

# THIRD QUARTER 2009

QUARTERLY REPORT FOR THE PERIOD  
ENDED JULY 31, 2009



## REPORT TO SHAREHOLDERS

Laurentian Bank reports net income of \$28.7 million for the third quarter of 2009

### HIGHLIGHTS OF THE THIRD QUARTER 2009

- Net income of \$28.7 million
- Return on common shareholders' equity of 11.6%
- Strong recovery of net interest margin at 2.15%
- Solid levels of capital
- Continued solid growth in loan and deposit portfolios

Laurentian Bank of Canada reported net income of \$28.7 million, or \$1.08 diluted per common share, for the third quarter ended July 31, 2009, compared to net income of \$30.9 million, or \$1.17 diluted per common share, for the third quarter of 2008. Return on common shareholders' equity was 11.6% for the quarter, compared to 13.4% for the corresponding period in 2008. Results for the third quarter of 2008 included the gain on sale of Montréal Exchange shares partly offset by an increase in the general allowance for loan losses, as further detailed in the Management Discussion and Analysis on page 3. Excluding these special items net income and earnings per share increased by 13% and 15% respectively, year-over-year.

For the nine months ended July 31, 2009, net income totalled \$74.9 million, or \$2.76 diluted per common share, compared to \$75.2 million, or \$2.78 diluted per common share, in 2008. Results for the nine months ended July 31, 2008 also included certain offsetting items as detailed below.

Commenting on the Bank's financial results, Réjean Robitaille, President and Chief Executive Officer, mentioned: "We are pleased with the excellent progress achieved during the quarter. Measures taken since the beginning of the year to offset the impact of the financial and economic crisis have clearly contributed to the improvement in earnings, particularly in restoring our net interest margin and top-line growth."

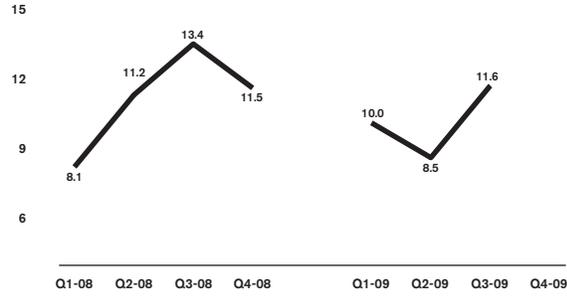
Mr. Robitaille added, with regards to operations: "The economic and credit conditions remain challenging. However, our prudent approach has served us well to date and the quality of our assets remains solid. Furthermore, our strong capital and liquidity positions, should continue to provide flexibility to benefit from future opportunities. Again this quarter, the excellent loan and deposit growth experienced in our business segments provides further evidence of our business development ability."

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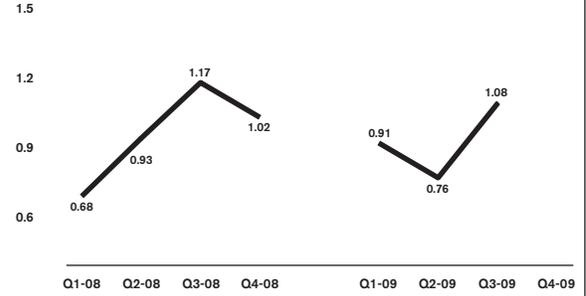
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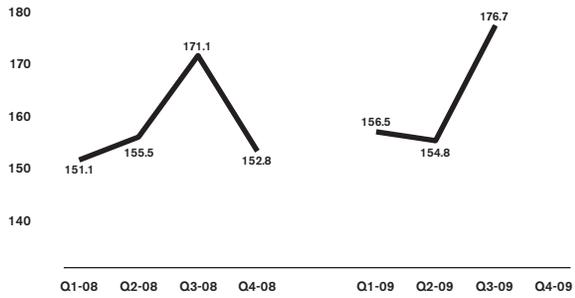
**RETURN ON COMMON SHAREHOLDERS' EQUITY**  
AS A PERCENTAGE



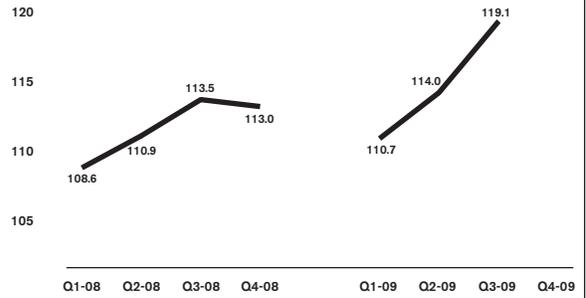
**DILUTED NET INCOME PER COMMON SHARE**  
IN DOLLARS



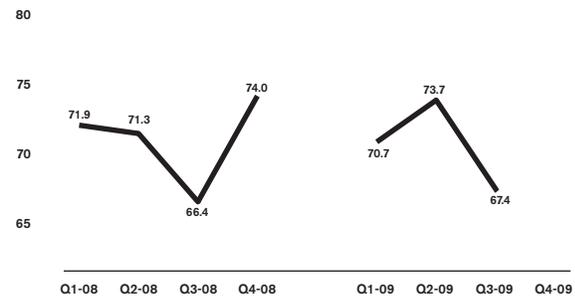
**TOTAL REVENUE**  
IN MILLIONS OF DOLLARS



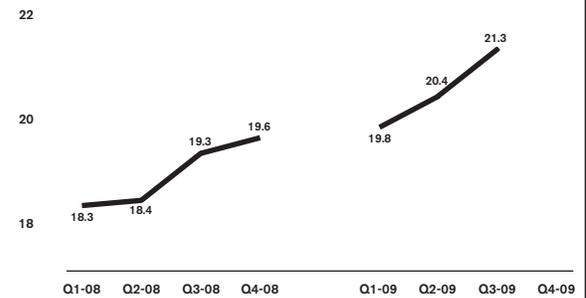
**NON-INTEREST EXPENSES**  
IN MILLIONS OF DOLLARS



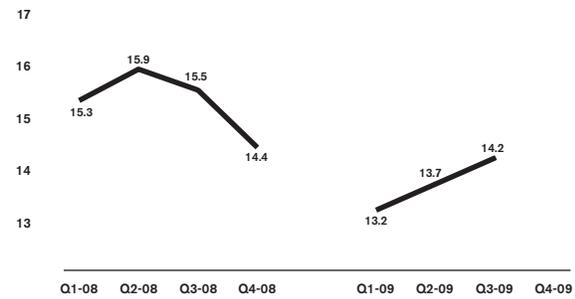
**EFFICIENCY RATIO**  
NON-INTEREST EXPENSES AS A PERCENTAGE OF TOTAL REVENUE



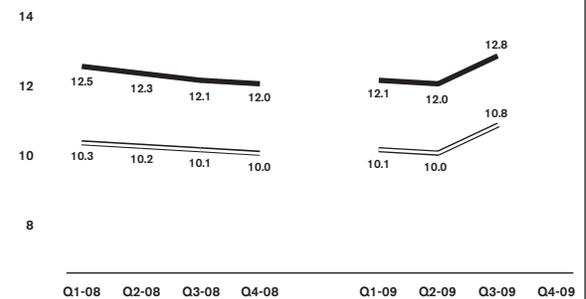
**BALANCE SHEET ASSETS**  
IN BILLIONS OF DOLLARS



**ASSETS UNDER ADMINISTRATION**  
IN BILLIONS OF DOLLARS



**BIS CAPITAL RATIO**  
AS A PERCENTAGE



— TIER 1  
— TOTAL CAPITAL

## REVIEW OF BUSINESS DEVELOPMENT INITIATIVES

All business segments demonstrated their ability to grow their businesses during the quarter. With a 44% year-over-year increase in profitability, the Real Estate and Commercial sector reported very strong results. Successful business development activities allowed the group to take advantage of opportunities in the market which resulted in loan and acceptances portfolios increasing by 20% over the last twelve months and more than 8% in the third quarter alone.

B2B Trust achieved solid revenue growth. While deposit growth slowed compared to the last quarter, it nonetheless remained impressive, with average deposits increasing 8% during the quarter, and 36% year-over-year. Despite the gradual reduction in the introductory promotional pricing on B2B Trust's High Interest Investment Accounts, the growth and retention of these deposits remain strong. The success of this product, as well as the continued growth in the other areas of the business line, specifically, investment loans and mortgages, testifies to the relevance of B2B Trust's strategy as well as its leadership position in the independent advisor community.

In Retail and SME Quebec, net income reached \$9.7 million. Growth in most loan categories continued as a result of effective marketing and sales efforts. The diversification of strategies to better serve clients, be it through mobile mortgage representatives or financial planners, is proving to be successful in developing stronger and deeper relationships, especially young families who are a priority clientele.

Last June, the Bank was awarded the exclusive contract to operate the automatic banking machines network in the Montreal Metro stations. Given the importance of the Bank's retail franchise, this is considered to be a significant achievement. Under this new agreement, the Bank will install 44 machines, adding to the 26 the Bank is already operating in the Metro. With exposure to the 1.2 million daily commuters who use the Montreal public transit system, this represents an excellent opportunity to increase the Bank's visibility with its target market.

In July 2009, Standard & Poor's confirmed the Bank's BBB counterparty credit rating with a positive outlook, reflecting the sustainable core operating profitability, stable asset quality, good capital adequacy and strong liquidity and funding positions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is a narrative explanation, through the eyes of management, of the Bank's financial condition as at July 31, 2009, and of how it performed during the three- and nine-month periods then ended. This MD&A, dated September 3, 2009, should be read in conjunction with the unaudited interim consolidated financial statements for the third quarter of 2009. Supplemental information on subjects such as risk management, accounting policies and off-balance sheet arrangements is also provided in the Bank's 2008 Annual Report.

### PERFORMANCE AND FINANCIAL OBJECTIVES

The following table presents management's financial objectives for 2009 and the Bank's performance to date.

#### Performance indicators

	2009 OBJECTIVES	NINE MONTHS ENDED JULY 31, 2009 (ACTUAL)
Return on common shareholders' equity	10.0% to 12.0%	10.1%
Diluted net income per share	\$3.70 to \$4.40	\$2.76
Total revenue	+ 2% to 5% (\$645 to \$665 million)	+ 2.2% (\$488 million)
Efficiency ratio	73% to 70%	70.5%
Tier 1 capital ratio <sup>1</sup>	Minimum of 9.5%	10.8%

<sup>1</sup> During the third quarter, the Bank changed how it accounts for credit risk mitigation. See page 6 for further detail.

Considering the prevailing economic conditions, results for the first nine months of 2009 are quite satisfactory and the Bank is well positioned to meet the objectives which were set at the end of last year.

## ANALYSIS OF CONSOLIDATED RESULTS

### Three months ended July 31, 2009 compared to three months ended July 31, 2008

Net income for the third quarter ended July 31, 2009 was \$28.7 million, or \$1.08 diluted per common share, compared to \$30.9 million, or \$1.17 diluted per common share, for the third quarter of 2008. Return on common shareholders' equity was 11.6% for the third quarter of 2009, compared to 13.4% for the corresponding period in 2008. Results for the third quarter of 2008 included certain specific items, as detailed in the table below.

