Consolidated financial statements

AS AT OCTOBER 31, 2009 AND 2008

CONSOLIDATED FINANCIAL STATEMENTS AT A GLANCE

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

Management's responsibility for financial reporting

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

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

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

Every year, the 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, audit 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

MICHEL C. LAUZON
EXECUTIVE VICE-PRESIDENT
AND CHIEF FINANCIAL OFFICER

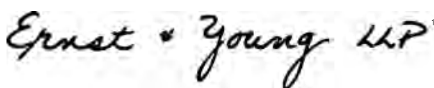
MONTRÉAL, CANADA
DECEMBER 8, 2009

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, 2009 and 2008 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



[1]

CHARTERED ACCOUNTANTS
MONTRÉAL, CANADA
DECEMBER 8, 2009

1 CA auditor permit no 8729

Consolidated balance sheet

as at October 31 (in thousands of dollars)	NOTES	2009	2008
ASSETS			
Cash and non-interest bearing deposits with other banks		**$ 61,010**	$ 54,410
Interest-bearing deposits with other banks		**239,606**	94,291
Securities accounts	4 and 23		
Available-for-sale		**1,424,043**	1,302,137
Held-for-trading		**1,391,313**	1,069,197
Designated as held-for-trading		**1,616,827**	1,118,838
		4,432,183	3,490,172
Assets purchased under reverse repurchase agreements	23	**536,064**	661,391
Loans	5, 6 and 23		
Personal		**5,655,055**	5,694,574
Residential mortgage		**7,219,830**	6,182,871
Commercial mortgage		**1,285,012**	932,688
Commercial and other		**1,555,956**	1,454,799
		15,715,853	14,264,932
Allowance for loan losses		**(114,546)**	(112,434)
		15,601,307	14,152,498
Other			
Customers' liabilities under acceptances		**216,817**	110,342
Premises and equipment	7	**58,163**	59,927
Derivative financial instruments	22	**253,661**	237,704
Goodwill	8	**53,790**	53,790
Other intangible assets	8	**103,386**	96,458
Other assets	9	**608,793**	568,489
		1,294,610	1,126,710
		$ 22,164,780	$ 19,579,472
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	10		
Personal		**$ 15,138,637**	$ 12,430,038
Business, banks and other		**3,161,329**	2,903,774
		18,299,966	15,333,812
Other			
Obligations related to assets sold short		**1,054,470**	819,236
Obligations related to assets sold under repurchase agreements	23	**284,988**	1,136,096
Acceptances		**216,817**	110,342
Derivative financial instruments	22	**174,859**	147,469
Other liabilities	11	**812,454**	799,082
		2,543,588	3,012,225
Subordinated debentures	12	**150,000**	150,000
Shareholders' equity			
Preferred shares	13	**210,000**	210,000
Common shares	13	**259,208**	257,462
Contributed surplus	15	**209**	173
Retained earnings		**665,538**	596,974
Accumulated other comprehensive income	14	**36,271**	18,826
		1,171,226	1,083,435
		$ 22,164,780	$ 19,579,472

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

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

RÉJEAN ROBITAILLE
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Consolidated statement of income

For the years ended October 31 (in thousands of dollars, except for per share amounts)	NOTES	2009	2008
Interest income			
Loans		**$719,538**	$ 833,763
Securities		**71,373**	60,873
Deposits with other banks		**3,903**	26,360
Other, including derivative financial instruments		**137,275**	33,959
		932,089	954,955
Interest expense			
Deposits		**493,812**	508,403
Other, including derivative financial instruments		**6,765**	33,547
Subordinated debentures		**7,735**	7,742
		508,312	549,692
Net interest income		**423,777**	405,263
Other income			
Fees and commissions on loans and deposits		**101,445**	91,913
Income from brokerage operations		**51,788**	28,707
Securitization income	6	**34,441**	35,865
Credit insurance income		**15,994**	13,717
Income from sales of mutual funds		**12,429**	14,170
Income from treasury and financial market operations		**10,472**	24,474
Income from registered self-directed plans		**7,960**	8,736
Other		**8,196**	7,636
		242,725	225,218
Total revenue		**666,502**	630,481
Provision for credit losses	5	**56,000**	48,500
Non-interest expenses			
Salaries and employee benefits		**249,658**	236,280
Premises and technology		**120,054**	119,192
Other		**102,278**	90,519
		471,990	445,991
Income from continuing operations before income taxes		**138,512**	135,990
Income taxes	17	**36,848**	37,882
Income from continuing operations		**101,664**	98,108
Income from discontinued operations, net of income taxes	27	**11,469**	4,423
Net income		**$113,133**	$ 102,531
Preferred share dividends, including applicable taxes		**12,116**	11,818
Net income available to common shareholders		**$101,017**	$ 90,713
Average number of common shares outstanding (in thousands)			
Basic		**23,858**	23,837
Diluted		**23,876**	23,880
Income per common share from continuing operations	18		
Basic		**$ 3.75**	$ 3.62
Diluted		**$ 3.75**	$ 3.61
Net income per common share	18		
Basic		**$ 4.23**	$ 3.81
Diluted		**$ 4.23**	$ 3.80

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	2009	2008
Net income		**$ 113,133**	$ 102,531
Other comprehensive income, net of income taxes	14		
Unrealized gains (losses) on available-for-sale securities		**14,081**	(23,347)
Reclassification of (gains) losses on available-for-sale securities to net income		**6,185**	(4,376)
Net change in value of derivative instruments designated as cash flow hedges		**(2,821)**	45,672
		17,445	17,949
Comprehensive income		**$ 130,578**	$ 120,480

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	2009	2008
Preferred shares	13		
Balance at beginning and end of year		**$ 210,000**	$ 210,000
Common shares	13		
Balance at beginning of year		**257,462**	256,445
Issued during the year		**1,746**	1,017
Balance at end of year		**259,208**	257,462
Contributed surplus			
Balance at beginning of year		**173**	105
Stock-based compensation	15	**36**	68
Balance at end of year		**209**	173
Retained earnings			
Balance at beginning of year		**596,974**	537,254
Net income		**113,133**	102,531
Dividends			
Preferred shares, including applicable taxes		**(12,116)**	(11,818)
Common shares		**(32,453)**	(30,993)
Balance at end of year		**665,538**	596,974
Accumulated other comprehensive income	14		
Balance at beginning of year		**18,826**	877
Other comprehensive income, net of income taxes		**17,445**	17,949
Balance at end of year		**36,271**	18,826
SHAREHOLDERS' EQUITY		**$1,171,226**	$1,083,435

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	2009	2008
Cash flows relating to operating activities			
Net income		**$ 113,133**	$ 102,531
Adjustments to determine net cash flows relating to operating activities:			
Provision for loan losses		**56,000**	48,500
Gains on securitization operations		**(37,380)**	(29,636)
Net gain from discontinued operations	27	**(13,493)**	(5,185)
Net loss (net gain) on disposal of non-trading securities		**12,146**	(8,629)
Future income taxes		**28,943**	29,342
Depreciation		**11,216**	11,149
Amortization of other intangible assets		**22,383**	19,942
Net change in held-for-trading securities		**(322,116)**	17,761
Change in accrued interest receivable		**(12,793)**	(7,012)
Change in assets relating to derivative financial instruments		**(15,957)**	(174,959)
Change in accrued interest payable		**(31,287)**	4,704
Change in liabilities relating to derivative financial instruments		**27,390**	76,618
Other, net		**13,728**	37,589
		(148,087)	122,715
Cash flows relating to financing activities			
Net change in deposits		**2,966,154**	1,455,104
Change in obligations related to assets sold short		**235,234**	(49,439)
Change in obligations related to assets sold under repurchase agreements		**(851,108)**	207,109
Issuance of common shares		**1,746**	1,017
Dividends, including applicable income taxes		**(44,569)**	(42,811)
		2,307,457	1,570,980
Cash flows relating to investing activities			
Change in securities available-for-sale and designated as held-for-trading			
Acquisitions		**(6,164,858)**	(3,767,207)
Proceeds on sale and at maturities		**5,576,044**	2,915,926
Change in loans		**(2,511,422)**	(2,208,714)
Change in assets purchased under reverse repurchase agreements		**125,327**	(121,087)
Proceeds from mortgage loan securitizations		**1,005,647**	1,295,512
Additions to property, plant and equipment and software		**(38,193)**	(37,556)
Change in interest-bearing deposits with other banks		**(145,315)**	188,964
Net cash flows from sale of asset	27	**–**	29,632
		(2,152,770)	(1,704,530)
Net change in cash and non-interest-bearing deposits with other banks		**6,600**	(10,835)
Cash and non-interest-bearing deposits with other banks at beginning of year		**54,410**	65,245
Cash and non-interest-bearing deposits with other banks at end of year		**$ 61,010**	$ 54,410
Supplemental disclosure relating to cash flows:			
Interest paid during the year		**$ 537,988**	$ 539,656
Income taxes paid during the year		**$ 12,275**	$ (3,451)

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

Notes to consolidated financial statements

OCTOBER 31, 2009 AND 2008 (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 financial statements 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. Generally, VIEs are entities that are subject to control on a basis other than ownership of voting interests. The primary beneficiary consolidates the VIE. The primary beneficiary is the enterprise that has the variable interests that will absorb the majority of expected losses or receive the majority of residual returns, as defined. Variable interests are defined as contractual, ownership or other financial interests in an entity that change with fluctuations in the entity's net asset value.

2.2 NEW ACCOUNTING STANDARDS ADOPTED DURING FISCAL 2009

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.* Section 3064 reinforces a principle-based approach to the recognition of costs as assets in accordance with the definition of an asset and the criteria for asset recognition in Section 1000. The Section also sets out specific criteria for the recognition of internally developed intangible assets. 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, adopted as of November 1, 2008, had no significant impact on the Bank's results. The unamortized balance of $91,709,000 as at October 31, 2009 ($83,562,000 as at October 31, 2008) in software was reclassified from premises and equipment to other intangible assets in the consolidated balance sheet.

Credit risk and the fair value of financial assets and financial liabilities

On January 20, 2009, the Emerging Issue Committee of the Canadian Institute of Chartered Accountants (CICA) issued Abstract EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which applies to the Bank retroactively as of November 1, 2008. The Abstract confirms that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. This Abstract had no significant impact on the consolidated financial statements.

Amendments to Section 3855 regarding impairment of financial assets

In August 2009, the AcSB amended Section 3855, *Financial Instruments – Recognition and Measurement*, as it relates to the timing of impairment recognition for debt instruments. The amendments apply to financial statements relating to fiscal years beginning on or after November 1, 2008. The Section has been amended to [i] change the categories into which a debt instrument is required or permitted to be classified; [ii] change the impairment model for held-to-maturity financial assets to the incurred credit loss model of Section 3025, *Impaired Loans*; and [iii] require reversal of previously recognized impairment losses on available-for sale financial assets in specified circumstances. These amendments, adopted by the Bank as of October 31, 2009, had no significant impact on the consolidated financial statements, primarily because no changes in category occurred and no reversals of impairment losses were required during the year.

