

DAILY TRADING VAR OVER THE LAST 12 MONTHS
(in thousands of Canadian dollars)



Asset and liability management activities

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

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

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

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

Structural risk is globally managed by the Bank's Corporate Treasury Department and monitored by the ALM and Management Committee in accordance with the Structural Risk Management Policy, which is approved by the Risk Management Committee of the Board. This policy defines limits relative to the measurement of economic value and net interest income risk. Risk limits are based on measures calculated by simulating the impact of immediate and sustained parallel movements of 100 basis points in rates for all maturities.

Net interest income risk measures the negative impact on net interest income from interest rate movements over the next 12 months. Economic value of shareholders' equity risk measures the net negative impact on the present value of balance sheet and off-balance sheet assets and liabilities.

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

To ensure sound management of structural risk, a repricing gap report is produced weekly. This statement is then used as the basis for the simulation analysis of the impact of interest rate variation on net interest income and economic value of common shareholders' equity. One of the simulation exercises consists of subjecting the Bank's balance sheet to sudden parallel and sustained 1% and 2% increases and decreases in interest rates, based on a number of assumptions and factors, which include floor levels for deposit liabilities and the renewal of matured loans and deposits at current market terms. For example, as at October 31, 2012, for all portfolios, a 1% increase in interest rate would have triggered an increase of approximately $16.7 million in net interest income before

taxes over the next 12 months and a $19.7 million negative impact on the economic value of common shareholders' equity. As a result of the unusually low interest rate levels at year end, the rate sensitivity analysis provides certain asymmetrical results with regards to the impact on net interest income over the next 12 months. Table 28 below details other interest rate movements. These results reflect senior management's efforts to take advantage of anticipated short-term and long-term interest rate movements, while maintaining the sensitivity to these fluctuations well within approved limits. The Bank's interest rate gap position as at October 31, 2012 appears in Note 25 to the annual consolidated financial statements.

TABLE 28
RISK SENSITIVITY ANALYSIS
As at October 31 (in thousands of Canadian dollars)

	2012		2011	
	EFFECT ON NET INTEREST INCOME	**EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY[1]**	EFFECT ON NET INTEREST INCOME	EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY[1]
Change in interest rates				
Increase of 100 basis points	**$ 16,701**	**$(19,710)**	$ 21,735	$(16,670)
Decrease of 100 basis points	**(14,948)**	**20,833**	(24,138)	18,324
Change in interest rates				
Increase of 200 basis points	**33,506**	**(38,016)**	43,517	(31,477)
Decrease of 200 basis points	**$(74,716)**	**$ 28,686**	$(74,128)	$ 32,762

(1) Net of income taxes

OPERATIONAL RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

Outsourcing management

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

LIQUIDITY AND FUNDING RISK MANAGEMENT

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

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

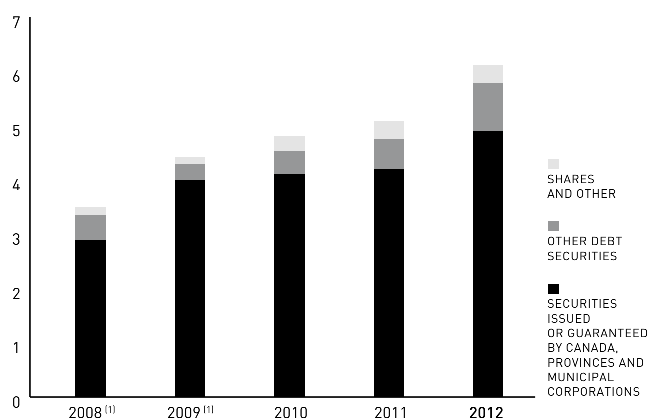
The Bank defines its risk tolerance towards liquidity and funding in terms of a minimum required liquidity level that would assure the bank's survival for 90 days in the event of a liquidity crisis.

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

Detailed information on liquid assets

The Bank's liquid assets consist of cash and non-interest bearing deposits with other banks, interest-bearing deposits with other banks, securities, as well as securities purchased under reverse repurchase agreements. As at October 31, 2012, these assets totalled $7.3 billion, an increase of $1.1 billion compared to $6.3 billion as at October 31, 2011, a relatively high liquidity level due to the acquisition of AGF Trust and related common share issuance in the fourth quarter of 2012, as well as the Bank's recent issuance of subordinated debt and preferred shares. Close to 67% of the Bank's liquid assets are composed of marketable securities issued or guaranteed by the Canadian government, provinces or municipal corporations. Liquid assets provide the Bank with flexibility to manage its loans and deposit portfolio maturities and commitments, and meet other current operating needs. Management of the liquid assets, both in terms of optimizing levels and mix, contributes significantly to the Bank's results. In addition, within the marketable securities portfolio, held-for-trading portfolios offer fixed-income trading opportunities or are used to hedge certain exposures.