### Special items affecting results for 2008

IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS	SEGMENT	ITEMS, BEFORE INCOME TAXES	ITEMS, NET OF INCOME TAXES	DILUTED, PER COMMON SHARE
FAVOURABLE (UNFAVOURABLE)				
<b>Three months ended January 31, 2008</b>				
Decrease in future tax assets arising from the reduction in federal income tax rates	Other	\$ -	\$ (5.6)	\$ (0.23)
<b>Three months ended July 31, 2008</b>				
Gain on sale of Montréal Exchange shares	Other	12.9	11.1	0.46
Increase in the general allowance for loan losses	Other	(8.0)	(5.5)	(0.23)
		4.9	5.6	0.23
		\$ 4.9	\$ (0.0)	\$ (0.00)

Excluding these special items, net income and diluted earnings per share for the three months ended July 31, 2009 would have improved by \$3.4 million and \$0.14 respectively, when compared to the third quarter of 2008.

Total revenue increased 3% to \$176.7 million in the third quarter of 2009, from \$171.1 million in the third quarter of 2008, mainly as a result of a strong increase in net interest income, as detailed below.

The Bank's net interest income increased \$9.4 million to \$112.8 million for the third quarter of 2009, from \$103.4 million in the third quarter of 2008, essentially as a result of higher loan and deposit volumes. After reaching a low of 1.92% in the second quarter of 2009, margins improved to 2.15% for the third quarter of 2009, a level still slightly lower than the level of 2.20% reached for the same period a year ago. Loan repricing measures introduced earlier this year and the gradual reduction in the introductory promotional pricing on B2B Trust's High Interest Investment Account contributed to this sharp recovery. Sustained competition for retail customers and the lower interest rate environment have however continued to put some pressure on margins.

Other income totalled \$63.9 million during the third quarter of 2009, compared to \$67.7 million in the third quarter of 2008. Income from brokerage operations improved markedly by \$6.4 million for the third quarter of 2009, compared to the third quarter of 2008, as a result of continued strong performance from the Institutional Fixed Income division and recovering equity markets. Fees and commissions on loans and deposits also improved \$3.1 million, as a result of the overall increase in business activity. These increases were partially offset by the \$12.3 million decrease in income from treasury and financial market operations, which essentially results from the \$12.9 million gain on sale of Montreal Exchange shares recorded a year ago. In the third quarter of 2009, income from treasury and financial market operations was also affected by a \$4.7 million charge related to the write-down of certain available-for-sale equity investments which continued to suffer from a prolonged decline in their fair value despite recent stronger equity markets. Income from treasury and financial market operations for the third quarter of 2008 also included \$5.3 million in losses on sales of certain securities. Revenues from securitization activities stood at \$9.8 million for the third quarter of 2009, including a \$5.2 million net gain on sale of \$253 million of residential mortgages, compared to securitization revenues of \$10.8 million for the third quarter of 2008. Note 3 to the interim financial statements provides further details on securitization activities. Other activities yielded generally comparable year-over-year results.

The provision for loan losses amounted to \$16.0 million in the third quarter of 2009, compared to \$18.5 million in the third quarter of 2008. The provision for loan losses in the third quarter of 2008 included an \$8.0 million increase in general provisions to improve the overall provision level. The year-over-year increase in specific provisions resulted mainly from a deterioration in consumer loan portfolios (particularly point-of-sale financing), and increased provisioning in SME Quebec lending, as well as in commercial lending. The deterioration in consumer loan portfolios is mainly attributable to the current economic cycle and ensuing higher unemployment and bankruptcy levels. Gross impaired loans, which had increased at the beginning of the year, remained relatively unchanged since the end of the first quarter and stood at \$123.1 million as at July 31, 2009. Net impaired loans amounted to \$8.4 million at July 31, 2009 (representing 0.05% of total loans, bankers' acceptances and assets purchased under reverse repurchase agreements), compared to \$12.5 million at April 30, 2009 and -\$10.6 million at October 31, 2008. Compared to April 2009, the improvement

reflects the increased provisioning, mainly in commercial loans. Overall, and in light of the current economic conditions, the loan portfolio performance remains nonetheless satisfying. See Note 2 to the interim consolidated financial statements for more details.

Non-interest expenses totalled \$119.1 million for the third quarter of 2009, compared to \$113.5 million for the third quarter of 2008; a 4.9% year-over-year increase. Salaries and employee benefits increased \$2.2 million, essentially as a result of higher salaries and continued hiring in support of growth in selected priority areas, partially offset by lower pension expenses. Premises and technology costs remained relatively unchanged year-over-year. Other expenses increased \$3.0 million mainly as a result of higher professional fees and a one-time adjustment to capital taxes. The efficiency ratio (non-interest expenses divided by total revenue) was 67.4% in the third quarter of 2009, compared with 66.4% in the third quarter of 2008.

For the quarter ended July 31, 2009, income tax expense was \$12.9 million and the effective tax rate was 31.0%. Income taxes for the third quarter of 2009 included a \$1.5 million charge resulting from adjustments to future income tax assets. For the quarter ended July 31, 2008, income tax expense was \$8.1 million and the effective tax rate was 20.8%. This lower effective income tax rate essentially resulted from the lower income taxes on the gain on sale of the Montréal Exchange securities.

### **Nine months ended July 31, 2009 compared to nine months ended July 31, 2008**

For the nine-month period ended July 31, 2009, net income totalled \$74.9 million, or \$2.76 diluted per common share, compared to \$75.2 million, or \$2.78 diluted per common share, in 2008.

Total revenue improved to \$488.0 million for the nine months ended July 31, 2009, compared to \$477.7 million for the nine months ended July 31, 2008. The increase results in part from higher net interest income, which essentially stemmed from loan and deposit volume growth, while the repricing measures undertaken since the beginning of the year effectively offset the negative impact of generally lower interest rates. Increases in fees and commissions on loans and deposits, as well as significant growth in brokerage revenues and higher securitization income more than offset the decrease in income from treasury and financial market operations resulting from the gain on sale of the Montréal Exchange shares in 2008.

The provision for loan losses amounted to \$40.0 million for the nine months ended July 31, 2009, compared to \$38.0 million for the nine months ended July 31, 2008, which included an \$8.0 million increase in general provisions. The increase reflects the ongoing challenging credit environment and higher loan volumes.

Non-interest expenses totalled \$343.8 million for the nine months ended July 31, 2009, compared to \$333.0 million for the nine months ended July 31, 2008. The increase is principally attributable to higher salaries in retail banking and technology, as well as to higher advertising expenses, partially offset by lower pension costs. For the nine months ended July 31, 2009, the efficiency ratio stood at 70.5%, compared to 69.7% for the nine months ended July 31, 2008.

For the nine months ended July 31, 2009, the income tax expense was \$29.2 million and the effective income tax rate was 28.1%, compared to \$31.5 million and 29.5% for the nine months ended July 31, 2008. Results for the nine months ended July 31, 2008, included the effect of a \$5.6 million unfavourable tax adjustment resulting from federal income tax rate reductions recorded in the first quarter and the lower income taxes on certain capital gains in the third quarter.

### **Three months ended July 31, 2009 compared to three months ended April 30, 2009**

Net income was \$28.7 million, or \$1.08 diluted per common share, for the third quarter ended July 31, 2009, compared to net income of \$21.2 million, or \$0.76 diluted per common share, for the second quarter of 2009. The increase in profitability mainly results from the sharp increase in net interest income, as average assets were \$678 million higher quarter-over-quarter and net interest income as a percentage of average assets rose 23 basis points, as well as from the effect of the longer quarter. These items were partially offset by higher loan losses and other expenses.

## ANALYSIS OF FINANCIAL CONDITION

Balance sheet assets stood at \$21.3 billion at July 31, 2009, compared to \$19.6 billion at October 31, 2008.

Liquid assets, including cash, deposits with other banks, securities and assets purchased under reverse repurchase agreements, increased \$525 million, mainly as a result of continued strong deposit growth, as detailed below. This higher level of liquid assets provides additional flexibility in meeting funding requirements and preserves the Bank's ability to capitalize on growth opportunities as they arise.

The portfolio of loans and bankers' acceptances stood at \$15.6 billion at July 31, 2009, up \$1.2 billion from October 31, 2008. Residential mortgages, including securitized loans, increased \$1.0 billion over the last nine months, as detailed below, benefitting from a very strong level of activity during the recent mortgage renewal period in Quebec.

### Residential mortgage portfolio

IN MILLIONS OF DOLLARS	JULY 31 2009	APRIL 30 2009	OCTOBER 31 2008
Residential mortgage loans, as reported on the balance sheet	\$ 6,978	\$ 6,335	\$ 6,183
Securitized loans	2,610	2,615	2,399
Total residential mortgage loans, including securitized loans	\$ 9,588	\$ 8,950	\$ 8,582

Commercial mortgages and commercial loans increased more than \$215 million and \$155 million, respectively, since the beginning of the year. Personal loans decreased slightly as a result of management's decision to reduce the Bank's exposure to point-of-sale financing.

Total personal deposits increased a further \$0.3 billion during the third quarter and \$2.3 billion cumulatively since the beginning of the year, to reach \$14.8 billion as at July 31, 2009. B2B Trust's new High Interest Investment Account (HIIA) continued to generate significant growth during the quarter and accounted for \$2.0 billion of this total growth since the beginning of the year. Personal deposits sourced through the retail branch operations improved as well, up \$533 million since the beginning of the year. Business and other deposits increased \$421 million during the third quarter, benefitting from the new HIIA account and various other initiatives. These increases enabled a reduction in commercial and institutional funding since the beginning of the year. As at July 31, 2009, personal deposits accounted for 82% of total deposits of \$18.0 billion.

Shareholders' equity stood at \$1,143.5 million as at July 31, 2009, compared with \$1,083.4 million as at October 31, 2008. The increase in shareholders' equity results from accumulated retained earnings since the beginning of the year and from an increase in other comprehensive income.

The Bank's book value per common share, excluding accumulated other comprehensive income, was \$37.57 as at July 31, 2009, compared to \$35.84 as at October 31, 2008. There were 23,855,926 common shares and 119,112 share purchase options outstanding as at August 26, 2009.

During the quarter, the Bank opted to use the Comprehensive approach to account for credit risk mitigation under the Standardized Basel II Framework, instead of the Simple approach. The Comprehensive approach allows fuller offset of collateral against exposures. In addition, the risk weight associated with certain credit commitments was also reviewed. These changes led to a net reduction in risk-weighted assets of approximately \$869 million as at July 31, 2009 and generated increases in BIS Tier 1 and total capital ratios of 91 basis points and 108 basis points, respectively. As at July 31, 2009, the BIS Tier 1 and total capital ratios now stood at 10.8% and 12.8%, respectively. The Bank's regulatory Tier I capital reached \$1,015 million as at July 31, 2009, as compared to \$965.4 million as at October 31, 2008. These ratios fully reflect the Bank's strong capital and its ability to further develop its business. The tangible common equity ratio, one of the highest in the industry, at 8.8%, also testifies to the high quality of the Bank's capital.

