We are all this. And much more.

LAURENTIAN BANK

2007 Annual Report

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

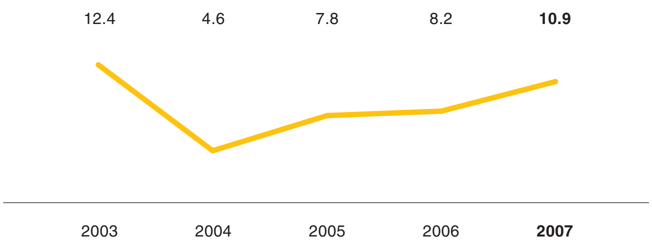
In this Annual report and in other documents filed with Canadian regulatory authorities or in other communications, Laurentian Bank of Canada (the "Bank") may from time to time make written or oral forward-looking statements within the meaning of applicable securities legislation, including statements regarding the Bank's business plan and financial objectives. These statements typically use the conditional, as well as words such as prospects, believe, estimate, forecast, project, expect, anticipate, plan, may, should, could, would or the negative of these terms or variations of them or similar terminology.

By their very nature, forward-looking statements are based on assumptions and involve inherent risks and uncertainties, both general and specific in nature. It is therefore possible that the forecasts, projections and other forward-looking statements will not be achieved or will prove inaccurate. Although the Bank believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct.

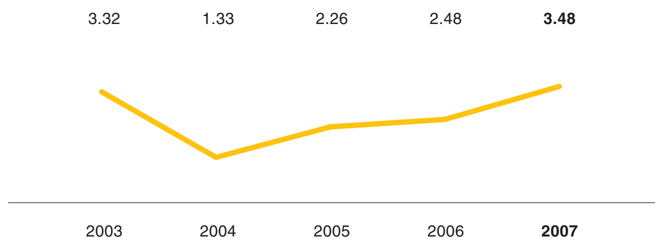
The Bank cautions readers against placing undue reliance on forward-looking statements when making decisions, as the actual results could differ appreciably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements due to various material factors. Among other things, these factors include capital market activity, changes in government monetary, fiscal and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, competition, credit ratings, scarcity of human resources and technological environment. The Bank cautions that the foregoing list of factors is not exhaustive. For more information on the risk, uncertainties and assumptions that would cause the Bank's actual results to differ from current expectations, please also refer to the Bank's public filings available at www.sedar.com.

The Bank does not undertake to update any forward-looking statements, whether oral or written, made by itself or on its behalf, except to the extent required by securities regulations.

Return on common shareholders' equity
(as a percentage)



Diluted net income per common share
(in dollars)



Financial highlights

For the years ended October 31 (in millions of dollars, unless otherwise indicated)	**2007**	2006	2005
Per common share			
Diluted net income	**$ 3.48**	$ 2.48	$ 2.26
Diluted income from continuing operations	**$ 3.29**	$ 2.28	$ 1.85
Dividends	**$ 1.16**	$ 1.16	$ 1.16
Book value	**$ 33.34**	$ 31.18	$ 29.85
Share price			
High	**$ 45.08**	$ 36.72	$ 32.79
Low	**$ 28.79**	$ 28.01	$ 22.51
Close	**$ 43.70**	$ 29.05	$ 30.35
Financial ratios			
Price/earnings ratio	**12.5x**	11.7x	13.4x
Market to book value	**131%**	93%	102%
Dividend yield	**2.65%**	3.99%	3.82%
Net interest income as a percentage of average assets	**2.31%**	2.14%	1.99%
Earnings			
Total revenue	**$ 583.9**	$ 539.8	$ 510.0
Net income	**$ 94.5**	$ 70.3	$ 65.3
Income from continuing operations	**$ 90.1**	$ 65.6	$ 55.6
Efficiency ratio			
Non-interest expenses as a % of total revenue	**73.2%**	76.1%	76.4%
Return on common shareholders' equity	**10.9%**	8.2%	7.8%
Other information			
Number of full-time equivalent employees	**3,289**	3,238	3,180
Number of branches	**157**	158	157
Number of automated banking machines	**338**	325	313
Brokerage Offices	**14**	14	11
Commercial Banking Centres	**29**	28	28

Laurentian Bank of Canada is a banking institution operating across Canada and offering diversified financial services to its clients. Distinguishing itself through excellence in service, as well as through its simplicity and proximity, the Bank serves individual consumers and small and medium-sized businesses. The Bank also offers its products to a wide network of independent financial intermediaries through B2B Trust, as well as full-service brokerage solutions through Laurentian Bank Securities. Laurentian Bank is well established in the Province of Quebec, operating the third-largest retail branch network. Elsewhere throughout Canada, it operates in specific market segments where it holds an enviable position.

Our strengths

Solid financial situation

> strong balance sheet and capital ratios
> strong proportion of insured mortgages and of personal deposits
> limited exposure to asset-backed commercial papers issued by non-bank conduits

An efficient strategie

> solid presence in Quebec
> diversified activities spread across Canada
> high quality products and services

2008 priorities

Improve profitability…

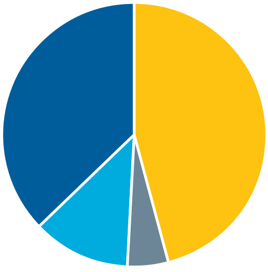
… by furthering the resources dedicated to internal growth and the development of high-return operations.

Enhance organizational efficiency…

… by reexamining key processes and approaches in order to lower operating costs and focus more energy on growth generating activities.

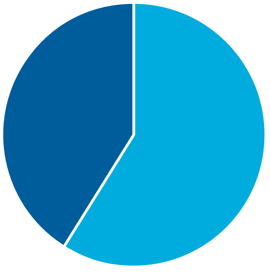
Develop human capital…

… by ensuring the development of the full potential of all employees, on the one hand, and, on the other hand, by emphasizing the development of a sales culture while upholding the highest standards of service quality.



Loan portfolios

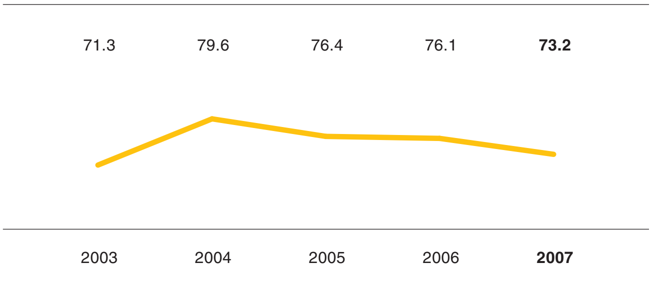
46% residential mortgages
5% commercial mortgages
12% commercial loans and other
37% personal loans



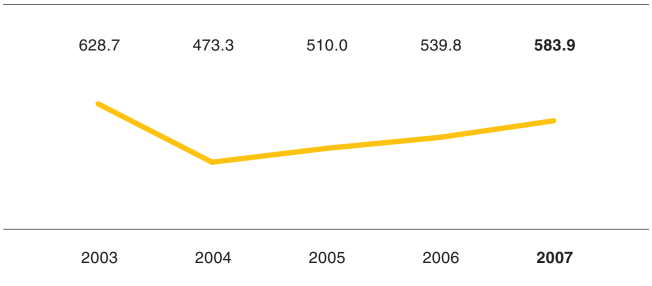
Geographic distribution of loans

59% Quebec
41% other provinces

Efficiency ratio
(non-interest expenses as a percentage of total revenue)



Total revenue
(in millions of dollars)



Business segments

Contribution to net income of the Bank

42%

Retail Financial Services

> a complete line of products and services
> 157 branches
> 338 ATMs in Quebec
> a network of 3,500 merchants offering our financing across Canada
> partnerships, alliances and contracts (Industrial Alliance, FTQ, Western Union, exclusive ATM contract in Montreal's Métro

22%

Commercial Financial Services

> large selection of financial products and services for small and mid-sized companies, real estate firms and agricultural enterprises
> 29 commercial business centres in Canada
> services that stand out through their innovativeness, with competitive products known for their quality, and through superior service

29%

B2B Trust

> provides financial advisors, planners and brokers with financial products and services designed for their clientele throughout Canada
> a leader in investment loan products and RRSP lending
> largest supplier of wholesale deposit products
> an outside network of more than 16,000 independent financial advisors

7%

Laurentian Bank Securities

> 14 brokerage offices in Quebec and Ontario
> specializing in five sectors: Institutional – Fixed Income, Institutional – Equity, Retail, Discount Brokerage and Business Services

2007 financial highlights

> Total loans and banker's acceptances growth of 9 %
> Growth of diluted earnings per common share of 40%
> Significant improvement of the efficiency ratio, from 76.1% to 73.2%
> Contribution of all business lines to net income growth
> 10% increase of the quarterly dividend distributed on common shares announced in December 2007

Our values

> passion for client interests
> simplicity
> entrepreneurship
> integrity
> team work

Management team, from left to right,
Bernard Piché
François Desjardins
Luc Bernard
Réjean Robitaille
Robert Cardinal
Lorraine Pilon

A word from the President and CEO

On behalf of the Management Committee and employees of Laurentian Bank, I am very proud to present our 2007 annual report, which shows the many progresses achieved by our organization in the last few years. Our financial results, the development of our business segments and the initiatives launched for our customers – these are all things we can be proud.

Fiscal 2007 was a good year for Laurentian Bank. We have posted some impressive results. Net income increased by more than 34% during the year to $94.5 million and the return on common shareholders' equity also improved by more than 30%. The latter reached 10.9% for 2007, amounting to $3.48 of diluted earnings per common share.

By and large, the Bank benefited from a substantial internal growth of its loan and deposit portfolios which increased by approximately $2 billion. This situation represents a milestone moment in the history of the Bank's development.

Also, thanks to a number of well-targeted strategic initiatives and to the involvement and dedication of our employees, all of our business segments improved their performance this year and continued to grow in a sustained, profitable manner.

Moreover, I am particularly happy to report that our unionized employees voted in favor of an agreement in principle between the Bank and the Union to renew the collective agreement. For a term of four years, this new agreement attests the marked improvement of labor relations within our enterprise. In this respect, I would like to thank all of those who directly or indirectly contributed to this important undertaking.

On the other hand, our prudent approach in matters of risk management and the judicious composition of our portfolios and balance sheet are further advantages for our investors. As an example, I would like to point out that the Bank's exposure to asset-backed commercial paper (ABCP) covered by the "Montreal Agreement" is limited.

At the starting of the new fiscal year, we are consequently well positioned to continue on our growth, and to maximize the benefits entailed for our shareholders, employees, customers and partners.

A long term vision

By its own definition, Laurentian Bank is a banking institution that operates throughout Canada – with 41% of its loans actually extended outside the province of Quebec – and offers customers diversified financial services. We have been focusing on personal banking customers as well as small and medium-sized businesses. We have also built business relationships with a vast outside network of independent financial intermediaries. We are in fact known for our proximity to customers and the excellence of our service.

Our developmental vision entails thorough analysis of our current positioning as well as of the present situation in our markets and in the financial services industry. This vision also rests on the appreciation of the Bank's strengths and on its long-term development potential.

It is clear that for Bank Management, our positioning will remain well targeted and our sights will remain firmly set on the development of the business segments where we are most competitive. This is the philosophy we have adopted in recent years, and it has been rewarding indeed.

Concrete priorities

This pragmatic approach is evident in the way we have identified our priorities within the company. At the outset of my mandate as President and Chief Executive Officer, I set forth the three priorities that would guide our actions in 2007. In 2008, we will keep these same three priorities which are: increasing profitability, improving operational efficiency and developing our human capital. In terms of these priorities, we made significant progress during fiscal 2007.

Regarding our first priority, all business segments reported increased profitability in 2007. B2B Trust truly stood out in this regard by increasing its loan and deposit portfolios, reducing loan losses, and improving its programs and services. I should also acknowledge the good performance of the Retail Financial Services as well as that of the Real Estate Financing team.

These three sectors of activity are the prime engines of growth and profitability for the Bank as a whole.

Operational efficiency, our second priority, also improved – with our efficiency ratio going from 76.1% to 73.2%. We have reviewed certain key processes in a bid to reduce the amount of administrative work done by our sales force, enabling them to concentrate more closely on providing service and developing their client base.

The year 2007 also featured human capital development efforts, our third priority. We deployed an entirely new and more structured performance management program better suited to the Bank's reality. All of our managers participated to a training program, and we are enthused by their positive response.

We also deployed a series of new programs, notably to ensure smooth integration of new employees. We have prioritized the development of programs for employees who work with customers in order to bring them on board with the Bank's culture from the outset and ensure they adhere to our exacting customer-service standards.

Our actions for 2008

Our financial objectives for 2008 were defined to reflect our long-term vision, and these same parameters will be used to measure our organization's success. We need to continue investing in our material and human resources. This will give the Bank the necessary tools and skills to ensure growth on a solid foundation and nurtures its long-term development without losing sight of our short-term profitability imperatives.

We at the Bank intend to maintain our investment program throughout the 2008 fiscal year in order to develop our various sectors of activity, optimize our business processes and improve our offer of products and services to customers.

Whether these investments are made in the branch and ATM network, in systems, in publicity and marketing, or in developing skills of our employees, they are necessary not only in support of the Bank's daily activities but also to consolidate and strengthen our competitive advantages in the eyes of our customers.

Growth objective

Over the last few years and throughout 2007, the development in our sectors, the improvement of our operation's profitability and the implementation of fruitful initiatives allowed us to accelerate our development in our targeted markets and niches.

At the same time, we have become "better operators" by mobilizing our energies and resources toward successful growth. This enabled us to optimize our operations and more effectively address customer needs. Of course, this is an ongoing process, which will require a sizable measure of our time and energy over the coming months and years.

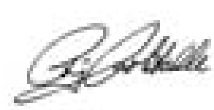
In this respect, I would like to take this opportunity to thank each and every one of our employees for their involvement and dedication to the Bank and to all our customers. Every day, they make a contribution to the improvement in the way we do things, and consequently our effectiveness and profitability. Our human resources remain our most precious asset, and we will continue to do our utmost to make the Bank a stimulating workplace where their skills and expertise are valued and encouraged to develop.

I would also like to heartily thank management and our Board of Directors. Their competencies, commitment and support are responsible for the excellent results we posted in 2007.

Finally, to our shareholders and customers, I would reiterate our commitment to remain ever attentive to their best interests, whether in terms of service or return. In this area, as everywhere else, the Bank will always pursue excellence.

And this commitment is concrete. We have decided to increase dividends paid out to common shareholders. This 10% increase in our quarterly dividend, went from $0.29 to $0.32 ($1.16 to $1.28 annualized), bears witness to our confidence in the Bank's success.

Today, Laurentian Bank is a financial institution that rests on a solid foundation and is determined to exploit its important potential for growth. In upcoming months and years, we will use that base to pursue thorough and accurately targeted strategies to promote sustainable development for the Bank, for the greater benefit of our shareholders, employees, customers and partners.



Réjean Robitaille
President and Chief Executive Officer

A word from the Chairman of the Board

As shareholder representatives, the directors who sit on the Board of Laurentian Bank have more than a few reasons to be gratified with the results of the 2007 fiscal year. One of the highlights of the year just ended was the fact that our new president and CEO, Mr. Réjean Robitaille, took over the reins from his predecessor, and did so most ably, by demonstrating strong leadership.

Likewise, the commitment and dedication of the Bank's employees pushed all sectors of activity into very positive performances over the year, thus providing for the growth of their operations.

Performance and growth, in turn, contributed to a clear improvement in profitability, which reinforced our confidence in the Bank's sustained and sustainable development over the long term.

This year-end review also features a few points of pride. The combined efforts of management and employees have enabled us to attain and even exceed our objectives. The Bank is consolidating its assets and acquisitions in its target markets. The initiatives and measures adopted as part of our business plan have borne fruit. In other words, the Bank's strengths have truly come together to produce the results we have seen.

The signing of a new collective agreement with unionized employees, one of the highlights of the year, is another example that should rightly be underscored. This agreement is definite proof of the determination of management and employees to work together to contribute to the Bank's development. It also augurs very well for our institution's future potential.

As we can see, the Bank's progress and results over the past year have been exciting for everyone concerned. However, the context of the financial services industry, and more specifically what has come to be called the "commercial paper crisis," has raised many concerns.

The Board of Directors shares these concerns and will continue to see to the best interests of its shareholders over the months and years to come. Among other responsibilities, this mission requires sustained and close attention to the regulatory framework and the business environment in which the Bank works in pursuit of its development.

In light of the issues and challenges that this business environment represents for the Bank, the Board of Directors insists on the Bank's having every possible means at its disposal to preserve its financial soundness. We have accordingly kept a watchful eye on our risk management, notably in terms of risks associated with financial products, which are becoming increasingly complex and sophisticated.

Along the same lines, I would like to point out that the Board of Directors, through its Audit Committee, and the Management Committee have carefully monitored the review of internal processes and controls regarding financial reporting in order to bring the Bank in compliance with statutory requirements as to the certification of financial information presented by the Bank to its shareholders, such as financial statements, management reports, or the annual information form.

As well, we have closely followed the implementation of the new Basel Framework on bank controls, which came into effect on November 1, 2007. We are convinced that the Bank has thereby adopted suitable measures for evaluating credit and operational risks.

On my behalf and on behalf of all Bank employees, I would like to express our gratitude and our sincerest thanks to Dominic Taddeo, who, for more than ten years, has actively participated in Board work and greatly contributed to the growth of our institution.

As his successor, the Board of Directors has chosen Isabelle Courville, President of Hydro-Québec TransÉnergie. Ms. Courville brings immense experience and skills to the table, and that will no doubt benefit the Bank.

I would also like to thank both Veronica S. Maidman and Georges Hébert, who are stepping down from the Board of Directors. As one of our Directors since 2001, Ms. Maidman parlayed her vast experience into a significant contribution to the Board's work. For his part, Mr. Hébert is leaving a directorship he has held for 17 years. His skills and experience have been an invaluable asset for the Bank during his entire mandate. We are most grateful to both for their immense contributions.

Laurentian Bank has been recognized for the high calibre of its Board of Directors for some time, and it fully intends to continue placing a large amount of importance on sound governance. This it intends to accomplish by systematically balancing its Board in terms of competencies, age groups, male/female ratio and geographical origin.

The Board of Directors would like to thank all the people working daily on the Bank's development, and to assure them of its unwavering support.

L. Denis Desautels

L. Denis Desautels O.C., FCA
Chairman of the Board

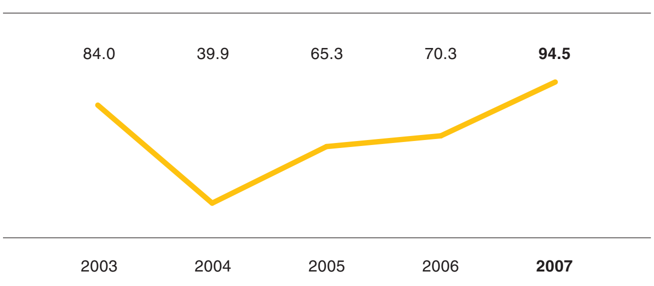
Management discussion and analysis

Summary of financial results

OVERVIEW OF FISCAL 2007

For the year ended October 31, 2007, Laurentian Bank reported net income of $94.5 million or $3.48 diluted per common share, compared to $70.3 million or $2.48 diluted per common share in 2006. Return on common shareholders' equity was 10.9% in 2007, compared to 8.2% in 2006. Income from continuing operations increased to $90.1 million or $3.29 diluted per common share for 2007, excluding a gain of $4.4 million net of income taxes on the 2005 sale of BLC-Edmond de Rothschild Asset Management Inc., as detailed on page 9 of this Management Discussion and Analysis (MD&A). For fiscal 2006, income from continuing operations stood at $65.6 million or $2.28 diluted per common share, excluding a gain of $4.8 million net of income taxes related to that same transaction.

Net income
(in millions of dollars)



HIGHLIGHTS

– Net income increased by 34% during fiscal 2007, from $70.3 million in 2006 to $94.5 million in 2007.
– Total revenue increased by 8% and stood at $583.9 million in 2007, compared to $539.8 million in 2006. The improvement in total revenue, mainly through the increase in net interest income, is largely attributable to the growth in operations.
– Non-interest expenses rose to $427.4 million in 2007, from $410.8 million in 2006. This increase of 4% results mainly from higher salaries and employee benefits, as cost control measures contributed to limit increases in other expenses.
– The provision for credit losses remained unchanged at $40.0 million.
– Income tax expense related to continuing operations stood at $26.4 million (22.7% effective tax rate) for fiscal 2007, compared to $23.4 million (26.3% effective tax rate) for fiscal 2006. This tax expense includes the effect of certain tax items, as detailed below in the "Analysis of Consolidated Results" section, on page 25.
– Results for fiscal 2007 also included the following items:
  - a $4.0 million ($3.3 million net of income taxes) gain resulting from the worldwide restructuring of Visa;
  - various favorable tax adjustments for $6.0 million, including the effect of the resolution of certain tax exposures;
  - the impact of the credit and liquidity crisis, including a $2.9 million ($2.0 million net of income taxes) charge related to the asset-backed securities portfolio.

BASIS OF PRESENTATION

This Management's discussion and analysis refers to the results of operations and financial condition of the Bank for the year ended October 31, 2007. The information is presented on the same basis as in the consolidated financial statements and was prepared in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements specified by the Office of the Superintendent of Financial Institutions of Canada.
This Management Discussion and Analysis presents the views of the Bank's management as at December 3, 2007. Additional information on Laurentian Bank of Canada, including the Annual Information Form for the year ended October 31, 2007, can be found on the Bank's Website at www.laurentianbank.ca and on SEDAR at www.sedar.com.

METHODOLOGY FOR THE ANALYSIS OF RESULTS

Management generally evaluates the Bank's performance on a reported basis, as presented in the consolidated financial statements. Considering the disposal of the wealth management operations associated with the BLC-Edmond de Rothschild Asset Management Inc. joint venture in 2005, financial statements present results from continuing operations and results from discontinued operations. The analyses included in this Management Discussion and Analysis generally follow such a presentation.
Certain performance measures are not terms defined under GAAP, and therefore may not be comparable to similar terms used by other issuers.
Certain comparative figures for fiscal 2006 have been reclassified to conform to the presentation of the information for fiscal 2007.

Table 1
Consolidated results
For the years ended October 31 (in millions of dollars, unless otherwise indicated)

	2007	2006	2005	**Variation 07/06**
Net interest income	**$ 390.2**	$ 357.2	$ 325.7	**9%**
Other income	**193.7**	182.6	184.3	**6**
Total revenue	**583.9**	539.8	510.0	**8**
Provision for credit losses	**40.0**	40.0	40.0	**–**
Non-interest expenses	**427.4**	410.8	389.9	**4**
Income from continuing operations before income taxes	**116.5**	89.0	80.1	**31**
Income taxes	**26.4**	23.4	24.5	**13**
Income from continuing operations	**90.1**	65.6	55.6	**37**
Income from discontinued operations, net of income taxes	**4.4**	4.7	9.7	**(6)**
Net income	**$ 94.5**	$ 70.3	$ 65.3	**34%**
Preferred share dividends, including applicable income taxes	**$ 11.9**	$ 11.7	$ 12.0	**2%**
Net income available to common shareholders	**$ 82.6**	$ 58.6	$ 53.3	**41%**
Average number of common shares outstanding (in thousands)				
Basic	**23,678**	23,605	23,525	
Diluted	**23,728**	23,649	23,552	
Income per common share from continuing operations				
Basic	**$ 3.30**	$ 2.28	$ 1.85	**45%**
Diluted	**$ 3.29**	$ 2.28	$ 1.85	**44%**
Net income per common share				
Basic	**$ 3.49**	$ 2.48	$ 2.26	**41%**
Diluted	**$ 3.48**	$ 2.48	$ 2.26	**40%**
Return on common shareholders' equity	**10.9%**	8.2%	7.8%	

OVERVIEW OF FISCAL 2006

Over a period of time between 2002 and 2005, the Bank refocused its activities and operations on those market segments where it held competitive advantages. Strengthened by a series of measures designed to reduce its cost structure and risk profile and increase its revenues, the Bank managed to regain some flexibility. The Bank's achievements and overall results for fiscal 2006 did reflect, in concrete terms, the significant efforts and resources devoted to improve its performance and profitability.

For the fiscal year ended October 31, 2006, the Bank reported net income of $70.3 million or $2.48 diluted per common share, an increase of 10% over fiscal 2005. Income from continuing operations had also increased, to $65.6 million or 18%, compared to 2005, illustrating quite clearly the positive impact of the various measures implemented to optimize the performance and profitability of all of the Bank's business segments. Return on common shareholders' equity was 8.2% in 2006, compared to 7.8% in 2005. Moreover, every business segment achieved significant progress throughout fiscal 2006.

DISCONTINUED OPERATIONS – SALE OF BLC-EDMOND DE ROTHSCHILD ASSET MANAGEMENT INC.

In fiscal 2005, the Bank sold its participation in the joint-venture BLC-Edmond de Rothschild Asset Management Inc. to Industrial Alliance Insurance and Financial Services Inc. As part of this transaction, a portion of the proceeds was subject to recovery clauses, based on net annual sales of mutual funds. Consequently, a $26.2 million portion of the gain on sale was initially deferred. As net sales at the end of November 2007 significantly exceeded minimum requirements, a $5.2 million gain ($4.4 million, net of income taxes) was recognized during the fourth quarter of fiscal 2007. For the same reason, a $5.2 million gain was also recognized in the fourth quarter of both fiscal 2006 and 2005. As at October 31, 2007, the remaining portion of the deferred gain amounted to $10.4 million. Note 5 to the annual consolidated financial statements provides additional information regarding this transaction.

How management measures the Bank's performance – Looking back on the 2007 objectives and objectives for 2008

As shown in the next table, the Bank met or exceeded all of its objectives for fiscal 2007. Revenue grew significantly as a result of higher loan and deposit volumes and overall improvements in all business segments, while cost control measures limited increases in expenses. Results for fiscal 2007 also included the effect of the following items:

– A $4.0 million gain ($3.3 million net of income taxes or $0.14 diluted per common share) resulting from the worldwide restructuring of Visa;
– Various favorable tax adjustments for $6.0 million ($0.25 diluted per common share);
– A $2.9 million ($2.0 million net of income taxes or $0.09 diluted per common share) charge related to its asset-backed securities portfolio.

Excluding these items, return on common shareholders' equity would have been 10.0% and diluted net income per share $3.18, still exceeding the objectives set for fiscal 2007.

The objectives presented below, are solely intended to provide interested parties with information on how management measures its performance. It is not intended to disclose the Bank's expectations for future financial results.

The objectives for fiscal 2008 take into account that the Bank will not necessarily benefit from the effect of specific non-recurring items similar to those of fiscal 2007 outlined previously. Moreover, the 2008 objectives take into account certain planned costs associated with initiatives designed to accelerate the Bank's growth, as well as the uncertainties related to the prevailing liquidity and credit crisis in Canada and the United States.

PRIORITIES

Management is committed to pursuing its three priorities throughout fiscal 2008 in order to achieve its financial objectives and to further the Bank's long-term development.

These priorities are:

IMPROVE PROFITABILITY…

… by furthering the resources dedicated to internal growth and the development of high-return operations.

1. Favor internal growth;
2. Emphasize sales of higher-contribution products;
3. Increase the use of clientele-oriented information systems.

ENHANCE ORGANIZATIONAL EFFICIENCY…

… by reexamining key processes and approaches in order to lower operating costs and focus more energy on growth generating activities.

1. Continue the revision of key processes and approaches, and proceed with the implementation of improvement measures;
2. Continue to invest steadily, favoring the growth of operations and the development of human resources;
3. Control expenses appropriately.

Table 2
Performance indicators

	2006 Results	2007 Objectives	**2007 Results**	**2008 Objectives** (1)
Return on common shareholders' equity	8.2%	8% to 9%	**10.9%**	**9.5% to 10.5%**
Diluted net income per common share	$ 2.48	$ 2.55 to $ 2.85	**$ 3.48**	**$ 3.30 to $ 3.60**
Total revenue	+ 6% $ 540 million	+ 4% to 5% ($ 550 to $ 560 million)	**+ 8%** **$ 584 million**	**+ 5%** **$ 615 million**
Efficiency ratio	76.1%	75% to 73.5%	**73.2%**	**74% to 72%**
Tier I BIS capital ratio	10.3%	minimum of 9.5%	**9.8%**	**minimum of 9.5%**
Credit quality (loan losses as a % of average assets)	0.24%	0.24% to 0.21%	**0.24%**	**n.a.** (2)

(1) These objectives for 2008 should be read concurrently with the above paragraphs.
(2) No specific objective was set for credit quality for 2008 as it is closely related to the Return on common shareholders's equity and Diluted net income per share indicators. Management will nonetheless continue to closely monitor the quality of its loan portfolio.

DEVELOP HUMAN CAPITAL…

… by ensuring the development of the full potential of all employees, on the one hand, and, on the other hand, by emphasizing the development of a sales culture while upholding the highest standards of service quality.

1. Focus training on a sales culture, while upholding the highest standards of service quality;
2. Pursue the gradual introduction of a performance culture;
3. Mobilize employees more efficiently, as soon as they join the Bank, and foster their active adherence to the Bank's culture;
4. Maintain good relations and work in partnership with the employees' union.

Review of business segments' activities

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

- Retail Financial Services;
- Commercial Financial Services;
- B2B Trust;
- Laurentian Bank Securities;
- Other segment.

As shown in the following table, all segments enhanced their contribution to the Bank's results for fiscal 2007.

Table 3
Net income contributions
For the years ended October 31 (in millions of dollars)

	Retail Financial Services	Commercial Financial Services	B2B Trust	Laurentian Bank Securities	Other	Total
2007						
Net income	**$ 44.9**	**$ 24.0**	**$ 30.5**	**$ 7.1**	**$ (12.0)**	**$ 94.5**
Growth 2007/2006	**30%**	**6%**	**25%**	**84%**	**n.a.**	**34%**
2006						
Net income	$ 34.6	$ 22.7	$ 24.3	$ 3.8	$ (15.1)	$ 70.3
Growth 2006/2005	–%	5%	27%	14%	n.a.	8 %

The improvement in these results for fiscal 2007 is mainly attributable to the strong increase in loan and deposit volumes generated by the sustained efforts of all business segments and to the efficient cost control measures. Given their commitment, employees have, again in 2007, largely contributed to the development of the Bank and its activities.


Moi aussi,
je suis capable !
HYPOTHÈQUE
Les sous, ça
vient de sous
l'oreiller ?
Doesn't
money grow
on trees?
MORTGAGE
DARE TO GROW
I'll trade you
for a house.
Turn me into
a homeowner.
MORTGAGE
LAURENTIAN
BANK
Tadam !
HYPOTHÈQUE
Mon hypothèque,
c'est la meilleure.
HYPOTHÈQUE
Acheter
une maison,
c'est du gâteau

Retail Financial Services

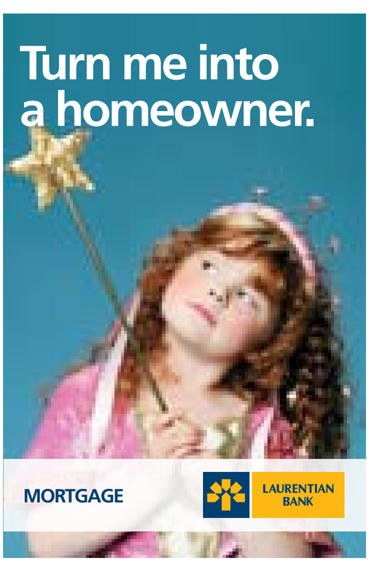
For fiscal 2007, the Retail Financial Services business segment's contribution to the net income of the Bank improved by $10.3 million and stood at $44.9 million, compared to $34.6 million in 2006.

The variation reflects the revenue growth derived from higher loan and deposit portfolios, as well as the recognition of a $4.0 million ($3.3 million net of income taxes) gain resulting from the Visa worldwide restructuring. Mutual fund sales, deposit service charges and card service revenues have also improved compared with a year ago.

At $25.6 million for 2007, loan losses were $2.6 million higher than in 2006, mainly as a result of higher volumes, since the overall credit quality remained good.

Non-interest expenses for 2007 increased by $9.8 million, or 3%, compared with 2006, reflecting higher salary charges resulting from the expansion in the retail banking operations and higher advertising and business development expenses.

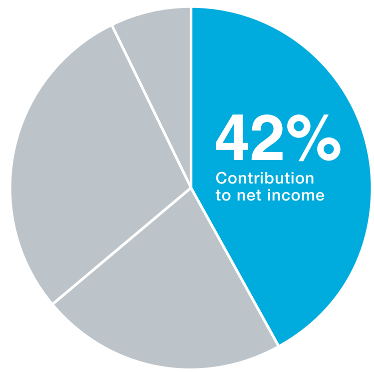
The income tax expense was $14.0 million (25.7% effective tax rate) for 2007, compared with $13.8 million (31.5% effective tax rate) for 2006. This improvement in the effective tax rate mainly resulted from lower taxes on revenues from credit insurance operations and on the Visa gain.



Highlights 2007

- >> Residential mortgage loan growth of close to 10%
- >> Increase of 15% of the total value of mutual funds under administration
- >> Deposit growth of close to 6%
- >> Increase in total average loans of $500 million or more than 6%
- >> Renovation and relocation of 7 branches

Discontinued operations contributed $5.2 million ($4.4 million net of income taxes) in 2007 and 2006, since net sales threshold significantly exceeded minimum requirements for both years.



A five-pronged strategy

Due to its well-established positioning and strategies implemented over the past few years, the Retail Financial Services sector intensified its presence in its clearly defined targeted markets. Its differentiated approach versus that of the competition's is an asset on which the sector intends to continue capitalizing.

The segment's strategy is structured around five main themes, which constitute as many growth levers: increasing the efficiency of its sales force; optimizing its key processes; investing in the talent of its personnel; continuing to optimize its information management tools in relation to customers and markets; and further building on its "customer focus."

To support the Bank's objective to be recognized as the undisputable third largest banking institution in Quebec, the business segment is leveraging on its agility and customer focus to strengthen its relationship with current customers and increase its prospecting of target customers.

Serving customers even better

To support efforts to increase its presence in key markets, the business segment made substantial technology investments ensuring that these investments clearly structured future operations. The sector has undertaken to update its entire automated teller machine (ATM) network to increase its accessibility and conviviality. During the year, 14 new ATMs were installed. Also seven branches were relocated and renovated during the year to increase efficiency and improve the overall branch network. The 21 financial services boutiques continue to be greatly appreciated by customers, with their warm ambiance fostering proximity, a library area, children's play space and coffee bar.

