Consolidated financial statements

AS AT OCTOBER 31, 2008 AND 2007

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

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

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

RÉJEAN ROBITAILLE
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

ROBERT CARDINAL
SENIOR EXECUTIVE VICE-PRESIDENT
AND CHIEF FINANCIAL OFFICER

MONTRÉAL, CANADA
DECEMBER 4, 2008

AUDITORS' REPORT TO THE SHAREHOLDERS OF LAURENTIAN BANK OF CANADA

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

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

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

Ernst & Young LLP

CHARTERED ACCOUNTANTS

MONTRÉAL, CANADA
DECEMBER 4, 2008

CONSOLIDATED BALANCE SHEET

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

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

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

RÉJEAN ROBITAILLE
PRESIDENT AND CHIEF EXECUTIVE OFFICER

CONSOLIDATED STATEMENT OF INCOME

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

Notes to consolidated financial statements

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

NO 1.
GENERAL

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

NO 2.
BASIS OF PRESENTATION

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

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

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

2.1 BASIS OF CONSOLIDATION

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

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

2.2 NEW ACCOUNTING STANDARDS ADOPTED DURING FISCAL 2008

Capital disclosures and Disclosure and presentation of financial instruments

On December 1, 2006, the CICA issued three new accounting standards: Section 1535, *Capital Disclosures*; Section 3862, *Financial Instruments – Disclosures*; and Section 3863, *Financial Instruments – Presentation*. The Bank adopted these disclosure standards on November 1, 2007. The adoption of these new accounting standards had no effect on the recognition or measurement of financial instruments or capital.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; and (iii) whether the entity has complied with any capital requirements and the consequences of non-compliance with such requirements. Information on this new standard is provided in note 13 to these consolidated financial statements.

Sections 3862 and 3863 supersede Section 3861, *Financial Instruments – Disclosure and Presentation,* detailing all the disclosure requirements and presentation rules applicable to financial instruments. These new standards require additional disclosures about the nature and extent of risks arising from financial instruments to which the Bank is exposed and how it manages those risks. These consolidated financial statements, particularly notes 4, 5, 20 and 22 hereto, include disclosure relative to these new standards.

2. BASIS OF PRESENTATION (CONT'D)

Amendments to permit reclassification of financial assets in specified circumstances

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

2.3 FUTURE ACCOUNTING POLICY CHANGES

Goodwill and other intangible assets

In November 2007, the Canadian Accounting Standards Board (AcSB) approved new Section 3064, *Goodwill and Intangible Assets,* which supersedes Section 3062, *Goodwill and Other Intangible Assets,* and Section 3450, *Research and Development Costs.* New Section 3064 establishes criteria for the recognition of internally developed intangible assets. The AcSB also approved amendments to Section 1000, *Financial Statement Concepts*, and Accounting Guideline AcG-11, *Enterprises in the Development Stage*. These amendments provide consistency with Section 3064. In addition, EIC-27, *Revenues and Expenditures during the Pre-operating Period,* will no longer apply to entities that have adopted Section 3064. These changes, which are being adopted retrospectively with restatement of prior periods, will be effective for the Bank as of November 1, 2008. The Bank anticipates that the adoption of Section 3064 will have no significant effect on the consolidated financial statements.

