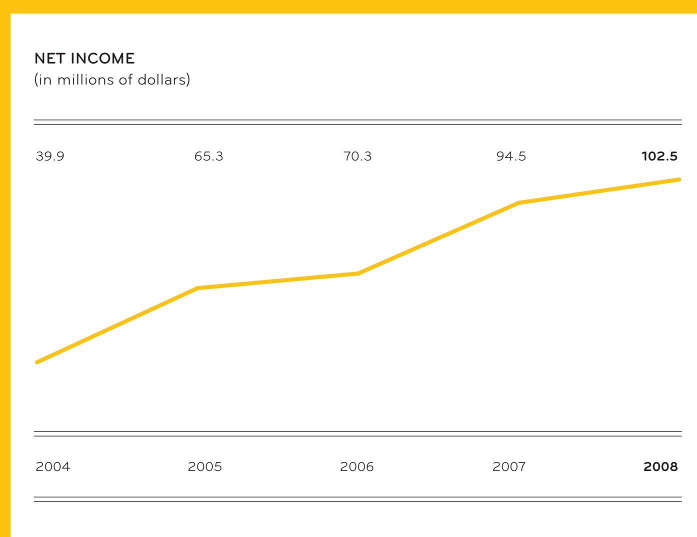
Management discussion and analysis

SUMMARY OF FINANCIAL RESULTS

Overview of fiscal 2008 || For the year ended October 31, 2008, Laurentian Bank reported net income of $102.5 million or diluted net income per common share of $3.80, compared to $94.5 million or diluted net income per common share of $3.48 in 2007. Return on common shareholders' equity was 11.0% in 2008, compared with 10.9% in 2007. || Income from continuing operations increased to $98.1 million or $3.61 diluted per common share for 2008, excluding a gain of $4.4 million net of income taxes on the 2005 sale of BLC-Edmond de Rothschild Asset Management Inc., as detailed on page 18 of this Annual Report. For fiscal 2007, income from continuing operations stood at $90.1 million or $3.29 diluted per common share, excluding a similar gain of $4.4 million net of income taxes. || Excluding certain significant items, as detailed on page 18, net income for the year ended October 31, 2008 improved by $24.6 million, or 28%, and diluted net income per common share rose by $1.01, or 31%, compared to results achieved in 2007. ||



BASIS OF PRESENTATION

This Management's discussion and analysis refers to the results of operations and financial condition of the Bank for the year ended October 31, 2008 and presents the views of the Bank's management as at December 4, 2008. The information is presented on the same basis as in the consolidated financial statements and was prepared in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements specified by the Office of the Superintendent of Financial Institutions of Canada. || Additional information on Laurentian Bank of Canada, including the Annual Information Form for the year ended October 31, 2008, can be found on the Bank's Website at www.laurentianbank.ca and on SEDAR at www.sedar.com.

METHODOLOGY FOR THE ANALYSIS OF RESULTS

Management generally evaluates the Bank's performance on a reported basis, as presented in the consolidated financial statements. Considering the disposal of the wealth management operations associated with the BLC-Edmond de Rothschild Asset Management Inc. joint venture in 2005, financial statements present results from continuing operations and results from discontinued operations. The analyses included in this Management Discussion and Analysis generally present results from continuing operations. || The Bank uses both generally accepted accounting principles ("GAAP") and certain non-GAAP measures to assess performance, such as return on common shareholders' equity, net interest margin and efficiency ratios. In addition, net income excluding significant items has been presented at certain points in the document. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are unlikely to be comparable to any similar measures presented by other companies. The Bank believes that these non-GAAP financial measures provide investors and analysts with useful information so that they can better understand financial results and analyze the Bank's growth and profitability potential more effectively. || Certain comparative figures for fiscal 2007 have been reclassified to conform to the presentation of the information for fiscal 2008.

Highlights of 2008

- Net income of $102.5 million, up 8%.
- Diluted earnings per common share of $3.80, up 9%.
- Excluding the significant items detailed in Table 2, net income improved by 28% and diluted earnings per common share, by 31%.
- Total revenue up 8%, reflecting the strong growth in loan and deposit portfolios, as well as higher securitization revenues.
- Non-interest expenses up 4%.
- Provision for loan losses of $48.5 million in 2008, including an $8.0 million increase in general provision.

RECORD NET INCOME OF

$102.5M

TABLE 1
CONSOLIDATED RESULTS
For the years ended October 31 (in millions of dollars, except per share and percentage amounts)

	2008	2007	2006	VARIATION 08/07
Net interest income	$405.3	$390.2	$357.2	4%
Other income	225.2	193.7	182.6	16
Total revenue	630.5	583.9	539.8	8
Provision for loan losses	48.5	40.0	40.0	21
Non-interest expenses	446.0	427.4	410.8	4
Income from continuing operations before income taxes	136.0	116.5	89.0	17
Income taxes	37.9	26.4	23.4	44
Income from continuing operations	98.1	90.1	65.6	9
Income from discontinued operations, net of income taxes	4.4	4.4	4.7	–
Net income	$102.5	$ 94.5	$ 70.3	8%
Preferred share dividends, including applicable taxe	$ 11.8	$ 11.9	$ 11.7	(1)%
Net income available to common shareholders	$ 90.7	$ 82.6	$ 58.6	10%
Average number of common shares outstanding (in thousands)				
Basic	23,837	23,678	23,605	
Diluted	23,880	23,728	23,649	
Income per common share from continuing operations				
Basic	$ 3.62	$ 3.30	$ 2.28	10%
Diluted	$ 3.61	$ 3.29	$ 2.28	10%
Net income per common share				
Basic	$ 3.81	$ 3.49	$ 2.48	9%
Diluted	$ 3.80	$ 3.48	$ 2.48	9%
Return on common shareholders' equity	11.0%	10.9%	8.2%	

The Bank predominantly serves individual consumers and small- and medium-sized businesses. As such, it has been less impacted by the recent turmoil in global financial markets than other financial institutions. Moreover, our retail personal deposits of more than $12 billion continued to constitute a stable funding source of support for our lending business and our other commitments. We therefore have not been caught off-guard by any liquidity concerns. Although the credit environment has somewhat deteriorated in Canada this year, it has nonetheless remained sound, which has also limited our credit concerns. However, the general economic environment remains challenging. We have therefore taken certain conservative measures during the course of the year to address the situation, such as increasing our liquidity level and prudently adding to our provision for loan losses. Altogether, we believe our strategic plan still remains sound, and we will continue to pursue the Bank's development.

OVERVIEW OF FISCAL 2007

For the year ended October 31, 2007, Laurentian Bank reported net income of $94.5 million or $3.48 diluted per common share, compared to $70.3 million or $2.48 diluted per common share in 2006. Return on common shareholders' equity was 10.9% in 2007, compared to 8.2% in 2006. Income from continuing operations increased to $90.1 million or $3.29 diluted per common share for 2007, excluding a gain of $4.4 million net of income taxes on the 2005 sale of BLC-Edmond de Rothschild Asset Management Inc. For fiscal 2006, income

from continuing operations stood at $65.6 million or $2.28 diluted per common share, excluding a gain of $4.8 million net of income taxes related to that same transaction. In 2007, the Bank showed great improvement in many respects. Total revenue increased significantly by 8% as a result of strong growth in operations, while cost control measures limited the increase in expenses to 4%. Business development activities, including branch renovations and product development, also paved the way for the continued progress in 2008.

DISCONTINUED OPERATIONS–SALE OF BLC-EDMOND DE ROTHSCHILD ASSET MANAGEMENT INC.

In fiscal 2005, the Bank sold its participation in the joint-venture BLC-Edmond de Rothschild Asset Management Inc. to Industrial Alliance Insurance and Financial Services Inc. As part of this transaction, a portion of the proceeds was subject to recovery clauses, based on net annual mutual funds sales. Consequently, a $26.2 million portion of the gain on sale was initially deferred. As net sales at the end of November 2008 exceeded minimum requirements, a $5.2 million gain ($4.4 million, net of income taxes) was recognized during the fourth quarter of fiscal 2008.

For the same reason, a $5.2 million gain was also recognized in the fourth quarter of the last three years. As at October 31, 2008, the remaining portion of the deferred gain amounted to $5.2 million and would be recognized in fiscal 2009 if sales thresholds are met. Moreover, an additional payment of $8.3 million would be made to the Bank at the end of December 2009 if cumulative net sales of mutual funds reached $350 million. Note 27 to the annual consolidated financial statements provides additional information regarding this transaction.

TABLE 2
SIGNIFICANT ITEMS AFFECTING RESULTS
For the years ended October 31 (in millions of dollars, except per share and percentage amounts)

	SEGMENT	ITEMS, BEFORE INCOME TAXES	ITEMS, NET OF INCOME TAXES	DILUTED, PER COMMON SHARE
2008				
Net income excluding significant items			$113.1	$ 4.24
Decrease in future tax assets arising from the reduction in federal income tax rates	Other	$ –	(5.6)	(0.23)
Gain on sale of Montreal Exchange shares	Other	12.9	11.1	0.46
Loss on sale of securities and impairment charges	Other	(13.4)	(9.1)	(0.38)
Increase in the general allowance for loan losses	Other	(8.0)	(5.5)	(0.23)
Write-off of technology development costs	Other	$ (2.2)	(1.5)	(0.06)
			(10.6)	(0.44)
Net income as per financial statements			$102.5	$ 3.80
Return on common shareholders' equity excluding significant items			12.3%	
2007				
Net income excluding significant items			$ 88.5	$ 3.23
Favorable adjustment to income taxes	Other		4.7	0.19
Gain resulting from the restructuring of Visa	R & SME Quebec	$ 4.0	3.3	0.14
Charge related to securities issued by conduits covered by the "Montreal Accord"	LBS and Other	$ (2.9)	(2.0)	(0.09)
			6.0	0.25
Net income as per financial statements			$ 94.5	$ 3.48
Return on common shareholders' equity excluding significant items			10.1%	
2006				
Net income excluding significant items			$ 68.2	$ 2.39
Favorable adjustment to income taxes	Other		2.1	0.09
Net income as per financial statements			$ 70.3	$ 2.48
Return on common shareholders' equity excluding significant items			7.9%	

This table includes non GAAP measures. See notice on page 16.

2008 FINANCIAL PERFORMANCE

|| Despite the turmoil which has affected the financial institutions industry, the Bank's results in 2008 were very satisfying. The performance for 2008 is mainly attributable to our focus on loans and deposit growth, leading to higher revenues, including a strong contribution from securitization activities, combined with tight cost control. ||

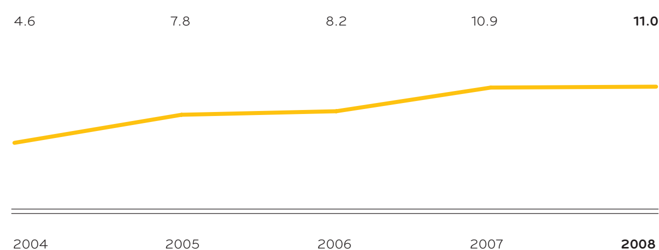
TABLE 3
PERFORMANCE INDICATORS

	2007 RESULTS	2008 OBJECTIVES	**2008 RESULTS**
Return on common shareholders' equity	10.9%	9.5% to 10.5%	**11.0%**
Diluted net income per common share	$3.48	$3.30 to $3.60	**$3.80**
Total revenue	+ 8% $584 million	+ 5% $615 million	**+ 8% $630 million**
Efficiency ratio	73.2%	74% to 72%	**70.7%**
Tier I BIS capital ratio	9.8%	minimum of 9.5%	**10.0%**

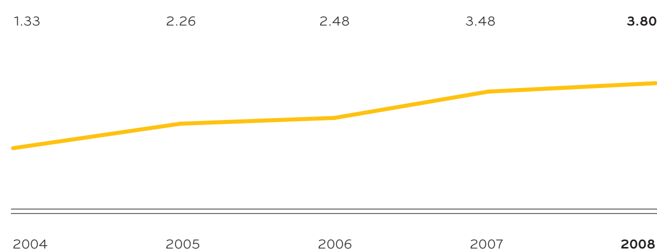
As shown in the previous table, we exceeded all of our objectives for fiscal 2008. In line with our priorities, we dedicated further resources to generate internal growth and develop high-return operations. This contributed to strong increases in loan and deposit portfolios, which fostered revenue growth, higher overall profitability and improved efficiency.

In the present challenging economic conditions, our financial position remained solid with a strong Tier 1 Capital ratio, through capital management initiatives and sound business development.

RETURN ON COMMON SHAREHOLDERS' EQUITY
(as a percentage)



DILUTED NET INCOME PER COMMON SHARE
(in dollars)



PRINCIPAL ACCOMPLISHMENTS RELATED TO EACH OF OUR THREE PRIORITIES

LAURENTIAN BANK'S STRATEGIC PRIORITIES: LEVERS OF DEVELOPMENT

Laurentian Bank's three fundamental priorities remain as relevant today as when they were adopted three years ago. Veritable engines driving its development, the Bank's principal strategic priorities are focused on increasing profitability, improving operational efficiency, and developing human capital. During the past fiscal year, these priorities have born fruit in a number of different ways, while fuelling the strategic initiatives that have contributed to the Bank's success.

PROFITABILITY: BUILDING ON SOLID MOMENTUM

In 2008, Laurentian Bank devoted significant effort to the promotion of internal growth as a mean of boosting overall profitability. By focusing on increasing its business volumes, the Bank continued to improve profitability within its core activities. As a financial institution committed to maintaining the solidity of its position, the Bank takes a prudent approach to its growth strategy. In that regard, the organization concentrates primarily on three essential growth engines – retail services, B2B Trust and real estate financing. Within the context of uncertainty that characterizes today's economy, the Bank has adopted a highly targeted approach to business development within familiar markets whose risk level is within its tolerance level.

Over the course of the past fiscal year, Laurentian Bank also maintained its marketing efforts aimed at differentiate itself. The approach adopted by the retail services group using the signature, *La Banque de la maison* (*The Homeowner's Bank*), places the emphasis on mortgage loans as the important cornerstone product, particularly among young families. Indeed, this market remains the Bank's principal target in terms of retail financial services, and the strategy implemented delivered highly positive results during the past fiscal year, with residential mortgage loans (before securitization) posting growth in the order of 10%. Efforts pertaining to investment products also proved to be fruitful.

During the year just ended, the Retail & SME Quebec segment accentuated its efforts to implement and develop a strong client-focused sales culture. In so doing, teams that serve clients directly are encouraged to adopt a global rather than individual product approach in order to obtain a more complete perspective of clients' financial situations, thereby allowing for more effective response to (or even anticipation of) their specific needs.

One of the Bank's prime endeavours in 2008 was to continue to invest actively in client-related management systems, and progress was made in that regard. Such investment is vital to being able to assure a clear and complete understanding of each individual or business client's particular situation and to meet and exceed client expectations.

In the same vein, the Bank is continuing to extend its branch network, optimize locations, and progressively renovate its infrastructures. As expanding the network constitutes an effective means of assuring internal growth, since 2004, a total of 10 new branches opened their doors, while 14 others have been relocated and 16 establishments have been renovated. As such, 25% of the Bank's branches have been the subject of some major intervention. These modifications are all part of the organization's long-term strategic plan for providing its branch network with the full potential to grow and develop within key geographical markets.

B2B Trust has also implemented several effective initiatives to enhance its visibility and recognition within its market comprised of financial intermediaries to which it is fully dedicated. In addition to having extensively revamped its Internet site, B2B Trust has introduced a brand-new Web platform for investment loans in order to simplify the handling of loan requests by independent financial advisors. The business unit also launched a new high-interest investment account that sets itself apart from other products on the market by offering a guaranteed minimum interest rate. This launch is a good example of how B2B Trust is continuing to invest strategically in improving the line of products it makes available to financial intermediaries and their clients.

As one of the Bank's most important business segments that consistently posts excellent results, Real Estate and Commercial saw its average loans grow by 19%, while its profitability accounted for 26% of the Bank's profits. Thanks to stringent risk management and the extensive expertise of its teams, this segment plays an integral role in the organization's overall strategy for boosting profitability.

For its part, Laurentian Bank Securities maintained its course with its own development strategy. Its Fixed Income division remained well positioned to meet the growing needs of its clientele, consequently, posting solid profitability in the midst of a challenging market context. Not only does this business line continue to perform well, its excellent reputation among institutional clients contributes to the development of the Institutional Equity division, which is progressing well since its creation only a few years ago. Laurentian Bank Securities is actively pursuing its efforts to consolidate its integrated offering of products and services, thus accelerating the growth of its Retail Services division's assets under management.

All of these initiatives have contributed to the continuous growth of the Bank's portfolios, whose value has grown by $1.7 billion for total loans and bankers' acceptances (excluding securitization) and by $1.5 billion for total deposits. During the past fiscal year, the volume of total loans and bankers' acceptances increased by 11% (excluding securitization activities), personal loans were up by 7%, and deposits, for their part, rose by 10%. These are extremely important for the Bank because they represent a very stable and affordable source of financing, which yields direct benefits for the Bank's overall financial health and profitability.

EFFICIENCY: OPTIMIZING EACH AND EVERY ASPECT OF THE ORGANIZATION

The improvement of operational efficiency is another of the Bank's top three priorities and is at the heart of its key preoccupations. Major steps were taken in that regard

during the past fiscal year, with the organization's efficiency ratio improving from 73.2% in 2007 to 70.7% in 2008. Enhancing efficiency demands an in-depth review of business processes so as to get the most out of every dollar invested and devote maximum energy to activities most able to generate growth.