Financial instrument measurement disclosure

In June 2009, the AcSB issued amendments to Section 3862, *Financial Instruments – Disclosures*, to enhance disclosure requirements for the inputs used in fair value measurements, as well as liquidity risk. The amendments are effective for the Bank's annual financial statements as at October 31, 2009. The amendments have no impact on how the Bank determines the fair value of financial instruments; however, they require additional disclosures. Since the amendments pertain to disclosure requirements only, they had no significant impact on the Bank's results or financial position.

2.3 FUTURE ACCOUNTING POLICY CHANGES

International Financial Reporting Standards

In February 2008, the AcSB confirmed the convergence of financial reporting standards for Canadian public companies with International Financial Reporting Standards (IFRS). The Bank will use IFRS for interim and annual financial statements relating to fiscal periods beginning on or after November 1, 2011.

The Bank has prepared a conversion plan and assembled a project team to coordinate the conversion.

The conversion plan consists of the following phases:

- Preliminary assessment – This phase, completed early in the year, served to heighten management's awareness of the key conversion issues and establish a timeline mapping out the Bank's priorities as regards analyses and significant issues.
- Standards analysis – This phase consists of a detailed assessment of the quantitative, qualitative and technological impact of IFRS implementation. Work on this phase is well underway and should be completed during 2009, subject to changes to IFRS by the International Accounting Standards Board (IASB).
- Selection of accounting policies – The initial adoption of IFRS will force the Bank to make certain elections. The alternatives are currently being assessed concurrently with standards analysis.
- Implementation – This phase consists in implementing the necessary information systems to comply with the new IFRS requirements.

The Bank has analyzed the new requirements, particularly with respect to the recognition of financial instruments, including securitization transactions, hedging transactions and loan losses. The standards regarding employee future benefits, business combinations, income taxes and stock-based compensation have also been analyzed in detail. In addition, the Bank is closely monitoring the potential impact of such changes on capital requirements.

2.4 RECLASSIFICATION OF LOANS RELATED TO THE IMMIGRANT INVESTOR PROGRAM

Loans related to the Immigrant Investor program amounting to $471,224,000 as at October 31, 2009 are now included in personal loans. Previously, these loans were included in commercial and other loans. Prior period loan balances in the amount of $392,528,000 as at October 31, 2008 have been reclassified to conform to current year presentation.

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.

Nº 3. Summary of significant accounting policies (cont'd)

Financial instruments designated as held-for-trading

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

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

Financial instruments designated as held-for-trading are initially recorded at fair value on the settlement date in the consolidated balance sheet. Subsequently, they are remeasured at fair value and the realized and unrealized gains and losses are immediately recognized in the consolidated statement of income under income from treasury and financial market operations, or in securitization income when arising from financial instruments related to securitization transactions. Interest income earned, amortization of premiums and discounts as well as dividends received are included in interest income using the accrual basis of accounting. Transaction costs, and 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. In certain circumstances, particularly where the issuer's financial position subsequently recovers from a particular event, previously recognized impairment losses are reversed. Equity instruments that do not have a quoted market price in an active market are recorded at cost. Interest income earned, 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, 2009, 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. Given the low risk transfer associated with these purchases and sales, these agreements are treated as collateralized lending and borrowing transactions and are carried in the consolidated balance sheet at the amounts at which the securities were initially acquired or sold, plus accrued interest. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is reported as interest income and interest expense, respectively.

Loans

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

Loans are initially recorded at fair value on the settlement date in the consolidated balance sheet. They are subsequently recorded at amortized cost using the effective interest method in the balance sheet, net of 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.

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 estimated costs to sell, under other assets. The difference between the carrying amount of the loan prior to foreclosure and the amount at which the foreclosed assets are initially measured is recognized in the provision for loan losses.

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

Allowances for losses

The Bank maintains allowances for losses at amounts deemed adequate to absorb all 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.

N° 3. Summary of significant accounting policies (cont'd)

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 and recognizes the gain or loss on the sale in other income.

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

Cash reserve accounts and excess 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 other income under securitization 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. Hedge accounting is deemed appropriate where the derivative financial instrument is highly effective in offsetting changes in the hedged item's fair value attributed to the hedged risk, both at hedge's inception and on an ongoing basis. Effectiveness is generally reviewed every month using statistical regression models.

Fair value hedges

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

For these hedging relationships, the changes in the hedged items' fair value attributable to the hedged risk are recognized in the consolidated statement of income 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.

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.

Deposits

Deposits are generally accounted for at amortized 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 amortized 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. The valuations may also be adjusted to reflect the uncertainty in these parameters. In particular, valuation adjustments may be made with respect to the liquidity or counterparty credit risk of financial instruments that have no available quoted market prices in an active market.

Fair values of 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.

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

Nº 3. Summary of significant accounting policies (cont'd)

3.2 PREMISES AND EQUIPMENT

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

	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	**Straight-line**	**5 – 10 years**

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

3.3 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill from business combinations is tested for impairment, 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 on a straight-line basis over their estimated useful life, which is 15 years for contractual relationships with financial intermediaries and customer relationships and 5 years for software, and are also tested for impairment whenever circumstances indicate that the carrying value may not be fully recoverable. When the net carrying amount exceeds the estimated future net cash flows, intangible assets with finite lives are considered impaired and are written down to their fair value.

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

3.4 EMPLOYEE FUTURE BENEFITS

Pension plans

The Bank maintains 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 8 to 11 years in 2009 depending on the plans (from 9 to 11 years in 2008).

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

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

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

Other plans

The Bank offers its employees certain post-employment benefits. 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 redemption of 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 on defined performance criteria.

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 of 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

	2009						2008	
	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]	$686,842	$ –	$ –	$ –	$ 686,842	0.3%	$ 978,268	1.7%
by provinces	115,718	400,052	24,563	–	540,333	1.7%	26,301	4.1%
Other debt securities	10,811	73,655	29,547	–	114,013	5.1%	196,979	4.6%
Asset-backed securities	470	11,299	6,335	–	18,104	6.8%	19,288	5.2%
Preferred shares	–	–	–	38,340	38,340	4.4%	43,705	5.0%
Common shares and other securities	–	–	–	26,411	26,411	3.0%	37,596	5.7%
	$813,841	$485,006	$60,445	$64,751	$1,424,043	1.4%	$1,302,137	2.5%

Portfolio of held-for-trading securities

	2009					2008
	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	NO SPECIFIC MATURITY	TOTAL	TOTAL
Securities issued or guaranteed						
by Canada [2]	$ 89,702	$260,017	$234,336	$ –	$ 584,055	$ 350,776
by provinces	102,684	211,818	228,368	–	542,870	345,557
by municipal corporations	12,567	38,700	16,810	–	68,077	83,119
Other debt securities	32,849	30,327	65,844	–	129,020	207,541
Asset-backed securities	–	4,825	7,118	1,039	12,982	21,275
Common shares and other securities	–	–	–	54,309	54,309	60,929
	$237,802	$545,687	$552,476	$55,348	$1,391,313	$1,069,197

Portfolio of securities designated as held-for-trading

	2009				2008
	WTHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL	TOTAL
Securities issued or guaranteed					
by Canada [2]	$149,622	$1,368,447	$75,488	$1,593,557	$1,086,819
by provinces	–	5,900	–	5,900	11,758
Other debt securities	17,370	–	–	17,370	17,277
Common shares and other securities	–	–	–	–	2,984
	$166,992	$1,374,347	$75,488	$1,616,827	$1,118,838

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

GAINS AND LOSSES RECOGNIZED IN INCOME

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

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

	2009	2008
Realized net gains (losses)	$(3,812)	$11,107
Writedowns for impairment recognized in income	(5,160)	(8,537)
	$(8,972)	$ 2,570

In 2008, the realized net gain included, in particular, a $12,906,000 gain on the sale of the shares of the Montréal Exchange, offset by net losses on the sale of various other securities.

Write-downs for impairment recognized in 2009, as in 2008, stemmed from available-for-sale securities for which the unrealized losses were deemed other than temporary. Assessing whether impairment is other than temporary requires judgment. The Bank considered many factors in making the other-than-temporary impairment assessment. These factors include the duration of the impairment and its significance compared to amortized cost, bankruptcy, capital restructuring or dilution, and significant modifications in the issuer's operations, as well as other uncertainties that could impact future cash flows. Using possible alternative assumptions may have resulted in additional writedowns of up to $3,514,000 representing the total unrealized losses as at October 31, 2009.

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

For the year ended October 31, 2009, the Bank recognized a $31,625,000 net gain (a $7,965,000 net loss in 2008) in trading income in respect of held-for-trading securities.

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

These financial instruments are used in managing interest rate exposure. Therefore, gains and losses on the portfolio of securities designated as held-for-trading should not be considered separately. 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, the portfolio's gains and losses are generally offset by gains and losses on other financial instruments. Gains and losses arising from financial instruments designated as held-for-trading are discussed in greater detail in note 20.

GAINS AND LOSSES RECOGNIZED IN COMPREHENSIVE INCOME

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

				2009
	AMORTIZED COST	**UNREALIZED GAINS**	**UNREALIZED LOSSES**	**FAIR VALUE**
Securities issued or guaranteed				
by Canada	**$ 686,786**	**$ 69**	**$ 13**	**$ 686,842**
by provinces	**535,422**	**4,913**	**2**	**540,333**
Other debt securities	**107,827**	**6,213**	**27**	**114,013**
Asset-backed securities	**18,545**	**159**	**600**	**18,104**
Preferred shares	**38,839**	**763**	**1,262**	**38,340**
Common shares and other securities	**26,959**	**1,062**	**1,610**	**26,411**
	$1,414,378	**$13,179**	**$3,514**	**$1,424,043**

				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	48,881	6	5,182	43,705
Common shares and other securities	46,966	29	9,399	37,596
	$1,320,840	$898	$19,601	$1,302,137

Nº 4. Securities (cont'd)

As at October 31, 2009, unrealized losses related mainly to listed securities of Canadian financial institutions. These companies have maintained a strong financial position and their business plans remain sound. As a result, management has determined these declines in fair value to be temporary and included them in accumulated other comprehensive income.

MONTRÉAL ACCORD ON ASSET-BACKED COMMERCIAL PAPER

During the first quarter of 2009, all the asset-backed securities covered by the Montréal Accord were converted into term notes. These securities are still not actively traded. As a result, valuation techniques based in part on unobservable inputs were used in estimating fair value. As at October 31, 2009, the Bank held approximately $13,565,000 in these securities. As at October 31, 2008, the Bank held approximately $13,707,000 in asset-backed securities that were covered by the Montréal Accord.

OTHER CONSIDERATIONS

U.S. dollar-denominated securities

U.S. dollar-denominated securities totalled $21,043,000 as at October 31, 2009 ($40,191,000 as at October 31, 2008).