SECURITIES
(in billions of Canadian dollars)



(1) In accordance with previous CGAAP.

Funding

The Bank relies mainly on retail deposits (both branch and independent advisor-sourced) to fund its operations. Retail deposits continue to be a particularly stable source of funding for the Bank. This funding strategy is also well aligned with recent regulatory developments, which recognize these deposits as one of the best funding source. This will contribute to lessen the impact of new Basel III liquidity rules, which will need to be adhered to starting in 2015. As at October 31, 2012, these deposits represented 81% of the Bank's total deposit portfolio.

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

FUNDING SOURCES
(as a percentage)

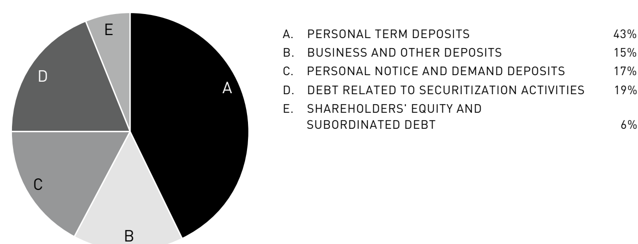


TABLE 29
DEPOSITS
As at October 31 (in thousands of Canadian dollars, except percentage amounts)

	2012		2011	
Personal				
Notice and demand				
Branch network	**$ 2,459,039**	**10.2%**	$ 2,225,036	11.1%
Financial intermediaries	**3,103,670**	**12.9**	2,694,993	13.5
	5,562,709	**23.1**	4,920,029	24.6
Term				
Branch network	**5,511,933**	**22.9**	5,048,772	25.2
Financial intermediaries	**8,294,668**	**34.5**	5,641,052	28.2
	13,806,601	**57.4**	10,689,824	53.4
Sub-total – personal	**19,369,310**	**80.5**	15,609,853	78.0
Business, banks and other				
Notice and demand	**2,465,118**	**10.3**	2,443,988	12.2
Term	**2,207,015**	**9.2**	1,962,440	9.8
Sub-total – business, banks and other	**4,672,133**	**19.4**	4,406,428	22.0
Total – deposits	**$24,041,443**	**100.0%**	$20,016,281	100.0%

Personal deposits

Total personal deposits increased by $3.8 billion, to $19.4 billion as at October 31, 2012, compared with $15.6 billion as at October 31, 2011. During the year, the Bank grew its deposit base, both from acquisitions and organic growth, and despite the very low interest rate environment. The Bank continued to focus on maintaining its privileged position in the retail market and independent advisor-sourced deposit market through its Retail & SME-Québec and B2B Bank business segments to meet future funding needs. A significant proportion of these deposits are insured by the Canada Deposit Insurance Corporation, up to $100,000 per client, per regulated deposit-taking financial institution.

Business, banks and other deposits

Deposits from businesses, banks and other increased by $0.3 billion to $4.7 billion as at October 31, 2012, compared with $4.4 billion as at October 31, 2011. This increase is mainly attributable to a $200.0 million issuance of senior unsecured notes during the year, as the Bank took advantage of favourable market conditions and maintained its presence in the institutional money market, since it can provide additional flexibility in funding.

Credit ratings

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

The Bank monitors weekly the impact of a hypothetical downgrade of its credit rating on the collateral requirements. As at October 31, 2012, no additional collateral would be required in the event of a one notch rating downgrade.

During fiscal 2012, all ratings for the Bank were confirmed and remained unchanged. However, the long term rating trend, as determined by the DBRS Limited was changed to positive while the short-term rating trend remained stable[1]. In addition, the short-term rating outlook from Standard & Poor's credit rating agency, was changed to negative.

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

TABLE 30
CREDIT RATINGS
As at October 31, 2012

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

Contractual obligations

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

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

The following table summarizes the Bank's principal contractual obligations as at October 31, 2012, maturing over each of the next five years and thereafter. Note 28 to the annual consolidated financial statements provides further information on this subject.

