CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2010 AND 2009

CONSOLIDATED FINANCIAL STATEMENTS AT A GLANCE

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 and risk management, as well as the assessment of significant transactions through its Audit Committee and its Risk Management Committee. Both Board committees are composed solely of directors who are not officers or employees of the Bank.

RÉJEAN ROBITAILLE
President and
Chief Executive Officer

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

Montréal, Canada
December 7, 2010

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, 2010 and 2009 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, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP[1]

CHARTERED ACCOUNTANTS
Montréal, Canada
December 7, 2010

1 CA auditor permit no. 17959

CONSOLIDATED BALANCE SHEET

As at October 31 (in thousands of dollars)

	NOTES	2010	2009
ASSETS			
Cash and non-interest bearing deposits with other banks		$ 70,537	$ 61,010
Interest-bearing deposits with other banks		95,561	239,606
Securities accounts	4 and 24		
Available-for-sale		1,103,744	1,424,043
Held-for-trading		1,496,583	1,391,313
Designated as held-for-trading		1,658,478	1,616,827
		4,258,805	4,432,183
Securities purchased under reverse repurchase agreements	24	803,874	536,064
Loans	5, 6 and 24		
Personal		5,630,788	5,655,055
Residential mortgage		8,582,548	7,219,830
Commercial mortgage		1,638,861	1,285,012
Commercial and other		1,691,190	1,555,956
		17,543,387	15,715,853
Allowance for loan losses		(138,143)	(114,546)
		17,405,244	15,601,307
Other			
Customers' liabilities under acceptances		165,450	216,817
Premises and equipment	7	58,536	58,163
Derivative financial instruments	22	162,610	253,661
Goodwill	8	53,790	53,790
Other intangible assets	8	112,369	103,386
Other assets	9	613,227	608,793
		1,165,982	1,294,610
		$23,800,003	$22,164,780
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	10		
Personal		$ 15,424,776	$15,138,637
Business, banks and other		4,250,819	3,161,329
		19,675,595	18,299,966
Other			
Obligations related to securities sold short	24	1,362,336	1,054,470
Obligations related to securities sold under repurchase agreements		60,050	284,988
Acceptances		165,450	216,817
Derivative financial instruments	22	199,278	174,859
Other liabilities	11	947,879	812,454
		2,734,993	2,543,588
Subordinated debentures	12	150,000	150,000
Shareholders' equity			
Preferred shares	13	210,000	210,000
Common shares	13	259,363	259,208
Contributed surplus	15	243	209
Retained earnings		741,911	665,538
Accumulated other comprehensive income	14	27,898	36,271
		1,239,415	1,171,226
		$23,800,003	$22,164,780

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

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

RÉJEAN ROBITAILLE
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

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

	NOTES	2010	2009
Interest income			
Loans		**$757,677**	$ 719,538
Securities		**72,975**	71,373
Deposits with other banks		**298**	3,903
Other, including derivative financial instruments		**116,273**	137,275
		947,223	932,089
Interest expense			
Deposits		**440,053**	493,812
Other, including derivative financial instruments		**3,011**	6,765
Subordinated debentures		**7,738**	7,735
		450,802	508,312
Net interest income		**496,421**	423,777
Other income			
Fees and commissions on loans and deposits		**113,700**	101,445
Income from brokerage operations		**52,934**	51,788
Income from treasury and financial market operations		**18,035**	10,472
Credit insurance income		**17,785**	15,994
Income from sales of mutual funds		**15,012**	12,429
Income from registered self-directed plans		**8,680**	7,960
Securitization income	6	**5,996**	34,441
Other		**8,883**	8,196
		241,025	242,725
Total revenue		**737,446**	666,502
Provision for loan losses	5	**68,000**	56,000
Non-interest expenses			
Salaries and employee benefits		**275,964**	249,658
Premises and technology		**132,540**	120,054
Other		**95,732**	102,278
		504,236	471,990
Income from continuing operations before income taxes		**165,210**	138,512
Income taxes	17	**42,269**	36,848
Income from continuing operations		**122,941**	101,664
Income from discontinued operations, net of income taxes	28	**–**	11,469
Net income		**$122,941**	$ 113,133
Preferred share dividends, including applicable taxes		**12,122**	12,116
Net income available to common shareholders		**$110,819**	$ 101,017
Average number of common shares outstanding (in thousands)			
Basic		**23,921**	23,858
Diluted		**23,937**	23,876
Earnings per share from continuing operations	18		
Basic		**$ 4.63**	$ 3.75
Diluted		**$ 4.63**	$ 3.75
Earnings per share	18		
Basic		**$ 4.63**	$ 4.23
Diluted		**$ 4.63**	$ 4.23

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	2010	2009
Net income		$ 122,941	$ 113,133
Other comprehensive income, net of income taxes	14		
Unrealized gains on available-for-sale securities		7,256	14,081
Reclassification of net (gains) losses on available-for-sale securities to net income		(2,263)	6,185
Net change in value of derivative instruments designated as cash flow hedges		(13,366)	(2,821)
		(8,373)	17,445
Comprehensive income		$ 114,568	$ 130,578

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	2010	2009
Preferred shares	13		
Balance at beginning and end of year		$ 210,000	$ 210,000
Common shares	13		
Balance at beginning of year		259,208	257,462
Issued during the year		155	1,746
Balance at end of year		259,363	259,208
Contributed surplus			
Balance at beginning of year		209	173
Stock-based compensation	15	34	36
Balance at end of year		243	209
Retained earnings			
Balance at beginning of year		665,538	596,974
Net income		122,941	113,133
Dividends			
Preferred shares, including applicable taxes		(12,122)	(12,116)
Common shares		(34,446)	(32,453)
Balance at end of year		741,911	665,538
Accumulated other comprehensive income	14		
Balance at beginning of year		36,271	18,826
Other comprehensive income, net of income taxes		(8,373)	17,445
Balance at end of year		27,898	36,271
Shareholders' equity		$1,239,415	$1,171,226

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	2010	2009
Cash flows relating to operating activities			
Net income		**$ 122,941**	$ 113,133
Adjustments to determine net cash flows relating to operating activities:			
Provision for loan losses		**68,000**	56,000
Gains on securitization operations		**(13,471)**	(37,380)
Net gain from discontinued operations	28	**–**	(13,493)
Net loss (net gain) on disposal of non-trading securities		**(3,245)**	12,146
Future income taxes		**24,340**	28,943
Depreciation		**10,868**	11,216
Amortization of other intangible assets		**26,338**	22,383
Net change in held-for-trading securities		**(105,270)**	(322,116)
Change in accrued interest receivable		**(1,216)**	(12,793)
Change in assets relating to derivative financial instruments		**91,051**	(15,957)
Change in accrued interest payable		**33,745**	(31,287)
Change in liabilities relating to derivative financial instruments		**24,419**	27,390
Other, net		**47,197**	13,728
		325,697	(148,087)
Cash flows relating to financing activities			
Net change in deposits		**1,375,629**	2,966,154
Change in obligations related to securities sold short		**307,866**	235,234
Change in obligations related to securities sold under repurchase agreements		**(224,938)**	(851,108)
Issuance of common shares		**155**	1,746
Dividends, including applicable income taxes		**(46,568)**	(44,569)
		1,412,144	2,307,457
Cash flows relating to investing activities			
Change in securities available-for-sale and designated as held-for-trading			
Acquisitions		**(3,614,580)**	(6,164,858)
Proceeds on sale and at maturities		**3,920,820**	5,576,044
Change in loans		**(2,696,044)**	(2,511,422)
Change in securities purchased under reverse repurchase agreements		**(267,810)**	125,327
Proceeds from mortgage loan securitizations		**823,512**	1,005,647
Additions to premises and equipment and software		**(46,565)**	(38,193)
Change in interest-bearing deposits with other banks		**144,045**	(145,315)
Net cash flows from discontinued operations	28	**8,308**	–
		(1,728,314)	(2,152,770)
Net change in cash and non-interest-bearing deposits with other banks		**9,527**	6,600
Cash and non-interest-bearing deposits with other banks at beginning of year		**61,010**	54,410
Cash and non-interest-bearing deposits with other banks at end of year		**$ 70,537**	$ 61,010
Supplemental disclosure relating to cash flows:			
Interest paid during the year		**$ 416,374**	$ 537,988
Income taxes paid during the year		**$ 14,856**	$ 12,275

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2010 and 2009 (All tabular amounts are in thousands of dollars, unless otherwise indicated.)

1 GENERAL

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

2 BASIS OF PRESENTATION

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

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

2.1 BASIS OF CONSOLIDATION

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

The Bank also consolidates variable interest entities (VIEs) when it is the primary beneficiary. Generally, VIEs are entities that are subject to control on a basis other than ownership of voting interests. The primary beneficiary 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 FUTURE ACCOUNTING POLICY CHANGES

Business combination

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

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

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

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

International Financial Reporting Standards

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

2.3 USE OF ESTIMATES AND ASSUMPTIONS

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 FINANCIAL INSTRUMENTS

Held-for-trading financial instruments

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

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

Financial instruments designated as held-for-trading

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

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

Financial instruments designated as held-for-trading are initially recorded at fair value on the settlement date in the consolidated balance sheet. Subsequently, they are remeasured at fair value and the realized and unrealized gains and losses are immediately recognized in the consolidated statement of income under income from treasury and financial market operations, 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Available-for-sale assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity investments, held-for-trading or designated as held-for-trading. Available-for-sale 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, 2010, the Bank had not designated any financial assets as held-to-maturity.