Over the past two years, the Retail Financial Services sector has set up an alternative mobile banking services network to promote business development and new customer recruitment. Initially, it created a mobile group of mortgage development managers, who provide off-site services directly in customers' homes or places of their choosing. This approach is certain to become more prevalent in the coming years.

10%
mortgage loan growth

Sector profile

- Operations focused mainly in Quebec
- More than 1 900 employees
- 157 branches and 338 ATMs
- A network of over 3,500 merchants offering Laurentian Bank loan products
- Transactional products, mortgage solutions, investment products, loans, Visa credit cards and credit insurance

Table 4
Retail financial services

For the years ended October 31 (in millions of dollars)	**2007**	2006
Net interest income	**$ 268.5**	$ 259.1
Other income	**108.6**	95.1
Total revenue	**377.1**	354.2
Provision for credit losses	**25.6**	23.0
Non-interest expenses	**297.0**	287.2
Income from continuing operations before income taxes	**54.5**	44.0
Income taxes	**14.0**	13.8
Income from continuing operations	**40.5**	30.2
Income from discontinued operations, net of income taxes	**4.4**	4.4
Net income	**$ 44.9**	$ 34.6
Efficiency ratio	**78.8%**	81.1%

The sector is increasingly involved in setting up mobile teams of investment advisors. These strategies to harness synergies in action will contribute to building the loyalty of customers who are seeking personalized services. They build on the Bank's other competitive advantage – customer experience. By successfully combining proximity, flexibility and speed of response in its service culture, the Bank has made this customer experience its hallmark.

The sector is also continuing to focus on products and services with higher profitability margins, such as mutual funds, credit insurance products and Visa credit cards. These portfolios recorded revenue growth of 26%, 3% and 10% respectively. By overhauling its business processes and improving the delivery of its sales services, the sector has laid the foundations for completing the customer and consumer portfolio by fine-tuning its products and services line.

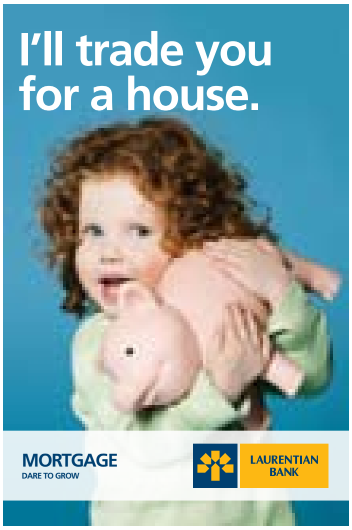
In keeping with its orientation of simplifying and facilitating the management of its customers' banking affairs, the Retail Financial Services sector has developed a Web site for first-time homebuyers, www.labanquedemamaison.ca, which discusses the major steps involved in buying a house in a simple and refreshing way. The micro-site won a prize at the Digital Marketing Awards in Toronto. The solid expertise of Laurentian Bank's advisors in this area is also imperative in order to make this positioning a real asset for guiding customers through major transactions like the purchase of a residence.

Similarly, with the potential of all its customer information management systems, the sector has the management tools it needs for a good understanding of individual customers and to better support them in managing their financial affairs. The company's objective is to be the best bank possible for all of its customers, and thus be their main banker. Accordingly, the number of customers who mainly do business with the Bank has essentially increased over the past few years. This is a very important benchmark, which shows the relevance of the investments made in information systems.

Building on the Bank's agility
In accordance with corporate priorities, the sector has initiated various projects in the branches aimed at optimizing its key business processes. These improvements should contribute to reducing the time employees spend on administrative tasks, so they can be more proactive with regards

Priorities for 2008

- Increase the efficiency of the sales force
- Optimize key processes
- Invest in the talent of its personnel
- Continue to optimize customer and market information management tools
- Continue to build on a highly customer-focused culture



to business development. Improving the efficiency of the branch network must be done gradually, favouring improvements which will leave a lasting effect. The optimization of its processes and the flexibility of the structures implemented should also contribute to improving customer service.

With regard to the priority of developing human capital, the sector launched a new program called *Leaders in Action* at the very end of the year to strengthen managers' individual skills. Highly focused on the customer experience, this initiative is a major milestone in promoting the banking profession, and establishing a common vision and language that all managers have to make their own.

Other training and development programs are also offered to employees. Follow-up by their manager is designed to properly identify the needs and expectations of everyone and to define specific objectives with a view to facilitating employee development and improving on-the-job performance.

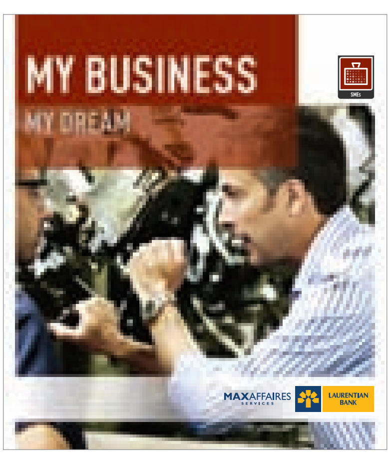
On this basis, the sector is implementing measures designed to develop and showcase the talents and skills of its resources at all levels. With these major investments in human capital, the Bank is implementing a more effective performance management approach, with a goal of optimizing everyone's contribution in reaching its objectives.

Commercial Financial Services

For fiscal 2007, the Commercial Financial Services business segment's contribution to the net income of the Bank improved by $1.3 million to $24.0 million, compared to $22.7 million in 2006.

Overall growth in Real Estate Financing and in Small and Medium sized Enterprises (SME) in Quebec more than offset a reduction in profitability for Commercial Banking in Ontario.

Provision for loan losses of $10.4 million for 2007 was $0.7 million lower than in 2006, attributable to the favourable economic conditions in Canada.



Non-interest expenses for 2007 decreased by $0.3 million, compared with 2006, reflecting strict cost control exercised during the year. For 2007, income tax expense amounted to $12.0 million (33.5% effective tax rate) compared to $11.4 million (33.5% effective tax rate) in 2006.

A better-adapted structure

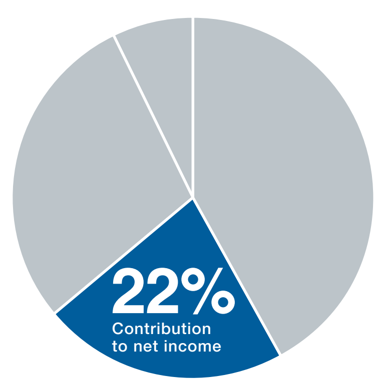
During fiscal 2007, the Commercial Financial Services sector was restructured to provide better efficiencies. The sector is now comprised of three operating units namely, SME Quebec, Major Accounts and Real Estate Financing/Commercial Banking Ontario.
Concurrent with the Bank's three main priorities of profitability, efficiency and development of human capital, various initiatives were implemented to improve quality of service and accelerate growth. The sector focused on integration of resources and on defining the strategies of its business lines. These measures have already resulted in additional business development opportunities and should improve contribution in the near term.

The development of the Quebec Small and Medium sized Enterprise (SME) market is starting to generate real interest within the Bank. With a firm resolve to review and refine its service offer and to properly reflect the needs of the various business lines, the Bank can intensify its presence in the SME market. The Bank has strengthened its teams and its network during the past fiscal year and placed more focus on a number of industrial sectors which present better opportunities.

In conjunction with Retail Financial Services and with the in-branch deployment of services tailored for SMEs the Bank's objective is to maximize synergies

Sector profile

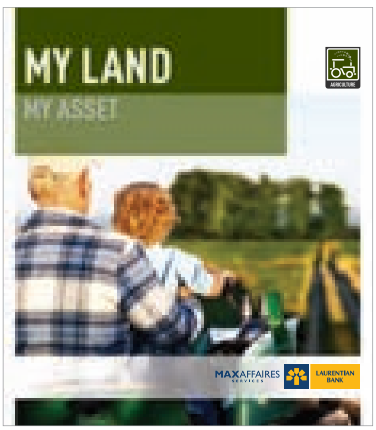
- >> Operations across Canada
- >> Approximately 180 employees
- >> 29 business centres
- >> Commercial, real estate, agricultural and micro-business financing




MY LAND
MY ASSET
AGRICULTURE
MAXAFFAIRES SERVICES
LAURENTIAN BANK
MES CAPACITÉS
MON AVENIR
MY IDEAS
MY SOLUTIONS
MY BUSINESS
MY DREAM
SMEs
MAXAFFAIRES SERVICES
LAURENTIAN BANK
MY FUTURE
MY RETIREMENT
BANQUE LAURENTIENNE
MAXAFFAIRES SERVICES

Table 5
Commercial financial services

For the years ended October 31 (in millions of dollars)	**2007**	2006
Net interest income	**$ 61.6**	$ 59.2
Other income	**21.2**	22.7
Total revenue	**82.8**	81.9
Provision for credit losses	**10.4**	11.1
Non-interest expenses	**36.4**	36.7
Income before income taxes	**36.0**	34.1
Income taxes	**12.0**	11.4
Net income	**$ 24.0**	$ 22.7
Efficiency ratio	**43.9%**	44.8%



resulting from these two sectors to improve efficiencies. With better integration, the Bank is able to propose a service offering better tailored to customers' needs. With a similar goal in mind, the Bank reviewed and updated its in-branch business processes so that account managers and advisors could better focus on customer relationships and business development.

The Major Accounts operating unit had a good year in 2007. A new direction was adopted by the group during the year including the hiring of additional employees and a new manager with an excellent reputation in the commercial financing market. The team, with a focus on companies with major financing needs, has a lot of potential.

The Bank has integrated its Commercial Banking activities for customers in Ontario under the responsibility of a senior executive based in Toronto. The business strategies of the three commercial banking centres in Ontario and the six real estate financing offices throughout Canada are focused to optimize efficiencies.

The Commercial Financial Services loan portfolio enjoyed strong growth in 2007. Total loans were up 15% during the year, including a 22% increase in the Real Estate Financing portfolio.

In accordance with one of its priorities in 2007, the Bank securitized $40.3 million of commercial mortgages during the year, thereby diversifying its income sources.

Even better adapted products

The Bank has developed new products for SMEs to enhance its line of services.

Highlights 2007

- Increase of $175 million in average loans representing more than 8%
- Excellent performance in Real Estate Financing and in Quebec

Business Performance packages are available in four formulas for Business customers wanting to optimize their banking fees and to manage their deposits more efficiently. Two new credit cards, *Visa Business* and *Visa Business Performance,* were launched and provide SMEs with many special benefits. In addition, the Bank created a new bank card especially for its business customers. The sector also launched MAXAFFAIRES Dashboard, a service exclusive to Laurentian Bank that automates the transmission, follow-up and processing of documents and financial data for its Business customers.

22% real estate financing portfolio growth

Priorities for 2008

- Build on the internal growth of the SME sector in Quebec
- Invest in human resources in order to further support business development efforts
- Intensify its presence in the mid-size commercial market in Quebec
- Target the development of deposit accounts

B2B Trust

For fiscal 2007, the B2B Trust business segment's contribution to the net income of the Bank improved by $6.2 million and stood at $30.5 million, compared to $24.3 million in 2006.

This is a direct result of higher net interest income derived from increases in loan and deposit portfolios and reduced loan losses. Indeed, loan losses related to the investment loan portfolio remained low during the year, while initiatives to further reduce the exposure to the line of credit portfolio permitted to reduce losses by more than $2.2 million. Non-interest expenses for 2007 remained well under control, despite the increase in activities.

Highlights 2007

- Net income growth of more than 25%
- 50% growth of the investment loan portfolio
- 10% increase of the brokered deposit book
- More then 20 new distribution agreements

Dedication that breeds success

There was a noticeable upswing in B2B Trust's contribution to Laurentian Bank's growth in 2007. This is a direct result of high return strategies brought forth in B2B Trust's business plan. These strategies included focussing solely on the independent financial intermediary community, proceeding with market relevant business development and marketing efforts and increased operational discipline.

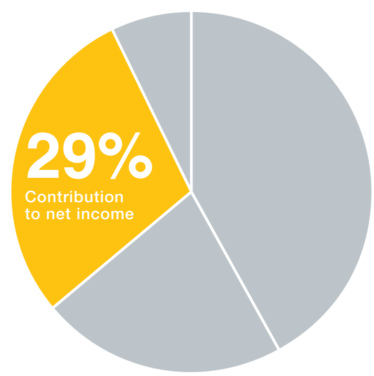
Highly successful investment loan offer

B2B Trust is the premier third-party supplier of investment products in Canada and as such, has secured distribution agreements with an overwhelming majority of the mutual fund companies that do not have in-house capabilities.

During the last year, B2B Trust added five new loan distribution agreements to its roster: mutual fund manufacturers Mavrix Fund Management Inc. and Meritas Financial Inc., and mutual fund dealers Mica Capital Inc., Partners in Planning and Promutuel Capital Inc. The number of distribution agreements for its investment and RRSP loan products was 47 at year-end.

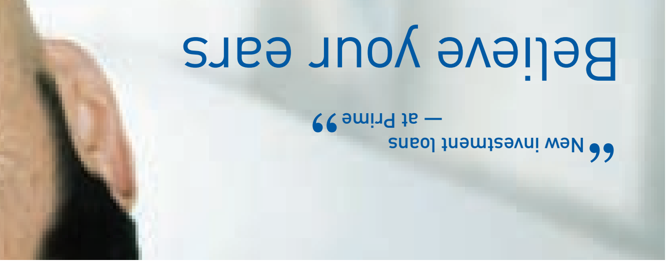
B2B Trust made significant improvements to the Investment Loan Program last May which, when combined to a promotional rate on loans below $50,000, created quite a stir in the market. This initiative, scheduled to run for a 30 day period, was designed to give customers a chance to take full advantage of investment opportunities during the key post-RRSP period. It also demonstrated B2B Trust's ability to understand and address its clientele's business priorities.

As always, B2B Trust's success with this type of promotion is directly linked to the team's ability to take on added volumes while maintaining credit worthiness and underwriting policy. Successful campaign runs such as these also demonstrate the team's ability to focus on the sector's priorities.



Sector profile

- Dedicated solely to the Canadian financial intermediaries market
- 47 partnerships (investment and RRSP lending) with financial intermediaries
- Comprehensive distribution network with six sales offices across Canada and a network of more than 16,000 independent financial advisors offering B2B Trust products
- B2B Trust is the premier third-party supplier of investment and RRSP lending products in Canada, the leading supplier of broker deposit products and an important provider of self-directed accounts, banking solutions and mortgages to the independent financial intermediaries
- More than 250 employees



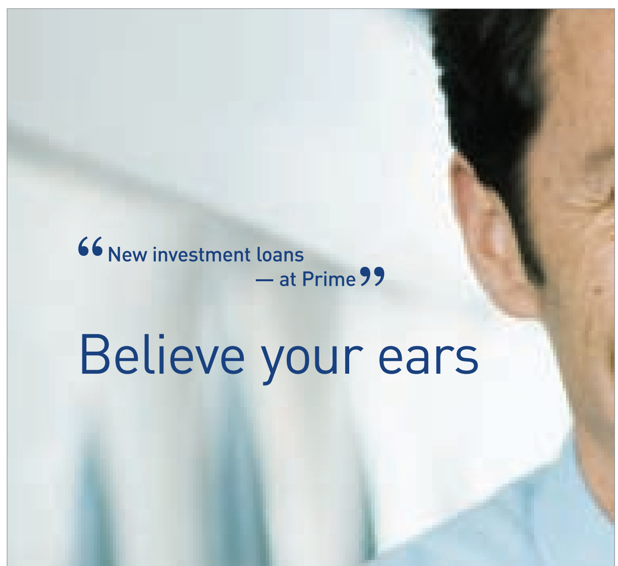
“Eyebrows were raised. Mouths were left gaping. Ears are still ringing.”

Thanks for making our UNHEARD OF RATE SALE a resounding success.

For more information on our enhanced Investment Loan Program call 1.800.263.8349 or visit b2b-trust.com

B2B TRUST
A SUBSIDIARY OF LAURENTIAN BANK

B2B Trust does not provide investment advice to individuals or advisors. The dealer and the advisor are responsible for determining the suitability of investments for their clients and for informing them of the risks associated with borrowing to invest. B2B Trust acts solely in the capacity of lender and loan account administrator. Any loan approval by B2B Trust should not be construed as an endorsement of any investment choice, program or strategy. All loans are subject to credit approval and borrowed monies are due and payable regardless of the performance of the investments purchased. B2B Trust reserves the right to request additional documentation. The B2B Trust Investment Loan Program is available exclusively through licensed financial advisors.



UNHEARD OF RATE SALE Loans under $50,000 at Prime, May 1-31.†

Want to hear more?
Call 1.800.263.8349 or visit b2b-trust.com

B2B TRUST
A SUBSIDIARY OF LAURENTIAN BANK

† Offer expires May 31, 2007. Promotional rate available for new investment loans under $50,000 only - no exceptions. Promotion is limited to one loan per applicant. Existing B2B Trust investment loans are not eligible for the promotional rate and re-write requests will receive regular rates. This offer may be extended, modified or discontinued at any time without notice. The Prime rate is Laurentian Bank of Canada Prime rate which may fluctuate from time to time. The annual percentage rate (APR) cost of borrowing is 6%. All rates are subject to change without notice. The B2B Trust Investment Loan Program is available exclusively through licenced financial advisors. The dealer and advisor, not B2B Trust, are responsible for determining investment and investment loan suitability and for informing clients of the risks associated with borrowing to invest. B2B Trust acts solely as lender and loan account administrator. Loan approvals by B2B Trust are not an endorsement of any investment choice, program or strategy. Loans are subject to credit approval and borrowed monies are due and payable regardless of the performance of the investments. B2B Trust reserves the right to request additional documentation.

Your success is our success.

B2B TRUST

b2b-trust.com

”

nding success.

B2B TRUST
A SUBSIDIARY OF LAURENTIAN BANK

Priorities for 2008

- Focus solely on financial intermediaries
- Review markets, relationships and products on a priority basis
- Deliver an end-to-end client experience that inspires loyalty
- Selectively use technology to improve capacity and service levels and to reduce costs
- Increase sales by cultivating organic growth within the highest profit categories
- Expand five core distribution channels: mutual fund industry, insurance industry, investment industry, mortgage brokerage and deposit brokerage

Table 6
B2B Trust
For the years ended October 31 (in millions of dollars)

	2007	2006
Net interest income	**$ 81.0**	$ 73.6
Other income	**11.5**	12.6
Total revenue	**92.5**	86.2
Provision for credit losses	**4.0**	5.8
Non-interest expenses	**42.4**	43.6
Income before income taxes	**46.1**	36.8
Income taxes	**15.6**	12.5
Net income	**$ 30.5**	$ 24.3
Efficiency ratio	**45.8%**	50.6%

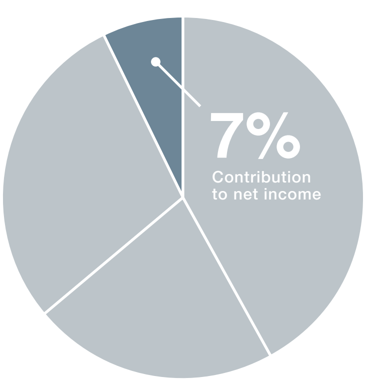
Building organizational foundations to support rapid growth
This year was also marked by significant initiatives aimed at improving capability and capacity to meet expectations. The Operations team has undergone significant reshuffling, while Business development teams have all increased in number and talent. All the while, professional development and training programs have been implemented.

Process improvement and efficiency gains have also been a focal point of the business line. A dedicated team has been put together to review and implement value added processes.

In short, B2B Trust is delivering results while preparing for its future, in a disciplined and managed fashion.

Laurentian Bank Securities

For fiscal 2007, the Laurentian Bank Securities business segment's contribution to the net income of the Bank improved by $3.3 million and stood at $7.1 million, compared to $3.8 million in 2006.



This improvement results mainly from the $4.4 million ($3.7 million net of income taxes) gain on the sale of a portion of the Montreal Exchange shares held by the Bank, which was partially offset by a $2.1 million ($1.4 million net of income taxes) charge to reflect the adjustment to the estimated fair value of certain asset-backed securities. Excluding these items, the contribution of Laurentian Bank Securities rose by $1.0 million, or 26%, essentially as a result of the performance of the institutional brokerage divisions.

Non-interest expenses for 2007 increased by $3.2 million, or 12%, compared with 2006, reflecting the costs associated with the expansion in the retail brokerage operations and the introduction of the Institutional Equity division.

Laurentian Bank Securities continues to grow its five business divisions: Institutional Fixed Income, Institutional Equity, Retail, Discount Brokerage and Business Services, affirming its position as a full service investment dealer.

Sector profile

- Operations across Canada
- Close to 190 employees
- 14 brokerage offices in Quebec and Ontario
- Retail, Discount Brokerage, Institutional Fixed Income, Institutional Equity and Business Services

Taking our place in the market
The Institutional Equity sector further deployed its strategy based on a young and competent team and led by a seasoned manager. The team consists of 13 individuals, including seven analysts assigned to specific economic sectors and operates exclusively in the small cap market (below $1.5 billion) sector, which is a fast-growing niche of the market.

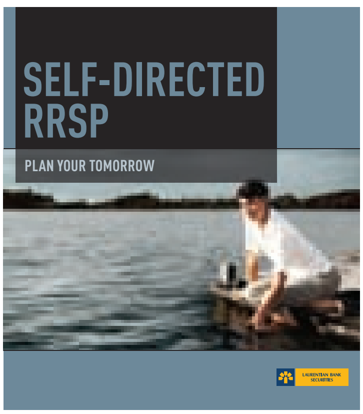

FULL-SERVICE
BROKERAGE
EXPERT ADVICE AT WORK
REEE
VOIR GRAND
COMPTE À
HONORAIRES
TRANSIGER LIBREMENT
REEE
VOIR GRAND

Table 7
Laurentian Bank securities
For the years ended October 31 (in millions of dollars)

	2007	2006
Net interest income	**$ 2.0**	$ 1.0
Other income	**37.6**	31.8
Total revenue	**39.6**	32.8
Non-interest expenses	**30.7**	27.5
Income before income taxes	**8.9**	5.3
Income taxes	**1.8**	1.5
Net income	**$ 7.1**	$ 3.8
Efficiency ratio	**77.5%**	83.8%

Highlights 2007

- Strong growth in net income
- Significant progress in the Institutional Equity division
- Low exposure to asset-backed securities
- Increase of 4% of assets under management



During the fiscal year, more than 18 corporate financing transactions totalling more than $500 million were completed. Having firmly established its bases and operating methods, the sector can now concentrate on its expansion and profitability.

In the fixed income markets, Laurentian Bank Securities provides market making and account coverage in Canadian fixed income securities to institutional, government, corporate and retail clients, both domestic and foreign.

Laurentian Bank Securities plays a significant role in the underwriting of fixed income securities for the borrowing programs of most government issuers, including the Governement of Canada, Canada Housing Trust, the provinces, Quebec municipalities, as well as many corporate entities.

A growing line of products and services
As for the Retail division, its management team has created a plan targeted for success. Among other initiatives, the team reinforced the services infrastructure and now has added the expertise of a portfolio strategist whose mandate is to develop an integrated perspective, with a view to building effective portfolio strategies.

The division has put in place an infrastructure that will contribute to increase its productivity and is working to add products that fit into its integrated perspective. A further objective is to place more emphasis on its Immigrant Investor program. Through partnerships in our target markets, the team plans to swiftly and efficiently process an expanding number of files from a growing influx of new customers.

Laurentian Bank Securities puts much energy into recruiting and integrating skilled people to enhance its sales force. In this respect, the company has the structure needed to enlarge its team of investment advisors. The division also plans to improve referral synergies and processes with a view to structuring an integrated approach. It is supported in this initiative by a team that has all the energy and skill required to make its mark in a steadily growing market. In concrete terms, the division is structuring its network around four main offices (Montreal, Longueuil, Laval and Quebec City) and ten satellite offices in order to further boost the productivity of its advisors and reach the critical mass and economies of scale to increase its profitability.

Priorities for 2008

- Increase the sales force's distribution capacity by securing a larger share of the Institutional Fixed Income market
- Continue developing the Institutional Equity division
- Set up a product and service structure that will support accelerated growth of the assets under management by its Retail division

Sector profile

- More than 650 employees
- Treasury
- Credit
- Finance, Administration and Strategic Development
- Corporate Affairs
- Human Resources

Highlights 2007

- Strong growth in net income
- Improvement in net interest margin
- Low exposure to the the asset-backed securities

Other

The Other segment includes the activities of the Bank's various corporate sectors, mainly Treasury, Credit, Finance, Administration and Strategic Development, Corporate Affairs, and Human Resources. However, this primarily illustrates the effect of Treasury activities, since expenses from other corporate sectors are generally allocated to other sectors of activity.

The Other sector segment's contribution the net income of the Bank for fiscal 2007 improved by $3.1 million and stood at $-12.0 million, compared to $-15.1 million for fiscal 2006.

This improvement is mainly due to the significant progress in net interest margin and increasingly optimized liquidity management. The greater revenues from Treasury and Financial Market activities, as well as the resolution of various tax exposures, as described on page 31 of this MD&A, also contributed to improving results. However, this progress was partially offset by lower securitization revenues due to adjustments to the value of certain seller-swaps, as discussed on page 26 of this MD&A, and by the increase in performance-related compensation.

The various departments in the Other segment, focused their efforts on the Bank's three priorities in 2007. In order to increase profitability in 2008, Treasury will continue to work closely with each business segments to develop investment products that meet the specific needs of the Bank's various clients.

Even though the Bank holds very little in terms of asset-backed commercial paper, Treasury is rigorously following the liquidity and credit crisis. Furthermore, the Integrated Risk Management Group is simultaneously monitoring the impacts of this crisis.

Various actions taken by the Credit sector to reduce impaired loans has improved the quality of our portfolios and reduced loan losses.

Many projects were worked on in 2007 to improve efficiency, the Bank's second priority. One of these projects was the review of key administrative processes, so as to identify the processes to be improved in priority for 2008. We have also renewed the Bank's technology platforms as part of a clearly delineated initiative. We completed the optimization and modernization of all our telecommunications, computer and office systems equipment, so the Bank now has greater technological capabilities.

The Finance, Administration and Strategic Development sector continued its work aimed at complying with regulations regarding the certification of internal controls. As provided for by such regulation, for fiscal year ending on October 31, 2007, Management was able to certify to the appropriate design of internal controls over financial reporting. Furthermore, this sector continued to optimize the Bank's fiscal position and management of premises and technology costs, as well as other expenses. These measures have directly contributed to improve the Bank's efficiency.

The development of our human capital is central to the Bank and is our third priority. Fiscal 2007 marked the first year of implementation of our new performance management program. Moreover, the Bank has put emphasis on developing the skills of its employees by targeting their specific needs so as to allow them to advance further. To this end, a new program for branch network managers was implemented. Called "Leaders in Action", this development program offers a two-year period during which managers will be coached in the development of six essential skills for properly managing their teams. This program combining traditional training and new technological methods was specially developed for Laurentian Bank.

Also, during the year, the Bank deployed a new Web platform to meet the informational and operational needs of its employees. This new leading-edge tool will greatly facilitate access to information and will increase the organization's operational efficiency.

Lastly, the unionized employees of the Bank have accepted, at the end of October 2007, the terms of the agreement in principle concluded between the Bank and their union for a new collective agreement. This excellent conclusion clearly demonstrates the valued cooperation between the Bank and its employees. The new agreement, for a period of four years, will be in force until December 2011.

Priorities for 2008

- Use a more proactive approach to Asset-Liability management
- Review and improve the most important administrative processes
- Continue to develop our performance culture
- Develop our managers' skills
- Reinforce synergies between Treasury and other business segments

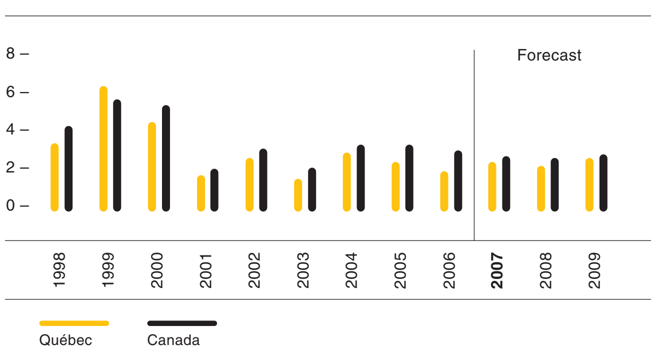
2008 Economic outlook for North America

In 2008, the Canadian economy will face many of the same challenges it did in 2006 and 2007, only compounded by significantly higher energy prices, a much stronger Canadian dollar, weaker US domestic demand and higher financial market volatility. The economies of Quebec and Ontario, with their large export-oriented manufacturing sectors, will find 2008 a more difficult environment than that of the previous two years; the resource-oriented economies of Western Canada, on the other hand, will continue to benefit from robust global demand for natural resources.

SOFT U.S. DEMAND TO PUT A DENT IN CANADIAN GROWTH PROSPECTS UNTIL AT LEAST MID-2008

After starting 2007 on a strong footing, the pace of economic activity in Canada gradually lost some steam. With the Canadian dollar beyond parity with its US counterpart after September 2007 and US domestic demand slowing, exporters' struggles intensified. Domestically, overall business conditions remained sound despite a moderate tightening in credit conditions. The unemployment rate hit a new record low of 5.8% in October 2007 and personal income growth accelerated. Household spending thus remained the main driver of the economy; housing market activity was also rock-solid. Businesses continued to benefit from lower import prices but investments remained relatively modest. All told, Management estimates that Canadian real GDP will advance by an annualized 2% in the second semester of 2007, bringing growth for the entire year to 2.5%.

Quebec and Canada – Real growth in gross domestic product (GDP)
(as a percentage)



ECONOMIC GROWTH TO ACCELERATE IN THE SECOND HALF OF 2008

Looking forward to 2008, Management expects economic growth to average about the same, i.e. 2.4%. Nevertheless, unlike 2007, economic growth should start off slowly and accelerate moderately in the second semester as the US consumer slowdown ebbs and financial market stress dissipates. Management also anticipates that the Canadian dollar will pullback below parity, to 98 cents US at the end of 2008, in tandem with a retreat in crude oil prices, cooling inflation and a narrowing merchandise trade surplus.

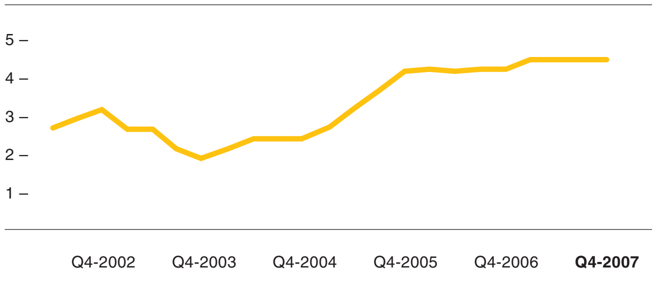
Econometric estimates suggest that the full impact of currency movements is only felt in the economy one to one and a half years later. This implies that Quebec and Ontario exporters have only fully "digested" the rise in the Canadian dollar to about 85-to-90 US cents, the level prevailing from mid to late 2006. The manufacturing correction, therefore, will intensify markedly in the first half of 2008 with renewed job losses and financial stresses.

On the positive side, however, interest rates are expected to remain low and the labour market should continue to perform reasonably well, with gains in tertiary sectors offsetting losses in manufacturing. Total employment gains should obviously slow from the super-charged pace of 2007 but will remain positive alongside healthy wage growth. Finally, fiscal policy in Canada will be expansionary in 2008 via already announced income and consumption tax cuts, further assisting in the transition and ensuring that domestic demand remains healthy. Management also expects businesses to accelerate much needed investment in machinery and equipment in order to improve efficiency and productivity.

REDUCTION OF INTEREST RATES EARLY IN 2008

Under such a moderate economic scenario, the Bank of Canada would be expected to keep the overnight rate stable at 4.50% throughout most of the year. Nevertheless, given renewed uncertainty about short-term economic prospects south of the border, in large part stemming from the intensifying correction of the housing market, as well as still a great deal of turbulence in global financial markets, the Bank of Canada may well feel the need to reduce rates early in the year. Once financial market conditions improve and the US consumer slowdown bottoms out, Canada's central bank will likely quickly resume its tightening cycle, bringing the overnight rate to a more neutral level in the 4.75% to 5.25% range.

Bank of Canada overnight rate
(as a percentage)



Analysis of consolidated results

For the fiscal year ended October 31, 2007, Laurentian Bank reported net income of $94.5 million, compared to $70.3 million for the fiscal year ended October 31, 2006. Income from continuing operations increased by 37% and stood at $90.1 million in 2007, compared to $65.6 million in 2006.

IMPACT OF THE LIQUIDITY AND CREDIT CRISIS

Since August 2007, the Canadian asset-backed commercial paper (ABCP) market has been significantly disrupted, so much so that all operations on certain types of investments had come to a stop. This crisis has had a significant impact on a whole group of participants in financial markets, as well as on investors. This section of the MD&A discusses the main repercussions the crisis had on the Bank.

ABCP is usually a money-market instrument issued by a trust and backed by various assets held by that trust, such as mortgage loans, receivables from credit cards or other debt securities. These assets generate cash flows which normally allow for the remuneration of the ABCP issued and for the reimbursement of the capital, according to the underlying debt securities' schedules. Historically, these securities were assigned very high credit ratings, given the mechanisms designed to minimize the risks associated with the assets. In the wake of the decline in value of some underlying assets, particularly US subprime residential mortgage loans, and given the structures' complexification, investors stopped investing in certain non-bank ABCP conduits. A group of major participants in that market came to an agreement (the "Montreal Agreement") aimed at finding a solution to the liquidity crisis affecting the ABCP market.

The Bank only held very limited holdings (approximately $20 million) in securities issued by conduits covered by the "Montreal Agreement" and is not a direct participant in the subprime mortgage loans market. However, the Bank was indirectly affected, as detailed below.

ASSET-BACKED COMMERCIAL PAPER AND OTHER ASSET-BACKED INVESTMENTS

As at October 31, 2007, the Bank held investments, for an amount of approximately $20 million in asset-backed commercial paper issued by non-bank conduits covered by the "Montreal Agreement" and other investments issued by these same conduits. As a result of the liquidity issue in the asset-backed securities market, the Bank has adjusted the estimated fair value of these investments and taken a charge of $2.9 million in the fourth quarter of fiscal 2007.

