Consolidated financial statements

As at October 31, 2007 and 2006

The 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 performance. 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.

Management's responsibility for financial information

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 (Canadian GAAP) as well as the requirements of the *Bank Act.* They reflect amounts which 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 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 Superintendent of Financial Institutions of 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, examine the Bank's consolidated financial statements and their report follows.

The internal auditors, the external auditors and the Superintendent of Financial Institutions of 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 presentation and preparation of consolidated financial statements, maintenance of appropriate internal controls, risk management as well as 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

Robert Cardinal
Senior Executive Vice-President
and Chief Financial Officer

Montréal, Canada
December 3, 2007

Auditors' report to the shareholders of Laurentian Bank of Canada

We have audited the consolidated balance sheet of Laurentian Bank of Canada (the Bank) as at October 31, 2007 and 2006 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2007 and 2006 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

Chartered Accountants

Montréal, Canada
December 3, 2007

Consolidated balance sheet

As at October 31 (in thousands of dollars)	Notes	2007	2006
ASSETS			
Cash and non-interest bearing deposits with other banks		**$ 65,245**	$ 70,907
Interest-bearing deposits with other banks		**283,255**	98,722
Securities accounts	6 and 24		
Available-for-sale		**917,676**	–
Held-for-trading		**1,086,958**	1,675,058
Designated as held-for-trading		**669,745**	–
Investment		**–**	1,567,222
		2,674,379	3,242,280
Assets purchased under reverse repurchase agreements	24	**540,304**	802,546
Loans	7, 8 and 24		
Personal		**4,958,176**	4,168,026
Residential mortgage		**6,232,778**	5,985,656
Commercial mortgage		**684,625**	659,014
Commercial and other		**1,556,831**	1,476,977
		13,432,410	12,289,673
Allowance for loan losses		**(115,322)**	(125,153)
		13,317,088	12,164,520
Other			
Customers' liabilities under acceptances		**111,891**	149,818
Property, plant and equipment	9	**137,691**	111,291
Derivative financial instruments		**62,745**	96,980
Future tax assets	18	**86,534**	101,048
Goodwill	10	**53,790**	53,790
Other intangible assets	10	**14,114**	15,333
Other assets	11	**439,810**	388,724
		906,575	916,984
		$ 17,786,846	$ 17,295,959
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	12		
Personal		**$ 11,564,530**	$ 10,949,473
Business, banks and other		**2,314,178**	2,145,028
		13,878,708	13,094,501
Other			
Obligations related to assets sold short		**868,675**	1,077,009
Obligations related to assets sold under repurchase agreements	24	**928,987**	1,100,385
Acceptances		**111,891**	149,818
Derivative financial instruments		**70,851**	81,807
Other liabilities	13	**773,053**	696,019
		2,753,457	3,105,038
Subordinated debentures	14	**150,000**	150,000
Shareholders' equity			
Preferred shares	15	**210,000**	210,000
Common shares	15	**256,445**	251,158
Contributed surplus	16	**105**	518
Retained earnings		**537,254**	485,334
Treasury shares	15 and 16	**–**	(590)
Accumulated other comprehensive income	4	**877**	–
		1,004,681	946,420
		$ 17,786,846	$ 17,295,959

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

L. Denis Desautels O.C., FCA
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 for per share amounts)	Notes	2007	2006
Interest income			
Loans		**$ 837,092**	$ 755,009
Securities		**58,000**	70,446
Deposits with other banks		**13,802**	11,721
		908,894	837,176
Interest expense			
Deposits		**466,867**	438,335
Other liabilities		**44,089**	28,920
Subordinated debentures		**7,738**	12,714
		518,694	479,969
Net interest income		**390,200**	357,207
Other income			
Fees and commissions on loans and deposits		**88,703**	84,615
Income from brokerage operations		**32,359**	31,418
Income from treasury and financial market operations		**19,286**	15,206
Income from sales of mutual funds		**13,406**	10,637
Credit insurance income		**12,557**	12,578
Income from registered self-directed plans		**9,652**	10,515
Securitization income	8	**6,418**	9,972
Gains on disposals and change in ownership interest	5	**4,000**	931
Other		**7,345**	6,728
		193,726	182,600
Total income		**583,926**	539,807
Provision for credit losses	7	**40,000**	40,000
Non-interest expenses			
Salaries and employee benefits		**229,290**	213,583
Premises and technology		**111,559**	108,151
Other		**86,561**	89,081
		427,410	410,815
Income from continuing operations before income taxes		**116,516**	88,992
Income taxes	18	**26,394**	23,436
Income from continuing operations		**90,122**	65,556
Income from discontinued operations, net of income taxes	5	**4,423**	4,776
Net income		**$ 94,545**	$ 70,332
Preferred share dividends, including applicable taxes		**11,966**	11,766
Net income available to common shareholders		**$ 82,579**	$ 58,566
Average number of common shares outstanding (in thousands)			
Basic		**23,678**	23,605
Diluted		**23,728**	23,649
Income per common share from continuing operations	19		
Basic		**$ 3.30**	$ 2.28
Diluted		**$ 3.29**	$ 2.28
Net income per common share			
Basic		**$ 3.49**	$ 2.48
Diluted		**$ 3.48**	$ 2.48

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

Consolidated statement of comprehensive income

For the year ended October 31 (in thousands of dollars)	Notes	2007
Net income		**$ 94,545**
Other comprehensive income, net of income taxes	4	
Change in unrealized gains and losses on available-for-sale securities		**15,333**
Reclassification of realized gains and losses on available-for-sale securities to net income		**(1,581)**
Change in gains and losses on derivative instruments designated as cash flow hedges		**5,677**
		19,429
Comprehensive income		**$ 113,974**

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	2007	2006
Preferred shares	15		
Balance at beginning and end of year		**$ 210,000**	$ 210,000
Common shares	15		
Balance at beginning of year		**251,158**	249,633
Issued during the year		**5,287**	1,525
Balance at end of year		**256,445**	251,158
Contributed surplus			
Balance at beginning of year		**518**	73
Shares awarded under performance-based share plan		**(590)**	–
Stock-based compensation	16	**177**	445
Balance at end of year		**105**	518
Retained earnings			
Balance as stated at beginning of year		**485,334**	454,124
Effect of adopting new accounting policy for financial instruments, net of income taxes	4	**(3,185)**	–
Balance restated at end of year		**482,149**	454,124
Net income		**94,545**	70,332
Dividends			
Preferred shares, including applicable taxes		**(11,966)**	(11,766)
Common shares		**(27,474)**	(27,356)
Balance at end of year		**537,254**	485,334
Treasury shares			
Balance at beginning of year		**(590)**	(590)
Shares granted	15	**590**	–
Balance at end of year		**–**	(590)
Accumulated other comprehensive income	4		
Balance at beginning of year		**–**	–
Effect of adopting new accounting policy on financial instruments, net of income taxes		**(18,552)**	–
Other comprehensive income, net of income taxes		**19,429**	–
Balance at end of year		**877**	–
SHAREHOLDERS' EQUITY		**$ 1,004,681**	$ 946,420

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	2007	2006
Cash flows relating to operating activities			
Net income		**$ 94,545**	$ 70,332
Adjustments to determine net cash flows relating to operating activities:			
Provision for credit losses		**40,000**	40,000
Gains on securitization operations		**(6,683)**	(6,161)
Net loss (gain) on disposal of property, plant and equipment		**(63)**	29
Net gain from discontinued operations	5	**(5,185)**	(5,714)
Gains on disposals and change in ownership interest	5	**(4,000)**	(931)
Net loss on disposal of non-trading securities		**1,812**	–
Net loss on sale of investment securities		**–**	1,421
Future income taxes		**23,959**	8,036
Depreciation and amortization		**28,612**	27,193
Net change in held-for-trading securities		**238,213**	(590,977)
Change in accrued interest receivable		**10,813**	1,605
Change in assets relating to derivative financial instruments		**34,235**	46,473
Change in accrued interest payable		**6,748**	40,224
Change in liabilities relating to derivative financial instruments		**(10,956)**	(23,519)
Other, net		**15,293**	61,309
		467,343	(330,680)
Cash flows relating to financing activities			
Net change in deposits		**784,207**	(602,437)
Change in obligations related to assets sold short		**(208,334)**	350,946
Change in obligations related to assets sold under repurchase agreements		**(171,398)**	1,040,320
Issuance of subordinated debentures		**–**	150,000
Redemption of subordinated debentures		**–**	(150,000)
Issuance of common shares, net of issue costs		**5,287**	1,525
Dividends, including applicable income taxes		**(39,440)**	(39,122)
		370,322	751,232
Cash flows relating to investing activities			
Change in investment securities			
Acquisitions		**–**	(12,881,435)
Proceeds on sale and at maturity		**–**	13,168,669
Change in securities available-for-sale and designated as held-for-trading			
Acquisitions		**(6,888,907)**	–
Proceeds on sale and at maturity		**7,224,590**	–
Change in loans		**(2,095,543)**	(1,150,389)
Change in assets purchased under reverse repurchase agreements		**262,242**	(294,473)
Proceeds from mortgage loan securitizations		**892,035**	631,896
Additions to property, plant and equipment		**(54,481)**	(43,002)
Proceeds from disposal of property, plant and equipment		**1,270**	423
Net change in interest-bearing deposits with other banks		**(184,533)**	161,069
Net cash flows from sale of a subsidiary	5	**–**	(140)
		(843,327)	(407,382)
Net change in cash and non-interest-bearing deposits with other banks		**(5,662)**	13,170
Cash and non-interest-bearing deposits with other banks at beginning of year		**70,907**	57,737
Cash and non-interest-bearing deposits with other banks at end of year		**$ 65,245**	$ 70,907
Supplemental disclosure relating to cash flows:			
Interest paid during the year		**$ 518,456**	$ 440,922
Income taxes paid during the year		**$ 6,871**	$ 18,832

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

Notes to consolidated financial statements

October 31, 2007 and 2006 (All tabular amounts are in thousands of dollars, unless otherwise indicated.)

1 > General

Laurentian Bank of Canada and its subsidiaries (the "Bank") provides banking services to individuals and small and medium-sized businesses, as well as to independent advisors across Canada. It also operates 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 of Canada (OSFI), the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). These accounting policies conform to GAAP.

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions, mainly concerning the valuation of items which affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates.

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

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. In general, a VIE is an entity that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) as a group, equity owners are unable to make significant decisions about its activities or have disproportionate voting rights, or (3) as a group, equity owners do not have the obligation to absorb expected losses or the right to receive expected residual returns generated by its operations. If any of these characteristics is present, the entity is subject to a variable interests consolidation model, and consolidation is based on variable interests, not on ownership of the entity's outstanding voting stock. Variable interests are defined as contractual, ownership, or other money interests in an entity that change with fluctuations in the entity's net asset value. The primary beneficiary consolidates a VIE. The primary beneficiary is defined as the enterprise that has the variable interests that will absorb a majority of expected losses or receive a majority of residual returns as defined. Where the Bank holds a significant variable interest in a VIE that it has not consolidated, certain disclosures regarding the nature, purpose, size and activities of the VIE must also be provided.

2.2 > NEW ACCOUNTING STANDARDS ADOPTED DURING FISCAL 2007

The summary of the accounting policies used to prepare the consolidated financial statements is presented below. These accounting policies have been applied on a consistent basis, except with regard to the November 1, 2006 adoption of the accounting standards entitled *Financial Instruments–Recognition and Measurement* (3855), *Financial Instruments–Disclosure and Presentation* (3861), *Hedges* (3865) and *Comprehensive Income* (1530). The Bank adopted these new standards prospectively. Accordingly, the comparative financial statements were not restated, in accordance with the transitional provisions. The summary of significant accounting policies reflects the requirements of these new standards. A summary of the former standards that applied for the year ended October 31, 2006 is also disclosed at the end of note 3 to the consolidated financial statements. The effect of the adoption of these new standards for the Bank is disclosed in note 4 to the consolidated financial statements.

