Consolidated Financial Statements

# Maple Financial Group Inc.

September 30, 2011

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of
**Maple Financial Group Inc.**

We have audited the accompanying consolidated financial statements of **Maple Financial Group Inc.,** which comprise the consolidated statement of financial position as at September 30, 2011, and the consolidated statements of income, retained earnings and accumulated other comprehensive income (loss), comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**

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

**Auditors' responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Maple Financial Group Inc.** as at September 30, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada,
January 24, 2012.

Chartered Accountants
Licensed Public Accountants

**Maple Financial Group Inc.**

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

[Euro amounts in thousands]

As at September 30

| | 2011 € | 2010 € [restated - notes 2 and 3] |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | **127,177** | 157,838 |
| Trading securities owned *[note 4]* | **4,617,387** | 4,030,765 |
| Securities purchased under resale agreements | **2,556,741** | 647,373 |
| Derivative financial instruments *[note 18]* | **178,418** | 187,145 |
| Loans and receivables | | |
| Due from clients *[notes 5, 8 and 19]* | **139,627** | 150,715 |
| Due from brokers and financial institutions *[notes 6, 7 and 19]* | **1,428,543** | 2,106,030 |
| Other receivables *[notes 15 and 19]* | **304,296** | 175,032 |
| Capital and other assets | **10,659** | 5,874 |
| Assets of discontinued operations *[note 3]* | — | 229,842 |
| | **9,362,848** | 7,690,614 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Liabilities** | | |
| Bank loans *[note 10]* | **53,584** | 5,059 |
| Securities sold short *[note 4]* | **1,247,702** | 1,426,254 |
| Obligations under repurchase agreements | **4,261,529** | 1,838,488 |
| Derivative financial instruments *[note 18]* | **268,282** | 272,569 |
| Short-term customer deposits *[notes 11 and 22]* | **1,539,264** | 1,156,166 |
| Due to | | |
| Clients *[notes 5 and 19]* | **183,573** | 136,214 |
| Brokers and financial institutions *[notes 6, 7 and 19]* | **848,072** | 1,471,323 |
| Accounts payable and accrued liabilities *[notes 15 and 16]* | **94,854** | 161,018 |
| Long-term customer deposits *[notes 11 and 22]* | **410,082** | 595,883 |
| Subordinated loans *[notes 12 and 22]* | **40,020** | 34,000 |
| Liabilities of discontinued operations *[note 3]* | — | 101,077 |
| **Total liabilities** | **8,946,962** | 7,198,051 |
| Commitments and contingencies *[notes 20 and 24]* | | |
| **Shareholders' equity** | | |
| Capital stock *[notes 13 and 14]* | **39,624** | 30,699 |
| Contributed surplus *[notes 13 and 14]* | **13,758** | 16,663 |
| Retained earnings | **362,207** | 486,617 |
| Accumulated other comprehensive income (loss) | **297** | (41,416) |
| **Total shareholders' equity** | **415,886** | 492,563 |
| | **9,362,848** | 7,690,614 |

*See accompanying notes*

On behalf of the Board:

Thomas Higgins
CEO & President

William Fung
Chairman

**Maple Financial Group Inc.**

# CONSOLIDATED STATEMENT OF INCOME, RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

[Euro amounts in thousands]

Year ended September 30

| | 2011 | 2010 |
|---|---|---|
| | € | € |
| | | *[restated - notes 2 and 3]* |
| **NET INVESTMENT INCOME** *[note 17]* | | |
| Interest income | **9,334** | 9,433 |
| Net trading and other income | **136,797** | 235,700 |
| | **146,131** | 245,133 |
| Interest expense | **59,907** | 53,080 |
| Provision for loan losses | **24** | 5,443 |
| **Net investment income** | **86,200** | 186,610 |
| **EXPENSES** | | |
| Employee compensation and benefits | **62,633** | 71,485 |
| Administrative and general | **7,804** | 8,026 |
| Computer and communication | **8,663** | 7,270 |
| Occupancy | **3,574** | 3,434 |
| Professional and consulting fees | **8,567** | 7,418 |
| Depreciation and amortization | **2,128** | 2,019 |
| | **93,369** | 99,652 |
| Income (loss) before income taxes | **(7,169)** | 86,958 |
| Provision for (recovery of) income taxes *[note 15]* | **(66,021)** | 28,128 |
| **Income from continuing operations** | **58,852** | 58,830 |
| Loss from discontinued operations *[note 3]* | **(4,996)** | (3,967) |
| **Income before other comprehensive income transfer** | **53,856** | 54,863 |
| Transfer from accumulated other comprehensive income (loss) as a result of reduction in net investment in foreign operations | **—** | (5,807) |
| **Net income for the year** | **53,856** | 49,056 |
| Retained earnings, beginning of year | **486,617** | 504,704 |
| Change in retained earnings as a result of conversion to new reporting currency *[note 2]* | **—** | 59,267 |
| Transfer from accumulated other comprehensive income (loss) on conversion to new reporting currency *[note 2]* | **(41,416)** | — |
| Restricted share units awarded in lieu of dividends paid during vesting period *[note 13]* | **(6,684)** | (1,988) |
| Premium paid over book value on purchase of common shares *[note 13]* | **(34)** | — |
| Dividends paid *[note 13]* | **(130,132)** | (124,422) |
| **Retained earnings, end of year** | **362,207** | 486,617 |
| **Accumulated other comprehensive income (loss), net of income taxes** | | |
| Balance, beginning of year | **(41,416)** | (3,377) |
| Change in other comprehensive income (loss) as a result of conversion to new reporting currency *[note 2]* | **—** | (1,081) |
| Transfer to income as a result of reduction in net investment in foreign operations | **—** | 5,807 |
| Transfer to retained earnings on conversion to new reporting currency *[note 2]* | **41,416** | — |
| Change in foreign currency translation gains (losses) on investments in foreign operations, net of hedging activities [tax expense on hedging activities of €20 [2010 - €2,426]] | **297** | (42,765) |
| **Balance, end of year** | **297** | (41,416) |

*See accompanying notes*

**Maple Financial Group Inc.**

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

[Euro amounts in thousands]

Year ended September 30

| | **2011** | **2010** |
|---|---|---|
| | € | € |
| | | *[restated - notes 2 and 3]* |
| **Net income for the year** | **53,856** | 49,056 |
| Transfer from accumulated other comprehensive income (loss) to income as a result of reduction in net investment in foreign operations | — | 5,807 |
| Change in foreign currency translation gains (losses) on investments in foreign operations, net of hedging activities | **297** | (42,765) |
| **Comprehensive income for the year** | **54,153** | 12,098 |

*See accompanying notes*

## Maple Financial Group Inc.

# CONSOLIDATED STATEMENT OF CASH FLOWS

[Euro amounts in thousands]

Year ended September 30

| | 2011 € | 2010 € *[restated - notes 2 and 3]* |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income for the year | **53,856** | 49,056 |
| Results of discontinued operations, net of tax | **4,996** | 3,967 |
| Net income from continuing operations | **58,852** | 53,023 |
| | | |
| Add (deduct) items not affecting cash | | |
| Provision for loan losses | **24** | 5,443 |
| Depreciation and amortization | **2,128** | 2,019 |
| Future income taxes | **(31,032)** | (16,618) |
| Stock-based compensation | **6,948** | 9,034 |
| Transfer from accumulated other comprehensive income (loss) as a result of reduction in net investment in foreign operations | **—** | 5,807 |
| | **36,920** | 58,708 |
| Changes in operating assets and liabilities | | |
| Derivative financial instruments assets | **8,085** | 316,112 |
| Due from clients | **11,196** | 71,225 |
| Due from brokers and financial institutions | **633,845** | (93,487) |
| Other receivables | **(113,583)** | (77,436) |
| Bank loans | **48,518** | (45,269) |
| Derivative financial instruments liabilities | **(3,070)** | (163,325) |
| Due to clients | **47,451** | (97,627) |
| Due to brokers and financial institutions | **(593,904)** | 269,015 |
| Accounts payable and accrued liabilities | **(50,766)** | (96,148) |
| Effect of foreign exchange rates on capital stock, contributed surplus, retained earnings and other comprehensive income (loss) on conversion to new reporting currency *[note 2]* | **—** | 62,805 |
| Change in foreign currency translation gains (losses) on investments in foreign operations, net of hedging activities | **297** | (42,765) |
| **Cash provided by operating activities from continuing operations** | **24,989** | 161,808 |
| **Cash provided by operating activities from discontinued operations** | **123,769** | 81,094 |
| **Cash provided by operating activities** | **148,758** | 242,902 |
| | | |
| **INVESTING ACTIVITIES** | | |
| Trading securities owned | **(576,137)** | 1,136,627 |
| Securities purchased under resale agreements | **(1,907,403)** | (86,038) |
| Purchase and collection of capital and other assets | **(6,913)** | (1,678) |
| **Cash provided by (used in) investing activities** | **(2,490,453)** | 1,048,911 |