During the quarter, Standard & Poor's confirmed the Bank's Deposits & Senior Debt counterparty credit rating at BBB with a positive outlook and the Short-Term Instruments rating at A-2, reflecting sustainable core operating profitability, stable asset quality, good capital adequacy and strong liquidity and funding position.

At its August 26, 2009 meeting, the Board of Directors declared regular dividends on the various series of preferred shares to shareholders of record on September 8, 2009. Also, at its September 3, 2009 meeting, the Board of Directors declared a dividend of \$0.34 per common share, payable on November 1, 2009, to shareholders of record on October 1, 2009.

Assets under administration stood at \$14.2 billion as at July 31, 2009, compared to \$14.4 billion at October 31, 2008. Recoveries in market values during the last six months helped partly offset decreases in assets under administration recorded earlier this year, as well as a reduction in institutional assets under administration.

## SEGMENTED INFORMATION

The table below presents the net income contribution of each business segment of the Bank. Compared to the second quarter of 2009, results for the third quarter of 2009 generally benefited from the three additional days in the quarter.

### Net income contributions

IN MILLIONS OF DOLLARS	RETAIL & SME QUEBEC	REAL ESTATE & COMMERCIAL	B2B TRUST	LAURENTIAN BANK SECURITIES	OTHER	TOTAL <sup>1</sup>
<b>Q3-2009</b>	<b>9.7</b>	<b>11.1</b>	<b>8.7</b>	<b>3.2</b>	<b>(4.0)</b>	<b>28.7</b>
	<b>30%</b>	<b>34%</b>	<b>26%</b>	<b>10%</b>	<b>n/a</b>	<b>100%</b>
<b>Q2-2009</b>	9.8	7.5	7.8	1.9	(5.8)	21.2
	36%	28%	29%	7%	n/a	100%
<b>Q3-2008</b>	11.6	7.7	9.2	1.1	1.3	30.9
	39%	26%	31%	4%	n/a	100%

<sup>1</sup> Percentage of net income contribution from the four business segments, excluding the Other segment.

### Retail & SME Quebec

The Retail & SME Quebec business segment's contribution to net income declined to \$9.7 million for the third quarter of 2009, compared with \$11.6 million for the third quarter of 2008.

Total revenue increased \$1.6 million, from \$107.5 million in the third quarter of 2008 to \$109.1 million in the third quarter of 2009, as a result of continued growth in loan and deposit volumes. Loan losses were higher, at \$12.4 million in the third quarter of 2009, compared to \$9.3 million in the third quarter of 2008, reflecting ongoing weaker credit conditions in point of sale financing and SME lending. Non-interest expenses increased 2.3% or \$1.9 million, from \$82.8 million in the third quarter of 2008 to \$84.7 million in the third quarter of 2009, due mainly to increases in salaries and advertising expenses.

### Real Estate & Commercial

The Real Estate & Commercial business segment's contribution to net income improved \$3.4 million, or 44%, to \$11.1 million for the third quarter of 2009, compared to \$7.7 million for the third quarter of 2008.

Total revenue increased 37%, or \$6.7 million, from \$18.3 million in the third quarter of 2008 to \$25.0 million in the third quarter of 2009, as a result of higher net interest income due to growth in both loan volumes and margins, as well as higher fees. Loan losses, essentially in Commercial lending increased to \$2.1 million in the third quarter of 2009, compared to \$1.0 million in the third quarter of 2008. Given current economic conditions, loan losses in these portfolios remained well under control during the quarter. Non-interest expenses increased \$1.0 million to \$6.8 million in the third quarter of 2009, from \$5.8 million in the third quarter of 2008.

### B2B Trust

The B2B Trust business segment's contribution to net income declined by \$0.6 million, to \$8.7 million in the third quarter of 2009, compared with \$9.2 million in the third quarter of 2008.

Total revenue increased \$1.7 million, from \$24.7 million in the third quarter of 2008 to \$26.4 million in the third quarter of 2009. Net interest income increased \$2.0 million year-over-year, mainly as a result of higher loan and deposit volumes. The recent easing of funding conditions and the gradual reduction in the introductory promotional pricing on B2B Trust's HIIA also partly restored net interest margins compared with prior quarters.

Deposits reached \$8.7 billion as at July 31, 2009, up \$2.7 billion since the beginning of the year and \$334 million since April 30, 2009. The sharp increase resulted mainly from the new HIIA, which provided the Bank with additional flexibility in meeting funding requirements and supporting growth initiatives. Loans also continued their progression, with the quarterly average level increasing by \$298 million over the last nine months.

Loan losses increased to \$1.5 million in the third quarter of 2009, compared with \$0.2 million in the third quarter of 2008. While these losses reflect a deterioration in credit conditions, their level remains low given the size of the underlying portfolios. Non-interest expenses increased to \$12.3 million in the third quarter of 2009, compared with \$10.6 million in the third quarter of 2008.

## Laurentian Bank Securities

The Laurentian Bank Securities (LBS) business segment's contribution to net income improved noticeably to \$3.2 million in the third quarter of 2009, compared with \$1.1 million in the third quarter of 2008. The strong performance of the Institutional Fixed Income division and improved results in other activities resulting from recovering equity markets contributed to the excellent quarter. Non-interest expenses increased to \$11.5 million in the third quarter of 2009, from \$8.3 million in the third quarter of 2008, primarily due to higher variable compensation costs.

## Other Segment

The Other segment posted a negative contribution to net income of \$4.0 million in the third quarter of 2009, compared with a positive contribution of \$1.3 million in the corresponding quarter of 2008.

Net interest income improved to -\$7.9 million for the third quarter of 2009, compared to -\$10.6 million for the third quarter of 2008. The negative income is mainly attributable to the offsetting adjustment to net interest income resulting from securitization activities in this segment, to the lower margins from liquid assets, and the lower overall interest rate environment. Other income stood at \$7.9 million for the third quarter of 2009, consisting primarily of securitization income. The contribution to other income from treasury and financial market operations was negligible, as revenues earned during the quarter were offset by a \$4.7 million charge related to the write-down of certain available-for-sale equity investments. Results for the third quarter of 2008 included the \$12.9 million gain on the sale of Montréal Exchange shares, partly offset by losses of \$5.3 million on the sale of other securities.

Results for the third quarter of 2008 also included the additional general provision for loan losses of \$8.0 million.

## ADDITIONAL DISCLOSURES – INVESTMENT IN ASSET-BACKED SECURITIES

As detailed below, the Bank holds investments in asset-backed securities in its investment and trading portfolios.

AS AT JULY 31, 2009 (AT MARKET VALUE, IN MILLIONS OF DOLLARS)	TERM NOTES			TOTAL
	ABCP	CMBS	OTHER ABS <sup>1</sup>	
Securities issued by conduits previously covered by the Montréal Accord <sup>2</sup>	-	-	13	13
Other securities	-	15	6	21
<b>Total – Asset-backed securities</b>	<b>-</b>	<b>15</b>	<b>19</b>	<b>34</b>

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

2 During the first quarter of 2009, all ABCP issued by conduits covered by the Montréal Accord were converted into term notes. The new securities have not traded actively to date. As a result, valuation techniques were used to estimate fair values. Compared to previous carrying amounts, the cumulative reductions in the value of these securities amount to \$5.6 million, or approximately 30%.

ABCP – Asset-backed commercial paper

CMBS – Commercial mortgage-backed securities

ABS – Asset-backed securities

## ADDITIONAL FINANCIAL INFORMATION – QUARTERLY RESULTS

IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS (UNAUDITED)	2009 Q3	Q2	Q1	2008 Q4	Q3	Q2	Q1	2007 Q4
Total revenue	\$ 176.7	\$ 154.8	\$ 156.5	\$ 152.8	\$ 171.1	\$ 155.5	\$ 151.1	\$ 145.6
Income from continuing operations	28.7	21.2	25.0	22.9	30.9	25.1	19.1	25.7
Net income	28.7	21.2	25.0	27.3	30.9	25.1	19.1	30.2
Income per common share								
from continuing operations								
Basic	1.08	0.76	0.92	0.84	1.17	0.93	0.68	0.96
Diluted	1.08	0.76	0.91	0.84	1.17	0.93	0.68	0.95
Net income per common share								
Basic	1.08	0.76	0.92	1.02	1.17	0.93	0.68	1.14
Diluted	1.08	0.76	0.91	1.02	1.17	0.93	0.68	1.14
Return on common shareholders' equity	11.6%	8.5%	10.0%	11.5%	13.4%	11.2%	8.1%	13.8%
Balance sheet assets	\$ 21,295	\$ 20,382	\$ 19,847	\$ 19,559	\$ 19,301	\$ 18,383	\$ 18,270	\$ 17,787

## ACCOUNTING POLICIES

A summary of the Bank's significant accounting policies is presented in notes 2 and 3 of the 2008 audited consolidated financial statements. Pages 54 to 56 of the 2008 Annual Report also contain a discussion of certain significant critical accounting policies which refer to material amounts reported in the consolidated financial statements or require management's judgment. The interim consolidated financial statements for the third quarter of 2009 have been prepared in accordance with these accounting policies, except as noted below.

### New accounting standards adopted during fiscal 2009

Earlier in 2009, the Bank adopted Section 3064, *Goodwill and Intangible Assets*, and Abstract EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. These changes, detailed in note 1 to the interim consolidated financial statements, had no significant effect on the interim consolidated financial statements.

### Future changes in accounting policies

#### *Impairment of financial assets*

On July 29, 2009, the Canadian Accounting Standards Board (AcSB) posted the typescript related to the amendments that will be incorporated to Section 3025, *Impaired Loans* and Section 3855, *Financial Instruments – Recognition and Measurement*. Details of the amendments are presented in note 1 to the interim consolidated financial statements. The amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008, but are not required for interim financial statements relating to periods within the fiscal year of adoption. The Bank has opted to defer the adoption to October 31, 2009 and does not anticipate that the new requirements will have a significant effect on the Bank's financial statements upon adoption.

#### *Financial instruments disclosures*

In June 2009, the AcSB issued amendments to Section 3862 – *Financial instruments disclosures* to improve disclosure requirements on fair value measurement and liquidity risk. The amendments are effective for the Bank's October 31, 2009 annual financial statements. As the amendments only concern disclosure requirements, they will not have a significant impact on results or financial position.

#### *International Financial Reporting Standards*

In January 2006, the AcSB released its new Strategic Plan, which includes the decision to converge financial reporting for Canadian public entities with 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 Bank's fiscal year ending October 31, 2012.

In light of the recent economic turmoil, the International Accounting Standards Board has proposed significant changes to accounting principles with respect to the accounting for financial instruments, including securitization activities, hedging transactions and loan losses. Analysis of accounting consequences related to these matters, as well as to the overall conversion to IFRS is in progress. A timetable has been prepared to assess the impact on financial disclosures, information systems and internal controls. The Bank is also closely monitoring potential implications of changes on capital requirements.