Additional information regarding securities

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

Nº 5. Loans

LOANS AND IMPAIRED LOANS

					2009
	GROSS AMOUNT OF LOANS	**GROSS AMOUNT OF IMPAIRED LOANS**	**SPECIFIC ALLOWANCES**	**GENERAL ALLOWANCES**	**TOTAL ALLOWANCES**
Personal loans	**$ 5,655,055**	**$ 23,738**	**$ 7,048**	**$33,713**	**$ 40,761**
Residential mortgages	**7,219,830**	**32,368**	**1,878**	**2,956**	**4,834**
Commercial mortgages	**1,285,012**	**11,230**	**2,525**	**5,000**	**7,525**
Commercial and other loans	**1,555,956**	**70,158**	**29,845**	**31,581**	**61,426**
	$15,715,853	**$137,494**	**$41,296**	**$73,250**	**$114,546**

					2008
	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	SPECIFIC ALLOWANCES	GENERAL ALLOWANCES	TOTAL ALLOWANCES
Personal loans	$ 5,694,574	$ 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	1,454,799	59,769	29,262	31,227	60,489
	$14,264,932	$101,873	$39,184	$73,250	$112,434

U.S. dollar-denominated loans totalled $64,644,000 as at October 31, 2009 ($72,712,000 in 2008).

In 2009, held-for-sale assets acquired in respect of impaired loans amounted to $8,914,000 ($7,472,000 in 2008) with the reversal of related specific allowances totalling nil (nil in 2008).

SPECIFIC ALLOWANCES FOR LOAN LOSSES

					2009	2008
	PERSONAL LOANS	RESIDENTIAL MORTGAGES	COMMERCIAL MORTGAGES	COMMERCIAL AND OTHER LOANS	TOTAL SPECIFIC ALLOWANCES	TOTAL SPECIFIC ALLOWANCES
Balance at beginning of year	$ 6,634	$ 1,405	$ 1,883	$ 29,262	$ 39,184	$ 50,072
Provision for loan losses recorded in the consolidated statement of income	37,112	1,527	980	16,381	56,000	40,500
Write-offs [1]	(44,920)	(1,469)	(338)	(16,086)	(62,813)	(57,213)
Recoveries	8,222	415	–	288	8,925	5,825
Balance at end of year	$ 7,048	$ 1,878	$ 2,525	$ 29,845	$ 41,296	$ 39,184

(1) No restructured loans were written off during the fiscal years ended October 31, 2009 and 2008.

GENERAL ALLOWANCES FOR LOAN LOSSES

					2009	2008
	PERSONAL LOANS	RESIDENTIAL MORTGAGES	COMMERCIAL MORTGAGES	COMMERCIAL AND OTHER LOANS	TOTAL GENERAL ALLOWANCES	TOTAL GENERAL ALLOWANCES
Balance at beginning of year	$ 33,052	$ 4,211	$ 4,760	$ 31,227	$ 73,250	$ 65,250
Provision for loan losses recorded in the consolidated statement of income	661	(1,255)	240	354	–	8,000
Balance at end of year	$ 33,713	$ 2,956	$ 5,000	$ 31,581	$ 73,250	$ 73,250

LOANS PAST DUE BUT NOT IMPAIRED

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

				AS AT OCTOBER 31, 2009
	1 DAY–31 DAYS	32 DAYS–90 DAYS	OVER 90 DAYS	TOTAL
Personal loans	$ 88,479	$ 30,522	$ 6,275	$ 125,276
Residential mortgages	218,282	43,839	25,756	287,877
	$ 306,761	$ 74,361	$ 32,031	$ 413,153

				AS AT OCTOBER 31, 2008
	1 DAY–31 DAYS	32 DAYS–90 DAYS	OVER 90 DAYS	TOTAL
Personal loans	$ 106,029	$ 26,298	$ 3,665	$ 135,992
Residential mortgages	151,524	27,861	16,368	195,753
	$ 257,553	$ 54,159	$ 20,033	$ 331,745

Nº 6. Loan securitization

RESIDENTIAL MORTGAGE LOANS

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

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

	2009	2008
Cash proceeds, net of transaction costs	**$ 1,005,647**	$ 1,295,512
Rights to future excess spreads	**66,309**	60,750
Servicing liability	**(8,615)**	(10,696)
Other	**(10,944)**	(11,701)
	1,052,397	1,333,865
Residential mortgages securitized and sold [1]	**(1,006,613)**	(1,294,746)
Write-off of loan origination costs	**(8,404)**	(9,483)
Gains before income taxes, net of transaction costs	**$ 37,380**	$ 29,636

(1) Fully insured by the CMHC.

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

KEY ASSUMPTIONS	**2009**	2008
Rate of prepayment	**25%**	27%
Discount rate	**1.7%**	4.0%

No loss is expected on insured residential mortgages.

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

	2009	2008
Gains on securitization operations	**$37,380**	$29,636
Changes in fair value of retained interests related to excess spreads, securitization swaps and financial instruments held for economic hedging purposes	**(4,637)**	4,748
Management income	**7,322**	6,264
Other	**(5,624)**	(4,783)
	$34,441	$35,865

During the year, the Bank collected cash flows from retained interests totalling $50,792,000 ($33,287,000 in 2008).

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.

Sensitivity analysis

The following table shows the value of retained interests, as well as the sensitivity of the fair value of these interests to immediate unfavourable changes of 10% and 20% in the key assumptions used to value retained interests as at October 31, 2009 and 2008.

SENSITIVITY OF KEY ASSUMPTIONS TO UNFAVOURABLE CHANGES	2009	2008
Fair value of retained interests	$108,409	$88,956
Weighted average life (in months)	23	25
Rate of prepayment	31%	30%
Impact on fair value of unfavourable change of 10%	$ 2,894	$ 1,999
Impact on fair value of unfavourable change of 20%	$ 5,652	$ 3,919
Discount rate	1.4%	2.6%
Impact on fair value of unfavourable change of 10%	$ 196	$ 388
Impact on fair value of unfavourable change of 20%	$ 391	$ 766

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 $2,702,762,000 at the end of fiscal 2009 ($2,398,564,000 in 2008). Of that amount, loans that are more than 31 days past due but not considered impaired totalled $34,429,000 ($23,793,000 in 2008). There were no credit losses in respect of these loans in 2009 and in 2008.

COMMERCIAL MORTGAGE LOANS

During fiscal 2009, the Bank carried 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 $277,000 ($1,971,000 in 2008) in losses in value associated with the hedging items in other income under securitization income.

Apart from the above-mentioned securitization transactions, the Bank sold $16,735,000 in commercial mortgages, generating a $176,000 gain in 2009 ($50,063,000 in 2008, generating a $287,000 gain).

Nº 7. Premises and equipment

			2009	2008
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Land	$ 416	$ –	$ 416	$ 271
Premises	2,938	1,247	1,691	1,702
Leasehold improvements	66,258	38,640	27,618	28,291
Equipment and furniture	80,459	68,461	11,998	12,938
Computer hardware	126,616	110,176	16,440	16,725
	$276,687	$218,524	$58,163	$59,927

Depreciation expense for the year in the consolidated statement of income amounted to $10,663,000 ($10,605,000 in 2008).

Nº 8.
Goodwill and other intangible assets

Goodwill totalling $53,790,000 was recognized in the Retail Financial Services segment.

Other intangible assets consist of the following:

			2009	2008
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	NET BOOK VALUE
Software	**$295,068**	**$203,359**	**$ 91,709**	$83,562
Contractual and customer relationships	**18,278**	**6,601**	**11,677**	12,896
	$313,346	**$209,960**	**$103,386**	$96,458

Software includes $15,470,000 ($15,105,000 in 2008) pertaining to projects under development yet to be amortized.

Amortization of other intangible assets recorded in the consolidated statement of income during the year was $22,383,000 ($19,942,000 in 2008). In 2008, a $2,200,000 loss related to software development costs was recognized in income under technology expenses.

The Bank tests goodwill and other intangible assets for impairment on an annual basis. No impairment was recognized in 2009 and 2008.

Nº 9.
Other assets

	2009	2008
Accrued benefit assets (note 16)	**$123,990**	$ 49,431
Assets related to securitized mortgage loans	**118,278**	104,591
Deferred charges related to loan and deposit origination	**85,346**	73,068
Accrued interest receivable	**81,264**	68,471
Cheques and other items in transit	**60,284**	148,490
Future income tax assets (note 17)	**52,685**	65,075
Accounts receivable, prepaid expenses and other items	**86,946**	59,363
	$608,793	$568,489

Nº 10.
Deposits

				2009
	DEMAND	NOTICE	TERM	TOTAL
Personal	**$ 120,054**	**$4,444,059**	**$10,574,524**	**$15,138,637**
Business, banks and other	**1,334,817**	**851,284**	**975,228**	**3,161,329**
	$1,454,871	**$5,295,343**	**$11,549,752**	**$18,299,966**

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

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

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

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

Deposits denominated in U.S. dollars amount to $205,003,000 ($255,014,000 in 2008) and deposits denominated in other foreign currencies, primarily in euros, amount to $20,549,000 ($4,368,000 in 2008).

In 2008, the Bank designated certain deposits with a notional amount of $56,060,000 as held-for-trading. The difference between the amount the Bank would have been contractually required to pay to depositors at maturity and the carrying amount of deposits amounting to $56,314,000 was $254,000 as at October 31, 2008. The change in fair value of these financial instruments owing to the change in credit risk was insignificant.

Nº 11. Other liabilities

	2009	2008
Accrued interest payable	**$431,892**	$463,179
Cheques and other items in transit	**153,615**	159,461
Liabilities related to securitized mortgage loans	**47,394**	33,730
Future income tax liabilities (note 17)	**45,171**	20,920
Accrued benefit liabilities (note 16)	**16,194**	14,222
Deferred gain related to the sale of BLCER (note 27)	**–**	5,185
Accounts payable, accrued expenses and other items	**118,188**	102,385
	$812,454	$799,082

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	**2009**	2008
January 2016	10	4.90%	Redeemable at par as of January 2011; rate to be revised in January 2011 and set at the 90-days 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

				2009			2008
	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	**$1.360**	**23,913,963**	**$259,208**	**$32,453**	23,847,700	$257,462	$30,993

(1) Non-cumulative dividends on preferred shares

PREFERRED SHARES

Terms of shares

The Class A Preferred Shares, Series 9, are redeemable at the Bank's option since December 15, 2006 at a price of $25 each 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. Since June 15, 2009, 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.

COMMON SHARES

Issuance of common shares

During the year, 66,263 common shares (36,887 shares in 2008) were issued under the employee share purchase option plan for the management of the Bank for a cash consideration of $1,746,000 ($1,017,000 in 2008).

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

The Bank's capital adequacy target, in line with its risk profile, seeks to support operations while generating an acceptable shareholder return.