**Maple Financial Group Inc.**

## CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)

Year ended September 30

| | 2011 | 2010 |
|---|---|---|
| | € | € |
| | | *[restated - notes 2 and 3]* |
| **FINANCING ACTIVITIES** | | |
| Securities sold short | **(179,478)** | (300,971) |
| Obligations under repurchase agreements | **2,423,307** | 58,875 |
| Short-term customer deposits | **384,648** | (892,609) |
| Long-term customer deposits | **(185,801)** | (116,204) |
| Subordinated loans | **6,020** | (2,348) |
| Redemption of common shares | **(36)** | — |
| Redemption of preference shares | **(7,595)** | (7,969) |
| Issuance of common shares and preference shares | **—** | 2,379 |
| Dividends paid | **(130,132)** | (124,422) |
| **Cash provided by (used in) financing activities** | **2,310,933** | (1,383,269) |
| | | |
| **Effect of exchange rate changes on cash and cash equivalents** | **101** | (294) |
| | | |
| **Net decrease in cash and cash equivalents during the year** | **(30,661)** | (91,750) |
| Cash and cash equivalents, beginning of year | **157,838** | 249,588 |
| **Cash and cash equivalents, end of year** | **127,177** | 157,838 |
| | | |
| **Cash and cash equivalents consist of** | | |
| Bank accounts | **34,222** | 8,853 |
| Short-term deposits | **23,802** | 7,631 |
| Current accounts with central banks | **69,153** | 141,354 |
| | **127,177** | 157,838 |
| | | |
| **Supplemental cash flow information** | | |
| Income taxes paid | **15,895** | 24,412 |
| Interest paid | **56,680** | 68,766 |

*See accompanying notes*

**Maple Financial Group Inc.**

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Euro amounts in thousands, except where otherwise noted]

September 30, 2011

## 1. INCORPORATION

Maple Financial Group Inc. ["Maple" or the "Company"] is incorporated in Canada under the Canada Business Corporations Act.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of the consolidated financial statements are set out below.

### Basis of presentation

The consolidated financial statements are stated in Euro and have been prepared in accordance with Canadian generally accepted accounting principles ["GAAP"].

Functional currency is the currency of the primary economic environment in which the entity operates. Maple operates in four major locations in four major currencies. Each location primarily trades in its domestic currency and hedges all trading in other currencies back to its domestic currency. A significant portion of the Company's revenue and expenses are earned and paid in Euro. Maple has determined that the Euro will dominate all other currencies in the foreseeable future and, accordingly, has determined that the Euro represents the Company's functional currency. Effective October 1 2010, the Company has changed its functional and reporting currency to Euro. This change has been accounted for prospectively from this date. Foreign exchange volatility is expected to be significantly reduced following the transition as the Company's currency exposures are more closely matched to its functional currency.

With the change in presentation currency on October 1 2010 to Euro, all presentation and disclosure information is in Euro. Comparative information has been restated in Euro using the procedures outlined below:

- Assets, liabilities and shareholders' equity were translated to Euro at closing rates of exchange on September 30, 2010.
- Revenue and expense items were translated to Euro at average rates for the year ended September 30, 2010. Accumulated other comprehensive income (loss) was transferred to retained earnings at the date of conversion on October 1, 2010.

- The following components of shareholders' equity changed as a result of changes in exchange rates from October 1, 2009 to September 30, 2010:

| | € |
|---|---|
| Capital stock | 3,624 |
| Contributed surplus | 995 |
| Retained earnings | 59,267 |
| Accumulated other comprehensive loss | (1,081) |
| | 62,805 |

## Use of estimates

Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates. The accounting for fair value of financial instruments, income taxes, provision for loan losses and contingent liabilities are areas where management makes such estimates and assumptions.

## Basis of consolidation

The consolidated financial statements of Maple include the assets, liabilities and results of operations of Maple and its subsidiaries and certain variable interest entities ["VIEs"] after elimination of intercompany transactions and balances.

## Classification and measurement of financial instruments

The accounting framework for financial instruments requires that all financial assets and liabilities be classified based on their characteristics, management's intentions or the choice of category in certain circumstances. When they are initially recognized, all financial assets are classified as held-for-trading, held to maturity, available for sale or loans and receivables. Financial liabilities are classified as held-for-trading or other. Also, when they are initially recognized, all financial assets and liabilities are recorded at fair value in the consolidated statement of financial position. In subsequent periods, they are measured at fair value, except for items that are classified in the following categories, which are measured at cost or amortized cost calculated using the effective interest rate method: held to maturity assets, loans and receivables and financial liabilities classified as other.

## Securities transactions

Securities transactions and related revenues are recorded on a trade-date basis. Transaction costs relating to securities transactions are expensed as incurred.

## Cash and cash equivalents

Cash and cash equivalents include cash balances and debt instruments held for treasury purposes and purchased with a maturity of less than one month. Debt instruments held for trading purposes are included in trading securities owned.

## Trading securities owned and securities sold short

Trading securities owned and securities sold short are recorded at fair value with unrealized gains and losses included in income. Fair value is based on quoted market prices or other appropriate methods, including valuation models. Fair value is calculated using bid prices for long positions, ask prices for short positions and mid-market prices for positions with offsetting market risk.

## Securities resale and repurchase agreements

Securities purchased under resale agreements consist of the purchase of a security with the commitment to resell the security to the original seller at a specified price. Obligations under repurchase agreements consist of the sale of a security with the commitment to repurchase the security from the original purchaser at a specified price. These financial instruments are recognized at fair value. The differences between the sale price and the agreed repurchase price on repurchase agreements and the differences between the purchase price and the agreed resale price on resale agreements are included in net trading and other income in the consolidated statement of income, retained earnings and accumulated other comprehensive income (loss). Given the short-term nature of these instruments, amortized cost is expected to approximate the fair value.

## Due from or due to brokers and financial institutions

Securities borrowing and lending transactions collateralized by cash are recorded as amounts due from or due to the counterparty at the value of cash advanced or received plus accrued interest, which is considered at fair value given the short-term nature of these instruments.

## Due from or due to clients

Client balances are recorded at amortized cost using the effective interest rate method, determined as the value of collateral advanced or received plus accrued interest.

## Mortgage loans securitization

The Company commenced its Canadian securitization business in May 2011. The business plan is to purchase insured residential mortgage loans receivable from third-party originators and periodically securitize them through Canada Mortgage and Housing Corporation-sponsored mortgage-backed securities and Canada Mortgage Bond programs. At time of sale, the Company surrenders control of the transferred assets and receives consideration other than beneficial interests in the transferred assets. The buyers have no recourse to the Company's other assets. When such sales occur, the Company retains interest-only strips and seller swaps. Gains or losses on these transactions are recognized as income and are dependent in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold, the seller swaps and the interest-only strips based on their relative fair value at the date of transfer. The fair value of the interest-only strips is estimated using discounted cash flow methodology and management's best estimates of key assumptions such as prepayment rates, average term of assets sold and the other factors that influence the value of the interest-only strips. Interest-only strips are revalued quarterly to assess for other-than-temporary impairment.

## Deferred costs

Costs, including the premium paid on the mortgage loans receivable, are capitalized upon the purchase of mortgage loans receivable and are amortized as the underlying mortgage loans are paid down over the term of the mortgage loans receivable. Upon securitization of the related mortgage loans receivable, these expenses are written off against the proceeds of the sale.

## Allowance for credit losses

The Company maintains an allowance for credit losses which, in management's opinion, is considered adequate to absorb all credit-related losses in its loan and securities lending and borrowing portfolios. The allowance consists of specific and general allowances.

The Company provides for credit-related losses by assessing the realizable value of collateral and expected future cash flows. Specific provisions are determined on an item-by-item basis and reflect the associated estimated credit loss and the amount which management considers is necessary to reduce an impaired portfolio to its estimated realizable value. When the Company believes that no further efforts at recovery are justified, the loans are written off and the provisions reversed.

A general provision for credit losses is established to absorb losses in the Company's portfolios where, in management's opinion, there exists a potential for impairment but for which specific provisions cannot be identified.

## Capital assets

Capital assets are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are recorded on a straight-line or declining balance basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

## Foreign currency translation

Foreign currency assets and liabilities are translated into Euro at prevailing year-end rates of exchange. Foreign currency revenue and expenses are translated at the average exchange rates prevailing throughout the year. Foreign exchange translation gains and losses and unrealized gains and losses on foreign currency exchange contracts are recorded in income during the year. Unrealized translation gains and losses on the Company's net investments in self-sustaining foreign operations, net of any offsetting gains and losses from effective hedges of these investments and applicable income taxes, are recognized in other comprehensive income ["OCI"].

## Derivative financial instruments

Derivative financial instruments include futures, options, forwards, swap and swaption contracts transacted in the interest rate, foreign exchange, equity and credit markets.

***Trading derivative financial instruments***

Trading derivative financial instruments are entered into by the Company to meet the needs of its clients or to hedge proprietary trading positions. Trading derivative financial instruments are recorded at fair value with the resulting realized and unrealized gains or losses recognized immediately in net trading and other income. For exchange-traded derivative financial instruments, fair value is based on quoted market prices. For over-the-counter derivative financial instruments, fair value is based on the use of other appropriate methods including broker quotes and valuation models.

*Non-trading derivative financial instruments*

Non-trading derivative financial instruments are entered into in order to manage the risks associated with the Company's funding and investment management strategies. Non-trading derivative financial instruments may or may not qualify for hedge accounting treatment. The Company follows hedge accounting only when a derivative financial instrument qualifies for hedge accounting. In order to qualify for hedge accounting, the hedging relationship must be designated and formally documented at its inception, outlining the risk management objective and strategy, the specific asset, liability or cash flow being hedged and the method of assessing hedge effectiveness. The non-trading derivative financial instrument and the underlying exposure must be highly and inversely correlated such that changes in the value of the non-trading derivative financial instrument will substantially offset the effects of the underlying exposure to the Company throughout the term of the hedging relationship.