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

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

Loans

Loans are non-derivative financial assets with fixed or determinable payments and are therefore classified as loans and receivables. However, financial assets quoted in an active market do not meet the necessary conditions to be classified as loans and receivables and must be classified as held-for-trading, available-for-sale or held-to-maturity. Moreover, loans that the Bank 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 estimated incurred losses in its portfolios. Allowances are mainly related to loans, but may also apply to other assets.

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

Specific allowances for loan losses

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

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

General allowances for loan losses

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

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

Acceptances and customers' liabilities under acceptances

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Loan securitization

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

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

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

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

The Bank generally transfers receivables on a fully serviced basis. On the transfer date, a servicing liability is recognized at fair value and presented in other liabilities. This liability is amortized 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 as described below. 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 and are classified as other liabilities. 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 and are classified as other liabilities. 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 determination of the fair value of derivative financial instruments related to securitization transactions also involves unobservable data.

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

Offsetting of financial assets and liabilities

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.2 PREMISES AND EQUIPMENT

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

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

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

Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful life, which is 15 years for contractual relationships with financial intermediaries and customer relationships and ranges from five to seven 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 2010 under the plans (from 8 to 11 years in 2009).

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 EARNINGS PER SHARE

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

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

3.7 INSURANCE

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

3.8 STOCK-BASED COMPENSATION

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

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

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

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

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

3.9 ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

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

3.10 TRANSLATION OF FOREIGN CURRENCIES

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

3.11 CASH AND CASH EQUIVALENTS

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

4 SECURITIES

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

					2010		2009	
	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]	$432,670	$ –	$ –	$ –	$ 432,670	0.8%	$ 686,842	0.3%
by provinces	161,640	239,888	10,419	–	411,947	2.1%	540,333	1.7%
Other debt securities	10,571	88,406	40,451	–	139,428	4.5%	114,013	5.1%
Asset-backed securities	3,172	15,176	7,571	–	25,919	5.9%	18,104	6.8%
Preferred shares	–	–	–	58,248	58,248	4.6%	38,340	4.4%
Common shares and other securities	–	–	–	35,532	35,532	4.3%	26,411	3.0%
	$608,053	$343,470	$58,441	$93,780	$1,103,744	1.8%	$1,424,043	1.4%

Portfolio of held-for-trading securities

					2010	2009
	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	NO SPECIFIC MATURITY	TOTAL	TOTAL
Securities issued or guaranteed						
by Canada[2]	$ 49,888	$329,485	$ 72,638	$ –	$ 452,011	$ 584,055
by provinces	48,865	169,278	276,803	–	494,946	542,870
by municipal corporations	37,728	35,201	44,935	–	117,864	68,077
Other debt securities	38,570	112,941	101,604	–	253,115	129,020
Asset-backed securities	–	4,502	6,941	810	12,253	12,982
Common shares and other securities	–	–	–	166,394	166,394	54,309
	$175,051	$651,407	$502,921	$167,204	$1,496,583	$1,391,313

Portfolio of securities designated as held-for-trading

				2010	2009
	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL	TOTAL
Securities issued or guaranteed					
by Canada[2]	$ –	$1,648,262	$5,247	$1,653,509	$1,593,557
by provinces	4,969	–	–	4,969	5,900
Other debt securities	–	–	–	–	17,370
	$4,969	$1,648,262	$5,247	$1,658,478	$1,616,827

(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:

	2010	2009
Realized net gains (loss)	**$3,165**	$ (3,812)
Writedowns for impairment recognized in income	**(198)**	(5,160)
	$2,967	$(8,972)

Write-downs for impairment recognized in 2010, as in 2009, 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 write-downs of up to $0.9 million representing the total unrealized losses as at October 31, 2010.

GAINS AND LOSSES RECOGNIZED IN COMPREHENSIVE INCOME
Unrealized gains and losses on the portfolio of available-for-sale securities

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

				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

As at October 31, 2010, 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.

OTHER CONSIDERATIONS

Additional information regarding securities

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

5 LOANS

LOANS AND IMPAIRED LOANS

2010

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

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

Foreclosed assets

Held-for-sale assets acquired in 2010 with respect to impaired loans amounted to $3.7 million ($8.9 million in 2009). There were no specific allowances with regards to these loans prior to foreclosure (nil in 2009).

SPECIFIC ALLOWANCES FOR LOAN LOSSES

	PERSONAL LOANS	RESIDENTIAL MORTGAGES	COMMERCIAL MORTGAGES	COMMERCIAL AND OTHER LOANS	2010 TOTAL SPECIFIC ALLOWANCES	2009 TOTAL SPECIFIC ALLOWANCES
Balance at beginning of year	$ 7,048	$ 1,878	$ 2,525	$29,845	$ 41,296	$ 39,184
Provision for loan losses recorded in the consolidated statement of income	31,460	3,486	8,729	24,325	68,000	56,000
Write-offs[1]	(35,116)	(1,427)	(439)	(9,841)	(46,823)	(56,661)
Recoveries	1,920	319	119	62	2,420	2,773
Balance at end of year	$ 5,312	$ 4,256	$10,934	$44,391	$ 64,893	$ 41,296

(1) No restructured loans were written off during the fiscal years ended October 31, 2010 and 2009.

GENERAL ALLOWANCES FOR LOAN LOSSES

					2010	2009
	PERSONAL LOANS	RESIDENTIAL MORTGAGES	COMMERCIAL MORTGAGES	COMMERCIAL AND OTHER LOANS	TOTAL GENERAL ALLOWANCES	TOTAL GENERAL ALLOWANCES
Balance at beginning of year	$33,713	$2,956	$5,000	$31,581	$73,250	$73,250
Provision for loan losses recorded in the consolidated statement of income	(4,419)	(95)	1,212	3,302	–	–
Balance at end of year	$29,294	$2,861	$6,212	$34,883	$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, 2010
	1 DAY–31 DAYS	32 DAYS–90 DAYS	OVER 90 DAYS	TOTAL
Personal loans	$ 103,203	$26,478	$ 7,160	$136,841
Residential mortgages	251,282	26,850	21,085	299,217
	$354,485	$53,328	$28,245	$436,058

				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

6. LOAN SECURITIZATION

RESIDENTIAL MORTGAGE LOANS

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

6 LOAN SECURITIZATION [CONT'D]

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

	2010	2009
Cash proceeds, net of transaction costs	**$ 823,512**	$ 1,005,647
Rights to future excess spreads	**36,923**	66,309
Servicing liability	**(6,168)**	(8,615)
Other	**(7,609)**	(10,944)
	846,658	1,052,397
Residential mortgages securitized and sold [1]	**(824,107)**	(1,006,613)
Write-off of loan origination costs	**(9,080)**	(8,404)
Gains before income taxes, net of transaction costs	**$ 13,471**	$ 37,380

(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

	2010	2009
Weighted average term (months)	**30**	34
Rate of prepayment	**19%**	18%
Discount rate	**1.9%**	1.7%

No loss is expected on insured residential mortgages.

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

	2010	2009
Gains on securitization operations	**$13,471**	$37,380
Changes in fair value of retained interests related to excess spreads, securitization swaps and financial instruments held for economic hedging purposes	**(8,611)**	(4,637)
Management income	**6,958**	7,322
Other	**(5,822)**	(5,624)
	$ 5,996	$34,441

During the year, the Bank collected cash flows from retained interests totalling $54.2 million ($50.8 million in 2009).

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, 2010 and 2009.

SENSITIVITY OF KEY ASSUMPTIONS TO UNFAVOURABLE CHANGES

	2010	2009
Fair value of retained interests	$97,085	$108,409
Weighted average life (in months)	22	23
Rate of prepayment	20%	20%
Impact on fair value of unfavourable change of 10%	$ 2,484	$ 2,894
Impact on fair value of unfavourable change of 20%	$ 4,857	$ 5,652
Discount rate	1.5%	1.4%
Impact on fair value of unfavourable change of 10%	$ 166	$ 196
Impact on fair value of unfavourable change of 20%	$ 331	$ 391

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 $2.7 billion at the end of fiscal 2010 ($2.7 billion in 2009). Of that amount, loans that are more than 31 days past due totalled $18.9 million ($34.4 million in 2009). There were no credit losses in respect of these loans in 2010 and in 2009.

COMMERCIAL MORTGAGE LOANS

Apart from the above-mentioned securitization transactions, the Bank sold $1.5 million in commercial mortgages, generating an $18,000 gain in 2010 ($16.7 million in 2009, generating a $0.2 million gain).

7 PREMISES AND EQUIPMENT

	2010			2009
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Land	$ 416	$ –	$ 416	$ 416
Premises	3,354	1,344	2,010	1,691
Leasehold improvements	71,469	42,339	29,130	27,618
Equipment and furniture	81,082	69,799	11,283	11,998
Computer hardware	129,933	114,236	15,697	16,440
	$286,254	$227,718	$58,536	$58,163

Depreciation expense for the year in the consolidated statement of income amounted to $10.9 million ($10.7 million in 2009).

8 GOODWILL AND OTHER INTANGIBLE ASSETS

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

Other intangible assets consist of the following.

