Above all, the client is our true obsession. We are devoted to serving each and everyone with total simplicity – an approach that is our hallmark. We promote entrepreneurship, both among our clients and with respect to how we conduct our own business. We have built our reputation on absolute integrity. And we strongly encourage and nurture teamwork because, after all, our success depends on the collective efforts of all of our employees.

Réjean Robitaille
President and Chief Executive Officer

2008 Annual Report

Business Segments

Contribution to the Bank's net income

RETAIL AND SME QUÉBEC

41%

Complete line of products and services for individuals and small- and medium-sized enterprises in Québec:

- 156 branches, including 25 financial services boutiques and 2 Espresso Bank Cafés
- 10 commercial banking centres and 7 agricultural banking centres
- 342 automated banking machines with exclusive banking presence in Montréal's metro

Network of more than 3,500 merchants offering Laurentian Bank financing across Canada

AVERAGE TOTAL LOANS
$9.9 billion

AVERAGE TOTAL DEPOSITS
$7.5 billion

laurentianbank.ca

REAL ESTATE AND COMMERCIAL

26%

Real estate financing in Canada through 6 real estate financing centres across the country

Commercial financing in Ontario through 3 commercial financing centres

Commercial financing in Québec offered by the *Major Accounts* team based in Montréal

AVERAGE TOTAL LOANS
$1.9 billion

AVERAGE TOTAL DEPOSITS
$0.2 billion

laurentianbank.ca

B2B TRUST

31%

Financial products and services offered to a network of more than 14,000 independent financial advisors for distribution to their clients throughout Canada

AVERAGE TOTAL LOANS
$3.8 billion

AVERAGE TOTAL DEPOSITS
$6.1 billion

b2btrust.com

LAURENTIAN BANK SECURITIES

2%

Complete range of brokerage services (offered through a network of 15 offices in Québec and Ontario) grouped under five divisions:

- Institutional – Fixed Income
- Institutional – Equity
- Retail Brokerage Services
- Discount Brokerage
- Business Services

TOTAL ASSETS UNDER MANAGEMENT
$1.6 billion

lb-securities.ca

Values

Obsession for client interests

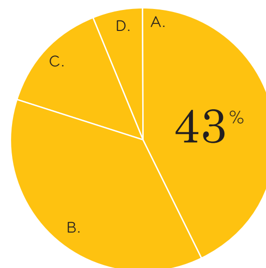
Simplicity

Teamwork

Entrepreneurship

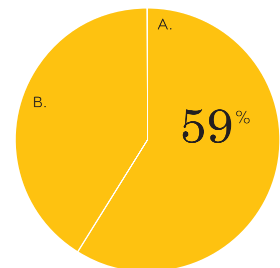
Integrity

LOAN PORTFOLIOS
(as a percentage)



A. Residential mortgages 43%
B. Personal loans 37%
C. Commercial loans and banker's acceptances 14%
D. Commercial mortgages 6%

GEOGRAPHIC DISTRIBUTION OF LOANS
(as a percentage)



A. Québec 59%
B. Other provinces 41%

Why invest in Laurentian Bank?

SOLID FINANCIAL INSTITUTION

Laurentian Bank is a solid, well-capitalized financial institution whose risk profile is excellent despite the current context.

Solid, well-capitalized financial institution

— Stable sources of financing – close to 66% of which is comprised of personal deposits
— Capital ratios among the best within the Canadian banking industry (Tier 1 capital ratio of 10.0% as at October 31, 2008)

Excellent risk profile

— 43% of the loan portfolio composed of residential mortgage loans, including a high proportion (approximately 50%) insured by the Canada Mortgage and Housing Corporation
— Loan portfolio comprised primarily of personal loans (80%)
— Stable credit quality
— Activities diversified geographically (41% of loans originate from other Canadian provinces) and by enterprise type
— No direct exposure to the American mortgage market or the high-risk subprime market
— No direct exposure to complex structured credit products known as CDOs, CDSs and SIVs

WELL-MANAGED AND GROWING ENTERPRISE

Like all Canadian banks, Laurentian Bank operates within a highly stringent regulatory framework. The Bank's management team is known for its rigorous and prudent approach to risk and for concentrating its efforts and investments on three fundamental growth engines: Retail and SME Québec, B2B Trust and Real Estate Financing. The Bank's objective is clear: improve performance on a sustainable and long-term basis, while improving its operational efficiency and developing its human capital.

DILUTED NET INCOME PER COMMON SHARE
(in dollars)

2004	2005	2006	2007	**2008**
1.33	2.26	2.48	3.48	**3.80**

Compounded Annual growth of 30%

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

2004	2005	2006	2007	**2008**
79.6	76.4	76.1	73.2	**70.7**

DECLARED DIVIDENDS PER COMMON SHARE
(in dollars)

2004	2005	2006	2007	**2008**
1.16	1.16	1.16	1.16	**1.30**

With 156 branches, 342 automated banking machines, over $19 billion in assets, and close to 3,400 employees, Laurentian Bank is firmly rooted in Québec, where it operates the third largest branch network. Elsewhere in Canada, the Bank has secured a choice position in certain specific market segments. Moreover, with 41% of its loans originating from other provinces, the Bank enjoys the benefits of nationwide geographical diversification.

Established in 1846, Laurentian Bank is widely recognized today for its exceptional service, simplicity and proximity. The Bank offers varied financial services to individuals and to small- and medium-sized enterprises. It also provides products to an extensive external network of independent financial advisors through B2B Trust, as well as full-service brokerage services via Laurentian Bank Securities.

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

In this document and in other documents filed with Canadian regulatory authorities or in other communications, Laurentian Bank of Canada may from time to time make written or oral forward-looking statements within the meaning of applicable securities legislation, including statements regarding the Bank's business plan and financial objectives. These statements typically use the conditional, as well as words such as "prospects", "believe", "estimate," "forecast", "project", "expect", "anticipate", "plan", "may", "should", "could", "would" or the negative of these terms or variations of them or similar terminology.

By their very nature, forward-looking statements are based on assumptions and involve inherent risks and uncertainties, both general and specific in nature. It is therefore possible that the forecasts, projections and other forward-looking statements will not be achieved or will prove inaccurate. Although the Bank believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct.

The Bank cautions readers against placing undue reliance on forward-looking statements when making decisions, as the actual results could differ appreciably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements. Among other things, these factors include capital market activity, changes in government monetary, fiscal and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, competition, credit ratings, scarcity of human resources and technological environment. The Bank cautions that the foregoing list of factors is not exhaustive. For more information on the risk, uncertainties and assumptions that would cause the Bank's actual results to differ from current expectations, please refer to the Bank's public filings available at www.sedar.com. The Bank does not undertake to update any forward-looking statements, whether oral or written, made by itself or on its behalf, except to the extent required by securities regulations.

2008 at a glance

- 6% growth in total loans and banker's acceptances (11% excluding securitization)
- 10% growth in deposits
- 8% growth in total revenue
- 9% growth in diluted net income per common share
- Significant improvement of efficiency ratio from 73.2% to 70.7%
- High level of securitization activities
- Tight cost control

9%

GROWTH IN DILUTED NET INCOME PER COMMON SHARE

FINANCIAL HIGHLIGHTS

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

	2008	2007	2006
Per common share			
Diluted net income	$ 3.80	$ 3.48	$ 2.48
Diluted income from continuing operations	$ 3.61	$ 3.29	$ 2.28
Dividends	$ 1.30	$ 1.16	$ 1.16
Book value	$ 35.84	$ 33.34	$ 31.18
Share price			
High	$ 44.85	$ 45.08	$ 36.72
Low	$ 31.30	$ 28.79	$ 28.01
Close	$ 40.88	$ 43.70	$ 29.05
Financial ratios			
Price / earnings ratio	10.7x	12.5x	11.7x
Market to book value	114%	131%	93%
Dividend yield	3.18%	2.65%	3.99%
Net interest income as a percentage of average assets	2.21%	2.31%	2.14%
Earnings			
Total revenue	$ 630.5	$ 583.9	$ 539.8
Net income	$ 102.5	$ 94.5	$ 70.3
Income from continuing operations	$ 98.1	$ 90.1	$ 65.6
Efficiency ratio			
Non-interest expenses as a % of total revenue	70.7%	73.2%	76.1%
Return on common shareholders' equity	11.0%	10.9%	8.2%
Other information			
Number of full-time equivalent employees	3,393	3,289	3,238
Number of branches	156	157	158
Number of automated banking machines	342	338	325
Number of brokerage offices	15	14	14
Number of commercial banking centres	27	29	28

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

Our Business Segments

- [x] Retail and SME Québec
- [ ] Real Estate and Commercial
- [ ] B2B Trust
- [ ] Laurentian Bank Securities

Where's the baby going to sleep Mommy?

"We've got wonderful news children!" I had just told Simon that I was pregnant with our fourth. He was all excited to announce the big news to the kids. But in the midst of all the jumping and screaming, our little Sofia certainly brought us back down to earth in a hurry when she suddenly asked, "Where's the baby going to sleep?"

Two days later, the entire family paid a visit to the Laurentian Bank financial services boutique, where our advisor Suzy had prepared a few scenarios for a renovation loan. Our oldest had settled in the library nook with her little sister, and our son Alexis had spotted the play area. So we were able to sit quietly and discuss our plans with Suzy. Together, we came up with a perfect solution for creating a space at home for our new arrival. The approach is so much more human here. For us, that means everything!

RETAIL AND SME QUÉBEC

PRODUCTS AND SERVICES

Retail
Transactional products, mortgage solutions, loans, lines of credit, investment products (guaranteed investment certificates, term deposits, mutual funds, etc.), VISA credit cards, debit cards and credit insurance

Small- and medium-sized enterprises
Short- and long-term financing solutions, investment products, transactional services, VISA cards, electronic services, insurance, foreign exchange transactions and international transaction settlement

Our Business Segments
- Retail and SME Québec
- ☑ Real Estate and Commercial
- B2B Trust
- Laurentian Bank Securities

DÉVELOPPEMENTS MCGILL INC.

A banker on site!

Being a real estate developer isn't easy. So many steps required before you can even think of building… You've got to be flexible to be able to react to all of the situations that inevitably arise. And, of course, you need the right people at your side! When I saw my account manager Robert arriving on the site early one morning, I immediately recognized Laurentian Bank's unique approach.

"Good morning Charles! I thought I'd stop by to see how the work was going." We did a tour of the entire site… Things are so much easier when your banker really understands your situation. Over the years, I've built a solid relationship with Laurentian Bank, and that is why I'm able to bring all my projects to fruition today.

REAL ESTATE AND COMMERCIAL

PRODUCTS AND SERVICES
Short- and long-term commercial and real estate financing solutions, construction loans, investment products, transactional services, VISA cards, electronic services, insurance, foreign exchange transactions and international transaction settlement

Our Business Segments

- Retail and SME Québec
- Real Estate and Commercial
- ☑ B2B Trust
- Laurentian Bank Securities

I have exactly what you need.

My clients expect a lot when it comes to their financial objectives. And as their financial advisor, they demand as much from me. So when I meet with a client to discuss their particular finances, I make sure that I'm well prepared and armed with the latest information and best advice. That way, I can say with confidence: "I have exactly what you need".

To be at my best, I start the day early! And it's nice to know that I can count on the support of B2B Trust to be there every step of the way. The company's wide range of financial products and services allows me to offer my clients the most effective solutions for the most diverse – and demanding – needs. It really pays to have a market leader like B2B Trust on my side.

B2B TRUST

PRODUCTS AND SERVICES
Investment and RRSP loans, GIC deposits, residential broker mortgages, self-directed accounts and banking services

What do you think?

I’m a portfolio manager with a major pension fund, and whenever I need the facts, I know who to turn to. I call Laurentian Bank Securities’ traders. “I’ve done my own analyses, but I’d like to know what you think...”

These professionals have access to a highly regarded research group. They can also count on the help and expertise of an attentive team able to meet specific client needs, as well as on the industry’s most state-of-the-art technological support. Therefore, I rely on the experience and highly accurate information provided consistently by the LBS team, knowing full well that they always take my interests to heart. Having timely access to such skilled and expert resources makes all the difference in the world!

LAURENTIAN BANK SECURITIES (LBS)

PRODUCTS AND SERVICES
Institutional brokerage (fixed income and equity), retail brokerage, discount brokerage and business services

FROM LEFT TO RIGHT:
BERNARD PICHÉ
LUC BERNARD
RÉJEAN ROBITAILLE
FRANÇOIS DESJARDINS
ROBERT CARDINAL
LORRAINE PILON

Message from the President and Chief Executive Officer

Fiscal 2008 was certainly a highly eventful and a good year for Laurentian Bank. Our financial institution is solid, well capitalized, and its activities are truly diversified. The Bank's risk profile also remains excellent despite the present context. At 10.0%, our Tier 1 capital ratio is among the Canadian banking industry's best and attests to our organization's outstanding financial health. Furthermore, as our results demonstrate, the concerted efforts of all of the Bank's personnel to achieve our three fundamental priorities have clearly born fruit.

In looking back at the year just ended, the Bank's excellent performance is particularly noteworthy in light of the challenges currently confronting the entire industry.

In fact, we are extremely proud of actually having exceeded the performance objectives we had established, with our diluted net income per share totalling $3.80, up 9% as compared to fiscal 2007. This represents a compounded annual growth of 30% since 2004.

Return on common shareholders' equity reached 11.0% in 2008, as compared to 10.9% during the previous fiscal year. For its part, our efficiency ratio showed a marked improvement, moving from 73.2% in 2007 to 70.7% in 2008, while total revenue increased by 8% between 2007 and 2008, equalling $630 million in 2008, compared with $584 million during the previous reporting period. These positive results are attributable primarily to the strong growth of loans and deposits in the order of $1.7 billion (11%) excluding securitization and $1.5 billion (10%) respectively, the high level of securitization activities, effective cost control, and to our rigorous execution.

Productive Initiatives

During the year just ended, the Bank continued to promote the highly targeted development of markets in which its competitiveness has been proven and which represent a level of risk that is in line with its stringent criteria. We have concentrated our efforts on three growth engines that have posted the best performance – retail services and services for small- and medium-sized enterprises in Québec, B2B Trust, and real estate financing. Moreover, the Bank continued to make significant progress over the course of the year with respect to the three major priorities fuelling its development – increasing profitability, improving efficiency, and developing its human capital. The initiatives that served to

concretize our priorities are described in detail in the section of this Report entitled, *Principal Accomplishments Related to Each of Our Three Priorities*, which can be found on pages 20 and 21.

Throughout the course of the year, we also continued to invest in the Bank's development in a variety of different areas, including our branch network, marketing, information technologies, and the development of new products. As well, we devoted a great deal of energy to optimizing our business processes to further simplify the client experience.

More specifically, the Retail and SME Québec sector performed well and was the focus of several improvement initiatives. For example, we actively pursued the development of our sales force so as to be able to take full advantage of available opportunities within our target markets. In addition, we continued to invest in enhancing the competencies of our personnel. These efforts are part of our overall commitment to reinforcing the development of products and services that are able to better respond to client needs, while at the same time, to maintaining the Bank's enviable reputation for providing the utmost in quality service.

The Real Estate and Commercial sector once again posted positive performance during fiscal 2008, improving its net income by 33%. This improvement is essentially the result of the sector's sustained business development efforts, as well as the favourable real estate context that prevailed during the course of the year.

For its part, B2B Trust also recorded a very good year, generating net income of $34.9 million, up 14% from fiscal 2007. While its business volumes continued to grow, the group kept its underwriting processes as rigorous as ever in order to maintain the credit quality of its portfolios.

In spite of the positive performance of its Institutional – Fixed Income division, Laurentian Bank Securities (LBS) was significantly affected by the widespread financial crisis. Nevertheless, LBS continued to develop each of its divisions during the year, and the group's foundations are increasingly solid.

Meeting the Challenges of the Financial Crisis

The financial crisis presently affecting the world economy, combined with the current economic slowdown, require us to remain extremely vigilant and to manage our activities with great prudence and stringency. This exceptional conjuncture demands that we be even more efficient and that we reinforce our culture of quality service, while focusing even more effort on increasing sales and controlling our costs. Although confronted with challenges of historic proportions, Laurentian Bank is very well positioned to get through the turmoil in view of its financial solidity.

Thanks to our prudent risk management, we succeeded in steering clear of the financial instruments that sparked the credit crisis this past year. In that regard, we were very minimally exposed to the asset-backed commercial paper (ABCP) issued by conduits covered by the Montreal Accord. Moreover, we had no direct exposure to the complex structured credit products known as CDOs, CDSs and SIVs, nor to the high-risk subprime mortgage loan market.

Finally, given the excellent financial health of our institution, the Standard & Poor's credit rating agency upgraded Laurentian Bank's "stable" outlook to "positive" last May. In June, the DBRS agency, for its part, upgraded all the Bank's credit ratings, thus validating the significant progress we have made in improving our operational performance, as well as the quality and provenance of our revenues.

Medium- and Long-Term Growth Strategies

For the year 2009 and beyond, our three major priorities – increasing profitability, improving efficiency, and developing our human capital – will essentially continue to guide all of our actions and decisions. We will pursue our investments in information technologies, infrastructures, and in our

human resources in order to maintain profitability in the short-term, while assuring the organization's sustainable and long-term development. Be it in our point of service network, or related to systems, advertising and marketing, or the development of employee competencies, these investments are vital not only to support the Bank's daily activities, but also to consolidate and reinforce our competitive edge among our clients.

We will also continue to promote highly targeted development within market segments where we are competitive and which present a level of risk that is acceptable vis-à-vis our capacities. In so doing, we will keep concentrating on the three growth engines described earlier.

Furthermore, we will accentuate our emphasis on the execution of our business plan during 2009, and the improvement and automation of our processes and operations will remain ongoing objectives to further simplify the client experience and reduce administrative tasks. We are also devoted to continuing to see to the interests of our clients, shareholders, employees and partners, while at the same time, to remaining extremely prudent and rigorous with respect to risk management.

The Bank's noteworthy progress during fiscal 2008 was due in large part to the remarkable commitment, professionalism and dedication of the members of our personnel. I would, therefore, like to sincerely thank all our employees, who take the development of our financial institution so much to heart. The determination of every individual to rigorously support our business plan will serve to assure the sustainable development of the Bank. As well, guided by our seasoned and highly competent Management Committee, we have been able to achieve an exceptional level of performance and to reinforce our position within our various markets.

I would like to take this opportunity to express my particular gratitude to our Senior Executive Vice-President of Finance, Administration and Strategic Development and Chief Financial Officer, Robert Cardinal, who has decided to take his well-earned retirement effective January 30, 2009. Robert has been with the Bank for 18 years, mainly as Chief Financial Officer. Robert's tremendous diligence, dedication and integrity added significant value to the organization. His successor, Michel C. Lauzon, will be assuming his new functions as of January 5, 2009. Michel, who has been a part of the organization from 1988 to 1998, possesses a wealth of experience and expertise that I am confident will contribute substantially to enabling the Bank to continue to solidify its position and further its development.

My thanks also go out to the members of the Board of Directors, whose guidance and good governance have contributed so much to making Laurentian Bank a strong, well-managed and constantly growing financial institution.

In conclusion, I would like to express my genuine appreciation to our shareholders for their consistent trust and confidence. While the global financial market situation remains a major preoccupation, Laurentian Bank is in a very sound financial position, and through the continued implementation of our strategic plan, we are convinced that we will succeed in building on our positive momentum and assuring the Bank's sustainable development in the long-term.

RÉJEAN ROBITAILLE
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Message from the Chairman of the Board

The financial market crisis that has been severely affecting economies around the world over the past few months acutely underlines the importance of maintaining a highly prudent approach to risk. In order to enable the Bank to preserve its financial solidity, the Board of Directors has continued to exercise sustained vigilance with respect to managing the risks confronting financial institutions like ours.

The quality of the results obtained by Laurentian Bank during the year just ended attests to the validity and effectiveness of the measures adopted by the organization over the past few years. For instance, I would like to point out that our institution's exposure to securities issued by conduits covered by the Montreal Accord was limited, and that our organization is not directly exposed to complex structured credit products or high-risk subprime mortgage loans.

Further on the subject of risk management, since the start of the year, we have implemented a number of measures related to the new Basel Framework. This framework provides even more specific requirements on the regulatory capital that banks must maintain in order to meet their obligations to their clients. On a related front, for the second year now, we have successfully evaluated the design of internal controls concerning financial information as required by the Canadian Securities Administrators, and we are preparing for the next phase of this requirement to take effect during the course of fiscal 2009.

The Bank teams responsible for these two areas of concern have been working in close collaboration with the Board of Directors. The members of the Audit and Risk Management Committees have been particularly involved in examining the conclusions and recommendations formulated by Bank management and believe that the approaches adopted are totally appropriate.

This effective spirit of collaboration, which is readily apparent in all relations with the Bank's management team, is fuelled by a high degree of discipline and rigour. Furthermore, the solid expertise of Board members, most notably their extensive knowledge of the financial sector, provides shareholders with substantial added value.

The Bank's positive performance during the past fiscal year is attributable in large part to employees' adherence to the implementation of a business strategy that is very well adapted to our institution and that enables it to make optimum use of its competitive advantages. By becoming more rigorous and systematic, and by strictly respecting the Bank's strategic plan, our personnel have successfully put the conditions into place to achieve their objectives, which, in turn, has allowed our organization to progressively enhance its performance level.

Since the beginning of the market crisis, Laurentian Bank has managed to maintain its financial health. Bank management and the Board of Directors have repeatedly emphasized that one of the institution's key objectives was to increase profitability in a sustained and long-term manner, but that this would not be done to the detriment of prudent and stringent risk management. Beyond the coming months, during which the economic situation is likely to remain uncertain, we remain convinced that the business plan we have adopted constitutes the most appropriate direction for the Bank in order to enable it to successfully promote its growth in the long-term.