These investments have not traded in an active market since mid-August 2007, and there are currently no market quotations available. As a result, the Bank has relied on valuation techniques considering the best available public information regarding market conditions and other factors that a market participant would take into consideration to estimate the fair value of such investments.

Continuing uncertainties regarding the value of the assets underlying the investments, the amount and timing of cash flows and the outcome of the restructuring process planned under the "Montreal Agreement" could give rise to further changes in the value of the Bank's investments.

EFFECT OF THE CHANGE IN THE PRIME-BA SPREAD

As part of their operations, banks continuously borrow funds from various sources to finance their lending activities and other liquidity requirements. A significant portion of these borrowings is based on the bankers' acceptances (BA) rate. Banks will then lend to their clients, based on the prime rate. As a result of the credit crisis, the BA rate increased during the fourth quarter, while the prime rate remained unchanged. This prime-BA spread, which, over the last years, had been relatively stable at around 165 basis points, has averaged 142 basis points during the fourth quarter. The higher funding costs associated with the compressed prime-BA spread led to a reduction in net interest income of approximately $2.7 million for the fourth quarter.

GENERAL FUNDING STATUS

The Bank mainly relies on its stable $11.6 billion retail deposit portfolio to fund its operations. This preferred source of funding has been little affected by the recent market conditions and continues to be particularly advantageous. Over the last five years, the Bank has also relied on securitization activities to meet specific funding needs. In this respect, the Bank uses the Canada Mortgage Bonds (CMB) Program, as well as bank-sponsored securitization conduits. As a reason of the prevailing liquidity and credit crisis, bank-sponsored conduits have had serious difficulties to fund additional assets and have significantly increased their funding costs. However, the CMB Program has remained fully effective. During the fourth quarter of fiscal 2007, the Bank has securitized $405 million of residential mortgages through this program, which generated a $3.0 million gain.

SELLER-SWAPS

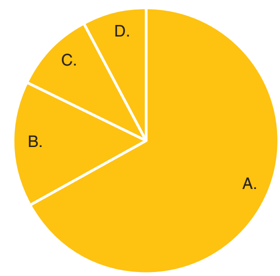
As part of its funding strategies over the recent years, the Bank has relied on residential mortgages securitization through bank-sponsored conduits. As part of these transactions, the Bank has entered into interest-rate swaps (seller-swaps) where it pays to the securitization conduits the funding costs of the securitization conduits. As a result of the liquidity and credit crisis, these funding costs have increased, which resulted in a $2.8 million decrease in the fair value of the seller-swaps. This decrease in value was recorded in other income from securitization activities.

TOTAL REVENUE

Total revenue was $583.9 million in 2007, up $44.1 million or 8%, compared to revenues of $539.8 million in 2006. This growth is mainly attributable to the improvement in net interest income, as well as to improvements in other sources of revenue, as detailed below.

Total revenue mix
(as a percentage)

A. Net interest income 66.8%
B. Fees and commissions on loan and deposits 15.2%
C. Income related to financial markets [1] 10.0%
D. Others 8.0%



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

NET INTEREST INCOME

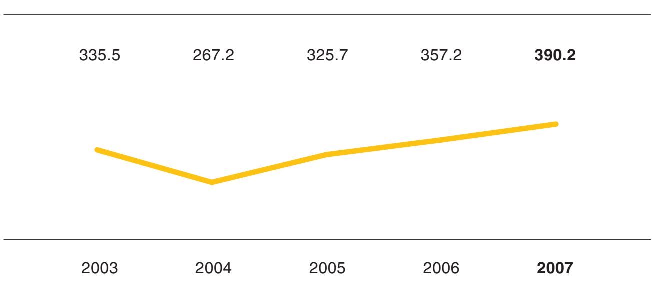
Net interest income increased by 9% and stood at $390.2 million in 2007, compared to $357.2 million in 2006, as shown in table 8 below. This substantial increase in revenues mainly stems from the growth in loan and deposit portfolios, as well as from the Bank's stricter management of its liquidities. Net interest margin also improved, from 2.14% in 2006 to 2.31% in 2007. Towards the end of the year, the impact of the liquidity and credit crisis translated into a lower net interest margin however, the interest rate conditions in Canadian markets have now at least partially restored.

The Bank uses derivative financial instruments to manage the interest rate risk and the liquidity risk associated with some of its loan and deposit portfolios. Depending on the evolution of interest rates and on the portfolios' mix in terms of maturity and types of products, actual return on portfolios can fluctuate substantially. The Bank therefore uses derivative financial instruments to manage its risks, and net interest income must be analyzed taking their effect into consideration. The Bank also 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 47 of this MD&A.

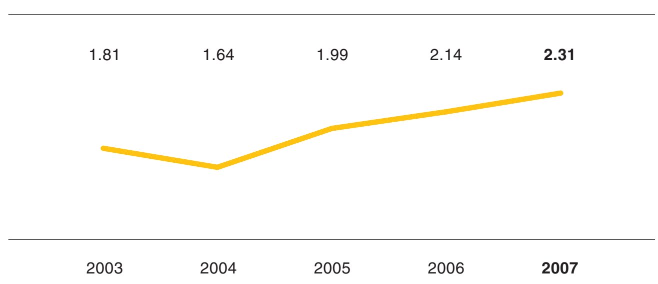
Table 8
Changes in net interest income
For the years ended October 31 (in millions of dollars and as a percentage)

	2007				2006			
	Average volume in %	Average volume	Interest	Average rate	Average volume in %	Average volume	Interest	Average rate
Assets								
Cash resources and securities	16.6%	$ 2,797	$ 71.8	2.57%	20.8%	$ 3,472	$ 82.1	2.36%
Assets purchased under reverse repurchase agreements	4.0	672	19.8	2.95	3.9	653	19.5	2.98
Loans								
Personal	26.3	4,437	331.5	7.47	24.2	4,035	292.5	7.25
Residential mortgages	36.7	6,188	341.5	5.52	34.5	5,753	306.5	5.33
Commercial mortgages	4.0	671	44.2	6.59	3.6	607	39.4	6.48
Commercial and other	9.3	1,563	97.6	6.25	9.4	1,562	94.9	6.07
Other assets	3.1	532	2.5	0.46	3.6	609	2.3	0.38
Total – assets	100.0%	$ 16,860	$ 908.9	5.39%	100.0%	$ 16,691	$ 837.2	5.02%
Liabilities and shareholders' equity								
Demand and notice deposits		$ 2,662	$ 19.5	0.73%		$ 2,560	$ 15.4	0.60%
Term deposits		10,990	447.4	4.07		10,895	423.0	3.88
Other deposits		1,637	21.9	1.34		1,648	19.3	1.17
Derivative financial instruments		–	22.2	–		–	9.6	–
		15,289	511.0	3.34		15,103	467.3	3.09
Acceptances		140	–	–		111	–	–
Other liabilities		328	–	–		349	–	–
Subordinated debentures		150	7.7	5.16		203	12.7	6.26
Shareholders' equity		953	–	–		925	–	–
Total – liabilities and shareholders' equity		$ 16,860	$ 518.7	3.08%		$ 16,691	$ 480.0	2.88%
Net interest income			$ 390.2	2.31%			$ 357.2	2.14%

Net interest income
(in millions of dollars)



Net interest margin
(net interest income as a percentage of average assets)



OTHER INCOME

Other income stood at $193.7 million in 2007, compared to $182.6 million in 2006. This $11.1 million increase for fiscal 2007 is mainly attributable to the gain resulting from the worldwide restructuring of Visa, to fees and commissions on loans and deposits, and to income from sales of mutual funds. These revenues were partly offset by lower securitization income.

Fees and commissions on loans and deposits increased to $88.7 million for fiscal 2007, whereas they stood at $84.6 million in 2006. This increase is mainly attributable to higher revenues from the management of deposits and from credit card service.

Income from brokerage operations increased to $32.4 million, whereas they stood at $31.4 million in 2006, despite a $2.1 millions charge related to the asset backed securities. This improvement is mainly attributable to the institutional brokerage activities. Totaling $19.3 million for fiscal 2007, revenues from treasury and financial market activities were higher than in 2006, when they totaled $15.2 million, an improvement achieved despite the charge of $0.8 million related to the impact of the liquidity and credit crisis towards the end of the year. These results also include the $4.4 million gain resulting from the sale of a portion of the Bank's holding in the Montreal Exchange, as well as $4.3 million charge ($2.9 million, net of applicable income taxes), resulting from the sale of certain securities.

Revenues from the sale of mutual funds increased by $2.8 million and stood at $13.4 million in 2007. Presently, the Bank benefits from the continuing demand for this type of investment in Canada. Moreover, through its partnership with Industrial Alliance, the Bank can offer its clients an excellent range of funds. Likewise, the recognition of $5.2 million in income from discontinued operations, as for fiscal 2005 and 2006, is largely attributable to the good performance of the Bank's distribution network.

Credit insurance revenues are mainly generated by insurance programs related to loans disbursed by the Bank. These revenues were stable, compared to fiscal 2006, and stood at $12.6 million for fiscal 2007. Revenues from registered self-directed plans decreased to $9.6 million for fiscal 2007, compared to $10.5 million in 2006. This result is linked to changes in market conditions, weighing down the number of registered self-directed plans. The “Off-Balance Sheet Arrangements” section, on page 40 of this MD&A, offers additional information on this matter.

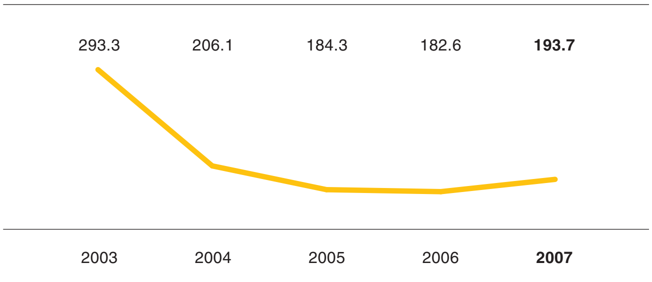
Revenues from securitization decreased to $6.4 million for fiscal 2007, compared to $10.0 million for fiscal 2006. This result stems mainly from the $2.8 million charge related to the revaluation of certain seller-swaps contracted as part of these operations in the wake of the liquidity and credit crisis which affected asset-backed commercial paper, as explained on page 26 of this MD&A. During fiscal 2007, the Bank securitized over $860 million of residential mortgages, whereas it had transferred nearly $650 million in 2006. Note 8 to the annual consolidated financial statements provides additional information regarding these operations.

Also during fiscal 2007, the Bank recorded a $4.0 million gain ensuing from the worldwide restructuring of Visa.

Table 9
Other income
For the years ended October 31 (in millions of dollars)

	2007	2006	2005	**Variation 07/06**
Fees and commissions on loans and deposits				
Deposit service charges	**$ 50.7**	$ 47.9	$ 47.7	**6%**
Lending fees	**23.4**	23.7	30.4	**(1)**
Card service revenues	**14.6**	13.0	11.1	**12**
Sub-total – fees and commissions on loans and deposits	**88.7**	84.6	89.2	**5**
As a % of average assets	**0.53%**	0.51%	0.55%	
Other				
Income from brokerage operations	**32.4**	31.4	28.1	**3**
Income from treasury and financial market operations	**19.3**	15.2	16.2	**27**
Income from sale and management of mutual funds	**13.4**	10.6	9.6	**26**
Credit insurance income	**12.6**	12.6	7.7	**–**
Income from registered self-directed plans	**9.6**	10.5	11.8	**(9)**
Securitization income	**6.4**	10.0	11.7	**(36)**
Trust services	**1.3**	1.2	1.0	**8**
Gain on disposal and on modification in ownership interest	**4.0**	0.9	–	**344**
Other	**6.0**	5.6	9.0	**7**
Sub-total – other	**105.0**	98.0	95.1	**7**
As a % of average assets	**0.62%**	0.58%	0.58%	
Total – other income	**$ 193.7**	$ 182.6	$ 184.3	**6%**
As a % of average assets	**1.15%**	1.09%	1.13%	

Other income
(in millions of dollars)



PROVISION FOR CREDIT LOSSES

The provision for credit losses amounted to $40.0 million in 2007, the same level as in 2006. This represents 0.30% of the average portfolio of loans, bankers' acceptances and assets purchased under reverse repurchase agreements, compared to 0.32% in 2006, reflecting the credit improvement to the portfolios.

The Canadian economy has enjoyed another good year in 2007, thus enabling the Bank to contain credit losses within management's expectations. For yet another year, the Canadian economy has managed (at least for the moment) to compensate the impact of the appreciation of the Canadian dollar and of the surge in energy prices. The strength of the labour market, the low interest rates and the vigor of the economy in Western Canada have undoubtedly contributed to the positive performance of the Bank's portfolios. The following table presents the provision for credit losses from 2005 to 2007.

Table 10
Provision for credit losses
For the years ended October 31 (in millions of dollars)

	2007	2006	2005
Personal loans	**$ 27.7**	$ 27.7	$ 25.1
Residential mortgages	**1.3**	0.4	0.6
Commercial mortgages	**0.2**	(0.2)	1.6
Commercial and other loans	**10.8**	12.1	12.7
Total – provision for credit losses	**$ 40.0**	$ 40.0	$ 40.0
As a % of average loans, bankers' acceptances and assets purchased under reverse repurchase agreements	**0.30%**	0.32%	0.33%

NON-INTEREST EXPENSES

Non-interest expenses were $427.4 million in 2007, while they stood at $410.8 million in 2006. Salaries and employee benefits increased by $15.7 million, compared to fiscal 2006. This is mainly attributable to the combined effect of salary increases and new hirings. The total number of employees on a full-time equivalent basis increased from 3,238 as at October 31, 2006, to 3,289 as at October 31, 2007, essentially to support growth initiatives in the Retail Financial Services segment. Increases of over $3.0 million in variable compensation (reflecting the achievement of the objectives set for 2007) and of over $3.0 million in stock-based compensation also contributed to the higher level of salaries and employee benefits during fiscal 2007.

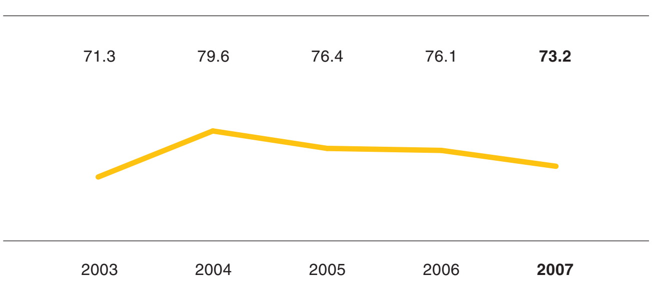
Premises and technology costs have slightly increased, from $108.1 million in 2006 to $111.5 million in 2007. This increase is mainly attributable to higher depreciation on capitalized technology developments and higher rent and property taxes. The expenses related to the Bank's information systems may fluctuate significantly from year to year, depending on which technological solution is adopted. In 2007, the Bank continued allocating substantial resources to updating its office automation infrastructure. To the $12 million already invested in this respect, the Bank has added new investments of nearly $15 million in 2007. The new work environment has significantly contributed to improving the efficiency of the Bank's communications and the robustness of its network. Over the coming years, the Bank expects to invest close to $40 million annually, particularly in the conversion of its present credit and debit card systems to chip card systems, and in the enhancement of its customer management tools. Such improvements should enable the Bank to serve its clients even more efficiently, and contribute to attracting and retaining new clients.

Other expenses stood at $86.6 million in 2007, compared to $89.1 million in 2006. This decrease is mainly attributable to lower taxes and insurance costs, one of the factors being the reduction of the capital tax charge related to corporate reorganizations. Otherwise, advertising and business development expenses increased by 10%, reflecting the initiatives designed to support business growth and improve efficiency. Table 11 illustrates the changes in non-interest expenses from 2005 to 2007.

Table 11
Non-interest expenses
For the years ended October 31 (in millions of dollars)

	2007	2006	2005	Variation 07/06
Salaries and employee benefits				
Salaries	**$ 146.9**	$ 140.8	$ 133.8	
Employee benefits	**53.1**	50.0	45.4	
Performance-based compensation	**29.3**	22.8	19.5	
Sub-total – salaries and employee benefits	**229.3**	213.6	198.7	**7%**
As a % of average assets	**1.36%**	1.28%	1.22%	
Premises and technology				
Equipment and computer services	**42.5**	42.0	39.0	
Rent and property taxes	**34.5**	33.6	33.1	
Depreciation	**27.4**	26.0	28.4	
Maintenance and repairs	**5.4**	4.9	5.3	
Public utilities	**1.3**	1.2	1.1	
Other	**0.4**	0.4	2.1	
Sub-total – premises and technology	**111.5**	108.1	109.0	**3%**
As a % of average assets	**0.66%**	0.65%	0.67%	
Other				
Fees and commissions	**19.0**	19.2	16.5	
Taxes and insurance	**18.8**	23.9	23.6	
Communications and travelling expenses	**18.3**	17.5	17.6	
Advertising and business development	**16.8**	15.3	13.2	
Stationery and publications	**6.2**	6.0	6.0	
Recruitment and training	**2.8**	2.1	2.3	
Other	**4.7**	5.1	3.0	
Sub-total – other	**86.6**	89.1	82.2	**(3)%**
As a % of average assets	**0.52%**	0.53%	0.50%	
Total – non-interest expenses	**$ 427.4**	$ 410.8	$ 389.9	**4%**
As a % of average assets	**2.54%**	2.46%	2.39%	
As a % of total revenue (efficiency ratio)	**73.2%**	76.1%	76.4%	

Efficiency ratio
(non-interest expenses as a percentage of total revenue)



EFFICIENCY RATIO

The efficiency ratio substantially improved, from 76.1% in 2006 to 73.2% in 2007, on the basis of continuing operations. Overall, the 8% increase in revenues more than offset the 4% increase in expenses and contributed to the improvement of the efficiency ratio. At its 2007 level however, efficiency remains below expectations and efficiency improvement remains one of the Bank's top priorities.

The opposite graph illustrates the Bank's performance in this regard, over the last years.

INCOME TAX EXPENSE

Income tax expense on continuing operations for fiscal 2007 stood at $26.4 million (22.7% effective tax rate), compared to $23.4 million (26.3% effective tax rate) for fiscal 2006.

Table 12
Reconciliation of the income tax expense from continuing operations to the dollar amount of income tax using the statutory rate
For the years ended October 31 (in millions of dollars)

		2007		2006
Income taxes at statutory rate	**$ 38.4**	**33.0%**	$ 29.3	32.9%
Change resulting from:				
Income related to foreign credit insurance operations	**(3.6)**	**(3.0)**	(2.4)	(2.7)
Tax-exempt dividends	**(2.4)**	**(2.1)**	(1.1)	(1.2)
	32.4	**27.9**	25.8	29.0
Resolution of income tax exposures	**(3.3)**	**(2.9)**	(11.3)	(12.7)
Tax rates changes	**(0.7)**	**(0.7)**	8.6	9.7
Realized gain on repatriation of accumulated foreign retained earnings	**–**	**–**	4.5	5.1
Income tax benefits related to the minimum tax on financial institutions previously unrecognized	**–**	**–**	(2.8)	(3.2)
Non taxable portion of capital gains	**(1.5)**	**(1.3)**	–	–
Other	**(0.5)**	**(0.3)**	(1.4)	(1.6)
Income taxes from continuing operations, as reported in the consolidated statement of income and effective tax rate	**$ 26.4**	**22.7%**	$ 23.4	26.3%

The resolution of various income tax exposures, the tax rate changes and some tax exempt gains (as presented in the table here above) were the most significant items affecting specifically the income tax expense in 2007. Excluding the effect of these items, the effective tax rate for 2007 would have been 27.9%, compared with 29.0% in 2006. The lower tax rate for fiscal 2007 results mainly from the increase in tax exempt dividend income from Canadian corporations and from the effect of not recognizing taxes on income related to foreign credit insurance operations throughout fiscal 2007. It is worth noting that the corporate reorganization that reduced the tax rate applied on foreign credit insurance income had only partially impacted results of 2006.

Note 18 to the consolidated financial statements provides further information on the income tax expense.

On October 30, 2007, the Canadian Minister of Finance delivered a Budget Speech which includes further reductions to the income tax rates. However, considering the fact that the present government is in a minority position, the proposed amendments to the Income Tax Act will not be considered to be substantively enacted for accounting purposes until they have passed third reading in the House of Commons. Consequently, the Bank has not reflected the effect of the proposed changes in its consolidated financial statements. Based on the Bank's analysis, the proposed changes would imply a revaluation of future tax assets, which would lead to a future income tax charge between $4.0 and $5.0 million in the period in which the changes would be substantively enacted. Going forward however, the applicable statutory income tax rate and the taxes payable would be reduced.

Analysis of financial condition

During fiscal 2007, the Bank's business segments all deployed significant and sustained efforts which were instrumental in generating an excellent growth in business volumes, notably in the loan and deposit portfolios. Otherwise, as presented here above, the recent events surrounding asset-backed securities have also had an impact on the Bank's financial condition. Finally, the adoption of the new accounting standards on financial instruments, on November 1, 2006, has substantially modified the information presented in the financial statements, particularly concerning securities.

As at October 31, 2007, the Bank's total assets stood at $17.8 billion, compared to $17.3 billion as at October 31, 2006, as indicated in table 13. Assets under administration stood at $15.6 billion, compared to $14.7 billion at the end of fiscal 2006. These changes are explained in the next sections of this MD&A.

Table 13
Balance sheet assets
As at October 31 (in millions of dollars)

	2007	2006	2005	Variation 07/06
Cash resources and securities	**$ 3,023**	$ 3,412$	$ 3,258	**(11)%**
Assets purchased under reverse repurchase agreements	**540**	802	508	**(33)**
Loans				
Personal	**4,958**	4,168	3,907	**19**
Residential mortgages	**6,233**	5,986	5,807	**4**
Commercial mortgages	**684**	659	596	**4**
Commercial and other	**1,557**	1,477	1,540	**5**
	13,432	12,290	11,850	**9**
Allowance for loan losses	**(115)**	(125)	(130)	**(8)**
Total loans	**13,317**	12,165	11,720	**9**
Customers' liability under acceptances	**112**	150	146	**(25)**
Other assets	**795**	767	875	**4**
Balance sheet assets	**$ 17,787**	$ 17,296$	$ 16,507	**3%**
Cash resources and securities as a % of balance sheet assets	**17.0%**	19.7%	19.7%	
Loans and assets purchased under reverse repurchase agreements as a % of balance sheet assets	**77.9%**	75.0%	74.1%	

LIQUIDITIES
The Bank's liquidities correspond to cash resources, deposits with other banks, securities and assets purchased under reverse repurchase agreements. As at October 31, 2007, these assets stood at $3.6 billion, compared to $4.2 billion as at October 31, 2006. More than 58% of the Bank's liquidities are composed of securities issued or guaranteed by the Canadian government, by provinces and by municipal corporations. The remainder of the portfolio is composed of cash, other debt securities and equity securities. These liquidities enable the Bank to meet its short-term commitments, particularly disbursing loans and managing its deposit portfolio maturities, as well as provide for its other current operations. Return on liquidities however is generally lower than what the Bank can generate through its loan operations. The decrease in liquidities during fiscal 2007, resulting from the Bank's rigorous liquidities management, partially accounts for the improvement of the net interest margin.

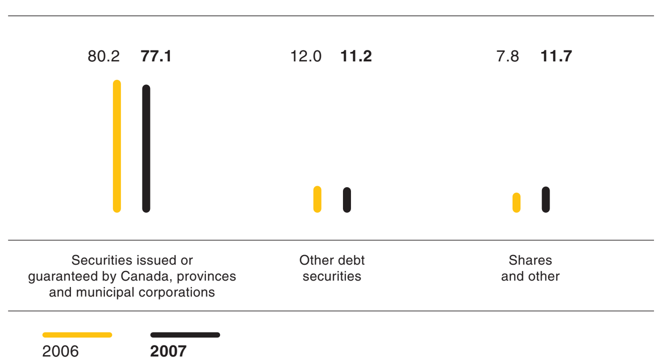
The impact of the liquidity and credit crisis which affected the asset-backed securities market has remained limited, for the moment, as discussed on page 25 of this MD&A, notably because of the Bank held only a small proportion of these securities. Moreover, the Bank's main funding sources: namely retail deposits and securitization of residential mortgages through the Canada Mortgage Bonds (CMB) Program, have remained unaffected from these events at this time. Nevertheless, the Bank continues to keep a close watch over the situation so as to be ready to adapt its strategies if need be.

As at October 31, 2007, the net unrealized gain related to the available-for-sale securities portfolio was $10.3 million, as detailed in note 6 to the consolidated financial statements. This net gain results primerly from the Montreal Exchange shares.

Some securities presented losses in value totaling $4.5 million. These losses in value mainly concern common shares and preferred shares portfolios, which were affected by declining markets during the second half of fiscal 2007. The Bank considers that these losses in value should be resorbed over the coming months. Consequently, no loss in value has been recognized.

As a result of the adoption of the new accounting standards on financial instruments, securities are now presented in the following three categories, at market value:
- Securities Available for sale;
- Securities Held for trading;
- Securities Designated as held for trading.

Securities
(as a percentage)



OTHER ASSETS

The other assets, excluding customers' liabilities under acceptances, increased from $767 million as at October 31, 2006 to $795 million as at October 31, 2007. This increase is mainly attributable to the increases in items in transit linked to the settlement of banking transactions at year-end, and in fixed assets related to the significant investments in technologies during fiscal 2007. These increases were partly offset by the decreases in future tax assets and in assets related to derivative financial instruments. These assets correspond mainly to the fair value of the derivative financial instruments and to the accrued interests on these financial instruments. On October 31, 2006, these assets also included $27.8 in deferred losses related to the derivative financial instruments that qualified for hedge accounting. This item has been reclassified to shareholder's equity on November 1, 2006, as part of the adoption of the new accounting standards on financial instruments.

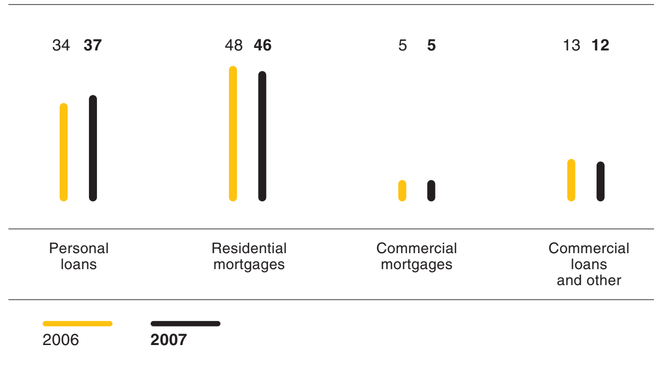
LOANS AND BANKERS' ACCEPTANCES

The loan and bankers' acceptance portfolio, before provision for credit losses, increased by 9% to $13.5 billion as at October 31, 2007, compared to $12.4 billion on October 31, 2006. This result is mainly attributable to the strong growth in mortgage loans and in B2B Trust's investment loans. The portfolio's mix is described below.

LOAN PORTFOLIOS MIX

The Bank's loan portfolio consists of personal loans, residential mortgages, commercial mortgages and commercial loans, including bankers' acceptances. The proportion of each category of loans as at October 31, 2007 is basically the same as at October 31, 2006. The personal loan portfolio and the residential mortgage loan portfolio stood at $5.0 billion and $6.2 billion respectively, representing more than 80% of the Bank's loan portfolio, the same as in 2006. This proportion reflects the Bank's strong presence with individual clients through its Retail Financial Services and B2B Trust business segments. Commercial financing, essentially for small and medium-sized businesses, was relatively stable at $2.4 billion as at October 31, 2007, compared to $2.3 billion at the end of fiscal 2006.

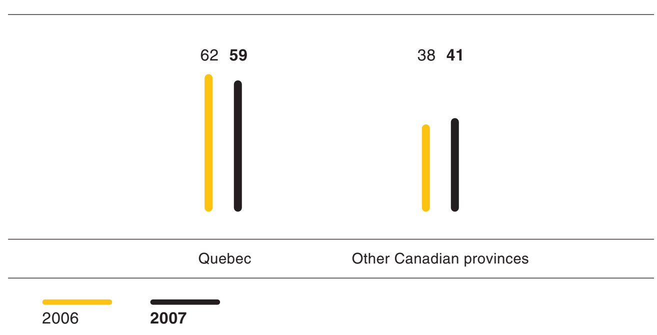
Loan portfolio mix
(as a percentage)



Geographic distribution

In line with its business plan, the Bank is mainly active in Quebec through its retail branches and commercial business centres networks. Furthermore, the Bank extends its activities across Canada through other business centres and a vast network of brokers and independent financial advisors, as well as through its close relations with retailers acting as intermediaries for point-of-sale financing activities. It should also be noted that B2B Trust's operations are mainly conducted from Toronto. As at October 31, 2007, the proportion of loans granted in Quebec represented 59% of total loans, a level similar to last year's (62%), while the proportion of loans granted outside Quebec stood at 41%.

Geographic distribution of loans
(as a percentage)



Loan size by commercial borrower

The Bank maintains the size of loans granted at a level consistent with the level of risks it is willing to assume, in keeping with its credit risk management policies.

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 the borrowers.

The CMHC offers a mortgage loan insurance program designed to guarantee loans in order to give Canadians access to mortgage financing at an affordable cost. The Bank participates in this program as an approved lender, which enables it to benefit from insurance coverage and thus reduce its global credit risk and improve its capital ratios. Moreover, by maintaining a high proportion of insured residential mortgages, the Bank preserves its capacity to pursue its securitization operations which in turn enables it to optimize the financing of its activities and manage its cash resources. By year-end 2007, 45% of residential mortgages were insured by the CMHC, compared to 50% in 2006. In other respects, the Bank considers that it holds excellent guarantees for the other conventional mortgage loans whose loan value never exceeds 80% of the estimated value of the property at origin, in accordance with legal requirements.

Buildings with five units or less, a significant number of which are single-family units, comprise 89% of the volume of residential mortgages outstanding. The average balance of these loans stood at approximately $99,000 at year-end 2007, compared to approximately $93,000 at year-end 2006.

Commercial mortgage loans are guaranteed as well by specific assets, including construction projects, commercial properties, shopping centres, office buildings, plants, warehouses and industrial condominiums. In general, the value of these loans does not exceeds 60% to 75% of the estimated value of the property at origin.

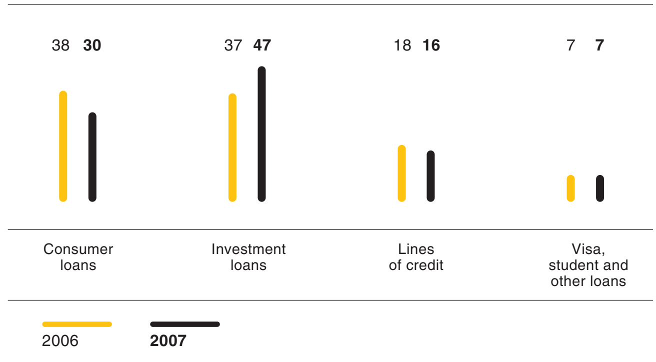
B2B Trust's investment loan portfolio mainly consists of mutual fund loans. The value of these investments must at all times respect certain terms of the loan agreements.

CHANGES IN LOAN PORTFOLIO MIX

Personal loans

As at October 31, 2007, the personal loans portfolio stood at $5.0 billion, an increase of $790 million compared to October 31, 2006. This increase is mainly attributable to B2B Trust's investment loan portfolio which continued to benefit from favorable market conditions over the first quarters of fiscal 2007, as well as to continued business development with B2B Trust's partners. The lines of credit portfolio has also increased during fiscal 2007 and stood at $807 million as at October 31, 2007, including $307 million in home equity lines of credit. Finally, the portfolio of loans subscribed through the point-of-sales financing network throughout Canada has remained relatively stable during fiscal 2007.

Personal loan portfolio mix
(as a percentage)



Residential mortgage loans

As shown in table 14, the residential mortgage loan portfolios, including on-balance sheet loans and securitized loans, increased by $770 million during fiscal 2007. This performance is mainly attributable to the favorable economic conditions, to the strength of the real estate market and to the solid performance of Retail Financial Services, supported by the new mobile group of mortgage sales people, in the face of continuing competition.

Residential mortgage loans by property type
(as a percentage)

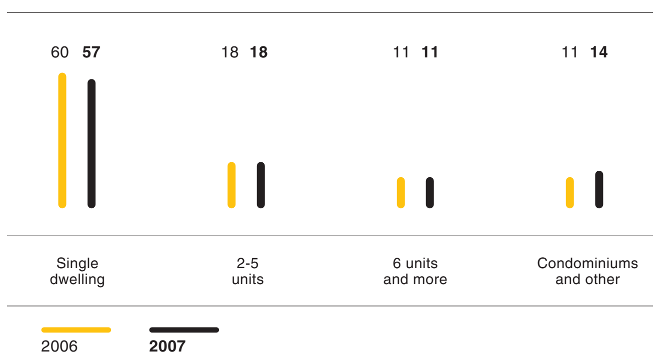
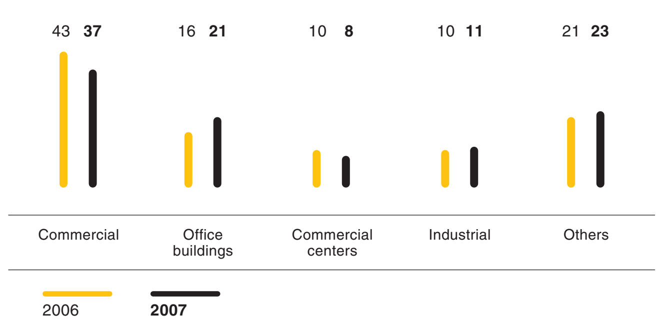


Table 14
Residential mortgage loans portfolio
As at October 31 (in millions of dollars)

	2007	2006
On-balance sheet residential mortgage loans	**$ 6,233**	$ 5,986
Securitized residential mortgage loans (off-balance sheet)	**1,562**	1,039
Total residential mortgage loans, including securitized loans	**$ 7,795**	$ 7,025

Commercial mortgage loans by property type
(as a percentage)



Commercial mortgage loans

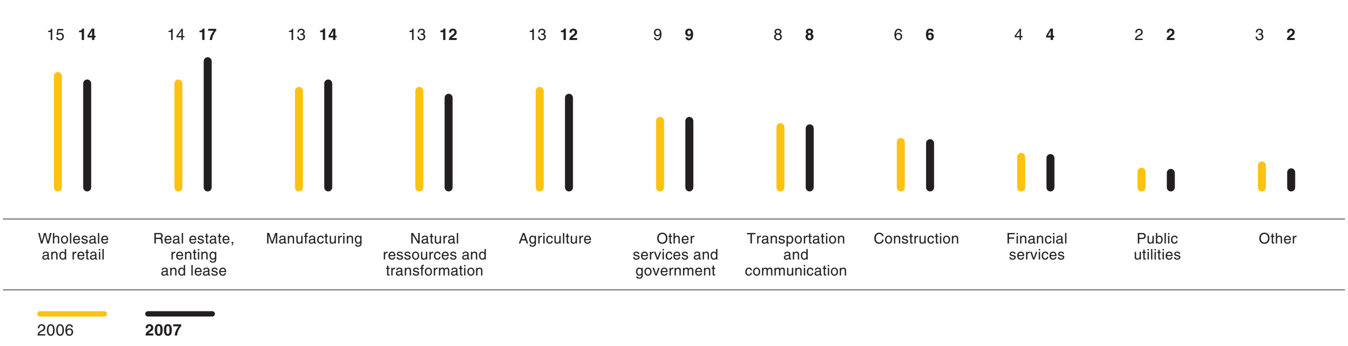
The volume of commercial mortgage loans increased by nearly 4% over fiscal 2006, and stood at $684 million as at October 31, 2007, compared to $659 million as at October 31, 2006. The Bank still plays an active role in the field of commercial mortgage loans all over Canada. This position enabled the Bank to benefit from positive market developments in Western Canada.