2 > Basis of presentation (cont'd)

2.3 > RECLASSIFICATION OF INCOME RELATED TO BROKERAGE OPERATIONS

Other income for 2006 was adjusted to reflect the presentation of income related to brokerage operations on a gross basis, whereas previously, they were presented net of commissions and other non-interest expenses. The effect of the restated amounts is detailed as follows:

	2006
Adjustments for 2006	
Other income – Brokerage operations	$ 9,132
Non-interest expenses – Salaries and employee benefits	$ 7,871
Non-interest expenses – Premises and technology	$ 1,261

2.4 > FUTURE CHANGE TO ACCOUNTING POLICIES

CAPITAL DISCLOSURES AND FINANCIAL INSTRUMENTS – DISCLOSURES AND PRESENTATION

On December 1, 2006, the CICA issued three new accounting standards: Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. The Bank is currently analyzing the impact of these reporting standards with a view to their November 1, 2007 adoption date.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) and whether the entity has complied with any capital requirements and the consequences of non-compliance with such requirements.

Sections 3862 and 3863 replace Section 3861, *Financial Instruments – Disclosure and Presentation*, detailing all the disclosure requirements and presentation rules applicable to financial instruments. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments to which the Bank is exposed and how it manages those risks.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2006, the Canadian Accounting Standards Board (AcSB) released its new Strategic Plan, which includes the decision to move financial reporting for Canadian public entities to a single set of globally accepted high-quality standards, namely, the *International Financial Reporting Standards* (IFRS). Under the AcSB's plan, which is still subject to change, this new framework will be effective for fiscal years beginning on or after January 1, 2011. Information regarding the transition and the anticipated effects will have to be disclosed in the financial statements for the two fiscal years preceding adoption.

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 and obligations related to securities sold short are classified as held-for-trading.

Held-for-trading financial instruments are initially carried at fair value with the Bank using the settlement date for recognizing transactions in the consolidated balance sheet. They are subsequently remeasured at fair value and realized and unrealized gains and losses are recognized immediately in the consolidated statement of income under other income – income from treasury and financial market 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 loan origination and other fees associated with financial instruments held for trading 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.

The instruments designated as held-for-trading are initially carried at fair value with the Bank using the settlement date for recognizing transactions in the consolidated balance sheet. They are subsequently remeasured at fair value and realized and unrealized gains and losses are recognized immediately in the consolidated statement of income in other income under income from treasury and financial market 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 loan origination and other fees associated with financial instruments designated as held-for-trading are expensed as incurred.

AVAILABLE-FOR-SALE ASSETS

Available-for-sale financial assets are those non-derivative financial assets that are classified 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 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 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 in other 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 asset is other than temporary, the unrealized loss is immediately recognized in the consolidated statement of income. Equity instruments that do not have a quoted market price in an active market are recorded at cost. 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 loan origination and other fees associated with the acquisition of available-for-sale financial instruments and other financial liabilities are initially deferred and 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, 2007, the Bank has not designated any financial assets as held-to-maturity.

SECURITIES ACQUIRED 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. These agreements are treated as collateralized lending and borrowing transactions and are carried on the consolidated balance sheet at the amounts at which the securities were initially acquired or sold. Interest earned on resale agreements and interest incurred on repurchase agreements is reported as interest income and interest expense, respectively.

LOANS

Loans are initially recognized at fair value in the consolidated balance sheet using settlement date accounting. They are subsequently recorded at amortized cost using the effective interest method of amortization and presented in the balance sheet net of the allowance for loan losses and any unearned interest. Interest income related to loans is accounted for using the accrual basis of accounting. Commissions received and origination fees in respect of loans, including restructuring and renegotiation charges, are generally recognized in interest income over the term of the loans. Loan origination and other fees paid are charged to interest income over the terms 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 collectibility of the principal or interest. Loans are also 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. 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 collection to be nil.

3 > Summary of significant accounting policies (cont'd)

When loans are classified as impaired, the 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 collectibility of the total principal.

An impaired loan cannot return to an accrual 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 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 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 credit 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.

Any difference between the loan's carrying amount and its fair value is recognized within the provision for credit losses in the consolidated statement of income.

ALLOWANCES FOR LOSSES

The Bank maintains allowances for losses at amounts deemed adequate to absorb all probable losses in its portfolios. Allowances are mainly related to loans, but may also apply to other assets.

The allowance for loan losses is increased by the amount charged to the provision for credit 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 that have become impaired and classified as such. The 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 estimated future cash flows discounted at the effective interest rate inherent in the loan. 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 collection to be nil.

General allowances for loan losses

The general allowance reflects the best estimate of losses incurred in the portfolios in respect of loans that have yet to be specifically identified as impaired.

The general allowance, based on the historical loss experience, adjusted to reflect changes in the portfolios and credit policies, is constituted for each pool of loans with common risk characteristics. This estimate includes consideration of economic and business conditions, management's judgment and the risks related to the model.

ACCEPTANCES AND CUSTOMERS' LIABILITY 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. The recourse against the customer in the event that these obligations give rise to a cash outlay is reported as an asset of equal value. Commissions earned are recorded in other income in the consolidated statement of income.

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 at the time of sale 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, one or more subordinated tranches, servicing rights and excess interest spreads. The gain or loss depends partly on the allocation of the value of the interests retained at the time of the transfer. 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 rate.

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 to income over the term of the transferred loans.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGES

Derivative financial instruments are primarily used to manage the Bank's exposure to interest rate and currency risks, and occasionally, in trading activities or to meet customer needs.

All derivative financial instruments are recognized in other assets or other liabilities at fair value, including those derivatives embedded in financial or other contracts that are not closely related to the host contract. Changes in the fair values of derivative financial instruments are immediately recognized in income from treasury and financial market operations, with the exception of derivative financial instruments designated as cash flow hedges, in respect of which the changes in the fair value of the effective portion of the hedge are recognized in other comprehensive income. The interest income or expense related to derivative instruments is reflected in interest expense in the consolidated statement of income.

When it uses derivative financial instruments to manage its own exposure, the Bank determines for each derivative financial instrument whether hedge accounting can be applied. When appropriate, the Bank formally documents the hedging relationship detailing, among other things, the type of hedge (either fair value or cash flow), the item being hedged, the risk management objective, the hedging strategy and the method to be used to measure its effectiveness. The derivative financial instrument must be highly effective in achieving offsetting changes in the hedged item's fair value attributable to the hedged risk both at inception of the hedge and on an ongoing basis. Effectiveness is generally reviewed on a monthly basis using statistical regression models.

Fair value hedges

Fair value hedge transactions predominantly use interest rate swaps to hedge the changes in the fair value of an asset, liability or firm commitment.

For these hedging relationships, the changes in fair value of the hedged items attributable to the hedged risk are recognized in the statement of consolidated income in other income under income from treasury and financial market operations through a corresponding adjustment to the carrying amount of the hedged items in the consolidated balance sheet. Changes in the fair value of the hedged items, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging derivative. When the derivative instrument no longer qualifies as an effective hedge or the hedging instrument is sold or terminated, 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 is recognized in net interest income in the periods during which the hedged item affects income. Furthermore, if the hedged item is sold or terminated prior to maturity, hedge accounting is discontinued, and the cumulative adjustment to the carrying amount of the hedged item is then immediately recognized in other income.

3 > Summary of significant accounting policies (cont'd)

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 constituting the hedged item affect income.

When the derivative instrument no longer qualifies as an effective hedge, or when the hedging instrument is sold or terminated prior to maturity, 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 are reclassified in the consolidated statement of income under net interest income in the periods during which the cash flows constituting the hedged item affect income. Furthermore, if the hedged item is sold or terminated prior to maturity, hedge accounting is discontinued, and the related changes in fair value recognized in other comprehensive income are then immediately reclassified in the consolidated statement of income under other income.

Other considerations

The derivative financial instruments for which the Bank has ceased applying hedge accounting remain eligible for designation in future hedging relationships. Upon redesignation, any previously recognized fair value in the consolidated balance sheet is amortized to other income over the remaining life of the derivative financial instrument.

MEASURING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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 current market transactions in 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 non-observable 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. When independent prices are not available, fair values are determined using valuation techniques incorporating, among other things, current market prices and contractual prices of the underlying instruments, yield curves and volatility factors.

Fair values of derivative financial instruments are generally determined by 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 derivative financial instruments related to securitization transactions may also include non-observable data.

DEPOSITS

Deposits are accounted for at cost using the effective interest method. Interest expense on deposits is recorded on the accrual basis of accounting. The commissions paid and other fees are added to interest expense over the term of the deposits.

Equity-linked deposit contracts

Certain deposit obligations, such as equity-linked guaranteed investment certificates where the deposit obligation varies according to the performance of certain indices, 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, as for all derivative financial instruments, it is recorded at fair value and changes in fair value are recognized in the consolidated statement of income in other 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 of amortization. The deposit obligation, including the embedded derivative, is presented in the consolidated balance sheet under personal deposits.

SUBORDINATED DEBENTURES

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

3.2 > PROPERTY, PLANT AND EQUIPMENT

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

	Methods	Rates/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 and software	**Straight-line**	**3–10 years**

Gains and losses on the disposal of property, plant and equipment are recognized in other income.

3.3 > DEFERRED CHARGES

INCOME AND EXPENSES DURING THE PRE-OPERATING PERIOD

Expenses directly related to opening new branches are generally capitalized during the pre-operating period. In the Bank's opinion, the pre-operating period covers the six-month period following the opening of the branches. The income related to these branches, during the same period, is deducted from deferred charges. The net amount of deferred charges is amortized on a straight-line basis over a five-year period.

3.4 > GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill from business combinations is tested for impairment, at least annually, based on its fair value. 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 flows method to determine the fair value of its reporting units.

Intangible assets with a finite life are amortized over their estimated useful life, which generally does not exceed 15 years, on a straight-line basis and are also tested for impairment whenever circumstances indicate that the carrying value may not be fully recoverable. When the net carrying value 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.

3.5 > EMPLOYEE FUTURE BENEFITS

PENSION PLANS

The Bank maintains defined benefit pension plans for its employees. One of these plans also includes a defined contribution portion. Funding is 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 service, 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 valued 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, the cost for past service and the actuarial gains or losses, (e) gains or losses arising from special events, and (f) change in the valuation allowance.

3 > Summary of significant accounting policies (cont'd)

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 9 to 11 years in 2007 under the plans (from 9 to 11 years in 2006).

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, in November 1, 2000, is amortized on a straight-line basis over the expected average remaining service life of the employee groups on that date, varying 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. The Bank also provides certain health care and life insurance benefits for its employees upon retirement. 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.

3.6 > 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.

3.7 > NET INCOME PER COMMON SHARE

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

Diluted net income per common 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 common shares for the year, are used to repurchase common shares at that average market price.

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 new 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 option vesting period.

The compensation expense in respect of stock-based awards under a performance-based share program represents the value of the shares at the time of grant and is recognized during the applicable vesting period.

The compensation expense related to the Restricted Share Unit Program is recognized in income similarly to stock appreciation rights, over the option vesting period.

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

Assets and 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 available-for-sale financial instruments, which are included in other comprehensive income.

3.11 > TREASURY

Cash and cash equivalents consist of cash and non-interest-bearing deposits with banks. Cash comprises bank notes and coins.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES PRIOR TO THE ADOPTION SECTIONS 3855, 3865 AND 1530

In accordance with the transitional provisions, *CICA Handbook* Sections *Financial Instruments–Recognition and Measurement* (3855), *Hedges* (3865) and *Comprehensive Income* (1530) were applied prospectively on November 1, 2006. As a result, the financial information related to the fiscal year ended October 31, 2006 has not been restated and is therefore based on the accounting policies that were in effect for that period. The accounting policies set out above were generally in accordance with the accounting standards in effect for fiscal year ended October 31, 2006, with the exception of the key items described below.

SECURITIES

The Bank accounted for its securities in the investment or trading accounts depending on management's intentions.

The investment account included securities purchased with the original intention of holding them to maturity or until market conditions rendered alternative investments more attractive. Fixed-term securities were recorded at their amortized cost. The other securities were recorded at cost. Gains and losses on disposal of securities, as well as write-downs to reflect other than temporary impairments in value were included in other income. Interest income earned, amortization of premiums and discounts as well as dividends received were included in interest income.

The trading account (now referred to as "held-for-trading securities" for purposes of comparative balances in the consolidated balance sheet) included securities purchased for resale over a short period of time. These securities were recorded at their estimated fair value. Realized and unrealized gains and losses in respect of these securities were accounted for in other income under income from treasury and financial market operations. Interest income earned and dividends received were included in interest income.