As such, all the Bank's sectors focused their efforts on the optimization of key processes that enable employees to take full advantage of business opportunities. Within the branch network, specialized teams were formed to handle requests in specific sectors more efficiently, thereby being able to better respond to client needs. For example, in addition to the team of Mortgage Development Managers that already existed, the Bank has begun to deploy other specialized teams of Financial Planning Managers. Thanks to these initiatives, clients with more particular needs can receive the specific services they require. The sector also devoted considerable effort to optimizing its processes in order to reduce the time spent in branches on administrative tasks and, thereby, allow employees to allocate more time to their clients.

For its part, B2B Trust has created an integrated process review team. The team's objectives are to assure the continuity of operations through centralized documentation, to continuously improve ways of working, and to assure compliance with rules of governance.

The Bank has also focused its concerted attention on simplifying and optimizing distribution channels. As such, over the past few years, all broker deposit and broker mortgage loan operations outside Quebec have been centralized within the B2B Trust business line, thus grouping activities related to financial intermediaries under a single banner.

Several other measures have allowed the Bank to notably reduce lost time and resources, such as the project to optimize automatic banking machine money counting processes. By modifying the way tasks are organized, efficiency was significantly enhanced, with work methods being standardized and the majority of non-value-added activities eliminated. Within the SME Quebec sector, a work method optimization initiative was implemented, and it contributed significantly to the growth of its portfolios.

On a related front, the Bank proceeded with the replacement of certain computer tools at the branch level with more efficient systems that now allow employees to be more productive. Modes of communication with the branches have also been improved in order to facilitate the circulation of information and exchange between client service personnel. Moreover, in order to enable its resources to better integrate the sales culture it is progressively implementing, the Bank modernized the sales tracking tools available to branches. Thanks to new, state-of-the-art systems that simplify the monitoring of sales, branches now have very rapid access to all details regarding their sales levels. Consequently, they benefit from being able to more strategically manage their objectives while accelerating the transmission of information.

Through all of these efforts, Laurentian Bank has made substantial progress in boosting efficiency and productivity. Buoyed by its success, the organization is committed to pursuing its initiatives and maintaining its investments in accordance with its business plan so as to assure its long-term growth and development.

HUMAN CAPITAL:
A WEALTH OF POTENTIAL TO DEVELOP

In line with its efforts to optimize the development of its human capital, Laurentian Bank is dedicated to cultivating the full potential of each and every employee. At the same time, the Bank is sparing no effort to promote the instilment and development of a sales and performance culture within the organization, as well as to assure the growing mobilization of its workforce.

In 2008, efforts were intensified to foster the potential of employees through a variety of programs initiated during the previous fiscal year. With its *Performance Driven* program introduced in 2006, for example, the organization has been striving to ensure that the priorities of all employees are fully aligned with fundamental corporate objectives. Under the banner of this effort, clear goals are established for employees at all levels, and the Bank's priorities are reflected in those of each individual.

Laurentian Bank also affords great importance to the balance that must be maintained between quality of service, which has consistently distinguished it from other financial institutions, and sales growth, which serves as the foundation for its development and profitability. As part of its *Performance Driven* program, the Bank offers the appropriate support to its managers in order to enable them to maintain their performance and that of their teams at the highest possible level.

Similarly, to sustain its growth and performance objectives, Laurentian Bank is committed to supporting its employees in their professional development. A clear reflection of that commitment is the *Laurentian Bank Academy,* which was created to offer a variety of different activities. The Bank has also been actively pursuing its integration program for new employees, particularly those who are in direct contact with clients. This program is specifically designed to ensure that, upon their arrival within the organization, new employees adhere to the Bank's culture and apply the highest service quality standards.

In the wake of the creation of the *Academy,* the past fiscal year also saw the implementation of the *Leaders in Action* program, whose objective is to reinforce the individual skills of branch management personnel. At the same time, the Bank is placing increasing emphasis on the development of its employees' competencies. While the individual approach is the most common, a few sectors have instituted initiatives to enable them to reinforce various competencies that are key to their specific activities.

The union that represents some 2,000 of the Bank's employees (close to two-thirds of its workforce) serves as a major partner in the organization's efforts to develop its human capital. As such, the Bank is committed to continuing to work in close collaboration with the union, as well as to nurturing the mutual understanding developed over the years that has proven to be so beneficial for all parties concerned – the union, the organization, and its employees alike.

Laurentian Bank is dedicated to actively continuing to develop its human capital. Indeed, by progressively increasing its investments in this strategic priority, the Bank is concretely reinforcing the foundation for its successful long-term development overall.

OUTLOOK AND OBJECTIVES FOR 2009

Forecasting the real economy in a highly volatile financial environment is no simple task

In September and October 2008, hardly a day went by without some major financial event hitting the headlines: from spectacular bank failures to government bailouts; from commodity price freefall to unprecedented currency volatility and stock market meltdown. Events unfolded in unbelievably quick succession and the whole episode was appropriately described as a “once-in-a-lifetime confluence of events”.

It was also becoming increasingly clear in the Fall of 2008 that the unprecedented financial turmoil was having a real impact on the economy with both consumer and business confidence melting like snow in July. And this was the case not only in the United States but also right across Europe and Asia. In turn, increasing uneasiness about the state of the global economy further reinforced the sense of financial panic. The bottom line is that, with the U.S. economy in the midst of a relatively severe consumer-led recession, it would be unreasonable to expect the global and Canadian economies to escape undamaged, even if the global financial system were functioning normally.

To be sure, the very aggressive policy measures taken by governments and central banks in North America and Europe will pay dividends in due course. Moreover, the large emerging market economies of India and China are more resilient than what the pessimists give them credit for, particularly regarding the strength of their domestic demand. Nevertheless, a recession is always a serious event, characterized by a damaging rise in unemployment, business bankruptcies, and loan losses, which makes it extremely difficult to predict an end point. Hence, great caution is still required when making economic projections.

What about Canada?

The impact of all these developments on Canada is clear: lower demand for both manufactured products and raw materials will strongly affect merchandise exports, while higher funding costs for financial institutions will increase the cost of credit to domestic borrowers. Moreover, lower commodity prices affect not only exports but also the Canadian dollar, which plunged a full 10 US cents in the month of October alone. While domestic demand is still holding up reasonably well, the major risk now is a sudden and prolonged reversal in the terms-of-trade effect that considerably boosted Canadian domestic income growth in 2008; the terms of trade effect relates to the ratio of export to import prices. Such a development would have a large negative impact on domestic demand. Given such an environment, the Bank of Canada cut its overnight rate by 75 basis points in October to 2.25% and strongly indicated it would cut again in December by 25 basis points, where it should then stay for the whole of 2009. We now expect Canadian real GDP to grow by only 0.1% in 2009, little changed from the rather weak 0.5% rate of growth estimated for 2008.

The bottom line is that 2009 will be a difficult year for the Canadian and Quebec economies. Those segments that cater directly to U.S. discretionary consumer spending will find it increasingly difficult to operate and maintain cash flows at appropriate levels. The challenge will be to quickly redirect resources towards domestic demand or offshore markets. The silver lining in this process is that energy prices, interest rates and the Canadian dollar will remain significantly lower than in 2008.

How we will measure our performance in 2009

For fiscal 2009, we have based our objectives on a soft economic outlook. Despite these challenging market conditions, we are confident that we can attain these objectives.

TABLE 4
2009 OBJECTIVES

	2009 OBJECTIVES (1)
Return on common shareholders’ equity	10.0% to 12.0%
Diluted net income per common share	$3.70 to $4.40
Total revenue	+ 2% to 5% $645 to $665 million
Efficiency ratio	73% to 70%
Tier I BIS capital ratio	minimum of 9.5%

(1) These objectives for 2009 should be read concurrently with the opposite paragraphs.

Key assumptions supporting our objectives

The following assumptions are the most significant items considered in setting the Bank's strategic priorities, and in determining our financial objectives. Other factors such as those detailed in the Caution regarding forward-looking statements and Integrated Risk Management Framework sections included in our MD&A for 2008 could also cause future results to differ materially from these objectives.

Objectives for 2009 assume that we will continue to grow our loan and deposit portfolios at a rate similar to 2008. This has been the cornerstone of our success over the last five years and is again at the forefront of our strategies in the coming years. More specifically, we believe that the prevailing market conditions for mortgage lending in Canada will continue to support our securitization activities. We assume that these factors will more than offset foreseen margin compressions related to ever-continuing market competition, mainly on retail deposit operations. We also anticipate a moderate increase in loan losses as a result of growth in loan portfolios and a slight deterioration of credit conditions over the next twelve months.

Other underlying general economic conditions

- We expect very moderate economic growth in Canada for 2009;
- We anticipate that the worldwide financial crisis affecting the industry will not have a significant effect on our operations;
- We assumed that interest rates in Canada will decline slightly in 2009 and that the Canadian dollar will trade around 0.80 U.S. dollar during the year.

REVIEW OF BUSINESS SEGMENTS' ACTIVITIES

This section outlines the Bank's activities according to its organizational structure. Services to individuals, businesses, financial intermediaries and institutional clients are offered through the following business segments:

- Retail & SME Quebec
- Real Estate & Commercial
- B2B Trust
- Laurentian Bank Securities
- Other

Since November 1, 2007, activities related to commercial lending to small and medium enterprises in Quebec have been grouped with retail financial services activities in the new Retail & SME Quebec segment. These commercial loan activities were previously included in the Commercial Financial Services segment. This segment, now known as Real Estate & Commercial, includes real estate financing throughout Canada, commercial financing in Ontario and national accounts.

Compared to 2007, the Retail & SME Quebec, Real Estate & Commercial and B2B Trust segments all benefited from strong loan and deposit growth and improved their total revenue. This led to overall increases in profitability in most segments, as detailed below. As for Laurentian Bank Securities, its profitability was affected by market conditions.

TABLE 5
NET INCOME CONTRIBUTIONS
For the years ended October 31 (in millions of dollars, except percentage amounts)

	RETAIL & SME QUEBEC	REAL ESTATE & COMMERCIAL	B2B TRUST	LAURENTIAN BANK SECURITIES	OTHER	TOTAL
2008						
Net income	$45.4	$28.6	$34.9	$1.7	$ (8.1)	$102.5
Growth 2008/2007	(4)%	33%	14%	(76)%	n.a.	8%
2007						
Net income	$ 47.4	$ 21.6	$ 30.5	$ 7.1	$ (12.1)	$ 94.5

ANALYSIS OF 2008 RESULTS

RETAIL & SME QUEBEC

The Retail & SME Quebec business segment's contribution to net income declined by 4% and stood at $45.4 million for 2008, compared to $47.4 million for 2007. Results for 2007 included a $4.0 million gain ($3.3 million net of income taxes) resulting from the restructuring of Visa Canada.

Total revenue increased by $17.3 million, from $397.9 million for 2007 to $415.2 million for 2008, mainly as a result of higher interest income and deposit service charges stemming from the growth in loans and deposits, as well as from card service revenues. Loan losses were $33.6 million, up $4.4 million compared to 2007, reflecting slight deteriorations in point-of-sale financing, as well as overall increases in portfolios. Non-interest expenses increased by $16.3 million, from $310.5 million for 2007 to $326.9 million for 2008. The increase is due mainly to higher salary charges resulting from the expansion in retail banking operations combined with regular salary increases and higher technology costs.

Discontinued operations contributed $5.2 million ($4.4 million net of income taxes) in 2008 and 2007, since net sales thresholds exceeded minimum requirements as at October 31 of both years.

REAL ESTATE & COMMERCIAL

The Real Estate & Commercial business segment's contribution to net income improved 32% to reach $28.6 million for 2008, compared to $21.6 million for 2007.

Total revenue increased by $9.4 million, from $62.0 million for 2007 to $71.4 million for 2008, mainly as a result of higher net interest income, due to growth in loan volumes. Loan losses improved to $5.4 million for 2008, compared with $6.7 million for 2007. Non-interest expenses increased slightly, by $0.5 million, to $23.3 million for 2008, from $22.9 million for 2007.

B2B TRUST

The B2B Trust business segment's contribution to net income improved 14%, reaching $34.9 million for 2008, compared with $30.5 million for 2007.

Total revenue increased by $5.3 million, from $92.5 million for 2007 to $97.8 million for 2008. Higher net interest income was the key driver during the year, influenced positively by volume growth and dampened by margin reductions. As of the third quarter of 2008, B2B Trust was particularly affected by the higher funding costs of personal term deposits. Loan losses were lower, at $1.5 million for 2008, compared to $4.0 million for 2007, mainly as a result of the sale of a retail portfolio experiencing high loan losses during the first quarter of 2008. Non-interest expenses increased slightly at $43.7 million for 2008, compared to $42.4 million for 2007.

LAURENTIAN BANK SECURITIES

The Laurentian Bank Securities (LBS) business segment's contribution to net income stood at $1.7 million for 2008, compared with $7.1 million for 2007. Results for 2008 included a $3.0 million ($2.1 million net of income taxes) charge related to securities issued by conduits covered by the Montreal Accord. Results for 2007 included a $4.4 million gain ($3.7 million net of income taxes) resulting from the sale of Montreal Exchange shares and losses of $2.1 million ($1.4 million net of income taxes) related to securities issued by conduits covered by the Montreal Accord. Excluding these items, results declined by $1.0 million, as a result of the reduced level of activity in the Retail division resulting from market conditions, and in spite of another very strong year for the institutional fixed income division which benefited from higher market volatility. Non-interest expenses decreased to $29.7 million for 2008, from $30.7 million for 2007, mainly as a result of lower variable compensation costs.

OTHER

The Other segment includes the activities of the Bank's various corporate sectors, mainly Treasury, Credit, Finance and Strategic Development, Risk Management, Technology, Administration, Corporate Affairs, and Human Resources. However, the segment's results primarily illustrated the effect of Treasury activities, since expenses from other corporate sectors are generally reallocated. || The Other sector's negative contribution to net income was $8.0 million for 2008, compared with a negative contribution of $11.9 million for 2007. As detailed on page 18, results for 2008 included net unfavorable significant items of $10.7 million, while results for 2007 included net favorable significant items of $4.2 million. Excluding these items, the contribution to net income would have been $2.7 million for 2008, compared to a negative contribution of $16.1 million for 2007. || The decrease in net interest income of $16.6 million in 2008, compared with 2007, is due to the higher level of securitized loans, which generated a net reversal to net interest income of -$16.9 million, as well as to higher funding costs associated with asset-liability management. The increase in other income of $38.3 million is mainly attributable to higher securitization revenues, including gains on sale of $29.6 million and servicing revenues of $6.3 million. Income from treasury and financial market operations also improved by $6.6 million, primarily because of higher revenues stemming from foreign exchange operations. Other income in 2008 also included the following items a $12.9 million gain on the sale of Montreal Exchange shares, losses of $5.3 million resulting from sales of securities, and impairment charges of $8.1 million related to available-for-sale securities, as shown in Table 2. || The additional general provision for loan losses of $8.0 million recorded during the third quarter of 2008 was attributed to the Other segment, as this corresponds to the internal management reporting. || Non-interest expense increased slightly from $21.1 million in 2007 to $22.5 million in 2008. Expenses for 2008 include a $2.2 million charge resulting from the write-off of technology development costs following the decision by the Canadian Payment Association not to proceed further with the image-based cheque clearing project. || Income taxes recoveries stood at $8.8 million in 2008, compared to $17.1 million in 2007. These amounts include the effect of special items, as noted in Table 2, as well as the effect of lower income taxes on certain treasury and financial market transactions and other adjustments.