As at October 31, 2007, Ontario and Western Canada represented 65% of the commercial mortgage loan portfolio and Quebec 35%, whereas their respective shares were 72% and 28% as at October 31, 2006.

Commercial loans

As at October 31, 2007, the portfolio of commercial loans, including bankers' acceptances, stood at $1.7 billion, that is slightly higher than as at October 31, 2006 when it stood at $1.6 billion. This increase is mainly attributable to the portfolio's growth in Quebec, while it slightly decreased in Ontario. This evolution attests to the relevance of the Bank's strategy, focusing on those business sectors where it can differentiate itself from its competitors.

Commercial loans by industry
(as a percentage)



Impaired loans

Gross impaired loans decreased, from $130.6 million in 2006 to $103.9 million in 2007. Net impaired loans stood at $-11.4 million as at October 31, 2007, compared to $5.4 million as at October 31, 2006. The improvement of these indicators attests to the sustained solidity of loan portfolios' credit quality. The excellent economic conditions in Quebec and Canada over the last few years have allowed the Bank to significantly improve the quality of the portfolios. Moreover, the measures taken over the last four years to reduce the Bank's exposure to major credit risks, as well as a higher proportion of personal loans, have improved the Bank's risk profile. Table 15 details impaired loans per portfolio.

General allowances stood at $65.3 million as at October 31, 2007, the same as at October 31, 2006. This reflects the estimate as to potential losses attributable to the deterioration in credit quality of loans that have still not been categorized as impaired. Note 7 to the consolidated financial statements provide more information on this topic.

Table 15
Impaired loans
As at October 31 (in millions of dollars)

	2007			2006		
	Gross	**Specific allowances**	**Net**	Gross	Specific allowances	Net
Personal loans	**$ 16.2**	**$ (6.0)**	**$ 10.2**	$ 16.1	$ (5.6)	$ 10.5
Residential mortgages	**20.4**	**(1.4)**	**19.0**	16.5	(3.5)	13.0
Commercial mortgages	**4.3**	**(1.5)**	**2.8**	8.4	(3.5)	4.9
Commercial and other loans	**63.0**	**(41.1)**	**21.9**	89.6	(47.3)	42.3
Total	**$ 103.9$**	**$ (50.0)**	**$ 53.9**	$ 130.6	$ (59.9)	$ 70.7
General allowance			**(65.3)**			(65.3)
Total – net impaired loans			**$ (11.4)**			$ 5.4
As a % of total loans, bankers' acceptances and assets purchased under reverse repurchase agreements			**(0.1)%**			–%

DEPOSITS

The deposit portfolio increased, from $13.1 billion as at October 31, 2006, to $13.9 billion as at October 31, 2007. This increase is linked mainly to the increase in personal deposits, which contributed to the financing of the loan portfolios' growth. Table 16 offers a summary of the various portfolios.

PERSONAL DEPOSITS

Total personal deposits increased to $11.6 billion as at October 31, 2007, compared to $11.0 billion as at October 31, 2006. This growth is mainly attributable to deposits generated through B2B Trust and the Bank's branches. Personal deposits collected through the branch network and through financial intermediairies totaled $4.3 billion and $5.4 billion respectively, as at October 31, 2007. A significant proportion of these deposits is insured by the Canada Deposit Insurance Corporation, up to $100,000 per client. Personal deposits constitute a particularly advantageous and stable source of financing for the Bank, owing among other things to their availability and low cost, compared to institutional deposits. As at October 31, 2007, these deposits constituted 83% of the Bank's total deposit portfolio.

BUSINESS, BANK AND OTHER DEPOSITS

Deposits from businesses and other deposits increased by $169 million and stood at $2.3 billion as at October 31, 2007, compared to $2.1 billion as at October 31, 2006. This increase is mainly attributable to the growth in deposits raised from municipalities, while treasury deposits decreased.

Table 16
Deposits
As at October 31 (in millions of dollars)

	2007		2006	
Personal				
Notice and demand	**$ 1,891**	**13.6%**	$ 1,843	14.1%
Term				
Branch network	**4,315**	**31.1**	4,221	32.2
Brokers	**5,359**	**38.6**	4,886	37.3
	9,674	**69.7**	9,107	69.5
Sub-total – personal	**11,565**	**83.3**	10,950	83.6
Business, banks and other				
Notice and demand	**859**	**6.2**	832	6.4
Term	**1,455**	**10.5**	1,313	10.0
Sub-total – Business, banks and other	**2,314**	**16.7**	2,145	16.4
Total – deposits	**$ 13,879**	**100.0%**	$ 13 095	100.0%

OTHER LIABILITIES
The $352 million decrease in other liabilities during fiscal 2007 is mainly attributable to commitments related to securities sold short and to commitments related to securities sold under repurchase agreements, which are dependent on trading activities and investment strategies, as well as to the decrease in bankers' acceptances. These decreases were partly offset by the increase in cheques and other items in transit which are tied to the Bank's daily transaction processing.

SUBORDINATED DEBENTURES
As at October 31, 2007, just as at October 31, 2006, subordinated debentures totaled $150 million. As further explained here below, these debentures are an integral part of the Bank's regulatory capital and constitute an additional protection for its depositors.

SHAREHOLDERS' EQUITY
Shareholders' equity stood at $1,004.7 million as at October 31, 2007, compared to $946.4 million as at October 31, 2006, an increase of $58.3 million or 6%. This increase in value was generated mainly by the net income for fiscal 2007, net of declared dividends, as well as by the favorable adjustment to accumulated other comprehensive income (AOCI), resulting from the revaluation by the Bank of its shares of the Montreal Exchange following its initial listing on the Toronto Stock Exchange. The Bank's book value per common share, excluding AOCI, increased from $31.18 as at October 31, 2006, to $33.34 as at October 31, 2007. During fiscal 2007, the Bank issued 190,377 common shares under its stock option plan for proceeds of $5.3 million. As at October 31, 2007, there were 23,810,813 common shares outstanding.

Funding sources
(as a percentage)

A. Shareholders' equity 6.0%
B. Subordinated debentures 0.9%
C. Personal term deposits 58.2%
D. Business, banks and other deposits 13.9%
E. Personal notice and demand deposits 11.4%
F. Securitization 9.6%

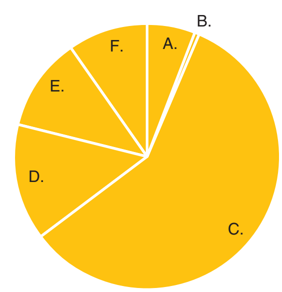


Table 17
Shares issued and outstanding
As at Novembre 28, 2007 (in number of shares)

Preferred shares	
Series 9	4,000,000
Series 10	4,400,000
Total preferred shares	8,400,000
Common shares	23,815,813
Options	165,027

REGULATORY CAPITAL

The Bank closely monitors its capital base as it represents a critical factor in the assessment of its strength and security in relation to the risks associated with its activities. The calculation of regulatory capital is subject to the guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI). These guidelines originate from the Bank for International Settlements (BIS) regulatory risk-based capital framework. According to BIS standards, banks must maintain a minimum Tier 1 capital ratio of 4% and a total capital ratio of at least 8%. BIS decreed that Canadian deposit-taking financial institutions had to achieve a minimum Tier 1 capital ratio of at least 7% and a total capital ratio of at least 10%. Tables 18 and 19 outline the risk-weighted assets and the regulatory capital which are used to calculate ratios, as established by BIS. From November 1, 2007, the Bank will be using the new framework formulated by the Basel Committee on Banking Supervision (Basel II). The implementation of this new framework should slightly improve the Bank's capital ratios.

Table 18
Risk-weighted assets
As at October 31 (in millions of dollars)

	2007	2006
Balance sheet items		
Cash resources	**$ 86**	$ 42
Securities	**328**	481
Mortgage loans	**2,637**	2,400
Other loans and customers' liability under acceptances	**5,906**	5,147
Other assets	**476**	463
General allowances	**65**	65
Total – balance sheet items	**9,498**	8,598
Off-balance sheet items		
Derivative financial instruments	**29**	27
Credit-related commitments	**197**	77
Total – risk-weighted assets	**$ 9,724**	$ 8,702

Table 19
Regulatory capital – BIS
As at October 31 (in millions of dollars)

	2007	2006	**Variation 07/06**
Tier I capital			
Common shares	**$ 256.4**	$ 250.6	**2%**
Contributed surplus	**0.1**	0.5	**(80)**
Retained earnings	**537.3**	485.3	**11**
Non-cumulative preferred shares	**210.0**	210.0	**–**
Less: goodwill	**(53.8)**	(53.8)	**–**
Total – Tier I capital (A)	**950.0**	892.6	**6**
Tier II capital			
Subordinated debentures	**150.0**	150.0	**–**
General allowances	**65.3**	65.3	**–**
Unrealized gains on available for sale equity securities	**11.7**	–	**n.a.**
Total – Tier II capital	**227.0**	215.3	**5**
Securization and other	**(45.6)**	(28.5)	**60**
Regulatory capital – BRI (B)	**$ 1,131.4**	$ 1,079.4	**5%**
Total risk-weighted assets (Table 18) (C)	**$ 9,724.0**	$ 8,702.2	
Tier I BIS capital ratio (A/C)	**9.8%**	10.3%	
Total BIS capital ratio (B/C)	**11.6%**	12.4%	
Assets to capital multiple	**15.8x**	16.1x	
Tangible common equity as a percentage of risk-weighted assets	**7.5%**	7.7%	

DIVIDENDS

The steady improvement of the Bank's financial results over the past four years, along with management's and the Board of Directors' confidence as regards the Bank's future performance, led the Board of Directors to approve a $0.03, or 10%, raise in the quarterly dividend, thus bringing it to $0.32 per common share. The Board of Directors must approve dividend payments on preferred and common shares on a quarterly basis. Moreover, the declaration and payment of dividends are subject to certain legal restrictions, as explained in note 15 to the consolidated financial statements. For the 2008 fiscal year, the common share dividend payout ratio may be below 40% of net income per share in order that capital be maintained at an optimal level for supporting the Bank's operations. This is to a great extent explained by the increase of the Bank's assets, which requires more capital.

Table 20
Share dividends and payout ratio
For the years ended October 31 (in millions of dollars, except per share amounts and payout ratios)

	2007	2006	2005
Dividends declared on preferred shares	**$ 11.8**	$ 11.8	$ 11.8
Dividends declared per common share	**$ 1.16**	$ 1.16	$ 1.16
Dividends declared on common shares	**$ 27.5**	$ 27.4	$ 27.3
Payout ratio	**33.3%**	46.7%	51.2%

CREDIT RATINGS

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

Table 21
Credit ratings
As at October 31, 2007

	DBRS	Standard & Poor's
Deposits and senior debt	BBB	BBB
Short-term instruments	R-2 (high)	A-2
Subordinated debentures	BBB (low)	BBB-
Preferred shares	Pfd-3	BB+

The Bank's credit ratings remained unchanged during fiscal 2007. As of the date of this report, the rating outlooks, as determined by the Dominion Bond Rating Service Limited and Standard & Poor's credit rating agencies, were positive and stable, respectively [1].

Personal deposits, collected through the branch network as well as through 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 Dominion Bond Rating Service 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.

CONTRACTUAL OBLIGATIONS

The following table presents a summary of the Bank's principal contractual obligations as at October 31, 2007, maturing over each of the next five years and thereafter. Note 24 to the consolidated financial statements provides further information on this subject.

[1] A S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future action. The S&P rating outlooks have the following meanings:

- "Positive" means that a rating may be raised
- "Negative" means that a rating may be lowered
- "Stable" means that a rating is not likely to change
- "Developing" means a rating may be raised or lowered

Each DBRS rating category is appended with one of three rating trends – "Positive," "Stable," "Negative" – in addition to "Under Review." The rating trend helps to give the investor an understanding of DBRS's opinion regarding the outlook for the rating in question. However, the investor must not assume that a positive or negative trend necessarily indicates that a rating change is imminent.

Table 22
Contractual obligations
As at October 31, 2007 (in millions of dollars)

	2008	2009	2010	2011	2012	Thereafter	Total
Term deposits	$ 5,459	$ 2,869	$ 1,539	$ 631	$ 626	$ 4	$ 11,128
Obligations related to assets sold short	867	–	–	–	15	47	929
Obligations related to assets sold under repurchase agreements	869	–	–	–	–	–	869
Subordinated debentures	–	–	–	150	–	–	150
Commitments under leases, technology services and other contracts	68	69	69	59	51	191	507
Total	$ 7,263	$ 2,938	$ 1,608	$ 840	$ 692	$ 242	$ 13,583

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

In addition, the Bank must also ensure that cash resources are available to meet the requirements related to some infrastructure investments, notably the renovation of its branch network, the modernization of its information technology platforms, as well as to projects related to regulatory requirements compliance. These projects will inevitably require significant investments, estimated between $35 million and $45 million annually, over the next years.

Off-balance sheet arrangements

In the normal course of its operations, the Bank concludes several transactions that involve off-balance sheet arrangements. In particular, the Bank manages or administers clients' assets that are not reported on the balance sheet. Off-balance sheet items moreover include derivative instruments, as well as assets and liabilities generated through the utilization of special purpose entities set up for financing purposes.

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

Assets under administration and assets under management mainly include assets of clients to whom the Bank provides various administrative services, as well as commercial and residential mortgage loans under management related to securitization operations. Through Laurentian Bank Securities, the Bank also manages retail and institutional investment portfolios. Table 23 presents all of the assets under administration and assets under management. As at October 31, 2007, these items totaled $15.6 billion, an increase of $0.9 billion compared to October 31, 2006.

Assets related to self-directed pension plans have remained relatively unchanged year over year. The sustained efforts expended by the Bank and by B2B Trust have been instrumental in offsetting the impact of the increased competition in this market segment. The Bank anticipates however that, in the medium term, these activities will continue to be impacted negatively, considering that the regulatory environment encourages stakeholders to manage their self-directed plans themselves.

Clients' brokerage assets increased nearly 4%, thanks to the good performance of the securities market and to the positive effect of the Bank's initiatives designed to increase brokerage operations. For their part, institutional assets related to trust services have increased by nearly 6%, compared to October 31, 2006.

Mutual fund assets grew by $211 million, or 15%, during fiscal 2007. Favorable market conditions and the steady demand for these savings products, as well as the Bank's initiatives designed to enhance the distribution of these products, account for this promising result. It is worth noting that, since selling its mutual funds management activities to Industrial Alliance in fiscal 2005, the Bank has focused its efforts on the distribution of mutual funds to its retail clientele through its branch network.

Mortgage loans under management increased by 42%, essentially by means of securitization operations carried out during fiscal 2007. The Bank will be able to draw sizeable revenues from the management of these assets over the coming years. Other personal assets in trust decreased by $3 million, compared to fiscal 2006. Fees, commissions and other income from these assets, detailed in table 9, on page 28 of this MD&A, represent a significant contribution to the Bank's profitability.

Table 23
Assets under administration and assets under management
As at October 31 (in millions of dollars)

	2007	2006	Variation 07/06
Self-directed RRSPs and RRIFs	**$ 8,429**	$ 8,415	**–%**
Clients' brokerage assets	**1,995**	1,924	**4**
Institutional	**1,824**	1,725	**6**
Mortgage loans under management	**1,742**	1,223	**42**
Mutual funds	**1,616**	1,405	**15**
Other–Personal	**30**	33	**(9)**
Total–assets under administration and assets under management	**$ 15,636**	$ 14,725	**6%**

DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of its operations, the Bank enters into various contracts and commitments in order to protect itself against the risk of fluctuations in interest rates, in foreign exchange rates and in indexes on which returns of index-linked deposits are based, and in order to meet the needs of its clients, as well as to earn revenues from its own trading activities. These contracts and commitments translate into derivatives.

All derivatives are recorded on the balance sheet at fair value. Derivative transactions are calculated based on notional principal amounts. These amounts however are not recorded on the balance sheet as they do not represent the actual amounts exchanged. Likewise, notional amounts do not reflect the credit risk related to derivative financial instruments, even though they serve as a reference for calculating payments.

The notional principal amounts of the Bank's derivatives totaled $11.1 billion as at October 31, 2007, compared to $12.6 billion as at October 31, 2006. The positive fair value of the derivative financial instruments designated as hedge contracts or as other contracts totaled $11 million and $63 million respectively, compared to $3 million and $58 million respectively as at October 31, 2006. The negative fair value of the derivative financial instruments designated as hedge contracts or as other contracts totaled $18 million and $66 million respectively, compared to $17 million and $20 million as at October 31, 2006.

Notes 3 and 22 to the consolidated financial statements provide further information with regard to the various types of derivative products and their recognition.

SPECIAL PURPOSE ENTITIES

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

As part of a securitization transaction, an entity transfers assets to a special purpose entity, which generally consists of a trust company in Canada, in exchange for cash. The special purpose entity finances these purchases through the issuance of term bonds or commercial paper. Most often, sales of receivables are accompanied by a credit enhancement in order 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 often include interest swap contracts in order to guarantee payments to investors.

Securitization operations are reported as sales of assets only when the Bank is deemed to have ceded control of these assets and when it receives a consideration other than beneficial interests in these assets. The Bank mainly uses conduits set up by large Canadian banks, as well as the Canada Mortgage Bonds Program developed by the Canada Mortgage and Housing Corporation (CMHC). When assets are sold, the Bank retains certain rights related to excess interest spreads and cash reserve accounts, which constitute retained interests. Likewise, the Bank has concluded interest swap agreements designed to immunize the special purpose entities against certain interest rate risks and guarantee payments to investors. The Bank also continues to manage all securitized assets after the sales. As at October 31, 2007, total outstanding securitized residential mortgage loans stood at $1,562 million, and related retained interests stood at $57 million.

Revenues of $6.4 million were recorded in 2007 as part of securitization operations, including $6.7 million in gains on sales and $3.2 million in servicing revenues. During fiscal 2007, the Bank also adjusted the value of certain swaps related to these securitization operations for an amount of $2.8 million in the wake of the liquidity and credit crisis. Note 8 to the consolidated financial statements provides more information about these entities.

EFFECT OF SECURITIZATION PROGRAMS ON REGULATORY CAPITAL RATIOS

Transfers effected through the Canada Mortgage Bonds Program do not have a significant impact on regulatory capital ratios, as the mortgages sold are insured by CMHC and already present a risk weight equal to 0%. Likewise, transfers of conventional residential mortgage loans generally do not have a significant effect on capital ratios, as regulatory capital is adjusted to take into account the credit risk that the Bank continues to assume through retained interests.

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

CREDIT COMMITMENTS

In the normal course of its operations, the Bank uses various off-balance sheet credit instruments. The credit instruments used as a means of meeting its clients' financial needs represent the maximum amount of additional credit that the Bank may be obligated to extend if the commitments are used entirely. Note 24 to the consolidated financial statements provides more information on this issue.

GUARANTEES

In the normal course of its operations, the Bank enters into guarantee agreements that satisfy the definition in the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline No. 14 "Disclosure of Guarantees" (AcG-14). The principal types of guarantees are standby letters of credit and performance guarantees. Note 24 to the consolidated financial statements provides more information on these guarantees.

Table 24
Credit commitments
As at October 31 (in millions of dollars)

	2007	2006
Undrawn amounts under approved credit facilities [1]	**$ 1,958**	$ 2,186
Documentary letters of credit	**$ 15**	$ 13
Standby letters of credit and performance guarantees	**$ 92**	$ 95

(1) Exclude personal credit facilities totalling $1,064,074,000 ($940,851,000 as at October 31, 2006) and credit card lines amounting to $863,059,000 ($799,113,000 as at October 31, 2006) since they are revocable at the Bank's option.

Analysis of quarterly results

SUMMARY ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF FISCAL 2007

For the fourth quarter ended October 31, 2007, the Bank reported net income of $30.2 million or $1.14 diluted per common share, compared to $22.6 million or $0.84 diluted per common share for the fourth quarter of fiscal 2006. Return on common shareholders' equity stood at 13.8% for the fourth quarter of 2007, compared to 10.8% for the same quarter of 2006. Income from continuing operations reached $25.7 million or $0.95 diluted per common share for the fourth quarter of 2007, compared to $18.1 million or $0.65 diluted per common share in 2006.

As was the case in fiscal 2006, discontinued operations, following the sale of the BLC-Edmond de Rothschild Asset Management Inc. joint-venture described on page 9 of this MD&A, contributed to the global increase in the Bank's profitability for the fourth quarter of 2007, taking into account the recognition of an additional $5.2 million portion of the gain on sale.

For the fourth quarter of fiscal 2007, total revenue amounted to $145.6 million, compared to $137.1 million for the same quarter in 2006. Net interest income improved by 6%, or $5.6 million, despite the negative effect of higher funding costs, as explained on page 25 of this MD&A. Otherwise, this increase is mainly attributable to the growth in loan and deposit portfolios, as well as to the Bank's stricter management of its liquidities. As for the $2.9 million increase in other income, it is mainly attributable to the gain ensuing from the worldwide restructuring of Visa, as other revenues remained relatively stable. Noteworthy are the $3.0 million gain resulting from the securitization of residential mortgages and the $2.8 million loss on the revaluation of seller-swaps, as discussed on page 26 of this MD&A. Also, the Bank recorded a $2.9 million charge to reflect the decrease in value of its investments in securities issued by non-bank conduits covered by the "Montreal Agreement" in the fourth quarter of fiscal 2007.

For the fourth quarter of 2007, the provision for credit losses stood at $10.0 million, the same level as for the fourth quarter of 2006. This result reflects the relative stability of the quality of the portfolio throughout fiscal 2007. For the fourth quarter of 2007, non-interest expenses amounted to $105.8 million, compared to $104.8 million for the fourth quarter of 2006. This year over year increase is largely attributable to the increase in salaries and employee benefits, linked to the growth in operations, and to the increase in amortization expenses, linked to technology developments. These increases however were partly offset by a reduction of the capital tax charge following corporate reorganizations.

For the fourth quarter of 2007, the income tax expense amounted to $4.1 million (13.8% effective tax rate). This effective tax rate, which is lower than the statutory rate (approximately 33%) ensues from the low level of income tax on the dividend income accruing from the Canadian securities portfolio and on income related to credit insurance operations, as well as from the effect of the recognition of a $2.2 million income tax benefit following the resolution of certain tax exposures. For the fourth quarter of 2006, the income tax expense amounted as well to $4.1 million (18.5% effective tax rate). This effective tax rate, also lower than the statutory rate (approximately 33%), ensued from the positive effects of corporate reorganizations.

ANALYSIS OF THE EVOLUTION OF THE QUARTERLY RESULTS

The Bank's quarterly results should generally be relatively stable from one quarter to the next, particularly on account of the very nature of banking operations which concern large volumes of operations not likely to be subject to significant fluctuation in the short term. However, considering the lower number of days in the second quarter, results for that quarter are generally slightly lower, as net interest income is calculated on a daily basis. Certain treasury operations and certain activities related to financial markets, such as securitization operations and trading activities, may also generate volatility. Finally, results may be influenced by, among other things, transactions or specific events, as well as by changes in economic conditions, competition and regulatory developments, including fiscal policy. The following table presents the quarterly results for fiscal 2007 and fiscal 2006.

Table 25
Quarterly results
(in millions of dollars, except per share amounts)

				2007				2006
For the quarters ended	**Oct. 31**	**July 31**	**April 30**	**Jan. 31**	Oct. 31	July 31	April 30	Jan. 31
Total revenue	**$ 145.6**	**$ 151.0**	**$ 145.7**	**$ 141.6**	$ 137.1	$ 138.0	$ 131.0	$ 133.7
Income from continuing operations	**25.7**	**23.2**	**20.7**	**20.6**	18.1	6.2	24.6	16.7
Net income	**$ 30.2**	**$ 23.2**	**$ 20.7**	**$ 20.6**	$ 22.6	$ 6.2	$ 24.6	$ 17.0
Net income per common share								
Basic	**$ 1.14**	**$ 0.85**	**$ 0.75**	**$ 0.74**	$ 0.84	$ 0.13	$ 0.92	$ 0.59
Diluted	**$ 1.14**	**$ 0.85**	**$ 0.75**	**$ 0.74**	$ 0.84	$ 0.13	$ 0.91	$ 0.59

Total revenue has generally improved from one quarter to the next, mainly through growth in net interest income. This relatively constant improvement in revenues should have translated into a similar improvement in net income. However, the elements described hereafter have brought about changes in the profitability recorded during some quarters.

FACTORS HAVING HAD A SIGNIFICANT IMPACT ON QUARTERLY RESULTS

Fourth quarter of 2007

- Additional $5.2 million gain ($4.4 million, net of applicable income taxes) recognized as part of discontinued operations, related to the recovery clauses based on net annual sales of mutual funds;
- $2.9 million charge ($2.0 million, net of applicable income taxes) related to the loss in value of asset-backed securities;
- $4.0 million gain ($3.3 million, net of applicable income taxes) related to the worldwide restructuring of Visa;
- $2.2 million income tax recovery, resulting from the resolution of various tax exposures.

Second quarter of 2007

- Favorable effect of various fiscal items for $1.6 million;
- $4.4 million gain ($3.7 million, net of applicable income taxes), resulting from the sale of a portion of the Montreal Exchange shares held by the Bank;
- $4.3 million charge ($2.9 million, net of applicable income taxes), resulting from the sale of certain securities.

First quarter of 2007

- Favorable fiscal adjustments of $0.9 million, resulting from the adoption of certain measures with regards to the minimum tax on financial institutions.

Fourth quarter of 2006

- Additional $5.2 million gain ($4.4 million, net of applicable income taxes) recognized as part of discontinued operations, related to the recovery clauses based on net annual sales of mutual funds.

Third quarter of 2006

- Additional $11.0 million income tax expense, resulting from the adoption of the 2006 federal budget which reduced the value of the Bank's future tax assets.

Second quarter of 2006

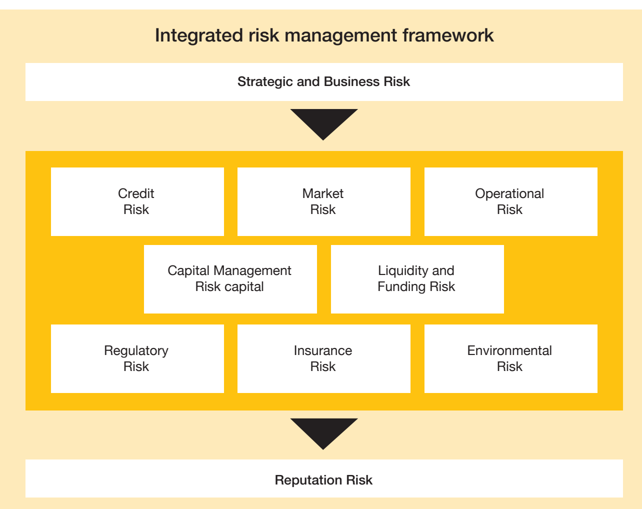
- $10.7 million income tax recovery, resulting from the resolution of various tax exposures.

Integrated risk management framework

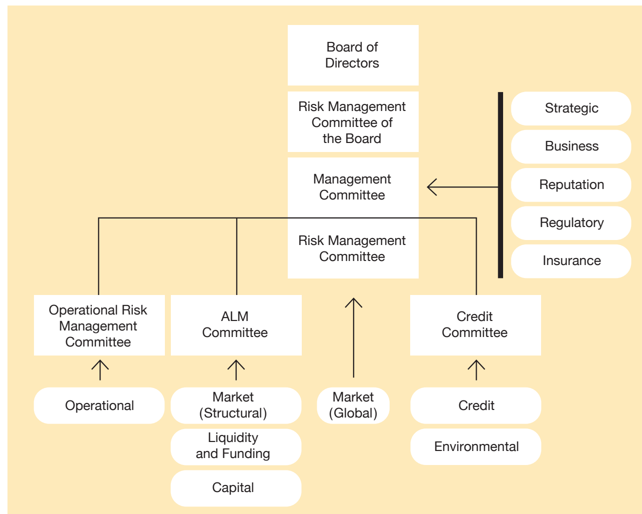
The Bank is exposed to various types of risks owing to the nature of the commercial activities it pursues. To ensure that all of the significant risks it faces are assessed, the Bank has adopted an Integrated Risk Management Framework that will enable the directors to properly supervise risk evaluation and control.

The main objective of this framework is to create a risk management culture centered on establishing measures that allow maximization of the risk/return ratio in all of the Bank's spheres of activity. These measures primarily entail:

- the establishment of processes to continuously detect, understand and evaluate major risks;
- the adoption of sound and prudent risk limits and risk management policies;
- the establishment and application of efficient internal controls, and;
- the definition of the Management Committee's roles and responsibilities regarding risk management.



Tolerance levels established by our management committees and approved by the Board of Directors and Board committees form the basis of risk management. Risks are therefore managed in compliance with policies and risk limits approved by the Board of Directors and in accordance with the governance structure below.



ROLES AND RESPONSIBILITIES OF INTERNAL MANAGEMENT COMMITTEES

The **Management Committee** ensures that the Integrated Risk Management Framework is properly implemented. It assesses and reviews the risk management policies on market, liquidity, capital management, credit, operational and reputation risks. It also reviews the Code of Ethics and the Compliance Policy. It is responsible as well for setting up the necessary framework for business, regulatory, strategic, reputation and insurance risk management. The President and Chief Executive Officer presides over the committee

The **Operational Risk Management Committee** (and its sub-committees on fraud prevention and on security and information technology governance) reviews and recommends, to the Management Committee, the approval of policies on operational risk management, analyses reports on operational losses incurred, reviews and approves the tools for the identification and evaluation of the frequency and impact of operational risks, reviews reports for the Management Committee on the business units' action plans, thereby enabling it to mitigate and better manage the operational risk, as well as revises the operational risk indicators.

The **Asset and Liability Management Committee** oversees the management of the structural interest rate risk and other market risks related to the institution's balance sheet and revenues generated by its financial intermediation activities. These areas of activity cover financing and liquidity requirements, changes in balance sheet items and net interest margin, and simulations of the impact of interest rate fluctuations on the net interest margin. It approves recommendations for hedging transactions in compliance with the Structural Risk Management Policy and orientations related to the capital structure of the institution.

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

GOVERNANCE FUNCTIONS SUPPORTING INTEGRATED RISK MANAGEMENT

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

The internal audit sector also plays a key role in the Framework structure through the set-up of reliable and comprehensive systems aimed at adequately monitoring the effectiveness of the controls exercised within the different Framework functions. Regulatory and statutory requirements form an integral part of the Bank's Integrated Risk Management Framework.

CORPORATE CONTROL AND GOVERNANCE STRUCTURE

REGULATION

MANAGERS →

CONTROL ENVIRONMENT		CORPORATE GOVERNANCE
Functions	**Coordinators**	
Human Resource	Corporate Human Resources	HR and Corporate Governance Committee
Strategic Planning	Chief Executive Officer / Chief Financial Officer	Board of Directors
Financial integrity	Chief Financial Officer	Audit Committee
Risk Management	Chief Risk Officer	Risk Management Committee
Compliance	Chief Compliance Officer	Audit Committee

INTERNAL AUDIT

STRATEGIC AND BUSINESS RISK MANAGEMENT

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

Business risk is the potential adverse effect of changes in tax, economic, competitive, legal or accounting conditions on the institution'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 in order to determine the profitability and risk profile of its different lines of business. The Bank's overall strategy is therefore established by senior management and submitted to the Board of Directors for approval.

CREDIT RISK MANAGEMENT

Credit risk is the risk of a financial loss occurring because of the inability or refusal of a counterparty to fully honour its contractual or financial obligations with regard to a balance sheet or off-balance sheet financial instrument.

Credit risk management is independent of operations, thus protecting the independence and integrity of risk assessment. The internal Credit Committee is responsible for the operational supervision of overall credit risk management. A credit risk management report is presented on a quarterly basis to the Management Committee and to the

Board of Directors' Risk Management Committee. The credit risk policies adopted by the Bank provide for appropriate risk assessment. These policies cover the approval of credit applications by the line of authority concerned, attribution of risk ratings, management of impaired loans, establishment of general and specific provisions, and pricing based on risk.

Diversification is one of the fundamental principles of risk management. To this effect, the credit policy establishes the guidelines intended to limit concentration of credit by counterparty and sector of activity, and identifies sectors that are considered risky and should thus be avoided.

The policies are periodically reviewed and approved by the Board of Directors' Risk Management Committee.

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

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

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

For consumer impaired loans, provisions are established on portfolios based on a formula that takes into account the loss history.

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

MARKET RISK MANAGEMENT

Market risk corresponds to the financial losses that the Bank may incur due to unfavourable fluctuations in the value of balance sheet or off-balance sheet financial instruments, following movements in parameters that underlie their evaluation, notably interest rates, exchange rates, and stock market prices. This risk is inherent to the Bank's financing, investment, trading and assets and liabilities management activities.

Interest rate risk corresponds to the financial losses the Bank and/or its subsidiaries may incur following unfavourable fluctuations of interest rates. The section covering asset and liability management activities describes the global management of interest rate risk.

