Stronger than ever and always as agile.

Laurentian Bank
2009 Annual Report

Stronger than ever LAURENTIAN BANK 2009 ANNUAL REPORT

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With 156 branches, 408 automated banking machines, over $22 billion in assets, and over 3,500 employees, Laurentian Bank is firmly rooted in Québec, where it operates the third largest branch network. Elsewhere in Canada, the Bank has secured a choice position in certain specific market segments. Moreover, with 39% of its loans originating from other provinces, the Bank enjoys the benefits of nationwide geographical diversification.

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

Stock symbole: LB on TSX

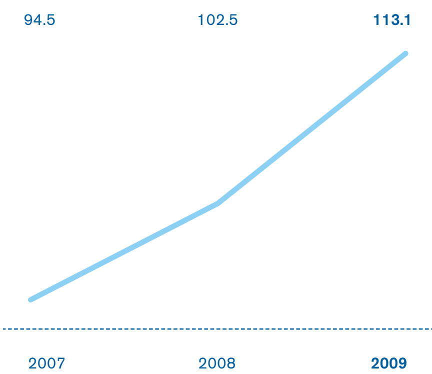
Presentation of Business Segments

RETAIL AND SME QUÉBEC	**REAL ESTATE AND COMMERCIAL**	**B2B TRUST**	**LAURENTIAN BANK SECURITIES**
CONTRIBUTION TO THE BANK'S NET INCOME (EXCLUDING THE OTHER SEGMENT)			
35%[1]	30%	28%	7%
-- Personal Banking: transactional, financing and investment products and services -- Small and Medium-Sized Enterprises: financing solutions and services such as exchange transactions, electronic banking and processing of international transactions	-- Real estate financing for developers, namely for condominiums, office buildings and shopping centres -- Commercial financing for medium-sized enterprises in Québec and Ontario	Personal banking products such as investment loans, mortgage loans, high yield investment accounts and self-directed accounts distributed through a network of more than 15,000 independent financial advisors	Full-service brokerage services -- Institutional brokerage – Fixed income -- Institutional brokerage – Equity -- Retail brokerage -- Discount brokerage -- Institutional services
PRESENCE -- 156 branches -- 408 automatic teller machines -- 12 commercial business centres -- 7 agricultural business centres	**PRESENCE** -- 7 real estate financing centres in Canada -- 4 commercial financing centres in Ontario -- 2 commercial financing centres in Québec	**PRESENCE** -- 4 sales offices across Canada	**PRESENCE** -- 15 offices in Québec and Ontario
AVERAGE TOTAL LOANS $10.8 billion **AVERAGE TOTAL DEPOSITS** $7.9 billion	**AVERAGE TOTAL LOANS** $2.2 billion **AVERAGE TOTAL DEPOSITS** $0.2 billion	**AVERAGE TOTAL LOANS** $4.3 billion **AVERAGE TOTAL DEPOSITS** $7.9 billion	**TOTAL ASSETS UNDER MANAGEMENT** $2.0 billion
POSITIONING 3rd largest branch network in Québec	**POSITIONING** Widely recognized leadership and expertise in the area of real estate financing within Canada	**POSITIONING** Canadian leader in the financial intermediary market	**POSITIONING** Recognized and choice provider of fixed income institutional brokerage services in Canada

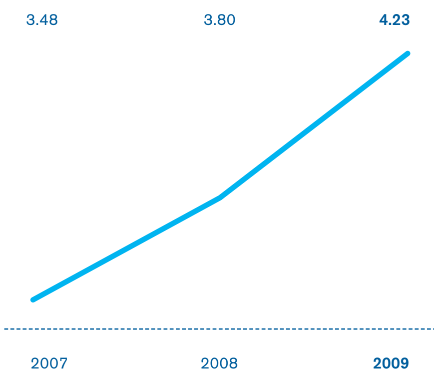
[1] Excluding discontinued operations

2009 Performance

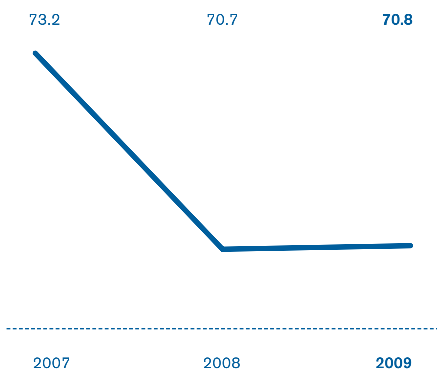
NET INCOME
(in millions of dollars)



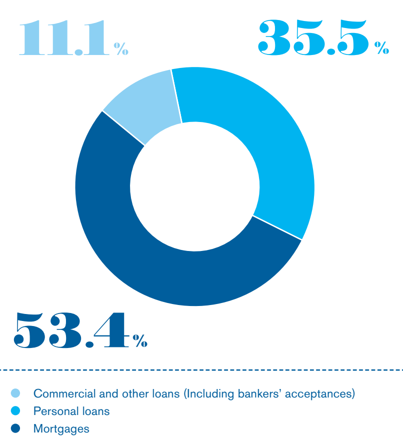
DILUTED NET INCOME PER COMMON SHARE
(in dollars)



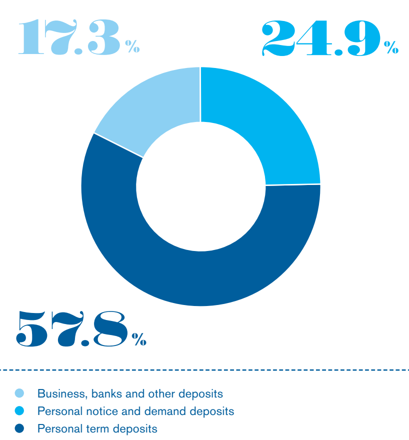
EFFICIENCY RATIO
(non-interest expenses as a percentage of total revenue)



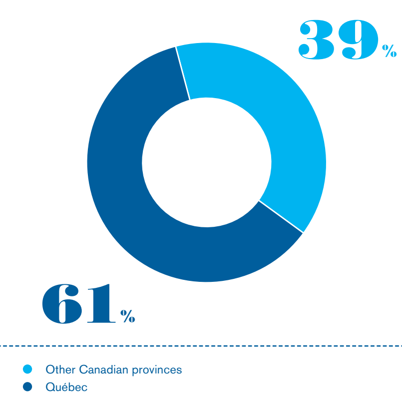
LOAN PORTFOLIO MIX
(as a percentage)



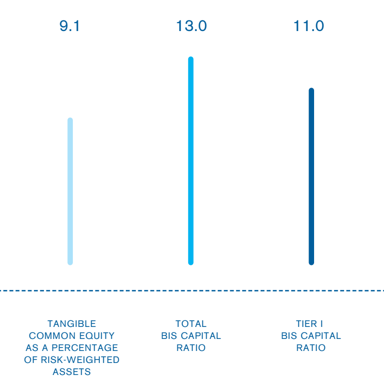
DEPOSIT PORTFOLIO MIX
(as a percentage)



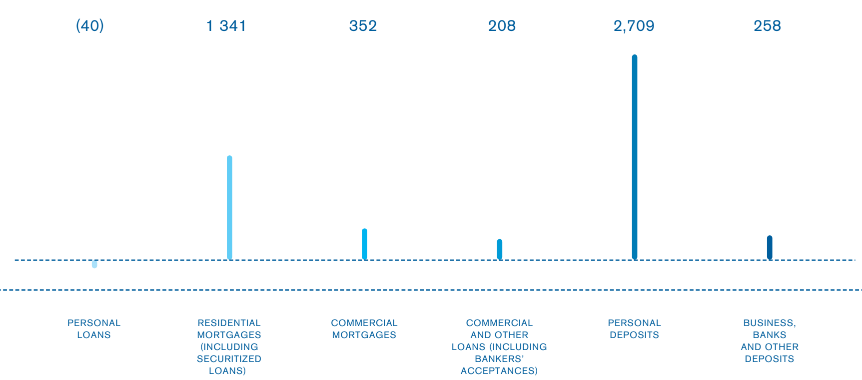
GEOGRAPHIC DISTRIBUTION OF LOANS
(as a percentage)



CAPITAL RATIO
(as a percentage)



LOAN AND DEPOSITS GROWTH IN 2009
(in millions of dollars)



2009 Objectives and Results

	2009 OBJECTIVES	**2009 RESULTS**
Return on common shareholders' equity	10.0% to 12.0%	**11.4%**
Diluted net income per common share	$3.70 to $4.40	**$4.23**
Total revenue	+ 2% to 5% $645 to $665 million	**+ 6%** **$667 million**
Efficiency ratio	73% to 70%	**70.8%**
Tier I BIS capital ratio	minimum of 9.5%	**11.0%**

Financial Highlights

For the years ended October 31 (in millions of dollars, except per share and percentage amounts)	**2009**	2008	2007
Per common share			
Diluted net income	**$ 4.23**	$ 3.80	$ 3.48
Diluted income from continuing operations	**$ 3.75**	$ 3.61	$ 3.29
Dividends declared	**$ 1.36**	$ 1.30	$ 1.16
Book value	**$ 38.68**	$ 35.84	$ 33.34
Share price			
High	**$ 43.50**	$ 44.85	$ 45.08
Low	**$ 23.90**	$ 31.30	$ 28.79
Close	**$ 39.53**	$ 40.88	$ 43.70
Financial ratios			
Price / earnings ratio	**9.3x**	10.7x	12.5x
Market to book value	**102%**	114%	131%
Dividend yield	**3.44%**	3.18%	2.65%
Net interest income as a percentage of average assets	**2.07%**	2.21%	2.31%
Earnings			
Total revenue	**$ 666.5**	$ 630.5	$ 583.9
Net income	**$ 113.1**	$ 102.5	$ 94.5
Income from continuing operations	**$ 101.6**	$ 98.1	$ 90.1
Efficiency ratio			
Non-interest expenses as a % of total revenue	**70.8%**	70.7%	73.2%
Return on common shareholders' equity	**11.4%**	11.0%	10.9%
Other information			
Number of full-time equivalent employees	**3,528**	3,393	3,289
Number of branches	**156**	156	157
Number of automated banking machines	**408**	342	338
Number of brokerage offices	**15**	15	14
Number of commercial banking centres	**31**	30	29

This table includes non GAAP mesures. See notice on page 54.

More solid than ever, with growth of close to $5 billion in loans and deposits in 2009.

2009
was another record year of loan and deposit growth for the Laurentian Bank. Owing to the strength of its distribution networks, that the Bank is generating more and more internal growth.

+ $3 billion in deposits
were gathered with the introduction of B2B Trust High Interest Investment Account.

+ $1.3 billion
in residential mortgages.

25% loan portfolio
growth in Quebec's SME sector.

150% growth
in commercial deposits.

Always as agile in the products we offer.

Our customers' needs evolve quickly.
While ensuring our products remain simple, we make sure our offers evolve just as fast.

Speed
We reacted quickly to consumer demand in 2008 by launching the new High Interest Investment Account by B2B Trust, which created a real craze.

Specialization
We set up specialized teams to cater to specific industries that we serve in Québec's SME market.

More solid than ever, as the exclusive operator of ATMs in the Montréal subway system.

With this exclusive contract, the Bank benefits from constant visibility by approximately 1 million Montréal subway commuters daily.

The Bank operates 72 ATMs throughout the subway system.

Over the last 5 years, the number of Laurentian Bank ATMs increased 40% to reach a total of 408.

Always as agile to serve our clients.

We're known
for our convenience and our entrepreneurial spirit. It's our brand and we're very proud of it.

Convenience
We're the only financial institution that offers its customers who prefer this option, complete financial advice services by telephone and email from an advisor assigned to them personally.

Friendliness
The concept behind our approximately 30 financial services boutiques is very successful with families, as they appreciate the suite of services that make life easier.

Proximity
Thanks to our growing number of mobile bankers, more and more customers can benefit from our expertise from the comfort of their home or office.

More solid than ever, with an enviable position in several sectors.

Over the course of 163 years of existence, Laurentian Bank has established a strong foundation in sectors we've targeted for our operations.

#1 provider in Canada of banking solutions for financial intermediaries thanks to B2B Trust.

3rd largest branch banking network in Québec.

Highly recognized for its leadership and experience in the area of real estate.

Acknowledged as a respected and sought after participant in the Canadian Institutional Fixed Income arena via Laurentian Bank Securities.

Always as agile, thanks to our 3,500 employees.

At Laurentian Bank,
the contribution of each and every employee to our fundamental values is at the heart of who we are.

Obsession for client interests
Because our customers are our raison d'être.

Simplicity
Because life is complicated enough.

Team work
Because our success depends on our collective efforts.

Entrepreneurship
Because we hold the growth of our business at heart.

Integrity
Because it's about our customers' wealth and their future.

A perfect combination of strength and agility

MANAGEMENT COMMITTEE
From left to right
Bernard Piché
Michel C. Lauzon
Réjean Robitaille
François Desjardins
Luc Bernard
Lorraine Pilon

$5B

RECORD GROWTH OF NEARLY $5 BILLION IN LOANS AND DEPOSITS IN 2009

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

As we embarked on fiscal 2009, financial institutions around the world were experiencing the dramatic effects of the worst financial crisis in decades. We responded with great prudence as well as with confidence in our ability to meet the challenges. Today, I am proud to report that, overall, fiscal 2009 was a very positive year for the Bank on numerous fronts.

Not only did we successfully navigate through the economic and financial crisis, but we emerged from it more solid than ever. In fact, our balance sheet is stronger than ever, and the accelerated growth of our loan and deposit portfolios attests to how well we executed our strategies. Indeed, we are taking greater and greater advantage of our business model, which is built on a solid foundation and benefits from our complementary operations, while fully exploiting the strategic advantage that we enjoy thanks to our agility.

HARNESSING OUR STRENGTHS

During fiscal 2009, this combination of solidity and agility enabled us to increase our combined loans and deposits by a record of nearly $5 billion, a 15% increase. During the past three years, our loan portfolio grew by 28% without compromising our credit quality. Over the same period, our deposits climbed by 40% owing to the diversification of our products.

It is with this same dynamic approach that we will pursue our development, for the ultimate benefit of both our shareholders and clients. Indeed, our clients are at the very heart of all our strategies. They clearly appreciate our approach based on the high level of satisfaction reported in the various surveys we, as well as third party pollsters, have conducted. For example, according to a Léger Marketing study published in Commerce magazine, Laurentian Bank ranked as the second most admired financial institution in Québec, a distinction that we are extremely proud of.

Given our priority of increasing the long-term profitability of our organization, we are committed to continue to grow our revenue through judicious investments in our systems and infrastructure, as well as through the ongoing development of our personnel.

FIRM FINANCIAL FOUNDATIONS

Positive Performance and a Solid Balance Sheet

We have achieved all of the financial objectives that we had set for fiscal 2009, as illustrated in the table below.

We were able to reach our objectives despite the challenging financial and economic context that prevailed and which triggered a pronounced drop in interest rates. At the same time, we maintained our net interest margin at 2.07%, thanks to the agility with which we rapidly implemented various strategic initiatives.

Our balance sheet also remained solid with a Tier 1 capital ratio of 11.0%. We ranked among the best in the Canadian banking sector with a tangible common equity ratio of 9.1%. In addition to our solid capital underpinning, we hold a high level of liquidity, which allows us the flexibility to capitalize on numerous market opportunities.

Disciplined Execution

Through the disciplined execution of our business plan, we were able to sustain the Bank's growth and development. Our strategic priorities – increasing profitability, improving efficiency and developing human capital – served to guide our actions and prioritize our investments. Sustained cost control is vital to promoting our profitability. Moreover, it is by increasing our revenues and implementing more effective tools and

Diluted net income per share	$4.23
Return on common shareholders' equity	11.4%
Efficiency ratio	70.8%
Total revenue	+6%
Tier 1 capital ratio	11.0%

systems to optimize the actions of our employees, that we will improve our efficiency. That is why investment is essential for the long-term development of the Bank. While it is challenging to balance short-term and long-term considerations, our ability to do so has been key to improving our efficiency and, thus, our profitability. This balance will continue to be a critical element of the Bank's strategy.

ASSURING SUSTAINABLE GROWTH

Record Deposit and Loan Growth

The Bank's deposits posted record growth of 19% in 2009 while loans rose by an unprecedented 10%. This increase testifies to the effectiveness of our distribution networks, as well as to our ability to develop our presence in our target markets. Furthermore, it provides the fuel for sustainable growth of our profitability.

In that regard, we are particularly pleased with the launch of B2B Trust's High Interest Investment Account. In less than one year, more than $3 billion of deposits were accumulated, providing the Bank with increased liquidity and an attractive source of funding. With the value of our deposits exceeding that of our loans, we can leverage this advantage to help us grow our loan portfolios.

Strong Earnings Growth

On the earnings front, each business line performed well. We experienced strong growth in 2009 particularly within the Real Estate and our Commercial business segments, as well as from Laurentian Bank Securities. In the Real Estate and Commercial segment, our teams reacted very swiftly when certain competitors withdrew from this market. In so doing, we took full advantage of the situation, accelerating the growth of these portfolios. With respect to Laurentian Bank Securities, the Institutional Fixed Income division was largely responsible for the improved performance, with the broader business base that is being built also having contributed.

Expanded Distribution Channels

In the year that just ended, we continued to extend our distribution channels in order to better serve our clientele. Over the past five years, we opened 9 new retail branches, relocated 15 others, and renovated close to 25. As such, 30% of the Bank's branches have benefited from major modifications in order to enhance our clients' branch banking experience.

While the economic backdrop caused us to reduce our investment in infrastructure slightly in 2009, we plan to resume a more normal pace of investment in 2010, both in infrastructure and information technology.

B2B Trust's distribution channels were also expanded in 2009. We concluded 4 new distribution agreements for investment and RRSP loans. Thus, as well as having the capacity to offer products to more clients, our geographic footprint is broadening too.

During fiscal 2009, we were proud to have concluded an exclusive agreement for the operation of all Automatic Teller Machines in the Montréal subway. As such, we now have 72 ATMs in the subway station network. This contract provides us with outstanding visibility within our target market in the Montréal region, where the Bank has established an extensive presence.

Increasingly Personalized Service

Over the past few years, the Bank has made considerable investments in its business intelligence tools such that it now enjoys a significant competitive edge. Having become more familiar with the profile of our clients and their behaviours, we are in a position to be more proactive in serving their needs and personalizing our approach.

This heightened knowledge of our clientele also contributes to the development of our distribution strategies. We have continued to expand our mobile banking services for our retail clients with mortgage and investment product specialists who are available to meet with our clients in their homes.

Moreover, we go to great lengths to understand the financial needs of our clients which differ according to their life-cycle. As such, we are the only institution to offer clients a complete advisory service, through an advisor accessible by phone and e-mail, and who is personally assigned to them. These advisors provide the same services and guidance as those in our branches, without the client having to leave home.

Similarly, in order to provide our clients with superior service, it is important that they have the ability to interact with experts whose skills match their financial profiles. Consequently, we have continued to increase the number of financial planning professionals in our branches. At the same time, we make sure to entrust our commercial client files to account managers with a solid knowledge of the specific sectors in which the clients operate. Finally, account

3 GROWTH ENGINES

1. RETAIL SERVICES AND SME IN QUÉBEC
2. REAL ESTATE FINANCING
3. B2B TRUST

IT IS BY INCREASING OUR REVENUES AND IMPLEMENTING MORE EFFECTIVE TOOLS AND SYSTEMS TO OPTIMIZE THE ACTIONS OF OUR EMPLOYEES, THAT WE WILL IMPROVE OUR EFFICIENCY.

managers are assigned a limited number of clients so as to maximize their availability.

In order to ensure that our clients are increasingly better served by our institution, we believe that it is vital to continuously improve the tools and technology used by our employees. Our clients are the principal beneficiaries of these incremental investments as our personnel can devote more time to the client rather than being absorbed in administrative tasks.

The 15,000 or so independent financial advisors who conduct business with B2B Trust truly appreciate that over the past year, we have continued to invest in our electronic systems. In particular, we significantly improved our electronic EASE platform to accelerate the processing of investment loan applications filed by advisors on behalf of their clients.

PURSUING PRUDENT RISK MANAGEMENT AND DIVERSIFICATION

Good Credit Quality

The Bank pursued its rigorous and disciplined approach to risk management during 2009. Indeed, we are quite satisfied with the performance of our portfolios. While rising unemployment and bankruptcy rates had an effect primarily on our personal lines of credit, unsecured personal loans and Visa portfolios, our mortgage, investment loan and commercial loan portfolios remained healthy.

Diversification of Revenues

In 2009, we continued to pursue the diversification of our sources of revenue. Firstly, our non-interest revenue became increasingly diversified through the selective expansion of our brokerage activities, credit card offerings and insurance products. Growth in these areas will continue to fuel our overall profitability. Secondly, we intensified our efforts to diversify our sources of funds, resulting in increased personal and commercial deposits. Thirdly, we diversified our real estate loan portfolio by raising the proportion of term loans. Finally, we selectively diversified our operations within Laurentian Bank Securities. While our core strength remained in fixed income, we continued to expand our operations in institutional equity brokerage, investment banking services and retail brokerage.

Confidence in the Bank's Long-Term Development

In the years to come, we will pursue our development strategies with vitality and vigour. Concentrating on our three growth engines – Retail Services and SME Québec, Real Estate Financing across Canada, and B2B Trust – we are committed to continuing to solidify the Bank's position.

This confidence in the future of our organization has led to the decision by the Board of Directors to increase the quarterly dividend by $0.02 per common share, resulting in an annual dividend of $1.44 per share.

ACKNOWLEDGEMENTS

The progress that we achieved in 2009 was due in large part to the support of the Bank's numerous stakeholders, and I would like to take this opportunity to express our sincere gratitude. Thank you to our clients for their trust and the opportunity to take care of their business; to our employees for their hard work, professionalism and dedication; to our Management Committee for their leadership and inspiration; to our Board of Directors for their guidance and good governance; and to our shareholders for their confidence and loyal support.

I would also like to extend our gratitude to Bernard Piché, who has held the position of Senior Executive Vice-President, Treasury, Financial Markets and Brokerage, and has decided to retire after 16 years of service with the Bank. Bernard has contributed significantly to Laurentian Bank. His expertise, dedication and rigour have served as major assets for the organization. I wish him a most gratifying retirement!

In conclusion, our solid financial foundation, our commitment to growth, our prudent approach to risk management and our dedication to diversification, all contributed to Laurentian Bank's positive performance in 2009. The progress that we made sets us firmly on track towards achieving our sustained development in 2010 and beyond.

RÉJEAN ROBITAILLE
PRESIDENT AND CHIEF EXECUTIVE OFFICER

MESSAGE FROM THE CHAIRMAN OF THE BOARD

In his message to shareholders, Laurentian Bank President and Chief and Executive Officer, Mr. Réjean Robitaille, announced the Bank's great financial results for the fiscal year 2009, despite major instability in the economy and the financial and economic markets. The Board of Directors is very pleased with the results, made all the more satisfying as the Bank's performance has improved consistently over each of the last five years.

The recent financial crisis not only revealed unsuspected weaknesses in our economy, it also provoked important changes in the international banking environment, and triggered several discussions on the topic of ethics. As well, it also highlighted the importance of stringent rules for governance within public organizations.

Boards of directors are responsible for finding practical and logical solutions to preserve shareholder interests, while keeping in mind the particularities of their industry. Boards of directors, particularly in the financial sector, now have to also exercise very alert risk management practices.

The attention given to governance is nothing new to the Laurentian Bank; our Board of Directors makes it a priority. For many years, we've made it a point of honour to act with the greatest of transparency. We work closely with the Bank's management to better understand the risks of the business as well as the idiosyncrasies of the operations, all the while maintaining the distance needed to exercise proper judgment.

COMMITTEE WORKS

Throughout the fiscal year, the Board of Directors' committees have conducted their work with great diligence. Certain issues have demanded closer attention than others given the current economic environment.

As such, the Human Resources Committee carefully reviewed the question of executive compensation programs. Even though the Bank's programs are in line with recognized best practices, it seemed important to explore if whether those programs could be further improved. The Committee also discussed actions that will be in place for the next annual meeting in order to present a proposal regarding executive compensation to shareholders for a consultative vote.

As for the Management Risk Committee, it continued to be vigilant regarding risks which could impact the Bank. Systems and procedures were put into place to more efficiently manage risks. This year, the Committee was particularly watchful of credit risks. The relative stability of the Bank's loan portfolio during the year is testimony to the legitimacy of the prudent approach adopted by the Bank.

Moreover, the Audit Committee analyzed the impact that the International Financial Reporting Standards (IFRS) will have when they go into effect on November 1, 2011. The Committee also continues to follow up on the rules regarding internal control of financial information and its certification by the Bank's management.

OUTSTANDING FEMALE REPRESENTATION, WITHIN A STRONG BOARD OF DIRECTORS

During 2009, Mr. Pierre Michaud announced that he would be leaving the Board of Directors. Mr. Michaud was a Board member for almost 20 years. His exceptional contribution deserves special mention. Having worked closely with him, I can say that his excellent judgment and extensive knowledge have been of great benefit to us throughout the years. I would like to extend my sincere gratitude to Mr. Michaud for his devotion to our organisation.

Ms. Marie-France Poulin will be replacing Mr. Michaud on the Board. Ms. Poulin has an impressive background and is well-known for her eagerness when taking on new challenges. We are convinced that her valuable input will contribute to the upholding of judicious decisions.

With the nomination of Ms. Poulin, the Laurentian Bank now counts five women within its 13-member Board of Directors. We are proud to say that this is the largest representation of women on any board in the Canadian banking industry.

During the annual shareholders meeting in March 2009, Mr. Michel Labonté was elected administrator. His vast and valuable experience in the banking industry has already enriched our competencies as a group. I thank him for his already very significant contribution to the work of the Board thus far.

The men and women who make up our Board of Directors have a solid experience and recognized skills which when combined, produce an outstanding team. With the increasingly demanding responsibilities of the Bank's Board of Directors, it is imperative that its members be highly competent individuals. I would like to take this opportunity to thank the members of the Board for their excellent work.

My thanks are also extended to the members of the Bank's Management Committee. They have spared no effort to mobilize the resources necessary to reach the objectives that have been set, while maintaining their firm commitment to the Bank's business plan. Their close collaboration with the members of the Board is further evidence to the Bank's dedication to its shareholders.

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

A FEW NOTEWORTHY EVENTS

08 09

11/08
Carlos Leitao, Chief Economist at Laurentian Bank Securities, is ranked second among the world's best economists in Bloomberg News' annual review of economic forecasting.

A new financial services boutique opens in St-Jérôme.

12/08
Record net income of $102.5 million is announced for 2008.

Michel C. Lauzon assumes the position of Chief Financial Officer following the retirement of Robert Cardinal.

For the 5th year, over 1,000 Laurentian Bank employees participate actively in the *Media's Big Food Drive* by organizing 70 street collections across Québec.

01/09
A new financial services boutique opens in Terrebonne.

The financial services boutique in Gatineau moves to new premises.

Two new investment products are launched as part of the RRSP campaign – the Income Action GIC and the Extra Multi-Rater GIC.

02/09
Laurentian Bank is recognized as the second most admired financial institution by Québecers according to a Léger Marketing survey published in *Commerce* magazine.

Réjean Robitaille is named the second most influential person in Québec's financial industry.

Laurentian Bank receives a prize at the ÉLIXIR Gala highlighting excellence in the implementation of its technology modernization and operational enhancement project.

03/09
Michel Labonté is appointed to the Bank's Board of Directors during the annual meeting of shareholders.

A promotional campaign is launched offering consumers up to 5% cash back on their mortgages.

04/09
B2B Trust signs a distribution agreement with Guardian Group of Funds Ltd. and BMO Investments for its investment loans and RRSPs.