TABLE 31
CONTRACTUAL OBLIGATIONS
As at October 31, 2012 (in thousands of Canadian dollars)

	NO FIXED MATURITY	2013	2014	2015	2016	2017	THEREAFTER	TOTAL
Deposits	$8,027,827	$7,426,743	$4,516,460	$2,441,858	$ 988,599	$ 585,159	$ 54,797	$24,041,443
Derivatives	–	6,772	5,737	3,641	1637	646	145	18,578
Obligations related to securities sold short	–	1,349,932	–	–	–	–	–	1,349,932
Obligations related to securities sold under repurchase agreements	–	244,039	–	–	–	–	–	244,039
Debt related to securitization activities	–	1,862,564	1,149,346	679,503	1,333,621	955,350	56,713	6,037,097
Subordinated debt	–	–	–	–	250,000	200,000	–	450,000
Commitments under leases, technology services and other contracts	–	72,989	67,932	63,768	91,188	51,373	90,272	437,522
Total	$8,027,827	$10,963,039	$5,739,475	$3,188,770	$2,665,045	$1,792,528	$201,927	$32,578,611

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

Rating trends provide guidance in respect of DBRS's opinion regarding the outlook for the rating in question, with rating trends falling into one of three categories - "Positive", "Stable" or "Negative". The rating trend indicates the direction in which DBRS considers the rating is headed should present tendencies continue, or in some cases, unless challenges are addressed. A Positive or Negative Trend is not an indication that a rating change is imminent. Generally, the conditions that lead to the assignment of a Negative or Positive Trend are resolved within a twelve month period.

REPUTATIONAL RISK MANAGEMENT

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

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

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

REGULATORY RISK MANAGEMENT

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

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

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

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

INSURANCE RISK MANAGEMENT

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

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

ENVIRONMENTAL RISK MANAGEMENT

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

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

ADDITIONAL RISKS THAT COULD POTENTIALLY AFFECT FUTURE RESULTS

The major business risks that may affect the Bank's results are detailed in the previous sections. This section describes other factors that could have a significant impact on the Bank's results and cause these results to differ materially from the Bank's forward-looking statements as described at the beginning of this document. Although the Bank maintains comprehensive controls and processes to mitigate the risks associated with these factors, by their very nature, they may significantly impact the Bank's performance.

Economic climate in Canada

The Bank operates mainly in Québec and Ontario but also, to a lesser extent, in the rest of Canada. Consequently, its earnings are particularly sensitive to the economic and commercial climate in Canada. Major factors include interest rates, inflation, capital market fluctuations, the strength of the economy and the Bank's volume of business in certain key regions. A prolonged deterioration in the Canadian economic climate could therefore adversely affect the Bank's activities.

Monetary policies and other policies

The monetary policies adopted by the Bank of Canada and the U.S. Federal Reserve's Board of Governors, as well as other measures adopted by central banks, have a major impact on several variables, such as interest rates, exchange rates and bond markets, that can have an impact on the Bank's earnings. The Bank has no control, however, on changes in monetary policies, or on capital market fluctuations.

Competition

The Bank's performance is affected by the level of competition in its markets. Intense competition in the financial services industry could interfere with the Bank's capacity to reach its objectives. Several factors, including the price of products and services, their quality and variety, and also the actions taken by its competitors, could negatively impact the Bank's positioning.

Legislative and regulatory amendments and legal proceedings

Legislative and regulatory amendments could affect the Bank by impacting its product and service offering and modifying the financial industry's competitiveness. Moreover, the Bank's

failure to comply with applicable legislation and regulations could result in sanctions and financial penalties that would have a negative impact on its earnings and reputation. As well, legal proceedings could affect the Bank negatively. Further details are provided in Note 28 to the annual consolidated financial statements.

Ability to attract and retain key employees

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

Business infrastructure

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

Other factors

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

As at October 31, 2012, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the effectiveness of DC&P, in accordance with regulation MI 52-109 and subject the Scope Limitation section below, and based on that evaluation, concluded that they were effective and adequately designed at that date.

Also as at October 31, 2012, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the effectiveness of ICFR, in accordance with regulation MI 52-109 and subject the Scope Limitation section below, and based on that evaluation, concluded that it was effective at that date and adequately designed.

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

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

Scope Limitation

In accordance with Multilateral Instrument 52-109, which allows an issuer the exclusion of ICFR and DC&P evaluation of businesses acquired not more than 365 days before its fiscal year-end, management has excluded the controls, policies and procedures of the MRS Companies and AGF Trust.

The MRS Companies were acquired on November 16, 2011 and account for approximately 3% of total assets, 2% of total liabilities, 5% of total revenue and 5% of total net income as at and for the year ended October 31, 2012.

