Consolidated Financial Statements

Maple Financial Group Inc.

September 30, 2010

AUDITORS' REPORT

To the Shareholders of
Maple Financial Group Inc.

We have audited the consolidated statement of financial position of **Maple Financial Group Inc.** as at September 30, 2010 and the consolidated statements of income, retained earnings and accumulated other comprehensive loss, comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 Company as at September 30, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
February 11, 2011.

Maple Financial Group Inc.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

[dollar amounts in thousands]

As at September 30

	2010	**2009**
	$	$
ASSETS		
Cash and cash equivalents	**221,604**	391,063
Trading securities owned *[note 3]*	**5,685,115**	8,100,147
Securities purchased under resale agreements *[note 5]*	**908,458**	879,613
Derivative financial instruments *[note 16]*	**376,298**	1,290,445
Loans and receivables		
Due from clients *[notes 4 and 17]*	**262,011**	419,282
Due from brokers and financial institutions *[notes 5, 6 and 17]*	**2,961,043**	3,316,060
Other receivables *[notes 13 and 17]*	**369,234**	284,096
Capital and other assets	**8,476**	10,214
	10,792,239	14,690,920
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Bank loans *[note 8]*	**7,100**	78,810
Securities sold short *[note 3]*	**2,002,921**	2,719,570
Obligations under repurchase agreements *[note 5]*	**2,579,950**	2,788,180
Derivative financial instruments *[note 16]*	**497,295**	1,193,919
Short-term customer deposits *[notes 9 and 20]*	**1,622,448**	3,209,662
Due to		
Clients *[notes 4 and 17]*	**191,149**	366,383
Brokers and financial institutions *[notes 5, 6 and 17]*	**2,088,305**	1,889,602
Accounts payable and accrued liabilities *[notes 13, 14 and 22]*	**227,942**	429,494
Long-term customer deposits *[notes 9 and 20]*	**836,203**	1,114,986
Subordinated loans *[notes 10 and 20]*	**47,712**	56,914
Total liabilities	**10,101,025**	13,847,520
Shareholders' equity		
Capital stock *[notes 11 and 12]*	**42,996**	48,189
Contributed surplus	**23,338**	10,233
Retained earnings	**682,999**	790,266
Accumulated other comprehensive loss	**(58,119)**	(5,288)
Total shareholders' equity	**691,214**	843,400
	10,792,239	14,690,920

See accompanying notes

On behalf of the Board:

Thomas Higgins William Fung

Maple Financial Group Inc.

CONSOLIDATED STATEMENT OF INCOME, RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE LOSS

[dollar amounts in thousands]

Year ended September 30

	2010	2009
	$	$
NET INVESTMENT INCOME *[note 15]*		
Interest income	**15,486**	48,451
Net trading and other income	**339,419**	1,174,352
	354,905	1,222,803
Interest expense	**75,878**	197,752
Provision for loan losses	**14,929**	89,971
Net investment income	**264,098**	935,080
EXPENSES		
Employee compensation and benefits	**104,197**	250,640
Administrative and general	**11,773**	18,340
Computer and communication	**11,502**	12,348
Occupancy	**5,224**	5,426
Professional and consulting fees	**10,167**	31,868
Depreciation and amortization	**3,083**	3,242
	145,946	321,864
Income before income taxes	**118,152**	613,216
Provision for income taxes *[note 13]*	**39,725**	248,123
Income before other comprehensive income transfer	**78,427**	365,093
Transfer from accumulated other comprehensive loss as a result of reduction in net investment in foreign operations	**(8,302)**	—
Net income for the year	**70,125**	365,093
Retained earnings, beginning of year	**790,266**	703,931
Premium paid over book value on purchase of shares *[note 11]*	—	(60,506)
Restricted share units awarded in lieu of dividends paid during vesting period	**(2,790)**	—
Dividends paid *[note 11]*	**(174,602)**	(218,252)
Retained earnings, end of year	**682,999**	790,266
Accumulated other comprehensive loss, net of income taxes		
Balance, beginning of year	**(5,288)**	3,273
Transfer to net income as a result of reduction in net investment in foreign operations	**8,302**	—
Change in foreign currency translation gains (losses) on investments in foreign operations, net of hedging activities. [Tax recovery (expense) on hedging activities of ($3,404) [2009 - $2,998]]	**(61,133)**	(8,561)
Balance, end of year	**(58,119)**	(5,288)

See accompanying notes

Maple Financial Group Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

[dollar amounts in thousands]

Year ended September 30

	2010	2009
	$	$
OPERATING ACTIVITIES		
Net income for the year	**70,125**	365,093
Add (deduct) items not affecting cash		
Provision for loan losses	**14,929**	89,971
Depreciation and amortization	**3,083**	3,242
Future income taxes	**(23,755)**	6,828
Stock-based compensation	**12,966**	5,031
Other comprehensive income released on net reduction in foreign operations	**8,302**	—
	85,650	470,165
Changes in operating assets and liabilities		
Derivative financial instruments asset	**927,915**	4,512,625
Due from clients	**144,165**	904,344
Due from brokers and financial institutions	**350,048**	4,620,138
Other receivables	**(84,064)**	378,323
Bank loans	**(72,891)**	(521,250)
Derivative financial instruments liability	**(706,258)**	(28,482,594)
Due to clients	**(177,630)**	(6,014,444)
Due to brokers and financial institutions	**207,059**	(7,058,184)
Accounts payable and accrued liabilities	**(184,970)**	(276,548)
Accumulated other comprehensive income	**(61,133)**	(8,561)
Cash provided by (used in) operating activities	**427,891**	(31,475,986)
INVESTING ACTIVITIES		
Trading securities owned	**2,446,886**	27,673,969
Securities purchased under resale agreements	**(30,000)**	7,205,181
Purchase and collection of capital and other assets	**(1,345)**	(4,023)
Collection of other assets	**—**	2,010
Cash provided by investing activities	**2,415,541**	34,877,137

Maple Financial Group Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)

Year ended September 30

	2010	**2009**
	$	$
FINANCING ACTIVITIES		
Securities sold short	**(721,989)**	(2,667,415)
Obligations under repurchase agreements	**(209,799)**	(4,593,061)
Short-term customer deposits	**(1,609,625)**	242,331
Long-term customer deposits	**(281,829)**	98,388
Subordinated loans	**(9,264)**	445
Redemption of preference shares	**(11,183)**	(11,593)
Issuance of common shares and preference shares	**3,339**	—
Dividends paid	**(174,602)**	(218,252)
Cash used in financing activities	**(3,014,952)**	(7,149,157)
Effect of exchange rate changes on cash and cash equivalents	**2,061**	51,693
Net decrease in cash and cash equivalents during the year	**(169,459)**	(3,696,313)
Cash and cash equivalents, beginning of year	**391,063**	4,087,376
Cash and cash equivalents, end of year	**221,604**	391,063
Cash and cash equivalents consists of		
Bank accounts	**12,528**	15,038
Short-term deposits	**10,708**	23,385
Current accounts with central banks	**198,368**	352,640
	221,604	391,063
Supplemental cash flow information		
Income taxes paid	**37,020**	241,483
Interest paid	**96,499**	171,483

See accompanying notes

Maple Financial Group Inc.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

[dollar amounts in thousands]

Year ended September 30

	2010	**2009**
	$	$
Net income for the year	**70,125**	365,093
Transfer to net income as a result of reduction in net investment in foreign operations	**8,302**	—
Change in foreign currency translation gains (losses) on investments in foreign operations, net of hedging activities	**(61,133)**	(8,561)
Comprehensive income for the year	**17,294**	356,532

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[dollar amounts in thousands]

September 30, 2010

1. INCORPORATION

Maple Financial Group Inc. ["Maple" or the "Company"] is incorporated in Canada under the Canada Business Corporations Act.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of the consolidated financial statements are set out below.