The Association of Québec Women in Finance awards Laurentian Bank's Dana Ades-Landy, Senior Vice-President, Major Accounts, the *Engagement within the Association* prize.

05/09
Laurentian Bank ranks among the top 20 best corporate citizens in Québec, in a study performed by the Responsible Investment Group.

06/09
Laurentian Bank wins the call for tenders and becomes exclusive supplier of automatic teller machines for the Montreal subway system.

07/09
Laurentian Bank raises $42,000 for the Fondation Marie Vincent.

08/09
Laurentian Bank announces a donation of $300,000 to Concordia University in Montréal.

09/09
B2B Trust launches a new reduced rate investment loan campaign.

10/09
Marie-France Poulin is appointed to Laurentian Bank's Board of Directors, following monsieur Pierre Michaud's departure.

Laurentian Bank is inducted into the Fédération des chambres de commerce du Québec's hall of fame for Québec businesses.

Management's Discussion and Analysis

FOR THE YEAR ENDED OCTOBER 31, 2009

Summary of financial results

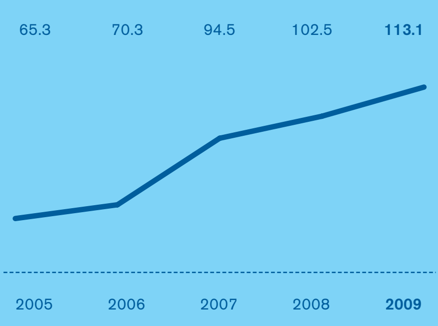
OVERVIEW OF FISCAL 2009

For the year ended October 31, 2009, the Bank reported net income of $113.1 million, or diluted net income of $4.23 per common share, compared with $102.5 million, or diluted net income of $3.80 per common share in 2008. Return on common shareholders' equity was 11.4% in 2009, compared with 11.0% in 2008.

Net income in 2009 includes income from discontinued operations of $11.5 million, or $0.48 diluted per common share, related to the sale of asset management activities in fiscal 2005. Net income in 2008 included income from discontinued operations of $4.4 million, or $0.19 per common share–diluted. Income from continuing operations was $101.7 million in 2009, or $3.75 per common share–diluted, compared with $98.1 million, or $3.61 per common share–diluted in 2008.

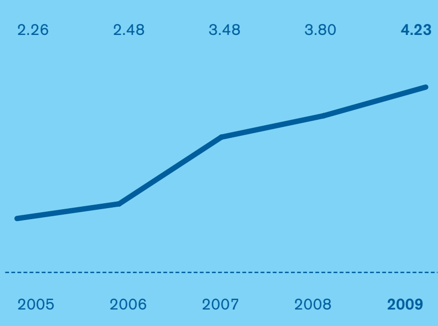
The Bank continued to deliver solid performance in 2009. Record growth in personal and commercial loan and deposit portfolios significantly improved revenues, while tight cost control contributed to improve efficiency. However, higher loan losses resulting from poor economic conditions throughout the year and losses on securities dampened the Bank's results. With solid liquidity and capital levels, the Bank maintained a strong financial position throughout the year and is well positioned at the outset of fiscal 2010.

NET INCOME
(in millions of dollars)



RETURN ON COMMON SHAREHOLDERS' EQUITY
(as a percentage)

DILUTED NET INCOME PER COMMON SHARE
(in dollars)



NET INCOME

$113.1 MILLION

HIGHLIGHTS OF 2009

- -- NET INCOME UP 10% TO $113.1 MILLION
- -- TOTAL OPERATING REVENUE UP 6% TO $666.5 MILLION
- -- RETURN ON COMMON SHAREHOLDERS' EQUITY OF 11.4%
- -- RECORD LOAN AND DEPOSIT GROWTH
- -- SOLID CAPITAL AND LIQUIDITY POSITIONS

TABLE 1
CONSOLIDATED RESULTS
For the years ended October 31 (in millions of dollars, except per share and percentage amounts)

	2009	2008	2007	VARIANCE 09 / 08
Net interest income	**$ 423.8**	$ 405.3	$ 390.2	5%
Other income	**242.7**	225.2	193.7	8
Total revenue	**666.5**	630.5	583.9	6
Provision for loan losses	**56.0**	48.5	40.0	15
Non-interest expenses	**472.0**	446.0	427.4	6
Income from continuing operations before income taxes	**138.5**	136.0	116.5	2
Income taxes	**36.9**	37.9	26.4	(3)
Income from continuing operations	**101.6**	98.1	90.1	4
Income from discontinued operations, net of income taxes	**11.5**	4.4	4.4	161
Net income	**$ 113.1**	$ 102.5	$ 94.5	10%
Preferred share dividends, including applicable taxes	**$ 12.1**	$ 11.8	$ 11.9	3%
Net income available to common shareholders	**$ 101.0**	$ 90.7	$ 82.6	11%
Average number of common shares outstanding (in thousands)				
Basic	**23,858**	23,837	23,678	
Diluted	**23,876**	23,880	23,728	
Income per common share from continuing operations				
Basic	**$ 3.75**	$ 3.62	$ 3.30	4%
Diluted	**$ 3.75**	$ 3.61	$ 3.29	4%
Net income per common share				
Basic	**$ 4.23**	$ 3.81	$ 3.49	11%
Diluted	**$ 4.23**	$ 3.80	$ 3.48	11%
Return on common shareholders' equity	**11.4%**	11.0%	10.9%	
Return on common shareholders' equity for continuing operations	**10.1%**	10.5%	10.3%	

2009 Financial performance

The Bank met or exceeded all of its published objectives for fiscal 2009, as illustrated in the table below. Considering the prevailing economic conditions, this is a significant achievement. In addition, the Bank has continued to generate strong internal growth and maintained a solid financial position through the year.

TABLE 2
PERFORMANCE INDICATORS

	2008 RESULTS	2009 OBJECTIVES	2009 RESULTS
Return on common shareholders' equity	11.0%	10.0% to 12.0%	**11.4%**
Diluted net income per common share	$3.80	$3.70 to $4.40	**$4.23**
Total revenue	+8% $630 million	+ 2% to 5% $645 to $665 million	**+ 6%** **$667 million**
Efficiency ratio	70.7%	73% to 70%	**70.8%**
Tier I BIS capital ratio	10.0%	minimum of 9.5%	**11.0%**

Corporate priorities for 2010

THE BANK'S THREE MAIN PRIORITIES WILL REMAIN AT THE FOREFRONT OF STRATEGIC DEVELOPMENT FOR 2010.

1.

Increase our profitability

- Ensure sustained growth in each business segment, by focusing on markets in which we have strong competitive advantages
- Continue implementing strategies to develop our sales culture, while maintaining top-flight customer service—the cornerstone of our reputation

2.

Improve our efficiency

- Continue optimizing key processes
- Ensure excellence in execution

3.

Develop our human capital

- Reinforce hiring strategies and talent management to support sustained growth
- Support business segment initiatives to enhance employee performance

Review of 2009 business segment operations and 2010 priorities

This section outlines the Bank's operations according to its organizational structure. Services to individuals, businesses, financial intermediaries and institutional clients are offered through the following business segments:

1. **Retail & SME Québec**
2. **Real Estate & Commercial**
3. **B2B Trust**
4. **Laurentian Bank Securities**
5. **Other**

Record increases in loan and deposit portfolios, solid core operating revenue growth and stringent cost control contributed to sound performance from our business segments in 2009.

TABLE 3
NET INCOME CONTRIBUTIONS
For the years ended October 31 (in millions of dollars, except percentage amounts)

	RETAIL & SME QUÉBEC	REAL ESTATE & COMMERCIAL	B2B TRUST	LAURENTIAN BANK SECURITIES	OTHER	TOTAL
2009						
Net income	**$51.1**	**$34.1**	**$32.1**	**$8.6**	**$(12.8)**	**$113.1**
Growth 2009 / 2008	**13%**	**20%**	**(8)%**	**399%**	**n.a.**	**10%**
2008						
Net income	$45.4	$28.6	$34.9	$1.7	$(8.1)	$102.5
Growth 2008 / 2007	(4)%	33%	14%	(76)%	n.a.	8%

BUSINESS SEGMENTS

Retail & SME Québec

The Retail & SME Québec business segment's contribution to net income improved $5.7 million, or 13%, to $51.1 million in 2009, compared with $45.4 million in 2008. Net income for 2009 includes income from discontinued operations of $11.5 million related to the sale of asset management activities in fiscal 2005, while earnings for 2008 included income from discontinued operations of $4.4 million. Income from continuing operations was $39.6 million in 2009, compared with $41.0 million in 2008.

Total revenue increased by 3% or $10.7 million, from $415.2 million in 2008 to $425.9 million in 2009, as a result of continued growth in loan and deposit volumes. Loan losses were higher, at $41.9 million in 2009, compared with $33.6 million in 2008, reflecting ongoing weaker credit conditions. Non-interest expenses rose $6.6 million or 2% to $333.5 million in 2009 from $326.9 million in 2008, due mainly to higher salaries and advertising expenses.

Real Estate & Commercial

The Real Estate & Commercial business segment's contribution to net income improved by $5.5 million or 20% to $34.1 million in 2009, compared with $28.6 million in 2008.

Total revenue rose $19.1 million or 27% to $90.5 million in 2009 from $71.4 million in 2008, driven by strong loan growth and recent initiatives to grow deposits, as well as sound pricing strategies. Loan losses, essentially in commercial lending, were up $9.8 million in 2009, compared with $5.4 million in 2008. Non-interest expenses grew 33% or $7.7 million to $31.0 million in 2009 from $23.3 million in 2008, due mainly to higher salaries and variable compensation and provisions for specific operational issues.

B2B Trust

The B2B Trust business segment's contribution to net income declined by $2.8 million, or 8%, to $32.1 million in 2009, compared with $34.9 million in 2008.

Total revenue rose $2.5 million to $100.3 million in 2009 from $97.8 million in 2008. Net interest income was up $3.4 million year-over-year, driven primarily by loan and deposit growth. While net interest income was under pressure at the beginning of the year, the relative easing of funding conditions during the last six months of 2009 and the gradual reduction of the introductory promotional interest rate on B2B Trust's High Interest Investment Account (HIIA) boosted net interest margin in the latter part of the year. However, deposit pricing has remained historically tight.

Deposits totalled $9.1 billion as at October 31, 2009, up $3.0 billion since the beginning of the year. The sharp increase resulted mainly from our new HIIA, which added a reliable funding source to support retail growth initiatives. Loans also continued their expansion, increasing the average level by $410 million over the last twelve months, mostly in mortgage lending.

The provision for loan losses was up $4.3 million in 2009, compared with $1.5 million in 2008, reflecting the impact of the recent economic slowdown on borrowers' ability to fully service their debt in most loan portfolios. However, loan losses remain low considering the size of the underlying portfolios. In line with increased activity, non-interest expenses rose $5.3 million to $49.0 million in 2009 from $43.7 million in 2008.

Laurentian Bank Securities

The Laurentian Bank Securities (LBS) business segment's contribution to net income rose sharply to $8.6 million in 2009 from $1.7 million in 2008. The strong performance of the Institutional Fixed Income division and improved results in the Institutional Equity and Retail Brokerage activities contributed to this excellent revenue performance.

Non-interest expenses increased markedly to $41.6 million in 2009 from $29.7 million in 2008, primarily due to higher employee compensation.

Other

The Other segment includes the activities of the Bank's various corporate support departments, mainly Treasury, Credit, Finance and Strategic Development, Risk Management, Technology, Operations, Corporate Affairs and Human Resources. However, the segment's results primarily reflected Treasury activities, since expenses from the other corporate support departments are generally charged back to other business segments.

The Other segment posted a negative net income contribution of $12.7 million in 2009, compared with $8.0 million in 2008. Total revenue decreased by $18.5 million, as a result of the lower overall interest rate environment, higher funding costs at the beginning of the year and higher net losses on securities incurred in 2009. Treasury and financial market revenues for 2008 included a $12.9 million gain on the sale of Montréal Exchange shares. Results for 2008 also included an additional general provision for loan losses of $8.0 million and a $5.6 million income tax charge arising from a reduction in federal income tax rates, partly offset by the lower income taxes on certain capital gains.

SEGMENT CONTRIBUTION
For the years ended October 31 (in millions of dollars, except percentage amounts)

TABLE 4	2009	2008	2007
Net interest income	**$ 306.0**	$299.3	$ 284.2
Other income	**119.9**	115.9	113.7
Total revenue	**425.9**	415.2	397.9
Provision for loan losses	**41.9**	33.6	29.2
Non-interest expenses	**333.5**	326.8	310.5
Income from continuing operations before income taxes	**50.5**	54.8	58.2
Income taxes	**10.9**	13.8	15.2
Income from continuing operations	**39.6**	41.0	43.0
Income from discontinued operations, net of income taxes	**11.5**	4.4	4.4
Net income	**$ 51.1**	$ 45.4	$ 47.4
Efficiency ratio	**78.3%**	78.7%	78.0%
Average loans	**$10,836**	$9,900	$ 9,119
Average deposits	**$ 7,882**	$7,461	$ 7,060

Retail & SME Québec

FINANCIAL HIGHLIGHTS 2009

1. Net income up 13%
2. Residential mortgage loan portfolio up 15%
3. Commercial loan portfolio up 14%
4. Average deposit up 6%
5. Revenues up $10.7 million or 3%

Residential mortgage loan portfolio up
15%

TABLE 5	2009	2008	2007
Net interest income	**$ 67.6**	$ 55.2	$ 45.9
Other income	**22.9**	16.2	16.1
Total revenue	**90.5**	71.4	62.0
Provision for loan losses	**9.8**	5.4	6.7
Non-interest expenses	**31.0**	23.3	22.9
Income before income taxes	**49.7**	42.7	32.4
Income taxes	**15.6**	14.1	10.8
Net income	**$ 34.1**	$ 28.6	$ 21.6
Efficiency ratio	**34.3%**	32.7%	36.9%
Average loans	**$ 2,234**	$1,984	$ 1,670
Average deposits	**$ 298**	$ 180	$ 150

Real Estate & Commercial

FINANCIAL HIGHLIGHTS 2009

1. Net income up 20%
2. Average loan growth of 13%
3. Revenues up $19.1 million or 27%
4. Sustained credit quality as evidenced by the low level of loan losses

27%
INCREASE in revenues

TABLE 6	2009	2008	2007
Net interest income	**$ 90.7**	$ 87.3	$ 81.0
Other income	**9.6**	10.5	11.5
Total revenue	**100.3**	97.8	92.5
Provision for loan losses	**4.3**	1.5	4.1
Non-interest expenses	**49.0**	43.7	42.4
Income before income taxes	**47.0**	52.6	46.0
Income taxes	**14.9**	17.7	15.5
Net income	**$ 32.1**	$ 34.9	$ 30.5
Efficiency ratio	**48.9%**	44.6%	45.8%
Average loans	**$ 4,255**	$3,845	$ 3,089
Average deposits	**$ 7,893**	$6,059	$ 5,476

B2B Trust

FINANCIAL HIGHLIGHTS 2009

1. Deposits up more than $3 billion
2. Continued revenue growth of $2.5 million or 3%
3. Investment loan portfolio up 4%
4. Residential mortgage loans up 27%
5. Low level of loan losses, despite the recent economic slowdown

DEPOSITS up more than
$3
BILLION

TABLE 7	2009	2008	2007
Total revenue	**$ 54.8**	$ 32.4	$ 39.6
Non-interest expenses	**41.6**	29.7	30.7
Income before income taxes	**13.2**	2.7	8.9
Income taxes	**4.6**	1.0	1.8
Net income	**$ 8.6**	$ 1.7	$ 7.1
Efficiency ratio	**76.0%**	91.6%	77.5%
Clients' brokerage assets	**$ 1,970**	$1,643	$ 1,995

Laurentian Bank Securities

FINANCIAL HIGHLIGHTS 2009

1. Sharp increase in revenues
2. Fivefold growth in net income
3. Strong performance of the Institutional Fixed Income division
4. Improved results in the Institutional Equity and Retail Brokerage divisions

$8.6
MILLION
CONTRIBUTION to net income

TABLE 8	2009	2008	2007
Net interest income	**$(42.8)**	$ (39.5)	$ (22.9)
Other income	**37.8**	53.2	14.8
Total revenue	**(5.0)**	13.7	(8.1)
Provision for loan losses	**–**	8.0	–
Non-interest expenses	**16.9**	22.5	20.9
Income before income taxes	**(21.9)**	(16.8)	(29.0)
Income taxes recovery	**(9.1)**	(8.7)	(16.9)
Net loss	**$(12.8)**	$ (8.1)	$ (12.1)

Other

FINANCIAL HIGHLIGHTS 2009

1. Securitization revenues of $34.4 million
2. Significant improvements in marketable security portfolios

CAREFULLY managed CREDIT RISK

Retail & SME Québec

2009 KEY ACCOMPLISHMENTS
-- Obtained the exclusive contract to operate the ATM network in the Montréal Metro subway system
-- Increased our residential mortgage volumes significantly
-- Expanded mobile banking teams
-- Developed a successful strategy to offer a suite of banking products and services targeted at specific industries within the Québec SME market
-- Continued leveraging our business intelligence to drive development

PRIORITIES FOR 2010
-- Increase our share of wallet per customer
-- Diversify our revenue streams
-- Improve branch operating efficiency
-- Expand distribution channels, particularly our mobile bankers and investment advisors
-- Pursue investments in our branch and ATM network infrastructure
-- Continue building specialist teams to serve the Québec SME market

Real Estate & Commercial

2009 KEY ACCOMPLISHMENTS
-- Captured market opportunities to significantly grow the loan portfolio while maintaining prudent underwriting standards
-- Generated a more balanced portfolio between interim lending and term lending through growth
-- Diversified funding sources by growing commercial deposits
-- Enhanced the Bank's sound reputation in the real estate market and syndicated loan market

PRIORITIES FOR 2010
-- Expand real estate financing while upholding our prudent approach to risk management
-- Grow commercial loans and deposits in selected market segments
-- Invest in human capital and selectively expand the team
-- Cross-sell the Bank's products and services to our existing clientele

B2B Trust

2009 KEY ACCOMPLISHMENTS
-- Launched High Interest Investment Account with great success
-- Introduced preferred mortgage partner program for mortgage brokers
-- Improved our online loan application (EASE) by streamlining the process for advisors
-- Extended our investment loan product line-up with the launch of the 3 For 1 loan and the B2B Trust Select loans
-- Broadened the distribution alliance program with the addition of 4 new distribution alliances, now totalling 66

PRIORITIES FOR 2010
-- Maximize distribution by continuously enhancing our products and services and expanding our distribution channels
-- Enhance advisor and consumer loyalty to develop cross-selling opportunities
-- Achieve operational excellence
-- Invest in training and coaching to improve our leadership bench strength

Laurentian Bank Securities

2009 KEY ACCOMPLISHMENTS
-- Delivered strong performance and market share gains in the Institutional Fixed Income business
-- Continued to expand the Institutional Equity, Investment Banking and Retail Brokerage operations
-- Participated in a growing number of corporate and government syndicates owing to our growing presence and reputation
-- Expanded our distribution network as investors and issuers sought new financial relationships

PRIORITIES FOR 2010
-- Manage our balance sheet effectively and efficiently
-- Continue to differentiate ourselves as a Bank-owned small cap investment dealer and capitalize on ensuing synergies
-- Expand our Fixed Income presence in Canada
-- Develop our human capital and selectively hire key personnel

Other

2009 KEY ACCOMPLISHMENTS
-- Effectively managed high excess liquidity amid challenging markets
-- Maintained prudent asset-liability management in a challenging low-interest rate environment
-- Carefully managed credit risks in a deteriorating underwriting environment
-- Continued implemeting performance management model
-- Continued investing in technology to support growth and strengthen processes
-- Raised visibility and profile in core markets

PRIORITIES FOR 2010
-- Continue optimal liquidity management
-- Maintain prudent asset-liability management
-- Ensure tight credit management to limit loan losses and maximize recovery
-- Improve and strengthen processes through information technology developments
-- Implement ongoing improvements to our human resources practices
-- Maintain our rigorous risk management approach

Outlook and objectives for 2010

TIMID RECOVERY IN 2010 IS STILL THE MOST LIKELY SCENARIO

A policy-driven global economic rebound is underway, following the Great Recession of 2008-09. As is well known now, this recession was triggered by a massive financial panic that started in the United States and quickly spread globally via trade channels and intertwined financial markets. In Canada, the economy is also returning into positive territory in the fall of 2009 and is expected to expand by about 2.5% in 2010 after having stalled in 2008 and declined by an estimated 2.6% in 2009. While such a rebound is obviously welcome news, it must be pointed out that 2.5% real GDP growth is a significantly slower pace of expansion than in previous cycles.

Activity in the export-oriented, goods-producing industries has plunged sharply and is slow to revive owing, in a large part, to weak U.S. demand for consumer and capital goods and also to the unusual strength of the Canadian dollar (unusual in the sense that coming out of recession, the currency had typically been relatively weak). The United States is still Canada's largest trading partner by far, a well-known fact worth recalling in times of great volatility and uncertainty. In fact, unlike Australia for example, Canadian real GDP logged a sharp 4.2% decline from July 2008 to September 2009. Among other things, this resulted in a major shift from large "twin surpluses" (i.e. fiscal and current account) in the 2004-2008 period, to widening "twin deficits" that will extend well into 2011.

To offset export weakness, the Bank of Canada has kept policy interest rates very low (0.25%) since April 2009, where they should stay at least until the end of June 2010; if anything, the timing of monetary policy normalization might be pushed back if external demand for Canada's exports does not recover convincingly. Those low interest rates and a well-functioning banking system have allowed for moderate domestic demand growth, thus offsetting some of the external weakness. This pattern will likely persist into 2010, although it would become increasingly difficult to maintain it in the absence of a self-sustaining economic recovery in the United States. Housing market activity in particular is vulnerable to moderate "reset" risk, i.e. higher interest rates later in 2010, and deteriorating affordability in an environment of relatively high rates of unemployment (just under 9% on average in 2010 from 8.4% in 2009).

South of the border, there still is great uncertainty as to consumers' ability to drive the recovery given high rates of unemployment, the near-absence of income growth and an overriding desire to rebuild savings. Furthermore, there is also growing concern about the size of the U.S. budget deficit and the process through which that deficit would return to balance. Fiscal uncertainty, therefore, could well put additional pressure on monetary policy and constitutes the key risk hanging over North American financial markets into the medium term.

How we will measure our performance in 2010

As discussed above, the economic outlook remains a significant source of uncertainty. However, as shown in 2009, the Bank has the capacity to adapt its business plan to take advantage of market opportunities in an unsettled environment. Accordingly, the following objectives for 2010 clearly reflect management's confidence in the Canadian economy and its conviction that the Bank has the ability to deliver.

TABLE 9
2010 FINANCIAL OBJECTIVES

	2010 OBJECTIVES (1)
Revenue growth	**5% to 10%**
Efficiency ratio	**70% to 67%**
Return on common shareholders' equity	**10.0% to 12.0%**
Diluted net income per common share	**$4.00 to $4.70**
Tier I BIS capital ratio	**minimum of 9.5%**

(1) These objectives for 2010 should be read concurrently with the following paragraphs.

Key assumptions supporting the Bank's objectives

The following assumptions are the most significant items considered in setting the Bank's strategic priorities and financial objectives. Other factors such as those detailed in the Caution Regarding Forward-Looking Statements and Integrated Risk Management Framework sections of this MD&A could also cause future results to differ materially from these objectives.

The objectives on the previous page for 2010 assume that the Canadian economy will return to growth cycle in 2010, but that unemployment will remain high and maintain pressure on loan losses. These objectives also assume continued loan growth at a rate similar to 2009, slimmer securitization gains and the lack of future income from discontinued operations. Generating core operating income growth remains at the forefront of the Bank's strategies for 2010.

Analysis of consolidated results

Net income totalled $113.1 million in 2009, as compared with $102.5 million last year. Net income in 2009 includes income from discontinued operations of $11.5 million related to the sale of asset management activities in fiscal 2005, while earnings for 2008 included income from discontinued operations of $4.4 million. Income from continuing operations amounted to $101.7 million in 2009, compared with $98.1 million in 2008.

Discontinued Operations – Sale of BLC-Edmond de Rothschild Asset Management Inc.

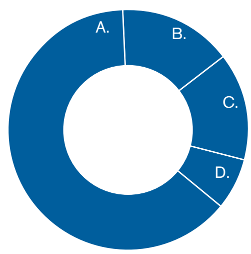
In fiscal 2005, the Bank sold its interest in the joint-venture BLC-Edmond de Rothschild Asset Management Inc. to Industrial Alliance Insurance and Financial Services Inc. As part of this transaction, a portion of the proceeds was subject to recovery clauses, based on net annual mutual fund sales, and therefore, the sale resulted in the recognition of a $26.2 million deferred gain.

During fiscal 2009, the Bank recognized the $5.2 million remainder of the selling price in income, in light of net sales to date. Also in 2009, the Bank recognized a final adjustment to the selling price of $8.3 million in relation to a cumulative net sales threshold for the first five years of the agreement. Note 27 to the annual consolidated financial statements provides additional information regarding this transaction.

TOTAL REVENUE

Total revenue was $666.5 million in 2009, up $36.0 million or 6%, compared to $630.5 million in 2008. Net interest income improved by $18.5 million and other income grew $17.5 million, as detailed hereafter.

TOTAL REVENUE MIX
(as a percentage)



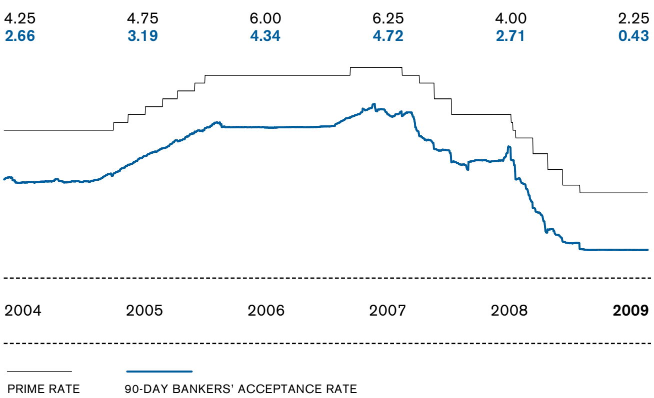
A. Net interest income	63.6%
B. Fees and commissions on loans and deposits	15.2%
C. Income related to financial markets (1)	14.5%
D. Others	6.7%

(1) Including income related to brokerage operations, income from treasury and financial market operations and securitization income.

Net interest income

Net interest income rose $18.5 million to $423.8 million in 2009 from $405.3 million in 2008, as shown in Table 10. This improvement essentially reflects the record growth in retail and commercial loans and deposits, as detailed on page 29 of this MD&A. Net interest margin narrowed 14 basis points to 2.07% in 2009, compared with 2.21% in 2008. During the first six months of 2009, the combined effect of a lower overall interest rate environment, the introductory promotional interest rate on B2B Trust HIIA and sustained competition for retail term deposits has particularly impacted net interest margins. However, strategic repricing initiatives launched in early 2009, the gradual reduction in the introductory promotional interest rate on the HIIA and a relative easing in pricing conditions during the latter portion of the year fuelled a sharp recovery in net interest margins, which amounted to 2.19% for the fourth quarter.

LAURENTIAN BANK PRIME RATE AND BANKERS' ACCEPTANCE RATE
(As at October 31, in percentage)



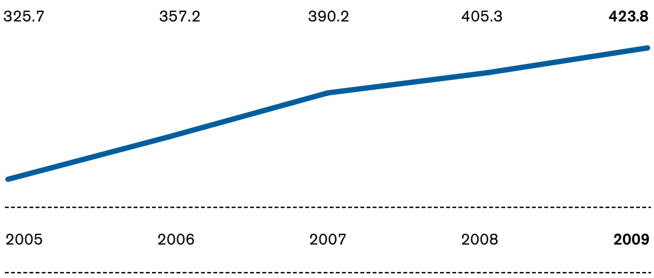
As shown in the accompanying graph, short-term interest rates reached record lows in fiscal 2009.