			2010	2009
	COST	**ACCUMULATED DEPRECIATION**	**NET BOOK VALUE**	NET BOOK VALUE
Software	**$330,389**	**$228,479**	**$101,910**	$ 91,709
Contractual and customer relationships	**18,278**	**7,819**	**10,459**	11,677
	$348,667	**$236,298**	**$112,369**	$103,386

Software includes $11.9 million ($15.5 million in 2009) pertaining to projects under development yet to be amortized.

Amortization expense of other intangible assets recorded in the consolidated statement of income during the year was $26.3 million ($22.4 million in 2009).

The Bank tests goodwill and other intangible assets for impairment on an annual basis. No impairment was recognized in 2010 and 2009.

9 OTHER ASSETS

	2010	2009
Accrued benefit assets (note 16)	**$127,349**	$123,990
Cheques and other items in transit	**115,710**	60,284
Assets related to securitized mortgage loans	**107,460**	118,278
Deferred charges related to loan and deposit origination	**99,422**	85,346
Accrued interest receivable	**82,480**	81,264
Future income tax assets (note 17)	**29,579**	52,685
Accounts receivable, prepaid expenses and other items	**51,227**	86,946
	$613,227	$608,793

10 DEPOSITS

				2010
	DEMAND	**NOTICE**	**TERM**	**TOTAL**
Personal	**$ 122,717**	**$4,557,386**	**$10,744,673**	**$15,424,776**
Business, banks and other	**1,481,642**	**850,899**	**1,918,278**	**4,250,819**
	$1,604,359	**$5,408,285**	**$12,662,951**	**$19,675,595**

				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

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

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

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

11 OTHER LIABILITIES

	2010	2009
Accrued interest payable	**$465,637**	$431,892
Cheques and other items in transit	**244,342**	153,615
Future income tax liabilities [note 17]	**41,520**	45,171
Liabilities related to securitized mortgage loans	**33,190**	47,394
Accrued benefit liabilities [note 16]	**17,874**	16,194
Accounts payable, accrued expenses and other items	**145,316**	118,188
	$947,879	$812,454

12 SUBORDINATED DEBENTURES [SEE NOTE 29]

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 OSFI.

ISSUED AND OUTSTANDING

MATURITY	SERIES	INTEREST RATE	SPECIAL TERMS	2010	2009
January 2016	10	4.90%	Redeemable at par as of January 25, 2011; rate to be revised on January 25, 2011 and set at the 90-day bankers' acceptance rate plus 1.65%	**$150,000**	$150,000

13 CAPITAL STOCK

AUTHORIZED CAPITAL STOCK

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

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

ISSUED AND OUTSTANDING

		2010			2009		
	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	**$1.440**	**23,920,962**	**$259,363**	**$34,446**	23,913,963	$259,208	$32,453

(1) Non-cumulative dividends on preferred shares.

13 CAPITAL STOCK [CONT'D]

PREFERRED SHARES

Terms of shares

The Class A Preferred Shares, Series 9, are redeemable at the Bank's option since December 15, 2006 at a price of $25 each plus, if the redemption takes place before December 15, 2010, a premium of $1 which will decrease to zero depending on the redemption date.

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

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

COMMON SHARES

Issuance of common shares

During the year, 6,999 common shares (66,263 shares in 2009) were issued under the employee share purchase option plan for the management of the Bank for a cash consideration of $0.2 million ($1.7 million in 2009).

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

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

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

CAPITAL MANAGEMENT

Management's objective is to maintain an adequate level of capital, in line with its risk profile, to support the Bank's activities. Capital management also contributes to enhance shareholder value.

The Bank has an Internal Capital Adequacy Assessment Process (ICAAP) in place, which forms an integral part of the capital management planning process. 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 investors' and shareholders' expectations. While rating agencies do not assign credit ratings to the Bank based solely on capital levels, the Bank's capital must be consistent with the credit rating sought. As a result, the Bank's capital adequacy targets vary over time in line with these factors. The ICAAP starts with strategic planning, which sets main targets and priorities. The ensuing guidelines, combined with a report assessing the capital adequacy relative to the Bank's objectives, serve as inputs to the Capital Plan, which defines 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 monitors capital ratios on a monthly basis, 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.

Regulatory capital calculation is determined based on the guidelines issued by OSFI originating from the Bank for International Settlements' (BIS) regulatory risk-based capital framework. Tier 1 capital represents more permanent forms of capital, is free of mandatory fixed charges against earnings and has a subordinate legal position to the rights of depositors and other creditors of the financial institution. Tier 2 capital consists of supplementary capital instruments that contribute to the overall strength of a financial institution as a going concern. Total capital is defined as the sum of Tier 1 andTier 2 capital.

Regulatory capital requirements impose minimum levels of capital that have to be taken into consideration with the other factors mentioned above when assessing the Bank's capital adequacy. Under BIS standards, banks must maintain a minimum Tier 1 capital ratio of 4% and a total capital ratio of at least 8%. OSFI requires that Canadian deposit-taking financial institutions maintain a minimum Tier 1 capital ratio of 7% and a total capital ratio of at least 10%. The Bank opted for the standardized approach for credit risk and the basic indicator approach for operational risk. The Bank and its subsidiaries were in compliance with these requirements throughout the year.

Regulatory capital is detailed below.

REGULATORY CAPITAL

	2010	2009
Tier I capital		
Common shares	**$ 259,363**	$ 259,208
Contributed surplus	**243**	209
Retained earnings	**741,911**	665,538
Non-cumulative preferred shares	**210,000**	210,000
Goodwill	**(53,790)**	(53,790)
Securitization-related and other deductions	**(23,436)**	(35,341)
Total – Tier I capital	**1,134,291**	1,045,824
Tier II capital		
Subordinated debentures	**150,000**	150,000
General allowances	**73,250**	72,864
Securitization-related and other deductions	**(20,214)**	(32,822)
Total – Tier II capital	**203,036**	190,042
Total regulatory capital	**$1,337,327**	$1,235,866

14 ADDITIONAL INFORMATION REGARDING OTHER COMPREHENSIVE INCOME

OTHER COMPREHENSIVE INCOME

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

ACCUMULATED OTHER COMPREHENSIVE INCOME

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

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

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

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

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 2009) for the potential exercise of share purchase options, of which 124,962 were still available as at October 31, 2010 (124,962 in 2009).

No new share options were granted in 2010 and 2009.

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

		2010		2009
	NUMBER OF OPTIONS	**WEIGHTED AVERAGE EXERCISE PRICE PER OPTION**	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER OPTION
Outstanding at beginning of year	**61,074**	**$28.79**	127,338	$27.52
Exercised	**(6,999)**	**$22.13**	(66,263)	$26.35
Cancelled	**–**	**$ –**	(1)	$19.38
Outstanding at end of year	**54,075**	**$29.65**	61,074	$28.79
Exercisable at end of year	**41,575**	**$29.70**	36,074	$28.31

The following table summarizes information relating to share purchase options outstanding as at October 31, 2010.

	Options outstanding			**Options exercisable**	
Range of exercise prices	**NUMBER OF OPTIONS**	**WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)**	**WEIGHTED AVERAGE EXERCISE PRICE PER OPTION**	**NUMBER OF OPTIONS**	**WEIGHTED AVERAGE EXERCISE PRICE PER OPTION**
$29.47 – $31.80	**54,075**	**5.71**	**$29.65**	**41,575**	**$29.70**

STOCK APPRECIATION RIGHTS PLAN

The Bank offers a stock appreciation rights (SARs) plan to members of senior management of the Bank and its subsidiaries. These SARs may be cash settled for an amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs vest over a maximum period of five years and can be exercised over a maximum period of ten years. The expense related to these units is recognized in income over their vesting period. No SARs were granted during 2010 (29,000 SARs with an average exercise price of $35.53 in 2009).

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

STOCK APPRECIATION RIGHTS

	AVERAGE EXERCISE PRICE	NUMBER OF SARs OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF SARs EXERCISABLE
2010	**$34.01**	**517,510**	**6.06**	**258,235**
2009	$33.53	597,224	6.81	232,206

PERFORMANCE-BASED SHARE UNIT PLAN

The Bank offers a performance-based share unit (PSU) plan to certain members of senior management. The plan provides for the grant of performance-based share units calculated using a certain percentage of the plan member's salary. Under the plan, 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.

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

PERFORMANCE SHARE UNITS

	FOR THE YEARS ENDED OCTOBER 31			
	NUMBER OF UNITS GRANTED	VALUE OF UNITS GRANTED	VESTING DATE	NUMBER OF UNITS OUTSTANDING AS AT OCTOBER 31
2010	**50,926**	**$43.15**	**December 2012**	**136,851**
2009	42,724	$35.93	December 2011	81,424

RESTRICTED SHARE UNIT PLAN

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

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

RESTRICTED SHARE UNITS

	FOR THE YEARS ENDED OCTOBER 31				
	NUMBER OF UNITS CONVERTED(1)	NUMBER OF UNITS GRANTED	VALUE OF UNITS GRANTED	VESTING DATE	NUMBER OF UNITS OUTSTANDING AS AT OCTOBER 31
2010	**38,268**	**22,961**	**$43.15**	**December 2012**	**217,002**
2009	42,537	25,522	$35.93	December 2011	189,643

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

DEFERRED SHARE UNIT PLAN

The Bank offers a deferred share unit plan to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his or her remuneration in the form of deferred share units which can be settled in cash. The deferred share units are converted when the holder steps down from the Board of Directors. In 2010, the Bank paid out 2,944 deferred share units as compensation (2,565 in 2009). As at October 31, 2010, there were 4,333 units (1,389 in 2009) outstanding with a total value of $0.2 million ($0.1 million in 2009).