Hedge accounting requires that gains, losses, revenue and expenses of a hedging item be recognized in the same period that the associated gains, losses, revenue and expenses of the underlying exposure are recognized.

Hedge effectiveness is assessed both at inception and on an ongoing basis. Hedge ineffectiveness results when changes in the fair value of the derivative financial instruments used for hedging purposes differ from the changes in the fair value of the underlying item being hedged, or when the cumulative change in the fair value of the derivative financial instruments used for hedging purposes differs from the cumulative change in the fair value of the underlying items being hedged. The amount of ineffectiveness of hedging instruments is recorded immediately in income.

Derivative financial instruments are carried at fair value and reported as assets where they have a positive value and as liabilities where they have a negative value.

The Company designates derivative financial instruments as hedges as part of its interest rate risk management strategies and to hedge net investments in self-sustaining foreign operations.

The interest rate risk management strategies use derivative financial instruments to hedge changes in the fair value of financial instruments with interest rate components, primarily customer deposits and subordinated loans. Changes in fair value attributed to the hedged risk are accounted for as adjustments to the underlying financial instrument and are recognized in net trading and other income. Changes in fair value of derivative financial instruments used to hedge the risk are recognized in net trading and other income. Accordingly, any hedge ineffectiveness, which is the difference between changes in fair value of the adjustment and the derivative financial instruments used to hedge the risk, is also recognized in net trading and other income.

The Company hedges a portion of its net investments in self-sustaining foreign operations to mitigate the foreign exchange risk on its net investments in subsidiaries. In these cases, the effective portion of the changes in fair value of the derivative financial instruments used for hedging purposes and based on changes in foreign exchange rates is included in OCI. When the net investments in self-sustaining foreign operations are reduced, proportionate gains or losses in OCI are recognized in income. The ineffective portion of the hedge transaction is recognized immediately in income.

## Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income taxes are based on the differences between the accounting basis and income tax basis of an asset or liability, referred to as temporary differences. Temporary differences are tax effected using enacted or substantively enacted tax rates and laws that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Future income tax balances recorded on the consolidated statement of financial position are adjusted to reflect changes in temporary differences and future income tax rates with the adjustments being recognized in income in the period that the change occurs. A valuation allowance is recorded when it is not more likely than not that all of the future tax assets recognized will be realized prior to their expiration.

## Employee future benefits

One of the Company's foreign subsidiaries sponsors a defined benefit pension plan for its employees.

The cost of benefits earned by the employees participating in the defined benefit pension plan is actuarially determined using the projected benefit method prorated on service and is charged to expense as services are rendered. This cost reflects management's best estimate of salary escalations, mortality of members, terminations and the ages at which members will retire. Actuarial gains and losses are recognized in income.

## Comprehensive income

Comprehensive income is composed of the Company's net income and OCI. OCI includes gains and losses on the translation of investments in self-sustaining foreign operations, net of hedging activities and income taxes.

## Stock-based compensation

The Company has a stock-based compensation arrangement for its employees, which is governed by the Amended Executive Restricted Share Unit ["RSU"] Plan. Upon vesting, recipients of RSUs are entitled to exchange one RSU for one Class C common share of the Company.

RSUs awarded are accounted for using the fair value method, such that the fair value of the RSUs is amortized to employee compensation and benefits expense over the vesting period. In cases where recipients of RSUs have the option to receive cash in lieu of RSUs, the amortized amount of employee compensation and benefits expense is recognized as a liability and remeasured at each reporting period at fair value, with the changes in fair value recognized in income. In cases where recipients of RSUs will receive stock, the amortized amount of employee compensation and benefits expense is added to contributed surplus without revaluation.

The RSU recipients are granted additional RSUs in lieu of dividends paid between the grant date and the exercise date based upon the number of outstanding unexercised RSUs. The value of the additional RSUs granted that is expected to be settled in stock is amortized to retained earnings with a corresponding credit to contributed surplus over the remaining vesting period. The value of the additional RSUs granted that are expected to settle in cash is amortized to employee compensation and benefits expense over the remaining vesting period and is revalued at each reporting date.

## International Financial Reporting Standards ["IFRS"]

In February 2008, the Canadian Accounting Standards Board confirmed that all Publicly Accountable Enterprises ["PAEs"] will be required to report under IFRS in 2011. IFRS will replace Canadian GAAP. Some of the Canadian subsidiaries of the Company are considered PAEs. Although the Company is not considered a PAE, it will elect to follow IFRS in preparing its consolidated financial statements effective October 1, 2011.

[Euro amounts in thousands, except where otherwise noted]

## 3. DISCONTINUED OPERATIONS

On September 30 2011, the Company's subsidiary, Maple Bank GmbH, closed its branch in Milan [the "Milan Branch"]. The Milan Branch was involved in a number of activities, including proprietary trading and commercial lending. The operating results of the Milan Branch have been reclassified as income from discontinued operations for all periods presented in the consolidated statement of income, retained earnings and accumulated other comprehensive income (loss). Loss from discontinued operations includes the following components:

| | **2011**<br>€ | **2010**<br>€ |
|---|---|---|
| Net investment income (loss) | **1,873** | (1,862) |
| Loss before income taxes | **(4,996)** | (4,306) |
| Loss from discontinued operations | **(4,996)** | (3,967) |

The consolidated statement of financial position for the prior year has been restated to reflect the assets and liabilities of the discontinued operations separately. The consolidated statement of cash flows for the prior year has also been restated to show the cash flows from discontinued operations separately.

[Euro amounts in thousands, except where otherwise noted]

## 4. TRADING SECURITIES OWNED AND SECURITIES SOLD SHORT

Trading securities owned and securities sold short consist of money market, fixed income and equity instruments. The following tables provide an analysis by type of security, maturity and effective yield:

| | **2011** | | | | |
|---|---|---|---|---|---|
| | **< 1 year** € | **1-5 years** € | **> 5 years** € | **No maturity** € | **Total** € |
| **Trading securities owned** | | | | | |
| Money market | **769,675** | — | — | — | **769,675** |
| Fixed income | — | **2,352,772** | **250,587** | — | **2,603,359** |
| *Effective yield* | ***1.7%*** | ***1.6%*** | ***2.6%*** | | ***1.8%*** |
| Equities | — | — | — | **1,244,353** | **1,244,353** |
| | **769,675** | **2,352,772** | **250,587** | **1,244,353** | **4,617,387** |
| **Securities sold short** | | | | | |
| Money market | **277,181** | — | — | — | **277,181** |
| Fixed income | — | **68,516** | **96,488** | — | **165,004** |
| *Effective yield* | ***0.8%*** | ***1.5%*** | ***2.1%*** | | ***1.9%*** |
| Equities | — | — | — | **805,517** | **805,517** |
| | **277,181** | **68,516** | **96,488** | **805,517** | **1,247,702** |

| | **2010** | | | | |
|---|---|---|---|---|---|
| | **< 1 year** € | **1-5 years** € | **> 5 years** € | **No maturity** € | **Total** € |
| **Trading securities owned** | | | | | |
| Money market | 534,563 | — | — | — | 534,563 |
| Fixed income | — | 2,310,424 | 196,157 | — | 2,506,581 |
| *Effective yield* | *1.9%* | *2.0%* | *3.1%* | | *2.2%* |
| Equities | — | — | — | 989,621 | 989,621 |
| | 534,563 | 2,310,424 | 196,157 | 989,621 | 4,030,765 |
| **Securities sold short** | | | | | |
| Money market | 142,577 | — | — | — | 142,577 |
| Fixed income | — | 295,758 | 172,492 | — | 468,250 |
| *Effective yield* | *0.7%* | *1.5%* | *2.6%* | | *2.2%* |
| Equities | — | — | — | 815,427 | 815,427 |
| | 142,577 | 295,758 | 172,492 | 815,427 | 1,426,254 |

[Euro amounts in thousands, except where otherwise noted]

Net trading and other income includes €2,441 [2010 - €13,876] relating to financial instruments designated as held-for-trading.

## 5. DUE FROM/DUE TO CLIENTS

Due from clients arises primarily from collateralized loans to clients, deposits placed with state governments and amounts due from unsettled trades. Due to clients arises primarily from cash collateral received for derivative financial instrument transactions and current accounts payable to clients. These accounts pay interest at a floating rate. Receivables from and payables to clients arising from unsettled trades are due by the settlement date of the related trade transaction. Collateralized loans to clients are carried at amortized cost using the effective interest rate method.

Due from clients includes loans related to the Company's collateralized lending businesses. Collateral against these loans includes securities, mortgage loans and other assets.

The following tables provide an analysis of collateralized loans included in due from clients by maturity date. Effective yields are based on book value and contracted interest rates at September 30:

| | | | 2011 | | |
|---|---|---|---|---|---|
| | **Floating** | **< 1 year** | **1-5 years** | **> 5 years** | **Total** |
| | € | € | € | € | € |
| Loans balance | **18,961** | **52,263** | **17,625** | **39,721** | **128,570** |
| *Effective yield* | ***6.6%*** | ***5.4%*** | ***4.0%*** | ***3.8%*** | ***4.0%*** |

| | | | 2010 | | |
|---|---|---|---|---|---|
| | **Floating** | **< 1 year** | **1-5 years** | **> 5 years** | **Total** |
| | € | € | € | € | € |
| Loans balance | 49,468 | 67,991 | 14,326 | 4,241 | 136,026 |
| *Effective yield* | *7.2%* | *4.0%* | *5.1%* | *4.8%* | *5.6%* |

Included in due from clients are impaired loans of €81,244 [2010 - €87,959]. Specific provisions recorded against these loans were €62,604 [2010 - €63,007].