The Bank uses derivative financial instruments to manage the interest rate risk associated with some of its loan and deposit portfolios. In 2009, interest rate swaps generated revenues of $137.3 million and effectively compensated lower interest income stemming from variable rate loan portfolios in the context of the unusually low interest rate environment. Depending on interest rate fluctuations and on the portfolio mix in terms of maturity and product types, actual return on portfolios can vary substantially. The Bank uses models to quantify the potential impact of various rate scenarios on future revenues and equity, as explained in the Asset and Liability Management Activities section on page 43 of this MD&A.

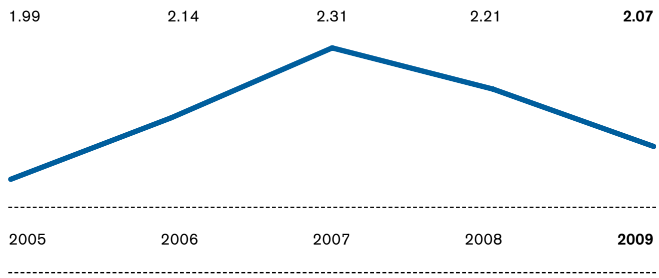
TABLE 10
CHANGES IN NET INTEREST INCOME
For the years ended October 31 (in millions of dollars, except percentage amounts)

	2009				2008			
	AVERAGE VOLUME IN %	**AVERAGE VOLUME**	**INTEREST**	**AVERAGE RATE**	AVERAGE VOLUME IN %	AVERAGE VOLUME	INTEREST	AVERAGE RATE
Assets								
Cash resources and securities	**20.5%**	**$ 4,193**	**$ 75.3**	**1.80%**	19.0%	$ 3,488	$ 87.2	2.50%
Assets purchased under reverse repurchase agreements	**3.4**	**702**	**4.0**	**0.57**	3.2	588	11.4	1.94
Loans								
Personal	**27.7**	**5,668**	**279.7**	**4.94**	29.8	5,454	359.2	6.59
Residential mortgages	**31.9**	**6,531**	**310.4**	**4.75**	32.9	6,041	329.1	5.45
Commercial mortgages	**5.1**	**1,055**	**55.2**	**5.24**	4.4	813	49.1	6.04
Commercial and other	**7.9**	**1,609**	**70.2**	**4.36**	7.7	1,411	85.0	6.02
Derivate financial instruments	**–**	**–**	**137.3**	**–**	–	–	34.0	–
Other assets	**3.5**	**726**	**–**	**–**	3.0	545	–	–
Total – assets	**100.0%**	**$20,484**	**$932.1**	**4.55%**	100.0%	$18,340	$ 955.0	5.21%
Liabilities and shareholders' equity								
Demand and notice deposits		**$ 4,753**	**$ 35.2**	**0.74%**		$ 2,759	$ 17.3	0.63%
Term deposits		**12,318**	**458.6**	**3.72**		11,910	491.1	4.12
Obligations related to assets sold short or under repurchase agreements		**1,489**	**6.8**	**0.45**		1,994	27.4	1.37
Derivative financial instruments		**–**	**–**	**–**		–	6.2	–
		18,560	**500.6**	**2.70**		16,663	542.0	3.25
Acceptances		**155**	**–**	**–**		97	–	–
Other liabilities		**495**	**–**	**–**		393	–	–
Subordinated debentures		**150**	**7.7**	**5.16**		150	7.7	5.16
Shareholders' equity		**1,124**	**–**	**–**		1,037	–	–
Total – liabilities and shareholders' equity		**$20,484**	**$508.3**	**2.48%**		$18,340	$ 549.7	3.00%
Net interest income			**$423.8**	**2.07%**			$ 405.3	2.21%

NET INTEREST INCOME
(in millions of dollars)



NET INTEREST MARGIN
(as a percentage of average assets)



Other income

Other income totalled $242.7 million in 2009, compared with $225.2 million in 2008. The increase resulted mainly from fees and commissions on loans and deposits and brokerage revenues, as detailed below.

Fees and commissions on loans and deposits rose to $101.4 million for fiscal 2009 from $91.9 million in 2008. The increase was mainly attributable to overall lending business growth.

Income from brokerage operations grew markedly to $51.8 million for fiscal 2009 from $28.7 million in 2008, driven by continued strong performance from the Institutional Fixed Income division of Laurentian Bank Securities and recovering equity markets. Results for 2008 included an additional $3.0 million charge related to securities issued by conduits covered by the Montréal Accord.

Revenues from securitization remained relatively unchanged at $34.4 million for fiscal 2009, compared with $35.9 million for fiscal 2008. During the year, the securitization of $1.0 billion in residential mortgages generated gains on sale of $37.4 million, up $7.7 million compared with last year. This result stems from the favourable market conditions prevailing early in the year and the Bank's ability to grow its loan portfolio. In addition, servicing revenues of $7.3 million for fiscal 2009 were more than offset by changes in fair value of certain retained interests, seller swaps and financial instruments held as economic hedges related to securitization activities, as further detailed in Note 6 to the annual consolidated financial statements.

Credit insurance revenues are mainly generated by insurance programs related to loans disbursed by the Bank. These revenues grew 17% to $16.0 million for fiscal 2009, owing mainly to strong growth in mortgage loan portfolios.

Revenues from the sale of mutual funds fell $1.7 million to $12.4 million in fiscal 2009. These revenues were impacted mainly at the beginning of the year by lower market value of the mutual fund portfolio under administration.

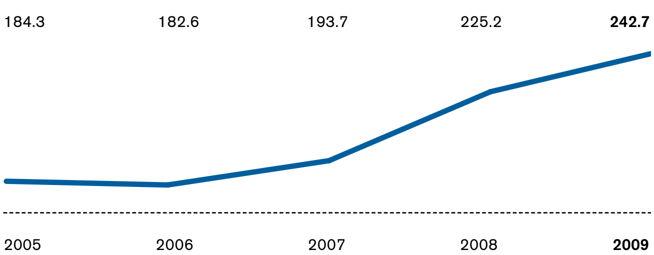
Income from treasury and financial market operations was down $14.0 million to $10.5 million for fiscal 2009. Treasury and financial market revenues for fiscal 2009 were particularly affected by net losses on securities amounting to $9.0 million, including $5.2 million in impairment charges. Revenues for 2008 included a $12.9 million gain on sale of Montreal Exchange shares and offsetting net losses of $10.3 million, mainly on certain U.S. and international financial institution's fixed-income securities. Additional information related to the Bank's security portfolios is presented in Note 4 to the annual consolidated financial statements.

Revenues from registered self-directed plans fell to $8.0 million for fiscal 2009 from $8.7 million in 2008. This result is linked to changes in market conditions, weighing down the number of registered self-directed plans. See the Off-Balance Sheet Arrangements section on page 31 of this MD&A for additional information.

TABLE 11
OTHER INCOME
For the years ended October 31 (in millions of dollars, except percentage amounts)

	2009	2008	2007	VARIANCE 09 / 08
Fees and commissions on loans and deposits				
Deposit service charges	**$ 53.4**	$ 52.3	$ 50.7	2%
Lending fees	**30.0**	23.0	23.4	30
Card service revenues	**18.0**	16.6	14.6	8
Sub-total — fees and commissions on loans and deposits	**101.4**	91.9	88.7	10
As a % of average assets	**0.50%**	0.50%	0.53%	
Other				
Income from brokerage operations	**51.8**	28.7	32.4	80
Securitization income	**34.4**	35.9	6.4	(4)
Credit insurance income	**16.0**	13.7	12.6	17
Income from sales of mutual funds	**12.4**	14.2	13.4	(13)
Income from treasury and financial market operations	**10.5**	24.5	19.3	(57)
Income from registered self-directed plans	**8.0**	8.7	9.6	(8)
Trust services	**1.0**	1.2	1.3	(17)
Gain on disposal and on modification in ownership interest	**–**	–	4.0	n.a.
Other	**7.2**	6.4	6.0	13
Sub-total — other	**141.3**	133.3	105.0	6
As a % of average assets	**0.69%**	0.73%	0.62%	
Total - other income	**$ 242.7**	$ 225.2	$ 193.7	8%
As a % of average assets	**1.18%**	1.23%	1.15%	

OTHER INCOME
(in millions of dollars)



PROVISION FOR LOAN LOSSES

The provision for loan losses amounted to $56.0 million for fiscal 2009, compared with $48.5 million for fiscal 2008, which included an $8.0 million increase in general provisions. The increase generally reflects ongoing credit market challenges owing to a weaker economy and higher unemployment, as well as larger loan volumes. The following table details the provision for loan losses from 2007 to 2009.

TABLE 12
PROVISION FOR LOAN LOSSES
For the years ended October 31 (in millions of dollars, except percentage amounts)

	2009	2008	2007
Personal loans	**$ 37.1**	$ 29.5	$ 27.7
Residential mortgages	**1.5**	0.6	1.3
Commercial mortgages	**1.0**	0.5	0.2
Commercial and other loans	**16.4**	9.9	10.8
Sub-total	**56.0**	40.5	40.0
Increase in general allowances	**–**	8.0	–
Total – provision for loan losses	**$ 56.0**	$ 48.5	$ 40.0
As a % of average loans, bankers' acceptances and assets purchased under reverse repurchase agreements	**0.36%**	0.34%	0.30%

Increases in provisions for loan losses for personal loans have remained well under control considering economic conditions. However, unsecured lines of credit and credit card receivable portfolios were predictably the hardest hit compared with last year. Losses stemming from the point-of-sale financing portfolio increased in the latter part of the year, despite measures aimed at reducing the Bank's exposure. However, impaired loans for this portfolio decreased during the latter part of the year. Losses on investment loans also increased in 2009, but have remained relatively low to date.

NON-INTEREST EXPENSES

Non-interest expenses totalled $472.0 million for fiscal 2009, compared with $446.0 million for fiscal 2008. Salaries and employee benefits grew $13.4 million compared with fiscal 2008. This increase resulted primarily from higher employee compensation, partially offset by lower pension costs.

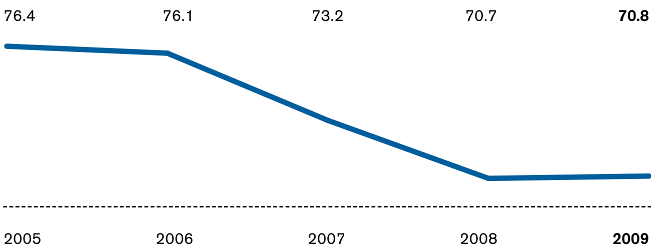
Premises and technology costs remained relatively unchanged at $120.0 million for fiscal 2009, compared with $119.2 million for fiscal 2008. The slightly higher amortization expense, arising from strategic investments to support growth initiatives and optimize processes was offset by tight cost controls in other areas. Technology costs for 2008 included a $2.2 million write-off of technology development costs.

Other expenses stood at $102.3 million in 2009, compared with $90.5 million in 2008. This increase is mainly attributable to higher advertising expenses and adjustments to capital tax charges, as well as provisions related to specific operational issues. Table 13 illustrates the changes in non-interest expenses from 2007 to 2009.

TABLE 13
NON-INTEREST EXPENSES
For the years ended October 31 (in millions of dollars, except percentage amounts)

	2009	2008	2007	VARIANCE 09/08
Salaries and employee benefits				
Salaries	**$166.3**	$155.7	$146.9	
Employee benefits	**46.6**	50.1	53.1	
Performance-based compensation	**36.8**	30.5	29.3	
Sub-total – salaries and employee benefits	**249.7**	236.3	229.3	6%
As a % of average assets	**1.22%**	1.29%	1.36%	
Premises and technology				
Equipment and computer services	**45.9**	45.2	42.5	
Rent and property taxes	**35.3**	34.5	34.5	
Depreciation	**32.4**	29.9	27.4	
Maintenance and repairs	**4.7**	5.5	5.4	
Public utilities	**1.4**	1.3	1.3	
Other	**0.3**	2.8	0.4	
Sub-total – premises and technology	**120.0**	119.2	111.5	1%
As a % of average assets	**0.59%**	0.65%	0.66%	
Other				
Fees and commissions	**21.4**	21.1	19.0	
Advertising and business development	**21.1**	18.0	16.8	
Taxes and insurance	**20.7**	17.6	18.8	
Communications and travelling expenses	**18.1**	18.9	18.3	
Stationery and publications	**5.9**	6.3	6.2	
Recruitment and training	**3.6**	3.7	2.8	
Other	**11.5**	4.9	4.7	
Sub-total – other	**102.3**	90.5	86.6	13%
As a % of average assets	**0.50%**	0.49%	0.52%	
Total – non-interest expenses	**$472.0**	$446.0	$427.4	6%
As a % of average assets	**2.30%**	2.43%	2.54%	
As a % of total revenue (efficiency ratio)	**70.8%**	70.7%	73.2%	

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



EFFICIENCY RATIO

The efficiency ratio remained relatively unchanged at 70.8% for fiscal 2009, compared with 70.7% for fiscal 2008, as the Bank's earning momentum was, to some extent, affected during the year by unfavourable economic conditions and lower interest rates.

The accompanying graph plots the Bank's performance in this regard over the last few years.

INCOME TAX EXPENSE

For fiscal 2009, income tax expense totalled $36.8 million and the effective income tax rate stood at 26.6%, compared with $37.9 million and 27.9%, respectively, for fiscal 2008. Results for fiscal 2008 included the effect of a $5.6 million unfavourable tax adjustment resulting from lower federal income tax rates, partly offset by lower income taxes on certain capital gains. Note 17 to the consolidated financial statements provides further information on income tax expense.

TABLE 14
RECONCILIATION OF THE INCOME TAX EXPENSE FROM CONTINUING OPERATIONS TO THE DOLLAR AMOUNT OF INCOME TAX USING THE STATUTORY RATE
For the years ended October 31 (in millions of dollars, except percentage amounts)

		2009		2008
Income taxes at statutory rates	**$ 43.3**	**31.3%**	$42.9	31.6%
Change resulting from:				
Income related to foreign credit insurance operations	**(4.5)**	**(3.2)**	(3.8)	(2.8)
Tax-exempt dividends	**(1.6)**	**(1.2)**	(1.9)	(1.4)
	37.2	**26.9**	37.2	27.4
Resolution of income tax exposures	**(2.4)**	**(1.7)**	(1.8)	(1.3)
Tax rate changes	**–**	**–**	5.6	4.2
Non taxable portion of capital gains	**–**	**–**	(2.7)	(2.0)
Other	**2.0**	**1.4**	(0.4)	(0.4)
Income taxes from continuing operations, as reported in the consolidated statement of income and effective tax rate	**$ 36.8**	**26.6%**	$37.9	27.9%

OVERVIEW OF FISCAL 2008

For the year ended October 31, 2008, Laurentian Bank reported net income totalling $102.5 million or diluted net income per common share of $3.80, compared with $94.5 million or $3.48, respectively, in 2007. Return on common shareholders' equity was 11.0% in 2008, compared with 10.9% in 2007.

Income from continuing operations grew to $98.1 million or $3.61 per common share–diluted for 2008, excluding an after-tax gain of $4.4 million on the 2005 sale of BLC-Edmond de Rothschild Asset Management Inc., as detailed on page 21 of this MD&A. For fiscal 2007, income from continuing operations stood at $90.1 million or $3.29 per common share–diluted, excluding a similar after-tax gain of $4.4 million.

Results for 2008 included a number of significant offsetting items as detailed on the following page. In addition, the Bank incurred net losses of approximately $10.3 million ($6.7 million after income taxes) in 2008 on certain U.S. and international financial institution fixed-income securities.

TABLE 15
SIGNIFICANT ITEMS AFFECTING RESULTS OF FISCAL 2008
(in millions of dollars)

	ITEMS, BEFORE INCOME TAXES	ITEMS, NET OF INCOME TAXES
Decrease in future tax assets arising from the reduction of federal income tax rates	$ n/a	$ (5.6)
Gain on sale of Montréal Exchange shares	12.9	11.1
Increase in the general allowance for loan losses	$ (8.0)	$ (5.5)

Analysis of quarterly results

SUMMARY ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF FISCAL 2009

Net income for the fourth quarter ended October 31, 2009 totalled $38.2 million, compared with $27.3 million for the same period last year. Net income for the fourth quarter of 2009 includes income from discontinued operations of $11.5 million related to the sale of asset management activities in fiscal 2005, while income for the fourth quarter of 2008 included income from discontinued operations of $4.4 million. Income from continuing operations amounted to $26.8 million for the fourth quarter of 2009, compared with $22.9 million for the fourth quarter of 2008.

Total revenue was up 17% to $178.5 million in the fourth quarter of 2009 from $152.8 million in the fourth quarter of 2008. Net interest income grew $14.9 million to $118.2 million in the fourth quarter of 2009 from $103.3 million in the fourth quarter of 2008, driven mainly by higher loan and deposit volumes. Net interest margin in the fourth quarter recovered to 2.19% after being under pressure early in the year, while it stood at 2.15% a year ago. During the year, the Bank held a relatively higher level of lower yielding liquid assets fuelled by record personal deposit growth. This additional flexibility, against a backdrop of uncertain economic conditions, has secured the Bank's funding needs and enabled it to capitalize on growth opportunities.

Other income totalled $60.3 million during the fourth quarter of 2009, compared with $49.5 million in the fourth quarter of 2008. Income from brokerage operations improved markedly by $11.5 million to $16.9 million, compared with the same period last year, owing to continued strong performance from the Institutional Fixed Income division of Laurentian Bank Secutities and recovering equity markets. Fees and commissions on loans and deposits also rose $2.3 million, due to an overall increase in business activity. The contribution from treasury and financial market operations was hampered by net losses on securities of approximately $3.5 million for the fourth quarter of 2009. Income from treasury and financial market operations for the fourth quarter of 2008 included net losses of $8.3 million, mainly on certain U.S. and international financial institution fixed-income securities. Revenues from securitization activities totalled $5.6 million for the fourth quarter of 2009, including net gains of $6.2 million on sale of $269 million of residential mortgages. Securitization revenues amounted to $10.2 million for the fourth quarter of 2008. Other activities yielded generally comparable year-over-year results.

The provision for loan losses amounted to $16.0 million in the fourth quarter of 2009, compared with $10.5 million in the fourth quarter of 2008. The year-over-year increase reflects the effect of an overall deterioration in economic conditions.

Non-interest expenses totalled $128.1 million for the fourth quarter of 2009, compared with $113.0 million for the fourth quarter of 2008. Salaries and employee benefits rose $7.5 million, mainly as a result of higher variable compensation, partially offset by lower pension expenses. Other expenses were up $6.5 million, due mainly to tax charges and provisions related to specific operational issues. Premises and technology costs remained relatively unchanged year-over-year. The efficiency ratio (non-interest expenses divided by total revenue) improved to 71.8% in the fourth quarter of 2009 from 74.0% in the fourth quarter of 2008.

For the quarter ended October 31, 2009, income tax expense related to continuing operations stood at $7.6 million with an effective tax rate of 22.1%. For the quarter ended October 31, 2008, income tax expense related to continuing operations amounted to $6.4 million with an effective tax rate of 21.7%.

ANALYSIS OF THE EVOLUTION OF THE QUARTERLY RESULTS

The Bank's intermediation business provides a relatively steady source of income, stemming from large volumes of loans and deposits not likely to experience significant fluctuations in the short term. However, treasury operations and certain activities related to financial markets, such as securitization operations and trading activities, may result in significant volatility. In addition, sharp variations in market interest rates or equity markets may also influence operating results. Other transactions, specific events or regulatory developments may also influence our results. Given that the second quarter usually consists of only 89 days, compared with 92 days for the other quarters, net interest income for that quarter is generally lower. The following table summarizes quarterly results for fiscal 2009 and fiscal 2008.

TABLE 16
QUARTERLY RESULTS
For the quarters ended (in millions of dollars, except per share amounts)

				2009				2008
	OCT. 31	JULY 31	APRIL 30	JAN. 31	OCT. 31	JULY 31	APRIL 30	JAN. 31
Total revenue	$178.5	$176.7	$154.8	$156.5	$152.8	$171.1	$155.5	$151.1
Income from continuing operations	26.7	28.7	21.2	25.0	23.0	30.9	25.1	19.1
Net income	$ 38.2	$ 28.7	$ 21.2	$ 25.0	$ 27.4	$ 30.9	$ 25.1	$ 19.1
Income per common share from continuing operations								
Basic	$ 0.99	$ 1.08	$ 0.76	$ 0.92	$ 0.84	$ 1.17	$ 0.93	$ 0.68
Diluted	$ 0.99	$ 1.08	$ 0.76	$ 0.91	$ 0.84	$ 1.17	$ 0.93	$ 0.68
Net income per common share								
Basic	$ 1.47	$ 1.08	$ 0.76	$ 0.92	$ 1.02	$ 1.17	$ 0.93	$ 0.68
Diluted	$ 1.47	$ 1.08	$ 0.76	$ 0.91	$ 1.02	$ 1.17	$ 0.93	$ 0.68

Over the past eight quarters, income from continuing operations has generally trended upward, driven mainly by sustained growth in loan and deposit portfolios. Income from discontinued operations of $11.5 million in the fourth quarter of 2009 and $4.4 million in the fourth quarter of 2008 had a significant impact on net income for these quarters. Furthermore, certain specific factors, as detailed below, have affected income from continuing operations.

2009

– During the first six months of 2009, net interest income declined despite growth in loans and deposits, as net interest margins were impacted by market conditions and the introduction of the B2B Trust HIIA at promotional pricing. Margins recovered in the latter part of 2009, which helped restore profitability.
– In the third and fourth quarter of 2009, loan losses increased to $16.0 million for each quarter as a result of the overall deterioration in economic conditions.

2008

– Results for the first quarter of 2008 were affected by a decrease in future tax assets of $5.6 million arising from lower federal income tax rates.
– Results for the third quarter included a $12.9 million gain on sale of Montréal Exchange shares ($11.1 million after income taxes), which was offset by losses on securities of $5.3 million ($3.6 million after income taxes) and an $8.0 million increase in general provisions ($5.5 million after income taxes).
– Results for the fourth quarter were affected by impairment charges of $8.3 million ($5.5 million after income taxes) on certain U.S. and international financial institutions fixed-income securities.

Analysis of financial condition

Over the past three years, ongoing business development initiatives have significantly strengthened the Bank's balance sheet. What's more, improved profitability has translated into a stronger capital position, standing the Bank in good stead for continued growth in 2010.

As at October 31, 2009, the Bank reported total assets of $22.2 billion, compared with $19.6 billion as at October 31, 2008, as shown in Table 17. Assets under administration amounted to $14.3 billion, compared with $14.4 billion at the end of fiscal 2008. These changes are explained in the following sections of this MD&A.

TABLE 17
BALANCE SHEET ASSETS
As at October 31 (in millions of dollars, except percentage amounts)

	2009	2008	2007	VARIANCE 09/08
Cash, deposits with banks and securities	**$ 4,733**	$ 3,639	$ 3,023	30%
Assets purchased under reverse repurchase agreements	**536**	661	540	(19)
Loans				
Personal	**5,655**	5,694	5,222	(1)
Residential mortgages	**7,220**	6,183	6,233	17
Commercial mortgages	**1,285**	933	684	38
Commercial and other	**1,556**	1,455	1,293	7
	15,716	14,265	13,432	10
Allowance for loan losses	**(115)**	(112)	(115)	3
Total loans	**15,601**	14,153	13,317	10
Customers' liabilities under acceptances	**217**	110	112	97
Other assets	**1,078**	1,016	795	6
Balance sheet assets	**$22,165**	$19,579	$17,787	13%
Cash, deposits with banks and securities as a % of balance sheet assets	**21.4%**	18.6%	17.0%	
Loans and assets purchased under reverse repurchase agreements as a % of balance sheet assets	**72.8%**	75.7%	77.9%	

CASH RESOURCES

The Bank's cash resources consist of cash and non-interest bearing deposits with other banks, interest-bearing deposits with other banks, securities and assets purchased under reverse repurchase agreements. As at October 31, 2009, these assets totalled $5.3 billion, compared with $4.3 billion as at October 31, 2008. During the year, the Bank held a relatively higher level of lower yielding liquid assets fuelled by record personal deposit growth. This additional flexibility, against a backdrop of uncertain economic conditions, has secured the Bank's funding needs and enabled it to capitalize on growth opportunities. It has however slightly affected net interest margins over the past year, even more so given the lower overall interest rate environment, which limits the return on excess cash resources.

As at October 31, 2009, the Bank had no significant direct exposure to collateralized debt obligations (CDO), credit default swap (CDS) or monoline insurers. The Bank held asset-backed securities[1] amounting to approximately $31 million, which are generally secured by Canadian commercial mortgages.

Additional information on liquidity and funding risk management is included on page 45 of this MD&A.

LOANS AND BANKERS' ACCEPTANCES

Loans and bankers' acceptances portfolio rose more than $1.6 billion to $15.9 billion as at October 31, 2009, compared with $14.4 billion at October 31, 2008. Successful business development, combined with sustained demand for personal and commercial credit fuelled by historically low interest rates, helped drive this 11% growth year-over-year.

The residential mortgage portfolio was up $1,037 million in 2009. Considering the increase of $304 million in securitized loans, as shown in the table 18, total residential mortgage loan growth amounted to $1,341 million over the same period.

1 Excluding asset-backed securities that are fully guaranteed by the Canada Mortgage and Housing Corporation.

TABLE 18
RESIDENTIAL MORTGAGES PORTFOLIO
As at October 31 (in millions of dollars)

	2009	2008	VARIANCE 09/08
On-balance sheet residential mortgage loans	**$7,220**	$6,183	$1,037
Securitized residential mortgage loans (off-balance sheet)	**2,703**	2,399	304
Total residential mortgage loans, including securitized loans	**$9,923**	$8,582	$1,341

Personal loans were down $40 million in 2009, as the decline in the point-of-sale financing portfolio more than offset increases in home equity lines of credit and B2B Trust's investment loan portfolio. Commercial mortgages added $352 million in 2009, while commercial loans, including bankers' acceptances, grew $208 million. This strong performance arose in part from the Bank's ability to maintain business activity throughout the economic crisis when other financial institutions pulled back.

Impaired loans

Gross impaired loans rose from $101.9 million in 2008 to $137.5 million in 2009, while net impaired loans stood at $23.0 million as at October 31, 2009, compared with $-10.6 million as at October 31, 2008. The decline reflects the effect of ongoing credit market challenges resulting from a weaker economy and higher unemployment, as well as loan growth. Overall, loan portfolio performance remains nonetheless satisfactory in light of current economic conditions. See note 5 to the consolidated financial statements for additional information.

Additional information on the Bank's risk management practices and detailed disclosure on loan portfolios is provided in the Integrated Risk Management Framework section.

OTHER ASSETS

Other assets, excluding customers' liabilities under acceptances, rose to $1,077.8 million as at October 31, 2009 from $1,016.4 million as at October 31, 2008. The growth resulted mainly from additional contributions of approximately $60 million to defined benefit pension plan assets.

DEPOSITS

The deposit portfolio was up $3.0 billion or 19% to $18.3 billion as at October 31, 2009 from $15.3 billion as at October 31, 2008. B2B Trust HIIA generated growth of $3.1 billion during the year. In addition, significant increases in retail and commercial deposits have helped reduce the Bank's money market funding needs. Personal deposits represented 83% of total deposits at October 31, 2009, compared to 81% at October 31, 2008. These deposits are the Bank's preferred funding source because of their relative stability, as well as their lower marginal cost compared to wholesale deposits.