I would like to take this occasion to underline the excellent work accomplished by the members of the Board during the past year. Of course it will be continuing to carefully oversee the various corporate governance functions, particularly those pertaining to its three committees: Audit, Risk Management, as well as Human Resources and Corporate Governance. Thanks to the quality of their interventions and extensive expertise, the directors who sit on these committees have contributed to making Laurentian Bank's Board a high quality panel.

In fact, our team was honoured with an award last September at a competition organized by the Institute of Corporate Directors. The purpose of this competition is to acknowledge outstanding work carried out by corporate directors and Boards of Québec-based enterprises, and the Bank's Board was distinguished for its contribution to the institution's excellent financial and stock market performance. In effect, our organization achieved, and often exceeded, the performance indicators it had established, thanks primarily to management's three fundamental priorities and respective strategies, combined with the disciplined execution of the corporate business plan built on a clear vision for long-term development. My colleagues and I are extremely gratified to see that our counterparts have recognized our efforts and that our strategy is bearing fruit.

I wish to also point out that our Board welcomed two new members this year.

Ms. Jacqueline C. Orange, Corporate Director, brings a wealth of knowledge of the banking industry to our group. We are delighted with the tremendous value Ms. Orange adds to the solid competencies of our Board.

For his part, having joined the Board at the beginning of the year and participated actively in the affairs of the Board, Mr. Michel C. Lauzon has accepted to occupy the position of Senior Executive Vice-President of Finance, Administration and Strategic Development and Chief Financial Officer at Laurentian Bank, effective January 5, 2009. Mr. Lauzon's valuable support over the past year has been greatly appreciated, and I wish him all the best in carrying out his new functions.

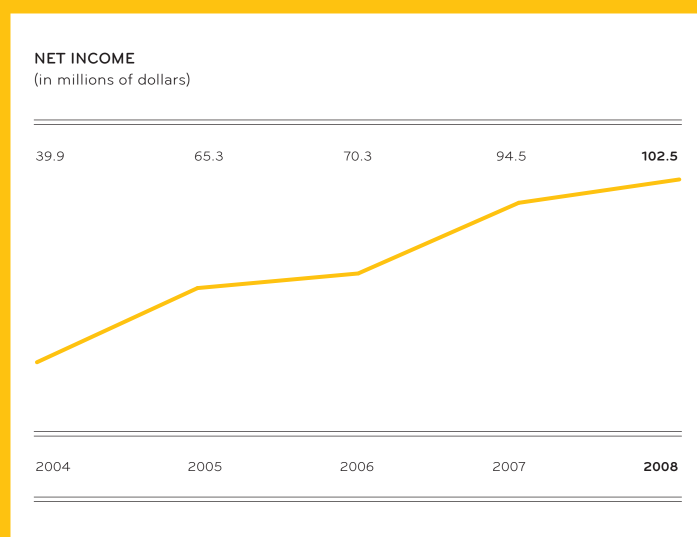
In conclusion, I would like to reaffirm our solid commitment to diligently protect and promote the interests of our shareholders in every way possible over the months and years to come.

L. DENIS DESAUTELS, O.C., FCA
CHAIRMAN OF THE BOARD

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. ||

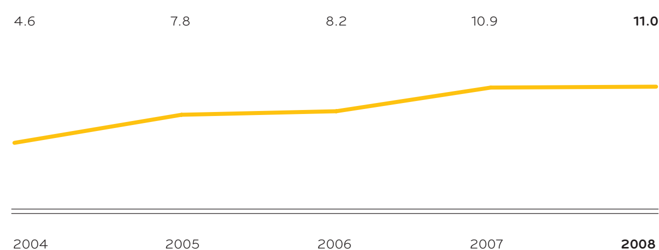
TABLE 3
PERFORMANCE INDICATORS

	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%**

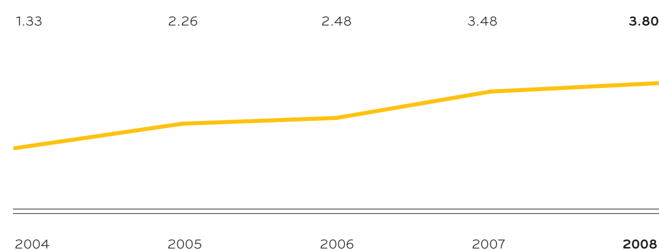
As shown in the previous table, we exceeded all of our objectives for fiscal 2008. In line with our priorities, we dedicated further resources to generate internal growth and develop high-return operations. This contributed to strong increases in loan and deposit portfolios, which fostered revenue growth,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

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.

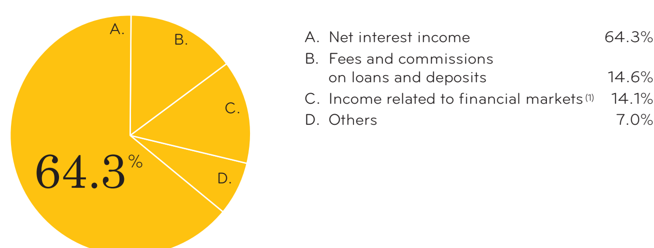
Moreover, our retail personal deposits of more than $12 billion continued to constitute a stable funding source to support our operations and therefore limit any liquidity concerns.

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)



A.	Net interest income	64.3%
B.	Fees and commissions on loans and deposits	14.6%
C.	Income related to financial markets(1)	14.1%
D.	Others	7.0%

(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.

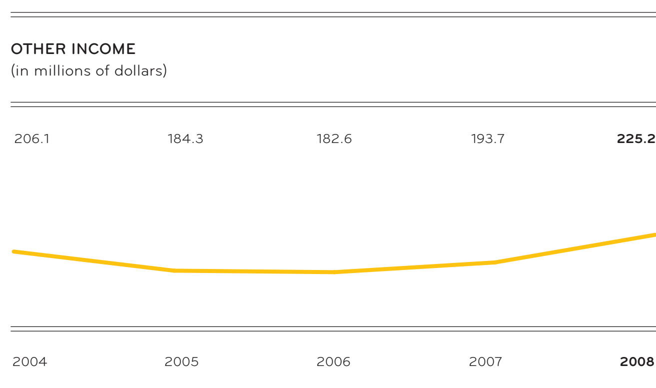
Income from treasury and financial market operations improved by $6.6 million, to $25.9 million, mainly as a result of higher revenues on foreign exchange operations. Treasury and financial market revenues for fiscal 2008 also included the following items: a $12.9 million gain on the sale of Montreal 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.

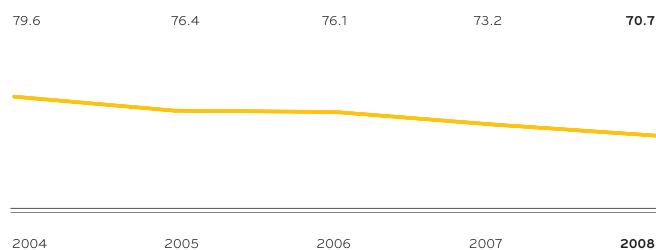
Premises and technology costs have increased from $111.6 million in 2007 to $119.2 million in 2008. This increase is essentially attributable to higher information technology costs, reflecting the expanding operations of the Bank. Premises and technology costs for 2008 also include a $2.2 million charge 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.

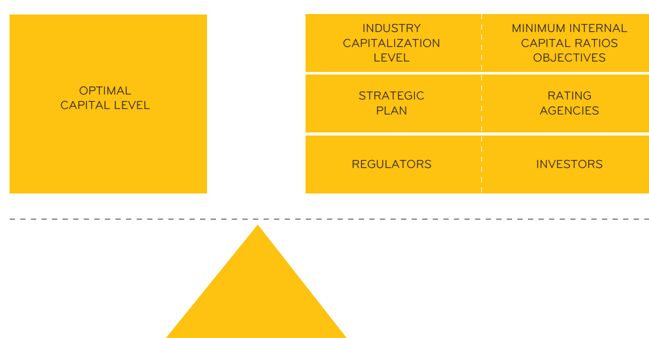
CAPITAL MANAGEMENT

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.

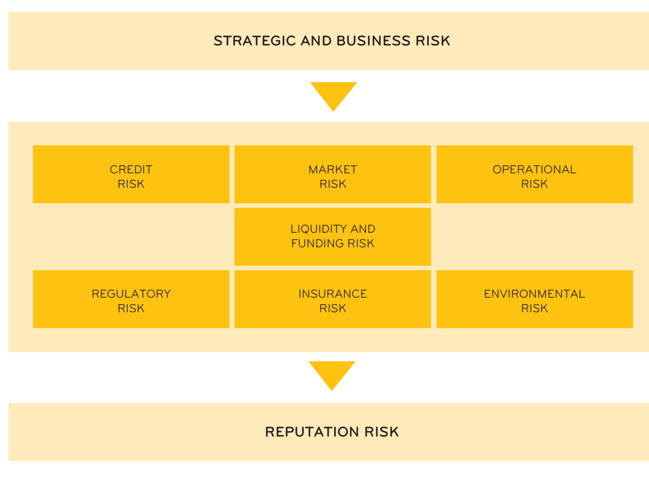
TABLE 25
SHARE DIVIDENDS AND PAYOUT RATIO
For the years ended October 31 (in millions of dollars, except per share amounts and payout ratios)

	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.

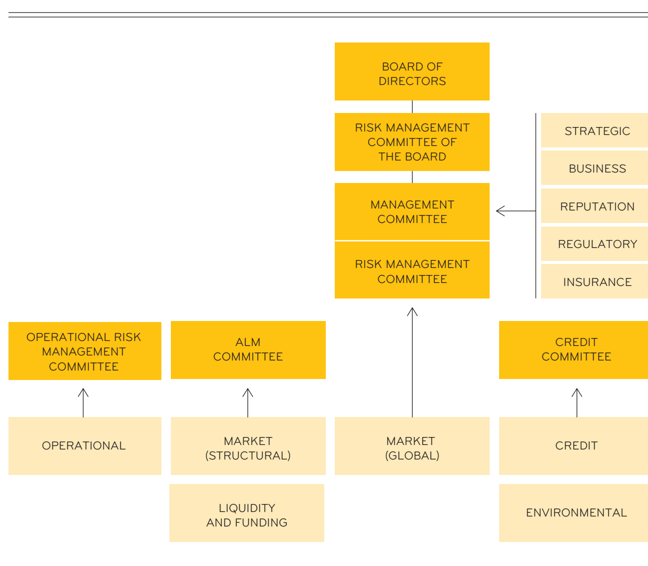
INTEGRATED RISK MANAGEMENT FRAMEWORK



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.

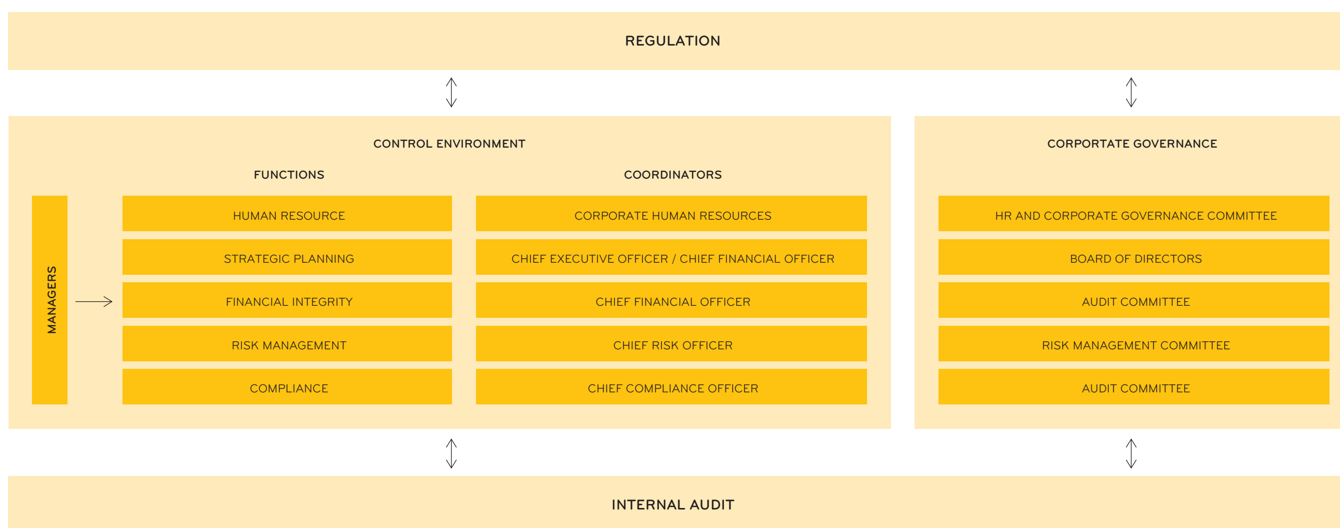
The management **Credit Committee** is primarily responsible for ensuring that credit policies and procedures are drafted and that information systems related to the management of the Bank's current and potential credit risks are implemented, as well as for authorizing loans within established limits. 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.

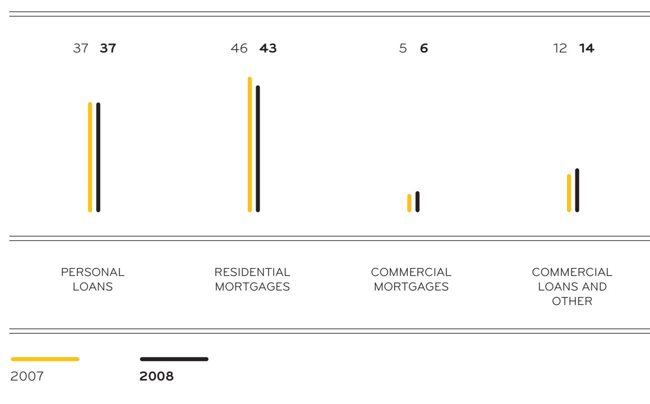
In addition to specific provisions, the Bank establishes a general provision in order to provide for eventual losses arising from its performing loan portfolios, according to a method that includes factors such as the size of the portfolios, their risk profile and loss history.

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.

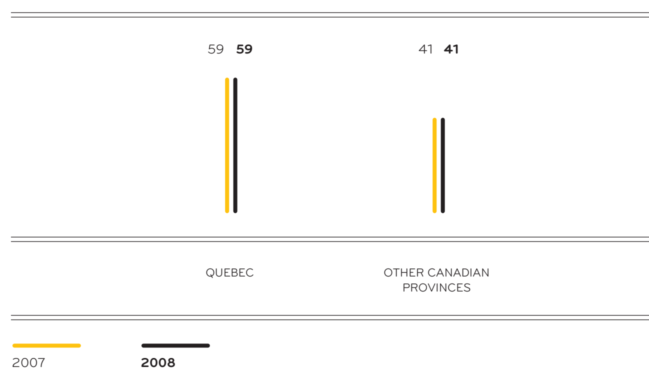
LOAN PORTFOLIO MIX
(as a percentage)



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

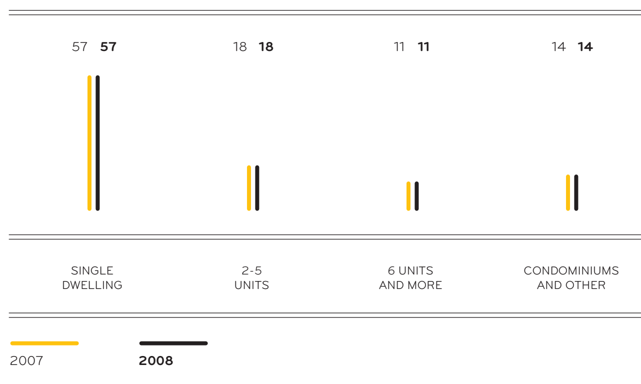
Personal loans

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)

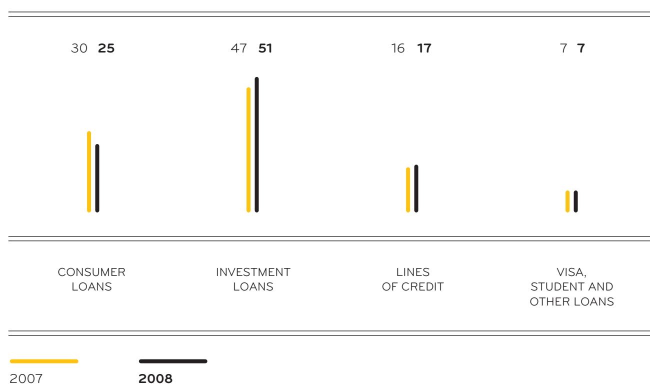


Commercial mortgage loans

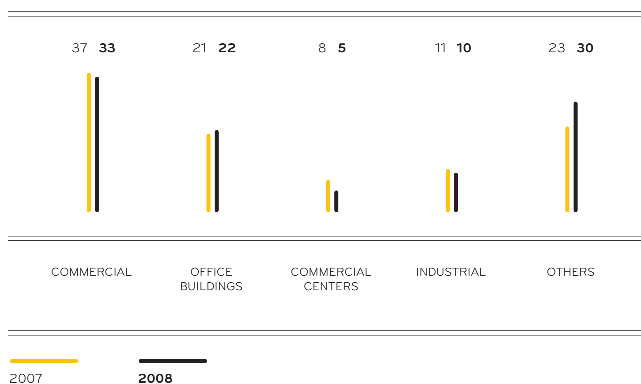
The volume of commercial mortgage loans increased by 36% over fiscal 2007, and stood at $932 million as at October 31, 2008, compared to $685 million as at October 31, 2007. The Bank holds an enviable position in the field of commercial mortgage loans all over Canada and, as such, was able to benefit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



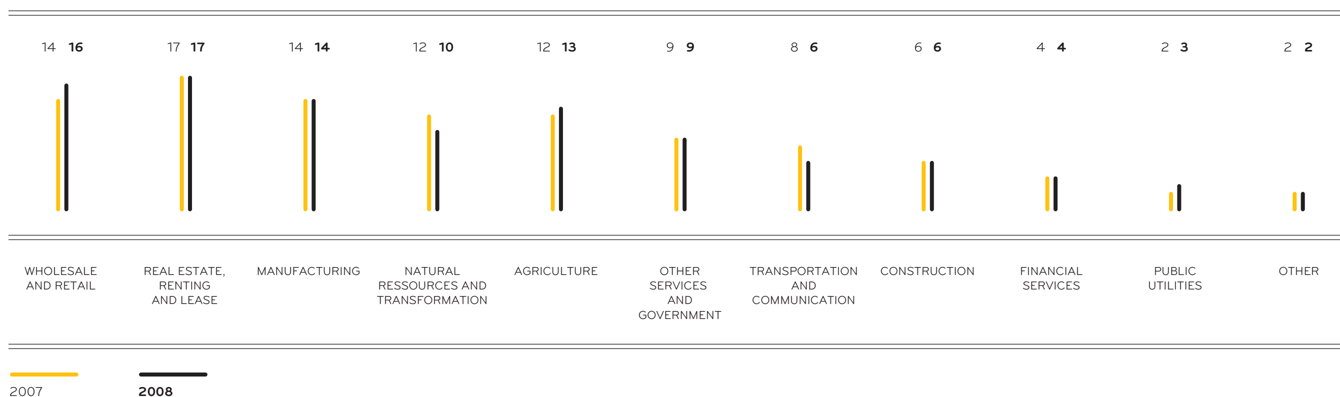
COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE
(as a percentage)



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.

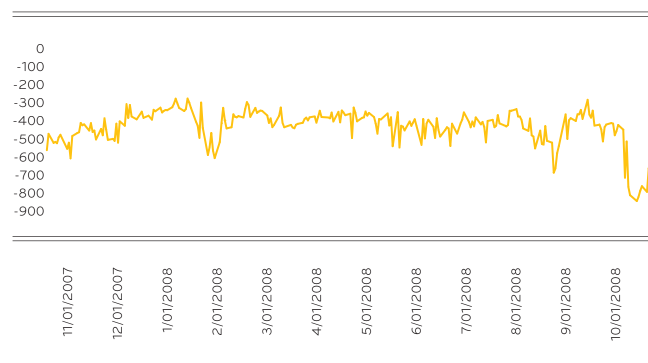
Methods of evaluating and controlling market risks (interest rate, foreign exchange and equity)
The evaluation of market risks at the Bank is supported by a combination of two groups of measures:
- "notional" limits and other various measures of sensitivity; and
- value at risk (VAR) and stress testing.

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

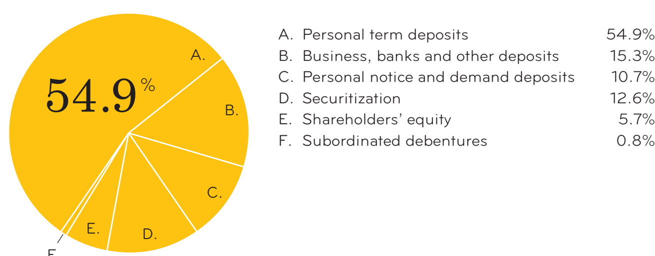
The Bank's cash resources correspond to cash and non-interest bearing deposits with other banks, interest-bearing deposits with other banks, securities and assets purchased under reverse repurchase agreement. As at October 31, 2008, these assets stood at $4.3 billion, compared to $3.6 billion as at October 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.