Foreign exchange risk corresponds to the loss in Canadian dollars that the Bank and/or its subsidiaries may incur because of unfavourable fluctuations of exchange rates. It originates mainly from the foreign exchange positions maintained by the Bank to support the offering of products and services in currencies other than the Canadian dollar, along with arbitrage activities and to a lesser extent mismatches in currencies of balance sheet and off-balance sheet asset and liability items and mismatches in receipts and payments of funds in foreign currencies.

Equity risk corresponds to financial losses the Bank and/or its subsidiaries may incur following unfavourable fluctuations in some equity prices or in the equity market in general.

POLICIES AND STANDARDS

The primary objective of effective market risk management, considered as a priority at the Bank, is to optimize the risk/return relationship within previously defined limits, taking into account the degree of risk that the Bank and its subsidiaries are willing to assume.

The Bank has thus adopted policies and ceilings that enable it to oversee and limit exposure to market risks arising from its trading, investment and asset and liability management activities. The policies and limits established reflect the line of conduct of the Bank and its subsidiaries regarding the management of various risks associated with its treasury activities. These policies and limits are approved by the Management Committee and the Board of Directors Risk management Committee at least annually, to ensure their compliance with the retained principles, objectives and management strategies.

Detailed reports on the level of risk and the monitoring of limits are produced daily and are presented:

– daily, to risk and portfolio managers
– quarterly, to the Management Committee and to the Board of Directors' Risk Management Committee.

METHODS OF EVALUATING AND CONTROLLING MARKET RISKS (INTEREST RATE, FOREIGN EXCHANGE AND EQUITY)

The evaluation of market risks at the Bank is underpinned by a combination of two groups of measures:

- value at risk (VAR) and the application of stress tests; and
- "notional" limits and other various measures of sensitivity that allow management of the risks that are not captured by the VAR measures and stress tests.

TRADING ACTIVITIES

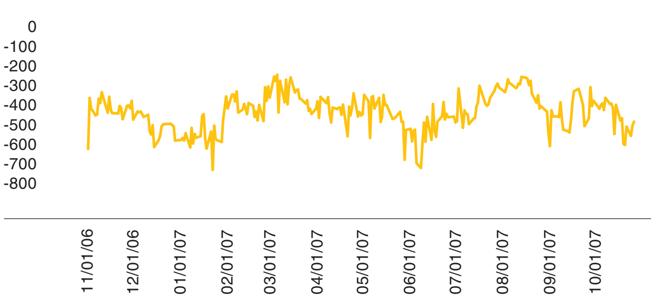
Trading activities are aligned with the needs of the Bank and those of its customers. The market risk associated with trading activities ensues from activities for which the Bank acts as the principal or agent for its customers. These activities are primarily carried out by Laurentian Bank Securities and, to a lesser extent, by the Bank's Treasury.

VALUE AT RISK

The Bank has implemented a market risk management and monitoring structure that entails the use of VAR methodology for all of its trading portfolios. Value at risk corresponds to the maximum loss the Bank may incur over a one-day period, with a confidence level of 99%. Consequently, the chances that real losses incurred exceed the VAR are approximately 1%. To calculate the VAR, historical simulations that implicitly take into account correlations between various risk factors are performed.

A global value at risk is calculated for all financial market activities. Values at risk are also calculated for specific portfolios. These values at risk are compared daily with the limits approved. In parallel with VAR calculations, the impact of stress tests on profits and losses is evaluated for most portfolios.

Daily trading VAR evolution over the last 12 months
(C$ thousands)



ASSET AND LIABILITY MANAGEMENT ACTIVITIES

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

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

- Banking activities of the Bank's clientele, which are affected by customer choices, product availability and term-dependent pricing policies;
- Investment activities, comprised of marketable securities and institutional funding;
- Securities trading activities, that 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.

Both the dynamic management and disciplined control of structural risk are intended to maximize the Bank's profitability and preserve the economic value of common shareholders' equity. To attain this objective, various treasury and derivative instruments, mainly interest rate swaps, futures and options, are used to modify the interest rate characteristics of the instruments that underlie the balance sheet and to cover the risk inherent in options embedded in loan and deposit products.

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

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

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

To ensure sound management of structural risk, a repricing gap report is produced periodically. This statement is then used as the basis for the simulation analysis of the impact of interest rate variation on net income and economic value of common shareholders. One of the simulation exercises consists of subjecting the Bank's balance sheet to a sudden and sustained 1% increase in interest rates. For example, as at October 31, 2007, for all portfolios, this 1% increase in interest rate would have triggered a decrease of approximately $4.0 million in net income before taxes over the next 12 months and a $29.1 million negative impact on the economic value of common shareholders' equity. These results reflect Management's efforts to take advantage of short and long-term interest rate movements, while maintaining the sensitivity to these fluctuations well within the limits. The Bank's interest rate gap position as at October 31, 2007 appears in Note 23 of the Consolidated Financial Statements.

OPERATIONAL RISK MANAGEMENT

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

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

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

ADOPTION OF POLICIES BY THE BOARD OF DIRECTORS

The operational risk management framework includes the following policies: operational risk management policy; outsourcing risk management policy; information security risk management policy; and professional liability risk management policy.

COLLECTION OF OPERATIONAL LOSS DATA

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

IDENTIFICATION OF OPERATIONAL RISK

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

EVALUATION OF OPERATIONAL RISKS

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

MANAGEMENT OF OPERATIONAL RISK

Operational risk management means, among other things, deciding to accept, control, 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 formulation of a global and integrated plan for business continuity. It is worth noting, that, in 2007, a plan to prepare for a possible pandemic was integrated into the continuity plan. Furthermore, a Fraud Prevention Committee, composed of security officers and business unit representatives meets periodically to analyze the trends with regard to fraud and continuously improve the Bank's methods and means of preventing fraud.

PRODUCTION OF OPERATIONAL RISK REPORTS

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

RISK RELATED TO CAPITAL MANAGEMENT

Capital management risk is the risk of a possible negative impact if the Bank cannot maintain an optimal level of capital to support its activities.

The capital of the Bank is comprised of common shareholder's equity, retained earnings, contributed surplus, preferred shares, subordinated debentures and, to a certain point, the accumulated other comprehensive income. Capital is an important factor in assessing the Bank's stability and security in relation to the risks associated with its activities. Tight capital management contributes to the Bank's profitability, as capital is allocated to key sectors for which precise profitability objectives and criteria have been established.

The Bank's aim is to maintain an optimal level of capital to support its activities while generating an attractive and competitive return for its shareholders, in relation to industry standards and its specific risk profile. The Bank's policy is to maintain its statutory capital ratios at a level consistent with regulatory requirements as defined by the Office of the Superintendent of Financial Institutions of Canada (OSFI) and in line with the Bank's objectives.

A capital plan prepared annually specifies the target capital ratios by taking into account the projected risk weighted asset levels and expected initiatives in capital management. Statutory capital ratio monitoring reports are presented on a quarterly basis, to the members of the Asset and Liability Management Committee and of the Board of Directors' Risk Management Committee.

NEW BASEL FRAMEWORK

The Basel Committee on Banking Supervision has formulated a new framework (Basel II) that came effective on November 1, 2007. This framework is supported by three pillars instead of one, namely the minimum capital requirements, a prudent monitoring framework and financial disclosure. Basel II takes into account the real risks of the Bank, and allows a choice amongst three risk evaluation methods to assess credit risk and operational risk. The Bank has decided to use the Standard Approach for credit risk and the Basic Indicator Approach for operational risk.

LIQUIDITY AND FUNDING RISK MANAGEMENT

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

Liquidity risk is globally managed by the Bank's Treasury department and supervised by the Asset and Liability Management (ALM) Committee, in compliance with the Pledging Management policy and the Liquidity and Funding Management Policy. The main purpose of these policies is to assure that the Bank has permanently sufficient cash resources to be able to respect its current and future financial obligations, both in normal conditions and in special circumstances.

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

The Bank strives to maintain a stable volume of base deposits originating from its retail and deposit brokerage clientele, along with the diversification of its sources of funding. Funding strategies also include the securitization of loans and the use of capital markets, either through the issuance of capital stock or debt instruments.

A liquidity contingency plan is in place to provide measures that enable the Bank to fulfill its obligations in the event of a liquidity crisis.

REGULATORY RISK MANAGEMENT

Regulatory risk results from the risk related to the failure by the Bank to comply with prevailing legislation, regulations, by-laws, established practices or accepted ethical standards. The compliance policy describes the compliance program and defines the roles and responsibilities of the various stakeholders. The compliance program includes all of the regulatory requirements that have a major impact on the Bank's operations, and that are contained in the sectoral compliance programs, along with mandates, timetables and compliance reports. Compliance reports are submitted to the President and Chief Executive Officer, the Management Committee and the Board of Directors' Audit Committee.

CREDIT INSURANCE RISK MANAGEMENT

Insurance risk is the risk of loss likely to occur when hypotheses related to insurance proceeds and determination of premiums differ from the actual results.

Insurance risk is managed within a program to which the Bank's representatives and experts in the insurance field participate.

ENVIRONMENTAL RISK MANAGEMENT

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

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

REPUTATION RISK MANAGEMENT

Reputation risk corresponds to the risk stemming from a decision, an event or a series of events involving the Bank, either directly or indirectly, that will eventually affect the image shareholders, clients, employees, the general public or any other stakeholders have of the Bank, and that this will bear a negative impact on the Bank's revenues, operations and, to some extent, its value.

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

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

Controls and procedures regarding financial information

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

CONTROLS AND PROCEDURES REGARDING INFORMATION DISCLOSURE

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

The President and Chief Executive Officer and the Senior Executive Vice-President and Chief Financial Officer have assessed that the information disclosure controls and procedures were adequate, as at October 31, 2007, so as to provide reasonable assurance that the financial information to be disclosed is both complete and reliable.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During fiscal 2007, Management assessed the design of the internal controls over financial reporting, leading to the regulatory certification of the annual filings. The financial certification process project team has documented and assessed the design of the internal controls in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. This undertaking has enabled the President and Chief Executive Officer and the Senior Executive Vice-President and Chief Financial Officer to attest that the design of the internal controls over financial reporting is adequate.

CHANGES TO INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the year ended October 31, 2007, no changes to internal controls over financial reporting affected nor are reasonably likely to materially affect internal controls over financial reporting.

Significant critical accounting policies and estimates

The significant accounting policies adopted by the Bank are outlined in notes 2 and 3 to the consolidated financial statements. Some accounting policies are deemed critical inasmuch as they refer to material amounts reported in the consolidated financial statements and 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.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses reflects Management's estimate of losses related to the loan portfolios. Management regularly reviews the portfolios' credit quality to ensure that the allowance for loan losses is adequate. This allowance is dependent upon the evaluation related to 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 of the uncertainties related to these amounts, the use of estimates and assumptions that differ from those used in determining the allowance for loan losses could produce significantly different levels of allowances. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments and may entail an increase or a decrease in the allowance for loan losses.

These changes could consequently have a significant impact on the allowance for loan losses in the consolidated statement of results for the fiscal year. A detailed description of the methods used to determine the allowance for loan losses can be found under note 3 to the consolidated financial statements and under the "Credit Risk Management" heading on page 45 of this MD&A.

Management has developed a model for the evaluation of the general allowance, based on the historical losses of the various portfolios. This model validates the $65.3 allowance as at October 31, 2007. Different assumptions and parameters could have produced different evaluations.

This critical accounting estimate affects all business segments, except Laurentian Bank Securities.

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

GOODWILL

Goodwill is subject, at least annually, to an impairment test, based on its fair value. As at October 31, 2007, the balance of goodwill stood at $53.8 million and this amount was entirely allocated to Retail Financial Services.

The impairment test initially compares the fair value of the reporting unit, to which goodwill relates, to its carrying amount. Management mainly uses the discounted cash flow method to determine the fair value of its reporting units. This assessment is based on 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.

All changes made to any of these estimates may have a significant impact on the calculation of fair value and on the resulting charge for loss in value. 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 values of the assets presented by the Bank.

No impairment charge was reported in fiscal 2007 and fiscal 2006. If need be, the amount of the losses in value would be recorded as non-interest expense for Retail Financial Services, under the "Other" heading.

More information on goodwill can be found under note 10 to the consolidated financial statements.

OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Management also subjects the Bank's other intangible assets with finite lives to the impairment test when events or changes in circumstances indicate that it may not be possible to recover their book value. As it conducts this test, management evaluates the future cash flows that it expects to realize from these assets and 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 2007 and fiscal 2006.

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 validate the pertaining amortization periods. The use of estimates and assumptions that differ from those that were retained could significantly influence results.

EVALUATION OF FINANCIAL INSTRUMENTS

Management reports most of its financial instruments, including derivative financial instruments, at fair value. Changes in the fair value of the Bank's trading book's securities and obligations related to assets sold short, as well as derivatives which do not qualify for hedge accounting, are generally recognized under the "Other income" heading. Fair value is defined as the amount at which a financial instrument could be traded by willing parties dealing at arm's length in the ordinary course of business. Fair value is based on market prices when available. In the absence of market prices, Management habitually uses pricing models based on the discounted value of future cash flows, calculated according to its best estimate of key assumptions, yield curves and volatility factors.

Considering the importance of judgment in determining such calculations, certain estimates of fair value may not be representative of net realizable value. This critical accounting estimate affects all business segments. Additional information on the calculation of fair value is presented under note 23 to the consolidated financial statements. Additional information related to the impact of the liquidity and credit crisis on financial markets since the end of July 2007 can be found on page 25 of this MD&A.

EMPLOYEE FUTURE BENEFITS

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

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

In accordance with Canadian GAAP, actual results that differ from the expected results as indicated by the assumptions are accumulated and amortized over future periods and therefore affect actual costs and recorded obligations for these periods. As at October 31, 2007, the net amount of the unamortized actuarial losses was $70.3 million ($98.1 million in 2006) as regards pension plans, and $15.5 million ($15.8 million in 2006) as regards other benefits.

Discount rates stood at 5.75% as at October 31, 2007 and 5.35% as at October 31, 2006. The expected long-term rate of return on the plans' assets was 7.25% for both fiscal 2007 and fiscal 2006. The trend rate of the estimated annual growth of health-care costs covered, per participant, has been set at 9.4% for 2007 (10% for 2006). According to the accepted assumption, this rate should decrease progressively, reaching 4% in 2016 and remaining at that level thereafter.

Considering the importance of accrued benefit obligations and plan assets, changes in assumptions could have a significant impact on the accrued benefit assets (liabilities), as well as on pension plan and other employee future benefit expenses. Table 26 presents an approximation of the incidence of a 0.25% increase or decrease in the principal assumptions on accrued benefit obligations and related pension plan expenses for 2007.

Table 26
Sensitivity analysis
(in millions of dollars)

	Potential impact of changes of 0.25%	
	Obligation	Cost
Discount rate	$ 12.6	$ 1.5
Expected long-term rate of return of plan assets	n.a.	$ 0.7

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 under note 17 to the consolidated financial statements.

INCOME TAX

Future income tax assets reflect management's estimate of the value of loss carry-forwards, minimum tax carry-overs and other temporary differences. The determination of the assets' value is based on assumptions related to 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 if 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 under note 18 to the consolidated financial statements.

SECURITIZATION

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

The determination of the initial gain, in such circumstances, depends on the value attributed to certain retained interests. Since quoted market prices are not available for retained interests, Management must estimate their value based on the present value of estimated cash flows. Management must therefore use estimates and assumptions, particularly for expected credit losses, anticipated prepayment rates, discount rates and other factors that influence the value of the retained interests. Moreover, this value must be reviewed periodically thereafter. The use of different estimates and assumptions could have a material impact on results.

Note 8 to the consolidated financial statements presents a sensitivity analysis of the current fair value of the retained interests to immediate 10% and 20% adverse changes in key assumptions. The “Off-Balance Sheet Arrangements” section on page 40 of this MD&A offers further information on these transactions.

The balance of retained interests for securitized mortgage loans was $57 million as at October 31, 2007.

This critical accounting estimate mainly affects the Other segment.

Effect of the adoption of accounting standards on financial instruments in 2007

On November 1, 2006, the Bank has prospectively adopted the accounting standards entitled Financial Instruments – Recognition and Measurement (Section 3855), Financial Instruments – Disclosure and Presentation (Section 3861), Hedges (Section 3865) and Comprehensive Income (Section 1530). These new accounting standards improve financial reporting related to financial instruments and modify certain aspects of hedge accounting. Considering the nature of the Bank’s operations, the implementation of these accounting standards has had a significant effect on financial statements as well as on some processes and information systems. The new accounting standards were also designed to harmonize Canadian accounting standards with US Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). The effect of the adoption by the Bank of these new accounting standards is detailed under note 4 to the consolidated financial statements.

The main consequences of the adoption of these new accounting standards were to:

– Clarify the accounting and evaluation of financial instruments, particularly the classification of securities in new financial assets categories and their measurement basis;
– Modify the application of hedge accounting and the information to be disclosed when hedge accounting is applied;
– Introduce new rules with regard to certain gains and losses that have to be accumulated temporarily off net income.

The initial effect of the adoption of these new accounting standards on the Bank’s equity remained of little significance however.

Future changes to accounting policies

FINANCIAL INSTRUMENTS

On December 1, 2006, the Canadian Institute of Chartered Accountants (CICA) issued three new accounting standards: Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*. The Bank will implement these new standards as from November 1, 2007.

Section 1535 requires the disclosure of (i) the objectives, policies and processes for managing capital; (ii) some quantitative data on items included in capital management; (iii) compliance with regulatory requirements with regard to capital and the consequences of non-compliance.

Sections 3862 and 3863 detail the entire set of disclosure and presentation requirements for financial instruments, thereby replacing Section 3861, *Financial Instruments – Disclosure and Presentation*. These new standards enhance the information on the nature and extent of the risks arising from financial instruments to which the Bank may be exposed and the manner in which it manages such risks.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2006, the Canadian Accounting Standards Board (AcSB) released its new Strategic Plan, which includes the decision to move financial reporting for Canadian public entities to a single set of globally accepted high-quality standards, namely, the International Financial Reporting Standards (IFRS). Under the AcSB’s plan, which is still subject to change, this new framework will be effective for fiscal years beginning on or after January 1, 2011. Information regarding the transition and the anticipated effects will have to be disclosed in the financial statements for the two fiscal years preceding adoption.

Consolidated financial statements

As at October 31, 2007 and 2006

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

Management's responsibility for financial information

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

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

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

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

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

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

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

Réjean Robitaille
President and Chief Executive Officer

Robert Cardinal
Senior Executive Vice-President
and Chief Financial Officer

Montréal, Canada
December 3, 2007

Auditors' report to the shareholders of Laurentian Bank of Canada

We have audited the consolidated balance sheet of Laurentian Bank of Canada (the Bank) as at October 31, 2007 and 2006 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Montréal, Canada
December 3, 2007

Consolidated balance sheet

As at October 31 (in thousands of dollars)	Notes	2007	2006
ASSETS			
Cash and non-interest bearing deposits with other banks		**$ 65,245**	$ 70,907
Interest-bearing deposits with other banks		**283,255**	98,722
Securities accounts	6 and 24		
Available-for-sale		**917,676**	–
Held-for-trading		**1,086,958**	1,675,058
Designated as held-for-trading		**669,745**	–
Investment		**–**	1,567,222
		2,674,379	3,242,280
Assets purchased under reverse repurchase agreements	24	**540,304**	802,546
Loans	7, 8 and 24		
Personal		**4,958,176**	4,168,026
Residential mortgage		**6,232,778**	5,985,656
Commercial mortgage		**684,625**	659,014
Commercial and other		**1,556,831**	1,476,977
		13,432,410	12,289,673
Allowance for loan losses		**(115,322)**	(125,153)
		13,317,088	12,164,520
Other			
Customers' liabilities under acceptances		**111,891**	149,818
Property, plant and equipment	9	**137,691**	111,291
Derivative financial instruments		**62,745**	96,980
Future tax assets	18	**86,534**	101,048
Goodwill	10	**53,790**	53,790
Other intangible assets	10	**14,114**	15,333
Other assets	11	**439,810**	388,724
		906,575	916,984
		$ 17,786,846	$ 17,295,959
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	12		
Personal		**$ 11,564,530**	$ 10,949,473
Business, banks and other		**2,314,178**	2,145,028
		13,878,708	13,094,501
Other			
Obligations related to assets sold short		**868,675**	1,077,009
Obligations related to assets sold under repurchase agreements	24	**928,987**	1,100,385
Acceptances		**111,891**	149,818
Derivative financial instruments		**70,851**	81,807
Other liabilities	13	**773,053**	696,019
		2,753,457	3,105,038
Subordinated debentures	14	**150,000**	150,000
Shareholders' equity			
Preferred shares	15	**210,000**	210,000
Common shares	15	**256,445**	251,158
Contributed surplus	16	**105**	518
Retained earnings		**537,254**	485,334
Treasury shares	15 and 16	**–**	(590)
Accumulated other comprehensive income	4	**877**	–
		1,004,681	946,420
		$ 17,786,846	$ 17,295,959

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

L. Denis Desautels O.C., FCA
Chairman of the Board

Réjean Robitaille
President and Chief Executive Officer

Consolidated statement of income

For the years ended October 31 (in thousands of dollars, except for per share amounts)	Notes	2007	2006
Interest income			
Loans		**$ 837,092**	$ 755,009
Securities		**58,000**	70,446
Deposits with other banks		**13,802**	11,721
		908,894	837,176
Interest expense			
Deposits		**466,867**	438,335
Other liabilities		**44,089**	28,920
Subordinated debentures		**7,738**	12,714
		518,694	479,969
Net interest income		**390,200**	357,207
Other income			
Fees and commissions on loans and deposits		**88,703**	84,615
Income from brokerage operations		**32,359**	31,418
Income from treasury and financial market operations		**19,286**	15,206
Income from sales of mutual funds		**13,406**	10,637
Credit insurance income		**12,557**	12,578
Income from registered self-directed plans		**9,652**	10,515
Securitization income	8	**6,418**	9,972
Gains on disposals and change in ownership interest	5	**4,000**	931
Other		**7,345**	6,728
		193,726	182,600
Total income		**583,926**	539,807
Provision for credit losses	7	**40,000**	40,000
Non-interest expenses			
Salaries and employee benefits		**229,290**	213,583
Premises and technology		**111,559**	108,151
Other		**86,561**	89,081
		427,410	410,815
Income from continuing operations before income taxes		**116,516**	88,992
Income taxes	18	**26,394**	23,436
Income from continuing operations		**90,122**	65,556
Income from discontinued operations, net of income taxes	5	**4,423**	4,776
Net income		**$ 94,545**	$ 70,332
Preferred share dividends, including applicable taxes		**11,966**	11,766
Net income available to common shareholders		**$ 82,579**	$ 58,566
Average number of common shares outstanding (in thousands)			
Basic		**23,678**	23,605
Diluted		**23,728**	23,649
Income per common share from continuing operations	19		
Basic		**$ 3.30**	$ 2.28
Diluted		**$ 3.29**	$ 2.28
Net income per common share			
Basic		**$ 3.49**	$ 2.48
Diluted		**$ 3.48**	$ 2.48

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

Consolidated statement of comprehensive income

For the year ended October 31 (in thousands of dollars)	Notes	2007
Net income		**$ 94,545**
Other comprehensive income, net of income taxes	4	
Change in unrealized gains and losses on available-for-sale securities		**15,333**
Reclassification of realized gains and losses on available-for-sale securities to net income		**(1,581)**
Change in gains and losses on derivative instruments designated as cash flow hedges		**5,677**
		19,429
Comprehensive income		**$ 113,974**

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

Consolidated statement of changes in shareholders' equity

For the years ended October 31 (in thousands of dollars)	Notes	2007	2006
Preferred shares	15		
Balance at beginning and end of year		**$ 210,000**	$ 210,000
Common shares	15		
Balance at beginning of year		**251,158**	249,633
Issued during the year		**5,287**	1,525
Balance at end of year		**256,445**	251,158
Contributed surplus			
Balance at beginning of year		**518**	73
Shares awarded under performance-based share plan		**(590)**	–
Stock-based compensation	16	**177**	445
Balance at end of year		**105**	518
Retained earnings			
Balance as stated at beginning of year		**485,334**	454,124
Effect of adopting new accounting policy for financial instruments, net of income taxes	4	**(3,185)**	–
Balance restated at end of year		**482,149**	454,124
Net income		**94,545**	70,332
Dividends			
Preferred shares, including applicable taxes		**(11,966)**	(11,766)
Common shares		**(27,474)**	(27,356)
Balance at end of year		**537,254**	485,334
Treasury shares			
Balance at beginning of year		**(590)**	(590)
Shares granted	15	**590**	–
Balance at end of year		**–**	(590)
Accumulated other comprehensive income	4		
Balance at beginning of year		**–**	–
Effect of adopting new accounting policy on financial instruments, net of income taxes		**(18,552)**	–
Other comprehensive income, net of income taxes		**19,429**	–
Balance at end of year		**877**	–
SHAREHOLDERS' EQUITY		**$ 1,004,681**	$ 946,420

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

Consolidated statement of cash flows

For the years ended October 31 (in thousands of dollars)	Notes	2007	2006
Cash flows relating to operating activities			
Net income		**$ 94,545**	$ 70,332
Adjustments to determine net cash flows relating to operating activities:			
Provision for credit losses		**40,000**	40,000
Gains on securitization operations		**(6,683)**	(6,161)
Net loss (gain) on disposal of property, plant and equipment		**(63)**	29
Net gain from discontinued operations	5	**(5,185)**	(5,714)
Gains on disposals and change in ownership interest	5	**(4,000)**	(931)
Net loss on disposal of non-trading securities		**1,812**	–
Net loss on sale of investment securities		**–**	1,421
Future income taxes		**23,959**	8,036
Depreciation and amortization		**28,612**	27,193
Net change in held-for-trading securities		**238,213**	(590,977)
Change in accrued interest receivable		**10,813**	1,605
Change in assets relating to derivative financial instruments		**34,235**	46,473
Change in accrued interest payable		**6,748**	40,224
Change in liabilities relating to derivative financial instruments		**(10,956)**	(23,519)
Other, net		**15,293**	61,309
		467,343	(330,680)
Cash flows relating to financing activities			
Net change in deposits		**784,207**	(602,437)
Change in obligations related to assets sold short		**(208,334)**	350,946
Change in obligations related to assets sold under repurchase agreements		**(171,398)**	1,040,320
Issuance of subordinated debentures		**–**	150,000
Redemption of subordinated debentures		**–**	(150,000)
Issuance of common shares, net of issue costs		**5,287**	1,525
Dividends, including applicable income taxes		**(39,440)**	(39,122)
		370,322	751,232
Cash flows relating to investing activities			
Change in investment securities			
Acquisitions		**–**	(12,881,435)
Proceeds on sale and at maturity		**–**	13,168,669
Change in securities available-for-sale and designated as held-for-trading			
Acquisitions		**(6,888,907)**	–
Proceeds on sale and at maturity		**7,224,590**	–
Change in loans		**(2,095,543)**	(1,150,389)
Change in assets purchased under reverse repurchase agreements		**262,242**	(294,473)
Proceeds from mortgage loan securitizations		**892,035**	631,896
Additions to property, plant and equipment		**(54,481)**	(43,002)
Proceeds from disposal of property, plant and equipment		**1,270**	423
Net change in interest-bearing deposits with other banks		**(184,533)**	161,069
Net cash flows from sale of a subsidiary	5	**–**	(140)
		(843,327)	(407,382)
Net change in cash and non-interest-bearing deposits with other banks		**(5,662)**	13,170
Cash and non-interest-bearing deposits with other banks at beginning of year		**70,907**	57,737
Cash and non-interest-bearing deposits with other banks at end of year		**$ 65,245**	$ 70,907
Supplemental disclosure relating to cash flows:			
Interest paid during the year		**$ 518,456**	$ 440,922
Income taxes paid during the year		**$ 6,871**	$ 18,832

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

Notes to consolidated financial statements

October 31, 2007 and 2006 (All tabular amounts are in thousands of dollars, unless otherwise indicated.)

1 > General

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

2 > Basis of presentation

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

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

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

2.1 > BASIS OF CONSOLIDATION

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

The Bank also consolidates variable interest entities (VIEs) when it is the primary beneficiary. In general, a VIE is an entity that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) as a group, equity owners are unable to make significant decisions about its activities or have disproportionate voting rights, or (3) as a group, equity owners do not have the obligation to absorb expected losses or the right to receive expected residual returns generated by its operations. If any of these characteristics is present, the entity is subject to a variable interests consolidation model, and consolidation is based on variable interests, not on ownership of the entity's outstanding voting stock. Variable interests are defined as contractual, ownership, or other money interests in an entity that change with fluctuations in the entity's net asset value. The primary beneficiary consolidates a VIE. The primary beneficiary is defined as the enterprise that has the variable interests that will absorb a majority of expected losses or receive a majority of residual returns as defined. Where the Bank holds a significant variable interest in a VIE that it has not consolidated, certain disclosures regarding the nature, purpose, size and activities of the VIE must also be provided.

2.2 > NEW ACCOUNTING STANDARDS ADOPTED DURING FISCAL 2007

The summary of the accounting policies used to prepare the consolidated financial statements is presented below. These accounting policies have been applied on a consistent basis, except with regard to the November 1, 2006 adoption of the accounting standards entitled *Financial Instruments–Recognition and Measurement* (3855), *Financial Instruments–Disclosure and Presentation* (3861), *Hedges* (3865) and *Comprehensive Income* (1530). The Bank adopted these new standards prospectively. Accordingly, the comparative financial statements were not restated, in accordance with the transitional provisions. The summary of significant accounting policies reflects the requirements of these new standards. A summary of the former standards that applied for the year ended October 31, 2006 is also disclosed at the end of note 3 to the consolidated financial statements. The effect of the adoption of these new standards for the Bank is disclosed in note 4 to the consolidated financial statements.

2 > Basis of presentation (cont'd)

2.3 > RECLASSIFICATION OF INCOME RELATED TO BROKERAGE OPERATIONS

Other income for 2006 was adjusted to reflect the presentation of income related to brokerage operations on a gross basis, whereas previously, they were presented net of commissions and other non-interest expenses. The effect of the restated amounts is detailed as follows:

	2006
Adjustments for 2006	
Other income – Brokerage operations	$ 9,132
Non-interest expenses – Salaries and employee benefits	$ 7,871
Non-interest expenses – Premises and technology	$ 1,261

2.4 > FUTURE CHANGE TO ACCOUNTING POLICIES

CAPITAL DISCLOSURES AND FINANCIAL INSTRUMENTS – DISCLOSURES AND PRESENTATION

On December 1, 2006, the CICA issued three new accounting standards: Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. The Bank is currently analyzing the impact of these reporting standards with a view to their November 1, 2007 adoption date.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) and whether the entity has complied with any capital requirements and the consequences of non-compliance with such requirements.

Sections 3862 and 3863 replace Section 3861, *Financial Instruments – Disclosure and Presentation*, detailing all the disclosure requirements and presentation rules applicable to financial instruments. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments to which the Bank is exposed and how it manages those risks.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2006, the Canadian Accounting Standards Board (AcSB) released its new Strategic Plan, which includes the decision to move financial reporting for Canadian public entities to a single set of globally accepted high-quality standards, namely, the *International Financial Reporting Standards* (IFRS). Under the AcSB's plan, which is still subject to change, this new framework will be effective for fiscal years beginning on or after January 1, 2011. Information regarding the transition and the anticipated effects will have to be disclosed in the financial statements for the two fiscal years preceding adoption.

3 > Summary of significant accounting policies

3.1 > FINANCIAL INSTRUMENTS

HELD-FOR-TRADING FINANCIAL INSTRUMENTS

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

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

FINANCIAL INSTRUMENTS DESIGNATED AS HELD-FOR-TRADING

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

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

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

AVAILABLE-FOR-SALE ASSETS

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

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

HELD-TO-MATURITY FINANCIAL ASSETS

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables, that an entity has the clear intention and ability to hold to maturity. These financial assets are recorded at amortized cost, on the settlement date. As at October 31, 2007, the Bank has not designated any financial assets as held-to-maturity.

SECURITIES ACQUIRED UNDER REVERSE REPURCHASE AGREEMENTS AND OBLIGATIONS RELATED TO SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

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

LOANS

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

Impaired loans

Loans, except credit card balances, are classified as impaired when, in management's opinion, there is a reasonable doubt as to the timely collectibility of the principal or interest. Loans are also classified as impaired when payment of principal or interest is 90 days past due, unless they are well secured or in the process of recovery. All loans which are 180 days past due are classified as impaired except when they are guaranteed or insured by the Canadian government, a provincial government or a Canadian government agency; such loans are classified as impaired loans if they are in arrears for 365 days. Credit card balances are fully written off when payments are 180 days in arrears or when management assesses the likelihood of collection to be nil.

3 > Summary of significant accounting policies (cont'd)

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

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

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

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

Foreclosed assets

Assets acquired by way of settlement of a loan and held for sale are initially measured at fair value less costs to sell, under other assets. The difference between the carrying amount of the loan prior to foreclosure and the amount at which the foreclosed assets are initially measured is recognized in the provision for credit losses. Any future change in their fair value, but not in excess of the cumulative losses recognized subsequent to the foreclosure date, is recognized as other income in the consolidated statement of income. The revenues generated by foreclosed assets and operating expenses are included in other income and non-interest expenses. If the assets are to be held and used, they are initially measured at fair value and then accounted for in the same manner as similar assets acquired in the normal course of business.

Any difference between the loan's carrying amount and its fair value is recognized within the provision for credit losses in the consolidated statement of income.

ALLOWANCES FOR LOSSES

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

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

Specific allowances for loan losses

Specific allowances are maintained to absorb losses on both specifically identified borrowers and other homogeneous loans that have become impaired and classified as such. The losses relating to loans included in the commercial loan and mortgage loan portfolios and to investment loans included in the personal loan portfolio are determined on a loan-by-loan basis during periodic portfolio reviews. These losses are established by estimating the amounts recoverable in relation to the loan amounts using estimated future cash flows discounted at the effective interest rate inherent in the loan. When these amounts cannot be reasonably estimated, the fair value of the underlying collateral or the observable market price of the loans is used. Losses relating to other personal loans classified as impaired, other than losses arising from credit card balances, are determined based on the write-off experience of the past few years when payments are more than 90 days in arrears. For credit card balances, no specific allowance is maintained; however, outstanding balances are fully written off when payments are 180 days in arrears or when management assesses the likelihood of collection to be nil.

