MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED OCTOBER 31, 2011

SUMMARY OF FINANCIAL RESULTS

OVERVIEW OF FISCAL 2011

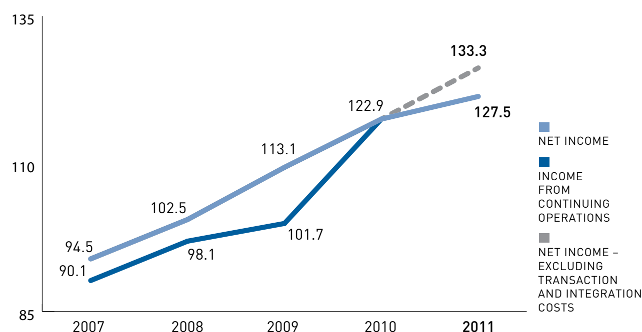
For the year ended October 31, 2011, the Bank reported net income of $127.5 million, or diluted earnings of $4.81 per share, compared with $122.9 million, or diluted earnings of $4.63 per share in 2010. Return on common shareholders' equity was 11.0% in 2011, compared with 11.5% in 2010.

Excluding the integration costs related to the recently acquired MRS Companies [1] and the compensation for termination in 2012 of the existing distribution agreement of IA Clarington funds related to the signing of a new distribution agreement of Mackenzie mutual funds (Transaction and Integration Costs or T&I Costs), net income was $133.3 million, up 8% year-over-year, and return on common shareholders' equity was 11.6%. Excluding these one-time costs, diluted earnings per share totalled $5.05 in 2011 compared to $4.63 in 2010, a 9% increase.

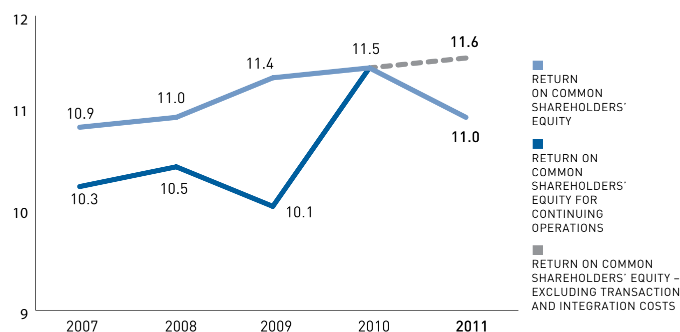
The Bank reported good results for fiscal 2011, despite the challenging retail banking environment. In 2011, the Bank compensated for interest margin compressions with higher other income. Significant improvements in the credit quality of the Bank's loan portfolios also contributed to these results. Investments in the Bank's business lines had positive impact in generating organic growth, as evidenced by the sustained increases in loan and deposit volumes year-over-year. The recently closed acquisition of the MRS Companies and the distribution agreement of Mackenzie mutual funds should also contribute to further growth of the B2B Trust and Retail segments by solidifying their competitive position.

The Bank maintained a strong financial position throughout the year. With sound liquidity and capital levels, the Bank remains well positioned to pursue its growth initiatives and to meet new pending regulatory capital requirements.

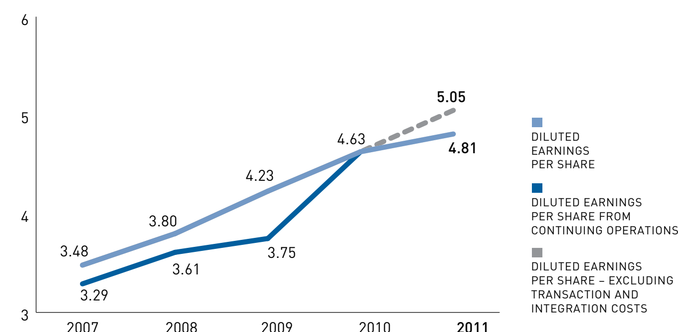
NET INCOME
(in millions of dollars)



RETURN ON COMMON SHAREHOLDERS' EQUITY
(as a percentage)



DILUTED EARNINGS PER SHARE
(in dollars)



(1) The MRS Companies include: M.R.S. Inc.; M.R.S. Trust Company; M.R.S. Securities Services Inc.; and M.R.S. Correspondent Corporation.

CORPORATE PRIORITIES **FOR 2012**

The Bank's three main priorities will again remain at the forefront of strategic development for 2012. These priorities have provided the Bank with a framework in the operational decision-making process.

- **INCREASE OUR PROFITABILITY**
  Ensure sustainable long-term growth in each business segment
- **IMPROVE OUR EFFICIENCY**
  Ensure excellence in execution
- **DEVELOP OUR HUMAN CAPITAL**
  Ensure retention, talent management and engagement strategies to support sustainable growth

REVIEW OF 2011 BUSINESS SEGMENT OPERATIONS AND 2012 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:

- **RETAIL & SME-QUÉBEC**
- **REAL ESTATE & COMMERCIAL**
- **B2B TRUST**
- **LAURENTIAN BANK SECURITIES & CAPITAL MARKETS**
- **OTHER**

The overall good performance of the Bank was supported by solid loan growth and improving credit quality across the three major business segments combined with higher securitization income. This was partially offset by sustained pressure on interest margins throughout the year and challenging capital market conditions, particularly in the second half of the year.

BUSINESS SEGMENTS

FOR THE YEARS ENDED OCTOBER 31 (IN THOUSANDS OF DOLLARS, EXCEPT PERCENTAGE AMOUNTS)

FINANCIAL HIGHLIGHTS 2011

RETAIL & SME-QUÉBEC

- Residential mortgage loan portfolio up 10%
- Average commercial loans up 18%
- Loan losses down 36%
- Average deposits up 7%

REAL ESTATE & COMMERCIAL

- Net income up 5%
- Average loan growth of 7%
- Loan losses down 23%
- Average deposits up 6%

B2B TRUST

- High Interest Investment Account balances up 10%
- Residential mortgage loans and home equity lines of credit up 9%
- Excellent credit quality

LAURENTIAN BANK SECURITIES & CAPITAL MARKETS

- Continued profitability in a relatively unfavourable environment

OTHER

- Significant increase in securitization income, totalling $35.5 million
- One-time charge of $7.7 million related to transaction cost

OVERVIEW	KEY ACCOMPLISHMENTS
The Retail & SME-Québec segment provides a full range of savings, investment and financing products, and transactional products and services offered through its direct distribution network, which includes branches, electronic networks, a call centre and a mobile sales force. This business segment also offers Visa credit card services, insurance products and trust services. As well, it offers a wide range of commercial financial services to small and medium-sized enterprises in Québec. With its network of 158 branches, 22 commercial banking centres and 427 automated banking machines, it operates the third largest retail branch network in Québec.	■ Deployed the Bank's customer relationship management (CRM) system and began to exploit its benefits ■ Reached a $1 billion milestone in SME-Québec loans ■ Concluded an agreement to become a principal distributor of Mackenzie mutual funds ■ Opened the second generation of financial services boutiques in select locations in Québec ■ Launched banking for mobile devices ■ Successfully optimized the mortgage workflow processes
The Real Estate & Commercial business segment includes two areas of operation. The first is real estate financing, specializing in financing for condominiums, office buildings, shopping centers and residential developments. The second is commercial financing, specializing in financing for medium-sized enterprises in Québec and Ontario. This segment also offers international services dedicated to the foreign trade activities of small and medium-sized businesses.	■ Generated strong growth in profitability despite challenging market conditions ■ Exceeded $3 billion in average commercial mortgages and loans ■ Developed new commercial lending niches including green banking, renewable energy and infrastructure ■ Maintained rigorous and disciplined underwriting standards while providing industry leading turnaround time and service ■ Invested in human capital by increasing the number of account managers, improving service and expertise
The B2B Trust business segment is a leader in the financial intermediary market, offering personal banking products through a network of over 15,000 (22,000 after the acquisition of the MRS Companies) independent financial advisors. Products include investment loans, RRSP loans, mortgage loans, high yield investment accounts and self-directed accounts.	■ Acquired M.R.S. Trust Company and M.R.S. Inc. ■ Implemented key operational process changes resulting in better service to its advisors ■ Launched an investment loan cash back campaign during difficult market conditions demonstrating B2B Trust's leadership in this market and commitment to being competitive in key products ■ Invested in B2B Trust's business development resulting in new distribution alliances which now approximate 70 ■ Increased presence in and support for the Bank's key distribution channels
The Laurentian Bank Securities & Capital Markets business segment provides full-service brokerage services to retail and institutional clients and manages bank-related capital market activities. Its Institutional Fixed Income division has a particularly strong presence in Government and Corporate underwriting, as well as in secondary markets. Its Institutional Services Group largely serves small- and mid-sized money managers and brokerage firms.	■ Built new relationships and strengthened existing ones with Institutional Fixed Income clients ■ Further differentiated LBS' operation as a small cap brokerage firm ■ Managed risk prudently in volatile markets ■ Maintained disciplined expense management
The Other segment includes the activities of the Bank's various corporate support sectors, mainly Treasury, Credit, Finance, Risk Management, Technology, Operations, Corporate Affairs and Human Resources. Revenues and expenses from these sectors are generally reallocated to the other business segments. However, certain treasury operations such as securitization activities, liquidity management and other corporate activities are reported in this segment.	■ Successfully issued $250 million of medium term notes (subordinated debt) ■ Converted smoothly and seamlessly to IFRS on November 1, 2011 ■ Major upgrade to Corporate Treasury's technology infrastructure ■ Managed margins effectively given the challenging interest rate environment ■ Improved regulatory compliance processes and procedures

PRIORITIES FOR 2012

- Increase the Bank's share of wallet per customer
- Continue building specialist teams to serve the Québec SME market
- Improve operational efficiency through end-to-end process streamlining
- Pursue the Bank's differentiated and improved client experience with the help of its CRM system
- Increase the proportion of other income to total revenues

SEGMENT CONTRIBUTION

TABLE 3

	2011	2010	2009
Net interest income	$ 319,113	$ 323,740	$ 305,959
Other income	133,939	129,774	119,965
Total revenue	453,052	453,514	425,924
Provision for loan losses	26,172	40,919	41,887
Non-interest expenses	371,258	352,621	333,475
Income from continuing operations before income taxes	55,622	59,974	50,562
Income taxes	11,163	12,961	10,939
Income from continuing operations	44,459	47,013	39,623
Income from discontinued operations, net of income taxes	–	–	11,469
Net income	$ 44,459	$ 47,013	$ 51,092
Efficiency ratio [1]	81.9%	77.8%	78.3%
Average loans and acceptances	$ 12,367,132	$ 11,688,722	$ 10,836,421
Average deposits	$ 9,146,968	$ 8,580,912	$ 7,881,703

(1) Refer to the non-GAAP financial measures on page 67.

- Grow the balance sheet profitably and within acceptable risk parameters
- Diversify exposure through loan syndication
- Invest in human capital in the areas of business development and support staff
- Build on existing success in commercial lending and develop new market niches
- Invest in information technology to sustain good efficiency ratios

TABLE 4

	2011	2010	2009
Net interest income	$ 87,710	$ 84,475	$ 67,598
Other income	33,738	34,852	25,915
Total revenue	121,448	119,327	93,513
Provision for loan losses	18,687	24,124	9,817
Non-interest expenses	30,241	24,801	33,589
Income before income taxes	72,520	70,402	50,107
Income taxes	20,762	21,313	15,686
Net income	$ 51,758	$ 49,089	$ 34,421
Efficiency ratio [1]	24.9%	20.8%	35.9%
Average loans and acceptances	$ 3,112,684	$ 2,896,376	$ 2,389,349
Average deposits	$ 513,690	$ 485,012	$ 298,245

(1) Refer to the non-GAAP financial measures on page 67.

- Effectively integrate the MRS Companies into B2B Trust to generate the expected revenue and expenses synergies
- Transition B2B Trust to B2B Bank
- Further the pursuit of operational excellence by re-engineering key operational processes

TABLE 5

	2011	2010	2009
Net interest income	$ 117,426	$ 114,194	$ 90,696
Other income	8,966	10,419	9,560
Total revenue	126,392	124,613	100,256
Provision for loan losses	1,789	2,957	4,296
Non-interest expenses	66,173	54,449	48,995
Income before income taxes	58,430	67,207	46,965
Income taxes	16,564	20,813	14,873
Net income	$ 41,866	$ 46,394	$ 32,092
Efficiency ratio [1]	52.4%	43.7%	48.9%
Average loans and acceptances	$5,379,140	$ 4,973,835	$4,255,268
Average deposits	$9,213,139	$ 9,232,384	$7,892,823

(1) Refer to the non-GAAP financial measures on page 67.

- Expand footprint in Fixed Income
- Further capitalize on the small cap market niche in Institutional Equities
- Continue gradual development of Retail Brokerage operations
- Pursue increased presence and development of the Institutional Services Group

TABLE 6

	2011	2010	2009
Total revenue	$ 56,353	$ 61,115	$ 61,573
Non-interest expenses	47,902	46,938	43,473
Income before income taxes	8,451	14,177	18,100
Income taxes	2,180	4,189	6,124
Net income	$ 6,271	$ 9,988	$ 11,976
Efficiency ratio [1]	85.0%	76.8%	70.6%
Clients' brokerage assets	$2,153,893	$2,274,998	$1,969,917

(1) Refer to the non-GAAP financial measures on page 67.

- Ensure readiness of capital adequacy and liquidity management under new Basel III international regulatory requirements
- Keep corporate expense growth to a minimum, given the challenging business environment
- Deliver a series of major IT projects aimed at keeping the Bank's operating environment up to date and strategically propelling each line of business
- Help ensure the integration of the MRS Companies
- Continue to improve processes to ensure compliance as the regulatory environment evolves

TABLE 7

	2011	2010	2009
Net interest income	$(43,334)	$(28,429)	$(42,830)
Other income	39,672	7,306	28,066
Total revenue (loss)	(3,662)	(21,123)	(14,764)
Provision for loan losses	352	–	–
Non-interest expenses [1]	27,285	25,427	12,458
Loss before income taxes	(31,299)	(46,550)	(27,222)
Income taxes recovered	(14,434)	(17,007)	(10,774)
Net loss	$(16,865)	$(29,543)	$(16,448)

(1) Includes a $7.7 million compensation for the termination in 2012 of the existing distribution agreement of IA Clarington funds.

The Retail & SME-Québec business segment's contribution to net income was $44.5 million in 2011, compared to $47.0 million for 2010.

Total revenue was relatively stable year-over-year; from $453.5 million in 2010 to $453.1 million in 2011, as growth in other income resulting from business growth was offset by lower net interest income. Throughout the year, although the business segment generated strong and steady increases in loan and deposit volumes as it capitalized on various growth initiatives and sustained demand for retail credit, it also operated in a particularly low and competitive interest rate environment which compressed margins and adversely impacted net interest income. However, credit insurance revenues, income from the sale of mutual funds and card service revenues all improved year-over-year as significant efforts were made to diversify income sources. This has proven to be beneficial in the current low interest rate environment.

Loan losses decreased by $14.7 million and were $26.2 million in 2011 compared to $40.9 million in 2010. This significant progress is due to the good credit quality of all loan portfolios, with particularly marked improvements in the point-of-sale financing and SME loan portfolios.

Non-interest expenses increased by $18.7 million, from $352.6 million in 2010 to $371.3 million in 2011, essentially due to higher salaries expense resulting from regular salary increases, the hiring of new commercial account managers, and higher employee benefits, in particular pension costs. These increases were partially offset by various cost control initiatives.

The Real Estate & Commercial business segment's contribution to net income improved by $2.7 million, or 5%, to $51.8 million in 2011, compared with $49.1 million in 2010.

Total revenue increased by $2.1 million, from $119.3 million in 2010 to $121.4 million in 2011, mainly driven by higher net interest income resulting from strong loan and deposit volume growth. Other income decreased slightly in 2011 due to lower stamping fees and reduced revenue from foreign exchange operations stemming from a relatively stable currency environment.

Loan losses were lower at $18.7 million in 2011, compared with $24.1 million in 2010. The decrease mainly reflects the sharp improvement in the Ontario commercial loan portfolio which was particularly affected last year. Overall credit quality has further improved during the year, as evidenced by the lower level of impaired loans.

Non-interest expenses increased by $5.4 million, from $24.8 million in 2010 to $30.2 million in 2011, mainly as results for 2010 included a $3.3 million recovery related to a specific operational issue. Higher pension costs, as well as salaries and hiring fees related to sales force and management development also contributed to the overall increase in 2011.

The B2B Trust business segment's contribution to net income amounted to $41.9 million in 2011, compared with $46.4 million in 2010. Excluding the impact of MRS integration expenses of $0.4 million (net of income taxes) in the fourth quarter of 2011, net income was $42.3 million.

Total revenue increased by $1.8 million, from $124.6 million in 2010 to $126.4 million in 2011. Net interest income increased by $3.2 million year-over-year, as B2B Trust saw increased margins on the High Interest Investment Accounts and term deposits and generated growth in loan and deposit volumes, partially offset by reduced margins on loans. Income from registered self-directed plans was lower in 2011 due to a reduced number of accounts.

Provision for loan losses, including losses on investment lending activities, further decreased to $1.8 million in 2011, compared with $3.0 million in 2010, reflecting the quality of B2B Trust's loan portfolio and underwriting standards.

Non-interest expenses rose from $54.4 million in 2010 to $66.2 million in 2011, mainly from the effect of additional employees required to support increased business activity and enhanced service levels, combined with higher rental costs related to new leased premises and increased professional services costs related to ongoing business development initiatives. Non-interest expenses in 2011 were also impacted by integration costs of $0.5 million related to the acquisition of the MRS Companies.

For the year ended October 31, 2011, the Laurentian Bank Securities & Capital Markets business segment's contribution to net income was $6.3 million, a decrease of $3.7 million compared to $10.0 million in 2010.

Total revenue decreased by $4.8 million in 2011 as a result of lower underwriting fees and trading income stemming from the challenging market conditions in the latter part of the year. Reduced retail brokerage income, resulting from lower fees and commissions related to the Immigrant Investor Program, also contributed to the overall decrease.

Non-interest expenses increased by 2% or $1.0 million, as increases resulting from the growth in clientele and new representatives were only partially offset by lower performance-based compensation due to lower market-driven income and reduced commissions.

The Other segment posted a negative contribution to net income of $16.9 million in 2011, compared with a negative contribution of $29.5 million in 2010. Excluding one-time transaction cost of $5.5 million (net of income taxes) related to the compensation for the termination in 2012 of the existing distribution agreement of IA Clarington funds, negative contribution to net income was $11.4 million.

Net interest income decreased significantly in 2011 mainly due to the higher volume of mortgage loans that were securitized and the lower level and yield on securities held to hedge securitization activities. Under current Canadian GAAP, higher levels of securitized assets increase the forgone net interest income related to securitized loans recorded in the Other sector, as these loans and accompanying interest income remain in the Retail & SME-Québec and B2B Trust segments for segmented information purposes. The decrease in net interest income was more than offset by stronger gains on new securitizations during the year, as the Bank profited from the decline in interest rates to secure low-cost medium term funding.

Moreover, 2011 results include a one-time charge of $7.7 million before taxes for compensation related to the termination in 2012 of the existing distribution agreement of IA Clarington funds resulting from the signing of a new distribution agreement of Mackenzie funds.