Consolidated financial statements

AS AT OCTOBER 31, 2008 AND 2007

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

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

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

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

RÉJEAN ROBITAILLE
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

ROBERT CARDINAL
SENIOR EXECUTIVE VICE-PRESIDENT
AND CHIEF FINANCIAL OFFICER

MONTRÉAL, CANADA
DECEMBER 4, 2008

AUDITORS' REPORT TO THE SHAREHOLDERS OF LAURENTIAN BANK OF CANADA

We have audited the consolidated balance sheet of Laurentian Bank of Canada (the Bank) as at October 31, 2008 and 2007 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

CHARTERED ACCOUNTANTS

MONTRÉAL, CANADA
DECEMBER 4, 2008

CONSOLIDATED BALANCE SHEET

As at October 31 (in thousands of dollars)	NOTES	2008	2007
ASSETS			
Cash and non-interest bearing deposits with other banks		$ 54,410	$ 65,245
Interest-bearing deposits with other banks		94,291	283,255
Securities accounts	4 and 23		
Available-for-sale		1,327,504	917,676
Held-for-trading		1,069,197	1,086,958
Designated as held-for-trading		1,118,838	669,745
		3,515,539	2,674,379
Assets purchased under reverse repurchase agreements	23	661,391	540,304
Loans	5, 6 and 23		
Personal		5,302,046	4,958,176
Residential mortgage		6,182,871	6,232,778
Commercial mortgage		932,688	684,625
Commercial and other		1,847,327	1,556,831
		14,264,932	13,432,410
Allowance for loan losses		(112,434)	(115,322)
		14,152,498	13,317,088
Other			
Customers' liabilities under acceptances		110,342	111,891
Property, plant and equipment	7	143,489	137,691
Derivative financial instruments	21	237,704	62,745
Goodwill	8	53,790	53,790
Other intangible assets	8	12,896	14,114
Other assets	9	522,202	526,344
		1,080,423	906,575
		$19,558,552	$17,786,846
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	10		
Personal		$12,430,038	$11,564,530
Business, banks and other		2,903,774	2,314,178
		15,333,812	13,878,708
Other			
Obligations related to assets sold short		819,236	868,675
Obligations related to assets sold under repurchase agreements	23	1,136,096	928,987
Acceptances		110,342	111,891
Derivative financial instruments	21	147,469	70,851
Other liabilities	11	778,162	773,053
		2,991,305	2,753,457
Subordinated debentures	12	150,000	150,000
Shareholders' equity			
Preferred shares	13	210,000	210,000
Common shares	13	257,462	256,445
Contributed surplus	15	173	105
Retained earnings		596,974	537,254
Accumulated other comprehensive income	14	18,826	877
		1,083,435	1,004,681
		$19,558,552	$17,786,846

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

L. DENIS DESAUTELS, O.C.
CHAIRMAN OF THE BOARD

RÉJEAN ROBITAILLE
PRESIDENT AND CHIEF EXECUTIVE OFFICER

CONSOLIDATED STATEMENT OF INCOME

For the years ended October 31 (in thousands of dollars, except for per share amounts)	NOTES	2008	2007
Interest income			
Loans		$ 837,532	$ 837,092
Securities		60,873	58,000
Deposits with other banks		26,360	13,802
Other, including derivative financial instruments		30,190	–
		954,955	908,894
Interest expense			
Deposits		508,403	466,867
Other liabilities, including derivative financial instruments		33,547	44,089
Subordinated debentures		7,742	7,738
		549,692	518,694
Net interest income		405,263	390,200
Other income			
Fees and commissions on loans and deposits		91,913	88,703
Securitization income	6	34,477	6,418
Income from brokerage operations		28,707	32,359
Income from treasury and financial market operations		25,862	19,286
Income from sales of mutual funds		14,170	13,406
Credit insurance income		13,717	12,557
Income from registered self-directed plans		8,736	9,652
Gains on disposal and change in ownership interest	27	–	4,000
Other		7,636	7,345
		225,218	193,726
Total revenue		630,481	583,926
Provision for loan losses	5	48,500	40,000
Non-interest expenses			
Salaries and employee benefits		236,280	229,290
Premises and technology		119,192	111,559
Other		90,519	86,561
		445,991	427,410
Income from continuing operations before income taxes		135,990	116,516
Income taxes	17	37,882	26,394
Income from continuing operations		98,108	90,122
Income from discontinued operations, net of income taxes	27	4,423	4,423
Net income		$ 102,531	$ 94,545
Preferred share dividends, including applicable taxes		11,818	11,966
Net income available to common shareholders		$ 90,713	$ 82,579
Average number of common shares outstanding (in thousands)			
Basic		23,837	23,678
Diluted		23,880	23,728
Income per common share from continuing operations	18		
Basic		$ 3.62	$ 3.30
Diluted		$ 3.61	$ 3.29
Net income per common share	18		
Basic		$ 3.81	$ 3.49
Diluted		$ 3.80	$ 3.48

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended October 31 (in thousands of dollars)	NOTES	2008	2007
Net income		$ 102,531	$ 94,545
Other comprehensive income, net of income taxes	14		
Change in unrealized gains (losses) on available-for-sale securities		(23,347)	15,333
Reclassification of realized (gains) losses on available-for-sale securities to net income		(4,376)	(1,581)
Net change in gains on derivative instruments designated as cash flow hedges		45,672	5,677
		17,949	19,429
Comprehensive income		$ 120,480	$ 113,974

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended October 31 (in thousands of dollars)	NOTES	2008	2007
Preferred shares	13		
Balance at beginning and end of year		$ 210,000	$ 210,000
Common shares	13		
Balance at beginning of year		256,445	251,158
Issued during the year		1,017	5,287
Balance at end of year		257,462	256,445
Contributed surplus			
Balance at beginning of year		105	518
Stock-based compensation	15	68	177
Shares awarded under performance-based share plan		–	(590)
Balance at end of year		173	105
Retained earnings			
Balance at beginning of year		537,254	482,149
Net income		102,531	94,545
Dividends			
Preferred shares, including applicable taxes		(11,818)	(11,966)
Common shares		(30,993)	(27,474)
Balance at end of year		596,974	537,254
Treasury shares			
Balance at beginning of year		–	(590)
Shares granted	15	–	590
Balance at end of year		–	–
Accumulated other comprehensive income	14		
Balance at beginning of year		877	(18,552)
Other comprehensive income, net of income taxes		17,949	19,429
Balance at end of year		18,826	877
SHAREHOLDERS' EQUITY		$ 1,083,435	$ 1,004,681

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended October 31 (in thousands of dollars)	NOTES	2008	2007
Cash flows relating to operating activities			
Net income		$ 102,531	$ 94,545
Adjustments to determine net cash flows relating to operating activities:			
Provision for loan losses		48,500	40,000
Gains on securitization operations		(29,636)	(6,683)
Net loss (gain) on disposal of property, plant and equipment		2,429	(63)
Net gain from discontinued operations	27	(5,185)	(5,185)
Gains on disposal and change in ownership interest	27	–	(4,000)
Net loss on disposal of non-trading securities		(8,629)	1,812
Future income taxes		29,342	23,959
Depreciation and amortization		31,091	28,612
Net change in held-for-trading securities		17,761	238,213
Change in accrued interest receivable		(7,012)	10,813
Change in assets relating to derivative financial instruments		(174,959)	34,235
Change in accrued interest payable		4,704	6,748
Change in liabilities relating to derivative financial instruments		76,618	(10,956)
Other, net		47,318	15,293
		134,873	467,343
Cash flows relating to financing activities			
Net change in deposits		1,455,104	784,207
Change in obligations related to assets sold short		(49,439)	(208,334)
Change in obligations related to assets sold under repurchase agreements		207,109	(171,398)
Issuance of common shares		1,017	5,287
Dividends, including applicable income taxes		(42,811)	(39,440)
		1,570,980	370,322
Cash flows relating to investing activities			
Change in securities available-for-sale and designated as held-for-trading			
Acquisitions		(3,779,365)	(6,888,907)
Proceeds on sale and at maturities		2,915,926	7,224,590
Change in loans		(2,208,714)	(2,095,543)
Change in assets purchased under reverse repurchase agreements		(121,087)	262,242
Proceeds from mortgage loan securitizations		1,295,512	892,035
Additions to property, plant and equipment		(37,659)	(54,481)
Proceeds from disposal of property, plant and equipment		103	1,270
Net change in interest-bearing deposits with other banks		188,964	(184,533)
Net cash flows from sale of asset	27	29,632	–
		(1,716,688)	(843,327)
Net change in cash and non-interest-bearing deposits with other banks		(10,835)	(5,662)
Cash and non-interest-bearing deposits with other banks at beginning of year		65,245	70,907
Cash and non-interest-bearing deposits with other banks at end of year		$ 54,410	$ 65,245
Supplemental disclosure relating to cash flows:			
Interest paid during the year		$ 539,656	$ 518,456
Income taxes paid during the year		$ (3,451)	$ 6,871

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

Notes to consolidated financial statements

OCTOBER 31, 2008 AND 2007 (ALL TABULAR AMOUNTS ARE IN THOUSANDS OF DOLLARS, UNLESS OTHERWISE INDICATED.)

NO 1.
GENERAL

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

NO 2.
BASIS OF PRESENTATION

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

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

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

2.1 BASIS OF CONSOLIDATION

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

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

2.2 NEW ACCOUNTING STANDARDS ADOPTED DURING FISCAL 2008

Capital disclosures and Disclosure and presentation of financial instruments

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 measurement 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. Information on this new standard is provided in note 13 to these consolidated financial statements.

Sections 3862 and 3863 supersede Section 3861, *Financial Instruments – Disclosure and Presentation,* detailing all the 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 those risks. These consolidated financial statements, particularly notes 4, 5, 20 and 22 hereto, include disclosure relative to these new standards.

2. BASIS OF PRESENTATION (CONT'D)

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 consolidated financial statements.

2.3 FUTURE ACCOUNTING POLICY CHANGES

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*. 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 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 no longer 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 the 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.

NO 3.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 FINANCIAL INSTRUMENTS

Held-for-trading financial instruments

Financial instruments purchased for resale over a short period of time and obligations related to securities sold short are classified as held-for-trading.

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

Financial instruments designated as held-for-trading

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

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

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

Available-for-sale assets

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

These assets are initially recorded at fair value on the settlement date in the consolidated balance sheet. Except for equity instruments that do not have a quoted market price in an active market, available-for-sale assets are remeasured at fair value and unrealized gains and losses are recorded in other comprehensive income. When realized, unrealized gains and losses are recognized in the consolidated statement of income in other income under income from treasury and financial market operations. Where there is objective evidence that the asset is impaired and the decline in fair value of the available-for-sale asset is other than temporary, the unrealized loss is immediately recognized in the consolidated statement of income. Equity instruments that do not have a quoted market price in an active market are recorded at cost. Interest income earned, amortization of premiums and discounts as well as dividends received are included in interest income using the accrual basis of accounting. Transaction costs, and loan origination and other fees associated with the acquisition of available-for-sale financial instruments and other financial liabilities are initially deferred and subsequently amortized using the effective interest method according to the instrument to which they relate.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables, that an entity has the clear intention and ability to hold to maturity. These financial assets are recorded at amortized cost on the settlement date. As at October 31, 2008, the Bank had not designated any financial assets as held-to-maturity.

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

The Bank enters into short-term purchases of securities under agreements to resell as well as short-term sales of securities under agreements to repurchase at predetermined prices and dates. These agreements are treated as collateralized lending and borrowing transactions and are carried on the consolidated balance sheet at the amounts at which the securities were initially acquired or sold. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is reported as interest income and interest expense, respectively.

Loans

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

Impaired loans

Loans, except credit card balances, are classified as impaired when, in management's opinion, there is a reasonable doubt as to the timely recovery of the principal or interest. Loans are classified as impaired when payment of principal or interest is 90 days past due, unless they are well secured or in the process of recovery. All loans which are 180 days past due are classified as impaired except when they are guaranteed or insured by the Canadian government, a provincial government or a Canadian government agency; such loans are classified as impaired loans if they are in arrears for 365 days. Credit card balances are fully written off when payments are 180 days in arrears or when management assesses the likelihood of collection to be nil.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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

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

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

Foreclosed assets

Assets acquired by way of settlement of a loan and held for sale are initially measured at fair value less costs to sell, under other assets. The difference between the carrying amount of the loan prior to foreclosure and the amount at which the foreclosed assets are initially measured is recognized in the provision for loan losses. Any future change in their fair value, but not in excess of the cumulative losses recognized subsequent to the foreclosure date, is recognized as other income in the consolidated statement of income. The revenues generated by foreclosed assets and operating expenses are included in other income and non-interest expenses. If the assets are to be held and used, they are initially measured at fair value and then accounted for in the same manner as similar assets acquired in the normal course of business.

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

Allowances for losses

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

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

Specific allowances for loan losses

Specific allowances are maintained to absorb losses on both specifically identified borrowers and other homogeneous loans classified as impaired. Losses relating to loans included in the commercial loan and mortgage loan portfolios and to investment loans included in the personal loan portfolio are determined on a loan-by-loan basis during periodic portfolio reviews. These losses are established by estimating the amounts recoverable in relation to the loan amounts using expected future cash flows discounted at the effective interest rate inherent in the loans. When these amounts cannot be reasonably estimated, the fair value of the underlying collateral or the observable market price of the loans is used. Losses relating to other personal loans classified as impaired, other than losses arising from credit card balances, are determined based on the write-off experience of the past few years when payments are more than 90 days in arrears. For credit card balances, no specific allowance is maintained; however, outstanding balances are fully written off when payments are 180 days in arrears or when management assesses the likelihood of recovery to be nil.

General allowances for loan losses

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

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

Acceptances and customers' liabilities under acceptances

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

Loan securitization

The Bank transfers pools of residential and commercial mortgages to special purpose entities or trusts. These transfers are accounted for as sales when the Bank is deemed to have surrendered control over these assets and has received consideration other than beneficial interests in these assets.

At the transfer date, the Bank derecognizes all assets sold, recognizes at fair value the assets received and the liabilities assumed at the time of sale and recognizes the gain or loss on the sale in other income.

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

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

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

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

Derivative financial instruments and hedges

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

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

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

Fair value hedges

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

For these hedging relationships, the changes in the hedged items' fair value attributable to the hedged risk are recognized in the consolidated statement of income in other income under income from treasury and financial market operations with a corresponding adjustment to the carrying amount of the hedged items in the consolidated balance sheet. Changes in fair value of the hedged items, to the extent that the hedging relationship is effective, are offset by changes in fair value of the hedging derivative. When the derivative financial instrument no longer qualifies as an effective hedge or the derivative financial instrument is terminated or sold, hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying amount of the hedged item linked to a hedging relationship that ceases to be effective is recognized in net interest income in the periods during which the hedged item affects income. Hedge accounting is also discontinued on the sale or early termination of the hedged item, whereupon the cumulative adjustment to the hedged item's carrying amount is immediately recognized in other income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Cash flow hedges

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

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

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

Other considerations

The Bank may designate derivative financial instruments for which it has ceased applying hedge accounting as hedges in future hedging relationships. When derivative financial instruments are re-designated as hedges, any previously recognized fair value in the consolidated balance sheet is amortized to other income over their remaining lives.

Deposits

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

Indexed deposit contracts

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

Subordinated debentures

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

Measuring the fair value of financial instruments

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

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

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

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

3.2 PROPERTY, PLANT AND EQUIPMENT

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

	METHOD	RATE / PERIOD
Premises	Declining balance	5%
Leasehold improvements	Straight-line	Term of the lease, plus initial renewal option
Equipment and furniture	Declining balance	20%
Computer hardware and software	Straight-line	3–10 years

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

3.3 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill from business combinations is tested for impairment, at least annually, based on its fair value. The impairment test initially compares the fair value of the reporting unit to which the goodwill relates to its carrying amount. When potential impairment is identified, the fair value of goodwill is compared to its carrying amount. The Bank mainly uses the discounted cash flows method to determine the fair value of its reporting units.

Intangible assets with a finite life are amortized over their estimated useful life, which generally does not exceed 15 years, on a straight-line basis and are also tested for impairment whenever circumstances indicate that the carrying value may not be fully recoverable. When the net carrying amount exceeds the estimated future net cash flows, intangible assets with finite lives are considered impaired and are written down to their fair value.

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

3.4 EMPLOYEE FUTURE BENEFITS

Pension plans

The Bank maintains defined benefit pension plans for its employees. One of these plans also includes a defined contribution portion. Funding is provided by both the Bank and the members of the plans.

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

Actuarial gains or losses arise, in particular, from the difference between the actual long-term rate of return on plan assets and the expected rate of return on such assets, based on management's best-estimate assumptions, as well as from changes in actuarial assumptions used to determine the accrued benefit obligation. Net actuarial gains or losses are amortized when, at the beginning of the year, the unamortized balance of the gain or loss exceeds 10% of the greater of the accrued benefit obligation or the market value of plan assets. This excess is amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the plans which varied from 9 to 11 years in 2008 depending on the plans (from 9 to 11 years in 2007).

The past service cost resulting from changes to the defined benefit plans is amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the defined benefit plans.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Other plans

The Bank offers its employees certain post-employment benefits. The Bank also provides certain health care and life insurance benefits for its employees upon retirement. The costs related to these benefits are recognized during the employees' service life according to accounting policies similar to those applied to defined benefit pension plans.

The transitional obligation resulting from the initial application of the accounting standard with respect to employee future benefits, on November 1, 2000, is amortized on a straight-line basis over the remaining life expectancy of retirees for post-retirement benefits, which equals 20 years, and over the expected average remaining service life of the employee groups covered for the post-employment benefits, which was 13 years.

3.5 INCOME TAXES

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

3.6 NET INCOME PER COMMON SHARE

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

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

3.7 STOCK-BASED COMPENSATION

Since November 1, 2002, the Bank has used the fair-value method of accounting for share purchase options granted to senior management. For these awards, the Bank recognizes the fair value of the options granted as an increase in the related compensation expense and contributed surplus during the option vesting period. When the options are exercised, the proceeds received and the amount of the contributed surplus are credited to common shares. The value of the options granted is determined using the Black and Scholes option-pricing model using management's best estimates. With respect to awards granted prior to November 1, 2002, the Bank continues to apply the previous standards under which no compensation cost is recognized when share purchase options are awarded to employees and the consideration paid by the employees who exercise their options is credited to common shares.

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

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

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

3.8 ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

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

3.9 TRANSLATION OF FOREIGN CURRENCIES

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

3.10 CASH AND CASH EQUIVALENTS

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

NO 4.
SECURITIES

MATURITY SCHEDULE AND YIELD ON SECURITIES
Portfolio of available-for-sale securities

					2008		2007	
	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	NO SPECIFIC MATURITY	TOTAL	YIELD (1)	TOTAL	YIELD (1)
Securities issued or guaranteed								
by Canada (2)	$ 978,268	$ –	$ –	$ –	$ 978,268	1.7%	$762,959	4.3%
by provinces	–	26,301	–	–	26,301	4.1%	–	–%
Other debt securities	62,897	107,708	26,374	–	196,979	4.6%	–	–%
Asset-backed securities	–	12,113	4,455	2,720	19,288	5.2%	21,694	5.5%
Preferred shares	–	–	–	69,072	69,072	5.0%	71,845	3.6%
Common shares and other securities	–	–	–	37,596	37,596	5.7%	61,178	3.0%
	$1,041,165	$146,122	$30,829	$109,388	$1,327,504	2.5%	$917,676	4.2%

Portfolio of held-for-trading securities

					2008	2007
	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	NO SPECIFIC MATURITY	TOTAL	TOTAL
Securities issued or guaranteed						
by Canada (2)	$128,976	$146,009	$ 75,791	$ –	$ 350,776	$ 403,067
by provinces	52,545	110,187	182,825	–	345,557	349,126
by municipal corporations	10,703	35,811	36,605	–	83,119	84,857
Other debt securities	110,202	38,113	59,226	–	207,541	174,998
Asset-backed securities	10,331	2,587	398	7,959	21,275	36,194
Common shares and other securities	–	–	–	60,929	60,929	38,716
	$312,757	$332,707	$354,845	$68,888	$1,069,197	$1,086,958

Portfolio of securities designated as held-for-trading

				2008	2007
	WITHIN 1 YEAR	1 TO 5 YEARS	NO SPECIFIC MATURITY	TOTAL	TOTAL
Securities issued or guaranteed					
by Canada (2)	$54,506	$1,032,313	$ –	$1,086,819	$528,434
by provinces	5,709	6,049	–	11,758	12,418
Other debt securities	–	17,277	–	17,277	68,833
Asset-backed securities	–	–	–	–	948
Common shares and other securities	–	–	2,984	2,984	59,112
	$60,215	$1,055,639	$2,984	$1,118,838	$669,745

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

4. SECURITIES (CONT'D)

GAINS AND LOSSES RECOGNIZED IN INCOME

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

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

	2008	2007
Realized net gains	$11,195	$ 2,731
Writedowns for impairment recognized in income	(8,537)	(800)
	$ 2,658	$ 1,931

Realized net gains include, in particular, a $12,906,000 gain on the sale of the shares of the Montréal Exchange, partially offset by net losses on the sale of various other securities.

Write-downs for impairment relate to available-for-sale securities for which the unrealized loss is considered to be other than temporary. The write-downs recorded during the year ended October 31, 2008 mostly pertain to debt instruments issued by large foreign financial institutions.

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 considered 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 possible alternative assumptions may have resulted in write-downs of, at most, $20,682,000, representing the total unrealized losses as at October 31, 2008.

Gains and losses on portfolio of held-for-trading securities

For the year ended October 31, 2008, the Bank recognized a $7,965,000 net loss (a $6,429,000 net gain in 2007) in trading income in respect of held-for-trading securities.