International Financial Reporting Standards

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

NO 3.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 FINANCIAL INSTRUMENTS

Held-for-trading financial instruments

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

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

Financial instruments designated as held-for-trading

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

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

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

Available-for-sale assets

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

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

Held-to-maturity financial assets

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

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

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

Loans

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

Impaired loans

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

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

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

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

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

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

Foreclosed assets

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

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

Allowances for losses

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

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

Specific allowances for loan losses

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

General allowances for loan losses

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

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

Acceptances and customers' liabilities under acceptances

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

Loan securitization

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

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

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

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

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

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

Derivative financial instruments and hedges

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

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

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

Fair value hedges

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

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

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

Cash flow hedges

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

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

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

Other considerations

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

Deposits

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

Indexed deposit contracts

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

Subordinated debentures

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

Measuring the fair value of financial instruments

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

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

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

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

3.2 PROPERTY, PLANT AND EQUIPMENT

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

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

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

3.3 GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

3.4 EMPLOYEE FUTURE BENEFITS

Pension plans

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

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

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

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

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

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

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

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

Other plans

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

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

3.5 INCOME TAXES

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

3.6 NET INCOME PER COMMON SHARE

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

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

3.7 STOCK-BASED COMPENSATION

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

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

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

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

3.8 ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

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

3.9 TRANSLATION OF FOREIGN CURRENCIES

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

3.10 CASH AND CASH EQUIVALENTS

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

NO 4.
SECURITIES

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

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

Portfolio of held-for-trading securities

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

Portfolio of securities designated as held-for-trading

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

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

4. SECURITIES (CONT'D)

GAINS AND LOSSES RECOGNIZED IN INCOME

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

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

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

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

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

Assessing whether impairment is other than temporary requires judgment. The period of time the security is impaired and the amount by which its fair value is below cost are the major factors considered in making the impairment assessment. In addition, the Bank considered other factors such as bankruptcy, capital restructuring or dilution, significant modifications in the issuer's operations or other uncertainties. The Bank must also assert its intent to hold the security until recovery. Using possible alternative assumptions may have resulted in write-downs of, at most, $20,682,000, representing the total unrealized losses as at October 31, 2008.

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

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

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

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

GAINS AND LOSSES RECOGNIZED IN OTHER COMPREHENSIVE INCOME

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

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

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

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

MONTRÉAL ACCORD ON ASSET-BACKED COMMERCIAL PAPER

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

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

ABCP Asset-backed commercial paper
ABS Asset-backed securities

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

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

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

OTHER CONSIDERATIONS

Fair value measurement

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

U.S. dollar-denominated securities

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

NO 5. LOANS

LOANS AND IMPAIRED LOANS

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

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

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

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

SPECIFIC ALLOWANCES FOR LOAN LOSSES

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

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

GENERAL ALLOWANCES FOR LOAN LOSSES

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

LOANS PAST DUE BUT NOT IMPAIRED

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

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

NO 6.
LOAN SECURITIZATION

RESIDENTIAL MORTGAGE LOANS

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

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

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

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

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

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

No loss is expected on insured residential mortgages.

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

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

Financial instruments designated as held-for-trading

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

6. LOAN SECURITIZATION (CONT'D)

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

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

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

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

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

LOANS UNDER MANAGEMENT

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

COMMERCIAL MORTGAGE LOANS

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

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

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

NO 7.
PROPERTY, PLANT AND EQUIPMENT

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

Depreciation expense for the year recognized in the consolidated statement of income was $29,329,000 ($26,874,000 in 2007).

Computer hardware and software included $15,105,000 ($13,590,000 in 2007) pertaining to projects under development yet to be depreciated.

In 2008, a $2,200,000 loss related to technological development costs was recognized in income in technology expenses.

NO 8. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is related to the Retail Financial Services segment.

Other intangible assets consist of the following:

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

The other intangible assets consist of contractual relations with financial intermediaries and customer relationships and are amortized over a 15-year period. Amortization of other intangible assets recorded in the consolidated statement of income during the year was $1,219,000 ($1,219,000 in 2007).

The Bank tests goodwill and other intangible assets for impairment on an annual basis. No impairment was identified in 2008 and 2007.