Basis of presentation

The consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ["GAAP"].

Use of estimates

Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates. The accounting for fair value of financial instruments, income taxes and contingent liabilities are areas where management makes such estimates and assumptions.

Basis of consolidation

The consolidated financial statements of Maple include the assets, liabilities and results of operations of Maple and its subsidiaries and certain variable interest entities ["VIEs"] after elimination of intercompany transactions and balances.

Adoption of new accounting standards

In June 2009, the Canadian Institute of Chartered Accountants ["CICA"] amended CICA Section 3862, "Financial Instruments – Disclosures" to improve fair value and liquidity risk disclosures. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, which are as follows:

> Level 1 – valuation based on quoted prices [unadjusted] observed in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instruments and inputs that are derived principally from or corroborated by observable market data by correlation or other means; and
Level 3 – valuation techniques with significant unobservable market inputs.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The amendments have no impact on how the Company determines the fair value of financial instruments. However, they require additional disclosures, details of which are provided in note 20.

The Company follows the requirements of CICA Section 3862, "Financial Instruments – Disclosures", as applicable to non-publicly accountable enterprises.

Classification and measurement of financial instruments

The accounting framework for financial instruments requires that all financial assets and liabilities be classified based on their characteristics, the Company's management's intentions, or the choice of category in certain circumstances. When they are initially recognized, all financial assets are classified as held-for-trading, held to maturity, available for sale or loans and receivables. Financial liabilities are classified as held-for-trading or other. Also, when they are initially recognized, all financial assets and liabilities are recorded at fair value in the consolidated statement of financial position. In subsequent periods, they are measured at fair value, except for items that are classified in the following categories, which are measured at cost or amortized cost calculated using the effective interest rate method: Loans and receivables, and financial liabilities classified as other.

Securities transactions

Securities transactions and related revenues are recorded on a trade-date basis. Transaction costs relating to securities transactions are expensed as incurred.

Cash and cash equivalents

Cash and cash equivalents include cash balances and debt instruments held for treasury purposes and purchased with a maturity of less than one month. Debt instruments held for trading purposes are included in trading securities owned.

Trading securities owned and securities sold short

Trading securities owned and securities sold short are recorded at fair value with unrealized gains and losses included in income. Fair value is based on quoted market prices or other appropriate methods, including valuation models. Fair value is calculated using bid prices for long positions, ask prices for short positions, and mid-market prices for positions with offsetting market risk.

Securities resale and repurchase agreements

Securities purchased under resale agreements consist of the purchase of a security with the commitment to resell the security to the original seller at a specified price. Obligations under repurchase agreements consist of the sale of a security with the commitment to repurchase the security from the original purchaser at a specified price. These financial instruments are recognized at fair value. The differences between the sale price and the agreed repurchase price on repurchase agreements and the differences between the purchase price and the agreed resale price on resale agreements are included in net trading and other income in the consolidated statement of income, retained earnings and accumulated other comprehensive loss. Given the short-term nature of these instruments, amortized cost is expected to approximate the fair value.

Due from or Due to brokers and financial institutions

Securities borrowing and lending transactions collateralized by cash are recorded as amounts due from or due to the counterparty at the value of cash advanced or received plus accrued interest, which is considered at fair value given the short term nature of these instruments.

Due from or Due to clients

Client balances are recorded at amortized cost using the effective interest method, determined as the value of collateral advanced or received plus accrued interest.

Allowance for credit losses

The Company maintains an allowance for credit losses, which, in management's opinion, is considered adequate to absorb all credit-related losses in its loan and securities lending and borrowing portfolios. The allowance consists of specific and general allowances.

The Company provides for credit-related losses by assessing the realizable value of collateral and expected future cash flows. Specific provisions are determined on an item-by-item basis and reflect the associated estimated credit loss and the amount which management considers is necessary to reduce an impaired portfolio to its estimated realizable value. When the Company believes that no further efforts at recovery are justified, the loans are written off and the provisions reversed.

A general provision for credit losses is established to absorb losses in the Company's portfolios where, in management's opinion, there exists a potential for impairment but for which specific provisions cannot be identified.

Capital assets

Capital assets are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are recorded on a straight-line or declining balance basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

Foreign currency translation

Foreign currency assets and liabilities are translated into Canadian dollars at prevailing year-end rates of exchange. Foreign currency income and expenses are translated at the average exchange rates prevailing throughout the year. Foreign exchange translation gains and losses and unrealized gains and losses on foreign currency exchange contracts are recorded in income during the year. Unrealized translation gains and losses on the Company's net investments in self-sustaining foreign operations, net of any offsetting gains and losses from effective hedges of these investments and applicable income taxes, are recognized in other comprehensive income ["OCI"].

Derivative financial instruments

Derivative financial instruments include futures, options, forwards, swap and swaption contracts transacted in the interest rate, foreign exchange, equity and credit markets.

Trading derivative financial instruments

Trading derivative financial instruments are entered into by the Company to meet the needs of its clients or to hedge proprietary trading positions. Trading derivative financial instruments are recorded at fair value with the resulting realized and unrealized gains or losses recognized immediately in net trading and other income. For exchange-traded derivative financial instruments, fair value is based on quoted market prices. For over-the-counter derivative financial instruments, fair value is based on the use of other appropriate methods including broker quotes and valuation models.

Non-trading derivative financial instruments

Non-trading derivative financial instruments are entered into in order to manage the risks associated with the Company's funding and investment management strategies. Non-trading derivative financial instruments may or may not qualify for hedge accounting treatment. The Company follows hedge accounting only when a derivative financial instrument qualifies for hedge accounting. In order to qualify for hedge accounting, the hedging relationship must be designated and formally documented at its inception, outlining the risk management objective and strategy, the specific asset, liability or cash flow being hedged and the method of assessing hedge effectiveness. The non-trading derivative financial instrument and the underlying exposure must be highly and inversely correlated such that changes in the value of the non-trading derivative financial instrument will substantially offset the effects of the underlying exposure to the Company throughout the term of the hedging relationship.

Hedge accounting requires that gains, losses, revenue and expenses of a hedging item be recognized in the same period that the associated gains, losses, revenue and expenses of the underlying exposure are recognized.

Hedge effectiveness is assessed both at inception and on an ongoing basis. Hedge ineffectiveness results when changes in the fair value of the derivative financial instruments used for hedging purposes differ from the changes in the fair value of the underlying item being hedged, or when the cumulative change in the fair value of the derivative financial instruments used for hedging purposes differs from the cumulative change in the fair value of the underlying items being hedged. The amount of ineffectiveness of hedging instruments is recorded immediately in income.

Derivative financial instruments are carried at fair value and reported as assets where they have a positive value and as liabilities where they have a negative value.

The Company designates derivative financial instruments as hedges as part of its interest rate risk management strategies and to hedge net investments in self-sustaining foreign operations.

The interest rate risk management strategies use derivative financial instruments to hedge changes in the fair value of financial instruments with interest rate components, primarily customer deposits and subordinated loans. Changes in fair value attributed to the hedged risk are accounted for as adjustments to the underlying financial instrument and are recognized in net trading and other income. Changes in fair value of derivative financial instruments used to hedge the risk are recognized in net trading and other income. Accordingly, any hedge ineffectiveness, which is the difference between changes in fair value of the adjustment and the derivative financial instruments used to hedge the risk, is also recognized in net trading and other income.