Additional information on deposits and other funding sources is included in the Liquidity and Funding Risk Management sub-section of the Integrated Risk Management Framework section.

OTHER LIABILITIES

Other liabilities fell to $2.5 billion as at October 31, 2009 from $3.0 billion as at October 31, 2008. The decline resulted mainly from lower commitments related to securities sold under repurchase agreements, as the Bank relied more heavily on deposits to fund purchases of securities.

SUBORDINATED DEBENTURES

As at October 31, 2009, subordinated debentures totalled $150 million, unchanged from last year. As further explained below, these debentures are an integral part of the Bank's regulatory capital and afford its depositors additional protection.

SHAREHOLDERS' EQUITY

Shareholders' equity was $1,171 million as at October 31, 2009, compared with $1,083 million as at October 31, 2008. This increase stemmed mainly from net income for fiscal 2009, net of declared dividends, as well as the favourable adjustment to accumulated other comprehensive income (AOCI), owing mainly to the market value recovery of available-for-sale securities. The Bank's book value per common share, excluding AOCI, appreciated to $38.68 as at October 31, 2009 from $35.84 as at October 31, 2008.

TABLE 19
SHARES ISSUED AND OUTSTANDING
As at December 1, 2009 (in number of shares/options)

Preferred shares	
Series 9	**4,000,000**
Series 10	**4,400,000**
Total preferred shares	**8,400,000**
Common shares	**23,919,887**
Options	**55,150**

Off-balance sheet arrangements

In the normal course of its operations, the Bank makes ample use of off-balance sheet arrangements. In particular, the Bank manages or administers clients' assets that are not reported on the balance sheet. Moreover, off-balance sheet items include derivative instruments, as well as assets and liabilities arising from the utilization of special purpose entities set up for financing purposes.

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

Assets under administration and assets under management mainly include assets of clients to whom the Bank provides various administrative services, as well as residential mortgage loans under management related to securitization operations. Through Laurentian Bank Securities, the Bank also manages retail and institutional investment portfolios. Table 20 below summarizes assets under administration and assets under management. As at October 31, 2009, these items totalled $14.3 billion, down $172 million compared with October 31, 2008. Fees, commissions and other income from these assets, detailed in Table 11, on page 24 of this MD&A, contribute significantly to the Bank's profitability.

TABLE 20
ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT
As at October 31 (in millions of dollars)

	2009	2008
Self-directed RRSPs and RRIFs	**$ 7,599**	$ 7,196
Clients' brokerage assets	**1,970**	1,643
Institutional	**341**	1,702
Mortgage loans under management	**2,877**	2,564
Mutual funds	**1,441**	1,306
Other – Personal	**28**	17
Total – assets under administration and assets under management	**$14,256**	$14,428

Assets related to self-directed plans grew $0.4 billion compared with last year owing to market recoveries, partially offset by increased segment competition. In light of a regulatory environment that encourages other financial institutions to manage their clients' self-directed plans themselves, we continue to anticipate that, in the medium term, these activities will continue to be impacted negatively, regardless of market valuations.

Mortgage loans under management were up 12%, primarily due to securitization operations carried out during fiscal 2009.

Clients' brokerage assets rose nearly 20%, driven mainly by market performance in 2009. Moreover, institutional assets related to trust services were down $1.4 billion, compared with October 31, 2008.

Mutual fund assets under administration increased by $135 million or 10% during fiscal 2009, owing to favourable market conditions and positive net annual sales of mutual funds.

DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of its operations, the Bank enters into various contracts and commitments to protect itself against the risk of fluctuations in interest rates, foreign exchange rates and indices on which returns of index-linked deposits are based, meet the client requirements and generate revenues from its trading activities. These contracts and commitments constitute derivatives. The Bank does not enter into any credit default swaps.

All derivatives are recorded in the balance sheet at fair value. Derivative values are calculated using notional amounts. However, these amounts are not recorded in the balance sheet, as they do not represent the actual amounts exchanged. Likewise, notional amounts do not reflect the credit risk related to derivative financial instruments, although they serve as a reference for calculating payments.

The notional amounts of the Bank's derivatives totalled $19.9 billion as at October 31, 2009, compared with $11.2 billion as at October 31, 2008. The net positive fair value of derivative financial instruments stood at $43 million as at October 31, 2009, compared with $79 million as at October 31, 2008.

Notes 20 to 22 to the consolidated financial statements provide further information on the various types of derivative products and their recognition.

SECURITIZATION ACTIVITIES

The Bank uses special purpose entities to securitize mortgage loans in order to obtain funding and, to some extent, to reduce credit risk and manage its capital position. The Bank does not act as an agent for clients engaged in this type of activity.

As part of a securitization transaction, an entity transfers assets to a special purpose entity, which generally consists of a Canadian trust, in exchange for cash. The special purpose entity finances these purchases through the issuance of term bonds or commercial paper. Sales of receivables are sometimes accompanied by a credit enhancement to improve the bonds' or commercial paper's credit ratings. Credit enhancements mainly take the form of cash reserve accounts, over-collateralization in the form of excess assets, and liquidity guarantees. Securitization programs generally include seller swap contracts to protect the special purpose entities against certain interest rate and prepayment risks. Securitization operations are reported as sales of assets only when the seller is deemed to have surrendered control over these assets and to the extent it receives consideration other than beneficial interests in the transferred assets.

The Bank securitizes receivables primarily through the Canada Mortgage Bonds Program (CMB Program) developed by the Canada Mortgage and Housing Corporation (CMHC) and multi-seller conduits set up by large Canadian banks. As part of transactions with multi-seller conduits, the Bank provides credit enhancements in the form of cash reserve accounts and rights to future excess interests, which constitute retained interests. Similarly, the Bank has concluded seller swap agreements designed to protect the special purpose entities. With regard to the CMB Program, the Bank must manage the mismatch between the amortizing mortgage pool and the Canada Mortgage Bonds (CMB), as well as the ensuing reinvestment risk. As part of this arrangement, the Bank enters into seller swaps which guarantee payments to investors. These seller swaps are derivatives and were therefore marked-to-market through the consolidated statement of income.

The Bank also continues to manage all securitized assets after they are sold. As at October 31, 2009, total outstanding securitized residential mortgage loans amounted to $2,703 million.

Revenues of $34.4 million were recorded in 2009 as part of securitization operations, including $37.4 million in gains on sale and $7.3 million in servicing revenues, offset by net charges of $10.3 million mainly related to changes in fair values of retained interest, securitization swaps and financial instruments held for economic hedging purposes.

The Bank does not act as an agent for clients engaged in this type of activity and has no other significant involvement, such as liquidity and credit enhancement facilities, with any securitization conduit.

Notes 6 and 24 to the consolidated financial statements and the discussion on critical accounting policies and estimates on page 51 of this MD&A provide additional information on these transactions.

Effect of securitization programs on regulatory capital ratios

Transfers made through the Canada Mortgage Bonds Program do not significantly impact Tier 1 and Total capital ratios, as the mortgages sold are insured by CMHC and already have a 0% risk weight. Similarly, transfers of conventional residential mortgage loans generally do not have a significant impact on capital ratios, as regulatory capital is adjusted to take into account the credit risk that the Bank continues to assume through retained interests. However, these sales do reduce the asset to capital multiple ratio, as the mortgages are derecognized under Canadian GAAP.

Transfers of commercial mortgage loans performed by the Bank generally have a positive effect on capital ratios, as the Bank does not usually retain any credit risk when transferring such loans.

CREDIT COMMITMENTS

In the normal course of its operations, the Bank uses various off-balance sheet credit instruments. The credit instruments used as a means of meeting client financial needs represent the maximum amount of additional credit that the Bank may be required to extend if the commitments are fully used. See Note 23 to the consolidated financial statements for further information.

GUARANTEES

In the normal course of its operations, the Bank enters into guarantee agreements that satisfy the definition of guarantees established by the Canadian Institute of Chartered Accountants (CICA) in Accounting Guideline No. 14, *Disclosure of Guarantees* (AcG-14). The principal types of guarantees are standby letters of credit and performance guarantees. Note 23 to the consolidated financial statements provides additional information on these guarantees.

TABLE 21
CREDIT COMMITMENTS AND GUARANTEES
As at October 31 (in millions of dollars)

	2009	2008
Undrawn amounts under approved credit facilities (1)	**$ 2,581**	$ 2,071
Documentary letters of credit	**$ 9**	$ 6
Standby letters of credit and performance guarantees	**$ 157**	$ 138

(1) Exclude personal credit facilities totalling $1,285,000,000 ($1,160,000,000 as at October 31, 2008) and credit card lines amounting to $845,000,000 ($923,000,000 as at October 31, 2008) since they are revocable at the Bank's option.

Capital management

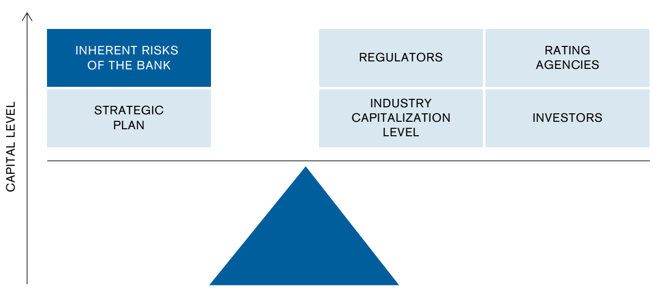
Management's objective is to maintain an adequate level of capital, in line with its risk profile, to support the Bank's activities while generating an acceptable shareholder return.

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

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

As shown in the following diagram, capital adequacy is influenced by various factors.

FACTORS INFLUENCING CAPITAL ADEQUACY



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

REGULATORY CAPITAL

The Bank assesses capital adequacy based on compliance with prescribed minimum regulatory levels of capital together with other factors. Regulatory capital is determined based on the guidelines of the Office of the Superintendent of Financial Institutions Canada (OSFI) originating from the Bank for International Settlements' (BIS) regulatory risk-based capital framework. Under BIS standards, banks must maintain a minimum Tier 1 capital ratio of 4% and a total capital ratio of at least 8%. OSFI guidelines require Canadian deposit-taking financial institutions to maintain a minimum Tier 1 capital ratio of 7% and a total capital ratio of at least 10%. The Bank uses the standardized approach in determining credit risk and the basic indicator approach in determining operational risk. Tables 22 and 23 outline the risk-weighted assets and regulatory capital used to calculate BIS ratios. During the year, 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 $900 million.

TABLE 22
RISK-WEIGHTED ASSETS
As at October 31 (in millions of dollars)

	2009	2008
Balance sheet items		
Cash resources	**$ 12.7**	$ 9.8
Securities	**220.2**	310.1
Mortgage loans	**3,222.9**	2,426.2
Other loans and customers' liabilities under acceptances	**3,807.9**	5,057.6
Other assets	**516.6**	422.8
Total – balance sheet items	**7,780.3**	8,226.5
Off-balance sheet items		
Derivative financial instruments	**76.0**	77.0
Credit-related commitments	**471.0**	250.2
	8,327.3	8,553.7
Operational risk	**1,153.5**	1,075.4
Total – risk-weighted assets	**$ 9,480.8**	$9,629.1

TABLE 23
REGULATORY CAPITAL – BIS
As at October 31 (in millions of dollars, except percentage amounts)

	2009	2008	VARIANCE 09 / 08
Tier I capital			
Common shares	**$ 259.2**	$ 257.4	1%
Contributed surplus	**0.2**	0.2	–
Retained earnings	**665.5**	597.0	11
Non-cumulative preferred shares	**210.0**	210.0	–
Goodwill	**(53.8)**	(53.8)	–
Securitization-related deductions and other	**(35.3)**	(45.4)	(22)
Total – Tier I capital (A)	**1,045.8**	965.4	8
Tier II capital			
Subordinated debentures	**150.0**	150.0	–
General allowances	**72.9**	73.2	–
Securitization-related deductions and other	**(32.8)**	(31.7)	3
Total – Tier II capital	**190.1**	191.5	(1)
Regulatory capital – BIS (B)	**$ 1,235.9**	$ 1,156.9	7%
Total risk-weighted assets (Table 22) (C)	**$ 9,480.8**	$ 9,629.1	
Tier I BIS capital ratio (A/C)	**11.0 %**	10.0 %	
Total BIS capital ratio (B/C)	**13.0 %**	12.0 %	
Assets to capital multiple	**18.0 x**	17.0 x	
Tangible common equity as a percentage of risk-weighted assets	**9.1 %**	8.2 %	

DIVIDENDS

The Board of Directors must approve dividend payments on preferred and common shares on a quarterly basis. The declaration and payment of dividends are subject to certain legal restrictions, as explained in Note 13 to the consolidated financial statements. The level of dividends declared on common shares reflects management and Board views of the Bank's financial outlook and would take into consideration market and regulatory expectations, as well as the Bank's growth objectives in its Strategic Plan. The following table summarizes dividends declared for the last three years.

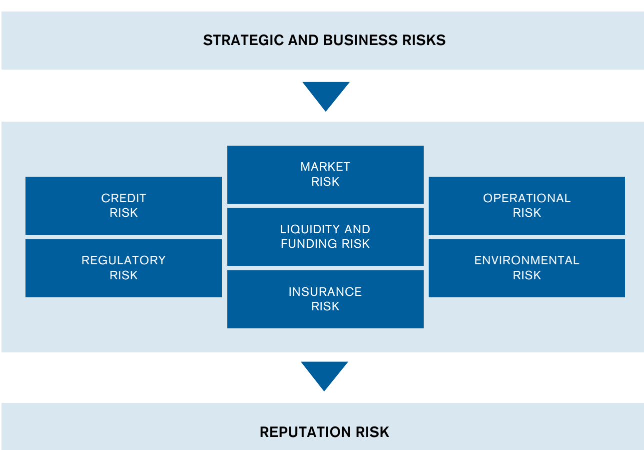
TABLE 24
SHARE DIVIDENDS AND PAYOUT RATIO
For the years ended October 31 (in millions of dollars, except per share amounts and payout ratios)

	2009	2008	2007
Dividends declared on preferred shares	**$ 11.8**	$11.8	$ 11.8
Dividends declared per common share	**$ 1.36**	$1.30	$ 1.16
Dividends declared on common shares	**$ 32.5**	$31.0	$ 27.5
Payout ratio	**32.1%**	34.2%	33.3%

Integrated risk management framework

The Bank is exposed to various types of risks owing to the nature of its activities. To ensure that all of the significant risks it could face are taken into consideration, the Bank's management has created an Integrated Risk Management Framework designed to enable the directors to properly supervise risk evaluation and control.

INTEGRATED RISK MANAGEMENT FRAMEWORK

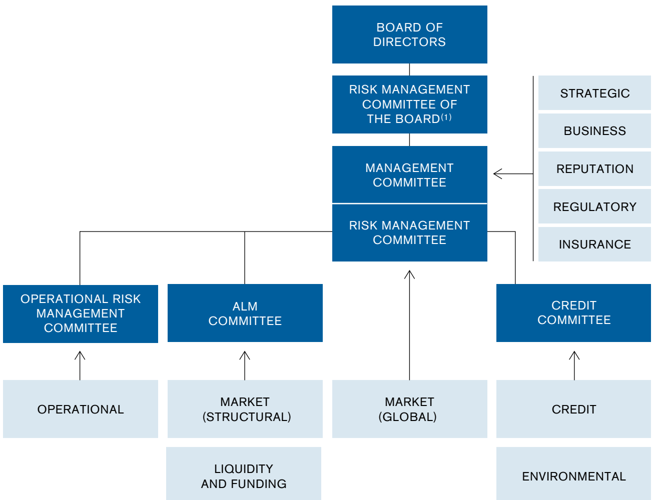


The main objective of this framework is to develop and maintain a risk management culture centered on establishing measures that allow for the optimization of the risk/return ratio in all of the Bank's areas of activity. The framework also highlights the following objectives:

- The establishment of processes to continuously detect, understand and evaluate major risks;
- The adoption of sound and prudent risk limits and risk management policies;
- The establishment and application of effective internal controls;
- The definition of the Management Committee's roles and responsibilities regarding risk management;
- The alignment of the Bank's strategy and objectives with its risk tolerance; and
- The reporting to the Board of Directors of all risks through a quarterly Integrated Risk Management Report.

Risk management is conducted according to tolerance levels established by the Management Committee and approved by the Board of Directors and its committees. Risks are therefore managed in compliance with policies and risk limits approved by the Board of Directors and in accordance with the governance structure outlined hereafter.

GOVERNANCE STRUCTURE



(1) Other Board's committees are also responsible for certain risks

ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS' COMMITTEES

The **Board of Directors** ascertains that the Bank is equipped with an appropriate strategic management process that takes risks into consideration. Moreover, on the strength of the certifications and consolidated reports prepared by management, the Board of Directors assesses, on a yearly basis, whether the Bank presents an environment conducive to control.

The **Board of Directors' Risk Management Committee** must ascertain whether the Integrated Risk Management Framework has been properly implemented, and periodically reviews its operation. It must also ascertain whether the Framework is equipped with an appropriate risk management process directed at identifying, measuring, quantifying and managing risks, as well as setting appropriate policies with regard to market, liquidity and funding, credit, reputational and operational risks.

ROLES AND RESPONSIBILITIES OF INTERNAL RISK MANAGEMENT COMMITTEES

The **Management Committee**, chaired by the President and Chief Executive Officer, ensures that the Integrated Risk Management Framework is properly implemented. The Committee also reviews the Code of Ethics and the Regulatory Risk Management Policy and is responsible for implementing the necessary framework for business, regulatory, strategic, reputation and insurance risk management. Furthermore, the Committee, assisted by the Risk Management Committees, assesses and reviews the risk management policies on market, liquidity and funding, credit, reputation and operational risks.

The **Operational Risk Management Committee** reviews and recommends to the Management Committee the approval of policies on operational risk management and reviews the report on operational losses incurred. Moreover, it reviews and approves the tools for the identification and evaluation of operational risks, reviews reports for the Management Committee on the business segments' action plans designed to mitigate and better manage operational risk, and finally, reviews the operational risk indicators. Furthermore, this committee is responsible for the supervision of the business continuity plan.

The **Asset and Liability Management Committee** oversees the activities related to the management of structural interest rate risk and of liquidity and funding risk, as well as to capital management. Specifically, it:

– Oversees guidelines pertaining to structural interest rate risk monitoring, as well as the rate sensitivity of interest margin results by business segment;
– Approves ALM and liquidity assumptions and ascertains whether the transfer pricing rules are in compliance with these assumptions; and
– Approves the strategies related to funding and capital.

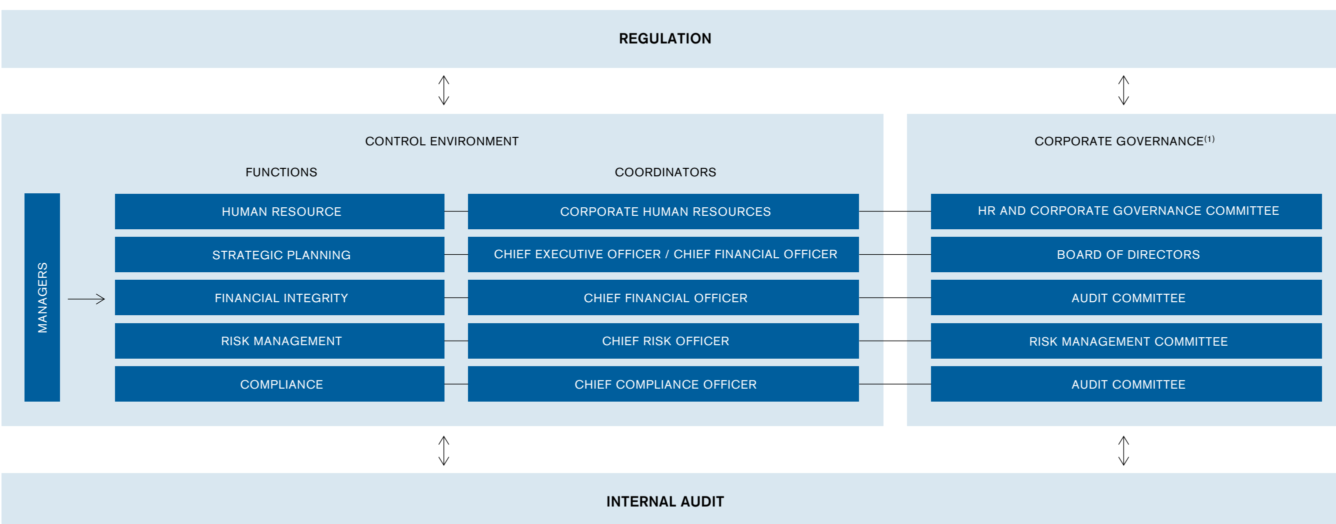
The **Credit Committee** is primarily responsible for ensuring that credit policies and procedures are drafted and that information systems related to the management of the Bank's current and potential credit risks are implemented, as well as for authorizing loans within established limits. It also reviews delinquency on all types of loans, authorizes loan losses within established limits and ensures the adequacy of the provisions for loan losses.

GOVERNANCE FUNCTIONS SUPPORTING INTEGRATED RISK MANAGEMENT

The following table presents the Bank's corporate control and governance structure (hereafter the "Structure"), which includes several governance functions designed to contribute to integrated risk management. The Structure is divided into two distinct areas: the control environment and the corporate governance. The control environment refers to the documented and applied monitoring and control processes, procedures and measures that allow the Bank to manage and control its commercial activities, as well as the significant risks it incurs. The control environment thus rests on five functions: human resources, strategic planning, financial integrity, risk management and compliance. Regarding corporate governance, the Board of Directors has the ultimate responsibility to ensure, as much as possible, that global risk tolerance is consistent with the Bank's strategies and objectives, and that its resources, technologies and processes are aligned with its objectives. Responsibility for each function is delegated to particular members of management acting as control environment coordinators, under supervision by the Board of Directors' committees.

The Internal Audit Department also plays a key role, as it is responsible for setting up a reliable and comprehensive system to adequately monitor the effectiveness of the controls exercised within the different Framework functions. In addition, regulatory and statutory requirements are an integral part of the Bank's Integrated Risk Management Framework.

CORPORATE CONTROL AND GOVERNANCE STRUCTURE



(1) Corporate governance provided by the Board of Directors and its committees

STRATEGIC AND BUSINESS RISK MANAGEMENT

Strategic risk results from inadequate business plans, strategies, decision-making processes, allocation and use of the Bank's resources, as well as its inability to adapt to changes in its operational framework.

Business risk is the potential adverse effect of changes in tax, economic, competitive, legal or accounting conditions on the Bank's results.

Senior management is responsible for managing the Bank's strategic and business risk. Each year, a strategic planning process is carried out. The Bank then analyzes strengths, weaknesses, threats and opportunities to determine the profitability and risk profile of its different business segments. The Bank's overall strategy is therefore established by senior management and submitted to the Board of Directors for approval.

CREDIT RISK MANAGEMENT

Credit risk is the risk of a financial loss occurring if a counterparty (including a debtor, an issuer or a guarantor) does not fully honor its contractual or financial obligations towards the Bank with regard to a balance sheet or an off-balance sheet financial instrument.

Credit risk management is independent of operations, thus protecting the independence and integrity of risk assessment. The Credit Committee is responsible for operational oversight of overall credit risk management. The integrated risk management report, presented quarterly to the Management Committee and to the Board of Directors' Risk Management Committee, provides a summary of key information on credit risks. The credit risk management policies adopted by the Bank provide for appropriate risk assessment. These policies cover approval of credit applications by authority level, assignment of risk ratings, management of impaired loans, establishment of general and specific provisions, and risk-based pricing. The policies are periodically reviewed and approved by the Board of Directors' Risk Management Committee.

The authorization process for counterparties and loans is centralized. The Bank uses expert systems to support the decision-making process for most applications for consumer credit, residential mortgage loans and credit cards, as well as for small commercial loans. With regard to other commercial loans, applications are analyzed on a case-by-case basis by specialized teams. The Bank ensures a rigorous and systematic monitoring of its loan portfolio, both in terms of quality and quantity, through mechanisms and policies concerning the systematic revision of various categories of files, risk rating updating systems and pricing analysis. Each month, the Bank's Credit Committee reviews impaired loans and performs high-level analyses on loans where payment is past due by 90 days or more. Collection processes are centralized and are based on specialized expertise.

The Bank has various risk management tools at its disposal. These include an 18-level risk rating system used to evaluate all types of commercial credit. Above a specific rating, files are considered to be under credit watch and are managed according to particular procedures. With regard to the portfolios' quality, a loan is considered impaired when interest payments are past due by three months or more, or if management considers that there is reasonable doubt that all of the interest and principal will be repaid at maturity.

Specific allowances for losses are established to adjust the book value of impaired loans to the estimated realizable present value. Commercial and real estate impaired loan allowances are revised on an individual basis, as part of a continuous process.

For impaired loans related to consumer loan portfolios, provisions are generally established on a portfolio basis, using models that take into account the loss history. Further details on impaired loans are provided in Table 25 on page 41.

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

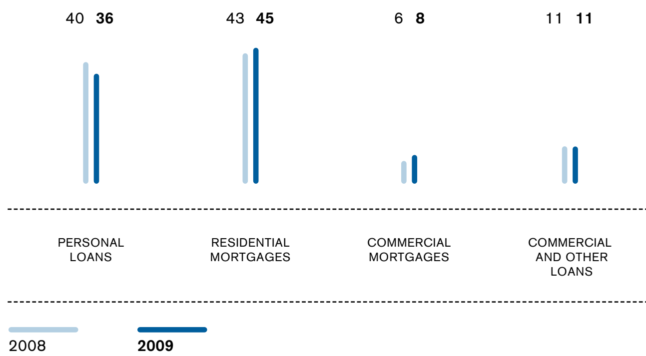
Diversification is one of the fundamental principles of risk management. To this effect, the credit policy establishes the guidelines intended to limit concentration of credit by counterparty and sector of activity, and identifies sectors considered risky and thus to be avoided. The loan portfolio mix is detailed in the following tables.

Loan portfolio mix

The Bank's loan portfolio consists of personal loans, residential mortgages, commercial mortgages and commercial loans, including bankers' acceptances. The loan portfolio mix as at October 31, 2009 remains relatively unchanged, compared with a year ago. Residential mortgages include mortgages on individual condominium residences and one-to-four-unit residences of $6,231 million, as well as mortgages on multi-units residential properties of $989 million.

Retail exposures represent more than 82% of the loan portfolio, reflecting the Bank's strong presence with personal clients through its Retail & SME Québec and B2B Trust business segments. Commercial loans and mortgages are essentially granted to small and medium-sized businesses.

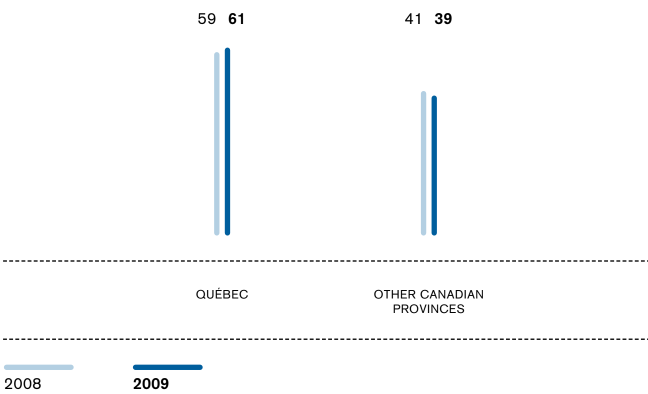
LOAN PORTFOLIO MIX
(as a percentage)



Geographic distribution

The Bank operates across Canada. In Québec, it offers all of its lending products mainly through its retail branch network and commercial banking centers. Throughout Canada, the Bank extends its operations through several other commercial banking centers. The Bank also offers its products to a wide network of independent financial intermediaries through B2B Trust. The proportion of loans granted in Québec represented 61% of total loans as at October 31, 2009, compared to 59% as at October 31, 2008, while the proportion of loans granted outside Québec stood at 39% and 41% for the same periods.