Gains and losses on the portfolio of securities designated as held-for-trading

For the year ended October 31, 2008, the Bank recognized a $35,153,000 net gain (a $1,408,000 net loss in 2007) in income from treasury and financial market operations related to financial instruments designated as held-for-trading using the fair value option. These financial instruments were used in managing interest rate exposure. In accordance with the Bank's accounting policy, the financial instruments were designated as held-for-trading to significantly reduce a disparity in accounting treatment that would otherwise have arisen from recognizing the gains and losses in respect of these instruments on different bases. Accordingly, this gain has been essentially offset by losses on other financial instruments.

GAINS AND LOSSES RECOGNIZED IN OTHER COMPREHENSIVE INCOME

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

				2008
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Securities issued or guaranteed				
by Canada	$ 977,724	$575	$ 31	$ 978,268
by provinces	26,604	–	303	26,301
Other debt securities	200,342	287	3,650	196,979
Asset-backed securities	20,323	1	1,036	19,288
Preferred shares	75,329	6	6,263	69,072
Common shares and other securities	46,966	29	9,399	37,596
	$1,347,288	$898	$20,682	$1,327,504

				2007
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Securities issued or guaranteed by Canada	$ 763,172	$ 35	$ 248	$ 762,959
Asset-backed securities	22,364	57	727	21,694
Preferred shares	73,561	113	1,829	71,845
Common shares and other securities	48,307	14,586	1,715	61,178
	$ 907,404	$14,791	$4,519	$ 917,676

As at October 31, 2008, unrealized losses totalling $20,682,000 ($4,519,000 in 2007) related primarily to preferred and common shares. These declines in value resulted from lower market prices during the last months of the fiscal year. Moreover, widening of credit spreads near year-end on certain debt securities generated unrealized losses. As at October 31, 2008, the Bank determined that these declines in fair value were temporary in nature and that it had the ability and the intention to hold these securities for a reasonable amount of time needed for them to recover their fair value. These declines in value were included in accumulated other comprehensive income.

MONTRÉAL ACCORD ON ASSET-BACKED COMMERCIAL PAPER

As at October 31, 2008, the Bank held various non-bank conduit asset-backed securities covered by the Montréal Accord, as detailed below.

	ABCP	OTHER ABS	TOTAL
Portfolio of held-for-trading securities	$ 5,577	$ 5,410	$10,987
Portfolio of available-for-sale securities	–	2,720	2,720
Carrying amount and fair value	$ 5,577	$ 8,130	$13,707

ABCP Asset-backed commercial paper
ABS Asset-backed securities

During the year, the Bank remeasured its held-for-trading securities resulting in a $3,011,000 write-down ($2,088,000 in 2007). In 2008, the Bank did not record any other-than-temporary decline in value ($800,000 in 2007) in respect of the portfolio of held-for-sale securities.

As at October 31, 2008, the Bank had recorded a cumulative impairment loss of $5,600,000 or approximately 30% on securities issued by conduits covered by the Montréal Accord.

These securities have not traded in an active market since mid-August 2007. As a result, the Bank has relied on valuation techniques considering the relevant public information regarding market conditions and other factors and assumptions that a market participant would have considered for such investments to estimate the fair value. Continuing uncertainties regarding the fair value of the assets underlying the investments, the amount and timing of cash flows and the outcome of the restructuring process planned under the Montréal Accord could give rise to further changes in the value of the Bank's investments that would impact income.

OTHER CONSIDERATIONS

Fair value measurement

Measuring fair values of certain asset classes, in the current economic environment, has required management to exercise significant judgment. With regard to asset-backed securities and certain corporate bonds where trading has all but halted, fair values were estimated based on prevailing market rates for similar instruments or valuation models. These holdings amounted to approximately $21,000,000. Based on management's assessment, using possible alternative assumptions would not have resulted in significantly different fair values.

U.S. dollar-denominated securities

U.S. dollar-denominated securities totalled $40,191,000 as at October 31, 2008 ($32,616,000 as at October 31, 2007).

NO 5. LOANS

LOANS AND IMPAIRED LOANS

					2008
	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	SPECIFIC ALLOWANCES	GENERAL ALLOWANCES	TOTAL ALLOWANCES
Personal loans	$ 5,302,046	$ 19,250	$ 6,634	$33,052	$ 39,686
Residential mortgages	6,182,871	16,579	1,405	4,211	5,616
Commercial mortgages	932,688	6,275	1,883	4,760	6,643
Commercial and other loans	1,847,327	59,769	29,262	31,227	60,489
	$14,264,932	$101,873	$39,184	$73,250	$112,434

					2007
	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	SPECIFIC ALLOWANCES	GENERAL ALLOWANCES	TOTAL ALLOWANCES
Personal loans	$ 4,958,176	$ 16,237	$ 6,039	$ 28,446	$ 34,485
Residential mortgages	6,232,778	20,395	1,419	5,144	6,563
Commercial mortgages	684,625	4,342	1,532	4,144	5,676
Commercial and other loans	1,556,831	62,964	41,082	27,516	68,598
	$ 13,432,410	$ 103,938	$ 50,072	$ 65,250	$ 115,322

U.S. dollar-denominated loans totalled $72,712,000 as at October 31, 2008 ($35,802,000 in 2007).

In 2008, held-for-sale assets acquired in respect of impaired loans amounted to $7,472,000 ($4,521,000 in 2007) with the reversal to the related specific allowances totalling nil (nil in 2007).

SPECIFIC ALLOWANCES FOR LOAN LOSSES

					2008	2007
	PERSONAL LOANS	RESIDENTIAL MORTGAGES	COMMERCIAL MORTGAGES	COMMERCIAL AND OTHER LOANS	TOTAL SPECIFIC ALLOWANCES	TOTAL SPECIFIC ALLOWANCES
Balance at beginning of year	$ 6,039	$1,419	$1,532	$ 41,082	$ 50,072	$ 59,903
Provision for loan losses recorded in the consolidated statement of income	29,541	582	510	9,867	40,500	40,000
Write-offs[1]	(34,241)	(699)	(159)	(22,114)	(57,213)	(55,451)
Recoveries	5,295	103	–	427	5,825	5,620
Balance at end of year	$ 6,634	$1,405	$1,883	$ 29,262	$ 39,184	$ 50,072

(1) No restructured loans were written off during the fiscal years ended October 31, 2008 and 2007.

GENERAL ALLOWANCES FOR LOAN LOSSES

					2008	2007
	PERSONAL LOANS	RESIDENTIAL MORTGAGES	COMMERCIAL MORTGAGES	COMMERCIAL AND OTHER LOANS	TOTAL GENERAL ALLOWANCES	TOTAL GENERAL ALLOWANCES
Balance at beginning of year	$28,446	$5,144	$4,144	$27,516	$65,250	$ 65,250
Provision for loan losses recorded in the consolidated statement of income	4,606	(933)	616	3,711	8,000	–
Balance at end of year	$33,052	$4,211	$4,760	$31,227	$73,250	$ 65,250

LOANS PAST DUE BUT NOT IMPAIRED

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

			AS AT OCTOBER 31, 2008
	32 DAYS–90 DAYS	OVER 90 DAYS	TOTAL
Personal loans	$23,948	$ 3,665	$27,613
Residential mortgages	27,861	16,368	44,229
	$51,809	$20,033	$71,842

NO 6. LOAN SECURITIZATION

RESIDENTIAL MORTGAGE LOANS

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

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

	2008	2007
Cash proceeds, net of transaction costs	$1,295,512	$ 850,955
Rights to future excess spreads	60,750	26,547
Servicing liability	(10,696)	(6,540)
Cash reserve accounts	–	8,495
Other	(21,184)	(10,561)
	1,324,382	868,896
Residential mortgages securitized and sold[(1)]	1,294,746	862,637
Gains before income taxes, net of transaction costs	$ 29,636	$ 6,259

(1) Including $1,294,746,000 in loans insured by CMHC ($524,098,000 in 2007).

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

KEY ASSUMPTIONS	2008	2007
Rate of prepayment	27%	26%
Discount rate	4.0%	4.7%
Rate of credit losses	–%	0.05%

No loss is expected on insured residential mortgages.

During the year, the Bank collected cash flows from retained interests totalling $33,287,000 ($18,166,000 in 2007). The amortization charge relating to the servicing liability recognized in income amounted to $6,249,000 ($3,199,000 in 2007).

During fiscal 2008, the Bank also recorded a $770,000 downward adjustment ($2,750,000 in 2007) in the value of certain interest rate swaps entered into in connection with the sale of conventional residential mortgage loans, subsequent to the liquidity and credit crisis affecting asset-backed commercial paper. This adjustment was charged against securitization income.

Financial instruments designated as held-for-trading

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

6. LOAN SECURITIZATION (CONT'D)

For the year ended October 31, 2008, the Bank recognized a $3,084,000 net gain ($1,013,000 in 2007) in securitization income in respect of these rights.

The following table shows the value of retained interests, as well as the sensitivity of the fair value of these interests to immediate unfavourable changes of 10% and 20% in the key assumptions used to value retained interests as at October 31, 2008 and 2007.

SENSITIVITY OF KEY ASSUMPTIONS TO UNFAVOURABLE CHANGES	2008	2007
Fair value of retained interests	$88,956	$56,502
Weighted average life (in months)	25	27
Rate of prepayment	30%	29%
Impact on fair value of unfavourable change of 10%	$ 1,999	$ 1,070
Impact on fair value of unfavourable change of 20%	$ 3,919	$ 2,086
Rate of credit losses(1)	0.05%	0.05%
Impact on fair value of unfavourable change of 10%	$ 37	$ 73
Impact on fair value of unfavourable change of 20%	$ 74	$ 145
Discount rate	2.6%	4.8%
Impact on fair value of unfavourable change of 10%	$ 388	$ 252
Impact on fair value of unfavourable change of 20%	$ 766	$ 501

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

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

LOANS UNDER MANAGEMENT

The total principal amount of outstanding securitized residential mortgage loans under management amounted to $2,398,564,000 at the end of fiscal 2008 ($1,561,901,000 in 2007). Of that amount, loans that are more than 31 days past due but not considered impaired totalled $23,793,000 ($12,389,000 in 2007). There were no credit losses in respect of these loans in 2008 (none in 2007).

COMMERCIAL MORTGAGE LOANS

During fiscal 2007, the Bank securitized $40,338,000 in commercial mortgages, generating a $424,000 gain. The Bank retained no interests or obligations in respect of these commercial mortgages.

During fiscal 2008, the Bank entered into a number of hedging transactions to mitigate the interest rate risk on a commercial mortgage loan portfolio held for sale in a securitization transaction. As the hedging transactions did not meet GAAP requirements for hedge accounting, the Bank recognized $1,971,000 in losses in value associated with the hedging items in other income under securitization income.

Apart from the above-mentionned securitization transactions, the Bank sold $50,063,000 in commercial mortgages, generating a $287,000 gain ($11,797,000 in 2007, generating a $56,000 gain).

NO 7.
PROPERTY, PLANT AND EQUIPMENT

	2008			2007
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Land	$ 271	$ –	$ 271	$ 271
Premises	2,885	1,183	1,702	1,622
Leasehold improvements	63,354	35,063	28,291	26,788
Equipment and furniture	78,908	65,970	12,938	13,217
Computer hardware and software	389,127	288,840	100,287	95,793
	$534,545	$391,056	$143,489	$137,691

Depreciation expense for the year recognized in the consolidated statement of income was $29,329,000 ($26,874,000 in 2007).
Computer hardware and software included $15,105,000 ($13,590,000 in 2007) pertaining to projects under development yet to be depreciated.
In 2008, a $2,200,000 loss related to technological development costs was recognized in income in technology expenses.

NO 8. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is related to the Retail Financial Services segment.
Other intangible assets consist of the following:

	2008			2007
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	NET BOOK VALUE
Contractual relations and customer relationships	$18,278	$5,382	$12,896	$ 14,114

The other intangible assets consist of contractual relations with financial intermediaries and customer relationships and are amortized over a 15-year period. Amortization of other intangible assets recorded in the consolidated statement of income during the year was $1,219,000 ($1,219,000 in 2007).
The Bank tests goodwill and other intangible assets for impairment on an annual basis. No impairment was identified in 2008 and 2007.

NO 9. OTHER ASSETS

	2008	2007
Cheques and other items in transit	$148,490	$160,530
Assets related to securitized mortgage loans	104,591	64,361
Deferred charges related to loan and deposit origination	73,068	70,944
Accrued interest receivable	68,471	61,459
Accrued benefit assets (note 16)	49,431	43,367
Future tax assets (note 17)	44,155	86,534
Accounts receivable, prepaid expenses and other items	33,996	39,149
	$522,202	$526,344

NO 10. DEPOSITS

	2008				2007
	DEMAND	NOTICE	TERM	TOTAL	TOTAL
Personal	$109,694	$1,912,322	$10,408,022	$12,430,038	$11,564,530
Business, banks and other	779,032	119,853	2,004,889	2,903,774	2,314,178
	$888,726	$2,032,175	$12,412,911	$15,333,812	$13,878,708

10. DEPOSITS (CONT'D)

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

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

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

U.S. dollar-denominated deposits totalled $255,014,000 ($268,340,000 in 2007) and deposits denominated in other foreign currencies, primarily in euros, amounted to $4,368,000 ($1,639,000 in 2007).

The Bank has designated certain deposits with a notional amount of $56,060,000 ($73,815,000 in 2007) as held-for-trading. The difference between the amount the Bank would be contractually required to pay to depositors at maturity and the carrying amount of deposits amounting to $56,314,000 ($73,069,000 in 2007) was $254,000 as at October 31, 2008 (($746,000) as at October 31, 2007). For the year ended October 31, 2008, the Bank recognized a $1,000,000 net gain ($443,000 net loss in 2007) in other income under income from treasury and financial market operations in respect of these deposits. The change in fair value of these financial instruments owing to the change in credit risk was insignificant.

NO 11.
OTHER LIABILITIES

	2008	2007
Accrued interest payable	$463,179	$458,475
Cheques and other items in transit	159,461	178,409
Liabilities related to securitized mortgage loans	33,730	29,475
Accrued benefit liabilities (note 16)	14,222	12,611
Deferred gain related to the sale of BLCER (note 27)	5,185	10,369
Accounts payable, accrued expenses and other items	102,385	83,714
	$778,162	$773,053

NO 12.
SUBORDINATED DEBENTURES

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

Issued and outstanding

MATURITY	SERIES	INTEREST RATE	SPECIAL TERMS	2008	2007
January 2016	10	4,90%	Redeemable at par as of January 2011; rate to be revised in January 2011 and set at the 90 -day bankers' acceptance rate plus 1.65%	$150,000	$150,000

NO 13.
CAPITAL STOCK

AUTHORIZED CAPITAL STOCK

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

ISSUED AND OUTSTANDING

				2008			2007
	DIVIDENDS PER SHARE (1)	NUMBER OF SHARES	AMOUNT	DECLARED DIVIDENDS	NUMBER OF SHARES	AMOUNT	DECLARED DIVIDENDS
Class A Preferred Shares							
Series 9	$1.500	4,000,000	$100,000	$ 6,000	4,000,000	$ 100,000	$ 6,000
Series 10	1.312	4,400,000	110,000	5,775	4,400,000	110,000	5,775
Total preferred shares		8,400,000	$210,000	$11,775	8,400,000	$ 210,000	$11,775
Common shares	$1.300	23,847,700	$257,462	$30,993	23,810,813	$ 256,445	$27,480
Treasury shares		–	$ –	$ –	–	$ –	$ (6)

(1) Non-cumulative dividends on preferred shares

PREFERRED SHARES

Terms of shares

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

The Class A Preferred Shares, Series 10, are redeemable at the Bank's option on or after June 15, 2009 at a price of $25 each plus, if the redemption takes place before June 15, 2013, a premium of $1 which will decrease to zero depending on the redemption date. Moreover, the Bank will be able, on or after June 15, 2009, to convert all or a portion of these preferred shares into a whole number of common shares determined by dividing the redemption price then applicable by the greater of $2.50 or 95% of the weighted average prevailing market price of the common shares at that date.

COMMON SHARES

Issuance of common shares

During the year, 36,887 common shares (190,377 shares in 2007) were issued under the employee share purchase option plan for the management of the Bank for a cash consideration of $1,017,000 ($5,287,000 in 2007).

TREASURY SHARES

During fiscal 2005, 20,000 common shares were acquired in the marketplace relative to obligations in connection with a performance-based share program (see note 15). These shares were presented under treasury shares as a reduction of shareholders' equity. Since the objectives were reached during fiscal 2007, the shares have been reallocated.

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

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

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

CAPITAL MANAGEMENT

Common shareholders' equity

Common shareholders' equity consists of common shares, retained earnings, contributed surplus and accumulated other comprehensive income. Capital management contributes to the Bank's profitability, as capital is allocated to operating segments based on profitability objectives and criteria. The Bank strives to maintain an optimal level of capital to support its activities while generating an optimal return for its shareholders, factoring in industry standards and the Bank's risk profile.

13. CAPITAL STOCK (CONT'D)

Regulatory capital

The Bank's regulatory capital consists primarily of common shareholders' equity, preferred shares and subordinated debentures. Regulatory capital is a significant factor in assessing the Bank's security and stability in relation to the overall risks inherent to its operations. The Bank's policy is to keep its regulatory capital ratios in compliance with regulatory requirements as defined by OSFI. OSFI regulatory guidelines require banks to maintain a minimum Tier 1 capital ratio of 7% and a minimum total capital ratio of 10%.

As of November 1, 2007, the Bank is monitoring its regulatory capital based on the Bank for International Settlements (BIS) regulatory risk-based capital framework (Basel II). The Bank has decided to use the standard approach for credit risk and the basic indicator approach for operational risk. Since November 1, 2007, the Bank has complied with these requirements.

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

Regulatory capital as at October 31, 2008 and 2007 is detailed as follows:

	2008	2007
Tier I capital		
Common shares	$ 257,462	$ 256,445
Contributed surplus	173	105
Retained earnings	596,974	537,254
Non-cumulative preferred shares	210,000	210,000
Less: goodwill, securitization and other	(99,239)	(53,790)
Total – Tier I capital	965,370	950,014
Tier II capital		
Subordinated debentures	150,000	150,000
General allowances	73,250	65,250
Less: securitization and other	(31,738)	(33,827)
Total – Tier II capital	191,512	181,423
Total regulatory capital	$1,156,882	$1,131,437

As of November 1, 2007, regulatory capital is determined according to Basel II capital adequacy standards. Prior-year comparative figures are based on the previous regulatory framework under Basel I.

NO 14.
ADDITIONAL INFORMATION REGARDING OTHER COMPREHENSIVE INCOME

OTHER COMPREHENSIVE INCOME			2008
	AMOUNTS BEFORE INCOME TAXES	INCOME TAXES	AMOUNTS NET OF INCOME TAXES
Unrealized gains and (losses) on available-for-sale securities			
Unrealized gains and (losses) for the year	$(33,474)	$ 10,127	$(23,347)
Less: reclassification in income of (gains) realized during the year	(2,570)	(1,806)	(4,376)
	(36,044)	8,321	(27,723)
Gains and (losses) on derivative instruments designated as cash flow hedges for the year	67,029	(21,357)	45,672
Other comprehensive income	$ 30,985	$(13,036)	$ 17,949

ACCUMULATED OTHER COMPREHENSIVE INCOME			2008
	CASH FLOW HEDGES	AVAILABLE-FOR-SALE SECURITIES	ACCUMULATED OTHER COMPREHENSIVE INCOME
Balance at beginning of year	$ (10,255)	$ 11,132	$ 877
Change during the year, net of income taxes	45,672	(27,723)	17,949
Balance at end of year	**$ 35,417**	**$(16,591)**	**$18,826**

OTHER COMPREHENSIVE INCOME			2007
	AMOUNTS BEFORE INCOME TAXES	INCOME TAXES	AMOUNTS NET OF INCOME TAXES
Unrealized gains and (losses) on available-for-sale securities			
Unrealized gains and (losses) for the year	$ 17,508	$ (2,175)	$ 15,333
Less: reclassification in income of (gains) realized during the year	(1,249)	(332)	(1,581)
	16,259	(2,507)	13,752
Gains and (losses) on derivative instruments designated as cash flow hedges for the year	8,586	(2,909)	5,677
Other comprehensive income	$ 24,845	$ (5,416)	$ 19,429

ACCUMULATED OTHER COMPREHENSIVE INCOME			2007
	CASH FLOW HEDGES	AVAILABLE-FOR-SALE SECURITIES	ACCUMULATED OTHER COMPREHENSIVE INCOME
Balance at beginning of year	$ –	$ –	$ –
Effect of adoption of new accounting policy, net of income taxes	(15,932)	(2,620)	(18,552)
Change during the year, net of income taxes	5,677	13,752	19,429
Balance at end of year	$ (10,255)	$11,132	$ 877

NO 15.
STOCK-BASED COMPENSATION

SHARE PURCHASE OPTION PLAN

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

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

The Bank had reserved 1,600,000 common shares (1,600,000 shares in 2007) for the potential exercise of share purchase options, of which 124,962 were still available as at October 31, 2008 (119,160 in 2007).

During fiscal 2007, the Bank granted 50,000 share purchase options with an exercise price of $29.47, at a fair value of $4.55 per option. No grants occurred in 2008.

