LAURENTIAN BANK OF CANADA CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2011 AND 2010

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

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

CONSOLIDATED FINANCIAL STATEMENTS AT A GLANCE

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Laurentian Bank of Canada and the other financial information contained in the Annual Report have been prepared by management, which is responsible for the integrity and fairness of the financial information presented. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) pursuant to the requirements of the *Bank Act* and reflect amounts that must, of necessity, be based on the best estimates and judgment of management. The financial information presented in the Annual Report is consistent with that in the financial statements.

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

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

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

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

The internal auditors, the independent auditors and the Superintendent of Financial Institutions Canada meet periodically with the Audit Committee, in the presence or absence of management, to discuss all aspects of their duties and matters arising therefrom.

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

RÉJEAN ROBITAILLE
President and
Chief Executive Officer

MICHEL C. LAUZON
Executive Vice-President
and Chief Financial Officer

Montréal, Canada
December 7, 2011

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

We have audited the accompanying consolidated financial statements of Laurentian Bank of Canada ("the Bank") which comprise the consolidated balance sheet as at October 31, 2011 and 2010, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP[1]

CHARTERED ACCOUNTANTS
Montréal, Canada
December 7, 2011

[1] CA auditor permit no. 17959

CONSOLIDATED BALANCE SHEET

As at October 31 (in thousands of dollars)

	NOTES	2011	2010
ASSETS			
Cash and non-interest bearing deposits with other banks		**$ 81,600**	$ 70,537
Interest-bearing deposits with other banks		**276,429**	95,561
Securities accounts	4 and 24		
Available-for-sale		**1,096,333**	1,103,744
Held-for-trading		**2,181,969**	1,496,583
Designated as held-for-trading		**1,011,742**	1,658,478
		4,290,044	4,258,805
Securities purchased under reverse repurchase agreements	24	**318,753**	803,874
Loans	5, 6 and 24		
Personal		**5,768,787**	5,630,788
Residential mortgage		**8,928,544**	8,582,548
Commercial mortgage		**1,813,293**	1,638,861
Commercial and other		**1,900,977**	1,691,190
		18,411,601	17,543,387
Allowances for loan losses		**(149,743)**	(138,143)
		18,261,858	17,405,244
Other			
Customers' liabilities under acceptances		**179,140**	165,450
Premises and equipment	7	**64,752**	58,536
Derivatives	22	**228,704**	162,610
Goodwill	8	**53,790**	53,790
Other intangible assets	8	**123,357**	112,369
Other assets	9	**612,024**	585,362
		1,261,767	1,138,117
		$24,490,451	$23,772,138
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	10		
Personal		**$ 15,610,012**	$ 15,396,911
Business, banks and other		**4,457,406**	4,250,819
		20,067,418	19,647,730
Other			
Obligations related to securities sold short		**1,471,254**	1,362,336
Obligations related to securities sold under repurchase agreements		**36,770**	60,050
Acceptances		**179,140**	165,450
Derivatives	22	**246,475**	199,278
Other liabilities	11	**912,190**	947,879
		2,845,829	2,734,993
Subordinated debt	12	**242,512**	150,000
Shareholders' equity			
Preferred shares	13	**210,000**	210,000
Common shares	13	**259,492**	259,363
Contributed surplus	15	**227**	243
Retained earnings		**818,207**	741,911
Accumulated other comprehensive income	14	**46,766**	27,898
		1,334,692	1,239,415
		$24,490,451	$23,772,138

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

L. DENIS DESAUTELS, O.C.
Chairman of the Board

RÉJEAN ROBITAILLE
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

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

	NOTES	2011	2010
Interest income			
Loans		**$808,995**	$757,677
Securities		**61,631**	72,975
Deposits with other banks		**5,233**	298
Other, including derivatives		**66,475**	116,273
		942,334	947,223
Interest expense			
Deposits		**444,463**	440,053
Subordinated debt		**11,574**	7,738
Other, including derivatives		**2,236**	3,011
		458,273	450,802
Net interest income		**484,061**	496,421
Other income			
Fees and commissions on loans and deposits		**116,595**	113,700
Income from brokerage operations		**48,429**	52,934
Securitization income	6	**35,486**	5,996
Credit insurance income		**19,141**	17,785
Income from treasury and financial market operations		**18,973**	18,035
Income from sales of mutual funds		**17,308**	15,012
Income from registered self- directed plans		**7,253**	8,680
Other		**6,337**	8,883
		269,522	241,025
Total revenue		**753,583**	737,446
Provision for loan losses	5	**47,000**	68,000
Non-interest expenses			
Salaries and employee benefits		**293,930**	275,964
Premises and technology		**140,839**	132,540
Other		**99,910**	95,732
Costs related to an acquisition and other	28	**8,180**	–
		542,859	504,236
Income before income taxes		**163,724**	165,210
Income taxes	17	**36,235**	42,269
Net income		**$127,489**	$122,941
Preferred share dividends, including applicable taxes		**12,436**	12,122
Net income available to common shareholders		**$115,053**	$110,819
Average number of common shares outstanding (in thousands)			
Basic		**23,924**	23,921
Diluted		**23,943**	23,937
Earnings per share	18		
Basic		**$ 4.81**	$ 4.63
Diluted		**$ 4.81**	$ 4.63
Dividends declared per share		**$ 1.62**	$ 1.44

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	NOTES	2011	2010
Net income		$ 127,489	$122,941
Other comprehensive income, net of income taxes	14		
Unrealized gains (losses) on available-for-sale securities		(1,595)	7,256
Reclassification of net gains on available-for-sale securities to net income		(3,501)	(2,263)
Net change in value of derivatives designated as cash flow hedges		23,964	(13,366)
		18,868	(8,373)
Comprehensive income		$ 146,357	$114,568

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

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

	NOTES	2011	2010
Preferred shares	13		
Balance at beginning and end of year		$ 210,000	$ 210,000
Common shares	13		
Balance at beginning of year		259,363	259,208
Issued during the year under share purchase option plan		129	155
Balance at end of year		259,492	259,363
Contributed surplus			
Balance at beginning of year		243	209
Stock-based compensation	15	(16)	34
Balance at end of year		227	243
Retained earnings			
Balance at beginning of year		741,911	665,538
Net income		127,489	122,941
Dividends			
Preferred shares, including applicable taxes		(12,436)	(12,122)
Common shares		(38,757)	(34,446)
Balance at end of year		818,207	741,911
Accumulated other comprehensive income	14		
Balance at beginning of year		27,898	36,271
Other comprehensive income, net of income taxes		18,868	(8,373)
Balance at end of year		46,766	27,898
Shareholders' equity		$1,334,692	$1,239,415

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	NOTES	2011	2010
Cash flows relating to operating activities			
Net income		$ 127,489	$ 122,941
Adjustments to determine net cash flows relating to operating activities:			
Provision for loan losses		47,000	68,000
Gains on securitization operations		(42,475)	(13,471)
Net gain on disposal of available-for-sale securities		(4,503)	(3,245)
Future income taxes		21,095	24,340
Depreciation		11,077	10,868
Amortization of other intangible assets		29,945	26,338
Net change in held-for-trading securities		(685,386)	(105,270)
Change in accrued interest receivable		2,136	(1,216)
Change in derivative assets		(66,094)	91,051
Change in accrued interest payable		(13,329)	33,745
Change in derivative liabilities		47,197	24,419
Other, net		5,330	52,551
		(520,518)	331,051
Cash flows relating to financing activities			
Net change in deposits		419,688	1,372,423
Change in obligations related to securities sold short		108,918	307,866
Change in obligations related to securities sold under repurchase agreements		(23,280)	(224,938)
Issuance of subordinated debt, net of issue costs		248,403	–
Redemption of subordinated debentures		(150,000)	–
Issuance of common shares		129	155
Dividends, including applicable income taxes		(51,193)	(46,568)
		552,665	1,408,938
Cash flows relating to investing activities			
Change in securities available-for-sale and designated as held-for-trading			
Acquisitions		(1,925,078)	(3,614,580)
Proceeds on sale and at maturities		2,565,736	3,920,820
Change in loans, net		(2,455,673)	(2,696,044)
Change in securities purchased under reverse repurchase agreements		485,121	(267,810)
Proceeds from mortgage loan securitizations		1,547,904	821,364
Additions to premises and equipment and software		(58,226)	(46,565)
Change in interest-bearing deposits with other banks		(180,868)	144,045
Net cash flows from discontinued operations		–	8,308
		(21,084)	(1,730,462)
Net change in cash and non-interest-bearing deposits with other banks		11,063	9,527
Cash and non-interest-bearing deposits with other banks at beginning of year		70,537	61,010
Cash and non-interest-bearing deposits with other banks at end of year		$ 81,600	$ 70,537
Supplemental disclosure relating to cash flows:			
Interest paid during the year		$ 470,522	$ 416,374
Income taxes paid during the year		$ 26,796	$ 14,856

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2011 and 2010 (All tabular amounts are in thousands of dollars, unless otherwise indicated.)

1 GENERAL

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

2 BASIS OF PRESENTATION

The consolidated financial statements of the Bank have been prepared in accordance with the *Bank Act*, which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). These financial statements are in accordance with GAAP.

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

2.1 BASIS OF CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and all of its subsidiaries after elimination of intercompany balances and transactions.

The Bank also consolidates variable interest entities (VIEs) when it is the primary beneficiary. Generally, VIEs are entities that are subject to control on a basis other than ownership of voting interests. The primary beneficiary is the enterprise that has the variable interests that will absorb the majority of expected losses or receive the majority of residual returns, as defined. Variable interests are defined as contractual, ownership or other financial interests in an entity that change with fluctuations in the entity's net asset value.

2.2 FUTURE ACCOUNTING POLICY CHANGES

Business combination

On January 5, 2009, three new sections of the *CICA Handbook* were issued: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*. These new standards replace Section 1581, *Business Combinations* and Section 1600 *Consolidated Financial Statements* and would have been effective for the Bank on November 1, 2011 under current Canadian GAAP. Earlier adoption was permitted provided that all three sections were adopted at the same time. However, the Bank has not elected to early adopt these new sections.

The new recommendations in Section 1582 require measuring business acquisitions at the fair value of the acquired business, including the measurement at fair value of items such as non-controlling interests and contingent payment considerations. Also, the previously unrecognized future income tax assets related to the acquiree subsequent to the business combination are recognized in the consolidated statements of income rather than as a reduction in goodwill. In addition, business acquisition related costs are expensed as incurred.

Section 1601 establishes standards for the preparation of consolidated financial statements and is aligned with the corresponding provisions of Section 1600.

Section 1602 establishes standards for accounting for non-controlling interests in a subsidiary subsequent to a business combination.

International Financial Reporting Standards

In February 2008, the Accounting Standards Board confirmed the convergence of financial reporting standards for Canadian public companies with International Financial Reporting Standards (IFRS). As a result, the Bank will adopt IFRS on November 1, 2011 and will issue its first consolidated financial statements, prepared in accordance with IFRS, for the quarter ending January 31, 2012. Comparative financial information for fiscal 2011 will be provided at that time, prepared in accordance with IFRS, including an opening balance sheet as at November 1, 2010.

2.3 USE OF ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in accordance with GAAP requires the Bank to make estimates and assumptions that affect the carrying amounts of assets and liabilities on the balance sheet date, income and other related information. The most significant areas for which the Bank has prepared estimates and assumptions are the allowances for credit losses, the fair value of financial instruments, securitization, pension plans and other employee future benefits, and income taxes. Accordingly, actual results could differ from these estimates, in which case the impact would be recognized in the consolidated financial statements in future periods.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 FINANCIAL INSTRUMENTS

Held-for-trading financial instruments

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

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

Financial instruments designated as held-for-trading

Financial instruments, other than those held for trading, may be designated on a voluntary and irrevocable basis as held-for-trading provided that such designation:

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

Financial instruments designated as held-for-trading are initially recorded at fair value on the settlement date in the consolidated balance sheet. Subsequently, they are remeasured at fair value and the realized and unrealized gains and losses are immediately recognized in the consolidated statement of income under income from treasury and financial market operations, or in securitization income when arising from financial instruments related to securitization transactions. Interest income earned, amortization of premiums and discounts as well as dividends received are included in interest income using the accrual basis of accounting. Transaction costs and other fees associated with financial instruments designated as held-for-trading are expensed as incurred.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Available-for-sale assets

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

These assets are initially recorded at fair value on the settlement date in the consolidated balance sheet. Except for equity instruments that do not have a quoted market price in an active market, available-for-sale financial assets are remeasured at fair value and unrealized gains and losses are recorded in other comprehensive income. When realized, unrealized gains and losses are recognized in the consolidated statement of income under income from treasury and financial market operations. Where there is objective evidence that the asset is impaired and the decline in fair value of the available-for-sale financial asset is other than temporary, the unrealized loss is immediately recognized in the consolidated statement of income. In certain circumstances, particularly where the issuer's financial position subsequently recovers from a particular event, previously recognized impairment losses are reversed. Equity instruments that do not have a quoted market price in an active market are recorded at cost. Interest income earned and amortization of premiums and discounts are included in interest income using the accrual basis of accounting under the effective interest method. Dividends are recognized in interest income on the ex-dividend date. Transaction costs and other fees associated with the acquisition of available-for-sale financial assets are initially deferred and subsequently amortized using the effective interest method according to the instrument to which they relate.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables that an entity has the clear intention and ability to hold to maturity. These financial assets are recorded at amortized cost on the settlement date. As at October 31, 2011, and 2010, the Bank had not designated any financial assets as held-to-maturity.

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

The Bank enters into short-term purchases of securities under agreements to resell as well as short-term sales of securities under agreements to repurchase at predetermined prices and dates. Given the low risk transfer associated with these purchases and sales, these agreements are treated as collateralized lending and borrowing transactions and are carried in the consolidated balance sheet at the amounts at which the securities were initially acquired or sold, plus accrued interest. Accordingly, securities purchased under reverse repurchase agreements are classified as loans and receivables and obligations related to securities sold under repurchase agreements are classified as other liabilities. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are reported as interest income and interest expense, respectively, using the effective interest method.

Loans

Loans are non-derivative financial assets with fixed or determinable payments and are therefore classified as loans and receivables. However, financial assets quoted in an active market do not meet the necessary conditions to be classified as loans and receivables and must be classified as held-for-trading, available-for-sale or held-to-maturity. Moreover, loans that the Bank would intend to sell immediately or in the near term would be classified as held-for-trading.