NO 9. OTHER ASSETS

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

NO 10. DEPOSITS

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

10. DEPOSITS (CONT'D)

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

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

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

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

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

NO 11.
OTHER LIABILITIES

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

NO 12.
SUBORDINATED DEBENTURES

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

Issued and outstanding

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

NO 13.
CAPITAL STOCK

AUTHORIZED CAPITAL STOCK

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

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

ISSUED AND OUTSTANDING

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

(1) Non-cumulative dividends on preferred shares

PREFERRED SHARES

Terms of shares

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

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

COMMON SHARES

Issuance of common shares

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

TREASURY SHARES

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

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

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

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

CAPITAL MANAGEMENT

Common shareholders' equity

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

13. CAPITAL STOCK (CONT'D)

Regulatory capital

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

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

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

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

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

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

NO 14.
ADDITIONAL INFORMATION REGARDING OTHER COMPREHENSIVE INCOME

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

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

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

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

NO 15. STOCK-BASED COMPENSATION

SHARE PURCHASE OPTION PLAN

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

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

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

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

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

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

15. STOCK-BASED COMPENSATION (CONT'D)

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

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

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

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

STOCK APPRECIATION RIGHTS (SARs) PLAN

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

PERFORMANCE-BASED SHARE UNIT PLAN

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

RESTRICTED SHARE UNIT PLAN

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

GRANT OF PERFORMANCE-BASED SHARES

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

DEFERRED SHARE UNIT PLAN

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

EMPLOYEE SHARE PURCHASE PLAN

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

STOCK-BASED COMPENSATION PLAN EXPENSE

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

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

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

NO 16. EMPLOYEE FUTURE BENEFITS

DESCRIPTION OF EMPLOYEE BENEFIT PLANS

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

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

TOTAL CASH PAYMENTS

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

16. EMPLOYEE FUTURE BENEFITS (CONT'D)

DEFINED BENEFIT PLAN MEASUREMENT DATES

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

DEFINED BENEFIT PLAN OBLIGATIONS

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

DEFINED BENEFIT PLAN ASSETS

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

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

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

ALLOCATION OF PLAN ASSETS AS A PERCENTAGE (1)

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

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

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

PLANS WITH ACCRUED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS

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

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

ELEMENTS OF DEFINED BENEFIT COSTS RECOGNIZED DURING THE YEAR

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

16. EMPLOYEE FUTURE BENEFITS (CONT'D)

SIGNIFICANT ASSUMPTIONS

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

ASSUMED HEALTH CARE COST TREND RATES AS AT OCTOBER 31

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

SENSITIVITY ANALYSIS

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

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

NO 17.
INCOME TAXES

FUTURE INCOME TAXES

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

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

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

INCOME TAX EXPENSE

Significant components of income tax expense are as follows:

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

RECONCILIATION WITH THE STATUTORY RATE

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

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

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

NO 18.
NET INCOME PER SHARE

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

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

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

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

NO 19.
RELATED PARTY TRANSACTIONS

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

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

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

NO 20. RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS

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

MARKET RISK

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

Interest rate risk

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

Foreign exchange risk

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

Equity price risk

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

CREDIT RISK

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

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

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

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

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

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

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

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

LIQUIDITY RISK

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

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

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

NO 21. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

AGGREGATE NOTIONAL AMOUNTS

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

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

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

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

INFORMATION REGARDING HEDGING RELATIONSHIPS

Breakdown of swap contracts designated as hedging instruments, by type

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

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

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

Ineffective portions of hedging relationships

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

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

Other information regarding hedging relationships

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

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

CREDIT EXPOSURE

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

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

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

NO 22.
FINANCIAL INSTRUMENTS

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

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

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

FAIR VALUE OF ASSETS AND LIABILITIES

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

Methods and assumptions used in estimating fair value of financial instruments

Financial instruments measured at the carrying amount

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

Securities

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

Loans

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

Derivative financial instruments

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

Deposits

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

Subordinated debentures

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

Other assets and liabilities

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

INTEREST RATE RISK

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

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

22. FINANCIAL INSTRUMENTS (CONT'D)

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

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

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

CONCENTRATION OF CREDIT RISK

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

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

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

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

GUARANTEES HELD

Guarantees in respect of loan portfolios

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

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

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

Other guarantees held

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

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

CONTRACTUAL MATURITIES OF FINANCIAL LIABILITIES

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

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

NO 23. COMMITMENTS AND GUARANTEES

CREDIT-RELATED COMMITMENTS

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

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

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

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

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

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

GUARANTEES

Standby letters of credit and performance guarantees

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

Derivative financial instruments

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

23. COMMITMENTS AND GUARANTEES (CONT'D)

Collateral received and pledged as security

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

Other indemnification agreements

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

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

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

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

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

PLEDGED ASSETS

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

The following table details the granted guarantees:

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

NO 24.
VARIABLE INTEREST ENTITIES

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

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

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

NO 25.
CONTINGENCIES

LITIGATION

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

NO 26.
SEGMENTED INFORMATION

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

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

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

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

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

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

26. SEGMENTED INFORMATION (CONT'D)

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

						2008
	RETAIL AND SME-QUÉBEC	REAL ESTATE AND COMMERCIAL	B2B TRUST	LAURENTIAN BANK SECURITIES	OTHER (8)	TOTAL
Net interest income	$ 299,336	$ 55,201	$ 87,297	$ 2,968	$ (39,539)	$ 405,263
Other income (2)	115,894	16,195	10,548	29,437	53,144	225,218
Total revenue	415,230	71,396	97,845	32,405	13,605	630,481
Provision for loan losses (3)	33,583	5,374	1,543	–	8,000	48,500
Non-interest expenses (4)	326,871	23,356	43,681	29,683	22,400	445,991
Income (loss) from continuing operations before income taxes	54,776	42,666	52,621	2,722	(16,795)	135,990
Income taxes (recovered) (5)	13,785	14,109	17,748	1,008	(8,768)	37,882
Income (loss) from continuing operations	40,991	28,557	34,873	1,714	(8,027)	98,108
Income from discontinued operations, net of income taxes	4,423	–	–	–	–	4,423
Net income (loss)	$ 45,414	$ 28,557	$ 34,873	$ 1,714	$ (8,027)	$ 102,531
Average assets (1)	$10,133,360	$2,117,970	$3,882,801	$1,480,007	$725,673	$18,339,811

						2007
	RETAIL AND SME-QUÉBEC (6)	REAL ESTATE AND COMMERCIAL	B2B TRUST	LAURENTIAN BANK SECURITIES	OTHER (8)	TOTAL
Net interest income	$ 284,248	$ 45,873	$ 80,977	$ 1,961	$ (22,859)	$ 390,200
Other income (7)	113,687	16,156	11,510	37,617	14,756	193,726
Total revenue	397,935	62,029	92,487	39,578	(8,103)	583,926
Provision for loan losses	29,216	6,737	4,047	–	–	40,000
Non-interest expenses	310,543	22,886	42,383	30,655	20,943	427,410
Income (loss) from continuing operations before income taxes	58,176	32,406	46,057	8,923	(29,046)	116,516
Income taxes (recovered)	15,237	10,854	15,577	1,836	(17,110)	26,394
Income (loss) from continuing operations	42,939	21,552	30,480	7,087	(11,936)	90,122
Income from discontinued operations, net of income taxes	4,423	–	–	–	–	4,423
Net income (loss)	$ 47,362	$ 21,552	$ 30,480	$ 7,087	$ (11,936)	$ 94,545
Average assets (1)	$ 9,335,324	$ 1,852,679	$ 3,123,334	$1,503,601	$1,044,667	$16,859,605

NOTES

(1) Assets and liabilities are disclosed on an average basis, as this measure is most relevant to a financial institution.

(2) In 2008, other income in the Other segment included (i) a $12.9 million gain ($11.1 million, net of income taxes) on the sale of the shares of the Montréal Exchange as a result of the business combination of the Montréal Exchange with the TSX Group; (ii) losses of $5.3 million ($3.6 million, net of income taxes) on the sale of other securities; (iii) an $8.1 million charge ($5.5 million, net of income taxes) write-down on certain available-for-sale securities.

(3) In 2008, the provision for credit losses in the Other segment included an $8.0 million charge ($5.5 million, net of income taxes) resulting from an increase in the general allowance for loan losses.

(4) In 2008, the Other segment non-interest expense included a $2.2 million charge ($1.5 million, net of income taxes) resulting from the write-off of technological development costs.

(5) In 2008, the Other segment income taxes included a $5.6 million adjustment relfecting the decrease in value of the Bank's future income tax assets as a result of further reductions in federal income tax rates.

(6) Results for fiscal 2007 included a $4.0 million gain ($3.3 million, net of income taxes) from the worldwide restructuring of Visa (note 27).

(7) During fiscal 2007, the IPO of the Montréal Exchange triggered a $21.7 million ($18.2 million, net of income taxes) revaluation of the shares held by the Bank through other comprehensive income. A portion of this position was subsequently sold and a $4.4 million gain ($3.7 million, net of income taxes) was reclassified in other income in the LBS segment. In addition, a $4.3 million loss on disposal of securities was incurred and presented in the Other segment.

(8) The effective income tax rate in 2008 and 2007 was influenced by a number of items – see note 17 regarding income taxes.

NO 27.
DISPOSALS AND CHANGES IN OWNERSHIP INTEREST

2008

Sale of a personal line of credit portfolio

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

Merger of the Montréal Exchange and TSX Group

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

2007

Visa restructuring

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

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

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

2005

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

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

Recovery clauses

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

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