General allowances for loan losses

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

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

ACCEPTANCES AND CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

LOAN SECURITIZATION

The Bank transfers pools of residential and commercial mortgages to special purpose entities or trusts. These transfers are accounted for as sales when the Bank is deemed to have surrendered control over these assets and has received consideration other than beneficial interests in these assets.

At the transfer date, the Bank derecognizes all assets sold, recognizes at fair value the assets received and the liabilities assumed at the time of sale and recognizes the gain or loss on the sale in other income.

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGES

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

All derivative financial instruments are recognized in other assets or other liabilities at fair value, including those derivatives embedded in financial or other contracts that are not closely related to the host contract. Changes in the fair values of derivative financial instruments are immediately recognized in income from treasury and financial market operations, with the exception of derivative financial instruments designated as cash flow hedges, in respect of which the changes in the fair value of the effective portion of the hedge are recognized in other comprehensive income. The interest income or expense related to derivative instruments is reflected in interest expense in the consolidated statement of income.

When it uses derivative financial instruments to manage its own exposure, the Bank determines for each derivative financial instrument whether hedge accounting can be applied. When appropriate, the Bank formally documents the hedging relationship detailing, among other things, the type of hedge (either fair value or cash flow), the item being hedged, the risk management objective, the hedging strategy and the method to be used to measure its effectiveness. The derivative financial instrument must be highly effective in achieving offsetting changes in the hedged item's fair value attributable to the hedged risk both at inception of the hedge and on an ongoing basis. Effectiveness is generally reviewed on a monthly basis using statistical regression models.

Fair value hedges

Fair value hedge transactions predominantly use interest rate swaps to hedge the changes in the fair value of an asset, liability or firm commitment.

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

3 > Summary of significant accounting policies (cont'd)

Cash flow hedges

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

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

When the derivative instrument no longer qualifies as an effective hedge, or when the hedging instrument is sold or terminated prior to maturity, hedge accounting is discontinued prospectively. Changes in fair value recognized in other comprehensive income in respect of a cash flow hedging relationship that ceases to be effective are reclassified in the consolidated statement of income under net interest income in the periods during which the cash flows constituting the hedged item affect income. Furthermore, if the hedged item is sold or terminated prior to maturity, hedge accounting is discontinued, and the related changes in fair value recognized in other comprehensive income are then immediately reclassified in the consolidated statement of income under other income.

Other considerations

The derivative financial instruments for which the Bank has ceased applying hedge accounting remain eligible for designation in future hedging relationships. Upon redesignation, any previously recognized fair value in the consolidated balance sheet is amortized to other income over the remaining life of the derivative financial instrument.

MEASURING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Subsequent to initial recognition, the fair values of financial instruments that have a quoted market price in an active market are generally based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined using valuation techniques incorporating, among other things, current market prices and contractual prices of the underlying instruments, yield curves and volatility factors.

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

DEPOSITS

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

Equity-linked deposit contracts

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

SUBORDINATED DEBENTURES

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

3.2 > PROPERTY, PLANT AND EQUIPMENT

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

	Methods	Rates/period
Premises	**Declining balance**	**5%**
Leasehold improvements	**Straight-line**	**Term of the lease plus initial renewal option**
Equipment and furniture	**Declining balance**	**20%**
Computer hardware and software	**Straight-line**	**3–10 years**

Gains and losses on the disposal of property, plant and equipment are recognized in other income.

3.3 > DEFERRED CHARGES

INCOME AND EXPENSES DURING THE PRE-OPERATING PERIOD

Expenses directly related to opening new branches are generally capitalized during the pre-operating period. In the Bank's opinion, the pre-operating period covers the six-month period following the opening of the branches. The income related to these branches, during the same period, is deducted from deferred charges. The net amount of deferred charges is amortized on a straight-line basis over a five-year period.

3.4 > GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

3.5 > EMPLOYEE FUTURE BENEFITS

PENSION PLANS

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

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

3 > Summary of significant accounting policies (cont'd)

Actuarial gains or losses arise, in particular, from the difference between the actual long-term rate of return on plan assets and the expected rate of return on such assets, based on management's best-estimate assumptions, as well as from changes in actuarial assumptions used to determine the accrued benefit obligation. Net actuarial gains or losses are amortized when, at the beginning of the year, the unamortized balance of the gain or loss exceeds 10% of the greater of the accrued benefit obligation or the market value of plan assets. This excess is amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the plans which varied from 9 to 11 years in 2007 under the plans (from 9 to 11 years in 2006).

The past service cost resulting from changes to the defined benefit plans is amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the defined benefit plans.

The transitional obligation resulting from the initial application of the accounting standard with respect to employee future benefits, in November 1, 2000, is amortized on a straight-line basis over the expected average remaining service life of the employee groups on that date, varying from 10 to 16 years.

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

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

OTHER PLANS

The Bank offers its employees certain post-employment benefits. The Bank also provides certain health care and life insurance benefits for its employees upon retirement. The costs related to these benefits are recognized during the employees' service life according to accounting policies similar to those applied to defined benefit pension plans.

The transitional obligation resulting from the initial application of the accounting standard with respect to employee future benefits, on November 1, 2000, is amortized on a straight-line basis over the remaining life expectancy of retirees for post-retirement benefits, which equals 20 years, and over the expected average remaining service life of the employee groups covered for the post-employment benefits, which was 13 years.

3.6 > INCOME TAXES

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

3.7 > NET INCOME PER COMMON SHARE

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

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

3.8 > STOCK-BASED COMPENSATION

Since November 1, 2002, the Bank has used the fair-value method of accounting for share purchase options granted to senior management. For these new awards, the Bank recognizes the fair value of the options granted as an increase in the related compensation expense and contributed surplus during the option vesting period. When the options are exercised, the proceeds received and the amount of the contributed surplus are credited to common shares. The value of the options granted is determined using the Black and Scholes option-pricing model using management's best estimates. With respect to awards granted prior to November 1, 2002, the Bank continues to apply the previous standards under which no compensation cost is recognized when share purchase options are awarded to employees and the consideration paid by the employees who exercise their options is credited to common shares.

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

The compensation expense in respect of stock-based awards under a performance-based share program represents the value of the shares at the time of grant and is recognized during the applicable vesting period.

The compensation expense related to the Restricted Share Unit Program is recognized in income similarly to stock appreciation rights, over the option vesting period.

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

3.9 > ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

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

3.10 > TRANSLATION OF FOREIGN CURRENCIES

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

3.11 > TREASURY

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES PRIOR TO THE ADOPTION SECTIONS 3855, 3865 AND 1530

In accordance with the transitional provisions, *CICA Handbook* Sections *Financial Instruments–Recognition and Measurement* (3855), *Hedges* (3865) and *Comprehensive Income* (1530) were applied prospectively on November 1, 2006. As a result, the financial information related to the fiscal year ended October 31, 2006 has not been restated and is therefore based on the accounting policies that were in effect for that period. The accounting policies set out above were generally in accordance with the accounting standards in effect for fiscal year ended October 31, 2006, with the exception of the key items described below.

SECURITIES

The Bank accounted for its securities in the investment or trading accounts depending on management's intentions.

The investment account included securities purchased with the original intention of holding them to maturity or until market conditions rendered alternative investments more attractive. Fixed-term securities were recorded at their amortized cost. The other securities were recorded at cost. Gains and losses on disposal of securities, as well as write-downs to reflect other than temporary impairments in value were included in other income. Interest income earned, amortization of premiums and discounts as well as dividends received were included in interest income.

The trading account (now referred to as "held-for-trading securities" for purposes of comparative balances in the consolidated balance sheet) included securities purchased for resale over a short period of time. These securities were recorded at their estimated fair value. Realized and unrealized gains and losses in respect of these securities were accounted for in other income under income from treasury and financial market operations. Interest income earned and dividends received were included in interest income.

HEDGING

When the Bank determined that hedge accounting could be applied, a hedging relationship was designated and documented as a fair value hedge or a cash flow hedge. The hedging instrument had to be highly effective in achieving offsetting changes in the hedged item's fair value or cash flows attributable to the hedged risk both at inception of the hedge and on an ongoing basis. Effectiveness was generally reviewed on a monthly basis using statistical regression models. No ineffectiveness has been recognized in the statement of income. It was also possible for the hedging instrument to be a non-derivative financial asset or liability.

When a derivative financial instrument functioned effectively as a fair value or a cash flow hedge, the unrealized gain or loss of the derivative financial instrument was deferred in other assets or liabilities. The deferred gain or loss was recognized in net interest income during the periods in which the related hedged item affected income.

Hedge accounting was discontinued prospectively when the derivative financial instrument no longer qualified as an effective hedge or the derivative financial instrument was terminated or sold. The deferred gain or loss was recognized in net interest income during the periods in which the hedged item affected income. Hedge accounting was also discontinued upon the sale or early termination of the hedged item, in which case the deferred gain or loss was recognized in other income.

4 > Impact of adopting sections 3855, 3865 and 1530

On November 1, 2006, the Bank prospectively adopted the new Sections *Financial Instruments–Recognition and Measurement* (3855), *Hedges* (3865) and *Comprehensive Income* (1530). The adoption of these sections had the following key consequences: (a) the creation of the new statement of comprehensive income; (b) the reclassification of securities in the new financial asset classes; (c) the reclassification of balances in the consolidated balance sheet to reflect the new accounting standards regarding hedge accounting.

(a) Statement of comprehensive income

Section 1530, *Comprehensive Income*, requires the presentation of a new consolidated statement of comprehensive income and the accumulated other comprehensive income, separately under shareholders' equity in the consolidated balance sheet. The consolidated statement of comprehensive income presents net income, as well as other comprehensive income: the unrealized gains and losses on available-for-sale financial instruments, the effective portion of the changes in fair value of the derivative instruments designated as cash flow hedging instruments and the balance to be reclassified in the consolidated statement of income from terminated cash flow hedging relationships.

(b) Reclassification of securities in the new financial asset classes

The **investment account** securities were reclassified in the following new classes:

– *Available-for-sale securities*–The remeasurement reflecting the unrealized gains and losses on these securities gave rise to a charge to accumulated other comprehensive income amounting to $3,906,000 ($2,620,000 net of taxes).
– *Securities designated as held-for-trading*–The remeasurement reflecting the unrealized gains and losses on these securities resulted in an increase in the opening balance of retained earnings amounting to $1,581,000 ($1,061,000 net of taxes).

No investment account security was reclassified in *held-to-maturity securities*, or transferred into held-for-trading securities.

The reclassifications made to the investment account subsequent to the initial adoption of Section 3855 are summarized in the following table:

	Consolidated balance sheet balances before the initial application of Section 3855, as reported as at October 31, 2006	Consolidated balance sheet balances after the initial application of Section 3855, as at November 1, 2006		
(in thousands of dollars)	Investment account	Securities designated as held-for-trading account (A)	Securities designated as available-for-sale account (B)	Total non-trading account[1] (A+B)
Securities issued or guaranteed				
by Canada	$ 1,277,679	$ 13,796	$ 1,260,467	$ 1,274,263
by provinces	2,674	–	2,672	2,672
Other debt securities	196,312	165,720	30,818	196,538
Preferred shares	56,556	–	56,678	56,678
Common and other shares	34,001	–	35,049	35,049
	$ 1,567,222	$ 179,516	$ 1,385,684	$ 1,565,200

(1) These amounts include the unrealized gains and losses not previously recognized in the investment account as at October 31, 2006.

The **trading account** securities were reclassified in the held-for-trading securities account without any impact on the opening balances in the consolidated balance sheet.

(c) Reclassification of the balances in the consolidated balance sheet to reflect the new accounting standards regarding hedge accounting

Fair value hedges

Unrealized gains and losses on fair value hedges are included in the opening balance of retained earnings. Prior changes in fair value of hedged items attributable to the hedged risk were also recognized in the opening balance of retained earnings through a corresponding adjustment to the carrying amount of the hedged items in the consolidated balance sheet. These adjustments did not have any effect on the opening balance of retained earnings as they offset one another as at November 1, 2006.

Cash flow hedges

The adoption of Section 3865 gave rise to a charge to accumulated other comprehensive income amounting to $23,750,000 ($15,932,000 net of income taxes), representing the unrealized loss on interest rate swaps designated as cash flow hedging instruments amounting to $14,075,000 ($9,442,000, net of income taxes) and unrealized losses amounting to $9,675,000 ($6,490,000, net of income taxes) related to previously terminated hedging relationships, which had to be amortized.

Termination of hedging relationships involving non-derivative hedging instruments and accumulated ineffectiveness in hedging relationships
Under Section 3865, fair value hedging relationships involving securities for which the hedging instrument is not a derivative financial instrument no longer qualify. Moreover, the accumulated ineffectiveness of hedging relationships must be measured, and the ineffective portion of changes in fair value must be recognized in the consolidated statement of income. The foregoing led to a charge of $6,337,000 ($4,246,000 net of income taxes) to the opening balance of retained earnings, as a result of the adoption of Section 3865.

The opening balances of retained earnings and accumulated other comprehensive income are reconciled in the following tables:

RECONCILIATION OF OPENING BALANCE OF RETAINED EARNINGS

(in thousands of dollars)

Balance of retained earnings as reported as at October 31, 2006, before the initial adoption of Sections 3855, 3865 and 1530	$ 485,334
Adjustments, net of income taxes:	
Securities designated as held-for-trading	1,061
Hedging transactions for which hedge accounting is no longer appropriate and other items	(4,246)
Total adjustments	(3,185)
Balance of retained earnings as at November 1, 2006, upon initial adoption of Sections 3855, 3865 and 1530	$ 482,149

RECONCILIATION OF OPENING BALANCE OF ACCUMULATED OTHER COMPREHENSIVE INCOME

(in thousands of dollars)

Balance of accumulated other comprehensive income as at October 31, 2006, before the initial adoption of Sections 3855, 3865 and 1530	$ –
Adjustments, net of income taxes:	
Available-for-sale securities	(2,620)
Hedge accounting	(15,932)
Total adjustments	(18,552)
Balance of accumulated other comprehensive income as at November 1, 2006, upon initial adoption of Sections 3855, 3865 and 1530	$ (18,552)

Supplemental information regarding hedging relationships
During the year ended October 31, 2007, the ineffective portions of the cumulative changes in fair value of the hedging instruments recognized in the consolidated statement of income amounted to $(14,000) as it relates to cash flow hedging relationships, and $(526,000) as it relates to fair value hedging relationships.

Of the amount of net unrealized losses included in accumulated other comprehensive income as at October 31, 2007, the Bank expects to transfer $7,687,000 into net income over the next twelve months.

The maximum term of cash flow hedging relationships in respect of anticipated transactions was five years as at October 31, 2007.

OTHER COMPREHENSIVE INCOME

(in thousands of dollars)

		2007	
	Amounts before income taxes	**Income taxes**	**Amounts net of income taxes**
Unrealized gains and losses on available-for-sale securities			
Unrealized gains and losses during the year	**$ 17,508**	**$ (2,175)**	**$ 15,333**
Less: reclassification in income of realized gains and losses during the year	**(1,249)**	**(332)**	**(1,581)**
Change in unrealized gains and losses on available-for-sale securities for the year	**16,259**	**(2,507)**	**13,752**
Gains and losses on derivatives designated as cash flow hedges for the year	**8,586**	**(2,909)**	**5,677**
Other comprehensive income	**$ 24,845**	**$ (5,416)**	**$ 19,429**

4 > Impact of adopting sections 3855, 3865 and 1530 (cont'd)

ACCUMULATED OTHER COMPREHENSIVE INCOME

(in thousands of dollars)

	2007		
	Cash flow hedges	Available-for-sale securities	Accumulated comprehensive income
Balance at beginning of year	$ –	$ –	$ –
Effect of adopting the new accounting policy, net of income taxes	(15,932)	(2,620)	(18,552)
Change during the year, net of income taxes	5,677	13,752	19,429
Balance at end of year	**$ (10,255)**	**$ 11,132**	**$ 877**

5 > Disposals and change in ownership interest

2007

RESTRUCTURING OF VISA

On October 3, 2007, subsequent to the completion of the Visa restructuring, the Bank received shares of Visa Inc., a new entity incorporating all of Visa's global operations, in exchange for the Bank's interest in Visa's former Canadian entity.

In accordance with *CICA Handbook* Section 3831, *Non-monetary Transactions*, the Bank measured its newly acquired Visa shares at fair value and recorded gain of $4,000,000 ($3,347,000, net of income taxes) in other income. Since these shares are not actively traded, their fair value was determined using the estimated value of Visa Inc.

The shares of Visa Inc. were classified as available-for-sale.

2006

SALE OF THE SUBSIDIARY BROME FINANCIAL CORPORATION INC.

On December 31, 2005, the Bank completed the sale of its 51% interest in Brome Financial Corporation Inc. The net sale price, paid in cash, amounted to $3,853,000, for a gain of $931,000 ($931,000 net of taxes). At the date of sale, total assets sold amounted to $32,170,000, including $3,993,000 in cash. Total operations sold were presented in the Commercial Financial Services segment. The gain on the sale was entirely attributed to this segment. These transactions did not have a material effect on net income.

2005

SALE OF THE BLC–EDMOND DE ROTHSCHILD ASSET MANAGEMENT INC. JOINT VENTURE

On December 31, 2004, Industrial Alliance Insurance and Financial Services Inc. (Industrial Alliance) acquired all of the shares of BLC-Edmond de Rothschild Asset Management Inc. from the Bank. The sale resulted in the recognition of an initial gain of $5,377,000 ($5,213,000 net of applicable income taxes) under income from discontinued operations and a deferred gain of $26,217,000 related to certain recovery clauses.

Recovery clauses

Under a recovery clause, the Bank was required to repay Industrial Alliance an annual amount of $5,185,000 ($4,423,000 net of applicable income taxes), for the five years following the sale, if net annual sales of mutual funds do not reach $50,000,000 for the 12-month periods ended December 31 of each of these years. The sale proceeds related to the first three years' sales threshold were recognized in income at the end of the years ended October 31, 2007, 2006 and 2005, in light of net sales levels at those dates relative to sales levels expected to be achieved by December 31 of each year. The deferred portion of the proceeds will be recognized over the next two years as the net sales thresholds are considered achieved. At the end of the six-year period ending on December 31, 2010, if cumulative net sales of mutual funds reach $290,000,000, the amounts that would have been repaid to Industrial Alliance under the recovery clause would be reimbursed to the Bank. Moreover, a final payment of $8,300,000 would be made to the Bank at the end of the first five-year period of the agreement if cumulative net sales of mutual funds reach $350,000,000. Including this premium, the total sale price related to the transaction would be $76,095,000. The gain relating to this final payment will be recognized in income once the conditions are met.

Under a separate recovery clause, the Bank would have been required to repay up to $1,015,000 to Industrial Alliance if the institutional assets under management on December 31, 2005 had not reached a predetermined level. On October 31, 2005, the Bank had deferred revenue of $300,000 related to this clause. In light of the level of assets under management on December 31, 2005, the Bank recognized an additional gain of $187,000 ($124,000, net of applicable income taxes) on that date in respect of this clause.

Investments in seed capital

At the time of sale, the Bank also owned an investment related to seed capital. In 2006, the Bank completed the sale of this investment and recorded income of $300,000 ($200,000, net of applicable income taxes) to recognize net gains realized.

The initial gain and the changes in the value of investments in seed capital under management were attributed to the Other segment, whereas the income recognized in respect of the recovery clause related to the sales threshold of mutual funds was attributed to the Retail Financial Services segment.

6 > Securities

MATURITY SCHEDULE AND RETURN ON SECURITIES

AVAILABLE-FOR-SALE SECURITIES ACCOUNT

						2007
	Within 1 year $	1 to 5 years $	Over 5 years $	No specific maturity $	Total $	Yield [1] %
Securities issued or guaranteed by Canada	**562,599**	**200,360**	**–**	**–**	**762,959**	**4.3**
Other debt securities	**2,898**	**7,119**	**9,773**	**1,904**	**21,694**	**5.5**
Preferred shares	**–**	**–**	**–**	**71,845**	**71,845**	**3.6**
Common shares and other securities	**–**	**–**	**–**	**61,178**	**61,178**	**3.0**
	565,497	**207,479**	**9,773**	**134,927**	**917,676**	**4.2**

(1) Yield based on the amortized cost of available-for-sale securities.

HELD-FOR-TRADING SECURITIES ACCOUNT

					2007
	Within 1 year $	1 to 5 years $	Over 5 years $	No specific maturity $	Total $
Securities issued or guaranteed					
by Canada	**190,441**	**52,296**	**81,565**	**–**	**324,302**
by the provinces	**76,119**	**103,696**	**169,311**	**–**	**349,126**
by municipal corporations	**4,205**	**27,715**	**52,937**	**–**	**84,857**
Other debt securities	**63,882**	**55,107**	**82,924**	**6,561**	**208,474**
Common shares and other securities	**–**	**–**	**–**	**40,814**	**40,814**
Mortgage-backed securities	**8,230**	**45,512**	**25,643**	**–**	**79,385**
	342,877	**284,326**	**412,380**	**47,375**	**1,086,958**

Held-for-trading securities

For the year ended October 31, 2007, a net gain of $6,429,000 was recognized in trading income in respect of held-for-trading securities.

Asset-backed securities

As at October 31, 2007, the Bank held investments totalling $16,350,000 in asset-backed securities issued by non-bank conduits covered by the Montréal Accord in its trading portfolios. As a result of the liquidity and credit crisis affecting asset-backed commercial paper, the Bank adjusted the fair value of its investments and recognized a loss amounting to $2,088,000 ($1,413,000 net of income taxes).

The Bank also held asset-backed securities related to these conduits in its available-for-sale portfolio amounting to $4,898,000. An other-than-temporary decline in value amounting to $800,000 ($539,000 net of income taxes) in this portfolio's securities was recognized in income in respect of these securities.

These investments have not traded in an active market since mid-August 2007. As a result, the Bank has relied on valuation techniques considering the relevant public information regarding market conditions and other factors and assumptions that a market participant would consider for such investments to estimate the fair value.

6 > Securities (cont'd)

Continuing uncertainties regarding the value of the assets underlying the investments, the amount and timing of cash flows and the outcome of the restructuring process planned under the Montréal Accord could give rise to further changes in the value of the Bank's investments which would impact earnings.

SECURITIES DESIGNATED AS HELD-FOR-TRADING ACCOUNT

					2007
	Within 1 year $	**1 to 5 years $**	**Over 5 years $**	**No specific maturity $**	**Total $**
Securities issued or guaranteed					
by Canada	**88,880**	**439,554**	**–**	**–**	**528,434**
by the provinces	**–**	**12,418**	**–**	**–**	**12,418**
Other debt securities	**10,692**	**51,580**	**7,509**	**–**	**69,781**
Common shares and other securities	**–**	**–**	**–**	**59,112**	**59,112**
	99,572	**503,552**	**7,509**	**59,112**	**669,745**

Securities designated as held-for-trading

For the year ended October 31, 2007, a net loss of $1,408,000 was recognized in other income under income treasury and financial market operations in respect of securities designated as held-for-trading under the fair value option.

				2006
			Investment account	Trading account
	Carrying amount $	Fair value $	Yield(1) %	Total $
Securities issued or guaranteed				
by Canada	1,277,679	1,274,263	3.8	741,845
by provinces	2,674	2,672	4.2	474,744
by municipal corporations	–	–	–	103,966
Other debt securities	196,312	196,538	5.2	193,579
Preferred shares	56,556	56,678	4.8	–
Common shares and other securities	34,001	36,049	3.7	73,638
Mortgage-backed securities	–	–	–	87,286
	1,567,222	1,566,200	4.1	1,675,058

(1) Yield based on the carrying amount of each type of security at year-end.

The above classification is based on the contractual maturity date of the securities.

US dollar–denominated securities amounted to $32,616,000 ($103,556,000 in 2006).

UNREALIZED GAINS AND LOSSES

AVAILABLE-FOR-SALE SECURITIES ACCOUNT

				2007
	Amortized cost	**Unrealized gains**	**Unrealized losses**	**Fair value**
Securities issued or guaranteed				
by Canada	**$ 763,172**	**$ 35**	**$ 248**	**$ 762,959**
Other debt securities	**22,364**	**57**	**727**	**21,694**
Preferred shares	**73,561**	**113**	**1,829**	**71,845**
Common shares and other securities	**48,307**	**14,586**	**1,715**	**61,178**
	$ 907,404	**$ 14,791**	**$ 4,519**	**$ 917,676**

INVESTMENT PORTFOLIO

				2006
	Carrying amount	Unrealized gains	Unrealized losses	Fair value
Securities issued or guaranteed				
by Canada	$ 1,277,679	$ 1,600	$ 5,016	$ 1,274,263
by provinces	2,674	6	8	2,672
Other debt securities	196,312	1,411	1,185	196,538
Preferred shares	56,556	550	428	56,678
Common shares and other securities	34,001	2,194	146	36,049
	$ 1,567,222	$ 5,761	$ 6,783	$ 1,566,200

As at October 31, 2007, unrealized losses totalling $4,519,000 were mainly in relation to preferred and common shares. These declines in value, resulting from the market downturn of the last few months of fiscal 2007 and lower interest rates, were determined by the Bank to be temporary and are included in accumulated other comprehensive income.

7 > Loans

LOANS AND IMPAIRED LOANS

					2007
	Gross amount of loans	**Gross amount of impaired loans**	**Specific allowances**	**General allowances**	**Total allowances**
Personal loans	**$ 4,958,176**	**$ 16,237**	**$ 6,039**	**$ 28,446**	**$ 34,485**
Residential mortgages	**6,232,778**	**20,395**	**1,419**	**5,144**	**6,563**
Commercial mortgages	**684,625**	**4,342**	**1,532**	**4,144**	**5,676**
Commercial and other loans	**1,556,831**	**62,964**	**41,082**	**27,516**	**68,598**
	$ 13,432,410	**$ 103,938**	**$ 50,072**	**$ 65,250**	**$ 115,322**

					2006
	Gross amount of loans	Gross amount of impaired loans	Specific allowances	General allowances	Total allowances
Personal loans	$ 4,168,026	$ 16,100	$ 5,659	$ 28,475	$ 34,134
Residential mortgages	5,985,656	16,501	3,479	5,139	8,618
Commercial mortgages	659,014	8,393	3,472	2,662	6,134
Commercial and other loans	1,476,977	89,603	47,293	28,974	76,267
	$ 12,289,673	$ 130,597	$ 59,903	$ 65,250	$ 125,153

US dollar–denominated loans totalled $35,802,000 ($54,605,000 in 2006).

In 2007, foreclosed assets held-for-sale amounted to $4,521,000 ($1,269,000 in 2006) with eliminations to the related specific allowances totalling nil (nil in 2006).

7 > Loans (cont'd)

SPECIFIC ALLOWANCES FOR LOAN LOSSES

	Personal loans	Residential mortgages	Commercial mortgages	Commercial and other loans	2007 Total specific allowances	2006 Total specific allowances
Balance at beginning of year	$ 5,659	$ 3,479	$ 3,472	$ 47,293	$ 59,903	$ 64,556
Provision for credit losses recorded in the consolidated statement of income	27,682	1,249	228	10,841	40,000	40,000
Write-offs (1)	(32,342)	(3,359)	(2,232)	(17,518)	(55,451)	(49,068)
Recoveries	5,040	50	64	466	5,620	4,826
Provision for credit losses resulting from the sale of a subsidiary (see note 5)	–	–	–	–	–	(411)
Balance at end of year	$ 6,039	$ 1,419	$ 1,532	$ 41,082	$ 50,072	$ 59,903

(1) No restructured loans were written-off during the years ended October 31, 2007 and 2006.

GENERAL ALLOWANCES FOR LOAN LOSSES

	Personal loans	Residential mortgages	Commercial mortgages	Commercial and other loans	2007 Total genaral allowances	2006 Total general allowances
Balance at beginning of year	$ 28,475	$ 5,139	$ 2,662	$ 28,974	$ 65,250	$ 65,250
Change during the year	(29)	5	1,482	(1,458)	–	–
Balance at end of year	$ 28,446	$ 5,144	$ 4,144	$ 27,516	$ 65,250	$ 65,250

8 > Loan securitization

RESIDENTIAL MORTGAGE LOANS

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

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

	2007	2006
Cash proceeds, net of transaction costs	$ 850,955	$ 631,896
Rights to future excess interest	26,547	14,375
Servicing liability	(6,540)	(4,401)
Cash reserve accounts	8,495	15,582
Other	(10,561)	(3,646)
	868,896	653,806
Residential mortgages securitized and sold (1)	862,637	647,645
Gains before income taxes, net of transaction costs	$ 6,259	$ 6,161

(1) Including $524,098,000 in loans insured by the CMHC ($51,289,000 in 2006).

With regard to the transfer of residential mortgages, the key assumptions used to determine the initial fair value of retained interests are summarized as follows:

KEY ASSUMPTIONS

	2007	2006
Rate of prepayment	26%	17%
Discount rate	4.67%	4.83%
Rate of credit losses	0.05%	0.05%

No loss is expected on insured residential mortgages.

During the year, the Bank collected cash flows from retained interests totalling $18,166,000 ($12,450,000 in 2006). The amortization relating to the servicing liability recognized in income amounted to $3,199,000 ($2,495,000 in 2006).

During the year, the Bank also recorded a $2,750,000 downward adjustment in the value of interest rate swaps contracted in connection with transfers of residential mortgage loans, subsequent to the liquidity and credit crisis, affecting asset-backed commercial paper. This adjustment was charged against securitization income.

Financial instruments designated as held-for-trading

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

For the year ended October 31, 2007, a net gain amounting to $1,013,000 was recognized in securitization income in respect of these rights.

The following table shows the value of retained interests, as well as the sensitivity of the fair value of these interests to immediate unfavourable changes of 10% and 20% in the key assumptions used to value retained interests as at October 31, 2007 and 2006.

SENSITIVITY OF KEY ASSUMPTIONS TO UNFAVOURABLE CHANGES

	2007	2006
Fair value of retained interests	**$ 56,502**	$ 42,153
Weighted average life (in months)	**27**	26
Rate of prepayment	**24%**	19%
Impact on fair value of unfavourable change of 10%	**$ 1,070**	$ 606
Impact on fair value of unfavourable change of 20%	**$ 2,086**	$ 1,187
Rate of credit losses (1)	**0.05%**	0.06%
Impact on fair value of unfavourable change of 10%	**$ 73**	$ 68
Impact on fair value of unfavourable change of 20%	**$ 145**	$ 135
Discount rate	**4.8%**	4.3%
Impact on fair value of unfavourable change of 10%	**$ 252**	$ 160
Impact on fair value of unfavourable change of 20%	**$ 501**	$ 318

(1) Expected credit losses on conventional residential mortgages only. No loss is expected on insured residential mortgages.

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

The total principal amount of securitized residential mortgage loans amounted to $1,561,901,000 at year-end ($1,039,427,000 at the end of 2006).

COMMERCIAL MORTGAGE LOANS

During the year, the Bank securitized commercial mortgage loans amounting to $40,338,000, generating a $424,000 gain. The Bank did not retain rights and obligations in respect of these commercial mortgage loans.

9 > Property, plant and equipment

			2007	2006
	Cost	**Accumulated depreciation**	**Net book value**	Net book value
Land	**$ 271**	**$ –**	**$ 271**	$ 651
Premises	**2,718**	**1,096**	**1,622**	2,082
Leasehold improvements	**58,878**	**32,090**	**26,788**	22,703
Equipment and furniture	**77,863**	**64,646**	**13,217**	11,528
Computer hardware and software	**362,153**	**266,360**	**95,793**	74,327
	$ 501,883	**$ 364,192**	**$ 137,691**	$ 111,291

9 > Property, plant and equipment (cont'd)

Depreciation expense recorded during the year in the consolidated statement of income amounts to $26,874,000 ($25,052,000 in 2006).

Computer hardware and software include an amount totalling $13,590,000 ($26,790,000 in 2006) related to projects under development that are not depreciated.

10 > Goodwill and other intangible assets

Goodwill is related to the Retail Financial Services segment.

Other intangible assets consist of the following:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
Contractual relations and client relationships	$ 18,278	$ 4,164	$ 14,114	$ 15,333

The other intangible assets consist of contractual relations with financial intermediaries and the associated client relationships and are amortized over a 15-year period. Amortization of other intangible assets recorded in the consolidated statement of income during the year amounts to $1,219,000 ($1,219,000 in 2006).

The Bank tests goodwill and other intangible assets for impairment on an annual basis. No impairment was identified in 2007 and 2006.

11 > Other assets

	2007	2006
Cheques and other items in transit	$ 160,530	$ 112,442
Deferred charges related to loan and deposit origination	70,944	80,008
Accrued interest receivable	61,459	72,272
Assets related to securitized mortgage loans	64,361	44,490
Accrued benefit assets (note 17)	43,367	36,940
Accounts receivable, prepaid expenses and other items	39,149	42,572
	$ 439,810	$ 388,724

12 > Deposits

				2007	2006
	Demand	Notice	Term	Total	Total
Personal	$ 102,726	$ 1,788,150	$ 9,673,654	$ 11,564,530	$ 10,949,473
Business, banks and other	753,764	105,810	1,454,604	2,314,178	2,145,028
	$ 856,490	$ 1,893,960	$ 11,128,258	$ 13,878,708	$ 13,094,501

Demand deposits consist of deposits in respect of which the Bank is not authorized to require a notice at the time of withdrawal by the customer. These deposits are primarily made up of checking accounts.

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

Term deposits consist of deposits maturing at a specific date, in particular term deposits and guaranteed investment certificates.

Deposits denominated in U.S. dollars amount to $268,340,000 ($245,027,000 in 2006) and deposits denominated in other foreign currencies, primarily in euros, amount to $1,639,000 ($3,608,000 in 2006).

The Bank has designated certain deposits having a nominal amount of $73,815,000 as held-for-trading. The difference between the amount the Bank would be contractually required to pay to deposit holders at maturity and the carrying amount of these deposits, amounting $73,069,000 stood at $746,000 as at October 31, 2007.

For the year ended October 31, 2007, a net loss amounting to $443,000 was recognized in other income under income from treasury and financial market operations in respect of these deposits.

13 > Other liabilities

	2007	2006
Accrued interest payable	**$ 458,475**	$ 451,727
Cheques and other items in transit	**178,409**	131,675
Liabilities related to securitized mortgage loans	**29,475**	24,790
Deferred gain related to the sale of BLCER (note 5)	**10,369**	15,554
Accrued benefit liabilities (note 17)	**12,611**	11,430
Accounts payable, accrued expenses and other items (note 18)	**83,714**	60,843
	$ 773,053	$ 696,019

14 > Subordinated debentures

SUBORDINATED DEBENTURES

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

Issued and outstanding as at October 31

Maturity	Series	Interest rate	Special terms	2007	2006
January 2016	10	4.90%	Redeemable at par as of January 2011; rate to be revised in January 2011 and set at the 90-day bankers' acceptance rate plus 1.65%	**$ 150,000**	–
				$ 150,000	–

On June 1, 2006, the Bank completed the early redemption of all of its 6.50% Debentures, Series 9, maturing in 2011, with an aggregate notional amount of $150,000,000, plus accrued and unpaid interest to the date of redemption.