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

Impaired loans

Loans, except credit card balances, are classified as impaired when, in management's opinion, there is a reasonable doubt as to the timely recovery of the principal or interest. Loans are classified as impaired when payment of principal or interest is 90 days past due, unless they are well secured or in the process of recovery.

Notwithstanding management's assessment of collectability, all loans which are 180 days past due are classified as impaired except when they are guaranteed or insured by the Canadian government, a provincial government or a Canadian government agency; such loans are classified as impaired loans if they are in arrears for 365 days. Credit card balances are fully written off when payments are 180 days in arrears or when management assesses the likelihood of recovery to be nil.

When loans are classified as impaired, accrual of interest income ceases. The carrying amount of these loans is then adjusted to their estimated realizable value by way of a total or partial write-off and/or an allowance for loan losses.

Subsequent recoveries of interest on impaired loans are recognized in income only if there is no specific allowance and if, in management's opinion, there is no reasonable doubt as to the ultimate recovery of the total principal.

An impaired loan cannot return to a performing status unless all principal and interest payments are current and management has no reasonable doubt as to the recovery of the total principal and interest.

When a portion of the loan is written off and the balance is restructured, the new loan is recorded on the accrual basis of accounting under the effective interest method where there is no longer any reasonable doubt as to the recovery of capital and interest and where payments are not 90 days past due.

Foreclosed assets

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

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

Allowances for losses

The Bank maintains allowances for losses at amounts deemed adequate to absorb all estimated incurred losses in its portfolios. Allowances are mainly related to loans and undrawn amounts under approved credit facilities, but may also apply to other assets.

Allowances for loan losses are increased by the amount charged to the provision for loan losses in the statement of income and reduced by the amount of the write-offs, net of recoveries. Loans are written off when all possible restructuring or recovery activities have been completed and the recovery of other amounts is unlikely.

Specific allowances for loan losses

Specific allowances are maintained to absorb losses on both specifically identified borrowers and other homogeneous loans classified as impaired. Losses relating to loans included in the commercial loan and mortgage loan portfolios and to investment loans included in the personal loan portfolio are determined on a loan-by-loan basis during periodic portfolio reviews. These losses are established by estimating the amounts recoverable in relation to the loan amounts using expected future cash flows discounted at the effective interest rate inherent in the loans.

When these amounts cannot be reasonably estimated, the fair value of the underlying collateral or the observable market price of the loans is used. Losses relating to other personal loans classified as impaired, other than losses arising from credit card balances, are determined based on the write-off experience of the past few years when payments are more than 90 days in arrears. For credit card balances, no specific allowance is maintained; however, outstanding balances are fully written off when payments are 180 days in arrears or when management assesses the likelihood of recovery to be nil.

General allowances for loan losses

General allowances reflect the best estimate of losses incurred in the portfolios in respect of loans that have yet to be identified as impaired.

To establish general 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. The probability of default and loss given default factors reflect the Bank's historical experience. General allowances are adjusted to reflect changes in the portfolios and credit policies and are maintained for each pool of loans with shared risk characteristics. These estimates include consideration of economic and business conditions, management's judgment and the risks related to the model.

Acceptances and customers' liabilities under acceptances

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Loan securitization

The Bank transfers pools of residential and commercial mortgages to special purpose entities or trusts. These transfers are accounted for as sales when the Bank is deemed to have surrendered control over these assets and has received consideration other than beneficial interests in these assets. At the transfer date, the Bank derecognizes all assets sold, recognizes at fair value the assets received and the liabilities assumed and recognizes the gain or loss on the sale in other income.

In connection with these transactions, the Bank retains, in some instances, interests in securitized receivables such as cash reserve accounts, subordinated securities and excess interest spreads. The gain or loss realized on the sale depends partly on the fair value of the retained interests at the date of sale. Fair value is based on market prices when they are available. However, since prices for retained interests generally do not exist, the Bank normally uses the discounted value of expected future cash flows. These calculations are based on management's best estimates with respect to key assumptions: credit losses, rate of prepayment, interest-rate curve and risk-adjusted discount rates.

Cash reserve accounts and excess interest spreads related to these transactions are initially recorded at fair value under available-for-sale assets or assets designated as held-for-trading.

In such cases, the retained tranches of subordinated securities are recorded in securities, depending on the Bank's intentions, under available-for-sale assets, held-to-maturity assets or assets designated as held-for-trading.

The Bank generally transfers receivables on a fully serviced basis. On the transfer date, a servicing liability is recognized at fair value and presented in other liabilities. This liability is amortized under securitization income over the term of the transferred loans.

Derivatives and hedges

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

Deposits

Deposits are generally accounted for at amortized cost using the effective interest method and are classified as other liabilities. Interest expense on deposits is recorded on the accrual basis of accounting under the effective interest method. The commissions paid and other fees are added to interest expense over the term of the deposits. Deposits are presented net of unamortized commissions and other fees on the consolidated balance sheet.

Indexed deposit contracts

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

Subordinated debt

Subordinated debt is accounted for at amortized cost using the effective interest method and is classified as other liabilities. Interest expense on subordinated debt is recorded on the accrual basis of accounting under the effective interest method. The commissions paid and other fees are added to interest expense over the term of the subordinated debt.

Measuring the fair value of financial instruments

Fair value is defined as the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair value of a financial instrument on initial recognition is normally the transaction price, that is, the fair value of the consideration given or received. In certain circumstances, the initial fair value may be based on other observable market transactions for the same instrument or on a valuation technique whose variables include only data from observable markets. With regard to financial instruments related to securitization transactions, valuation techniques include unobservable data related to rate of prepayment and rate of credit losses.

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

Fair values of derivatives are generally determined using valuation techniques incorporating certain observable data, such as current market prices and the contractual prices of the underlying instruments, yield curves and volatility factors. The determination of the fair value of derivatives related to securitization transactions also involves unobservable data.

Measurement of the fair value of financial instruments is described in greater detail in note 20.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.2 PREMISES AND EQUIPMENT

Land is carried at cost. Other premises and equipment are recorded at cost less accumulated depreciation and are depreciated over their estimated useful lives using the following methods and rates.

	METHODS	RATE/PERIOD
Premises	Declining balance	5%
Leasehold improvements	Straight-line	Term of the lease, plus initial renewal option
Equipment and furniture	Declining balance	20%
Computer hardware	Straight-line	5–10 years

Gains and losses on the disposal of premises and equipment are recognized in other income.

3.3 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill from business combinations is tested for impairment annually, unless there is clear evidence that, based on the most recent valuation and the current circumstances, the fair value of the reporting unit to be tested significantly exceeds its carrying amount.

The impairment test initially compares the fair value of the reporting unit to which the goodwill relates to its carrying amount. When potential impairment is identified, the fair value of goodwill is compared to its carrying amount. The Bank mainly uses the discounted cash flow method to determine the fair value of its reporting units.

Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful life, which is fifteen years for contractual relationships with financial intermediaries and customer relationships and ranges from five to ten years for software, and are also tested for impairment whenever circumstances indicate that the carrying value may not be fully recoverable. When the net carrying amount exceeds the estimated future net cash flows, intangible assets with finite lives are considered impaired and are written down to their fair value.

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

3.4 EMPLOYEE FUTURE BENEFITS

Pension plans

The Bank maintains a number of defined benefit pension plans for its employees, including certain defined contribution portions. Funding is generally provided by both the Bank and the members of the plans.

Under the defined benefit plans, the Bank records its benefit obligation under employee pension plans and the related costs net of plan assets. An actuarial valuation is performed periodically to determine the present value of accrued pension obligations. The pension obligations of the defined benefit pension plans are actuarially determined using the projected benefit method prorated on services, which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors. The obligation for accrued benefits is measured using market interest rates at the valuation date. Pension plan assets are measured at fair value. The expected return on plan assets is calculated using a market-related value approach under which changes in the fair value of plan assets are taken into account over a three-year period. Defined benefit costs recognized consist of: [a] the cost for the current year's service, [b] interest expense on the accrued benefit obligation, [c] expected long-term return on plan assets, [d] amortization of the transitional obligation, past service costs and actuarial gains or losses, [e] gains or losses arising from special events, and [f] the change in the valuation allowance.

Actuarial gains or losses arise, in particular, from the difference between the actual long-term rate of return on plan assets and the expected rate of return on such assets, based on management's best-estimate assumptions, as well as from changes in actuarial assumptions used to determine the accrued benefit obligation. Net actuarial gains or losses are amortized when, at the beginning of the year, the unamortized balance of the gain or loss exceeds 10% of the greater of the accrued benefit obligation or the market value of plan assets. This excess is amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the plans which varied from 4 to 11 years in 2011 under the plans (from 8 to 11 years in 2010).

The past service cost resulting from changes to the defined benefit plans is amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the defined benefit plans. The transitional obligation resulting from the initial application of the accounting standard with respect to employee future benefits, on November 1, 2000, is amortized on a straight-line basis over the expected average remaining service life of the employee groups on that date, ranging from 10 to 16 years.

Accrued benefit assets or liabilities represent the cumulative variance between pension expense and contributions paid and are included in other assets or other liabilities.

For the defined contribution portion, the expense corresponds to the contributions the Bank is required to make during the year.

Other plans

The Bank offers its employees certain post-employment benefits. In addition, under former agreements, the Bank provides certain health care and life insurance benefits to retired employees. The costs related to these benefits are recognized during the employees' service life according to accounting policies similar to those applied to defined benefit pension plans. The transitional obligation resulting from the initial application of the accounting standard with respect to employee future benefits, on November 1, 2000, is amortized on a straight-line basis over the remaining life expectancy of retirees for post-retirement benefits, which equals 20 years, and over the expected average remaining service life of the employee groups covered for the post-employment benefits, which was 13 years.

3.5 INCOME TAXES

The Bank uses the liability method of tax allocation and accounts for the future income tax assets and liabilities related to loss carryforwards and other temporary differences between the carrying amounts and the tax bases of assets and liabilities, in accordance with tax laws and rates enacted or substantively enacted on the date the differences are expected to reverse. A valuation allowance is established, as needed, to reduce the future income tax asset to the amount that is more likely than not to be realized.

3.6 EARNINGS PER SHARE

The Bank calculates its basic earnings per share by dividing net income for the year, after deduction of preferred share dividends, including applicable income taxes, as well as premiums on redemption of preferred shares, by the weighted average number of common shares outstanding for the year.

Diluted earnings per share is calculated assuming that the proceeds received from the exercise of share purchase options, whose exercise price is lower than the average price of the common shares for the year, are used to repurchase common shares at that average market price.

3.7 INSURANCE

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

3.8 STOCK-BASED COMPENSATION

Since November 1, 2002, the Bank has used the fair-value method of accounting for share purchase options granted to senior management. For these awards, the Bank recognizes the fair value of the options granted as an increase in the related compensation expense and contributed surplus during the option vesting period. When the options are exercised, the proceeds received and the amount of the contributed surplus are credited to common shares. The value of the options granted is determined using the Black and Scholes option-pricing model using management's best estimates.

With respect to awards granted prior to November 1, 2002, the Bank continues to apply the previous standards under which no compensation cost is recognized when share purchase options are awarded to employees and the consideration paid by the employees who exercise their options is credited to common shares.

For the stock appreciation rights settled in cash, the excess of the share price over the exercise price, reviewed on an ongoing basis, is recognized in income during the rights' vesting period.

Compensation expense in respect of the restricted share unit plan and in respect of the performance-based share plan is recognized during the rights' vesting period, based on the Bank's market share price and on defined performance criteria.

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

3.9 ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

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

3.10 TRANSLATION OF FOREIGN CURRENCIES

Financial assets and financial liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing year-end exchange rates. Income and expenses are translated at the average monthly exchange rates. Realized or unrealized gains and losses resulting from the translation of foreign currencies are included in other income, with the exception of unrealized gains and losses arising from the translation of available-for-sale financial instruments, which are included in other comprehensive income.

3.11 CASH AND CASH EQUIVALENTS

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

4 SECURITIES

MATURITY SCHEDULE AND YIELD ON SECURITIES

Portfolio of available-for-sale securities

	2011						2010	
	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	NO SPECIFIC MATURITY	TOTAL	YIELD[1]	TOTAL	YIELD[1]
Securities issued or guaranteed								
by Canada[2]	$229,521	$ 8,137	$ –	$ –	$ 237,658	0.9%	$ 432,670	0.8%
by provinces	203,308	211,810	–	–	415,118	2.1%	411,947	2.1%
Other debt securities	143,864	117,088	49,681	–	310,633	2.9%	139,428	4.5%
Asset-backed securities	2,174	22,880	–	–	25,054	5.5%	25,919	5.9%
Preferred shares	–	–	–	56,929	56,929	4.6%	58,248	4.6%
Common shares and other securities	–	–	–	50,941	50,941	3.3%	35,532	4.3%
	$578,867	$359,915	$49,681	$107,870	$1,096,333	2.3%	$1,103,744	2.2%

Portfolio of held-for-trading securities

	2011					2010
	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	NO SPECIFIC MATURITY	TOTAL	TOTAL
Securities issued or guaranteed						
by Canada[2]	$388,110	$219,365	$166,910	$ –	$ 774,385	$ 452,011
by provinces	64,290	377,175	420,915	–	862,380	494,946
by municipal corporations	35,837	56,714	26,931	–	119,482	117,864
Other debt securities	22,993	73,219	97,690	–	193,902	253,115
Asset-backed securities	2,060	661	5,239	694	8,654	12,253
Preferred shares	–	–	–	172	172	–
Common shares and other securities	–	–	–	222,994	222,994	166,394
	$513,290	$727,134	$717,685	$223,860	$2,181,969	$1,496,583

Portfolio of securities designated as held-for-trading

	2011				2010
	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL	TOTAL
Securities issued or guaranteed					
by Canada[2]	$299,788	$711,954	$ –	$1,011,742	$1,653,509
by provinces	–	–	–	–	4,969
	$299,788	$711,954	$ –	$1,011,742	$1,658,478

(1) Yield based on the amortized cost of available-for-sale securities.
(2) Including mortgage-backed securities that are fully guaranteed by the Canada Mortgage and Housing Corporation pursuant to the *National Housing Act*.