[Euro amounts in thousands, except where otherwise noted]

The allowance for credit losses on the collateralized lending businesses consists of the following:

| | 2011<br>€ | 2010<br>€ |
|---|---|---|
| **Allowance for credit losses, beginning of year** | **63,007** | 61,502 |
| Provision for loan losses | **24** | 5,433 |
| Reserves written off or recovered | **(1,762)** | (7,415) |
| Foreign exchange and other | **1,335** | 3,487 |
| **Allowance for credit losses, end of year** | **62,604** | 63,007 |

## 6. SECURITIES BORROWED AND LOANED

In the normal course of business, the Company may lend securities it owns or borrows. The Company may also borrow to settle securities sold short, to facilitate the settlement process or to facilitate proprietary trading. Cash, letters of credit or securities including government treasury bills and government bonds collateralize these transactions. Securities borrowed and loaned are due on demand and are subject to a three-day recall.

Included in due from brokers and financial institutions are amounts receivable for cash collateral delivered for securities borrowed. Included in due to brokers and financial institutions are amounts payable arising from cash collateral received for securities loaned. Rebates earned on cash collateral delivered and paid on cash collateral received are based on a floating rate. When securities are delivered or received as collateral, the value of the collateral does not appear on the consolidated statement of financial position.

The market value of securities borrowing and lending activities and collateral delivered and received is as follows:

| | 2011<br>€ | 2010<br>€ |
|---|---|---|
| Market value of securities borrowed and collateral received | **2,711,662** | 4,182,216 |
| Market value of securities loaned and collateral delivered | **2,772,505** | 4,244,355 |

The Company manages exposures to counterparties arising from securities lending and borrowing activities on a net basis. Included in the market value of securities loaned and collateral delivered is collateral delivered of €2,285,924 [2010 - €2,819,805].

[Euro amounts in thousands, except where otherwise noted]

The settlement of outstanding commitments at September 30, 2011 relating to securities lending and collateral arrangements will, in the opinion of management, not have a material adverse effect on the financial position of the Company. Master netting agreements are in place to allow favourable contracts or securities lending exposures to be settled against unfavourable contracts or securities lending deficiencies with the same counterparty.

Securities purchased under resale agreements and obligations under repurchase agreements have been fully collateralized.

## 7. DUE FROM/DUE TO BROKERS AND FINANCIAL INSTITUTIONS

Due from brokers and financial institutions consists of the following balances:

| | **2011** | **2010** |
|---|---|---|
| | € | € |
| Cash collateral delivered for securities borrowed *[note 6]* | **1,267,621** | 1,856,024 |
| Cash collateral delivered for trading positions | **39,788** | 19,738 |
| Unsettled trades | **84,641** | 95,671 |
| Balances with exchanges, prime brokers and other | **36,493** | 134,597 |
| | **1,428,543** | 2,106,030 |

Due to brokers and financial institutions consists of the following balances:

| | **2011** | **2010** |
|---|---|---|
| | € | € |
| Cash collateral received for securities loaned *[note 6]* | **595,067** | 1,385,945 |
| Cash collateral received for trading positions | **7,090** | — |
| Unsettled trades | **172,620** | 63,957 |
| Balances with exchanges, prime brokers and other | **73,295** | 21,421 |
| | **848,072** | 1,471,323 |

Receivables from and payables to brokers and financial institutions arising from unsettled trades are due by the settlement date of the related trade transaction. Interest received or paid on cash collateral balances and balances with exchanges and prime brokers is based on a floating rate. Cash collateral delivered or received for trading positions is offsettable against the underlying trading position.

[Euro amounts in thousands, except where otherwise noted]

Included in due from brokers and financial institutions are loans which have been fully reserved of €26,316 [2010 - €26,306] arising from the Company's trading and securities lending and borrowing activities.

## 8. SECURITIZATIONS

During the year, the Company sold €38,306 of fixed rate residential loans receivable in securitization transactions.

For the year ended September 30, 2011, net trading and other income includes the following amounts related to securitization transactions:

| | **Fixed rate residential loans** €|
|---|---|
| Gains on sale of loans | **471** |

Other securitization revenue includes accretion income from interest-only strips.

Retained interests in securitized assets, which are included in due from clients on the consolidated statement of financial position as at September 30, 2011, consist of the following:

| | **Fixed rate residential loans** € |
|---|---|
| Interest-only strips | **1,733** |
| Retained interests in securitized assets | **1,733** |

The following table summarizes certain cash flows received from securitization vehicles during the year ended September 30, 2011:

| | **Fixed rate residential loans** € |
|---|---|
| Proceeds from new securitizations | **39,436** |
| Receipt of retained interests in securitized assets | **151** |

[Euro amounts in thousands, except where otherwise noted]

The following table provides quantitative information about key assumptions in measuring retained interests at the date of securitization of fixed rate residential mortgage loans receivable during the year ended September 30, 2011:

| | |
|---|---|
| Prepayment rate | **6.00%** |
| Discount rate | **2.53%** |
| Expected credit losses | ***n/a** |

*Not applicable as these mortgages are insured

At September 30, 2011, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10% and 20% adverse changes in those assumptions for fixed rate mortgage loans receivable are as follows:

| | |
|---|---|
| Carrying amount/fair value of retained interests in securitized assets | **€1,733** |
| Discount rate [annual rate] | **2.53%** |
| Impact on fair value of 10% adverse change | **€18** |
| Impact on fair value of 20% adverse change | **€36** |
| Prepayment speed assumptions [annual rate] | **6.00%** |
| Impact on fair value of 10% adverse change | **€6** |
| Impact on fair value of 20% adverse change | **€12** |
| Expected credit losses | ***n/a** |

*Not applicable as these mortgages are insured

The sensitivity analysis is hypothetical and should be used with caution. As the figures above indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in these tables, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another [for example, increases in market interest rates may result in lower prepayments], which might magnify or counteract the sensitivities.

[Euro amounts in thousands, except where otherwise noted]

The table below summarizes quantitative information about mortgage loans receivable securitized, owned and managed, delinquencies and securitized assets as at September 30, 2011:

| | **Total principal amount** € | **Arrears > 90 days** € |
|---|---|---|
| Total mortgage loans receivable securitized and owned | **56,505** | — |
| Less securitization | **38,174** | — |
| **Total mortgage loans receivable owned** | **18,331** | — |

## 9. VARIABLE INTEREST ENTITIES

There is one VIE for which the Company is the primary beneficiary and it has been included in the consolidated financial statements. The Company also provides loans to four VIEs, but the Company is not the primary beneficiary because other parties absorb more of the expected variability of returns. The loans are fully collateralized.

As at September 30, 2011, the total assets of the non-consolidated and consolidated VIEs are €99,195 and €18,648 [2010 - €100,238 and €2,876], respectively. The maximum exposure to loss relating to non-consolidated and consolidated VIEs is €19,155 and €18,648 [2010 - €27,328 and €2,876], respectively. The maximum exposure would only occur in the event of default on the loans and collateral provided being valueless.

## 10. BANK LOANS

Bank loans include bank overdrafts and amounts due to banks. The average interest rate on bank loans is 1.9% [2010 - 0.5%].

[Euro amounts in thousands, except where otherwise noted]

## 11. CUSTOMER DEPOSITS

Short-term customer deposits of €1,539,264 [2010 - €1,156,166] mature within one year and bear interest at an average rate of 2.3% [2010 - 2.2%].

The following tables provide an analysis of long-term customer deposits by the earlier of contractual repricing or maturity date. Average interest rates are based on book value and contracted interest rates at September 30.

| | **2011** | | | |
|---|---|---|---|---|
| | **1-5 years** € | **6-10 years** € | **> 10 years** € | **Total** € |
| Long-term customer deposits | **214,084** | **144,554** | **51,444** | **410,082** |
| *Average interest rate* | ***4.1%*** | ***4.5%*** | ***4.9%*** | ***4.5%*** |

| | **2010** | | | |
|---|---|---|---|---|
| | **1-5 years** € | **6-10 years** € | **>10 years** € | **Total** € |
| Long-term customer deposits | 240,783 | 248,174 | 106,926 | 595,883 |
| *Average interest rate* | *4.6%* | *4.4%* | *4.9%* | *4.6%* |

[Euro amounts in thousands, except where otherwise noted]

## 12. SUBORDINATED LOANS

The following tables provide an analysis of subordinated loans of a subsidiary.  Average interest rates are based on book value and contracted interest rates at September 30.

| | **2011** | | |
|---|---|---|---|
| | **1-5 years** | **6-10 years** | **Total** |
| | € | € | € |
| Subordinated loans balance | **5,000** | **35,020** | **40,020** |
| *Average interest rate* | ***5.2%*** | ***6.0%*** | ***5.9%*** |

| | **2010** | | |
|---|---|---|---|
| | **1-5 years** | **6-10 years** | **Total** |
| | € | € | € |
| Subordinated loans balance | — | 34,000 | 34,000 |
| *Average interest rate* | — | *6.0%* | *6.0%* |

Interest expense on subordinated loans for the year was €2,350 [2010 - €2,023].