HEDGING

When the Bank determined that hedge accounting could be applied, a hedging relationship was designated and documented as a fair value hedge or a cash flow hedge. The hedging instrument had to be highly effective in achieving offsetting changes in the hedged item's fair value or cash flows attributable to the hedged risk both at inception of the hedge and on an ongoing basis. Effectiveness was generally reviewed on a monthly basis using statistical regression models. No ineffectiveness has been recognized in the statement of income. It was also possible for the hedging instrument to be a non-derivative financial asset or liability.

When a derivative financial instrument functioned effectively as a fair value or a cash flow hedge, the unrealized gain or loss of the derivative financial instrument was deferred in other assets or liabilities. The deferred gain or loss was recognized in net interest income during the periods in which the related hedged item affected income.

Hedge accounting was discontinued prospectively when the derivative financial instrument no longer qualified as an effective hedge or the derivative financial instrument was terminated or sold. The deferred gain or loss was recognized in net interest income during the periods in which the hedged item affected income. Hedge accounting was also discontinued upon the sale or early termination of the hedged item, in which case the deferred gain or loss was recognized in other income.

4 > Impact of adopting sections 3855, 3865 and 1530

On November 1, 2006, the Bank prospectively adopted the new Sections *Financial Instruments–Recognition and Measurement* (3855), *Hedges* (3865) and *Comprehensive Income* (1530). The adoption of these sections had the following key consequences: (a) the creation of the new statement of comprehensive income; (b) the reclassification of securities in the new financial asset classes; (c) the reclassification of balances in the consolidated balance sheet to reflect the new accounting standards regarding hedge accounting.

(a) Statement of comprehensive income

Section 1530, *Comprehensive Income*, requires the presentation of a new consolidated statement of comprehensive income and the accumulated other comprehensive income, separately under shareholders' equity in the consolidated balance sheet. The consolidated statement of comprehensive income presents net income, as well as other comprehensive income: the unrealized gains and losses on available-for-sale financial instruments, the effective portion of the changes in fair value of the derivative instruments designated as cash flow hedging instruments and the balance to be reclassified in the consolidated statement of income from terminated cash flow hedging relationships.

(b) Reclassification of securities in the new financial asset classes

The **investment account** securities were reclassified in the following new classes:

- *Available-for-sale securities*–The remeasurement reflecting the unrealized gains and losses on these securities gave rise to a charge to accumulated other comprehensive income amounting to $3,906,000 ($2,620,000 net of taxes).
- *Securities designated as held-for-trading*–The remeasurement reflecting the unrealized gains and losses on these securities resulted in an increase in the opening balance of retained earnings amounting to $1,581,000 ($1,061,000 net of taxes).

No investment account security was reclassified in *held-to-maturity securities*, or transferred into held-for-trading securities.

The reclassifications made to the investment account subsequent to the initial adoption of Section 3855 are summarized in the following table:

	Consolidated balance sheet balances before the initial application of Section 3855, as reported as at October 31, 2006	Consolidated balance sheet balances after the initial application of Section 3855, as at November 1, 2006		
(in thousands of dollars)	Investment account	Securities designated as held-for-trading account (A)	Securities designated as available-for-sale account (B)	Total non-trading account[1] (A+B)
Securities issued or guaranteed				
by Canada	$ 1,277,679	$ 13,796	$ 1,260,467	$ 1,274,263
by provinces	2,674	–	2,672	2,672
Other debt securities	196,312	165,720	30,818	196,538
Preferred shares	56,556	–	56,678	56,678
Common and other shares	34,001	–	35,049	35,049
	$ 1,567,222	$ 179,516	$ 1,385,684	$ 1,565,200

(1) These amounts include the unrealized gains and losses not previously recognized in the investment account as at October 31, 2006.

The **trading account** securities were reclassified in the held-for-trading securities account without any impact on the opening balances in the consolidated balance sheet.

(c) Reclassification of the balances in the consolidated balance sheet to reflect the new accounting standards regarding hedge accounting

Fair value hedges

Unrealized gains and losses on fair value hedges are included in the opening balance of retained earnings. Prior changes in fair value of hedged items attributable to the hedged risk were also recognized in the opening balance of retained earnings through a corresponding adjustment to the carrying amount of the hedged items in the consolidated balance sheet. These adjustments did not have any effect on the opening balance of retained earnings as they offset one another as at November 1, 2006.

Cash flow hedges

The adoption of Section 3865 gave rise to a charge to accumulated other comprehensive income amounting to $23,750,000 ($15,932,000 net of income taxes), representing the unrealized loss on interest rate swaps designated as cash flow hedging instruments amounting to $14,075,000 ($9,442,000, net of income taxes) and unrealized losses amounting to $9,675,000 ($6,490,000, net of income taxes) related to previously terminated hedging relationships, which had to be amortized.

Termination of hedging relationships involving non-derivative hedging instruments and accumulated ineffectiveness in hedging relationships
Under Section 3865, fair value hedging relationships involving securities for which the hedging instrument is not a derivative financial instrument no longer qualify. Moreover, the accumulated ineffectiveness of hedging relationships must be measured, and the ineffective portion of changes in fair value must be recognized in the consolidated statement of income. The foregoing led to a charge of $6,337,000 ($4,246,000 net of income taxes) to the opening balance of retained earnings, as a result of the adoption of Section 3865.

The opening balances of retained earnings and accumulated other comprehensive income are reconciled in the following tables:

RECONCILIATION OF OPENING BALANCE OF RETAINED EARNINGS

(in thousands of dollars)

Balance of retained earnings as reported as at October 31, 2006, before the initial adoption of Sections 3855, 3865 and 1530	$ 485,334
Adjustments, net of income taxes:	
Securities designated as held-for-trading	1,061
Hedging transactions for which hedge accounting is no longer appropriate and other items	(4,246)
Total adjustments	(3,185)
Balance of retained earnings as at November 1, 2006, upon initial adoption of Sections 3855, 3865 and 1530	$ 482,149

RECONCILIATION OF OPENING BALANCE OF ACCUMULATED OTHER COMPREHENSIVE INCOME

(in thousands of dollars)

Balance of accumulated other comprehensive income as at October 31, 2006, before the initial adoption of Sections 3855, 3865 and 1530	$ –
Adjustments, net of income taxes:	
Available-for-sale securities	(2,620)
Hedge accounting	(15,932)
Total adjustments	(18,552)
Balance of accumulated other comprehensive income as at November 1, 2006, upon initial adoption of Sections 3855, 3865 and 1530	$ (18,552)

Supplemental information regarding hedging relationships
During the year ended October 31, 2007, the ineffective portions of the cumulative changes in fair value of the hedging instruments recognized in the consolidated statement of income amounted to $(14,000) as it relates to cash flow hedging relationships, and $(526,000) as it relates to fair value hedging relationships.

Of the amount of net unrealized losses included in accumulated other comprehensive income as at October 31, 2007, the Bank expects to transfer $7,687,000 into net income over the next twelve months.

The maximum term of cash flow hedging relationships in respect of anticipated transactions was five years as at October 31, 2007.

OTHER COMPREHENSIVE INCOME

(in thousands of dollars)

		2007	
	Amounts before income taxes	**Income taxes**	**Amounts net of income taxes**
Unrealized gains and losses on available-for-sale securities			
Unrealized gains and losses during the year	**$ 17,508**	**$ (2,175)**	**$ 15,333**
Less: reclassification in income of realized gains and losses during the year	**(1,249)**	**(332)**	**(1,581)**
Change in unrealized gains and losses on available-for-sale securities for the year	**16,259**	**(2,507)**	**13,752**
Gains and losses on derivatives designated as cash flow hedges for the year	**8,586**	**(2,909)**	**5,677**
Other comprehensive income	**$ 24,845**	**$ (5,416)**	**$ 19,429**

4 > Impact of adopting sections 3855, 3865 and 1530 (cont'd)

ACCUMULATED OTHER COMPREHENSIVE INCOME

(in thousands of dollars)

	2007		
	Cash flow hedges	Available-for-sale securities	Accumulated comprehensive income
Balance at beginning of year	$ –	$ –	$ –
Effect of adopting the new accounting policy, net of income taxes	(15,932)	(2,620)	(18,552)
Change during the year, net of income taxes	5,677	13,752	19,429
Balance at end of year	**$ (10,255)**	**$ 11,132**	**$ 877**

5 > Disposals and change in ownership interest

2007

RESTRUCTURING OF VISA

On October 3, 2007, subsequent to the completion of the Visa restructuring, the Bank received shares of Visa Inc., a new entity incorporating all of Visa's global operations, in exchange for the Bank's interest in Visa's former Canadian entity.

In accordance with *CICA Handbook* Section 3831, *Non-monetary Transactions*, the Bank measured its newly acquired Visa shares at fair value and recorded gain of $4,000,000 ($3,347,000, net of income taxes) in other income. Since these shares are not actively traded, their fair value was determined using the estimated value of Visa Inc.

The shares of Visa Inc. were classified as available-for-sale.

2006

SALE OF THE SUBSIDIARY BROME FINANCIAL CORPORATION INC.

On December 31, 2005, the Bank completed the sale of its 51% interest in Brome Financial Corporation Inc. The net sale price, paid in cash, amounted to $3,853,000, for a gain of $931,000 ($931,000 net of taxes). At the date of sale, total assets sold amounted to $32,170,000, including $3,993,000 in cash. Total operations sold were presented in the Commercial Financial Services segment. The gain on the sale was entirely attributed to this segment. These transactions did not have a material effect on net income.

2005

SALE OF THE BLC–EDMOND DE ROTHSCHILD ASSET MANAGEMENT INC. JOINT VENTURE

On December 31, 2004, Industrial Alliance Insurance and Financial Services Inc. (Industrial Alliance) acquired all of the shares of BLC-Edmond de Rothschild Asset Management Inc. from the Bank. The sale resulted in the recognition of an initial gain of $5,377,000 ($5,213,000 net of applicable income taxes) under income from discontinued operations and a deferred gain of $26,217,000 related to certain recovery clauses.

Recovery clauses

Under a recovery clause, the Bank was required to repay Industrial Alliance an annual amount of $5,185,000 ($4,423,000 net of applicable income taxes), for the five years following the sale, if net annual sales of mutual funds do not reach $50,000,000 for the 12-month periods ended December 31 of each of these years. The sale proceeds related to the first three years' sales threshold were recognized in income at the end of the years ended October 31, 2007, 2006 and 2005, in light of net sales levels at those dates relative to sales levels expected to be achieved by December 31 of each year. The deferred portion of the proceeds will be recognized over the next two years as the net sales thresholds are considered achieved. At the end of the six-year period ending on December 31, 2010, if cumulative net sales of mutual funds reach $290,000,000, the amounts that would have been repaid to Industrial Alliance under the recovery clause would be reimbursed to the Bank. Moreover, a final payment of $8,300,000 would be made to the Bank at the end of the first five-year period of the agreement if cumulative net sales of mutual funds reach $350,000,000. Including this premium, the total sale price related to the transaction would be $76,095,000. The gain relating to this final payment will be recognized in income once the conditions are met.

Under a separate recovery clause, the Bank would have been required to repay up to $1,015,000 to Industrial Alliance if the institutional assets under management on December 31, 2005 had not reached a predetermined level. On October 31, 2005, the Bank had deferred revenue of $300,000 related to this clause. In light of the level of assets under management on December 31, 2005, the Bank recognized an additional gain of $187,000 ($124,000, net of applicable income taxes) on that date in respect of this clause.

Investments in seed capital

At the time of sale, the Bank also owned an investment related to seed capital. In 2006, the Bank completed the sale of this investment and recorded income of $300,000 ($200,000, net of applicable income taxes) to recognize net gains realized.

The initial gain and the changes in the value of investments in seed capital under management were attributed to the Other segment, whereas the income recognized in respect of the recovery clause related to the sales threshold of mutual funds was attributed to the Retail Financial Services segment.

6 > Securities

MATURITY SCHEDULE AND RETURN ON SECURITIES

AVAILABLE-FOR-SALE SECURITIES ACCOUNT

						2007
	Within 1 year $	1 to 5 years $	Over 5 years $	No specific maturity $	Total $	Yield (1) %
Securities issued or guaranteed by Canada	562,599	200,360	–	–	762,959	4.3
Other debt securities	2,898	7,119	9,773	1,904	21,694	5.5
Preferred shares	–	–	–	71,845	71,845	3.6
Common shares and other securities	–	–	–	61,178	61,178	3.0
	565,497	207,479	9,773	134,927	917,676	4.2

(1) Yield based on the amortized cost of available-for-sale securities.