Capital adequacy depends on various internal and external factors. The Bank's capital position underscores its solvency and capacity to fully cover operating risks while providing depositors and creditors with the safeguards they seek. Moreover, capital requirements are aligned with its Strategic Plan, industry capitalization levels and investor and shareholder expectations. While rating agencies do not assign credit ratings to the Bank based solely on capital levels, the Bank's capital must be consistent with the credit rating sought. As a result, the Bank's capital adequacy targets vary over time in line with these factors.

The capital adequacy planning process starts with strategic planning. This process allows the Bank to set its main targets and priorities by taking into account various internal and external factors. The ensuing guidelines, combined with a report assessing the capital adequacy of the Bank's objectives, serve as inputs to the Capital Plan, which sets out guidelines governing proactive capital management.

Each year, the Board of Directors reviews and approves several capital-related documents, including the Capital Management and Adequacy Policy, the Business and Financial Three-Year Plan and the Capital Plan. Management receives quarterly capital ratio and structure reports, while the Board's Risk Management Committee reviews capital adequacy on a quarterly basis. The Integrated Risk Management Group oversees the Bank's capital management framework, particularly through the Capital Management and Adequacy Policy. The Group also monitors capital limits and adequacy. The Bank's Treasury Department reviews the Capital Plan and manages capital on an ongoing basis.

The Bank assesses capital adequacy based on compliance with regulatory capital requirements together with other factors. Regulatory calculation is determined based on the guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI) originating from the Bank for International Settlements' (BIS) regulatory risk-based capital framework. Under BIS standards, banks must maintain a minimum Tier 1 capital ratio of 4% and a total capital ratio of at least 8%.

OSFI guidelines require that Canadian deposit-taking financial institutions maintain a minimum Tier 1 capital ratio of 7% and a total capital ratio of at least 10%. The Bank opted for the standardized approach for credit risk and the basic indicator approach for operational risk.

The Bank was in compliance with these requirements throughout the year.

Regulatory capital

	2009	2008
Tier I capital		
Common shares	**$ 259,208**	$ 257,462
Contributed surplus	**209**	173
Retained earnings	**665,538**	596,974
Non-cumulative preferred shares	**210,000**	210,000
Goodwill	**(53,790)**	(53,790)
Securitization-related and other deductions	**(35,341)**	(45,449)
Total – Tier I capital	**1,045,824**	965,370
Tier II capital		
Subordinated debentures	**150,000**	150,000
General allowances	**72,864**	73,250
Securitization-related and other deductions	**(32,822)**	(31,738)
Total – Tier II capital	**190,042**	191,512
Total regulatory capital	**$1,235,866**	$1,156,882

Nº 14. Additional information regarding other comprehensive income

OTHER COMPREHENSIVE INCOME			**2009**
	AMOUNTS BEFORE INCOME TAXES	INCOME TAXES	AMOUNTS NET OF INCOME TAXES
Unrealized net gains on available-for-sale securities	**$19,624**	**$(5,543)**	**$ 14,081**
Reclassification of net losses on available-for-sale securities	**8,972**	**(2,787)**	**6,185**
	28,596	**(8,330)**	**20,266**
Net change in value of derivative instruments designated as cash flow hedges	**(3,453)**	**632**	**(2,821)**
Other comprehensive income	**$25,143**	**$(7,698)**	**$ 17,445**

Nº 14. Additional information regarding other comprehensive income (cont'd)

ACCUMULATED OTHER COMPREHENSIVE INCOME			**2009**
	CASH FLOW HEDGES	**AVAILABLE-FOR-SALE SECURITIES**	**ACCUMULATED OTHER COMPREHENSIVE INCOME**
Balance at beginning of year	**$ 35,417**	**$ (16,591)**	**$ 18,826**
Change during the year, net of income taxes	**(2,821)**	**20,266**	**17,445**
Balance at end of year	**$ 32,596**	**$ 3,675**	**$ 36,271**

OTHER COMPREHENSIVE INCOME			2008
	AMOUNTS BEFORE INCOME TAXES	INCOME TAXES	AMOUNTS NET OF INCOME TAXES
Unrealized net losses on available-for-sale securities	$(33,474)	$ 10,127	$(23,347)
Reclassification of net gains on available-for-sale securities	(2,570)	(1,806)	(4,376)
	(36,044)	8,321	(27,723)
Net change in value of derivative instruments designated as cash flow hedges	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

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 2008) for the potential exercise of share purchase options, of which 124,962 were still available as at October 31, 2009 (124,962 in 2008).

No new share options were granted in 2009 and 2008.

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

		2009		2008
	NUMBER OF OPTIONS	**WEIGHTED AVERAGE EXERCISE PRICE PER OPTION**	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER OPTION
Outstanding at beginning of year	**127,338**	**$ 27.52**	170,027	$ 27.67
Exercised	**(66,263)**	**$ 26.35**	(36,887)	$ 27.55
Cancelled	**(1)**	**$ 19.38**	(5,802)	$ 31.80
Outstanding at end of year	**61,074**	**$ 28.79**	127,338	$ 27.52
Exercisable at end of year	**36,074**	**$ 28.31**	89,838	$ 26.71

The following table summarizes information relating to share purchase options outstanding as at October 31, 2009:

	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 – $19.94	**5,674**	**0.01**	**$ 19.87**	**5,674**	**$ 19.87**
$29.47 – $31.80	**55,400**	**6.56**	**$ 29.70**	**30,400**	**$ 29.88**
	61,074			**36,074**	

STOCK APPRECIATION RIGHTS PLAN

The Bank offers a stock appreciation rights (SARs) plan to members of senior management of the Bank and its subsidiaries. These SARs may be cash settled for an amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs vest over a maximum period of five years and can be exercised over a maximum period of ten years. The expense related to these units is recognized in income over their vesting period. In 2009, the Bank granted 29,000 SARs with an average exercise price of $35.53 (138,900 SARs with an average exercise price of $40.95 in 2008). As at October 31, 2009, 597,224 SARs (658,340 in 2008) were outstanding at a weighted average exercise price of $33.53 ($32.58 in 2008), of which 232,206 (192,909 in 2008) were exercisable at year-end. As at October 31, 2009, the weighted average remaining life of SARs was 6.81 years (7.31 years in 2008).

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 2009, the Bank granted 42,724 performance-based share units (35,816 units in 2008) with a value of $35.93 each ($40.07 in 2008). As at October 31, 2009, there were 81,424 performance-based share units (36,976 in 2008) outstanding.

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, can 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. A deferred version of the plan exists under which the participant is paid on termination of employment rather than at the end of the three-year period. In January 2009, $1,528,000 ($1,486,000 in 2008) in annual bonuses for certain employees was converted into 42,537 fully vested restricted share units (45,786 units in 2008). The Bank contributed 25,522 additional restricted share units in 2009 (27,472 units in 2008), which will vest in December 2010. As at October 31, 2009, there were 189,643 restricted share units (159,045 in 2008) outstanding, of which 39,521 (25,630 in 2008) were granted under the deferred version of the plan.

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 settleable in cash. The deferred share units are converted when the holder steps down from the Board of Directors. In 2009, the Bank paid out 2,565 deferred share units as compensation (1,968 in 2008). As at October 31, 2009, there were 1,389 units (22,672 in 2008) outstanding with a total value of $55,000 ($927,000 in 2008).

Nº 15. Stock-based compensation (cont'd)

EMPLOYEE SHARE PURCHASE PLAN

The Bank offers an employee share purchase plan. Under this plan, employees who meet the eligibility criteria can contribute up to 5% of their annual gross salary by way of payroll deductions. The Bank matches 30% of the employee contribution amount, up to a maximum of $1,500 per year. The Bank's contributions vest to the employee two years after each employee contribution. The Bank's contributions, totalling $320,000 during fiscal 2009 ($310,000 in 2008), are recognized in salaries and employee benefits. The average value of the granted shares under this plan was $33.04 in fiscal 2009 ($40.05 in 2008).

STOCK-BASED COMPENSATION PLAN EXPENSE

Stock-based compensation plan expense, net of the effect of hedging transactions, was $1,545,000 for the year ended October 31, 2009 ($2,957,000 for the year ended October 31, 2008). 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 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 2009, 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 $84,403,000 ($21,913,000 in 2008).

DEFINED BENEFIT PLAN MEASUREMENT DATES

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

DEFINED BENEFIT PLAN OBLIGATIONS

	2009		2008	
	PENSION PLANS	**OTHER PLANS**	PENSION PLANS	OTHER PLANS
Change in accrued benefit obligation				
Accrued benefit obligation at beginning of year	**$283,007**	**$32,397**	$362,742	$32,714
Current service cost	**8,086**	**57**	10,309	69
Interest cost on accrued benefit obligation	**21,245**	**2,087**	19,958	1,592
Benefits paid	**(17,759)**	**(1,465)**	(15,651)	(1,551)
Employee contributions	**130**	**–**	796	–
Impact of plan amendments	**–**	**–**	(14,499)	–
Actuarial losses (gain)	**51,398**	**(613)**	(80,648)	(427)
Accrued benefit obligation at end of year	**$346,107**	**$32,463**	$283,007	$32,397

DEFINED BENEFIT PLAN ASSETS

	2009		2008	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	**$290,003**	**$ –**	$326,980	$ –
Actual return on plan assets	**39,456**	**–**	(38,764)	–
Bank contributions	**78,317**	**–**	16,260	–
Employee contributions	**130**	**–**	796	–
Benefits paid	**(17,304)**	**–**	(15,269)	–
Fair value of plan assets at end of year	**$390,602**	**$ –**	$290,003	$ –

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

	2009		2008	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Fair value of plan assets	**$390,602**	**$ –**	$290,003	$ –
Accrued benefit obligation	**346,107**	**32,463**	283,007	32,397
Funded status – plan surplus (deficit)	**44,495**	**(32,463)**	6,996	(32,397)
Unamortized transitional obligation	**(471)**	**8,549**	(207)	9,371
Unamortized past service costs	**(9,764)**	**–**	(10,649)	–
Unamortized net actuarial loss	**84,514**	**12,936**	47,870	14,225
Accrued benefit assets (liabilities) at end of year	**$118,774**	**$(10,978)**	$ 44,010	$ (8,801)
Accrued benefit assets included in other assets	**$123,990**	**$ –**	$ 49,431	$ –
Accrued benefit liabilities included in other liabilities	**$ 5,216**	**$ 10,978**	$ 5,421	$ 8,801

ALLOCATION OF PLAN ASSETS AS A PERCENTAGE (1)

	2009	2008
Asset category		
Equity securities	**58%**	47%
Debt and other securities	**42**	53
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, 2009 and 2008.

