

MESSAGE FROM
THE PRESIDENT
AND CHIEF
EXECUTIVE
OFFICER



Réjean Robitaille, President and Chief Executive Officer

Anniversaries are an invitation for reflection. When you have a big anniversary – and 165 years is big – there is a lot to reflect about.

I know I speak for all 3,700 of us when I say that our rich 165 year history is a source of great pride. Laurentian Bank in its current and earlier forms – we were founded as the Montréal City and District Savings Bank – has built a significant record of service. Originally serving only the island of Montréal, we have since grown a strong presence in many regions of Québec and across Canada, and are known and respected in various financial services niches across the country.

We are the third oldest enterprise in Montréal, but we have remained young through evolution – the first to link the branches by a central computer, the first to offer drive-through banking, the first Bank to appoint a woman as Chairman of the Board. The list goes on.

But that was yesterday.

When we changed our name to Laurentian Bank of Canada in 1987, it marked the start of our expansion to commercial clienteles. Since then, to complement its strong retail activities, the Bank has built solid businesses in three sectors: Real Estate and Commercial, B2B Trust, and

Laurentian Bank Securities and Capital Markets. Retail and SME-Québec is still a very important growth engine of the Bank and contributes approximately a third of its profitability. However, it is interesting to note that almost 70% of our profitability now comes from these other businesses that are less than 25 years old.

That's a lot of change jammed into the last quarter century of our journey. And we're just getting started.

Another solid year

The past four years have been challenging for the banking industry owing to a global financial crisis. Through all of it, the Bank has performed well, delivering a succession of record years in profitability and asset growth and increasing its dividend along the way. In 2011, the Bank raised its quarterly dividend in the first quarter to \$0.39 per share and again in the third quarter to \$0.42 from a quarterly rate of \$0.36 per share in 2010. On December 7th, 2011, the Bank approved a further \$0.03 increase in the dividend to \$0.45 per share per quarter.

The environment in 2011 remained difficult. The economic backdrop, particularly in Europe and the US, along with the fierce competition and a flat yield curve put pressure on net interest income.



RECOGNIZING PROXIMITY AND SIMPLICITY

Laurentian Bank is proud to have been selected as a winner of the 2011 Canada's Most Admired Corporate Cultures in Québec and Atlantic region, presented by Waterstone Human Capital. It acknowledges companies whose organizational culture has contributed to improving their performance and giving them a competitive edge. The Bank has been working to promote a corporate culture emphasizing proximity and simplicity. This recognition serves to further reinforce its collective sense of pride.

Nonetheless, we had solid loan growth of 8% including securitized loans. We also continued to record a strong performance with net income of \$127.5 million. Net income excluding one-time costs related to a recent transaction reached \$133.3 million.

For many years, we have been proactively managing our credit risk and in 2011 benefited from a significant improvement in credit quality. Provisions decreased by 31% from 2010 during the year. Over the last three years, our net impaired loans as a percentage of gross loans and acceptances averaged 17 basis points, which compares favorably to the Canadian banking sector. Our rigorous approach to risk management is engrained in the Bank's culture and serves us well.

Contributing to our solid results is our strategy of continuous investment. We have invested a lot in our business development in recent years, hiring more commercial account managers, more mortgage specialists, more representatives to service financial intermediaries and more retail brokers, to name a few. We have also been improving our knowledge of our customers with customer relationship tools and investing to streamline our processes so that we can improve our efficiency.

Two transactions to propel growth of B2B Trust and of Retail

It has been 10 years since our last major acquisition. Since then, we focused on building a solid foundation which paved the path for substantial organic growth over the past several years. This progression has left us with a strong operating platform and solid balance sheet so that, when we identified an attractive acquisition, we were in an excellent position to execute.

This is where the two agreements with Mackenzie Financial fit into our story and more importantly, into our growth strategy. Our first one is the acquisition of the MRS Companies, which will be integrated into B2B Trust. This subsidiary of the Bank is already among the leaders serving the Canadian financial intermediary community. This acquisition accelerates its business development by adding more financial advisors and bringing in 280,000 self-directed accounts, and complements our existing strength in deposits and loans.