HIGHLIGHTS OF 2011

- NET INCOME, UP 4% TO $127.5 MILLION, RETURN ON COMMON SHAREHOLDERS' EQUITY OF 11.0% AND DILUTED EARNINGS PER SHARE OF $4.81
- STRONG LOAN GROWTH OF 8% INCLUDING SECURITIZED LOANS
- SIGNIFICANT IMPROVEMENT IN CREDIT QUALITY WITH LOAN LOSSES DOWN 31% YEAR-OVER-YEAR
- BEFORE ONE-TIME TRANSACTION AND INTEGRATION COSTS:
  - RECORD NET INCOME OF $133.3 MILLION, UP 8% YEAR-OVER-YEAR
  - RETURN ON COMMON SHAREHOLDERS' EQUITY OF 11.6%
  - DILUTED EARNINGS PER SHARE OF $5.05, UP 9% YEAR-OVER-YEAR

TABLE 1

CONSOLIDATED RESULTS

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

	2011	2010	2009	VARIANCE 11 / 10
Net interest income	**$484,061**	$496,421	$423,777	(2)%
Other income	**269,522**	241,025	242,725	12
Total revenue	**753,583**	737,446	666,502	2
Provision for loan losses	**47,000**	68,000	56,000	(31)
Non-interest expenses	**542,859**	504,236	471,990	8
Income from continuing operations before income taxes	**163,724**	165,210	138,512	(1)
Income taxes	**36,235**	42,269	36,848	(14)
Income from continuing operations	**127,489**	122,941	101,664	4
Income from discontinued operations, net of income taxes	**–**	–	11,469	n.a.
Net income	**$127,489**	$122,941	$113,133	4%
Preferred share dividends, including applicable taxes	**$ 12,436**	$ 12,122	$ 12,116	3%
Net income available to common shareholders	**$115,053**	$110,819	$101,017	4%
Average number of common shares outstanding (in thousands)				
Basic	**23,924**	23,921	23,858	
Diluted	**23,943**	23,937	23,876	
Earnings per share from continuing operations				
Basic	**$ 4.81**	$ 4.63	$ 3.75	4%
Diluted	**$ 4.81**	$ 4.63	$ 3.75	4%
Earnings per share				
Basic	**$ 4.81**	$ 4.63	$ 4.23	4%
Diluted	**$ 4.81**	$ 4.63	$ 4.23	4%
Return on common shareholders' equity [1]	**11.0%**	11.5%	11.4%	
Return on common shareholders' equity for continuing operations [1]	**11.0%**	11.5%	10.1%	
Excluding Transaction and Integration Costs [1]				
Adjusted net income	**$133,329**	$ 122,941	$113,133	8%
Adjusted diluted earnings per share	**$ 5.05**	$ 4.63	$ 4.23	9%
Adjusted return on common shareholders' equity	**11.6%**	11.5%	11.4%	

(1) Refer to the non-GAAP financial measures on page 67.

2011 FINANCIAL PERFORMANCE

The Bank met its return on common shareholders' equity and diluted earnings per share objectives for fiscal 2011 both before and after taking one-time T&I Costs into consideration and posted, for the fifth year in a row, new record profitability.

This overall satisfactory performance resulted from higher securitization and fee-based income, as well as continued improvements in the credit quality of the Bank's loan portfolio. Furthermore, all the Bank's business lines generated strong organic growth. The 8% increase in its loan portfolio, including securitized loans, represents one of the highest growth rates in the industry. However, revenue growth and efficiency ratio objectives were not achieved. Throughout the year, revenue growth was limited by continued pressure on interest margins resulting from the very competitive, low interest rate environment, which more than offset the volume growth in the loan and deposit portfolios. Also, essentially as a result of lower revenues, and despite additional measures undertaken in the year to further control expenses, the Bank's efficiency ratio was higher than originally targeted.

TABLE 2

PERFORMANCE INDICATORS

		2011 RESULTS	
	2011 OBJECTIVES	AS REPORTED	EXCLUDING TRANSACTION AND INTEGRATION COSTS[1]
Revenue growth	>5%	2%	**2%**
Efficiency ratio [1]	70% to 67%	72.0%	**71.0%**
Return on common shareholders' equity [1]	11.0% to 13.0%	11.0%	**11.6%**
Diluted earnings per share	$4.80 to $5.40	$4.81	**$5.05**

(1) Refer to the non-GAAP financial measures on page 67.

OUTLOOK AND OBJECTIVES FOR 2012

ECONOMIC OUTLOOK:
SOVEREIGN DEBT CONCERNS CONSTRAIN ECONOMIC GROWTH

At the end of 2011, the global economic landscape is characterized by diverging trends, which should persist through 2012. Economic activity in developed countries is expected to slow significantly while emerging market economies should remain relatively strong. More specifically, the sovereign debt crisis in the Euro-zone remains the main downside risk to the Bank's global forecast as it causes financial market turbulence which directly impacts confidence and, ultimately, liquidity.

As for North American economic growth, the United States (U.S.) finally regained the ground it lost during the 2008 recession at the end of the summer of 2011. However, the world's largest economy remains vulnerable and only modest growth in real GDP is expected through 2012-13. This reflects on-going household deleveraging, persistent shaky housing market activity and a poor labour market.

In Canada, the modest U.S. growth foreseen for 2012 will have a direct impact on economic activity as a result of weaker merchandise exports. This, along with smaller contributions from business investment and government spending, will lead to slower overall real GDP growth in 2012. As for households, they have already started to slow their pace of consumption in order to rebalance their budgets and may not necessarily respond aggressively to the current low interest rate environment. Furthermore, residential construction activity is also forecast to decelerate gradually throughout 2012. Regarding the foreign exchange market, the Bank expects the Canadian dollar to stay close to parity with the U.S. dollar.

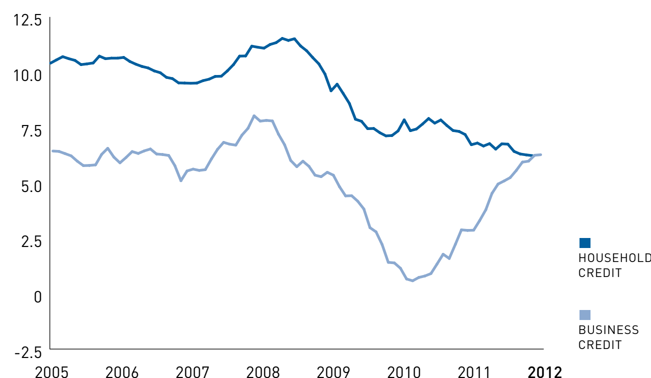
Notwithstanding a reduced contribution from households, businesses and governments in 2012, a weaker external sector, and the risk of financial instability, the Bank does not believe that the Canadian economy will fall back into recession, short of a major international financial shock. Nevertheless, the downside risks are obviously higher than one year ago.

All things considered, the Bank has revised its real GDP growth forecasts for Canada and now expects real GDP growth to reach 1.8% in 2012, from 2.2% in 2011, before reaccelerating modestly to 2.3% in 2013. Such growth rates should prevent the rate of unemployment from declining significantly from the current 7.4% (7.6% in Québec).

In Québec, as in the rest of Canada, 2012 will be impacted by a weaker external sector and a cooling housing market. As well, the necessary effort by the provincial government to restore fiscal balance by 2014 as promised will have a dampening effect on the economy; real GDP growth is expected to reach only 1.5%.

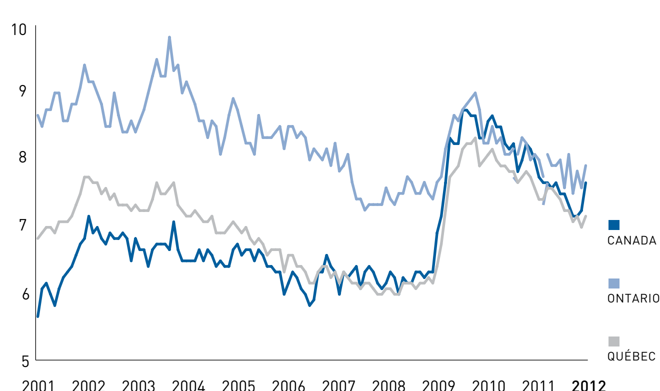
Since September 2010, the Bank of Canada has kept its key interest rate at 1.00%. This long pause should last another year at the very least given the uncertain external economic and financial outlook.

CREDIT GROWTH IN CANADA
(year-over-year change in percentage)



Source: Bank of Canada/Haver Analytics

UNEMPLOYMENT RATES
(as a percentage)



Source: Statistics Canada/Haver Analytics

HOW WE WILL MEASURE OUR PERFORMANCE IN 2012

As discussed above, the economic outlook remains a significant source of concern. However, the Canadian and Québec economies should continue to grow, although at a slower pace, which should provide ample opportunities. The Bank has shown in the recent past its ability and agility to manoeuvre in particular economic context and Management is confident that the Bank will again take advantage of the current conditions.

The objectives below are based on expected 2012 results presented on an IFRS basis. The Bank has finalized its preliminary unaudited opening IFRS balance sheet as at November 1, 2010, which is presented on page 63 of this MD&A. The Bank is planning to release in January 2012 its final version of the restated statement of income for 2011 under IFRS. Revenue growth will be determined with reference to the restated 2011 IFRS comparative figures which have yet to be finalized. Therefore, the actual objectives may be adjusted upon completion of the conversion process in 2012. Please refer to the International Financial Reporting Standards section of this MD&A for a detailed analysis of the expected impact of IFRS.

TABLE 8

2012 FINANCIAL OBJECTIVES

	EXPECTED 2011 RESULTS UNDER IFRS [2]	2012 OBJECTIVES [3]
Revenue growth	**n.a.**	**> 5%**
Efficiency ratio [1]	**71% to 70%**	**73% to 70%**
Return on common shareholders' equity [1]	**12.8% to 13.3%**	**11.0% to 13.5%**
Diluted earnings per share	**$4.85 to $5.05**	**$4.80 to $5.40**

(1) Refer to the non-GAAP financial measures on page 67.
(2) Expected results for 2011 are determined with reference to the preliminary restated 2011 IFRS comparative figures and exclude Transaction and Integration Costs. Therefore, the actual results may be adjusted upon completion of the conversion process in 2012.
(3) These objectives for 2012 exclude Transaction and Integration Costs and 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. The Bank's objectives do not constitute guidance and are based on certain key planning assumptions. In addition, uncertainties regarding potential accounting standard changes and potential regulatory changes could cause actual results to differ materially from management 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 for 2012 reflect management's confidence in the sustainability of the Bank's operating profitability. However, the ongoing uncertainty in the Canadian economy, with continued challenges stemming from international financial instability, very low interest rates and strong competition for retail deposits and loans leads to persistent pressure on pricing and margins. Nonetheless, these challenges should be compensated by good loan and deposit growth anticipated in 2012 as well as higher other income stemming from various business initiatives and increased sales capabilities of the Bank. The targets for 2012 also incorporate increased spending necessary to meet heightened regulatory requirements as well as investments in technology and people to support growth and service levels. These targets exclude expected integration costs related to the acquisition of the MRS Companies. Despite the challenges stemming from the business environment expected in the upcoming year, management remains confident that the Bank can provide continued solid return on common shareholders' equity by maintaining appropriate cost controls while effectively executing its business plan.

TRANSACTIONS WITH MACKENZIE FINANCIAL

On November 16, 2011, the Bank and Mackenzie Financial Corporation (Mackenzie) concluded an agreement pursuant to which B2B Trust, a subsidiary of the Laurentian Bank, acquired 100% of the MRS Companies in a share purchase transaction. Relevant regulatory approvals required to complete this transaction have been obtained.

The transaction strengthens B2B Trust's product line as it is a leader in offering loan and deposit products to financial advisors while MRS is among the leaders offering self-directed registered products to this group. The final purchase price will be based on the audited net book value of the MRS Companies as at the closing date, plus a premium of $50.0 million, and should approximate $199.5 million, to be paid in cash. Integration is underway and should take 12 to 18 months to complete. Total integration and conversion costs should approximate $38.0 million, of which one-third would relate to new IT system investments. A further $7.7 million was also expensed in 2011 for the termination of a mutual funds distribution agreement, as detailed below. The transaction should be accretive to net earnings as early as 2013, upon the completion of the greater part of the integration process and the materialization of expected cost and revenue synergies.

On October 14, 2011, the Bank and Mackenzie Investments entered into a distribution agreement for a preferred series of Mackenzie mutual funds. Under this agreement, the Bank, as principal distributor, will distribute starting in mid-January 2012 a preferred series of Mackenzie mutual funds. The Bank expects that this new distribution agreement will be gradually accretive starting next year. As a result, the Bank decided to terminate in 2012 the existing distribution agreement of IA Clarington funds and accrued a $7.7 million compensation charge.

ANALYSIS OF CONSOLIDATED RESULTS

For the year ended October 31, 2011, net income improved by 4% and totalled $127.5 million or $4.81 diluted per share, compared with $122.9 million or $4.63 diluted per share in 2010.

Excluding the T&I Costs presented in the table below, net income improved by 8% and was $133.3 million or $5.05 diluted per share.

TABLE 9
IMPACT OF TRANSACTION AND INTEGRATION COSTS
For the year ended October 31, 2011 (in thousands of dollars, except per share amounts)

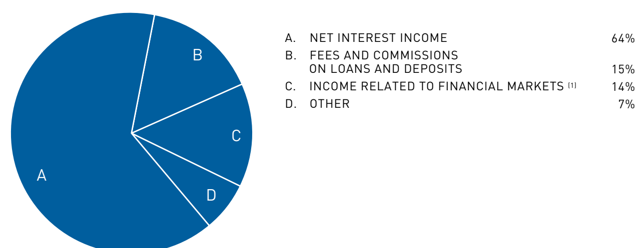
	SEGMENT	ITEMS BEFORE INCOME TAXES	ITEMS NET OF INCOME TAXES	DILUTED, PER COMMON SHARE[1]
Net income as per consolidated statement of income			**$127,489**	**$4.81**
Transaction and Integration Costs:				
Integration-related costs	B2B Trust	**$ 523**	**375**	**0.02**
Compensation for the termination in 2012 of the existing distribution agreement of IA Clarington funds	Other	**7,657**	**5,465**	**0.23**
		$8,180	**5,840**	**0.24**
Net income excluding Transaction and Integration Costs			**$133,329**	**$5.05**

(1) The impact of Transaction and Integration Costs on a per share basis does not add due to rounding.

TOTAL REVENUE

Total revenue increased to $753.6 million for the year ended October 31, 2011, compared to $737.4 million for the year ended October 31, 2010. Net interest income decreased by 2% to $484.1 million, while other income increased by 12% to $269.5 million, as detailed below.

TOTAL REVENUE MIX
(as a percentage)



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

NET INTEREST INCOME

Net interest income decreased to $484.1 million for the year ended October 31, 2011 compared with $496.4 million for the year ended October 31, 2010, as increases in loan and deposit volumes were more than offset by margin compression. As a percentage of average assets, net interest margin was 13 basis points lower at 2.02% during 2011, largely due to competitive pricing, the continuing low interest rate environment and a flatter yield curve. The ongoing run-off of higher margin point-of-sale loans throughout the year, as well as the change in hedging strategies related to securitization activities initiated in the first quarter of 2011, which generated a shift of some net interest income to other income, also impacted interest margins. Table 10 provides a summary of net interest income.

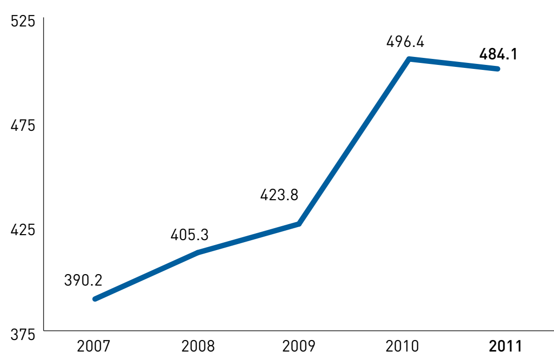
The Bank uses derivatives to manage the interest rate risk associated with some of its loan and deposit portfolios. In 2011, interest rate swaps generated revenues of $66.5 million and partly compensated lower interest income stemming from variable rate loan portfolios resulting from the low interest 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 52 of this MD&A.

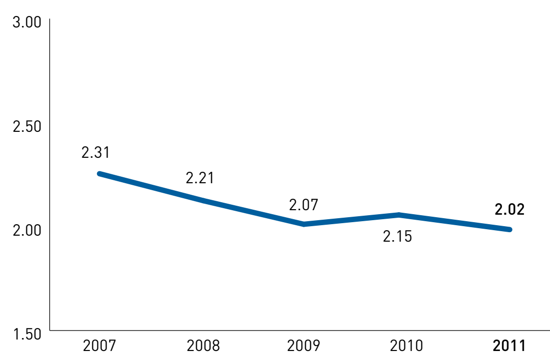
TABLE 10
CHANGES IN NET INTEREST INCOME
For the years ended October 31 (in thousands of dollars, except percentage amounts)

				2011				2010
	AVERAGE VOLUME IN %	AVERAGE VOLUME	INTEREST	AVERAGE RATE	AVERAGE VOLUME IN %	AVERAGE VOLUME	INTEREST	AVERAGE RATE
Assets								
Cash resources and securities	20.1%	$ 4,813,135	$ 66,864	1.39%	20.5%	$ 4,736,468	$ 73,273	1.55%
Securities purchased under reverse repurchase agreements	2.3	557,993	6,640	1.19	2.6	598,983	3,240	0.54
Loans								
Personal	23.6	5,646,273	278,056	4.92	24.5	5,653,441	266,030	4.71
Residential mortgage	36.0	8,631,467	350,902	4.07	34.8	8,030,720	340,581	4.24
Commercial mortgage	7.0	1,677,362	87,262	5.20	6.1	1,419,800	74,283	5.23
Commercial and other	7.9	1,903,313	86,135	4.53	7.7	1,781,472	73,543	4.13
Derivatives	–	–	66,475	–	–	–	116,273	–
Other assets	3.1	750,441	–	–	3.8	872,534	–	–
Total – assets	100.0%	$23,979,984	$942,334	3.93%	100.0%	$23,093,418	$947,223	4.10%
Liabilities and shareholders' equity								
Demand and notice deposits		$ 7,138,208	$ 66,653	0.93%		$ 7,056,613	$ 48,417	0.69%
Term deposits		12,752,672	377,810	2.96		11,940,790	391,636	3.28
Obligations related to securities sold short or under repurchase agreements		1,783,774	2,236	0.13		1,991,117	3,011	0.15
Acceptances		181,788	–	–		198,337	–	–
Other liabilities		570,891	–	–		558,827	–	–
Subordinated debt		278,008	11,574	4.16		150,000	7,738	5.16
Shareholders' equity		1,274,643	–	–		1,197,734	–	–
Total – liabilities and shareholders' equity		$23,979,984	$458,273	1.91%		$23,093,418	$450,802	1.95%
Net interest income			$484,061	2.02%			$496,421	2.15%

TABLE 11
ANALYSIS OF CHANGE IN NET INTEREST INCOME
For the years ended October 31 (in thousands of dollars)

			2011 / 2010			2010 / 2009
	Increase (decrease) due to change in			Increase (decrease) due to change in		
	AVERAGE VOLUME	AVERAGE RATE	NET CHANGE	AVERAGE VOLUME	AVERAGE RATE	NET CHANGE
Assets	$17,320	$(22,209)	$ (4,889)	$32,189	$(17,055)	$15,134
Liabilities	9,193	(16,664)	(7,471)	39,766	17,744	57,510
Net interest income	$26,513	$(38,873)	$(12,360)	$71,955	$ 689	$72,644





OTHER INCOME

Other income increased to $269.5 million for the year ended October 31, 2011 from $241.0 million for the year ended October 31, 2010.