On January 23, 2006, the Bank issued subordinated debentures, Series 10, maturing in January 2016, with an aggregate value of $150,000,000.

15 > Capital stock

AUTHORIZED

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

ISSUED AND OUTSTANDING AS AT OCTOBER 31

	2007				2006		
	Dividends per share (1)	**Number of shares**	**Amount**	**Declared dividends**	Number of shares	Amount	Declared dividends
Class A Preferred Shares							
Series 9	**$ 1.500**	**4,000,000**	**$ 100,000**	**$ 6,000**	4,000,000	$ 100,000	$ 6,000
Series 10	**1.312**	**4,400,000**	**110,000**	**5,775**	4,400,000	110,000	5,775
Total preferred shares		**8,400,000**	**$ 210,000**	**$ 11,775**	8,400,000	$ 210,000	$ 11,775
Common shares	**$ 1.160**	**23,810,813**	**$ 256,445**	**$ 27,480**	23,620,436	$ 251,158	$ 27,379
Treasury shares		**–**	**$ –**	**$ (6)**	(20,000)	$ (590)	$ (23)

(1) Non-cumulative dividends on preferred shares

15 > Capital stock (cont'd)

PREFERRED SHARES

TERMS OF SHARES

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

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

COMMON SHARES

ISSUANCE OF COMMON SHARES

During the year, 190,377 common shares (63,891 shares in 2006) were issued under the employee share purchase option plan for the management of the Bank for a cash consideration of $5,287,000 ($1,525,000 in 2006).

TREASURY SHARES

During fiscal 2005, 20,000 common shares were acquired in the marketplace with respect to obligations under a performance-based share program. These shares were presented under treasury shares as a reduction of shareholders' equity. Since the objectives were met during fiscal 2007, the shares have been reallocated.

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

The Bank is prohibited by the *Bank Act* (Canada) from declaring or paying any dividends on its preferred shares or common shares if there are reasonable grounds for believing that, in so doing, the Bank would be in contravention of any capital adequacy and liquidity regulations or any direction to the Bank made by the Superintendent of Financial Institutions of Canada regarding the Bank's capital or liquidity.

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

CAPITAL MANAGEMENT

Common shareholders' equity

Common shareholders' equity consists of common shares, retained earnings, contributed surplus and accumulated other comprehensive income. Capital management contributes to the Bank's profitability, as capital is allocated to key sectors for which precise profitability objectives and criteria have been established. The Bank strives to maintain an optimal level of capital to support its activities while generating an attractive and competitive return for its shareholders, in relation to industry standards and the Bank's risk profile.

Regulatory capital

The Bank's regulatory capital consists primarily of common shareholders' equity, preferred shares and subordinated debentures. Regulatory capital is an important factor in assessing the Bank's stability and security in relation to the overall risks inherent in its activities. The Bank's policy is to maintain its regulatory capital ratios consistent with regulatory requirements as defined by the OSFI. During fiscal 2007, the Bank complied with these requirements.

A capital plan prepared annually specifies the target capital ratios by taking into account the projected risk weighted asset levels and expected capital management initiatives. Regulatory capital ratios are reported monthly to management. Regulatory capital ratio monitoring reports are provided on a quarterly basis to the Board of Directors' Risk Management Committee.

Regulatory capital as at October 31, 2007 and 2006 is detailed as follows:

	2007	2006	Change
Tier I capital			
Common shares	**$ 256,445**	$ 250,568	$ 5,877
Contributed surplus	**105**	518	(413)
Retained earnings	**537,254**	485,334	51,920
Non-cumulative preferred shares	**210,000**	210,000	–
Less: goodwill	**(53,790)**	(53,790)	–
Total – Tier I capital	**950,014**	892,630	57,384
Tier II capital			
Subordinated debentures	**150,000**	150,000	–
General allowances	**65,250**	65,250	–
Unrealized gains on available-for-sale securities	**11,698**	–	11,698
Total – Tier II capital	**226,948**	215,250	11,698
Securitization and other	**(45,525)**	(28,469)	(17,056)
Regulatory capital	**$ 1,131,437**	$ 1,079,411	$ 52,026

16 > Stock-based compensation

SHARE PURCHASE OPTIONS

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

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

As at October 31, 2007, the Bank had reserved 1,600,000 common shares (1,600,000 shares in 2006) for the potential exercise of share purchase options, of which 119,160 (139,960 in 2006) were still available.

During fiscal 2007, the Bank granted 50,000 share purchase options with an exercise price of $29.47, at a fair value of $4.55 per option. A $104,675 charge has been recorded in respect of this grant during fiscal 2007, under salaries and employee benefits.

The fair value of these options was measured at the grant date using the Black-Scholes option pricing model based on the following assumptions:

	2007
Risk-free interest rate	**4.10%**
Expected life of options	**7 years**
Expected volatility	**19.60%**
Expected dividends	**4.00%**

The following table shows the Bank's outstanding share purchase options for the years ended October 31:

	2007		2006	
	Number of options	**Weighted average exercise price per option**	Number of options	Weighted average exercise price per option
Outstanding, beginning of year	**339,604**	**$ 27.79**	429,037	$ 27.40
Granted	**50,000**	**$ 29.47**	–	$ –
Exercised	**(190,377)**	**$ 27.77**	(63,891)	$ 23.88
Cancelled	**(29,200)**	**$ 31.50**	(25,542)	$ 30.97
Outstanding, end of year	**170,027**	**$ 27.67**	339,604	$ 27.79
Exercisable, end of year	**120,027**	**$ 26.92**	339,604	$ 27.79

16 > Stock-based compensation (cont'd)

The following table summarizes information relating to share purchase options outstanding and exercisable as at October 31, 2007.

	Options outstanding			Options exercisable	
Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price per option	Number of options exercisable	Weighted average exercise price per option
$19.37–$22.08	**26,143**	**1.92**	**$ 20.28**	**26,143**	**$ 20.28**
$27.08–$27.65	**19,000**	**0.17**	**$ 27.36**	**19,000**	**$ 27.36**
$27.74–$31.80	**124,884**	**5.93**	**$ 29.27**	**74,884**	**$ 29.13**
	170,027			**120,027**	

OTHER STOCK-BASED COMPENSATION PLANS

The Bank offers a stock appreciation rights (SARs) plan to members of senior management of the Bank and its subsidiaries. These SARs may be settled in consideration for a cash amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs vest over a maximum period of five years and can be exercised over a maximum period of ten years. As at October 31, 2007, 644,318 SARs (621,756 in 2006) were outstanding at a weighted average exercise price of $29.93 ($27.24 in 2006), of which 206,506 (283,212 in 2006) were exercisable at the end of the year. As at October 31, 2007, the weighted average remaining life of SARs was 7.33 years (5.84 years in 2006). In order to reduce the volatility of the SAR plan compensation expense, the Bank entered into total return swap contracts, during fiscal 2007, the value of which is related to the price of the Bank's shares. The changes in fair value of these derivative instruments partially offset the compensation costs in respect of the SARs during the period in which the swaps were in effect. As at October 31, 2007, these swaps had a negative fair value amounting to $166,000 (nil in 2006), which was presented in the balance sheet under derivative financial instruments. During the year, a charge of $1,987,000 ($177,000 in 2006) was recognized under employee compensation expense in respect of this plan, net of the effect of the related hedging transaction.

In 2006, the Bank established a stock-based compensation program, the Restricted Share Unit Program, for certain senior managers. Under the program, 50% of the annual bonus otherwise payable to an eligible employee, under the Bank's short-term incentive compensation program, could be withheld and converted into entirely vested restricted share units at the employees' option. The Bank undertakes to contribute additional restricted share units for an amount equal to 60% of the withheld bonus. These additional units will vest at the end of the three-year period following their award. The holders of such share units are entitled to an amount equivalent to the dividends paid on the Bank's common shares, which is also converted into additional share units. The expense related to these units is recognized in income similarly to stock appreciation rights, over their vesting period. In January 2007, annual bonuses for certain employees amounting to $613,000 ($854,000 in 2006) were converted into 19,979 entirely vested restricted share units (24,382 units in 2006). The Bank granted 11,987 additional restricted share units in 2007 (14,629 units in 2006). During the year, a charge amounting to $1,246,000 (income of $28,000 in 2006) was recognized in respect of this plan.

In 2005, the Bank initiated a performance-based share agreement, under which 20,000 common shares of the Bank valued at $29.50 each have been granted. The rights in respect of these shares vested at the end of the 16-month period on January 1, 2007 given that Bank had met certain performance objectives. These 20,000 common shares were awarded in January 2007, since the objectives were met. During the year, a charge of $74,000 ($445,000 in 2006) was recognized in respect of this plan.

A deferred share unit plan is also offered to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his remuneration in the form of deferred share units settled in cash. The deferred share units are converted when the holder steps down from the Board of Directors. As at October 31, 2007, there were 20,704 units (19,623 in 2006) outstanding with a total value of $905,000 ($570,000 in 2006). During the year, the compensation expense recognized in respect of this plan was $413,000 ($99,000 in 2006).

In fiscal 2006, the Bank established an employee share purchase program. Under this program, employees who meet the eligibility criteria can contribute up to 5% of their annual gross salary by way of payroll deductions. The Bank matches 30% of the employee contribution amount, to a maximum of $1,500 per annum. The Bank's contributions vest to the employee two years after each employee contribution. The Bank's contributions, amounting to $239,000 during fiscal 2007 ($113,000 in 2006), were recognized under salaries and employee benefits. Under this program, the average value of the vested shares was $34.46 during fiscal 2007 ($29.13 in 2006).

In fiscal 2007, the Bank approved a new mid-term incentive program for certain executives. The program provides for the award of performance share units based on a predetermined percentage of the participating member's salary. These units will vest over three years as follows: 50% based solely on the passage of time and 50% based on the achievement of the financial targets communicated at the time of the award. The dividends accumulated throughout this period will be reinvested in additional performance share units. No award was made in 2007.

17 > Employee future benefits

DESCRIPTION OF BENEFIT PLANS

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

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

TOTAL CASH PAYMENTS

Total cash payments for future employee benefits for 2007, consisting of cash contributed by the Bank to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution plans, were $27,623,000 ($17,329,000 in 2006).

DEFINED BENEFIT PLAN MEASUREMENT DATES

The Bank measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at October 31 of each year. The most recent actuarial valuations are as of December 31, 2006. The next required actuarial valuation for funding purposes for the funded plans will be as of December 31, 2009.

DEFINED BENEFIT PLAN OBLIGATIONS

	2007		2006	
	Pension plans	**Other plans**	Pension plans	Other plans
Change in accrued benefit obligation				
Accrued benefit obligation at beginning of year	**$ 362,174**	**$ 32,802**	$ 346,363	$ 25,584
Current service cost	**9,878**	**–**	9,385	52
Interest cost on accrued benefit obligation	**19,615**	**1,479**	18,790	1,153
Benefits paid	**(14,260)**	**(2,132)**	(15,612)	(1,576)
Employee contributions	**2,676**	**–**	2,583	–
Past service costs	**–**	**–**	666	–
Actuarial losses (gain)	**(17,491)**	**565**	(1)	7,589
Other	**150**	**–**	–	–
Accrued benefit obligation at end of year	**$ 362,742**	**$ 32,714**	$ 362,174	$ 32,802

17 > Employee future benefits (cont'd)

DEFINED BENEFIT PLAN ASSETS

	2007 Pension plans	2007 Other plans	2006 Pension plans	2006 Other plans
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	**$ 291,381**	**$ –**	$ 267,078	$ –
Real return on plan assets	**24,659**	**–**	24,170	–
Bank contributions	**22,278**	**–**	12,945	–
Employee contributions	**2,676**	**–**	2,583	–
Benefits paid	**(14,014)**	**–**	(15,395)	–
Fair value of plan assets at end of year	**$ 326,980**	**$ –**	$ 291,381	$ –

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

	2007 Pension plans	2007 Other plans	2006 Pension plans	2006 Other plans
Fair value of plan assets	**$ 326,980**	**$ –**	$ 291,381	$ –
Accrued benefit obligation	**362,742**	**32,714**	362,174	32,802
Funded status of plans – deficit	**(35,762)**	**(32,714)**	(70,793)	(32,802)
Unamortized transitional obligation	**56**	**10,192**	320	11,012
Unamortized past service costs	**3,221**	**–**	3,864	–
Unamortized net actuarial loss	**70,294**	**15,469**	98,126	15,783
Accrued benefit assets (liabilities) at end of year	**$ 37,809**	**$ (7,053)**	$ 31,517	$ (6,007)
Accrued benefit assets included in other assets	**$ 43,367**	**$ –**	$ 36,940	$ –
Accrued benefit liabilities included in other liabilities	**$ 5,558**	**$ 7,053**	$ 5,423	$ 6,007

ALLOCATION OF PLAN ASSETS AS A PERCENTAGE (1)

	2007	2006
Asset category		
Equity securities	**56%**	51%
Debt and other securities	**44**	49
Total	**100%**	100%

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

Plan assets do not include any equity securities of the Bank as at October 31, 2007 and 2006.

PLANS WITH ACCRUED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS

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

	2007 Pension plans	2007 Other plans	2006 Pension plans	2006 Other plans
Accrued benefit obligation	**$ 348,463**	**$ 32,714**	$ 347,243	$ 32,802
Fair value of plan assets	**305,970**	**–**	272,368	–
Funded status – plan deficit	**$ (42,493)**	**$ (32,714)**	$ (74,875)	$ (32,802)

ELEMENTS OF DEFINED BENEFIT COSTS RECOGNIZED DURING THE YEAR

	2007		2006	
	Pension plans	**Other plans**	Pension plans	Other plans
Defined benefit costs recognized during the year	**$ 9,878**	**$ –**	$ 9,385	$ 52
Interest cost on accrued benefit obligation	**19,615**	**1,479**	18,790	1,153
Actual return on plan assets	**(24,659)**	**–**	(24,170)	–
Actuarial losses (gain) on accrued benefit obligation	**(17,491)**	**564**	(1)	7,589
Other	**150**	**–**	666	–
Elements of employee future benefit costs before adjustments to recognize their long-term nature	**(12,507)**	**2,043**	4,670	8,794
Excess of actual return over expected return	**4,035**	**–**	6,031	–
Deferral of amounts arising during period:				
Actuarial gain (losses) on accrued benefit obligation	**17,491**	**(564)**	1	(7,589)
Past service costs	**–**	**–**	(666)	–
Amortization of previously deferred amounts:				
Past service costs	**643**	**–**	643	–
Actuarial losses	**6,305**	**878**	7,892	486
Transitional obligation	**264**	**821**	264	821
Adjustments to recognize long-term nature of employee future benefit costs	**28,738**	**1,135**	14,165	(6,282)
Total defined benefit costs	**16,231**	**3,178**	18,835	2,512
Total defined contribution portion costs	**2,968**	**–**	2,591	–
Employee future benefit costs	**$ 19,199**	**$ 3,178**	$ 21,426	$ 2,512

SIGNIFICANT ASSUMPTIONS

	2007		2006	
	Pension plans	**Other plans**	Pension plans	Other plans
Weighted average of assumptions				
Accrued benefit obligation as at October 31:				
Discount rate at end of year	**5.75%**	**5.75%**	5.35%	5.35%
Rate of compensation increase	**3.50%**	**3.50%**	3.50%	3.50%
Benefit costs for the years ended October 31:				
Discount rate for the year	**5.35%**	**5.35%**	5.35%	5.35%
Expected long-term rate of return on plan assets	**7.25%**	**–**	7.25%	–
Rate of compensation increase	**3.50%**	**3.50%**	3.50%	3.50%

17 > Employee future benefits (cont'd)

ASSUMED HEALTH CARE COST TREND RATES AS AT OCTOBER 31

	2007	2006
Assumed annual rate of increase in the cost of healthcare benefits	**9.4%**	**10%**
Level to which it should decline and at which it is assumed to subsequently stabilize	**4%**	**4%**
Year that the rate is assumed to stabilize	**2016**	**2016**

SENSITIVITY ANALYSIS

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2007:

	1% increase	**1% decrease**
Total of service and interest cost	**$ 137**	**$ (115)**
Accrued benefit obligation	**$ 2,382**	**$ (2,001)**

18 > Income taxes

FUTURE INCOME TAX ASSETS

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

	2007	2006
Property, plant and equipment	**$ 71,075**	$ 82,667
Allowance for credit losses	**21,889**	33,386
Derivative instruments	**4,920**	–
Recoverable minimum income tax of financial institutions	**587**	1,825
Prospective tax loss deferrals	**16,343**	14,865
Intangible assets	**–**	1,545
Deferred revenue	**1,741**	2,655
Other temporary differences	**935**	–
	117,490	136,943
Accrued benefit assets – pension plans	**(9,833)**	(8,342)
Deferred charges	**(15,246)**	(19,241)
Securitization and securities	**(5,877)**	(5,607)
Other temporary differences	**–**	(2,705)
	(30,956)	(35,895)
Futures income tax assets, net	**$ 86,534**	$ 101,048

Income tax loss carryforwards, as at October 31, 2007, consist of federal income tax losses amounting to $58,484,000 ($51,379,000 in 2006) that can be used to reduce future taxable income. These losses expire at various dates ranging from 2010 to 2027. Recoverable minimum income taxes of financial institutions, which are recoverable over a three-year period where the minimum tax threshold has been exceeded, expire in 2009.

INCOME TAX EXPENSE

Significant components of income tax expense are as follows:

	2007	2006
Consolidated statement of income		
Continuing operations		
Current income tax expense	**$ 3,196**	$ 16,338
Future income tax expense (benefit)		
Reversal (creation) of temporary differences	**23,933**	(1,504)
Tax rate changes	**(735)**	8,602
	23,198	7,098
	26,394	23,436
Discontinued operations		
Future income tax expense	**761**	938
	$ 27,155	$ 24,374
Consolidated statement of changes in shareholders' equity		
Income taxes on preferred share dividends and other		
Current income tax expense	**$ 4,710**	$ 2,564
Future income tax benefit	**(4,561)**	(2,573)
	$ 149	$ (9)

RECONCILIATION WITH THE STATUTORY RATES

The reconciliation of income tax expense from continuing operations to the dollar amount of income tax using the statutory rate is as follows:

	2007		2006	
	Amount		Amount	
Income taxes at statutory rates	**$ 38,419**	**33.0%**	$ 29,280	32.9%
Change resulting from:				
Resolution of income tax exposures	**(3,338)**	**(2.9)**	(11,300)	(12.7)
Tax rate changes	**(735)**	**(0.7)**	8,602	9.7
Realized gain on repatriation of accumulated foreign retained earnings	**–**	**–**	4,520	5.1
Income tax benefits related to the minimum tax on financial institutions previously unrecognized	**–**	**–**	(2,750)	(3.2)
Dividends and tax-exempt gains	**(3,869)**	**(3.4)**	(1,061)	(1.2)
Income related to foreign credit insurance operations	**(3,552)**	**(3.0)**	(2,441)	(2.7)
Other	**(531)**	**(0.3)**	(1,414)	(1.6)
Income taxes from continuing operations, as reported in the consolidated statement of income	**$ 26,394**	**22.7%**	$ 23,436	26.3%

In 2007, the net benefit resulting from tax rate changes, presented above, includes a $900,000 gain related to the December 2006 adoption of tax measures to increase the exemption limit of the minimum tax on financial institutions to $1 billion, as well as a charge related to the revised periods during which the temporary differences will reverse.

In 2006, the net charge resulting from tax rate changes of $8,602,000, presented above, is attributable to the $2,398,000 gain resulting from the increase in the corporate tax rate in Quebec for the years 2006 and thereafter, as well as from the $11,000,000 charge resulting from the reductions of the Federal Corporate Income Tax Rate for the years 2008 and thereafter.

Income earned on foreign credit insurance operations would generally be taxed only upon repatriation to Canada. As at October 31, 2005, since the Bank did not intend to repatriate accumulated income prior to November 1, 2003, no income taxes were recognized. As a result of certain amendments to the Income Tax Act which prompted the Bank to repatriate its foreign credit insurance income, income taxes were recognized from November 1, 2003 to July 27, 2006, on these operations.

18 > Income taxes (cont'd)

On July 27, 2006, the Bank repatriated virtually all of income accumulated as at that date, including income accumulated prior to November 1, 2003. In 2006, this transaction generated an additional income tax expense of $4,520,000.

Since the Bank's management does not expect to repatriate income accumulated after July 27, 2006, no future income tax expense has been recognized on such income. Taxes that would be payable if all unremitted earnings were repatriated are estimated at $4,389,000 as at October 31, 2007 ($837,000 as at October 31, 2006).

19 > Net income per common share

Average number of common shares outstanding (in thousands) is as follows:

	2007	2006
Net income per common share – basic		
Net income from continuing operations	**$ 90,122**	$ 65,556
Net income from discontinued operations [1]	**4,423**	4,776
Net income	**$ 94,545**	$ 70,332
Preferred share dividends, including applicable income taxes	**11,966**	11,766
Net income attributable to common shares from continuing operations	**$ 78,156**	$ 53,790
Average number of outstanding common shares	**23,677,794**	23,605,077
Net income per common share – basic		
Continuing operations	**$ 3.30**	$ 2.28
Discontinued operations	**0.19**	0.20
Total	**$ 3.49**	$ 2.48
Net income per common share – diluted		
Net income attributable to common shares from continuing operations	**$ 78,156**	$ 53,790
Average number of outstanding common shares	**23,677,794**	23,605,077
Dilutive share purchase options and other	**50,562**	43,741
Diluted weighted average number of outstanding common shares	**23,728,356**	23,648,818
Income per common share – diluted		
Continuing operations	**$ 3.29**	$ 2.28
Discontinued operations	**0.19**	0.20
Total	**$ 3.48**	$ 2.48
Average number of share purchase options not taken into account in the calculation of diluted net income per common share [2]	**22,551**	60,510

(1) See note 5 to these financial statements.
(2) The average number of share purchase options was not taken into account in the calculation of diluted net income per common share since the average exercise price of these options exceeded the average market price of the Bank's shares during these years.

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

20 > Related party transactions

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

	2007	2006
Mortgage loans	**$ 526**	$ 112
Other loans	**9,759**	14,324
	$ 10,285	$ 14,436

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.

21 > Risk management related to financial instruments

The Bank is exposed to various types of risks owing to the nature of the business activities it carries on, including those related to the use of financial instruments. In order to manage the risks associated with using financial instruments, including loan and deposit, securities and derivative financial instrument portfolios, controls have been implemented, such as risk management policies and various risk limits. These measures aim to optimize the return/risk ratio in all its operating segments. The main risks to which the Bank is exposed are set out below.

MARKET RISK

Market risk corresponds to the financial losses that the Bank could incur because of unfavourable fluctuations in the value of financial instruments, following variations in the parameters underlying their evaluation, such as interest rates, exchange rates or quoted stock market prices. The policies and limits implemented are designed to mitigate exposure to market risk arising from trading, investment, financing and asset and liability management activities.

CREDIT RISK

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

The credit risk management policies adopted by the Bank provide for appropriate risk assessment. These policies cover the approval of credit applications by the line of authority concerned, attribution of risk ratings, management of impaired loans, establishment of provisions, and pricing based on risk. With respect to diversification, the credit policy sets the guidelines intended to limit credit concentration by counterparty and sector of activity, and identifies sectors that are considered risky and should thus be avoided. The policies are periodically reviewed and approved by the Board of Directors' Risk Management Committee. The Bank ensures a rigorous and systematic follow-up of its financial instrument accounts in terms of both quality and quantity through mechanisms and policies related to the systematic review of various types of files and risk rating updating systems, and pricing analysis.

Derivative-related credit risk is generally managed using the same credit approval, limit and monitoring standards as those used for managing other credit transactions. Moreover, the Bank negotiates derivative master netting agreements with counterparties with which it contracts. These agreements reduce credit risk exposure in the event of a default by providing for the simultaneous netting of all transactions with a given counterparty.

21 > Risk management related to financial instruments (cont'd)

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

LIQUIDITY RISK

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

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

The Bank monitors cash resources daily and makes sure the liquidity indicators are in compliance with limits established in the policies set by the Bank. Liquidity management pays particular attention to deposit and loan maturities, as well as to funding availability and demand when planning financing. The Bank maintains a prudent reserve of unencumbered liquid assets that are readily available to face any contingency. It defines its cash requirements based on scenarios evaluating survival horizons that measure the period during which liquid assets could cover the withdrawal of wholesale financing and deposits. The Bank strives to maintain a stable volume of base deposits originating from its retail and deposit brokerage clientele, along with the diversification of its financing sources. Financing strategies also include the securitization of loans and the use of capital markets, either through the issuance of capital stock or debt instruments. A financing and liquidity emergency plan provides for measures to ensure the Bank can fulfill its obligations in the event of high demand for liquid assets.

22 > Derivative financial instruments

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

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

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

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

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

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

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

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

AGGREGATE NOTIONAL AMOUNTS

(in millions of dollars)		Period to maturity				**2007**
Notional amount	**Within 1 year**	**1 to 5 years**	**Over 5 years**	**Total**	**Contracts designated as a hedge**	**Other contracts (1)**
Interest rate contracts						
OTC contracts						
Swaps	**$ 3,022**	**$ 5,868**	**$ 128**	**$ 9,018**	**$ 6,327**	**$ 2,691**
Exchange-traded contracts						
Futures	**39**	**–**	**–**	**39**	**–**	**39**
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	**819**	**–**	**–**	**819**	**–**	**819**
Cross-currency interest rate swaps	**–**	**22**	**–**	**22**	**–**	**22**
Forwards	**720**	**11**	**–**	**731**	**–**	**731**
Options purchased	**66**	**–**	**–**	**66**	**–**	**66**
Options written	**66**	**–**	**–**	**66**	**–**	**66**
Equity- and index-linked contracts	**152**	**134**	**10**	**296**	**10**	**286**
	$ 4,884	**$ 6,035**	**$ 138**	**$ 11,057**	**$ 6,337**	**$ 4,720**

(in millions of dollars)		Period to maturity				2006
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Contracts designated as a hedge	Other contracts (1)
Interest rate contracts						
OTC contracts						
Swaps	$ 3,223	$ 6,180	$ 18	$ 9,421	$ 3,982	$ 5,439
Options purchased	154	–	–	154	–	154
Options written	14	–	–	14	–	14
Exchange-traded contracts						
Futures	71	–	–	71	–	71
Options purchased	15	–	–	15	–	15
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	1,006	5	–	1,011	–	1,011
Cross-currency interest rate swaps	–	23	–	23	23	–
Forwards	484	7	–	491	–	491
Options purchased	674	–	–	674	–	674
Options written	590	–	–	590	–	590
Equity- and index-linked contracts	57	79	1	137	–	137
	$ 6,288	$ 6,294	$ 19	$ 12,601	$ 4,005	$ 8,596

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

22 > Derivative financial instruments (cont'd)

BREAKDOWN OF SWAP CONTRACTS DESIGNATED AS HEDGING INSTRUMENTS, BY CLASS

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

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

		October 31, 2007		November 1, 2006
	Notional amount	**Fair value Net amount**	Notional amount	Fair value Net amount
Contracts designated as a hedge				
Interest rate swaps				
Cash flow hedge swaps	**$ 3,891,000**	**$ (4,748)**	$ 3,822,000	$ (13,830)
Fair value hedge swaps	**2,436,000**	**(784)**	130,000	220
	$ 6,327,000	**$ (5,532)**	$ 3,952,000	$ (13,610)

CREDIT EXPOSURE

(in millions of dollars)			**2007**			2006
	Replacement cost (1)	**Credit equivalent amount** (2)	**Risk-weighted amount** (3)	Replacement cost	Credit equivalent amount	Risk-weighted amount
Interest rate contracts						
Swaps	**$ 20**	**$ 51**	**$ 10**	$ 15	$ 47	$ 9
Options purchased	**–**	**–**	**–**	1	1	–
Foreign exchange contracts						
Foreign exchange swaps	**15**	**21**	**4**	5	10	3
Cross-currency interest rate swaps	**–**	**1**	**–**	–	1	–
Forwards	**7**	**9**	**4**	1	4	2
Options purchased	**1**	**2**	**1**	–	6	2
Equity- and index-linked contracts	**31**	**43**	**9**	39	48	10
	$ 74	**$ 127**	**$ 28**	$ 61	$ 117	$ 26

(1) Represents favourable fair market value, excluding the impact of master netting agreements. Exchange-traded instruments and options written are excluded since they do not constitute a credit risk.
(2) Includes (i) the total positive replacement value of the current contracts and (ii) an amount representing the assessed potential credit risk.
(3) Using guidelines issued by the Superintendent of Financial Institutions of Canada.

Note 21 hereto provides additional disclosure on the credit risk related to derivative financial instruments and how it is evaluated.

23 > Financial instruments

The amounts in the tables below present the fair value of financial instruments of the Bank based on the valuation methods and assumptions as set out below.

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

When fair value is determined using valuation models, it may be necessary to use assumptions as to the amount and timing of estimated future cash flows and discount rates. These assumptions reflect the risks inherent in financial instruments.

FAIR VALUE OF ASSETS AND LIABILITIES

(in millions of dollars)

	2007			2006		
	Book value	**Fair value**	**Favourable (unfavourable) variance**	Book value	Fair value	Favourable (unfavourable) variance
Assets						
Cash and non-interest-bearing with banks	**$ 65**	**$ 65**	**$ –**	$ 71	$ 71	$ –
Interest-bearing deposits with banks	**283**	**283**	**–**	99	99	–
Securities	**2,674**	**2,674**	**–**	3,242	3,241	(1)
Assets purchased under reverse repurchase agreements	**540**	**540**	**–**	803	803	–
Loans	**13,317**	**13,316**	**(1)**	12,165	12,213	48
Customers' liability under acceptances	**112**	**112**	**–**	150	150	–
Derivative financial instruments	**53**	**53**	**–**	59	59	–
Other assets	**135**	**135**	**–**	133	133	–
Liabilities						
Deposits	**13,879**	**13,901**	**(22)**	13,095	13,148	(53)
Obligations related to assets sold short	**869**	**869**	**–**	1,077	1,077	–
Obligations related to assets sold under repurchase agreements	**929**	**929**	**–**	1,100	1,100	–
Acceptances	**112**	**112**	**–**	149	149	–
Derivative financial instruments	**71**	**71**	**–**	82	82	–
Other liabilities	**751**	**751**	**–**	677	677	–
Subordinated debentures	**150**	**150**	**–**	150	152	(2)

METHODS AND ASSUMPTIONS USED IN ESTIMATING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at the carrying amount

The fair value of cash and non-interest-bearing deposits with other banks, interest-bearing deposits with other banks, assets purchased under reverse repurchase agreements, obligations related to assets sold short and obligations related to assets sold under repurchase agreements is deemed to approximate their carrying amount in light of their short-term maturities.

Securities

The fair value of securities is based on quoted market prices or, if unavailable, it is estimated using quoted market prices of similar investments.

Loans

The fair value of loans is estimated by discounting cash flows adjusted to reflect the prepayments, if any, at the prevailing interest rates in the marketplace for new loans with substantially similar terms. For certain variable rate loans subject to frequent rate revisions and loans with indeterminate maturities, the fair value is deemed to represent the carrying amount.

Derivative financial instruments

For publicly listed derivative financial instruments, the fair value is based on quoted market prices. The fair value of over-the-counter derivative financial instruments is calculated using the current market prices for instruments with similar characteristics and maturities, according to a discounted net value analysis or an appropriate pricing model that takes into account the current and contractual prices of the underlying instruments, the time value of money, the yield curve and volatility factors. The fair value of financial derivative instruments is presented under derivative financial instruments in assets or liabilities, as appropriate.

23 > Financial instruments (cont'd)

Deposits

The fair value of fixed rate deposits is estimated using discounted cash flows based on current market interest rates for deposits with substantially similar terms. The fair value of deposits without stated maturities or variable rate deposits is deemed to represent their carrying amount.

Subordinated debentures

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

Other assets and liabilities

The carrying amount of other assets and other liabilities approximates their fair value.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

(in millions of dollars)

		2007	
	Favourable fair value	**Unfavourable fair value**	**Net amount**
DESIGNATED AS HEDGE CONTRACTS			
Interest rate contracts			
Swaps	**$ 11**	**$ (17)**	**$ (6)**
OTHER CONTRACTS (1)			
Interest rate contracts			
Swaps	**9**	**(7)**	**2**
Foreign exchange contracts			
Foreign exchange swaps	**15**	**(6)**	**9**
Cross-currency interest rate swaps	**–**	**(4)**	**(4)**
Forwards	**7**	**(17)**	**(10)**
Options purchased	**1**	**–**	**1**
Options written	**–**	**(1)**	**(1)**
Equity- and index-linked contracts	**31**	**(32)**	**(1)**
TOTAL	**$ 74**	**$ (84)**	**$ (10)**

(in millions of dollars)

		2006	
	Favourable fair value	Unfavourable fair value	Net amount
DESIGNATED AS HEDGE CONTRACTS			
Interest rate contracts			
Swaps	$ 3	$ (17)	$ (14)
OTHER CONTRACTS (1)			
Interest rate contracts			
Swaps	12	(14)	(2)
Options purchased	1	–	1
Options written	–	(1)	(1)
Foreign exchange contracts			
Foreign exchange swaps	5	(1)	4
Forwards	1	(4)	(3)
Equity- and index-linked contracts	39	–	39
TOTAL	$ 61	$ (37)	$ 24

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

INTEREST RATE RISK

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

(in millions of dollars) **2007**

	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash, deposits and securities	$ 1,248	$ 1,012	$ 95	$ 556	$ 17	$ 95	$ 3,023
Actual return		4.4%	3.6%	3.9%	6.2%		
Assets purchased under reverse repurchase agreements	540	–	–	–	–	–	540
Loans	5,314	813	1,946	4,785	222	237	13,317
Actual return		6.3%	6.0%	6.0%	6.9%		
Other assets	–	–	–	–	–	907	907
Total	7,102	1,825	2,041	5,341	239	1,239	17,787
Actual return		5.3%	5.9%	5.8%	6.9%		
Liabilities and equity							
Deposits	505	1,958	3,933	7,006	4	473	13,879
Actual return		3.0%	3.6%	3.3%	–%		
Treasury items	1,340	395	–	15	47	–	1,797
Actual return		4.6%	–%	4.1%	4.3%		
Other liabilities	–	29	85	118	–	724	956
Actual return		3.8%	4.0%	4.0%	–%		
Debentures and equity	–	–	–	360	–	795	1,155
Actual return		–%	–%	2.0%	–%		
Total	1,845	2,382	4,018	7,499	51	1,992	17,787
Actual return		3.3%	3.6%	3.3%	4.0%		
Swaps, net	–	(6,172)	3,005	3,284	(117)	–	–
Sensitivity gap	5,257	(6,729)	1,028	1,126	71	(753)	–
Cumulative gap	$ 5,257	$ (1,472)	$ (444)	$ 682	$ 753	$ –	$ –

(in millions of dollars) 2006

	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets	$ 6,584	$ 1,448	$ 1,961	$ 5,799	$ 260	$ 1,244	$ 17,296
Actual return		5.3%	6.0%	5.5%	6.7%		
Liabilities and equity	2,396	2,101	3,734	7,126	33	1,906	17,296
Actual return		3.0%	3.5%	3.1%	6.3%		
Swaps, net	–	(3,444)	1,668	1,776	–	–	–
Sensivity gap	4,188	(4,097)	(105)	449	227	(662)	–
Cumulative gap	$ 4,188	$ 91	$ (14)	$ 435	$ 662	$ –	$ –

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

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

23 > Financial instruments (cont'd)

CONCENTRATION OF CREDIT RISK

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

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

	2007	2006
Quebec	**59%**	62%
Other Canadian provinces	**41%**	38%
Total	**100%**	100%

No single industry segment accounted for more than 3% (3% in 2006) of the total loans and customers' liability under acceptances.