The Company hedges a portion of its net investments in self-sustaining foreign operations to mitigate the foreign exchange risk on its net investments in subsidiaries. In these cases, the effective portion of the changes in fair value of the derivative financial instruments used for hedging purposes and based on changes in foreign exchange rates is included in OCI. When the net investments in self-sustaining foreign operations are reduced, proportionate gains or losses in OCI are recognized in income. The ineffective portion of the hedge transaction is recognized immediately in income.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income taxes are based on the difference between the accounting and income tax basis of an asset or liability, referred to as temporary differences. Temporary differences are tax effected using enacted or substantively enacted tax rates and laws that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Future income tax balances recorded on the consolidated statement of financial position are adjusted to reflect changes in temporary differences and future income tax rates with the adjustments being recognized in income in the period that the changes occur. A valuation allowance is recorded when it is not more likely than not that all of the future tax assets recognized will be realized prior to their expiration.

Employee future benefits

One of the Company's foreign subsidiaries sponsors a defined benefit pension plan for its employees.

The cost of benefits earned by the employees participating in the defined benefit pension plan is actuarially determined using the projected benefit method prorated on service and is charged to expense as services are rendered. This cost reflects management's best estimate of salary escalations, mortality of members, terminations and the ages at which members will retire. Actuarial gains and losses are recognized in income.

Comprehensive income

Comprehensive income is composed of the Company's net income and OCI. OCI includes gains and losses on the translation of net investment in self-sustaining foreign operations, net of hedging activities and income taxes.

Stock-based compensation

The Company has a stock-based compensation arrangement for its employees, which is governed by the Amended Executive Restricted Share Unit ["RSU"] Plan. Upon vesting, recipients of RSUs are entitled to exchange one RSU for one Class C common share of the Company.

RSUs awarded are accounted for using the fair value method, such that the fair value of the RSUs is amortized to employee compensation and benefits expense over the vesting period. In cases where recipients of RSUs have the option to receive cash in lieu of RSUs, the amortized amount of employee compensation and benefits expense is recognized as a liability and remeasured at each reporting period at fair value, with the changes in fair value recognized in income. In cases where recipients of RSUs will receive stock, the amortized amount of employee compensation and benefits expense is added to contributed surplus without revaluation.

The RSU recipients are granted additional RSUs in lieu of dividends paid between the grant date and the exercise date based upon the number of outstanding unexercised RSUs. The value of the additional RSUs granted that is expected to be settled in stock is amortized to retained earnings with a corresponding credit to contributed surplus over the remaining vesting period. The value of the additional RSUs granted that are expected to settle in cash is amortized to employee compensation and benefits over the remaining vesting period and is revalued at each reporting date.

International Financial Reporting Standards ["IFRS"]

In February 2008, the Canadian Accounting Standards Board ["AcSB"] confirmed that all Publicly Accountable Enterprises ["PAE"] will be required to report under IFRS in 2011. IFRS will replace Canadian GAAP. Some of the Canadian subsidiaries of the Company are considered PAE. Although the Company is not considered a PAE, it will elect to follow IFRS in preparing its financial statements effective October 1, 2011. The Company has started an IFRS conversion project and is evaluating the impact of the initial application of these standards on its consolidated financial statements.

[dollar amounts in thousands]

3. TRADING SECURITIES OWNED AND SECURITIES SOLD SHORT

Trading securities owned and securities sold short consist of money market, fixed income and equity instruments. The following table provides an analysis by type of security, maturity and effective yield:

	2010				
	< 1 year $	**1-5 years** $	**> 5 years** $	**No maturity** $	**Total** $
Trading securities owned					
Money market	**750,152**	**—**	**—**	**—**	**750,152**
Fixed income	**—**	**3,242,218**	**275,267**	**—**	**3,517,485**
Effective yield	***1.9%***	***2.0%***	***3.1%***		***2.2%***
Equities	**—**	**—**	**—**	**1,417,478**	**1,417,478**
	750,152	**3,242,218**	**275,267**	**1,417,478**	**5,685,115**
Securities sold short					
Money market	**200,078**	**—**	**—**	**—**	**200,078**
Fixed income	**—**	**415,037**	**242,059**	**—**	**657,096**
Effective yield	***0.7%***	***1.5%***	***2.6%***		***2.2%***
Equities	**—**	**—**	**—**	**1,145,747**	**1,145,747**
	200,078	**415,037**	**242,059**	**1,145,747**	**2,002,921**

	2009				
	< 1 year $	**1-5 years** $	**> 5 years** $	**No maturity** $	**Total** $
Trading securities owned					
Money market	1,289,883	—	—	—	1,289,883
Fixed income	—	3,615,604	505,080	—	4,120,684
Effective yield	*3.4%*	*2.1%*	*3.8%*		*2.7%*
Equities	—	—	—	2,689,580	2,689,580
	1,289,883	3,615,604	505,080	2,689,580	8,100,147
Securities sold short					
Money market	621,042	—	—	—	621,042
Fixed income	—	268,077	275,968	—	544,045
Effective yield	*0.4%*	*1.9%*	*3.3%*		*2.9%*
Equities	—	—	—	1,554,483	1,554,483
	621,042	268,077	275,968	1,554,483	2,719,570

[dollar amounts in thousands]

Net trading and other income includes $19,835 [2009 - $39,655] relating to financial instruments designated as held-for-trading.

4. DUE FROM/DUE TO CLIENTS

Due from clients arises primarily from collateralized loans to clients, deposits placed with state governments and amounts due from unsettled trades. Due to clients arises primarily from cash collateral received for derivative financial instrument transactions and current accounts payable to clients. These accounts pay interest at a floating rate. Receivables from and payables to clients arising from unsettled trades are due by the settlement date of the related trade transaction. Collateralized loans to clients are carried at amortized cost using the effective interest method.

Due from clients includes loans related to the Company's collateralized lending businesses. Collateral against these loans includes securities, mortgage notes and other assets.

The following table provides an analysis of collateralized loans by maturity date. Effective yields are based on book value and contracted interest rates at September 30:

	2010				
	Floating $	**<1 year** $	**1-5 years** $	**>5 years** $	**Total** $
Loan balance	**69,418**	**145,925**	**20,103**	**5,952**	**241,398**
Effective yield	***7.2%***	***3.7%***	***5.1%***	***4.8%***	***5.5%***

	2009				
	Floating $	**<1 year** $	**1-5 years** $	**>5 years** $	**Total** $
Loan balance	114,000	119,163	—	—	233,163
Effective yield	*4.5%*	*4.4%*			*4.5%*

Included in due from clients are impaired loans of $209,899 [2009 - $212,900]. Specific provisions recorded against these loans were $124,904 [2009 - $129,182].

[dollar amounts in thousands]

The allowance for credit losses on the collateralized lending businesses consists of the following:

	2010	**2009**
	$	$
Allowance for credit losses, beginning of year	**129,182**	86,672
Provision for loan losses	**14,914**	49,234
Reserves written off or recovered	**(10,600)**	(6,913)
Foreign exchange and other	**(8,592)**	189
Allowance for credit losses, end of year	**124,904**	129,182

5. SECURITIES BORROWED AND LOANED

In the normal course of business, the Company may lend securities it owns or borrows. The Company may also borrow to settle securities sold short, to facilitate the settlement process or to facilitate proprietary trading. Cash, letters of credit or securities including government treasury bills and government bonds collateralize these transactions. Securities borrowed and loaned are due on demand and are subject to a three-day recall.