15 STOCK-BASED COMPENSATION (CONT'D)

EMPLOYEE SHARE PURCHASE PLAN

The Bank offers an employee share purchase plan. Under this plan, employees who meet the eligibility criteria can contribute up to 5% of their annual gross salary by way of payroll deductions. The Bank matches 30% of the employee contribution amount, up to a maximum of $1,500 per year. The Bank's contributions vest to the employee two years after each employee contribution. The Bank's contributions, totalling $0.4 million during fiscal 2010 ($0.3 million in 2009), are recognized in salaries and employee benefits. The average value of the granted shares under this plan was $43.02 in fiscal 2010 ($33.04 in 2009).

STOCK-BASED COMPENSATION PLAN EXPENSE

Stock-based compensation plan expense, net of the effect of hedging transactions, was $2.8 million for the year ended October 31, 2010 ($1.5 million for the year ended October 31, 2009). 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.

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

	2010	2009
Stock-based compensation plan expense	**$ 6,831**	$1,315
Effect of hedges	**(4,013)**	230
Total	**$ 2,818**	$1,545

16 EMPLOYEE FUTURE BENEFITS

DESCRIPTION OF BENEFIT PLANS

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

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

TOTAL CASH PAYMENTS

Total cash payments for future employee benefits for 2010, 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 $17.3 million ($84.4 million in 2009).

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 will be as at December 31, 2011 for all funded plans.

DEFINED BENEFIT PLAN OBLIGATIONS

	2010		2009	
	PENSION PLANS	**OTHER PLANS**	PENSION PLANS	OTHER PLANS
Change in accrued benefit obligation				
Accrued benefit obligation at beginning of year	**$346,107**	**$32,643**	$283,007	$32,397
Current service cost	**10,039**	**67**	8,086	57
Interest cost on accrued benefit obligation	**22,568**	**1,772**	21,245	2,087
Benefits paid	**(20,306)**	**(1,477)**	(17,759)	(1,465)
Employee contributions	**232**	**–**	130	–
Actuarial losses (gain)	**54,578**	**1,638**	51,398	(613)
Accrued benefit obligation at end of year	**$413,218**	**$34,643**	$346,107	$32,463

DEFINED BENEFIT PLAN ASSETS

	2010		2009	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	$390,602	$ –	$290,003	$ –
Actual return on plan assets	46,594	–	39,456	–
Bank contributions	10,720	–	78,317	–
Employee contributions	232	–	130	–
Benefits paid	(19,811)	–	(17,304)	–
Fair value of plan assets at end of year	$428,337	$ –	$390,602	$ –

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

	2010		2009	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Fair value of plan assets	$428,337	$ –	$390,602	$ –
Accrued benefit obligation	413,218	34,463	346,107	32,463
Funded status – plan surplus (deficit)	15,119	(34,463)	44,495	(32,463)
Unamortized transitional obligation	(735)	7,728	(471)	8,549
Unamortized past service costs	(8,879)	–	(9,764)	–
Unamortized net actuarial loss	116,855	13,850	84,514	12,936
Accrued benefit assets (liabilities) at end of year	$122,360	$(12,885)	$118,774	$(10,978)
Accrued benefit assets included in other assets	$127,349	$ –	$123,990	$ –
Accrued benefit liabilities included in other liabilities	$ 4,989	$ 12,885	$ 5,216	$ 10,978

ALLOCATION OF PLAN ASSETS AS A PERCENTAGE [1]

	2010	2009
Asset category		
Equity securities	61%	58%
Debt securities	38	41
Other	1	1
Total	100%	100%

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

Plan assets do not include any equity securities of the Bank as at October 31, 2010 and 2009.

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.

	2010		2009	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Accrued benefit obligation	$209,847	$ 34,463	$ 4,508	$ 32,463
Fair value of plan assets	200,089	–	–	–
Funded status – plan deficit	$ (9,758)	$(34,463)	$(4,508)	$(32,463)

16 EMPLOYEE FUTURE BENEFITS (CONT'D)

ELEMENTS OF DEFINED BENEFIT COSTS RECOGNIZED DURING THE YEAR:

	2010		2009	
	PENSION PLANS	**OTHER PLANS**	PENSION PLANS	OTHER PLANS
Current service cost	**$ 10,039**	**$ 67**	$ 8,086	$ 57
Interest cost on accrued benefit obligation	**22,568**	**1,772**	21,245	2,087
Actual return on plan assets	**(46,594)**	**–**	(39,456)	–
Actuarial losses (gain) on accrued benefit obligation	**54,578**	**1,638**	51,398	(613)
Elements of employee future benefit costs before adjustments to recognize their long-term nature	**40,591**	**3,477**	41,273	1,531
Excess of actual return over expected return	**18,793**	**–**	14,850	–
Deferral of amounts arising during the year:				
Actuarial gain (losses) on accrued benefit obligation	**(54,578)**	**(1,638)**	(51,398)	613
Amortization of previously deferred amounts:				
Past service costs	**(885)**	**–**	(885)	–
Actuarial differences	**3,444**	**724**	(96)	677
Transitional obligation	**265**	**821**	264	821
Adjustments to recognize long-term nature of employee future benefit costs	**(32,961)**	**(93)**	(37,265)	2,111
Total defined benefit costs	**7,630**	**3,384**	4,008	3,642
Total cost of defined contribution portion	**4,606**	**–**	4,167	–
Employee future benefit costs	**$ 12,236**	**$ 3,384**	$ 8,175	$3,642

SIGNIFICANT ASSUMPTIONS

	2010		2009	
	PENSION PLANS	**OTHER PLANS**	PENSION PLANS	OTHER PLANS
Weighted average of assumptions				
Accrued benefit obligation as at October 31:				
Discount rate at end of year	**5.40%**	**5.40%**	6.50%	6.50%
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	**6.50%**	**6.50%**	7.50%	7.50%
Expected long-term rate of return on plan assets	**7.25%**	**–**	7.25%	–
Rate of compensation increase	**3.50%**	**3.50%**	3.50%	3.50%

ASSUMED HEALTH CARE COST TREND RATES AS AT OCTOBER 31

	2010	2009
Assumed annual rate of increase in the cost of health care benefits	**9.4%**	10.0%
Level to which it should decline and at which it is assumed to subsequently stabilize	**4.0%**	4.0%
Year that the rate is assumed to stabilize	**2019**	2019

SENSITIVITY ANALYSIS

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2010.

	1% INCREASE	**1% DECREASE**
Total of service and interest cost	**$ 151**	**$ (127)**
Accrued benefit obligation	**$2,485**	**$(2,086)**

17 INCOME TAXES

FUTURE INCOME TAXES

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

	2010	2009
Future income tax assets		
Premises and equipment	**$ 15,168**	$ 25,832
Software	**11,551**	25,583
Allowance for loan losses	**22,068**	22,051
Tax loss carryforwards	**–**	6,793
Other temporary differences	**8,762**	6,353
	57,549	86,612
Future income tax liabilities		
Derivative financial instruments	**(8,118)**	(15,232)
Deferred charges	**(15,640)**	(15,174)
Accrued benefit assets – pension plans	**(29,318)**	(29,610)
Securitization and securities	**(16,414)**	(19,082)
	(69,490)	(79,098)
Future income taxes, net	**$(11,941)**	$ 7,514

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

	2010	2009
Future income tax assets	**$ 29,579**	$ 52,685
Future income tax liabilities	**(41,520)**	(45,171)
	$(11,941)	$ 7,514

Income tax loss carryforwards, as at October 31, 2010, were nil ($27.7 million in 2009).

INCOME TAX EXPENSE

Significant components of income tax expense are as follows:

	2010	2009
Consolidated statement of income		
Continuing operations		
Current income tax expense	**$17,929**	$ 9,929
Future income tax expense		
Reversal of temporary differences	**23,753**	26,919
Tax rate changes	**587**	–
	24,340	26,919
	42,269	36,848
Discontinued operations		
Future income tax expense	**–**	2,024
	$42,269	$38,872
Consolidated statement of comprehensive income		
Income taxes related to change in unrealized gains on available-for-sale securities	**$ 2,361**	$ 5,543
Income taxes related to reclassification of net (gains) losses on available-for-sale securities to net income	**(902)**	2,787
Income taxes related to net change in value of derivative instruments designated as cash flow hedges	**(6,343)**	(632)
	$ (4,884)	$ 7,698
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	**(4,363)**	(4,369)
	$ 347	$ 341

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.

	2010		2009	
	AMOUNT		AMOUNT	
Income taxes at statutory rates	**$50,027**	**30.3%**	$43,312	31.3%
Change resulting from:				
Resolution of income tax exposures	**(1,010)**	**(0.6)**	(2,418)	(1.7)
Tax rate changes	**587**	**0.4**	–	–
Dividends and tax-exempt gains	**(1,919)**	**(1.2)**	(1,626)	(1.2)
Income related to foreign credit insurance operations	**(4,891)**	**(3.0)**	(4,471)	(3.2)
Other	**(525)**	**(0.3)**	2,051	1.4
Income taxes from continuing operations, as reported in the consolidated statement of income	**$42,269**	**25.6%**	$36,848	26.6%

Income earned on foreign credit insurance operations would generally be taxed only upon repatriation to Canada. Since the Bank's management does not expect to repatriate income accumulated after July 27, 2006, no future income tax expense has been recognized on such income. Income taxes that would be payable if all unremitted earnings were repatriated are estimated at $15.9 million as at October 31, 2010 ($12.5 million as at October 31, 2009).