Fees and commissions on loans and deposits increased by 3% to $116.6 million for fiscal 2011 from $113.7 million in 2010, mainly driven by increased card service revenues, while deposit service charges and lending fees were relatively stable year-over-year. Higher card service revenues resulted from increased activity and higher annual fees.

Income from brokerage operations decreased by 9% to $48.4 million for fiscal 2011 from $52.9 million in 2010, as it was impacted by unfavourable market conditions in the latter part of the year.

Securitization income increased significantly to $35.5 million for fiscal 2011, compared with $6.0 million in 2010. In 2011, the Bank funded most of its strong mortgage loan growth through securitization as it was a favourably priced funding source given market conditions. In 2011, the Bank securitized $1.6 billion residential mortgage loans and generated gains on sale of $42.5 million, benefiting from higher excess spreads. Sales of $824.1 million residential mortgage loans in 2010 resulted in gains of $13.5 million. See Note 6 to the annual consolidated financial statements for further details.

Credit insurance revenues are mainly generated by insurance programs related to loans disbursed by the Bank. These revenues grew by 8% to $19.1 million for fiscal 2011 from $17.8 million in 2010, owing mainly to strong growth in mortgage loan portfolios and continued initiatives to improve distribution.

Income from treasury and financial market operations improved by 5% to $19.0 million for fiscal 2011 from $18.0 million in 2010, despite unsettled market conditions. This improvement was mainly the result of better returns on structured products and secondary liquidity management. Additional information related to the Bank's securities portfolio is presented in Note 4 to the annual consolidated financial statements.

Revenues from mutual funds improved by 15% to $17.3 million in fiscal 2011 compared with $15.0 million in 2010. The Bank's sustained efforts to develop this source of revenue resulted in growing sales and higher trailer fee income. Significant resources are devoted to train employees in order to better service and meet client needs. Starting in 2012, the new distribution agreement with Mackenzie should further contribute to develop this source of revenues.

Revenues from registered self-directed plans decreased by 16% to $7.3 million for fiscal 2011, while $8.7 million was earned in 2010. This was caused by increased competition and the gradual reduction in the number of accounts.

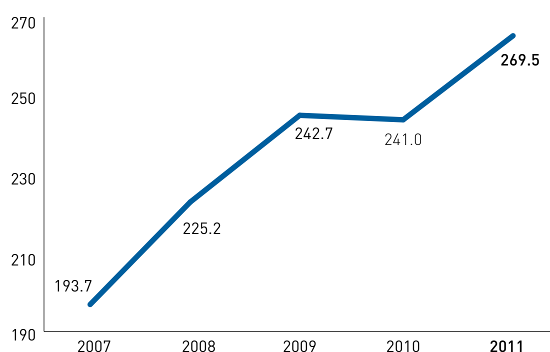


TABLE 12
OTHER INCOME
For the years ended October 31 (in thousands of dollars, except percentage amounts)

	2011	2010	2009	VARIANCE 11 / 10
Fees and commissions on loans and deposits				
Deposit service charges	**$ 53,805**	$ 54,172	$ 53,377	(1)%
Lending fees	**38,542**	38,985	30,028	(1)
Card service revenues	**24,248**	20,543	18,040	18
Sub-total – fees and commissions on loans and deposits	**116,595**	113,700	101,445	3
Other				
Income from brokerage operations	**48,429**	52,934	51,788	(9)
Securitization income	**35,486**	5,996	34,441	492
Credit insurance income	**19,141**	17,785	15,994	8
Income from treasury and financial market operations	**18,973**	18,035	10,472	5
Income from sales of mutual funds	**17,308**	15,012	12,429	15
Income from registered self-directed plans	**7,253**	8,680	7,960	(16)
Trust services	**959**	1,020	1,038	(6)
Other	**5,378**	7,863	7,158	32
Sub-total – other	**152,927**	127,325	141,280	20
Total – other income	**$269,522**	$241,025	$242,725	12%

PROVISION FOR LOAN LOSSES

The provision for loan losses amounted to $47.0 million for fiscal 2011, compared with $68.0 million in 2010, a 31% improvement. This significant decrease reflects the good credit quality of the Bank's loan portfolios, and was especially notable in the improvements in the commercial loan and point-of-sale personal loan portfolios. This attests to the Bank's continued prudent loan underwriting standards. Retail loan portfolios also performed well during the year, as borrowers continued to benefit from the low interest rate environment. The following table details the provision for loan losses from 2009 to 2011.

NON-INTEREST EXPENSES

Non-interest expenses totalled $542.9 million for fiscal 2011, up 8% compared with $504.2 million in 2010. Excluding the T&I Costs, non-interest expenses increased by 6% compared to last year.

Salaries and employee benefits costs increased from $276.0 million for the year ended October 31, 2010 to $293.9 million for the year ended October 31, 2011. The increase year-over-year is explained by regular salary increases and increased headcount in the business lines to support growth and quality service initiatives as well as to meet heightened regulatory requirements. Moreover, increased pension costs and higher compensation taxes on salaries more than offset lower performance-related charges.

TABLE 13
PROVISION FOR LOAN LOSSES
For the years ended October 31 (in thousands of dollars, except percentage amounts)

	2011	2010	2009
Personal loans	**$22,802**	$31,460	$37,112
Residential mortgage loans	**5,593**	3,486	1,527
Commercial mortgage loans	**5,282**	8,729	980
Commercial and other loans	**12,971**	24,325	16,381
Sub-total	**46,648**	68,000	56,000
Variance in general allowances	**352**	–	–
Total – provision for loan losses	**$47,000**	$68,000	$56,000
As a % of average loans and acceptances	**0.26%**	0.40%	0.38%

Premises and technology costs increased from $132.5 million for the year ended October 31, 2010 to $140.8 million for the year ended October 31, 2011. This increase mainly results from higher amortization expenses related to completed IT development projects, increases in the square footage of leased premises and continued investments in the Bank's technology infrastructure.

Other non-interest expenses increased by 4% from $95.7 million for the year ended October 31, 2010 to $99.9 million for the year ended October 31, 2011, mainly representing increased professional fees related to ongoing regulatory and other projects. In addition, results for 2010 included a $3.3 million recovery related to a specific operational issue.

Costs related to an acquisition and other are comprised of T&I Costs for the year ended October 31, 2011. These include a $7.7 million compensation charge for the termination in 2012 of the existing distribution agreement of IA Clarington funds and costs of $0.5 million incurred to initiate the integration process of the newly acquired MRS Companies.

Table 14 illustrates the changes in non-interest expenses from 2009 to 2011.

TABLE 14
NON-INTEREST EXPENSES

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

	2011	2010	2009	VARIANCE 11 / 10
Salaries and employee benefits				
Salaries	**$192,119**	$181,040	$166,256	
Employee benefits	**66,491**	55,795	46,629	
Performance-based compensation	**35,320**	39,129	36,773	
Sub-total – salaries and employee benefits	**293,930**	275,964	249,658	7%
Premises and technology				
Equipment and computer services	**54,234**	52,108	45,859	
Rent and property taxes	**39,892**	37,731	35,333	
Depreciation	**39,803**	35,987	32,380	
Maintenance and repairs	**5,460**	5,271	4,745	
Public utilities	**1,461**	1,355	1,361	
Other	**(11)**	88	376	
Sub-total – premises and technology	**140,839**	132,540	120,054	6%
Other				
Advertising and business development	**22,111**	22,089	21,057	
Fees and commissions	**24,468**	21,700	21,395	
Communications and travelling expenses	**19,575**	19,037	18,068	
Taxes and insurance	**16,999**	16,518	20,720	
Stationery and publications	**5,975**	5,962	5,905	
Recruitment and training	**3,448**	4,591	3,563	
Other	**7,334**	5,835	11,570	
Sub-total – other	**99,910**	95,732	102,278	4%
Costs related to an acquisition and other [1]	**8,180**	–	–	n.a.
Total – non interest expenses	**$542,859**	$504,236	$471,990	8%
As a % of total revenue (efficiency ratio) [2]	**72.0%**	68.4%	70.8%	
As a % of total revenue (efficiency ratio) – Excluding Transaction and Integration Costs [2]	**71.0%**	68.4%	70.8%	

(1) Integration costs related to the recently acquired MRS Companies and the compensation for the termination in 2012 of the existing distribution agreement of IA Clarington funds.
(2) Refer to the non-GAAP financial measures on page 67.

EFFICIENCY RATIO

The efficiency ratio increased to 72.0% for fiscal 2011 from 68.4% in 2010. Excluding the T&I Costs, the efficiency ratio was 71.0%. The deterioration in the efficiency ratio in 2011 is essentially due to margin compression which generated negative operating leverage in the year, despite strong volume growth in business segments.

The accompanying graph shows the Bank's performance in this regard over the last five years.

INCOME TAX EXPENSE

For fiscal 2011, income tax expense totalled $36.2 million and the effective income tax rate stood at 22.1%, compared with $42.3 million and 25.6%, respectively, for fiscal 2010. Note 17 to the annual consolidated financial statements provides further information on income tax expense. As detailed in the table below, the reduction in the effective tax rate is mainly due to the decrease in the statutory rate.

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

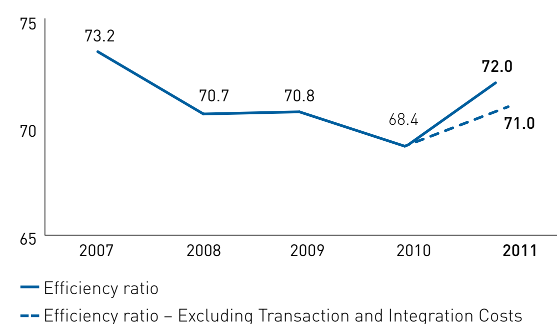


TABLE 15
RECONCILIATION OF THE INCOME TAX EXPENSE TO THE DOLLAR AMOUNT OF INCOME TAX USING THE STATUTORY RATE
For the years ended October 31 (in thousands of dollars, except percentage amounts)

	2011		2010	
Income taxes at statutory rates	**$46,839**	**28.6%**	$50,027	30.3%
Change resulting from:				
Income related to foreign credit insurance operations	**(5,275)**	**(3.2)**	(4,891)	(3.0)
Dividends and tax-exempt gains	**(3,626)**	**(2.2)**	(1,919)	(1.2)
	37,938	**23.2**	43,217	26.1
Resolution of income tax exposures	**–**	**–**	(1,010)	(0.6)
Tax rate changes	**–**	**–**	587	0.4
Other	**(1,703)**	**(1.1)**	(525)	(0.3)
Income taxes, as reported in the consolidated statement of income and effective tax rate	**$36,235**	**22.1%**	$42,269	25.6%

TRANSACTIONS WITH RELATED PARTIES

The Bank provides loans to directors and officers and their related companies. Loans to directors are granted under market conditions for similar risks and are measured at the exchanged amount. 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. 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. The Bank also offers employees a subsidy on annual credit card fees. See Note 19 to the annual consolidated financial statements for additional information on related party transactions.

OVERVIEW OF FISCAL 2010

For the year ended October 31, 2010, the Bank reported net income of $122.9 million, or diluted earnings of $4.63 per share, compared with $113.1 million, or diluted earnings of $4.23 per share in 2009. Return on common shareholders' equity was 11.5% in 2010, compared with 11.4% in 2009.

Net income in 2009 included income from discontinued operations of $11.5 million, or diluted earnings of $0.48 per share, related to the sale of asset management activities in fiscal 2005. Income from continuing operations was $101.7 million in 2009, or $3.75 diluted per share.

The Bank reported record results in 2010, despite the very challenging economic conditions around the world and fierce competition in most retail segments. The 21% increase in income from continuing operations over the previous year reflected the strong growth in mortgage loans and commercial loans, as well as a solid contribution from each business segment. These contributed to revenue growth in 2010, and more than compensated for the lost stream of revenue from discontinued operations, as well as for the significantly reduced income from securitization and higher loan losses compared with the prior year.

ANALYSIS OF QUARTERLY RESULTS

SUMMARY ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF FISCAL 2011

Net income was $28.6 million, or $1.06 diluted per share, for the fourth quarter ended October 31, 2011, compared with $32.5 million, or $1.24 diluted per share, for the fourth quarter of 2010. Excluding T&I Costs, net income was $34.4 million, or $1.31 diluted per share as presented in the table below.

TABLE 16
IMPACT OF TRANSACTION AND INTEGRATION COSTS

For the three months ended October 31, 2011 (in thousands of dollars, except per share amounts)

	SEGMENT	ITEMS BEFORE INCOME TAXES	ITEMS NET OF INCOME TAXES	DILUTED, PER COMMON SHARE (1)
Net income as per consolidated statement of income			**$28,572**	**$1.06**
Transaction and Integration Costs:				
Integration-related costs	B2B Trust	**$ 523**	**375**	**0.02**
Compensation for the termination in 2012 of the existing distribution agreement of IA Clarington funds	Other	**7,657**	**5,465**	**0.23**
		$8,180	**5,840**	**0.24**
Net income excluding Transaction and Integration Costs			**$34,412**	**$1.31**

(1) The impact of Transaction and Integration Costs on a per share basis does not add due to rounding.

Total revenue

Total revenue declined marginally year-over-year and stood at $187.4 million in the fourth quarter of 2011, compared with $190.1 million in the fourth quarter of 2010.

Net interest income decreased to $122.4 million for the fourth quarter of 2011, from $128.2 million in the fourth quarter of 2010, as strong loan and deposit growth year-over-year did not fully offset lower interest margins. When compared to the fourth quarter of 2010, margins decreased by 15 basis points to 2.00% in the fourth quarter of 2011. This decrease is mainly explained by intense competition in many markets, which continues to put pressure on loan and deposit pricing, particularly in the retail market, a flatter yield curve as well as the change in hedging strategies related to securitization activities as explained above.

Other income was $65.0 million in the fourth quarter of 2011, compared to $61.9 million in the fourth quarter of 2010, a 5% year-over-year increase. This increase is mainly attributable to securitization income which increased by $8.3 million year-over-year, mainly as a result of higher gains on $314.7 million of new mortgage loan securitizations during the quarter. Higher card service revenues resulting from higher transaction volumes in the fourth quarter also contributed to the increase in other income. These increases were partially offset by lower income from brokerage operations which were impacted by the current financial market environment.

Provision for loan losses

The provision for loan losses amounted to $12.0 million in the fourth quarter of 2011, down $4.0 million from $16.0 million in the fourth quarter of 2010. Specific provisions totalled $9.6 million in the quarter, while general provisions totalled $2.4 million.

Non-interest expenses

Non-interest expenses totalled $140.3 million for the fourth quarter of 2011, compared to $132.5 million for the fourth quarter of 2010; a 6% year-over-year increase. Excluding the T&I Costs, non-interest expenses decreased by $0.4 million to $132.1 million, as a result of continued expense management and strategies to improve efficiency.

Salaries and employee benefits increased slightly compared to the fourth quarter of 2010 as increases in salaries and pension costs were not fully offset by lower performance-related charges.

Premises and technology costs remained flat compared to the fourth quarter of 2010 as higher amortization expense related to IT development projects was offset by lower IT maintenance costs compared to last year.

Other non-interest expenses decreased by 8% to $23.1 million for the fourth quarter of 2011 from $25.2 million for the fourth quarter of 2010 due to tight expense management initiatives as demonstrated by lower advertising and recruitment fees compared to the same period last year.

T&I Costs for the fourth quarter of 2011 include a $7.7 million compensation charge for the termination in 2012 of the existing distribution agreement of IA Clarington funds and costs of $0.5 million related to the integration of the MRS Companies.

The efficiency ratio was 74.9% in the fourth quarter of 2011, compared with 69.7% in the fourth quarter of 2010. Excluding the T&I Costs, the efficiency ratio was 70.5%, marginally higher compared to last year.

Income taxes

For the quarter ended October 31, 2011, the income tax expense was $6.5 million and the effective tax rate was 18.6%. The lower tax rate, compared to the statutory rate, mainly resulted from

the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income and the lower taxation level on revenues from credit insurance operations. In addition, compared to the same quarter of 2010, income taxes for the fourth quarter ended October 31, 2011 benefited from the effect of the reduction in Federal income tax rates of 1.4% which became effective this year and a year-end favourable adjustment to future income taxes. For the quarter ended October 31, 2010, the income tax expense was $9.1 million and the effective tax rate was 21.8%.

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 the Bank's 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 2011 and 2010.

TABLE 17
QUARTERLY RESULTS

For the quarters ended (in thousands of dollars, except per share and percentage amounts)

				2011				2010
	Oct. 31	July 31	April 30	Jan. 31	Oct. 31	July 31	April 30	Jan. 31
Net interest income	$122,391	$123,818	$116,434	$121,418	$128,202	$129,870	$117,633	$120,716
Other income	65,023	67,155	69,283	68,061	61,872	58,940	60,480	59,733
Total revenue	187,414	190,973	185,717	189,479	190,074	188,810	178,113	180,449
Provision for loan losses	12,000	8,000	12,000	15,000	16,000	20,000	16,000	16,000
Non-interest expenses	140,305	136,772	134,824	130,958	132,484	127,820	123,549	120,383
Income before income taxes	35,109	46,201	38,893	43,521	41,590	40,990	38,564	44,066
Income taxes	6,537	10,919	8,751	10,028	9,076	10,926	10,215	12,052
Net income	$ 28,572	$ 35,282	$ 30,142	$ 33,493	$ 32,514	$ 30,064	$ 28,349	$ 32,014
Earnings per share								
Basic	$ 1.06	$ 1.34	$ 1.13	$ 1.27	$ 1.24	$ 1.13	$ 1.06	$ 1.21
Diluted	$ 1.06	$ 1.34	$ 1.13	$ 1.27	$ 1.24	$ 1.13	$ 1.06	$ 1.21
Net interest margin [1]	2.00%	2.03%	2.01%	2.03%	2.15%	2.22%	2.10%	2.13%
Return on common shareholders' equity [1]	9.4%	12.1%	10.7%	11.9%	11.8%	11.0%	10.9%	12.3%
Segment net income (loss)								
Retail & SME–Québec	$ 11,057	$ 11,745	$ 10,066	$ 11,591	$ 9,746	$ 14,633	$ 10,082	$ 12,552
Real Estate & Commercial	13,793	14,147	12,534	11,284	12,319	10,427	13,655	12,688
B2B Trust	10,412	10,670	10,291	10,493	12,156	11,818	11,359	11,061
Laurentian Bank Securities and Capital Markets	131	686	2,732	2,722	3,468	2,100	2,586	1,834
Other	(6,821)	(1,966)	(5,481)	(2,597)	(5,175)	(8,914)	(9,333)	(6,121)
Net income	$ 28,572	$ 35,282	$ 30,142	$ 33,493	$ 32,514	$ 30,064	$ 28,349	$ 32,014

(1) Refer to the non-GAAP financial measures on page 67.

Over the past eight quarters, net income has generally trended upward, driven mainly by sustained growth in loan and deposit portfolios combined with overall improvements in credit quality. Throughout the year, the Bank's increased level of securitization activity generated higher gains from securitization transactions in the Other segment, which improved other income markedly. Furthermore, certain specific factors, as detailed below, have affected results during fiscal 2011 and 2010.