Included in due from brokers and financial institutions are amounts receivable for cash collateral delivered for securities borrowed. Included in due to brokers and financial institutions are amounts payable arising from cash collateral received for securities loaned. Rebates earned on cash collateral delivered and paid on cash collateral received are based on a floating rate. The market value of securities borrowing and lending activities collateralized with cash is as follows:

	2010	**2009**
	$	$
Securities borrowed	**2,540,833**	2,265,726
Cash collateral delivered *[note 6]*	**2,604,908**	2,359,333
Securities loaned	**1,902,094**	914,079
Cash collateral received *[note 6]*	**1,944,897**	959,319

[dollar amounts in thousands]

The Company also borrows securities and delivers other securities as collateral, and lends securities and receives other securities as collateral. In cases where such non-cash collateral is pledged or received, the value of the collateral does not appear on the consolidated statement of financial position. The market value of non-cash securities borrowing and lending transactions is as follows:

	2010 $	2009 $
Securities borrowed	**1,285,559**	1,529,485
Collateral delivered	**1,352,475**	1,595,228
Securities loaned	**96,977**	68,656
Collateral received	**97,843**	66,645

The settlement of outstanding commitments at September 30, 2010 relating to securities lending and collateral arrangements will, in the opinion of management, not have a material adverse effect on the financial position of the Company. Master netting agreements are in place to allow favourable contracts or securities lending exposures to be settled against unfavourable contracts or securities lending deficiencies with the same counterparty.

Securities purchased under resale agreements and obligations under repurchase agreements have been fully collateralized.

6. DUE FROM/DUE TO BROKERS AND FINANCIAL INSTITUTIONS

Due from brokers and financial institutions consists of the following balances:

	2010 $	2009 $
Cash collateral delivered for securities borrowed *[note 5]*	**2,604,908**	2,359,333
Cash collateral delivered for trading positions	**29,293**	54,784
Unsettled trades	**134,255**	514,531
Balances with exchanges, prime brokers and other	**192,587**	387,412
Total	**2,961,043**	3,316,060

[dollar amounts in thousands]

Due to brokers and financial institutions consists of the following balances:

	2010	**2009**
	$	$
Cash collateral received for securities borrowed *[note 5]*	**1,944,897**	959,319
Cash collateral received for trading positions	**—**	36,635
Unsettled trades	**97,610**	871,797
Balances with exchanges, prime brokers and other	**45,798**	21,851
Total	**2,088,305**	1,889,602

Receivables from and payables to brokers and financial institutions arising from unsettled trades are due by the settlement date of the related trade transaction. Interest received or paid on cash collateral balances and balances with exchanges and prime brokers is based on a floating rate. Cash collateral delivered or received for trading positions is offsettable against the underlying trading position.

Included in due from brokers and financial institutions are loan loss reserves of $36,915 [2009 - $41,906] arising from the Company's trading and securities lending and borrowing activities. The allowance consists of general and specific provisions. The allowance for credit losses in this business consists of the following:

	2010	**2009**
	$	$
Allowance for credit losses, beginning of year	**41,906**	806
Provision for loan losses	**15**	40,737
Reserves written off or recovered	**(735)**	(93)
Foreign exchange and other	**(4,271)**	456
Allowance for credit losses, end of year	**36,915**	41,906

Included in due from brokers and financial institutions are impaired loans of $36,915, which have been fully provided.

7. VARIABLE INTEREST ENTITIES

One VIE for which the Company is the primary beneficiary has been included in the consolidated financial statements. The following table provides information about VIEs in which the Company has a significant variable interest but is not the primary beneficiary:

	Assets $	Maximum exposure to loss $
Commercial borrowers [a]	**140,664**	**38,349**

[a] The maximum exposure would only occur in the event of default on the loan and collateral provided being valueless. The Company is not the primary beneficiary because other parties absorb more of the expected variability in returns.

8. BANK LOANS

Bank loans consist of call loans due to banks and a collateralized borrowing facility. Bank loans are primarily denominated in Euros and are due on demand. The collateralized borrowing facility in 2009 represents collateralized loans from a central bank maturing within nine months. The average interest rate on bank loans is 0.5% [2009 - 1.0%].

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[dollar amounts in thousands]

September 30, 2010

9. CUSTOMER DEPOSITS

Short-term customer deposits of $1,622,448 [2009 - $3,209,662] mature within one year and bear interest at an average rate of 2.2% [2009 - 1.9%].

The following table provides an analysis of long-term customer deposits by the earlier of contractual repricing or maturity date. Average interest rates are based on book value and contracted interest rates at September 30:

	2010			
	1-5 years $	**6-10 years** $	**>10 years** $	**Total** $
Customer deposits balance	**337,891**	**348,262**	**150,049**	**836,202**
Average interest rate	***4.6%***	***4.4%***	***4.9%***	***4.6%***

	2009			
	1-5 years $	**6-10 years** $	**>10 years** $	**Total** $
Customer deposits balance	545,927	403,178	165,881	1,114,986
Average interest rate	*4.8%*	*4.4%*	*4.9%*	*4.6%*

[dollar amounts in thousands]

10. SUBORDINATED LOANS

The following tables provide an analysis of subordinated loans of a subsidiary. Average interest rates are based on book value and contracted interest rates at September 30:

	2010		
	<1 year $	**6-10 years** $	**Total** $
Subordinated loans balance	**—**	**47,712**	**47,712**
Average interest rate		***6.0%***	***6.0%***

	2009		
	<1 year $	**6-10 years** $	**Total** $
Subordinated loans balance	—	56,914	56,914
Average interest rate		*5.7%*	*5.7%*

Interest expense on subordinated loans for the year was $2,891 [2009 - $3,233].

[dollar amounts in thousands]

11. CAPITAL STOCK

Capital stock consists of the following:

	2010 $	2009 $
Authorized		
Unlimited Class A common shares, voting		
Unlimited Class B common shares, voting		
Unlimited Class C common shares, non-voting		
Unlimited Class D common shares, voting		
Unlimited Class D preference shares		
Issued		
52,105,551 Class A common shares [2009 - 52,300,917]	**11,852**	11,896
35,195,366 Class C common shares [2009 - 35,000,000]	**7,219**	7,175
5,591,279 Class D common shares [2009 - 4,637,273]	**4,363**	3,619
19,562,020 Class D preference shares [2009 - 25,498,817]	**19,562**	25,499
	42,996	48,189

Class D preference shares have no stated dividend rate and are redeemable at one dollar per share.

An option on 954,006 Class D common shares and 5,245,761 Class D preference shares was exercised during 2010 at a strike price of $3,339. The original premium of $2,651 had been recorded in contributed surplus. An amount of $5,246 was credited to Class D preference shares with the balance of $744 credited to Class D common shares.

On February 9, 2010, the Company paid a dividend of $2.00 per share [$174,602] to Class A and Class C shareholders. On the same date, the Company redeemed 11,182,558 Class D preference shares for $11,183. On February 25, 2009, the Company paid a dividend of $2.50 per share [$218,252] to Class A and Class C shareholders. On the same date, the Company redeemed 11,593,183 Class D preference shares for $11,593.

During the year ended September 30, 2010, 195,366 Class A common shares with a stated value of $44 were converted to Class C common shares.