GAINS AND LOSSES RECOGNIZED IN INCOME

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

The following items were recognized in income with regard to the portfolio of available-for-sale securities:

	2011	2010
Realized net gains	$4,503	$3,165
Write-downs for impairment recognized in income	(369)	(198)
	$4,134	$2,967

Write-downs for impairment recognized in 2011, as in 2010, stemmed from available-for-sale securities for which the unrealized losses were deemed other than temporary. Assessing whether impairment is other than temporary requires judgment. The Bank considered many factors in making the other-than-temporary impairment assessment. These factors include the duration of the impairment and its significance compared to amortized cost, bankruptcy, capital restructuring or dilution, and significant modifications in the issuer's operations, as well as other uncertainties that could impact future cash flows.

GAINS AND LOSSES RECOGNIZED IN COMPREHENSIVE INCOME

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

2011	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Securities issued or guaranteed				
by Canada[1]	$ 237,509	$ 149	$ –	$ 237,658
by provinces	410,861	4,286	29	415,118
Other debt securities	303,797	7,396	560	310,633
Asset-backed securities	23,292	1,765	3	25,054
Preferred shares	57,142	1,172	1,385	56,929
Common shares and other securities	50,011	3,578	2,648	50,941
	$1,082,612	$18,346	$4,625	$ 1,096,333

2010	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Securities issued or guaranteed				
by Canada[1]	$ 432,649	$ 45	$ 24	$ 432,670
by provinces	407,449	4,498	–	411,947
Other debt securities	132,595	6,996	163	139,428
Asset-backed securities	24,694	1,278	53	25,919
Preferred shares	56,776	1,524	52	58,248
Common shares and other securities	32,796	3,392	656	35,532
	$1,086,959	$17,733	$948	$1,103,744

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

As at October 31, 2011, unrealized losses related mainly to listed securities of Canadian financial institutions and energy companies. Decreases in value are fairly recent, and, in addition, these companies have maintained a strong financial position and their business plans remain sound. As a result, management has determined these declines in fair value to be temporary and included them in accumulated other comprehensive income.

OTHER CONSIDERATIONS

Additional information regarding securities

Note 20 contains additional information on the determination of fair value of securities.

5 LOANS

LOANS AND IMPAIRED LOANS

2011	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	SPECIFIC ALLOWANCES	GENERAL ALLOWANCES	TOTAL ALLOWANCES
Personal	$ 5,768,787	$ 14,395	$ 4,239	$28,580	$ 32,819
Residential mortgages[1]	8,928,544	50,903	7,370	11,825	19,195
Commercial mortgages	1,813,293	28,691	16,212	11,558	27,770
Commercial and other	1,900,977	69,736	48,320	21,639	69,959
	$ 18,411,601	$163,725	$76,141	$73,602	$149,743

2010	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	SPECIFIC ALLOWANCES	GENERAL ALLOWANCES	TOTAL ALLOWANCES
Personal	$ 5,630,788	$ 16,397	$ 5,312	$29,294	$ 34,606
Residential mortgages[1]	8,582,548	39,304	4,256	2,861	7,117
Commercial mortgages	1,638,861	34,316	10,934	6,212	17,146
Commercial and other	1,691,190	98,106	44,391	34,883	79,274
	$17,543 387	$188,123	$64,893	$73,250	$138,143

(1) Include mortgage loans on residential real estate development properties and projects.

Foreclosed assets

Held-for-sale assets acquired in 2011 with respect to impaired loans which are managed for sale in an orderly manner amounted to $5.5 million ($3.7 million in 2010). There were no specific allowances with regards to these loans prior to foreclosure (nil in 2010).

SPECIFIC ALLOWANCES FOR LOAN LOSSES

					2011	2010
	PERSONAL LOANS	RESIDENTIAL MORTGAGES	COMMERCIAL MORTGAGES	COMMERCIAL AND OTHER LOANS	TOTAL SPECIFIC ALLOWANCES	TOTAL SPECIFIC ALLOWANCES
Balance at beginning of year	$ 5,312	$ 4,256	$10,934	$44,391	$ 64,893	$41,296
Provision for loan losses recorded in the consolidated statement of income	22,802	5,593	5,282	12,971	46,648	68,000
Write-offs[1]	(26,566)	(3,296)	(30)	(9,293)	(39,185)	(46,823)
Recoveries	2,691	817	26	251	3,785	2,420
Balance at end of year	$ 4,239	$ 7,370	$16,212	$48,320	$ 76,141	$64,893

(1) No restructured loans were written off during the fiscal years ended October 31, 2011 and 2010.

GENERAL ALLOWANCES FOR LOAN LOSSES

					2011	2010
	PERSONAL LOANS	RESIDENTIAL MORTGAGES	COMMERCIAL MORTGAGES	COMMERCIAL AND OTHER LOANS	TOTAL GENERAL ALLOWANCES	TOTAL GENERAL ALLOWANCES
Balance at beginning of year	$29,294	$2,861	$6,212	$34,883	$73,250	$73,250
Provision for loan losses recorded in the consolidated statement of income	(714)	8,964	5,346	(13,244)	352	–
Balance at end of year	$28,580	$11,825	$11,558	$21,639	$73,602	$73,250

LOANS PAST DUE BUT NOT IMPAIRED

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

			As at October 31, 2011	
	1 DAY–31 DAYS	32 DAYS–90 DAYS	OVER 90 DAYS	TOTAL
Personal loans	$ 98,641	$37,630	$ 5,188	$141,459
Residential mortgages[1]	176,959	23,710	22,406	223,075
	$275,600	$61,340	$27,594	$364,534

			As at October 31, 2010	
	1 DAY–31 DAYS	32 DAYS–90 DAYS	OVER 90 DAYS	TOTAL
Personal loans	$ 103,203	$26,478	$ 7,160	$136,841
Residential mortgages[1]	251,282	26,850	21,085	299,217
	$354,485	$53,328	$28,245	$436,058

(1) Include mortgage loans on residential real estate development properties and projects.

6. LOAN SECURITIZATION

RESIDENTIAL MORTGAGE LOANS

Under the securitization program governed by the *National Housing Act*, the Bank securitizes residential mortgage loans secured by the Canadian Mortgage and Housing Corporation (CMHC) through the creation of mortgage-backed securities. The Bank also securitized conventional residential mortgages prior to 2008. Gains before income taxes, net of transaction costs, are recognized in other income under securitization income.

The following table summarizes the residential mortgage securitization transactions carried out by the Bank.

	2011	2010
Cash proceeds, net of transaction costs	**$1,547,904**	$821,364
Rights to future excess spreads	**80,105**	36,923
Servicing liability	**(12,878)**	(6,168)
Other	**(3,260)**	(5,461)
	1,611,871	846,658
Residential mortgages securitized and sold [1]	**(1,552,059)**	(824,107)
Write-off of loan origination costs	**(17,337)**	(9,080)
Gains before income taxes, net of transaction costs	**$ 42,475**	$ 13,471

(1) Fully insured by the CMHC.

Key assumptions used to determine the initial fair value of retained interests regarding the transfer of residential mortgages are summarized as follows.

KEY ASSUMPTIONS

	2011	2010
Weighted average term (months)	**32**	30
Rate of prepayment	**18%**	19%
Discount rate	**1.7%**	1.9%

No loss is expected on insured residential mortgages.

Securitization income, as reported in the consolidated statement of income, is detailed in the following table.

	2011	2010
Gains on securitization operations	**$42,475**	$13,471
Changes in fair value of retained interests related to excess spreads, securitization swaps and financial instruments held for economic hedging purposes	**(11,028)**	(8,611)
Management income	**8,058**	6,958
Other	**(4,019)**	(5,822)
	$35,486	$ 5,996

During the year, the Bank collected cash flows from retained interests totalling $65.3 million ($54.2 million in 2010).

Sensitivity analysis

The following table shows the value of retained interests, as well as the sensitivity of the fair value of these interests to immediate unfavourable changes of 10% and 20% in the key assumptions used to value retained interests as at October 31, 2011 and 2010.

SENSITIVITY OF KEY ASSUMPTIONS TO UNFAVOURABLE CHANGES

	2011	2010
Fair value of retained interests	**$122,760**	$97,085
Weighted average life (in months)	**23**	22
Rate of prepayment	**20%**	20%
Impact on fair value of unfavourable change of 10%	**$ 3,223**	$ 2,484
Impact on fair value of unfavourable change of 20%	**$ 6,301**	$ 4,857
Discount rate	**1.22%**	1.50%
Impact on fair value of unfavourable change of 10%	**$ 195**	$ 166
Impact on fair value of unfavourable change of 20%	**$ 389**	$ 331

These sensitivities are hypothetical and should be used with caution. Changes in the fair value attributed to changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in the fair value may not be linear. Changes in one factor may result in changes in another factor, which might magnify or counteract the fluctuations attributed to changes in key assumptions.

LOANS UNDER MANAGEMENT

The total principal amount of outstanding securitized residential mortgage loans under management amounted to $3.4 billion at the end of fiscal 2011 ($2.7 billion in 2010). Of that amount, loans that are more than 31 days past due totalled $20.5 million ($18.9 million in 2010). There were no credit losses in respect of these loans in 2011 and in 2010.

COMMERCIAL MORTGAGE LOANS

Apart from the above-mentioned securitization transactions, the Bank sold $29.3 million in commercial mortgages, generating a $296,000 gain in 2011 ($1.5 million in 2010, generating a $18,000 gain). In addition, the Bank manages commercial loans for third parties amounting to $300 million ($207 million in 2010).

7 PREMISES AND EQUIPMENT

			2011	2010
	COST	**ACCUMULATED DEPRECIATION**	**NET BOOK VALUE**	NET BOOK VALUE
Land	**$ 416**	**$ –**	**$ 416**	$ 416
Premises	**3,445**	**1,446**	**1,999**	2,010
Leasehold improvements	**79,636**	**46,354**	**33,282**	29,130
Equipment and furniture	**85,587**	**72,502**	**13,085**	11,283
Computer hardware	**134,463**	**118,493**	**15,970**	15,697
	$303,547	**$238,795**	**$64,752**	$58,536

Depreciation expense for the year in the consolidated statement of income amounted to $11.1 million ($10.9 million in 2010).

8 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill totalling $53.8 million was recognized in the Retail & SME-Québec segment.

Other intangible assets consist of the following.

	2011			2010
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	NET BOOK VALUE
Software	$371,321	$257,205	$114,116	$101,910
Contractual and customer relationships	18,278	9,037	9,241	10,459
	$389,599	$266,242	$123,357	$112,369

Software includes $29.9 million ($11.9 million in 2010) pertaining to projects under development yet to be amortized.

Amortization expense of other intangible assets recorded in the consolidated statement of income during the year was $29.9 million ($26.3 million in 2010).

The Bank tests goodwill for impairment on an annual basis. No impairment was recognized in 2011 and 2010.

9 OTHER ASSETS

	2011	2010
Assets related to securitized mortgage loans	$136,048	$107,460
Cheques and other items in transit	128,904	115,710
Accrued benefit assets (note 16)	122,203	127,349
Accrued interest receivable	80,344	82,480
Deferred charges related to loan origination	72,826	71,557
Future income tax assets (note 17)	4,160	29,579
Accounts receivable, prepaid expenses and other items	67,539	51,227
	$612,024	$585,362

10 DEPOSITS

	2011			
	DEMAND	NOTICE	TERM	TOTAL
Personal	$ 119,022	$4,801,007	$10,689,983	$15,610,012
Business, banks and other	1,469,372	1,025,594	1,962,440	4,457,406
	$1,588,394	$5,826,601	$12,652,423	$20,067,418

	2010			
	DEMAND	NOTICE	TERM	TOTAL
Personal	$ 122,717	$4,557,386	$10,716,808	$15,396,911
Business, banks and other	1,481,642	850,899	1,918,278	4,250,819
	$1,604,359	$5,408,285	$12,635,086	$19,647,730

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

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

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

11 OTHER LIABILITIES

	2011	2010
Accrued interest payable	**$452,308**	$465,637
Cheques and other items in transit	**179,222**	244,342
Liabilities related to securitized mortgage loans	**51,636**	33,190
Future income tax liabilities (note 17)	**43,482**	41,520
Accrued benefit liabilities (note 16)	**19,498**	17,874
Accounts payable, accrued expenses and other items	**166,044**	145,316
	$912,190	$947,879

12 SUBORDINATED DEBT

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

ISSUANCE

On November 2, 2010, the Bank issued $250.0 million Series 2010-1 Medium Term Notes (Subordinated Indebtedness), for net proceeds of $248.4 million. The contractual maturity of the Series 2010-1 Medium Term Notes is November 2, 2020. Holders of the Series 2010-1 Medium Term Notes are entitled to receive semi-annually fixed interest payments for the initial five-year period ending November 2, 2015 at a rate of 3.70% per annum. The interest rate on the Series 2010-1 Medium Term Notes will reset on November 2, 2015 at the three-month bankers' acceptance rate plus 1.76% per annum.

The Series 2010-1 Medium Term Notes will not be redeemable prior to November 2, 2015. Subject to the provisions of the *Bank Act*, to the prior consent of OSFI and to the provisions described in the pricing supplement dated October 25, 2010, at any time on or after November 2, 2015, the Bank may redeem all or any part of the then outstanding Series 2010-1 Medium Term Notes, at the Bank's option, by the payment of an amount in cash equal to the par value together with unpaid accrued interest.

The $250.0 million Series 2010-1 Medium Term Notes are presented net of unamortized issue costs of $1.6 million on the consolidated balance sheet and include a net fair value adjustment of $5.9 million to reflect the change in the carrying value previously covered by a fair value hedge.

REDEMPTION

On January 25, 2011, the Bank redeemed all of its 4.90% Subordinated Debentures, Series 10, maturing in 2016, with an aggregate notional amount of $150.0 million. The Debentures were redeemed at par plus accrued and unpaid interest to the date of redemption.

ISSUED AND OUTSTANDING

MATURITY	SERIES	INTEREST RATE	SPECIAL TERMS	2011	2010
November 2020	2010-1	3.70%	Redeemable at par as of November 2, 2015; rate to be revised on November 2, 2015 and set at the 90-day bankers' acceptance rate plus 1.76%	**$250,000**	$ -
January 2016	10	4.90%	Redeemable at par as of January 25, 2011; rate to be revised on January 25, 2011 and set at the 90-day bankers' acceptance rate plus 1.65%	**$ –**	$150,000

13 CAPITAL STOCK

AUTHORIZED CAPITAL STOCK

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

Common shares – Unlimited number of common shares, without par value.