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:

	2009		2008	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Accrued benefit obligation	**$ 4,508**	**$ 32,463**	$145,625	$ 32,397
Fair value of plan assets	**–**	**–**	135,521	–
Funded status – plan deficit	**$(4,508)**	**$ (32,463)**	$ (10,104)	$(32,397)

Nº 16. Employee future benefits (cont'd)

ELEMENTS OF DEFINED BENEFIT COSTS RECOGNIZED DURING THE YEAR

	2009		2008	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Current service cost	**$ 8,086**	**$ 57**	$ 10,309	$ 69
Interest cost on accrued benefit obligation	**21,245**	**2,087**	19,958	1,592
Actual return on plan assets	**(39,456)**	**–**	38,764	–
Actuarial losses (gain) on accrued benefit obligation	**51,398**	**(613)**	(80,648)	(427)
Impact of plan amendments	**–**	**–**	(14,499)	–
Elements of employee future benefit costs (revenues) before adjustments to recognize their long-term nature	**41,273**	**1,531**	(26,116)	1,234
Excess (deficit) of actual return over expected return	**14,850**	**–**	(61,356)	–
Deferral of amounts arising during the year:				
Actuarial gain (losses) on accrued benefit obligation	**(51,398)**	**613**	80,648	427
Past service costs	**–**	**–**	14,499	–
Amortization of previously deferred amounts:				
Past service costs	**(885)**	**–**	(629)	–
Actuarial differences	**(96)**	**677**	3,131	817
Transitional obligation	**264**	**821**	264	821
Adjustments to recognize long-term nature of employee future benefit costs	**(37,265)**	**2,111**	36,557	2,065
Total defined benefit costs	**4,008**	**3,642**	10,441	3,299
Total cost of defined contribution portion	**4,167**	**–**	3,720	–
Employee future benefit costs	**$ 8,175**	**$ 3,642**	$ 14,161	$ 3,299

SIGNIFICANT ASSUMPTIONS

	2009		2008	
	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	**6.50%**	**6.50%**	7.50%	7.50%
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	**7.50%**	**7.50%**	5.75%	5.75%
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:

	2009	2008
Assumed annual rate of increase in the cost of health care benefits	**10.0%**	8.8%
Level to which it should decline and at which it is assumed to subsequently stabilize	**4.0%**	4.0%
Year that the rate is assumed to stabilize	**2019**	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 2009:

	1% INCREASE	1% DECREASE
Total of service and interest cost	**$ 196**	**$ (165)**
Accrued benefit obligation	**$ 2,317**	**$ (1,945)**

Nº 17. Income taxes

FUTURE INCOME TAXES

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

	2009	2008
Future income tax assets		
Property, plant and equipment	**$ 51,415**	$ 47,883
Allowance for loan losses	**22,051**	21,902
Tax loss carryforwards	**6,793**	11,306
Securitization and securities	**–**	1,474
Other temporary differences	**6,353**	2,094
	86,612	84,659
Future income tax liabilities		
Derivative financials instruments	**(15,232)**	(16,554)
Deferred charges	**(15,174)**	(13,453)
Accrued benefit assets – pension plans	**(29,610)**	(10,497)
Securitization and securities	**(19,082)**	–
	(79,098)	(40,504)
Future income taxes, net	**$ 7,514**	$ 44,155

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

	2009	2008
Future income tax assets	**$ 52,685**	$ 65,075
Future income tax liabilities	**(45,171)**	(20,920)
	$ 7,514	$ 44,155

Income tax loss carryforwards, as at October 31, 2009, consist of $27,723,000 ($42,486,000 in 2008) in federal income tax losses 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:

	2009	2008
Consolidated statement of income		
Continuing operations		
Current income tax expense	**$ 9,929**	$ 9,301
Future income tax expense		
Reversal of temporary differences	**26,919**	22,924
Tax rate changes	**–**	5,657
	26,919	28,581
	36,848	37,882
Discontinued operations		
Future income tax expense	**2,024**	761
	$ 38,872	$ 38,643
Consolidated statement of comprehensive income		
Income taxes related to change in unrealized gains (losses) on available-for-sale securities	**$ 5,543**	$ (10,127)
Income taxes related to reclassification of realized losses on available-for-sale securities	**2,787**	1,806
Income taxes related to net change in gains (losses) on derivative instruments designated as cash flow hedges	**(632)**	21,357
	$ 7,698	$ 13,036
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	**(4,369)**	(4,667)
	$ 341	$ 43

Nº 17. Income taxes (cont'd)

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 rates is as follows:

	2009		2008	
	AMOUNT		AMOUNT	
Income taxes at statutory rates	**$43,312**	**31.3%**	$42,908	31.6%
Change resulting from:				
Resolution of income tax exposures	**(2,418)**	**(1.7)**	(1,768)	(1.3)
Tax rate changes	**–**	**–**	5,657	4.2
Dividends and tax-exempt gains	**(1,626)**	**(1.2)**	(4,600)	(3.4)
Income related to foreign credit insurance operations	**(4,471)**	**(3.2)**	(3,779)	(2.8)
Other	**2,051**	**1.4**	(536)	(0.4)
Income taxes from continuing operations, as reported in the consolidated statement of income	**$36,848**	**26.6%**	$37,882	27.9%

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 $12,499,000 as at October 31, 2009 ($8,028,000 as at October 31, 2008).

Nº 18. Net income per share

Basic and diluted net income per share for the years ended October 31 is detailed as follows:

	2009	2008
Net income per common share – basic		
Net income from continuing operations	**$ 101,664**	$ 98,108
Net income from discontinued operations [1]	**11,469**	4,423
Net income	**113,133**	102,531
Preferred share dividends, including related income taxes	**12,116**	11,818
Net income attributable to common shares from continuing operations	**$ 89,548**	$ 86,290
Average number of outstanding common shares	**23,857,573**	23,837,157
Net income per common share – basic		
Continuing operations	**$ 3.75**	$ 3.62
Discontinued operations	**0.48**	0.19
Total	**$ 4.23**	$ 3.81
Net income per common share – diluted		
Net income attributable to common shares from continuing operations	**$ 89,548**	$ 86,290
Average number of outstanding common shares	**23,857,573**	23,837,157
Dilutive share purchase options and other	**18,029**	42,950
Diluted weighted average number of outstanding common shares	**23,875,602**	23,880,107
Income per common share – diluted		
Continuing operations	**$ 3.75**	$ 3.61
Discontinued operations	**0.48**	0.19
Total	**$ 4.23**	$ 3.80
Average number of share purchase options not taken into account in the calculation of diluted net income per common share [2]	**25,700**	–

(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 2009.

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 and their related companies. 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. Loans to related companies are granted under terms similar to those offered to arm's length parties. The interest earned on these loans is recorded under interest income in the consolidated statement of income. The outstanding balances of these loans are as follows:

	2009	2008
Mortgage loans	**$ 303**	$ 368
Other loans	**17,870**	28,039
	$18,173	$28,407

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. Financial instruments – Fair value

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

CLASSIFICATION OF FAIR VALUE MEASUREMENTS IN THE FAIR VALUE HIERARCHY

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

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

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

N° 20. Financial instruments – Fair value (cont'd)

				2009		
				FAIR VALUE HIERARCHY LEVEL OF FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE (1)		
(in millions of dollars)	CARRYING AMOUNT	FAIR VALUE	FAVOURABLE (UNFAVOURABLE) VARIANCE	LEVEL 1	LEVEL 2	LEVEL 3
Assets						
Cash and non-interest-bearing deposits with other banks	**$ 61**	**$ 61**	**$ –**	**$ n/a**	**$ n/a**	**$ n/a**
Interest-bearing deposits with other banks	**240**	**240**	**–**	**n/a**	**n/a**	**n/a**
Securities accounts						
Available-for-sale	**1,424**	**1,424**	**–**	**1,414**	**1**	**9**
Held-for-trading	**1,391**	**1,391**	**–**	**1,238**	**141**	**12**
Designated as held-for-trading	**1,617**	**1,617**	**–**	**1,617**	**–**	**–**
Assets purchased under reverse repurchase agreements	**536**	**536**	**–**	**n/a**	**n/a**	**n/a**
Loans	**15,601**	**15,834**	**233**	**n/a**	**n/a**	**n/a**
Customers' liabilities under acceptances	**217**	**217**	**–**	**n/a**	**n/a**	**n/a**
Derivative financial instruments	**254**	**254**	**–**	**–**	**238**	**16**
Other assets	**390**	**390**	**–**	**n/a**	**n/a**	**109**
Total assets	**$21,731**	**$21,964**	**$ 233**	**$4,269**	**$380**	**$146**
Liabilities						
Deposits	**$18,300**	**$18,527**	**$ (227)**	**$ n/a**	**$ n/a**	**$ n/a**
Obligations related to assets sold short	**1,054**	**1,054**	**–**	**1,054**	**–**	**–**
Obligations related to assets sold under repurchase agreements	**285**	**285**	**–**	**n/a**	**n/a**	**n/a**
Acceptances	**217**	**217**	**–**	**n/a**	**n/a**	**n/a**
Derivative financial instruments	**175**	**175**	**–**	**–**	**110**	**65**
Other liabilities	**733**	**733**	**–**	**n/a**	**n/a**	**n/a**
Subordinated debentures	**150**	**156**	**(6)**	**n/a**	**n/a**	**n/a**
Total liabilities	**$20,914**	**$21,147**	**$ (233)**	**$1,054**	**$110**	**$ 65**

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

				2008		
				FAIR VALUE HIERARCHY LEVEL OF FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE (1)		
(in millions of dollars)	CARRYING AMOUNT	FAIR VALUE	FAVOURABLE (UNFAVOURABLE) VARIANCE	LEVEL 1	LEVEL 2	LEVEL 3
Assets						
Cash and non-interest bearing deposits with other banks	$ 54	$ 54	$ –	$ n/a	$ n/a	$ n/a
Interest-bearing deposits with other banks	94	94	–	n/a	n/a	n/a
Securities accounts						
Available-for-sale	1,302	1,302	–	1,242	50	11
Held-for-trading	1,069	1,069	–	864	191	15
Designated as held-for-trading	1,119	1,119	–	1,119	–	–
Assets purchased under reverse repurchase agreements	661	661	–	n/a	n/a	n/a
Loans	14,153	14,272	119	n/a	n/a	n/a
Customers' liabilities under acceptances	110	110	–	n/a	n/a	n/a
Derivative financial instruments	238	238	–	–	214	24
Other assets	429	429	–	–	–	88
Total assets	$19,229	$19,348	$ 119	$3,225	$455	$138
Liabilities						
Deposits	$15,334	$15,418	$ (84)	$ –	$ –	$ 56
Obligations related to assets sold short	819	819	–	819	–	–
Obligations related to assets sold under repurchase agreements	1,136	1,136	–	n/a	n/a	n/a
Acceptances	110	110	–	n/a	n/a	n/a
Derivative financial instruments	147	147	–	–	93	53
Other liabilities	748	748	–	n/a	n/a	n/a
Subordinated debentures	150	155	(5)	n/a	n/a	n/a
Total liabilities	$18,444	$18,533	$ (89)	$ 819	$ 93	$109

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

DETERMINING FAIR VALUE

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

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

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

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

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

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

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

Securities accounts

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

Loans

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

Other assets

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

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

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

Nº 20. Financial instruments – Fair value (cont'd)

Derivative financial instruments

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

Deposits

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of fixed rate deposits is estimated using discounted cash flows based on prevailing market interest rates for deposits with substantially similar terms. The fair value of deposits without stated maturities or variable rate deposits is deemed to represent their carrying amount. Since these instruments are primarily recorded at amortized cost, they are not classified in the fair value hierarchy. Certain deposits that matured in 2009 and had been designated as held for trading were classified in Level 3 as at October 31, 2008.