18 EARNINGS PER SHARE

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

	2010	2009
Earnings per share – basic		
Net income from continuing operations	**$ 122,941**	$ 101,664
Net income from discontinued operations[1]	**–**	11,469
Net income	**122,941**	113,133
Preferred share dividends, including related income taxes	**12,122**	12,116
Net income attributable to common shares from continuing operations	**$ 110,819**	$ 89,548
Average number of outstanding common shares	**23,920,529**	23,857,573
Earnings per share – basic		
Continuing operations	**$ 4.63**	$ 3.75
Discontinued operations	**–**	0.48
Total	**$ 4.63**	$ 4.23
Earnings per share – diluted		
Net income attributable to common shares from continuing operations	**$ 110,819**	$ 89,548
Average number of outstanding common shares	**23,920,529**	23,857,573
Dilutive share purchase options and other	**16,938**	18,029
Diluted weighted average number of outstanding common shares	**23,937,467**	23,875,602
Earnings per share – diluted		
Continuing operations	**$ 4.63**	$ 3.75
Discontinued operations	**–**	0.48
Total	**$ 4.63**	$ 4.23
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 28.
(2) The average number of share purchase options was not taken into account in the calculation of diluted earnings per share since the average exercise price of these options exceeded the average market price of the Bank's shares during 2009.

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

19 RELATED PARTY TRANSACTIONS

The Bank provides loans to directors and officers and their related companies. Loans to directors are granted under market conditions for similar risks and are measured at the exchange amount. Loans to officers consist mostly of term residential mortgage loans at posted rates less 2%, as well as personal loans and personal lines of credit at market rates less a discount based on the type and amount of the loan. Loans to related companies 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:

	2010	2009
Mortgage loans	**$ 1,159**	$ 303
Other loans	**15,699**	17,870
	$16,858	$18,173

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

20 FINANCIAL INSTRUMENTS – FAIR VALUE

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

CLASSIFICATION OF FAIR VALUE MEASUREMENTS IN THE FAIR VALUE HIERARCHY

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

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

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

20 FINANCIAL INSTRUMENTS – FAIR VALUE (CONT'D)

(in millions of dollars) **2010**

				FAIR VALUE HIERARCHY LEVEL OF FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE[1]		
	CARRYING AMOUNT	FAIR VALUE	FAVOURABLE (UNFAVOURABLE) VARIANCE	LEVEL 1	LEVEL 2	LEVEL 3
Assets						
Cash and non-interest-bearing deposits with other banks	$ 71	$ 71	$ –	$ n/a	$ n/a	$ n/a
Interest-bearing deposits with other banks	96	96	–	n/a	n/a	n/a
Securities accounts						
Available-for-sale	1,104	1,104	–	89	1,007	8
Held-for-trading	1,497	1,497	–	166	1,324	7
Designated as held-for-trading	1,658	1,658	–	–	1,658	–
Securities purchased under reverse repurchase agreements	804	804	–	n/a	n/a	n/a
Loans	17,405	17,628	223	n/a	n/a	n/a
Customers' liabilities under acceptances	165	165	–	n/a	n/a	n/a
Derivative financial instruments	163	163	–	–	157	6
Other assets	442	442	–	–	–	98
	$23,405	$23,628	$ 223	$255	$4,146	$119
Liabilities						
Deposits	$ 19,676	$ 19,887	$(211)	$ n/a	$ n/a	$ n/a
Obligations related to securities sold short	1,362	1,362	–	7	1,355	–
Obligations related to securities sold under repurchase agreements	60	60	–	n/a	n/a	n/a
Acceptances	165	165	–	n/a	n/a	n/a
Derivative financial instruments	199	199	–	–	100	99
Other liabilities	873	873	–	n/a	n/a	n/a
Subordinated debentures	150	151	(1)	n/a	n/a	n/a
	$ 22,485	$ 22,697	$(212)	$ 7	$1,455	$ 99

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

(in millions of dollars) 2009

				FAIR VALUE HIERARCHY LEVEL OF FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE[1]		
	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	–	58	1,357	9
Held-for-trading	1,391	1,391	–	54	1,325	12
Designated as held-for-trading	1,617	1,617	–	–	1,617	–
Securities 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	–	–	–	109
	$21,731	$21,964	$ 233	$112	$4,537	$146
Liabilities						
Deposits	$18,300	$18,527	$(227)	$ n/a	$ n/a	$ n/a
Obligations related to securities sold short	1,054	1,054	–	–	1,054	–
Obligations related to securities 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
	$20,914	$21,147	$(233)	$ –	$1,164	$ 65

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

DETERMINING FAIR VALUE

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

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

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

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

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

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

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

Securities accounts

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

Loans

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

Other assets

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

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

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

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 inputs. 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.

20 FINANCIAL INSTRUMENTS – FAIR VALUE (CONT'D)

Deposits

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

Obligations related to securities sold short

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

Subordinated 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 AND RECLASSIFICATION

There were no significant changes in fair value measurement methods during the year. However, during the year, the Bank reclassified government issued and corporate securities from Level 1 to Level 2 to reflect the use of valuation techniques with observable market inputs. As a result of the reclassification, the presentation of the fair values of these securities in the comparative figures as at October 31, 2009 was reviewed to conform to the current year presentation.

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. 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) **2010**

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

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

(in millions of dollars)								2009
		REALIZED/UNREALIZED NET GAINS (LOSSES) INCLUDED IN		MOVEMENTS				
	BALANCE AS AT OCT. 31, 2008	INCOME[1]	OTHER COMPREHENSIVE INCOME	PURCHASES AND ISSUANCES	SALES 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
Assets								
Securities accounts								
Available-for-sale	$ 11	$ (1)	$1	$ 3	$ (6)	$1	$ 9	$ (1)
Held-for-trading	15	–	–	11	(14)	–	12	–
Derivative financial instruments	24	20	–	–	(28)	–	16	(4)
Other assets	88	4	–	67	(50)	–	109	2
	$138	$ 23	$1	$ 81	$(98)	$1	$146	$ (3)
Liabilities								
Deposits								
Personal	$ (56)	$ –	$–	$ -	$ 56	$–	$ –	$ –
Derivative financial instruments	(53)	(14)	–	(11)	13	–	(65)	(13)
	$(109)	$(14)	$–	$(11)	$ 69	$–	$ (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.

SENSITIVITY ANALYSIS OF LEVEL 3 FINANCIAL INSTRUMENTS

As at October 31, 2010, retained interests related to securitization activities were included within Level 3 other assets for a fair value of $97.1 million. The sensitivity analysis for these instruments is disclosed in note 6. For other instruments, when other reasonably possible alternative assumptions were available for the valuation models, the Bank used these assumptions to recalculate the fair value of these instruments, resulting in a potential increase or decrease in total Level 3 fair value of $10.7 million.

21 FINANCIAL INSTRUMENTS – RISK MANAGEMENT

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

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

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

A) CREDIT RISK

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

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

21 FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONT'D)

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

The majority of the Bank's credit concentration in 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 replacement cost for the Bank. Replacement cost represents what it would cost to replace transactions at prevailing market rates in the event of a default. The credit equivalent amount arising from a derivative financial instrument transaction is defined as the sum of the replacement cost plus an estimated amount reflecting the potential change in market value of the transaction through to maturity. Note 22 provides additional information on credit exposure.

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

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

(in millions of dollars)	**2010**	2009
Financial assets, as stated in the consolidated balance sheet[1]	**$23,145**	$21,612
Credit commitments and other off-balance sheet items[2]	**4,876**	4,711
Total	**$28,021**	$26,323

(1) Excludes equity securities.
(2) Includes $2.4 billion ($2.1 billion in 2009) 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:

	2010	2009
Québec	**63%**	63%
Other Canadian provinces[1]	**37**	37
Total	**100%**	100%

(1) Mainly in the province of Ontario.

No single industry segment accounted for more than 3% (3% in 2009) of the total loans and customers' liabilities under acceptances.

Guarantees held in respect of loan portfolios

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

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

Commercial mortgage loans are 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 other personal and commercial loans in accordance with standard banking practices.

Other guarantees held

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

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

The following table summarizes the approximate market value of collateral pledged to the Bank in connection with assets purchased under reverse repurchase agreements and derivatives.

	2010	2009
Securities purchased under reverse repurchase agreements	**$803,874**	$536,064
Derivative financial instruments	**$ –**	$ 27,761

B) 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 without resorting to costly measures.

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, funding and collateral management. The main purpose of these policies is to ensure that the Bank has sufficient cash resources to meet its current and future financial obligations, under both normal and stressed conditions.

The Bank monitors cash resources daily and ensures that liquidity indicators are within established limits. Liquidity 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 funding and retail deposits. The Bank strives to maintain a stable volume of base deposits originating from its retail and brokerage clientele, as well as well-diversified funding sources. Funding strategies also include loan securitization and the issuance of equity or debt instruments through capital markets. A liquidity contingency plan is prepared and reviewed on a regular basis. It provides a detailed action plan that would enable the Bank to fulfill its obligations in the event of an internal or external liquidity crisis.