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

SEGMENT'S CONTRIBUTION | **HIGHLIGHTS 2008** | **OBJECTIVES AND PRIORITIES**

TABLE 6	2008	2007
Net interest income	$299.3	$ 284.2
Other income	115.9	113.7
Total revenue	415.2	397.9
Provision for loan losses	33.6	29.2
Non-interest expenses	326.8	310.5
Income from continuing operations before income taxes	54.8	58.2
Income taxes	13.8	15.2
Income from continuing operations	41.0	43.0
Income from discontinued operations net of income taxes	4.4	4.4
Net income	$ 45.4	$ 47.4
Efficiency ratio	78.7%	78.0%

Highlights 2008

- Average loan growth of 9%
- Average deposit growth of 6%
- Increase in revenues of $17.3 million or more than 4%
- Renovation and relocation of 4 branches

Objectives and priorities

- Improve the effectiveness of our sales activities and pursue organic growth
- Optimize key processes
- Invest in the talent of our personnel
- Increase our business intelligence
- Reinforce the integration of our Passion for Client Interests value into our service offerings
- Enhance our position among Quebec SMEs within our key areas of expertise
- Increase market share for non-financing products among Quebec SMEs

TABLE 7	2008	2007
Net interest income	$ 55.2	$ 45.9
Other income	16.2	16.1
Total revenue	71.4	62.0
Provision for loan losses	5.4	6.7
Non-interest expenses	23.3	22.9
Income before income taxes	42.7	32.4
Income taxes	14.1	10.8
Net income	$ 28.6	$ 21.6
Efficiency ratio	32.7%	36.9%

Highlights 2008

- Average loan growth of 19%
- Increase in revenues of $9.4 million or more than 15%
- Improved credit quality as evidenced by lower loan losses

Objectives and priorities

- Maximize the profitability of our operations
- Improve our efficiency by optimizing our ways of doing things
- Accelerate the growth of our deposit portfolios
- Maintain the credit quality of our portfolios
- Invest in our human capital in order to maximize the use of our know-how

TABLE 8	2008	2007
Net interest income	$ 87.3	$ 81.0
Other income	10.5	11.5
Total revenue	97.8	92.5
Provision for loan losses	1.5	4.1
Non-interest expenses	43.7	42.4
Income before income taxes	52.6	46.0
Income taxes	17.7	15.5
Net income	$ 34.9	$ 30.5
Efficiency ratio	44.6%	45.8%

Highlights 2008

- Net income growth of 14%
- 20% growth of the investment loan portfolio
- 8% increase of the brokered deposit book
- Introduction of a new High Interest Investment Account at the end of the year

Objectives and priorities

- Invest strategically in product development
- Continue to increase market share in our five principal distribution channels
- Optimize our processes and increase our capacity on an ongoing basis
- Reinforce the B2B Trust brand's position among our principal financial intermediary clientele
- Maintain our commitment to always provide our clients with a quality experience

TABLE 9	2008	2007
Net interest income	$ 3.0	$ 2.0
Other income	29.4	37.6
Total revenue	32.4	39.6
Non-interest expenses	29.7	30.7
Income before income taxes	2.7	8.9
Income taxes	1.0	1.8
Net income	$ 1.7	$ 7.1
Efficiency ratio	91.6%	77.5%

Highlights 2008

- Continued profitability, despite market conditions
- Low exposure to asset-backed securities
- Strong performance of the Institutional fixed income division
- Reduced level of activity in the Retail division resulting from market conditions
- Continued development of the Equity division

Objectives and priorities

- Pursue the development of the Institutional Fixed Income division
- Improve our product offerings and increase the level of activity in the Retail Brokerage Services division
- Continue the progressive development of the Institutional Equity division

TABLE 10	2008	2007
Net interest income	$ (39.5)	$ (22.9)
Other income	53.2	14.8
Total revenue	13.7	(8.1)
Provision for loan losses	8.0	–
Non-interest expenses	22.5	20.9
Income before income taxes	(16.8)	(29.0)
Income taxes (recovery)	(8.7)	(16.9)
Net loss	$ (8.1)	$ (12.1)

Highlights 2008

- Higher securitization activities
- Effective liquidity management
- Increase of general provision of $8 million
- Low exposure to asset-backed securities

Objectives and priorities

- Maintain optimal management of liquidities
- Continue to optimize sources of financing
- Pursue the fine tuning of our approach to asset-liability management
- Reinforce the synergies between the Treasury and business segments

ANALYSIS OF CONSOLIDATED RESULTS

For the year ended October 31, 2008, Laurentian Bank reported net income of $102.5 million or diluted earnings per common share of $3.80, compared with $94.5 million or diluted per common share earnings of $3.48 in 2007.

Income from continuing operations increased to $98.1 million or $3.61 diluted per common share for 2008, excluding a gain of $4.4 million net of income taxes on the 2005 sale of BLC-Edmond de Rothschild Asset Management Inc., as detailed on page 18 of this Annual Report. For fiscal 2007, income from continuing operations stood at $90.1 million or $3.29 diluted per common share, excluding a similar gain of $4.4 million net of income taxes.

Excluding certain significant items, as detailed on page 18, net income for the year ended October 31, 2008 improved by $24.6 million, or 28%, and diluted net income per common share rose by $1.01, or 31%, compared to results achieved in 2007.

IMPACT OF THE GLOBAL FINANCIAL MARKET CRISIS

Over the last 18 months, global financial markets were significantly affected by the downturn in the U.S. subprime mortgage market, as well as other liquidity and credit issues. As of now, the Canadian financial system has weathered the storm reasonably well. At Laurentian Bank, we only had limited exposure to troubled international financial institutions and we have no direct exposure to U.S. subprime mortgage or sophisticated structured finance products. As a result, we were able to limit losses substantially. As detailed below, during the second part of the year, we incurred losses of $5.3 million on the sale of securities and impairment charges of $8.1 million related to available-for-sale securities. These relatively low figures reflect our prudent investment approach.

With regards to the non-bank Canadian asset-backed commercial paper (ABCP) market, the approval of the Montreal Accord late in fiscal 2008 has significantly reduced uncertainties. Although no active market has yet to emerge, we are confident that the reorganization will benefit all noteholders. Again, our risk management practices were instrumental in limiting our holdings in securities issued by conduits covered by the Montreal Accord, which now only amount to $13.7 million, net of cumulative write-downs of $5.6 million or 30%, as at October 31, 2008.

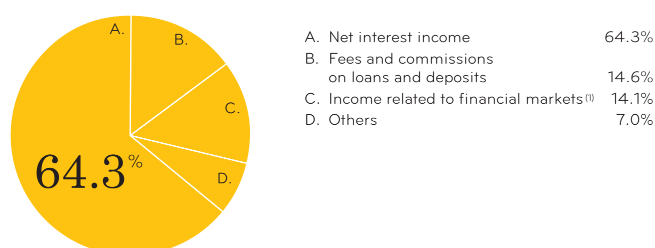
Moreover, our retail personal deposits of more than $12 billion continued to constitute a stable funding source to support our operations and therefore limit any liquidity concerns.

Although the global financial market crisis remains a source of concern, we remain confident that we can benefit from opportunities in the Canadian market and that we are well positioned to pursue our growth, supported by our strong balance sheet, with capital ratios among the best in the industry.

TOTAL REVENUE

Total revenue was $630.5 million in 2008, up $46.6 million or 8%, compared to $583.9 million in 2007. Net interest income improved by $15.1 million and other income improved by $31.5 million, as detailed below.

TOTAL REVENUE MIX
(as a percentage)



(1) Includes income related to brokerage operations, income from treasury and financial market operations and securitization income.

Net interest income

Net interest income improved by $15.1 million to $405.3 million in 2008, from $390.2 million in 2007, as shown below in Table 11. This increase in revenues mainly stems from the growth in loan and deposit portfolios. Net interest margin also declined by 10 basis points to 2.21% in 2008, compared to 2.31% in 2007. While net interest margins remained relatively stable at the beginning of the year, continued pressure on deposit pricing has negatively affected interest margins in the latter part of 2008. Also, increases in the variable rate residential mortgages portfolio, where margins are smaller, have contributed to lower net interest margins.

The Bank uses derivative financial instruments to manage the interest rate risk and the liquidity risk associated with some of its loan and deposit portfolios. Depending on the evolution of interest rates and on the portfolios' mix in terms of maturity and product types, actual return on portfolios can fluctuate substantially. The Bank also uses models to quantify the potential impact of various rate scenarios on future revenues and equity, as explained in the "Asset and Liability Management Activities" section, on page 47 of this Annual Report.

TABLE 11
CHANGES IN NET INTEREST INCOME
For the years ended October 31 (in millions of dollars, except percentage amounts)

				2008				2007
	AVERAGE VOLUME IN %	AVERAGE VOLUME	INTEREST	AVERAGE RATE	AVERAGE VOLUME IN %	AVERAGE VOLUME	INTEREST	AVERAGE RATE
Assets								
Cash resources and securities	19.0%	$ 3,488	$ 87.2	2.50%	16.6%	$ 2,797	$ 71.8	2.57%
Assets purchased under reverse repurchase agreements	3.2	588	11.4	1.94	4.0	672	19.8	2.95
Loans								
Personal	28.0	5,126	342.7	6.69	26.3	4,437	331.5	7.47
Residential mortgages	32.9	6,041	329.1	5.45	36.7	6,188	341.5	5.52
Commercial mortgages	4.4	813	49.1	6.04	4.0	671	44.2	6.59
Commercial and other	9.5	1,739	105.3	6.06	9.3	1,563	100.1	6.40
Derivative financial instruments	–	–	30.2	–	–	–	–	–
Other assets	3.0	545	–	–	3.1	532	–	–
Total – assets	100.0%	$18,340	$955.0	5.21%	100.0%	$16,860	$908.9	5.39%
Liabilities and shareholders' equity								
Demand and notice deposits		$ 2,759	$ 17.3	0.63%		$ 2,662	$ 19.5	0.73%
Term deposits		11,910	491.1	4.12		10,990	447.4	4.07
Other deposits		1,994	27.4	1.37		1,637	21.9	1.34
Derivative financial instruments		–	6.2	–		–	22.2	–
		16,663	542.0	3.25		15,289	511.0	3.34
Acceptances		97	–	–		140	–	–
Other liabilities		393	–	–		328	–	–
Subordinated debentures		150	7.7	5.16		150	7.7	5.16
Shareholders' equity		1,037	–	–		953	–	–
Total – liabilities and shareholders' equity		$18,340	$549.7	3.00%		$16,860	$518.7	3.08%
Net interest income			$405.3	2.21%			$390.2	2.31%

NET INTEREST INCOME
(in millions of dollars)

267.2 325.7 357.2 390.2 **405.3**

2004 2005 2006 2007 **2008**

NET INTEREST MARGIN
(as a percentage of average assets)

1.64 1.99 2.14 2.31 **2.21**

2004 2005 2006 2007 **2008**

Other income

Other income was $225.2 million in 2008, compared with $193.7 million in 2007. The increase results mainly from securitization activities, as detailed below.

Revenues from securitization increased to $34.5 million for fiscal 2008, compared to $6.4 million for fiscal 2007. During the year, we securitized $1.3 billion of residential mortgages and recorded gains on sale of $29.6 million, up $23.4 million compared to gains recorded a year-ago. This result stems from the favourable prevailing market conditions for mortgage lending in Canada throughout the year and our ability to grow our loan portfolio. In addition, securitization revenues include servicing revenues of $6.3 million for fiscal 2008, compared to $3.2 million for fiscal 2007. Note 6 to the annual consolidated financial statements provides additional information regarding these operations.

Fees and commissions on loans and deposits increased to $91.9 million for fiscal 2008, whereas they stood at $88.7 million in 2007. This increase is mainly attributable to higher revenues from the management of deposits and from credit card services.

Income from brokerage operations decreased to $28.7 million for fiscal 2008, whereas it stood at $32.4 million in 2007. Results for 2008 included a $3.0 million charge related to securities issued by conduits covered by the Montreal Accord. For their part, results for 2007 included a $4.4 million gain originating from the sale of Montreal Exchange shares and losses of $2.1 million related to securities issued by conduits covered by the Montreal Accord. Excluding these items, income from brokerage operations declined, as a result of the reduced level of activity in the Laurentian Bank Securities retail division, in spite of another very strong year for the institutional fixed income division which benefited from higher market volatility.

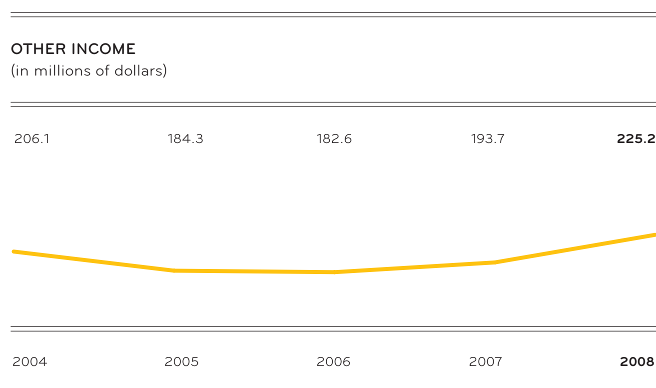
Income from treasury and financial market operations improved by $6.6 million, to $25.9 million, mainly as a result of higher revenues on foreign exchange operations. Treasury and financial market revenues for fiscal 2008 also included the following items: a $12.9 million gain on the sale of Montreal Exchange shares, losses of $5.3 million resulting from sales of securities during the third quarter and impairment charges of $8.1 million related to available-for-sale securities during the fourth quarter. Impairment charges were essentially incurred on corporate bonds issued by U.S. and international financial institutions. Write-downs were recorded where we had significant evidence of impairments as a result of financial reorganizations of institutions or when investments suffered from a major decline in value and severe illiquidity. Additional information related to the Bank's security portfolios are presented in Note 4 to the annual consolidated financial statements.

Revenues from the sale of mutual funds increased by $0.8 million and stood at $14.2 million in 2008. During the year, the Bank continued to earn commissions on outstanding volumes of funds, mainly through its partnership with Industrial Alliance. Credit insurance revenues are mainly generated by insurance programs related to loans disbursed by the Bank. These revenues increased by 9% in 2008 and stood at $13.7 million. Revenues from registered self-directed plans decreased to $8.7 million for fiscal 2008, compared to $9.7 million in 2007. This result is linked to changes in market conditions, weighing down the number of registered self-directed plans. The "Off-Balance Sheet Arrangements" section, on page 36 of this Annual Report, offers additional information on this matter.

Also during fiscal 2007, the Bank recorded a $4.0 million gain ensuing from the worldwide restructuring of Visa.

TABLE 12
OTHER INCOME
For the years ended October 31 (in millions of dollars, except percentage amounts)

	2008	2007	2006	VARIATION 08/07
Fees and commissions on loans and deposits				
Deposit service charges	$ 52.3	$ 50.7	$ 47.9	3%
Lending fees	23.0	23.4	23.7	(2)
Card service revenues	16.6	14.6	13.0	14
Sub-total – fees and commissions on loans and deposits	91.9	88.7	84.6	4
As a % of average assets	0.50%	0.53%	0.51%	
Other				
Income from brokerage operations	28.7	32.4	31.4	(11)
Income from treasury and financial market operations	25.9	19.3	15.2	34
Income from sales of mutual funds	14.2	13.4	10.6	6
Credit insurance income	13.7	12.6	12.6	9
Income from registered self-directed plans	8.7	9.6	10.5	(9)
Securitization income	34.5	6.4	10.0	439
Trust services	1.2	1.3	1.2	(8)
Gain on disposal and on modification in ownership interest	–	4.0	0.9	(100)
Other	6.4	6.0	5.6	7
Sub-total – other	133.3	105.0	98.0	27
As a % of average assets	0.73%	0.62%	0.58%	
Total – other income	$225.2	$193.7	$182.6	16%
As a % of average assets	1.23%	1.15%	1.09%	



PROVISION FOR LOAN LOSSES

The provision for loan losses amounted to $48.5 million for 2008, compared to $40.0 million in 2007. Considering the increase in loan volumes and the deteriorations in economic conditions, the Bank recorded an additional general provision for loan losses of $8.0 million during the third quarter of 2008. Excluding this adjustment, loan losses have remained relatively unchanged from a year ago. The strength of the labour market, the low interest rates and the vigor of the economy mainly in Western Canada have continued to contribute favorably to the performance of the Bank's portfolios. The following table presents the provision for loan losses from 2006 to 2008.

TABLE 13
PROVISION FOR LOAN LOSSES
For the years ended October 31 (in millions of dollars, except percentage amounts)

	2008	2007	2006
Personal loans	**$29.5**	$27.7	$27.7
Residential mortgages	**0.6**	1.3	0.4
Commercial mortgages	**0.5**	0.2	(0.2)
Commercial and other loans	**9.9**	10.8	12.1
Sub-total	**40.5**	40.0	40.0
Increase in general allowances	**8.0**	–	–
Total – provision for loan losses	**$48.5**	$40.0	$40.0
As a % of average loans, bankers' acceptances and assets purchased under reverse repurchase agreements	**0.34%**	0.30%	0.32%

NON-INTEREST EXPENSES

Non-interest expenses were $446.0 million in 2008, while they stood at $427.4 million in 2007. Salaries and employee benefits increased by $7.0 million compared to fiscal 2007. This is mainly attributable to the combined effect of salary increases and new hirings, partly offset by a reduction in pension costs. The total number of employees on a full-time equivalent basis increased from 3,289 as at October 31, 2007, to 3,393 as at October 31, 2008, mainly to support growth initiatives in the Retail & SME Quebec segment and in IT.

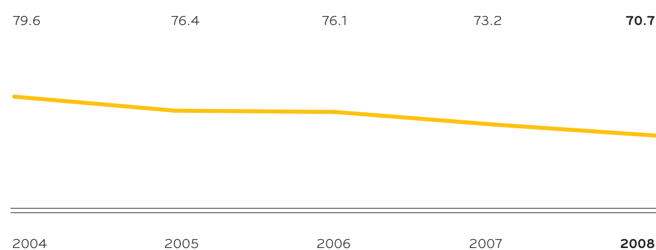
Premises and technology costs have increased from $111.6 million in 2007 to $119.2 million in 2008. This increase is essentially attributable to higher information technology costs, reflecting the expanding operations of the Bank. Premises and technology costs for 2008 also include a $2.2 million charge resulting from the write-off of technology development costs following the decision by the Canadian Payment Association not to proceed further with the image-based cheque clearing project. Over the coming years, we expect to invest close to $35 million annually, particularly to enhance client-oriented infrastructures, which should enable us to serve our clients even more efficiently, and contribute to attracting and retaining new clients.

Other expenses stood at $90.5 million in 2008, compared to $86.6 million in 2007. This increase is mainly attributable to higher professional fees and business development costs. Table 14 illustrates the changes in non-interest expenses from 2006 to 2008.