2011

- In the third quarter of 2011, the provision for loan losses decreased to $8.0 million due to the overall improvement in the Bank's portfolios, including a $1.7 million recovery on a commercial mortgage exposure. In addition, general allowances were reduced by a net $2.1 million as a result of adjustments to provisioning models in anticipation of conversion to IFRS.
- In the three last quarters of 2011, net interest income decreased, as strong loan and deposit growth year-over-year did not fully offset lower interest margins resulting from competition in many markets and the low interest rate environment. In addition, the decrease in margins is also explained by the change in hedging strategies related to securitization activities initiated in the first quarter of 2011, which generated a shift of some net interest income to other income.
- Laurentian Bank Securities & Capital Markets results for the third and fourth quarter were negatively affected by unfavourable market conditions creating a difficult environment for underwriting and trading activities, resulting in lower brokerage and trading revenues.

- On October 14, 2011, the Bank entered into a distribution agreement for a preferred series of Mackenzie mutual funds as of January 2012. As a result, in the fourth quarter of 2011, the Bank accrued a $7.7 million compensation for the termination in 2012 of the existing distribution agreement of IA Clarington funds.

2010

- In the third and fourth quarter of 2010, net interest income increased mainly due to continued growth in loan and deposit volumes.
- In the third quarter of 2010, loan losses increased to $20.0 million and were particularly affected by a $5.0 million loss on a single commercial exposure, while the credit quality of most retail portfolios had improved.
- In the fourth quarter of 2010, Retail & SME-Québec results were particularly affected by lower net interest income. The decrease in net interest income compared with the third quarter is also explained by above average prepayment penalties for the third quarter, as a result of the higher level of mortgage loan prepayments.

ANALYSIS OF FINANCIAL CONDITION

Over the past three years, the sustained growth in the Bank's businesses has steadily increased earnings and improved its ability to reinforce its capital through internal capital generation. This strong capital position provides the Bank with the added flexibility to pursue its growth initiatives and to meet new pending regulatory capital requirements.

As at October 31, 2011, the Bank reported total assets of $24.5 billion, compared with $23.8 billion as at October 31, 2010, as shown in Table 18. Assets under administration amounted to $15.5 billion, compared with $15.0 billion at the end of fiscal 2010. These changes are explained in the following sections of this MD&A.

TABLE 18
BALANCE SHEET ASSETS
As at October 31 (in thousands of dollars, except percentage amounts)

	2011	2010	2009	VARIANCE 11 / 10
Cash, deposits with other banks and securities	**$ 4,648,073**	$ 4,424,903	$ 4,732,799	5%
Securities purchased under reverse repurchase agreements	**318,753**	803,874	536,064	(60)
Loans				
Personal	**5,768,787**	5,630,788	5,655,055	2
Residential mortgage	**8,928,544**	8,582,548	7,219,830	4
Commercial mortgage	**1,813,293**	1,638,861	1,285,012	11
Commercial and other	**1,900,977**	1,691,190	1,555,956	12
	18,411,601	17,543,387	15,715,853	5
Allowances for loan losses	**(149,743)**	(138,143)	(114,546)	8
Total loans	**18,261,858**	17,405,244	15,601,307	5
Customers' liabilities under acceptances	**179,140**	165,450	216,817	8
Other assets	**1,082,627**	972,667	1,053,134	11
Balance sheet assets	**$24,490,451**	$23,772,138	$22,140,121	3%
Cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements as a % of balance sheet assets	**20.3%**	22.0%	23.8%	
Total loans and acceptances as a % of balance sheet assets	**75.3%**	73.9%	71.4%	

LIQUID ASSETS

Liquid assets consist of cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements. As at October 31, 2011, these assets totalled $5.0 billion, down $0.3 billion compared to October 31, 2010, mainly as a result of the sale of $0.6 billion of government securities related to a change in hedging strategies of securitization activities during the year, partially offset by an increased level of securities held for trading. Overall, the level of liquid assets remained stable year over year, as the Bank continued to prudently maintain a relatively high level of liquid assets considering market conditions and to support the continued strong growth of its loan portfolio.

As at October 31, 2011, securities amounted to $4.3 billion, including a portfolio of available-for-sale securities totalling $1.1 billion. Net unrealized gains, included in accumulated other comprehensive income, amounted to $3.6 million as at October 31, 2011.

Additional information on liquidity and funding risk management is included on page 53 of this MD&A.

LOAN PORTFOLIO

Loans and bankers' acceptances were up $0.9 billion and stood at $18.6 billion as at October 31, 2011, compared with $17.7 billion at October 31, 2010. The Bank recorded another year of strong loan growth and capitalized on growth opportunities in all markets where it focuses its efforts, helped by the favourable market conditions stemming from the sustained low interest rate environment in Canada.

The Bank's residential mortgage loan portfolio, including securitized loans, was up 9% or $1.0 billion to $12.3 billion at the end of 2011 as shown in the table below. The Bank's development efforts and ability to meet its customers' needs contributed to maintain the growth momentum in this loan portfolio in 2011, despite intense and sustained competition in the retail market. The increase in residential mortgage loans was mainly funded by securitization throughout the year, resulting in net securitized mortgage loans (net of repurchases and capital repayments) increasing 25% or $678.5 million.

TABLE 19
RESIDENTIAL MORTGAGE LOANS PORTFOLIO
As at October 31 (in thousands of dollars)

	2011	2010	VARIANCE 11 / 10
On-balance sheet residential mortgage loans	**$ 8,928,544**	$ 8,582,548	$ 345,996
Securitized residential mortgage loans (off-balance sheet)	**3,394,017**	2,715,535	678,482
Total residential mortgage loans, including securitized loans	**$12,322,561**	$11,298,083	$1,024,478

Personal loans were up $138.0 million in 2011, mainly as a result of continued growth in investment loans and home equity lines of credit, partially offset by the ongoing run-off in the point-of-sale financing portfolio, down $161.9 million over the past twelve months.

Commercial mortgage loans and commercial loans, including banker's acceptances, increased by a combined 11% or $397.9 million, as the Bank continued to leverage its solid client base to capitalize on growth opportunities in the Canadian market.

Impaired loans

Gross impaired loans decreased to $163.7 million in 2011 from $188.1 million in 2010. The decrease in impaired loans reflects the overall improvement in credit quality during the year, notably in the commercial loan portfolio, which more than offset the impact of the Bank's strong loan growth. In the prior year, gross impaired loans were particularly affected by certain specific exposures in the commercial loan portfolios. As at October 31, 2011, specific allowances represented 47% of gross impaired loans, reflecting a higher level of provisioning compared to 34% a year ago. See Note 5 to the annual consolidated financial statements for additional information.

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

OTHER ASSETS

Other assets, excluding customers' liabilities under acceptances, increased modestly to $1.1 billion as at October 31, 2011 from $1.0 billion as at October 31, 2010. The increase mostly resulted from changes in the fair value of derivatives, which are mainly used to hedge the Bank's exposure to market risks.

DEPOSITS

The deposit portfolio was up $0.4 billion to $20.1 billion as at October 31, 2011 from $19.7 billion as at October 31, 2010. During the year, the Bank successfully grew its deposit base despite low interest rates and aggressive pricing by its competitors. Personal deposits totalled $15.6 billion and represented 78% of total deposits at October 31, 2011, an increase of $213.1 million compared to October 31, 2010. As the Bank relied more heavily on securitization as a preferred funding source for the growth of its mortgage loan portfolio throughout the year, personal deposits grew at a moderate pace. Nonetheless, the Bank continued to focus on maintaining its privileged access to the retail market through its Retail & SME-Québec and B2B Trust business segments. Business and other deposits increased by $0.2 billion during the year to $4.5 billion as at October 31, 2011. This increase is mainly attributable to specific initiatives launched in the previous year to gather deposits from the Bank's commercial clients and periodically tap the institutional money market. The Bank seeks to maintain its presence in this market as it can provide additional flexibility in funding.

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 were up marginally to $2.8 billion as at October 31, 2011 from $2.7 billion as at October 31, 2010. The year-over-year increase resulted mainly from changes in the fair value of derivatives and higher obligations related to securities sold short.

SUBORDINATED DEBT

As at October 31, 2011, subordinated debt increased to $242.5 million, compared with $150.0 million last year. During the first quarter of 2011, the Bank issued $250.0 million Medium Term Notes (subordinated debt) Series 2010-1 due November 2, 2020 and redeemed all of its subordinated debentures, Series 10, maturing in 2016, with an aggregate notional amount of $150.0 million. The subordinated debt is an integral part of the Bank's regulatory capital and affords its depositors additional protection.

SHAREHOLDERS' EQUITY

Shareholders' equity was $1,334.7 million as at October 31, 2011, compared with $1,239.4 million as at October 31, 2010. This increase mainly resulted from net income for fiscal 2011, net of declared dividends, combined with the net gain related to interest rate swaps designated as cash flow hedges presented in accumulated other comprehensive income (AOCI). The Bank's book value per common share, excluding AOCI, appreciated to $45.05 as at October 31, 2011 from $41.87 as at October 31, 2010. The table below provides the details of the capital stock.

TABLE 20
SHARES ISSUED AND OUTSTANDING
As at November 30, 2011 (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	**23,925,037**
Options	**50,000**

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 derivatives, 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, residential mortgage loans under management related to securitization operations, as well as commercial mortgage loans managed for third parties. Through its subsidiary Laurentian Bank Securities, the Bank also manages retail and institutional investment portfolios. Table 21 below summarizes assets under administration and assets under management. As at October 31, 2011, these items totalled $15.5 billion, up $428.6 million compared with October 31, 2010. Fees, commissions and other income related to these assets contribute significantly to the Bank's profitability. Certain fees, commissions and other income related to these assets are shown in Table 12.

TABLE 21
ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT
As at October 31 (in thousands of dollars)

	2011	2010
Registered self-directed plans	**$ 7,616,790**	$ 7,820,707
Mortgage loans under management	**3,694,151**	2,923,236
Clients' brokerage assets	**2,153,893**	2,274,998
Mutual funds	**1,864,577**	1,697,377
Institutional assets	**115,130**	299,927
Other – Personal	**25,382**	25,034
Total – assets under administration and assets under management	**$15,469,923**	$15,041,279

Assets related to self-directed plans decreased by $203.9 million or 3% compared with last year as a result of the very competitive market.

Mortgage loans under management were up $770.9 million or 26%, as increased level of securitization operations carried out during fiscal 2011 more than offset maturities and pre-payments on mortgage loans sold in prior years.

Clients' brokerage assets decreased by $121.1 million or 5%, mainly due to poor market performance in 2011.

Mutual fund assets under administration increased by $167.2 million or 10% during fiscal 2011, mainly due to strong net annual sales of mutual funds which more than offset the impact of negative market performance on equity funds.

DERIVATIVES

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, as well as to provide protection against the risk of fluctuations in interest rates to special purpose entities with regard to the Bank's securitization transactions, meet clients' requirements and generate revenues from 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 derivatives, although they serve as a reference for determining the amount of cash flows to be exchanged. The notional amounts of the Bank's derivatives totalled $24.1 billion as at October 31, 2011 with a net negative fair value at $32.0 million.

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

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.

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 credit enhancement features 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. Under current Canadian GAAP, 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 mortgage loans primarily through the Canada Mortgage Bonds Program (CMB Program) developed by the Canada Mortgage and Housing Corporation (CMHC) and through multi-seller conduits set up by large Canadian banks. As part of these transactions, the Bank continues to manage all securitized assets after they are sold.

With regard to the CMB Program, the Bank sells mortgage-backed securities (MBS) created under the National Housing Act (NHA) program to a special purpose trust set-up by the CMHC, the Canada Housing Trust (CHT), which finances the purchases by issuing the CMHC guaranteed CMB to investors. NHA MBS are amortizing assets that pay back principal and interest cash flows on a monthly basis. For their part, CMBs provide investors with a fixed interest coupon bond with repayment of principal on a specified maturity date. To address this difference in cash flows, the CHT enters into swap agreements. Under these swaps, the counterparties are responsible to reinvest the monthly principal flows from the NHA MBS on behalf of the CHT in AAA-rated mortgage-backed securities and Canada guaranteed eligible assets (the Replacement Assets). As a result, the Bank manages a portfolio of Replacement Assets.

As at October 31, 2011 total outstanding securitized residential mortgage loans sold as part of the CMB Program amounted to $3.4 billion ($2.6 billion as at October 31, 2010) and Replacement Assets managed as part of the swap agreements amounted to $1.3 billion ($0.8 billion as at October 31, 2010).

With regards to 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 against interest rate risks. As at October 31, 2011, total outstanding securitized residential mortgage loans sold to these structures amounted to $35.8 million ($159.4 million as at October 31, 2010).

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.

Revenues of $35.5 million were recorded in 2011 as part of securitization operations. Notes 6 and 25 to the annual consolidated financial statements and the discussion on critical accounting policies and estimates on page 57 of this MD&A provide additional information on these transactions.

Effect of loan transfers on regulatory capital ratios

Transfers made through the Canada Mortgage Bonds Program do not significantly impact Tier 1 and Total capital ratios, as the mortgage loans 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 assets to capital multiple, as the mortgage loans are derecognized under current 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 AND GUARANTEES

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.

In the normal course of its operations, the Bank also 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.* The principal types of guarantees are standby letters of credit and performance guarantees.

See Note 24 to the annual consolidated financial statements for further information.

TABLE 22
CREDIT COMMITMENTS AND GUARANTEES
As at October 31 (in thousands of dollars)

	2011	2010
Undrawn amounts under approved credit facilities [1]	**$2,603,217**	$2,468,800
Documentary letters of credit	**$ 4,358**	$ 6,670
Standby letters of credit and performance guarantees	**$ 146,846**	$ 175,245

(1) Exclude personal credit facilities totalling $1.6 billion ($1.4 billion as at October 31, 2010) and credit card lines amounting to $1.2 billion ($1.0 billion as at October 31, 2010) 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 enhancing shareholder value. In order to achieve this objective, the Bank has a capital management framework that includes a Capital Management Policy, a Capital Plan and an Internal Capital Adequacy Assessment Process ("ICAAP").

The ICAAP is an integrated process that evaluates capital adequacy relative to the Bank's risks and helps set the minimum capital levels acceptable for the Bank. Capital adequacy depends on various internal and external factors. The Bank's capital level underscores its solvency and capacity to cover risks related to its operations while providing depositors and creditors with the safeguards they seek. Moreover, capital requirements are aligned with its Strategic Plan, industry capitalization levels and investors' and shareholders' expectations. While rating agencies do not assign credit ratings to the Bank based solely on capital levels, the Bank's capital must be consistent with the credit rating sought. As a result, the Bank's capital adequacy targets may vary over time in line with these factors.

Each year, the Board of Directors reviews and approves several capital-related documents, including the Capital Management and Adequacy Policy, the ICAAP, the Business and Financial Three-Year Plan, as well as the Capital Plan. The Board's Risk Management Committee reviews capital adequacy on a quarterly basis. Management monitors capital ratios on a monthly basis. The Integrated Risk Management Department oversees the Bank's capital management framework. Some of these responsibilities include monitoring capital limits and adequacy as well as developing and implementing the Capital Management and Adequacy policy. The Bank's Treasury Department develops the Capital Plan and manages capital on an ongoing basis.

REGULATORY CAPITAL

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

Regulatory capital requirements impose minimum levels of capital that have to be taken into consideration with the other factors mentioned above when assessing the Bank's capital adequacy. Under BCBS standards, banks must maintain a minimum Tier 1 capital ratio of 4% and a total capital ratio of at least 8%. OSFI requires that Canadian deposit-taking financial institutions maintain a minimum Tier 1 capital ratio of 7% and a total capital ratio of at least 10%. The Bank opted for the Standardized Approach in determining credit risk capital and, as at January 31, 2011, the Bank has chosen to use the Standardized Approach to account for operational risk instead of the Basic Indicator Approach. Tables 23 and 24 outline the risk-weighted assets and regulatory capital used to calculate BCBS ratios. The Bank and its subsidiaries were in compliance with OSFI's capital requirements throughout the year.

PROPOSAL FOR NEW CAPITAL AND LIQUIDITY REGULATORY MEASURES

In December 2010, the BCBS published new capital guidelines commonly referred to as Basel III. These new requirements will take effect in January 2013 and will generally provide more stringent capital adequacy standards.

The BCBS published further details in January 2011 with regard to qualifying criteria for capital under the guidelines. OSFI subsequently provided additional guidance regarding the treatment of non-qualifying capital instruments in February 2011. As a result, certain capital instruments will no longer qualify fully as capital beginning January 1, 2013. The Bank's non-common capital instruments will be considered non-qualifying capital instruments under Basel III and will therefore be subject to a 10% phase-out per year beginning in 2013. These non-common capital instruments include both Series 9 and 10 preferred shares and Series 2010-1 subordinated Medium Term Notes. The Bank has not issued any hybrids or innovative Tier 1 instruments and none of its capital instruments are subject to a regulatory event redemption clause. Therefore, no regulatory event redemption is expected.

Considering the Bank's capital position and the nature of its operations, and based on current understanding of the Basel III rules, management believes that the Bank is well positioned to meet upcoming capital requirements. The Common Equity Tier 1 ratio, as at October 31, 2011, would be approximately 7.3% when applying the full Basel III rules applicable in 2019 (i.e., without transition arrangements). The Tier 1 ratio under the new Basel III rules would be 9.2%. Given the evolving nature of international capital rules and the projected outlook for balance sheet expansion, the Bank will nonetheless remain cautious with respect to capital deployment.

Furthermore, in order to maintain strong capital ratios and prudently manage capital, the Bank continues to contemplate a common share issue of approximately $50.0 million by the end of 2012, depending on evolving regulatory capital requirements, as well as market conditions expected in 2012.

In December 2009, the BCBS published proposals on new liquidity requirements, which introduced new global liquidity standards. Updates were also published in 2010, providing additional information. At this stage, it is still too early to determine their definitive impact on liquidity requirements, considering the proposals are yet to be finalized at both the international (BCBS) and national (OSFI) levels and may further change between now and when the final rules take effect.

IMPLICATION OF THE ACQUISITION OF THE MRS COMPANIES

On November 16, 2011, the Bank, through its subsidiary, B2B Trust, concluded its acquisition of 100% of the MRS Companies. After incorporating the estimated capital requirements for the MRS Companies at closing, the Bank's Basel II Tier 1 Capital Ratio would have been approximately 10.4% as at October 31, 2011, still comfortably above existing regulatory guidelines. Furthermore, the Bank's Basel III Common Equity Ratio, based on the full Basel III rules applicable in 2019 (i.e. without transition arrangements) and including the anticipated effect of the adoption of IFRS, should meet the minimum requirement of 7% by the January 1, 2013 transition date, a level the Bank should reach with some proactive management of the risk-weighted assets over the next year.