Obligations related to assets sold short

Since the Bank uses quoted market prices to determine the fair value of obligations related to assets sold short, these instruments are classified in Level 1.

Subordinated debentures

Quoted market prices in an active market are not available for these financial instruments. As a result, 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. Since these instruments are all recorded at amortized cost, they are not classified in the fair value hierarchy.

LEVEL TRANSFERS

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

CHANGE IN LEVEL 3 FAIR VALUE CATEGORY

The following tables show the changes in the Level 3 of the fair value hierarchy for the year ended October 31, 2009. The Bank classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically rely on a number of inputs that are observable either directly or indirectly. Accordingly, the gains and losses shown below include changes in fair value related to both observable and unobservable inputs.

(in millions of dollars) — 2009

	BALANCE AS AT OCT. 31, 2008	REALIZED/UNREALIZED NET GAINS (LOSSES) INCLUDED IN		PURCHASES, SALES, ISSUANCES AND SETTLEMENTS	TRANSFERS IN AND OUT OF LEVEL 3	BALANCE AS AT OCT. 31, 2009	UNREALIZED) GAINS (LOSSES) RELATED TO INSTRUMENTS STILL HELD AT PERIOD-END
		INCOME (1)	OTHER COMPREHENSIVE INCOME				
Assets							
Securities accounts							
Available-for-sale	$ 11	$(1)	$ 1	$ (3)	$1	$ 9	$ (1)
Held-for-trading	15	–	–	(3)	–	12	–
Derivative financial instruments	24	(4)	–	(4)	–	16	(4)
Other assets	88	4	–	17	–	109	2
Total	$138	$(1)	$ 1	$ 7	$1	$146	$ (3)
Liabilities							
Deposits							
Personal	$ 56	$ –	$ –	$(56)	$–	$ –	$ –
Derivative financial instruments	53	14	–	(2)	–	65	(13)
Total liabilities	$109	$14	$ –	$(58)	$–	$ 65	$(13)

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

GAINS AND LOSSES ON FINANCIAL INSTRUMENTS DESIGNATED AS HELD-FOR-TRADING

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

	2009	2008
Increase (decrease) in:		
Securitization income	**$7,696**	$37,579
Income from treasury and financial market operations	**254**	(343)
	$7,950	$37,236

Nº 21. Financial instruments – Risk management

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

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. Oversight of operations is performed by groups independent of the business lines.

The main risks to which the Bank is exposed in respect of financial instruments are set out below.

- Market risk
  - *Interest rate risk*
  - *Foreign exchange risk*
  - *Equity price risk*
- Credit risk
- Liquidity and financing risk

A) 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, stress testing and various other sensitivity measures, such as value at risk (VaR).

Interest rate risk

Asset and liability management activities are designed to control structural interest rate risk, which 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. To manage this risk, various treasury and derivative instruments, mainly interest rate swaps, futures and options, are used to modify the interest rate characteristics of the underlying instruments in the balance sheet and to cover the inherent risk in options embedded in loan and deposit products. The Bank periodically assesses the effect on the economic value of common shareholders' equity and on its net interest income of a sudden and sustained 1% change in interest rates. As at October 31, 2009, such a change would have had the following effect.

N° 21. Financial instruments – Risk management (cont'd)

SENSITIVITY ANALYSIS OF THE STRUCTURAL INTEREST RATE RISK

	2009		2008	
	EFFECT ON NET INTEREST INCOME (1)	EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY (2)	EFFECT ON NET INTEREST INCOME (1)	EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY (2)
Change in interest rates				
Increase of 100 basis points	**$ (4,779)**	**$(19,626)**	$ 8,901	$(18,671)
Decrease of 100 basis points	**$(21,506)**	**$ 22,682**	$(10,763)	$ 19,488

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

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)							**2009**
	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	**$1,499**	**$ 458**	**$ 555**	**$1,873**	**$111**	**$237**	**$4,733**
Actual return		**0.2 %**	**0.3 %**	**2.1 %**	**3.6 %**		
Assets purchased under reverse repurchase agreements	**536**	**–**	**–**	**–**	**–**	**–**	**536**
Loans	**6,947**	**755**	**1,850**	**5,548**	**212**	**289**	**15,601**
Actual return		**5.1 %**	**5.3 %**	**5.5 %**	**6.2 %**		
Other assets	**–**	**–**	**–**	**–**	**–**	**1,295**	**1,295**
Total	**8,982**	**1,213**	**2,405**	**7,421**	**323**	**1,821**	**22,165**
Actual return		**3.3 %**	**4.2 %**	**4.6 %**	**5.3 %**		
Liabilities and equity							
Deposits	**2,717**	**1,674**	**4,436**	**8,730**	**11**	**732**	**18,300**
Actual return		**2.2 %**	**2.3 %**	**3.0 %**	**3.1 %**		
Treasury items	**1,041**	**243**	**–**	**55**	**–**	**–**	**1,339**
Actual return		**0.2 %**	**– %**	**1.2 %**	**– %**		
Other liabilities	**–**	**19**	**48**	**149**	**–**	**989**	**1,205**
Actual return		**3.4 %**	**3.0 %**	**3.5 %**	**– %**		
Debentures and equity	**–**	**100**	**110**	**150**	**–**	**961**	**1,321**
Actual return		**– %**	**– %**	**4.9 %**	**– %**		
Total	**3,758**	**2,036**	**4,594**	**9,084**	**11**	**2,682**	**22,165**
Actual return		**1.8 %**	**2.2 %**	**3.0 %**	**3.1 %**		
Swaps, net	**86**	**(5,366)**	**1,180**	**4,266**	**(166)**	**–**	**–**
Sensitivity gap	**5,310**	**(6,189)**	**(1,009)**	**2,603**	**146**	**(861)**	**–**
Cumulative gap	**$5,310**	**$(879)**	**$(1,888)**	**$ 715**	**$861**	**$ –**	**$ –**

(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	$8,431	$1,658	$ 1,986	$5,740	$293	$1,471	$19,579
Actual return		3.9%	5.6%	5.4%	6.9%		
Liabilities and equity	1,712	3,568	4,245	7,856	7	2,191	19,579
Actual return		2.4%	3.2%	3.4%	2.1%		
Swaps, net	–	(4,440)	694	3,943	(197)	–	–
Sensivity gap	6,719	(6,350)	(1,565)	1,827	89	(720)	–
Cumulative gap	$ 6,719	$ 369	$(1,196)	$ 631	$720	$ –	$ –

Maturity assumptions
Assets, liabilities and equity are shown at the earlier of the date of maturity or contractual revaluation while taking into consideration estimated redemptions or prepayments, except for the following:
- 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 remeasurement date;
- Preferred shares are classified using the date on which they become redeemable.

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, trading operations and, to a lesser extent, mismatches in currencies of balance sheet and off-balance sheet assets and liabilities, as well as mismatches in receipts and payments of funds in foreign currencies. This risk is monitored using notional limits and other sensitivity analysis for trading operations.

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.

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

The credit risk management policies adopted by the Bank provide for the 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.

Acting through a credit risk management group independent of the business lines, the Bank performs 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.

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.

Nº 21. Financial instruments – Risk management (cont'd)

The amount that best represents the Bank's maximum exposure to credit risk as at October 31, 2009, 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, 2009	AS AT OCTOBER 31, 2008
Financial assets, as stated in the consolidated balance sheet [1]	**$21,612**	$19,084
Credit commitments and other off-balance sheet items [2]	**4,711**	4,153
Total	**$26,323**	$23,237

(1) Excludes equity securities.
(2) Includes $2,129,675,000 ($2,082,573,000 in 2008) related to personal credit facilities and credit card lines.

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:

	2009	2008
Québec	**61%**	59%
Other Canadian provinces	**39%**	41%
Total	**100%**	100%

No single industry segment accounted for more than 3% (3% in 2008) of the total loans and customers' liabilities under acceptances.

Guarantees held in respect of loan portfolios

Nearly 50% of the Bank's residential mortgage loan portfolio is insured by CMHC. Moreover, the Bank holds guarantees in respect of the 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, 2009, the approximate market value of collateral pledged to the Bank amounted to $536,064,000 ($661,391,000 as at October 31, 2008).

In connection with derivative product transactions, the Bank may also obtain collateral under credit support agreements. As at October 31, 2009, the approximate market value of collateral pledged to the Bank amounted to $27,761,000 ($18,263,000 as at October 31, 2008).

C) 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 a management committee in charge of asset and liability management, 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 brokerage clientele, as well as well-diversified financing sources. Financing strategies also include loan securitization and the issuance of equity or debt instruments through capital markets. A financing and liquidity contingency plan provides for measures to honour the Bank's obligations in the event of high demand for liquid assets.

Contractual maturities of financial liabilities

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

					2009
		TERM			
	DEMAND AND NOTICE	**UNDER 1 YEAR**	**1 TO 5 YEARS**	**OVER 5 YEARS**	**TOTAL**
Deposits	**$6,750,214**	**$4,381,505**	**$7,157,144**	**$11,103**	**$18,299,966**
Obligations related to assets sold short	**–**	**999,686**	**54,784**	**–**	**1,054,470**
Obligations related to assets sold under repurchase agreements	**–**	**284,988**	**–**	**–**	**284,988**
Subordinated debentures	**–**	**–**	**150,000**	**–**	**150,000**
Derivative financial instruments [1]	**–**	**3,259**	**(10,735)**	**(43)**	**(7,519)**
	$6,750,214	**$5,669,438**	**$7,351,193**	**$11,060**	**$19,781,905**

					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
Derivative financial instruments [1]	–	(4,588)	(7,011)	521	(11,078)
	$2,920,901	$8,276,276	$6,223,642	$ 7,247	$17,428,066

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

The Bank is also exposed to liquidity risk when it contracts credit commitments. As at October 31, 2009, these commitments amounted to approximately $2,581,176,000 ($2,070,730,000 as at October 31, 2008), excluding personal credit facilities and credit card lines since they are revocable at the Bank's option.