In addition, the Bank completed the acquisition of AGF Trust on August 1, 2012. AGF Trust accounts for approximately 10% of total assets, 9% of total liabilities, 3% of total revenue and 5% of total net income as at and for the year ended October 31, 2012.

For additional information about the acquisitions refer to Note 29 to the consolidated financial statements of this annual report.

Changes to Internal Control over Financial Reporting

During the period ended October 31, 2012, apart from the acquisition of and AGF Trust, there have been no changes to internal control over financial reporting affected materially, or are reasonably likely to materially affect, internal control over financial reporting.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

IMPAIRMENT OF ASSETS

Allowances for loan losses

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

Considering the materiality of the amounts and their inherent uncertainty, changes in current estimates and assumptions used in determining the allowances for loan losses could produce significantly different levels of allowances. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments and may consequently entail a significant increase or a decrease in the allowances for loan losses in the consolidated statement of income for a given fiscal year. A detailed description of the methods used to determine the allowances for loan losses can be found in Note 3 to the annual consolidated financial statements, and in the Credit Risk Management section on page 58 of this MD&A.

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

This critical accounting estimate affects all business segments.

Other financial assets

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

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

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

MEASURING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

These critical accounting estimates mainly affect the Laurentian Bank Securities & Capital Markets and Other segments. Additional information on the calculation of fair value is provided in Notes 3 and 24 to the annual consolidated financial statements.

PENSION PLANS AND OTHER EMPLOYEE BENEFITS

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

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

In accordance with current IFRS, actual results that differ from the expected results as determined using the assumptions are accumulated and amortized over future periods and therefore affect actual costs for these periods. As at October 31, 2012, the net amount of the unamortized actuarial losses was $94.0 million ($39.2 million in 2011) for pension plans, and for other benefits, the net amount of the unamortized actuarial gain was $0.3 million (loss of $0.5 million in 2011).

Discount rates stood at 4.40% as at October 31, 2012 and 5.25% as at October 31, 2011. The expected long-term rate of return on plan assets was 7.25% for fiscal 2012 and (7.25% for fiscal 2011). The trend rate of the estimated annual growth of health-care costs covered, per participant, has been set at 8.0% for 2012 (8.8% for 2011). According to the accepted assumption, this rate should decrease progressively, reaching 5.0% in 2027 and remaining at that level thereafter.

Considering the importance of defined benefit obligations and plan assets, changes in assumptions could have a significant impact on the defined benefit assets (liabilities), as well as, depending of the funding status of the plan, on pension plan and other post-employment benefit expenses. Table 32 summarizes the impact of a 0.25% increase or decrease in the key assumptions on defined benefit obligations would have had as at October 31, 2012 and related defined benefit pension plan costs for 2012.

TABLE 32
SENSITIVITY ANALYSIS

As at or for the year ended October 31, 2012 (in millions of Canadian dollars)

	POTENTIAL IMPACT OF CHANGES OF 0.25%	
	OBLIGATION	COST
Discount rate	$14,978	$1,311
Expected long-term rate of return of plan assets	n.a.	$1,025

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

This critical accounting estimate affects all business segments. Further information on the Bank's pension plans and other post-employment benefits can be found in Note 19 to the annual consolidated financial statements.

BUSINESS COMBINATIONS

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

This critical accounting estimate affects all business segments. Refer to Note 29 to the annual consolidated financial statements for additional information on the assets acquired and liabilities assumed as a result of business combinations.

PROVISIONS AND CONTINGENT LIABILITIES

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

Provisions are established when it becomes probable that an outflow of resources will be required to settle the obligation and the amount can be reasonably estimated. In addition to Bank management, internal and external legal experts are involved in assessing the probability and in estimating any amounts involved for provisions related to legal actions or pending litigations.

Contingent liabilities arise when there is some uncertainty whether, as a result of a past event or transaction, the Bank will incur a loss in the future. The Bank and its subsidiaries are involved in various legal actions in the course of business, many of which are loan-related, as well as in certain class action suits mainly related to card services. These actions may have a material adverse effect on the financial condition of the Bank even though no provisions may have been established.

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

See Note 28 to annual consolidated financial statements for more details.

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Goodwill

As at October 31, 2012, the balance of goodwill stood at $64.1 million, compared to $29.2 million as at October 31, 2011. Goodwill is subject to an impairment test annually, unless certain specific criteria are met, as described in Note 3 to the annual consolidated financial statements.