Contractual maturities of financial liabilities

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

					2010
		TERM			
	DEMAND AND NOTICE	**UNDER 1 YEAR**	**1 TO 5 YEARS**	**OVER 5 YEARS**	**TOTAL**
Deposits	**$7,012,644**	**$5,561,877**	**$7,082,806**	**$18,268**	**$19,675,595**
Obligations related to securities sold short	**–**	**1,362,336**	**–**	**–**	**1,362,336**
Obligations related to securities sold under repurchase agreements	**–**	**60,050**	**–**	**–**	**60,050**
Subordinated debentures	**–**	**150,000**	**–**	**–**	**150,000**
Derivative financial instruments[1]	**–**	**6,086**	**8,595**	**(346)**	**14,335**
	$7,012,644	**$7,140,349**	**$7,091,401**	**$17,922**	**$21,262,316**

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

21 FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONT'D)

					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 securities sold short	–	999,686	54,784	–	1,054,470
Obligations related to securities 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	$5,662,920	$7,372,663	$11,146	$19,796,943

(1) The obligations related to derivative financial instruments represent solely the theoretical payments related to derivatives designated as cash flow hedges and used for interest rate risk management whose net fair values were negative as at October 31. The notional amounts associated with the 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, 2010, these commitments amounted to approximately $2.5 billion ($2.6 billion as at October 31, 2009), excluding personal credit facilities and credit card lines since they are revocable at the Bank's option.

C) MARKET RISK

Market risk represents the financial losses that the Bank could incur following unfavourable fluctuations in the value of financial instruments subsequent to changes in the underlying factors used to measure them, such as interest rates, exchange rates or equity prices. Exposure to market risk arising from trading, investment, financing and asset and liability management activities is mainly monitored by notional limits, stress testing and various other sensitivity measures, such as value at risk (VaR).

Interest rate risk

Asset and liability management activities are designed to control structural interest rate risk, which 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 re-pricing 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 of options embedded in loan and deposit products. The Bank periodically assesses the effect on the economic value of common shareholders' equity and on its net interest income of a sudden and sustained 1% parallel change of the interest rate curve. The table below presents the estimated effect of such a change as at October 31. The estimates are based on a number of assumptions and factors, consistent with the guidelines approved by the Bank's Asset and Liability Management Committee, which include:

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

SENSITIVITY ANALYSIS OF THE STRUCTURAL INTEREST RATE RISK

	2010		2009	
	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	**$ 4,650**	**$(22,638)**	$ (4,779)	$(19,626)
Decrease of 100 basis points	**$(10,411)**	**$ 25,714**	$(21,506)	$ 22,682

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

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

(in millions of dollars)							2010
	FLOATING	0 TO 3 MONTHS	OVER 3 MONTHS TO 1 YEAR	OVER 1 YEAR TO 5 YEARS	OVER 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
Assets							
Cash, deposits and securities	$ 1,605	$ 393	$ 246	$ 1,980	$ 70	$ 131	$ 4,425
Actual return		1.2%	1.1%	1.6%	3.8%		
Assets purchased under reverse repurchase agreements	804	–	–	–	–	–	804
Loans	7,659	966	2,065	6,198	224	293	17,405
Actual return		4.9%	5.0%	5.0%	5.5%		
Other assets	–	–	–	–	–	1,166	1,166
Total	10,068	1,359	2,311	8,178	294	1,590	23,800
Actual return		3.8%	4.5%	4.2%	5.1%		
Liabilities and equity							
Deposits	2,927	2,701	4,708	8,735	18	587	19,676
Actual return		1.8%	2.2%	2.6%	3.5%		
Treasury items	1,208	159	55	–	–	–	1,422
Actual return		1.0%	1.1%	–%	–%		
Other liabilities	–	16	84	162	–	1,051	1,313
Actual return		3.4%	2.9%	3.3%	–%		
Debentures and equity	–	150	110	100	–	1,029	1,389
Actual return		4.9%	–%	–%	–%		
Total	4,135	3,026	4,957	8,997	18	2,667	23,800
Actual return		2.0%	2.2%	2.6%	3.5%		
Swaps, net	(12)	(4,597)	1,657	2,891	61	–	–
Sensitivity gap	5,921	(6,264)	(989)	2,072	337	(1,077)	–
Cumulative gap	$ 5,921	$ (343)	$(1,332)	$ 740	$1,077	$ –	$ –

(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	$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	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)	–	–
Sensivity gap	5,310	(6,189)	(1,009)	2,603	146	(861)	–
Cumulative gap	$5,310	$ (879)	$(1,888)	$ 715	$ 861	$ –	$ –

Maturity assumptions

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

- Deposits for which the interest rates are not indexed on a specific rate and which can be non-sensitive to changes in market rates are classified based on the historical trends in balances;
- Debentures for which interest rates can be revised at a future date are classified at the re-pricing date;
- Preferred shares are classified using the date on which they become redeemable.

21 FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONT'D)

Foreign exchange risk

Foreign exchange risk is 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. As at October 31, financial instruments denominated in U.S. dollars are detailed below.

(in thousands of Canadian dollars)	2010	2009
Assets		
Cash and Securities	**$142,833**	$ 47,431
Loans	**82,738**	64,644
Other	**26,980**	9,060
	$252,551	$121,135
Liabilities		
Deposits	**$150,697**	$118,251
Obligations related to securities sold short	**99,983**	5,592
Other	**235**	278
	$250,915	$124,121
Total exposure from above	**$ 1,636**	$ (2,986)

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

Deposit assets and deposit liabilities denominated in other foreign currencies, primarily in euros, amount to $10.8 million ($37.4 million in 2009) and $5.6 million ($20.5 million in 2009) respectively. Currencies other than U.S. dollars are bought and sold solely to meet specific customer needs. As a result, the Bank has limited exposure to these currencies.

Equity risk

Equity risk is defined as financial losses that the Bank may incur subsequent to adverse fluctuations in certain equity prices or the stock market in general. The Bank's equity positions consist primarily of Canadian publicly traded securities and, as a result, portfolio sensitivity mainly correlates to Canadian stock market performance. A portion of the Bank's equity positions is used to hedge index-linked deposits. The residual portion represents less than 3% (less than 3% in 2009) of the total securities portfolio. Therefore, a fluctuation in the Canadian stock market would not have a significant impact on the Bank's net income and shareholders' equity

22 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

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

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

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

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

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

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

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

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

AGGREGATE NOTIONAL AMOUNTS
(in millions of dollars)

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

(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[1]	OTHER CONTRACTS[2]
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

(1) Include notional amounts of $1.2 billion related to basis swaps ($1.7 billion in 2009).
(2) Include derivative financial instruments used in trading operations to meet customer demands and to earn trading income, as well as derivatives used to manage the Bank's risk exposures that do not qualify for hedge accounting.

22 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING (CONT'D)

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

(in millions of dollars)

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

(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

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

INFORMATION REGARDING HEDGING RELATIONSHIPS

Financial instruments designated as hedging instruments

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

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

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

		2010		2009
	CASH FLOW HEDGES	FAIR VALUE HEDGES	CASH FLOW HEDGES	FAIR VALUE HEDGES
Derivative contracts	$4,296 000	$2,158 850	$4,104,000	$2,591,250
Non-derivative instruments	$ –	$ 18,194	$ –	$ 16,997

Ineffective portions of hedging relationships

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

	2010	2009
Cash flow hedges	**$(593)**	$ 941
Fair value hedges	**161**	(462)
	$(432)	$ 479

Other information regarding hedging relationships

Net deferred losses of $7.6 million (net deferred gain of $21.2 million as at October 31, 2009), included in accumulated other comprehensive income as at October 31, 2010, 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 nine years as at October 31, 2010 (five years in 2009).

CREDIT EXPOSURE

(in millions of dollars)		**2010**				2009
	REPLACEMENT COST[1]	**CREDIT EQUIVALENT AMOUNT[2]**	**RISK-WEIGHTED AMOUNT[3]**	REPLACEMENT COST	CREDIT EQUIVALENT AMOUNT	RISK-WEIGHTED AMOUNT
Interest rate contracts						
Swaps	**$ 66**	**$116**	**$24**	$131	$181	$36
Foreign exchange contracts						
Foreign exchange swaps	**63**	**110**	**23**	61	117	24
Forwards	**6**	**16**	**11**	10	26	14
Options purchased	**4**	**6**	**3**	7	9	6
Equity- and index-linked contracts						
Options purchased	**3**	**6**	**1**	6	10	2
Total return swap	**-**	**8**	**2**	–	3	1
	$142	**$262**	**$64**	$215	$346	$83

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

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

23 INCOME RELATED TO FINANCIAL INSTRUMENTS HELD-FOR-TRADING

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

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

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

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

		2010
	FINANCIAL INSTRUMENTS	
	HELD-FOR-TRADING	DESIGNATED AS HELD-FOR-TRADING
Net interest income	$ 5,018	$49,929
Other income included in:		
Securitization income	(31,964)	23,841
Income from brokerage operations	18,616	–
Income from treasury and financial market operations	4,702	17
	$ (8,646)	$23,858

		2009
	FINANCIAL INSTRUMENTS	
	HELD-FOR-TRADING	DESIGNATED AS HELD-FOR-TRADING
Net interest income	$ 7,251	$44,900
Other income included in:		
Securitization income	(16,474)	12,236
Income from brokerage operations	22,863	–
Income from treasury and financial market operations	8,458	254
	$ 14,847	$12,490

24 COMMITMENTS AND GUARANTEES

CREDIT-RELATED COMMITMENTS

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

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

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

	2010	2009
Undrawn amounts under approved credit facilities[1]	$2,468,800	$2,581,176
Documentary letters of credit	$ 6,670	$ 8,675

(1) Exclude personal credit facilities totalling $1.4 billion ($1.3 billion as at October 31, 2009) and credit card lines amounting to $1.0 billion ($0.8 billion as at October 31, 2009) since they are revocable at the Bank's option.