# FINANCIAL HIGHLIGHTS

IN MILLIONS OF DOLLARS, UNLESS OTHERWISE INDICATED (UNAUDITED)	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED		
	JULY 31 2009	JULY 31 2008	VARIATION	JULY 31 2009	JULY 31 2008	VARIATION
<b>Earnings</b>						
Net income	\$ 28.7	\$ 30.9	(7)%	\$ 74.9	\$ 75.2	- %
Net income available to common shareholders	\$ 25.9	\$ 28.0	(8)%	\$ 65.8	\$ 66.3	(1)%
Return on common shareholders' equity <sup>1</sup>	11.6 %	13.4 %		10.1 %	10.9 %	
<b>Per common share</b>						
Diluted net income	\$ 1.08	\$ 1.17	(8)%	\$ 2.76	\$ 2.78	(1)%
Dividends declared	\$ 0.34	\$ 0.32	6 %	\$ 1.02	\$ 0.96	6 %
Book value <sup>1</sup>				\$ 37.57	\$ 35.15	7 %
Share price – close				\$ 35.75	\$ 42.00	(15)%
<b>Financial position</b>						
Balance sheet assets				\$ 21,295	\$ 19,301	10 %
Assets under administration				\$ 14,156	\$ 15,490	(9)%
Loans, bankers' acceptances and assets purchased under reverse repurchase agreements, net				\$ 15,853	\$ 14,825	7 %
Personal deposits				\$ 14,766	\$ 12,466	18 %
Shareholders' equity and debentures				\$ 1,293	\$ 1,211	7 %
Number of common shares – end of period (in thousands)				23,856	23,844	- %
Net impaired loans as a % of loans, bankers' acceptances and assets purchased under reverse repurchase agreements				0.05 %	(0.09)%	
Risk-weighted assets				\$ 9,410	\$ 9,505	(1)%
<b>Capital ratios</b>						
Tier I BIS capital ratio				10.8 %	10.1 %	
Total BIS capital ratio				12.8 %	12.1 %	
Assets to capital multiple				17.8 x	16.9 x	
Tangible common equity as a percentage of risk-weighted assets <sup>2</sup>				8.8 %	8.1 %	
<b>FINANCIAL RATIOS</b>						
<b>Per common share</b>						
Price / earnings ratio (trailing four quarters)				9.5 x	10.7 x	
Market to book value				95 %	119 %	
Dividend yield	3.80 %	3.05 %		3.80 %	3.05 %	
Dividend payout ratio	31.4 %	27.3 %		37.0 %	34.5 %	
<b>As a percentage of average assets</b>						
Net interest income	2.15 %	2.20 %		2.03 %	2.23 %	
Provision for credit losses	0.31 %	0.39 %		0.27 %	0.28 %	
<b>Profitability</b>						
Efficiency ratio (non-interest expenses as a % of total revenue)	67.4 %	66.4 %		70.5 %	69.7 %	
<b>OTHER INFORMATION</b>						
Number of full-time equivalent employees				3,571	3,521	
Number of branches				156	156	
Number of automated banking machines				362	340	

1 With regard to the calculation of the Return on common shareholders' equity ratio, the Bank considers that net income is the best measure of profitability and that common shareholders' equity, excluding accumulated other comprehensive income, would be used as a capital measure. The calculation of the Bank's book value is also based on common shareholders' equity, excluding accumulated other comprehensive income.

2 Tangible common equity is defined as common shareholders' equity, excluding accumulated other comprehensive income, less goodwill and other intangible assets.

# CONSOLIDATED BALANCE SHEET

IN THOUSANDS OF DOLLARS (UNAUDITED)	NOTES	AS AT JULY 31 2009	AS AT OCTOBER 31 2008	AS AT JULY 31 2008
<b>ASSETS</b>				
<b>Cash and non-interest-bearing deposits with other banks</b>		<b>\$ 56,240</b>	<b>\$ 54,410</b>	<b>\$ 63,756</b>
<b>Interest-bearing deposits with other banks</b>		<b>475,986</b>	<b>94,291</b>	<b>292,085</b>
<b>Securities accounts</b>				
Available-for-sale		1,061,666	1,327,504	1,111,747
Held-for-trading		1,277,764	1,069,197	1,129,552
Designated as held-for-trading		1,574,909	1,118,838	1,018,698
		<b>3,914,339</b>	<b>3,515,539</b>	<b>3,259,997</b>
<b>Assets purchased under reverse repurchase agreements</b>		<b>403,961</b>	<b>661,391</b>	<b>843,068</b>
<b>Loans</b>	2 AND 3			
Personal		5,214,906	5,302,046	5,265,562
Residential mortgage		6,978,469	6,182,871	6,109,648
Commercial mortgage		1,148,071	932,688	883,401
Commercial and other		2,003,217	1,847,327	1,727,105
		<b>15,344,663</b>	<b>14,264,932</b>	<b>13,985,716</b>
Allowance for loan losses		<b>(114,672)</b>	<b>(112,434)</b>	<b>(115,504)</b>
		<b>15,229,991</b>	<b>14,152,498</b>	<b>13,870,212</b>
<b>Other</b>				
Customers' liabilities under acceptances		219,533	110,342	111,966
Tangible capital assets and software		142,494	143,489	138,000
Derivative financial instruments		241,239	237,704	110,370
Goodwill		53,790	53,790	53,790
Other intangible assets		11,982	12,896	13,201
Other assets		545,925	522,202	544,539
		<b>1,214,963</b>	<b>1,080,423</b>	<b>971,866</b>
		<b>\$ 21,295,480</b>	<b>\$ 19,558,552</b>	<b>\$ 19,300,984</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Deposits</b>				
Personal		<b>\$ 14,765,581</b>	<b>\$ 12,430,038</b>	<b>\$ 12,465,740</b>
Business, banks and other		<b>3,192,277</b>	<b>2,903,774</b>	<b>2,688,225</b>
		<b>17,957,858</b>	<b>15,333,812</b>	<b>15,153,965</b>
<b>Other</b>				
Obligations related to assets sold short		700,058	819,236	933,839
Obligations related to assets sold under repurchase agreements		251,749	1,136,096	1,013,995
Acceptances		219,533	110,342	111,966
Derivative financial instruments		139,348	147,469	70,981
Other liabilities		733,444	778,162	805,422
		<b>2,044,132</b>	<b>2,991,305</b>	<b>2,936,203</b>
<b>Subordinated debentures</b>		<b>150,000</b>	<b>150,000</b>	<b>150,000</b>
<b>Shareholders' equity</b>				
Preferred shares	4	210,000	210,000	210,000
Common shares	4	257,641	257,462	257,360
Contributed surplus		201	173	158
Retained earnings		638,480	596,974	580,703
Accumulated other comprehensive income	8	37,168	18,826	12,595
		<b>1,143,490</b>	<b>1,083,435</b>	<b>1,060,816</b>
		<b>\$ 21,295,480</b>	<b>\$ 19,558,552</b>	<b>\$ 19,300,984</b>

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

# CONSOLIDATED STATEMENT OF INCOME

IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS (UNAUDITED)	NOTES	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED	
		JULY 31 2009	APRIL 30 2009	JULY 31 2008	JULY 31 2009	JULY 31 2008
<b>Interest income</b>						
Loans		\$ 178,002	\$ 171,158	\$ 204,237	\$ 539,808	\$ 631,375
Securities		18,031	16,723	16,161	53,219	44,398
Deposits with other banks		278	509	6,815	3,801	21,187
Other, including derivative financial instruments		40,979	34,257	13,148	97,511	17,539
		<b>237,290</b>	<b>222,647</b>	<b>240,361</b>	<b>694,339</b>	<b>714,499</b>
<b>Interest expense</b>						
Deposits		122,119	125,571	128,264	376,764	380,233
Other, including derivative financial instruments		455	1,116	6,739	6,249	26,500
Subordinated debentures		1,950	1,887	1,945	5,784	5,796
		<b>124,524</b>	<b>128,574</b>	<b>136,948</b>	<b>388,797</b>	<b>412,529</b>
<b>Net interest income</b>						
		<b>112,766</b>	<b>94,073</b>	<b>103,413</b>	<b>305,542</b>	<b>301,970</b>
<b>Other income</b>						
Fees and commissions on loans and deposits		26,768	24,665	23,660	75,042	67,775
Income from brokerage operations		15,417	10,754	8,973	34,862	23,330
Income from treasury and financial market operations		17	5,979	12,328	10,571	25,753
Income from sales of mutual funds		3,225	2,985	3,943	9,046	10,841
Credit insurance income		4,767	3,768	3,957	12,595	10,230
Income from registered self-directed plans		2,056	2,038	2,249	6,073	6,797
Securitization income	3	9,771	8,594	10,764	28,890	25,619
Other		1,870	1,912	1,808	5,341	5,355
		<b>63,891</b>	<b>60,695</b>	<b>67,682</b>	<b>182,420</b>	<b>175,700</b>
<b>Total revenue</b>						
		<b>176,657</b>	<b>154,768</b>	<b>171,095</b>	<b>487,962</b>	<b>477,670</b>
<b>Provision for loan losses</b>						
	2	<b>16,000</b>	<b>12,000</b>	<b>18,500</b>	<b>40,000</b>	<b>38,000</b>
<b>Non-interest expenses</b>						
Salaries and employee benefits		62,828	60,414	60,668	183,631	177,733
Premises and technology		30,331	29,790	29,937	88,106	88,321
Other		25,922	23,830	22,942	72,110	66,897
		<b>119,081</b>	<b>114,034</b>	<b>113,547</b>	<b>343,847</b>	<b>332,951</b>
<b>Income before income taxes</b>						
		<b>41,576</b>	<b>28,734</b>	<b>39,048</b>	<b>104,115</b>	<b>106,719</b>
<b>Income taxes</b>						
		<b>12,893</b>	<b>7,579</b>	<b>8,111</b>	<b>29,230</b>	<b>31,521</b>
<b>Net income</b>						
		<b>\$ 28,683</b>	<b>\$ 21,155</b>	<b>\$ 30,937</b>	<b>\$ 74,885</b>	<b>\$ 75,198</b>
<b>Preferred share dividends, including applicable taxes</b>						
		<b>2,824</b>	<b>3,004</b>	<b>2,967</b>	<b>9,050</b>	<b>8,864</b>
<b>Net income available to common shareholders</b>						
		<b>\$ 25,859</b>	<b>\$ 18,151</b>	<b>\$ 27,970</b>	<b>\$ 65,835</b>	<b>\$ 66,334</b>
<b>Average number of common shares outstanding (in thousands)</b>						
Basic		<b>23,854</b>	<b>23,849</b>	<b>23,842</b>	<b>23,851</b>	<b>23,834</b>
Diluted		<b>23,872</b>	<b>23,855</b>	<b>23,888</b>	<b>23,866</b>	<b>23,877</b>
<b>Net income per common share</b>						
Basic		<b>\$ 1.08</b>	<b>\$ 0.76</b>	<b>\$ 1.17</b>	<b>\$ 2.76</b>	<b>\$ 2.78</b>
Diluted		<b>\$ 1.08</b>	<b>\$ 0.76</b>	<b>\$ 1.17</b>	<b>\$ 2.76</b>	<b>\$ 2.78</b>