HELD-FOR-TRADING SECURITIES ACCOUNT

					2007
	Within 1 year $	1 to 5 years $	Over 5 years $	No specific maturity $	Total $
Securities issued or guaranteed					
by Canada	190,441	52,296	81,565	–	324,302
by the provinces	76,119	103,696	169,311	–	349,126
by municipal corporations	4,205	27,715	52,937	–	84,857
Other debt securities	63,882	55,107	82,924	6,561	208,474
Common shares and other securities	–	–	–	40,814	40,814
Mortgage-backed securities	8,230	45,512	25,643	–	79,385
	342,877	284,326	412,380	47,375	1,086,958

Held-for-trading securities

For the year ended October 31, 2007, a net gain of $6,429,000 was recognized in trading income in respect of held-for-trading securities.

Asset-backed securities

As at October 31, 2007, the Bank held investments totalling $16,350,000 in asset-backed securities issued by non-bank conduits covered by the Montréal Accord in its trading portfolios. As a result of the liquidity and credit crisis affecting asset-backed commercial paper, the Bank adjusted the fair value of its investments and recognized a loss amounting to $2,088,000 ($1,413,000 net of income taxes).

The Bank also held asset-backed securities related to these conduits in its available-for-sale portfolio amounting to $4,898,000. An other-than-temporary decline in value amounting to $800,000 ($539,000 net of income taxes) in this portfolio's securities was recognized in income in respect of these securities.

These investments have not traded in an active market since mid-August 2007. As a result, the Bank has relied on valuation techniques considering the relevant public information regarding market conditions and other factors and assumptions that a market participant would consider for such investments to estimate the fair value.

6 > Securities (cont'd)

Continuing uncertainties regarding the value of the assets underlying the investments, the amount and timing of cash flows and the outcome of the restructuring process planned under the Montréal Accord could give rise to further changes in the value of the Bank's investments which would impact earnings.

SECURITIES DESIGNATED AS HELD-FOR-TRADING ACCOUNT

					2007
	Within 1 year $	1 to 5 years $	Over 5 years $	No specific maturity $	Total $
Securities issued or guaranteed					
by Canada	88,880	439,554	–	–	528,434
by the provinces	–	12,418	–	–	12,418
Other debt securities	10,692	51,580	7,509	–	69,781
Common shares and other securities	–	–	–	59,112	59,112
	99,572	503,552	7,509	59,112	669,745

Securities designated as held-for-trading

For the year ended October 31, 2007, a net loss of $1,408,000 was recognized in other income under income treasury and financial market operations in respect of securities designated as held-for-trading under the fair value option.

				2006
			Investment account	Trading account
	Carrying amount $	Fair value $	Yield[(1)] %	Total $
Securities issued or guaranteed				
by Canada	1,277,679	1,274,263	3.8	741,845
by provinces	2,674	2,672	4.2	474,744
by municipal corporations	–	–	–	103,966
Other debt securities	196,312	196,538	5.2	193,579
Preferred shares	56,556	56,678	4.8	–
Common shares and other securities	34,001	36,049	3.7	73,638
Mortgage-backed securities	–	–	–	87,286
	1,567,222	1,566,200	4.1	1,675,058

(1) Yield based on the carrying amount of each type of security at year-end.

The above classification is based on the contractual maturity date of the securities.

US dollar–denominated securities amounted to $32,616,000 ($103,556,000 in 2006).

UNREALIZED GAINS AND LOSSES

AVAILABLE-FOR-SALE SECURITIES ACCOUNT

				2007
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Securities issued or guaranteed				
by Canada	$ 763,172	$ 35	$ 248	$ 762,959
Other debt securities	22,364	57	727	21,694
Preferred shares	73,561	113	1,829	71,845
Common shares and other securities	48,307	14,586	1,715	61,178
	$ 907,404	$ 14,791	$ 4,519	$ 917,676

INVESTMENT PORTFOLIO

				2006
	Carrying amount	Unrealized gains	Unrealized losses	Fair value
Securities issued or guaranteed				
by Canada	$ 1,277,679	$ 1,600	$ 5,016	$ 1,274,263
by provinces	2,674	6	8	2,672
Other debt securities	196,312	1,411	1,185	196,538
Preferred shares	56,556	550	428	56,678
Common shares and other securities	34,001	2,194	146	36,049
	$ 1,567,222	$ 5,761	$ 6,783	$ 1,566,200

As at October 31, 2007, unrealized losses totalling $4,519,000 were mainly in relation to preferred and common shares. These declines in value, resulting from the market downturn of the last few months of fiscal 2007 and lower interest rates, were determined by the Bank to be temporary and are included in accumulated other comprehensive income.

7 > Loans

LOANS AND IMPAIRED LOANS

					2007
	Gross amount of loans	**Gross amount of impaired loans**	**Specific allowances**	**General allowances**	**Total allowances**
Personal loans	**$ 4,958,176**	**$ 16,237**	**$ 6,039**	**$ 28,446**	**$ 34,485**
Residential mortgages	**6,232,778**	**20,395**	**1,419**	**5,144**	**6,563**
Commercial mortgages	**684,625**	**4,342**	**1,532**	**4,144**	**5,676**
Commercial and other loans	**1,556,831**	**62,964**	**41,082**	**27,516**	**68,598**
	$ 13,432,410	**$ 103,938**	**$ 50,072**	**$ 65,250**	**$ 115,322**

					2006
	Gross amount of loans	Gross amount of impaired loans	Specific allowances	General allowances	Total allowances
Personal loans	$ 4,168,026	$ 16,100	$ 5,659	$ 28,475	$ 34,134
Residential mortgages	5,985,656	16,501	3,479	5,139	8,618
Commercial mortgages	659,014	8,393	3,472	2,662	6,134
Commercial and other loans	1,476,977	89,603	47,293	28,974	76,267
	$ 12,289,673	$ 130,597	$ 59,903	$ 65,250	$ 125,153

US dollar–denominated loans totalled $35,802,000 ($54,605,000 in 2006).

In 2007, foreclosed assets held-for-sale amounted to $4,521,000 ($1,269,000 in 2006) with eliminations to the related specific allowances totalling nil (nil in 2006).

7 > Loans (cont'd)

SPECIFIC ALLOWANCES FOR LOAN LOSSES

	Personal loans	Residential mortgages	Commercial mortgages	Commercial and other loans	**2007** Total specific allowances	2006 Total specific allowances
Balance at beginning of year	**$ 5,659**	**$ 3,479**	**$ 3,472**	**$ 47,293**	**$ 59,903**	$ 64,556
Provision for credit losses recorded in the consolidated statement of income	**27,682**	**1,249**	**228**	**10,841**	**40,000**	40,000
Write-offs (1)	**(32,342)**	**(3,359)**	**(2,232)**	**(17,518)**	**(55,451)**	(49,068)
Recoveries	**5,040**	**50**	**64**	**466**	**5,620**	4,826
Provision for credit losses resulting from the sale of a subsidiary (see note 5)	**–**	**–**	**–**	**–**	**–**	(411)
Balance at end of year	**$ 6,039**	**$ 1,419**	**$ 1,532**	**$ 41,082**	**$ 50,072**	$ 59,903

(1) No restructured loans were written-off during the years ended October 31, 2007 and 2006.

GENERAL ALLOWANCES FOR LOAN LOSSES

	Personal loans	Residential mortgages	Commercial mortgages	Commercial and other loans	**2007** Total genaral allowances	2006 Total general allowances
Balance at beginning of year	**$ 28,475**	**$ 5,139**	**$ 2,662**	**$ 28,974**	**$ 65,250**	$ 65,250
Change during the year	**(29)**	**5**	**1,482**	**(1,458)**	**–**	–
Balance at end of year	**$ 28,446**	**$ 5,144**	**$ 4,144**	**$ 27,516**	**$ 65,250**	$ 65,250

8 > Loan securitization

RESIDENTIAL MORTGAGE LOANS

Under the mortgage-backed securities 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 securitizes conventional residential mortgages. Gains before income taxes, net of transaction costs, are recognized in other income.

The following table summarizes the securitization transactions carried out by the Bank:

	2007	2006
Cash proceeds, net of transaction costs	**$ 850,955**	$ 631,896
Rights to future excess interest	**26,547**	14,375
Servicing liability	**(6,540)**	(4,401)
Cash reserve accounts	**8,495**	15,582
Other	**(10,561)**	(3,646)
	868,896	653,806
Residential mortgages securitized and sold (1)	**862,637**	647,645
Gains before income taxes, net of transaction costs	**$ 6,259**	$ 6,161

(1) Including $524,098,000 in loans insured by the CMHC ($51,289,000 in 2006).

With regard to the transfer of residential mortgages, the key assumptions used to determine the initial fair value of retained interests are summarized as follows:

KEY ASSUMPTIONS

	2007	2006
Rate of prepayment	**26%**	17%
Discount rate	**4.67%**	4.83%
Rate of credit losses	**0.05%**	0.05%

No loss is expected on insured residential mortgages.

During the year, the Bank collected cash flows from retained interests totalling $18,166,000 ($12,450,000 in 2006). The amortization relating to the servicing liability recognized in income amounted to $3,199,000 ($2,495,000 in 2006).

During the year, the Bank also recorded a $2,750,000 downward adjustment in the value of interest rate swaps contracted in connection with transfers of residential mortgage loans, subsequent to the liquidity and credit crisis, affecting asset-backed commercial paper. This adjustment was charged against securitization income.

Financial instruments designated as held-for-trading

The rights to excess spreads related to securitization transactions carried out subsequent to November 1, 2006 were designated as held-for-trading under the fair value option.

For the year ended October 31, 2007, a net gain amounting to $1,013,000 was recognized in securitization income in respect of these rights.

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, 2007 and 2006.

SENSITIVITY OF KEY ASSUMPTIONS TO UNFAVOURABLE CHANGES

	2007	2006
Fair value of retained interests	**$ 56,502**	$ 42,153
Weighted average life (in months)	**27**	26
Rate of prepayment	**24%**	19%
Impact on fair value of unfavourable change of 10%	**$ 1,070**	$ 606
Impact on fair value of unfavourable change of 20%	**$ 2,086**	$ 1,187
Rate of credit losses (1)	**0.05%**	0.06%
Impact on fair value of unfavourable change of 10%	**$ 73**	$ 68
Impact on fair value of unfavourable change of 20%	**$ 145**	$ 135
Discount rate	**4.8%**	4.3%
Impact on fair value of unfavourable change of 10%	**$ 252**	$ 160
Impact on fair value of unfavourable change of 20%	**$ 501**	$ 318

(1) Expected credit losses on conventional residential mortgages only. No loss is expected on insured residential mortgages.

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 that might magnify or counteract the fluctuations attributed to changes in key assumptions.

The total principal amount of securitized residential mortgage loans amounted to $1,561,901,000 at year-end ($1,039,427,000 at the end of 2006).

COMMERCIAL MORTGAGE LOANS

During the year, the Bank securitized commercial mortgage loans amounting to $40,338,000, generating a $424,000 gain. The Bank did not retain rights and obligations in respect of these commercial mortgage loans.

9 > Property, plant and equipment

			2007	2006
	Cost	**Accumulated depreciation**	**Net book value**	Net book value
Land	**$ 271**	**$ –**	**$ 271**	$ 651
Premises	**2,718**	**1,096**	**1,622**	2,082
Leasehold improvements	**58,878**	**32,090**	**26,788**	22,703
Equipment and furniture	**77,863**	**64,646**	**13,217**	11,528
Computer hardware and software	**362,153**	**266,360**	**95,793**	74,327
	$ 501,883	**$ 364,192**	**$ 137,691**	$ 111,291

9 > Property, plant and equipment (cont'd)

Depreciation expense recorded during the year in the consolidated statement of income amounts to $26,874,000 ($25,052,000 in 2006).

Computer hardware and software include an amount totalling $13,590,000 ($26,790,000 in 2006) related to projects under development that are not depreciated.

10 > Goodwill and other intangible assets

Goodwill is related to the Retail Financial Services segment.