The fair value of these options was measured in 2007 at the grant date using the Black and Scholes option pricing model based on the following assumptions:

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

15. STOCK-BASED COMPENSATION (CONT'D)

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

	2008		2007	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER OPTION	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER OPTION
Outstanding at beginning of year	170,027	$27.67	339,604	$27.79
Granted	–	$ –	50,000	$29.47
Exercised	(36,887)	$27.55	(190,377)	$27.77
Cancelled	(5,802)	$31.80	(29,200)	$31.50
Outstanding at end of year	127,338	$27.52	170,027	$27.67
Exercisable at end of year	89,838	$26.71	120,027	$26.92

The following table summarizes information relating to share purchase options outstanding as at October 31, 2008:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OF OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE PER OPTION	NUMBER OF OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE PER OPTION
$19.37 – $22.08	21,938	0.89	$20.43	21,938	$20.43
$28.22 – $31.80	105,400	5.75	$29.00	67,900	$28.73
	127,338			89,838	

STOCK APPRECIATION RIGHTS (SARs) PLAN

The Bank offers a stock appreciation rights (SARs) plan to members of senior management of the Bank and its subsidiaries. These SARs may be cash settled for an amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs vest over a maximum period of five years and can be exercised over a maximum period of ten years. The expense related to these units is recognized in income over their vesting period. In 2008, the Bank granted 138,900 SARs with an average exercise price of $40.95 (270,500 SARs with an average exercise price of $33.72 in 2007). As at October 31, 2008, 658,340 SARs (644,318 in 2007) were outstanding at a weighted average exercise price of $32.58 ($29.93 in 2007), of which 192,909 (206,506 in 2007) were exercisable at year-end. As at October 31, 2008, the weighted average remaining life of SARs was 7.31 years (7.33 years in 2007).

PERFORMANCE-BASED SHARE UNIT PLAN

The Bank offers a performance-based share unit plan to certain members of senior management. The plan provides for the grant of performance-based share units calculated using a certain percentage of the plan member's salary. Under the plan, 37.5% of the units vest over three years. The remaining units vest after three years provided financial targets are met. The holders of such share units are entitled to an amount equivalent to the dividends paid on the Bank's common shares, which is also converted into additional share units. The expense related to these units is recognized in income over their vesting period. In 2008, the Bank granted 35,816 performance-based share units with a value of $40.07 each (nil in 2007).

RESTRICTED SHARE UNIT PLAN

The Bank offers a restricted share unit plan to certain members of senior management. Under the plan, 50% of the annual bonus otherwise payable to an eligible employee, under the Bank's short-term incentive compensation program, could be withheld and converted into fully vested restricted share units at the employees' option. The Bank undertakes to contribute additional restricted share units equal to 60% of the withheld bonus. These additional units will vest at the end of the three-year period following their award. The holders of such share units are entitled to an amount equivalent to the dividends paid on the Bank's common shares, which is also converted into additional share units. The expense related to these units is recognized in income over their vesting period. In January 2008, $1,486,000 ($613,000 in 2007) in annual bonuses for certain employees was converted into 45,786 fully vested restricted share units (19,979 units in 2007). The Bank contributed 27,472 additional restricted share units in 2008 (11,987 units in 2007), which will vest in December 2010.

GRANT OF PERFORMANCE-BASED SHARES

In 2005, the Bank implemented an agreement governing the grant of performance-based shares. Under this program, 20,000 common shares of the Bank, valued at $29.50 each, were granted. The shares vested over a 16-month period ended January 1, 2007, provided certain performance targets were met. Since these targets were met, 20,000 common shares were awarded in January 2007.

DEFERRED SHARE UNIT PLAN

The Bank offers a deferred share unit plan to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his or her remuneration in the form of deferred share units settled in cash. The deferred share units are converted when the holder steps down from the Board of Directors. In 2008, the Bank paid out 1,968 deferred share units as compensation (1,081 in 2007). As at October 31, 2008, there were 22,672 units (20,704 in 2007) outstanding with a total value of $927,000 ($905,000 in 2007).

EMPLOYEE SHARE PURCHASE PLAN

The Bank offers an employee share purchase plan. Under this plan, employees who meet the eligibility criteria can contribute up to 5% of their annual gross salary by way of payroll deductions. The Bank matches 30% of the employee contribution amount, up to a maximum of $1,500 per year. The Bank's contributions vest to the employee two years after each employee contribution. The Bank's contributions, totalling $310,000 during fiscal 2008 ($239,000 in 2007), are recognized in salaries and employee benefits. The average value of the vested shares under this plan was $40.05 in fiscal 2008 ($34.46 in 2007).

STOCK-BASED COMPENSATION PLAN EXPENSE

The following table shows the stock-based compensation plan expense, net of the effect of hedging transactions:

	2008	2007
Stock-based compensation plan expense (recovery)		
Stock appreciation rights plan	$ (728)	$ 8,833
Restricted share unit plan	1,437	1,246
Share purchase option plan	68	105
Performance-based share unit plan	–	74
Deferred share unit plan	22	413
Hedge effect[1]	2,158	(6,846)
Total	$2,957	$ 3,825

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

NO 16.
EMPLOYEE FUTURE BENEFITS

DESCRIPTION OF EMPLOYEE BENEFIT PLANS

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

The Bank also offers its employees certain post-employment benefits. In addition, certain retired employees have other retirement benefits, including health and life insurance.

TOTAL CASH PAYMENTS

Total cash payments for future employee benefits for 2008, consisting of cash contributed by the Bank to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution portions, amounted to $21,913,000 ($27,623,000 in 2007).

16. EMPLOYEE FUTURE BENEFITS (CONT'D)

DEFINED BENEFIT PLAN MEASUREMENT DATES

The Bank measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at October 31 of each year. The most recent actuarial valuations were performed as at December 31, 2007 and as at December 31, 2006, for one of the plans. The next required actuarial valuation for funding purposes for the funded plans must be performed as at December 31, 2009 and as at December 31, 2008 for one of the plans.

DEFINED BENEFIT PLAN OBLIGATIONS

	2008		2007	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Change in accrued benefit obligation				
Accrued benefit obligation at beginning of year	$362,742	$32,714	$362,174	$32,802
Current service cost	10,309	69	9,878	–
Interest cost on accrued benefit obligation	19,958	1,592	19,615	1,479
Benefits paid	(15,651)	(1,551)	(14,260)	(2,132)
Employee contributions	796	–	2,676	–
Impact of plan amendments	(14,499)	–	–	–
Actuarial losses (gain)	(80,648)	(427)	(17,491)	565
Other	–	–	150	–
Accrued benefit obligation at end of year	$283,007	$32,397	$362,742	$32,714

DEFINED BENEFIT PLAN ASSETS

	2008		2007	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	$326,980	$ –	$291,381	$ –
Actual return on plan assets	(38,764)	–	24,659	–
Bank contributions	16,260	–	22,278	–
Employee contributions	796	–	2,676	–
Benefits paid	(15,269)	–	(14,014)	–
Fair value of plan assets at end of year	$290,003	$ –	$326,980	$ –

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

	2008		2007	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Fair value of plan assets	$290,003	$ –	$326,980	$ –
Accrued benefit obligation	283,007	32,397	362,742	32,714
Funded status – plan surplus (deficit)	6,996	(32,397)	(35,762)	(32,714)
Unamortized transitional obligation	(207)	9,371	56	10,192
Unamortized past service costs	(10,649)	–	3,221	–
Unamortized net actuarial loss	47,870	14,225	70,294	15,469
Accrued benefit assets (liabilities) at end of year	$ 44,010	$ (8,801)	$ 37,809	$ (7,053)
Accrued benefit assets included in other assets	$ 49,431	$ –	$ 43,367	$ –
Accrued benefit liabilities included in other liabilities	$ 5,421	$ 8,801	$ 5,558	$ 7,053

ALLOCATION OF PLAN ASSETS AS A PERCENTAGE [(1)]

	2008	2007
Asset category		
Equity securities	47%	56%
Debt and other securities	53	44
Total	100%	100%

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

Plan assets do not include any equity securities of the Bank as at October 31, 2008 and 2007.

PLANS WITH ACCRUED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS

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

	2008		2007	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Accrued benefit obligation	$145,625	$32,397	$348,463	$32,714
Fair value of plan assets	135,521	–	305,970	–
Funded status – plan deficit	$ (10,104)	$(32,397)	$ (42,493)	$(32,714)

ELEMENTS OF DEFINED BENEFIT COSTS RECOGNIZED DURING THE YEAR

	2008		2007	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Defined benefit costs recognized during the year	$ 10,309	$ 69	$ 9,878	$ –
Interest cost on accrued benefit obligation	19,958	1,592	19,615	1,479
Actual return on plan assets	38,764	–	(24,659)	–
Actuarial losses (gain) on accrued benefit obligation	(80,648)	(427)	(17,491)	564
Impact of plan amendments	(14,499)	–	–	–
Other	–	–	150	–
Elements of employee future benefit costs (revenues) before adjustments to recognize their long-term nature	(26,116)	1,234	(12,507)	2,043
Excess of actual return over expected return	(61,356)	–	4,035	–
Deferral of amounts arising during period:				
Actuarial gain (losses) on accrued benefit obligation	80,648	427	17,491	(564)
Past service costs	14,499	–	–	–
Amortization of previously deferred amounts:				
Past service costs	(629)	–	643	–
Actuarial losses	3,131	817	6,305	878
Transitional obligation	264	821	264	821
Adjustments to recognize long-term nature of employee future benefit costs	36,557	2,065	28,738	1,135
Total defined benefit costs	10,441	3,299	16,231	3,178
Total defined contribution portion costs	3,720	–	2,968	–
Employee future benefit costs	$ 14,161	$3,299	$ 19,199	$3,178

16. EMPLOYEE FUTURE BENEFITS (CONT'D)

SIGNIFICANT ASSUMPTIONS

	2008		2007	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Weighted average of assumptions				
Accrued benefit obligation as at October 31:				
Discount rate at end of year	7.50%	7.50%	5.75%	5.75%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Benefit costs for the years ended October 31:				
Discount rate for the year	5.75%	5.75%	5.35%	5.35%
Expected long-term rate of return on plan assets	7.25%	–	7.25%	–
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

ASSUMED HEALTH CARE COST TREND RATES AS AT OCTOBER 31

	2008	2007
Assumed annual rate of increase in the cost of health care benefits	8.8%	9.4%
Level to which it should decline and at which it is assumed to subsequently stabilize	4%	4%
Year that the rate is assumed to stabilize	2016	2016

SENSITIVITY ANALYSIS

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2008:

	1% INCREASE	1% DECREASE
Total of service and interest cost	137	(115)
Accrued benefit obligation	2,616	(2,197)

NO 17.
INCOME TAXES

FUTURE INCOME TAXES

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

	2008	2007
Future income tax assets		
Property, plant and equipment	$ 47,883	$ 71,075
Allowance for loan losses	21,902	21,889
Tax loss carryforwards	11,306	16,343
Securitization and securities	1,474	–
Deferred revenue	978	1,741
Derivative instruments	–	4,920
Other temporary differences	1,116	1,522
	84,659	117,490
Future income tax liabilities		
Derivative financials instruments	(16,554)	–
Deferred charges	(13,453)	(15,246)
Accrued benefit assets – pension plans	(10,497)	(9,833)
Securitization and securities	–	(5,877)
	(40,504)	(30,956)
Futures income tax assets, net	$ 44,155	$ 86,534

Tax loss carryforwards, as at October 31, 2008, consist of federal income tax losses amounting to $42,486,000 ($58,484,000 in 2007) that can be used to reduce future taxable income. These losses expire from 2010 to 2028.

INCOME TAX EXPENSE

Significant components of income tax expense are as follows:

	2008	2007
Consolidated statement of income		
Continuing operations		
Current income tax expense	$ 9,301	$ 3,196
Future income tax expense (benefit)		
Reversal (creation) of temporary differences	22,924	23,933
Tax rate changes	5,657	(735)
	28,581	23,198
	37,882	26,394
Discontinued operations		
Future income tax expense	761	761
	$ 38,643	$27,155
Consolidated statement of comprehensive income		
Income taxes related to change in unrealized gains (losses) on available-for-sale securities	$(10,127)	$ 2,175
Income taxes related to reclassification of realized (gains) losses on available-for-sale securities	1,806	332
Income taxes related to net change in gains (losses) on derivative instruments designed as cash flow hedges	21,357	2,909
	$ 13,036	$ 5,416
Consolidated statement of changes in shareholders' equity		
Income taxes on preferred share dividends and other		
Current income tax expense	$ 4,710	$ 4,710
Current income tax benefit	(4,667)	–
Future income tax benefit	–	(4,519)
	$ 43	$ 191

RECONCILIATION WITH THE STATUTORY RATE

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

	2008		2007	
	AMOUNT		AMOUNT	
Income taxes at statutory rates	$42,908	31.6%	$38,419	33.0%
Change resulting from:				
Resolution of income tax exposures	(1,768)	(1.3)	(3,338)	(2.9)
Tax rate changes	5,657	4.2	(735)	(0.7)
Dividends and tax-exempt gains	(4,600)	(3.4)	(3,869)	(3.4)
Income related to foreign credit insurance operations	(3,779)	(2.8)	(3,552)	(3.0)
Other	(536)	(0.4)	(531)	(0.3)
Income taxes from continuing operations, as reported in the consolidated statement of income	$37,882	27.9%	$26,394	22.7%

Income earned on foreign credit insurance operations would generally be taxed only upon repatriation to Canada. Since the Bank's management does not expect to repatriate income accumulated after July 27, 2006, no future income tax expense has been recognized on such income. Income taxes that would be payable if all unremitted earnings were repatriated are estimated at $8,028,000 as at October 31, 2008 ($4,389,000 as at October 31, 2007).

NO 18.
NET INCOME PER SHARE

The average number of common shares outstanding is detailed as follows:

	2008	2007
Net income per common share – basic		
Net income from continuing operations	$ 98,108	$ 90,122
Net income from discontinued operations(1)	4,423	4,423
Net income	102,531	94,545
Preferred share dividends, including related income taxes	11,818	11,966
Net income attributable to common shares from continuing operations	$ 86,290	$ 78,156
Average number of outstanding common shares	23,837,157	23,677,794
Net income per common share – basic		
Continuing operations	$ 3.62	$ 3.30
Discontinued operations	0.19	0.19
Total	$ 3.81	$ 3.49
Net income per common share – diluted		
Net income attributable to common shares from continuing operations	$ 86,290	$ 78,156
Average number of outstanding common shares	23,837,157	23,677,794
Dilutive share purchase options and other	42,950	50,562
Diluted weighted average number of outstanding common shares	23,880,107	23,728,356
Income per common share – diluted		
Continuing operations	$ 3.61	$ 3.29
Discontinued operations	0.19	0.19
Total	$ 3.80	$ 3.48
Average number of share purchase options not taken into account in the calculation of diluted net income per common share(2)	–	22,551

(1) See note 27.
(2) The average number of share purchase options was not taken into account in the calculation of diluted net income per common share since the average exercise price of these options exceeded the average market price of the Bank's shares during 2007.

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

NO 19.
RELATED PARTY TRANSACTIONS

The Bank provides loans to directors and officers. Loans to directors are granted under market conditions for similar risks. Loans to officers consist mostly of residential mortgage loans at posted rates less 2%, as well as personal loans and personal lines of credit at market rates less a discount based on the type and amount of the loan. The interest earned on these loans is recorded under interest income in the consolidated statement of income. The outstanding balances of these loans are as follows:

	2008	2007
Mortgage loans	$ 368	$ 526
Other loans	28,039	9,759
	$28,407	$10,285

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

NO 20.
RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS

The Bank is exposed to various types of risks owing to the nature of the business activities it carries on, including financial instrument-related risks. In order to manage the risks associated with using financial instruments, including loan and deposit, securities and derivative financial instrument portfolios, the Bank has set out policies prescribing how various risks are to be managed. In practical terms, management closely monitors various risk limits, as well as a number of other indicators. These measures aim to optimize the return/risk ratio in all its operating segments. The main risks to which the Bank is exposed are set out below.

MARKET RISK

Market risk represents the financial losses that the Bank could incur because of unfavourable fluctuations in the value of financial instruments subsequent to changes in the underlying factors used to measure them, such as interest rates, exchange rates or quoted market prices. Exposure to market risk arising from trading, investment, financing and asset and liability management activities is mainly mitigated by notional limits and various other sensitivity measures. With respect to trading operations, the Bank also relies on value at risk (VAR).

Interest rate risk

Asset and liability management activities are designed to mitigate structural interest rate risk, which represents the potential adverse impact of interest rate movements on the Bank's revenues and economic value. This risk arises mainly from differences in maturity dates or remeasurement dates of balance sheet and off-balance sheet items, as well as from the options embedded in certain banking products, such as loan prepayment and deposit redemption clauses and mortgage commitments. The Bank periodically assesses the effect on the economic value of common shareholders' equity and on its net interest income before taxes of a sudden and sustained 1% increase in interest rates. As at October 31, 2008, a 1% increase in interest rates would have triggered an approximate $8,901,000 increase in net interest income before taxes over the following 12 months and a $27,060,000 decrease in the economic value of shareholders' equity.

Foreign exchange risk

Foreign exchange risk is defined as the losses that the Bank may incur subsequent to adverse exchange rate fluctuations. It originates mainly from foreign exchange positions held by the Bank to support the offering of products and services in currencies other than the Canadian dollar, arbitrage operations and, to a lesser extent, mismatches in currencies of balance sheet and off-balance sheet assets and liabilities, as well as mismatches in receipts and payments of funds in foreign currencies. This risk is primarily monitored using notional limits and remains relatively low because of the defined limits.

Equity price risk

Equity price risk is defined as financial losses that the Bank may incur subsequent to adverse fluctuations in certain equities or the stock market in general. The Bank's equity positions consist primarily of Canadian publicly traded securities and, as a result, portfolio sensitivity mainly correlates to Canadian stock market performance.

CREDIT RISK

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

The credit risk management policies adopted by the Bank provide for an appropriate assessment of this risk. These policies cover the approval of credit applications by the line of authority concerned, attribution of risk ratings, management of impaired loans, establishment of provisions and risk-based pricing. With respect to diversification, the credit policy sets the guidelines intended to limit credit concentration by counterparty and industry sector, and identifies sectors that are considered riskier and thus to be avoided. The policies are periodically reviewed and approved by the Board of Directors' Risk Management Committee. The Bank performs thorough and systematic follow-ups on its financial instrument accounts in terms of both quality and quantity through mechanisms and policies governing the review of various types of files and risk rating updating systems, and pricing analysis. Note 5 to these consolidated financial statements provides additional information on the Bank's loan portfolios.

20. RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS (CONT'D)

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

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

The amount that best represents the Bank's maximum exposure to credit risk as at October 31, 2008, without factoring in any collateral held or other credit enhancements, basically represents the sum of financial assets in the Bank's consolidated balance sheet, plus credit-related commitments as set out below.

(in millions of dollars)	AS AT OCTOBER 31, 2008
Financial assets, as reported in consolidated balance sheet	$19,255
Credit commitments and other off-balance sheet items[1]	4,153
Total	$23,408

(1) Including $2,082,573,000 related to personal credit facilities and credit card lines.

LIQUIDITY RISK

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

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

The Bank monitors cash resources daily and ensures that liquidity indicators are within established limits. Liquidity management pays particular attention to deposit and loan maturities, as well as to funding availability and demand when planning financing. The Bank maintains a reserve of unencumbered liquid assets that are readily available to face contingencies. It defines its cash requirements based on scenarios evaluating survival horizons that measure the period during which liquid assets could cover the withdrawal of wholesale financing and deposits. The Bank strives to maintain a stable volume of base deposits originating from its retail and deposit brokerage clientele, as well as well-diversified financing sources. Financing strategies also include loan securitization and tapping capital markets by issuing equity or debt instruments. A financing and liquidity emergency plan provides for measures to honour the Bank's obligations in the event of high demand for liquid assets.

NO 21. DERIVATIVE FINANCIAL INSTRUMENTS

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

The various derivative financial instruments listed in the tables below are as follows:

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

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

(iii) Options are agreements between two parties in which the writer of the option grants the buyer the right, but not the obligation, to buy or to sell, at or by a specified date, a specific amount of a financial instrument at a price agreed upon when the agreement is entered into. The writer receives a premium for selling this instrument.
(iv) Futures are future commitments to purchase or deliver a financial instrument on a specified future date at a specified price. Futures are traded in standardized amounts on organized exchanges and are subject to daily cash margining.
(v) Foreign exchange forward contracts are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a pre-determined rate.