Nº 22. Derivative financial instruments

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

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

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

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

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

N° 22. Derivative financial instruments (cont'd)

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				2009
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	**$3,175**	**$9,542**	**$166**	**$12,883**	**$8,404**	**$ 4,479**
Exchange-traded contracts						
Futures	**76**	**–**	**–**	**76**	**–**	**76**
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	**4,846**	**163**	**–**	**5,009**	**–**	**5,009**
Forwards	**1,282**	**64**	**–**	**1,346**	**–**	**1,346**
Options purchased	**159**	**–**	**–**	**159**	**–**	**159**
Options written	**162**	**–**	**–**	**162**	**–**	**162**
Equity- and index-linked contracts						
Options purchased	**17**	**35**	**5**	**57**	**–**	**57**
Options written	**29**	**124**	**5**	**158**	**–**	**158**
Total return swap	**45**	**–**	**–**	**45**	**–**	**45**
	$9,791	**$9,928**	**$176**	**$19,895**	**$8,404**	**$11,491**

(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

(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.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

(in millions of dollars)			2009
	FAVOURABLE FAIR VALUE	UNFAVOURABLE FAIR VALUE	NET AMOUNT
DESIGNATED AS HEDGE CONTRACTS			
Interest rate contracts			
Swaps	**$114**	**$ (15)**	**$99**
OTHER CONTRACTS (1)			
Interest rate contracts			
Swaps	**17**	**(69)**	**(52)**
Foreign exchange contracts			
Foreign exchange swaps	**61**	**(52)**	**9**
Forwards	**10**	**(18)**	**(8)**
Options purchased	**7**	**–**	**7**
Options written	**–**	**(7)**	**(7)**
Equity- and index-linked contracts			
Options purchased	**6**	**–**	**6**
Options written	**–**	**(11)**	**(11)**
TOTAL	**$215**	**$(172)**	**$43**

(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

(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

Swap contracts designated as cash flow 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. As at October 31, 2009, the notional amount of swap contracts designated as cash flow hedging instruments was $4,104,000 ($2,557,000 as at October 31, 2008).

N° 22. Derivative financial instruments (cont'd)

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:

	2009	2008
Cash flow hedges	**$ 941**	$ 269
Fair value hedges	**(462)**	(1,107)
	$ 479	$ (838)

Other information regarding hedging relationships

Net deferred gains of $21,174,000 ($5,380,000 as at October 31, 2008), included in accumulated other comprehensive income as at October 31, 2009, 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 5 years as at October 31, 2009 (5 years in 2008).

CREDIT EXPOSURE

(in millions of dollars)			**2009**			2008
	REPLACEMENT COST (1) (4)	**CREDIT EQUIVALENT AMOUNT (2)**	**RISK-WEIGHTED AMOUNT (3)**	REPLACEMENT COST	CREDIT EQUIVALENT AMOUNT	RISK-WEIGHTED AMOUNT
Interest rate contracts						
Swaps	**$131**	**$181**	**$36**	$154	$197	$40
Foreign exchange contracts						
Foreign exchange swaps	**61**	**117**	**24**	31	37	8
Cross-currency interest rate swaps	**–**	**–**	**–**	2	2	–
Forwards	**10**	**26**	**14**	23	30	25
Options purchased	**7**	**9**	**6**	1	1	–
Equity- and index-linked contracts						
Options purchased	**6**	**10**	**2**	9	15	3
Total return swap	**–**	**3**	**1**	–	5	1
	$215	**$346**	**$83**	$220	$287	$77

(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 $27,761,000 in assets under guarantee so as to reduce the credit risk related to these contracts.

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

N° 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.

	2009	2008
Undrawn amounts under approved credit facilities [(1)]	**$2,581,176**	$2,070,730
Documentary letters of credit	**$ 8,675**	$ 6,111

(1) Exclude personal credit facilities totalling $1,284,859,000 ($1,159,871,000 as at October 31, 2008) and credit card lines amounting to $844,816,000 ($922,702,000 as at October 31, 2008) 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 $157,102,000 as at October 31, 2009 ($138,223,000 in 2008).

Derivative financial instruments

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank sells put options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of foreign currencies at a predetermined price. The term of these options does not exceed 12 months. No specific provision is recorded with respect to these derivatives. The maximum potential amount of future payments under these derivatives, corresponding to the notional value of outstanding contracts, totalled $71,100,000 as at October 31, 2009 ($14,822,000 in 2008).

Collateral received and pledged as security

As at October 31, 2009, the approximate market value of collateral pledged to the Bank that it can sell or re-pledge as security amounted to $536,064,000 ($661,391,000 as at October 31, 2008). This collateral pledged to the Bank as security was obtained under reverse repurchase and securities borrowing agreements. Of this amount, $536,064,000 ($561,350,000 in 2008) 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 amount has been accrued with respect to these indemnification agreements.

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

As at October 31, 2009, 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
2010	**$ 22,264**	**$ 41,186**	**$ 3,091**	**$ 66,541**
2011	**19,808**	**41,803**	**2,446**	**64,057**
2012	**17,981**	**41,029**	**2,446**	**61,456**
2013	**13,835**	**37,301**	**2,446**	**53,582**
2014	**9,209**	**31,142**	**2,446**	**42,797**
Thereafter	**36,093**	**60,238**	**1,019**	**97,350**
Total	**$119,190**	**$252,699**	**$13,894**	**$385,783**

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

Nº 23. Commitments and guarantees (cont'd)

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:

	2009	2008
Pledged assets to participate in clearing and payment systems	**$470,335**	$ 261,606
Pledged assets for obligations related to assets sold under repurchase agreements	**284,988**	1,136,096
Pledged assets for obligations related to derivative financial instruments in a liability position	**34,681**	36,230
	790,004	1,433,932
Assets pledged are detailed as follows:		
Securities	**$588,044**	$1,295,720
Residential mortgage loans	**201,960**	138,212
	$790,004	$1,433,932

Nº 24. Variable interest entities

The Bank analyzes the interests it holds in certain entities to determine whether they satisfy the definition of a variable interest entity (VIE), and whether the Bank is the primary beneficiary and must therefore consolidate them. The 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.

Nº 25. Contingencies

LITIGATION

Marcotte v. Banks class action

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

The Bank and its subsidiaries are also involved in various other legal actions and claims, including some with regulatory bodies. Many of these disputes are related to loans granted by the Bank and are in reaction to steps taken by the Bank to collect delinquent loans and realize the underlying collateral. Certain claims have also been brought against the Bank, particularly with respect to trustee operations related to portfolio administration, the charging of certain bank fees and alleged non-compliance with certain regulatory obligations under securities legislation. 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

The Bank offers its services through four business segments: Retail and SME-Québec, Real Estate and Commercial, B2B Trust, and Laurentian Bank Securities (LBS).

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.

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.

2009

	RETAIL AND SME-QUÉBEC	REAL ESTATE AND COMMERCIAL	B2B TRUST	LAURENTIAN BANK SECURITIES	OTHER (6)	TOTAL
Net interest income	$ 305,959	$ 67,598	$ 90,696	$ 2,268	$ (42,744)	$ 423,777
Other income (2)	119,965	22,922	9,560	52,458	37,820	242,725
Total revenue	425,924	90,520	100,256	54,726	(4,924)	666,502
Provision for loan losses (3)	41,887	9,817	4,296	–	–	56,000
Non-interest expenses (4)	333,475	31,020	48,995	41,611	16,889	471,990
Income (loss) from continuing operations before income taxes	50,562	49,683	46,965	13,115	(21,813)	138,512
Income taxes (recovered) (5)	10,939	15,549	14,873	4,565	(9,078)	36,848
Income (loss) from continuing operations	39,623	34,134	32,092	8,550	(12,735)	101,664
Income from discontinued operations, net of income taxes	11,469	–	–	–	–	11,469
Net income (loss)	$ 51,092	$ 34,134	$ 32,092	$ 8,550	$ (12,735)	$ 113,133
Average assets (1)	$11,088,422	$2,394,529	$4,294,187	$1,415,121	$1,291,582	$20,483,841

2008

	RETAIL AND SME-QUÉBEC	REAL ESTATE AND COMMERCIAL	B2B TRUST	LAURENTIAN BANK SECURITIES	OTHER (6)	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

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) on the write-down of 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 reflecting the decrease in value of the Bank's future income tax assets as a result of further reductions in federal income tax rates.

(6) The 2009 and 2008 effective tax rates were influenced by a number of items – see note 17 related to 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.

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. 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. During fiscal 2009, the Bank recognized the $5,185,000 remainder of the selling price in income, in light of net sales to date. Moreover, if cumulative net sales of mutual funds reach $350,000,000 for the five-year period ended December 31, 2009, the Bank is eligible to an additional payment. Under this clause, the Bank recognized the final adjustment to the selling price of $8,308,000 in 2009 ($7,046,000 net of income taxes), as cumulative net sales of mutual funds significantly exceeded the required minimum level. The recognition of these amounts increased the total selling price in respect of the sale to $76,095,000.

Statistical review – Consolidated balance sheet

Unaudited, as at October 31 (in thousands of dollars)	**2009**	2008	2007	2006	2005	**AVERAGE ANNUAL VARIANCE 09 / 05**
ASSETS						
Cash resources						
Cash and non-interest-bearing deposits with other banks	**$ 61,010**	$ 54,410	$ 65,245	$ 70,907	$ 57,737	**1%**
Interest-bearing deposits with other banks	**239,606**	94,291	283,255	98,722	259,791	**(2)**
Securities						
Issued or guaranteed by Canada	**2,864,454**	2,415,863	1,615,695	2,019,524	1,775,372	**13**
Issued or guaranteed by provinces and municipal corporations	**1,157,180**	466,735	446,401	581,384	556,727	**20**
Other securities	**410,549**	607,574	612,283	641,372	608,307	**(9)**
	4,432,183	3,490,172	2,674,379	3,242,280	2,940,406	**11**
Assets purchased under reverse repurchase agreements	**536,064**	661,391	540,304	802,546	508,073	**1**
Loans						
Personal	**5,655,055**	5,694,574	5,222,217	4,379,016	4,123,983	**8**
Residential mortgages	**7,219,830**	6,182,871	6,232,778	5,985,656	5,806,853	**6**
Commercial mortgages	**1,285,012**	932,688	684,625	659,014	595,946	**21**
Commercial and other	**1,555,956**	1,454,799	1,292,790	1,265,987	1,323,230	**4**
	15,715,853	14,264,932	13,432,410	12,289,673	11,850,012	**7**
Allowance for loan losses	**(114,546)**	(112,434)	(115,322)	(125,153)	(129,806)	**(3)**
	15,601,307	14,152,498	13,317,088	12,164,520	11,720,206	**7**
Other						
Customers' liability under acceptances	**216,817**	110,342	111,891	149,818	145,629	**10**
Tangible capital assets	**58,163**	59,927	56,053	47,520	44,131	**7**
Other assets	**1,019,630**	956,441	738,631	719,646	831,011	**5**
	1,294,610	1,126,710	906,575	916,984	1,020,771	**6**
	$22,164,780	$19,579,472	$17,786,846	$17,295,959	$16,506,984	**8%**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits						
Personal	**$15,138,637**	$12,430,038	$11,564,530	$10,949,473	$10,575,416	**9%**
Business, banks and other	**3,161,329**	2,903,774	2,314,178	2,145,028	3,121,522	**–**
	18,299,966	15,333,812	13,878,708	13,094,501	13,696,938	**8**
Other						
Obligations related to assets sold short or under repurchase agreements	**1,339,458**	1,955,332	1,797,662	2,177,394	786,128	**14**
Acceptances	**216,817**	110,342	111,891	149,818	145,629	**10**
Other liabilities	**987,313**	946,551	843,904	777,826	815,049	**5**
	2,543,588	3,012,225	2,753,457	3,105,038	1,746,806	**10**
Subordinated debentures	**150,000**	150,000	150,000	150,000	150,000	**–**
Shareholders' equity						
Preferred shares	**210,000**	210,000	210,000	210,000	210,000	**–**
Common shares	**259,208**	257,462	256,445	251,158	249,633	**1**
Contributed surplus	**209**	173	105	518	73	**30**
Retained earnings	**665,538**	596,974	537,254	485,334	454,124	**10**
Treasury shares	**–**	–	–	(590)	(590)	**(100)**
Accumulated other comprehensive income	**36,271**	18,826	877	–	–	**n/a**
	1,171,226	1,083,435	1,004,681	946,420	913,240	**6**
	$22,164,780	$19,579,472	$17,786,846	$17,295,959	$16,506,984	**8%**