Other intangible assets consist of the following:

	2007			2006
	Cost	**Accumulated amortization**	**Net book value**	Net book value
Contractual relations and client relationships	**$ 18,278**	**$ 4,164**	**$ 14,114**	$ 15,333

The other intangible assets consist of contractual relations with financial intermediaries and the associated client relationships and are amortized over a 15-year period. Amortization of other intangible assets recorded in the consolidated statement of income during the year amounts to $1,219,000 ($1,219,000 in 2006).

The Bank tests goodwill and other intangible assets for impairment on an annual basis. No impairment was identified in 2007 and 2006.

11 > Other assets

	2007	2006
Cheques and other items in transit	**$ 160,530**	$ 112,442
Deferred charges related to loan and deposit origination	**70,944**	80,008
Accrued interest receivable	**61,459**	72,272
Assets related to securitized mortgage loans	**64,361**	44,490
Accrued benefit assets (note 17)	**43,367**	36,940
Accounts receivable, prepaid expenses and other items	**39,149**	42,572
	$ 439,810	$ 388,724

12 > Deposits

	2007				2006
	Demand	**Notice**	**Term**	**Total**	Total
Personal	**$ 102,726**	**$ 1,788,150**	**$ 9,673,654**	**$ 11,564,530**	$ 10,949,473
Business, banks and other	**753,764**	**105,810**	**1,454,604**	**2,314,178**	2,145,028
	$ 856,490	**$ 1,893,960**	**$ 11,128,258**	**$ 13,878,708**	$ 13,094,501

Demand deposits consist of deposits in respect of which the Bank is not authorized to require a notice at the time of withdrawal by the customer. These deposits are primarily made up of checking accounts.

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

Term deposits consist of deposits maturing at a specific date, in particular term deposits and guaranteed investment certificates.

Deposits denominated in U.S. dollars amount to $268,340,000 ($245,027,000 in 2006) and deposits denominated in other foreign currencies, primarily in euros, amount to $1,639,000 ($3,608,000 in 2006).

The Bank has designated certain deposits having a nominal amount of $73,815,000 as held-for-trading. The difference between the amount the Bank would be contractually required to pay to deposit holders at maturity and the carrying amount of these deposits, amounting $73,069,000 stood at $746,000 as at October 31, 2007.

For the year ended October 31, 2007, a net loss amounting to $443,000 was recognized in other income under income from treasury and financial market operations in respect of these deposits.

13 > Other liabilities

	2007	2006
Accrued interest payable	**$ 458,475**	$ 451,727
Cheques and other items in transit	**178,409**	131,675
Liabilities related to securitized mortgage loans	**29,475**	24,790
Deferred gain related to the sale of BLCER (note 5)	**10,369**	15,554
Accrued benefit liabilities (note 17)	**12,611**	11,430
Accounts payable, accrued expenses and other items (note 18)	**83,714**	60,843
	$ 773,053	$ 696,019

14 > Subordinated debentures

SUBORDINATED DEBENTURES

The subordinated debentures are direct unsecured obligations of the Bank and are subordinated in right of payment to the claims of depositors and certain other creditors of the Bank. Any repurchase or cancellation of subordinated debentures must be approved by the Superintendent of Financial Institutions of Canada.

Issued and outstanding as at October 31

Maturity	Series	Interest rate	Special terms	2007	2006
January 2016	10	4.90%	Redeemable at par as of January 2011; rate to be revised in January 2011 and set at the 90-day bankers' acceptance rate plus 1.65%	**$ 150,000**	–
				$ 150,000	–

On June 1, 2006, the Bank completed the early redemption of all of its 6.50% Debentures, Series 9, maturing in 2011, with an aggregate notional amount of $150,000,000, plus accrued and unpaid interest to the date of redemption.

On January 23, 2006, the Bank issued subordinated debentures, Series 10, maturing in January 2016, with an aggregate value of $150,000,000.

15 > Capital stock

AUTHORIZED

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 AS AT OCTOBER 31

	2007				2006		
	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	**$ 1.160**	**23,810,813**	**$ 256,445**	**$ 27,480**	23,620,436	$ 251,158	$ 27,379
Treasury shares		**–**	**$ –**	**$ (6)**	(20,000)	$ (590)	$ (23)

(1) Non-cumulative dividends on preferred shares

15 > Capital stock (cont'd)

PREFERRED SHARES

TERMS OF SHARES

The Class A Preferred Shares, Series 9, are redeemable at the Bank's option, on or after December 15, 2006 at a price of $25 each plus, if the redemption takes place before December 15, 2010, a premium of $1 which will decrease to zero depending on the redemption date. Moreover, the Bank will be able, on or after December 15, 2006, to convert all or a portion of the Preferred Shares into a whole number of common shares determined by dividing the redemption price then applicable by the greater of $2.50 or 95% of the weighted average prevailing market price of the common shares at that date.

The Class A Preferred Shares, Series 10, are redeemable at the Bank's option, on or after 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. Moreover, the Bank will be able, on or after June 15, 2009, to convert all or a portion of the Preferred Shares into a whole number of common shares determined by dividing the redemption price then applicable by the greater of $2.50 or 95% of the weighted average prevailing market price of the common shares at that date.

COMMON SHARES

ISSUANCE OF COMMON SHARES

During the year, 190,377 common shares (63,891 shares in 2006) were issued under the employee share purchase option plan for the management of the Bank for a cash consideration of $5,287,000 ($1,525,000 in 2006).

TREASURY SHARES

During fiscal 2005, 20,000 common shares were acquired in the marketplace with respect to obligations under a performance-based share program. These shares were presented under treasury shares as a reduction of shareholders' equity. Since the objectives were met during fiscal 2007, the shares have been reallocated.

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 be in contravention of any capital adequacy and liquidity regulations or any direction to the Bank made by the Superintendent of Financial Institutions of Canada 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

Common shareholders' equity

Common shareholders' equity consists of common shares, retained earnings, contributed surplus and accumulated other comprehensive income. Capital management contributes to the Bank's profitability, as capital is allocated to key sectors for which precise profitability objectives and criteria have been established. The Bank strives to maintain an optimal level of capital to support its activities while generating an attractive and competitive return for its shareholders, in relation to industry standards and the Bank's risk profile.

Regulatory capital

The Bank's regulatory capital consists primarily of common shareholders' equity, preferred shares and subordinated debentures. Regulatory capital is an important factor in assessing the Bank's stability and security in relation to the overall risks inherent in its activities. The Bank's policy is to maintain its regulatory capital ratios consistent with regulatory requirements as defined by the OSFI. During fiscal 2007, the Bank complied with these requirements.

A capital plan prepared annually specifies the target capital ratios by taking into account the projected risk weighted asset levels and expected capital management initiatives. Regulatory capital ratios are reported monthly to management. Regulatory capital ratio monitoring reports are provided on a quarterly basis to the Board of Directors' Risk Management Committee.

Regulatory capital as at October 31, 2007 and 2006 is detailed as follows:

	2007	2006	Change
Tier I capital			
Common shares	**$ 256,445**	$ 250,568	$ 5,877
Contributed surplus	**105**	518	(413)
Retained earnings	**537,254**	485,334	51,920
Non-cumulative preferred shares	**210,000**	210,000	–
Less: goodwill	**(53,790)**	(53,790)	–
Total – Tier I capital	**950,014**	892,630	57,384
Tier II capital			
Subordinated debentures	**150,000**	150,000	–
General allowances	**65,250**	65,250	–
Unrealized gains on available-for-sale securities	**11,698**	–	11,698
Total – Tier II capital	**226,948**	215,250	11,698
Securitization and other	**(45,525)**	(28,469)	(17,056)
Regulatory capital	**$ 1,131,437**	$ 1,079,411	$ 52,026

16 > Stock-based compensation

SHARE PURCHASE OPTIONS

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.

As at October 31, 2007, the Bank had reserved 1,600,000 common shares (1,600,000 shares in 2006) for the potential exercise of share purchase options, of which 119,160 (139,960 in 2006) were still available.

During fiscal 2007, the Bank granted 50,000 share purchase options with an exercise price of $29.47, at a fair value of $4.55 per option. A $104,675 charge has been recorded in respect of this grant during fiscal 2007, under salaries and employee benefits.

The fair value of these options was measured at the grant date using the Black-Scholes option pricing model based on the following assumptions:

	2007
Risk-free interest rate	**4.10%**
Expected life of options	**7 years**
Expected volatility	**19.60%**
Expected dividends	**4.00%**

The following table shows the Bank's outstanding share purchase options for the years ended October 31:

	2007		2006	
	Number of options	**Weighted average exercise price per option**	Number of options	Weighted average exercise price per option
Outstanding, beginning of year	**339,604**	**$ 27.79**	429,037	$ 27.40
Granted	**50,000**	**$ 29.47**	–	$ –
Exercised	**(190,377)**	**$ 27.77**	(63,891)	$ 23.88
Cancelled	**(29,200)**	**$ 31.50**	(25,542)	$ 30.97
Outstanding, end of year	**170,027**	**$ 27.67**	339,604	$ 27.79
Exercisable, end of year	**120,027**	**$ 26.92**	339,604	$ 27.79

16 > Stock-based compensation (cont'd)

The following table summarizes information relating to share purchase options outstanding and exercisable as at October 31, 2007.

	Options outstanding			Options exercisable	
Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price per option	Number of options exercisable	Weighted average exercise price per option
$19.37 – $22.08	**26,143**	**1.92**	**$ 20.28**	**26,143**	**$ 20.28**
$27.08 – $27.65	**19,000**	**0.17**	**$ 27.36**	**19,000**	**$ 27.36**
$27.74 – $31.80	**124,884**	**5.93**	**$ 29.27**	**74,884**	**$ 29.13**
	170,027			**120,027**	

OTHER STOCK-BASED COMPENSATION PLANS

The Bank offers a stock appreciation rights (SARs) plan to members of senior management of the Bank and its subsidiaries. These SARs may be settled in consideration for a cash 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. As at October 31, 2007, 644,318 SARs (621,756 in 2006) were outstanding at a weighted average exercise price of $29.93 ($27.24 in 2006), of which 206,506 (283,212 in 2006) were exercisable at the end of the year. As at October 31, 2007, the weighted average remaining life of SARs was 7.33 years (5.84 years in 2006). In order to reduce the volatility of the SAR plan compensation expense, the Bank entered into total return swap contracts, during fiscal 2007, the value of which is related to the price of the Bank's shares. The changes in fair value of these derivative instruments partially offset the compensation costs in respect of the SARs during the period in which the swaps were in effect. As at October 31, 2007, these swaps had a negative fair value amounting to $166,000 (nil in 2006), which was presented in the balance sheet under derivative financial instruments. During the year, a charge of $1,987,000 ($177,000 in 2006) was recognized under employee compensation expense in respect of this plan, net of the effect of the related hedging transaction.

In 2006, the Bank established a stock-based compensation program, the Restricted Share Unit Program, for certain senior managers. Under the program, 50% of the annual bonus otherwise payable to an eligible employee, under the Bank's short-term incentive compensation program, could be withheld and converted into entirely vested restricted share units at the employees' option. The Bank undertakes to contribute additional restricted share units for an amount equal to 60% of the withheld bonus. These additional units will vest at the end of the three-year period following their award. 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 similarly to stock appreciation rights, over their vesting period. In January 2007, annual bonuses for certain employees amounting to $613,000 ($854,000 in 2006) were converted into 19,979 entirely vested restricted share units (24,382 units in 2006). The Bank granted 11,987 additional restricted share units in 2007 (14,629 units in 2006). During the year, a charge amounting to $1,246,000 (income of $28,000 in 2006) was recognized in respect of this plan.

In 2005, the Bank initiated a performance-based share agreement, under which 20,000 common shares of the Bank valued at $29.50 each have been granted. The rights in respect of these shares vested at the end of the 16-month period on January 1, 2007 given that Bank had met certain performance objectives. These 20,000 common shares were awarded in January 2007, since the objectives were met. During the year, a charge of $74,000 ($445,000 in 2006) was recognized in respect of this plan.

A deferred share unit plan is also offered to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his remuneration in the form of deferred share units settled in cash. The deferred share units are converted when the holder steps down from the Board of Directors. As at October 31, 2007, there were 20,704 units (19,623 in 2006) outstanding with a total value of $905,000 ($570,000 in 2006). During the year, the compensation expense recognized in respect of this plan was $413,000 ($99,000 in 2006).