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

IN THOUSANDS OF DOLLARS (UNAUDITED)	NOTES	FOR THE THREE MONTHS ENDED		FOR THE NINE MONTHS ENDED	
		JULY 31 2009	JULY 31 2008	JULY 31 2009	JULY 31 2008
<b>Net income</b>		<b>\$ 28,683</b>	<b>\$ 30,937</b>	<b>\$ 74,885</b>	<b>\$ 75,198</b>
<b>Other comprehensive income (loss), net of income taxes</b>	8				
Net change in unrealized gains (losses) on available-for-sale securities		<b>8,674</b>	(2,851)	<b>9,529</b>	(5,583)
Reclassification of realized (gains) and losses on available-for-sale securities to net income		<b>3,123</b>	(7,938)	<b>3,795</b>	(10,068)
Net gains (losses) on derivative instruments designated as cash flow hedges		<b>(17,786)</b>	(641)	<b>5,018</b>	27,369
		<b>(5,989)</b>	(11,430)	<b>18,342</b>	11,718
<b>Comprehensive income</b>		<b>\$ 22,694</b>	<b>\$ 19,507</b>	<b>\$ 93,227</b>	<b>\$ 86,916</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

IN THOUSANDS OF DOLLARS (UNAUDITED)	NOTES	FOR THE NINE MONTHS ENDED	
		JULY 31 2009	JULY 31 2008
<b>Preferred shares</b>			
Balance at beginning and end of period		<b>\$ 210,000</b>	\$ 210,000
<b>Common shares</b>	4		
Balance at beginning of period		<b>257,462</b>	256,445
Issued during the period under share purchase option plan	5	<b>179</b>	915
Balance at end of period		<b>257,641</b>	257,360
<b>Contributed surplus</b>			
Balance at beginning of period		<b>173</b>	105
Stock-based compensation	5	<b>28</b>	53
Balance at end of period		<b>201</b>	158
<b>Retained earnings</b>			
Balance at beginning of period		<b>596,974</b>	537,254
Net income		<b>74,885</b>	75,198
Dividends			
Preferred shares, including applicable taxes		<b>(9,050)</b>	(8,864)
Common shares		<b>(24,329)</b>	(22,885)
Balance at end of period		<b>638,480</b>	580,703
<b>Accumulated other comprehensive income</b>	8		
Balance at beginning of period		<b>18,826</b>	877
Other comprehensive income, net of income taxes		<b>18,342</b>	11,718
Balance at end of period		<b>37,168</b>	12,595
<b>Shareholders' equity</b>		<b>\$1,143,490</b>	\$1,060,816

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

IN THOUSANDS OF DOLLARS (UNAUDITED)	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED	
	JULY 31 2009	APRIL 30 2009	JULY 31 2008	JULY 31 2009	JULY 31 2008
<b>Cash flows relating to operating activities</b>					
Net income	\$ 28,683	\$ 21,155	\$ 30,937	\$ 74,885	\$ 75,198
Adjustments to determine net cash flows relating to operating activities:					
Provision for loan losses	16,000	12,000	18,500	40,000	38,000
Gains on securitization operations	(5,234)	(9,229)	(8,208)	(31,135)	(23,393)
Net loss (gain) on disposal of non-trading securities	404	725	(11,637)	3,814	(15,340)
Future income taxes	5,007	4,294	6,505	16,620	26,655
Depreciation and amortization	8,411	8,193	7,708	24,649	23,048
Net change in held-for-trading securities	(421,073)	196,179	1,597	(208,567)	(42,594)
Change in accrued interest receivable	13,120	(14,919)	8,592	7,577	1,830
Change in assets relating to derivative financial instruments	42,351	(5,299)	14,987	(3,535)	(47,625)
Change in accrued interest payable	(42,979)	4,480	(8,783)	(50,148)	(14,289)
Change in liabilities relating to derivative financial instruments	(8,582)	13,901	(10,886)	(8,121)	130
Other, net	19,353	(12,209)	5,574	(18,513)	45,035
	<b>(344,539)</b>	<b>219,271</b>	<b>54,886</b>	<b>(152,474)</b>	<b>66,655</b>
<b>Cash flows relating to financing activities</b>					
Net change in deposits	697,095	1,687,893	712,043	2,624,046	1,275,257
Change in obligations related to assets sold short	128,876	(334,147)	(11,916)	(119,178)	65,164
Change in obligations related to assets sold under repurchase agreements	68,325	(968,424)	126,272	(884,347)	85,008
Issuance of common shares	145	-	82	179	915
Dividends, including applicable income taxes	(10,935)	(11,113)	(10,599)	(33,379)	(31,750)
	<b>883,506</b>	<b>374,209</b>	<b>815,882</b>	<b>1,587,321</b>	<b>1,394,594</b>
<b>Cash flows relating to investing activities</b>					
Change in securities available-for-sale and designated as held-for-trading					
Acquisitions	(1,235,710)	(1,810,651)	(1,113,345)	(4,048,972)	(2,326,740)
Proceeds on sale and at maturities	1,547,606	1,497,435	1,058,878	3,880,890	1,789,738
Change in loans	(1,000,405)	(467,955)	(722,644)	(1,855,403)	(1,690,453)
Change in assets purchased under reverse repurchase agreements	135,898	35,480	(363,748)	257,430	(302,764)
Proceeds from mortgage loan securitizations	253,234	171,816	262,707	737,166	1,068,956
Additions to tangible capital assets and software	(9,311)	(8,356)	(8,725)	(22,437)	(22,380)
Proceeds from disposal of tangible capital assets and software	-	-	-	4	103
Net change in interest-bearing deposits with other banks	(234,422)	(596)	14,567	(381,695)	(8,830)
Net cash flows from sale of asset	-	-	-	-	29,632
	<b>(543,110)</b>	<b>(582,827)</b>	<b>(872,310)</b>	<b>(1,433,017)</b>	<b>(1,462,738)</b>
Net change in cash and non-interest-bearing deposits with other banks during the period	(4,143)	10,653	(1,542)	1,830	(1,489)
Cash and non-interest-bearing deposits with other banks at beginning of period	60,383	49,730	65,298	54,410	65,245
<b>Cash and non-interest-bearing deposits with other banks at end of period</b>	<b>\$ 56,240</b>	<b>\$ 60,383</b>	<b>\$ 63,756</b>	<b>\$ 56,240</b>	<b>\$ 63,756</b>
<b>Supplemental disclosure relating to cash flows:</b>					
Interest paid during the period	\$ 172,336	\$ 112,728	\$ 140,480	\$ 434,405	\$ 428,133
Income taxes paid (recovered) during the period	\$ 3,303	\$ 1,709	\$ (4,568)	\$ 13,301	\$ (3,470)

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ALL TABULAR AMOUNTS ARE IN THOUSANDS OF DOLLARS, UNLESS OTHERWISE INDICATED (UNAUDITED)

## 1. ACCOUNTING POLICIES

The unaudited interim consolidated financial statements of Laurentian Bank of Canada (the "Bank") have been prepared by management who is responsible for the integrity and fairness of the financial information presented. These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements. The significant accounting policies used in the preparation of these interim consolidated financial statements, except for changes to accounting policies stated below, are the same as those in the Bank's audited annual consolidated financial statements as at October 31, 2008. These accounting policies conform to GAAP. However, these interim consolidated financial statements do not reflect all of the information and disclosures required by GAAP for complete financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements as at October 31, 2008. These interim consolidated financial statements reflect amounts which are based on the best estimates and judgment of management. Actual results may differ from these estimates. Certain comparative figures have been reclassified to conform to the current period presentation.

### **Changes to accounting policies**

#### ***Goodwill and other intangible assets***

In November 2007, the Canadian Accounting Standards Board (AcSB) approved new Section 3064, *Goodwill and Intangible Assets*, which supersedes Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. New Section 3064 reinforces a principle-based approach to the recognition of costs as assets in accordance with the definition of an asset and the criteria for asset recognition in Section 1000. It also specifically addresses the recognition of internally developed intangible assets. In addition, EIC-27, *Revenues and Expenditures during the Pre-operating Period*, will no longer apply following the adoption of Section 3064. These changes, effective for the Bank as of November 1, 2008, had no significant effect on the interim consolidated financial statements.

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

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

#### ***Financial instruments disclosures***

In June 2009, the AcSB issued amendments to Section 3862 – *Financial instruments disclosures* to improve disclosure requirements on fair value measurement and liquidity risk. The amendments are effective for the Bank's October 31, 2009 annual financial statements. As the amendments only concern disclosure requirements, they will not have a significant impact on results or financial position.

### Impairment of financial assets

On July 29, 2009, the AcSB posted the typescript related to the amendments that will be incorporated to Section 3025, *Impaired loans*, and Section 3855, *Financial Instruments – Recognition and Measurement*.

The amendments will mainly: (i) eliminate the distinction between debt securities and other debt instruments, a distinction based more on legal form than economic substance; as a result, it will be possible to classify debt instruments not quoted in an active market as loans and receivables, and to assess impairment using the incurred credit loss model of Section 3025; (ii) change the impairment model for held-to-maturity financial assets to the incurred credit loss model of Section 3025; (iii) require the reversal of an impairment loss relating to an available-for-sale debt instrument when, in a subsequent period, the fair value of the instrument increases and the increase can be objectively related to an event occurring after the loss was recognized.

The amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008, but are not required for interim financial statements relating to periods within the fiscal year of adoption. The Bank has opted to defer the adoption to October 31, 2009 and does not anticipate that it will then have a significant effect.