ISSUED AND OUTSTANDING

				2011			2010
	DIVIDENDS PER SHARE[1]	NUMBER OF SHARES	AMOUNT	DECLARED DIVIDENDS	NUMBER OF SHARES	AMOUNT	DECLARED DIVIDENDS
Class A Preferred Shares							
Series 9	**$1.500**	**4,000,000**	**$100,000**	**$ 6,000**	4,000,000	$100,000	$ 6,000
Series 10	**1.312**	**4,400,000**	**110,000**	**5,775**	4,400,000	110,000	5,775
Total preferred shares		**8,400,000**	**$210,000**	**$11,775**	8,400,000	$210,000	$11,775
Common shares	**$ 1.62**	**23,925,037**	**$259,492**	**$38,757**	23,920,962	$259,363	$34,446

(1) Non-cumulative dividends on preferred shares.

13 CAPITAL STOCK [CONT'D]

PREFERRED SHARES

Terms of shares

The Class A Preferred Shares, Series 9, are redeemable at the Bank's option since December 15, 2006 at a price of $25 each.

The Class A Preferred Shares, Series 10, are redeemable at the Bank's option since June 15, 2009 at a price of $25 each plus, if the redemption takes place before June 15, 2013, a premium of $1 which will decrease to zero depending on the redemption date.

The Bank could also convert all or a portion of these preferred shares into common shares under certain circumstances; however, on November 17, 2010, the Bank irrevocably renounced its right of conversion into common shares.

COMMON SHARES

Issuance of common shares

During the year, 4,075 common shares (6,999 common shares in 2010) were issued under the employee share purchase option plan for the management of the Bank for a cash consideration of $0.1 million ($0.2 million in 2010).

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

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

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

CAPITAL MANAGEMENT

Management's objective is to maintain an adequate level of capital, in line with its risk profile, 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 operating 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 investors' and shareholders' expectations. While rating agencies do not assign credit ratings to the Bank 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 Board's Risk Management Committee 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.

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%. The Bank opted for the Standardized Approach in determining credit risk capital and, as at January 31, 2011, the Bank has chosen to use the Standardized Approach to account for operational risk instead of the Basic Indicator Approach. The Bank and its subsidiaries were in compliance with OSFI's capital requirements throughout the year.

Regulatory capital is detailed below.

REGULATORY CAPITAL

	2011	2010
Tier I capital		
Common shares	$ 259,492	$ 259,363
Contributed surplus	227	243
Retained earnings	818,207	741,911
Non-cumulative preferred shares	210,000	210,000
Goodwill	(53,790)	(53,790)
Securitization-related and other deductions	(16,911)	(16,936)
Total – Tier I capital	1,217,225	1,140,791
Tier II capital		
Subordinated debt	242,512	150,000
General allowances	73,602	73,250
Securitization-related and other deductions	(16,499)	(13,714)
Total – Tier II capital	299,615	209,536
Total regulatory capital	$1,516,840	$1,350,327

14 ADDITIONAL INFORMATION REGARDING OTHER COMPREHENSIVE INCOME

OTHER COMPREHENSIVE INCOME

			2011
	AMOUNTS BEFORE INCOME TAXES	INCOME TAXES	AMOUNTS, NET OF INCOME TAXES
Unrealized net losses on available-for-sale securities	$ (1,712)	$ 117	$ (1,595)
Reclassification of net gains on available-for-sale securities to net income	(4,503)	1,002	(3,501)
	(6,215)	1,119	(5,096)
Net change in value of derivatives designated as cash flow hedges	31,369	(7,405)	23,964
Other comprehensive income	$ 25,154	$(6,286)	$ 18,868

ACCUMULATED OTHER COMPREHENSIVE INCOME

			2011
	CASH FLOW HEDGES	AVAILABLE-FOR-SALE SECURITIES	ACCUMULATED OTHER COMPREHENSIVE INCOME
Balance at beginning of year	$ 19,230	$8,668	$27,898
Change during the year, net of income taxes	23,964	(5,096)	18,868
Balance at end of year	$ 43,194	$3,572	$46,766

14 ADDITIONAL INFORMATION REGARDING OTHER COMPREHENSIVE INCOME (CONT'D)

OTHER COMPREHENSIVE INCOME

			2010
	AMOUNTS BEFORE INCOME TAXES	INCOME TAXES	AMOUNTS, NET OF INCOME TAXES
Unrealized net gains on available-for-sale securities	$ 9,617	$(2,361)	$ 7,256
Reclassification of net gains on available-for-sale securities to net income	(3,165)	902	(2,263)
	6,452	(1,459)	4,993
Net change in value of derivatives designated as cash flow hedges	(19,709)	6,343	(13,366)
Other comprehensive income	$(13,257)	$ 4,884	$ (8,373)

ACCUMULATED OTHER COMPREHENSIVE INCOME

			2010
	CASH FLOW HEDGES	AVAILABLE-FOR-SALE SECURITIES	ACCUMULATED OTHER COMPREHENSIVE INCOME
Balance at beginning of year	$ 32,596	$3,675	$36,271
Change during the year, net of income taxes	(13,366)	4,993	(8,373)
Balance at end of year	$ 19,230	$8,668	$27,898

15 STOCK-BASED COMPENSATION

SHARE PURCHASE OPTION PLAN

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

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

The Bank had reserved 1,600,000 common shares (1,600,000 shares in 2010) for the potential exercise of share purchase options, of which 124,962 were still available as at October 31, 2011 (124,962 in 2010).

No new share options were granted in 2011 and 2010.

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

		2011		2010
	NUMBER OF OPTIONS	**WEIGHTED AVERAGE EXERCISE PRICE PER OPTION**	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER OPTION
Outstanding at beginning of year	**54,075**	**$29.65**	61,074	$28.79
Exercised	**(4,075)**	**$31.80**	(6,999)	$22.13
Outstanding at end of year	**50,000**	**$29.47**	54,075	$29.65
Exercisable at end of year	**50,000**	**$29.47**	41,575	$29.70

All outstanding options as at October 31, 2011 are expiring in December 2016.

STOCK APPRECIATION RIGHTS PLAN

The Bank offers a stock appreciation rights (SARs) plan to members of senior management of the Bank and its subsidiaries. These SARs may be cash settled for an amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs vest over a maximum period of five years and can be exercised over a maximum period of ten years. The expense related to these units is recognized in income over their vesting period. No SARs were granted during 2011 and 2010.

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

STOCK APPRECIATION RIGHTS

	AVERAGE EXERCISE PRICE	NUMBER OF SARs OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF SARs EXERCISABLE
2011	**$34.44**	**427,540**	**5.27**	**283,923**
2010	$34.01	517,510	6.06	258,235

PERFORMANCE-BASED SHARE UNIT PLAN

The Bank offers a performance-based share unit (PSU) plan to certain members of senior management. The plan provides for the grant of performance-based share units calculated using a certain percentage of the plan member's salary. Under the plan, rights to 37.5% of these units vest over three years. The rights to the remaining 62.5% units vest after three years and upon meeting certain financial objectives. The holders of such share units are entitled to an amount equivalent to the dividends paid on the Bank's common shares, which is also converted into additional share units. The expense related to these units is recognized in income over their vesting period.

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

PERFORMANCE SHARE UNITS

	FOR THE YEARS ENDED OCTOBER 31			AS AT OCTOBER 31
	NUMBER OF UNITS GRANTED	VALUE OF UNITS GRANTED	VESTING DATE	NUMBER OF UNITS OUTSTANDING
2011	**50,700**	**$45.77**	**December 2013**	**164,782**
2010	50,926	$43.15	December 2012	136,851

RESTRICTED SHARE UNIT PLANS

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

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

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

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

RESTRICTED SHARE UNITS

		FOR THE YEARS ENDED OCTOBER 31				AS AT OCTOBER 31	
	PLANS	NUMBER OF UNITS CONVERTED(1)	NUMBER OF UNITS GRANTED	VALUE OF UNITS GRANTED	VESTING DATE	NUMBER OF UNITS OUTSTANDING	NUMBER OF UNITS VESTED
2011	**Senior management**	**39,559**	**23,736**	**$45.77**	**December 2013**	**225,936**	**197,666**
	Capital markets	**25,029**	**–**	**$45.77**	**n.a.**	**25,892**	**25,892**
2010	Senior management	38,268	22,961	$43.15	December 2012	217,002	102,780

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

DEFERRED SHARE UNIT PLAN

The Bank offers a deferred share unit plan to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his or her remuneration in the form of deferred share units which can be settled in cash. The deferred share units are converted when the holder steps down from the Board of Directors. In 2011, the Bank paid out 2,843 deferred share units as compensation (2,944 in 2010). As at October 31, 2011, there were 7,176 units (4,333 in 2010) outstanding with a total value of $0.3 million ($0.2 million in 2010).

15 STOCK-BASED COMPENSATION (CONT'D)

EMPLOYEE SHARE PURCHASE PLAN

The Bank offers an employee share purchase plan. Under this plan, employees who meet the eligibility criteria can contribute up to 5% of their annual gross salary by way of payroll deductions. The Bank matches 30% of the employee contribution amount, up to a maximum of $1,500 per year. The Bank's contributions vest to the employee two years after each employee contribution. The Bank's contributions, totalling $0.4 million during fiscal 2011 ($0.4 million in 2010), are recognized in salaries and employee benefits. The average value of the granted shares under this plan was $47.17 in fiscal 2011 ($43.02 in 2010).

STOCK-BASED COMPENSATION PLAN EXPENSE

The following table presents the expense related to all stock-based compensation plans, net of the effect of related hedging transactions.

	2011	2010
Stock-based compensation plan expense	$ 5,211	$ 6,831
Effect of hedges	(1,975)	(4,013)
Total	$ 3,236	$ 2,818

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

16 EMPLOYEE FUTURE BENEFITS

DESCRIPTION OF BENEFIT PLANS

The Bank has a number of funded defined benefit plans, including certain defined contribution portions. The benefit plans provide pension benefits to most of its employees. Its defined benefit pension plans are based on years of service and final average salary at retirement time.

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

TOTAL CASH PAYMENTS

Total cash payments for future employee benefits for 2011, consisting of cash contributed by the Bank to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution portions, amounted to $16.0 million ($17.3 million in 2010).

DEFINED BENEFIT PLAN MEASUREMENT DATES

The Bank measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at October 31 of each year. The most recent actuarial valuations were performed as at December 31, 2008 and at December 31, 2010 for two plans. The next required actuarial valuation for funding purposes will be as at December 31, 2011 for all funded plans.

DEFINED BENEFIT PLAN OBLIGATIONS

	2011		2010	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Change in accrued benefit obligation				
Accrued benefit obligation at beginning of year	$413,218	$34,463	$346,107	$32,643
Current service cost	12,727	45	10,039	67
Interest cost on accrued benefit obligation	22,475	1,558	22,568	1,772
Benefits paid	(18,988)	(1,397)	(20,306)	(1,477)
Employee contributions	242	–	232	–
Effect of changes to plans	578	–	–	–
Actuarial losses	17,152	527	54,578	1,638
Accrued benefit obligation at end of year	$447,404	$35,196	$413,218	$34,643

DEFINED BENEFIT PLAN ASSETS

	2011		2010	
	PENSION PLANS	**OTHER PLANS**	PENSION PLANS	OTHER PLANS
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	**$428,337**	**$ –**	$390,602	$ –
Actual return on plan assets	**7,751**	**–**	46,594	–
Bank contributions	**9,131**	**–**	10,720	–
Employee contributions	**242**	**–**	232	–
Benefits paid	**(18,561)**	**–**	(19,811)	–
Fair value of plan assets at end of year	**$426,900**	**$ –**	$428,337	$ –

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

	2011		2010	
	PENSION PLANS	**OTHER PLANS**	PENSION PLANS	OTHER PLANS
Fair value of plan assets	**$426,900**	**$ –**	$428,337	$ –
Accrued benefit obligation	**447,404**	**35,196**	413,218	34,463
Funded status – plan surplus (deficit)	**(20,504)**	**(35,196)**	15,119	(34,463)
Unamortized transitional obligation	**(613)**	**6,907**	(735)	7,728
Unamortized past service costs	**(7,307)**	**–**	(8,879)	–
Unamortized net actuarial loss	**145,812**	**13,606**	116,855	13,850
Accrued benefit assets (liabilities) at end of year	**$117,388**	**$(14,683)**	$122,360	$(12,885)
Accrued benefit assets included in other assets	**$122,203**	**$ –**	$127,349	$ –
Accrued benefit liabilities included in other liabilities	**$ 4,815**	**$ 14,683**	$ 4,989	$ 12,885

ALLOCATION OF PLAN ASSETS AS A PERCENTAGE [1]

	2011	2010
Asset category		
Equity securities	**59%**	61%
Debt securities	**40**	38
Other	**1**	1
Total	**100%**	100%

(1) Measured as of the measurement date of October 31 of each year.

Plan assets do not include any equity securities of the Bank as at October 31, 2011 and 2010.

PLANS WITH ACCRUED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS

The amounts, at year-end, related to the accrued benefit obligation and the fair value of the assets of plans that are not fully funded are as follows.