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

AGGREGATE NOTIONAL AMOUNTS

(in millions of dollars)		PERIOD TO MATURITY				2008
NOTIONAL AMOUNT	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL	DESIGNATED AS HEDGE CONTRACTS	OTHER CONTRACTS (1)
Interest rate contracts						
OTC contracts						
Swaps	$1,275	$8,016	$207	$ 9,498	$5,579	$3,919
Exchange-traded contracts						
Futures	149	–	–	149	–	149
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	635	4	–	639	–	639
Cross-currency interest rate swaps	22	–	–	22	–	22
Forwards	600	10	–	610	–	610
Options purchased	15	–	–	15	–	15
Options written	15	–	–	15	–	15
Equity- and index-linked contracts						
Options purchased	17	53	5	75	–	75
Options written	18	102	5	125	–	125
Total return swap	80	–	–	80	–	80
	$2,826	$8,185	$217	$11,228	$5,579	$5,649

(in millions of dollars)		PERIOD TO MATURITY				2007
NOTIONAL AMOUNT	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL	DESIGNATED AS HEDGE CONTRACTS	OTHER CONTRACTS (1)
Interest rate contracts						
OTC contracts						
Swaps	$3,022	$5,868	$128	$ 9,018	$6,327	$2,691
Exchange-traded contracts						
Futures	39	–	–	39	–	39
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	819	–	–	819	–	819
Cross-currency interest rate swaps	–	22	–	22	–	22
Forwards	720	11	–	731	–	731
Options purchased	66	–	–	66	–	66
Options written	66	–	–	66	–	66
Equity- and index-linked contracts						
Options purchased	51	58	5	114	–	114
Options written	53	66	5	124	–	124
Total return swap	48	10	–	58	10	48
	$4,884	$6,035	$138	$11,057	$6,337	$4,720

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

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

(in millions of dollars)			2008
	FAVOURABLE FAIR VALUE	UNFAVOURABLE FAIR VALUE	NET AMOUNT
DESIGNATED AS HEDGE CONTRACTS			
Interest rate contracts			
Swaps	$132	$ (17)	$115
OTHER CONTRACTS (1)			
Interest rate contracts			
Swaps	22	(64)	(42)
Foreign exchange contracts			
Foreign exchange swaps	31	(39)	(8)
Cross-currency interest rate swaps	2	–	2
Forwards	23	(11)	12
Options purchased	1	–	1
Options written	–	(1)	(1)
Equity- and index-linked contracts			
Options purchased	9	–	9
Options written	–	(9)	(9)
TOTAL	$220	$(141)	$ 79

(in millions of dollars)			2007
	FAVOURABLE FAIR VALUE	UNFAVOURABLE FAIR VALUE	NET AMOUNT
DESIGNATED AS HEDGE CONTRACTS			
Interest rate contracts			
Swaps	$ 11	$ (17)	$ (6)
OTHER CONTRACTS (1)			
Interest rate contracts			
Swaps	9	(7)	2
Foreign exchange contracts			
Foreign exchange swaps	15	(6)	9
Cross-currency interest rate swaps	–	(4)	(4)
Forwards	7	(17)	(10)
Options purchased	1	–	1
Options written	–	(1)	(1)
Equity- and index-linked contracts			
Options purchased	31	–	31
Options written	–	(32)	(32)
TOTAL	$ 74	$ (84)	$ (10)

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

INFORMATION REGARDING HEDGING RELATIONSHIPS

Breakdown of swap contracts designated as hedging instruments, by type

The following table shows the breakdown of the Bank's swap contracts designated as cash flow versus fair value hedging instruments.

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

	2008		2007	
	NOTIONAL AMOUNT	FAIR VALUE NET AMOUNT	NOTIONAL AMOUNT	FAIR VALUE NET AMOUNT
Designated as hedge contracts				
Interest rate contracts				
Cash flow hedge swaps	$2,557,000	$ 46,118	$3,891,000	$(4,748)
Fair value hedge swaps	3,021,750	68,148	2,436,000	(784)
	$5,578,750	$114,266	$6,327,000	$(5,532)

Ineffective portions of hedging relationships

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

	2008	2007
Cash flow hedges	$ 269	$(526)
Fair value hedges	(1,107)	(14)
	$ (838)	$(540)

Other information regarding hedging relationships

Net deferred gains of $5,380,000 (net deferred losses of $7,687,000 as at October 31, 2007), included in accumulated other comprehensive income as at October 31, 2008, are expected to be reclassified to the consolidated statement of income over the next twelve months.

The maximum term of cash flow hedging relationships in respect of future transactions was five years as at October 31, 2008 (five years in 2007).

CREDIT EXPOSURE

(in millions of dollars)	2008			2007		
	REPLACEMENT COST(1) (4)	CREDIT EQUIVALENT AMOUNT (2)	RISK-WEIGHTED AMOUNT (3)	REPLACEMENT COST	CREDIT EQUIVALENT AMOUNT	RISK-WEIGHTED AMOUNT
Interest rate contracts						
Swaps	$ 154	$ 197	$40	$20	$ 51	$10
Foreign exchange contracts						
Foreign exchange swaps	31	37	8	15	21	4
Cross-currency interest rate swaps	2	2	–	–	1	–
Forwards	23	30	25	7	9	4
Options purchased	1	1	–	1	2	1
Equity- and index-linked contracts						
Options purchased	9	15	3	31	39	8
Total return swap	–	5	1	–	4	1
	$220	$287	$ 77	$74	$127	$28

(1) Represents favourable fair market value, excluding the impact of master netting agreements. Exchange-traded instruments and options written are excluded since they do not constitute a credit risk.
(2) Includes (i) the total positive replacement value of all outstanding contracts and (ii) an amount representing the assessed potential credit risk.
(3) Using guidelines issued by the Superintendent of Financial Institutions of Canada.
(4) The Bank holds $18,263,000 in assets under guarantee so as to reduce the credit risk related to these contracts.

Note 20 hereto provides additional disclosures on the credit risk related to derivative financial instruments and how it is assessed.

NO 22.
FINANCIAL INSTRUMENTS

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

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

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

FAIR VALUE OF ASSETS AND LIABILITIES

(in millions of dollars)	2008			2007		
	CARRYING AMOUNT	FAIR VALUE	FAVOURABLE (UNFAVOURABLE) VARIANCE	CARRYING AMOUNT	FAIR VALUE	FAVOURABLE (UNFAVOURABLE) VARIANCE
Assets						
Cash and non-interest-bearing deposits with other banks	$ 54	$ 54	$ –	$ 65	$ 65	$ –
Interest-bearing deposits with other banks	94	94	–	283	283	–
Securities	3,516	3,516	–	2,674	2,674	–
Assets purchased under reverse repurchase agreements	661	661	–	540	540	–
Loans	14,153	14,272	119	13,317	13,316	(1)
Customers' liabilities under acceptances	110	110	–	112	112	–
Derivative financial instruments	238	238	–	63	63	–
Other assets	429	429	–	396	396	–
Liabilities						
Deposits	15,334	15,418	(84)	13,879	13,901	(22)
Obligations related to assets sold short	819	819	–	869	869	–
Obligations related to assets sold under repurchase agreements	1,136	1,136	–	929	929	–
Acceptances	110	110	–	112	112	–
Derivative financial instruments	147	147	–	71	71	–
Other liabilities	748	748	–	751	751	–
Subordinated debentures	150	155	(5)	150	150	–

Methods and assumptions used in estimating fair value of financial instruments

Financial instruments measured at the carrying amount

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

Securities

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

Loans
The fair value of loans is estimated by discounting cash flows adjusted to reflect the prepayments, if any, at the prevailing interest rates in the marketplace for new loans with substantially similar terms. For certain variable rate loans subject to frequent rate revisions and loans with indeterminate maturities, the fair value is deemed to represent the carrying amount.

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

Deposits
The fair value of fixed rate deposits is estimated using discounted cash flows based on prevailing market interest rates for deposits with substantially similar terms. The fair value of deposits without stated maturities or variable rate deposits is deemed to represent their carrying amount.

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

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

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

(in millions of dollars)							2008
	FLOATING	0 TO 3 MONTHS	OVER 3 MONTHS TO 1 YEAR	OVER 1 YEAR TO 5 YEARS	OVER 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
Assets							
Cash, deposits and securities	$ 1,187	$ 898	$ 204	$1,219	$ 31	$ 125	$ 3,664
Actual return		1.7%	2.2%	3.2%	7.6%		
Assets purchased under reverse repurchase agreements	661	–	–	–	–	–	661
Loans	6,583	760	1,782	4,521	262	245	14,153
Actual return		6.4%	6.0%	6.0%	6.8%		
Other assets	–	–	–	–	–	1,081	1,081
Total	8,431	1,658	1,986	5,740	293	1,451	19,559
Actual return		3.9%	5.6%	5.4%	6.9%		
Liabilities and equity							
Deposits	584	2,708	4,054	7,484	7	497	15,334
Actual return		2.5%	3.3%	3.4%	2.1%		
Treasury items	1,128	827	–	–	–	–	1,955
Actual return		2.3%	–%	–%	–%		
Other liabilities	–	33	81	122	–	801	1,037
Actual return		3.8%	3.6%	4.1%	–%		
Debentures and equity	–	–	110	250	–	873	1,233
Actual return		–%	–%	2.9%	–%		
Total	1,712	3,568	4,245	7,856	7	2,171	19,559
Actual return		2.4%	3.2%	3.4%	2.1%		
Swaps, net	–	(4,440)	694	3,943	(197)	–	–
Sensitivity gap	6,719	(6,350)	(1,565)	1,827	89	(720)	–
Cumulative gap	$ 6,719	$ 369	$ (1,196)	$ 631	$ 720	$ –	$ –

22. FINANCIAL INSTRUMENTS (CONT'D)

(in millions of dollars)							2007
	FLOATING	0 TO 3 MONTHS	OVER 3 MONTHS TO 1 YEAR	OVER 1 YEAR TO 5 YEARS	OVER 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
Assets	$ 7,102	$ 1,825	$ 2,041	$ 5,341	$ 239	$ 1,239	$ 17,787
Actual return		5.3%	5.9%	5.8%	6.9%		
Liabilities and equity	1,845	2,382	4,018	7,499	51	1,992	17,787
Actual return		3.3%	3.6%	3.3%	4.0%		
Swaps, net	–	(6,172)	3,005	3,284	(117)	–	–
Sensivity gap	5,257	(6,729)	1,028	1,126	71	(753)	–
Cumulative gap	$ 5,257	$ (1,472)	$ (444)	$ 682	$ 753	$ –	$ –

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

- Loans and deposits for which the interest rates are not indexed on a specific rate and which can be non-sensitive to changes in market rates are classified based on the historical evolution of their sensitivity.
- Debentures for which interest rates can be revised at a future date are classified at the re-evaluation date; those for which rates cannot be revised are classified at their maturity.
- Preferred shares are classified using the date on which they become redeemable, or based on management intention.

CONCENTRATION OF CREDIT RISK

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

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

	2008	2007
Québec	**59%**	59%
Other Canadian provinces	**41%**	41%
Total	**100%**	100%

No single industry segment accounted for more than 3% (3% in 2007) of the total loans and customers' liabilities under acceptances.

GUARANTEES HELD

Guarantees in respect of loan portfolios

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

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

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

Other guarantees held

In the normal course of its operations, the Bank makes short-term purchases of assets under reverse repurchase agreements. These agreements are recognized as secured loans. As at October 31, 2008, the approximate market value of collateral pledged to the Bank amounted to $661,391,000 ($540,304,000 as at October 31, 2007).

In connection with derivative product transactions, the Bank may also obtain collateral under credit support agreements. As at October 31, 2008, the approximate market value of such collateral pledged to the Bank amounted to $18,263,000 (nil as at October 31, 2007).

CONTRACTUAL MATURITIES OF FINANCIAL LIABILITIES

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

					2008
		TERM			
	DEMAND AND NOTICE	UNDER 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Deposits	$2,920,901	$6,325,532	$6,080,653	$6,726	$15,333,812
Obligations related to assets sold short	–	819,236	–	–	819,236
Obligations related to assets sold under repurchase agreements	–	1,136,096	–	–	1,136,096
Subordinated debentures	–	–	150,000	–	150,000
	$2,920,901	$8,280,864	$6,230,653	$6,726	$17,439,144

NO 23. COMMITMENTS AND GUARANTEES

CREDIT-RELATED COMMITMENTS

The Bank uses certain off-balance sheet credit instruments as a means of meeting the financial needs of its customers.

Undrawn amounts under approved credit facilities represent a commitment to make credit available in the form of loans or other credit instruments for specific amounts and maturities, subject to specific conditions.

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

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

	2008	2007
Undrawn amounts under approved credit facilities(1)	$ 2,070,730	$ 1,958,383
Documentary letters of credit	$ 6,111	$ 15,203

(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.

GUARANTEES

Standby letters of credit and performance guarantees

In the normal course of its operations, the Bank offers to its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that clients cannot meet their obligations to third parties. The term of these guarantees varies according to the contracts and normally do not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. No specific provision is currently recorded with regard to these guarantees. The maximum potential amount of future payments under these guarantees totalled $138,223,000 as at October 31, 2008 ($91,689,000 in 2007).

Derivative financial instruments

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank sells put options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of foreign currencies at a predetermined price. The term of these options does not exceed 12 months. No specific provision is recorded with respect to these derivatives. The maximum potential amount of future payments under these derivatives, representing the notional amount of outstanding contracts, totalled $14,822,000 as at October 31, 2008 ($52,187,000 in 2007).

23. COMMITMENTS AND GUARANTEES (CONT'D)

Collateral received and pledged as security

As at October 31, 2008, the approximate market value of collateral pledged to the Bank that it can sell or re-pledge as security amounted to $661,391,000 ($540,304,000 as at October 31, 2007). This collateral pledged to the Bank as security was obtained under reverse repurchase and securities borrowing agreements. Of this amount, $561,350,000 ($456,943,000 in 2007) was pledged as security in connection with obligations related to assets sold short.

Other indemnification agreements

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

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

As at October 31, 2008, minimum future commitments under leases, service contracts for outsourced technology services and other contracts are as follows:

	PREMISES	INFORMATION TECHNOLOGY SERVICE CONTRACTS (1)	OTHER	TOTAL
2009	$20,748	$ 46,375	$ 3,045	$ 70,168
2010	19,374	48,566	3,045	70,985
2011	16,194	43,480	2,419	62,093
2012	13,910	39,234	2,400	55,544
2013	9,921	41,199	2,400	53,520
Thereafter	18,554	125,316	3,400	147,270
Total	$98,701	$344,170	$16,709	$459,580

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

PLEDGED ASSETS

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

The following table details the granted guarantees:

	2008	2007
Pledged assets to participate in clearing and payment systems	$ 261,606	$ 320,561
Pedged assets for obligations related to assets sold under repurchase agreements	1,136,096	928,987
Pledged assets for obligations related to derivative financial instruments in a liability position	36,230	27,255
	$1,433,932	$1,276,803
Securities	$1,295,720	$1,197,440
Residential mortgage loans	138,212	79,363
	$1,433,932	$1,276,803

NO 24.
VARIABLE INTEREST ENTITIES

The Bank analyses the interests it holds in certain entities to determine whether they satisfy the definition of a variable interest entity (VIE), and whether the Bank is the primary beneficiary and must therefore consolidate them. The following items constitute an overview of the VIEs in which the Bank holds significant interests.

The Bank securitizes its own assets through single-seller and multi-seller securitization conduits, which are normally considered VIEs. These conduits are not consolidated, as these special purpose entities are specifically excluded from the scope of the accounting standard or because the Bank is not their primary beneficiary. More details regarding transactions with these entities are provided in note 6.

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

NO 25.
CONTINGENCIES

LITIGATION

The Bank and its subsidiaries are involved in various pending legal actions which arise in the normal course of business. Many of these proceedings are related to loans granted by the Bank and are in reaction to steps taken by the Bank to collect delinquent loans and enforce the underlying securities. Certain claims for damages have also been brought against the Bank, particularly with respect to the role of one of its subsidiaries as trustee with regard to operations related to the administration of portfolios, as well as to applications for authorization to institute class actions in connection with certain bank fees. Management considers that adequate provisions have been set aside to cover any potential losses and any amounts that might not be recoverable from insurance companies, as the case may be, in connection with these actions.

NO 26.
SEGMENTED INFORMATION

Since November 1, 2007, the Bank offers its services through four business segments: Retail and SME-Québec, Real Estate and Commercial, B2B Trust, and Laurentian Bank Securities (LBS). Prior to that date, operations related to Québec small and medium-sized enterprises were part of the Real Estate and Commercial segment. The other segments – B2B Trust and LBS – were not affected by this reorganization. The comparative figures have been restated to conform to the presentation adopted in fiscal 2008.

The Retail and SME-Québec segment covers the full range of savings, investment and financing products, and transactional products and services offered through its direct distribution network, which includes the Bank’s branches and electronic network, a call centre, as well as point-of-sale financing across Canada. This segment also offers Visa credit card services, credit insurance products and trust services. In addition, it offers all commercial financial services to Québec small and medium-sized enterprises.

The Real Estate and Commercial segment handles real estate financing throughout Canada, commercial financing in Ontario and National accounts.

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

LBS segment consists of the operations of the subsidiary Laurentian Bank Securities Inc.

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

26. SEGMENTED INFORMATION (CONT'D)

Results for the Bank's segments are based on internal financial reporting systems and are consistent with the accounting principles followed in the preparation of the Bank's consolidated financial statements. Transfer pricing regarding the funding of segments' assets and liabilities is based on funding costs which best reflect the nature and maturities of these items. Non-interest expenses are matched against the revenues to which they relate. Indirect costs are allocated to the segments based on appropriate criteria.

2008

	RETAIL AND SME-QUÉBEC	REAL ESTATE AND COMMERCIAL	B2B TRUST	LAURENTIAN BANK SECURITIES	OTHER [8]	TOTAL
Net interest income	$ 299,336	$ 55,201	$ 87,297	$ 2,968	$ (39,539)	$ 405,263
Other income[2]	115,894	16,195	10,548	29,437	53,144	225,218
Total revenue	415,230	71,396	97,845	32,405	13,605	630,481
Provision for loan losses[3]	33,583	5,374	1,543	–	8,000	48,500
Non-interest expenses[4]	326,871	23,356	43,681	29,683	22,400	445,991
Income (loss) from continuing operations before income taxes	54,776	42,666	52,621	2,722	(16,795)	135,990
Income taxes (recovered)[5]	13,785	14,109	17,748	1,008	(8,768)	37,882
Income (loss) from continuing operations	40,991	28,557	34,873	1,714	(8,027)	98,108
Income from discontinued operations, net of income taxes	4,423	–	–	–	–	4,423
Net income (loss)	$ 45,414	$ 28,557	$ 34,873	$ 1,714	$ (8,027)	$ 102,531
Average assets[1]	$10,133,360	$2,117,970	$3,882,801	$1,480,007	$725,673	$18,339,811

2007

	RETAIL AND SME-QUÉBEC [6]	REAL ESTATE AND COMMERCIAL	B2B TRUST	LAURENTIAN BANK SECURITIES	OTHER [8]	TOTAL
Net interest income	$ 284,248	$ 45,873	$ 80,977	$ 1,961	$ (22,859)	$ 390,200
Other income[7]	113,687	16,156	11,510	37,617	14,756	193,726
Total revenue	397,935	62,029	92,487	39,578	(8,103)	583,926
Provision for loan losses	29,216	6,737	4,047	–	–	40,000
Non-interest expenses	310,543	22,886	42,383	30,655	20,943	427,410
Income (loss) from continuing operations before income taxes	58,176	32,406	46,057	8,923	(29,046)	116,516
Income taxes (recovered)	15,237	10,854	15,577	1,836	(17,110)	26,394
Income (loss) from continuing operations	42,939	21,552	30,480	7,087	(11,936)	90,122
Income from discontinued operations, net of income taxes	4,423	–	–	–	–	4,423
Net income (loss)	$ 47,362	$ 21,552	$ 30,480	$ 7,087	$ (11,936)	$ 94,545
Average assets[1]	$9,335,324	$1,852,679	$3,123,334	$1,503,601	$1,044,667	$16,859,605

NOTES

(1) Assets and liabilities are disclosed on an average basis, as this measure is most relevant to a financial institution.
(2) In 2008, other income in the Other segment included (i) a $12.9 million gain ($11.1 million, net of income taxes) on the sale of the shares of the Montréal Exchange as a result of the business combination of the Montréal Exchange with the TSX Group; (ii) losses of $5.3 million ($3.6 million, net of income taxes) on the sale of other securities; (iii) an $8.1 million charge ($5.5 million, net of income taxes) write-down on certain available-for-sale securities.
(3) In 2008, the provision for credit losses in the Other segment included an $8.0 million charge ($5.5 million, net of income taxes) resulting from an increase in the general allowance for loan losses.
(4) In 2008, the Other segment non-interest expense included a $2.2 million charge ($1.5 million, net of income taxes) resulting from the write-off of technological development costs.
(5) In 2008, the Other segment income taxes included a $5.6 million adjustment relfecting the decrease in value of the Bank's future income tax assets as a result of further reductions in federal income tax rates.
(6) Results for fiscal 2007 included a $4.0 million gain ($3.3 million, net of income taxes) from the worldwide restructuring of Visa (note 27).
(7) During fiscal 2007, the IPO of the Montréal Exchange triggered a $21.7 million ($18.2 million, net of income taxes) revaluation of the shares held by the Bank through other comprehensive income. A portion of this position was subsequently sold and a $4.4 million gain ($3.7 million, net of income taxes) was reclassified in other income in the LBS segment. In addition, a $4.3 million loss on disposal of securities was incurred and presented in the Other segment.
(8) The effective income tax rate in 2008 and 2007 was influenced by a number of items – see note 17 regarding income taxes.

NO 27.
DISPOSALS AND CHANGES IN OWNERSHIP INTEREST

2008

Sale of a personal line of credit portfolio

During fiscal 2008, the Bank sold a $30,058,000 personal line of credit portfolio, generating a $426,000 loss ($292,000, net of income taxes) which was recognized in other income, under other. The Bank has not retained any rights or obligations in respect of these loans.

Merger of the Montréal Exchange and TSX Group

On May 1, 2008, the Bank realized a $12,906,000 gain ($11,066,000, net of income taxes) on disposal of the remaining shares it held in the Montréal Exchange, subsequent to the merger between the Montréal Exchange and the TSX Group, effective May 1, 2008. This gain was included in other income under income from treasury and financial market operations.