In fiscal 2006, the Bank established an employee share purchase program. Under this program, 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, to a maximum of $1,500 per annum. The Bank's contributions vest to the employee two years after each employee contribution. The Bank's contributions, amounting to $239,000 during fiscal 2007 ($113,000 in 2006), were recognized under salaries and employee benefits. Under this program, the average value of the vested shares was $34.46 during fiscal 2007 ($29.13 in 2006).

In fiscal 2007, the Bank approved a new mid-term incentive program for certain executives. The program provides for the award of performance share units based on a predetermined percentage of the participating member's salary. These units will vest over three years as follows: 50% based solely on the passage of time and 50% based on the achievement of the financial targets communicated at the time of the award. The dividends accumulated throughout this period will be reinvested in additional performance share units. No award was made in 2007.

17 > Employee future benefits

DESCRIPTION OF BENEFIT PLANS

The Bank has a number of funded defined benefit plans. One of the plans has a defined contribution portion. 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 also offers its employees certain post-employment benefits. 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 2007, 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 plans, were $27,623,000 ($17,329,000 in 2006).

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 are as of December 31, 2006. The next required actuarial valuation for funding purposes for the funded plans will be as of December 31, 2009.

DEFINED BENEFIT PLAN OBLIGATIONS

	2007		2006	
	Pension plans	**Other plans**	Pension plans	Other plans
Change in accrued benefit obligation				
Accrued benefit obligation at beginning of year	**$ 362,174**	**$ 32,802**	$ 346,363	$ 25,584
Current service cost	**9,878**	**–**	9,385	52
Interest cost on accrued benefit obligation	**19,615**	**1,479**	18,790	1,153
Benefits paid	**(14,260)**	**(2,132)**	(15,612)	(1,576)
Employee contributions	**2,676**	**–**	2,583	–
Past service costs	**–**	**–**	666	–
Actuarial losses (gain)	**(17,491)**	**565**	(1)	7,589
Other	**150**	**–**	–	–
Accrued benefit obligation at end of year	**$ 362,742**	**$ 32,714**	$ 362,174	$ 32,802

17 > Employee future benefits (cont'd)

DEFINED BENEFIT PLAN ASSETS

	2007		2006	
	Pension plans	**Other plans**	Pension plans	Other plans
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	**$ 291,381**	**$ –**	$ 267,078	$ –
Real return on plan assets	**24,659**	**–**	24,170	–
Bank contributions	**22,278**	**–**	12,945	–
Employee contributions	**2,676**	**–**	2,583	–
Benefits paid	**(14,014)**	**–**	(15,395)	–
Fair value of plan assets at end of year	**$ 326,980**	**$ –**	$ 291,381	$ –

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

	2007		2006	
	Pension plans	**Other plans**	Pension plans	Other plans
Fair value of plan assets	**$ 326,980**	**$ –**	$ 291,381	$ –
Accrued benefit obligation	**362,742**	**32,714**	362,174	32,802
Funded status of plans – deficit	**(35,762)**	**(32,714)**	(70,793)	(32,802)
Unamortized transitional obligation	**56**	**10,192**	320	11,012
Unamortized past service costs	**3,221**	**–**	3,864	–
Unamortized net actuarial loss	**70,294**	**15,469**	98,126	15,783
Accrued benefit assets (liabilities) at end of year	**$ 37,809**	**$ (7,053)**	$ 31,517	$ (6,007)
Accrued benefit assets included in other assets	**$ 43,367**	**$ –**	$ 36,940	$ –
Accrued benefit liabilities included in other liabilities	**$ 5,558**	**$ 7,053**	$ 5,423	$ 6,007

ALLOCATION OF PLAN ASSETS AS A PERCENTAGE (1)

	2007	2006
Asset category		
Equity securities	**56%**	51%
Debt and other securities	**44**	49
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, 2007 and 2006.

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:

	2007		2006	
	Pension plans	**Other plans**	Pension plans	Other plans
Accrued benefit obligation	**$ 348,463**	**$ 32,714**	$ 347,243	$ 32,802
Fair value of plan assets	**305,970**	**–**	272,368	–
Funded status – plan deficit	**$ (42,493)**	**$ (32,714)**	$ (74,875)	$ (32,802)

ELEMENTS OF DEFINED BENEFIT COSTS RECOGNIZED DURING THE YEAR

	2007		2006	
	Pension plans	**Other plans**	Pension plans	Other plans
Defined benefit costs recognized during the year	**$ 9,878**	**$ –**	$ 9,385	$ 52
Interest cost on accrued benefit obligation	**19,615**	**1,479**	18,790	1,153
Actual return on plan assets	**(24,659)**	**–**	(24,170)	–
Actuarial losses (gain) on accrued benefit obligation	**(17,491)**	**564**	(1)	7,589
Other	**150**	**–**	666	–
Elements of employee future benefit costs before adjustments to recognize their long-term nature	**(12,507)**	**2,043**	4,670	8,794
Excess of actual return over expected return	**4,035**	**–**	6,031	–
Deferral of amounts arising during period:				
Actuarial gain (losses) on accrued benefit obligation	**17,491**	**(564)**	1	(7,589)
Past service costs	**–**	**–**	(666)	–
Amortization of previously deferred amounts:				
Past service costs	**643**	**–**	643	–
Actuarial losses	**6,305**	**878**	7,892	486
Transitional obligation	**264**	**821**	264	821
Adjustments to recognize long-term nature of employee future benefit costs	**28,738**	**1,135**	14,165	(6,282)
Total defined benefit costs	**16,231**	**3,178**	18,835	2,512
Total defined contribution portion costs	**2,968**	**–**	2,591	–
Employee future benefit costs	**$ 19,199**	**$ 3,178**	$ 21,426	$ 2,512

SIGNIFICANT ASSUMPTIONS

	2007		2006	
	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	**5.75%**	**5.75%**	5.35%	5.35%
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	**5.35%**	**5.35%**	5.35%	5.35%
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%

17 > Employee future benefits (cont'd)

ASSUMED HEALTH CARE COST TREND RATES AS AT OCTOBER 31

	2007	2006
Assumed annual rate of increase in the cost of healthcare benefits	**9.4%**	**10%**
Level to which it should decline and at which it is assumed to subsequently stabilize	**4%**	**4%**
Year that the rate is assumed to stabilize	**2016**	**2016**

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 2007:

	1% increase	**1% decrease**
Total of service and interest cost	**$ 137**	**$ (115)**
Accrued benefit obligation	**$ 2,382**	**$ (2,001)**

18 > Income taxes

FUTURE INCOME TAX ASSETS

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

	2007	2006
Property, plant and equipment	**$ 71,075**	$ 82,667
Allowance for credit losses	**21,889**	33,386
Derivative instruments	**4,920**	–
Recoverable minimum income tax of financial institutions	**587**	1,825
Prospective tax loss deferrals	**16,343**	14,865
Intangible assets	**–**	1,545
Deferred revenue	**1,741**	2,655
Other temporary differences	**935**	–
	117,490	136,943
Accrued benefit assets – pension plans	**(9,833)**	(8,342)
Deferred charges	**(15,246)**	(19,241)
Securitization and securities	**(5,877)**	(5,607)
Other temporary differences	**–**	(2,705)
	(30,956)	(35,895)
Futures income tax assets, net	**$ 86,534**	$ 101,048

Income tax loss carryforwards, as at October 31, 2007, consist of federal income tax losses amounting to $58,484,000 ($51,379,000 in 2006) that can be used to reduce future taxable income. These losses expire at various dates ranging from 2010 to 2027. Recoverable minimum income taxes of financial institutions, which are recoverable over a three-year period where the minimum tax threshold has been exceeded, expire in 2009.

INCOME TAX EXPENSE

Significant components of income tax expense are as follows:

	2007	2006
Consolidated statement of income		
Continuing operations		
Current income tax expense	**$ 3,196**	$ 16,338
Future income tax expense (benefit)		
Reversal (creation) of temporary differences	**23,933**	(1,504)
Tax rate changes	**(735)**	8,602
	23,198	7,098
	26,394	23,436
Discontinued operations		
Future income tax expense	**761**	938
	$ 27,155	$ 24,374
Consolidated statement of changes in shareholders' equity		
Income taxes on preferred share dividends and other		
Current income tax expense	**$ 4,710**	$ 2,564
Future income tax benefit	**(4,561)**	(2,573)
	$ 149	$ (9)

RECONCILIATION WITH THE STATUTORY RATES

The reconciliation of income tax expense from continuing operations to the dollar amount of income tax using the statutory rate is as follows:

	2007		2006	
	Amount		Amount	
Income taxes at statutory rates	**$ 38,419**	**33.0%**	$ 29,280	32.9%
Change resulting from:				
Resolution of income tax exposures	**(3,338)**	**(2.9)**	(11,300)	(12.7)
Tax rate changes	**(735)**	**(0.7)**	8,602	9.7
Realized gain on repatriation of accumulated foreign retained earnings	**–**	**–**	4,520	5.1
Income tax benefits related to the minimum tax on financial institutions previously unrecognized	**–**	**–**	(2,750)	(3.2)
Dividends and tax-exempt gains	**(3,869)**	**(3.4)**	(1,061)	(1.2)
Income related to foreign credit insurance operations	**(3,552)**	**(3.0)**	(2,441)	(2.7)
Other	**(531)**	**(0.3)**	(1,414)	(1.6)
Income taxes from continuing operations, as reported in the consolidated statement of income	**$ 26,394**	**22.7%**	$ 23,436	26.3%

In 2007, the net benefit resulting from tax rate changes, presented above, includes a $900,000 gain related to the December 2006 adoption of tax measures to increase the exemption limit of the minimum tax on financial institutions to $1 billion, as well as a charge related to the revised periods during which the temporary differences will reverse.

In 2006, the net charge resulting from tax rate changes of $8,602,000, presented above, is attributable to the $2,398,000 gain resulting from the increase in the corporate tax rate in Quebec for the years 2006 and thereafter, as well as from the $11,000,000 charge resulting from the reductions of the Federal Corporate Income Tax Rate for the years 2008 and thereafter.

Income earned on foreign credit insurance operations would generally be taxed only upon repatriation to Canada. As at October 31, 2005, since the Bank did not intend to repatriate accumulated income prior to November 1, 2003, no income taxes were recognized. As a result of certain amendments to the Income Tax Act which prompted the Bank to repatriate its foreign credit insurance income, income taxes were recognized from November 1, 2003 to July 27, 2006, on these operations.

18 > Income taxes (cont'd)

On July 27, 2006, the Bank repatriated virtually all of income accumulated as at that date, including income accumulated prior to November 1, 2003. In 2006, this transaction generated an additional income tax expense of $4,520,000.

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. Taxes that would be payable if all unremitted earnings were repatriated are estimated at $4,389,000 as at October 31, 2007 ($837,000 as at October 31, 2006).

19 > Net income per common share

Average number of common shares outstanding (in thousands) is as follows:

	2007	2006
Net income per common share – basic		
Net income from continuing operations	**$ 90,122**	$ 65,556
Net income from discontinued operations [1]	**4,423**	4,776
Net income	**$ 94,545**	$ 70,332
Preferred share dividends, including applicable income taxes	**11,966**	11,766
Net income attributable to common shares from continuing operations	**$ 78,156**	$ 53,790
Average number of outstanding common shares	**23,677,794**	23,605,077
Net income per common share – basic		
Continuing operations	**$ 3.30**	$ 2.28
Discontinued operations	**0.19**	0.20
Total	**$ 3.49**	$ 2.48
Net income per common share – diluted		
Net income attributable to common shares from continuing operations	**$ 78,156**	$ 53,790
Average number of outstanding common shares	**23,677,794**	23,605,077
Dilutive share purchase options and other	**50,562**	43,741
Diluted weighted average number of outstanding common shares	**23,728,356**	23,648,818
Income per common share – diluted		
Continuing operations	**$ 3.29**	$ 2.28
Discontinued operations	**0.19**	0.20
Total	**$ 3.48**	$ 2.48
Average number of share purchase options not taken into account in the calculation of diluted net income per common share [2]	**22,551**	60,510

(1) See note 5 to these financial statements.
(2) The average number of share purchase options was not taken into account in the calculation of diluted net income per common share since the average exercise price of these options exceeded the average market price of the Bank's shares during these years.