Statistical review – Consolidated statement of income

Unaudited, for the years ended October 31 (in thousands of dollars, unless otherwise indicated)	**2009**	2008	2007	2006	2005	**AVERAGE ANNUAL VARIANCE 09/05**
Loans	**$719,538**	$837,532	$837,092	$755,009	$682,591	**1%**
Securities	**71,373**	60,873	58,000	70,446	59,744	**5**
Deposits with other banks	**3,903**	26,360	13,802	11,721	7,864	**(16)**
Other, including derivative financial instruments	**137,275**	30,190	–	3,277	30,203	**46**
Interest income	**932,089**	954,955	908,894	840,453	780,402	**5**
Deposits	**493,812**	508,403	466,867	438,335	425,473	**4**
Other liabilities	**6,765**	33,547	44,089	32,197	13,039	**(15)**
Subordinated debentures	**7,735**	7,742	7,738	12,714	16,199	**(17)**
Interest expense	**508,312**	549,692	518,694	483,246	454,711	**3**
Net interest income	**423,777**	405,263	390,200	357,207	325,691	**7**
Other income	**242,725**	225,218	193,726	182,600	184,304	**7**
Total revenue	**666,502**	630,481	583,926	539,807	509,995	**7**
Provision for loan losses	**56,000**	48,500	40,000	40,000	40,000	**9**
Salaries and employee benefits	**249,658**	236,280	229,290	213,583	198,687	**6**
Premises and technology	**120,054**	119,192	111,559	108,151	108,968	**2**
Other	**102,278**	90,519	86,561	89,081	82,229	**6**
Non-interest expenses	**471,990**	445,991	427,410	410,815	389,884	**5**
Income from continuing operations before income taxes	**138,512**	135,990	116,516	88,992	80,111	**15**
Income taxes	**36,848**	37,882	26,394	23,436	24,488	**11**
Income from continuing operations	**101,664**	98,108	90,122	65,556	55,623	**16**
Income from discontinued operations, net of income taxes	**11,469**	4,423	4,423	4,776	9,659	**4**
Net income	**$113,133**	$102,531	$ 94,545	$ 70,332	$ 65,282	**15%**
Preferred share dividends, including applicable income taxes	**$ 12,116**	$ 11,818	$ 11,966	$ 11,766	$ 12,030	**–%**
Net income available to common shareholders	**$101,017**	$ 90,713	$ 82,579	$ 58,566	$ 53,252	**17%**
Common share dividends	**$ 32,453**	$ 30,993	$ 27,474	$ 27,356	$ 27,287	**4%**
Average number of common shares outstanding (in thousands)						
Basic	**23,858**	23,837	23,678	23,605	23,525	**– %**
Diluted	**23,876**	23,880	23,728	23,649	23,552	**– %**
Income per common share from continuing operations						
Basic	**$ 3.75**	$ 3.62	$ 3.30	$ 2.28	$ 1.85	**19%**
Diluted	**$ 3.75**	$ 3.61	$ 3.29	$ 2.28	$ 1.85	**19%**
Net income per common share						
Basic	**$ 4.23**	$ 3.81	$ 3.49	$ 2.48	$ 2.26	**17%**
Diluted	**$ 4.23**	$ 3.80	$ 3.48	$ 2.48	$ 2.26	**17%**
Dividends declared per common share	**$ 1.36**	$ 1.30	$ 1.16	$ 1.16	$ 1.16	**4%**
Dividend payout ratio	**32.1 %**	34.2%	33.3%	46.7%	51.2%	
Book value per common share	**$ 38.68**	$ 35.84	$ 33.34	$ 31.18	$ 29.85	**7%**
Return on common shareholders' equity	**11.4 %**	11.0%	10.9%	8.2%	7.8%	
(as a percentage of average assets)						
Net interest income	**2.07 %**	2.21%	2.31%	2.14%	1.99%	
Provision for loan losses	**0.27 %**	0.26%	0.24%	0.24%	0.24%	
Average assets (in millions of dollars)	**20,484**	18,340	16,860	16,691	16,328	**6%**
Number of full-time equivalent employees	**3,528**	3,393	3,289	3,238	3,180	**3%**
Number of branches	**156**	156	157	158	157	**–%**
Number of automated banking machines	**408**	342	338	325	313	**7%**

Quarterly highlights

(in thousands of dollars, unless otherwise indicated)				2009				2008
UNAUDITED, FOR THE QUARTERS ENDED	OCT. 31	JULY 31	APRIL 30	JAN. 31	OCT. 31	JULY 31	APRIL 30	JAN. 31
Interest income	**$237,750**	**$237,290**	**$222,647**	**$234,402**	$240,456	$240,361	$232,594	$241,544
Interest expense	**119,515**	**124,524**	**128,574**	**135,699**	137,163	136,948	133,573	142,008
Net interest income	**118,235**	**112,766**	**94,073**	**98,703**	103,293	103,413	99,021	99,536
Other income	**60,305**	**63,891**	**60,695**	**57,834**	49,518	67,682	56,484	51,534
Total revenue	**178,540**	**176,657**	**154,768**	**156,537**	152,811	171,095	155,505	151,070
Provision for loan losses	**16,000**	**16,000**	**12,000**	**12,000**	10,500	18,500	10,000	9,500
Non-interest expenses	**128,143**	**119,081**	**114,034**	**110,732**	113,040	113,547	110,850	108,554
Income from continuing operations before income taxes	**34,397**	**41,576**	**28,734**	**33,805**	29,271	39,048	34,655	33,016
Income taxes	**7,618**	**12,893**	**7,579**	**8,758**	6,361	8,111	9,506	13,904
Income from continuing operations	**26,779**	**28,683**	**21,155**	**25,047**	22,910	30,937	25,149	19,112
Income from discontinued operations, net of income taxes	**11,469**	**–**	**–**	**–**	4,423	–	–	–
Net income	**$ 38,248**	**$ 28,683**	**$ 21,155**	**$ 25,047**	$ 27,333	$ 30,937	$ 25,149	$ 19,112
Preferred share dividends, including applicable income taxes	**$ 3,066**	**$ 2,824**	**$ 3,004**	**$ 3,222**	$ 2,954	$ 2,967	$ 2,967	$ 2,930
Net income available to common shareholders	**$ 35,182**	**$ 25,859**	**$ 18,151**	**$ 21,825**	$ 24,379	$ 27,970	$ 22,182	$ 16,182
(as a percentage of average assets)								
Net interest income	**2.19%**	**2.15%**	**1.92%**	**2.00%**	2.15%	2.20%	2.23%	2.27%
Provision for loan losses	**0.30%**	**0.31%**	**0.24%**	**0.24%**	0.22%	0.39%	0.22%	0.22%
Average assets (in millions of dollars)	**21,414**	**20,789**	**20,111**	**19,610**	19,073	18,724	18,075	17,482
Return on common shareholders' equity	**15.3%**	**11.6%**	**8.5%**	**10.0%**	11.5%	13.4%	11.2%	8.1%
Average number of common shares outstanding (in thousands)								
Basic	**23,878**	**23,854**	**23,849**	**23,848**	23,846	23,842	23,837	23,824
Diluted	**23,903**	**23,872**	**23,855**	**23,872**	23,889	23,888	23,882	23,862
Income per common share from continuing operations								
Basic	**$ 0.99**	**$ 1.08**	**$ 0.76**	**$ 0.92**	$ 0.84	$ 1.17	$ 0.93	$ 0.68
Diluted	**$ 0.99**	**$ 1.08**	**$ 0.76**	**$ 0.91**	$ 0.84	$ 1.17	$ 0.93	$ 0.68
Net income per common share								
Basic	**$ 1.47**	**$ 1.08**	**$ 0.76**	**$ 0.92**	$ 1.02	$ 1.17	$ 0.93	$ 0.68
Diluted	**$ 1.47**	**$ 1.08**	**$ 0.76**	**$ 0.91**	$ 1.02	$ 1.17	$ 0.93	$ 0.68
Dividends declared per common share	**$ 0.34**	**$ 0.34**	**$ 0.34**	**$ 0.34**	$ 0.34	$ 0.32	$ 0.32	$ 0.32
Book value per common share	**$ 38.68**	**$ 37.57**	**$ 36.83**	**$ 36.41**	$ 35.84	$ 35.15	$ 34.30	$ 33.69
Share price – Close	**$ 39.53**	**$ 35.75**	**$ 28.80**	**$ 29.07**	$ 40.88	$ 42.00	$ 42.21	$ 35.87
Common share dividends	**$ 8,124**	**$ 8,111**	**$ 8,109**	**$ 8,109**	$ 8,108	$ 7,631	$ 7,628	$ 7,626
(in millions of dollars)								
Balance sheet assets	**$ 22,165**	**$ 21,316**	**$ 20,403**	**$ 19,868**	$ 19,579	$ 19,301	$ 18,383	$ 18,270
Risk-weighted assets	**$ 9,480.8**	**$ 9,410.4**	**$ 9,869.7**	**$ 9,677.2**	$ 9,629.1	$ 9,504.5	$ 9,167.4	$ 8,928.4
Tier I capital – BIS	**$ 1,045.8**	**$ 1,015.2**	**$ 989.0**	**$ 976.4**	$ 965.4	$ 956.7	$ 935.8	$ 923.4
Regulatory capital – BIS	**$ 1,235.9**	**$ 1,205.7**	**$ 1,181.5**	**$ 1,169.6**	$ 1,156.9	$ 1,148.5	$ 1,123.7	$ 1,115.0
Tier I BIS capital ratio	**11.0%**	**10.8%**	**10.0%**	**10.1%**	10.0%	10.1%	10.2%	10.3%
Total BIS capital ratio	**13.0%**	**12.8%**	**12.0%**	**12.1%**	12.0%	12.1%	12.3%	12.5%
Assets to capital multiple	**18.0x**	**17.8x**	**17.3x**	**17.1x**	17.0x	16.9x	16.4x	16.4x