TABLE 14
NON-INTEREST EXPENSES
For the years ended October 31 (in millions of dollars, except percentage amounts)

	2008	2007	2006	VARIATION 08/07
Salaries and employee benefits				
Salaries	$155.7	$146.9	$140.8	
Employee benefits	50.1	53.1	50.0	
Performance-based compensation	30.5	29.3	22.8	
Sub-total – salaries and employee benefits	236.3	229.3	213.6	3%
As a % of average assets	1.29%	1.36%	1.28%	
Premises and technology				
Equipment and computer services	45.2	42.5	42.0	
Rent and property taxes	34.5	34.5	33.6	
Depreciation	29.9	27.4	26.0	
Maintenance and repairs	5.5	5.4	4.9	
Public utilities	1.3	1.3	1.2	
Other	2.8	0.4	0.4	
Sub-total – premises and technology	119.2	111.5	108.1	7%
As a % of average assets	0.65%	0.66%	0.65%	
Other				
Fees and commissions	21.1	19.0	19.2	
Taxes and insurance	17.6	18.8	23.9	
Communications and travelling expenses	18.9	18.3	17.5	
Advertising and business development	18.0	16.8	15.3	
Stationery and publications	6.3	6.2	6.0	
Recruitment and training	3.7	2.8	2.1	
Other	4.9	4.7	5.1	
Sub-total – other	90.5	86.6	89.1	5%
As a % of average assets	0.49%	0.52%	0.53%	
Total – non-interest expenses	$446.0	$427.4	$410.8	4%
As a % of average assets	2.43%	2.54%	2.46%	
As a % of total revenue (efficiency ratio)	70.7%	73.2%	76.1%	

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



EFFICIENCY RATIO

The efficiency ratio substantially improved, from 73.2% in 2007 to 70.7% in 2008, on the basis of continuing operations. Overall, the 8% increase in total revenue more than offset the 4% increase in expenses and contributed to the improvement of the efficiency ratio. The improvement also results from our tight cost control to limit the overall level of expenses, as well as higher securitization revenues.

The opposite graph illustrates the Bank's performance in this regard over the last years.

INCOME TAX EXPENSE

Income tax expense on continuing operations for fiscal 2008 stood at $37.9 million (27.9% effective tax rate), compared to $26.4 million (22.7% effective tax rate) for fiscal 2007.

TABLE 15
RECONCILIATION OF THE INCOME TAX EXPENSE FROM CONTINUING OPERATIONS TO THE DOLLAR AMOUNT OF INCOME TAX USING THE STATUTORY RATE
For the years ended October 31 (in millions of dollars, except percentage amounts)

	2008		2007	
Income taxes at statutory rates	$42.9	31.6%	$38.4	33.0%
Change resulting from:				
Income related to foreign credit insurance operations	(3.8)	(2.8)	(3.6)	(3.0)
Tax-exempt dividends	(1.9)	(1.4)	(2.4)	(2.1)
	37.2	27.4	32.4	27.9
Resolution of income tax exposures	(1.8)	(1.3)	(3.3)	(2.9)
Tax rate changes	5.6	4.2	(0.7)	(0.7)
Non-taxable portion of capital gains	(2.7)	(2.0)	(1.5)	(1.3)
Other	(0.4)	(0.4)	(0.5)	(0.3)
Income taxes from continuing operations, as reported in the consolidated statement of income and effective tax rate	$37.9	27.9%	$26.4	22.7%

The resolution of various income tax exposures, the tax rate changes and some tax exempt gains (as presented in the above table) were the most significant items specifically affecting income tax expense in 2008 and 2007. Excluding the effect of these items, the effective tax rate for 2008 would have been 27.4%, compared with 27.9% in 2007. The lower tax rate for fiscal 2008 and 2007, compared to the statutory rate, results mainly from the tax exempt dividend income from Canadian corporations and from the effect of not recognizing taxes on income related to foreign credit insurance operations.

Note 17 to the consolidated financial statements provides further information on the income tax expense.

ANALYSIS OF QUARTERLY RESULTS

SUMMARY ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF FISCAL 2008

For the fourth quarter ended October 31, 2008, the Bank reported net income of $27.3 million or diluted earnings per common share of $1.02, compared with $30.2 million or diluted earnings per common share of $1.14 for the fourth quarter of 2007. Return on common shareholders' equity was 11.5% for the fourth quarter of 2008 versus 13.8% for the same quarter of 2007.

Results for the fourth quarter of 2008 included an $8.1 million ($5.5 million, net of income taxes – $0.23 diluted per common share) impairment charge on available-for-sale fixed income securities essentially issued by U.S. and international financial institutions, as further explained on page 28. Results for the fourth quarter of 2008 also included a $2.2 million charge ($1.5 million net of income taxes – $0.06 diluted per common share) related to the write-off of technology costs incurred by the Bank following the recent decision by the Canadian Payment Association not to proceed further with the image-based cheque clearing project. Results for the fourth quarter of 2007 included a $4.0 million gain ($3.3 million net of income taxes – $0.14 diluted per common share) related to the Visa restructuring, as well as two other offsetting items, as described on page 33. Excluding these significant items, net income for the fourth quarter improved by $7.8 million or 29%, and diluted income per share rose by $0.32 or 32%, compared to the fourth quarter of 2007.

Income from continuing operations reached $22.9 million or $0.84 diluted per common share for the fourth quarter of 2008, compared to $25.7 million or $0.95 diluted per common share in 2007. Discontinued operations, related to the sale of the

BLC-Edmond de Rothschild Asset Management Inc. joint-venture in fiscal 2005, as further described on page 18 of this Annual Report, added $5.2 million to the Bank's profitability for the fourth quarter of 2008, as in 2007.

Total revenue for the fourth quarter of 2008 amounted to $152.8 million, compared with $145.6 million for the fourth quarter in 2007. Net interest income improved by $5.6 million, as a result of higher loan and deposit volumes and despite the negative effect of higher funding costs of personal term deposits. Other income stood at $49.5 million for the fourth quarter of 2008, compared with $47.9 million for the fourth quarter of 2007. The increase is mainly attributable to higher securitization revenues, partly offset by the impairment charges incurred, as detailed above. Other income for the fourth quarter of 2007 also included a $4.0 million gain resulting from the worldwide Visa restructuring and a $2.9 million charge related to securities issued by conduits covered by the Montreal Accord.

For the fourth quarter of 2008, the provision for loan losses stood at $10.5 million, in line with a year ago where it stood at $10.0 million.

For the fourth quarter of 2008, non-interest expenses amounted to $113.0 million, compared with $105.8 million for the fourth quarter of 2007. The year-over-year increase is largely attributable to a higher amortization expense related to technological developments of 2007 and 2008 aimed at improving business development, as well as to the $2.2 million charge resulting from the write-off of development costs following the decision by the Canadian Payment Association not to proceed further with the image-based cheque clearing project.

For the fourth quarter of 2008, the income tax expense was $6.4 million (21.7% effective tax rate), compared to $4.1 million (13.8% effective tax rate) for the fourth quarter of 2007. The lower tax rate for 2008 and 2007 mainly resulted from the favourable effect of holding investments in Canadian securities generating non-taxable income and the lower taxation level on revenues from credit insurance operations. Results for the fourth quarter of 2007 also benefited from the recognition of a $2.2 million income tax benefit following the resolution of certain tax exposures.

ANALYSIS OF THE EVOLUTION OF THE QUARTERLY RESULTS

The Bank's intermediation business provides a relatively stable source of income from one quarter to the next, as it concerns large volumes of loans and deposits not likely to experience significant fluctuations in the short term. However, treasury operations and certain activities related to financial markets, such as securitization operations and trading activities, may experience significant volatility, even more so in 2008 as a result of market conditions. Other transactions, specific events or regulatory developments also influence our results. Considering the lower number of days in the second quarter, results for that quarter are generally slightly lower, as net interest income is calculated on a daily basis. The following table presents the quarterly results for fiscal 2008 and fiscal 2007.

TABLE 16
QUARTERLY RESULTS
(in millions of dollars, except per share amounts)

				2008				2007
For the quarters ended	OCT. 31	JULY 31.	APRIL 30	JAN. 31	OCT. 31	JULY 31	APRIL 30	JAN. 31
Total revenue	$152.8	$171.1	$155.5	$151.1	$145.6	$151.0	$145.7	$141.6
Income from continuing operations	22.9	30.9	25.1	19.1	25.7	23.2	20.7	20.6
Net income	$ 27.3	$ 30.9	$ 25.1	$ 19.1	$ 30.2	$ 23.2	$ 20.7	$ 20.6
Significant items	$ (7.0)	$ 2.0	$ –	$ (5.6)	$ 3.5	$ –	$ 1.6	$ 0.9
Income from continuing operations excluding significant items	$ 29.9	$ 28.9	$ 25.1	$ 24.7	$ 22.2	$ 23.2	$ 19.1	$ 19.7
Net income per common share								
Basic	$ 1.02	$ 1.17	$ 0.93	$ 0.68	$ 1.14	$ 0.85	$ 0.75	$ 0.74
Diluted	$ 1.02	$ 1.17	$ 0.93	$ 0.68	$ 1.14	$ 0.85	$ 0.75	$ 0.74

This table includes non GAAP measures. See notice on page 16.

Excluding the significant items detailed below, net income has gradually improved, mainly through growth in net interest income and securitization revenues.

Factors that significantly impacted quarterly results
Fourth quarter of 2008
- $2.2 million write-off ($1.5 million, net of income taxes) of technology development costs;
- $8.1 million impairment charge ($5.5 million, net of income taxes) on U.S. and international financial institutions fixed-income securities.

Third quarter of 2008
- Gain on sale of Montreal Exchange shares of $12.9 million ($11.1 million, net of income taxes);
- Loss on sale of securities of $5.3 million ($3.6 million, net of income taxes);
- Increase of general provisions of $8.0 million ($5.5 million, net of income taxes).

First quarter of 2008
- Decrease in future tax assets of $5.6 million arising from the reductions in federal income tax rates.

Fourth quarter of 2007
- $2.9 million charge ($2.0 million, net of income taxes) related to the loss in value of asset-backed securities;
- $4.0 million gain ($3.3 million, net of income taxes) related to the worldwide restructuring of Visa;
- $2.2 million income tax recovery, resulting from the resolution of various tax exposures.

Second quarter of 2007
- Favorable effect of various fiscal items for $1.6 million.

First quarter of 2007
- Favorable tax adjustments of $0.9 million, resulting from the adoption of certain measures regarding minimum tax for financial institutions.

ANALYSIS OF FINANCIAL CONDITION

Initiatives taken over the last years to improve our performance have strengthened our financial position. With a clear focus on retail operations and a high level of capital, the Bank continues to be well-positioned to take advantage of opportunities and further its growth.

As at October 31, 2008, the Bank's total assets stood at $19.6 billion, compared to $17.8 billion as at October 31, 2007, as indicated in Table 17. Assets under administration stood at $14.4 billion, compared to $15.6 billion at the end of fiscal 2007. These changes are explained in the coming sections of this MD&A.

TABLE 17
BALANCE SHEET ASSETS
As at October 31 (in millions of dollars, except percentage amounts)

	2008	2007	2006	VARIATION 08/07
Cash, deposits with banks and securities	$ 3,664	$ 3,023	$ 3,412	21%
Assets purchased under reverse repurchase agreements	661	540	802	22
Loans				
Personal	5,302	4,958	4,168	7
Residential mortgages	6,183	6,233	5,986	(1)
Commercial mortgages	933	684	659	36
Commercial and other	1,847	1,557	1,477	19
	14,265	13,432	12,290	6
Allowance for loan losses	(112)	(115)	(125)	(3)
Total loans	14,153	13,317	12,165	6
Customers' liabilities under acceptances	110	112	150	(2)
Other assets	971	795	767	22
Balance sheet assets	$19,559	$17,787	$17,296	10%
Cash, deposits with banks and securities as a % of balance sheet assets	18.7%	17.0%	19.7%	
Loans and assets purchased under reverse repurchase agreements as a % of balance sheet assets	75.7%	77.9%	75.0%	

CASH RESOURCES

The Bank's cash resources correspond to cash and non-interest bearing deposits with other banks, interest-bearing deposits with other banks, securities and assets purchased under reverse repurchase agreements. As at October 31, 2008, these assets stood at $4.3 billion, compared to $3.6 billion as at October 31, 2007. Throughout 2008, we remained cautious and maintained a higher level of liquid assets in response to the credit and liquidity crisis. This has slightly affected net interest margins over the last year; however, it has also improved the Bank's flexibility, which stimulated loan growth.

As at October 31, 2008, the net unrealized loss related to the available-for-sale securities portfolio was $19.8 million, as detailed in Note 4 to the consolidated financial statements. This net unrealized loss primarily results from our corporate bond and equity investment portfolios. These portfolios were affected by declining markets during the second half of fiscal 2008. We believe that these unrealized losses are temporary. Since the Bank has the ability and intent to hold these securities for a period sufficient to allow for recovery of their value, no impairment loss was recognized.

With regard to securities issued by conduits covered by the Montreal Accord, the Bank held approximately $14 million in asset-backed commercial paper and other term notes, as detailed below. Cumulatively, reductions in values of these securities now amount to $5.6 million, or approximately 30%. Considering the conclusion of the Accord, we are confident these are now well-provisioned. Note 4 to the consolidated financial statements provides additional information on these securities. The Bank also holds other asset-backed securities amounting to approximately $27 million. These securities are generally secured by Canadian commercial mortgages which, to date, have continued to perform relatively well.

TABLE 18
INVESTMENTS IN ASSET-BACKED SECURITIES
As at October 31, 2008 (at market value, in millions of dollars)

		TERM NOTES		
	ABCP	CMBS	OTHER ABS (1)	TOTAL
Securities issued by conduits covered by the Montreal Accord	$6	$ –	$ 8	$14
Other securities	–	17	10	27
Total – Asset-backed securities	$6	$17	$18	$41

(1) Excluding mortgage-backed securities, which are fully guaranteed by the Canada Mortgage and Housing Corporation under the National Housing Act (NHA).

ABCP Asset-based commercial paper
CMBS Commercial mortgage-backed securities
ABS Asset-backed securities

As at October 31, 2008, the Bank had no significant direct exposure to highly leveraged loans, collateralized debt obligations (CDO), credit default swap (CDS) or monoline insurers.

Additional information on liquidity and funding risk management is presented on page 49.

LOANS AND BANKERS' ACCEPTANCES

The loans and bankers' acceptances portfolio increased by more than $831 million or 6% since the beginning of the year to $14.4 billion as at October 31, 2008, compared with $13.5 billion at October 31, 2007. The sustained domestic demand for credit favoured by interest rates that remained at historically low levels has allowed for the continued growth in loan portfolios.

Personal loans increased by $344 million in 2008, mainly as a result of the strong growth in B2B Trust's investment loan portfolio. The home equity lines of credit also increased significantly since the beginning of the year. The residential mortgage portfolio decreased by $50 million in 2008. Considering the increase of $837 million in securitized loans, as shown in the table below, total residential mortgage loan growth was $787 million over the same period.

TABLE 19
RESIDENTIAL MORTGAGE PORTFOLIO
As at October 31 (in millions of dollars)

	2008	2007	VARIATION 08/07
On-balance sheet residential mortgage loans	$6,183	$6,233	$ (50)
Securitized residential mortgage loans (off-balance sheet)	2,399	1,562	837
Total residential mortgage loans, including securitized loans	$8,582	$7,795	$787

Commercial mortgages increased by $248 million in 2008, while commercial loans, including bankers' acceptances, increased by $289 million, essentially in Quebec in small and medium sized enterprises.

Impaired loans

Gross impaired loans decreased, from $103.9 million in 2007 to $101.9 million in 2008. Net impaired loans stood at $-10.6 million as at October 31, 2008, compared to $-11.4 million as at October 31, 2007. These metrics reflects the relative improvement in credit quality, considering the significant increase in loan portfolios and attest to the results of various initiatives to lower the Bank's risk profile in 2008. Note 5 to the consolidated financial statements provides more information on this topic.

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

Subprime and Alt-A exposure

We do not market any specific financing products to subprime clients. Subprime loans are generally defined as loans granted to borrowers with a higher credit risk profile than prime borrowers, and we do not grant this type of loan. We occasionally market Alt-A loans, which are generally defined as loans granted to borrowers who provide limited or no income information. The Bank's Alt-A loan volume was $127 million as at October 31, 2008. Approximately $71 million of these loans are insured by the Canada Mortgage and Housing Corporation.

OTHER ASSETS

The other assets, excluding customers' liabilities under acceptances, increased from $795 million as at October 31, 2007 to $970 million as at October 31, 2008. The increase is mainly attributable to the higher value of derivative financial instruments, especially those of swaps used to hedge interest rate risk on loan and deposit portfolios, partly offset by lower future tax assets.

DEPOSITS

The deposit portfolio increased from $13.9 billion as at October 31, 2007, to $15.3 billion as at October 31, 2008. Personal deposits increased by $866 million in 2008, to reach $12.4 billion at October 31, 2008, representing 81% of total deposits. These deposits constitute our preferred funding source because of their relative stability, as well as their lower marginal cost compared to wholesale deposits, despite increased competition. Business and other deposits increased by $590 million during the same period as a result of new deposits from small businesses and municipalities.

Additional information on personal deposits and other funding sources is presented in the Liquidity and funding risk management sub-section of the Integrated Risk Management Framework section.

OTHER LIABILITIES

The Other liabilities increased from $2.8 billion as at October 31, 2007, to $3.0 billion as at October 31, 2008. The increase is mainly attributable to commitments related to securities sold under repurchase agreements, partly offset by commitments related to securities sold short. These financial instruments mainly support our fixed income trading strategies.

SUBORDINATED DEBENTURES

As at October 31, 2008, subordinated debentures stood at $150 million, unchanged from a year ago. As further explained here below, these debentures are an integral part of the Bank's regulatory capital and constitute an additional protection for its depositors.

SHAREHOLDERS' EQUITY

Shareholders' equity stood at $1,083 million as at October 31, 2008, compared to $1,005 million as at October 31, 2007. This increase was generated mainly by the net income for fiscal 2008, net of declared dividends, as well as by the favorable adjustment to accumulated other comprehensive income (AOCI), resulting from the sharp increase in the value of derivatives designated as cash flow hedges. These were partly offset by the increase in unrealized losses on available-for-sale securities. The Bank's book value per common share, excluding AOCI, increased from $33.34 as at October 31, 2007, to $35.84 as at October 31, 2008. During fiscal 2008, the Bank

issued 36,887 common shares under its stock option plan for proceeds of $1.0 million. As at October 31, 2008, there were 23,847,700 common shares and 127,338 share purchase options outstanding.