[dollar amounts in thousands]

12. STOCK-BASED COMPENSATION

During the year, the Company granted an award of RSUs which can be exchanged for 5,571,559 [2009 - 3,764,685] Class C common shares to senior employees. The fair value of the award granted during the year amounted to $40,791 [2009 - $33,857]. The vesting provisions are determined by the Board of Directors at the date of the grant. The outstanding RSUs vest over a two to four year period. At September 30 2010, the following awards had been granted but not exercised:

	2010		
	Cash-settled	**Equity-settled**	**Total**
Vested	**28,565**	**28,565**	**57,130**
Unvested	**4,662,375**	**4,662,375**	**9,324,750**
	4,690,940	**4,690,940**	**9,381,880**

This has resulted in total amortized compensation cost of $24,564 [2009 - $10,181] for the year, a liability for cash settlement of $16,749 [2009 - $5,151] and contributed surplus of $20,787 [2009 - $5,031]. The unamortized compensation cost at September 30, 2010 amounted to $33,080 [2009 - $24,036].

The Company has charged $2,790 [2009 - nil] to opening retained earnings for RSUs awarded in lieu of dividends paid during the vesting period.

13. INCOME TAXES

The provision for income taxes is calculated for each company in the group using the effective federal, state, provincial or other local tax rates applied to the taxable income (loss) of that company, allowing for any income which may be exempt from income tax under the appropriate regulations.

The Company's provision for income taxes for the year ended September 30, compared to statutory Canadian marginal tax rates, is summarized as follows:

[dollar amounts in thousands]

	2010 $	2009 $
Income before income taxes	**118,152**	613,216
Provision for income taxes at statutory Canadian marginal income tax rate of 31.75% [2009 - 33.13%]	**37,513**	203,158
Net adjustment to future tax assets valuation allowance	**1,274**	21,927
Rate differentials on international operations	**7,438**	21,230
Change to prior year estimate	**(6,610)**	1,631
Other	**110**	177
Provision for income taxes	**39,725**	248,123

Other receivables and accounts payable and accrued liabilities contain the following income tax balances:

	2010 $	2009 $
Other receivables		
Current income tax recoverable	**4,593**	107,400
Future income tax assets	**12,652**	6,929
Accounts payable and accrued liabilities		
Current income tax payable	**55,338**	111,040
Future income tax liabilities	**22,904**	44,336

The provision for income taxes on the consolidated statement of income, retained earnings and accumulated other comprehensive loss is comprised of the following:

	2010 $	2009 $
Current income taxes	**63,480**	241,295
Future income taxes (recovery)	**(23,755)**	6,828
Provision for income taxes	**39,725**	248,123

[dollar amounts in thousands]

Future income taxes

Future income taxes reflect the net tax effect of loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax assets and liabilities are as follows:

	2010	**2009**
	$	$
Future income tax assets		
Loss carryforwards	**144,455**	276,178
Unpaid compensation and other temporary differences	**32,148**	26,480
	176,603	302,658
Less valuation allowance	**(163,951)**	(295,729)
Total future income tax assets	**12,652**	6,929
Future income tax liabilities		
Tax on undistributed earnings	**19,166**	38,396
Gain on hedge instruments	**158**	2,249
Other temporary differences	**3,580**	3,691
Total future income tax liabilities	**22,904**	44,336

As at September 30, 2010, the Company has operating loss carryforwards for which it has not recognized the income tax benefits in the consolidated financial statements. The operating loss carryforwards expiring in the years 2011 and 2012 arise in a subsidiary that earned most of its gross income from tax exempt sources. The operating loss carryforwards by year of expiry are as follows:

	$
2011	375,187
2012	114,551
2013 and thereafter	26,069
	515,807

[dollar amounts in thousands]

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

A foreign subsidiary of the Company has a defined benefit pension plan. The pension obligation is fully accrued, with a substantial portion managed internally. Actuarial valuations are prepared annually with the last measurement date of September 30, 2010. The foreign subsidiary participates in a mandatory insurance scheme, which provides payments to employees in event of default by the foreign subsidiary.

Pension obligations, the breakdown of internally and externally managed pension liabilities and assumptions used in computing defined pension benefits are as follows:

	2010	**2009**
Accrued pension obligation	**21,448**	17,277
Internally managed pension liability	**20,032**	16,014
Externally managed pension liability	**1,416**	1,263
Pension expense recorded in year	**6,061**	5,779
Assumptions used:		
Discount rate	**4.4%**	5.4%
Rate of compensation increase	**3.5%**	3.5%
Escalation of benefits in payment	**1.8%**	1.8%

15. NET INVESTMENT INCOME

Interest income includes interest earned on the Company's collateralized lending portfolios. Interest expense includes interest paid and accrued to depositors and banks to finance the Company's businesses. Provision for loan losses includes general and specific provisions arising from the Company's lending and trading businesses. Net trading and other income includes interest and dividends earned on securities owned, less interest and dividends accrued on securities sold short, income from principal transactions, securities lending and borrowing fees, income and expense from securities resale and repurchase agreements, realized and unrealized gains and losses on securities and derivative financial instruments, and other income.

16. DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into derivative financial instruments, as described below, for trading and non-trading purposes.

Products

The Company's derivative transactions include option, future, forward, swap and swaption contracts. Options are contracts which give the acquirer, for a fee, the right, but not the obligation, to buy or sell within a limited time a derivative instrument or foreign currency at a contracted price. Futures and forward contracts are commitments to buy or sell at a future date a derivative instrument, equity, bond, commodity or foreign currency at a contracted price and may be settled through cash or physical delivery.

Swaps are contracts that involve commitments between two parties to exchange a series of cash flows based on a notional principal amount. In interest rate swaps, the parties will exchange a fixed for a floating interest payment based on a single currency. Interest rate swaps also include the exchange of the total return on a bond for an interest amount based on a short-term interest rate applied to the notional amount. For cross-currency interest rate swaps, principal amounts and fixed and floating interest payments are exchanged in different currencies. For equity swaps, the counterparties exchange, over an agreed period, the change in value of an equity security or basket of equity securities, if any, plus dividends for an interest amount based on a short-term interest rate applied to the notional amount.

Credit derivatives are contracts that allow one party to transfer credit risk of a reference asset to one or more other parties. A credit default swap is a contract whereby the seller will pay, or the buyer will receive, a payment only if a specified credit event occurs. Typical credit events are bankruptcy, insolvency, credit downgrade or failure to make a required scheduled payment. The Company is a buyer and seller of credit derivatives on bonds of individual companies and diversified portfolios of bonds.

Notional amounts and fair values

The notional value of derivative financial instruments represents an amount to which a rate or price is applied in order to calculate the exchange of cash flows. Notional values of these instruments indicate the extent of the Company's involvement in various types and uses of derivative financial instruments but do not measure the Company's exposure to credit risk and do not represent the amounts exchanged by the parties to the instruments. Notional amounts are not included in the consolidated financial statements and generally exceed the future cash requirements relating to the instruments.

The credit risk of derivatives is the risk of financial loss associated with counterparty non-performance. The Company's current exposure to credit risk associated with non-performance is limited to the positive fair value of the derivative assets as recorded in the consolidated financial statements.

The Company enters into master netting agreements to reduce exposure to credit losses. The master netting agreements allow favourable contracts to be settled against unfavourable contracts with the same counterparty.