GEOGRAPHIC DISTRIBUTION OF LOANS
(as a percentage)



Insurance and guarantees

A significant proportion of the Bank's loan portfolio is insured by Canada Mortgage and Housing Corporation (CMHC), or secured by assets pledged as collateral by borrowers.

CMHC offers a mortgage loan insurance program designed to guarantee loans to provide Canadians with access to affordable mortgage financing. As an approved lender under the program, the Bank benefits from insurance coverage, thereby reducing its global credit risk and improving its capital ratios. Moreover, by maintaining a high proportion of insured residential mortgages, the Bank retains its capacity to engage in securitization operations to finance its activities at optimal cost and manage its cash resources. By year-end 2009, 48% of residential mortgages were insured by CMHC, compared with 48% in 2008. The Bank considers that it holds excellent guarantees for the other conventional mortgage loans whose loan value never exceeds 80% of the initially estimated value of the property, in accordance with legal requirements.

Commercial mortgage are loans further secured by specific assets, including construction projects, commercial properties, shopping centers, office buildings, plants, warehouses and industrial condominiums. In general, the value of these loans does not exceed 60% to 75% of the initially estimated value of the property, depending on the nature of the loan.

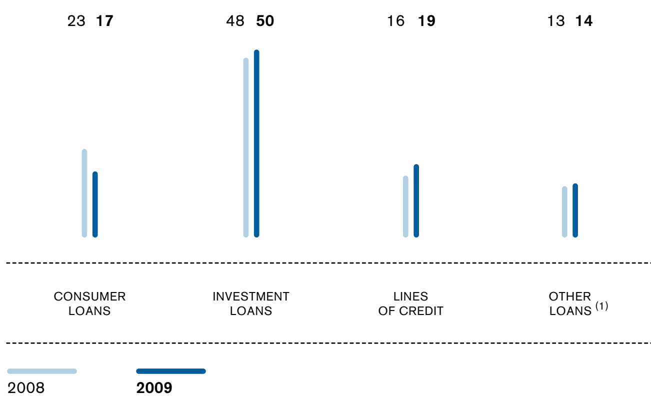
B2B Trust's investment loan portfolio consists mainly of mutual fund loans. Loan underwriting is subject to a rigorous process which allows for the efficient assessment of client credit risk. Authorizations are heavily based on clients' loan servicing ability and overall financial strength, mainly based on credit scoring. Moreover, the portfolio is periodically analyzed to identify potential credit issues. B2B Trust maintains a comprehensive list of qualified collateral assets. Stricter criteria must be met as loan-to-value ratios increase. For loans where disbursements are significant, additional income and net asset information are always required.

Changes in loan portfolio mix

Personal loans [2]

As at October 31, 2009, the personal loan portfolio was $5.7 billion, a slight decrease of $40.0 million compared to October 31, 2008. This resulted mainly from the decline in the point-of-sale financing portfolio, reflecting management's decision to gradually reduce the risk related to these operations. Home equity lines of credit and B2B Trust's investment loan portfolio rose $153 million and $107 million respectively during the year.

PERSONAL LOAN PORTFOLIO MIX
(as a percentage)



(1) Including credit cards loans, student loans, loans granted under the Immigrant Investor program and other loans.

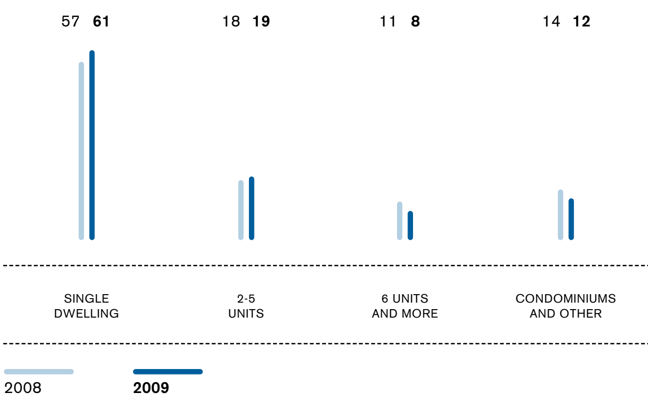
2 Loans related to the Immigrant Investor program are now included in personal loans. Previously, these loans were included in commercial and other loans.

Residential mortgage loans

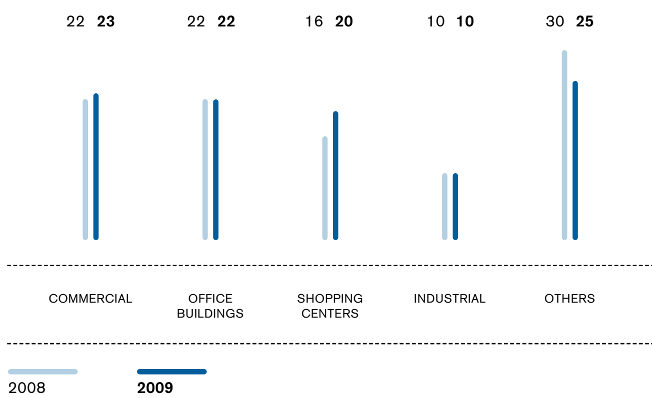
As shown in Table 18 on page 30, the residential mortgage loan portfolios, including on-balance sheet loans and securitized loans, added $1,341 million or 16% during fiscal 2009. This growth was primarily driven by the solid performance of our mortgage underwriting networks and the persistent strength of the Canadian real estate market.

The portfolio provides for sound risk diversification. As at October 31, 2009, Ontario and Western Canada represented 64% of the commercial mortgage loan portfolio and Québec 36%, whereas their respective shares were 63% and 37% as at October 31, 2008. The average loan value was $1.9 million as at October 31, 2009 ($1.3 million as at October 31, 2008).

RESIDENTIAL MORTGAGE LOANS BY PROPERTY TYPE
(as a percentage)



COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE
(as a percentage)



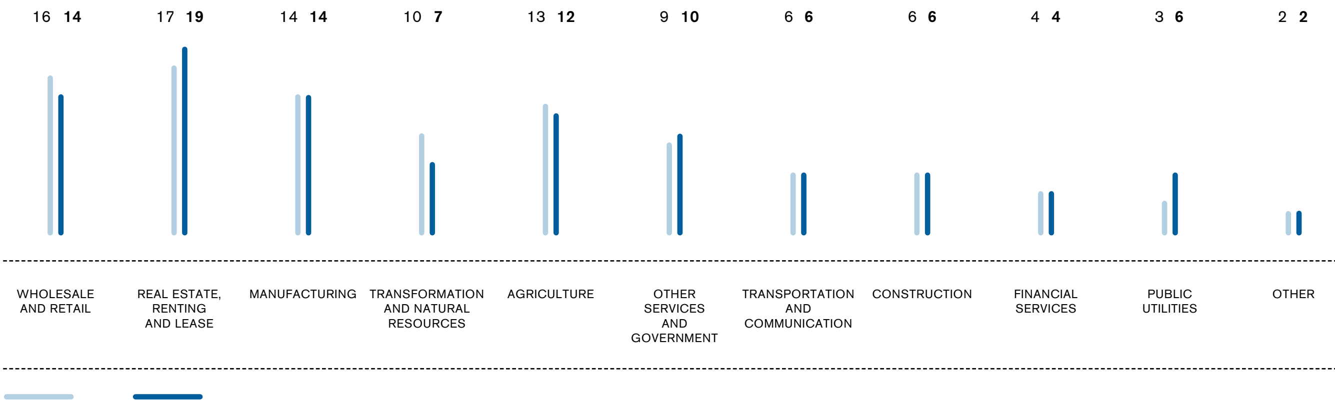
Commercial mortgage loans

Commercial mortgages were up 38% over fiscal 2008, totalling $1,285 million as at October 31, 2009, compared with $933 million as at October 31, 2008. As an active player in the Canadian commercial mortgage business in 2009, the Bank strengthened its enviable industry position. Maintaining this presence throughout the recession allowed it to further capitalize on opportunities arising from the retreat of certain market lenders.

Commercial loans

As at October 31, 2009, the portfolio of commercial loans, including bankers' acceptances, amounted to $1.8 billion, up $208 million from $1.6 billion as at October 31, 2008. This increase stemmed entirely from growth in Québec. As presented in the table on the following page, the portfolio covers a wide range of industries, with no specific industry representing more than 20% of the overall portfolio.

COMMERCIAL LOANS BY INDUSTRY
(as a percentage)



Impaired loans

Gross impaired loans are up $35.6 million since the beginning of the year, totalling $137.5 million as at October 31, 2009. Net impaired loans amounted to $23.0 million as at October 31, 2009, compared with – $10.6 million as at October 31, 2008. The increase is consistent with the overall weakening in the economic environment and also reflects the significant volume growth. However, various measures taken to lower the Bank's risk profile in recent years have curtailed such deteriorations. Overall, loan portfolio credit quality remains nonetheless satisfactory in light of the current economic conditions.

General allowances amounted to $73.3 million as at October 31, 2009, the same level as a year ago. This general provision reflects the estimated losses due to the deterioration in credit quality of loans not yet classified as impaired.

See Note 5 to the consolidated financial statements for additional information.

TABLE 25
IMPAIRED LOANS
As at October 31 (in millions of dollars, except percentage amounts)

	2009			2008		
	GROSS	**SPECIFIC ALLOWANCES**	**NET**	GROSS	SPECIFIC ALLOWANCES	NET
Personal loans	**$ 23.7**	**$ (7.0)**	**$ 16.7**	$ 19.2	$ (6.6)	$ 12.6
Residential mortgages	**32.4**	**(1.9)**	**30.5**	16.6	(1.4)	15.2
Commercial mortgages	**11.2**	**(2.5)**	**8.7**	6.3	(1.9)	4.4
Commercial and other loans	**70.2**	**(29.9)**	**40.3**	59.8	(29.3)	30.5
Total	**$ 137.5**	**$ (41.3)**	**$ 96.2**	$ 101.9	$ (39.2)	$ 62.7
General allowance			**(73.3)**			(73.3)
Total – net impaired loans			**$ 22.9**			$ (10.6)
As a % of total loans, bankers' acceptances and assets purchased under reverse repurchase agreements	**0.83 %**		**0.14 %**	0.68 %		(0.07) %

TABLE 26
GEOGRAPHIC DISTRIBUTION OF IMPAIRED LOANS BY CREDIT PORTFOLIO AND INDUSTRY
As at October 31 (in millions of dollars)

	2009	2008
Personal loans	**$ 23.7**	$ 19.2
Residential mortgages	**32.4**	16.6
Commercial mortgages	**11.2**	6.3
	67.3	42.1
Commercial and other loans		
Manufacturing	**23.0**	22.3
Transformation and natural resources	**16.2**	7.8
Agriculture	**12.4**	4.9
Public utilities	**4.8**	6.0
Wholesale and retail	**4.0**	3.4
Construction	**2.6**	2.1
Financial services	**1.9**	0.8
Real estate, renting and lease	**1.6**	5.8
Other services and government	**0.7**	0.7
Transportation and communication	**0.6**	2.9
Other	**2.4**	3.1
	70.2	59.8
Total impaired loans	**137.5**	101.9
Québec		
Personal loans	**6.5**	9.0
Residential mortgages	**10.7**	6.6
Commercial mortgages	**6.0**	6.1
Commercial and other loans	**62.5**	47.1
	85.7	68.8
Other Canadian provinces		
Personal loans	**17.2**	10.2
Residential mortgages	**21.7**	10.0
Commercial mortgages	**5.2**	0.2
Commercial and other loans	**7.7**	12.7
	51.8	33.1
Total impaired loans	**$137.5**	$101.9

MARKET RISK MANAGEMENT

Market risk is the financial loss that the Bank may incur due to unfavourable fluctuations in the value of balance sheet or off-balance sheet financial instruments, following movements in parameters that underlie their valuation, notably interest rates, exchange rates and stock market prices. This risk is inherent to the Bank's financing, investment, trading and asset and liability management (ALM) activities.

Interest rate risk is the financial loss that the Bank may incur due to unfavourable fluctuations of interest rates. The section covering asset and liability management activities describes the global management of interest rate risk. Structural market risk is the interest rate risk arising from our banking activities and is primarily the result of differences in the scheduled maturity and repricing dates of assets and liabilities (interest rate mismatches).

Foreign exchange risk is the loss in Canadian dollars that the Bank may incur due to unfavourable fluctuations in exchange rates. It originates mainly from the foreign exchange positions that the Bank maintains to provide products and services in currencies other than the Canadian dollar, along with arbitrage activities and, to a lesser extent, mismatches in currencies of balance sheet and off-balance sheet asset and liability items and mismatches in receipts and payments of funds in foreign currencies.

Equity risk is the financial loss that the Bank may incur due to unfavourable fluctuations in some equity prices or in the equity market in general.

Policies and standards
The primary objective of effective market risk management is to adequately measure significant market risks and ensure that these risks stay within the Bank's risk tolerance level.

The Bank has thus adopted policies and limits to oversee and limit exposure to market risks arising from its trading, investment and asset and liability management activities. The policies and limits establish the Bank's management practices pertaining to various risks associated with its treasury activities. These policies and limits are approved by the Management Committee and the Board of Directors' Risk Management Committee at least annually, to ensure their compliance with the retained principles, objectives and management strategies.

Detailed risk level and limit monitoring reports are produced daily and are presented:
– Daily, to risk and portfolio managers; and
– Quarterly, to the Management Committee and to the Board of Directors' Risk Management Committee.

Market risk assessment and management methods (interest rate, foreign exchange and equity)
The evaluation of the Bank's market risks is supported by a combination of various measures such as:
– "notional" limits;
– value at risk (VaR); and
– stress testing and other sensitivity measures.

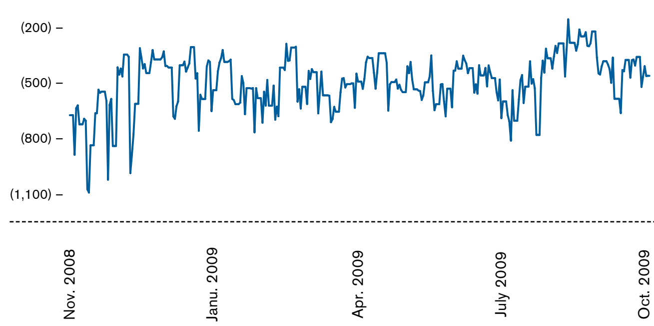
Limits to manage market risk
The Bank sets limits that are consistent with its business plan and its tolerance for market risk. In setting limits, the Bank takes into account market volatility, market liquidity, organizational experience and business strategies. Limits are set at the portfolio level, the business segment level, as well as at the aggregate Bank level, and are monitored on a daily basis. Market risk limits are based on the key risk drivers in the business and can include limits on notionals, sensitivity measures, VaR and other stress testing. The Bank uses a combination of these methods according to the complexity and nature of its activities.

Value at Risk
Value at Risk corresponds to the maximum loss the Bank may incur over a one-day period, with a confidence level of 99%. Consequently, the chances that real losses incurred on any given day exceed the VaR are theoretically of 1%. To calculate the VaR, historical simulations that implicitly take into account correlations between various risk factors are performed. The VaR is based on 300 days of historical data. Values at risk are calculated daily for all financial market activities. The Bank uses backtesting processes to compare theoretical profits and losses to the results of the VaR for trading activities. This allows the validation of the VaR model's statistical hypotheses. These tests are conducted for each business segment and each risk factor, as well as for the entire trading portfolio. The theoretical change in profits and losses is generated using the daily price movements, and on the assumption that there is no change in the composition of the portfolio.

Stress tests and sensitivity measures
Parallel to VaR calculations, the impact of stress tests on profits and losses is assessed for the trading and investment portfolios, and results are used in assessing the impact of abnormal market situations. Stress tests constitute a complementary risk measure to VaR and strive to provide an estimate of the worst loss the Bank could incur over a period of approximately one month. The Bank's stress testing program combines historical and statistical scenarios to simulate the impact of significant changes in risk factors on the portfolios' market value. The Bank also produces daily sensitivity measures (including measures of volatility and parallel yield curve shifts) on financial markets activities as a whole.

Trading activities
Trading activities are aligned with the needs of the Bank and those of its customers. The market risk associated with trading activities ensues from activities for which the Bank acts as the principal or agent for its customers. These activities are primarily carried out by Laurentian Bank Securities and, to a lesser extent, by the Bank's Corporate Treasury. The graph below presents the daily total value at risk of the trading portfolio for the 2009 fiscal year.

DAILY TRADING VAR EVOLUTION OVER THE LAST 12 MONTHS
(in thousands of dollars)



Asset and liability management activities
The purpose of asset and liability management activities is to control structural interest rate risk, which corresponds to the potential negative impact of interest rate movements on the Bank's revenues and economic value. This risk is mainly attributable to differences in maturity dates or revaluation dates of balance sheet and off-balance sheet items along with the options embedded in certain banking products, notably clauses on prepayment, deposit redemption and mortgage commitments.

Structural risk management requires rigorous monitoring of four distinct portfolio groups:

- Banking activities of the Bank's clientele, which are affected by customer choices, product availability and term-dependent pricing policies;
- Investment activities, comprising marketable securities and institutional funding;
- Securities trading activities, which are marked-to-market on a daily basis in line with rate movements; and
- A hedging portfolio that helps the Bank control overall interest rate risk within strict internal limits.

Dynamic management of structural risk is intended to maximize the Bank's profitability while preserving the economic value of common shareholders' equity. To attain this objective, various treasury and derivative instruments, mainly interest rate swaps, futures and options, are used to modify the interest rate characteristics of the instruments underlying the Bank's balance sheet and to cover the risk inherent in options embedded in loan and deposit products.

Structural risk is globally managed by the Bank's Corporate Treasury Department and monitored by the Asset and Liability Management Committee in accordance with the structural risk management policy, which is approved by the Risk Management Committee of the Board of Directors. This policy defines limits relative to the measurement of economic value and net interest income risk. Risk limits are calculated by simulating the impact of immediate and sustained parallel movements of 100 basis points in rates for all maturities.

Interest income risk measures the negative impact on net interest income from interest rate movements over the next 12 months. Economic value risk measures the net negative impact on the present value of balance sheet and off-balance sheet assets and liabilities.

Portfolio positions are reviewed periodically by the Asset and Liability Management Committee, which is in charge of monitoring the Bank's positioning with regard to anticipated interest rate movements and recommending hedging of all undesirable or unforeseen interest rate risk. In addition, risk monitoring reports are presented periodically to the Management Committee and the Board of Directors' Risk Management Committee.

To ensure sound management of structural risk, a repricing gap report is produced periodically. This statement is then used as the basis for the simulation analysis of the impact of interest rate variation on net interest income and economic value of common shareholders. One of the simulation exercises consists of subjecting the Bank's balance sheet to sudden parallel and sustained 1% and 2% increases and decreases in interest rates. For example, as at October 31, 2009, for all portfolios, a 1% increase in interest rate would have triggered a decrease of approximately $5.0 million in net interest income before taxes over the next 12 months and a $20.0 million negative impact on the economic value of common shareholders' equity. Table 27 below details other interest rate movements. These results reflect Management's efforts to take advantage of anticipated short-term and long-term interest rate movements, while maintaining the sensitivity to these fluctuations well within approved limits. The Bank's interest rate gap position as at October 31, 2009 appears in Note 21 to the consolidated financial statements.

TABLE 27
RISK SENSITIVITY ANALYSIS
As at October 31 (in millions of dollars)

	2009		2008	
	NET INTEREST INCOME (1)	**ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY (2)**	NET INTEREST INCOME (1)	ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY (2)
Impact of:				
100bp increase in rates	**$ (5)**	**$(20)**	$ 9	$(19)
100bp decrease in rates	**(22)**	**23**	(11)	19
Impact of:				
200bp increase in rates	**(10)**	**(38)**	18	(37)
200bp decrease in rates	**$(67)**	**$ 22**	$(21)	$ 40

(1) As a result of the unusually low interest rate levels at year end, the rate sensitivity analysis provides certain asymmetrical results with regards to the impact on net interest income over the next 12 months.
(2) Net of income taxes

OPERATIONAL RISK MANAGEMENT

Operational risk is inherent to the activities of financial institutions. It results from inadequacy or failure attributable to processes, persons or internal systems or from external events. Although it cannot be eliminated, its management is integrated in the decision-making process of the Bank's directors, members of senior management and managers.

The Operational Risk Management Policy, reviewed annually by the Board of Directors' Risk Management Committee, describes the operational risk management framework and defines the roles and responsibilities of various stakeholders. The Operational Risk Management Committee, which reports to the Management Committee, constitutes one of the basic elements of the operational risk governance structure. However, it is incumbent upon managers of business units and subsidiaries to proactively manage the operational risk inherent in their daily operations. The Operational Risk Management group must oversee the operational risk management process. The Bank's Internal Audit Department contributes to this process by transmitting the conclusions of its auditing mandates to the Operational Risk Management group as well as to the Board of Directors' Risk Management and Audit Committees.

The Bank's operational risk management process includes the following steps:

Adoption of policies by the Board of Directors

The operational risk management framework includes the following policies: operational risk management policy; outsourcing risk management policy; business continuity management policy; information security risk management policy; protection of personal information policy, and professional liability risk management policy.

Collection of operational loss data

Data concerning operational losses are centralized within the Operational Risk Management group.

Identification of operational risk

Managers must identify the risks ensuing from their activities, including risks related to new products, new activities and new processes.

Evaluation of operational risks

All of the Bank's activities are grouped within large processes. Following any significant change to these processes or to a new process, managers must perform an assessment to assign appropriate risk ratings to each of their processes. If necessary, action plans are designed to minimize any significant detected risks.

Management of operational risk

Operational risk management means, among other things, deciding to accept, reduce, avoid or transfer certain risks and put in place appropriate procedures and control measures. The Bank uses several means to minimize or transfer its risks, including participation in a corporate insurance program and elaboration of a global and integrated plan for business continuity. Furthermore, a Fraud Prevention Committee, composed of security specialists and business unit representatives meets periodically to analyze fraud trends and continuously improve the Bank's methods and means of preventing fraud.

Production of operational risk reports

The Operational Risk Management group produces reports that are sent to managers, members of the senior management team and the Risk Management Committee of the Board. These reports include information on operational losses per risk category and major business segment.

Outsourcing management

The Bank has to rely on strategies to maintain a competitive cost structure and product diversification. Outsourcing constitutes one of these important strategies. It facilitates access to state-of-the-art technologies, fosters economies of scale and allows for process efficiency improvements. An outsourcing agreement will be deemed acceptable if it provides short- and long-term advantages to the Bank and involves an acceptable level of risk. The Bank has implemented an outsourcing risk management policy covering all of the Bank's businesses. It is designed to oversee outsourcing activities and ensure that the major agreements are managed in a prudent manner and that their monitoring and supervision are adequate in accordance with their significance.

LIQUIDITY AND FUNDING RISK MANAGEMENT

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

Liquidity and funding risk is globally managed by the Bank's Corporate Treasury Department and supervised by the Asset and Liability Management Committee (ALM Committee), in compliance with the Pledging Management Policy and the Liquidity and Funding Management Policy. The main purpose of these policies is to ensure that the Bank always has sufficient cash resources to meet its current and future financial obligations, both under normal conditions and exceptional circumstances.

The Bank monitors cash resources daily and ascertains whether liquidity measures are in compliance with limits established in the policies set by the Bank. Liquidity management pays particular attention to deposit and loan maturities, as well as to funding availability and demand when planning funding. The Bank maintains a prudent reserve of unencumbered liquid assets that are readily available to meet any contingency. It defines its cash requirements based on scenarios evaluating survival horizons that measure the period during which liquid assets could cover the withdrawal of wholesale funding and deposits.

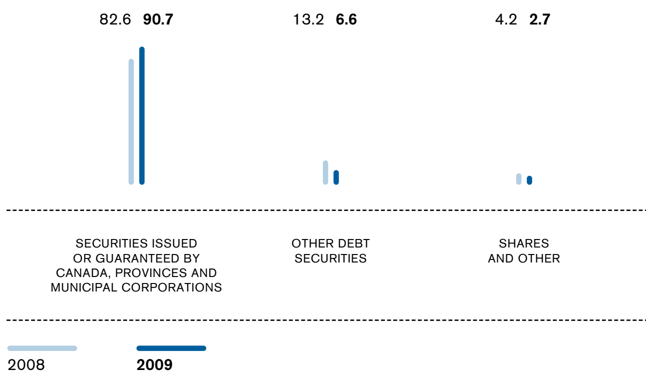
The Bank strives to maintain a steady volume of core deposits originating from its retail clientele and sourced through its branch and intermediary networks. It also maintains a variety of alternate sources of funding in order to have sufficient diversification. Funding strategies also include loan securitization and the use of capital markets, either through the issuance of capital stock or debt instruments.

A liquidity contingency plan is prepared and reviewed on a regular basis. It provides a detailed action plan that would enable the Bank to fulfill its obligations in the event of an internal or external liquidity crisis.

Detailed information on cash resources

The Bank's cash resources consist of cash and non-interest bearing deposits with other banks, interest-bearing deposits with other banks, securities and assets purchased under reverse repurchase agreements. As at October 31, 2009, these assets totalled $5.3 billion, compared with $4.3 billion as at October 31, 2008. Year over year, cash resources rose $1.0 billion, mainly by particularly strong deposit growth, as detailed below. More than 90% of the Bank's cash resources are composed of marketable securities issued or guaranteed by the Canadian government, provinces or municipal corporations. Cash resources provide the Bank with flexibility to manage its loans and deposit portfolio maturities and commitments, and meet other current operating needs. In addition, Held-for-trading and Designated-as-held-for-trading portfolios offer fixed-income trading opportunities or are used to hedge certain exposures.

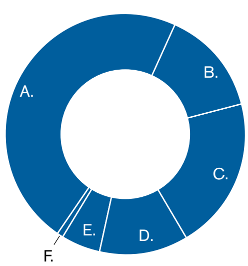
SECURITIES
(as a percentage)



Funding

The Bank's main funding sources, consisting of retail deposits (both branch and broker-sourced) and securitization of residential mortgages through the Canada Mortgage Bonds (CMB) Program, remained particularly efficient throughout 2009, in spite of market turmoil. Furthermore, the introduction of B2B Trust HIIA has provided the Bank with a significant new source of retail funding and further reduced its use of money market funding.

FUNDING SOURCES
(as a percentage)



A. Personal term deposits	47.4%
B. Business, banks and other deposits	14.2%
C. Personal notice and demand deposits	20.4%
D. Securitization	12.1%
E. Shareholders' equity	5.2%
F. Subordinated debentures	0.7%

Personal deposits
Total personal deposits were up to $15.1 billion as at October 31, 2009, compared with $12.4 billion as at October 31, 2008. B2B Trust HIIA generated growth of $2.4 billion during the year, while deposits from other retail operations added more than $340 million. These increases were slightly offset by a managed reduction in broker-sourced term deposits. A significant proportion of these deposits is insured by the Canada Deposit Insurance Corporation, up to $100,000 per client, per regulated deposit-taking financial institution. Personal deposits constitute a particularly advantageous and stable source of financing for the Bank, due among other things to their availability and low cost, compared with institutional deposits. As at October 31, 2009, these deposits represented 83% of the Bank's total deposit portfolio.

Business, banks and other deposits
Deposits from businesses, banks and other rose $258 million, totalling $3.2 billion as at October 31, 2009, compared with $2.9 billion as at October 31, 2008. This growth stemmed mainly from small business deposits in B2B Trust HIIA, and additional deposits related to commercial accounts, partially offset by a decline in money market funding.