TABLE 20
SHARES ISSUED AND OUTSTANDING
As at November 27, 2008 (in number of shares)

Preferred shares	
Series 9	4,000,000
Series 10	4,400,000
Total preferred shares	8,400,000
Common shares	23,847,700
Options	127,338

OFF-BALANCE SHEET ARRANGEMENTS

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

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

Assets under administration and assets under management mainly include assets of clients to whom the Bank provides various administrative services, as well as residential mortgage loans under management related to securitization operations. Through Laurentian Bank Securities, the Bank also manages retail and institutional investment portfolios. Table 21 presents all of the assets under administration and assets under management. As at October 31, 2008, these items totaled $14.4 billion, down $1.2 billion compared to October 31, 2007.

Assets related to self-directed plans decreased by $1.2 billion compared to a year ago, as a result of market declines and increased competition in this market segment. Considering that the regulatory environment encourages other financial institutions to manage their clients' self-directed plans themselves, we continue to anticipate that, in the medium term, these activities will continue to be impacted negatively, regardless of market valuations.

Mortgage loans under management increased by 47%, essentially through of securitization operations carried out during fiscal 2008.

Clients' brokerage assets decreased nearly 18%, mainly as a result of poor market performance in 2008. Moreover, institutional assets related to trust services decreased by nearly 7% as compared to October 31, 2007.

Mutual fund assets declined by $310 million, or 19%, during fiscal 2008, essentially because of unfavorable market conditions, as net annual sales of mutual funds were positive. It is worth noting that, since selling its mutual funds management activities to Industrial Alliance in fiscal 2005, the Bank has focused its efforts on the distribution of mutual funds to its retail clientele through its branch network.

Other personal assets in trust decreased by $13 million compared to fiscal 2007.

Fees, commissions and other income from these assets, detailed in Table 12, on page 28 of this Annual Report, represent a significant contribution to the Bank's profitability.

TABLE 21
ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT
As at October 31 (in millions of dollars)

	2008	2007	VARIATION 08/07
Self-directed RRSPs and RRIFs	$ 7,196	$ 8,429	(15)%
Clients' brokerage assets	1,643	1,995	(18)
Institutional	1,702	1,824	(7)
Mortgage loans under management	2,564	1,742	47
Mutual funds	1,306	1,616	(19)
Other – Personal	17	30	(43)
Total – assets under administration and assets under management	$14,428	$15,636	(8)%

DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of its operations, 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 indices on which returns of index-linked deposits are based, and in order to meet the needs of its clients, as well as to earn revenues from its own trading activities. These contracts and commitments constitute derivatives. The Bank does not enter into any credit default swaps.

All derivatives are recorded on the balance sheet at fair value. Derivative values are calculated based on notional amounts. However, these amounts, are not recorded on the balance sheet as they do not represent the actual amounts exchanged. Likewise, notional amounts do not reflect the credit risk related to derivative financial instruments, although they serve as a reference for calculating payments.

The notional amounts of the Bank's derivatives totaled $11.2 billion as at October 31, 2008, compared to $11.1 billion as at October 31, 2007. The net positive fair value of the derivative financial instruments designated as hedge contracts or as other contracts totaled $115 million and -$36 million respectively as at October 31, 2008, compared to negative fair values of $6 million and $4 million respectively as at October 31, 2007.

Notes 20 and 21 to the consolidated financial statements provide further information on the various types of derivative products and their recognition.

SPECIAL PURPOSE ENTITIES

The Bank uses special purpose entities to securitize mortgage loans in order to obtain funding and also, to some extent, to reduce credit risk and manage its capital. The Bank does not act as an agent for clients in this type of activity.

As part of a securitization transaction, an entity transfers assets to a special purpose entity, which generally consists of a Canadian trust, in exchange for cash. The special purpose entity finances these purchases through the issuance of term bonds or commercial paper. Most often, sales of receivables are accompanied by a credit enhancement in order to improve the bonds' or commercial paper's credit ratings. Credit enhancements mainly take the form of cash reserve accounts, over-collateralization in the form of excess assets, and liquidity guarantees. Securitization programs often include interest rate swap contracts in order to guarantee payments to investors.

Securitization operations are reported as sales of assets only when the Bank is deemed to have surrendered control over these assets and to the extent it receives consideration other than beneficial interests in the transferred assets. The Bank mainly uses conduits set up by large Canadian banks, as well as the Canada Mortgage Bonds Program developed by the Canada Mortgage and Housing Corporation (CMHC). As part of these transactions, the Bank provides credit enhancements in the form of cash reserve accounts and rights to future excess interests, which constitute retained interests. Likewise, the Bank has concluded interest swap agreements designed to immunize the special purpose entities against certain interest rate risks and to guarantee payments to investors. The Bank also continues to manage all securitized assets after the sales. As at October 31, 2008, total outstanding securitized residential mortgage loans stood at $2,399 million, and related retained interests stood at $89 million.

Revenues of $34.5 million were recorded in 2008 as part of securitization operations, including $29.6 million in gains on sale and $6.3 million in servicing revenues.

During fiscal 2008, the Bank also recorded a $0.8 million downward adjustment in the value of interest rate swaps contracted in connection with the securitization of residential mortgage loans, subsequent to the liquidity and credit crisis affecting asset-backed commercial paper. Furthermore, during the first quarter of 2008, in order to mitigate interest rate risk related to a commercial mortgage loan portfolio destined for sale through a securitization transaction, the Bank entered into certain hedging transactions. As securitization activities were disrupted by unfavorable market conditions and the hedging transactions did not meet GAAP requirements for hedge accounting, changes in the fair value of the hedging instruments resulted in a loss of $1,971,000. Note 24 to the consolidated financial statements provides more information on these entities.

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

Effect of securitization programs on regulatory capital ratios

Transfers effected through the Canada Mortgage Bonds Program do not have a significant impact on regulatory capital ratios, as the mortgages sold are insured by CMHC and already present a risk weight equal to 0%. Likewise, transfers of conventional residential mortgage loans generally do not have a significant effect on capital ratios, as regulatory capital is adjusted to take into account the credit risk that the Bank continues to assume through retained interests.

Finally, transfers of commercial mortgage loans effected by the Bank generally have a positive effect on capital ratios, as the Bank usually does not retain any credit risk when transferring such loans.

CREDIT COMMITMENTS

In the normal course of its operations, the Bank uses various off-balance sheet credit instruments. The credit instruments used as a means of meeting its clients' financial needs represent the maximum amount of additional credit that the Bank may be obligated to extend if the commitments are used entirely. Note 23 to the consolidated financial statements provides more information on this issue.

GUARANTEES

In the normal course of its operations, the Bank enters into guarantee agreements that satisfy the definition of guarantees provided by the Canadian Institute of Chartered Accountants (CICA) in Accounting Guideline No. 14 "Disclosure of Guarantees" (AcG-14). The principal types of guarantees are standby letters of credit and performance guarantees. Note 23 to the consolidated financial statements provides more information on these guarantees.

TABLE 22
CREDIT COMMITMENTS
As at October 31 (in millions of dollars)

	2008	2007
Undrawn amounts under approved credit facilities(1)	$2,071	$1,958
Documentary letters of credit	$ 6	$ 15
Standby letters of credit and performance guarantees	$ 138	$ 92

(1) Exclude personal credit facilities totalling $1,159,871,000 ($1,064,074,000 as at October 31, 2007) and credit card lines amounting to $922,702,000 ($863,059,000 as at October 31, 2007) since they are revocable at the Bank's option.

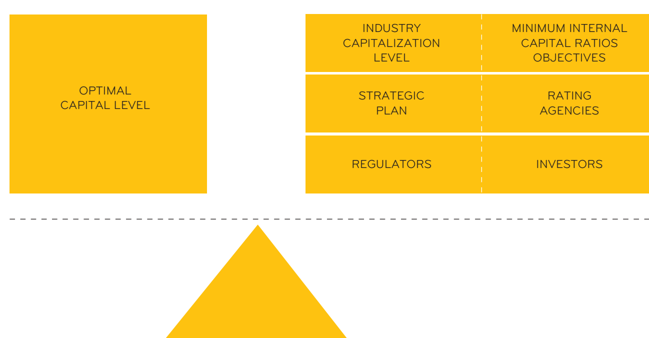
CAPITAL MANAGEMENT

Our goal is to maintain an optimal level of capital to support the Bank's activities while generating an acceptable return for its shareholders, considering the Bank's specific risk profile. Capital must be sufficient to demonstrate the Bank's solvency and its ability to deal with all of its operating risks, as well as to offer depositors and creditors the requisite safety. Capital must also meet minimum regulatory requirements, meet our internal capital adequacy objectives and be aligned with targeted credit ratings. Another of our goals is to increase as much as possible the liquidity of the securities that constitute the Bank's capital in order to improve its access to capital markets, among other things.

The optimal level of capital is established by way of our capital plan. This capital plan is fueled by the Three-Year Plan ensuing from our strategic planning process. It is elaborated from the Three-Year Financial Plan's assumptions, and therefore takes into account the projected growth and the risks related to strategic initiatives, as well as average capital ratios within the industry.

As presented below, various forces influence the Bank's optimal capital level.

FORCES INFLUENCING OPTIMAL CAPITAL LEVEL



The Board of Directors is responsible for the yearly review and approval of the capital management policy and Three-Year Capital Plan. A follow-up on ratios and capital structure is submitted, on a quarterly basis, to the Asset and Liability Management Committee, and the level of capital is also reviewed, on a quarterly basis, by the Board of Directors' Risk Management Committee. The Bank's Treasury department and the Integrated Risk Management Group are responsible for the writing and implementation of the policies related to capital management.

REGULATORY CAPITAL

We closely monitor the quality of the Bank's capital as it represents a critical factor in the assessment of its strength and security in relation to all the risks associated with its activities. The calculation of regulatory capital is subject to the guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI). These guidelines originate from the Bank for International Settlements (BIS) regulatory risk-based capital framework. According to BIS standards, banks must maintain a minimum Tier 1 capital ratio of 4% and a total capital ratio of at least 8%. OSFI's guidelines establish that Canadian deposit-taking financial institutions have to achieve a minimum Tier 1 capital ratio of at least 7% and a total capital ratio of at least 10%. Tables 23 and 24 outline the risk-weighted assets and the regulatory capital which are used to calculate BIS ratios.

New Basel Framework

The Basel Committee on Banking Supervision has formulated a new framework (Basel II) that became effective on November 1, 2007. This framework is supported by three pillars instead of one, namely the minimum capital requirements, a prudent monitoring framework and financial disclosure. Basel II takes greater consideration of real risks, and allows a choice amongst three risk evaluation methods to assess credit risk and operational risk. The Bank decided to use the Standard Approach for credit risk and the Basic Indicator Approach for operational risk. The adoption of this new framework has slightly improved the Bank's capital ratios.

Fiscal 2008 was the first year where we had to comply with the new Basel II framework. As such, significant efforts were spent to ensure we met requirements from all three Pillars.

TABLE 23
RISK-WEIGHTED ASSETS
As at October 31 (in millions of dollars)

	2008[1]	2007[1]
Balance sheet items		
Cash resources	$ 9.8	$ 85.6
Securities	310.1	328.3
Mortgage loans	2,426.2	2,636.5
Other loans and customers' liabilities under acceptances	5,057.6	5,906.5
Other assets	422.8	476.3
General allowances	n.a.	65.3
Total – balance sheet items	8,226.5	9,498.5
Off-balance sheet items		
Derivative financial instruments	77.0	28.6
Credit-related commitments	250.2	196.8
	8,553.7	9,723.9
Operational risk	1,075.4	–
Total – risk-weighted assets	$ 9,629.1	$ 9,723.9

(1) Regulatory capital as of November 1, 2007 is now based on capital adequacy requirements under Basel II. Prior year figures are based on the previous Basel I framework.

TABLE 24
REGULATORY CAPITAL – BIS
As at October 31 (in millions of dollars, except percentage amounts)

	2008[1]	2007[1]	VARIATION 08/07
Tier I capital			
Common shares	$ 257.4	$ 256.4	–%
Contributed surplus	0.2	0.1	100
Retained earnings	597.0	537.3	11
Non-cumulative preferred shares	210.0	210.0	–
Less: goodwill, securitization and other[2]	(99.2)	(53.8)	84
Total – Tier I capital (A)	965.4	950.0	2
Tier II capital			
Subordinated debentures	150.0	150.0	–
General allowances	73.2	65.3	12
Less: securitization and other	(31.7)	(33.9)	(6)
Total – Tier II capital	191.5	181.4	6
Regulatory capital – BIS (B)	$ 1,156.9	$ 1,131.4	2%
Total risk-weighted assets (Table 23) (C)	$ 9,629.1	$ 9,723.9	
Tier I BIS capital ratio (A/C)	10.0%	9.8%	
Total BIS capital ratio (B/C)	12.0%	11.6%	
Assets to capital multiple	17.0x	15.8 x	
Tangible common equity as a percentage of risk-weighted assets	8.2%	7.5%	

(1) Regulatory capital as of November 1, 2007 is now based on capital adequacy requirements under Basel II. Prior year figures are based on the previous Basel I framework.
(2) Only goodwill was deducted from Tier I capital in 2007 as per Basel I.

DIVIDENDS

The steady improvement of the Bank's financial results over the past four years, along with management's and the Board of Directors' confidence regarding the Bank's future performance, led the Board of Directors to approve, in the third quarter of 2008, a $0.02, or 6%, raise in the quarterly dividend, thus bringing it to $0.34 per common share. The Board of Directors must approve dividend payments on preferred and common shares on a quarterly basis. Moreover, the declaration and payment of dividends are subject to certain legal restrictions, as explained in Note 13 to the consolidated financial statements. For fiscal 2009, the level of dividend payments on the Bank's common shares could be set below 40% of net income per share to maintain an optimal level of capital so as to support the Bank's operations.

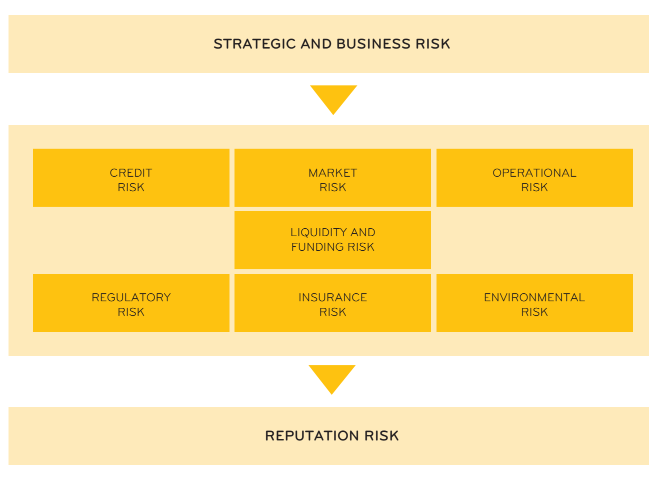
TABLE 25
SHARE DIVIDENDS AND PAYOUT RATIO
For the years ended October 31 (in millions of dollars, except per share amounts and payout ratios)

	2008	2007	2006
Dividends declared on preferred shares	$11.8	$11.8	$ 11.8
Dividends declared per common share	$1.30	$1.16	$ 1.16
Dividends declared on common shares	$31.0	$27.5	$ 27.4
Payout ratio	34.2%	33.3%	46.7%

INTEGRATED RISK MANAGEMENT FRAMEWORK

The Bank is exposed to various types of risks owing to the nature of its commercial activities. To ensure that all of the significant risks it could face are taken into consideration, we have created an Integrated Risk Management Framework designed to enable the directors to properly supervise risk evaluation and control.

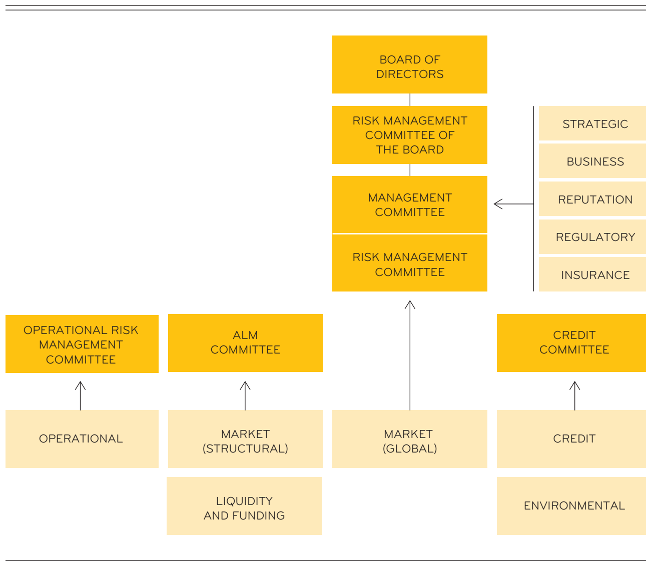
INTEGRATED RISK MANAGEMENT FRAMEWORK



One of the main objectives of this framework is to maintain and develop a risk management culture centered on establishing measures that allow for the maximization of the risk/return ratio in all of the Bank's areas of activity. These measures primarily entail:

- The establishment of processes to continuously detect, understand and evaluate major risks;
- The adoption of sound and prudent risk limits and risk management policies;
- The establishment and application of effective internal controls;
- The definition of the Management Committee's roles and responsibilities regarding risk management; and
- The alignment of the Bank's strategy and objectives with its risk tolerance.

Risk management is conducted according to tolerance levels established by our management committees and approved by the Board of Directors and its committees. Risks are therefore managed in compliance with policies and risk limits approved by the Board of Directors and in accordance with the governance structure outlined below.



ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS' COMMITTEES

The **Board of Directors** ascertains that the Bank is equipped with an appropriate strategic management process that takes risks into consideration. Moreover, on the strength of the certifications and consolidated reports prepared by Management, the Board of Directors assesses, on a yearly basis, whether the Bank presents an environment conducive to control.

The **Board of Directors' Risk Management Committee** must ascertain that the Integrated Risk Management Framework is implemented, and periodically reviews its operation. It must also ascertain that the Framework is equipped with an appropriate risk management process directed at identifying, measuring, quantifying and managing risks, as well as the elaboration of appropriate policies with regard to market, liquidity, credit and operational risks.

ROLES AND RESPONSIBILITIES OF INTERNAL RISK MANAGEMENT COMMITTEES

The **Management Committee** ensures that the Integrated Risk Management Framework is properly implemented. It assesses and reviews the risk management policies on market, liquidity and funding, credit, operational and reputation risks. It also reviews the Code of Ethics and the Compliance Policy. It is also responsible for setting up the necessary framework for business, regulatory, strategic, reputation and insurance risk management. The President and Chief Executive Officer presides over the committee.

The **Operational Risk Management Committee** (and its sub-committees on fraud prevention, business continuity, and security and information technology governance) reviews and recommends to the Management Committee the approval of policies on operational risk management and revises the report on operational losses incurred. Moreover, it reviews and approves the tools for the identification and evaluation of the frequency and impact of operational risks, reviews reports for the Management Committee on the business segments' action plans designed to mitigate and better manage operational risk, and finally, revises the operational risk indicators.

The **Asset and Liability Management Committee** oversees the activities related to the management of the structural interest rate risk and of the liquidity and funding risk, as well as to capital management. Specifically, it:

- oversees orientations with regard to structural risk monitoring, as well as the attainment of interest margin results by business segments;
- approves gap and liquidities assumptions and ascertains that the transfer cost rules are in compliance with the said assumptions, and
- approves the strategies related to funding and capital.

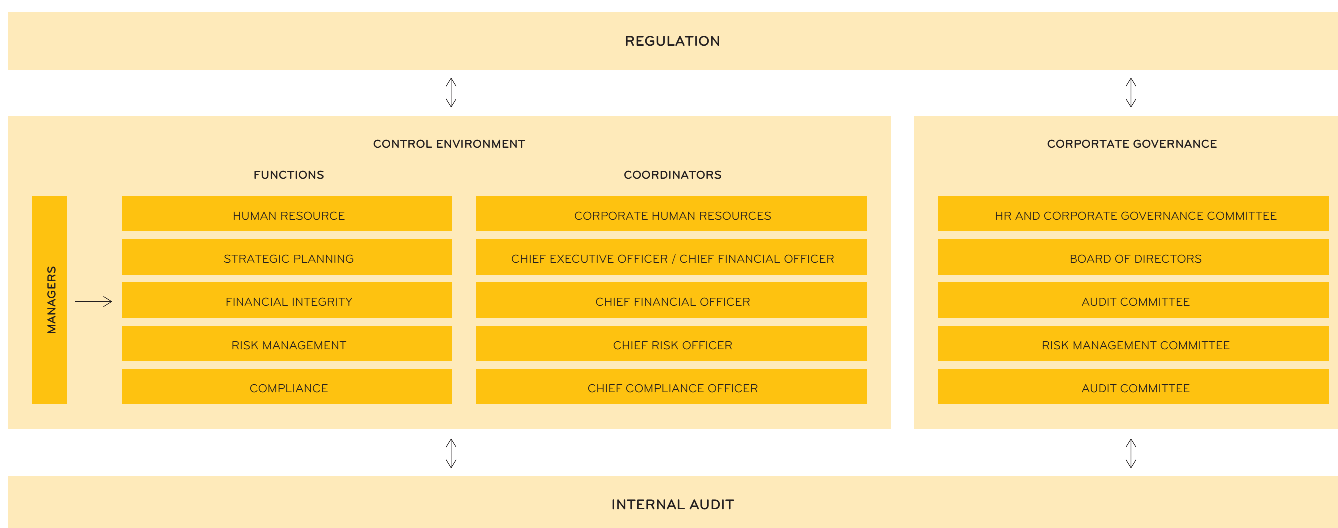
The management **Credit Committee** is primarily responsible for ensuring that credit policies and procedures are drafted and that information systems related to the management of the Bank's current and potential credit risks are implemented, as well as for authorizing loans within established limits. It also reviews delinquency on all types of loans and authorizes loan losses within established limits and ensures the sufficiency of the provisions for loan losses.

GOVERNANCE FUNCTIONS SUPPORTING INTEGRATED RISK MANAGEMENT

The following table presents the Bank's corporate control and governance structure (hereafter the "Structure"), which includes several governance functions designed to contribute to integrated risk management. The Structure is divided into two distinct areas, that is, the control environment and corporate governance. The control environment refers to the documented and applied monitoring and control processes, procedures and measures that allow the Bank to manage and control its commercial activities, as well as the significant risks it incurs. The control environment thus rests on five functions: human resources, strategic planning, financial integrity, risk management and compliance. Regarding corporate governance, the Board of Directors has the ultimate responsibility to ensure, as much as possible, that the global risk tolerance is consistent with the Bank's strategies and objectives, and that its resources, technologies and processes are aligned with its objectives. Responsibility for each function is delegated to certain members of management acting as control environment coordinators, and functions are supervised by the Board of Directors' committees.

The internal audit sector also plays a key role in the Framework structure through the set-up of reliable and comprehensive systems designed to adequately monitor the effectiveness of the controls exercised within the different Framework functions. Regulatory and statutory requirements form an integral part of the Bank's Integrated Risk Management Framework.

CORPORATE CONTROL AND GOVERNANCE STRUCTURE



STRATEGIC AND BUSINESS RISK MANAGEMENT

Strategic risk results from inadequate business plans, strategies, decision-making processes, allocation and use of the Bank's resources, as well as its inability to adapt to changes in its operational environment.

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

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

CREDIT RISK MANAGEMENT

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

Credit risk management is independent of operations, thus protecting the independence and integrity of risk assessment. The management Credit Committee is responsible for the operational supervision of overall credit risk management. A credit risk management report is presented on a quarterly basis to the Management Committee and to the Board of Directors' Risk Management Committee. The credit risk management policies adopted by the Bank provide for appropriate risk assessment. These policies include approval of credit applications by the line of authority concerned, attribution of risk ratings, management of impaired loans, establishment of general and specific provisions, and pricing based on risk. The policies are periodically reviewed and approved by the Board of Directors' Risk Management Committee.

The authorization process for counterparties and loans is centralized. The Bank uses expert systems to support the decision-making process relating to most applications for personal consumer credit, residential mortgage loans and credit cards, as well as for small commercial loans. With regard to other commercial loans, applications are analyzed on an individual basis by specialized teams. The Bank ensures a rigorous and systematic monitoring of its loan portfolio, both in terms of quality and quantity, through mechanisms and policies concerning the systematic revision of various categories of files, risk rating updating systems and pricing analysis. Each month, the Bank's Credit Committee reviews impaired loans and performs high-level analyses on loans where payment is past due by 90 days or more. Collection processes are centralized and are based on specialized expertise.

The Bank has various risk management tools at its disposal. These include an 18-level risk rating system used to evaluate all types of commercial credit. Above a specific rating, files are considered to be under credit watch and are managed according to particular procedures. With regard to the portfolios' quality, a loan is considered impaired when interest payments are past due by three months or more, or if management considers that there is reasonable doubt that all of the interest and principal will be repaid at maturity.

Specific allowances for losses are set aside to bring the book value of impaired loans to the estimated realizable present value. Commercial and real estate impaired loan allowances are revised on an individual basis, as part of a continuous process.

For consumer impaired loans, provisions are established on portfolios based on a formula that takes into account the loss history. Further details on impaired loans are provided in Table 26 on page 45.

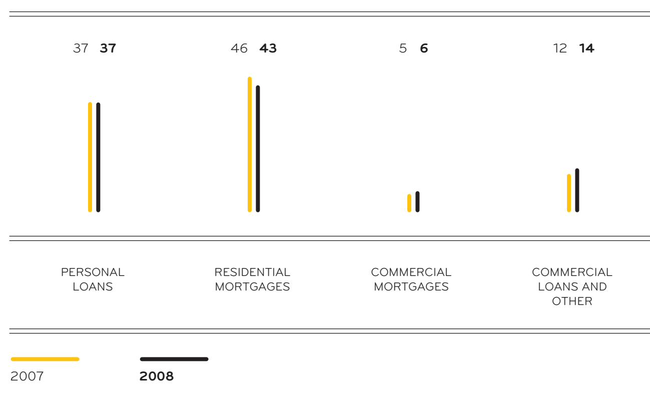
In addition to specific provisions, the Bank establishes a general provision in order to provide for eventual losses arising from its performing loan portfolios, according to a method that includes factors such as the size of the portfolios, their risk profile and loss history.

Diversification is one of the fundamental principles of risk management. To this effect, the credit policy establishes the guidelines intended to limit concentration of credit by counterparty and sector of activity, and identifies sectors that are considered risky and should thus be avoided. The loan portfolios mix is detailed in the following tables.

Loan portfolios mix

The Bank's loan portfolio consists of personal loans, residential mortgages, commercial mortgages and commercial loans, including bankers' acceptances. The proportion of each category of loans as at October 31, 2008 is essentially the same as at October 31, 2007. The personal loan portfolio and the residential mortgage loan portfolio stood at $5.3 billion and $6.2 billion respectively, representing nearly 80% of the Bank's loan portfolio, the same as in 2007. This proportion reflects the Bank's strong presence with individual clients through its Retail & SME Quebec and B2B Trust business segments. Commercial financing increased by 23% to $2.9 billion at the end of fiscal 2008. These loans are essentially granted to small and medium-sized businesses, as well as within the framework of the Immigrant Investor program.

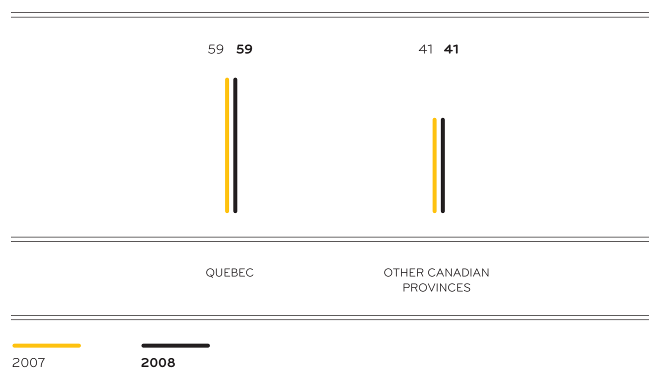
LOAN PORTFOLIO MIX
(as a percentage)



Geographic distribution

In line with its business plan, the Bank is mainly active in Quebec through its retail branches and commercial business centres networks. Furthermore, the Bank extends its operations across Canada through other business centres and a vast network of brokers and independent financial advisors, as well as through its close relations with retailers acting as intermediaries for point-of-sale financing activities. It should also be noted that B2B Trust's operations are conducted mainly from Toronto. As at October 31, 2008, the proportion of loans granted in Quebec represented 59% of total loans, a level similar to last year's (59%), while the proportion of loans granted outside Quebec stood at 41%.

GEOGRAPHIC DISTRIBUTION OF LOANS
(as a percentage)



Insurance and guarantees

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

CMHC offers a mortgage loan insurance program designed to guarantee loans in order to give Canadians access to mortgage financing at an affordable cost. The Bank participates in this program as an approved lender, which enables it to benefit from insurance coverage, and thus reduce its global credit risk and improve its capital ratios. Moreover, by maintaining a high proportion of insured residential mortgages, the Bank preserves its capacity to pursue securitization operations which enable it to optimize the financing of its activities and manage its cash resources. By year-end 2008, 48% of residential mortgages were insured by CMHC, compared to 45% in 2007. In other respects, the Bank considers that it holds excellent guarantees for the other conventional mortgage loans whose loan value never exceeds 80% of the initially estimated value of the property, in accordance with legal requirements.

Buildings with five units or less, a significant number of which are single-family units, comprise 89% of the volume of residential mortgages outstanding. The average balance of these loans stood at approximately $92,000 at year-end 2008.

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

B2B Trust's investment loan portfolio mainly consists of mutual fund loans. Loans underwriting is subject to a rigorous process which allows for the efficient management of the credit risk associated with the clients. Authorizations are heavily based on clients' capacity to reimburse loans, as well as their financial strength. Moreover, the portfolio is periodically analyzed to identify potential credit issues. B2B Trust maintains a comprehensive list of assets that qualify as guarantee. Stricter criteria must be met as the loan-to-value ratio increases. For loans where disbursements are significant, income and net asset information are always required. To date, no significant deterioration of the financial strength of this portfolio has been identified.

Changes in loan portfolio mix

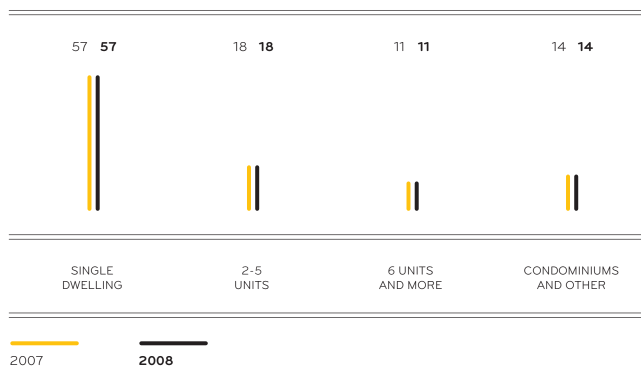
Personal loans

As at October 31, 2008, the personal loan portfolio stood at $5.3 billion, an increase of $344 million compared to October 31, 2007. This increase is mainly attributable to B2B Trust's investment loan portfolio which continued to grow despite less favorable market conditions during fiscal 2008. The lines of credit portfolio has also increased, by $93 million, during fiscal 2008 and stood at $887 million as at October 31, 2008, including $414 million in home equity lines of credit. Finally, the portfolio of loans subscribed through the point-of-sales financing network throughout Canada has decreased by $158 million during fiscal 2008, reflecting management's decision to gradually reduce the risk related to these operations.

Residential mortgage loans

As shown in Table 19 on page 35, the residential mortgage loan portfolios, including on-balance sheet loans and securitized loans, increased by 10% or $787 million during fiscal 2008. This achievement is mainly attributable to the solid performance of our distribution networks and to the continuing strength of the real estate market in Canada.

RESIDENTIAL MORTGAGE LOANS BY PROPERTY TYPE
(as a percentage)

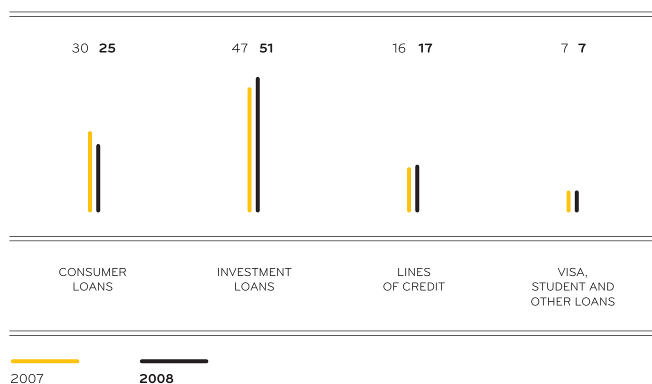


Commercial mortgage loans

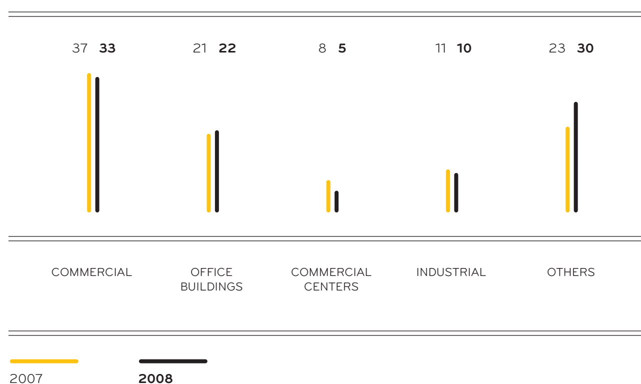
The volume of commercial mortgage loans increased by 36% over fiscal 2007, and stood at $932 million as at October 31, 2008, compared to $685 million as at October 31, 2007. The Bank holds an enviable position in the field of commercial mortgage loans all over Canada and, as such, was able to benefit from the expanding Western markets, as well as opportunities in Quebec and Ontario.

As at October 31, 2008, Ontario and Western Canada represented 63% of the commercial mortgage loan portfolio and Quebec 37%, whereas their respective shares were 65% and 35% as at October 31, 2007.