[dollar amounts in thousands]

The following tables disclose the notional or contract amounts and fair values of the Company's trading and non-trading derivative financial instruments:

	2010						2009
Notional amounts							
Residual term to maturity	**< 1 year**	**1 to 5 years**	**> 5 years**	**Total**	**Trading book**	**Non trading book**	**Total notional**
	$	$	$	$	$	$	$
Foreign currency products							
Forward agreements	**2,387,534**	**38,031**	—	**2,425,565**	**958,693**	**1,466,872**	**1,535,017**
Interest rate products							
Swap contracts	**4,894,525**	**4,140,305**	**577,625**	**9,612,455**	**8,738,696**	**873,759**	**6,132,709**
Futures contracts	**1,529,303**	**590,049**	—	**2,119,352**	**2,119,352**	—	**1,697,567**
Options							
Purchased	—	**63,149**	—	**63,149**	**63,149**	—	**70,461**
Written	—	**63,149**	—	**63,149**	**63,149**	—	**70,461**
Equity products							
Swap contracts	**201,987**	—	—	**201,987**	**201,987**	—	**359,048**
Options							
Purchased	**718,636**	**1,657**	**5**	**720,298**	**720,298**	—	**2,414,097**
Written	**751,575**	—	—	**751,575**	**743,405**	—	**2,450,470**
Futures contracts	**35,637**	—	—	**35,637**	**35,637**	—	**502,647**
Credit default products							
Credit default contracts	**43,015**	**118,775**	—	**161,790**	**161,790**	—	**206,788**
Total 2010	**10,562,212**	**5,015,115**	**577,630**	**16,154,957**	**13,806,156**	**2,340,631**	
Total 2009	**10,599,004**	**3,957,666**	**882,595**	**15,439,265**	**13,511,835**	**1,927,430**	**15,439,265**

[dollar amounts in thousands]

	2010			2009		
	Fair value asset $	Fair value liability $	Net $	Fair value asset $	Fair value liability $	Net $
Derivative financial instruments held or issued for trading purposes						
Foreign currency products						
Forward agreements	**24,588**	**311**	**24,277**	**2,528**	**3,987**	**(1,459)**
Interest rate products						
Swap contracts	**14,496**	**100,849**	**(86,353)**	**13,378**	**71,298**	**(57,920)**
Futures contracts	—	—	—	—	—	—
Options						
Purchased	—	—	—	—	—	—
Written	—	**630**	**(630)**	—	**1,665**	**(1,665)**
Equity products						
Swap contracts	**4,026**	**179**	**3,847**	**3,389**	**1,993**	**1,396**
Options						
Purchased	**230,887**	—	**230,887**	**1,168,172**	—	**1,168,172**
Written	—	**387,005**	**(387,005)**	—	**1,110,872**	**(1,110,872)**
Futures contracts	—	—	—	—	—	—
Credit default products						
Credit contracts	**645**	**6,734**	**(6,089)**	**2,058**	**2,053**	**5**
	274,642	**495,708**	**(221,066)**	**1,189,525**	**1,191,868**	**(2,343)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[dollar amounts in thousands]

September 30, 2010

	2010			2009		
	Fair value asset	Fair value liability	Net	Fair value asset	Fair value liability	Net
	$	$	$	$	$	$
Derivative financial instruments held or issued for non-trading purposes						
Foreign currency products						
Forward agreements	**12,505**	**1,577**	**10,928**	**14,815**	**518**	**14,297**
Interest rate products						
Swap contracts	**89,151**	**10**	**89,141**	**86,105**	**1,533**	**84,572**
	101,656	**1,587**	**100,069**	**100,920**	**2,051**	**98,869**
Total value of derivative financial instruments before netting	**376,298**	**497,295**	**(120,997)**	**1,290,445**	**1,193,919**	**96,526**
Impact of netting	**(257,161)**	**(257,161)**	**—**	**(1,107,186)**	**(1,107,186)**	**—**
Total value of derivative financial instruments after netting	**119,137**	**240,134**	**(120,997)**	**183,259**	**86,733**	**96,526**

The Company has delivered non-cash collateral of $191,588 [2009 - $95,222] and received non-cash collateral of $36,728 [2009 - nil] in support of derivative trading positions.

[dollar amounts in thousands]

17. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company enters into transactions with employees, shareholders and other related parties. Shareholders include National Bank of Canada and its subsidiaries and affiliates [together, the "related parties"].

The Company enters into securities borrowing arrangements with the related parties. As at September 30, 2010, the Company has borrowed $5,017 [2009 - $4,573] of securities in exchange for cash collateral delivered of $5,020 [2009 - $4,742]. It has loaned $22 [2009 - nil] of securities in exchange for non-cash collateral received of $26 [2009 - nil]. In 2009, the Company borrowed $227 of securities in exchange for non-cash collateral delivered of $236.

As at September 30, 2010, the Company has balances with employees in due from clients and other receivables of $291 [2009 - nil] and trading account balances in due to clients of $1,617 [2009 - $3,046].

These transactions are carried out at substantively the same terms and conditions as with any unrelated parties.

18. COMMITMENTS

Credit commitments

In the normal course of business, the Company enters into various commitments. The credit commitments reported below are not reflected in the consolidated statement of financial position.

	2010 $	**2009** $
Letter of credit with commercial finance customer	**1,203**	1,260
Letter of credit with payroll service provider	**435**	435
Guarantee provided to commercial finance customer	**3,430**	3,564
Loan commitments	**—**	53,475

[dollar amounts in thousands]

Lease commitments

Future minimum annual lease payments on office premises under operating leases by year of expiry are as follows:

	2010 $
2011	**4,239**
2012	**3,453**
2013	**3,201**
2014	**2,287**
2015 and thereafter	**3,744**
	16,924

19. DOMESTIC AND INTERNATIONAL OPERATIONS

The Company operates principally in Canada, the United States, the United Kingdom and Europe. European operations are concentrated in Germany and Italy. The Company categorizes its operations based on the location where the business is transacted, regardless of currency.

Financial information by geographic segment is as follows:

	2010				
	Canada $	**U.S.A.** $	**United Kingdom** $	**Europe** $	**Consolidated** $
Net investment income	**26,552**	**34,492**	**56,894**	**146,160**	**264,098**
Income before income taxes	**22,771**	**11,833**	**37,514**	**46,034**	**118,152**
Total assets	**4,217,497**	**2,068,600**	**1,481,605**	**3,024,537**	**10,792,239**

[dollar amounts in thousands]

	2009				
	Canada	**U.S.A.**	**United Kingdom**	**Europe**	**Consolidated**
	$	$	$	$	$
Net investment income	113,452	33,910	34,459	753,259	935,080
Income before income taxes	58,100	12,451	11,764	530,901	613,216
Total assets	4,458,748	1,060,063	2,480,721	6,691,388	14,690,920

20. FAIR VALUES

Methods and assumptions

The Company calculates fair values based on the following methods and assumptions:

Financial instruments where fair value is equal to carrying value
For certain financial assets and financial liabilities that are short-term in nature or contain variable rate features, fair value is based on the appropriate prevailing interest rates and/or credit curves. The book value of cash and cash equivalents, securities purchased under resale agreements, loans and receivables from certain clients and brokers and financial institutions, bank loans, obligations under repurchase agreements, due to clients and due to brokers and financial institutions as well as certain other assets and liabilities corresponds to the fair value.

Trading securities owned and securities sold short
Fair values are based on quoted market prices or, where quoted market prices are not readily available, quoted market prices of similar securities, or other third-party evidence or by using a valuation technique that incorporates assumptions based primarily on observable market inputs.