The preferred shares are convertible into common shares at the Bank's option. These conversions were not taken into account in the calculation of diluted net income per common share because the Bank may settle such conversions in cash rather than common shares and, based on past experience, the Bank has opted for a cash settlement.

20 > Related party transactions

The Bank provides loans to directors and officers. Loans to directors are granted under market conditions for similar risks. Loans to officers consist mostly of 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. 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:

	2007	2006
Mortgage loans	**$ 526**	$ 112
Other loans	**9,759**	14,324
	$ 10,285	$ 14,436

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.

21 > Risk management related to financial instruments

The Bank is exposed to various types of risks owing to the nature of the business activities it carries on, including those related to the use of financial instruments. In order to manage the risks associated with using financial instruments, including loan and deposit, securities and derivative financial instrument portfolios, controls have been implemented, such as risk management policies and various risk limits. These measures aim to optimize the return/risk ratio in all its operating segments. The main risks to which the Bank is exposed are set out below.

MARKET RISK

Market risk corresponds to the financial losses that the Bank could incur because of unfavourable fluctuations in the value of financial instruments, following variations in the parameters underlying their evaluation, such as interest rates, exchange rates or quoted stock market prices. The policies and limits implemented are designed to mitigate exposure to market risk arising from trading, investment, financing and asset and liability management activities.

CREDIT RISK

The use of derivative financial instruments 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 provide for appropriate risk assessment. 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 pricing based on risk. With respect to diversification, the credit policy sets the guidelines intended to limit credit concentration by counterparty and sector of activity, and identifies sectors that are considered risky and should thus be avoided. The policies are periodically reviewed and approved by the Board of Directors' Risk Management Committee. The Bank ensures a rigorous and systematic follow-up of its financial instrument accounts in terms of both quality and quantity through mechanisms and policies related to the systematic review of various types of files and risk rating updating systems, and pricing analysis.

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.

21 > Risk management related to financial instruments (cont'd)

The majority of the Bank's credit concentration with respect to derivative financial instruments is with financial institutions, primarily Canadian banks. Credit risk in derivative transactions arises from a potential default by a counterparty on its contractual obligations when of one or more transactions have a positive market 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 financial instrument 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. The risk-weighted amount is determined by applying standard measures of counterparty risk to the credit equivalent amount.

LIQUIDITY RISK

Liquidity risk represents the possibility that the Bank may not be able to gather sufficient cash resources, when required and under reasonable conditions, to meet its financial obligations.

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

The Bank monitors cash resources daily and makes sure the liquidity indicators are in compliance with limits established in the policies set by the Bank. Liquidity management pays particular attention to deposit and loan maturities, as well as to funding availability and demand when planning financing. The Bank maintains a prudent reserve of unencumbered liquid assets that are readily available to face any contingency. It defines its cash requirements based on scenarios evaluating survival horizons that measure the period during which liquid assets could cover the withdrawal of wholesale financing and deposits. The Bank strives to maintain a stable volume of base deposits originating from its retail and deposit brokerage clientele, along with the diversification of its financing sources. Financing strategies also include the securitization of loans and the use of capital markets, either through the issuance of capital stock or debt instruments. A financing and liquidity emergency plan provides for measures to ensure the Bank can fulfill its obligations in the event of high demand for liquid assets.

22 > Derivative financial instruments

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 derivative financial instruments 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 derivative financial instruments. 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				**2007**
Notional amount	**Within 1 year**	**1 to 5 years**	**Over 5 years**	**Total**	**Contracts designated as a hedge**	**Other contracts (1)**
Interest rate contracts						
OTC contracts						
Swaps	**$ 3,022**	**$ 5,868**	**$ 128**	**$ 9,018**	**$ 6,327**	**$ 2,691**
Exchange-traded contracts						
Futures	**39**	**–**	**–**	**39**	**–**	**39**
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	**819**	**–**	**–**	**819**	**–**	**819**
Cross-currency interest rate swaps	**–**	**22**	**–**	**22**	**–**	**22**
Forwards	**720**	**11**	**–**	**731**	**–**	**731**
Options purchased	**66**	**–**	**–**	**66**	**–**	**66**
Options written	**66**	**–**	**–**	**66**	**–**	**66**
Equity- and index-linked contracts	**152**	**134**	**10**	**296**	**10**	**286**
	$ 4,884	**$ 6,035**	**$ 138**	**$ 11,057**	**$ 6,337**	**$ 4,720**

(in millions of dollars)		Period to maturity				2006
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Contracts designated as a hedge	Other contracts (1)
Interest rate contracts						
OTC contracts						
Swaps	$ 3,223	$ 6,180	$ 18	$ 9,421	$ 3,982	$ 5,439
Options purchased	154	–	–	154	–	154
Options written	14	–	–	14	–	14
Exchange-traded contracts						
Futures	71	–	–	71	–	71
Options purchased	15	–	–	15	–	15
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	1,006	5	–	1,011	–	1,011
Cross-currency interest rate swaps	–	23	–	23	23	–
Forwards	484	7	–	491	–	491
Options purchased	674	–	–	674	–	674
Options written	590	–	–	590	–	590
Equity- and index-linked contracts	57	79	1	137	–	137
	$ 6,288	$ 6,294	$ 19	$ 12,601	$ 4,005	$ 8,596

(1) Include derivative financial instruments used in connection with trading operations to meet customer needs, as well as derivatives used to manage the Bank's risks that do not qualify for hedge accounting.

22 > Derivative financial instruments (cont'd)

BREAKDOWN OF SWAP CONTRACTS DESIGNATED AS HEDGING INSTRUMENTS, BY CLASS

The following table shows the breakdown of the Bank's swap contracts between those designated as cash flow hedging instruments and those designated as fair value 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 may vary significantly. Accordingly, changes in fair value of the swap contracts designated as cash flow hedging instruments could result in significant changes in accumulated other comprehensive income, in shareholders' equity.

	October 31, 2007		November 1, 2006	
	Notional amount	**Fair value Net amount**	Notional amount	Fair value Net amount
Contracts designated as a hedge				
Interest rate swaps				
Cash flow hedge swaps	**$ 3,891,000**	**$ (4,748)**	$ 3,822,000	$ (13,830)
Fair value hedge swaps	**2,436,000**	**(784)**	130,000	220
	$ 6,327,000	**$ (5,532)**	$ 3,952,000	$ (13,610)

CREDIT EXPOSURE

(in millions of dollars)

	2007			2006		
	Replacement cost (1)	**Credit equivalent amount (2)**	**Risk-weighted amount (3)**	Replacement cost	Credit equivalent amount	Risk-weighted amount
Interest rate contracts						
Swaps	**$ 20**	**$ 51**	**$ 10**	$ 15	$ 47	$ 9
Options purchased	**–**	**–**	**–**	1	1	–
Foreign exchange contracts						
Foreign exchange swaps	**15**	**21**	**4**	5	10	3
Cross-currency interest rate swaps	**–**	**1**	**–**	–	1	–
Forwards	**7**	**9**	**4**	1	4	2
Options purchased	**1**	**2**	**1**	–	6	2
Equity- and index-linked contracts	**31**	**43**	**9**	39	48	10
	$ 74	**$ 127**	**$ 28**	$ 61	$ 117	$ 26

(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 the current contracts and (ii) an amount representing the assessed potential credit risk.
(3) Using guidelines issued by the Superintendent of Financial Institutions of Canada.

Note 21 hereto provides additional disclosure on the credit risk related to derivative financial instruments and how it is evaluated.

23 > Financial instruments

The amounts in the tables below present the fair value of financial instruments of the Bank based on the valuation methods and assumptions as set out below.

The fair value of a financial instrument is defined as the 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 significant 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.

When fair value is determined using valuation models, it may be necessary to use assumptions as to the amount and timing of estimated future cash flows and discount rates. These assumptions reflect the risks inherent in financial instruments.

FAIR VALUE OF ASSETS AND LIABILITIES

(in millions of dollars)

	2007			2006		
	Book value	**Fair value**	**Favourable (unfavourable) variance**	Book value	Fair value	Favourable (unfavourable) variance
Assets						
Cash and non-interest-bearing with banks	**$ 65**	**$ 65**	**$ –**	$ 71	$ 71	$ –
Interest-bearing deposits with banks	**283**	**283**	**–**	99	99	–
Securities	**2,674**	**2,674**	**–**	3,242	3,241	(1)
Assets purchased under reverse repurchase agreements	**540**	**540**	**–**	803	803	–
Loans	**13,317**	**13,316**	**(1)**	12,165	12,213	48
Customers' liability under acceptances	**112**	**112**	**–**	150	150	–
Derivative financial instruments	**53**	**53**	**–**	59	59	–
Other assets	**135**	**135**	**–**	133	133	–
Liabilities						
Deposits	**13,879**	**13,901**	**(22)**	13,095	13,148	(53)
Obligations related to assets sold short	**869**	**869**	**–**	1,077	1,077	–
Obligations related to assets sold under repurchase agreements	**929**	**929**	**–**	1,100	1,100	–
Acceptances	**112**	**112**	**–**	149	149	–
Derivative financial instruments	**71**	**71**	**–**	82	82	–
Other liabilities	**751**	**751**	**–**	677	677	–
Subordinated debentures	**150**	**150**	**–**	150	152	(2)

METHODS AND ASSUMPTIONS USED IN ESTIMATING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at the carrying amount

The fair value of cash and non-interest-bearing deposits with other banks, interest-bearing deposits with other banks, assets purchased under reverse repurchase agreements, obligations related to assets sold short and obligations related to assets sold under repurchase agreements is deemed to approximate their carrying amount in light of their short-term maturities.

Securities

The fair value of securities is based on quoted market prices or, if unavailable, it is estimated using quoted market prices of similar investments.

Loans

The fair value of loans is estimated by discounting cash flows adjusted to reflect the prepayments, if any, at the prevailing interest rates in the marketplace 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.

Derivative financial instruments

For publicly listed derivative financial instruments, the fair value is based on quoted market prices. The fair value of over-the-counter derivative financial instruments is calculated using the current market prices for instruments with similar characteristics and maturities, according to a discounted net value analysis or an appropriate pricing model that takes into account the current and contractual prices of the underlying instruments, the time value of money, the yield curve and volatility factors. The fair value of financial derivative instruments is presented under derivative financial instruments in assets or liabilities, as appropriate.

23 > Financial instruments (cont'd)

Deposits

The fair value of fixed rate deposits is estimated using discounted cash flows based on current 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.

Subordinated debentures

The fair value of subordinated debentures is estimated using discounted cash flows based on current market interest rates for similar issues or rates currently offered for debt securities with the same term to maturity.

Other assets and liabilities

The carrying amount of other assets and other liabilities approximates their fair value.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

(in millions of dollars)

			2007
	Favourable fair value	**Unfavourable fair value**	**Net amount**
DESIGNATED AS HEDGE CONTRACTS			
Interest rate contracts			
Swaps	**$ 11**	**$ (17)**	**$ (6)**
OTHER CONTRACTS (1)			
Interest rate contracts			
Swaps	**9**	**(7)**	**2**
Foreign exchange contracts			
Foreign exchange swaps	**15**	**(6)**	**9**
Cross-currency interest rate swaps	**–**	**(4)**	**(4)**
Forwards	**7**	**(17)**	**(10)**
Options purchased	**1**	**–**	**1**
Options written	**–**	**(1)**	**(1)**
Equity- and index-linked contracts	**31**	**(32)**	**(1)**
TOTAL	**$ 74**	**$ (84)**	**$ (10)**

(in millions of dollars)

			2006
	Favourable fair value	Unfavourable fair value	Net amount
DESIGNATED AS HEDGE CONTRACTS			
Interest rate contracts			
Swaps	$ 3	$ (17)	$ (14)
OTHER CONTRACTS (1)			
Interest rate contracts			
Swaps	12	(14)	(2)
Options purchased	1	–	1
Options written	–	(1)	(1)
Foreign exchange contracts			
Foreign exchange swaps	5	(1)	4
Forwards	1	(4)	(3)
Equity- and index-linked contracts	39	–	39
TOTAL	$ 61	$ (37)	$ 24

(1) Include derivative financial instruments used in connection with trading operations to meet customer needs, as well as derivatives used to manage the Bank's risks that do not qualify for hedge accounting.