TABLE 23
RISK-WEIGHTED ASSETS

As at October 31 (in thousands of dollars)

										2011
	0%	20%	35%	50%	75%	100%	150%	225%	TOTAL	RISK-WEIGHTED ASSETS
Exposure Class										
Corporate	$ 1,544	$ 42,297	$ –	$59,791	$ –	$4,142,379	$9,910	$ –	$ 4,255,921	$ 4,195,599
Sovereign	3,544,374	255,875	–	–	–	–	–	–	3,800,249	51,175
Bank	-	396,122	–	–	–	–	–	–	396,122	79,224
Retail residential mortgage loans	4,062,669	–	4,202,215	–	–	44,114	–	–	8,308,998	1,514,889
Other retail	697,649	–	–	–	2,358,500	9,575	–	–	3,065,724	1,778,450
Small business entities treated as other retail	88,901	–	–	–	1,097,389	–	–	–	1,186,290	823,042
Equity	–	–	–	–	–	326,422	–	–	326,422	326,422
Securitization	–	26,366	–	24	–	2,816	–	1,788	30,994	12,124
Other assets	70,653	128,904	–	–	–	490,024	–	–	689,581	515,805
	8,465,790	849,564	4,202,215	59,815	3,455,889	5,015,330	9,910	1,788	22,060,301	9,296,730
Derivatives	–	359,411	–	–	–	22,127	–	–	381,538	94,009
Credit-related commitments	33,678	6,000	–	–	–	520,944	–	–	560,622	522,144
Operational risk (1)										1,159,088
	$8,499,468	$1,214,975	$4,202,215	$59,815	$3,455,889	$5,558,401	$9,910	$1,788	$23,002,461	$ 11,071,971

Balance sheet items	
Cash resources	$ 46,138
Securities	538,524
Mortgage loans	4,479,857
Other loans and customers' liabilities under acceptances	3,715,143
Other assets	517,068
	$ 9,296,730

(1) As at January 31, 2011, the Bank has chosen to use the Standardized Approach to account for operational risk instead of the Basic Indicator Approach.

										2010
	0%	20%	35%	50%	75%	100%	150%	225%	TOTAL	RISK-WEIGHTED ASSETS
Exposure Class (2)										
Corporate	$ 1,622	$ 29,210	$ –	$48,368	$ –	$3,757,595	$36,949	$ –	$ 3,873,744	$ 3,843,045
Sovereign	3,740,188	139,289	–	–	–	–	–	–	3,879,477	27,858
Bank	–	209,246	–	–	–	–	–	–	209,246	41,849
Retail residential mortgage loans	4,046,779	–	3,819,472	–	–	35,299	–	–	7,901,550	1,372,114
Other retail	638,031	–	–	–	2,421,077	10,833	–	–	3,069,941	1,826,641
Small business entities treated as other retail	90,388	–	–	–	943,884	–	–	–	1,034,272	707,913
Equity	–	–	–	–	–	260,099	–	–	260,099	260,099
Securitization	–	21,187	–	6,006	–	1,646	–	–	28,839	8,886
Other assets	61,599	115,710	–	–	–	503,605	–	–	680,914	526,747
	8,578,607	514,642	3,819,472	54,374	3,364,961	4,569,077	36,949	–	20,938,082	8,615,152
Derivatives	135	273,850	–	–	–	14,534	–	–	288,519	69,304
Credit-related commitments	34,338	6,000	–	–	–	520,634	–	–	560,972	521,834
Operational risk (1)										1,247,275
	$8,613,080	$794,492	$3,819,472	$54,374	$3,364,961	$5,104,245	$36,949	$ –	$21,787,573	$ 10,453,565

Balance sheet items	
Cash resources	$ 7,004
Securities	409,363
Mortgage loans	4,144,830
Other loans and customers' liabilities under acceptances	3,526,124
Other assets	527,831
	$ 8,615,152

(1) As at January 31, 2011, the Bank has chosen to use the Standardized Approach to account for operational risk instead of the Basic Indicator Approach.
(2) Restated amount to reflect changes to the risk weight associated to residential mortgage loan and other retail portfolios.

TABLE 24
REGULATORY CAPITAL
As at October 31 (in thousands of dollars, except percentage amounts)

	2011	2010	VARIANCE 11 / 10
Tier 1 capital			
Common shares	$ 259,492	$ 259,363	–%
Contributed surplus	227	243	(7)
Retained earnings	818,207	741,911	10
Non-cumulative preferred shares	210,000	210,000	–
Goodwill	(53,790)	(53,790)	–
Securitization-related and other deductions	(16,911)	(16,936)	–
Total Tier 1 capital (A)	1,217,225	1,140,791	7
Tier 2 capital			
Subordinated debt	242,512	150,000	62
General allowances	73,602	73,250	–
Securitization-related and other deductions	(16,499)	(13,714)	20
Total Tier 2 capital	299,615	209,536	43
Total regulatory capital – BIS (B)	$ 1,516,840	$1,350,327	12%
Total risk-weighted assets (C)	$11,071,971	$10,453,565	
Tier 1 BIS capital ratio (A/C)	11.0%	10.9%	
Total BIS capital ratio (B/C)	13.7%	12.9%	
Assets to capital multiple	16.2 x	17.7 x	
Tangible common equity as a percentage of risk-weighted assets [1]	9.2%	9.0%	

(1) Refer to the non-GAAP financial measures on page 67.

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 annual consolidated financial statements. The level of dividends declared on common shares reflects management and Board views of the Bank's financial outlook and takes 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 25
SHARE DIVIDENDS AND PAYOUT RATIO
For the years ended October 31 (in thousands of dollars, except per share amounts and payout ratios)

	2011	2010	2009
Dividends declared on preferred shares	$11,775	$11,775	$11,775
Dividends declared per common share	$1.62	$ 1.44	$ 1.36
Dividends declared on common shares	$38,757	$34,446	$32,453
Payout ratio [1]	33.7%	31.1%	32.1%

(1) Refer to the non-GAAP financial measures on page 67.

INTEGRATED RISK MANAGEMENT FRAMEWORK

Risk management is essential for the Bank to achieve its financial objectives and protect its reputation. In this context, and to enable management to ascertain the existence of sound practices conducive to efficient and prudent management of its operations and major risks, the Bank has developed an Integrated Risk Management Framework (the "Framework").

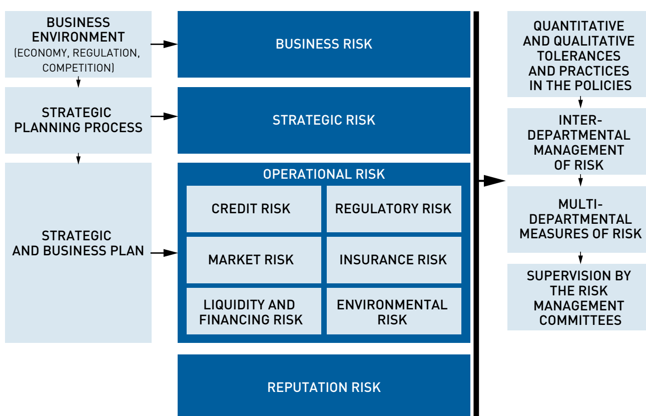
The Framework defines the governance structure, risk management process and major risks the Bank may encounter. The internal control and corporate governance structure that promotes sound integrated risk management and the organization of the control environment is also presented herein. The Framework contains mechanisms and provisions that enable the Bank to identify risks, develop and apply actionable, adequate and efficient internal controls to ensure sound and prudent risk management and implement reliable and complete systems to efficiently monitor the effectiveness of these controls.

The main objective of the Framework is to develop and maintain a risk management culture in all the Bank's business units and subsidiaries. Other objectives of the Framework include:

- Establishing processes to continuously identify, understand and assess major risks;
- Aligning the Bank's strategy and objectives with its risk tolerance;
- Adopting sound and prudent risk limits and risk management policies;
- Establishing and applying effective internal controls;
- Defining the Management Committee's roles and responsibilities regarding risk management.

RISK MANAGEMENT PROCESS

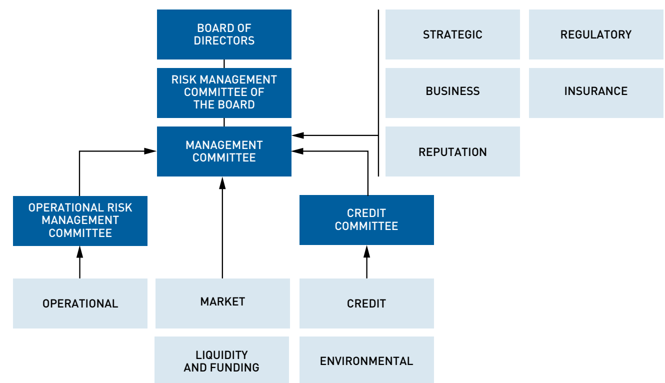
The Bank's risk management process, as illustrated below, is closely tied to the strategic planning process from which the Bank's strategic and business plan is defined. Policies approved by the Board describe tolerances, measures and responsibilities for each significant risk. These policies must be implemented by the departments concerned and their application monitored by the appropriate risk management committees.



Risk management is carried out across departments by business line managers who actively manage the risks related to their activities, as well as by risk management and internal control professionals.

GOVERNANCE STRUCTURE

The Board of Directors has ultimate responsibility for risk management. Each year, the Risk Management Committee of the Board of Directors approves and reviews risk tolerances and risk management policies. It thereafter delegates to Management the responsibility for defining their parameters and communicating and implementing them accordingly. Management plays an active role in identifying, assessing and managing risk. Business unit managers are responsible for applying the policies and, in collaboration with the Integrated Risk Management Department, keeping Senior Management informed about any changes in risk.



ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS' COMMITTEES

The **Board of Directors** ensures that the Bank maintains an appropriate strategic management process that takes risk into consideration. Moreover, based on the certifications and consolidated reports prepared by Management, the Board of Directors assesses annually whether the Bank's operations are carried on in an internal control environment.

The **Board of Directors' Risk Management Committee** must ascertain whether the Integrated Risk Management Framework has been properly implemented and periodically review its effectiveness. The Committee must also see to it that the Framework provides an appropriate risk management process for identifying, measuring, quantifying and managing risks, as well as setting appropriate risk management policies.

ROLES AND RESPONSIBILITIES OF INTERNAL RISK MANAGEMENT COMMITTEES

The **Management Committee**, chaired by the President and Chief Executive Officer, is the Bank's primary risk management committee. It ensures that the Integrated Risk Management Framework is properly implemented. Senior Management plays an active role in identifying, assessing and managing risk and is responsible for implementing the necessary framework for business, regulatory, strategic, reputational 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, reputational and operational risk.

The Management Committee also oversees structural interest rate risk management, liquidity, and funding risk management and capital management. Specifically, it:

- Oversees the general orientations relating to structural interest rate risk and interest rate risk sensitivity by business segment;
- Approves asset and liability management and liquidity assumptions and ensures that transfer pricing rules comply with these assumptions; and
- Approves funding and capital strategies.

The **Operational Risk Management Committee** reviews the operational risk management policies, recommends approval of them to the Management Committee and reviews the report on operational losses incurred. Furthermore, it reviews and approves tools for identifying and assessing the frequency and the impact of operational risks, reviews reports to the Management Committee on business segment action plans for mitigating and better managing operational risk, and reviews the operational risk indicators. Last, the committee is responsible for monitoring the business continuity plan and fraud prevention.

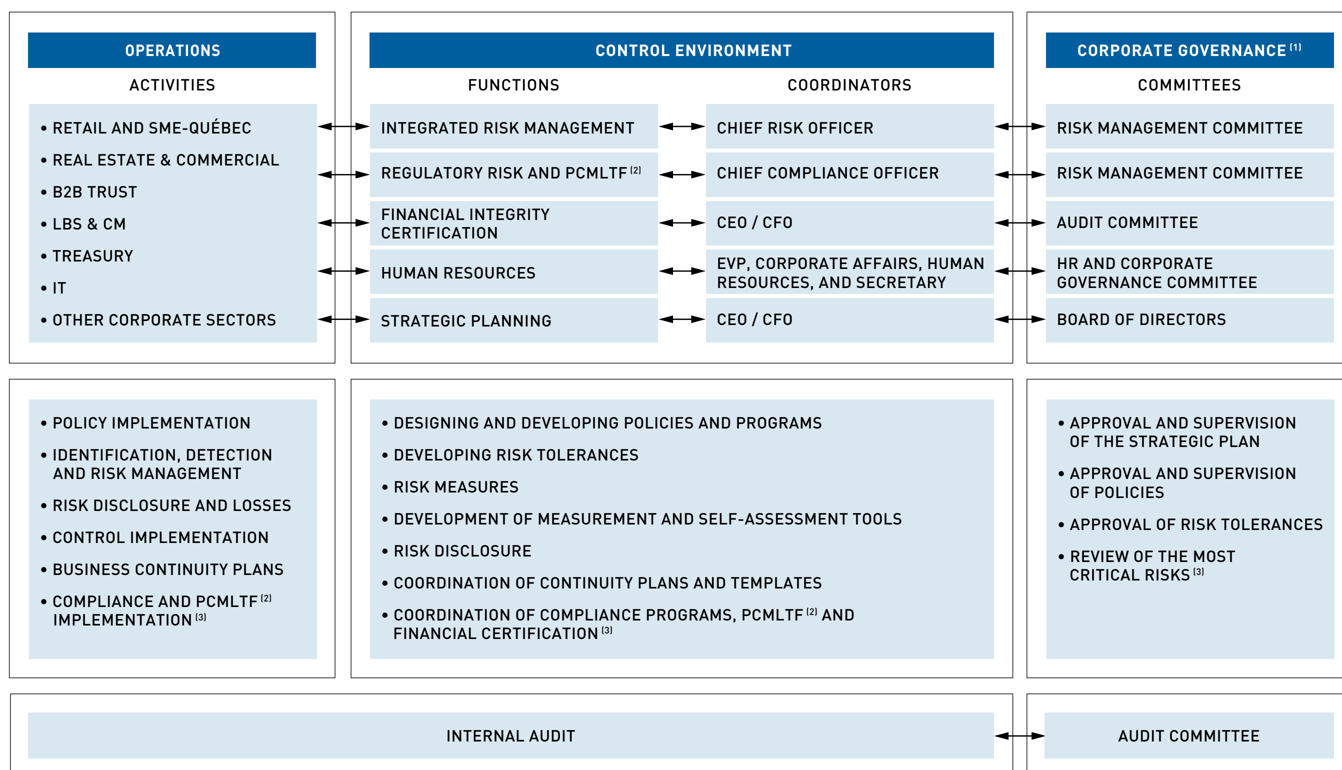
The **Credit Committee** is primarily responsible for ensuring that adequate credit policies and procedures are in place and that information systems related to managing the Bank's current and potential credit risks have been implemented, and for approving loans within set limits. It also reviews delinquency on all types of loans, authorizes loan losses within set 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 (the "Structure"), which includes several governance functions designed to enhance integrated risk management. The Structure is divided into three distinct areas: operations, control environment and corporate governance. Operations are key to risk management as operations managers are on the front lines to identify risks and actively manage them by applying the risk policies and implementing controls and risk mitigation measures. The control environment hinges on five functions: human resources, strategic planning, financial integrity, integrated risk management and regulatory risk management. Responsibility for each function is delegated to members of senior management (the coordinators). The control environment is responsible for the Framework and oversight of risk management, including an independent risk assessment. The Board of Directors' committees oversee the control environment. From a governance perspective, the Board of Directors is responsible for ensuring, to the extent possible, that global risk tolerance is consistent with the Bank's strategies and objectives.

The Internal Audit Department also plays a key role, as it is responsible for implementing and maintaining 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.
(2) Proceeds of Crime (Money Laundering) and Terrorist Financing.
(3) This list of functions is not exhaustive.

STRATEGIC AND BUSINESS RISK MANAGEMENT

Strategic risk results from inadequate business plans, strategies, decision-making processes, allocation and use of the Bank's resources.

Business risk is the potential adverse effect of changes in the tax, economic, competitive, regulatory or accounting environment 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 profiles of its different business segments. The Bank's overall strategy is 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 honour 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 commercial loans. With regard to commercial loans, applications are also analyzed on a case-by-case basis by specialized teams. Through its credit risk management department, the Bank monitors its financial instrument portfolios on a qualitative and quantitative basis through: [i] mechanisms and policies governing the review of the various types of files; [ii] risk rating systems, and [iii] 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 specific 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 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.

Provisions for impaired loans related to consumer loan portfolios are generally established on a portfolio basis using models that take loss history into account. Further details on impaired loans are provided in Tables 26 and 27.

In addition to specific provisions, the Bank maintains general provisions to cover impairment in the existing loan portfolio that cannot yet be associated with specific credit assets. The Bank employs a general allowance model based on the internal risk rating of credit facilities and on the related probability of default factors, as well as the loss given default associated with each type of facility.

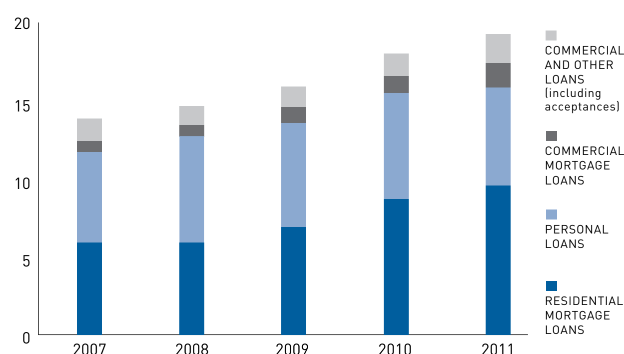
Diversification is one of the fundamental principles of risk management. To this effect, the credit policy establishes guidelines to limit concentration of credit by counterparty and sector of activity, and identifies sectors considered risky and thus to be avoided. The loan portfolio mix is detailed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

Loan portfolio mix

The Bank's loan portfolio consists of personal loans, residential mortgage loans, commercial mortgage loans and commercial loans, including bankers' acceptances. The loan portfolio mix as at October 31, 2011 remains relatively unchanged, compared with a year ago. Residential mortgage loans mainly include retail mortgage loans, as well as mortgage loans on larger residential real estate development properties and projects totalling $0.6 billion.

Reflecting the Bank's strong presence with personal clients through its Retail & SME-Québec and B2B Trust business segments, exposures to individuals and micro-enterprises represent close to 70% of the Bank's total loan portfolio. Furthermore, commercial loans and mortgage loans are, to a large extent, granted to small and medium-sized businesses.

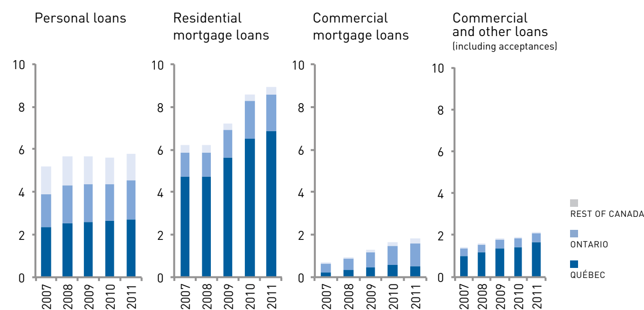
LOAN PORTFOLIO MIX
(in billions of dollars)



Geographic distribution

The Bank operates across Canada. In Québec, it offers most 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. As at October 31, 2011, the proportion of loans granted to borrowers in Québec represented 64% of total loans while loans granted to borrowers outside of Québec stood at 36% (63% and 37% respectively as at October 31, 2010).

GEOGRAPHIC DISTRIBUTION OF LOANS
(in billions of dollars)



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 which ultimately aims to improve access to affordable mortgage loan financing for Canadians. As an approved lender under the program, the Bank benefits from insurance coverage, thereby reducing its global credit risk and improving its capital ratios. The Bank also insures pools of mortgages loans through a specific CMHC insurance program. Moreover, by maintaining a high proportion of insured residential mortgage loans, the Bank retains its capacity to engage in securitization operations to finance its activities at optimal cost and manage its cash resources. By the end of fiscal 2011, 46% of residential mortgage loans were insured by CMHC, relatively unchanged compared to 2010. 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 loans are 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.

Other commercial loans are generally secured by a wide range of assets such as inventories and receivables, as well as, in certain case, additional liens on real estate and other fixed assets.

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. In addition, loans are collateralized by a comprehensive list of eligible mutual and segregated funds. Stricter credit criteria must be met as loan-to-value ratios increase. For loans where disbursements are significant, additional personal income and net worth information areusually required.