	2011		2010	
	PENSION PLANS	**OTHER PLANS**	PENSION PLANS	OTHER PLANS
Accrued benefit obligation	**$235,286**	**$ 35,196**	$209,847	$ 34,463
Fair value of plan assets	**205,314**	**–**	200,089	–
Funded status – plan deficit	**$ (29,972)**	**$(35,196)**	$ (9,758)	$(34,463)

16 EMPLOYEE FUTURE BENEFITS (CONT'D)

ELEMENTS OF DEFINED BENEFIT COSTS RECOGNIZED DURING THE YEAR

	2011		2010	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Current service cost	$ 12,727	$ 45	$ 10,039	$ 67
Interest cost on accrued benefit obligation	22,475	1,558	22,568	1,772
Actual return on plan assets	(7,751)	–	(46,594)	–
Actuarial losses on accrued benefit obligation	17,152	527	54,578	1,638
Effect of changes to plans	578	–	–	–
Elements of employee future benefit costs before adjustments to recognize their long-term nature	45,181	2,130	40,591	3,477
Excess (deficit) of actual return over expected return	(20,704)	–	18,793	–
Deferral of amounts arising during the year:				
Actuarial losses on accrued benefit obligation	(17,152)	(527)	(54,578)	(1,638)
Past service costs	(578)	–	–	–
Amortization of previously deferred amounts:				
Past service costs	(994)	–	(885)	–
Actuarial differences	8,899	771	3,444	724
Transitional obligation	(123)	821	265	821
Adjustments to recognize long-term nature of employee future benefit costs	(30,652)	1,065	(32,961)	(93)
Total defined benefit costs	14,529	3,195	7,630	3,384
Total cost of defined contribution portion	5,078	–	4,606	–
Employee future benefit costs	$ 19,607	$ 3,195	$ 12,236	$ 3,384

SIGNIFICANT ASSUMPTIONS

	2011		2010	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Weighted average of assumptions				
Accrued benefit obligation as at October 31:				
Discount rate at end of year	5.25%	5.25%	5.40%	5.40%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Benefit costs for the years ended October 31:				
Discount rate for the year	5.40%	5.40%	6.50%	6.50%
Expected long-term rate of return on plan assets	7.25%	–	7.25%	–
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

ASSUMED HEALTH CARE COST TREND RATES AS AT OCTOBER 31.

	2011	2010
Assumed annual rate of increase in the cost of health care benefits	8.8%	9.4%
Level to which it should decline and at which it is assumed to subsequently stabilize	4.0%	4.0%
Year that the rate is assumed to stabilize	2019	2019

SENSITIVITY ANALYSIS

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2011.

	1% INCREASE	1% DECREASE
Total of service and interest cost	$ 134	$ (113)
Accrued benefit obligation	$2,521	$(2,116)

17 INCOME TAXES

FUTURE INCOME TAXES

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

	2011	2010
Future income tax assets		
Allowances for loan losses	$ 21,900	$ 22,068
Premises and equipment	10,668	15,168
Provisions	7,282	4,804
Amount related deferred remuneration	5,305	4,709
Tax loss carryforwards	3,222	–
Software	–	11,551
Other temporary differences	3,059	2,899
	51,436	61,199
Future income tax liabilities		
Accrued benefit assets-pension plans	(27,410)	(29,318)
Securitization and securities	(21,732)	(16,414)
Deferred charges	(17,149)	(15,640)
Derivatives	(16,110)	(8,118)
Software	(5,494)	–
Other temporary differences	(2,863)	(3,650)
	(90,758)	(73,140)
Future income taxes, net	$(39,322)	$(11,941)

Net future income taxes are reported in other assets (note 9) and other liabilities (note 11) in the consolidated balance sheet.

	2011	2010
Future income tax assets	$ 4,160	$ 29,579
Future income tax liabilities	(43,482)	(41,520)
	$ (39,322)	$ (11,941)

Income tax loss carryforwards, as at October 31, 2011 were $11.2 million (nil in 2010).

INCOME TAX EXPENSE

Significant components of income tax expense are as follows.

	2011	2010
Consolidated statement of income		
Current income tax expense	$15,140	$17,929
Future income tax expense		
Reversal of temporary differences	21,095	23,753
Tax rate changes	–	587
	21,095	24,340
	$36,235	$42,269
Consolidated statement of comprehensive income		
Income taxes (recovery) related to change in unrealized gains (losses) on available-for-sale securities	$ (117)	$ 2,361
Income taxes recovery related to reclassification of net gains on available-for-sale securities to net income	(1,002)	(902)
Income taxes (recovery) related to net change in value of derivatives designated as cash flow hedges	7,405	(6,343)
	$ 6,286	$ (4,884)
Consolidated statement of changes in shareholders' equity		
Income taxes on preferred share dividends and other		
Current income tax expense	$ 4,710	$ 4,710
Current income tax benefit	(4,049)	(4,363)
	$ 661	$ 347

17 INCOME TAXES (CONT'D)

RECONCILIATION WITH THE STATUTORY RATE

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

	2011		2010	
	AMOUNT		AMOUNT	
Income taxes at statutory rates	**$46,839**	**28.6%**	$50,027	30.3%
Change resulting from:				
Income related to foreign credit insurance operations	**(5,275)**	**(3.2)**	(4,891)	(3.0)
Dividends and tax-exempt gains	**(3,626)**	**(2.2)**	(1,919)	(1.2)
Resolution of income tax exposures	**–**	**–**	(1,010)	(0.6)
Taxe rate changes	**–**	**–**	587	0.4
Other	**(1,703)**	**(1.1)**	(525)	(0.3)
Income taxes as reported in the consolidated statement of income	**$36,235**	**22.1%**	$42,269	25.6%

Income earned on foreign credit insurance operations would generally be taxed only upon repatriation to Canada. Since the Bank's management does not expect to repatriate income accumulated after July 27, 2006, no future income tax expense has been recognized on such income. Income taxes that would be payable if all unremitted earnings were repatriated are estimated at $20.8 million as at October 31, 2011 ($15.9 million as at October 31, 2010).

18 EARNINGS PER SHARE

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

	2011	2010
Earnings per share – basic		
Net income	**$ 127,489**	$ 122,941
Preferred share dividends, including related income taxes	**12,436**	12,122
Net income attributable to common shares	**$ 115,053**	$ 110,819
Average number of outstanding common shares	**23,923,754**	23,920,529
Earnings per share – basic	**$ 4.81**	$ 4.63
Earnings per share – diluted		
Net income attributable to common shares	**$ 115,053**	$ 110,819
Average number of outstanding common shares	**23,923,754**	23,920,529
Dilutive share purchase options	**19,067**	16,938
Diluted weighted average number of outstanding common shares	**23,942,821**	23,937,467
Earnings per share – diluted	**$ 4.81**	$ 4.63

The preferred shares were convertible into common shares at the Bank's option. However, on November 17, 2010, the Bank irrevocably renounced its right of conversion of its Class A preferred shares into common shares. In prior periods, these conversions were not taken into account in the calculation of diluted earnings per share because the Bank could settle such conversions in cash rather than common shares and, based on past experience, the Bank had opted for a cash settlement.

19 RELATED PARTY TRANSACTIONS

The Bank provides loans to directors and officers and their related companies. Loans to directors are granted under market conditions for similar risks and are measured at the exchange amount. 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 companies 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. The outstanding balances of these loans are as follows.

	2011	2010
Mortgage loans	**$ 1,377**	$ 1,159
Other loans	**14,690**	15,699
	$16,067	$16,858

In the normal course of business, the Bank also provides usual banking services to certain directors and officers, including bank accounts (deposits) under terms similar to those offered to arm's length parties.

20 FINANCIAL INSTRUMENTS – FAIR VALUE

The fair value of a financial instrument is defined as the theoretical amount of consideration for a financial instrument that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Quoted market prices are not available for a portion of the Bank's financial instruments. As a result, for these instruments, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of the net realizable value.

CLASSIFICATION OF FAIR VALUE MEASUREMENTS IN THE FAIR VALUE HIERARCHY

CICA Handbook Section 3862 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. These two types of inputs create the following fair value hierarchy:

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

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

20 FINANCIAL INSTRUMENTS – FAIR VALUE (CONT'D)

(in millions of dollars) 2011

	CARRYING AMOUNT	FAIR VALUE	FAVOURABLE (UNFAVOURABLE) VARIANCE	FAIR VALUE HIERARCHY LEVEL OF FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE[1]		
				LEVEL 1	LEVEL 2	LEVEL 3
Assets						
Cash and non-interest-bearing deposits with other banks	$ 82	$ 82	$ –	$ n/a	$ n/a	$ n/a
Interest-bearing deposits with other banks	276	276	–	n/a	n/a	n/a
Securities accounts						
Available-for-sale	1,096	1,096	–	102	993	1
Held-for-trading	2,182	2,182	–	223	1,956	3
Designated as held-for-trading	1,012	1,012	–	–	1,012	–
Securities purchased under reverse repurchase agreements	319	319	–	n/a	n/a	n/a
Loans	18,262	18,466	204	n/a	n/a	n/a
Customers' liabilities under acceptances	179	179	–	n/a	n/a	n/a
Derivatives	229	229	–	–	227	2
Other assets	486	486	–	–	–	119
	$24,123	$24,327	$ 204	$325	$4,188	$125
Liabilities						
Deposits	$ 20,067	$ 20,279	$(212)	$ n/a	$ n/a	$ n/a
Obligations related to securities sold short	1,471	1,471	–	34	1,437	–
Obligations related to securities sold under repurchase agreements	37	37	–	n/a	n/a	n/a
Acceptances	179	179	–	n/a	n/a	n/a
Derivatives	246	246	–	–	118	128
Other liabilities	819	819	–	n/a	n/a	n/a
Subordinated debt	243	252	(9)	n/a	n/a	n/a
	$ 23,062	$ 23,283	$(221)	$ 34	$1,555	$ 128

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

(in millions of dollars) 2010

	CARRYING AMOUNT	FAIR VALUE	FAVOURABLE (UNFAVOURABLE) VARIANCE	FAIR VALUE HIERARCHY LEVEL OF FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE[1]		
				LEVEL 1	LEVEL 2	LEVEL 3
Assets						
Cash and non-interest-bearing deposits with other banks	$ 71	$ 71	$ –	$ n/a	$ n/a	$ n/a
Interest-bearing deposits with other banks	96	96	–	n/a	n/a	n/a
Securities accounts						
Available-for-sale	1,104	1,104	–	89	1,007	8
Held-for-trading	1,497	1,497	–	166	1,324	7
Designated as held-for-trading	1,658	1,658	–	–	1,658	–
Securities purchased under reverse repurchase agreements	804	804	–	n/a	n/a	n/a
Loans	17,405	17,628	223	n/a	n/a	n/a
Customers' liabilities under acceptances	165	165	–	n/a	n/a	n/a
Derivatives	163	163	–	–	157	6
Other assets	415	415	–	–	–	98
	$23,378	$23,601	$ 223	$255	$4,146	$119
Liabilities						
Deposits	$19,648	$19,895	$(247)	$ n/a	$ n/a	$ n/a
Obligations related to securities sold short	1,362	1,362	–	7	1,355	–
Obligations related to securities sold under repurchase agreements	60	60	–	n/a	n/a	n/a
Acceptances	165	165	–	n/a	n/a	n/a
Derivatives	199	199	–	–	100	99
Other liabilities	873	873	–	n/a	n/a	n/a
Subordinated debt	150	151	(1)	n/a	n/a	n/a
	$22,457	$22,705	$(248)	$ 7	$1,455	$ 99

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

DETERMINING FAIR VALUE

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

When available, the Bank generally uses quoted market prices to determine fair value and classifies such items in Level 1.

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

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

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

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

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

Securities accounts

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

Loans

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

Other assets

Other assets consist primarily of cheques and other items in transit, accrued interest receivable and certain retained interests related to securitization transactions. Quoted market prices in an active market are not available for these financial instruments.

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

The fair value of retained interest related to securitization transactions is calculated based on a discounted net value analysis that factors in the time value of money and anticipated rates of prepayment. The retained interests are classified in Level 3. More details regarding these interests are provided in note 6, including sensitivity analysis.

Derivatives

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

20 FINANCIAL INSTRUMENTS – FAIR VALUE (CONT'D)

Deposits

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

Obligations related to securities sold short

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

Subordinated debt

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

LEVEL TRANSFERS AND RECLASSIFICATION

There were no significant changes in fair value measurement methods during the year.

CHANGE IN LEVEL 3 FAIR VALUE CATEGORY

The following tables show the changes in the Level 3 of the fair value hierarchy for the years ended October 31, 2011 and 2010. The Bank classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically rely on a number of inputs that are observable either directly or indirectly. Accordingly, the gains and losses shown below include changes in fair value related to both observable and unobservable inputs.

(in millions of dollars) 2011

		REALIZED/UNREALIZED NET GAINS (LOSSES) INCLUDED IN		MOVEMENTS				
	BALANCE AS AT OCT. 31, 2010	INCOME[1]	OTHER COMPREHENSIVE INCOME	PURCHASES AND ISSUANCES	SALES AND SETTLEMENTS	TRANSFERS IN AND OUT OF LEVEL 3	BALANCE AS AT OCT. 31, 2011	UNREALIZED GAINS (LOSSES) RELATED TO INSTRUMENTS STILL HELD AT PERIOD-END
Assets								
Securities accounts								
Available-for-sale	$ 8	$ 1	$ –	$ –	$ (7)	$ (1)	$ 1	$ –
Held-for-trading	7	1	–	–	(5)	–	3	–
Derivatives	6	3	–	–	(7)	–	2	2
Other assets	98	11	–	80	(70)	–	119	9
	$119	$ 16	$ –	$80	$(89)	$ (1)	$ 125	$ 11
Liabilities								
Derivatives	$ (99)	$(46)	$ –	$ –	$ 17	$ –	$(128)	$(30)

(1) Gains and losses related to financial instruments in Level 3 have been included in income from treasury and financial market operations and in securitization income.

(in millions of dollars)								2010
		REALIZED/UNREALIZED NET GAINS (LOSSES) INCLUDED IN		MOVEMENTS				
	BALANCE AS AT OCT. 31, 2009	INCOME[1]	OTHER COMPREHENSIVE INCOME	PURCHASES AND ISSUANCES	SALES AND SETTLEMENTS	TRANSFERS IN AND OUT OF LEVEL 3	BALANCE AS AT OCT. 31, 2010	UNREALIZED GAINS (LOSSES) RELATED TO INSTRUMENTS STILL HELD AT PERIOD-END
Assets								
Securities accounts								
Available-for-sale	$ 9	$ –	$ –	$ –	$ (1)	$ –	$ 8	$ –
Held-for-trading	12	1	–	–	(2)	(4)	7	–
Derivatives	16	4	–	–	(14)	–	6	4
Other assets	109	7	–	37	(55)	–	98	5
	$146	$ 12	$ –	$37	$ (72)	$(4)	$119	$ 9
Liabilities								
Derivatives	$ (65)	$(37)	$ –	$ (6)	$ 9	$ –	$ (99)	$(28)

(1) Gains and losses related to financial instruments in Level 3 have been included in income from treasury and financial market operations and in securitization income.