INTEREST RATE RISK

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

(in millions of dollars) **2007**

	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	**$ 1,248**	**$ 1,012**	**$ 95**	**$ 556**	**$ 17**	**$ 95**	**$ 3,023**
Actual return		**4.4%**	**3.6%**	**3.9%**	**6.2%**		
Assets purchased under reverse repurchase agreements	**540**	**–**	**–**	**–**	**–**	**–**	**540**
Loans	**5,314**	**813**	**1,946**	**4,785**	**222**	**237**	**13,317**
Actual return		**6.3%**	**6.0%**	**6.0%**	**6.9%**		
Other assets	**–**	**–**	**–**	**–**	**–**	**907**	**907**
Total	**7,102**	**1,825**	**2,041**	**5,341**	**239**	**1,239**	**17,787**
Actual return		**5.3%**	**5.9%**	**5.8%**	**6.9%**		
Liabilities and equity							
Deposits	**505**	**1,958**	**3,933**	**7,006**	**4**	**473**	**13,879**
Actual return		**3.0%**	**3.6%**	**3.3%**	**–%**		
Treasury items	**1,340**	**395**	**–**	**15**	**47**	**–**	**1,797**
Actual return		**4.6%**	**–%**	**4.1%**	**4.3%**		
Other liabilities	**–**	**29**	**85**	**118**	**–**	**724**	**956**
Actual return		**3.8%**	**4.0%**	**4.0%**	**–%**		
Debentures and equity	**–**	**–**	**–**	**360**	**–**	**795**	**1,155**
Actual return		**–%**	**–%**	**2.0%**	**–%**		
Total	**1,845**	**2,382**	**4,018**	**7,499**	**51**	**1,992**	**17,787**
Actual return		**3.3%**	**3.6%**	**3.3%**	**4.0%**		
Swaps, net	**–**	**(6,172)**	**3,005**	**3,284**	**(117)**	**–**	**–**
Sensitivity gap	**5,257**	**(6,729)**	**1,028**	**1,126**	**71**	**(753)**	**–**
Cumulative gap	**$ 5,257**	**$ (1,472)**	**$ (444)**	**$ 682**	**$ 753**	**$ –**	**$ –**

(in millions of dollars) 2006

	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	$ 6,584	$ 1,448	$ 1,961	$ 5,799	$ 260	$ 1,244	$ 17,296
Actual return		5.3%	6.0%	5.5%	6.7%		
Liabilities and equity	2,396	2,101	3,734	7,126	33	1,906	17,296
Actual return		3.0%	3.5%	3.1%	6.3%		
Swaps, net	–	(3,444)	1,668	1,776	–	–	–
Sensivity gap	4,188	(4,097)	(105)	449	227	(662)	–
Cumulative gap	$ 4,188	$ 91	$ (14)	$ 435	$ 662	$ –	$ –

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

- Loans and 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 evolution of their sensitivity.
- Debentures for which interest rates can be revised at a future date are classified at the re-evaluation date; those for which rates cannot be revised are classified at their maturity.
- Preferred shares are classified using the date on which they become redeemable, or based on management intention.

23 > Financial instruments (cont'd)

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 similarly 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:

	2007	2006
Quebec	**59%**	62%
Other Canadian provinces	**41%**	38%
Total	**100%**	100%

No single industry segment accounted for more than 3% (3% in 2006) of the total loans and customers' liability under acceptances.

GUARANTEES HELD

Nearly 45% of the Bank's residential mortgage loan portfolio is insured by Canada Mortgage and Housing Corporation (CMHC). Furthermore, the Bank considers that it holds excellent guarantees for the other conventional mortgage loans for which the loan value never exceeds 80% of the property's initially estimated value, in accordance with statutory requirements.

In addition, commercial mortgage loans are guaranteed by specific assets, such as construction projects, commercial properties, shopping centres, office buildings, plants, warehouses and industrial condominiums. Generally, the loan value does not exceed 60% to 75% of the initially estimated property value.

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

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.

	2007	2006
Undrawn amounts under approved credit facilities (1)	**$ 1,958,383**	$ 2,185,535
Documentary letters of credit	**$ 15,203**	$ 12,902

(1) Exclude personal credit facilities totalling $1,064,074,000 ($940,851,000 as at October 31, 2006) and credit card lines amounting to $863,059,000 ($799,113,000 as at October 31, 2006) 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 to 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 terms of these guarantees vary according to the contracts and normally do 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 $91,689,000 as at October 31, 2007 ($94,775,000 in 2006).

DERIVATIVE FINANCIAL INSTRUMENTS

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 $52,187,000 as at October 31, 2007 ($278,892,000 in 2006).

SECURITIES ACQUIRED UNDER REVERSE REPURCHASE AGREEMENTS

As at October 31, 2007, securities acquired under reverse repurchase agreements totalling $456,943,000 ($779,328,000 in 2006) were pledged as collateral 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. We also indemnify directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their being, or having been, directors or officers at the request of the Bank. The terms of these indemnification agreements vary based on the contract. The nature of the indemnification agreements prevents the Bank from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, the Bank has not made any significant payments under such indemnification agreements. No amount has been accrued with respect to these indemnification agreements.

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

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

	Premises	Information technology service contracts	Other	Total
2008	**$ 20,582**	**$ 43,140**	**$ 4,665**	**$ 68,387**
2009	**19,478**	**45,555**	**3,895**	**68,928**
2010	**17,788**	**48,060**	**3,126**	**68,974**
2011	**13,718**	**43,029**	**2,171**	**58,918**
2012	**9,647**	**39,166**	**2,171**	**50,984**
Thereafter	**19,204**	**167,659**	**4,342**	**191,205**
Total	**$ 100,417**	**$ 386,609**	**$ 20,370**	**$ 507,396**

As stipulated under major service contracts, the Bank may terminate such contracts in certain circumstances.

PLEDGED ASSETS

In the normal course of its operations, the Bank pledges on-balance sheet financial assets as collateral. The following table details the granted guarantees:

	2007	2006
Pledge assets in order to participate in clearing and payment systems	**$ 268,453**	$ 382,856
Pledged assets for obligations related to assets sold under repurchase agreements	**928,987**	1,100,385
Securities	**$ 1,197,440**	$ 1,483,241
Residential mortgage loans	**79,363**	–
	$ 1,276,803	$ 1,483,241

25 > Variable interest entities

The Bank analyses 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 following items constitute an overview of the VIEs in which the Bank holds significant interests.

The Bank securitizes its own assets through single-seller and multi-seller securitization conduits, which are normally considered VIEs. These conduits are not consolidated under AcG-15, as these special purpose entities are specifically excluded from its scope or because the Bank is not the primary beneficiary. More details regarding the Bank's transactions with these entities are provided in note 8.

Up until it discontinued the program in 2007, the Bank used a compensation trust, which held its own shares, to economically hedge its obligation to certain employees under its stock-based compensation program. This trust was consolidated because the Bank was the primary beneficiary.

26 > Contingencies

LITIGATION

The Bank and its subsidiaries are involved in various pending legal actions which arise in the normal course of business. Many of these proceedings are related to loans granted by the Bank and are in reaction to steps taken by the Bank to collect delinquent loans and enforce the underlying securities. Certain claims for damages have also been brought against the Bank, particularly with respect to the role of one of its subsidiaries as bare trustee with regard to operations related to the administration of portfolios, as well as to applications for authorization to institute class actions in connection with certain bank fees. Management considers that adequate provisions have been set aside to cover any future 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 offers its services through four business segments: Retail Financial Services, Commercial Financial Services, B2B Trust and Laurentian Bank Securities (LBS).

The Retail Financial Services segment covers the full range of savings, investment and financing products, and transactional products and services offered through its direct distribution network, which includes branches, the electronic network and the call centre, as well as Point-of-Sale financing across Canada. This business segment also offers Visa credit card services and credit insurance products, as well as trust services.

The Commercial Financial Services segment handles commercial loans and larger financings as part of banking syndicates, as well as commercial mortgage financing, leasing, factoring and other services.

The B2B Trust segment supplies generic and complementary banking and financial products to individuals through financial advisors and non-bank financial institutions across Canada. This segment also includes the deposit brokerage operations.

The LBS segment consists of the activities of the subsidiary Laurentian Bank Securities Inc.

The Other segment includes treasury and securitization activities and other activities of the Bank including revenues and expenses that are not attributable to the above-mentioned segments.

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. Transfer pricing regarding the funding of segments' assets and liabilities is based on institutional funding costs which best reflect the nature and maturities of these items. Non-interest expenses are matched against the revenues to which they relate. Indirect costs are allocated to the segments based on appropriate criteria.

2007

	Retail Financial Services (2)	Commercial Financial Services	B2B Trust	Laurentian Bank Securities	Other (4)	Total
Net interest income	**$ 268,503**	**$ 61,618**	**$ 80,977**	**$ 1,961**	**$ (22,859)**	**$ 390,200**
Other income (3)	**108,647**	**21,197**	**11,510**	**37,617**	**14,755**	**193,726**
Total revenue	**377,150**	**82,815**	**92,487**	**39,578**	**(8,104)**	**583,926**
Provision for credit losses	**25,586**	**10,367**	**4,047**	**–**	**–**	**40,000**
Non-interest expenses	**297,033**	**36,396**	**42,383**	**30,655**	**20,943**	**427,410**
Income (loss) from continuing operations before income taxes	**54,531**	**36,052**	**46,057**	**8,923**	**(29,047)**	**116,516**
Income taxes (recovered)	**14,014**	**12,077**	**15,577**	**1,836**	**(17,110)**	**26,394**
Income (loss) from continuing operations	**40,517**	**23,975**	**30,480**	**7,087**	**(11,937)**	**90,122**
Income from discontinued operations, net of income taxes	**4,423**	**–**	**–**	**–**	**–**	**4,423**
Net income (loss)	**$ 44,940**	**$ 23,975**	**$ 30,480**	**$ 7,087**	**$ (11,937)**	**$ 94,545**
Average assets (1)	**$ 8,722,727**	**$ 2,465,275**	**$ 3,123,334**	**$ 1,503,601**	**$ 1,044,668**	**$ 16,859,605**

2006

	Retail Financial Services	Commercial Financial Services (5)	B2B Trust	Laurentian Bank Securities	Other (4)	Total
Net interest income	$ 259,091	$ 59,166	$ 73,606	$ 1,018	$ (35,674)	$ 357,207
Other income	95,139	22,762	12,633	31,751	20,315	182,600
Total revenue	354,230	81,928	86,239	32,769	(15,359)	539,807
Provision for credit losses	23,047	11,136	5,817	–	–	40,000
Non-interest expenses	287,158	36,705	43,657	27,463	15,832	410,815
Income (loss) from continuing operations before income taxes	44,025	34,087	36,765	5,306	(31,191)	88,992
Income taxes (recovered)	13,873	11,417	12,473	1,458	(15,785)	23,436
Income (loss) from continuing operations	30,152	22,670	24,292	3,848	(15,406)	65,556
Income from discontinued operations, net of income taxes	4,422	–	–	–	354	4,776
Net income (loss)	$ 34,574	$ 22,670	$ 24,292	$ 3,848	$ (15,052)	$ 70,332
Average assets (1)	$ 8,206,159	$ 2,260,638	$ 2,713,829	$ 1,506,531	$ 2,004,321	$ 16,691,478

(1) The assets and liabilities are reported on an average basis, as this is the most appropriate measurement for a financial institution.
(2) The results of fiscal 2007 include the gain of $4 million ($3.3 million, net of income taxes) resulting from the global restructuring of Visa (note 5).
(3) During fiscal 2007, the IPO on the Montréal Exchange triggered the revaluation of the shares held by the Bank amounting to $21.7 million ($18.2 million, net of income taxes) in other comprehensive income. A portion of this position was subsequently sold and a gain amounting to $4.4 million ($3.7 million, net of income taxes) was reclassified under other income in the LBS segment. In addition, a loss on disposal of securities amounting to $4.3 million was incurred and presented in the Other segment.
(4) The effective tax rate in 2007 and 2006 was influenced by a number of items – see note 18 on income taxes.
(5) Our 2006 first-quarter results include a contribution to net income amounting to $0.05 million from Corporation financière Brome inc. for the two months preceding the sale of the subsidiary, as well as the resulting $0.93 million gain on the sale (note 5).