2007

Visa restructuring

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

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

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

2005

Sale of the BLC–Edmond de Rothschild Asset Management Inc. joint venture

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

Recovery clauses

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

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

STATISTICAL REVIEW– CONSOLIDATED BALANCE SHEET

Unaudited, as at October 31 (in thousands of dollars)	2008	2007	2006	2005	2004	AVERAGE ANNUAL VARIATION 08/04
ASSETS						
Cash resources						
Cash and non-interest-bearing deposits with other banks	$ 54,410	$ 65,245	$ 70,907	$ 57,737	$ 47,681	3%
Interest-bearing deposits with other banks	94,291	283,255	98,722	259,791	280,751	(24)
Securities						
Issued or guaranteed by Canada	2,415,863	1,615,695	2,019,524	1,775,372	1,834,369	7
Issued or guaranteed by provinces and municipal corporations	466,735	446,401	581,384	556,727	698,510	(10)
Other securities	632,941	612,283	641,372	608,307	469,596	8
	3,515,539	2,674,379	3,242,280	2,940,406	3,002,475	4
Assets purchased under reverse repurchase agreements	661,391	540,304	802,546	508,073	1,133,920	(13)
Loans						
Personal	5,302,046	4,958,176	4,168,026	3,907,320	3,638,991	10
Residential mortgages	6,182,871	6,232,778	5,985,656	5,806,853	5,509,022	3
Commercial mortgages	932,688	684,625	659,014	595,946	604,085	11
Commercial and other	1,847,327	1,556,831	1,476,977	1,539,893	1,542,760	5
	14,264,932	13,432,410	12,289,673	11,850,012	11,294,858	6
Allowance for loan losses	(112,434)	(115,322)	(125,153)	(129,806)	(140,042)	(5)
	14,152,498	13,317,088	12,164,520	11,720,206	11,154,816	6
Other						
Customers' liability under acceptances	110,342	111,891	149,818	145,629	144,830	(7)
Property, plant and equipment	143,489	137,691	111,291	93,793	94,490	11
Other assets	826,592	656,993	655,875	781,349	748,513	3
	1,080,423	906,575	916,984	1,020,771	987,833	2
	$19,558,552	$17,786,846	$17,295,959	$16,506,984	$16,607,476	4%
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits						
Personal	$12,430,038	$11,564,530	$10,949,473	$10,575,416	$10,454,368	4%
Business, banks and other	2,903,774	2,314,178	2,145,028	3,121,522	2,456,672	4
	15,333,812	13,878,708	13,094,501	13,696,938	12,911,040	4
Other						
Obligations related to assets sold short or under repurchase agreements	1,955,332	1,797,662	2,177,394	786,128	1,511,481	7
Acceptances	110,342	111,891	149,818	145,629	144,830	(7)
Other liabilities	925,631	843,904	777,826	815,049	902,848	1
	2,991,305	2,753,457	3,105,038	1,746,806	2,559,159	4
Subordinated debentures	150,000	150,000	150,000	150,000	250,525	(12)
Shareholders' equity						
Preferred shares	210,000	210,000	210,000	210,000	210,000	–
Common shares	257,462	256,445	251,158	249,633	248,593	1
Contributed surplus	173	105	518	73	–	n.a.
Retained earnings	596,974	537,254	485,334	454,124	428,159	9
Treasury shares	–	–	(590)	(590)	–	n.a.
Accumulated other comprehensive income	18,826	877	–	–	–	n.a.
	1,083,435	1,004,681	946,420	913,240	886,752	5
	$19,558,552	$17,786,846	$17,295,959	$16,506,984	$16,607,476	4%

STATISTICAL REVIEW– CONSOLIDATED STATEMENT OF INCOME

Unaudited, for the years ended October 31 (in thousands of dollars, unless otherwise indicated)	2008	2007	2006	2005	2004	AVERAGE ANNUAL VARIATION 08/04
Loans	$837,532	$837,092	$755,009	$682,591	$ 690,789	5%
Securities	60,873	58,000	70,446	59,744	57,546	1
Deposits with other banks	26,360	13,802	11,721	7,864	9,807	28
Other	30,190	–	3,277	30,203	10,303	31
Interest income	954,955	908,894	840,453	780,402	768,445	6
Deposits	508,403	466,867	438,335	425,473	443,260	3
Other liabilities	33,547	44,089	32,197	13,039	22,993	10
Subordinated debentures	7,742	7,738	12,714	16,199	27,184	(27)
Liability related to preferred shares	–	–	–	–	7,814	(100)
Interest expense	549,692	518,694	483,246	454,711	501,251	2
Net interest income	405,263	390,200	357,207	325,691	267,194	11
Other income	225,218	193,726	182,600	184,304	206,083	2
Total revenue	630,481	583,926	539,807	509,995	473,277	7
Provision for loan losses	48,500	40,000	40,000	40,000	40,000	5
Salaries and employee benefits	236,280	229,290	213,583	198,687	188,830	6
Premises and technology	119,192	111,559	108,151	108,968	105,915	3
Other	90,519	86,561	89,081	82,229	82,108	2
Non-interest expenses	445,991	427,410	410,815	389,884	376,853	4
Income from continuing operations before income taxes and non-controlling interest in a subsidiary	135,990	116,516	88,992	80,111	56,424	25
Income taxes	37,882	26,394	23,436	24,488	14,637	27
Income from continuing operations before non-controlling interest in a subsidiary	98,108	90,122	65,556	55,623	41,787	24
Non-controlling interest in a subsidiary	–	–	–	–	1,916	(100)
Income from continuing operations	98,108	90,122	65,556	55,623	39,871	25
Income from discontinued operations, net of income taxes	4,423	4,423	4,776	9,659	–	n.a.
Net income	$102,531	$ 94,545	$ 70,332	$ 65,282	$ 39,871	27%
Preferred share dividends, including applicable income taxes	$ 11,818	$ 11,966	$ 11,766	$ 12,030	$ 8,606	8%
Net income available to common shareholders	$ 90,713	$ 82,579	$ 58,566	$ 53,252	$ 31,265	31%
Common share dividends	$ 30,993	$ 27,474	$ 27,356	$ 27,287	$ 27,248	3%
Average number of common shares outstanding (in thousands)						
Basic	23,837	23,678	23,605	23,525	23,485	–%
Diluted	23,880	23,728	23,649	23,552	23,521	–%
Income per common share from continuing operations						
Basic	$ 3.62	$ 3.30	$ 2.28	$ 1.85	$ 1.33	28%
Diluted	$ 3.61	$ 3.29	$ 2.28	$ 1.85	$ 1.33	28%
Net income per common share						
Basic	$ 3.81	$ 3.49	$ 2.48	$ 2.26	$ 1.33	30%
Diluted	$ 3.80	$ 3.48	$ 2.48	$ 2.26	$ 1.33	30%
Dividends per common share	$ 1.30	$ 1.16	$ 1.16	$ 1.16	$ 1.16	3%
Dividend payout ratio	34.2%	33.3%	46.7%	51.2%	87.1%	
Book value per common share	$ 35.84	$ 33.34	$ 31.18	$ 29.85	$ 28.78	6%
Return on common shareholders' equity	11.0%	10.9%	8.2%	7.8%	4.6%	
(as a percentage of average assets)						
Net interest income	2.21%	2.31%	2.14%	1.99%	1.64%	
Provision for loan losses	0.26%	0.24%	0.24%	0.24%	0.24%	
Non-interest expenses	2.43%	2.54%	2.46%	2.39%	2.31%	
Income from continuing operations	0.53%	0.53%	0.39%	0.34%	0.24%	
Net income	0.56%	0.56%	0.42%	0.40%	0.24%	
Net income available to common shareholders	0.49%	0.49%	0.35%	0.33%	0.19%	
Average assets (in millions of dollars)	18,340	16,860	16,691	16,328	16,327	3%
Number of full-time equivalent employees	3,393	3,289	3,238	3,180	3,125	2%
Number of branches	156	157	158	157	153	–%
Number of automated banking machines	342	338	325	313	293	4%

QUARTERLY HIGHLIGHTS

(in thousands of dollars, unless otherwise indicated)				2008				2007
Unaudited, for the quarters ended	OCT. 31	JULY 31	APRIL 30	JAN. 31	OCT. 31	JULY 31	APRIL 30	JAN. 31
Interest income	$240,456	$240,361	$232,594	$241,544	$240,163	$231,617	$217,397	$219,717
Interest expense	137,163	136,948	133,573	142,008	142,433	129,850	121,891	124,520
Net interest income	103,293	103,413	99,021	99,536	97,730	101,767	95,506	95,197
Other income	49,518	67,682	56,484	51,534	47,892	49,275	50,165	46,394
Total revenue	152,811	171,095	155,505	151,070	145,622	151,042	145,671	141,591
Provision for loan losses	10,500	18,500	10,000	9,500	10,000	10,000	10,000	10,000
Non-interest expenses	113,040	113,547	110,850	108,554	105,757	108,373	108,951	104,329
Income from continuing operations before income taxes	29,271	39,048	34,655	33,016	29,865	32,669	26,720	27,262
Income taxes	6,361	8,111	9,506	13,904	4,130	9,491	6,067	6,706
Income from continuing operations	22,910	30,937	25,149	19,112	25,735	23,178	20,653	20,556
Income from discontinued operations, net of income taxes	4,423	–	–	–	4,423	–	–	–
Net income	$ 27,333	$ 30,937	$ 25,149	$ 19,112	$ 30,158	$ 23,178	$ 20,653	$ 20,556
Preferred share dividends, including applicable income taxes	$ 2,954	$ 2,967	$ 2,967	$ 2,930	$ 2,996	$ 2,990	$ 2,990	$ 2,990
Net income available to common shareholders	$ 24,379	$ 27,970	$ 22,182	$ 16,182	$ 27,162	$ 20,188	$ 17,663	$ 17,566
(as a percentage of average assets)								
Net interest income	2.15%	2.20%	2.23%	2.27%	2.26%	2.39%	2.34%	2.27%
Provision for loan losses	0.22%	0.39%	0.22%	0.22%	0.23%	0.23%	0.25%	0.24%
Non-interest expenses	2.36%	2.41%	2.49%	2.47%	2.44%	2.54%	2.67%	2.49%
Net income	0.57%	0.66%	0.57%	0.43%	0.70%	0.54%	0.51%	0.49%
Net income available to common shareholders	0.51%	0.59%	0.50%	0.37%	0.63%	0.47%	0.43%	0.42%
Average assets (in millions of dollars)	19,073	18,724	18,075	17,482	17,170	16,920	16,734	16,610
Return on common shareholders' equity	11.5%	13.4%	11.2%	8.1%	13.8%	10.5%	9.7%	9.4%
Average number of common shares outstanding (in thousands)								
Basic	23,846	23,842	23,837	23,824	23,783	23,662	23,638	23,627
Diluted	23,889	23,888	23,882	23,862	23,843	23,728	23,685	23,656
Income per common share from continuing operations								
Basic	$ 0.84	$ 1.17	$ 0.93	$ 0.68	$ 0.96	$ 0.85	$ 0.75	$ 0.74
Diluted	$ 0.84	$ 1.17	$ 0.93	$ 0.68	$ 0.95	$ 0.85	$ 0.75	$ 0.74
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
Dividends per common share	$ 0.34	$ 0.32	$ 0.32	$ 0.32	$ 0.29	$ 0.29	$ 0.29	$ 0.29
Book value per common share	$ 35.84	$ 35.15	$ 34.30	$ 33.69	$ 33.34	$ 32.50	$ 31.95	$ 31.49
Share price – Close	$ 40.88	$ 42.00	$ 42.21	$ 35.87	$ 43.70	$ 38.00	$ 32.24	$ 30.60
Common share dividends	$ 8,108	$ 7,631	$ 7,628	$ 7,626	$ 6,904	$ 6,866	$ 6,856	$ 6,848
(in millions of dollars)								
Balance sheet assets	$ 19,559	$ 19,301	$ 18,383	$ 18,270	$ 17,787	$ 18,011	$ 17,809	$ 17,177
Risk-weighted assets	$ 9,629.1	$ 9,504.5	$ 9,167.4	$ 8,928.4	$ 9,723.9	$ 9,574.6	$ 8,990.6	$ 8,815.9
Tier I capital – BIS	$ 965.4	$ 956.7	$ 935.8	$ 923.4	$ 950.0	$ 926.5	$ 911.6	$ 899.4
Regulatory capital – BIS	$ 1,156.9	$ 1,148.5	$ 1,123.7	$ 1,115.0	$ 1,131.4	$ 1,109.9	$ 1,108.5	$ 1,086.7
Tier I BIS capital ratio	10.0%	10.1%	10.2%	10.3%	9.8%	9.7%	10.1%	10.2%
Total BIS capital ratio	12.0%	12.1%	12.3%	12.5%	11.6%	11.6%	12.3%	12.3%
Assets to capital multiple	17.0x	16.9x	16.4x	16.4x	15.8x	16.3x	16.2x	15.9x

CORPORATE GOVERNANCE

Today, as in the past, strong corporate governance is an important component in managing Laurentian Bank's activities. In 1987, Laurentian Bank became the first financial institution to separate the roles of Chairman of the Board and of President and CEO. Moreover, its corporate governance practices are among the most exemplary.

All members of the Board of Directors, except the President and Chief Executive Officer, are independent and unrelated to the Bank's management. The independent status of directors is determined in accordance with criteria defined by the Human Resources and Corporate Governance Committee which are used to evaluate the status of every director on whichever committee he or she sits.

The role of the Board of Directors is essentially to supervise the management of the business and internal affairs of the Bank. Board deliberations generally end with a discussion period held without the presence of management. The members of the Board commit to act in accordance with standards set forth in the Code of Conduct for Directors, which covers issues such as general conduct, contribution to the work of the Board and its committees, insider trading, conflicts of interest and other situations that may affect a director's independence.

The Board of Directors has delegated some of its responsibilities and functions to three committees whose members are appointed from among the members of the Board. The Audit Committee, the Risk Management Committee and the Human Resources and Corporate Governance Committee provide regular written and verbal updates and reports on their work to the Board of Directors. Furthermore, they present a report to shareholders to be included in the management proxy circular.

AUDIT COMMITTEE

The primary function of the Audit Committee is to support the Board of Directors in overseeing the integrity of the Bank's financial statements, the relevance and effectiveness of its internal controls, the qualifications and independence of the external auditor, the performance of the internal audit function and of the external auditor, as well as the Bank's compliance with statutory and regulatory requirements. In order to do so, the Board appointed directors meeting the criteria for independence and possessing an appropriate financial literacy level. Furthermore, the Committee meets on a regular basis with the internal and external auditor without the presence of management.

More specifically, its responsibilities include:
With respect to the external auditor: recommend the appointment or dismissal of the external auditor; assure itself of its competence, independence and the adequacy of its resources and review its mandate and compensation; oversee its activities and review its performance;
With respect to financial statements and reports: oversee the integrity and quality of financial statements and assure itself that the institution's accounting practices are prudent and appropriate; review the annual and quarterly financial statements, management's discussion and analysis and press releases regarding annual and quarterly results, the annual information form and any statement required by regulatory authorities prior to their publication;
With respect to the internal audit function: assure itself of the competence, independence and the adequacy of the resources of the officer in charge of internal audit and approve his/her mandate as well as the audit plan; follow up on his/her material findings and recommendations;
With respect to internal controls: assure itself that Management implements appropriate internal control and management information systems; assure itself of their integrity and effectiveness; assure itself that Management implements procedures regarding the receipt, retention and handling of complaints received with respect to accounting, internal accounting controls or audit;
With respect to compliance: assure itself of the competence, independence and the adequacy of the resources of the officer in charge of compliance; follow up on his/her material findings and recommendations;
With respect to supervisory agencies: follow up on the findings and recommendations of the regulatory authorities.

RISK MANAGEMENT COMMITTEE

In addition to discharging statutory obligations to review transactions with related parties of the Bank, the Risk Management Committee ensures that the Bank has adopted an adequate and effective risk management process intended to identify, measure and manage risks, and has established relevant policies to manage credit, market, liquidity and financing, operational, capital management, regulatory and reputation risks. The Committee is composed of independent directors which hold discussions with persons in charge of supervisory activities (the internal auditor as well as the chief risk officer and the chief compliance officer) without the presence of management.

To this end, the Committee must assure itself that Management identifies the business's principal risks and implements systems to enable to measure and adequately manage them and assure itself of the integrity and effectiveness of such systems; review the overall risk philosophy and risk tolerance; assure itself of the competence, independence and the adequacy of the resources of the officer in charge of integrated risk management and approve his/her mandate; follow up on his/her material findings and recommendations; approve loans which under the credit policies are the responsibility of the Committee and examine the quality of the loan portfolio and the adequacy of allowances for loan losses; assure itself that Management adopts a process to determine the appropriate capital level for the Bank based on assumed risks; review the Code of Ethics and Privacy Code applicable to officers and employees and assure itself of their respect.

HUMAN RESOURCES AND CORPORATE GOVERNANCE COMMITTEE

The Human Resources and Corporate Governance Committee is responsible for human resources and corporate governance matters. The Committee is composed of independent directors of which none heads a public company. Certain elements of its mandate are discussed without the presence of management.

With respect to human resources, the Committee's duties include:
With respect to human resources management: annually review the performance management process and evaluate its effectiveness; assure itself that Management implements a plan to promote the hiring, retention and motivation of qualified personnel;
With respect to senior officers: review appointments of senior officers; approve the establishment of objectives for members of the management committee and evaluate their performance; assure itself of the integrity of senior officers and that they create a culture of integrity throughout the Bank;
With respect to compensation: review the overall compensation framework (including incentive compensation, fringe benefits and pension plans) for senior officers, with a view to furthering the Bank's business objectives, as well as the material terms and conditions of the compensation and employment conditions applicable to the Bank's other employees and officers;
With respect to pension plans: assure itself that Management implements appropriate internal oversight systems with a view to adequately manage pension plans.

With respect to corporate governance, the Committee's duties include:
With respect to the President and Chief Executive Officer: recommend to the Board the appointment and dismissal of the President and Chief Executive Officer; review the objectives of the President and Chief Executive Officer, his/her evaluation, compensation and employment conditions; implement a succession plan for the President and Chief Executive Officer;
With respect to the Board and committees: review corporate governance rules and assure itself of their respect; review the functions of the Board of Directors, its membership, compensation and size; review the constitution, membership and functions of the committees; review the Code of Conduct for the members of the Board and assure itself of its respect; ensure continuing training for the members of the Board; establish criteria to evaluate the independence of the members of the Board and assess their independence periodically; evaluate the Board and its members; ensure the recruitment of new Board members to be submitted to election by the shareholders, and see to their orientation and integration;
With respect to public disclosure: assure itself that the shareholders are well informed of the Bank's state of affairs and deal with all material disagreements between the Bank and its shareholders.

The complete text of the functions of the Board of Directors and each Committee as well as the Committees' report can be found in the management proxy circular.

BOARD OF DIRECTORS

L. DENIS DESAUTELS, O.C., FCA (2001)
Ottawa ON
Chairman of the Board
Laurentian Bank of Canada
Chartered Accountant and
Corporate Director

PIERRE MICHAUD, C.M. (1990)
Montréal QC
Vice Chairman of the Board
Laurentian Bank of Canada
Corporate Director

LISE BASTARACHE (2006)
Candiac QC
Economist and
Corporate Director

JEAN BAZIN, C.R. (2002)
Nuns' Island, Verdun QC
Counsel
Fraser Milner Casgrain LLP

RICHARD BÉLANGER, FCA (2003)
Lac-Beauport QC
President
Toryvel Group Inc.

ÈVE-LYNE BIRON (2003)
Candiac QC
President and General Manager
Laboratoire Médical Biron inc.

ISABELLE COURVILLE (2007)
Dorval QC
President
Hydro Québec TransÉnergie

PIERRE GENEST (2006)
Québec QC
Chairman of the Board
SSQ, Life Insurance Company Inc.

MICHEL C. LAUZON (2008)
Rosemère QC
Business Consultant
(Until December 8, 2008)

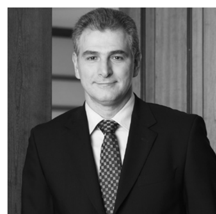
CARMAND NORMAND (2004)
North Hatley QC
Chairman of the Board
Addenda Capital Inc.

JACQUELINE C. ORANGE (2008)
Toronto ON
Corporate Director

RÉJEAN ROBITAILLE (2006)
La Prairie QC
President and Chief Executive Officer
Laurentian Bank of Canada

JONATHAN I. WENER, C.M. (1998)
Hampstead QC
Chairman of the Board
Canderel Management Inc.

MANAGEMENT COMMITTEE



LUC BERNARD
Executive Vice-President, Retail and SME Financial Services

WITH THE BANK SINCE 2001

POSITIONS HELD AT THE BANK
2001 – 2005
Senior Vice-President, Marketing and Product Management
2005 – 2007
Executive Vice-President, Retail Financial Services
SINCE 2007
Executive Vice-President, Retail and SME Financial Services

EDUCATION
- Bachelor's degree in Urban Studies, UQAM
- MBA, Université de Sherbrooke

ROBERT CARDINAL
Senior Executive Vice-President, Finance, Administration and Strategic Development, and Chief Financial Officer[1]

WITH THE BANK SINCE 1991

(1) Until January 5, 2009.