[Euro amounts in thousands, except where otherwise noted]

## 13. CAPITAL STOCK

Capital stock consists of the following:

| | **2011** € | **2010** € |
|---|---|---|
| **Authorized** | | |
| Unlimited Class A common shares, voting | | |
| Unlimited Class C common shares, non-voting | | |
| Unlimited Class D common shares, voting | | |
| Unlimited Class D preference shares | | |
| **Issued** | | |
| 42,658,061 Class A common shares [2010 - 52,105,551] | **9,766** | 8,462 |
| 49,131,792 Class C common shares [2010 - 35,195,366] | **23,478** | 5,154 |
| 4,028,769 Class D common shares [2010 - 5,591,279] | **2,245** | 3,116 |
| 5,814,103 Class D preference shares [2010 - 19,562,021] | **4,135** | 13,967 |
| | **39,624** | 30,699 |

Class D preference shares have no stated dividend rate and are redeemable at one Canadian dollar per share.

On October 7, 2010, the Company paid a dividend of €1.07 per share [€93,412] to Class A and Class C common shareholders. On the same date, the Company redeemed 8,423,595 Class D preference shares for €5,983.

On March 16, 2011, the Company paid a dividend of €0.40 per share [€36,720] to Class A and Class C common shareholders. On the same date, the Company redeemed 2,211,633 Class D preference shares for €1,612.

On February 8, 2011, 11,000,000 Class A common shares were exchanged for 11,000,000 Class C common shares. The stated value of these Class A and Class C common shares was €1,787. On the same date, 1,562,510 Class D common shares and 3,112,690 Class D preference shares were exchanged for 1,562,510 Class A common shares. Class A common shares were increased by €3,093, Class D common shares were decreased by €871 and Class D preference shares were decreased by €2,222.

On September 30, 2011, the Company redeemed 10,000 Class A common shares with a stated value of €2. The difference between the redemption price and the stated value of the Class A common shares of €34 was charged to retained earnings.

[Euro amounts in thousands, except where otherwise noted]

During the year, 2,936,426 Class C common shares were issued following the exercise of RSUs. Capital stock was increased and contributed surplus was decreased by €16,537.

## 14. STOCK-BASED COMPENSATION

The continuity of shares issued and exercised under the Company's RSU plan is shown below:

| | Cash-settled | Equity-settled | Total |
|---|---|---|---|
| **RSUs outstanding, October 1, 2010** | **4,690,940** | **4,690,940** | **9,381,880** |
| RSUs granted during the year | | | |
| Awards | **485,842** | **485,842** | **971,684** |
| In lieu of dividends paid | **1,321,863** | **1,321,857** | **2,643,720** |
| **RSUs exercised during the year** | **(2,936,432)** | **(2,936,426)** | **(5,872,858)** |
| **RSUs outstanding, September 30, 2011** | **3,562,213** | **3,562,213** | **7,124,426** |

The fair value of RSUs granted during the year, measured at the grant date, was €13,813 [2010 - €29,068]. The vesting provisions are determined by the Board of Directors at the date of the grant. The outstanding RSUs vest over a two to four-year period.

The amortization of vesting provisions resulted in total amortized compensation expense of €17,114 [2010 - €17,184] for the year and a credit to contributed surplus of €13,632 [2010 - €14,813]. At September 30, 2011, the liability for amortized compensation cost is €9,356 [2010 - €11,935]. At September 30, 2011, the unamortized compensation cost is €20,200 [2010 - €23,573].

The Company has charged €6,684 [2010 - €1,988] to retained earnings for RSUs awarded in lieu of dividends paid during the vesting period, with a corresponding credit to contributed surplus.

## 15. INCOME TAXES

The provision for (recovery of) income taxes is calculated for each company in the group using the effective federal, state, provincial or other local tax rates applied to the taxable income (loss) of that company, allowing for any income which may be exempt from income tax under the appropriate regulations.

[Euro amounts in thousands, except where otherwise noted]

The Company's provision for (recovery of) income taxes for the year ended September 30, compared to statutory Canadian marginal tax rates, is summarized as follows:

| | 2011<br>€ | 2010<br>€ |
|---|---|---|
| Income (loss) before income taxes | **(7,169)** | 86,958 |
| Income tax expense (benefit) at statutory Canadian marginal income tax rate of 28.75% [2010 - 31.75%] | **(2,061)** | 27,609 |
| Net adjustment to future tax assets valuation allowance | **(16,961)** | (284) |
| Rate differentials on international operations | **(548)** | 2,814 |
| Release of provisions | **(43,373)** | — |
| Non-taxable income | **(4,747)** | — |
| Non-deductible expenses | **1,494** | 2,197 |
| Change to prior year estimate | **652** | (4,285) |
| Other | **(477)** | 77 |
| **Provision for (recovery of) income taxes** | **(66,021)** | 28,128 |

The provision for (recovery of) income taxes for the year ended September 30, 2011 includes a reversal of withholding tax of €38.2 million, the reversal of a valuation allowance of €16.6 million on tax loss carryforwards for the Milan Branch of Maple Bank GmbH and the realization of loan loss provisions in the Company's U.S. subsidiaries.

Other receivables and accounts payable and accrued liabilities contain the following income tax balances:

| | 2011<br>€ | 2010<br>€ |
|---|---|---|
| Other receivables | | |
| Current income taxes recoverable | **23,534** | 2,710 |
| Future income tax assets | **24,662** | 9,016 |
| Accounts payable and accrued liabilities | | |
| Current income taxes payable | **7,784** | 39,434 |
| Future income tax liabilities | **650** | 16,321 |

[Euro amounts in thousands, except where otherwise noted]

The provision for (recovery of) income taxes on the consolidated statement of income, retained earnings and accumulated other comprehensive income (loss) is comprised of the following:

| | **2011**<br>€ | **2010**<br>€ |
|---|---|---|
| Current income taxes expense (recovery) | **(34,989)** | 44,746 |
| Future income taxes expense (recovery) | **(31,032)** | (16,618) |
| **Provision for (recovery of) income taxes** | **(66,021)** | 28,128 |

## Future income taxes

Future income taxes reflect the net tax effect of loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax assets and liabilities are as follows:

| | **2011**<br>€ | **2010**<br>€ |
|---|---|---|
| **Future income tax assets** | | |
| Loss carryforwards | **13,530** | 6,967 |
| Unpaid compensation and other temporary differences | **24,211** | 22,909 |
| | **37,741** | 29,876 |
| Less valuation allowance | **(13,079)** | (20,860) |
| **Total future income tax assets** | **24,662** | 9,016 |
| | | |
| **Future income tax liabilities** | | |
| Tax on undistributed earnings | **—** | 13,658 |
| Gain on hedge instruments | **9** | 112 |
| Other temporary differences | **641** | 2,551 |
| **Total future income tax liabilities** | **650** | 16,321 |

As at September 30, 2011, the Company has €15,627 of operating tax loss carryforwards for which it has not recognized the income tax benefits in the consolidated financial statements. The operating tax loss carryforwards expire in the year 2022 and thereafter. As a result of the closing of the Milan Branch of Maple Bank GmbH, a significant portion of the losses presented in previous years are no longer available for carryforward *[note 3]*.

[Euro amounts in thousands, except where otherwise noted]

## 16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

A foreign subsidiary of the Company has a defined benefit pension plan. The pension obligation is fully accrued with a substantial portion managed internally. Actuarial valuations are prepared annually with the last measurement date of September 30. The foreign subsidiary participates in a mandatory insurance scheme, which provides payments to employees in the event of default by the foreign subsidiary.

Pension obligations, the breakdown of internally and externally managed pension liabilities and assumptions used in computing defined pension benefits are as follows:

| | 2011 | 2010 |
|---|---|---|
| Accrued pension obligation | **13,663** | 15,284 |
| Internally managed pension liability | **12,499** | 14,275 |
| Externally managed pension liability | **1,156** | 1,009 |
| Pension expense recorded during the year | **1,641** | 4,240 |
| Assumptions used: | | |
| Discount rate | **5.4%** | 4.4% |
| Rate of compensation increase | **3.5%** | 3.5% |
| Escalation of benefits in payment | **2.0%** | 1.8% |

## 17. NET INVESTMENT INCOME

Interest income includes interest earned on the Company's collateralized lending portfolios. Interest expense includes interest paid and accrued to depositors and banks to finance the Company's businesses. Provision for loan losses includes general and specific provisions arising from the Company's lending and trading businesses. Net trading and other income includes interest and dividends earned on securities owned, less interest and dividends accrued on securities sold short, income from principal transactions, securities lending and borrowing fees, income and expenses from securities resale and repurchase agreements, realized and unrealized gains and losses on securities and derivative financial instruments, and other income.

## 18. DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into derivative financial instruments, as described below, for trading and non-trading purposes.

### Products

The Company's derivative transactions include option, future, forward, swap and swaption contracts. Options are contracts which give the acquirer, for a fee, the right, but not the obligation, to buy or sell within a limited time a derivative instrument or foreign currency at a contracted price. Futures and forward contracts are commitments to buy or sell at a future date a derivative instrument, equity, bond, commodity or foreign currency at a contracted price and may be settled through cash or physical delivery.