TABLE 28
DEPOSITS
As at October 31 (in millions of dollars, except percentage amounts)

	2009		2008	
Personal				
Notice and demand				
Branch network	**$ 1,993**	**10.9%**	$ 1,833	12.0%
Financial intermediaries	**2,571**	**14.0**	189	1.2
	4,564	**24.9**	2,022	13.2
Term				
Branch network	**4,895**	**26.8**	4,628	30.2
Financial intermediaries	**5,680**	**31.0**	5,780	37.6
	10,575	**57.8**	10,408	67.8
Sub-total – personal	**15,139**	**82.7**	12,430	81.0
Business, banks and other				
Notice and demand	**2,186**	**12.0**	899	5.9
Term	**975**	**5.3**	2,005	13.1
Sub-total – Business, banks and other	**3,161**	**17.3**	2,904	19.0
Total – deposits	**$18,300**	**100.0%**	$15,334	100.0%

Credit ratings
Personal deposits, collected through the branch network and financial intermediaries, constitute the most important source of financing for the Bank. In certain circumstances, however, particularly during periods of strong growth, the Bank must turn to the markets to obtain financing through securitization and unsecured financing. The Bank's capacity to obtain such financing, as well as the related conditions, are tied to the credit ratings set by rating agencies such as DBRS Limited and Standard & Poor's. Revisions of the Bank's credit ratings may therefore have an effect on the financing of operations as well as on requirements with regard to guarantees.

During fiscal 2009, all ratings for the Bank were confirmed and remained unchanged, except for DBRS' two-notch downgrade of the Bank's preferred share ratings resulting from changes in its global banking assessment methodology. As of the date of this report, the ratings outlook, as determined by the DBRS Limited and Standard & Poor's credit rating agencies, were stable and positive, respectively[3].

The following table presents the Bank's credit ratings as established by the rating agencies.

3 A S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future action. The S&P rating outlooks have the following meanings:
– "Positive" means that a rating may be raised
– "Negative" means that a rating may be lowered
– "Stable" means that a rating is not likely to change
– "Developing" means a rating may be raised or lowered
Each DBRS rating category is appended with one of three rating trends – "Positive," "Stable," "Negative" – in addition to "Under Review." The rating trend helps to give the investor an understanding of DBRS's opinion regarding the outlook for the rating in question. However, the investor must not assume that a positive or negative trend necessarily indicates that a rating change is imminent.

TABLE 29
CREDIT RATINGS
AS AT OCTOBER 31, 2009

	DBRS	STANDARD & POOR'S
Deposits and senior debt	BBB (high)	BBB
Short-term instruments	R-1 (low)	A-2
Subordinated debentures	BBB	BBB-
Preferred shares	Pfd-3 (low)	BB+

Contractual obligations

In the normal course of its activities, the Bank enters into various types of contractual agreements. Its main obligations follow from the issuance of debt instruments, including deposits written with individuals, businesses and other institutions. This financing, combined with the issuance of capital, is used primarily to finance loan and investment operations.

In addition, the Bank must also ensure that cash resources are available to meet the requirements related to some infrastructure investments, notably the renovation of its branch network, the modernization of its information technology platforms, as well as to projects related to compliance with regulatory requirements. These projects inevitably require significant investments annually.

The following table summarizes the Bank's principal contractual obligations as at October 31, 2009, maturing over each of the next five years and thereafter. Note 23 to the consolidated financial statements provides further information on this subject.

TABLE 30
CONTRACTUAL OBLIGATIONS
As at October 31, 2009 (in millions of dollars)

	2010	2011	2012	2013	2014	THEREAFTER	TOTAL
Term deposits	$4,382	$3,389	$1,880	$1,111	$777	$ 11	11,550
Obligations related to assets sold short	999	55	–	–	–	–	1,054
Obligations related to assets sold under repurchase agreements	285	–	–	–	–	–	285
Subordinated debentures	–	150	–	–	–	–	150
Commitments under leases, technology services and other contracts	67	64	61	54	43	97	386
Total	$5,733	$3,658	$1,941	$1,165	$820	$108	$13,425

REPUTATION RISK MANAGEMENT

Reputation risk corresponds to the risk that a decision, an event or a series of events affect, either directly or indirectly the Bank's image with shareholders, clients, employees, the general public or any other stakeholders, and may negatively impact the Bank's revenues, operations and, ultimately, its value.

Reputation risk most often results from the inadequate management of other risks and may affect almost every activity of a financial institution, even when operations are, from a technical point of view, in compliance with legal, accounting and regulatory requirements. Reputation is a critical asset that favours company growth as well as continued trust from clients and the general public, and optimizes company value in the eyes of shareholders. Reputation is therefore a strategic asset.

To protect the Bank from any impairment to its reputation and considering the importance of this risk, the Management Committee controls and supervises reputation risk management through the application of a specific policy. Other policies and committees also enable the Management Committee to properly manage potential threats that could have a direct or indirect impact on reputation.

REGULATORY RISK MANAGEMENT

Regulatory risk refers to the risk of non-compliance by the Bank with applicable laws, regulations, regulatory authority guidelines and voluntary codes. The regulatory risk management policy implements the Bank's Regulatory Risk Management Framework, which comprises the following elements:

– Identification of the regulatory requirements applicable to the Bank;
– Assessment of the risk attributable to each regulatory requirement;
– Development, updating and application of controls designed to ensure compliance with the regulatory requirement;
– Evaluation of the effectiveness of the controls; and
– Identification and correction of situations of non-compliance.

Compliance reports are submitted at least quarterly to the Management Committee and the Board of Directors' Audit Committee. A review mechanism, designed to evaluate the Regulatory Risk Management Framework's effectiveness, is also in place.

CREDIT INSURANCE RISK MANAGEMENT

Insurance risk is the risk of loss that may occur when hypotheses related to creditor insurance products offered by the Bank, notably with regard to the determination of assumptions used to set premiums or valuation of reserves, differ from actual insurance underwriting results.

Insurance risk is managed within an independently managed program overseen by the Bank's representatives and experts in the insurance field. Reinsurance protections are underwritten to reduce the Bank's exposure that would arise from significant claims and catastrophes, including terrorist events. In addition, design and pricing of insurance products distributed by the Bank are reviewed by actuarial consultants, based on best practices.

ENVIRONMENTAL RISK MANAGEMENT

Environmental risk is the risk of financial loss when restoring the assets of the Bank or those of the Bank's clients to a sound environmental state.

Environmental risk related to financing activities is managed within the loan approval process, while risks related to the Bank's assets, although limited, are mainly managed by the Real Estate segment.

ADDITIONAL RISKS THAT COULD POTENTIALLY AFFECT FUTURE RESULTS

The major business risks that may affect the Bank's results are detailed in the previous sections. This section describes other factors that could have a significant impact on the Bank's results and cause these results to differ materially from our forward-looking statements as described at the beginning of this Annual Report. Although the Bank maintains comprehensive controls and processes to mitigate the risks associated with these factors, by their very nature, they may significantly impact the Bank's performance.

Economic climate in Canada

The Bank operates mainly in Québec and Ontario but also, to a lesser extent, in the rest of Canada. Consequently, its earnings are particularly sensitive to the economic and commercial climate in Canada. Major factors include interest rates, inflation, capital market fluctuations, the strength of the economy and the Bank's volume of business in certain key regions. A prolonged deterioration in the Canadian economic climate could therefore adversely affect the Bank's activities.

Monetary policies and other policies

The monetary policies adopted by the Bank of Canada and the U.S. Federal Reserve's Board of Governors, as well as other measures adopted by central banks, have a major impact on several variables, such as interest rates, exchange rates and bond markets, that can have an impact on the Bank's earnings. The Bank has no control, however, on changes in monetary policies, nor on capital markets fluctuations.

Competition

The Bank's performance is affected by the level of competition in its markets. The intense competition in the financial services industry could interfere with the Bank's capacity to reach its objectives. Several factors, including the price of products and services, their quality and variety, and also the actions taken by its competitors, could negatively impact the Bank's positioning.

Legislative and regulatory amendments and legal proceedings

Legislative and regulatory amendments could affect the Bank by impacting its product and service offering and modifying the financial industry's competitiveness. Moreover, the Bank's failure to comply with applicable legislation and regulations could result in sanctions and financial penalties that would have a negative impact on its earnings and reputation. As well, legal proceedings could affect the Bank negatively. Further details are provided in Note 25 to the consolidated financial statements.

Ability to attract and retain key employees
The Bank's future performance is largely dependent on its ability to attract and retain key employees. Within the financial industry, competition for employees and executives is quite intense, and there can be no assurance that the Bank will be able to attract and retain these individuals, which could significantly impact its operations and competitiveness.

Business infrastructure
The Bank deals with third parties to secure the components essential to its business infrastructure, such as Internet connections and various communication and database services. Disruption of such services could adversely affect the Bank's capacity to provide its products and services to its various clienteles, and ensure the continuity of its ongoing operations.

Other factors
Other factors, that are not under our control, could affect results, as discussed in the Caution Regarding Forward-Looking Statements at the beginning of this Annual Report. It should be noted that the foregoing list of factors is not exhaustive.

Disclosure controls and procedures and internal controls over financial reporting

In order to ensure that the consolidated financial statements and the MD&A present fairly, in all material respects, the financial position of the Bank and the results of its operations, management is responsible for establishing and maintaining disclosure controls and procedures, as well as internal controls over financial reporting.

Disclosure controls and procedures
Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information has been collected and submitted to the Bank's senior management which ensures adequate disclosure of such information. An information disclosure policy constitutes the framework for the information disclosure process with regard to the annual and interim filings, as well as to other reports filed or submitted under securities legislation. The Disclosure Committee is responsible for ensuring compliance with this policy. The members of the Disclosure Committee therefore review the main documents to be filed with regulatory authorities to ensure disclosure of all significant information regarding operations in a timely manner.

The President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer evaluated the effectiveness of disclosure controls and procedures as at October 31, 2009 and concluded that they were adequately designed and effectively managed to provide reasonable assurance regarding the completeness and reliability of financial reporting.

Internal controls over financial reporting
During fiscal 2009, management evaluated the design and effectiveness of internal controls over financial reporting, leading to the regulatory certification of the annual filings in accordance with National Instrument 52-109. As for the evaluation of controls and procedures regarding information disclosure, the evaluation of the design and effectiveness of disclosure internal controls was performed using the control framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Given the inherent limitations of any control systems, it is possible that internal controls over financial reporting do not prevent or detect all misstatements due to error or fraud. However, management's evaluation of internal controls provides a reasonable assurance that all internal control problems which could lead to important misstatements have been detected.

Tests have been performed throughout the 2009 fiscal year to evaluate the effectiveness of internal controls over financial reporting.

This undertaking has enabled the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer to certify that internal controls over financial reporting are effective and adequately designed to provide reasonable assurance regarding the reliability of financial reporting.

Changes to internal controls over financial reporting
During the year ended October 31, 2009, no changes to internal controls over financial reporting affected materially, or are reasonably likely to materially affect, internal controls over financial reporting.

Critical accounting policies and estimates

The significant accounting policies followed by the Bank are outlined in Notes 2 and 3 to the consolidated financial statements. Some of these accounting policies are deemed critical as they require management to make estimates that, by their very nature, involve uncertainties, and changes in these estimates could materially affect the Bank's consolidated financial statements. The critical accounting policies that require management's judgment and estimates are described below.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses reflects management's estimate of losses related to the loan portfolios. Management regularly reviews the portfolios' credit quality to ensure the adequacy of the allowance for loan losses. This allowance is dependent upon the evaluation of the amounts and dates of future cash flows, the fair value of guarantees and realization costs, and the interpretation of the impact of market and economic conditions.

Considering the materiality of the amounts and their inherent uncertainty, the use of estimates and assumptions that differ from those used in determining the allowance for loan losses could produce significantly different levels of allowances. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments and may entail an increase or a decrease in the allowance for loan losses.

These changes could consequently have a significant impact on the allowance for loan losses in the consolidated statement of results for a given fiscal year. A detailed description of the methods used to determine the allowance for loan losses can be found in Note 3 to the consolidated financial statements, and in the Credit Risk Management section on page 37 of this MD&A.

Management has developed a valuation model for the general allowance, based on the historical losses of the various portfolios. This model validates the $73.5 million allowance as at October 31, 2009. Changes in assumptions and parameters could have produced different valuations.

This critical accounting estimate affects all business segments.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank reports most of its financial instruments, including derivative financial instruments, at fair value. Fair value is defined as the amount at which a financial instrument could be traded by knowledgeable and willing parties dealing at arm's length and under no compulsion to act. Changes in the fair value of the Bank's trading book's securities and obligations related to assets sold short, as well as derivatives which do not qualify for hedge accounting, are generally recognized under other income.

Management uses quoted market prices, when available, as the best evidence of fair value of its financial instruments as it requires minimal subjectivity. Quoted prices include those obtained from an exchange, a broker, dealer, industry group or from pricing services. In the absence of quoted market prices, the Bank typically uses pricing models based on the discounted value of future cash flows. These models may include observable or unobservable market parameters.

Management's judgment is required when observable market prices do not exist or when market prices are not observable due to insufficient trading volume in an inactive market. Judgment may also be required to develop valuation techniques and determine parameters that are not readily observable on the market. Additional information on fair value is presented in Note 20 to the consolidated financial statements.

Available-for-sale financial assets are assessed for impairment periodically, and management must examine various factors to determine whether declines in value are other-than-temporary. These factors include the type of investment, the length of time and extent by which fair values are below cost. In addition, management considers other factors such as bankruptcy, capital restructuring or dilution, significant modifications in the issuer's operations or other uncertainties. Management must also assert its intent and ability to hold the securities until recovery.

Using other alternative assumptions could translate into significantly different income recognition.

These critical accounting estimates mainly affect the LBS and Other segments. Additional information on the calculation of fair value is provided in Note 22 to the consolidated financial statements.

SECURITIZATION

Securitization is a process whereby financial assets, essentially mortgage loans for the Bank, are converted into securities and sold to investors. When the Bank surrenders control over the receivables sold and receives a consideration other than a beneficial interest in the transferred assets, the transaction is recorded as a sale.

The determination of the initial gain, in such circumstances, depends on the value attributed to certain retained interests, mainly rights to future excess spreads and holdbacks, as well as to seller swaps. Since quoted market prices are not available for these financial instruments, management must estimate their value based on the present value of estimated cash flows. Management must therefore use estimates and assumptions, particularly for expected credit losses, anticipated prepayment rates, discount rates and other factors that influence the value of these instruments. Moreover, these values must be reviewed periodically thereafter.

The fair value of retained interests for securitized mortgage loans was $108.4 million as at October 31, 2009. Note 6 to the consolidated financial statements presents a sensitivity analysis of the current fair value of these retained interests to immediate 10% and 20% adverse changes in key assumptions. The fair value of seller swaps was – $44.2 million as at October 31, 2009. Different assumptions with regard to anticipated prepayment rates and discount rates could translate into significantly different fair values for these instruments.

The Off-Balance Sheet Arrangements section on page 31 of this MD&A provides further information on these transactions.

This critical accounting estimate mainly affects the Other segment.

EMPLOYEE FUTURE BENEFITS

Valuation of employee future benefits for defined benefit plans and other post-employment benefits is based on a number of assumptions such as discount rates, expected returns on assets, projected salary increases, health-care cost trend rates, employee turnover rate and retirement age. These assumptions are reviewed annually in accordance with accepted actuarial practice and approved by management.

The discount rate used in determining the actual costs and obligations related to pension plans and other future benefits reflects the market yields, as at the measurement date, on high-quality debt instruments with cash flows matching expected benefit payments. The expected rate of return on the plans' assets corresponds to the expected returns on various asset categories, weighted by the portfolio's allocation during the fiscal year. Anticipated future long-term performance of individual asset categories is taken into account, according to the expected future inflation rate and the real yields on fixed income securities and equities. Other assumptions are based on the plans' actual results and management's best estimates.

In accordance with Canadian GAAP, actual results that differ from the expected results as determined using the assumptions are accumulated and amortized over future periods and therefore affect actual costs and recorded obligations for these periods. As at October 31, 2009, the net amount of the unamortized actuarial losses was $84.5 million ($47.9 million in 2008) for pension plans, and $12.9 million ($14.2 million in 2008) for other benefits.

Discount rates stood at 6.50% as at October 31, 2009 and 7.50% as at October 31, 2008. The expected long-term rate of return on plan assets was unchanged at 7.25% for fiscal 2009 and 2008. The trend rate of the estimated annual growth of health-care costs covered, per participant, has been set at 10% for 2009 (8.8% for 2008). According to the accepted assumption, this rate should decrease progressively, reaching 4% in 2019 and remaining at that level thereafter.

Considering the importance of accrued benefit obligations and plan assets, changes in assumptions could have a significant impact on the accrued benefit assets (liabilities), as well as on pension plan and other employee future benefit expenses. Table 31 summarizes the impact of a 0.25% increase or decrease in the principal assumptions on accrued benefit obligations as at October 31, 2009 and related defined benefit pension plan costs for 2010.

TABLE 31
SENSITIVITY ANALYSIS
(in millions of dollars)

	POTENTIAL IMPACT OF CHANGES OF 0.25%	
	OBLIGATION	COST
Discount rate	$9.6	$0.5
Expected long-term rate of return of plan assets	n.a.	$0.8

The sensitivities presented in this table should be used with caution, as the effects are hypothetical and changes in assumptions may not be linear.

This critical accounting estimate affects all business segments. Further information on the Bank's pension plans and other future benefits can be found in Note 16 to the consolidated financial statements.

INCOME TAX

Future income tax assets reflect management's estimate of the value of loss carry-forwards, minimum tax carry-overs and other temporary differences. Asset value is determined using assumptions regarding the results of operations of future fiscal years, timing of reversal of temporary differences and tax rates on the date of reversals, which may well change depending on governments' fiscal policies. Moreover, management must assess whether it is more likely than not that future income tax assets will be realized prior to their expiration and, based on all available evidence, determine whether a valuation allowance is required on all or a portion of future income tax assets. The use of different assumptions could translate into significantly different income tax expenses.

This critical accounting estimate affects all business segments. Further information on income tax expense can be found in Note 17 to the consolidated financial statements.

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Goodwill

As at October 31, 2009, the balance of goodwill stood at $53.8 million and this amount was entirely allocated to Retail and SME Québec. Goodwill is subject to an impairment test annually or more frequently if an event or change in circumstances indicates that the asset might be impaired.

The impairment test initially compares the fair value of the reporting unit, to which goodwill relates, to its carrying amount. Management mainly uses the discounted cash flow method to determine the fair value of its reporting units. The impairment assessment process includes a number of significant estimates, including projected net income growth rates, future cash flows, the number of years used in the cash flow model and the discount rate of future cash flows. Management considers that all estimates are reasonable and consistent with the Bank's financial objectives. They reflect management's best estimates but include inherent uncertainties that are not under its control.

Changes made to one or any of these estimates may significantly impact the calculation of fair value and the resulting impairment charge. Consequently, management cannot reasonably quantify the effect of the use of different assumptions on the Bank's overall financial performance. Moreover, it is impossible to predict whether an event that triggers an impairment will occur, nor when it will occur or how this will affect the asset values reported by the Bank.

No impairment charge was reported in fiscal 2009 or in fiscal 2008. If need be, the amount of the losses in value would be recorded as a non-interest expense for Retail and SME Québec, under Other.

More information on goodwill can be found in Note 8 to the consolidated financial statements.

Other intangible assets and other assets

Other intangible assets with finite lives are also tested for impairment when events or changes in circumstances indicate that it may not be possible to recover their book value. As it conducts this test, management evaluates the future cash flows it expects to realize from these assets, along with their possible disposition. An impairment loss is recognized if the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset. No significant impairment charge was reported in fiscal 2009 or in fiscal 2008.

Management also periodically reviews the value of the Bank's other assets, such as fixed assets and other deferred charges, in order to identify potential losses in value and to validate the pertaining amortization periods. Changes in estimates and assumptions could significantly impact results.

New accounting standards in 2009

GOODWILL AND OTHER INTANGIBLE ASSETS

In November 2007, the Canadian Accounting Standards Board (AcSB) approved new Section 3064, Goodwill and Intangible Assets, which supersedes Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. 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. The Section also sets out specific criteria for the recognition of internally developed intangible assets. In addition, EIC-27, Revenues and Expenditures during the Pre-operating Period, will no longer apply following the adoption of Section 3064. These changes, adopted as of November 1, 2008, had no significant impact on the Bank's results. The unamortized balance of $91.7 million in software was reclassified from property, plant and equipment to other intangible assets in the consolidated balance sheet ($83.6 million as at October 31, 2008).

CREDIT RISK AND THE FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

FINANCIAL INSTRUMENT 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 consolidated financial statements. As the amendments only concern disclosure requirements, they had no significant impact on results or financial position.

IMPAIRMENT OF FINANCIAL ASSETS

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

Future changes to accounting policies

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

The conversion plan consists of the following phases:

- Preliminary assessment – This phase, completed early in the year, served to heighten Management's awareness of the key conversion issues and establish a timeline mapping out the Bank's priorities with regard to analyses and significant issues.
- Financial standards analysis – This phase consists of a detailed assessment of the quantitative, qualitative and technological impact of IFRS implementation. Work on this phase is well underway and should be completed at the beginning of 2010, subject to changes to IFRS by the International Accounting Standards Board (IASB).
- Selection of key accounting policies – The initial adoption of IFRS will require the Bank to make certain elections. The alternatives are currently being assessed concurrently with standards analysis.
- Implementation – This phase consists in implementing the necessary information systems to comply with the new IFRS requirements.

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

In 2009, the IASB proposed major amendments to the accounting standards governing the recognition of financial instruments, including securitization transactions, hedging transactions and loan losses. Since the proposed standards have yet to be finalized, their potential impact cannot be determined at this time.

Our analysis of the accounting consequences for these items, as well as for all other matters related to the Bank's preparedness for an orderly transition to IFRS, will continue in 2010.

BASIS OF PRESENTATION

This Management Discussion and Analysis (MD&A) refers to the results of operations and financial condition of the Bank for the year ended October 31, 2009 and presents the views of the Bank's management as at December 9, 2009. The information is presented on the same basis as in the consolidated financial statements and has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the accounting requirements of the Office of the Superintendent of Financial Institutions of Canada.

Additional information on Laurentian Bank of Canada, including the Annual Information Form for the year ended October 31, 2009, can be found on the Bank's website at www.laurentianbank.ca and on SEDAR at www.sedar.com.

METHODOLOGY FOR THE ANALYSIS OF RESULTS

Management generally evaluates the Bank's performance as reported in the consolidated financial statements. Considering the disposal of the wealth management operations associated with the BLC-Edmond de Rothschild Asset Management Inc. joint venture in 2005, the financial statements also present results from continuing operations and results from discontinued operations.

The Bank uses both GAAP and certain non-GAAP measures to assess performance, such as return on common shareholders' equity, net interest margin and efficiency ratios. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are unlikely to be comparable to any similar measures presented by other issuers. The Bank believes that these non-GAAP financial measures provide investors and analysts with useful information so that they can better understand financial results and analyze the Bank's growth and profitability potential more effectively.

Certain comparative figures for fiscal 2008 have been reclassified to conform to the current year presentation.

Consolidated financial statements

AS AT OCTOBER 31, 2009 AND 2008

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

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

Management's responsibility for financial reporting

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

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

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

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

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

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

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

RÉJEAN ROBITAILLE
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

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

MONTRÉAL, CANADA
DECEMBER 8, 2009

Auditors' report to the shareholders of Laurentian Bank of Canada

We have audited the consolidated balance sheet of Laurentian Bank of Canada "the Bank" as at October 31, 2009 and 2008 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP[1]

CHARTERED ACCOUNTANTS
MONTRÉAL, CANADA
DECEMBER 8, 2009

1 CA auditor permit no 8729

Consolidated balance sheet

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

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

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

RÉJEAN ROBITAILLE
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Consolidated statement of income

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

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

Consolidated statement of comprehensive income

For the years ended October 31 (in thousands of dollars)	NOTES	2009	2008
Net income		**$ 113,133**	$ 102,531
Other comprehensive income, net of income taxes	14		
Unrealized gains (losses) on available-for-sale securities		**14,081**	(23,347)
Reclassification of (gains) losses on available-for-sale securities to net income		**6,185**	(4,376)
Net change in value of derivative instruments designated as cash flow hedges		**(2,821)**	45,672
		17,445	17,949
Comprehensive income		**$ 130,578**	$ 120,480

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

Consolidated statement of changes in shareholders' equity

For the years ended October 31 (in thousands of dollars)	NOTES	2009	2008
Preferred shares	13		
Balance at beginning and end of year		**$ 210,000**	$ 210,000
Common shares	13		
Balance at beginning of year		**257,462**	256,445
Issued during the year		**1,746**	1,017
Balance at end of year		**259,208**	257,462
Contributed surplus			
Balance at beginning of year		**173**	105
Stock-based compensation	15	**36**	68
Balance at end of year		**209**	173
Retained earnings			
Balance at beginning of year		**596,974**	537,254
Net income		**113,133**	102,531
Dividends			
Preferred shares, including applicable taxes		**(12,116)**	(11,818)
Common shares		**(32,453)**	(30,993)
Balance at end of year		**665,538**	596,974
Accumulated other comprehensive income	14		
Balance at beginning of year		**18,826**	877
Other comprehensive income, net of income taxes		**17,445**	17,949
Balance at end of year		**36,271**	18,826
SHAREHOLDERS' EQUITY		**$1,171,226**	$1,083,435

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

Consolidated statement of cash flows

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

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

Notes to consolidated financial statements

OCTOBER 31, 2009 AND 2008 (ALL TABULAR AMOUNTS ARE IN THOUSANDS OF DOLLARS, UNLESS OTHERWISE INDICATED.)

Nº 1. General

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

Nº 2. Basis of presentation

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

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

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

2.1 BASIS OF CONSOLIDATION

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

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

2.2 NEW ACCOUNTING STANDARDS ADOPTED DURING FISCAL 2009

Goodwill and other intangible assets

In November 2007, the Canadian Accounting Standards Board (AcSB) approved new Section 3064, *Goodwill and Intangible Assets*, which supersedes Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs.* Section 3064 reinforces a principle-based approach to the recognition of costs as assets in accordance with the definition of an asset and the criteria for asset recognition in Section 1000. The Section also sets out specific criteria for the recognition of internally developed intangible assets. In addition, EIC 27, *Revenues and Expenditures During the Pre-operating Period*, will no longer apply to entities that have adopted Section 3064. These changes, adopted as of November 1, 2008, had no significant impact on the Bank's results. The unamortized balance of $91,709,000 as at October 31, 2009 ($83,562,000 as at October 31, 2008) in software was reclassified from premises and equipment to other intangible assets in the consolidated balance sheet.

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

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

Amendments to Section 3855 regarding impairment of financial assets

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

Financial instrument measurement disclosure

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

2.3 FUTURE ACCOUNTING POLICY CHANGES

International Financial Reporting Standards

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

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

The conversion plan consists of the following phases:

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

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

2.4 RECLASSIFICATION OF LOANS RELATED TO THE IMMIGRANT INVESTOR PROGRAM

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

Nº 3. Summary of significant accounting policies

3.1 FINANCIAL INSTRUMENTS

Held-for-trading financial instruments

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

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

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

Financial instruments designated as held-for-trading

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

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

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

Available-for-sale assets

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

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

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables, that an entity has the clear intention and ability to hold to maturity. These financial assets are recorded at amortized cost on the settlement date. As at October 31, 2009, the Bank had not designated any financial assets as held-to-maturity.

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

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

Loans

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

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

Impaired loans

Loans, except credit card balances, are classified as impaired when, in management's opinion, there is a reasonable doubt as to the timely recovery of the principal or interest. Loans are classified as impaired when payment of principal or interest is 90 days past due, unless they are well secured or in the process of recovery.