GUARANTEES

Standby letters of credit and performance guarantees

In the normal course of its operations, the Bank offers its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that clients cannot meet their obligations to third parties. The term of these guarantees varies according to the contracts and normally does not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. No specific provision is currently recorded with regard to these guarantees. The maximum potential amount of future payments under these guarantees totalled $175.2 million as at October 31, 2010 ($157.1 million in 2009).

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 $201.8 million as at October 31, 2010 ($71.1 million in 2009).

Collateral received and pledged as security

As at October 31, 2010, the approximate market value of collateral pledged to the Bank that it can sell or re-pledge as security amounted to $803.9 million ($536.1 million as at October 31, 2009). This collateral pledged to the Bank as security was obtained under reverse repurchase and securities borrowing agreements. All collateral received was pledged as security in connection with obligations related to securities sold short.

Other indemnification agreements

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

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

As at October 31, 2010, 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
2011	**$ 28,378**	**$ 43,628**	**$ 2,665**	**$ 74,671**
2012	**27,515**	**42,399**	**2,665**	**72,579**
2013	**30,085**	**38,257**	**2,665**	**71,007**
2014	**17,448**	**31,927**	**2,665**	**52,040**
2015	**16,419**	**31,511**	**1,239**	**49,169**
Thereafter	**60,389**	**29,171**	**–**	**89,560**
Total	**$180,234**	**$216,893**	**$11,899**	**$409,026**

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

PLEDGED ASSETS

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

The following table details the granted guarantees.

	2010	2009
Pledged assets to participate in clearing and payment systems	**$456,660**	$470,335
Pedged assets for obligations related to securities sold under repurchase agreements	**60,050**	284,988
Pledged assets for obligations related to derivative financial instruments in a liability position	**95,362**	34,681
	$612,072	$790,004
Assets pledged are detailed as follows:		
Securities	**$354,040**	$588,044
Residential mortgage loans	**258,032**	201,960
	$612,072	$790,004

25 VARIABLE INTEREST ENTITIES

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

26 CONTINGENCIES

LITIGATION

Marcotte v. Banks class action

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

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

27 SEGMENTED INFORMATION

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

As of November 1, 2009, certain capital market activities which were previously reported in the Other segment are now reported with Laurentian Bank Securities activities under the newly formed Laurentian Bank Securities and Capital Markets business segment. In addition, foreign exchange and international services, which were also formerly reported in the other segment, are now reported in the Real Estate & Commercial segment. The Retail & SME Québec and B2B Trust business segments are not affected by this reorganization. Comparative figures were reclassified to conform to the current period presentation.

The Retail & 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 branches, the electronic network and the call centre, as well as Point-of-Sale financing across Canada. This business segment also offers Visa credit card services, insurance products and trust services. As well, it offers all commercial financial services to the small and medium-sized enterprises in Québec.

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

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

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

The Other segment includes treasury and securitization activities and other activities of the Bank, 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. The Bank accounts for inter-segment operations at their carrying amounts. 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.

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

						2009
	RETAIL & SME QUÉBEC	REAL ESTATE & COMMERCIAL	B2B TRUST	LAURENTIAN BANK SECURITIES AND CAPITAL MARKETS	OTHER[2]	TOTAL
Net interest income	$ 305,959	$ 67,598	$ 90,696	$ 2,354	$ (42,830)	$ 423,777
Other income	119,965	25,915	9,560	59,219	28,066	242,725
Total revenue	425,924	93,513	100,256	61,573	(14,764)	666,502
Provision for loan losses	41,887	9,817	4,296	–	–	56,000
Non-interest expenses	333,475	33,589	48,995	43,473	12,458	471,990
Income (loss) from continuing operations before income taxes	50,562	50,107	46,965	18,100	(27,222)	138,512
Income taxes (recovered)	10,939	15,686	14,873	6,124	(10,774)	36,848
Income (loss) from continuing operations	39,623	34,421	32,092	11,976	(16,448)	101,664
Income from discontinued operations, net of income taxes	11,469	–	–	–	–	11,469
Net income (loss)	$ 51,092	$ 34,421	$ 32,092	$ 11,976	$ (16,448)	$ 113,133
Average assets[1]	$11,088,422	$2,421,461	$4,294,187	$1,887,228	$792,543	$ 20,483,841

(1) Assets and liabilities are disclosed on an average basis, as this measure is most relevant to a financial institution.
(2) The 2010 and 2009 effective tax rates were influenced by a number of items – see note 17 related to income taxes.

28 DISCONTINUED OPERATIONS

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 $5.4 million ($5.2 million, net of income taxes) under income from discontinued operations and a deferred gain of $26.2 million related to certain recovery clauses.

Recovery clauses

Under a recovery clause, the Bank was required to repay Industrial Alliance an annual amount of $5.2 million ($4.4 million, net of income taxes) for the five years following the sale if net annual sales of mutual funds did not reach $50.0 million 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 reached $290.0 million, 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 $5.2 million remainder of the selling price in income, in light of net sales to date. Moreover, if cumulative net sales of mutual funds reached $350.0 million for the five-year period ended December 31, 2009, the Bank was eligible to an additional payment. Under this clause, the Bank recognized the final adjustment to the selling price of $8.3 million in 2009 ($7.0 million, 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 $76.1 million.

29 SUBSEQUENT EVENTS

Debt issuance

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

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

Subordinated Debenture Redemption Notice

On December 6, 2010, the Bank announced its intention to redeem, on January 25, 2011, all of its 4.90% Subordinated Debentures, Series 10, maturing in 2016, with an aggregate notional amount of $150.0 million. The Debentures will be redeemed at par plus accrued and unpaid interest to the date of redemption. The Bank obtained from OSFI the required approval to complete this transaction.

STATISTICAL REVIEW – CONSOLIDATED BALANCE SHEET

Unaudited, as at October 31 (in thousands of dollars)	2010	2009	2008	2007	2006	AVERAGE ANNUAL VARIANCE 10 / 06
ASSETS						
Cash and non-interest-bearing deposits with other banks	**$ 70,537**	$ 61,010	$ 54,410	$ 65,245	$ 70,907	–%
Interest-bearing deposits with other banks	**95,561**	239,606	94,291	283,255	98,722	(1)
Securities						
Issued or guaranteed by Canada	**2,538,189**	2,864,454	2,415,863	1,615,695	2,019,524	6
Issued or guaranteed by provinces and municipal corporations	**1,029,726**	1,157,180	466,735	446,401	581,384	15
Other securities	**690,890**	410,549	607,574	612,283	641,372	2
	4,258,805	4,432,183	3,490,172	2,674,379	3,242,280	7
Securities purchased under reverse repurchase agreements	**803,874**	536,064	661,391	540,304	802,546	–
Loans						
Personal	**5,630,788**	5,655,055	5,694,574	5,222,217	4,379,016	6
Residential mortgage	**8,582,548**	7,219,830	6,182,871	6,232,778	5,985,656	9
Commercial mortgage	**1,638,861**	1,285,012	932,688	684,625	659,014	26
Commercial and other	**1,691,190**	1,555,956	1,454,799	1,292,790	1,265,987	8
	17,543,387	15,715,853	14,264,932	13,432,410	12,289,673	9
Allowance for loan losses	**(138,143)**	(114,546)	(112,434)	(115,322)	(125,153)	2
	17,405,244	15,601,307	14,152,498	13,317,088	12,164,520	9
Other						
Customers' liability under acceptances	**165,450**	216,817	110,342	111,891	149,818	3
Premises and equipment	**58,536**	58,163	59,927	56,053	47,520	5
Other assets	**941,996**	1,019,630	956,441	738,631	719,646	7
	1,165,982	1,294,610	1,126,710	906,575	916,984	6
	$23,800,003	$22,164,780	$19,579,472	$17,786,846	$17,295,959	8%
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits						
Personal	**$15,424,776**	$15,138,637	$12,430,038	$11,564,530	$10,949,473	9%
Business, banks and other	**4,250,819**	3,161,329	2,903,774	2,314,178	2,145,028	19
	19,675,595	18,299,966	15,333,812	13,878,708	13,094,501	11
Other						
Obligations related to securities sold short or under repurchase agreements	**1,422,386**	1,339,458	1,955,332	1,797,662	2,177,394	(10)
Acceptances	**165,450**	216,817	110,342	111,891	149,818	3
Other liabilities	**1,147,157**	987,313	946,551	843,904	777,826	10
	2,734,993	2,543,588	3,012,225	2,753,457	3,105,038	(3)
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	**259,363**	259,208	257,462	256,445	251,158	1
Contributed surplus	**243**	209	173	105	518	(17)
Retained earnings	**741,911**	665,538	596,974	537,254	485,334	11
Treasury shares	**–**	–	–	–	(590)	(100)
Accumulated other comprehensive income	**27,898**	36,271	18,826	877	–	n.a.
	1,239,415	1,171,226	1,083,435	1,004,681	946,420	7
	$23,800,003	$22,164,780	$19,579,472	$17,786,846	$17,295,959	8%