Derivative financial instruments issued for trading purposes
Fair value is based on quoted market prices where available. Otherwise, fair value is determined using valuation models that incorporate assumptions based on inputs observed in external markets, such as current market prices and the contractual prices of the underlying instruments, interest rate curves, credit curves, foreign exchange rates as well as price and rate volatility factors. When one or more significant inputs are not observable in the markets, fair value is based primarily on the basis of internal estimates and data, taking into account valuation policies in effect by the Company, economic conditions, the specific characteristics of the financial asset or liability or other relevant factors. In establishing fair value of derivative financial instruments, credit risk, the financial capacity of counterparties, the measurement of the current or future market value of the transactions as well as credit risk mitigation measures are taken into account.

[dollar amounts in thousands]

Customer deposits and subordinated loans
Fair value of customer deposits and subordinated loans is determined by discounting future contractual cash flows using market interest rates currently offered for similar financial instruments and that have the same term to maturity.

The fair values of the Company's financial liabilities that differ from book values are set out below. The estimated fair value amounts are designed to approximate amounts at which the liabilities could be exchanged in a transaction between willing counterparties who are under no compulsion to act. However, many of the Company's financial liabilities lack an active trading market. Therefore, the fair value amounts shown are based on present value techniques and are significantly affected by the assumptions used regarding the timing of future cash flows and discount rates, which reflect varying degrees of risk. Because of this, the fair value amounts should not be interpreted as being necessarily realizable in the event of the immediate settlement of the instruments.

	2010		**2009**	
	Book value $	**Fair value** $	**Book value** $	**Fair value** $
Liabilities				
Short-term customer deposits	**1,622,448**	**1,622,840**	3,209,662	3,215,368
Long-term customer deposits	**836,203**	**833,564**	1,114,986	1,111,159
Subordinated loans	**47,712**	**43,514**	56,914	48,693

Fair value hierarchy

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is described in note 2.

[dollar amounts in thousands]

The following table presents the fair values of trading securities owned and securities sold short classified using the fair value hierarchy:

	2010			
	Level 1 $	**Level 2** $	**Level 3** $	**Total** $
Trading securities owned				
Money market	**353,164**	**383,803**	**13,185**	**750,152**
Fixed income	**857,341**	**2,628,897**	**31,247**	**3,517,485**
Equities	**1,030,038**	**386,026**	**1,414**	**1,417,478**
	2,240,543	**3,398,726**	**45,846**	**5,685,115**
Securities sold short				
Money market	**—**	**200,078**	**—**	**200,078**
Fixed income	**15,561**	**641,535**	**—**	**657,096**
Equities	**890,781**	**254,966**	**—**	**1,145,747**
	906,342	**1,096,579**	**—**	**2,002,921**

	2009			
	Level 1 $	**Level 2** $	**Level 3** $	**Total** $
Trading securities owned				
Money market	1,238,729	51,154	—	1,289,883
Fixed income	1,246,181	2,815,810	58,693	4,120,684
Equities	2,114,620	573,660	1,300	2,689,580
	4,599,530	3,440,624	59,993	8,100,147
Securities sold short				
Money market	3,106	617,936	—	621,042
Fixed income	43,227	500,818	—	544,045
Equities	1,311,591	242,892	—	1,554,483
	1,357,924	1,361,646	—	2,719,570

[dollar amounts in thousands]

The following table presents the fair value of derivative financial instruments classified using the fair value hierarchy:

	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Derivative financial instruments – assets				
Foreign currency products				
Trading	—	**24,588**	—	**24,588**
Non-trading	—	**12,505**	—	**12,505**
Interest rate products				
Trading	—	**14,496**	—	**14,496**
Non-trading	—	**89,151**	—	**89,151**
Equity products				
Trading	**1,260**	**233,651**	**2**	**234,913**
Credit default products				
Trading	—	**645**	—	**645**
	1,260	**375,036**	**2**	**376,298**
Derivative financial instruments – liabilities				
Foreign currency products				
Trading	—	**311**	—	**311**
Non-trading	—	**1,577**	—	**1,577**
Interest rate products				
Trading	—	**101,479**	—	**101,479**
Non-trading	—	**10**	—	**10**
Equity products				
Trading	**124,224**	**262,960**	—	**387,184**
Credit default products				
Trading	—	**6,734**	—	**6,734**
	124,224	**373,071**	—	**497,295**

[dollar amounts in thousands]

	2009			
	Level 1 $	**Level 2** $	**Level 3** $	**Total** $
Derivative financial instruments – assets				
Foreign currency products				
Trading	—	2,528	—	2,528
Non-trading	—	14,815	—	14,815
Interest rate products				
Trading	—	13,378	—	13,378
Non-trading	—	86,105	—	86,105
Equity products				
Trading	4,717	1,166,842	2	1,171,561
Credit default products				
Trading	—	2,058	—	2,058
	4,717	1,285,726	2	1,290,445
Derivative financial instruments – liabilities				
Foreign currency products				
Trading	—	3,987	—	3,987
Non-trading	—	518	—	518
Interest rate products				
Trading	—	72,963	—	72,963
Non-trading	—	1,533	—	1,533
Equity products				
Trading	17,640	1,095,225	—	1,112,865
Credit default products				
Trading	—	2,053	—	2,053
	17,640	1,176,279	—	1,193,919

[dollar amounts in thousands]

The change in fair values of trading securities owned, securities sold short and derivative financial instruments classified in Level 3 is shown in the table below:

	2010 $	2009 $
Fair value, beginning of year	**59,995**	32,946
Total realized gains in income	**12,503**	343
Total unrealized gains in income	**2,267**	28,584
Purchases, sales, settlements and other, net	**(23,047)**	(2,918)
Foreign exchange and other	**(5,870)**	1,040
Fair value, end of year	**45,848**	59,995

There were no transfers of financial instruments into or out of Level 3 from another level in 2009 or 2010.

The Company performs sensitivity analyses for fair value measurements classified in Level 3, substituting the unobservable inputs with one or more reasonably possible alternative assumptions. The alternative assumptions include changes in credit and liquidity spreads. These sensitivity analyses result in a negligible change in the fair values of financial instruments classified as Level 3.

21. RISK MANAGEMENT

The Company views risk as an integral part of its development and the diversification of its activities. The purpose of sound risk management is to provide reasonable assurance that incurred risks do not exceed acceptable thresholds and that risk-taking contributes to the creation of shareholder value. Risk management is part of the Company's culture, whereby all employees are encouraged to assess and communicate risks arising from their activities. Maple has an established global risk management framework based on identification, quantification and control of risks arising from its various global activities. This framework enables risks to be assessed separately or in aggregate and on both a standalone entity and consolidated basis.

The Company's Executive Committee is responsible for risk management oversight and development of the risk management framework. Independent risk managers reporting to the Executive Committee are responsible for implementation of the risk framework and for compliance with supervisory rules affecting local entities.

Overall risk is monitored on two bases. The "going concern" approach assumes the Company will continue operating, assuming current market volatilities. The "liquidation" approach assumes that the Company will liquidate its positions in an orderly fashion over a period of 12-18 months under different stressed market scenarios. The goal is to ensure that the Company has sufficient capital to withstand losses under both bases and under normal and a variety of stressed case scenarios.

The risk management framework originates with the concept of risk-bearing capacity, the definition of risk capital and limits for the various risk factors. Risk-bearing capacity represents the ability of a company to withstand losses without being forced into liquidation.

As a diverse banking and financial trading firm, Maple has exposure to various types of risk with credit and market risk being predominant. While many risk types are common to both banking and trading books, it is useful to consider them separately since the largest risks of each book can differ significantly in nature. In the trading book, Maple only transacts in pre-approved strategies on defined markets and with pre-approved counterparties. Maple's banking book only takes direct credit risk after carefully examining the counterparty and the transaction, and approving them in writing. A broad diversification of credit risks is sought and only secured transactions are approved.