All loans which are 180 days past due are classified as impaired except when they are guaranteed or insured by the Canadian government, a provincial government or a Canadian government agency; such loans are classified as impaired loans if they are in arrears for 365 days. Credit card balances are fully written off when payments are 180 days in arrears or when management assesses the likelihood of collection to be nil.

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

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

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

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

Foreclosed assets

Assets acquired by way of settlement of a loan and held for sale are initially measured at fair value less estimated costs to sell, under other assets. The difference between the carrying amount of the loan prior to foreclosure and the amount at which the foreclosed assets are initially measured is recognized in the provision for loan losses.

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

Allowances for losses

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

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

Specific allowances for loan losses

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

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

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

General allowances for loan losses

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

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

Acceptances and customers' liabilities under acceptances

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

Loan securitization

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

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

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

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

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

Derivative financial instruments and hedges

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

Deposits

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

Indexed deposit contracts

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

Subordinated debentures

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

Measuring the fair value of financial instruments

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

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

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

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

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

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

3.2 PREMISES AND EQUIPMENT

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

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

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

3.3 GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

3.4 EMPLOYEE FUTURE BENEFITS

Pension plans

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

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

Actuarial gains or losses arise, in particular, from the difference between the actual long-term rate of return on plan assets and the expected rate of return on such assets, based on management's best-estimate assumptions, as well as from changes in actuarial assumptions used to determine the accrued benefit obligation. Net actuarial gains or losses are amortized when, at the beginning of the year, the unamortized balance of the gain or loss exceeds 10% of the greater of the accrued benefit obligation or the market value of plan assets. This excess is amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the plans which varied from 8 to 11 years in 2009 depending on the plans (from 9 to 11 years in 2008).

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

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

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

Other plans

The Bank offers its employees certain post-employment benefits. The Bank also provides certain health care and life insurance benefits for its employees upon retirement. The costs related to these benefits are recognized during the employees' service life according to accounting policies similar to those applied to defined benefit pension plans. The transitional obligation resulting from the initial application of the accounting standard with respect to employee future benefits, on November 1, 2000, is amortized on a straight-line basis over the remaining life expectancy of retirees for post-retirement benefits, which equals 20 years, and over the expected average remaining service life of the employee groups covered for the post-employment benefits, which was 13 years.

3.5 INCOME TAXES

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

3.6 NET INCOME PER COMMON SHARE

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

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

3.7 STOCK-BASED COMPENSATION

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

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

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

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

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

3.8 ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

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

3.9 TRANSLATION OF FOREIGN CURRENCIES

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

3.10 CASH AND CASH EQUIVALENTS

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

Nº 4. Securities

MATURITY SCHEDULE AND YIELD ON SECURITIES

Portfolio of available-for-sale securities

					2009		2008	
	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	NO SPECIFIC MATURITY	TOTAL	YIELD (1)	TOTAL	YIELD (1)
Securities issued or guaranteed								
by Canada (2)	$686,842	$ –	$ –	$ –	$ 686,842	0.3%	$ 978,268	1.7%
by provinces	115,718	400,052	24,563	–	540,333	1.7%	26,301	4.1%
Other debt securities	10,811	73,655	29,547	–	114,013	5.1%	196,979	4.6%
Asset-backed securities	470	11,299	6,335	–	18,104	6.8%	19,288	5.2%
Preferred shares	–	–	–	38,340	38,340	4.4%	43,705	5.0%
Common shares and other securities	–	–	–	26,411	26,411	3.0%	37,596	5.7%
	$813,841	$485,006	$60,445	$64,751	$1,424,043	1.4%	$1,302,137	2.5%

Portfolio of held-for-trading securities

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

Portfolio of securities designated as held-for-trading

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

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

GAINS AND LOSSES RECOGNIZED IN INCOME

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

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

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

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

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

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

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

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

These financial instruments are used in managing interest rate exposure. Therefore, gains and losses on the portfolio of securities designated as held-for-trading should not be considered separately. In accordance with the Bank's accounting policy, the financial instruments were designated as held-for-trading to significantly reduce a disparity in accounting treatment that would otherwise have arisen from recognizing the gains and losses in respect of these instruments on different bases. Accordingly, the portfolio's gains and losses are generally offset by gains and losses on other financial instruments. Gains and losses arising from financial instruments designated as held-for-trading are discussed in greater detail in note 20.

GAINS AND LOSSES RECOGNIZED IN COMPREHENSIVE INCOME

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

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

				2008
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Securities issued or guaranteed				
by Canada	$ 977,724	$575	$ 31	$ 978,268
by provinces	26,604	–	303	26,301
Other debt securities	200,342	287	3,650	196,979
Asset-backed securities	20,323	1	1,036	19,288
Preferred shares	48,881	6	5,182	43,705
Common shares and other securities	46,966	29	9,399	37,596
	$1,320,840	$898	$19,601	$1,302,137

Nº 4. Securities (cont'd)

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

MONTRÉAL ACCORD ON ASSET-BACKED COMMERCIAL PAPER

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

OTHER CONSIDERATIONS

U.S. dollar-denominated securities

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

Additional information regarding securities

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

Nº 5. Loans

LOANS AND IMPAIRED LOANS

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

					2008
	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	SPECIFIC ALLOWANCES	GENERAL ALLOWANCES	TOTAL ALLOWANCES
Personal loans	$ 5,694,574	$ 19,250	$ 6,634	$33,052	$ 39,686
Residential mortgages	6,182,871	16,579	1,405	4,211	5,616
Commercial mortgages	932,688	6,275	1,883	4,760	6,643
Commercial and other loans	1,454,799	59,769	29,262	31,227	60,489
	$14,264,932	$101,873	$39,184	$73,250	$112,434

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

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

SPECIFIC ALLOWANCES FOR LOAN LOSSES

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

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

GENERAL ALLOWANCES FOR LOAN LOSSES

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

LOANS PAST DUE BUT NOT IMPAIRED

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

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

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

Nº 6. Loan securitization

RESIDENTIAL MORTGAGE LOANS

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

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

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

(1) Fully insured by the CMHC.

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

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

No loss is expected on insured residential mortgages.

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

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

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

Financial instruments designated as held-for-trading

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

Sensitivity analysis

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

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

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

LOANS UNDER MANAGEMENT

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

COMMERCIAL MORTGAGE LOANS

During fiscal 2009, the Bank carried a number of hedging transactions to mitigate the interest rate risk on a commercial mortgage loan portfolio held for sale in a securitization transaction. As the hedging transactions did not meet GAAP requirements for hedge accounting, the Bank recognized $277,000 ($1,971,000 in 2008) in losses in value associated with the hedging items in other income under securitization income.

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

Nº 7.
Premises and equipment

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

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

Nº 8. Goodwill and other intangible assets

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

Other intangible assets consist of the following:

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

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

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

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

Nº 9. Other assets

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

Nº 10. Deposits

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

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

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

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

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

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

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

Nº 11. Other liabilities

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

Nº 12. Subordinated debentures

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

Issued and outstanding

MATURITY	SERIES	INTEREST RATE	SPECIAL TERMS	2009	2008
January 2016	10	4.90%	Redeemable at par as of January 2011; rate to be revised in January 2011 and set at the 90-days bankers' acceptance rate plus 1.65%	**$150,000**	$150,000

Nº 13. Capital stock

AUTHORIZED CAPITAL STOCK

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

Issued and outstanding

				2009			2008
	DIVIDENDS PER SHARE (1)	NUMBER OF SHARES	AMOUNT	DECLARED DIVIDENDS	NUMBER OF SHARES	AMOUNT	DECLARED DIVIDENDS
Class A Preferred Shares							
Series 9	**$1.500**	**4,000,000**	**$100,000**	**$ 6,000**	4,000,000	$ 100,000	$ 6,000
Series 10	**1.312**	**4,400,000**	**110,000**	**5,775**	4,400,000	110,000	5,775
Total preferred shares		**8,400,000**	**$210,000**	**$11,775**	8,400,000	$ 210,000	$11,775
Common shares	**$1.360**	**23,913,963**	**$259,208**	**$32,453**	23,847,700	$ 257,462	$30,993

(1) Non-cumulative dividends on preferred shares

PREFERRED SHARES

Terms of shares

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

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

COMMON SHARES

Issuance of common shares

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

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

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

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

CAPITAL MANAGEMENT

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

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

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

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

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

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

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

Regulatory capital

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

Nº 14. Additional information regarding other comprehensive income

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

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

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

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

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

Nº 15. Stock-based compensation

SHARE PURCHASE OPTION PLAN

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

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

The Bank had reserved 1,600,000 common shares (1,600,000 shares in 2008) for the potential exercise of share purchase options, of which 124,962 were still available as at October 31, 2009 (124,962 in 2008).

No new share options were granted in 2009 and 2008.

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

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

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

		OPTIONS OUTSTANDING		OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OF OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE PER OPTION	NUMBER OF OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE PER OPTION
$19.37 – $19.94	**5,674**	**0.01**	**$ 19.87**	**5,674**	**$ 19.87**
$29.47 – $31.80	**55,400**	**6.56**	**$ 29.70**	**30,400**	**$ 29.88**
	61,074			**36,074**	

STOCK APPRECIATION RIGHTS PLAN

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

PERFORMANCE-BASED SHARE UNIT PLAN

The Bank offers a performance-based share unit plan to certain members of senior management. The plan provides for the grant of performance-based share units calculated using a certain percentage of the plan member's salary. Under the plan, 37.5% of the units vest over three years. The remaining units vest after three years provided financial targets are met. The holders of such share units are entitled to an amount equivalent to the dividends paid on the Bank's common shares, which is also converted into additional share units. The expense related to these units is recognized in income over their vesting period. In 2009, the Bank granted 42,724 performance-based share units (35,816 units in 2008) with a value of $35.93 each ($40.07 in 2008). As at October 31, 2009, there were 81,424 performance-based share units (36,976 in 2008) outstanding.

RESTRICTED SHARE UNIT PLAN

The Bank offers a restricted share unit plan to certain members of senior management. Under the plan, 50% of the annual bonus otherwise payable to an eligible employee, under the Bank's short-term incentive compensation program, can be withheld and converted into fully vested restricted share units at the employees' option. The Bank undertakes to contribute additional restricted share units equal to 60% of the withheld bonus. These additional units will vest at the end of the three-year period following their award. The holders of such share units are entitled to an amount equivalent to the dividends paid on the Bank's common shares, which is also converted into additional share units. The expense related to these units is recognized in income over their vesting period. A deferred version of the plan exists under which the participant is paid on termination of employment rather than at the end of the three-year period. In January 2009, $1,528,000 ($1,486,000 in 2008) in annual bonuses for certain employees was converted into 42,537 fully vested restricted share units (45,786 units in 2008). The Bank contributed 25,522 additional restricted share units in 2009 (27,472 units in 2008), which will vest in December 2010. As at October 31, 2009, there were 189,643 restricted share units (159,045 in 2008) outstanding, of which 39,521 (25,630 in 2008) were granted under the deferred version of the plan.

DEFERRED SHARE UNIT PLAN

The Bank offers a deferred share unit plan to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his or her remuneration in the form of deferred share units settleable in cash. The deferred share units are converted when the holder steps down from the Board of Directors. In 2009, the Bank paid out 2,565 deferred share units as compensation (1,968 in 2008). As at October 31, 2009, there were 1,389 units (22,672 in 2008) outstanding with a total value of $55,000 ($927,000 in 2008).

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

EMPLOYEE SHARE PURCHASE PLAN

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

STOCK-BASED COMPENSATION PLAN EXPENSE

Stock-based compensation plan expense, net of the effect of hedging transactions, was $1,545,000 for the year ended October 31, 2009 ($2,957,000 for the year ended October 31, 2008). With a view to reducing volatility in the SAR plan compensation expense, the Bank enters into total return swap contracts, the value of which is linked to the price of the Bank's shares. Changes in fair value of these derivative instruments partially offset the stock-based compensation expense over the period in which the swaps are in effect.

Nº 16. Employee future benefits

DESCRIPTION OF BENEFIT PLANS

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

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

TOTAL CASH PAYMENTS

Total cash payments for future employee benefits for 2009, consisting of cash contributed by the Bank to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution portions, amounted to $84,403,000 ($21,913,000 in 2008).

DEFINED BENEFIT PLAN MEASUREMENT DATES

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

DEFINED BENEFIT PLAN OBLIGATIONS

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

DEFINED BENEFIT PLAN ASSETS

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

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

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

ALLOCATION OF PLAN ASSETS AS A PERCENTAGE (1)

	2009	2008
Asset category		
Equity securities	**58%**	47%
Debt and other securities	**42**	53
Total	**100%**	100%

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

Plan assets do not include any equity securities of the Bank as at October 31, 2009 and 2008.

PLANS WITH ACCRUED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS

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

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

Nº 16. Employee future benefits (cont'd)

ELEMENTS OF DEFINED BENEFIT COSTS RECOGNIZED DURING THE YEAR

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

SIGNIFICANT ASSUMPTIONS

	2009		2008	
	PENSION PLANS	**OTHER PLANS**	PENSION PLANS	OTHER PLANS
Weighted average of assumptions				
Accrued benefit obligation as at October 31:				
Discount rate at end of year	**6.50%**	**6.50%**	7.50%	7.50%
Rate of compensation increase	**3.50%**	**3.50%**	3.50%	3.50%
Benefit costs for the years ended October 31:				
Discount rate for the year	**7.50%**	**7.50%**	5.75%	5.75%
Expected long-term rate of return on plan assets	**7.25%**	**–**	7.25%	–
Rate of compensation increase	**3.50%**	**3.50%**	3.50%	3.50%

ASSUMED HEALTH CARE COST TREND RATES AS AT OCTOBER 31:

	2009	2008
Assumed annual rate of increase in the cost of health care benefits	**10.0%**	8.8%
Level to which it should decline and at which it is assumed to subsequently stabilize	**4.0%**	4.0%
Year that the rate is assumed to stabilize	**2019**	2016

SENSITIVITY ANALYSIS

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2009:

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

Nº 17. Income taxes

FUTURE INCOME TAXES

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

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

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

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

Income tax loss carryforwards, as at October 31, 2009, consist of $27,723,000 ($42,486,000 in 2008) in federal income tax losses that can be used to reduce future taxable income. These losses expire from 2010 to 2028.

INCOME TAX EXPENSE

Significant components of income tax expense are as follows:

	2009	2008
Consolidated statement of income		
Continuing operations		
Current income tax expense	**$ 9,929**	$ 9,301
Future income tax expense		
Reversal of temporary differences	**26,919**	22,924
Tax rate changes	**–**	5,657
	26,919	28,581
	36,848	37,882
Discontinued operations		
Future income tax expense	**2,024**	761
	$ 38,872	$ 38,643
Consolidated statement of comprehensive income		
Income taxes related to change in unrealized gains (losses) on available-for-sale securities	**$ 5,543**	$ (10,127)
Income taxes related to reclassification of realized losses on available-for-sale securities	**2,787**	1,806
Income taxes related to net change in gains (losses) on derivative instruments designated as cash flow hedges	**(632)**	21,357
	$ 7,698	$ 13,036
Consolidated statement of changes in shareholders' equity		
Income taxes on preferred share dividends and other		
Current income tax expense	**$ 4,710**	$ 4,710
Current income tax benefit	**(4,369)**	(4,667)
	$ 341	$ 43

Nº 17. Income taxes (cont'd)

RECONCILIATION WITH THE STATUTORY RATE

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

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

Income earned on foreign credit insurance operations would generally be taxed only upon repatriation to Canada. Since the Bank's management does not expect to repatriate income accumulated after July 27, 2006, no future income tax expense has been recognized on such income. Income taxes that would be payable if all unremitted earnings were repatriated are estimated at $12,499,000 as at October 31, 2009 ($8,028,000 as at October 31, 2008).

Nº 18. Net income per share

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

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

(1) See note 27.
(2) The average number of share purchase options was not taken into account in the calculation of diluted net income per common share since the average exercise price of these options exceeded the average market price of the Bank's shares during 2009.

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

Nº 19. Related party transactions

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

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

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

Nº 20. Financial instruments – Fair value

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

CLASSIFICATION OF FAIR VALUE MEASUREMENTS IN THE FAIR VALUE HIERARCHY

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

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

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

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

2009

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

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

2008

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

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

DETERMINING FAIR VALUE

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

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

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

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

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

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

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

Securities accounts

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

Loans

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

Other assets

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

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

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

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

Derivative financial instruments

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

Deposits

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

Obligations related to assets sold short

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

Subordinated debentures

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of subordinated debentures is estimated using discounted cash flows based on prevailing market interest rates for similar issues or rates currently offered for debt securities with the same term to maturity. Since these instruments are all recorded at amortized cost, they are not classified in the fair value hierarchy.

LEVEL TRANSFERS

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

CHANGE IN LEVEL 3 FAIR VALUE CATEGORY

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

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

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

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

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

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

Nº 21. Financial instruments – Risk management

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

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

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

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

A) MARKET RISK

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

Interest rate risk

Asset and liability management activities are designed to control structural interest rate risk, which represents the potential adverse impact of interest rate movements on the Bank's revenues and economic value. This risk arises mainly from differences in maturity dates or remeasurement dates of balance sheet and off-balance sheet items, as well as from the options embedded in certain banking products, such as loan prepayment and deposit redemption clauses. To manage this risk, various treasury and derivative instruments, mainly interest rate swaps, futures and options, are used to modify the interest rate characteristics of the underlying instruments in the balance sheet and to cover the inherent risk in options embedded in loan and deposit products. The Bank periodically assesses the effect on the economic value of common shareholders' equity and on its net interest income of a sudden and sustained 1% change in interest rates. As at October 31, 2009, such a change would have had the following effect.

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

SENSITIVITY ANALYSIS OF THE STRUCTURAL INTEREST RATE RISK

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

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

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

(in millions of dollars)							**2009**
	FLOATING	**0 TO 3 MONTHS**	**OVER 3 MONTHS TO 1 YEAR**	**OVER 1 YEAR TO 5 YEARS**	**OVER 5 YEARS**	**NON-INTEREST SENSITIVE**	**TOTAL**
Assets							
Cash, deposits and securities	**$1,499**	**$ 458**	**$ 555**	**$1,873**	**$111**	**$237**	**$4,733**
Actual return		**0.2 %**	**0.3 %**	**2.1 %**	**3.6 %**		
Assets purchased under reverse repurchase agreements	**536**	**–**	**–**	**–**	**–**	**–**	**536**
Loans	**6,947**	**755**	**1,850**	**5,548**	**212**	**289**	**15,601**
Actual return		**5.1 %**	**5.3 %**	**5.5 %**	**6.2 %**		
Other assets	**–**	**–**	**–**	**–**	**–**	**1,295**	**1,295**
Total	**8,982**	**1,213**	**2,405**	**7,421**	**323**	**1,821**	**22,165**
Actual return		**3.3 %**	**4.2 %**	**4.6 %**	**5.3 %**		
Liabilities and equity							
Deposits	**2,717**	**1,674**	**4,436**	**8,730**	**11**	**732**	**18,300**
Actual return		**2.2 %**	**2.3 %**	**3.0 %**	**3.1 %**		
Treasury items	**1,041**	**243**	**–**	**55**	**–**	**–**	**1,339**
Actual return		**0.2 %**	**– %**	**1.2 %**	**– %**		
Other liabilities	**–**	**19**	**48**	**149**	**–**	**989**	**1,205**
Actual return		**3.4 %**	**3.0 %**	**3.5 %**	**– %**		
Debentures and equity	**–**	**100**	**110**	**150**	**–**	**961**	**1,321**
Actual return		**– %**	**– %**	**4.9 %**	**– %**		
Total	**3,758**	**2,036**	**4,594**	**9,084**	**11**	**2,682**	**22,165**
Actual return		**1.8 %**	**2.2 %**	**3.0 %**	**3.1 %**		
Swaps, net	**86**	**(5,366)**	**1,180**	**4,266**	**(166)**	**–**	**–**
Sensitivity gap	**5,310**	**(6,189)**	**(1,009)**	**2,603**	**146**	**(861)**	**–**
Cumulative gap	**$5,310**	**$(879)**	**$(1,888)**	**$ 715**	**$861**	**$ –**	**$ –**

(in millions of dollars)							2008
	FLOATING	0 TO 3 MONTHS	OVER 3 MONTHS TO 1 YEAR	OVER 1 YEAR TO 5 YEARS	OVER 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
Assets	$8,431	$1,658	$ 1,986	$5,740	$293	$1,471	$19,579
Actual return		3.9%	5.6%	5.4%	6.9%		
Liabilities and equity	1,712	3,568	4,245	7,856	7	2,191	19,579
Actual return		2.4%	3.2%	3.4%	2.1%		
Swaps, net	–	(4,440)	694	3,943	(197)	–	–
Sensivity gap	6,719	(6,350)	(1,565)	1,827	89	(720)	–
Cumulative gap	$ 6,719	$ 369	$(1,196)	$ 631	$720	$ –	$ –

Maturity assumptions

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

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

Foreign exchange risk

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

Equity price risk

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

B) CREDIT RISK

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

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

Acting through a credit risk management group independent of the business lines, the Bank performs follow-ups on its financial instrument accounts in terms of both quality and quantity through mechanisms and policies governing the review of various types of files and risk rating updating systems, and pricing analysis. Note 5 to these consolidated financial statements provides additional information on the Bank's loan portfolios.

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

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

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

The amount that best represents the Bank's maximum exposure to credit risk as at October 31, 2009, without factoring in any collateral held or other credit enhancements, basically represents the sum of financial assets in the Bank's consolidated balance sheet, plus credit-related commitments as set out below.

(in millions of dollars)	AS AT OCTOBER 31, 2009	AS AT OCTOBER 31, 2008
Financial assets, as stated in the consolidated balance sheet (1)	**$21,612**	$19,084
Credit commitments and other off-balance sheet items (2)	**4,711**	4,153
Total	**$26,323**	$23,237

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

Concentration of credit risk

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

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

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

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

Guarantees held in respect of loan portfolios

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

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

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

Other guarantees held

In the normal course of its operations, the Bank makes short-term purchases of assets under reverse repurchase agreements. These agreements are recognized as secured loans. As at October 31, 2009, the approximate market value of collateral pledged to the Bank amounted to $536,064,000 ($661,391,000 as at October 31, 2008).

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

C) LIQUIDITY RISK

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

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

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

Contractual maturities of financial liabilities

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

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

					2008
			TERM		
	DEMAND AND NOTICE	UNDER 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Deposits	$2,920,901	$6,325,532	$6,080,653	$ 6,726	$15,333,812
Obligations related to assets sold short	–	819,236	–	–	819,236
Obligations related to assets sold under repurchase agreements	–	1,136,096	–	–	1,136,096
Subordinated debentures	–	–	150,000	–	150,000
Derivative financial instruments [1]	–	(4,588)	(7,011)	521	(11,078)
	$2,920,901	$8,276,276	$6,223,642	$ 7,247	$17,428,066

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

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

Nº 22. Derivative financial instruments

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

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

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

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

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

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

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

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

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

AGGREGATE NOTIONAL AMOUNTS

(in millions of dollars)			PERIOD TO MATURITY			2009
NOTIONAL AMOUNT	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL	DESIGNATED AS HEDGE CONTRACTS	OTHER CONTRACTS (1)
Interest rate contracts						
OTC contracts						
Swaps	**$3,175**	**$9,542**	**$166**	**$12,883**	**$8,404**	**$ 4,479**
Exchange-traded contracts						
Futures	**76**	**–**	**–**	**76**	**–**	**76**
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	**4,846**	**163**	**–**	**5,009**	**–**	**5,009**
Forwards	**1,282**	**64**	**–**	**1,346**	**–**	**1,346**
Options purchased	**159**	**–**	**–**	**159**	**–**	**159**
Options written	**162**	**–**	**–**	**162**	**–**	**162**
Equity- and index-linked contracts						
Options purchased	**17**	**35**	**5**	**57**	**–**	**57**
Options written	**29**	**124**	**5**	**158**	**–**	**158**
Total return swap	**45**	**–**	**–**	**45**	**–**	**45**
	$9,791	**$9,928**	**$176**	**$19,895**	**$8,404**	**$11,491**

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

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

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Information regarding hedging relationships

Swap contracts designated as cash flow hedging instruments

The swap contracts designated as hedging instruments are used by the Bank primarily for purposes of balance sheet matching and minimizing volatility in net interest income. The value of such swap contracts can vary significantly. Accordingly, changes in fair value of swap contracts designated as cash flow hedging instruments could result in significant changes in accumulated other comprehensive income, in shareholders' equity. As at October 31, 2009, the notional amount of swap contracts designated as cash flow hedging instruments was $4,104,000 ($2,557,000 as at October 31, 2008).

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

Ineffective portions of hedging relationships

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

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

Other information regarding hedging relationships

Net deferred gains of $21,174,000 ($5,380,000 as at October 31, 2008), included in accumulated other comprehensive income as at October 31, 2009, are expected to be reclassified to the consolidated statement of income over the next twelve months.

The maximum term of cash flow hedging relationships in respect of future transactions was 5 years as at October 31, 2009 (5 years in 2008).

CREDIT EXPOSURE

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

(1) Represents favourable fair market value, excluding the impact of master netting agreements. Exchange-traded instruments and options written are excluded since they do not constitute a credit risk.
(2) Includes (i) the total positive replacement value of all outstanding contracts and (ii) an amount representing the assessed potential credit risk.
(3) Using guidelines issued by the Superintendent of Financial Institutions of Canada.
(4) The Bank holds $27,761,000 in assets under guarantee so as to reduce the credit risk related to these contracts.

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

N° 23. Commitments and guarantees

CREDIT-RELATED COMMITMENTS

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

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

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

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

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

(1) Exclude personal credit facilities totalling $1,284,859,000 ($1,159,871,000 as at October 31, 2008) and credit card lines amounting to $844,816,000 ($922,702,000 as at October 31, 2008) since they are revocable at the Bank's option.

GUARANTEES

Standby letters of credit and performance guarantees

In the normal course of its operations, the Bank offers to its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that clients cannot meet their obligations to third parties. The term of these guarantees varies according to the contracts and normally do not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. No specific provision is currently recorded with regard to these guarantees. The maximum potential amount of future payments under these guarantees totalled $157,102,000 as at October 31, 2009 ($138,223,000 in 2008).