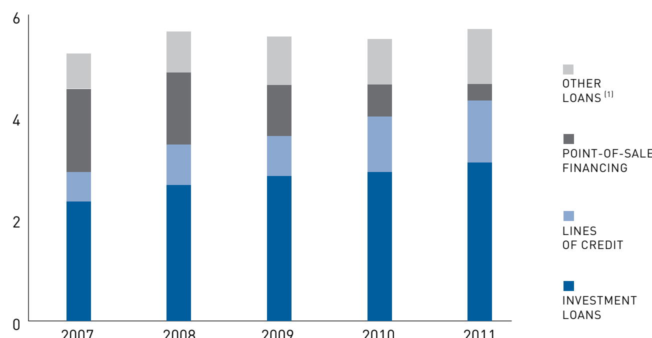
Loan underwriting for home equity lines of credit and point-of-sale financing loans allows for the assessment of client credit risk. In addition, these loans are collateralized by real estate assets and other assets. Also, more than 10% of the Bank's personal loan portfolio consists of student loans and loans granted under the Immigrant Investor Program, which are guaranteed by the federal or provincial government.

Changes in loan portfolio mix

Personal loans

As at October 31, 2011, the personal loan portfolio was $5.8 billion, an increase of $138.0 million compared to October 31, 2010. This resulted mainly from the increases during the year in home equity lines of credit and B2B Trust's investment loan portfolio of $157.4 million and $116.9 million respectively, which more than offset the decline of $161.9 million in the point-of-sale financing portfolio, reflecting management's decision to gradually reduce the risk related to these operations.

PERSONAL LOAN PORTFOLIO MIX
(in billions of dollars)



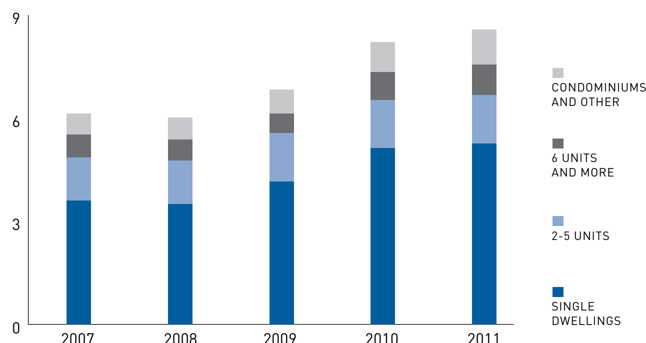
(1) Including credit card loans, student loans, loans granted under the Immigrant Investor Program and other loans.

Residential mortgage loans

As shown in Table 19 on page 39, the residential mortgage loan portfolio, including off-balance sheet securitized loans of $3.4 billion, increased by $1.0 billion or 9% during fiscal 2011. The Bank's business development efforts and ability to meet customer's needs, combined with favourable housing market conditions in Canada, contributed to maintaining the growth momentum in this portfolio in 2011, despite sustained competition in the retail market.

Initiatives undertaken over the recent years enabled the Bank to expand its reach in various segments, mainly with the expansion of the mobile banker group, which continues to significantly increase the Bank's revenue growth capabilities in the Québec market. In addition, volumes were favourably impacted by the low interest rate environment as well as the moderate increase in housing prices, which translated into higher mortgage loan demand.

RESIDENTIAL MORTGAGE LOANS BY PROPERTY TYPE (1)
(in billions of dollars)



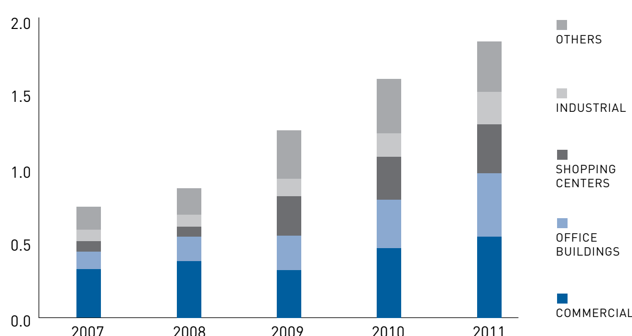
(1) As reported on the balance sheet

Commercial mortgage loans
Commercial mortgage loans increased by 11% from fiscal 2010, totalling $1.8 billion as at October 31, 2011, compared with $1.6 billion as at October 31, 2010. Through its Real Estate & Commercial business segment, the Bank continued to generate significant growth in this portfolio. In 2011, the proportion of fixed term loans within this portfolio increased to 67%, from 63% at the end of fiscal 2010. This mix of loans provide for a good balance between portfolio volume stability and optimisation of interest margins.

This growing presence in the real estate market has played a key role in improving the Bank's profitability in recent years as the Bank continues to leverage on its solid client base to capitalize on growth opportunities in the Canadian real estate mid-market. The Bank continues to focus on better serving its clientele and, when appropriate, to respond to the increase in the size of real estate development projects.

This portfolio also contributes to improve geographic diversification across Canada and therefore enhances, in this regard, the overall profile of the Bank. As at October 31, 2011, the proportion of the portfolio granted in Ontario and Western Canada represented 70% of the total commercial mortgage loan portfolio and 30% in Québec (64% in Ontario and Western Canada and 36% in Québec as at October 31, 2010). The average loan value was $2.1 million as at October 31, 2011 ($2.3 million as at October 31, 2010).

COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE
(in billions of dollars)



Commercial loans
As at October 31, 2011, the portfolio of commercial loans, including bankers' acceptances, amounted to $2.1 billion, up $223.5 million from $1.9 billion as at October 31, 2010. This increase results mainly from the small and medium enterprise business in Québec and, to a lesser extent, from mid-market lending across Canada. As presented in Table 26, the portfolio covers a wide range of industries, with no specific industry representing more than 25% of the overall portfolio.

Impaired loans
Gross impaired loans decreased by $24.4 million since the beginning of the year, totalling $163.7 million as at October 31, 2011. The decrease in impaired loans reflects the overall improvement in credit quality during the year, notably in the commercial loan portfolio, which more than offset any impact from the Bank's strong loan growth. In the prior year, gross impaired loans were particularly affected by certain specific exposures in the commercial loan and commercial mortgage loan portfolios. Retail portfolios also performed well as the Bank continues to reduce exposure to the point-of-sale financing market. In addition, borrowers continued to benefit from favorable employment conditions in Canada and a low interest rate environment. As at October 31, 2011, specific allowances of $76.1 million represented 47% of gross impaired loans, reflecting a higher level of provisioning compared to last year where it stood at 34%.

General allowances amounted to $73.6 million as at October 31, 2011, up $0.3 million as a $2.1 million reduction in general provisions in the third quarter of 2011, mainly attributable to adjustments to provisioning models in anticipation of conversion to IFRS, was offset by a $2.4 million addition to general allowances in the fourth quarter in light of recent economic concerns. General provisions reflect management's estimated incurred losses due to the deterioration in credit quality of loans not yet classified as impaired.

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

TABLE 26
DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO AND INDUSTRY
As at or for the years ended October 31 (in thousands of dollars, except percentage amounts)

2011

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	SPECIFIC ALLOWANCES	NET IMPAIRED LOANS	PROVISION FOR LOAN LOSSES [1]
Personal	$ 5,768,787	$ 14,395	$ 4,239	$10,156	$22,802
Residential mortgage	8,928,544	50,903	7,370	43,533	5,593
Commercial mortgage	1,813,293	28,691	16,212	12,479	5,282
	16,510,624	93,989	27,821	66,168	33,677
Commercial and other (including acceptances)					
Manufacturing	220,064	19,556	17,399	2,157	(324)
Transformation and natural resources	122,304	23,658	14,303	9,355	10,013
Agriculture	225,876	5,845	982	4,863	235
Public utilities	58,451	53	53	–	(947)
Wholesale and retail	357,167	8,953	4,951	4,002	4,242
Construction	166,400	1,508	1,349	159	(33)
Financial services	86,219	618	283	335	11
Real estate, renting and lease	437,349	5,237	5,394	(157)	1,016
Other services and government	274,188	1,020	501	519	(232)
Transportation and communication	93,032	3,208	3,046	162	(775)
Other	39,067	80	59	21	(235)
	2,080,117	69,736	48,320	21,416	12,971
Sub-total	$18,590,741	$163,725	$76,141	87,584	46,648
General allowances / provision				(73,602)	352
Total				$13,982	$47,000
As a % of loans and acceptances		0.88%		0.08%	

(1) Recorded in the consolidated statement of income

2010

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	SPECIFIC ALLOWANCES	NET IMPAIRED LOANS	PROVISION FOR LOAN LOSSES [1]
Personal	$5,630,788	$ 16,397	$ 5,312	$ 11,085	$31,460
Residential mortgage	8,582,548	39,304	4,256	35,048	3,486
Commercial mortgage	1,638,861	34,316	10,934	23,382	8,729
	15,852,197	90,017	20,502	69,515	43,675
Commercial and other (including acceptances)					
Manufacturing	194,993	27,042	18,540	8,502	12,019
Transformation and natural resources	138,407	24,948	4,520	20,428	3,349
Agriculture	220,957	15,168	1,471	13,697	198
Public utilities	53,640	3,385	1,000	2,385	–
Wholesale and retail	310,949	10,272	6,435	3,837	3,726
Construction	140,702	2,006	1,485	521	551
Financial services	105,254	332	272	60	(469)
Real estate, renting and lease	346,338	5,605	4,805	800	1,317
Other services and government	200,180	2,037	1,153	884	901
Transportation and communication	101,974	6,038	4,377	1,661	2,799
Other	43,246	1,273	333	940	(66)
	1,856,640	98,106	44,391	53,715	24,325
Sub-total	$17,708,837	$188,123	$64,893	123,230	68,000
General allowances / provision				(73,250)	–
Total				$ 49,980	$68,000
As a % of loans and acceptances		1.06%		0.28%	

(1) Recorded in the consolidated statement of income

TABLE 27
GEOGRAPHIC DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO
As at October 31 (in thousands of dollars)

	2011		2010	
	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS
Québec				
Personal	**$ 2,706,009**	**$ 3,550**	$ 2,623,991	$ 4,667
Residential mortgage	**6,881,229**	**9,725**	6,489,265	13,870
Commercial mortgage	**542,538**	**11,760**	589,498	13,473
Commercial and other (including acceptances)	**1,688,431**	**54,417**	1,441,310	82,987
	11,818,207	**79,452**	11,144,064	114,997
Rest of Canada				
Personal	**3,062,778**	**10,845**	3,006,797	11,730
Residential mortgage	**2,047,315**	**41,178**	2,093,283	25,434
Commercial mortgage	**1,270,755**	**16,931**	1,049,363	20,843
Commercial and other (including acceptances)	**391,686**	**15,319**	415,330	15,119
	6,772,534	**84,273**	6,564,773	73,126
Total	**$18,590,741**	**$163,725**	$17,708,837	$188,123

MARKET RISK MANAGEMENT

Market risk represents the financial losses that the Bank could incur following unfavourable fluctuations in the value of financial instruments subsequent to changes in the underlying factors used to measure them, such as interest rates, exchange rates or equity prices. This risk is inherent to the Bank's financing, investment, trading and asset and liability management (ALM) activities.

Interest rate risk is the potential adverse impact of interest rate movements. The section covering asset and liability management activities describes the global management of interest rate risk. Structural market risk arises mainly from the differences in maturity dates or re-pricing dates of balance sheet and off-balance sheet items, as well as from the options embedded in certain banking products, such as loan repayment and deposit redemption clauses.

Foreign exchange risk is 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.

Equity risk is the financial losses that the Bank may incur subsequent to adverse fluctuations in certain equity prices or stock market instability 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 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 alignment to principles, objectives and management strategies.

Detailed risk level and limit monitoring reports are produced daily and are presented as follows:

- 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)

Evaluation of the Bank's market risks is supported by a combination of various measures such as:

- Limits on notional amount;
- Value at Risk (VaR); and
- Stress testing and other sensitivity measures.

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, the risk factor 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 notional amounts, 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 (VaR) corresponds to the potential 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 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. VaRs 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 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.

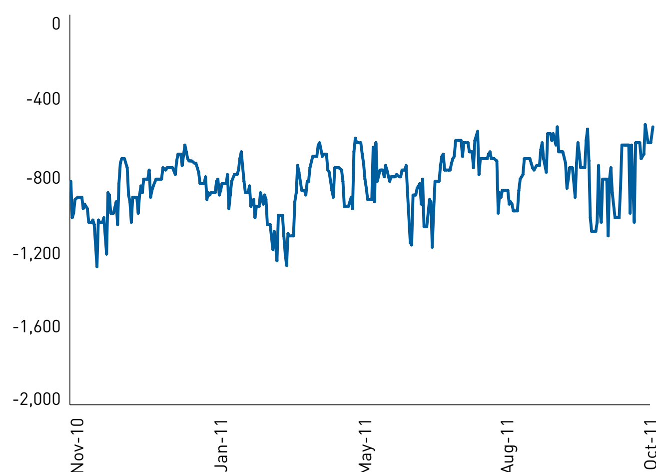
Stress tests and sensitivity measures

Parallel to VaR calculations, the impact of stress tests on profits and losses is assessed for the trading and investment portfolios and the ensuing results are used to assess the impact of exceptional 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 under multiple scenarios. The Bank's stress testing program combines historical, theoretical 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 specific business units and financial markets activities as a whole.

Trading activities

Trading activities are aligned with the needs of the Bank and 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 Capital Markets segment and, to a lesser extent, by the Bank's Corporate Treasury. The graph below presents the daily total VaR of the trading portfolio for the 2011 fiscal year.

DAILY TRADING VaR 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 re-pricing 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 loan 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, 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 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 based on measures calculated by simulating the impact of immediate and sustained parallel movements of 100 basis points in rates for all maturities.

Net interest income risk measures the negative impact on net interest income from interest rate movements over the next 12 months. Economic value of shareholders' equity 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 Management Committee, which is responsible for monitoring the Bank's positioning with regard to anticipated interest rate movements and recommending hedging of all undesirable 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 monthly. 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' equity. 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, 2011, for all portfolios, a 1% increase in interest rate would have triggered an increase of approximately $12.0 million in net interest income before taxes over the next 12 months and a $20.9 million negative impact on the economic value of common shareholders' equity. Table 28 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, 2011 appears in Note 21 to the annual consolidated financial statements.

TABLE 28
RISK SENSITIVITY ANALYSIS
As at October 31 (in thousands of dollars)

	2011		2010	
	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	**$ 11,965**	**$(20,939)**	$ 4,650	$ (22,638)
Decrease of 100 basis points	**(14,481)**	**22,809**	(10,411)	25,714
Change in interest rates				
Increase of 200 basis points	**23,943**	**(39,988)**	9,091	(44,050)
Decrease of 200 basis points	**$(54,931)**	**$ 36,236**	$(46,073)	$ 49,540

(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, systems or external events.

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. It is incumbent upon managers of business units and subsidiaries to proactively manage the operational risk inherent to their daily operations. The Operational Risk Management group oversees 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; outsourcing risk management; business continuity management; information security risk management; protection of personal information, and professional liability risk management.

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 arising from their activities, including risks related to new products, new activities and new processes.

Evaluation of operational risk
All of the Bank's activities are grouped within large processes. Following any significant change to these processes or to the implementation of 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 involves, 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 development of a global and integrated plan for business continuity.

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

Outsourcing management

The Bank relies on various 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 improvements to process efficiency. 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 based on 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.

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

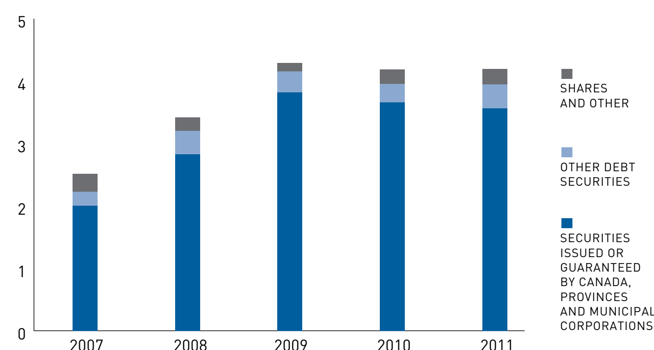
The Bank monitors cash resources daily and ensures liquidity indicators are within established limits. Liquidity risk management pays particular attention to deposit and loan maturities, as well as to funding availability and demand when planning financing. The Bank maintains a reserve of unencumbered liquid assets that are readily available to face contingencies. It defines its cash requirements based on scenarios evaluating required liquid assets that evaluate the amount of liquid assets necessary to cover pre-determined rates of withdrawal of wholesale financing and retail deposits over specified periods. 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. The Bank monitors guidelines on funding sources at the management and board levels. Funding strategies also include loan securitization and the issuance of equity or debt instruments through capital markets. A liquidity contingency plan is prepared and reviewed on a regular basis. It provides a detailed action plan that would enable the Bank to fulfill its obligations in the event of an internal or external liquidity crisis.

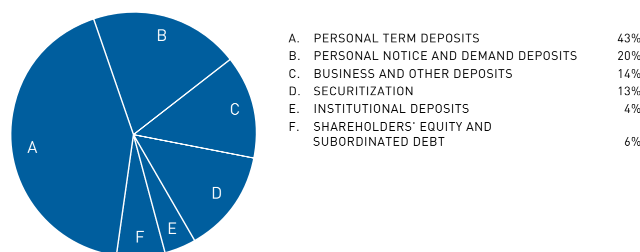
Detailed information on liquid assets

The Bank's liquid assets consist of cash and non-interest bearing deposits with other banks, interest-bearing deposits with other banks, securities, as well as securities purchased under reverse repurchase agreements. As at October 31, 2011, these assets totalled $5.0 billion, a slight decrease compared with $5.2 billion as at October 31, 2010, mainly due to the sale of $0.6 billion of government securities related to a change in hedging strategies of securitization activities during the year, which offset increased level of securities held for trading. Close to 70% of the Bank's liquid assets are composed of marketable securities issued or guaranteed by the Canadian government, provinces or municipal corporations. Liquid assets provide the Bank with flexibility to manage its loans and deposit portfolio maturities and commitments, and meet other current operating needs. Management of the liquid assets, both in terms of optimizing levels and mix, contributes significantly to the Bank's results. In addition, within the marketable securities portfolio, held-for-trading and designated as held-for-trading portfolios offer fixed-income trading opportunities or are used to hedge certain exposures.

SECURITIES
(in billions of dollars)



FUNDING SOURCES
(as a percentage)



Funding

The Bank relies mainly on retail deposits (both branch and independent advisor-sourced) to fund its operations. Retail deposits continue to be a particularly stable source of funding for the Bank. This funding strategy is also well aligned with recent regulatory developments, which recognize these deposits as one of the best funding source. This will contribute to lessen the impact of new Basel III liquidity rules, which will need to be adhered to starting in 2015. As at October 31, 2011, these deposits represented 78% of the Bank's total deposit portfolio.

The Bank also uses securitization of residential mortgage loans through the Canada Mortgage Bonds (CMB) Program. This liquidity source provides added flexibility to meet specific increases in funding needs. The introduction of B2B Trust High Interest Investment Account in 2009 has continued to provide a significant source of retail funding and reduced the Bank's use of institutional money-market funding. In the current low interest rate environment, this funding source has proven to be particularly interesting for the Bank's clients.