PERSONAL LOAN PORTFOLIO MIX
(as a percentage)



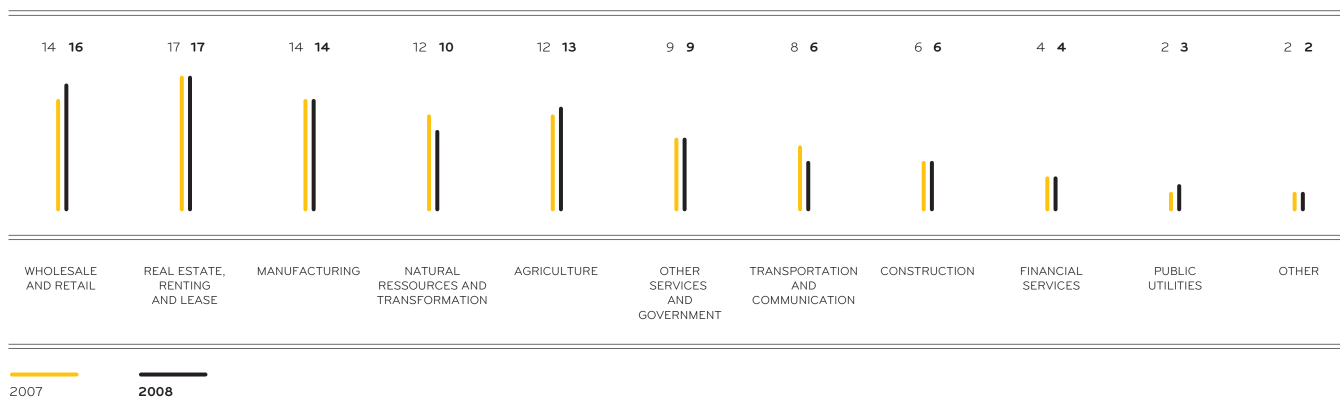
COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE
(as a percentage)



Commercial loans

As at October 31, 2008, the portfolio of commercial loans, including bankers' acceptances, stood at $2.0 billion, slightly higher than as at October 31, 2007, when it stood at $1.7 billion. This increase is mainly attributable to the portfolio's growth in Quebec, while it slightly decreased in Ontario. Commercial loans also include loans granted under the Immigrant Investor program, which grew to $128 million as at October 31, 2008. The Bank continues to focus its development efforts on those business sectors where it can effectively compete and grow its business.

COMMERCIAL LOANS BY INDUSTRY
As at October 31 (as a percentage)



Impaired loans

Gross impaired loans decreased, from $103.9 million in 2007 to $101.9 million in 2008. Net impaired loans stood at $-10.6 million as at October 31, 2008, compared to $-11.4 million as at October 31, 2007. These metrics reflects the relative improvement in credit quality, considering the significant increase in loan portfolios and attest to the results of various initiatives to lower the Bank's risk profile in 2008.

General allowances stood at $73.3 million as at October 31, 2008, compared to $65.3 million as at October 31, 2007. Considering the increase in loan volumes and the deteriorations in economic conditions, the Bank recorded an additional general provision for loan losses of $8.0 million during 2008. This general provision reflects the estimate of potential losses attributable to the deterioration in credit quality of loans that have still not been categorized as impaired.

Note 5 to the consolidated financial statements provides more information on these topics.

TABLE 26
IMPAIRED LOANS
As at October 31 (in millions of dollars, except percentage amounts)

	2008			2007		
	GROSS	SPECIFIC ALLOWANCES	NET	GROSS	SPECIFIC ALLOWANCES	NET
Personal loans	$ 19.2	$ (6.6)	$ 12.6	$ 16.2	$ (6.0)	$ 10.2
Residential mortgages	16.6	(1.4)	15.2	20.4	(1.4)	19.0
Commercial mortgages	6.3	(1.9)	4.4	4.3	(1.5)	2.8
Commercial and other loans	59.8	(29.3)	30.5	63.0	(41.1)	21.9
Total	$101.9	$ (39.2)	$ 62.7	$103.9	$ (50.0)	$ 53.9
General allowance			(73.3)			(65.3)
Total – net impaired loans			$(10.6)			$ (11.4)
As a % of total loans, bankers' acceptances and assets purchased under reverse repurchase agreements			(0.1)%			(0.1)%

TABLE 27
GEOGRAPHIC DISTRIBUTION OF IMPAIRED LOANS BY CREDIT PORTFOLIO AND INDUSTRY
As at October 31, 2008 (in millions of dollars)

Personal loans	$ 19.2
Residential mortgages	16.6
Commercial mortgages	6.3
	42.1
Commercial and other loans	
Manufacturing	22.3
Natural ressources and transformation	7.8
Public utilities	6.0
Real estate, renting and lease	5.8
Agriculture	4.9
Wholesale and retail	3.4
Transportation and communication	2.9
Construction	2.1
Financial services	0.8
Other services and government	0.7
Other	3.1
	59.8
Total impaired loans	101.9
Quebec	
Personal loans	9.0
Residential mortgages	6.6
Commercial mortgages	6.1
Commercial and other loans	47.1
	68.8
Other Canadian provinces	
Personal loans	10.2
Residential mortgages	10.0
Commercial mortgages	0.2
Commercial and other loans	12.7
	33.1
Total impaired loans	$ 101.9

MARKET RISK MANAGEMENT

Market risk corresponds to the financial losses that the Bank may incur due to unfavourable fluctuations in the value of balance sheet or off-balance sheet financial instruments, following movements in parameters that underlie their evaluation, notably interest rates, exchange rates, and stock market prices. This risk is inherent to the Bank's financing, investment, trading and assets and liabilities management activities.

Interest rate risk corresponds to the financial losses the Bank may incur following unfavourable fluctuations of interest rates. The section covering asset and liability management activities describes the global management of interest rate risk.

Foreign exchange risk corresponds to the loss in Canadian dollars that the Bank may incur because of unfavourable fluctuations of exchange rates. It originates mainly from the foreign exchange positions maintained by the Bank to support the offering of products and services in currencies other than the Canadian dollar, along with arbitrage activities and to a lesser extent mismatches in currencies of balance sheet and off-balance sheet asset and liability items and mismatches in receipts and payments of funds in foreign currencies.

Equity risk corresponds to financial losses the Bank may incur following unfavourable fluctuations in some equity prices or in the equity market in general.

Policies and standards

The primary objective of effective market risk management, considered as a priority at the Bank, is to optimize the risk/return relationship within previously defined limits, taking into account the degree of risk that the Bank is willing to assume.

The Bank has thus adopted policies and ceilings that enable it to oversee and limit exposure to market risks arising from

its trading, investment and asset and liability management activities. The policies and limits established reflect the line of conduct of the Bank regarding the management of various risks associated with its treasury activities. These policies and limits are approved by the Management Committee and the Board of Directors Risk Management Committee at least annually, to ensure their compliance with the retained principles, objectives and management strategies.

Detailed reports on the level of risk and the monitoring of limits are produced daily and are presented:

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

Methods of evaluating and controlling market risks (interest rate, foreign exchange and equity)

The evaluation of market risks at the Bank is supported by a combination of two groups of measures:

- "notional" limits and other various measures of sensitivity; and
- value at risk (VAR) and stress testing.

Notional limits and sensitivity measures

The Bank sets limits that are consistent with its business plan and its tolerance for market risk. In setting limits the Bank takes into account market volatility, market liquidity, organizational experience and business strategies. Limits are prescribed at the portfolio level, the business line level, and at the aggregate Bank level. Market risk limits are based on the key risk drivers in the business and can include notional limits and limits on sensitivity measures (including measures of volatility and parallel yield curve shifts). The Bank uses a combination of these methods according to the complexity and nature of its activities.

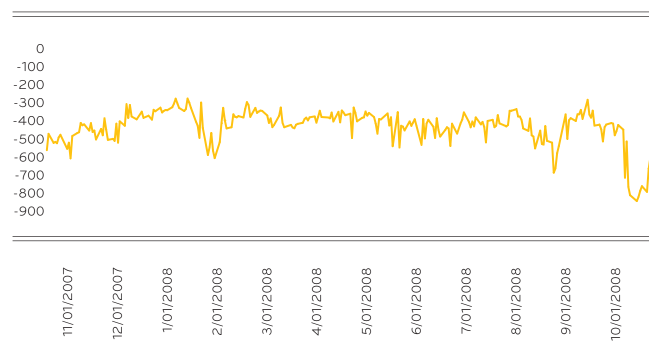
Value at Risk

Value at Risk corresponds to the maximum loss the Bank may incur over a one-day period, with a confidence level of 99%. Consequently, the chances that real losses incurred exceed the VAR are theoretically of 1%. To calculate the VAR, historical simulations that implicitly take into account correlations between various risk factors are performed. The VAR is based on 300 days of historical data. Values at risk are calculated daily for all financial market activities. Values at risk related to trading portfolios are compared daily with the limits approved. In parallel with VAR calculations, the impact of stress tests on profits and losses is evaluated for most portfolios and allow the monitoring of the impact of abnormal market events.

Trading activities

Trading activities are aligned with the needs of the Bank and those of its customers. The market risk associated with trading activities ensues from activities for which the Bank acts as the principal or agent for its customers. These activities are primarily carried out by Laurentian Bank Securities and, to a lesser extent, by the Bank's Treasury. The graph below presents the daily total value at risk of the trading portfolio for fiscal 2008.

DAILY TRADING VAR EVOLUTION OVER THE LAST 12 MONTHS
(C$ thousands)



ASSET AND LIABILITY MANAGEMENT ACTIVITIES

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

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

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

Both the dynamic management and disciplined control of structural risk are intended to maximize the Bank's profitability and preserve the economic value of common shareholders' equity. To attain this objective, various treasury and derivative instruments, mainly interest rate swaps, futures and options, are used to modify the interest rate characteristics of the instruments that underlie the balance sheet and to cover the risk inherent in options embedded in loan and deposit products.

Structural risk is managed by the Bank's Treasury department and monitored by the Asset and Liability Management Committee in accordance with the structural risk management policy approved by the Management Committee and the Risk Management Committee of the Board of Directors. This policy defines limits relative to the evaluation of economic value and interest income risk. Risk limits are calculated by simulating the impact of immediate and sustained parallel movements of 100 basis points in rates for all maturities.

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

Portfolio positions are reviewed periodically by the Extended Asset and Liability Management Committee, which is in charge of monitoring the Bank's positioning with regard to anticipated interest rate movements and recommending hedging of all undesirable or unforeseen interest rate risk. In addition, risk monitoring reports are presented periodically to the Management Committee and the Board of Directors' Risk Management Committee.

To ensure sound management of structural risk, a repricing gap report is produced periodically. This statement is then used as the basis for the simulation analysis of the impact of interest rate variation on net income and economic value of common shareholders. One of the simulation exercises consists of subjecting the Bank's balance sheet to parallel sudden and sustained 1% and 2% increases and decreases in interest rates. For example, as at October 31, 2008, for all portfolios, a 1% increase in interest rate would have triggered an increase of approximately $8.9 million in net income before taxes over the next 12 months and a $27.1 million negative impact on the economic value of common shareholders' equity. Table 28 below provides detail on other interest rate movements. These results reflect Management's efforts to take advantage of short- and long term interest rate movements, while maintaining the sensitivity to these fluctuations well within the limits. The Bank's interest rate gap position as at October 31, 2008 appears in Note 22 of the Consolidated Financial Statements.

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

	2008		2007	
	NET INTEREST INCOME RISK	**ECONOMIC VALUE OF EQUITY RISK**	NET INTEREST INCOME RISK	ECONOMIC VALUE OF EQUITY RISK
Before-tax impact of:				
100bp increase in rates	**9**	**(27)**	(4)	(29)
100bp decrease in rates	**(11)**	**28**	2	30
Before-tax impact of:				
200bp increase in rates	**18**	**(53)**	(8)	(57)
200bp decrease in rates	**(21)**	**56**	3	62

OPERATIONAL RISK MANAGEMENT

Operational risk is inherent to the activities of financial institutions. It results from an insufficiency or failure attributable to processes, persons, internal systems or external events. Although it cannot be eliminated, its management is integrated in the decision-making process of the Bank's directors, members of senior management and managers.

The operational risk management policy, reviewed annually by the Board of Directors' Risk Management Committee, describes the operational risk management framework and defines the roles and responsibilities of various stakeholders. The Operational Risk Management Committee, which reports to the Management Committee, constitutes one of the basic elements of the operational risk governance structure. However, it is incumbent upon managers of business units and subsidiaries to proactively manage the operational risk inherent in their daily operations. The Operational Risk Management group must oversee the operational risk management process. The Bank's Internal Audit department contributes to this process by transmitting the conclusions of its auditing mandates to the Operational Risk Management group as well as to the Risk Management Committee and the Board of Directors' Audit Committee.

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

Adoption of policies by the Board of Directors

The operational risk management framework includes the following policies: operational risk management policy; outsourcing risk management policy; information security risk management policy; and professional liability risk management policy.

Collection of operational loss data

Data concerning operational losses are centralized within the Operational Risk Management group.

Identification of operational risk

Managers must identify the risks ensuing from their activities, including risks related to new products, new activities and new methods.

Evaluation of operational risks

All of the Bank's activities are grouped within large processes. Following any significant change to these processes or to a new process, managers must perform an evaluation in order to attribute the appropriate risk rating to each of their processes. If necessary, action plans are designed to minimize the detected risks.

Management of operational risk

Operational risk management means, among other things, deciding to accept, control, avoid or transfer certain risks and put in place appropriate procedures and control measures. The Bank uses several means to minimize or transfer its risks, including participation in a corporate insurance program and formulation of a global plan for business continuity. Furthermore, a Fraud Prevention Committee, composed of security officers and business unit representatives meets periodically to analyze the trends with regard to fraud and continuously improve the Bank's methods and means of preventing fraud.

Production of operational risk reports

The Operational Risk Management group produces reports that are sent to managers, members of management and directors. These reports include information on operational losses per risk category and major business line.

LIQUIDITY AND FUNDING RISK MANAGEMENT

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

Liquidity and funding risk is globally managed by the Bank's Treasury department and supervised by the extended Asset and Liability Management (ALM) Committee, in compliance with the Pledging Management Policy and the Liquidity and Funding Management Policy. The main purpose of these policies is to insure that the Bank always has sufficient cash resources to meet its current and future financial obligations, both under normal conditions and special circumstances.

The Bank monitors cash resources daily and ascertains that liquidity indicators' measures 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 funding. 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 funding 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 sources of funding. Funding strategies also include the securitization of loans and the use of capital markets, either through the issuance of capital stock or debt instruments.

A liquidity contingency plan is in place to provide measures that enable the Bank to fulfill its obligations in the event of a liquidity crisis.

Detailed information on cash resources

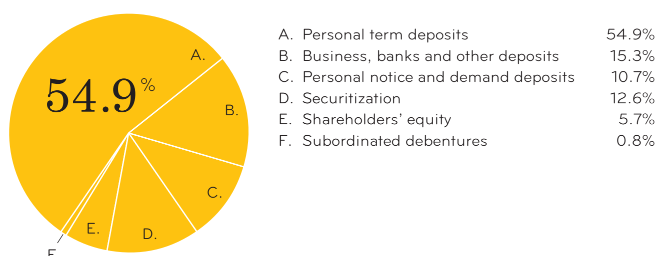
The Bank's cash resources correspond to cash and non-interest bearing deposits with other banks, interest-bearing deposits with other banks, securities and assets purchased under reverse repurchase agreement. As at October 31, 2008, these assets stood at $4.3 billion, compared to $3.6 billion as at October 31, 2007. Compared to a year ago, cash resources have increased by $762 million. This higher level of liquid assets has improved the Bank's flexibility during the financial crisis. More than 66% of the Bank's cash resources are composed of securities issued or guaranteed by the Canadian government, by provinces or municipal corporations. The remainder of the portfolio is composed of cash, other debt securities and equity securities. These cash resources enable the Bank to meet its short-term commitments, particularly disbursing loans and managing its deposit portfolio maturities, and provide for its other current operating needs.

SECURITIES
(as a percentage)

Funding

The impact of the liquidity and credit crisis which has affected global markets over the last 18 months has had only a limited effect on the Bank in 2008. The Bank held only small fraction of asset-backed securities or securities issued by troubled financial institutions. Moreover, the Bank's main funding sources namely retail deposits and securitization of residential mortgages through the Canada Mortgage Bonds (CMB) Program, have remained unaffected by these events at this time. Nevertheless, the Bank continues to keep a close watch over the situation.

FUNDING SOURCES
(as a percentage)



Personal deposits

Total personal deposits increased to $12.4 billion as at October 31, 2008, compared to $11.6 billion as at October 31, 2007. This higher level of deposits has contributed to solidifying the Bank's balance sheet and facilitated loan growth. Personal deposits collected through the branch network and through financial intermediaries totaled $4.6 billion and $5.8 billion respectively, as at October 31, 2008. A significant proportion of these deposits is insured by the Canada Deposit Insurance Corporation, up to $100,000 per client, per regulated deposit taking financial institution. Personal deposits constitute a particularly advantageous and stable source of financing for the Bank, owing among other things to their availability and low cost, compared to institutional deposits. As at October 31, 2008, these deposits constituted 81% of the Bank's total deposit portfolio.

Business, bank and other deposits

Deposits from businesses, banks and other increased by $590 million and stood at $2.9 billion as at October 31, 2008, compared to $2.3 billion as at October 31, 2007. This increase is mainly attributable to the growth in deposits raised from small businesses and municipalities in Quebec.

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

	2008		2007	
Personal				
Notice and demand	$ 2,022	13.2%	$ 1,891	13.6%
Term				
Branch network	4,628	30.2	4,315	31.1
Brokers	5,780	37.6	5,359	38.6
	10,408	67.8	9,674	69.7
Sub-total – personal	12,430	81.0	11,565	83.3
Business, banks and other				
Notice and demand	899	5.9	859	6.2
Term	2,005	13.1	1,455	10.5
Sub-total – Business, banks and other	2,904	19.0	2,314	16.7
Total – deposits	$15,334	100.0%	$13,879	100.0%

Credit ratings

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

The Bank's credit ratings improved during fiscal 2008. As of the date of this report, the rating outlooks, as determined by the Dominion Bond Rating Service Limited and Standard & Poor's credit rating agencies, were positive and stable, respectively[1].