Swaps are contracts that involve commitments between two parties to exchange a series of cash flows based on a notional principal amount. In interest rate swaps, the parties will exchange a fixed for a floating interest payment based on a single currency. Interest rate swaps also include the exchange of the total return on a bond for an interest amount based on a short-term interest rate applied to the notional amount. For cross-currency interest rate swaps, principal amounts and fixed and floating interest payments are exchanged in different currencies. For equity swaps, the counterparties exchange, over an agreed period, the change in value of an equity security or basket of equity securities, if any, plus dividends for an interest amount based on a short-term interest rate applied to the notional amount.

Credit derivatives are contracts that allow one party to transfer credit risk of a reference asset to one or more other parties. A credit default swap is a contract whereby the seller will pay, or the buyer will receive, a payment only if a specified credit event occurs. Typical credit events are bankruptcy, insolvency, credit downgrade or failure to make a required scheduled payment. The Company is a buyer and seller of credit derivatives on bonds of individual companies and diversified portfolios of bonds.

### Notional amounts and fair values

The notional value of derivative financial instruments represents an amount to which a rate or price is applied in order to calculate the exchange of cash flows. Notional values of these instruments indicate the extent of the Company's involvement in various types and uses of derivative financial instruments but do not measure the Company's exposure to credit risk and do not represent the amounts exchanged by the parties to the instruments. Notional amounts are not included in the consolidated financial statements and generally exceed the future cash requirements relating to the instruments.

[Euro amounts in thousands, except where otherwise noted]

The credit risk of derivatives is the risk of financial loss associated with counterparty non-performance. The Company's current exposure to credit risk associated with non-performance is limited to the positive fair value of the derivative assets as recorded in the consolidated statement of financial position.

The Company enters into master netting agreements to reduce exposure to credit losses. The master netting agreements allow favourable contracts to be settled against unfavourable contracts with the same counterparty.

The following tables disclose the notional or contract amounts and fair values of the Company's trading and non-trading derivative financial instruments:

| **Notional amounts** | **2011** | | | | | | **2010** |
|---|---|---|---|---|---|---|---|
| **Residual term to maturity** | **< 1 year** € | **1 to 5 years** € | **> 5 years** € | **Total** € | **Trading book** € | **Non-trading book** € | **Total notional amount** € |
| **Foreign currency products** | | | | | | | |
| Forward agreements | **1,121,710** | **24,856** | — | **1,146,566** | **809,564** | **337,002** | **1,728,472** |
| **Interest rate products** | | | | | | | |
| Swap contracts | **6,461,359** | **2,972,622** | **463,662** | **9,897,643** | **9,272,261** | **625,382** | **6,849,893** |
| Futures contracts | **1,010,113** | **227,968** | — | **1,238,081** | **1,238,081** | — | **1,510,264** |
| Options | | | | | | | |
| Written | — | **45,000** | — | **45,000** | **45,000** | — | **45,000** |
| **Equity products** | | | | | | | |
| Swap contracts | **279,899** | — | — | **279,899** | **279,899** | — | **143,937** |
| Equity forwards | **44,000** | — | — | **44,000** | **44,000** | — | — |
| Options | | | | | | | |
| Purchased | **763,636** | **2,300** | — | **765,936** | **765,936** | — | **499,661** |
| Written | **792,638** | — | — | **792,638** | **792,638** | — | **522,310** |
| Futures contracts | **151,071** | — | — | **151,071** | **151,071** | — | **11,144** |
| **Credit default products** | | | | | | | |
| Credit contracts | **1,023,803** | **78,106** | — | **1,101,909** | **1,101,909** | — | **115,292** |
| **Total 2011** | **11,648,229** | **3,350,852** | **463,662** | **15,462,743** | **14,500,359** | **962,384** | |
| Total 2010 | 7,485,098 | 3,529,259 | 411,616 | 11,425,973 | 9,758,026 | 1,667,947 | 11,425,973 |

[Euro amounts in thousands, except where otherwise noted]

September 30, 2011

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Fair value asset €** | **Fair value liability €** | **Net €** | **Fair value asset €** | **Fair value liability €** | **Net €** |
| **Derivative financial instruments held or issued for trading purposes** | | | | | | |
| **Foreign currency products** | | | | | | |
| Forward agreements | **8,424** | **1,867** | **6,557** | 17,521 | 222 | 17,299 |
| **Interest rate products** | | | | | | |
| Swap contracts | **21,723** | **99,650** | **(77,927)** | 10,330 | 71,866 | (61,536) |
| Futures contracts | — | — | — | — | — | — |
| Options | | | | | | |
| Written | — | **411** | **(411)** | — | 449 | (449) |
| **Equity products** | | | | | | |
| Swap contracts | **4,230** | **10,291** | **(6,061)** | 2,869 | 127 | 2,742 |
| Equity forwards | **141** | **2,126** | **(1,985)** | — | — | — |
| Options | | | | | | |
| Purchased | **81,997** | — | **81,997** | 83,525 | — | 83,525 |
| Written | — | **143,431** | **(143,431)** | — | 193,975 | (193,975) |
| **Credit default products** | | | | | | |
| Credit contracts | **5,784** | **2,081** | **3,703** | 460 | 4,799 | (4,339) |
| | **122,299** | **259,857** | **(137,558)** | 114,705 | 271,438 | (156,733) |

[Euro amounts in thousands, except where otherwise noted]

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Fair value asset € | Fair value liability € | Net € | Fair value asset € | Fair value liability € | Net € |
| **Derivative financial instruments held or issued for non-trading purposes** | | | | | | |
| **Foreign currency products** | | | | | | |
| Forward agreements | **5,384** | **6,521** | **(1,137)** | 8,911 | 1,124 | 7,787 |
| **Interest rate products** | | | | | | |
| Swap contracts | **50,735** | **1,904** | **48,831** | 63,529 | 7 | 63,522 |
| | **56,119** | **8,425** | **47,694** | 72,440 | 1,131 | 71,309 |
| **Total value of derivative financial instruments before netting** | **178,418** | **268,282** | **(89,864)** | 187,145 | 272,569 | (85,424) |
| Impact of netting | **(97,103)** | **(97,103)** | **—** | (102,261) | (102,261) | — |
| **Total value of derivative financial instruments after netting** | **81,315** | **171,179** | **(89,864)** | 84,884 | 170,308 | (85,424) |

The Company has delivered non-cash collateral of €171,189 [2010 - €136,527] and received non-cash collateral of nil [2010 - €26,173] in support of derivative trading positions.

[Euro amounts in thousands, except where otherwise noted]

## 19. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company enters into transactions with employees, shareholders and other related parties. Shareholders include National Bank of Canada and its subsidiaries and affiliates [together, the "related parties"].

The Company enters into securities borrowing arrangements with the related parties. As at September 30, 2011, the Company has borrowed €153 [2010 - €3,575] of securities in exchange for cash collateral delivered of €172 [2010 - €3,578]. The Company has loaned €25,588 [2010 - nil] of securities in exchange for cash collateral received of €25,912 [2010 - nil]. The Company has borrowed €536 [2010 - nil] of securities in exchange for non-cash collateral delivered of €544 [2010 - nil]. The Company has loaned nil [2010 - €16] of securities in exchange for non-cash collateral received of nil [2010 - €18].

As at September 30, 2011, the Company has receivable account balances with employees included in due from clients and other receivables of €300 [2010 - €207] and trading account balances included in due to clients of €5,317 [2010 - €1,153].

These transactions are carried out at the exchange amount, under substantially the same terms and conditions as with unrelated parties.

## 20. COMMITMENTS

### Credit commitments

In the normal course of business, the Company enters into various commitments. The credit commitments shown below are not reflected in the consolidated statement of financial position:

| | **2011**<br>€ | **2010**<br>€ |
|---|---|---|
| Letter of credit with commercial finance customer | **940** | 857 |
| Letter of credit with payroll service provider | **—** | 310 |
| Guarantee provided to commercial finance customer | **2,468** | 2,444 |

[Euro amounts in thousands, except where otherwise noted]

## Lease commitments

Future minimum annual lease payments on office premises under operating leases by year of expiry are as follows:

| | € |
|---|---|
| 2012 | 2,891 |
| 2013 | 2,465 |
| 2014 | 1,478 |
| 2015 | 935 |
| 2016 and thereafter | 935 |
| | 8,704 |

## 21. SEGMENTED INFORMATION

The Company operates principally in Canada, the United States, the United Kingdom and Europe. European operations are concentrated in Germany and Italy. Italian operations have been classified as discontinued operations *[note 3]*. The Company categorizes its operations based on the location where the business is transacted, regardless of currency.