For the purpose of impairment testing, goodwill is allocated to the Bank's cash generating units (CGUs), which represent the lowest level within the Bank at which goodwill is monitored for internal management purposes. As at October 31, 2012, $34.9 million was allocated to the B2B Bank segment, and $29.2 million was allocated to a part of the Retail & SME-Québec segment referred to as the Retail unit, which encompasses all branch activities and other retail banking activities in Québec. The test compares the recoverable amount of the CGU to the carrying amount of its net assets. If the recoverable amount is less than carrying value, an impairment loss is charged to income.

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

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

No impairment charge was reported in fiscal 2012 or in fiscal 2011. If need be, the amount of the losses in value would be recorded as a non-interest expense for Retail & SME-Québec or B2B Bank, under other expenses.

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

Other intangible assets and other assets

Other intangible assets with finite lives are also tested for impairment whenever circumstances indicate that the carrying value may not be fully recoverable. As it conducts this test, management evaluates the future cash flows it expects to realize from these assets, along with their possible disposition. When the net carrying amount exceeds the estimated discounted future net cash flows, intangible assets with finite lives are considered impaired and are written down to their recoverable amount. No significant impairment charge was reported in fiscal 2012 or in fiscal 2011.

Management also periodically reviews the value of the Bank's other assets, such as fixed assets and other deferred charges, in order to identify potential losses in value and to validate the related amortization periods. No significant impairment charge was reported in fiscal 2012 or in fiscal 2011.

Changes in estimates and assumptions could significantly impact results.

FUTURE CHANGES TO ACCOUNTING POLICIES

The International Accounting Standards Board IASB has issued new standards and amendments to existing standards on financial instruments, consolidation, fair value measurement, employee benefits, offsetting and presentation of other comprehensive income. These future accounting changes will be applicable for the Bank in various annual periods beginning on November 1, 2012 at the earliest. The Bank is also monitoring the proposed changes to the lease accounting standard which should be finalized later in 2013. Additional information on the new standards and amendments to existing standards can be found in Note 4 to the annual consolidated financial statements.

The Bank is currently assessing the impact of the adoption of these standards on its financial statements. Based on preliminary assessments, the adoption of the IFRS 9, *Financial Instruments*, new standard could have a significant impact on the Bank's information systems, processes and financial position as it provides new requirements for how an entity should classify and measure financial instruments. The Bank is also monitoring the effect of the IAS 19, *Employee Benefits*, new standard, as the elimination of the option to defer the recognition of gains and losses resulting from defined benefit plans, under certain circumstances, may have a significant impact on the Bank's financial position.

NON-GAAP FINANCIAL MEASURES

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

Return on common shareholders' equity

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

Book value per common share

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

Net interest margin

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

Efficiency ratio and operating leverage

The Bank uses the efficiency ratio as a measure of its productivity and cost control. This ratio is defined as non-interest expenses as a percentage of total revenue. The Bank also uses operating leverage as a measure of efficiency. Operating leverage is the difference between total revenue and non-interest expenses growth rates.

Dividend payout ratio

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

Dividend yield

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

Adjusted results and adjusted measures

Certain analyses presented throughout this document are based on the Bank's core activities and therefore exclude the effect of certain amounts designated as Adjusting items, as detailed in the Adjusting items section on page 35 of this MD&A.

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

BASIS OF PRESENTATION

This Management's Discussion and Analysis (MD&A), dated December 5, 2012, refers to the results of operations and financial condition of the Bank for the year ended October 31, 2012 and presents the views of the Bank's management. The information for the years ended October 31, 2012 and 2011 is presented on the same basis as in the annual consolidated financial statements and has been prepared in accordance with International Financial Reporting Standards (IFRS). The information related to prior periods is presented using previous Canadian generally accepted accounting principles (CGAAP). All information conforms to the accounting requirements of OSFI.

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

Additional information on Laurentian Bank of Canada, including the Annual Information Form for the year ended October 31, 2012, can be found on the Bank's website at www.laurentianbank.ca and on SEDAR at www.sedar.com.

International Financial Reporting Standards Conversion

IFRS are the generally accepted accounting principles (GAAP) for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. The Bank implemented IFRS as its financial reporting framework on November 1, 2011. Transition to IFRS occurred as at November 1, 2010 and required restatement of the Bank's 2011 comparative information from the previous CGAAP basis to the new IFRS basis. Additional information on the impact from the transition is available in the notes to the annual consolidated financial statements and in the Supplementary Information reported for the fourth quarter of 2012, available on the Bank's website at www.laurentianbank.ca.