A second agreement with Mackenzie Financial benefits our Retail operation by making us a principal distributor of Mackenzie mutual funds, among the leading families of funds in the country. These high quality and diverse funds strengthen our Wealth Management offering and will increase fee revenues.

Banking
on our
focused
strategy,
our agility
and our
rigorous
execution

Four strong business segments

Through the years, from our very first branch on St-Jacques Street, our services to retail customers have evolved remarkably. A renovated and remodeled network of 158 branches is still our face to the client, but that client now has more options.

Almost half of new mortgages come from our specialists travelling to visit the customer and our virtual network of ATM's, Internet and telephone banking – including our application for mobile devices – attracts more users each year. Our Customer Relationship Management system (CRM), launched in December 2010, will be a strategic tool for enabling our advisors to better assess and meet the needs of our customers.

Our Real Estate and Commercial unit continues to be a very profitable and efficient operation. It generates solid asset growth without compromising credit quality or profitability. It does so, in part, by implementing innovative strategies to grow and diversify its portfolio.

During the year, B2B Trust continued to invest in providing “error-free, hassle-free” product support, while being innovative and creative in its advertising and marketing strategies. Credit risk management continues to be one of B2B Trust's strengths.

Laurentian Bank Securities and Capital Markets continues to pursue the development of its five divisions. Its lean structure and agility enabled

this segment to adjust to volatile market conditions and is well positioned for when market conditions improve.

Our three pillars

Our focus, agility and execution serve as competitive advantages. These are so fundamentally entrenched in our culture and our way of doing things that we consider them to be the pillars of our business model.

Our business segments do not offer everything to everyone; instead they are focused. Retail and SME-Québec is focused on young families and niche SME sectors, Real Estate and Commercial on high quality real estate developers as well as smaller and innovative financings, B2B Trust on financial intermediaries, and LBS on Fixed Income, retail brokerage and small cap equities.

Our size, flat management structure and innate entrepreneurial spirit foster our agility.

Lastly, our obsession with execution allows us to get both the big and little things done right. Combined, these three pillars support the sustainable growth and development of the Bank.

The Power of People

Successful companies and institutions are invariably driven by empowered, committed and talented people. The Bank is no different. At Laurentian Bank, people are our greatest strength.

It's been a great journey... and we are only getting started!

Development of our human capital is a corporate priority and I was gratified to see innovative initiatives underway this year that are explained later in this report.

I am very pleased to announce two strong additions to our Management Committee. Michel Trudeau, CEO of Laurentian Bank Securities and Capital Markets and Pierre Minville, our Chief Risk Officer, joined this Committee, becoming Executive Vice Presidents. They bring with them their extensive experience and complementary capabilities.

I am also happy to announce that Lorraine Pilon will assume the additional responsibilities associated with heading up Corporate Human Resources. In her expanded role, she becomes Executive Vice President, Corporate Affairs, Human Resources, and Secretary.

Acknowledgements

I would like to convey my thanks to all of our employees who not only contribute to the success of the Bank but also make it a great place to work. I include here our dedicated and diligent management team as well as our Board of Directors whose influence and contribution benefit our organization. I also wish to recognize our valued clients who place their trust in us. Lastly, I would like to thank our loyal and supportive shareholders.

SERVICE : A COMPETITIVE ADVANTAGE

Again this year, the Bank's quality of service was recognized by independent sources. According to a recent survey by J.D. Power, Laurentian Bank ranked second among the 7 largest Canadian banks for client satisfaction. As well, for the 3rd consecutive year, the Bank was named as the second most admired banking institution in Québec by Léger Marketing.

I would also like to extend our gratitude to Paul Hurtubise, Senior Vice President, Real Estate and Commercial, who has decided to retire after more than 45 years of service to the Bank. Paul's contribution has been immense and his expertise, dedication and rigour have served as major assets for the organization. I wish him a most gratifying retirement!

The Year Ahead

Our business model is tried and true. We will pursue growth and development by maximizing the opportunities embedded in each business segment. Our clear focus positions us well. Our commitment to excellence in execution helps us deliver strong results and our agility will allow us to adapt and adjust to the economic realities of 2012.

165 and kicking?
Let's head for the next milestone!



Réjean Robitaille, FCA
President and Chief Executive Officer