SENSITIVITY ANALYSIS OF LEVEL 3 FINANCIAL INSTRUMENTS

As at October 31, 2011, retained interests related to securitization activities were included within Level 3 other assets for a fair value of $122.8 million. The sensitivity analysis for these instruments is disclosed in note 6. For other instruments, when other reasonably possible alternative assumptions were available for the valuation models, the Bank used these assumptions to recalculate the fair value of these instruments, resulting in a potential increase or decrease in total Level 3 fair value of $10.2 million.

21 FINANCIAL INSTRUMENTS – RISK MANAGEMENT

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

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

The main risks to which the Bank is exposed in respect of financial instruments are set out below.
- Credit risk
- Liquidity and funding risk
- Market risk
  - *Interest rate risk*
  - *Foreign exchange risk*
  - *Equity risk*

A) CREDIT RISK

The use of financial instruments, including derivatives, can result in credit risk exposure representing the risk of financial loss arising from a counterparty's inability or refusal to fully honour its contractual obligations.

The credit risk management policies adopted by the Bank aim at assessing this risk. These policies cover the approval of credit applications by the line of authority concerned, attribution of risk ratings, management of impaired loans, establishment of provisions and risk-based pricing. With respect to diversification, the credit policy sets the guidelines intended to limit credit concentration by counterparty and industry sector, and identifies sectors that are considered riskier and thus to be avoided. The policies are periodically reviewed and approved by the Board of Directors' Risk Management Committee.

21 FINANCIAL INSTRUMENTS–RISK MANAGEMENT (CONT'D)

Acting through a risk management group independent of the business lines, the Bank monitors its financial instrument portfolios in terms of both quality and quantity through: [i] mechanisms and policies governing the review of various types of files; [ii] risk rating systems, and [iii] pricing analysis. Note 5 to these consolidated financial statements provides additional information on the Bank's loan portfolios.

The majority of the Bank's credit concentration in derivatives is with financial institutions, primarily Canadian banks. Credit risk in derivative transactions arises from a potential counterparty default on its contractual obligations when one or more transactions have a positive replacement cost for the Bank. Replacement cost represents what it would cost to replace transactions at prevailing market rates in the event of a default. The credit equivalent amount arising from a derivative transaction is defined as the sum of the replacement cost plus an estimated amount reflecting the potential change in market value of the transaction through to maturity. Note 22 provides additional information on credit exposure.

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

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

(in millions of dollars)	**2011**	2010
Financial assets, as stated in the consolidated balance sheet[1]	**$23,791**	$23,116
Credit-related commitments		
Personal credit facilities	**1,624**	1,403
Credit card lines	**1,170**	1,004
Undrawn amounts under approved credit facilities	**2,603**	2,469
	$ 5,397	$ 4,876
Total	**$29,188**	$27,992

(1) Excludes equity securities.

Concentration of credit risk

Concentration of credit risk may exist where a number of counterparties engaged in similar activities are located in the same geographic area or have comparable economic characteristics. Their ability to meet contractual obligations could be compromised by changing economic, political or other conditions. The Bank's operations are located in Canada.

The following table shows loans based on location as at October 31:

	2011	2010
Québec	**64%**	63%
Other Canadian provinces[1]	**36**	37
Total	**100%**	100%

(1) Mainly in the province of Ontario.

No single industry segment accounted for more than 3% (3% in 2010) of the total loans and customers' liabilities under acceptances.

Guarantees held in respect of loan portfolios

Nearly 50% of the Bank's residential mortgage loan portfolio is insured by CMHC. Moreover, the Bank holds guarantees in respect of the real estate property for the other conventional mortgage loans. In addition, the value of such loans never exceeds 80% of the property's initially estimated value, in accordance with statutory requirements.

Nearly 72% of the Bank's personal loan portfolio consists of investment loans, home equity lines of credit and point-of-sale financing loans. Loan underwriting for these loans is subject to a process which allows for the assessment of client credit risk. In addition, the Bank has defined and requires eligible collateral. Specifically, investment loans are collateralized by qualified Canadian mutual funds, home equity lines of credit are collateralized by real estate assets and point-of-sale financing loans are collateralized by fixed assets. Also, more than 10% 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.

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

Certain guarantees are also held for other personal and commercial loans in accordance with standard banking practices.

Other guarantees held

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

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

As at October 31, 2011 the approximate market value of collateral pledged to the Bank in connection with assets purchased under reverse repurchase agreements was $318.8 million ($803.9 million as at October 31, 2010).

B) LIQUIDITY AND FUNDING RISK

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.

The Bank's overall liquidity risk is managed by Corporate Treasury with oversight by the Management Committee, in accordance with the policies governing cash resources, funding 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 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. 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. The Bank strives to maintain a stable volume of base deposits originating from its retail and brokerage clientele, as well as well-diversified funding sources. The Bank monitors guidelines on funding sources at the management and board level. 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.

Contractual maturities of financial liabilities

The following table shows the principal obligations related to financial liabilities by contractual maturity.

2011

		TERM			
	DEMAND AND NOTICE	**UNDER 1 YEAR**	**1 TO 5 YEARS**	**OVER 5 YEARS**	**TOTAL**
Deposits	**$7,414,995**	**$5,866,983**	**$6,758,554**	**$26,886**	**$20,067,418**
Obligations related to securities sold short	**–**	**1,471,254**	**–**	**–**	**1,471,254**
Obligations related to securities sold under repurchase agreements	**–**	**36,770**	**–**	**–**	**36,770**
Subordinated debt	**–**	**–**	**250,000**	**–**	**250,000**
Derivatives[1]	**–**	**11,468**	**22,555**	**(422)**	**33,601**
	$7,414,995	**$7,386,475**	**$7,031,109**	**$26,464**	**$21,859,043**

2010

		TERM			
	DEMAND AND NOTICE	UNDER 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Deposits	$7,012,644	$5,534,012	$7,082,806	$18,268	$19,647,730
Obligations related to securities sold short	–	1,362,336	–	–	1,362,336
Obligations related to securities sold under repurchase agreements	–	60,050	–	–	60,050
Subordinated debt	–	150,000	–	–	150,000
Derivatives[1]	–	6,086	8,595	(346)	14,335
	$7,012,644	$7,112,484	$7,091,401	$17,922	$21,234,451

(1) The obligations related to derivatives represent solely the theoretical payments related to derivatives designated as cash flow hedges and used for interest rate risk management whose net fair values were negative as at October 31. The notional amounts associated with the derivatives are summarized by maturity in note 22.

The Bank is also exposed to liquidity risk when it contracts credit commitments. As at October 31, 2011, these commitments amounted to approximately $2.6 billion ($2.5 billion as at October 31, 2010), excluding personal credit facilities and credit card lines since revocable at the Bank's option.

21 FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONT'D)

C) MARKET RISK

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. Exposure to market risk arising from trading, investment, financing and asset and liability management activities is mainly monitored by notional limits, stress testing and various other sensitivity measures, such as value at risk (VaR).

Interest rate risk

Asset and liability management activities are designed 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 clauses. To manage this risk, various treasury and derivative instruments, mainly interest rate swaps, futures and options, are used to modify the interest rate characteristics of the underlying instruments in the balance sheet and to cover the inherent risk of options embedded in loan and deposit products. The Bank periodically assesses the effect on the economic value of common shareholders' equity and on its net interest income of a sudden and sustained 1% parallel change of the interest rate curve. The table below presents the estimated effect of such a change as at October 31.

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

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

SENSITIVITY ANALYSIS OF THE STRUCTURAL INTEREST RATE RISK

	2011		2010	
	EFFECT ON NET INTEREST INCOME[1]	**EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY[2]**	EFFECT ON NET INTEREST INCOME[1]	EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY[2]
Change in interest rates				
Increase of 100 basis points	**$ 11,965**	**$(20,939)**	$ 4,650	$(22,638)
Decrease of 100 basis points	**$(14,481)**	**$ 22,809**	$(10,411)	$ 25,714

(1) Over the next 12 months
(2) Net of income taxes

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

(in millions of dollars)							2011
	FLOATING	0 TO 3 MONTHS	OVER 3 MONTHS TO 1 YEAR	OVER 1 YEAR TO 5 YEARS	OVER 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
Assets							
Cash, deposits and securities	$ 2,174	$ 796	$ 478	$1,024	$ 50	$ 126	$ 4,648
Actual return		1.0%	1.0%	1.2%	3.7%		
Securities purchased under reverse repurchase agreements	319	–	–	–	–	–	319
Loans	8,425	1,009	2,237	6,073	222	296	18,262
Actual return		4.3%	4.7%	4.7%	5.4%		
Other assets	–	–	–	–	–	1,261	1,261
Total	10,918	1,805	2,715	7,097	272	1,683	24,490
Actual return		2.9%	4.1%	4.2%	5.1%		
Liabilities and equity							
Deposits	3,000	2,761	4,992	8,645	27	642	20,067
Actual return		2.1%	2.0%	2.4%	3.5%		
Treasury items	929	579	–	–	–	–	1,508
Actual return		1.0%	–%	–%	–%		
Other liabilities	–	40	63	162	–	1,073	1,338
Actual return		3.5%	2.7%	2.9%	–%		
Subordinated debt and equity	–	–	110	350	–	1,117	1,577
Actual return		–%	–%	2.6%	–%		
Total	3,929	3,380	5,165	9,157	27	2,832	24,490
Actual return		1.9%	2.0%	2.4%	3.5%		
Swaps, net	–	(4,659)	386	4,236	37	–	–
Sensitivity gap	6,989	(6,234)	(2,064)	2,176	282	(1,149)	–
Cumulative gap	$ 6,989	$ 755	$(1,309)	$ 867	$1,149	$ –	$ –

(in millions of dollars)							2010
	FLOATING	0 TO 3 MONTHS	OVER 3 MONTHS TO 1 YEAR	OVER 1 YEAR TO 5 YEARS	OVER 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
Assets	$ 10,068	$ 1,359	$ 2,311	$8,178	$ 294	$1,562	$23,772
Actual return		3.8%	4.5%	4.2%	5.1%		
Liabilities and equity	4,135	2,990	4,957	8,997	18	2,675	23,772
Actual return		2.0%	2.2%	2.6%	3.5%		
Swaps, net	(12)	(4,597)	1,657	2,891	61	–	–
Sensivity gap	5,921	(6,228)	(989)	2,072	337	(1,113)	–
Cumulative gap	$ 5,921	$ (307)	$(1,296)	$ 776	$1,113	$ –	$ –

Maturity assumptions

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

– Deposits for which the interest rates are not indexed on a specific rate and which can be non-sensitive to changes in market rates are classified based on the historical trends in balances;

– Subordinated debt for which interest rates can be revised at a future date are classified at the re-pricing date;

– Preferred shares are classified using the date on which they become redeemable.

21 FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONT'D)

Foreign exchange risk

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 offering 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. This risk is monitored using notional limits and other sensitivity analysis for trading operations. As at October 31, financial instruments denominated in U.S. dollars are detailed below.

(in thousands of Canadian dollars)	**2011**	2010
Assets		
Cash and Securities	**$ 92,090**	$142,833
Loans	**81,332**	82,738
Other	**23,711**	26,980
	$197,133	$252,551
Liabilities		
Deposits	**$175,393**	$150,697
Obligations related to securities sold short	**22,173**	99,983
Other	**278**	235
	$197,844	$250,915
Net exposure	**$ (711)**	$ 1,636

In addition, U.S. dollar exposure related to derivatives is limited as these contracts are bought and sold mainly to meet specific customer needs. As at October 31, the effect of a sudden 5% change in foreign exchange rates would have no significant impact on net income and shareholder's equity.

Deposit assets and deposit liabilities denominated in other foreign currencies, primarily in euros, amount to $23.3 million ($10.8 million in 2010) and $12.7 million ($5.6 million in 2010) respectively. Currencies other than U.S. dollars are generally bought and sold solely to meet specific customer needs. As a result, the Bank has limited exposure to these currencies.

Equity risk

Equity risk is the financial losses that the Bank may incur subsequent to adverse fluctuations in certain equity prices or the stock market in general. The Bank's equity positions consist primarily of Canadian publicly traded securities and, as a result, portfolio sensitivity mainly correlates to Canadian stock market performance. A portion of the Bank's equity positions is used to hedge index-linked deposits. The residual portion represents less than 3% (less than 3% in 2010) of the total securities portfolio. A fluctuation in the Canadian stock market of 10% could have a $5.6 million impact on the Bank's shareholders' equity.

22 DERIVATIVES AND HEDGING

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

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

i) Interest rate swaps involve the exchange of fixed and floating interest payment obligations based on a predetermined notional amount for a specified period of time. Foreign exchange swaps involve the exchange of the principal and fixed or floating interest payments in different currencies. Cross-currency interest rate swaps involve the exchange of both the principal amount and fixed and floating interest payment obligations in two different currencies over a given period.

ii) Forward rate agreements are contracts fixing a future interest rate to be paid or received, calculated on a notional principal amount with a specified maturity commencing at a specified future date.

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

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

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

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

AGGREGATE NOTIONAL AMOUNTS
(in millions of dollars)

	PERIOD TO MATURITY					2011
Notional amount	**WITHIN 1 YEAR**	**1 TO 5 YEARS**	**OVER 5 YEARS**	**TOTAL**	**DESIGNATED AS HEDGE CONTRACTS(1)**	**OTHER CONTRACTS(2)**
Interest rate contracts						
OTC contracts						
Swaps	**$4,637**	**$13,567**	**$1,686**	**$19,890**	**$8,505**	**$11,385**
Exchange-traded contracts						
Futures	**244**	**–**	**–**	**244**	**–**	**244**
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	**1,875**	**54**	**–**	**1,929**	**–**	**1,929**
Forwards	**525**	**37**	**–**	**562**	**–**	**562**
Options purchased	**556**	**–**	**–**	**556**	**–**	**556**
Options written	**530**	**–**	**–**	**530**	**–**	**530**
Equity- and index-linked contracts						
Options purchased	**25**	**21**	**4**	**50**	**–**	**50**
Options written	**39**	**76**	**4**	**119**	**–**	**119**
Total return swaps	**185**	**17**	**–**	**202**	**–**	**202**
	$8,616	**$13,772**	**$1,694**	**$24,082**	**$8,505**	**$15,577**

(in millions of dollars)

	PERIOD TO MATURITY					2010
Notional amount	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL	DESIGNATED AS HEDGE CONTRACTS(1)	OTHER CONTRACTS(2)
Interest rate contracts						
OTC contracts						
Swaps	$3,584	$8,548	$488	$12,620	$7,666	$ 4,954
Exchange-traded contracts						
Futures	19	–	–	19	–	19
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	4,604	35	–	4,639	–	4,639
Forwards	796	46	–	842	–	842
Options purchased	265	–	–	265	–	265
Options written	268	–	–	268	–	268
Equity- and index-linked contracts						
Options purchased	6	33	5	44	–	44
Options written	54	94	5	153	–	153
Total return swaps	130	5	–	135	–	135
	$9,726	$8,761	$498	$18,985	$7,666	$11,319

(1) Include notional amounts of $0.6 billion related to basis swaps ($1.2 billion in 2010).
(2) Include derivatives used in trading operations to meet customer demands and to earn trading income, as well as derivatives used to manage the Bank's risk exposures that do not qualify for hedge accounting.