POSITIONS HELD AT THE BANK
1991 – 1994
Vice-President, Finance
1994 – 1998
Senior Vice-President, Finance and Control, and Chief Financial Officer
1998 – 2001
Executive Vice-President, Finance, Auditing and Strategic Development, and Chief Financial Officer
2001 – 2003
Senior Executive Vice-President, Finance, Control and Strategic Development, and Chief Financial Officer
SINCE 2003
Senior Executive Vice-President, Finance, Administration and Strategic Development, and Chief Financial Officer

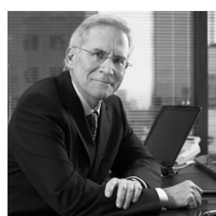
EDUCATION
- Bachelor's degree in Business Administration, HEC Montréal
- Certified Chartered Accountant

FRANÇOIS DESJARDINS
Executive Vice-President of the Bank and President and Chief Executive Officer of B2B Trust

WITH THE BANK SINCE 1991

POSITIONS HELD AT THE BANK
1991 – 2002
Various positions, including Vice-President, Telebanking Centres and Electronic Services
2002 – 2004
Vice-President, Direct Financial Services
2004 – 2005
Senior Vice-President, Intermediary Banking Services, and President and Chief Executive Officer of B2B Trust
SINCE 2005
Executive Vice-President of the Bank and President and Chief Executive Officer of B2B Trust

EDUCATION
- Bachelor's degree in Business Administration (Information Technologies specialization), HEC Montréal



BERNARD PICHÉ
Senior Executive Vice-President, Treasury, Capital Markets and Brokerage

WITH THE BANK SINCE 1994

POSITIONS HELD AT THE BANK
1994 – 1995
Senior Vice-President, Treasury and Brokerage
1995 – 2000
President and Chief Executive Officer of LBC Securities
2000 – 2002
Co-Chief Operating Officer and Chief Financial Officer of B2B Trust
2002 – 2004
President and Chief Executive Officer of B2B Trust
SINCE 2004
Senior Executive Vice-President, Treasury, Capital Markets and Brokerage

EDUCATION
- Bachelor's degree in Business Administration (including a major in Economics), McGill University
- MBA, McGill University

LORRAINE PILON
Executive Vice-President, Corporate Affairs, and Secretary

WITH THE BANK SINCE 1990

POSITIONS HELD AT THE BANK
1990 – 2000
Various positions, including Vice-President, Legal Affairs and Compliance
2000 – 2003
Senior Vice-President, Legal Affairs and Compliance
SINCE 2003
Executive Vice-President, Corporate Affairs, and Secretary

EDUCATION
- Bachelor of Science degree (Business Administration specialization), Mississippi University for Women
- Bachelor of Civil Law degree, McGill University
- Professional Training Program in Law, École du Barreau du Québec
- Specialized and superior diploma in Commercial Law, Université de Montréal
- Executive MBA, UQAM
- Member of the Québec BAR

RÉJEAN ROBITAILLE
President and Chief Executive Officer

WITH THE BANK SINCE 1988

POSITIONS HELD AT THE BANK
1988 – 1995
Various positions, including Assistant Vice-President, Planning, Control and Procurement
1995 – 1998
Vice-President, Business Development, Retail Banking Services
1998 – 2000
Vice-President and Assistant Treasurer, Corporate Treasury
2000 – 2001
Vice-President and Treasurer, Corporate Treasury
2001 – 2003
Senior Vice-President and Treasurer, Corporate Treasury
2003 – 2005
Executive Vice-President, Retail Financial Services
AUGUST 2005 – JUNE 2006
Senior Executive Vice-President, Retail and Commercial Financial Services
JUNE 2006 – DECEMBER 2006
Senior Executive Vice-President and Chief Operating Officer
SINCE DECEMBER 2006
President and Chief Executive Officer

EDUCATION
- Bachelor's degree in Business Administration (Accounting specialization), HEC Montréal
- Certified Chartered Accountant

PLANNING COMMITTEE

DANA ADES-LANDY
Senior Vice-President,
National Accounts,
Commercial Banking

MARCEL BEAULIEU
Vice-President,
Product Management

GUY BENOIT
Vice-President,
Retail Financial Services,
Montréal Island Region

YASSIR BERBICHE
Senior Vice-President
and Treasurer,
Corporate Treasury

LOUISE BOURASSA
Senior Vice-President,
Administrative Services

DENISE BRISEBOIS
Senior Vice-President,
Human Resources

GLADYS CARON
Vice-President, Public
Affairs, Communications
and Investor Relations

LISE CAZA
Vice-President,
Retail Financial Services,
South Western Québec

DANIEL DESJARDINS
Vice-President,
Commercial Banking,
Québec

JEAN-FRANÇOIS DOYON
Vice-President,
Internal Audit and
Corporate Security

PHILIPPE DUBY
Senior Vice-President,
Real Estate Management
and Chief Information Officer

RICHARD FABRE
Vice-President,
Retail Financial Services,
Northwest Region

GUY FILIATRAULT
Vice-President,
Point-of-sales Financing

STÉPHANE GAGNON
Vice-President,
Marketing

MICHEL GARNEAU
Vice-President,
Retail Financial Services,
Québec and Eastern Québec

MICHEL GENDRON
Vice-President,
National Accounts,
Commercial Banking

PIERRE GODBOUT
Vice-President,
Sales Support to Financial
Advisors and Intermediaries,
Laurentian Bank Securities Inc.

PAUL HURTUBISE
Senior Vice-President,
Commercial and
Real Estate Financing

CLAUDE JOBIN
Vice-President,
Credit

DIANE LAFRESNAYE
Vice-President,
Finance and Administration,
B2B Trust

RICK C. LANE
Vice-President,
Real Estate Financing,
Ontario and Western Canada

ANDRÉ LOPRESTI
Vice-President
and Chief Accountant

SIMON LUSSIER
Senior Vice-President,
Institutional Equity,
Laurentian Bank Securities Inc.

SYLVAIN MALO
Vice-President,
Direct Financial Services

LOUIS MARQUIS
Senior Vice-President,
Credit

SUSI McCORD
Vice-President, Marketing,
B2B Trust

PIERRE MINVILLE
Senior Vice-President,
Integrated Risk Management,
Mergers and Acquisitions

MARC PARADIS
Senior Vice-President,
Strategic Planning
and Control

YVES RUEST
Vice-President,
Finance and Administration,
Chief Financial Officer and
Chief Compliance Officer,
Laurentian Bank Securities Inc.

CLAUDE SASSEVILLE
Vice-President,
Retail Financial Services,
Montréal Centre

AL SPADARO
Vice-President,
Business Development,
B2B Trust

EVA STAMADIANOS
Vice-President,
Human Resources
and Chief Risk Officer,
B2B Trust

MICHEL C. TRUDEAU
President and Chief
Executive Officer,
Laurentian Bank Securities Inc.

BRANCHES

ALMA
500 Sacré-Coeur St. W.

AMOS
1 1st Avenue W.

BAIE COMEAU
600 Laflèche Blvd.

BELOEIL
546 Sir-Wilfrid-Laurier Blvd.

BLAINVILLE
1356 Curé-Labelle Blvd., Suite 222
9 de la Seigneurie

BOISBRIAND
2250 du Faubourg Blvd.

BOUCHERVILLE
999 Montarville Blvd.

BROSSARD
1635 Rome Blvd.

CAMPBELL'S BAY
148 Front St.

CHAMBLY
1495 Brassard St.

CÔTE ST-LUC
5479 Westminster Ave.

CHÂTEAUGUAY
111 Saint-Jean Baptiste Blvd.

CHIBOUGAMAU
530 3rd Street

DOLBEAU – MISTASSINI
1372 Wallberg Blvd.

DOLLARD-DES-ORMEAUX
4057 montée Saint-Jean
3500 des Sources Blvd.

DORVAL
325 Dorval Ave.

DRUMMONDVILLE
571 Saint-Joseph Blvd.

FORT COULONGE
532 Baume St.

GATINEAU
139 de l'Hôpital Blvd.
75 du Plateau, Unit 109
770 Saint-Joseph Blvd.

GRANBY
40 Évangéline St.

GRAND-MÈRE
531 6th Avenue

GRENVILLE
240 Principale St.

JOLIETTE
373 Notre-Dame St.

KIRKLAND
3876 St-Charles Blvd.

LACHUTE
470 Principale St. W.

LA PRAIRIE
995 Taschereau Blvd.

LAVAL
928 Highway 13, Chomedey W.
233 Curé-Labelle Blvd.
3387 Dagenais Blvd. W.
510 des Laurentides Blvd.
750 Montrose St.
3870 Notre-Dame Blvd.
1899 René-Laennec Blvd.
1995 Saint-Martin Blvd. W.
4600 Samson Blvd., Suite 19

LONGUEUIL
2836 chemin Chambly
4 Saint-Charles St. E.
6250 Cousineau Blvd., Suite 200
5925 Payer Blvd.
3700 Taschereau Blvd.

MANIWAKI
111 Desjardins Blvd.

MASCOUCHE
848 montée Masson

MONT LAURIER
476 de la Madone St.

MONTRÉAL
4945 Beaubien St. E.
6593 Beaubien St. E.
4155 Bélanger St. E.
5900 Bélanger St. E., Saint-Léonard
290 Chabanel St. W.
8262 Champlain Blvd., Lasalle
4135 D'Amiens St., Montréal N.
6225 Darlington Ave.
865 Décarie Blvd., Saint-Laurent
5159 Décarie Blvd.
88 Don Quichotte Blvd.
885 Fleury St. E.
2200 Fleury St. E.
10451 Gouin Blvd. W., Pierrefonds – Roxboro
5501 Henri-Bourassa Blvd. E., Montréal N.
8595 Hochelaga St.
136 Jacques-Bizard Blvd., Bizard Island
7050 Jarry St. E., Anjou
4725 Jarry St. E., Saint-Léonard
10 Jean-Talon St. E.
5355 Jean-Talon St. E., Saint-Léonard
555 Jean-Talon St. W.
6651 Joseph-Renaud Blvd., Anjou
9095 Lajeunesse St.
8410 Langelier Blvd., Saint-Léonard
6525 Léger Blvd., Montréal N.
6500 de Lorimier Ave.
2937 Masson St.
8646 Maurice-Duplessis Blvd., Rivière des Prairies
6270 Monk Blvd.
1981 McGill College Ave.
1100 du Mont Royal Ave. E.
8787 Newman Blvd., Lasalle
1675 Notre-Dame St., Lachine
3720 Ontario St. E.
7705 Papineau Ave.
5059 Park Ave.
1430 Poirier St., Saint-Laurent
1100 René-Lévesque Blvd. W.
1155 Sainte-Catherine St. E.
8090 Saint-Denis St.
391 Saint-Jacques St.
4080 Saint-Jacques St.
3823 Saint-Laurent Blvd.
7192 Saint-Michel Blvd.
8930 Saint-Michel Blvd.
2490 de Salaberry St.
1805 Sauvé St. W.
6615 Sherbrooke St. E.
12050 Sherbrooke St. E.
5651 Sherbrooke St. W.
1291 Shevchenko Blvd., Lasalle
6640 Somerled Ave.
1447 Van Horne Ave., Outremont
4790 Van Horne Ave.
5501 Verdun Ave., Verdun
8945 Viau Blvd., Saint-Léonard
4214 Wellington St., Verdun

MURDOCHVILLE
601, 5th Street

NEW CARLISLE
168 Gérard-D.-Lévesque Blvd.

NEW RICHMOND
228 Perron Blvd.

NICOLET
92 place 21 Mars

OTTAWA
1021 Cyrville Road, Unit 9

PASPÉBIAC
120 Gérard-D.-Lévesque Blvd.

PORT DANIEL
10 132 Road

QUÉBEC
999 de Bourgogne St.
510 Charest Blvd. E.
1221 Charles-Albanel
580 Grande Allée E., Suite 30
8000 Henri-Bourassa Blvd.
2600 Laurier Blvd., Suite 25
2700 Laurier Blvd., Suite 2287
1275 Sainte-Foy Road
3930 Wilfrid-Hamel Blvd. W.
3323 du Carrefour Blvd.
1350 Lebourgneuf Blvd.

REPENTIGNY
150 Iberville Blvd.
910A Iberville Blvd.

RIMOUSKI
320 Saint-Germain St. E.

ROBERVAL
773 Saint-Joseph Blvd., Suite 101

ROSEMÈRE
401 Labelle Blvd.

ROUYN – NORANDA
24 Perreault St. E.

SAGUENAY
1611 Talbot Blvd., Suite 100, Chicoutimi
3460 Saint-François Blvd., Jonquière
1220 du Port Ave., La Baie

SAINT-BRUNO DE MONTARVILLE
1354 Roberval St.

SAINT-CONSTANT
400 132 Road, Suite 170

SAINTE-MARIE-DE-BEAUCE
16 Notre-Dame St. N.

SAINTE-THÉRÈSE-DE-BLAINVILLE
95 Curé-Labelle Blvd.

SAINT-EUSTACHE
569 Arthur-Sauvé Blvd.

SAINT-GEORGES
11400 1st Avenue, Suite 35

SAINT-HYACINTHE
5915 Martineau St.

SAINT-JEAN-SUR-RICHELIEU
605 Pierre-Caisse

SAINT-JÉROME
3 de la Salette Blvd.

SAINT-LAMBERT
400 Victoria Ave.

SAINT-RAYMOND
300 Saint-Joseph St.

SEPT-ÎLES
770 Laure Blvd.

SHERBROOKE
2637 King St. W.
5050 Bourque Blvd., Rock Forest

SOREL – TRACY
831 Marie-Victorin Road

TERREBONNE
1090 Moody Blvd.

THETFORD MINES
222 Frontenac Blvd. W., Suite 101

TROIS-RIVIÈRES
425 des Forges St.
4450 des Forges Blvd.

VAL D'OR
872 3rd Avenue

VAUDREUIL – DORION
43 Cité des Jeunes

VALLEYFIELD
187 Victoria

VICTORIAVILLE
1073 Jutras Blvd. E.

WESTMOUNT
4848 Sherbrooke St. W.

OFFICES

AGRICULTURAL FINANCING

DRUMMONDVILLE
571 Saint-Joseph Blvd.

GRANBY
40 Évangéline St.

LACHUTE
470 Principale St.

SAINT-HYACINTHE
5915 Martineau St.

SAINT-JEAN-SUR-RICHELIEU
605 Pierre-Caisse St.

SAINTE-MARIE-DE-BEAUCE
16 Notre-Dame St. N.

VICTORIAVILLE
1073 Jutras Blvd. E.

B2B TRUST

CALGARY
2635 – 37th Ave. NE
Suite 203

HALIFAX
2059 Saskville Dr.

MONTRÉAL
1981 McGill College Ave.
Suite 1675

TORONTO – HEAD OFFICE
130 Adelaide St. W.
Suite 200

VANCOUVER
1124 Lonsdale Ave.
Suite 405

COMMERCIAL FINANCING

DRUMMONDVILLE
571 St-Joseph Blvd.

GATINEAU
770 Saint-Joseph Blvd.

KITCHENER
10 Duke St. W., Suite 100

LAVAL
1995 St-Martin Blvd. W.
2nd Floor

LONGUEUIL
4 St-Charles St. E.

MISSISSAUGA
979 Derry Road E.
Suite 303

MONTRÉAL
255 Crémazie Blvd. E.
Suite 1100

MONTRÉAL – NATIONAL ACCOUNTS
1981 McGill College Ave.
Suite 2075

MONTRÉAL E.
6625 Sherbrooke St. E.
Suite 203

QUÉBEC
2700 Laurier Blvd.
Suite 2287

SAGUENAY
1611 Talbot Blvd.
Suite 100

SHERBROOKE
2637 King St. W.

THORNHILL
8500 Leslie St.
Suite 100

TERREBONNE
1090, Moody Blvd.

INTERNATIONAL SERVICES

MONTRÉAL
1981 McGill College Ave.
Suite 1485

THORNHILL
8500, Leslie St.
Suite 100

LAURENTIAN BANK SECURITIES INC.

SAGUENAY
1611 Talbot Blvd.
Chicoutimi Sector

CORNWALL
55 Water St. W.
Suite 385

DRUMMONDVILLE
645 Saint-Joseph Blvd.
Suite 100

GRANBY
20 Place du Lac

KAMOURASKA
622 Elzéar St.

KIRKLAND
3876 St-Charles Blvd.

LAVAL
2525 Daniel-Johnson Blvd.
Suite 500

LONGUEUIL
1111 St-Charles St. W.
Suite 350

MONTRÉAL – HEAD OFFICE
1981 McGill College Ave.
Suite 100

QUÉBEC
2505 Laurier Blvd.
Suite 100

SAINT-JEAN-SUR-RICHELIEU
100 Richelieu St.
Suite 150

SAINT-HYACINTHE
1870 Saint-Antoine

OTTAWA
1021 Cyrville Road
Unit 9

TORONTO
130 Adelaide St. W.
Mezzanine

SAINTE-THÉRÈSE-DE-BLAINVILLE
212 Labelle Blvd.
Suite 102

LAURENTIAN TRUST OF CANADA INC.

MONTRÉAL – HEAD OFFICE
1981 McGill College Ave.

MONTRÉAL
425 de Maisonneuve Blvd. W.
1st Floor
555 Chabanel St. W.
Suite 520

LBC FINANCIAL SERVICES INC.

MONTRÉAL – HEAD OFFICE
1981 McGill College Ave.
20th Floor

MONTRÉAL
425 de Maisonneuve Blvd. W.
Suite 040

LBC TRUST

MONTRÉAL – HEAD OFFICE
1981 McGill College Ave.

MONTRÉAL
555 Chabanel Street W.
Suite 520

MICRO-BUSINESS

ALMA
500 Sacré-Coeur St. W.

CHICOUTIMI
1611 Talbot Blvd.
Suite 100

GREENFIELD PARK
3700 Taschereau Blvd.

LAVAL
1995 St-Martin Blvd. West
2nd Floor

MONTRÉAL
255 Crémazie St. E.
Suite 1100

QUÉBEC
2700 Laurier Blvd.
Suite 2287

PRIVATE BANKING

MONTRÉAL
1981 McGill College Ave.
Mezzanine, South Tower

REAL ESTATE FINANCING

CALGARY
1122 – 4th St. South W.
Suite 450

KITCHENER
10 Duke St. W.
Suite 100

MONTRÉAL
1981 McGill College Ave.
Mezzanine

OTTAWA
1021 Cyrville Road
Unit 9

TORONTO
130 Adelaide St. W.
3rd Floor

VANCOUVER
700 W. Georgia St.
Suite 603

MAIN SUBSIDIARIES
As at October 31, 2008

NAME	HEAD OFFICE ADDRESS	CARRYING VALUE OF VOTING SHARES OWNED BY THE BANK (1) ($000)	PERCENTAGE OF VOTING SHARES OWNED BY THE BANK
B2B Trust	Toronto, Canada	$ 267,305	100%
Laurentian Trust of Canada Inc.	Montréal, Canada	$ 77,980	100%
LBC Trust	Montréal, Canada	$ 54,608	100%
Laurentian Bank Securities Inc.	Montréal, Canada	$ 30,876	100%
LBC Financial Services Inc.	Montréal, Canada	$ 2,364	100%
LBC Investment Management Inc.	Montréal, Canada	$ 148,056	100%
V.R. Holding Insurance Company Ltd. (2)	St. James, Barbados	$ 25,545	100%

(1) The carrying value of voting shares is stated at the Bank's net equity in these investments.
(2) V.R. Holding Insurance Company Ltd. is owned at 100% by LBC Investment Management Inc.

SHAREHOLDERS INFORMATION

HEAD OFFICE
Tour Banque Laurentienne
1981 McGill College Avenue
Montréal, Québec H3A 3K3
Tel.: 514 284-4500 ext. 5996
Fax: 514 284-3396

TELEBANKING CENTRE, AUTOMATED BANKING AND CUSTOMER SERVICE
Tel.: 514 252-1846
or 1-800-252-1846
Website:
www.laurentianbank.ca
Swift Code: BLCM CA MM

ANNUAL MEETING
The Annual Meeting of the Common Shareholders of the Bank will be held on Tuesday, March 10, 2009, at 9:30 a.m., at the Monument-National, Salle Ludger-Duvernay, 1182 Saint-Laurent Blvd., Montréal, Québec H2X 2S5.

VALUATION DAY PRICE
For capital gains purposes, the market value of Laurentian Bank common shares on Valuation day, December 22, 1971, adjusted for the stock splits of July 1983 and January 1987, was $3.72.

TRANSFER AGENT AND REGISTRAR
Computershare
Investor Services Inc.
1500 University Street
Suite 700
Montréal, Québec H3A 3S8

OMBUDSMAN'S OFFICE
Laurentian Bank
1981 McGill College Avenue
Suite 1420
Montréal, Québec H3A 3K3
Tel.: 514 284-7192 or
1-800-479-1244

CHANGE OF ADDRESS AND INQUIRIES
Shareholders should notify the Transfer Agent of any change of address. Inquiries or requests may be directed to the Secretary's Office at Head Office or by calling 514 284-4500 ext. 7545.

INVESTORS AND ANALYSTS
Investors and analysts may contact the Investor Relations Department at Head Office by calling 514 284-4500 ext. 7511 or 8143.

MEDIA
Journalists may contact the Public Affairs and Communications Department at Head Office by calling 514 284-4500 ext. 7511 or 8232.

DIRECT DEPOSIT SERVICE
Shareholders of the Bank may, by advising the Transfer Agent in writing, have their dividends deposited directly into an account held at any financial institution member of the Canadian Payments Association.

This Annual Report was produced by the Public Affairs, Communications and Investor Relations Department of Laurentian Bank.

Vous pouvez recevoir une version française de ce rapport annuel en faisant parvenir votre demande par écrit à :
Banque Laurentienne
1981, avenue McGill College,
20e étage
Montréal (Québec) H3A 3K3

STOCK SYMBOL AND DIVIDEND RECORD AND PAYMENT DATES

THE COMMON AND PREFERRED SHARES INDICATED BELOW ARE LISTED ON THE TORONTO STOCK EXCHANGE.	CUSIP CODE / STOCK SYMBOL	RECORD DATE *	DIVIDEND PAYMENT DATE *
Common shares	51925D 10 6 LB	First business day of:	
		January	February 1
		April	May 1
		July	August 1
		October	November 1
Preferred shares			
Series 9	51925D 87 4 LB.PR.D	**	March 15
Series 10	51925D 86 6 LB.PR.E	**	June 15
			September 15
			December 15

* Subject to the approval of the Board of Directors.
** On such day (which shall not be more than 30 days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Board of Directors of the Bank.

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www.laurentianbank.ca

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