## 2. LOANS

### LOANS AND IMPAIRED LOANS

AS AT JULY 31, 2009					
	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	SPECIFIC ALLOWANCES	GENERAL ALLOWANCES	TOTAL ALLOWANCES
Personal loans	\$ 5,214,906	\$ 21,102	\$ 7,333	\$ 28,949	\$ 36,282
Residential mortgages	6,978,469	24,633	1,643	4,091	5,734
Commercial mortgages	1,148,071	9,316	2,503	5,879	8,382
Commercial and other loans	2,003,217	68,058	29,943	34,331	64,274
	<u>\$ 15,344,663</u>	<u>\$ 123,109</u>	<u>\$ 41,422</u>	<u>\$ 73,250</u>	<u>\$ 114,672</u>
AS AT OCTOBER 31, 2008					
	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	SPECIFIC ALLOWANCES	GENERAL ALLOWANCES	TOTAL ALLOWANCES
Personal loans	\$ 5,302,046	\$ 19,250	\$ 6,634	\$ 33,052	\$ 39,686
Residential mortgages	6,182,871	16,579	1,405	4,211	5,616
Commercial mortgages	932,688	6,275	1,883	4,760	6,643
Commercial and other loans	1,847,327	59,769	29,262	31,227	60,489
	<u>\$ 14,264,932</u>	<u>\$ 101,873</u>	<u>\$ 39,184</u>	<u>\$ 73,250</u>	<u>\$ 112,434</u>
AS AT JULY 31, 2008					
	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	SPECIFIC ALLOWANCES	GENERAL ALLOWANCES	TOTAL ALLOWANCES
Personal loans	\$ 5,265,562	\$ 18,973	\$ 6,431	\$ 32,289	\$ 38,720
Residential mortgages	6,109,648	21,033	1,625	4,433	6,058
Commercial mortgages	883,401	4,029	1,657	4,716	6,373
Commercial and other loans	1,727,105	58,639	32,541	31,812	64,353
	<u>\$ 13,985,716</u>	<u>\$ 102,674</u>	<u>\$ 42,254</u>	<u>\$ 73,250</u>	<u>\$ 115,504</u>

## 2. LOANS (CONTINUED)

### SPECIFIC ALLOWANCES FOR LOAN LOSSES

					FOR THE NINE MONTHS ENDED JULY 31	
	2009		2008			
	PERSONAL LOANS	RESIDENTIAL MORTGAGES	COMMERCIAL MORTGAGES	COMMERCIAL AND OTHER LOANS	TOTAL SPECIFIC ALLOWANCES	TOTAL SPECIFIC ALLOWANCES
Balance at beginning of period	\$ 6,634	\$ 1,405	\$ 1,883	\$ 29,262	\$ 39,184	\$ 50,072
Provision for loan losses recorded in the consolidated statement of income	27,363	1,003	620	11,014	40,000	30,000
Write-offs	(32,731)	(1,120)	-	(10,409)	(44,260)	(41,942)
Recoveries	6,067	355	-	76	6,498	4,124
Balance at end of period	\$ 7,333	\$ 1,643	\$ 2,503	\$ 29,943	\$ 41,422	\$ 42,254

### GENERAL ALLOWANCE FOR LOANS LOSSES

Loan losses for the nine months period ended July 31, 2008 include an \$8,000,000 charge resulting from an increase in the general allowance for loan losses.

### LOANS PAST DUE BUT NOT IMPAIRED

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

	AS AT JULY 31, 2009			
	1 TO 31 DAYS	32 TO 90 DAYS	OVER 90 DAYS	TOTAL
Personal loans	\$ 88,364	\$ 27,345	\$ 5,912	\$ 121,621
Residential mortgages	164,405	47,809	28,067	240,281
	\$ 252,769	\$ 75,154	\$ 33,979	\$ 361,902

	AS AT OCTOBER 31, 2008			
	1 TO 31 DAYS	32 TO 90 DAYS	OVER 90 DAYS	TOTAL
Personal loans	\$ 86,850	\$ 26,298	\$ 3,665	\$ 116,813
Residential mortgages	151,524	27,861	16,368	195,753
	\$ 238,374	\$ 54,159	\$ 20,033	\$ 312,566

### 3. LOAN SECURITIZATION

The Bank securitizes residential mortgage loans insured by the Canadian Mortgage and Housing Corporation, under the Canada Mortgage Back Program and the Government of Canada NHA MBS auction process. As well, the Bank has securitized conventional mortgages prior to 2008. The gains before income taxes, net of transaction-related costs, are recognized in securitization income.

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

	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED	
	JULY 31 2009	APRIL 30 2009	JULY 31 2008	JULY 31 2009	JULY 31 2008
Cash proceeds, net of transaction costs	\$ 253,234	\$ 171,816	\$ 262,707	\$ 737,166	\$ 1,068,956
Rights to future excess spreads	9,366	15,180	14,353	52,853	48,978
Servicing liability	(2,317)	(1,301)	(2,225)	(6,416)	(8,875)
Other	61	(2,735)	(220)	(7,732)	(8,468)
	<b>260,344</b>	<b>182,960</b>	<b>274,615</b>	<b>775,871</b>	<b>1,100,591</b>
Residential mortgages securitized and sold	(253,469)	(172,039)	(263,588)	(737,910)	(1,069,271)
Write-off of loan origination costs	(1,641)	(1,692)	(2,819)	(6,826)	(7,927)
Securitization gains	\$ 5,234	\$ 9,229	\$ 8,208	\$ 31,135	\$ 23,393

With regard to the transfer of residential mortgages, the key assumptions used to determine the initial fair value of retained interests at the securitization date for transactions carried out during the third quarter of 2009 are summarized as follows.

Weighted average term (months)	38
Rate of prepayment	22.1 %
Discount rate	1.7 %

No loss is expected on insured residential mortgages.

The following table details securitization income as reported in the consolidated statement of income.

	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED	
	JULY 31 2009	APRIL 30 2009	JULY 31 2008	JULY 31 2009	JULY 31 2008
Securitization gains	\$ 5,234	\$ 9,229	\$ 8,208	\$ 31,135	\$ 23,393
Changes in fair value of retained interests, seller swaps and financial instruments held as economic hedges	4,879	(2,042)	1,709	(4,472)	1,315
Servicing income	1,938	1,820	1,716	5,593	4,697
Other	(2,280)	(413)	(869)	(3,366)	(3,786)
	<b>\$ 9,771</b>	<b>\$ 8,594</b>	<b>\$ 10,764</b>	<b>\$ 28,890</b>	<b>\$ 25,619</b>

As at July 31, 2009, the Bank held rights to future excess spreads of \$85,557,000 (of which \$81,921,000 related to insured mortgages) and cash reserve accounts of \$13,304,000.

The total principal amount of securitized residential mortgages outstanding amounted to \$2,610,188,000 as at July 31, 2009 (\$2,398,564,000 as at October 31, 2008).

## 4. CAPITAL STOCK

### Issuance of common shares

During the quarter, 6,613 common shares were issued to management under the Bank's employee share purchase option plan for a cash consideration of \$145,000 (8,226 common shares for a cash consideration of \$179,000 during the nine-month period ended July 31, 2009).

ISSUED AND OUTSTANDING ////////////////////////////////////	AS AT JULY 31, 2009		AS AT OCTOBER 31, 2008	
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT
IN THOUSANDS OF DOLLARS, EXCEPT NUMBER OF SHARES				
Class A Preferred Shares <sup>1</sup>				
Series 9	4,000,000	\$ 100,000	4,000,000	\$ 100,000
Series 10	4,400,000	110,000	4,400,000	110,000
Total preferred shares	8,400,000	\$ 210,000	8,400,000	\$ 210,000
Common shares	23,855,926	\$ 257,641	23,847,700	\$ 257,462

1 The preferred shares are convertible into common shares at the Bank's option. However, the number of shares issuable on conversion is not determinable until the date of conversion.

### Capital management

The Bank's objective is to maintain an optimal level of capital to support activities while generating an acceptable return for its shareholders, considering the Bank's specific risk profile. Capital must be sufficient to demonstrate the Bank's solvency and its ability to deal with all of its operating risks, as well as to offer depositors and creditors the requisite safety. Capital must also meet minimum regulatory requirements, as defined by the Office of the Superintendent of Financial Institutions Canada (OSFI), internal capital adequacy objectives and be aligned with targeted credit ratings.

Regulatory guidelines issued by OSFI require banks to maintain a minimum Tier 1 capital ratio of at least 7% and a total capital ratio of at least 10%. The Bank is monitoring its regulatory capital based on the Standard Approach for credit risk and on the Basic Indicator Approach for operational risk, as proposed by the Bank for International Settlements regulatory risk-based capital framework (Basel II). The Bank has complied with these requirements throughout the nine-month period ended July 31, 2009.

### Regulatory capital

	AS AT JULY 31 2009	AS AT OCTOBER 31 2008	AS AT JULY 31 2008
Tier 1 capital			
Common shares	\$ 257,641	\$ 257,462	\$ 257,360
Contributed surplus	201	173	158
Retained earnings	638,480	596,974	580,703
Non-cumulative preferred shares	210,000	210,000	210,000
Less: goodwill, securitization and other	(91,071)	(99,239)	(91,498)
Total – Tier 1 capital	1,015,251	965,370	956,723
Tier 2 capital			
Subordinated debentures	150,000	150,000	150,000
General allowances	72,476	73,250	73,250
Less: securitization and other	(32,007)	(31,738)	(31,447)
Total – Tier 2 capital	190,469	191,512	191,803
Total capital	\$ 1,205,720	\$ 1,156,882	\$ 1,148,526

## 5. STOCK-BASED COMPENSATION

### Share purchase option plan

There were no new grants during the first nine months of 2009. Information on the outstanding number of options is as follows:

	AS AT JULY 31, 2009	AS AT OCTOBER 31, 2008
	NUMBER	NUMBER
Share purchase options		
Outstanding at end of period	119,112	127,338
Exercisable at end of period	94,112	89,838

### Restricted share unit plan

During the first quarter of 2009, under the restricted share unit plan, annual bonuses for certain employees amounting to \$1,528,000 were converted into 42,537 entirely vested restricted share units. The Bank also granted 25,522 additional restricted share units that will vest in December 2011.

### Performance-based share unit plan

During the first quarter of 2009, under the performance-based share unit plan, the Bank granted 42,724 performance-based share units valued at \$35.93 each. Rights to 37.5% of these units will vest after three years. The rights to the remaining units will vest after three years, upon meeting certain financial objectives.

### Stock appreciation rights plan

There were no new grants during the third quarter of 2009 under the stock appreciation rights plan (the Bank granted 27,000 stock appreciation rights during the nine-month period ended July 31, 2009).

### Stock-based compensation plan expense

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

	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED	
	JULY 31 2009	APRIL 30 2009	JULY 31 2008	JULY 31 2009	JULY 31 2008
Stock-based compensation plan expense	\$ 4,024	\$ 238	\$ 595	\$ (1,653)	\$ 801
Effect of hedges	(4,979)	(16)	121	3,034	1,374
Total	\$ (955)	\$ 222	\$ 716	\$ 1,381	\$ 2,175

## 6. EMPLOYEE FUTURE BENEFITS

	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED	
	JULY 31 2009	APRIL 30 2009	JULY 31 2008	JULY 31 2009	JULY 31 2008
Defined benefit pension plan expense	\$ 1,194	\$ 1,140	\$ 2,659	\$ 3,805	\$ 7,882
Defined contribution pension plan expense	1,077	1,031	1,000	3,101	2,745
Other plan expense	832	804	830	2,468	2,472
Total	\$ 3,103	\$ 2,975	\$ 4,489	\$ 9,374	\$ 13,099

## 7. WEIGHTED AVERAGE NUMBER OF OUTSTANDING COMMON SHARES

	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED	
	JULY 31 2009	APRIL 30 2009	JULY 31 2008	JULY 31 2009	JULY 31 2008
Average number of outstanding common shares	23,853,725	23,849,313	23,841,767	23,850,522	23,834,150
Dilutive share purchase options	18,488	5,289	46,261	15,849	43,106
Weighted average number of outstanding common shares	23,872,213	23,854,602	23,888,028	23,866,371	23,877,256
Average number of share purchase options not taken into account in the calculation of diluted net income per common share <sup>1</sup>	-	105,400	-	34,361	-

1 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 these periods.