Personal deposits

Total personal deposits increased by $0.2 billion, to $15.6 billion as at October 31, 2011, compared with $15.4 billion as at October 31, 2010 as the Bank relied more heavily on securitization as a preferred funding source for the growth of its loan portfolio throughout the year. Nonetheless, the Bank maintained its privileged position in the retail market and independent advisor-sourced deposit market through its Retail & SME-Québec and B2B Trust business segments to meet future funding needs. A significant proportion of these deposits are insured by the Canada Deposit Insurance Corporation, up to $100,000 per client, per regulated deposit-taking financial institution.

TABLE 29
DEPOSITS
As at October 31 (in thousands of dollars, except percentage amounts)

	2011		2010	
Personal				
Notice and demand				
Branch network	**$ 2,225,036**	**11.1%**	$ 2,112,762	10.8%
Financial intermediaries	**2,694,993**	**13.4**	2,567,341	13.1
	4,920,029	**24.5**	4,680,103	23.9
Term				
Branch network	**5,048,931**	**25.2**	4,995,388	25.4
Financial intermediaries	**5,641,052**	**28.1**	5,721,420	29.1
	10,689,983	**53.3**	10,716,808	54.5
Sub-total – personal	**15,610,012**	**77.8**	15,396,911	78.4
Business, banks and other				
Notice and demand	**2,494,966**	**12.4**	2,332,541	11.9
Term	**1,962,440**	**9.8**	1,918,278	9.7
Sub-total – business, banks and other	**4,457,406**	**22.2**	4,250,819	21.6
Total – deposits	**$20,067,418**	**100.0%**	$19,647,730	100.0%

Business, banks and other deposits

Deposits from businesses, banks and other increased by $0.2 billion to $4.5 billion as at October 31, 2011, compared with $4.3 billion as at October 31, 2010. This increase is mainly attributable to specific initiatives launched in the previous year to gather deposits from the Bank's commercial clients and increase its presence in the institutional money market. These initiatives contributed to increases of $442.0 million in deposits related to commercial accounts during the year.

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 2011, all ratings for the Bank were confirmed and remained unchanged. 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 [1].

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

TABLE 30
CREDIT RATINGS
As at October 31, 2011

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

Contractual obligations

In the normal course of its activities, the Bank enters into various types of contractual agreements. Its main obligations result 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 ongoing operating expenses. Furthermore, significant investments are required annually for infrastructure investments, notably the maintenance of its branch network, the modernization maintenance of its information technology platforms, as well as to projects related to new products and services, sales and management tools, or to stay in compliance with regulatory requirements.

The following table summarizes the Bank's principal contractual obligations as at October 31, 2011, maturing over each of the next five years and thereafter. Note 24 to the annual consolidated financial statements provides further information on this subject.

TABLE 31
CONTRACTUAL OBLIGATIONS
As at October 31, 2011 (in thousands of dollars)

	NO FIXED MATURITY	2012	2013	2014	2015	2016	THEREAFTER	TOTAL
Deposits	$7,414,995	$5,866,983	$3,657,018	$1,412,048	$972,517	$716,971	$26,886	$20,067,418
Obligations related to securities sold short	–	1,471,254	–	–	–	–	–	1,471,254
Obligations related to securities sold under repurchase agreements	–	36,770	–	–	–	–	–	36,770
Subordinated debt	–	–	–	–	–	250,000		250,000
Commitments under leases, technology services and other contracts	–	86,516	79,771	69,518	64,855	60,732	82,170	443,562
Total	$7,414,995	$7,461,523	$3,736,789	$1,481,566	$1,037,372	$1,027,703	$109,056	$22,269,004

(1) An 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.

REPUTATIONAL RISK MANAGEMENT

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

Reputational 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 the company value for 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 the Bank's 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 and assessment of the risk attributable to each regulatory requirement;
- Development, documentation, implementation and assesment of effectiveness of controls to ensure compliance with regulatory requirements;
- Independent assessment of the effectiveness of controls;
- Identification and reporting of situations of non-compliance;
- Reinforcement of controls and correction of situations of non-compliance.

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

INSURANCE RISK MANAGEMENT

Insurance risk is the risk of loss that may occur when assumptions related to insurance risks assumed by the Bank, particularly as regards to formulating assumptions used to set premiums or for the valuation of reserves, differ from actual insurance results.

Insurance risk is managed within an independently managed program overseen by insurance experts and by Bank representatives. Reinsurance coverage is underwritten to reduce the Bank's exposure arising from significant claims and catastrophes, including terrorist events. In addition, the 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 seized from 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 the Bank's forward-looking statements 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, or on capital market 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 26 to the annual 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 very

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, which are not under the Bank's 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 CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures (DC&P) 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. Internal control over financial reporting (ICFR) is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with the Canadian GAAP.

The President and Chief Executive Officer, and the Executive Vice-President and Chief Financial Officer are responsible for the implementation and maintenance of DC&P and ICFR, as set out in Multilateral Instrument 52-109 regarding the Certification of Disclosure in Issuers' Annual and Interim Filings. They are assisted in this task by the Disclosure Committee, which is comprised of members of the Bank's senior management.

The President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the effectiveness of DC&P as at October 31, 2011 and, based on that evaluation, concluded that they were effective at that date and adequately designed.

Also as at October 31, 2011, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the effectiveness of ICFR and, based on that evaluation, concluded that it was effective at that date and adequately designed.

The DC&P evaluation was performed using the control framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The evaluation of the design and effectiveness of ICFR was performed in accordance with the COSO control framework for entity level and financial controls, and Control Objectives for Information and Related Technologies (COBIT) for general IT controls.

Given the inherent limitations of any control systems, management's evaluation of controls can only provide reasonable, not absolute assurance that all control issues that may result in material misstatement, if any, have been detected.

Changes to Internal Controls over Financial Reporting
During the year ended October 31, 2011, 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 annual 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. 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.

ALLOWANCES FOR LOAN LOSSES

The allowances for loan losses reflect management's estimate of losses incurred in the loan portfolios. Management regularly reviews the portfolios' credit quality to ensure the adequacy of the allowances for loan losses. These allowances are 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 allowances 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 consequently entail a significant increase or a decrease in the allowances for loan losses in the consolidated statement of income for a given fiscal year. A detailed description of the methods used to determine the allowances for loan losses can be found in Note 3 to the annual consolidated financial statements, and in the Credit Risk Management section on page 47 of this MD&A.

Management has developed a valuation model for the general allowances, based on the internal risk rating of credit facilities and on the related probability of default factors, as well as the loss given default associated with each type of facility. This model validates the $73.6 million general allowances recorded on the balance sheet as at October 31, 2011. Changes in assumptions and parameters to this model 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 derivatives, at fair value. 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. Changes in the fair value of the Bank's trading book's securities and obligations related to assets sold short, as well as derivatives not designated in hedge relationships, are generally recognized under other income.

Management uses quoted market prices in active markets, when available, as the best evidence of fair value of its financial instruments as it requires minimal subjectivity. Quoted prices essentially include those obtained from an exchange. For certain instruments not listed on an exchange, but actively traded, fair values may be obtained from a broker, dealer, industry group or from pricing services. For other financial instruments, 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 only prices from inactive markets are available. 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 annual consolidated financial statements.

Available-for-sale financial assets are assessed for impairment periodically, and management must examine various factors to determine whether a decline in fair value is other than temporary. These factors include the type of investment as well as the length of time and extent by which fair value is below amortized 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.

The use of other alternative assumptions could translate into significantly different income recognition.

These critical accounting estimates mainly affect the Laurentian Bank Securities & Capital Markets and Other segments. Additional information on the calculation of fair value is provided in Note 20 to the annual 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 accounted for as a sale under current Canadian GAAP.

The determination of the initial gain, in such circumstances, depends on the fair value attributed to certain retained interests, mainly rights to future excess interest spreads and cash reserve accounts, as well as to seller swaps. Since quoted market prices do not exist for these financial instruments, management estimates their fair value based on the present value of expected future cash flows. Management must therefore use best estimates with respect to key assumptions, particularly for expected credit losses, anticipated prepayment rates, risk-adjusted discount rates and other factors that influence the value of these instruments. Moreover, these fair values must be reviewed periodically thereafter.

The fair value of retained interests for securitized mortgage loans was $122.8 million as at October 31, 2011. Note 6 to the annual 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 negative $116.0 million as at October 31, 2011. Different assumptions with regard to anticipated prepayment rates and risk-adjusted discount rates could translate into significantly different fair values for these instruments.

This critical accounting estimate mainly affects the Other segment.

The Off-Balance Sheet Arrangements section on page 40 of this MD&A provides further information on these transactions.

EMPLOYEE FUTURE BENEFITS

Valuation of employee future benefits for defined benefit pension plans and other post-employment benefits is based on a number of assumptions such as discount rates, expected returns on plan assets, future salary levels, health-care cost escalation, employee turnover rate and retirement age of employees. 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 effective yields on fixed income securities and equities. Other assumptions are based on the plans' actual results and management's best estimates.

In accordance with current 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 for these periods. As at October 31, 2011, the net amount of the unamortized actuarial losses was $145.8 million ($116.9 million in 2010) for pension plans, and $13.6 million ($13.9 million in 2010) for other benefits.

Discount rates stood at 5.25% as at October 31, 2011 and 5.40% as at October 31, 2010. The expected long-term rate of return on plan assets was unchanged at 7.25% for fiscal 2011 and 2010. The trend rate of the estimated annual growth of health-care costs covered, per participant, has been set at 8.8% for 2011 (9.4% for 2010). According to the accepted assumption, this rate should decrease progressively, reaching 4.0% 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, depending of the funding status of the plan, on pension plan and other employee future benefit expenses. Table 32 summarizes the impact of a 0.25% increase or decrease in the key assumptions on accrued benefit obligations would have had as at October 31, 2011 and related defined benefit pension plan costs for 2011.

TABLE 32
SENSITIVITY ANALYSIS
As at or for the year ended October 31, 2011 (in millions of dollars)

		POTENTIAL IMPACT OF CHANGES OF 0.25%
	OBLIGATION	COST
Discount rate	$15.0	$1.5
Expected long-term rate of return of plan assets	n.a.	$1.0

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 annual consolidated financial statements.

INCOME TAX

Future income tax assets and liabilities 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 annual consolidated financial statements.

CONTINGENT LIABILITIES

Contingent liabilities arise when there is some uncertainty whether, as a result of a past event or transaction, the Bank will incur a loss in the future. The Bank and its subsidiaries are involved in various legal actions in the course of business, many of which are loan-related, as well as in certain class action suits mainly related to card services. These actions may have a material adverse effect on the financial condition of the Bank.

Contingent loss accruals are established when it becomes likely that the Bank will incur an expense and the amount can be reasonably estimated. In addition to the Bank's management, for contingent litigation loss accruals, internal and external experts are involved in assessing the likelihood and in estimating any amounts involved. Changes in these assessments may lead to changes in recorded loss accruals. In addition, the actual costs of resolving these claims may be substantially higher or lower that the amounts accrued for these claims.

See Note 26 to the Bank's annual consolidated financial statements for more details.

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Goodwill

As at October 31, 2011, the balance of goodwill stood at $53.8 million and this amount was entirely allocated to Retail & SME-Québec. Goodwill is subject to an impairment test annually, unless certain specific criteria are met, as described in Note 3 to the annual consolidated financial statements.

The impairment test initially compares the fair value of the reporting unit, to which goodwill relates, to its carrying amount. When potential impairment is identified, the fair value of goodwill is compared 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 2011 or in fiscal 2010. If need be, the amount of the losses in value would be recorded as a non-interest expense for Retail & SME-Québec, under other expenses.

Further information on goodwill can be found in Note 8 to the annual 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 the carrying value may not be fully recoverable. 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 2011 or in fiscal 2010.

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 related amortization periods. Changes in estimates and assumptions could significantly impact results.

FUTURE CHANGES TO ACCOUNTING POLICIES

BUSINESS COMBINATION

On January 5, 2009, three new sections of the CICA Handbook were issued: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*. These new standards would have been applicable to the Bank effective November 1, 2011 under current Canadian GAAP. Earlier application was permitted provided all three sections were adopted at the same time. However, the Bank has not opted to early adopt these new sections.

The new sections retained the fundamental requirements in Section 1581 that required the acquisition method of accounting for all business combinations and for an acquirer to be identified for every business combination. They also retained the guidance in Section 1581 for identifying and recognizing intangible assets separately from goodwill. Additionally, the new sections mainly i) required the acquirer to account for acquisition-related costs incurred in connection with the business combination separately from the business combination (generally as expenses); ii) required the acquirer to measure and recognize the fair value of the assets acquired and liabilities assumed as part of the business combination, with limited exceptions; iii) modified the accounting related to future income tax benefits that are recognizable as a result of that business combination; and iv) modified the accounting and presentation of non-controlling interests subsequent to a business combination.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Accounting Standards Board confirmed the convergence of financial reporting standards for Canadian public companies with International Financial Reporting Standards. As a result, the Bank adopted IFRS commencing on November 1, 2011 and will publish its first consolidated financial statements, prepared in accordance with IFRS, for the quarter ending January 31, 2012.

In order to manage the transition to IFRS, the Bank has prepared an enterprise-wide conversion plan supported by a formal governance structure and assembled a dedicated project team, including both internal and external resources, to coordinate and execute the conversion to IFRS. The key elements of the IFRS transition plan include developing a project governance framework, updating accounting policies, preparing financial statements, building financial reporting expertise, identifying impact on business processes and information technology, implementing internal controls over financial reporting (ICFR), and implementing appropriate disclosure controls and procedures (DC&P), including investor relations and communication plans. To date, the conversion plan is proceeding according to the Bank's timeline, and operationalization of the IFRS transition is being completed. The Bank's conversion plan consisted of the following four phases: (i) preliminary assessment; (ii) financial standards analysis; (iii) selection of key accounting policies; and (iv) implementation.

Project status

The Bank completed its preliminary assessment of the IFRS impact during the planning stage of the project in early 2009. Work on the financial standards analysis has allowed the Bank to identify the key accounting differences between IFRS and the Bank's current accounting policies. This phase was completed as at the end of 2011. These key differences have been summarized below. The Bank has also completed its evaluation of key accounting policies and proceeded with choices as detailed below. Future changes to IFRS, which will be applied to the annual consolidated financial statements for the year ending October 31, 2012, could result in the restatement of these financial statements, including the transition adjustments recorded at the time of the changeover to IFRS.

The Bank has finalized its preliminary opening IFRS balance sheet; please see Reconciliation of balance sheet between Canadian GAAP and IFRS below for further detail. In addition, the Bank is in the process of finalizing its quarterly IFRS comparative results for 2011 and related note disclosures. The implementation phase of the Bank's conversion plan is therefore nearly completed.

Key remaining project milestones to be completed in fiscal 2012 include:

- Preparation of 2011 comparative IFRS financial disclosure;
- Preparation of annual consolidated financial statements under IFRS for fiscal 2012;
- Development and documentation of revised accounting processes and controls;
- Design and testing of revised disclosure controls and internal controls over financial reporting;
- Periodic senior management and Audit Committee briefing sessions; and
- Continuous training of accounting and finance personnel.

Other impacts related to the conversion

Other key elements to the IFRS conversion are summarized below and include: IFRS conversion plan governance framework, communications and training, internal controls over financial reporting, lending practices, as well as all other matters to ensure an orderly transition.

a) IFRS conversion plan governance framework
The Bank has put in place a Steering Committee that is responsible for ensuring the conversion plan is adequately followed. The Bank's Board of Directors, mainly through its Audit Committee, is also involved in the IFRS conversion plan. They receive quarterly updates of the timeline for implementation, the implications of IFRS standards on the business and an overview of the impact on the financial statements. The Audit Committee will continue to receive quarterly project status updates to ensure proper oversight of the conversion plan until all milestones are completed.

b) Communications and training
In 2008, the Bank initiated training programs for key finance and operational personnel who need to understand and execute on the impact of IFRS. Throughout 2010, training programs and updates were offered to other internal constituents such as the credit, commercial lending and treasury departments. As the Bank progressed in its conversion plan in 2011, it also, together with other members of the banking community, communicated IFRS implications to the various interested stakeholders and provided additional training to internal constituents as required.

c) Internal controls over financial reporting (ICFR)
Along with the review of accounting policies, appropriate changes to ensure the integrity of internal control over financial reporting and disclosure controls and procedures were made. Based on existing IFRS, the Bank has not identified the need for any significant modifications to its financial information technology architecture or to existing ICFR and disclosure controls. ICFR is addressed as processes and system assessments are being finalized, including disclosures and associated controls required in respect of the transition to IFRS.

d) Lending practices
The transition to IFRS will not only impact the Bank's financial statements, but also some of its clients' financial statements. This will have repercussions on the various loan covenants monitored by underwriting groups and the credit department. Certain commercial account managers and credit analysts were briefed, to foster a better internal understanding of IFRS to properly analyze the clients' IFRS financial statements and the potential impacts on ratios and covenants.

e) Other considerations
The Bank assessed the impact of the IFRS conversion on its performance measurement processes, including planning and budgeting and has not identified any significant changes required to its business activities.

First-time adoption of IFRS
The adoption of IFRS requires the application of IFRS 1, *First-Time Adoption of International Financial Reporting Standards* (IFRS 1), which provides guidance for an entity's initial adoption of IFRS. In general, accounting changes resulting from the transition to IFRS have been reflected in the IFRS opening consolidated balance sheet on a retrospective basis. However, IFRS 1 includes certain mandatory exemptions and limited optional exemptions from retrospective application. A summary of the Bank's significant first-time adoption elections under IFRS 1 is presented below.

TOPIC	IMPACT ON THE CONSOLIDATED FINANCIAL STATEMENTS
Securitization	• The Bank applied the derecognition requirements in IAS 39, *Financial Instruments: Recognition and Measurement*, prospectively for transactions occurred on or after January 1, 2004 as required by OSFI.
Designation of financial instruments	• Under Canadian GAAP, certain securities held as economic hedges of off-balance sheet securitization activities were designated as at fair value through profit or loss to reduce a recognition inconsistency that would otherwise have arisen from measuring these assets on a different basis than related seller-swaps. Under IFRS, these past securitization transactions do not meet the derecognition requirements and related seller swaps are not recognized on-balance sheet anymore. In order to realign revenue recognition for these transactions, the Bank re-designated these securities as available-for-sale. • In addition, the accounting for past securitization transactions under IFRS led to the initial recognition and classification of replacement assets (see page 63). • For other financial instruments, the Bank maintained its existing designations as at November 1, 2010.
Employee benefits	• The Bank elected to recognize all unamortized cumulative actuarial gains and losses in the consolidated retained earnings at the date of transition to IFRS. • The Bank also elected to disclose the defined benefit obligations, plan assets, deficit and experience adjustments on retirement benefit liabilities and assets prospectively from the date of transition, progressively building the data to present the four years of comparative information required under IFRS.
Business combinations	• The Bank elected November 1, 2000 as the date to restate prior business combinations. As a result, the value of goodwill and intangible assets was amended on the transition date.

This is not an exhaustive list and does not cover all exemptions which the Bank has considered. However, the remaining first-time adoption elections under IFRS 1 are not significant to the Bank's IFRS conversion plan and financial statements.

Analysis of key differences

IFRS were developed using a conceptual framework similar to Canadian GAAP, although significant differences exist in certain areas including recognition, measurement and disclosures.

The following table summarizes the key differences between the Bank's Canadian GAAP accounting practices and the corresponding accounting treatment under IFRS.