Financial information by geographic segment is as follows:

| | 2011 | | | | |
|---|---|---|---|---|---|
| | **Canada**<br>€ | **U.S.A.**<br>€ | **United Kingdom**<br>€ | **Europe**<br>€ | **Consolidated**<br>€ |
| **Net investment income** | **14,434** | **14,369** | **14,216** | **43,181** | **86,200** |
| **Income (loss) before income taxes** | **(6,756)** | **1,890** | **770** | **(3,073)** | **(7,169)** |
| **Total assets** | **2,973,277** | **803,470** | **1,165,701** | **4,420,400** | **9,362,848** |

[Euro amounts in thousands, except where otherwise noted]

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Canada<br>€ | U.S.A.<br>€ | United Kingdom<br>€ | Europe<br>€ | Consolidated<br>€ |
| **Net investment income** | 18,574 | 24,129 | 39,800 | 104,107 | 186,610 |
| **Income before income taxes** | 15,929 | 8,278 | 26,243 | 36,508 | 86,958 |
| **Total assets – continuing operations** | 3,005,413 | 1,474,097 | 1,055,801 | 1,925,461 | 7,460,772 |
| **Total assets – discontinued operations** | — | — | — | 229,842 | 229,842 |
| **Total assets** | 3,005,413 | 1,474,097 | 1,055,801 | 2,155,303 | 7,690,614 |

## 22. FAIR VALUES

### Methods and assumptions

The Company calculates fair values based on the following methods and assumptions:

*Financial instruments where fair value is equal to carrying value*
For certain financial assets and financial liabilities that are short-term in nature or contain variable rate features, fair value is based on the appropriate prevailing interest rates and/or credit curves. The book value of cash and cash equivalents, securities purchased under resale agreements, loans and receivables from certain clients and brokers and financial institutions, bank loans, obligations under repurchase agreements, due to clients and due to brokers and financial institutions as well as certain other assets and liabilities corresponds to the fair value.

*Trading securities owned and securities sold short*
Fair values are based on quoted market prices or, where quoted market prices are not readily available, quoted market prices of similar securities, or other third-party evidence or by using a valuation technique that incorporates assumptions based primarily on observable market inputs.

*Derivative financial instruments issued for trading purposes*
Fair value is based on quoted market prices where available. Otherwise, fair value is determined using valuation models that incorporate assumptions based on inputs observed in external markets, such as current market prices and the contractual prices of the underlying instruments, interest rate curves, credit curves, foreign exchange rates as well as price and rate volatility factors. When one or more significant inputs are not observable in the markets, fair value is based primarily on the basis of internal estimates and data, taking into account valuation policies in effect by the Company, economic conditions, the specific characteristics of the financial asset or liability or

[Euro amounts in thousands, except where otherwise noted]

other relevant factors. In establishing fair value of derivative financial instruments, credit risk, the financial capacity of counterparties, the measurement of the current or future market value of the transactions as well as credit risk mitigation measures are taken into account.

*Customer deposits and subordinated loans*
Fair value of customer deposits and subordinated loans is determined by discounting future contractual cash flows using market interest rates currently offered for similar financial instruments and that have the same term to maturity.

The fair values of the Company's financial liabilities that differ from book values are set out below. The estimated fair value amounts are designed to approximate amounts at which the liabilities could be exchanged in a transaction between willing counterparties who are under no compulsion to act. However, many of the Company's financial liabilities lack an active trading market. Therefore, the fair value amounts shown are based on present value techniques and are significantly affected by the assumptions used regarding the timing of future cash flows and discount rates, which reflect varying degrees of risk. Because of this, the fair value amounts should not be interpreted as being necessarily realizable in the event of the immediate settlement of the instruments.

| | **2011** | | **2010** | |
|---|---|---|---|---|
| | **Book value** € | **Fair value** € | **Book value** € | **Fair value** € |
| **Liabilities** | | | | |
| Short-term customer deposits | **1,539,264** | **1,539,538** | 1,156,166 | 1,156,445 |
| Long-term customer deposits | **410,082** | **396,838** | 595,883 | 594,002 |
| Subordinated loans | **40,020** | **31,327** | 34,000 | 31,008 |

*Fair value hierarchy*
Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

Level 1 – valuation based on quoted market prices
Level 2 – valuation based on observable market information as inputs
Level 3 – valuation based on significant unobservable market information as inputs

[Euro amounts in thousands, except where otherwise noted]

The following tables present the fair values of trading securities owned and securities sold short classified using the fair value hierarchy:

| | 2011 | | | |
|---|---|---|---|---|
| | **Level 1** € | **Level 2** € | **Level 3** € | **Total** € |
| **Trading securities owned** | | | | |
| Money market | **691,798** | **77,877** | **—** | **769,675** |
| Fixed income | **820,547** | **1,764,937** | **17,875** | **2,603,359** |
| Equities | **1,056,611** | **186,811** | **931** | **1,244,353** |
| | **2,568,956** | **2,029,625** | **18,806** | **4,617,387** |
| **Securities sold short** | | | | |
| Money market | **222,957** | **54,224** | **—** | **277,181** |
| Fixed income | **156,035** | **8,969** | **—** | **165,004** |
| Equities | **718,125** | **87,392** | **—** | **805,517** |
| | **1,097,117** | **150,585** | **—** | **1,247,702** |

| | 2010 | | | |
|---|---|---|---|---|
| | **Level 1** € | **Level 2** € | **Level 3** € | **Total** € |
| **Trading securities owned** | | | | |
| Money market | 251,574 | 273,593 | 9,396 | 534,563 |
| Fixed income | 823,207 | 1,661,108 | 22,266 | 2,506,581 |
| Equities | 713,528 | 275,084 | 1,009 | 989,621 |
| | 1,788,309 | 2,209,785 | 32,671 | 4,030,765 |
| **Securities sold short** | | | | |
| Money market | 142,404 | 173 | — | 142,577 |
| Fixed income | 466,147 | 2,103 | — | 468,250 |
| Equities | 633,736 | 181,691 | — | 815,427 |
| | 1,242,287 | 183,967 | — | 1,426,254 |

[Euro amounts in thousands, except where otherwise noted]

The following tables present the fair value of derivative financial instruments classified using the fair value hierarchy:

| | 2011 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | € | € | € | € |
| **Derivative financial instruments – assets** | | | | |
| Foreign currency products | | | | |
| Trading | — | **8,424** | — | **8,424** |
| Non-trading | — | **5,384** | — | **5,384** |
| Interest rate products | | | | |
| Trading | — | **21,723** | — | **21,723** |
| Non-trading | — | **50,735** | — | **50,735** |
| Equity products | | | | |
| Trading | **819** | **85,547** | **2** | **86,368** |
| Credit default products | | | | |
| Trading | — | **5,784** | — | **5,784** |
| | **819** | **177,597** | **2** | **178,418** |
| **Derivative financial instruments – liabilities** | | | | |
| Foreign currency products | | | | |
| Trading | — | **1,867** | — | **1,867** |
| Non-trading | — | **6,521** | — | **6,521** |
| Interest rate products | | | | |
| Trading | — | **100,061** | — | **100,061** |
| Non-trading | — | **1,904** | — | **1,904** |
| Equity products | | | | |
| Trading | **97,622** | **58,226** | — | **155,848** |
| Credit default products | | | | |
| Trading | — | **2,081** | — | **2,081** |
| | **97,622** | **170,660** | — | **268,282** |

[Euro amounts in thousands, except where otherwise noted]

| | 2010 | | | |
|---|---|---|---|---|
| | **Level 1** € | **Level 2** € | **Level 3** € | **Total** € |
| **Derivative financial instruments – assets** | | | | |
| Foreign currency products | | | | |
| Trading | — | 17,521 | — | 17,521 |
| Non-trading | — | 8,911 | — | 8,911 |
| Interest rate products | | | | |
| Trading | — | 10,330 | — | 10,330 |
| Non-trading | — | 63,529 | — | 63,529 |
| Equity products | | | | |
| Trading | 885 | 85,507 | 2 | 86,394 |
| Credit default products | | | | |
| Trading | — | 460 | — | 460 |
| | 885 | 186,258 | 2 | 187,145 |
| **Derivative financial instruments – liabilities** | | | | |
| Foreign currency products | | | | |
| Trading | — | 222 | — | 222 |
| Non-trading | — | 1,124 | — | 1,124 |
| Interest rate products | | | | |
| Trading | — | 72,315 | — | 72,315 |
| Non-trading | — | 7 | — | 7 |
| Equity products | | | | |
| Trading | 88,523 | 105,580 | — | 194,103 |
| Credit default products | | | | |
| Trading | — | 4,798 | — | 4,798 |
| | 88,523 | 184,046 | — | 272,569 |

[Euro amounts in thousands, except where otherwise noted]

Level 3 assets also include retained interests in securitized assets of €1,733 [2010 - nil].

The change in fair values of trading securities owned, securities sold short, retained interests in securitized assets and derivative financial instruments classified in Level 3 is shown in the table below:

| | **2011** € | **2010** € |
|---|---|---|
| **Fair value, beginning of year** | **32,673** | 38,316 |
| Total realized gains in income | **774** | 8,746 |
| Total unrealized gains (losses) in income | **(54)** | 1,586 |
| Purchases, sales, settlements and other, net | **(12,855)** | (16,122) |
| Foreign exchange and other | **3** | 147 |
| **Fair value, end of year** | **20,541** | 32,673 |

There were no transfers of financial instruments into or out of Level 3 from the other levels in 2010 or 2011.

The Company performs sensitivity analyses for fair value measurements classified in Level 3, substituting the unobservable inputs with one or more reasonably possible alternative assumptions. The alternative assumptions include changes in credit and liquidity spreads. These sensitivity analyses result in a negligible change in the fair values of financial instruments classified as Level 3.

## 23. RISK MANAGEMENT

The Company views risk as an integral part of its development and the diversification of its activities. The purpose of sound risk management is to provide reasonable assurance that incurred risks do not exceed acceptable thresholds and that risk-taking contributes to the creation of shareholder value. Risk management is part of the Company's culture, whereby all employees are encouraged to assess and communicate risks arising from their activities. Maple has an established global risk management framework based on identification, quantification and control of risks arising from its various global activities. This framework enables risks to be assessed separately or in aggregate and on both a stand-alone entity and consolidated basis.