STATISTICAL REVIEW – CONSOLIDATED STATEMENT OF INCOME

Unaudited, as at or for the years ended October 31 (in thousands of dollars, except per share and percentage amounts)	2010	2009	2008	2007	2006	AVERAGE ANNUAL VARIANCE 10 / 06
Interest income						
Loans	**$ 757,677**	$ 719,538	$ 837,532	$ 837,092	$ 755,009	–%
Securities	**72,975**	71,373	60,873	58,000	70,446	1
Deposits with other banks	**298**	3,903	26,360	13,802	11,721	(60)
Other	**116,273**	137,275	30,190	–	3,277	144
	947,223	932,089	954,955	908,894	840,453	3
Interest expense						
Deposits	**440,053**	493,812	508,403	466,867	438,335	–
Other liabilities	**3,011**	6,765	33,547	44,089	32,197	(45)
Subordinated debentures	**7,738**	7,735	7,742	7,738	12,714	(12)
	450,802	508,312	549,692	518,694	483,246	(2)
Net interest income	**496,421**	423,777	405,263	390,200	357,207	9
Other income	**241,025**	242,725	225,218	193,726	182,600	7
Total revenue	**737,446**	666,502	630,481	583,926	539,807	8
Provision for loan losses	**68,000**	56,000	48,500	40,000	40,000	14
Non-interest expenses						
Salaries and employee benefits	**275,964**	249,658	236,280	229,290	213,583	7
Premises and technology	**132,540**	120,054	119,192	111,559	108,151	5
Other	**95,732**	102,278	90,519	86,561	89,081	2
	504,236	471,990	445,991	427,410	410,815	5
Income from continuing operations before income taxes	**165,210**	138,512	135,990	116,516	88,992	17
Income taxes	**42,269**	36,848	37,882	26,394	23,436	16
Income from continuing operations	**122,941**	101,664	98,108	90,122	65,556	17
Income from discontinued operations, net of income taxes	**–**	11,469	4,423	4,423	4,776	(100)
Net income	**$ 122,941**	$ 113,133	$ 102,531	$ 94,545	$ 70,332	15%
Preferred share dividends, including applicable income taxes	**$ 12,122**	$ 12,116	$ 11,818	$ 11,966	$ 11,766	1%
Net income available to common shareholders	**$ 110,819**	$ 101,017	$ 90,713	$ 82,579	$ 58,566	17%
Common share dividends	**$ 34,446**	$ 32,453	$ 30,993	$ 27,474	$ 27,356	6%
Average number of common shares outstanding (in thousands)						
Basic	**23,921**	23,858	23,837	23,678	23,605	–%
Diluted	**23,937**	23,876	23,880	23,728	23,649	–%
Earnings per share from continuing operations						
Basic	**$ 4.63**	$ 3.75	$ 3.62	$ 3.30	$ 2.28	19%
Diluted	**$ 4.63**	$ 3.75	$ 3.61	$ 3.29	$ 2.28	19%
Earnings per share						
Basic	**$ 4.63**	$ 4.23	$ 3.81	$ 3.49	$ 2.48	17%
Diluted	**$ 4.63**	$ 4.23	$ 3.80	$ 3.48	$ 2.48	17%
Dividends declared per common share	**$ 1.44**	$ 1.36	$ 1.30	$ 1.16	$ 1.16	6%
Dividend payout ratio	**31.1%**	32.1%	34.2%	33.3%	46.7%	
Book value per common share	**$ 41.87**	$ 38.68	$ 35.84	$ 33.34	$ 31.18	8%
Return on common shareholders' equity	**11.5%**	11.4%	11.0%	10.9%	8.2%	
Net interest income (as a percentage of average assets)	**2.15%**	2.07%	2.21%	2.31%	2.14%	
Provision for loan losses (as a percentage of average loans and acceptances)	**0.40%**	0.38%	0.35%	0.31%	0.33%	
Average assets	**23,093,418**	20,483,841	18,339,811	16,859,605	16,691,478	8%
Number of full-time equivalent employees	**3,643**	3,528	3,393	3,289	3,238	3%
Number of branches	**157**	156	156	157	158	–%
Number of automated banking machines	**413**	408	342	338	325	6%

QUARTERLY HIGHLIGHTS

(in thousands of dollars, except per share and percentage amounts)				2010				2009
Unaudited, as at or for the quarters ended	OCT. 31	JULY 31	APRIL 30	JAN. 31	OCT. 31	JULY 31	APRIL 30	JAN. 31
Interest income	$ 243,471	$ 242,360	$ 226,877	$ 234,515	$ 237,750	$ 237,290	$ 222,647	$ 234,402
Interest expense	115,269	112,490	109,244	113,799	119,515	124,524	128,574	135,699
Net interest income	128,202	129,870	117,633	120,716	118,235	112,766	94,073	98,703
Other income	61,872	58,940	60,480	59,733	60,305	63,891	60,695	57,834
Total revenue	190,074	188,810	178,113	180,449	178,540	176,657	154,768	156,537
Provision for loan losses	16,000	20,000	16,000	16,000	16,000	16,000	12,000	12,000
Non-interest expenses	132,484	127,820	123,549	120,383	128,143	119,081	114,034	110,732
Income from continuing operations before income taxes	41,590	40,990	38,564	44,066	34,397	41,576	28,734	33,805
Income taxes	9,076	10,926	10,215	12,052	7,618	12,893	7,579	8,758
Income from continuing operations	32,514	30,064	28,349	32,014	26,779	28,683	21,155	25,047
Income from discontinued operations, net of income taxes	–	–	–	–	11,469	–	–	–
Net income	$ 32,514	$ 30,064	$ 28,349	$ 32,014	$ 38,248	$ 28,683	$ 21,155	$ 25,047
Preferred share dividends, including applicable income taxes	$ 2,899	$ 3,075	$ 3,074	$ 3,074	$ 3,066	$ 2,824	$ 3,004	$ 3,222
Net income available to common shareholders	$ 29,615	$ 26,989	$ 25,275	$ 28,940	$ 35,182	$ 25,859	$ 18,151	$ 21,825
Net interest income (as a percentage of average assets)	2.15%	2.22%	2.10%	2.13%	2.19%	2.15%	1.92%	2.00%
Provision for loan losses (as a percentage of average loans and acceptances)	0.36%	0.46%	0.39%	0.39%	0.41%	0.42%	0.34%	0.33%
Average assets	$23,688,890	$23,234,924	$22,950,062	$22,495,121	$21,413,643	$20,789,022	$20,111,040	$19,609,501
Return on common shareholders' equity	11.8%	11.0%	10.9%	12.3%	15.3%	11.6%	8.5%	10.0%
Average number of common shares outstanding (in thousands)								
Basic	23,921	23,921	23,921	23,919	23,878	23,854	23,849	23,848
Diluted	23,939	23,938	23,937	23,935	23,903	23,872	23,855	23,872
Earnings per share from continuing operations								
Basic	$ 1.24	$ 1.13	$ 1.06	$ 1.21	$ 0.99	$ 1.08	$ 0.76	$ 0.92
Diluted	$ 1.24	$ 1.13	$ 1.06	$ 1.21	$ 0.99	$ 1.08	$ 0.76	$ 0.91
Earnings per share								
Basic	$ 1.24	$ 1.13	$ 1.06	$ 1.21	$ 1.47	$ 1.08	$ 0.76	$ 0.92
Diluted	$ 1.24	$ 1.13	$ 1.06	$ 1.21	$ 1.47	$ 1.08	$ 0.76	$ 0.91
Dividends per common share	$ 0.36	$ 0.36	$ 0.36	$ 0.36	$ 0.34	$ 0.34	$ 0.34	$ 0.34
Book value per common share	$ 41.87	$ 40.99	$ 40.22	$ 39.52	$ 38.68	$ 37.57	$ 36.83	$ 36.41
Share price – Close	$ 44.25	$ 46.00	$ 44.12	$ 38.03	$ 39.53	$ 35.75	$ 28.80	$ 29.07
Common share dividends	$ 8,612	$ 8,611	$ 8,612	$ 8,611	$ 8,124	$ 8,111	$ 8,109	$ 8,109
Balance sheet assets	$23,800,003	$23,576,830	$23,089,013	$23,183,907	$22,164,780	$21,316,400	$20,403,137	$19,868,147
Risk-weighted assets	$10,388,050	$10,244,069	$ 9,924,365	$ 9,708,653	$ 9,480,823	$ 9,410,447	$ 9,869,714	$ 9,677,216
Tier 1 capital – BIS	$ 1,134,291	$ 1,098,670	$ 1,081,593	$ 1,066,390	$ 1,045,824	$ 1,015,251	$ 989,048	$ 976,343
Total regulatory capital – BIS	$ 1,337,327	$ 1,285,421	$ 1,270,338	$ 1,255,570	$ 1,235,866	$ 1,205,720	$ 1,181,510	$ 1,169,558
Tier 1 BIS capital ratio	10.9%	10.7%	10.9%	11.0%	11.0%	10.8%	10.0%	10.1%
Total BIS capital ratio	12.9%	12.5%	12.8%	12.9%	13.0%	12.8%	12.0%	12.1%
Assets to capital multiple	17.9x	18.4x	18.3x	18.6x	18.0x	17.8x	17.3x	17.1x