TOPIC	IMPACT ON THE CONSOLIDATED FINANCIAL STATEMENTS
Securitization	• As the derecognition criteria in IAS 39 are not met, securitized mortgage loans have been recorded as mortgage assets on the balance sheet and the funds received have been recorded as securitization liabilities bearing interest at a rate based on the yield of the investments issued to investors. • Replacement assets which were previously off balance sheet have also been recorded on the balance sheet as securities, cash and deposits with other banks, and as securities purchased under reverse repurchase agreements (see page 63). • Prior net unrealized gains on sales related to these transactions have been eliminated. • Securitization income has been replaced with the interest income on the underlying mortgage loans and replacement assets, less the interest expense on the associated securitization liability. • This change impacts the timing of the recognition of income on the mortgage loans as the income is recognized over the life of the securitization. The total amount of income earned over the term of the mortgages remains unchanged.
Hedge accounting	• In order to comply with IAS 39, the Bank has developed admissible substitute quantitative methods to measure the ineffectiveness of certain hedging relationships. These new methods may lead to increased volatility of results in the consolidated statement of income. The cumulative impact of using these new methods was recognized in retained earnings at the transition date. • After the transition date, the Bank also reviewed and modified certain hedging relationships designated under Canadian GAAP due to changes in accounting for securitization transactions under IFRS. • Only hedging relationships that complied with IFRS hedge accounting criteria on the transition date were recognized as hedges on the transition date.
Employee benefits	• Under IFRS, the Bank elected to amortize actuarial gains and losses recognized after the transition date using a corridor approach. • Vested past service costs of defined benefit plans are recognized in income immediately as granted. • A transitional obligation resulting from the initial application of the accounting standard with respect to employee future benefits under Canadian GAAP could not be carried forward and was adjusted through retained earnings at the transition date.
Loan loss provisioning	• Under IFRS, loan losses and allowances are presented based on whether they are assessed individually or collectively for groups of similar loans. As a result, there have been changes in the allocation of losses between these categories. • In addition, the amount of the Bank's collective provisions, mainly for loans which are not classified as impaired, fully reflects improvements to provisioning models which rely more heavily on the current status of the portfolios in accordance with IFRS requirements.

The differences identified in the above discussion on IFRS transition should not be regarded as an exhaustive list and other changes may result from the transition to IFRS.

Reconciliation of condensed consolidated balance sheet between Canadian GAAP and IFRS

The following table present the reconciliation of the condensed consolidated balance sheet according to Canadian GAAP and the preliminary unaudited condensed consolidated balance sheet recorded in accordance with IFRS at November 1, 2010.

TABLE 33
RECONCILIATION BETWEEN CANADIAN GAAP AND IFRS
As at November 1, 2010 (in thousands of dollars)

	ITEM	CANADIAN GAAP	ADJUSTMENTS	RECLASSIFICATIONS	IFRS
ASSETS					
Cash and deposits with other banks	a)	$ 166,098	$ 47,871	$ -	$ 213,969
Securities	a), h)	4,258,805	560,738	-	4,819,543
Securities purchased under reverse repurchase agreements	a)	803,874	190,800	-	994,674
Loans	a), d), n)	17,570,694	2,716,375	100,229	20,387,298
Other assets	a), c), e), f), j), m), n)	972,667	(196,202)	(94,493)	681,972
		$ 23,772,138	$ 3,319,582	$5,736	$27,097,456
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits	a), b)	$ 19,647,730	$ 71	$ -	$19,647,801
Other liabilities	a), c), d), g), i), j), k), l)	2,734,993	(64,176)	5,736	2,676,553
Debt related to securitization activities	a)	-	3,486,634	-	3,486,634
Subordinated debt		150,000	-	-	150,000
Shareholders' equity					
Preferred shares		210,000	-	-	210,000
Common shares		259,363	-	-	259,363
Share-based payment reserve		243	-	-	243
Retained earnings	o)	741,911	(131,428)	-	610,483
Accumulated other comprehensive income	a), b), h), j)	27,898	28,481	-	56,379
		1,239,415	(102,947)	-	1,136,468
		$ 23,772,138	$ 3,319,582	$ 5,736	$27,097,456

Nature of adjustments

The following section describes the details of adjustments to the condensed consolidated balance sheet as at November 1, 2010, as a result of the IFRS changeover.

a) Securitization
The Bank securitizes mortgage loans primarily by participating to the Canada Mortgage Bonds Program (CMB Program) and through multi-seller conduits set up by large Canadian banks. According to Canadian GAAP, these securitization transactions met derecognition criteria and therefore were accounted for as transfers of receivables. The derecognition criteria for a financial asset were based on control. Under IFRS, these transactions did not meet derecognition criteria, which are mainly based on the transfer of risks and rewards, and therefore were recorded as financing transactions.

The difference in accounting treatment between Canadian GAAP and IFRS for these securitization transactions has resulted in the following adjustments to the Bank's consolidated opening balance sheet:

- Recognition of the securitized mortgages that were previously derecognized under Canadian GAAP in the consolidated balance sheet under IFRS; and recognition of related securitization liabilities not previously recognized under Canadian GAAP;
- Recognition of financial assets (the Replacement Assets) which were previously off balance sheet to manage the maturity mismatch between the amortizing securitized mortgages and the off-balance sheet securitization liabilities related to the CMB Program;
- Elimination of securitization receivables and payables, including servicing liabilities, related to retained interests and securitization seller swaps, recognized on the consolidated balance sheet under Canadian GAAP;
- Reversal of gains and losses on securitization, including gains and losses on seller swaps and retained interests, as well as amortization of servicing liability previously recognized in net income under Canadian GAAP;
- Recognition of interest income earned on the securitized mortgages and Replacement Assets not previously recognized under Canadian GAAP;
- Recognition of interest expense on the securitization liabilities not previously recognized under Canadian GAAP; and
- Re-designation of certain securities with a fair value of $1.0 billion as available-for-sale, which were previously designated as at fair value through profit or loss.

The adjustments to the condensed consolidated balance sheet as at November 1, 2010 are summarized in the following table.

TABLE 34
SECURITIZATION IFRS ADJUSTMENTS
As at November 1, 2010 (in thousands of dollars)

ASSETS	
Increase in loans, net	$ 2,715,535
Replacement assets	
Increase in cash and deposits with other banks	47,871
Increase in securities	559,457
Increase in securities purchased under reverse repurchase agreements	190,800
	798,128
Decrease in other assets	(79,233)
Increase in assets	$3,434,430
LIABILITIES AND SHAREHOLDERS' EQUITY	
Liabilities	
Decrease in personal deposits	$ (182)
Increase in debt related to securitization activities	3,486,634
Decrease in other liabilities	(75,806)
	3,410,646
Shareholders' equity	
Decrease in retained earnings	(1,544)
Increase in accumulated other comprehensive income	25,328
	23,784
Increase in liabilities and shareholders' equity	$3,434,430

b) Hedge accounting
Under Canadian GAAP, the Bank used the shortcut method and the variable cash flow method to measure the ineffectiveness of certain hedging relationships. IFRS does not permit the use of either of these methods. In order to comply with these requirements, the Bank has developed admissible substitute quantitative methods. Other hedging relationships that were already using methods admissible under IFRS have not been modified and did not require any adjustments on the transition date.

The cumulative impact of using new methods to test the effectiveness of certain of the Bank's hedging relationships has been recognized by decreasing retained earnings by $0.1 million as at November 1, 2010. This represents the ineffective portion of the hedging relationship at that date. Furthermore, deposits have increased by $0.3 million as at November 1, 2010, while accumulated other comprehensive income has decreased by $0.1 million.

c) Employee benefits
Actuarial gains and losses
Under Canadian GAAP, actuarial gains and losses were amortized through income using a corridor approach over the estimated average remaining service life ("EARSL") of employees. At the transition date, the Bank elected to use the exemption from retrospective application and recorded the accumulated actuarial losses in retained earnings. Under IFRS, the Bank has elected that additional actuarial gains and losses recognized after the transition date will be amortized using a corridor approach.

Vested past service costs
Under Canadian GAAP, vested past service costs of defined benefit plans were amortized over the EARSL of plan participants from their grant date. Under IFRS, vested past service costs of defined benefit plans must be recognized in income immediately as granted. The Bank's net past service costs, at the transition date, were fully vested and were recognized in retained earnings.

Transitional obligation
Under Canadian GAAP, a transitional obligation resulting from the initial application of the accounting standard with respect to employee future benefits was amortized over the EARSL. Under IFRS, this transitional obligation could not be carried forward and was adjusted through retained earnings.

As a result of the above, all unamortized cumulative net actuarial gains and losses, transitional obligation and past service costs were charged to retained earnings under IFRS for an amount of $128.8 million ($94.5 million net of taxes). Other assets decreased by $81.3 million and other liabilities increased by $13.2 million.

d) Loan loss provisioning
As part of the IFRS conversion, the Bank improved its methodology to assess provisions for groups of similar loans (designated as "collective allowances" under IFRS). To establish collective allowances, the Bank now uses a model based on the internal risk rating of credit facilities and on the related probability of default factors, as well as the loss given default associated with each type of facility. Collective allowances are adjusted to reflect changes in the portfolios and credit policies and are maintained for each pool of loans with shared risk characteristics. These estimates include consideration of economic and business conditions, management's judgment and the risks related to the model. The improved methodology relies more heavily on the current status of the portfolios in accordance with IFRS requirements.

The cumulative impact of reviewing the methodology has been recognized by increasing retained earnings by $0.6 million as at November 1, 2010.

The reclassification of the allowance for undrawn amounts under approved credit facilities led to an increase in other liabilities of $5.7 million as at November 1, 2010.

e) Business combination
The Bank elected November 1, 2000 as the date to restate prior business combinations which resulted in the restatement of the only business combination prior to transition. This acquisition pertains to the 43 branches acquired from Scotiabank in Québec as at November 1, 2000. Under Canadian GAAP, for acquisitions completed in years 2000 and before, intangible assets were not necessarily identified separately and the excess of the purchase price over the net fair value of acquired assets was allocated to goodwill. Canadian GAAP did not require the restatement of this purchase equation. Under IFRS, intangible assets must be identified as part of the purchase equation. In addition, acquisition costs incurred must be expensed as incurred and cannot be capitalized as part of goodwill. The adjustment mainly resulted in the identification of specific intangible assets which were subsequently fully amortized prior to the transition date. The restatement adjustment resulted in a goodwill decrease of $24.6 million within other assets as at November 1, 2010 and a retained earnings decrease of $21.2 million.

f) Consolidation of B2B Trust
Under Canadian GAAP, the acquisition of the minority shareholders of B2B Trust in June 2004 was accounted for as a step acquisition and resulted in the accounting of an intangible asset related to contractual relationships with financial intermediaries and customer relationships. Under IFRS, the repurchase of the minority shareholders is considered an equity transaction as the Bank already had control of its subsidiary prior to the repurchase. As a result, under IFRS the excess of the purchase price over the book value of the minority interest was recognized in retained earnings, rather than allocated to the contractual and customer relationships intangible as required under Canadian GAAP. In addition, the related amortization expense of the intangible asset recorded under Canadian GAAP was eliminated under IFRS. The restatement of the repurchase of the minority shareholders of B2B Trust resulted in a decrease of contractual and customer relationships, within other assets, in the amount of $10.5 million and in a decrease in retained earnings of $7.7 million as at November 1, 2010.

g) Share-based payments
Under Canadian GAAP, for the stock appreciation rights (SARs) settled in cash, the excess of the share price over the exercise price, reviewed on an ongoing basis, was recognized in income during the right's vesting period. Under IFRS, the Bank is required to recognize as an expense the fair value of stock appreciation rights during the vesting period. The Bank therefore measured the fair value of the SARs using the Black and Scholes option pricing model, taking into account the terms and condition upon which the options were granted, which led to an increase in other liabilities of $0.8 million and a decrease in retained earnings of $0.6 million as at November 1, 2010.

h) Securities
Canadian GAAP requires that investments in equity instruments that do not have a quoted market price in an active market be measured at cost. Under IFRS, these instruments must be measured at fair value if it can be reliably measured. This revaluation resulted in an increase in available-for-sale securities of $1.3 million and in an increase in accumulated other comprehensive income of $1.0 million as at November 1, 2010.

Under Canadian GAAP, an impairment should be recognized on available-for-sale securities when there is objective evidence of impairment and when that impairment is considered to be other than temporary. Under IFRS, an impairment of these securities should be recognized as soon as there is objective evidence of the impairment. As a result, unrealized losses on identified securities were reversed from accumulated other comprehensive income and recognized in retained earnings, which decreased by $1.2 million as at November 1, 2010.

i) Contingencies
Under Canadian GAAP and IFRS, provisions are recorded if it is probable that a present obligation exists at the end of the reporting period and a reliable estimate of its amount can be made. However, under IFRS, the probability threshold is interpreted as slightly lower than in Canadian GAAP and the measurement of the liability may be different when there is many possible outcomes to the resolution of the contingencies. Consequently, the Bank reviewed all pending contingencies as at the opening balance sheet date and reviewed the recognition and valuation of its provisions. This entailed an increase of $3.0 million in other liabilities and a decrease of $2.1 million in retained earnings as at November 1, 2010.

j) Income taxes
The adjustment to total equity at the transition date essentially reflects the total tax recovery on all the adjustments from Canadian GAAP to IFRS.

k) Customer loyalty programs
To promote the use of its credit cards, the Bank grants points that can be redeemed for goods or services. Under Canadian GAAP, the expected cost of these points was recognized as a liability and as a marketing expense. Under IFRS, the points must be accounted for as a separately identifiable component of the sales transactions in which they were granted, based on their estimated fair value. This adjustment resulted in an increase in other liabilities of $0.4 million and a decrease of $0.3 million in retained earnings as at November 1, 2010.

l) Operating lease incentives
Under Canadian GAAP, operating leases renegotiated prior to the end of the original lease term were accounted in accordance with the terms of the original lease contract. Accordingly, any incentives received in order to renegotiate the lease were recognized as a reduction of rental expense on a straight-line basis over the term of the lease extension. Under IFRS, the Bank must recognise the benefit of incentives over the term of the renegotiated lease. As a result, the Bank reviewed the amortization periods of its reported operating lease incentives. This entailed a reduction of $1.7 million in other liabilities and an increase of $1.2 million in retained earnings as at November 1, 2010.

m) Premises and equipment
Under Canadian GAAP, equipments were depreciated using the declining balance method and straight-line method. IFRS suggest that the depreciation method used should be applied consistently across various types of assets. In order to harmonize the depreciation methods, the Bank changed the depreciation method for certain equipments from declining balance to straight-line. This resulted in a reduction of premises and equipment, within other assets, of $3.0 million and a decrease of $2.2 million in retained earnings as at November 1, 2010.

n) Reclassification of loan origination fees
Loan origination fees, previously presented in other assets, were reclassified to their respective loan accounts. This reclassification amounted to $94.5 million as at November 1, 2010.

o) Retained earnings
The adjustment to retained earnings at the transition date reflects the net impact of the adjustments from Canadian GAAP to IFRS listed above.

The disclosed impacts of the transition to IFRS are considered forward-looking statements and reflect the most recent assumptions, estimates and expectations, including the assessment of IFRS expected to be applicable at the time of transition. As a result of changes in circumstances, such as economic conditions or operations, and the inherent uncertainty from the use of assumptions, the actual impacts of the transition to IFRS may be different from those presented above. Please refer to the Caution Regarding Forward-Looking Statements section at the beginning of this Annual Report.

Future IFRS changes post initial adoption in 2012 (effective 2013 or later)
Throughout the current year and the period leading up to the conversion to IFRS in 2012, the Bank continued to monitor the above-mentioned accounting policies and finalized its assessment of policy decisions available under IFRS in order to prepare for an orderly transition to IFRS. In fiscal 2010, the IASB published a new standard on the classification and measurement of financial assets and financial liabilities, but these changes will not have to be adopted until after the transition date as of November 1 2015. Key standards affecting financial instruments will likely be amended, in particular the impairment of financial assets, hedge accounting and the offsetting of assets and liabilities.

Other standards, including those related to employee benefits, consolidation and financial statement presentation were also revised in 2011. All these changes are, however, not to be adopted until after the transition date. The evolving nature of IFRS is also likely to result in additional accounting changes, some of which may be significant. The Bank will continue to actively monitor all of the IASB's projects and OSFI regulations that are relevant to the Bank's financial reporting and accounting policies and adjust its IFRS conversion project accordingly.

Capital implications
The IFRS conversion has had a significant impact on capital. Had the adjustments resulting from the IFRS transition been applied to the Bank's financial statements as at October 31, 2011, they would have had negative impacts of 100 basis points on the Tier 1 capital ratio and 90 basis points on the total capital ratio excluding the impact of OSFI advisory that permits a five-quarter phase-in of the adjustment to retained earnings arising from the first-time adoption of certain IFRS changes for purposes of calculating certain ratios. These impacts are mostly due to adjustment related to employee benefits.

BASIS OF PRESENTATION

This Management's Discussion and Analysis (MD&A) refers to the results of operations and financial condition of the Bank for the year ended October 31, 2011 and presents the views of the Bank's management. The information is presented on the same basis as in the annual consolidated financial statements and has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the accounting requirements of OSFI.

Certain comparative figures for fiscal 2010 and 2009 have been reclassified to conform to the current year presentation.

Additional information on Laurentian Bank of Canada, including the Annual Information Form for the year ended October 31, 2011, can be found on the Bank's website at www.laurentianbank.ca and on SEDAR at www.sedar.com.This Management's Discussion and Analysis is dated December 7, 2011.

METHODOLOGY FOR THE ANALYSIS OF RESULTS

Discontinued operations
Management generally evaluates the Bank's performance as reported in the annual consolidated financial statements. The 2009 financial statements present results from continuing operations and results from discontinued operations arising from the disposal of the wealth management operations associated with the BLC-Edmond de Rothschild Asset Management Inc. joint venture in 2005.

Non-GAAP Financial Measures
The Bank uses both GAAP and certain non-GAAP measures to assess performance. 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 companies. These non-GAAP measures are considered useful to investors and analysts in obtaining a better understanding of the Bank's financial results and analyzing its growth and profit potential more effectively. The Bank's non-GAAP financial measures are defined as follows:

Return on common shareholders' equity
Return on common shareholders' equity is a profitability measure calculated as the net income available to common shareholders as a percentage of average common shareholders' equity, excluding accumulated other comprehensive income.

Book value per common share
The Bank's book value per common share is defined as common shareholders' equity, excluding accumulated other comprehensive income, divided by the number of common shares outstanding at the end of the period.

Tangible common equity ratio
Tangible common equity is defined as common shareholders' equity, excluding accumulated other comprehensive income, less goodwill and contractual and customer relationship intangible assets. The tangible common equity ratio is defined as the tangible common equity as a percentage of risk-weighted assets as detailed in the Capital Management section.

Net interest margin
The net interest margin is the ratio of net interest income to total average assets, expressed as a percentage or basis points.

Efficiency ratio and operating leverage
The Bank uses the efficiency ratio as a measure of its productivity and cost control. This ratio is defined as non-interest expenses as a percentage of total revenue. Operating leverage is the difference between total revenue and non-interest expenses growth rates.

Dividend payout ratio
The dividend payout ratio is defined as dividends declared on common shares as a percentage of net income available to common shareholders.

Dividend yield
The dividend yield is defined as dividends declared per common share divided by the closing common share price.

Adjusted GAAP and non-GAAP measures
Certain analyses presented throughout this MD&A are based on the Bank's core activities and therefore exclude the effect of the transactions with Mackenzie recorded in fiscal 2011, as further detailed on page 29 in this MD&A.