The Company's Executive Committee is responsible for risk management oversight and development of the risk management framework. Independent risk managers reporting to the Executive Committee are responsible for implementation of the global risk framework and for compliance with supervisory rules affecting local entities.

Overall risk is monitored on two bases. The "going concern" approach assumes the Company will continue operating, assuming current market volatilities. The "liquidation" approach assumes that the Company will liquidate its positions in an orderly fashion over a period of 12-18 months under different stressed market scenarios. The goal is to ensure that the Company has sufficient capital to withstand losses under both bases and under normal and a variety of stressed-case scenarios.

The risk management framework originates with the concept of risk-bearing capacity, the definition of risk capital and limits for the various risk factors. Risk-bearing capacity represents the ability of a company to withstand losses without being forced into liquidation.

As a diverse banking and financial trading firm, Maple has exposure to various types of risk with credit and market risk being predominant. While many risk types are common to both banking and trading books, it is useful to consider them separately since the largest risks of each book can differ significantly in nature. In the trading book, Maple only transacts in pre-approved strategies on defined markets and with pre-approved counterparties. Maple's banking book only takes direct credit risk after carefully examining the counterparty and the transaction and approving them in writing. A broad diversification of credit risks is sought and only secured transactions are approved.

Below is a description of the risk types identified as most pertinent to Maple's activities.

## Credit risk

Credit risk is the risk of loss associated with the inability of a third party to fulfill its payment obligations. These parties may default on their obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. Credit risk is further defined as counterparty risk and issuer risk. Counterparty risk arises from trading counterparties, customers, clearing agents, exchanges, clearing houses and other financial intermediaries. Issuer risk involves issuers of securities that are held by the Company.

The Company's exposure to credit risk can arise from derivative transactions, securities borrowing and lending arrangements, collateralized lending transactions, securities purchased and other collateralized transactions. The Company limits credit risk by dealing with counterparties that the Company believes are creditworthy, evaluating the quality of collateral provided and by limiting credit in accordance with regulatory requirements and corporate policy. Master netting agreements are used wherever possible that allow favourable contracts to be settled against unfavourable contracts with the same counterparty. The Company has a Credit Committee which allocates limits for each counterparty on a legal entity as well as on a credit group basis. A detailed credit analysis is performed prior to establishing a business relationship with any counterparty. The Credit Committee decides on the proposed limits on the basis of this written credit assessment. Credit limits and credit exposures are monitored daily. Annual reviews of the counterparties' financial condition are performed, and from time to time, analyses are done during the year to monitor the counterparties' creditworthiness, enabling the Company to take appropriate measures, if necessary.

[Euro amounts in thousands, except where otherwise noted]

For exchange-traded products, exposure to credit risk is limited as these transactions are standardized contracts, executed on established exchanges, and are subject to daily settlement of variation margins. Written options have limited credit risk as the counterparty has already performed in accordance with the terms of the contract through an up-front payment of the premium.

The current exposure to credit risk is as reflected on the consolidated statement of financial position. The credit exposure relating to non-cash securities lending and borrowing activities is disclosed in note 6.

The Company monitors credit exposure by counterparty and counterparty group based on net exposure adjusted by adverse moves in individual risk factors.

As at September 30, the Company had gross credit exposures as follows:

| | **2011** % | **2010** % |
|---|---|---|
| European financial institutions | **49** | 28 |
| North American financial institutions | **23** | 41 |
| OECD governments | **25** | 29 |
| Other | **3** | 2 |
| | **100** | 100 |

These exposures are measured on a gross basis without allowing for netting or collateral arrangements.

As at September 30, concentration and credit quality of financial assets involving credit risk by credit rating are as follows:

| | 2011<br>% | 2010<br>% |
|---|---|---|
| AA and above | **72** | 77 |
| A to BBB | **24** | 17 |
| Below BBB | **4** | 6 |
| | **100** | 100 |

The above ratings are assigned by management based on external rating agencies or an internal rating system using similar criteria as those used by external rating agencies.

## Market risk

Market risk is the risk that fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and underlying instrument prices. Financial instruments are measured at fair value, with changes in realized and unrealized gains and losses included in the consolidated statement of income, retained earnings and accumulated other comprehensive income (loss). Depending on the nature of strategy and associated risks, the Company assigns volume, position, loss, sensitivity and value at risk ["VaR"] limits. The Company manages market risk on a daily basis by consolidating all trading and banking book positions and associated risks and comparing them to assigned limits. The results of this analysis are then reported separately and in aggregate to provide a complete picture of market risk exposures.

## Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company incurs interest rate risk on its cash and cash equivalent balances, trading securities, cash delivered or received in support of securities lending and borrowing activities, collateralized lending portfolios and interest paid on its short- and long-term customer deposits. Interest rate risk is managed by continuously monitoring interest rate gaps against assigned limits, on both a current and stress-case basis. The Company uses hedging strategies to mitigate interest rate risk.

## Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk is not considered a major risk as Maple does not actively trade foreign currency positions. The Company regularly monitors the currency exposures and employs hedging strategies to mitigate the risk.

## Fair value risk

Fair value risk is the risk of loss due to adverse movements in the value of a financial instrument. The Company incurs fair value risk through its trading portfolio. Fair value risk is controlled by volume, position, loss and VaR limits.

## Liquidity risk

Liquidity risk is the risk of having insufficient cash resources in a timely and cost-effective manner to meet financial obligations as they come due. The Company's liquidity could be impaired by an inability to access secured and/or unsecured debt markets, an inability to access funds from subsidiaries, an inability to sell assets or unforeseen outflows of cash. Further, the ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time. The Company seeks to maintain sufficient liquidity under normal market environments, across market cycles and through periods of financial stress. The Company's German bank has a broad deposit base which assists in maintaining liquidity levels throughout the group. As a general liquidity cushion, on September 30, 2011, the Company's German bank held €0.4 billion of bonds in the Lombard depot, all of which are eligible for European Central Bank funding requirements. The liquidity of major subsidiaries is continually evaluated, factoring in business requirements, market conditions and regulatory capital requirements. The Company adopted a formal liquidity policy during the year. Under the policy, liquidity reporting is done under normal and stressed-case scenarios. The liquidity policy prescribes actions to be taken in the event of liquidity crises. The Company's liquidity and funding procedures are intended to ensure compliance with applicable regulatory restrictions and requirements and to ensure appropriate liquidity in each region.

## Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, personnel and systems or from external events. Examples of operational risk are human error, disruptions of operations and processes, technology risks and external catastrophes. Operational risk is encountered in all activities, including the practices and controls used to manage other risks.

Professional management of operational risk reduces possible failures in the management of other risks such as credit, market or regulatory risk.

The Company issues and regularly reviews its procedures to ensure they are current and effective in the prevention of operational failures. The Company maintains a database to record actual and potential operational risk-related incidents.

## Regulatory risk

The Company is subject to extensive regulation under securities laws of the jurisdictions in which it operates, including Canada, the United States, the United Kingdom and Germany. In the event of non-compliance, regulators may institute administrative or judicial proceedings that may result in censure, fines, civil penalties, suspension or disqualification of officers. There were no open regulatory issues for the Company or its subsidiaries at September 30, 2011.

## Other risks

Other risks include strategic risk, reputational risk and legal risk. The Company minimizes exposure to risk by using a standardized authorization process for new business lines. Wherever possible, industry standard contracts are used. In the case of individual arrangements, the Company is advised by appropriate external counsel on matters involving legal, regulatory and tax issues.

## Capital management

The Company's principal subsidiaries are required to maintain minimum levels of capital pursuant to regulations to which they are subject in the jurisdictions in which they operate. Capital adequacy is managed with the objectives of funding existing operations and complying with regulatory requirements of principal subsidiaries. These objectives are achieved by regularly monitoring capital adequacy requirements. Capital and liquidity is managed on both a going concern and stressed-case basis. Capital is considered as capital stock, retained earnings and subordinated loans. The distribution of capital and earnings of these subsidiaries to Maple may be constrained by these requirements.

Additionally, the Company voluntarily consolidates capital adequacy requirements under Basel II guidelines and reports these to Bundesanstalt für Finanzdienstleistungsaufsicht in Germany and the Financial Services Authority in the United Kingdom.

At September 30, 2011, the Company's subsidiaries were in compliance with their local capital requirements. In addition, the Company's Tier 1 capital adequacy ratio was 12.9% [2010 - 15.9%], exceeding the minimum ratio of 4%.

## 24. CONTINGENCIES

The tax returns of the Company and its subsidiaries are subject to audit by the respective tax authorities in the locations of their domiciles. At the reporting date each year, a number of such audits are usually in process. If the tax authorities claim significant differences with the filing positions taken by the Company, the Company consults with its professional advisors and determines the likely outcome of the resolution of the disputed items, and makes provisions for likely adverse results in accordance with GAAP.

In fiscal 2011, a tax audit uncovered a difference between the filing position taken by the Company and the view taken by local tax authorities in Germany. The Company is of the opinion that its filing position is correct and has not recorded a contingent provision.

The Company and its subsidiaries are party to legal proceedings in the ordinary course of its businesses. While there is inherent difficulty in predicting the outcome of the proceedings, the Company does not expect the outcome to have a material adverse effect on its consolidated financial position or results of operations.

## 25. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2011 consolidated financial statements.