Below is a description of the risk types identified as most pertinent to Maple's activities.

Credit risk

Credit risk is the risk of loss associated with the inability of a third party to fulfill its payment obligations. These parties may default on their obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. Credit risk is further defined as counterparty risk and issuer risk. Counterparty risk arises from trading counterparties, customers, clearing agents, exchanges, clearing houses and other financial intermediaries. Issuer risk involves issuers of securities that are held by the Company.

The Company's exposure to credit risk can arise from derivative transactions, securities borrowing and lending arrangements, collateralized and uncollateralized lending transactions, securities purchased and other collateralized transactions. The Company limits credit risk by dealing with counterparties that the Company believes are creditworthy, evaluating the quality of collateral provided, and by limiting credit in accordance with regulatory requirements and corporate policy. Master netting agreements are used wherever possible that allow favourable contracts to be settled against unfavourable contracts with the same counterparty. The Company has a credit committee which allocates limits on an individual counterparty as well as on a credit group basis. A detailed credit analysis is performed prior to establishing a business relationship with any counterparty. The credit committee decides on the proposed limits on the basis of this written credit assessment.

[dollar amounts in thousands]

Credit limits and credit exposures are monitored daily. Annual reviews of the counterparties' financial condition are performed, and ad-hoc analyses during the year monitor the counterparties' creditworthiness, enabling the Company to take appropriate measures if necessary.

For exchange-traded products, exposure to credit risk is limited as these transactions are standardized contracts, executed on established exchanges, and are subject to daily settlement of variation margins. Written options have limited credit risk as the counterparty has already performed in accordance with the terms of the contract through an up-front payment of the premium.

The current exposure to credit risk is as reflected on the consolidated statement of financial position. The credit exposure relating to non-cash securities lending and borrowing activities is disclosed in note 5.

The Company monitors credit exposure by counterparty and counterparty group based on net exposure adjusted by adverse moves in individual risk factors.

As at September 30, the Company had gross credit exposures as follows:

	2010	**2009**
	%	%
European financial institutions	**28**	41
North American financial institutions	**41**	26
OECD governments	**29**	31
Other	**2**	2
	100	100

These exposures are measured on a gross basis without allowing for netting or collateral arrangements.

[dollar amounts in thousands]

As at September 30, concentration and credit quality of financial assets involving credit risk by credit rating are as follows:

	2010	2009
	%	%
AA and above	**61**	56
A- to A+	**17**	30
BBB + and below	**22**	14
	100	100

The above ratings are assigned by management based on external rating agencies or an internal rating system using similar criteria as those used by external rating agencies.

Market risk

Market risk is the risk that fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and underlying instrument prices. Financial instruments are measured at fair value, with changes in realized and unrealized gains and losses included in the consolidated statement of income, retained earnings and accumulated other comprehensive loss. Depending on the nature of strategy and associated risks, the Company assigns volume, position, loss, sensitivity and value at risk ["VaR"] limits. The Company manages market risk on a daily basis by consolidating all trading and banking book positions and associated risks and comparing them to assigned limits. The results of this analysis are then reported separately and in aggregate to provide a complete picture of market risk exposures.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company incurs interest rate risk on its cash and cash equivalent balances, trading securities, cash delivered or received in support of securities lending and borrowing activities, collateralized lending portfolios and interest paid on its short- and long-term customer deposits. Interest rate risk is managed by continuously monitoring interest rate gaps against assigned limits, on both a current and stress-case basis. The Company uses hedging strategies to mitigate interest rate risk.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk is not considered a major risk as Maple does not actively trade foreign currency positions. The Company regularly monitors the currency exposures and employs hedging strategies to mitigate the risk.

Fair value risk

Fair value risk is the risk of loss due to adverse movements in the value of a financial instrument. The Company incurs fair value risk through its trading portfolio. Fair value risk is controlled by volume, position, loss and VaR limits.

Liquidity risk

Liquidity risk is the risk of having insufficient cash resources in a timely and cost-effective manner to meet financial obligations as they come due. The Company's liquidity could be impaired by an inability to access secured and/or unsecured debt markets, an inability to access funds from subsidiaries, an inability to sell assets or unforeseen outflows of cash. Further, the ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time. The Company seeks to maintain sufficient liquidity under normal market environments, across market cycles and through periods of financial stress. The Company's German bank has a broad deposit base which assists in maintaining liquidity levels throughout the group. As a general liquidity cushion on September 30, 2010, the Company's German bank held $0.8 billion of bonds in the Lombard depot, all of which are eligible for European Central Bank funding requirements. The liquidity of major subsidiaries is continually evaluated, factoring in business requirements, market conditions and regulatory capital requirements. In the current year, the Company adopted a formal liquidity policy. Under the policy, liquidity reporting is done under normal and stressed case scenarios. The liquidity policy prescribes actions to be taken in the event of liquidity crises. The Company's liquidity and funding procedures are intended to ensure compliance with applicable regulatory restrictions and requirements and to ensure appropriate liquidity in each region.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, personnel and systems or from external events. Examples of operational risk are human error, disruptions of operations and processes, technology risks and external catastrophes. Operational risk is encountered in all activities, including the practices and controls used to manage other risks.

Professional management of operational risk reduces possible failures in the management of other risks such as credit, market or regulatory risk.

The Company issues and regularly reviews its procedures to ensure they are current and effective in the prevention of operational failures. The Company maintains a database to record actual and potential operational risk-related incidents.

Regulatory risk

The Company is subject to extensive regulation under securities laws of the jurisdictions in which it operates, including Canada, the United States, the United Kingdom, Germany and Italy. In the event of non-compliance, regulators may institute administrative or judicial proceedings that may result in censure, fines, civil penalties, suspension or disqualification of officers. There were no open regulatory issues for the Company or its subsidiaries at September 30, 2010.

Other risks

Other risks include strategic risk, reputational risk and legal risk. The Company minimizes exposure to risk by using a standardized authorization process for new business lines. Wherever possible, industry standard contracts are used. In the case of individual arrangements, the Company is advised by appropriate external counsel on matters involving legal, regulatory and tax issues.

Capital management

The Company's principal subsidiaries are required to maintain minimum levels of capital pursuant to regulations to which they are subject in the jurisdictions in which they operate. Capital adequacy is managed with the objectives of funding existing operations and complying with regulatory requirements of principal subsidiaries. These objectives are achieved by regularly monitoring capital adequacy requirements. Capital and liquidity is managed on both a going concern and stressed case basis. Capital is considered as capital stock, retained earnings and subordinated loans. The distribution of capital and earnings of these subsidiaries to Maple may be constrained by these requirements.

Additionally, the Company voluntarily consolidates capital adequacy requirements under Basel II guidelines and reports these to Bundesanstalt für Finanzdienstleistungsaufsicht in Germany and the Financial Services Authority in the United Kingdom.

At September 30, 2010, the Company's subsidiaries were in compliance with their local capital requirements. In addition, the Company's Tier 1 capital adequacy ratio was 15.9% [2009 - 9.8%], exceeding the minimum ratio of 4%.

22. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2010 consolidated financial statements.

23. SUBSEQUENT EVENTS

Functional currency is the currency of the primary economic environment in which the entity operates. As significant portion of the Company's revenue and expenses are earned and paid in Euro, effective October 1, 2010, the Company has determined that the Euro represents the Company's functional currency. Accordingly, the Company has changed its functional currency to Euros on this date. The Company is also changing its reporting currency to Euros.