Derivative financial instruments

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

Collateral received and pledged as security

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

Other indemnification agreements

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

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

As at October 31, 2009, minimum future commitments under leases, service contracts for outsourced technology services and other contracts are as follows:

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

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

Nº 23. Commitments and guarantees (cont'd)

PLEDGED ASSETS

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

The following table details the granted guarantees:

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

Nº 24. Variable interest entities

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

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

Nº 25. Contingencies

LITIGATION

Marcotte v. Banks class action

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

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

Nº 26. Segmented information

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

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

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

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

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

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

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

						2009
	RETAIL AND SME-QUÉBEC	**REAL ESTATE AND COMMERCIAL**	**B2B TRUST**	**LAURENTIAN BANK SECURITIES**	**OTHER (6)**	**TOTAL**
Net interest income	**$ 305,959**	**$ 67,598**	**$ 90,696**	**$ 2,268**	**$ (42,744)**	**$ 423,777**
Other income (2)	**119,965**	**22,922**	**9,560**	**52,458**	**37,820**	**242,725**
Total revenue	**425,924**	**90,520**	**100,256**	**54,726**	**(4,924)**	**666,502**
Provision for loan losses (3)	**41,887**	**9,817**	**4,296**	**–**	**–**	**56,000**
Non-interest expenses (4)	**333,475**	**31,020**	**48,995**	**41,611**	**16,889**	**471,990**
Income (loss) from continuing operations before income taxes	**50,562**	**49,683**	**46,965**	**13,115**	**(21,813)**	**138,512**
Income taxes (recovered) (5)	**10,939**	**15,549**	**14,873**	**4,565**	**(9,078)**	**36,848**
Income (loss) from continuing operations	**39,623**	**34,134**	**32,092**	**8,550**	**(12,735)**	**101,664**
Income from discontinued operations, net of income taxes	**11,469**	**–**	**–**	**–**	**–**	**11,469**
Net income (loss)	**$ 51,092**	**$ 34,134**	**$ 32,092**	**$ 8,550**	**$ (12,735)**	**$ 113,133**
Average assets (1)	**$11,088,422**	**$2,394,529**	**$4,294,187**	**$1,415,121**	**$1,291,582**	**$20,483,841**

						2008
	RETAIL AND SME-QUÉBEC	REAL ESTATE AND COMMERCIAL	B2B TRUST	LAURENTIAN BANK SECURITIES	OTHER (6)	TOTAL
Net interest income	$ 299,336	$ 55,201	$ 87,297	$ 2,968	$ (39,539)	$ 405,263
Other income (2)	115,894	16,195	10,548	29,437	53,144	225,218
Total revenue	415,230	71,396	97,845	32,405	13,605	630,481
Provision for loan losses (3)	33,583	5,374	1,543	–	8,000	48,500
Non-interest expenses (4)	326,871	23,356	43,681	29,683	22,400	445,991
Income (loss) from continuing operations before income taxes	54,776	42,666	52,621	2,722	(16,795)	135,990
Income taxes (recovered) (5)	13,785	14,109	17,748	1,008	(8,768)	37,882
Income (loss) from continuing operations	40,991	28,557	34,873	1,714	(8,027)	98,108
Income from discontinued operations, net of income taxes	4,423	–	–	–	–	4,423
Net income (loss)	$ 45,414	$ 28,557	$ 34,873	$ 1,714	$ (8,027)	$ 102,531
Average assets (1)	$10,133,360	$2,117,970	$3,882,801	$1,480,007	$ 725,673	$18,339,811

NOTES
(1) Assets and liabilities are disclosed on an average basis, as this measure is most relevant to a financial institution.
(2) In 2008, other income in the Other segment included [i] a $12.9 million gain ($11.1 million, net of income taxes) on the sale of the shares of the Montréal Exchange as a result of the business combination of the Montréal Exchange with the TSX Group; [ii] losses of $5.3 million ($3.6 million, net of income taxes) on the sale of other securities; [iii] an $8.1 million charge ($5.5 million, net of income taxes) on the write-down of certain available-for-sale securities.
(3) In 2008, the provision for credit losses in the Other segment included an $8.0 million charge ($5.5 million, net of income taxes) resulting from an increase in the general allowance for loan losses.
(4) In 2008, the Other segment non-interest expense included a $2.2 million charge ($1.5 million, net of income taxes) resulting from the write-off of technological development costs.
(5) In 2008, the Other segment income taxes included a $5.6 million adjustment reflecting the decrease in value of the Bank's future income tax assets as a result of further reductions in federal income tax rates.
(6) The 2009 and 2008 effective tax rates were influenced by a number of items – see note 17 related to income taxes.

Nº 27. Disposals and changes in ownership interest

2008

Sale of a personal line of credit portfolio

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

Merger of the Montréal Exchange and TSX Group

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

2005

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

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

Recovery clauses

Under a recovery clause, the Bank was required to repay Industrial Alliance an annual amount of $5,185,000 ($4,423,000 net of income taxes) for the five years following the sale if net annual sales of mutual funds do not reach $50,000,000 for the 12-month periods ended December 31 of each of these years. At the end of the six-year period ending on December 31, 2010, if cumulative net sales of mutual funds reach $290,000,000, the amounts that would have been repaid to Industrial Alliance under the recovery clause would be reimbursed to the Bank. During fiscal 2009, the Bank recognized the $5,185,000 remainder of the selling price in income, in light of net sales to date. Moreover, if cumulative net sales of mutual funds reach $350,000,000 for the five-year period ended December 31, 2009, the Bank is eligible to an additional payment. Under this clause, the Bank recognized the final adjustment to the selling price of $8,308,000 in 2009 ($7,046,000 net of income taxes), as cumulative net sales of mutual funds significantly exceeded the required minimum level. The recognition of these amounts increased the total selling price in respect of the sale to $76,095,000.

Statistical review – Consolidated balance sheet

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

Statistical review – Consolidated statement of income

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

Quarterly highlights

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

Corporate governance

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

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

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

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

AUDIT COMMITTEE

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

More specifically, its responsibilities include:

With respect to the external auditor: recommend the appointment or dismissal of the external auditor; assure itself of its competence, independence and the adequacy of its resources and review its mandate and compensation; oversee its activities and review its performance;

With respect to financial statements and reports: oversee the integrity and quality of financial statements and assure itself that the institution's accounting practices are prudent and appropriate; review the annual and quarterly financial statements, management's discussion and analysis and press releases regarding annual and quarterly results, the annual information form and any statement required by regulatory authorities prior to their publication;

With respect to the internal audit function: assure itself of the competence, independence and the adequacy of the resources of the officer in charge of internal audit and approve his/her mandate as well as the audit plan; follow up on his/her material findings and recommendations;

With respect to internal controls: assure itself that Management implements appropriate internal control and management information systems; assure itself of their integrity and effectiveness; assure itself that Management implements procedures regarding the receipt, retention and handling of complaints received with respect to accounting, internal accounting controls or audit;

With respect to compliance: assure itself of the competence, independence and the adequacy of the resources of the officer in charge of compliance; follow up on his/her material findings and recommendations;

With respect to supervisory agencies: follow up on the findings and recommendations of the regulatory authorities.

RISK MANAGEMENT COMMITTEE

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

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

HUMAN RESOURCES AND CORPORATE GOVERNANCE COMMITTEE

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

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

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

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

Board of Directors

L. DENIS DESAUTELS, O.C., FCA
Officer of the Order of Canada, Fellow of the Ordre des comptables agréés du Québec and the Institute of Chartered Accountants of Ontario, Mr. Desautels was Auditor General of Canada from 1991 to 2001. He is renowned as a Canadian authority in matters of governance.

Main occupation
Chartered accountant and Corporate Director
» Has served on the Board of Directors since December 2001
  » Chairman of the Board
  » Member of the Audit Committee
  » Member of the Human Resources and Corporate Governance Committee
» Boards of directors of publicly traded companies: The Jean Coutu Group (PJC) Inc. and Bombardier Inc.
» Boards and committees of other corporations and organizations: CARE Canada, International Development Research Centre (IDRC) and Accounting Standards Oversight Council of the Canadian Institute of Chartered Accountants

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LISE BASTARACHE
Lise Bastarache has worked in the Canadian banking industry for over ten years, holding, among others, the position of Regional Vice-President, Québec, Private Banking for a Canadian bank.

Main occupation
Economist and Corporate Director
» Has served on the Board of Directors since March 2006
  » Member of the Risk Management Committee
» Boards of directors of publicly traded companies: The Jean Coutu Group (PJC) Inc., Chartwell Seniors Housing Real Estate Investment Trust
» Boards and committees of other corporations and organizations: Board of Governors of the Université de Moncton

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JEAN BAZIN, C.R.
Attorney since 1965, appointed Queen's Counsel in 1984 and a member of the Senate from 1986 to 1989, Mr. Bazin chaired the Canadian Bar Association and the Quebec-Japan Business Forum. He is also Chairman of the Board of the Société générale de financement du Québec.

Main occupation
Counsel at Fraser Milner Casgrain LLP
» Has served on the Board of Directors since September 2002 (and from 1990 to 2000)
  » Member of the Audit Committee
» Boards of directors of publicly traded companies: Miranda Technologies Inc.
» Boards and committees of other corporations and organizations: Société générale de financement du Québec

RICHARD BÉLANGER
In 2004, Richard Bélanger was made Fellow and received the Prix Émérite of the Ordre des comptables agréés du Québec. Mr. Bélanger is also President of Stetson Timberlands Inc., a forestry operations company.

Main occupation
President of Toryvel Group Inc.
» Has served on the Board of Directors since March 2003
  » Chair of the Audit Committee
  » Member of the Risk Management Committee
» Boards of directors of publicly traded companies: Stella-Jones Inc., Genivar Income Fund
» Boards and committees of other corporations and organizations: Toryvel Group Inc., Le Groupe Bélanger inc., Stetson Timberlands Inc.

EVE-LYNE BIRON
Ms. Biron is President and General Manager of a private company of diagnostic and therapeutic services, which ranked 37th among the top 100 Canadian companies managed by women in 2003.

Main occupation
President and General Manager of Biron Health Group Inc.
» Has served on the Board of Directors since March 2003
  » Member of the Audit Committee
» Boards of directors of publicly traded companies: Ms. Biron does not sit on the board of directors of any publicly traded company other than the Bank
» Boards and committees of other corporations and organizations: Orchestre symphonique de Longueuil, Longueuil Economic Development, Institut québécois pour les familles en affaires and Sainte-Justine UHC Foundation

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ISABELLE COURVILLE
Ms. Courville is an engineer and a lawyer. Before joining the team at Hydro-Québec, she was President of Bell Enterprise Group and President and General Manager of Bell Nordiq Inc. (Télébec Northern Tel).

Main occupation
President of Hydro-Québec TransÉnergie
» Has served on the Board of Directors since March 2007
  » Chair of the Human Resources and Corporate Governance Committee
» Boards of directors of publicly traded companies: Miranda Technologies Inc.
» Boards and committees of other corporations and organizations: NPCC (Northeast Power Coordinating Council), École Polytechnique de Montréal, Sainte-Justine UHC Foundation, Board of Trade of Metropolitan Montreal and Asia-Pacific Economic Cooperation Business Advisory Council

PIERRE GENEST
Actuary by trade, Pierre Genest was President and Chief Executive Officer of SSQ Financial Group for over 15 years before becoming President and Chief Executive Officer of the Fonds de solidarité des travailleurs du Québec (F.T.Q.) until 2006.

Main occupation
Chairman of the Board of SSQ, Life Insurance Company Inc.
» Has served on the Board of Directors since March 2006
  » Member of the Risk Management Committee
» Boards of directors of publicly traded companies: Mr. Genest does not sit on the board of directors of any publicly traded company other than the Bank
» Boards and committees of other corporations and organizations: Professionals' Fund Group Inc., Manac Inc. and the Université Laval

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MICHEL LABONTÉ
Michel Labonté has worked in the banking industry for over 13 years, notably as Senior Vice-President, Finance and Control of a Canadian bank.

Main occupation
Corporate Director
» Has served on the Board of Directors since March 2009
  » Member of the Risk Management Committee
» Boards of directors of publicly traded companies: Métro Inc.
» Boards and committees of other corporations and organizations: Manac inc. and Otéra Capital, Les grand Ballets Canadiens de Montréal and l'Orchestre de la Francophonie canadienne

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CARMAND NORMAND
With nearly 40 years of experience in finance, Mr. Normand is an excellent investment strategist. Mr. Norman won particular recognition in 2000, when he received the Hermès Award for outstanding career accomplishments, form the Faculty of business Administration of Université Laval.

Main occupation
Chairman of the Board of Addenda Capital Inc.
» Has served on the Board of Directors since July 2004
  » Member of the Human Resources and Corporate Governance Committee
» Boards of directors of publicly traded companies: Mr. Norman does not sit on the board of directors of any publicly traded company other than the Bank
» Boards and committees of other corporations and organizations: Addenda Capital Inc.

JACQUELINE C. ORANGE
Jacqueline Orange has worked in the financial services sector for over 20 years, holding a variety of senior positions in the banking, trust and life insurance industries.

Main occupation
Corporate Director
» Has served on the Board of Directors since March 2008
  » Member of the Audit Committee
» Boards of directors of publicly traded companies: Ms. Orange does not sit on the board of directors of any publicly traded company other than the Bank
» Boards and committees of other corporations and organizations: First Trust Portfolios Canada

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MARIE-FRANCE POULIN
Marie-France Poulin held various positions within the family business, Maax Inc., from 1987 to 2004. She is also Vice-President of Kalia Inc.

Main occupation
Vice-President, Camada Group Inc.
» Has served on the Board of Directors since October 2009
  » Member of the Human Resources and Corporate Governance Committee
» Boards of directors of publicly traded companies: Ms. Poulin does not sit on the board of directors of any publicly traded company other than the Bank.
» Boards and committees of other corporations and organizations: Industrial Alliance, Auto and Home Insurance Inc., National Optics Institute, Université Laval, Festival d'été de Québec and Hydro-Québec

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RÉJEAN ROBITAILLE
A chartered accountant, Réjean Robitaille is a renowned executive. He has in-depth knowledge of the Bank, having held a variety of positions within the management team since 1988.

Main occupation
President and Chief Executive Officer of the Bank
» Has served on the Board of Directors since December 2006
  » Mr. Robitaille does not sit on any of the Bank's committees
» Boards of directors of publicly traded companies: Mr. Robitaille does not sit on the board of directors of any publicly traded company other than the Bank
» Boards and committees of other corporations and organizations: None

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JONATHAN I. WENER, C.M.
Member of the Order of Canada, Jonathan Wener is a renowned real estate expert with vast experience in the commercial, industrial, residential, recreational and hotel sectors.

Main occupation
Chairman of the board at Canderel Management Inc.
» Has served on the Board of Directors since January 1998
  » Chair of the Risk Management Committee
» Boards of directors of publicly traded companies: Technologies Silanis inc.
» Boards and committees of other corporations and organizations: Concordia University, The Montreal Museum of Fine Arts Foundation, The Foundation of Greater Montreal, Jewish General Hospital and the Festival des arts de Saint-Sauveur

Management Committee

RÉJEAN ROBITAILLE
President and Chief Executive Officer

WITH THE BANK SINCE 1988

POSITIONS HELD AT THE BANK

June 2006 – December 2006: Senior Executive Vice-President and Chief Operating Officer
August 2005 – June 2006: Senior Executive Vice-President, Retail and Commercial Financial Services
2003 – 2005: Executive Vice-President, Retail Financial Services
2001 – 2003: Senior Vice-President and Treasurer, Corporate Treasury
2000 – 2001: Senior Vice-President and Treasurer, Corporate Treasury
1988 – 1998: Various management functions at the Bank

EDUCATION

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

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

WITH THE BANK SINCE 2001

POSITIONS HELD AT THE BANK

2005 – 2007: Executive Vice-President, Retail Financial Services
2001 – 2005: Senior Vice-President, Marketing and Product Management

EDUCATION

- MBA, Université de Sherbrooke
- Bachelor's degree in Urban Studies, Université du Québec à Montréal

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

WITH THE BANK SINCE 1991

POSITIONS HELD AT THE BANK

2004 – 2005: Senior Vice-President, Intermediary Banking Services, and President and Chief Operating Officer of B2B Trust
2002 – 2004: Vice-President, Direct Financial Services
2001 – 2002: Vice-President, Telebanking and Electronic Centres
1999 – 2001: Vice-President, Telebanking Centres
1991 – 1999: Various management functions at the Bank

EDUCATION

- Bachelor's degree in Business Administration, École des Hautes Études Commerciales in Montreal

BERNARD PICHÉ
Senior Executive Vice-President Treasury, Financial Markets and Brokerage (1)

WITH THE BANK SINCE 1994

POSITIONS HELD AT THE BANK

2002 – 2004: President and Chief Executive Officer of B2B Trust
2000 – 2002: Co-Chief Operating Officer and Chief Financial Officer of B2B Trust
1995 – 2000: President and Chief Executive Officer of BLC Securities
1994 – 1995: Senior Vice-President, Treasury and Brokerage

EDUCATION

- MBA, McGill University
- Bachelor's degree in Business Administration, McGill University

(1) Until November 30th, 2009

LORRAINE PILON
Executive Vice-President, Corporate Affairs and Secretary

WITH THE BANK SINCE 1990

POSITIONS HELD AT THE BANK

2000 – 2003: Senior Vice-President, Legal Affairs and Compliance
1999 – 2000: Vice-President, Legal Affairs and Compliance
1997 – 1998: Director, Legal Affairs, and Chief Compliance Officer
1990 – 1997: Various functions in Legal Affairs

EDUCATION

- Executive MBA, Université du Québec à Montréal
- Specialized diploma in Commercial Law, Université de Montréal
- Professional Training Program in Law, École du Barreau du Québec
- Bachelor of Law degree in Civil Law, McGill University
- Bachelor of Science degree (concentration in Administration), Mississippi University for Women, Columbus, United States

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

WITH THE BANK SINCE 2009*

POSITIONS HELD AT THE BANK

1996 – 1998: Vice-President and Treasurer
1995 – 1996: Vice-President, Money Market and Foreign Exchange
1993 – 1995: Vice-President, Product Management
1988 – 1993: Assistant Vice-President and Corporate Controller

EDUCATION

- MBA, Concordia University
- Bachelor's degree in Economics, University of Montreal

* Also with the Bank from 1988 to 1998

Planning committee

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

MARCEL BEAULIEU
Vice-President,
Product Management and
Business Processes

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

YASSIR BERBICHE
Senior Vice-President
and Treasurer,
Corporate Treasury

DENISE BRISEBOIS
Senior Vice-President,
Human Resources

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

LISE CAZA
Vice-President,
Retail Financial Services
Southwestern Québec Region

DANIEL DESJARDINS
Vice-President,
Commercial Banking,
Québec

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

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

RICHARD FABRE
Vice-President,
Retail Financial Services,
Northwestern Québec Region

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

STÉPHANE GAGNON
Vice-President,
Marketing

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

MICHEL GENDRON
Vice-President,
National Accounts,
Commercial Banking

NATHALIE GÉNÉREUX
Vice-President,
Operations and
Expert Services

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

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

CLAUDE JOBIN
Vice-President,
Commercial Credit

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

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

ANDRÉ LOPRESTI
Vice-President,
and Chief Accountant

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

SYLVAIN MALO
Vice-President,
Direct Financial Services

LOUIS MARQUIS
Senior Vice-President,
Credit

SUSY McCORD
Vice-President,
Marketing,
B2B Trust

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

MARC PARADIS
Senior Vice-President,
Strategic Planning
and Control

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

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

AL SPADARO
Vice-President,
Business Development,
B2B Trust

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

DORIS TOURKOYIANNIS
Vice-President,
Operations,
B2B Trust

MICHEL C. TRUDEAU
Senior Vice-President,
Capital Markets of the Bank
(since November 5, 2009)
President and Chief
Executive Officer,
Laurentian Bank Securities Inc.

Branches

ALMA
500 Sacré-Coeur St. W.

AMOS
1 1st Avenue W.

BAIE COMEAU
600 Laflèche Blvd.

BELOEIL
546 Sir-Wilfrid-Laurier Blvd.

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

BOISBRIAND
2250 du Faubourg Blvd.

BOUCHERVILLE
999 Montarville Blvd.

BROSSARD
1635 Rome Blvd.

CAMPBELL'S BAY
148 Front St., P.O. Box 189

CHAMBLY
1495 Brassard St.

CÔTE ST-LUC
5479 Westminster Ave.

CHÂTEAUGUAY
111 Saint-Jean Baptiste Blvd.

CHIBOUGAMAU
530 3rd Street

DOLBEAU – MISTASSINI
1372 Wallberg Blvd.

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

DORVAL
325 Dorval Ave.

DRUMMONDVILLE
571 Saint-Joseph Blvd.

FORT COULONGE
532 Baume St.

GATINEAU
325 Gréber Blvd, L Unit
75 du Plateau, Unit 109
770 Saint-Joseph Blvd.

GRANBY
40 Évangéline St.

GRAND-MÈRE
531 6th Avenue

GRENVILLE
240 Principale St.

JOLIETTE
373 Notre-Dame St.

KIRKLAND
3876 St-Charles Blvd.

LACHUTE
470 Principale St. W.

LA PRAIRIE
995 Taschereau Blvd.

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

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

MANIWAKI
111 Desjardins Blvd.

MASCOUCHE
848 Masson Hill

MONT LAURIER
476 de la Madone St.

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

MURDOCHVILLE
601, 5th Street, P.O. Box 1210

NEW CARLISLE
168 Gérard-D.-Lévesque Blvd.

NEW RICHMOND
228 Perron Blvd.

NICOLET
92 Place 21 Mars, P.O, Box 1869

OTTAWA
1021 Cyrville Road, Unit 9

PASPÉBIAC
120 Gérard-D.-Lévesque Blvd., P.O. Box 39

PORT DANIEL
10 132 Road, P.O. Box 70

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

REPENTIGNY
150 Iberville Blvd.
910A Iberville Blvd.

RIMOUSKI
320 Saint-Germain St. E.

ROBERVAL
773 Saint-Joseph Blvd., Suite 101

ROSEMÈRE
401 Labelle Blvd.

ROUYN – NORANDA
24 Perreault St. E.

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

SAINT-BRUNO DE MONTARVILLE
1354 Roberval St.

SAINT-CONSTANT
400 132 Road, Suite 170

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

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

SAINT-EUSTACHE
569 Arthur-Sauvé Blvd.

SAINT-GEORGES
11400 1st Avenue, Suite 35

SAINT-HYACINTHE
5915 Martineau St.

SAINT-JEAN-SUR-RICHELIEU
605 Pierre-Caisse

SAINT-JÉROME
3 de la Salette Blvd.

SAINT-LAMBERT
400 Victoria Ave.

SAINT-RAYMOND
300 Saint-Joseph St.

SEPT-ÎLES
770 Laure Blvd.

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

SOREL – TRACY
831 Marie-Victorin Road

TERREBONNE
1090 Moody Blvd.

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222 Frontenac Blvd. W., Suite 101

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

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872 3rd Avenue

VAUDREUIL – DORION
43 Cité des Jeunes

VALLEYFIELD
187 Victoria

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1073 Jutras Blvd. E.

WESTMOUNT
4848 Sherbrooke St. W.

Offices and subsidiaries

AGRICULTURAL FINANCING

DRUMMONDVILLE
571 Saint-Joseph Blvd.

GRANBY
40 Évangéline St.

LACHUTE
470 Principale St.

SAINT-HYACINTHE
5915 Martineau St.

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

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

VICTORIAVILLE
1073 Jutras Blvd. E.

B2B TRUST

CALGARY
2635 – 37th Avenue NE
Suite 203

MONTRÉAL
425 de Maisonneuve Blvd. W.
Suite 1115

TORONTO – HEAD OFFICE
130 Adelaide Street W.
Suite 200

VANCOUVER
1124 Lonsdale Avenue
Suite 100

COMMERCIAL FINANCING – QUÉBEC

DRUMMONDVILLE
571 St-Joseph Blvd.

GATINEAU
325, Gréber Blvd. Unité L

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

LONGUEUIL
4 St-Charles St. E.

MONTRÉAL
255 Crémazie Blvd. E.
Suite 1100

MONTRÉAL E.
6625 Sherbrooke St. E.
Suite 203

QUÉBEC
2700 Laurier Blvd.
Suite 2287

SAGUENAY
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Suite 100

SHERBROOKE
2637 King St. W.

TERREBONNE
1090, Moody Blvd.

PIERREFONDS
3876, St-Charles Blvd.

SAINT-GEORGES-DE-BEAUCE
11400, 1st Avenue

COMMERCIAL FINANCING – ONTARIO

KITCHENER
10 Duke St. W., Suite 100

MISSISSAUGA
979 Derry Road E.
Suite 303

THORNHILL
8500 Leslie St.
Suite 100

TORONTO
130 Adelaide St. W.
Suite 300

INTERNATIONAL SERVICES

MONTRÉAL
1981 McGill College Avenue
Suite 1485

THORNHILL
8500, Leslie St.
Suite 100

LAURENTIAN BANK SECURITIES INC.

SAGUENAY
1611 Talbot Blvd.
Chicoutimi Sector

CORNWALL
55 Water St. W.
Suite 385

DRUMMONDVILLE
645 Saint-Joseph Blvd.
Suite 100

GRANBY
20 Place du Lac

KAMOURASKA
622 Elzéar St.

PIERREFONDS
3876 St-Charles Blvd.

LAVAL
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LONGUEUIL
1111 St-Charles St. W.
Suite 350

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Suite 1900

MONTREAL BRANCH
1981 McGill College
Suite 100

QUÉBEC
2505 Laurier Blvd.
Suite 100

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

OTTAWA
1021 Cyrville Road
Unit 9

TORONTO
130 Adelaide St. W., 2nd floor
Mezzanine

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

LAURENTIAN TRUST OF CANADA INC.

MONTRÉAL – HEAD OFFICE
1981 McGill College Avenue

MONTRÉAL
425 de Maisonneuve Blvd. W.
Suite 040

555 Chabanel St. W.
Suite 520

LBC FINANCIAL SERVICES INC.

MONTRÉAL – HEAD OFFICE
1981 McGill College Avenue
20th Floor

MONTRÉAL
425 de Maisonneuve Blvd. W.
Suite 040

LBC TRUST

MONTRÉAL – HEAD OFFICE
1981 McGill College Avenue

MONTRÉAL
555 Chabanel Street W.
Suite 520

NATIONAL ACCOUNTS

MONTRÉAL – NATIONAL ACCOUNTS
1981 McGill College Avenue
Suite 2075

QUÉBEC
2700 Laurier Blvd.
Suite 2287

SMALL BUSINESS LOAN

ALMA
500 Sacré-Coeur St. W.

CHICOUTIMI
1611 Talbot Blvd.
Suite 100

GREENFIELD PARK
3700 Taschereau Blvd.

LAVAL
1995 St-Martin Blvd. West
2nd Floor

MONTRÉAL
555 Chabanel Ouest,
Suite 430

QUÉBEC
2700 Laurier Blvd.
Suite 2287

PRIVATE BANKING

MONTRÉAL
1981 McGill College Avenue
Mezzanine, South Tower

REAL ESTATE FINANCING

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

KITCHENER
10 Duke St. W.
Suite 100

MONTRÉAL
1981 McGill College Avenue
Mezzanine

OTTAWA
1021 Cyrville Road
Unit 9

TORONTO
130 Adelaide St. W.
3rd Floor

VANCOUVER
700 W. Georgia St.
Suite 603

LIST OF SUBSIDIARIES
On October 31, 2009

CORPORATE NAME	HEAD OFFICE LOCATION	CARRYING VALUE OF VOTING SHARES OWNED BY THE BANK(1) ($000)	PERCENTAGE OF VOTING SHARES OWNED BY THE BANK
B2B Trust	Toronto, Canada	$286,530	100%
Laurentian Trust of Canada Inc.	Montréal, Canada	$ 85,409	100%
LBC Trust	Montréal, Canada	$ 62,074	100%
Laurentian Bank Securities Inc.	Montréal, Canada	$ 39,307	100%
LBC Financial Services Inc.	Montréal, Canada	$ 4,763	100%
LBC Investment Management Inc.	Montréal, Canada	$181,109	100%
V.R. Holding Insurance Company Ltd(2)	St.James, Barbados	$ 41,830	100%

(1) The book value of shares with voting rights corresponds to the Bank's interest in the equity of subsidiary shareholders.
(2) V.R. Holding Insurance Company Ltd is 100% owned by LBC Investment Management Inc.

Shareholder information

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

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

ANNUAL MEETING
The Annual Meeting of the Common Shareholders of the Bank will be held on Tuesday, March 16, 2010, at 9:30 a.m., at the Monument-National, Salle Ludger-Duvernay, 1182 Saint-Laurent Blvd., Montréal, Québec H2X 2S5.

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

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

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

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

INVESTORS AND ANALYSTS
Investors and analysts may contact the Investor Relations Department at Head Office by calling 514 284-4500 ext. 7511 or 3901.

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

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

This Annual Report was produced by the Public Affairs, Communications and Investor Relations Department of Laurentian Bank, in collaboration with several other departments of the Bank.

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

STOCK SYMBOL AND DIVIDEND RECORD AND PAYMENT DATES

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

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

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Always as agile to enable us to go further.

LAURENTIAN BANK

www.laurentianbank.ca