22 DERIVATIVES AND HEDGING (CONT'D)

FAIR VALUE OF DERIVATIVES

(in millions of dollars)

2011	FAVOURABLE FAIR VALUE	UNFAVOURABLE FAIR VALUE	NET AMOUNT
DESIGNATED AS HEDGE CONTRACTS			
Interest rate contracts			
Swaps	$ 88	$ (41)	$ 47
OTHER CONTRACTS [1]			
Interest rate contracts			
Swaps	85	(155)	(70)
Foreign exchange contracts			
Foreign exchange swaps	20	(15)	5
Forwards	6	(10)	(4)
Options purchased	10	–	10
Options written	-	(10)	(10)
Equity- and index-linked contracts			
Options purchased	2	–	2
Options written	-	(12)	(12)
TOTAL [2]	$211	$(243)	$(32)

(in millions of dollars)

2010	FAVOURABLE FAIR VALUE	UNFAVOURABLE FAIR VALUE	NET AMOUNT
DESIGNATED AS HEDGE CONTRACTS			
Interest rate contracts			
Swaps	$ 57	$ (22)	$ 35
OTHER CONTRACTS [1]			
Interest rate contracts			
Swaps	9	(90)	(81)
Foreign exchange contracts			
Foreign exchange swaps	63	(51)	12
Forwards	6	(12)	(6)
Options purchased	4	–	4
Options written	–	(4)	(4)
Equity- and index-linked contracts			
Options purchased	3	–	3
Options written	–	(14)	(14)
TOTAL [2]	$142	$(193)	$(51)

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

INFORMATION REGARDING HEDGING RELATIONSHIPS

Financial instruments designated as hedging instruments

The swap contracts designated as hedging instruments are used by the Bank primarily for purposes of balance sheet matching and minimizing volatility in net interest income. The value of such swap contracts can vary significantly. Accordingly, changes in fair value of swap contracts designated as cash flow hedging instruments could result in significant changes in accumulated other comprehensive income, in shareholders' equity.

In addition, certain non-derivative instruments are designated and qualify for hedge accounting. The Bank applies hedge accounting to minimize volatility in other income caused by changes in foreign exchange rates.

The following table presents the notional amounts of derivative and non-derivative contracts designated as hedging instruments.

	2011		2010	
	CASH FLOW HEDGES	**FAIR VALUE HEDGES**	CASH FLOW HEDGES	FAIR VALUE HEDGES
Derivative contracts	**$7,101,500**	**$805,250**	$4,296,000	$2,158,850
Non-derivative instruments	**$ –**	**$ 17,360**	$ –	$ 18,194

Ineffective portions of hedging relationships

The following table shows the ineffective portions of the cumulative changes in fair value of hedging instruments recognized in the consolidated statement of income.

	2011	2010
Cash flow hedges	**$(171)**	$(593)
Fair value hedges	**422**	161
	$ 251	$(432)

Other information regarding hedging relationships

Net deferred gains of $6.8 million ($7.6 million as at October 31, 2010), included in accumulated other comprehensive income as at October 31, 2011, are expected to be reclassified to the consolidated statement of income over the next twelve months.

The maximum term of cash flow hedging relationships in respect of future transactions was eight years as at October 31, 2011 (nine years in 2010).

CREDIT EXPOSURE

(in millions of dollars)		**2011**				2010
	REPLACEMENT COST[1]	**CREDIT EQUIVALENT AMOUNT**[2]	**RISK-WEIGHTED AMOUNT**[3]	REPLACEMENT COST	CREDIT EQUIVALENT AMOUNT	RISK-WEIGHTED AMOUNT
Interest rate contracts						
Swaps	**$173**	**$266**	**$54**	$ 66	$116	$24
Foreign exchange contracts						
Foreign exchange swaps	**20**	**41**	**9**	63	110	23
Forwards	**6**	**13**	**10**	6	16	11
Options purchased	**10**	**15**	**11**	4	6	3
Equity- and index-linked contracts						
Options purchased	**2**	**5**	**1**	3	6	1
Total return swaps	**–**	**12**	**2**	-	8	2
	$211	**$352**	**$87**	$142	$262	$64

(1) Represents favourable fair market value, excluding the impact of master netting agreements. Exchange-traded instruments and options written are excluded since they do not constitute a credit risk.
(2) Includes (i) the total positive replacement value of all outstanding contracts and (ii) an amount representing the assessed potential credit risk.
(3) Using guidelines issued by OSFI.

Note 21 hereto provides additional disclosures on the credit risk related to derivatives and how it is assessed.

23 INCOME RELATED TO FINANCIAL INSTRUMENTS HELD-FOR-TRADING

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

Management can elect to designate financial instruments as held-for-trading instruments, with changes in fair value recorded in income, provided that such designations meet specific criteria. Certain securities and retained interests related to securitization transactions were designated as held-for-trading in order to significantly reduce a recognition inconsistency that would otherwise have arisen from recognizing gains and losses on different bases. These financial instruments are used as part of the Bank's overall asset-liability management and provide an economic hedge for other financial instruments that are measured at fair value. Gains and losses on these instruments are therefore generally offset by changes in value of other financial instruments.

23 INCOME RELATED TO FINANCIAL INSTRUMENTS HELD-FOR-TRADING (CONT'D)

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

	2011		2010	
	FINANCIAL INSTRUMENTS		FINANCIAL INSTRUMENTS	
	HELD-FOR-TRADING	DESIGNATED AS HELD-FOR-TRADING	HELD-FOR-TRADING	DESIGNATED AS HELD-FOR-TRADING
Net interest income	$ 12,762	$32,486	$ 5,018	$49,929
Other income included in:				
Securitization income	(8,362)	(3,463)	(31,964)	23,841
Income from brokerage operations	11,963	–	18,616	–
Income from treasury and financial market operations	5,819	–	4,702	17
	$ 9,420	$ (3,463)	$ (8,646)	$23,858
Total	$ 22,182	$29,023	$ (3,628)	$73,787

24 COMMITMENTS AND GUARANTEES

CREDIT-RELATED COMMITMENTS

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

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

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

	2011	2010
Undrawn amounts under approved credit facilities[1]	$2,603,217	$2,468,800
Documentary letters of credit	$ 4,358	$ 6,670

(1) Exclude personal credit facilities totalling $1.6 billion ($1.4 billion as at October 31, 2010) and credit card lines amounting to $1.2 billion ($1.0 billion as at October 31, 2010) since they are revocable at the Bank's option.

GUARANTEES

Standby letters of credit and performance guarantees

In the normal course of its operations, the Bank offers its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that clients cannot meet their obligations to third parties. The term of these guarantees varies according to the contracts and normally does not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. No specific provision is currently recorded with regard to these guarantees. The maximum potential amount of future payments under these guarantees totalled $146.8 million as at October 31, 2011 ($175.2 million in 2010).

Derivatives

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank sells put options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of foreign currencies at a predetermined price. The term of these options does not exceed 12 months. No specific provision is recorded with respect to these derivatives. The maximum potential amount of future payments under these derivatives, corresponding to the notional value of outstanding contracts, totalled $213.3 million as at October 31, 2011 ($201.8 million in 2010).

Collateral received and pledged as security

As at October 31, 2011, the approximate market value of collateral pledged to the Bank that it can sell or re-pledge as security amounted to $318.8 million ($803.9 million as at October 31, 2010). This collateral pledged to the Bank as security was obtained under reverse repurchase and securities borrowing agreements. All collateral received was pledged as security in connection with obligations related to securities sold short.

Other indemnification agreements

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

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

As at October 31, 2011, minimum future commitments under leases, service contracts for outsourced technology services and other contracts are as follows.

	PREMISES	INFORMATION TECHNOLOGY SERVICE CONTRACTS[1]	OTHER	TOTAL
2012	**$ 38,481**	**$ 44,788**	**$ 3,247**	**$ 86,516**
2013	**36,243**	**40,281**	**3,247**	**79,771**
2014	**33,855**	**32,888**	**2,775**	**69,518**
2015	**31,663**	**32,014**	**1,178**	**64,855**
2016	**27,766**	**32,754**	**212**	**60,732**
Thereafter	**75,870**	**6,300**	**–**	**82,170**
Total	**$243,878**	**$189,025**	**$10,659**	**$443,562**

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

PLEDGED ASSETS

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

The following table details the granted guarantees.

	2011	2010
Pledged assets to participate in clearing and payment systems	**$320,348**	$337,376
Pledged assets for obligations related to securities sold under repurchase agreements and for securities borrowed	**1,130,896**	179,334
Pledged assets for obligations related to derivatives in a liability position	**96,785**	95,362
	$1,548,029	$612,072
Assets pledged are detailed as follows:		
Securities	**$1,438,807**	$354,040
Residential mortgage loans	**109,222**	258,032
	$1,548,029	$612,072

25 VARIABLE INTEREST ENTITIES

The Bank analyzes the interests it holds in certain entities to determine whether they satisfy the definition of a variable interest entity (VIE), and whether the Bank is the primary beneficiary and must therefore consolidate them. The Bank normally considers its single-seller and multi-seller securitization conduits as VIEs. However, these conduits are not consolidated, as these special purpose entities are specifically excluded from the scope of the accounting standard or because the Bank is not their primary beneficiary. More details regarding transactions with these entities are provided in note 6.

26 CONTINGENCIES

LITIGATION

Marcotte v. Banks class action

On June 11, 2009, the Superior Court of Québec granted a class action against ten Canadian financial institutions, including Laurentian Bank, with regard to mark-ups charged by the banks to their credit card holders on translation of foreign currency transactions into Canadian dollars. The judgment ordered the Bank to repay the mark-ups it collected, with interest, plus an additional amount of compensation. Together with its Canadian financial institution co-defendants, the Bank submits that the judgment contains several errors of fact and law that are sufficiently decisive as to invalidate the judgment, and therefore moved to appeal. Given that, in the current circumstances, the Bank is unable to determine the outcome of this litigation, no provision has been set aside.

Other

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

27 SEGMENTED INFORMATION

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

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

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

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

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

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

Results for the Bank's segments are based on internal financial reporting systems and are consistent with the accounting principles followed in the preparation of the Bank's consolidated financial statements, except for loan securitization. As noted in Note 6, the Bank securitizes residential mortgage loans held by the Retail & SME-Québec and B2B Trust segments in transactions that are accounted for as sales. For the purpose of segmented reporting, Retail & SME-Québec and B2B Trust account for the transactions as though they are financing arrangements. Accordingly, the interest income earned on the loans sold net of the funding costs is recorded in net interest income and impairment related to these loans is charged to provision for loan losses. This accounting is reversed in the Other segment and the gain recognized on sale together with income earned on the retained interests, net of loan losses incurred, are included in other income.

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

2011	RETAIL & SME-QUÉBEC	REAL ESTATE & COMMERCIAL	B2B TRUST[3]	LAURENTIAN BANK SECURITIES AND CAPITAL MARKETS	OTHER[2] [3]	TOTAL
Net interest income	$ 319,113	$ 87,710	$ 117,426	$ 3,146	$(43,334)	$ 484,061
Other income	133,939	33,738	8,966	53,207	39,672	269,522
Total revenue (loss)	453,052	121,448	126,392	56,353	(3,662)	753,583
Provision for loan losses	26,172	18,687	1,789	–	352	47,000
Non-interest expenses	371,258	30,241	66,173	47,902	27,285	542,859
Income (loss) before income taxes	55,622	72,520	58,430	8,451	(31,299)	163,724
Income taxes (recovered)	11,163	20,762	16,564	2,180	(14,434)	36,235
Net income (loss)	$ 44,459	$ 51,758	$ 41,866	$ 6,271	$ (16,865)	$ 127,489
Average assets[1]	$12,760,174	$3,122,603	$5,414,912	$2,559,495	$122,800	$23,979,984

2010	RETAIL & SME-QUÉBEC	REAL ESTATE & COMMERCIAL	B2B TRUST	LAURENTIAN BANK SECURITIES AND CAPITAL MARKETS	OTHER[2]	TOTAL
Net interest income	$ 323,740	$ 84,475	$ 114,194	$ 2,441	$ (28,429)	$ 496,421
Other income	129,774	34,852	10,419	58,674	7,306	241,025
Total revenue (loss)	453,514	119,327	124,613	61,115	(21,123)	737,446
Provision for loan losses	40,919	24,124	2,957	–	–	68,000
Non-interest expenses	352,621	24,801	54,449	46,938	25,427	504,236
Income (loss) before income taxes	59,974	70,402	67,207	14,177	(46,550)	165,210
Income taxes (recovered)	12,961	21,313	20,813	4,189	(17,007)	42,269
Net income (loss)	$ 47,013	$ 49,089	$ 46,394	$ 9,988	$ (29,543)	$ 122,941
Average assets[1]	$11,978,573	$2,904,816	$5,023,397	$2,408,842	$777,790	$23,093,418

(1) Assets are disclosed on an average basis, as this measure is most relevant to a financial institution.
(2) The 2011 and 2010 effective tax rates were influenced by a number of items – see note 17 related to income taxes.
(3) Non-interest expenses in 2011 include a $7.7 million charge for the termination in 2012 of the existing distribution agreement of IA Clarington funds in the other segment and a $0.5 million charge related to integration costs of the MRS Companies in the B2B Trust segment (see note 28).