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

TABLE 30
CREDIT RATINGS
As at October 31, 2008

	DBRS	STANDARD & POOR'S
Deposits and senior debt	BBB (high)	BBB
Short-term instruments	R-1 (low)	A-2
Subordinated debentures	BBB	BBB-
Preferred shares	Pfd-3 (high)	BB+

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

Each DBRS rating category is appended with one of three rating trends – "Positive," "Stable," "Negative" – in addition to "Under Review." The rating trend helps to give the investor an understanding of DBRS's opinion regarding the outlook for the rating in question. However, the investor must not assume that a positive or negative trend necessarily indicates that a rating change is imminent.

Contractual obligations

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

In addition, the Bank must also ensure that cash resources are available to meet the requirements related to some infrastructure investments, notably the renovation of its branch network, the modernization of its information technology platforms, as well as to projects related to regulatory requirements compliance. These projects will inevitably require significant investments, estimated between $35 million and $45 million annually, over the next years.

The following table presents a summary of the Bank's principal contractual obligations as at October 31, 2008, maturing over each of the next five years and thereafter. Note 23 to the consolidated financial statements provides further information on this subject.

TABLE 31
CONTRACTUAL OBLIGATIONS
As at October 31, 2008 (in millions of dollars)

	2009	2010	2011	2012	2013	THEREAFTER	TOTAL
Term deposits	$ 6,326	$2,588	$1,726	$ 844	$922	$ 7	$12,413
Obligations related to assets sold short	819	–	–	–	–	–	819
Obligations related to assets sold under repurchase agreements	1,136	–	–	–	–	–	1,136
Subordinated debentures	–	–	150	–	–	–	150
Commitments under leases, technology services and other contracts	71	72	63	56	54	148	464
Total	$ 8,352	$2,660	$1,939	$ 900	$976	$155	$14,982

REPUTATION RISK MANAGEMENT

Reputation risk corresponds to the risk stemming from a decision, an event or a series of events involving the Bank, either directly or indirectly, that will eventually affect the image shareholders, clients, employees, the general public or any other stakeholders have of the Bank, and which would negatively impact the Bank's revenues, operations and, to some extent, its value.

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

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

REGULATORY RISK MANAGEMENT

Regulatory risk results from the risk related to the failure by the Bank to comply with prevailing legislation, regulations, by-laws, established practices or accepted ethical standards. The compliance policy describes the compliance program and defines the roles and responsibilities of the various stakeholders. The compliance program includes all of the regulatory requirements that have a major impact on the Bank's operations, and that are contained in the sectoral compliance programs, along with mandates, timetables and compliance reports. Compliance reports are submitted to the President and Chief Executive Officer, the Management Committee and the Board of Directors' Audit Committee.

CREDIT INSURANCE RISK MANAGEMENT

Insurance risk is the risk of loss that may occur when hypotheses related to insurance product offered by the Bank, notably with regards to the determination of premiums or valuation of reserves, differ from the actual results.

Insurance risk is managed within a program in which the Bank's representatives and experts in the insurance field participate.

ENVIRONMENTAL RISK MANAGEMENT

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

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

ADDITIONAL RISKS WHICH COULD POTENTIALLY AFFECT FUTURE RESULTS

The major business risks that may affect the Bank's results are detailed in the previous sections above. This section describes other factors that could have a significant impact on the Bank's results and cause these results to differ materially from our forward-looking statements.

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

Monetary policies and other policies
The monetary policies adopted by the Bank of Canada and the Board of Governors of the Federal Reserve System in the United States, as well as other measures adopted by central banks, have a major impact on several variables, such as interest rates, exchange rates and bond markets, that can have an impact on the Bank's earnings. We do not have any control, however, on changes in monetary policies, nor on capital markets' fluctuations.

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

Changes in laws and regulations, and legal proceedings
Changes in existing laws and regulations could affect the Bank by impacting on its products and services offering and enhancing the financial industry's competitiveness. Moreover, the Bank's failure to comply with applicable laws and regulations could result in sanctions and financial penalties that would have a negative impact on its earnings and reputation. As well, legal proceedings could affect the Bank negatively, as indicated in Note 25 of the consolidated financial statements.

Ability to attract and retain key employees
The Bank's future performance is largely dependent on its ability to attract and retain key employees. Within the financial industry, competition for employees and executives is quite intense, and there are no guarantees that the Bank will be able to attract and retain these persons. This could have a significant impact on its operations and competitiveness.

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

Other factors
Other factors, that are not under our control, could affect results, as is discussed in the section on our forward-looking statements. It should be noted that the foregoing list of factors is not exhaustive.

CONTROLS AND PROCEDURES REGARDING FINANCIAL INFORMATION

In order to ensure that the consolidated financial statements and the MD&A present fairly, in all material respects, the financial position of the Bank and the results of its operations, Management is responsible for establishing and maintaining disclosure controls and procedures, as well as internal controls over financial reporting.

CONTROLS AND PROCEDURES REGARDING INFORMATION DISCLOSURE

Controls and procedures regarding information disclosure are designed to provide reasonable assurance that all relevant information has been collected and submitted to the Bank's senior management which ensures an adequate disclosure of such information. An information disclosure policy constitutes the framework for the information disclosure process with regard to the annual and interim filings, as well as to other reports filed or submitted under securities legislation. The Disclosure Committee is responsible for ensuring compliance with this policy. The members of the Disclosure Committee therefore review the main documents to be filed with regulatory authorities to ensure that all significant information regarding operations is communicated in a timely manner.

The President and Chief Executive Officer and the Senior Executive Vice-President and Chief Financial Officer have assessed, as at October 31, 2008, that the information disclosure controls and procedures were adequately designed and effectively managed to provide reasonable assurance that the financial information to be disclosed is both complete and reliable.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During fiscal 2008, Management assessed the design of internal controls over financial reporting, leading to the regulatory certification of the annual filings in accordance with National Instrument 52-109. This review has allowed the documentation and assessment of the internal controls design to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. This undertaking has enabled the President and Chief Executive Officer and the Senior Executive Vice-President and Chief Financial Officer to certify that internal controls over financial reporting are adequately designed.

CHANGES TO INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the year ended October 31, 2008, no changes to internal controls over financial reporting affected, nor are reasonably likely to materially affect, internal controls over financial reporting.

SIGNIFICANT CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses reflects Management's estimate of losses related to the loan portfolios. Management regularly reviews the portfolios' credit quality to ensure that the allowance for loan losses is adequate. This allowance is dependent upon the evaluation related to the amounts and dates of future cash flows, the fair value of guarantees and realization costs, and the interpretation of the impact of market and economic conditions.

Considering the materiality of the amounts and of the uncertainties related to these amounts, the use of estimates and assumptions that differ from those used in determining the allowance for loan losses could produce significantly different levels of allowances. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments and may entail an increase or a decrease in the allowance for loan losses.

These changes could consequently have a significant impact on the allowance for loan losses in the consolidated statement of results for the fiscal year. A detailed description of the methods used to determine the allowance for loan losses can be found in Note 3 to the consolidated financial statements, and in the "Credit Risk Management" section on page 42 of this Annual Report.

Management has developed a model for the evaluation of the general allowance, based on the historical losses of the various portfolios. This model validates the $73.3 million allowance as at October 31, 2008. Different assumptions and parameters could have produced different evaluations.

This critical accounting estimate affects all business segments, except Laurentian Bank Securities.

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Goodwill

Goodwill is subject, at least annually, to an impairment test, based on its fair value. As at October 31, 2008, the balance of goodwill stood at $53.8 million and this amount was entirely allocated to Retail and SME Quebec.

The impairment test initially compares the fair value of the reporting unit, to which goodwill relates, to its carrying amount. Management mainly uses the discounted cash flow method to determine the fair value of its reporting units. This assessment is based on a number of significant estimates, including projected net income growth rates, future cash flows, the number of years used in the cash flow model and the discount rate of future cash flows. Management considers that all estimates are reasonable and consistent with the Bank's financial objectives. They reflect Management's best estimates but include inherent uncertainties that are not under its control.

All changes made to any of these estimates may have a significant impact on the calculation of fair value and on the resulting charge for loss in value. Consequently, Management cannot reasonably quantify the effect of the use of different assumptions on the Bank's overall financial performance. Moreover, it is impossible to predict whether an event that triggers an impairment will occur, nor when it will occur or how this will affect the values of the assets presented by the Bank.

No impairment charge was reported in fiscal 2008 or in fiscal 2007. If need be, the amount of the losses in value would be recorded as a non-interest expense for Retail and SME Quebec, under the "Other" heading.

More information on goodwill can be found in Note 8 to the consolidated financial statements.

Other intangible assets and other assets

Management also subjects the Bank's other intangible assets with finite lives to the impairment test when events or changes in circumstances indicate that it may not be possible to recover their book value. As it conducts this test, Management evaluates the future cash flows it expects to realize from these assets, along with their possible disposition. An impairment

loss is recognized if the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset. No significant impairment charge was reported in fiscal 2008 or in fiscal 2007.

Management also periodically reviews the value of the Bank's other assets, such as fixed assets and other deferred charges, in order to identify potential losses in value and to validate the pertaining amortization periods. The use of estimates and assumptions differing from those that were retained could significantly influence results.

EVALUATION OF FINANCIAL INSTRUMENTS

The Bank reports most of its financial instruments, including derivative financial instruments, at fair value. Changes in the fair value of the Bank's trading book's securities and obligations related to assets sold short, as well as derivatives which do not qualify for hedge accounting, are generally recognized under the "Other income" heading. Fair value is defined as the amount at which a financial instrument could be traded by willing parties dealing at arm's length in the ordinary course of business.

Fair value is based on quoted market prices when available. "Quoted prices" include those obtained from an exchange, a broker or dealer group or from pricing services. The determination of fair value, when such quoted prices are available, requires minimal subjectivity. In the absence of quoted market price, we typically use pricing models based on the discounted value of future cash flows. These models may include observable or unobservable market parameters. Our judgment is required when observable market prices or parameters do not exist or when market prices are not observable due to insufficient trading volume in an inactive market. Additional information on fair value is presented in Note 4 to the consolidated financial statements.

The table below presents the valuation methods used to determine the sources of fair value of those financial instruments which are held at fair value on the consolidated balance sheet.

TABLE 32
ASSETS CARRIED AT FAIR VALUE BY VALUATION METHODOLOGY
As at October 31, 2008 (in millions of dollars, except percentage amounts)

		BASED ON			
	FAIR VALUE	QUOTED PRICES	PRICING MODELS WITH SIGNIFICANT OBSERVABLE MARKET PARAMETERS	PRICING MODELS WITH SIGNIFICANT UNOBSERVABLE MARKET PARAMETERS	TOTAL
Securities accounts					
Available-for-sale	$ 1,328	95%	4%	1%	100%
Held-for-trading	1,069	81%	18%	1%	100%
Designated as held-for-trading	1,119	100%	–%	–%	100%
	$ 3,516				

Furthermore, assessing whether impairment is other than temporary requires judgment. The period of time the security is impaired and the amount by which its fair value is below cost are the major factors considered in making the impairment assessment. In addition, the Bank considers other factors such as bankruptcy, capital restructuring or dilution, significant modifications in the issuer's operations or other uncertainties. The Bank must also assert its intent to hold the security until recovery.

Using other possible alternative assumptions could translate into significantly different income recognition.

These critical accounting estimates affect all business segments. Additional information on the calculation of fair value is presented in Note 22 to the consolidated financial statements. Additional information related to the impact of the global financial market crisis on the Bank can be found on page 26 of this Annual Report.

EMPLOYEE FUTURE BENEFITS

Valuation of employee future benefits, for defined benefit plans and other post-employment benefits, is based on a number of assumptions such as discount rates, expected returns on assets, projected salary increases, health-care cost trend rates, employee turnover rate and retirement age. These assumptions are reviewed annually in accordance with accepted actuarial practice and approved by Management.

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

In accordance with Canadian GAAP, actual results that differ from the expected results as indicated by the assumptions are accumulated and amortized over future periods and therefore affect actual costs and recorded obligations for these periods. As at October 31, 2008, the net amount of the unamortized actuarial losses was $47.9 million ($70.3 million in 2007) as regards pension plans, and $14.2 million ($15.5 million in 2007) as regards other benefits.

Discount rates stood at 7.50% as at October 31, 2008 and 5.75% as at October 31, 2007. The expected long-term rate of return on the plans' assets was 7.25% for both fiscal 2008 and fiscal 2007. The trend rate of the estimated annual growth of health-care costs covered, per participant, has been set at 8.8% for 2008 (9.4% for 2007). According to the accepted assumption, this rate should decrease progressively, reaching 4% in 2016 and remaining at that level thereafter.

Considering the importance of accrued benefit obligations and plan assets, changes in assumptions could have a significant impact on the accrued benefit assets (liabilities), as well as on pension plan and other employee future benefit expenses. Table 33 presents an approximation of the incidence of a 0.25% increase or decrease in the principal assumptions on accrued benefit obligations and related pension plan expenses for 2008.

TABLE 33
SENSITIVITY ANALYSIS
(in millions of dollars)

	POTENTIAL IMPACT OF CHANGES OF 0.25%	
	OBLIGATION	COST
Discount rate	$11.9	$1.5
Expected long-term rate of return of plan assets	n.a.	$0.8

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

This critical accounting estimate affects all business segments. Further information on the Bank's pension plans and other future benefits can be found in Note 16 to the consolidated financial statements.

INCOME TAX

Future income tax assets reflect management's estimate of the value of loss carry-forwards, minimum tax carry-overs and other temporary differences. The determination of the assets' value is based on assumptions related to results of operations of future fiscal years, timing of reversal of temporary differences and tax rates on the date of reversals, which may well change depending on governments' fiscal policies. Moreover, management must assess whether it is more likely than not that future income tax assets will be realized prior to their expiration and, based on all available evidence, determine if a valuation allowance is required on all or a portion of future income tax assets. The use of different assumptions could translate into significantly different income tax expenses.

This critical accounting estimate affects all business segments. Further information on income tax expense can be found in Note 17 to the consolidated financial statements.

SECURITIZATION

Securitization is a process whereby financial assets, essentially mortgage loans as far as the Bank is concerned, are converted into securities and sold to investors. When the Bank surrenders control over the receivables sold, and receives a consideration other than a beneficial interest in the transferred assets, the transaction is recorded as a sale.

The determination of the initial gain, in such circumstances, depends on the value attributed to certain retained interests. Since quoted market prices are not available for retained interests, Management must estimate their value based on the present value of estimated cash flows. Management must therefore use estimates and assumptions, particularly for expected credit losses, anticipated prepayment rates, discount rates and other factors that influence the value of the retained interests. Moreover, this value must be reviewed periodically thereafter. The use of different estimates and assumptions could have a material impact on results.

Note 6 to the consolidated financial statements presents a sensitivity analysis of the current fair value of the retained interests to immediate 10% and 20% adverse changes in key assumptions. The "Off-Balance Sheet Arrangements" section on page 36 of this Annual Report offers further information on these transactions.

The balance of retained interests for securitized mortgage loans was $89 million as at October 31, 2008.

This critical accounting estimate mainly affects the Other segment.

EFFECT OF THE ADOPTION OF NEW ACCOUNTING STANDARDS IN 2008

NEW ACCOUNTING STANDARDS ON FINANCIAL INSTRUMENTS IN 2008

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 adopted these disclosure standards on November 1, 2007. The adoption of these new accounting standards had no effect on the recognition or valuation of financial instruments or capital.

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; and (iii) whether the entity has complied with any capital requirements and the consequences of non-compliance with such requirements.

Sections 3862 and 3863 supersede Section 3861, *Financial Instruments – Disclosure and Presentation*, detailing all disclosure requirements and presentation rules applicable to financial instruments. These new standards require additional disclosures about the nature and extent of risks arising from financial instruments to which the Bank is exposed, and how it manages these risks.

AMENDMENTS TO PERMIT RECLASSIFICATION OF FINANCIAL ASSETS IN SPECIFIED CIRCUMSTANCES

On October 17, 2008, the CICA announced changes to Section 3855, *Financial Instruments – Recognition and Measurement*, and Section 3862, *Financial Instruments – Disclosures*. The amendments essentially allow the reclassification of financial instruments, in specified circumstances, from the "held for trading" category to the "available-for-sale" category or "held to maturity" category. The amendments are effective for reclassifications made on or after July 1, 2008, but only for periods for which annual or interim financial statements have not already been issued. The amendments involve extensive disclosure requirements. Given that the Bank did not avail itself of this option, these amendments had no effect on the financial statements.

FUTURE CHANGES TO ACCOUNTING POLICIES

GOODWILL AND OTHER INTANGIBLE ASSETS

In November 2007, the Canadian Accounting Standards Board (AcSB) approved new Section 3064, *Goodwill and Intangible Assets*, which supersedes Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. The new Section 3064 establishes criteria for the recognition of internally developed intangible assets. The AcSB also approved amendments to Section 1000, *Financial Statement Concepts*, and to Accounting Guideline AcG-11, *Enterprises in the Development Stage*. These amendments provide consistency with Section 3064. In addition, EIC-27, Revenues and Expenditures during the Pre-operating Period, will not apply to entities that have adopted Section 3064. These changes, which are being adopted retrospectively with restatement of prior periods, will be effective for the Bank as of November 1, 2008. The Bank anticipates that the adoption of Section 3064 will have no significant effect on its consolidated financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2006, the 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 standards, namely, the International Financial Reporting Standards (IFRS). Under the AcSB's plan, this new framework will be effective for fiscal years beginning on or after January 1, 2011, that is, for the fiscal year ending October 31, 2012 for the Bank. An analysis of the accounting consequences of the conversion to IFRS is underway, and a timetable has been prepared to assess the impact on financial disclosures, information systems and internal controls.