## 8. SUPPLEMENTAL INFORMATION ON OTHER COMPREHENSIVE INCOME

### Other comprehensive income (loss)

	FOR THE THREE MONTHS ENDED			FOR THE THREE MONTHS ENDED		
	JULY 31 2009			JULY 31 2008		
	BEFORE INCOME TAXES	INCOME TAXES	NET OF INCOME TAXES	BEFORE INCOME TAXES	INCOME TAXES	NET OF INCOME TAXES
Unrealized gains (losses) on available-for-sale securities						
Net unrealized gains (losses) during the period	\$ 12,276	\$ (3,602)	\$ 8,674	\$ (4,202)	\$ 1,351	\$ (2,851)
Less: reclassification of realized (gains) and losses to net income during the period	4,523	(1,400)	3,123	(8,325)	387	(7,938)
	16,799	(5,002)	11,797	(12,527)	1,738	(10,789)
Net (loss) on derivatives designated as cash flow hedges	(26,214)	8,428	(17,786)	(894)	253	(641)
Other comprehensive income (loss)	\$ (9,415)	\$ 3,426	\$ (5,989)	\$ (13,421)	\$ 1,991	\$ (11,430)

	FOR THE NINE MONTHS ENDED			FOR THE NINE MONTHS ENDED		
	JULY 31 2009			JULY 31 2008		
	BEFORE INCOME TAXES	INCOME TAXES	NET OF INCOME TAXES	BEFORE INCOME TAXES	INCOME TAXES	NET OF INCOME TAXES
Unrealized gains (losses) on available-for-sale securities						
Net unrealized gains (losses) during the period	\$ 13,412	\$ (3,883)	\$ 9,529	\$ (8,117)	\$ 2,534	\$ (5,583)
Less: reclassification of realized (gains) and losses to net income during the period	5,500	(1,705)	3,795	(10,850)	782	(10,068)
	18,912	(5,588)	13,324	(18,967)	3,316	(15,651)
Net gains on derivatives designated as cash flow hedges	7,949	(2,931)	5,018	40,518	(13,149)	27,369
Other comprehensive income	\$ 26,861	\$ (8,519)	\$ 18,342	\$ 21,551	\$ (9,833)	\$ 11,718

## Accumulated other comprehensive income (net of income taxes)

	CASH FLOW HEDGING	AVAILABLE- FOR-SALE SECURITIES	ACCUMULATED OTHER COMPREHENSIVE INCOME
Balance at October 31, 2008	\$ 35,417	\$ (16,591)	\$ 18,826
Change during the three months ended January 31, 2009	15,041	(6,797)	8,244
Change during the three months ended April 30, 2009	7,763	8,324	16,087
Change during the three months ended July 31, 2009	(17,786)	11,797	(5,989)
Balance at July 31, 2009	\$ 40,435	\$ (3,267)	\$ 37,168

	CASH FLOW HEDGING	AVAILABLE- FOR-SALE SECURITIES	ACCUMULATED OTHER COMPREHENSIVE INCOME
Balance at October 31, 2007	\$ (10,255)	\$ 11,132	\$ 877
Change during the three months ended January 31, 2008	22,732	(3,931)	18,801
Change during the three months ended April 30, 2008	5,278	(931)	4,347
Change during the three months ended July 31, 2008	(641)	(10,789)	(11,430)
Balance at July 31, 2008	17,114	(4,519)	12,595
Change during the three months ended October 31, 2008	18,303	(12,072)	6,231
Balance at October 31, 2008	\$ 35,417	\$ (16,591)	\$ 18,826

## 9. RISK MANAGEMENT

The Bank is exposed to various types of risks owing to the nature of the business activities it carries on, including those related to the use of financial instruments. In order to manage the risks associated with using financial instruments, including loan and deposit, security and derivative financial instrument portfolios, controls such as risk management policies and various risk limits have been implemented. These measures aim to optimize the return/risk ratio in all operating segments. A corporate governance structure was also designed to ensure global risk tolerance is consistent with the Bank's strategies and objectives. The main risks to which the Bank is exposed are set out below.

### Market risk

Market risk corresponds to the financial losses that the Bank could incur because of unfavourable fluctuations in the value of financial instruments following variations in the parameters underlying their valuation, such as interest rates, exchange rates or quoted stock market prices.

## 9. RISK MANAGEMENT (CONTINUED)

As at July 31, 2009 the effect on the economic value of common shareholders' equity and on net interest income before taxes of a sudden and sustained 1% increase in interest rates is as follows.

	AS AT JULY 31, 2009	AS AT OCTOBER 31, 2008
Increase in net interest income before taxes over the next 12 months	\$ 2,475	\$ 8,901
Change in the economic value of common shareholders' equity	\$ (15,436)	\$ (27,060)

### Credit risk

The use of financial instruments, including derivatives, can result in credit risk exposures representing the risk of financial loss arising from counterparties' inability or refusal to fully honour their contractual obligations.

Note 2 to these interim consolidated financial statements provides detailed information on the Bank's loan portfolios and related credit exposures.

With respect to derivative financial instruments, the majority of the Bank's credit concentration is with financial institutions, primarily Canadian banks.

The amount that best represents the maximum exposure to credit risk of the Bank as at July 31, 2009, without taking account of any collateral held or other credit enhancements, is essentially the sum of financial assets on the consolidated financial statement, plus credit-related commitments, as set-out below.

IN MILLIONS OF DOLLARS	AS AT JULY 31, 2009	AS AT OCTOBER 31, 2008
Financial assets, as reported on balance sheet	\$ 20,926	\$ 19,255
Credit commitments and other off-balance sheet items <sup>1</sup>	4,626	4,153
Total	\$ 25,552	\$ 23,408

<sup>1</sup> Including \$2,244,000,000 as at July 31, 2009 (\$2,083,000,000 as at October 31, 2008) 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. Liquidity management pays particular attention to deposit and loan maturities, as well as to funding availability and demand when planning financing.

### Contractual maturities of financial liabilities

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

	AS AT JULY 31, 2009				
	DEMAND AND NOTICE	TERM WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Deposits	\$ 6,059,281	\$ 5,003,797	\$ 6,884,429	\$ 10,351	\$ 17,957,858
Obligations related to assets sold short	-	645,523	54,535	-	700,058
Obligations related to assets sold under repurchase agreements	-	251,749	-	-	251,749
Subordinated debentures	-	-	150,000	-	150,000
	\$ 6,059,281	\$ 5,901,069	\$ 7,088,964	\$ 10,351	\$ 19,059,665

# 10. SUPPLEMENTAL INFORMATION ON FINANCIAL INSTRUMENTS

## Fair value of financial instruments

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.

As at July 31, 2009, the fair value of financial assets and liabilities approximate their carrying amount, except for the assets and liabilities presented below.

IN MILLIONS OF DOLLARS	AS AT JULY 31, 2009			AS AT OCTOBER 31, 2008		
	CARRYING AMOUNT	FAIR VALUE	FAVOURABLE (UNFAVOURABLE) VARIANCE	CARRYING AMOUNT	FAIR VALUE	FAVOURABLE (UNFAVOURABLE) VARIANCE
<b>Assets</b>						
Loans	\$ 15,230	\$ 15,463	\$ 233	\$ 14,153	\$ 14,272	\$ 119
<b>Liabilities</b>						
Deposits	17,958	18,182	(224)	15,334	15,418	(84)
Subordinated debentures	\$ 150	\$ 156	\$ (6)	\$ 150	\$ 155	\$ (5)

### Methods and assumptions used in estimating the fair value of financial instruments

#### Loans

The fair value of loans is estimated by discounting cash flows adjusted to reflect 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 resets and loans with indeterminate maturities, the fair value is deemed to represent the carrying amount.

#### Deposits

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

## 10. SUPPLEMENTAL INFORMATION ON FINANCIAL INSTRUMENT (CONTINUED)

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

The following gains and losses were recognized in net income with regard to the available-for-sale securities.

	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED	
	JULY 31 2009	APRIL 30 2009	JULY 31 2008	JULY 31 2009	JULY 31 2008
Realized net gains	\$ 211	\$ 64	\$ 8,325 <sup>1</sup>	\$ (766)	\$ 11,374 <sup>1</sup>
Writedowns for impairment recognized in net income	(4,734)	–	(436)	(4,734)	(436)
Total	\$ (4,523)	\$ 64	\$ 7,889	\$ (5,500)	\$ 10,938

<sup>1</sup> Includes a \$12.9 million gain on the sale of shares of the Montreal Exchange.

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

The following table presents the gross unrealized gains and unrealized losses on available-for-sale securities, recognized in other comprehensive income.

	AS AT JULY 31, 2009			
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Securities issued or guaranteed				
by Canada	\$ 267,314	\$ 38	\$ –	\$ 267,352
by provinces	540,955	4,869	259	545,565
Other debt securities	115,921	5,035	468	120,488
Asset-backed securities	20,183	–	2,560	17,623
Preferred shares	74,751	440	1,524	73,667
Common shares and other securities	41,270	215	4,514	36,971
	\$ 1,060,394	\$ 10,597	\$ 9,325	\$ 1,061,666

	AS AT OCTOBER 31, 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

As at July 31, 2009, unrealized losses mainly related to publicly traded securities of Canadian financial institutions and energy sector trusts. The market values of these securities have generally declined earlier in 2008 and 2009 due to market conditions. However, these companies have maintained good financial conditions and their business plans remain sound. As a result, management has determined that these declines in fair value were temporary in nature and that it had the ability and the intent to hold these securities until their fair value recovers. These declines in value are included in accumulated other comprehensive income.

### Financial instruments designated as held-for-trading

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

	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED	
	JULY 31 2009	APRIL 30 2009	JULY 31 2008	JULY 31 2009	JULY 31 2008
Included in securitization income	\$ (26,498)	\$ 3,455	\$ (4,540)	\$ (1,797)	\$ 19,318
Included in income from treasury and financial market operations	137	139	193	231	(233)
Total	\$ (26,361)	\$ 3,594	\$ (4,347)	\$ (1,566)	\$ 19,085

The nominal amount of deposits designated as held-for-trading was \$6,000,000 as at July 31, 2009 (\$68,560,000 as at July 31, 2008). The difference between the amount the Bank would be contractually required to pay at maturity to the holders of these deposits and their carrying amount of \$6,023,000 as at July 31, 2009 (\$68,704,000, as at July 31, 2008), is \$23,000 (\$144,000, as at July 31, 2008).

### Derivative financial instruments

#### Ineffectiveness related to hedging relationships

The following table presents the ineffective portion of accumulated changes in the fair value of hedging instruments recognized in the consolidated statement of income.