28 SUBSEQUENT EVENTS AND RELATED COSTS

On November 16, 2011, the Bank completed the acquisition of the M.R.S. Trust Company and M.R.S. Inc. (together, the MRS Companies) for cash consideration of approximately $199.5 million, including a premium of $50.0 million over the net book value of the acquired companies. The MRS Companies, previously part of the Mackenzie Financial Corporation, provide trust and administrative services to dealers, advisors and investors in Canada. The MRS Companies will be part of the B2B Trust reporting segment; goodwill associated with this transaction will be allocated to this segment. The allocation of the purchase price for the MRS Companies will be subject to refinement as the Bank completes the valuation of the assets acquired and liabilities assumed.

On October 14, 2011, the Bank and Mackenzie Investments also entered into a distribution agreement for a preferred series of Mackenzie mutual funds. Under this agreement, the Bank, as principal distributor, will distribute a preferred series of Mackenzie mutual funds as of the beginning of 2012.

As of October 31, 2011, with regards to these transactions, the Bank has incurred a $7.7 million charge for termination in 2012 of the existing distribution agreement of IA Clarington funds and a $0.5 million charge related to integration costs of the MRS Companies.

STATISTICAL REVIEW – CONSOLIDATED BALANCE SHEET

Unaudited, as at October 31 (in thousands of dollars)	**2011**	2010	2009	2008	2007	AVERAGE ANNUAL VARIANCE 11 / 07
ASSETS						
Cash and non-interest-bearing deposits with other banks	**$ 81,600**	$ 70,537	$ 61,010	$ 54,410	$ 65,245	6%
Interest-bearing deposits with other banks	**276,429**	95,561	239,606	94,291	283,255	(1)
Securities						
Issued or guaranteed by Canada	**2,023,785**	2,538,190	2,864,454	2,415,863	1,615,695	6
Issued or guaranteed by provinces and municipal corporations	**1,396,980**	1,029,726	1,157,180	466,735	446,401	33
Other securities	**869,279**	690,889	410,549	607,574	612,283	9
	4,290,044	4,258,805	4,432,183	3,490,172	2,674,379	13
Securities purchased under reverse repurchase agreements	**318,753**	803,874	536,064	661,391	540,304	(12)
Loans						
Personal	**5,768,787**	5,630,788	5,655,055	5,694,574	5,222,217	3
Residential mortgage	**8,928,544**	8,582,548	7,219,830	6,182,871	6,232,778	9
Commercial mortgage	**1,813,293**	1,638,861	1,285,012	932,688	684,625	28
Commercial and other	**1,900,977**	1,691,190	1,555,956	1,454,799	1,292,790	10
	18,411,601	17,543,387	15,715,853	14,264,932	13,432,410	8
Allowances for loan losses	**(149,743)**	(138,143)	(114,546)	(112,434)	(115,322)	7
	18,261,858	17,405,244	15,601,307	14,152,498	13,317,088	8
Other						
Customers' liabilities under acceptances	**179,140**	165,450	216,817	110,342	111,891	12
Premises and equipment	**64,752**	58,536	58,163	59,927	56,053	4
Other assets	**1,017,875**	914,131	994,971	934,246	719,084	9
	1,261,767	1,138,117	1,269,951	1,104,515	887,028	9
	$24,490,451	$23,772,138	$22,140,121	$19,557,277	$17,767,299	8%
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits						
Personal	**$15,610,012**	$15,396,911	$15,113,978	$12,407,843	$11,544,983	8%
Business, banks and other	**4,457,406**	4,250,819	3,161,329	2,903,774	2,314,178	18
	20,067,418	19,647,730	18,275,307	15,311,617	13,859,161	10
Other						
Obligations related to securities sold short or under repurchase agreements	**1,508,024**	1,422,386	1,339,458	1,955,332	1,797,662	(4)
Acceptances	**179,140**	165,450	216,817	110,342	111,891	12
Other liabilities	**1,158,665**	1,147,157	987,313	946,551	843,904	8
	2,845,829	2,734,993	2,543,588	3,012,225	2,753,457	1
Subordinated debt	**242,512**	150,000	150,000	150,000	150,000	13
Shareholders' equity						
Preferred shares	**210,000**	210,000	210,000	210,000	210,000	–
Common shares	**259,492**	259,363	259,208	257,462	256,445	–
Contributed surplus	**227**	243	209	173	105	21
Retained earnings	**818,207**	741,911	665,538	596,974	537,254	11
Accumulated other comprehensive income	**46,766**	27,898	36,271	18,826	877	170
	1,334,692	1,239,415	1,171,226	1,083,435	1,004,681	7
	$24,490,451	$23,772,138	$22,140,121	$19,557,277	$17,767,299	8%

STATISTICAL REVIEW – CONSOLIDATED STATEMENT OF INCOME

Unaudited, as at or for the years ended October 31 (in thousands of dollars, except per share and percentage amounts)	2011	2010	2009	2008	2007	AVERAGE ANNUAL VARIANCE 11 / 07
Interest income						
Loans	**$ 808,995**	$ 757,677	$ 719,538	$ 837,532	$ 837,092	(1)%
Securities	**61,631**	72,975	71,373	60,873	58,000	2
Deposits with other banks	**5,233**	298	3,903	26,360	13,802	(22)
Other, including derivatives	**66,475**	116,273	137,275	30,190	–	n.a.
	942,334	947,223	932,089	954,955	908,894	1
Interest expense						
Deposits	**444,463**	440,053	493,812	508,403	466,867	(1)
Subordinated debt	**11,574**	7,738	7,735	7,742	7,738	11
Other, including derivatives	**2,236**	3,011	6,765	33,547	44,089	(53)
	458,273	450,802	508,312	549,692	518,694	(3)
Net interest income	**484,061**	496,421	423,777	405,263	390,200	6
Other income	**269,522**	241,025	242,725	225,218	193,726	9
Total revenue	**753,583**	737,446	666,502	630,481	583,926	7
Provision for loan losses	**47,000**	68,000	56,000	48,500	40,000	4
Non-interest expenses						
Salaries and employee benefits	**293,930**	275,964	249,658	236,280	229,290	6
Premises and technology	**140,839**	132,540	120,054	119,192	111,559	6
Other	**99,910**	95,732	102,278	90,519	86,561	4
Costs related to an acquisition and other (1)	**8,180**	–	–	–	–	n.a.
	542,859	504,236	471,990	445,991	427,410	6
Income from continuing operations before income taxes	**163,724**	165,210	138,512	135,990	116,516	9
Income taxes	**36,235**	42,269	36,848	37,882	26,394	8
Income from continuing operations	**127,489**	122,941	101,664	98,108	90,122	9
Income from discontinued operations, net of income taxes	**–**	–	11,469	4,423	4,423	(100)
Net income	**$ 127,489**	$ 122,941	$ 113,133	$ 102,531	$ 94,545	8%
Preferred share dividends, including applicable income taxes	**$ 12,436**	$ 12,122	$ 12,116	$ 11,818	$ 11,966	1%
Net income available to common shareholders	**$ 115,053**	$ 110,819	$ 101,017	$ 90,713	$ 82,579	9%
Common share dividends	**$ 38,757**	$ 34,446	$ 32,453	$ 30,993	$ 27,474	9%
Average number of common shares outstanding (in thousands)						
Basic	**23,924**	23,921	23,858	23,837	23,678	–%
Diluted	**23,943**	23,937	23,876	23,880	23,728	–%
Earnings per share from continuing operations						
Basic	**$ 4.81**	$ 4.63	$ 3.75	$ 3.62	$ 3.30	10%
Diluted	**$ 4.81**	$ 4.63	$ 3.75	$ 3.61	$ 3.29	10%
Earnings per share						
Basic	**$ 4.81**	$ 4.63	$ 4.23	$ 3.81	$ 3.49	8%
Diluted	**$ 4.81**	$ 4.63	$ 4.23	$ 3.80	$ 3.48	8%
Dividends declared per common share	**$ 1.62**	$ 1.44	$ 1.36	$ 1.30	$ 1.16	9%
Dividend payout ratio (2)	**33.7%**	31.1%	32.1%	34.2%	33.3%	
Book value per common share (2)	**$ 45.05**	$ 41.87	$ 38.68	$ 35.84	$ 33.34	8%
Return on common shareholders' equity (2)	**11.0%**	11.5%	11.4%	11.0%	10.9%	
Net interest margin (2)	**2.02%**	2.15%	2.07%	2.21%	2.31%	
Provision for loan losses (as a percentage of average loans and acceptances)	**0.26%**	0.40%	0.38%	0.35%	0.31%	
Average assets	**$ 23,979,984**	$ 23,093,418	$ 20,483,841	$ 18,339,811	$ 16,859,605	9%
Number of full-time equivalent employees	**3,669**	3,643	3,528	3,393	3,289	3%
Number of branches	**158**	157	156	156	157	–%
Number of automated banking machines	**427**	413	408	342	338	6%

(1) Integration costs related to the recently acquired MRS Companies and the compensation for the termination in 2012 of the existing distribution agreement of IA Clarington funds
(2) Refer to the non-GAAP financial measures on page 67.

QUARTERLY HIGHLIGHTS

Unaudited, as at or for the quarters ended (in thousands of dollars, except per share and percentage amounts)				2011				2010
	OCT. 31	**JULY 31**	**APRIL 30**	**JAN. 31**	OCT. 31	JULY 31	APRIL 30	JAN. 31
Interest income	**$ 235,044**	**$ 238,727**	**$ 228,803**	**$ 239,760**	$ 243,471	$ 242,360	$ 226,877	$ 234,515
Interest expense	**112,653**	**114,909**	**112,369**	**118,342**	115,269	112,490	109,244	113,799
Net interest income	**122,391**	**123,818**	**116,434**	**121,418**	128,202	129,870	117,633	120,716
Other income	**65,023**	**67,155**	**69,283**	**68,061**	61,872	58,940	60,480	59,733
Total revenue	**187,414**	**190,973**	**185,717**	**189,479**	190,074	188,810	178,113	180,449
Provision for loan losses	**12,000**	**8,000**	**12,000**	**15,000**	16,000	20,000	16,000	16,000
Non-interest expenses	**140,305**	**136,772**	**134,824**	**130,958**	132,484	127,820	123,549	120,383
Income before income taxes	**35,109**	**46,201**	**38,893**	**43,521**	41,590	40,990	38,564	44,066
Income taxes	**6,537**	**10,919**	**8,751**	**10,028**	9,076	10,926	10,215	12,052
Net income	**$ 28,572**	**$ 35,282**	**$ 30,142**	**$ 33,493**	$ 32,514	$ 30,064	$ 28,349	$ 32,014
Preferred share dividends, including applicable taxes	**$ 3,111**	**$ $3,107**	**$ 3,109**	**$ 3,109**	$ 2,899	$ 3,075	$ 3,074	$ 3,074
Net income available to common shareholders	**$ 25,461**	**$ 32,175**	**$ 27,033**	**$ 30,384**	$ 29,615	$ 26,989	$ 25,275	$ 28,940
Net interest margin [1]	**2.00%**	**2.03%**	**2.01%**	**2.03%**	2.15%	2.22%	2.10%	2.13%
Provision for loan losses (as a percentage of average loans and acceptances)	**0.26%**	**0.18%**	**0.28%**	**0.34%**	0.36%	0.46%	0.39%	0.39%
Average assets	**$24,270,292**	**$24,146,118**	**$23,786,039**	**$23,711,163**	$23,688,890	$23,234,924	$22,950,062	$22,495,121
Return on common shareholders' equity [1]	**9.4%**	**12.1%**	**10.7%**	**11.9%**	11.8%	11.0%	10.9%	12.3%
Average number of common shares outstanding (in thousands)								
Basic	**23,925**	**23,925**	**23,923**	**23,922**	23,921	23,921	23,921	23,919
Diluted	**23,941**	**23,943**	**23,946**	**23,942**	23,939	23,938	23,937	23,935
Earnings per share								
Basic	**$ 1.06**	**$ 1.34**	**$ 1.13**	**$ 1.27**	$ 1.24	$ 1.13	$ 1.06	$ 1.21
Diluted	**$ 1.06**	**$ 1.34**	**$ 1.13**	**$ 1.27**	$ 1.24	$ 1.13	$ 1.06	$ 1.21
Dividends per common share	**$ 0.42**	**$ 0.42**	**$ 0.39**	**$ 0.39**	$ 0.36	$ 0.36	$ 0.36	$ 0.36
Book value per common share [1]	**$ 45.05**	**$ 44.41**	**$ 43.49**	**$ 42.75**	$ 41.87	$ 40.99	$ 40.22	$ 39.52
Share price – Close	**$ 45.98**	**$ 42.86**	**$ 50.27**	**$ 53.10**	$ 44.25	$ 46.00	$ 44.12	$ 38.03
Common share dividends	**$ 10,049**	**$ 10,048**	**$ 9,331**	**$ 9,329**	$ 8,612	$ 8,611	$ 8,612	$ 8,611
Balance sheet assets	**$24,490,451**	**$24,082,688**	**$24,059,424**	**$23,329,722**	$23,772,138	$23,548,706	$23,062,156	$23,159,368
Risk-weighted assets	**$11,071,971**	**$10,879,847**	**$10,562,773**	**$10,424,261**	$10,453,565	$10,244,069	$ 9,924,365	$ 9,708,653
Tier 1 capital – BIS	**$ 1,217,225**	**$ 1,198,722**	**$ 1,177,648**	**$ 1,160,231**	$ 1,140,791	$ 1,098,670	$ 1,081,593	$ 1,066,390
Total regulatory capital – BIS	**$ 1,516,840**	**$ 1,494,221**	**$ 1,477,834**	**$ 1,458,957**	$ 1,350,327	$ 1,285,421	$ 1,270,338	$ 1,255,570
Tier 1 BIS capital ratio	**11.0%**	**11.0%**	**11.1%**	**11.1%**	10.9%	10.7%	10.9%	11.0%
Total BIS capital ratio	**13.7%**	**13.7%**	**14.0%**	**14.0%**	12.9%	12.5%	12.8%	12.9%
Assets to capital multiple	**16.2x**	**16.2x**	**16.4x**	**16.1x**	17.7x	18.4x	18.3x	18.6x

(1) Refer to the non-GAAP financial measures on page 67.