	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED	
	JULY 31 2009	APRIL 30 2009	JULY 31 2008	JULY 31 2009	JULY 31 2008
Favourable (unfavourable) ineffectiveness					
on cash flow hedging	\$ 87	\$ 89	\$ 12	\$ 211	\$ 275
on fair value hedging	242	(227)	(317)	(755)	(569)
	\$ 329	\$ (138)	\$ (305)	\$ (544)	\$ (294)

## 10. SUPPLEMENTAL INFORMATION ON FINANCIAL INSTRUMENT (CONTINUED)

### *Breakdown of swap contracts designated as hedging instruments, by category*

The following table presents the Bank's swap contracts between those designated as cash flow hedging instruments and those designated as fair value hedging instruments.

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

	AS AT JULY 31, 2009		AS AT OCTOBER 31, 2008	
	NOMINAL AMOUNT	FAIR VALUE NET AMOUNT	NOMINAL AMOUNT	FAIR VALUE NET AMOUNT
Interest rate swap contracts designated as hedging instruments				
Swaps used for cash flow hedging	\$ 3,968,000	\$ 42,922	\$ 2,557,000	\$ 46,118
Swaps used for fair value hedging	2,585,000	68,930	3,021,750	68,148
	<u>\$ 6,553,000</u>	<u>\$ 111,852</u>	<u>\$ 5,578,750</u>	<u>\$ 114,266</u>

### *Other information on hedging relationships*

Net deferred gains of \$33,287,000, included in accumulated other comprehensive income as at July 31, 2009, are expected to be transferred into net income over the next twelve months.

The maximum term of cash flow hedging relationships was five years as at July 31, 2009.

## 11. CONTINGENCIES

### **Class action Marcotte v. Banks**

On June 11, 2009, the Superior Court of the Province of Quebec granted a class action against ten Canadian financial institutions, including Laurentian Bank, with regards to mark-ups charged by banks to credit-cardholders upon conversion in Canadian dollars of foreign currency transactions. The judgment condemned the Bank to pay mark-ups earned, with interest and additional indemnity. Along with the other Canadian financial institutions sued, the Bank submits that the judgment contains many errors of fact and in law which are significant to the point of invalidating the judgment, and therefore elected to appeal the decision rendered. Given the current situation, the Bank is not in a position to determine the outcome of this litigation and consequently, no provision was set to date.

# 12. SEGMENTED INFORMATION

FOR THE THREE MONTHS ENDED  
JULY 31, 2009

	R & SME QUEBEC	RE&C	B2B	LBS	OTHER	TOTAL
Net interest income	\$ 77,844	\$ 18,355	\$ 23,945	\$ 492	\$ (7,870)	\$ 112,766
Other income	31,237	6,645	2,485	15,647	7,877	63,891
Total revenue	109,081	25,000	26,430	16,139	7	176,657
Provision for loan losses	12,408	2,105	1,487	-	-	16,000
Non-interest expenses	84,734	6,792	12,293	11,530	3,732	119,081
Income (loss) before income taxes	11,939	16,103	12,650	4,609	(3,725)	41,576
Income taxes (recovered)	2,265	5,040	3,985	1,366	237	12,893
Net income	\$ 9,674	\$ 11,063	\$ 8,665	\$ 3,243	\$ (3,962)	\$ 28,683

Average assets<sup>1</sup> \$ 11,210,055 \$ 2,476,318 \$ 4,326,084 \$ 1,511,343 \$ 1,265,222 \$ 20,789,022

FOR THE THREE MONTHS ENDED  
APRIL 30, 2009

	R & SME QUEBEC	RE&C	B2B	LBS	OTHER	TOTAL
Net interest income	\$ 74,489	\$ 15,342	\$ 21,496	\$ 526	\$ (17,780)	\$ 94,073
Other income	29,281	5,033	2,417	10,833	13,131	60,695
Total revenue	103,770	20,375	23,913	11,359	(4,649)	154,768
Provision for loan losses	8,129	3,161	710	-	-	12,000
Non-interest expenses	83,105	6,346	11,740	8,721	4,122	114,034
Income (loss) before income taxes	12,536	10,868	11,463	2,638	(8,771)	28,734
Income taxes (recovered)	2,780	3,401	3,630	772	(3,004)	7,579
Net income	\$ 9,756	\$ 7,467	\$ 7,833	\$ 1,866	\$ (5,767)	\$ 21,155

Average assets<sup>1</sup> \$10,849,661 \$ 2,274,033 \$ 4,231,056 \$ 1,315,395 \$ 1,440,895 \$20,111,040

FOR THE THREE MONTHS ENDED  
JULY 31, 2008

	R & SME QUEBEC	RE&C	B2B	LBS	OTHER	TOTAL
Net interest income	\$ 77,033	\$ 14,256	\$ 21,992	\$ 709	\$ (10,577)	\$ 103,413
Other income <sup>2</sup>	30,467	4,044	2,740	9,203	21,228	67,682
Total revenue	107,500	18,300	24,732	9,912	10,651	171,095
Provision for loan losses <sup>3</sup>	9,343	1,003	154	-	8,000	18,500
Non-interest expenses	82,789	5,786	10,628	8,346	5,998	113,547
Income (loss) before income taxes	15,368	11,511	13,950	1,566	(3,347)	39,048
Income taxes (recovered)	3,812	3,808	4,710	458	(4,677)	8,111
Net income	\$ 11,556	\$ 7,703	\$ 9,240	\$ 1,108	\$ 1,330	\$ 30,937

Average assets<sup>1</sup> \$10,250,590 \$ 2,117,407 \$ 3,966,095 \$ 1,587,308 \$ 802,582 \$18,723,982

## 12. SEGMENTED INFORMATION (CONTINUED)

	FOR THE NINE MONTHS ENDED JULY 31, 2009					
	R & SME QUEBEC	RE&C	B2B	LBS	OTHER	TOTAL
Net interest income	\$ 228,587	\$ 47,976	\$ 66,556	\$ 1,768	\$ (39,345)	\$ 305,542
Other income	89,063	16,543	7,288	35,303	34,223	182,420
Total revenue	317,650	64,519	73,844	37,071	(5,122)	487,962
Provision for loan losses	30,072	6,920	3,008	-	-	40,000
Non-interest expenses	250,072	19,070	34,809	28,442	11,454	343,847
Income (loss) before income taxes	37,506	38,529	36,027	8,629	(16,576)	104,115
Income taxes (recovered)	7,896	12,058	11,403	2,529	(4,656)	29,230
Net income	\$ 29,610	\$ 26,471	\$ 24,624	\$ 6,100	\$ (11,920)	\$ 74,885
Average assets <sup>1</sup>	\$ 10,934,428	\$ 2,319,217	\$ 4,240,737	\$ 1,369,452	\$ 1,306,667	\$ 20,170,501

	FOR THE NINE MONTHS ENDED JULY 31, 2008					
	R & SME QUEBEC	RE&C	B2B	LBS	OTHER	TOTAL
Net interest income	\$ 222,707	\$ 41,581	\$ 66,293	\$ 2,146	\$ (30,757)	\$ 301,970
Other income <sup>2, 4</sup>	86,177	11,447	8,138	23,894	46,044	175,700
Total revenue	308,884	53,028	74,431	26,040	15,287	477,670
Provision for loan losses <sup>3</sup>	25,726	3,497	777	-	8,000	38,000
Non-interest expenses	244,362	16,850	31,623	23,286	16,830	332,951
Income (loss) before income taxes	38,796	32,681	42,031	2,754	(9,543)	106,719
Income taxes <sup>5</sup>	9,596	10,815	14,182	797	(3,869)	31,521
Net income	\$ 29,200	\$ 21,866	\$ 27,849	\$ 1,957	\$ (5,674)	\$ 75,198
Average assets <sup>1</sup>	\$ 9,985,127	\$ 2,107,511	\$ 3,817,668	\$ 1,481,166	\$ 702,311	\$ 18,093,783

R & SME Quebec – The Retail & SME Quebec segment covers the full range of savings, investment, financing and transactional products and services offered through its direct distribution network, which includes branches, the electronic network and the call centre, as well as Point-of-Sale financing across Canada. This business segment also offers Visa credit card services, insurance products and trust services. As well, it offers all commercial financial services to the small and medium enterprises in Quebec.

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

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

LBS – The LBS segments consists of the activities of the Laurentian Bank Securities Inc. subsidiary.

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

1 Assets are disclosed on an average basis as this measure is most relevant to a financial institution.

2 Other income in the Other segment includes a \$12.9 million gain (\$11.1 million net of income taxes) on the sale of shares of the Montreal Exchange as a result of the business combination of the Montreal Exchange with the TSX Group.

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

4 Other income in the Other segment includes a \$0.4 million loss (\$0.3 million net of income taxes) on the sale of a \$30.1 million personal line of credit portfolio. The Bank has not retained any rights or obligations in respect of these loans.

5 The Other segment's income taxes include a \$5.6 million tax adjustment reflecting the decrease in the Bank's future income tax assets as a result of reductions in federal income tax rates.



# SHAREHOLDER INFORMATION

## Head office

Tour Banque Laurentienne  
1981 McGill College Avenue  
Montreal, Quebec H3A 3K3  
Tel.: (514) 284-4500  
ext. 5996  
Fax: (514) 284-3396

Telebanking Centre,  
Automated Banking  
and customer service:  
Montreal region:  
(514) 252-1846  
Toll-free: 1-800-252-1846  
Website:  
[www.laurentianbank.ca](http://www.laurentianbank.ca)  
Telex: 145069

## Transfer Agent and Registrar

Computershare Investor Services  
1500 University Street  
Suite 700  
Montreal, Quebec H3A 3S8  
Phone: 1-800-564-6253  
(toll-free in Canada and the United States)  
or (514) 982-7555  
(international direct dial).

## Investors and analysts

Investors and analysts may contact the Investor Relations Department at Head Office by calling (514) 284-4500 ext. 7511.

## Media

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

## Ombudsman's office

Laurentian Bank of Canada  
1981 McGill College Avenue  
14th Floor  
Montreal, Quebec H3A 3K3  
(514) 284-7192  
1-800-473-4782

## Change of address and inquiries

Shareholders should notify the Transfer Agent of a change of address. Inquiries or requests may be directed to the Secretary's Office at Head Office or by calling (514) 284-4500 ext. 7545.

## STOCK SYMBOL AND DIVIDEND PAYMENT

THE COMMON AND PREFERRED SHARES INDICATED BELOW ARE LISTED ON THE TORONTO STOCK EXCHANGE.

STOCK SYMBOL  
CODE CUSIP

DIVIDEND  
RECORD DATE\*

DIVIDEND  
PAYMENT DATE\*

	STOCK SYMBOL CODE CUSIP	DIVIDEND RECORD DATE*	DIVIDEND PAYMENT DATE*
Common shares	51925D 10 6 LB	First business day of: January April July October	February 1st May 1st August 1st November 1st
Preferred shares			
Series 9	51925D 87 4 LB.PR.D	**	March 15
Series 10	51925D 86 6 LB.PR.E	**	June 15 September 15 December 15

\* Subject to the approval of the Board of Directors.

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