GUARANTEES HELD

Nearly 45% of the Bank's residential mortgage loan portfolio is insured by Canada Mortgage and Housing Corporation (CMHC). Furthermore, the Bank considers that it holds excellent guarantees for the other conventional mortgage loans for which the loan value never exceeds 80% of the property's initially estimated value, in accordance with statutory requirements.

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

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

24 > Commitments and guarantees

CREDIT-RELATED COMMITMENTS

The Bank uses certain off-balance sheet credit instruments as a means of meeting the financial needs of its customers.

Undrawn amounts under approved credit facilities represent a commitment to make credit available in the form of loans or other credit instruments for specific amounts and maturities, subject to specific conditions.

Documentary letters of credit are documents issued by the Bank on behalf of customers, authorizing a third party to draw drafts to a stipulated amount under specific conditions. These letters are guaranteed by the underlying shipments of goods.

The amounts of credit-related commitments represent the maximum amount of additional credit that the Bank could be obliged to extend. These amounts are not necessarily indicative of credit risk as many of these commitments are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon.

	2007	2006
Undrawn amounts under approved credit facilities (1)	**$ 1,958,383**	$ 2,185,535
Documentary letters of credit	**$ 15,203**	$ 12,902

(1) Exclude personal credit facilities totalling $1,064,074,000 ($940,851,000 as at October 31, 2006) and credit card lines amounting to $863,059,000 ($799,113,000 as at October 31, 2006) since they are revocable at the Bank's option.

GUARANTEES

STANDBY LETTERS OF CREDIT AND PERFORMANCE GUARANTEES

In the normal course of its operations, the Bank offers to its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that clients cannot meet their obligations to third parties. The terms of these guarantees vary according to the contracts and normally do not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. No specific provision is currently recorded with regard to these guarantees. The maximum potential amount of future payments under these guarantees totalled $91,689,000 as at October 31, 2007 ($94,775,000 in 2006).

DERIVATIVE FINANCIAL INSTRUMENTS

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank sells put options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of foreign currencies at a predetermined price. The term of these options does not exceed 12 months. No specific provision is recorded with respect to these derivatives. The maximum potential amount of future payments under these derivatives, corresponding to the notional value of outstanding contracts, totalled $52,187,000 as at October 31, 2007 ($278,892,000 in 2006).

SECURITIES ACQUIRED UNDER REVERSE REPURCHASE AGREEMENTS

As at October 31, 2007, securities acquired under reverse repurchase agreements totalling $456,943,000 ($779,328,000 in 2006) were pledged as collateral in connection with obligations related to securities sold short.

OTHER INDEMNIFICATION AGREEMENTS

In the normal course of its operations, the Bank provides indemnification agreements to counterparties in certain transactions such as purchase contracts, service agreements and sales of assets. These indemnification agreements require the Bank to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. We also indemnify directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their being, or having been, directors or officers at the request of the Bank. The terms of these indemnification agreements vary based on the contract. The nature of the indemnification agreements prevents the Bank from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, the Bank has not made any significant payments under such indemnification agreements. No amount has been accrued with respect to these indemnification agreements.

LEASE COMMITMENTS, SERVICE CONTRACTS FOR INFORMATION TECHNOLOGY SERVICES AND OTHER CONTRACTS

Minimum future commitments under leases, service contracts for outsourced technology services and other contracts are as follows:

	Premises	Information technology service contracts	Other	Total
2008	**$ 20,582**	**$ 43,140**	**$ 4,665**	**$ 68,387**
2009	**19,478**	**45,555**	**3,895**	**68,928**
2010	**17,788**	**48,060**	**3,126**	**68,974**
2011	**13,718**	**43,029**	**2,171**	**58,918**
2012	**9,647**	**39,166**	**2,171**	**50,984**
Thereafter	**19,204**	**167,659**	**4,342**	**191,205**
Total	**$ 100,417**	**$ 386,609**	**$ 20,370**	**$ 507,396**

As stipulated under major service contracts, the Bank may terminate such contracts in certain circumstances.

PLEDGED ASSETS

In the normal course of its operations, the Bank pledges on-balance sheet financial assets as collateral. The following table details the granted guarantees:

	2007	2006
Pledge assets in order to participate in clearing and payment systems	**$ 268,453**	$ 382,856
Pledged assets for obligations related to assets sold under repurchase agreements	**928,987**	1,100,385
Securities	**$ 1,197,440**	$ 1,483,241
Residential mortgage loans	**79,363**	–
	$ 1,276,803	$ 1,483,241

25 > Variable interest entities

The Bank analyses the interests it holds in certain entities to determine whether they satisfy the definition of a variable interest entity (VIE), and whether the Bank is the primary beneficiary and must therefore consolidate them. The following items constitute an overview of the VIEs in which the Bank holds significant interests.

The Bank securitizes its own assets through single-seller and multi-seller securitization conduits, which are normally considered VIEs. These conduits are not consolidated under AcG-15, as these special purpose entities are specifically excluded from its scope or because the Bank is not the primary beneficiary. More details regarding the Bank's transactions with these entities are provided in note 8.

Up until it discontinued the program in 2007, the Bank used a compensation trust, which held its own shares, to economically hedge its obligation to certain employees under its stock-based compensation program. This trust was consolidated because the Bank was the primary beneficiary.

26 > Contingencies

LITIGATION

The Bank and its subsidiaries are involved in various pending legal actions which arise in the normal course of business. Many of these proceedings are related to loans granted by the Bank and are in reaction to steps taken by the Bank to collect delinquent loans and enforce the underlying securities. Certain claims for damages have also been brought against the Bank, particularly with respect to the role of one of its subsidiaries as bare trustee with regard to operations related to the administration of portfolios, as well as to applications for authorization to institute class actions in connection with certain bank fees. Management considers that adequate provisions have been set aside to cover any future losses and any amounts that might not be recoverable from insurance companies, as the case may be, in connection with these actions.

27 > Segmented information

The Bank offers its services through four business segments: Retail Financial Services, Commercial Financial Services, B2B Trust and Laurentian Bank Securities (LBS).

The Retail Financial Services segment covers the full range of savings, investment and financing products, and transactional products and services offered through its direct distribution network, which includes branches, the electronic network and the call centre, as well as Point-of-Sale financing across Canada. This business segment also offers Visa credit card services and credit insurance products, as well as trust services.

The Commercial Financial Services segment handles commercial loans and larger financings as part of banking syndicates, as well as commercial mortgage financing, leasing, factoring and other services.

The B2B Trust segment supplies generic and complementary banking and financial products to individuals through financial advisors and non-bank financial institutions across Canada. This segment also includes the deposit brokerage operations.

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

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

Results for the Bank's segments are based on internal financial reporting systems and are consistent with the accounting principles followed in the preparation of the Bank's consolidated financial statements. Transfer pricing regarding the funding of segments' assets and liabilities is based on institutional funding costs which best reflect the nature and maturities of these items. Non-interest expenses are matched against the revenues to which they relate. Indirect costs are allocated to the segments based on appropriate criteria.

2007

	Retail Financial Services (2)	Commercial Financial Services	B2B Trust	Laurentian Bank Securities	Other (4)	Total
Net interest income	$ 268,503	$ 61,618	$ 80,977	$ 1,961	$ (22,859)	$ 390,200
Other income (3)	108,647	21,197	11,510	37,617	14,755	193,726
Total revenue	377,150	82,815	92,487	39,578	(8,104)	583,926
Provision for credit losses	25,586	10,367	4,047	–	–	40,000
Non-interest expenses	297,033	36,396	42,383	30,655	20,943	427,410
Income (loss) from continuing operations before income taxes	54,531	36,052	46,057	8,923	(29,047)	116,516
Income taxes (recovered)	14,014	12,077	15,577	1,836	(17,110)	26,394
Income (loss) from continuing operations	40,517	23,975	30,480	7,087	(11,937)	90,122
Income from discontinued operations, net of income taxes	4,423	–	–	–	–	4,423
Net income (loss)	$ 44,940	$ 23,975	$ 30,480	$ 7,087	$ (11,937)	$ 94,545
Average assets (1)	$ 8,722,727	$ 2,465,275	$ 3,123,334	$ 1,503,601	$ 1,044,668	$ 16,859,605

2006

	Retail Financial Services	Commercial Financial Services (5)	B2B Trust	Laurentian Bank Securities	Other (4)	Total
Net interest income	$ 259,091	$ 59,166	$ 73,606	$ 1,018	$ (35,674)	$ 357,207
Other income	95,139	22,762	12,633	31,751	20,315	182,600
Total revenue	354,230	81,928	86,239	32,769	(15,359)	539,807
Provision for credit losses	23,047	11,136	5,817	–	–	40,000
Non-interest expenses	287,158	36,705	43,657	27,463	15,832	410,815
Income (loss) from continuing operations before income taxes	44,025	34,087	36,765	5,306	(31,191)	88,992
Income taxes (recovered)	13,873	11,417	12,473	1,458	(15,785)	23,436
Income (loss) from continuing operations	30,152	22,670	24,292	3,848	(15,406)	65,556
Income from discontinued operations, net of income taxes	4,422	–	–	–	354	4,776
Net income (loss)	$ 34,574	$ 22,670	$ 24,292	$ 3,848	$ (15,052)	$ 70,332
Average assets (1)	$ 8,206,159	$ 2,260,638	$ 2,713,829	$ 1,506,531	$ 2,004,321	$ 16,691,478

(1) The assets and liabilities are reported on an average basis, as this is the most appropriate measurement for a financial institution.
(2) The results of fiscal 2007 include the gain of $4 million ($3.3 million, net of income taxes) resulting from the global restructuring of Visa (note 5).
(3) During fiscal 2007, the IPO on the Montréal Exchange triggered the revaluation of the shares held by the Bank amounting to $21.7 million ($18.2 million, net of income taxes) in other comprehensive income. A portion of this position was subsequently sold and a gain amounting to $4.4 million ($3.7 million, net of income taxes) was reclassified under other income in the LBS segment. In addition, a loss on disposal of securities amounting to $4.3 million was incurred and presented in the Other segment.
(4) The effective tax rate in 2007 and 2006 was influenced by a number of items – see note 18 on income taxes.
(5) Our 2006 first-quarter results include a contribution to net income amounting to $0.05 million from Corporation financière Brome inc. for the two months preceding the sale of the subsidiary, as well as the resulting $0.93 million gain on the sale (note 5).

Statistical review – Consolidated balance sheet

Unaudited, as at October 31 (in thousands of dollars)	**2007**	2006	2005	2004	2003	Average annual variation 07/03
ASSETS						
Cash resources						
Cash and non-interest-bearing deposits with other banks	**$ 65,245**	$ 70,907	$ 57,737	$ 47,681	$ 54,772	**4%**
Interest-bearing deposits with other banks	**283,255**	98,722	259,791	280,751	668,152	**(19)**
Cheques and other items in transit, net	**–**	–	–	–	111,809	**(100)**
	348,500	169,629	317,528	328,432	834,733	**(20)**
Securities						
Issued or guaranteed by Canada	**1,615,695**	2,019,524	1,775,372	1,834,369	1,497,689	**2**
Issued or guaranteed by provinces and municipal corporations	**446,401**	581,384	556,727	698,510	1,025,828	**(19)**
Other securities	**612,283**	641,372	608,307	469,596	547,359	**3**
	2,674,379	3,242,280	2,940,406	3,002,475	3,070,876	**(3)**
Assets purchased under reverse repurchase agreements	**540,304**	802,546	508,073	1,133,920	882,036	**(12)**
Loans						
Personal	**4,958,176**	4,168,026	3,907,320	3,638,991	3,646,070	**8**
Residential mortgages	**6,232,778**	5,985,656	5,806,853	5,509,022	5,274,128	**4**
Commercial mortgages	**684,625**	659,014	595,946	604,085	705,101	**(1)**
Commercial and other	**1,556,831**	1,476,977	1,539,893	1,542,760	1,571,491	**–**
	13,432,410	12,289,673	11,850,012	11,294,858	11,196,790	**5**
Allowance for loan losses	**(115,322)**	(125,153)	(129,806)	(140,042)	(163,177)	**(8)**
	13,317,088	12,164,520	11,720,206	11,154,816	11,033,613	**5**
Other						
Customers' liability under acceptances	**111,891**	149,818	145,629	144,830	235,286	**(17)**
Property, plant and equipment	**137,691**	111,291	93,793	94,490	114,479	**5**
Other assets	**656,993**	655,875	781,349	748,513	566,745	**4**
	906,575	916,984	1,020,771	987,833	916,510	**–**
	$ 17,786,846	$ 17,295,959	$ 16,506,984	$ 16,607,476	$ 16,737,768	**2%**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits						
Personal	**$ 11,564,530**	$ 10,949,473	$ 10,575,416	$ 10,454,368	$ 10,508,592	**2%**
Business, banks and other	**2,314,178**	2,145,028	3,121,522	2,456,672	2,784,357	**(5)**
	13,878,708	13,094,501	13,696,938	12,911,040	13,292,949	**1**
Other						
Obligations related to assets sold short or under repurchase agreements	**1,797,662**	2,177,394	786,128	1,511,481	1,142,909	**12**
Acceptances	**111,891**	149,818	145,629	144,830	235,286	**(17)**
Other liabilities	**843,904**	777,826	815,049	902,848	751,484	**3**
	2,753,457	3,105,038	1,746,806	2,559,159	2,129,679	**7**
Subordinated debentures	**150,000**	150,000	150,000	250,525	400,000	**(22)**
Liability related to preferred shares	**–**	–	–	–	100,000	**(100)**
Non-controlling interest in a subsidiary	**–**	–	–	–	41,827	**(100)**
Shareholders' equity						
Preferred shares	**210,000**	210,000	210,000	210,000	100,000	**20**
Common shares	**256,445**	251,158	249,633	248,593	246,813	**1**
Contributed surplus	**105**	518	73	–	–	**n.a.**
Retained earnings	**537,254**	485,334	454,124	428,159	426,500	**6**
Treasury shares	**–**	(590)	(590)	–	–	**n.a.**
Accumulated other comprehensive income	**877**	–	–	–	–	**n.a.**
	1,004,681	946,420	913,240	886,752	773,313	**7**
	$ 17,786,846	$ 17,295,959	$ 16,506,984	$ 16,607,476	$ 16,737,768	**2%**

Statistical review – Consolidated statement of income

Unaudited, for the years ended October 31 (in thousands of dollars, unless otherwise indicated)	**2007**	2006	2005	2004	2003	**Average annual variation 07/03**
Loans	**$ 837,092**	$ 755,009	$ 682,591	$ 690,789	$ 870,519	**(1)%**
Securities	**58,000**	70,446	59,744	57,546	76,502	**(7)**
Deposits with other banks	**13,802**	11,721	7,864	9,807	11,658	**4**
Interest income	**908,894**	837,176	750,199	758,142	958,679	**(1)**
Deposits	**466,867**	438,335	425,473	443,260	551,389	**(4)**
Other liabilities	**44,089**	28,920	(17,164)	12,690	36,322	**5**
Subordinated debentures	**7,738**	12,714	16,199	27,184	27,742	**(27)**
Liability related to preferred shares	**–**	–	–	7,814	7,750	**(100)**
Interest expense	**518,694**	479,969	424,508	490,948	623,203	**(4)**
Net interest income	**390,200**	357,207	325,691	267,194	335,476	**4**
Other income	**193,726**	182,600	184,304	206,083	293,255	**(10)**
Total revenue	**583,926**	539,807	509,995	473,277	628,731	**(2)**
Provision for credit losses	**40,000**	40,000	40,000	40,000	54,000	**(7)**
Salaries and employee benefits	**229,290**	213,583	198,687	188,830	210,328	**2**
Premises and technology	**111,559**	108,151	108,968	105,915	130,133	**(4)**
Other	**86,561**	89,081	82,229	82,108	107,854	**(5)**
Non-interest expenses	**427,410**	410,815	389,884	376,853	448,315	**(1)**
Income from continuing operations before income taxes and non-controlling interest in a subsidiary	**116,516**	88,992	80,111	56,424	126,416	**(2)**
Income taxes	**26,394**	23,436	24,488	14,637	38,757	**(9)**
Income from continuing operations before non-controlling interest in a subsidiary	**90,122**	65,556	55,623	41,787	87,659	**1**
Non-controlling interest in a subsidiary	**–**	–	–	1,916	3,640	**(100)**
Income from continuing operations	**90,122**	65,556	55,623	39,871	84,019	**2**
Income from discontinued operations, net of income taxes	**4,423**	4,776	9,659	–	–	**n.a.**
Net income	**$ 94,545**	$ 70,332	$ 65,282	$ 39,871	$ 84,019	**3%**
Preferred share dividends, including applicable income taxes	**$ 11,966**	$ 11,766	$ 12,030	$ 8,606	$ 6,095	**18%**
Net income available to common shareholders	**$ 82,579**	$ 58,566	$ 53,252	$ 31,265	$ 77,924	**1%**
Common share dividends	**$ 27,474**	$ 27,356	$ 27,287	$ 27,248	$ 27,164	**–%**
Average number of common shares outstanding (in thousands)						
Basic	**23,678**	23,605	23,525	23,485	23,416	**–%**
Diluted	**23,728**	23,649	23,552	23,521	23,457	**–%**
Income per common share from continuing operations						
Basic	**$ 3.30**	$ 2.28	$ 1.85	$ 1.33	$ 3.33	**–%**
Diluted	**$ 3.29**	$ 2.28	$ 1.85	$ 1.33	$ 3.32	**–%**
Net income per common share						
Basic	**$ 3.49**	$ 2.48	$ 2.26	$ 1.33	$ 3.33	**1%**
Diluted	**$ 3.48**	$ 2.48	$ 2.26	$ 1.33	$ 3.32	**1%**
Dividends per common share	**$ 1.16**	$ 1.16	$ 1.16	$ 1.16	$ 1.16	**–%**
Dividend payout ratio	**33.3%**	46.7%	51.2%	87.1%	34.9%	
Book value per common share	**$ 33.34**	$ 31.18	$ 29.85	$ 28.78	$ 28.73	**4%**
Return on common shareholders' equity	**10.9%**	8.2%	7.8%	4.6%	12.4%	
(as a percentage of average assets)						
Net interest income	**2.31%**	2.14%	1.99%	1.64%	1.81%	
Other income	**1.15%**	1.09%	1.13%	1.26%	1.58%	
Provision for credit losses	**0.24%**	0.24%	0.24%	0.24%	0.29%	
Non-interest expenses	**2.54%**	2.46%	2.39%	2.31%	2.42%	
Income from continuing operations	**0.53%**	0.39%	0.34%	0.24%	0.45%	
Net income	**0.56%**	0.42%	0.40%	0.24%	0.45%	
Net income available to common shareholders	**0.49%**	0.35%	0.33%	0.19%	0.42%	
Average assets (in millions of dollars)	**$ 16,860**	$ 16,691	$ 16,328	$ 16,327	$ 18,548	**(2)%**
Number of full-time equivalent employees	**3,289**	3,238	3,180	3,125	3,159	**1%**
Number of branches	**157**	158	157	153	155	**–%**
Number of automated banking machines	**338**	325	313	293	284	**4%**

Quarterly highlights

Unaudited, for the quarters ended (in thousands of dollars, unless otherwise indicated)				2007				2006
	Oct. 31	July 31	April 30	Jan. 31	Oct. 31	July 31	April 30	Jan. 31
Interest income	$ 240,163	$ 231,617	$ 217,397	$ 219,717	$ 218,751	$ 218,943	$ 200,757	$ 198,725
Interest expense	142,433	129,850	121,891	124,520	126,669	127,451	115,073	110,776
Net interest income	97,730	101,767	95,506	95,197	92,082	91,492	85,684	87,949
Other income	47,892	49,275	50,165	46,394	44,977	46,533	45,300	45,790
Total revenue	145,622	151,042	145,671	141,591	137,059	138,025	130,984	133,739
Provision for credit losses	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Non-interest expenses	105,757	108,373	108,951	104,329	104,818	103,245	99,989	102,763
Income from continuing operations before income taxes	29,865	32,669	26,720	27,262	22,241	24,780	20,995	20,976
Income tax (recovery)	4,130	9,491	6,067	6,706	4,105	18,624	(3,610)	4,317
Income from continuing operations	25,735	23,178	20,653	20,556	18,136	6,156	24,605	16,659
Income from discontinued operations, net of income taxes	4,423	–	–	–	4,422	–	30	324
Net income	$ 30,158	$ 23,178	$ 20,653	$ 20,556	$ 22,558	$ 6,156	$ 24,635	$ 16,983
Preferred share dividends, including applicable income taxes	$ 2,996	$ 2,990	$ 2,990	$ 2,990	$ 2,811	$ 2,986	$ 2,987	$ 2,982
Net income available to common shareholders	$ 27,162	$ 20,188	$ 17,663	$ 17,566	$ 19,747	$ 3,170	$ 21,648	$ 14,001
(as a percentage of average assets)								
Net interest income	2.26%	2.39%	2.34%	2.27%	2.19%	2.16%	2.11%	2.10%
Other income	1.11%	1.16%	1.23%	1.11%	1.07%	1.10%	1.11%	1.10%
Provision for credit losses	0.23%	0.23%	0.25%	0.24%	0.24%	0.24%	0.25%	0.24%
Non-interest expenses	2.44%	2.54%	2.67%	2.49%	2.49%	2.43%	2.46%	2.46%
Net income	0.70%	0.54%	0.51%	0.49%	0.54%	0.15%	0.61%	0.41%
Net income available to common shareholders	0.63%	0.47%	0.43%	0.42%	0.47%	0.07%	0.53%	0.34%
Average assets (in millions of dollars)	$ 17,170	$ 16,920	$ 16,734	$ 16,610	$ 16,679	$ 16,832	$ 16,675	$ 16,579
Return on common shareholders' equity	13.8%	10.5%	9.7%	9.4%	10.8%	1.7%	12.5%	7.9%
Average number of common shares outstanding (in thousands)								
Basic	23,783	23,662	23,638	23,627	23,616	23,613	23,612	23,580
Diluted	23,843	23,728	23,685	23,656	23,639	23,644	23,673	23,640
Income per common share from continuing operations								
Basic	$ 0.96	$ 0.85	$ 0.75	$ 0.74	$ 0.65	$ 0.13	$ 0.92	$ 0.58
Diluted	$ 0.95	$ 0.85	$ 0.75	$ 0.74	$ 0.65	$ 0.13	$ 0.91	$ 0.58
Net income per common share								
Basic	$ 1.14	$ 0.85	$ 0.75	$ 0.74	$ 0.84	$ 0.13	$ 0.92	$ 0.59
Diluted	$ 1.14	$ 0.85	$ 0.75	$ 0.74	$ 0.84	$ 0.13	$ 0.91	$ 0.59
Dividends per common share	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29
Book value per common share	$ 33.34	$ 32.50	$ 31.95	$ 31.49	$ 31.18	$ 30.63	$ 30.78	$ 30.15
Share price – Close	$ 43.70	$ 38.00	$ 32.24	$ 30.60	$ 29.05	$ 30.45	$ 32.58	$ 35.15
Common share dividends	$ 6,904	$ 6,866	$ 6,856	$ 6,848	$ 6,843	$ 6,843	$ 6,835	$ 6,835
(in millions of dollars)								
Balance sheet assets	$ 17,787	$ 18,011	$ 17,809	$ 17,177	$ 17,296	$ 17,062	$ 17,307	$ 16,742
Risk-weighted assets	$ 9,724	$ 9,575	$ 8,991	$ 8,816	$ 8,702	$ 8,533	$ 8,612	$ 8,450
Tier I capital – BIS	$ 950	$ 927	$ 912	$ 899	$ 893	$ 879	$ 883	$ 868
Regulatory capital – BIS	$ 1,131	$ 1,110	$ 1,108	$ 1,087	$ 1,079	$ 1,067	$ 1,193	$ 1,192
Tier I BIS capital ratio	9.8%	9.7%	10.1%	10.2%	10.3%	10.3%	10.3%	10.3%
Total BIS capital ratio	11.6%	11.6%	12.3%	12.3%	12.4%	12.5%	13.9%	14.1%
Assets to capital multiple	15.8x	16.3x	16.2x	15.9x	16.1x	16.1x	14.6x	14.1x

Corporate governance

Today, as in the past, strong corporate governance is an important component in managing Laurentian Bank's activities. In 1987, Laurentian Bank became the first financial institution to separate the roles of Chairman of the Board and of President and CEO. Moreover, its corporate governance practices are among the most exemplary.

All members of the Board of Directors, except the President and Chief Executive Officer, are independent and unrelated to the Bank's management. The independent status of directors is determined in accordance with criteria defined by the Human Resources and Corporate Governance Committee which are used to evaluate the status of every director on which ever committee he or she sits.

The role of the Board of Directors is essentially to supervise the management of the business and internal affairs of the Bank. Board deliberations generally end with a discussion period held without the presence of management. The members of the Board commit to act in accordance with standards set forth in the *Code of Conduct for Directors*, which covers issues such as general conduct, contribution to the work of the Board and its committees, insider trading, conflicts of interest and other situations that may affect a director's independence.

The Board of Directors has delegated some of its responsibilities and functions to three committees whose members are appointed from among the members of the Board. The Audit Committee, the Risk Management Committee and the Human Resources and Corporate Governance Committee provide regular written and verbal updates and reports on their work to the Board of Directors. Furthermore, they present a report to shareholders to be included in the management proxy circular.

AUDIT COMMITTEE

The primary function of the Audit Committee is to support the Board of Directors in overseeing the integrity of the Bank's financial statements, the relevance and effectiveness of its internal controls, the qualifications and independence of the external auditor, the performance of the internal audit function and of the external auditor, as well as the Bank's compliance with statutory and regulatory requirements. In order to do so, the Board appointed directors meeting the criteria for independence and possessing an appropriate financial literacy level. Furthermore, the Committee meets on a regular basis with the internal and external auditor without the presence of management.

More specifically, its responsibilities include:

With respect to the external auditor: recommend the appointment or dismissal of the external auditor; assure itself of its competence, independence and the adequacy of its resources and review its mandate and compensation; oversee its activities and review its performance;

With respect to financial statements and reports: oversee the integrity and quality of financial statements and assure itself that the institution's accounting practices are prudent and appropriate; review the annual and quarterly financial statements, management's discussion and analysis and press releases regarding annual and quarterly results, the annual information form and any statement required by regulatory authorities prior to their publication;

With respect to the internal audit function: assure itself of the competence, independence and the adequacy of the resources of the officer in charge of internal audit and approve his/her mandate; follow up on his/her material findings and recommendations;

With respect to internal controls: assure itself that Management implements appropriate internal control and management information systems; review and approve such systems and assure itself of their integrity and effectiveness; assure itself that Management implements procedures regarding the receipt, retention and handling of complaints received with respect to accounting, internal accounting controls or audit;

With respect to compliance: assure itself of the competence, independence and the adequacy of the resources of the officer in charge of compliance; follow up on his/her material findings and recommendations;

With respect to supervisory agencies: follow up on the findings and recommendations of the regulatory authorities.

RISK MANAGEMENT COMMITTEE

In addition to discharging statutory obligations to review transactions with related parties of the Bank, the Risk Management Committee ensures that the Bank has adopted an adequate and effective risk management process intended to identify, measure and manage risks, and has established relevant policies to manage credit, market, liquidity and financing, operational, capital management, regulatory and reputation risks. The Committee is composed of independent directors which hold discussions with persons in charge of supervisory activities (the internal auditor as well as the chief risk officer and the chief compliance officer) without the presence of management.

To this end, the Committee must assure itself that Management identifies the business's principal risks and implements systems to enable to measure and adequately manage them and assure itself of the integrity and effectiveness of such systems; review the overall risk philosophy and risk tolerance; assure itself of the competence, independence and the adequacy of the resources of the officer in charge of integrated risk management and approve his/her mandate; follow up on his/her material findings and recommendations; approve loans which under the credit policies are the responsibility of the Committee and examine the quality of the loan portfolio and the adequacy of allowances for loan losses; assure itself that Management adopts a process to determine the appropriate capital level for the Bank based on assumed risks; review the Code of Ethics and Privacy Code applicable to officers and employees and assure itself of their respect.

HUMAN RESOURCES AND CORPORATE GOVERNANCE COMMITTEE
The Human Resources and Corporate Governance Committee is responsible for human resources and corporate governance matters. The Committee is composed of independent directors of which only one heads a public company. Certain elements of its mandate are discussed without the presence of management.

With respect to human resources, the Committee's duties include:
With respect to human resources management: annually review the performance management process and evaluate its effectiveness; assure itself that Management implements a plan to promote the hiring, retention and motivation of qualified personnel;
With respect to senior officers: review appointments of senior officers; approve the establishment of objectives for members of the executive committee and evaluate their performance; assure itself of the integrity of senior officers and that they create a culture of integrity throughout the Bank;
With respect to compensation: review the overall compensation framework (including incentive compensation, fringe benefits and pension plans) for senior officers, with a view to furthering the Bank's business objectives, as well as the material terms and conditions of the compensation and employment conditions applicable to the Bank's other employees and officers;
With respect to pension plans: assure itself that Management implements appropriate internal oversight systems with a view to adequately manage pension plans.

With respect to corporate governance, the Committee's duties include:
With respect to the President and Chief Executive Officer: recommend to the Board the appointment and dismissal of the President and Chief Executive Officer; review the objectives of the President and Chief Executive, his/her evaluation, compensation and employment conditions; implement a succession plan for the President and Chief Executive Officer;
With respect to the Board and committees: review corporate governance rules and assure itself of their respect; review the functions of the Board of Directors, its membership, compensation and size; review the constitution, membership and functions of the committees; review the Code of Conduct for the members of the Board and assure itself of its respect; ensure continuing training for the members of the Board; establish criteria to evaluate the independence of the members of the Board and assess their independence periodically; evaluate the Board and its members; ensure the recruitment of new Board members to be submitted to election by the shareholders, and see to their orientation and integration;
With respect to public disclosure: assure itself that the shareholders are well informed of the Bank's state of affairs and deal with all material disagreements between the Bank and its shareholders.

The complete text of the functions of the Board of Directors and each Committee as well as the Committees' report can be found in the management proxy circular.

Board of directors

L. Denis Desautels O.C., FCA (2001)
Ottawa ON
Chairman of the Board
Laurentian Bank of Canada
Executive-in-Residence,
School of Management
of the University of Ottawa

Pierre Michaud C.M. (1990)
Montreal QC
Vice Chairman of the Board
Laurentian Bank of Canada
Chairman of the Board
Provigo Inc.

Lise Bastarache (2006)
Candiac QC
Corporate Director and Economist

Jean Bazin Q.C. (2002)
Nuns' Island, Verdun QC
Counsel
Fraser Milner Casgrain LLP

Richard Bélanger (2003)
Lac-Beauport QC
President
Toryvel Group Inc.

Ève-Lyne Biron (2003)
Candiac QC
President and General Manager
Laboratoire Médical Biron inc.

Isabelle Courville (2007)
Dorval QC
President
Hydro Québec TransÉnergie

Pierre Genest (2006)
Québec QC
Chairman of the Board
SSQ, Life Insurance Company Inc.

Georges Hébert (1990)
Town of Mount-Royal QC
President
Prosys-Tec Inc.

Veronica S. Maidman (2001)
Toronto ON
Chair, Advisory Council
Equifax Canada Inc.

Carmand Normand (2004)
North Hatley QC
Executive Chairman
Addenda Capital Inc.

Réjean Robitaille (2006)
La Prairie QC
President and Chief Executive Officer
Laurentian Bank of Canada

Jonathan I. Wener C.M. (1998)
Hampstead QC
Chairman of the Board
Canderel Management Inc.

Management committee

Réjean Robitaille
President and
Chief Executive Officer

Since starting with Laurentian Bank in 1988, Mr. Robitaille has acquired a vast knowledge of the business through experience in a number of very diverse functions, notably as the Senior Vice-President and Treasurer (2000 to 2003) and the Executive Vice-President, Retail Financial Services (2003 to 2005). He then occupied the position of Executive Vice-President, Retail Financial Services and Commercial Financial Services from August 2005 to June 2006, at which time he was responsible for three business lines: Retail Financial Services, Commercial Financial Services and B2B Trust. He was then appointed Senior Executive Vice-President and Chief Operating Officer in June 2006 before becoming the President and Chief Executive Officer of the Bank in December 2006.

Luc Bernard
Executive Vice-President
Retail Financial Services and SME

Mr. Bernard joined Laurentian Bank in 2001 as the Senior Vice-President, Marketing and Product Management. He was promoted to Executive Vice-President, Retail Financial Services in August 2005. Since February 2007, he has also been managing the Quebec SME sector. Mr. Bernard, a recognized marketing expert, formerly headed his own firm in that field. He has been in executive positions in a number of firms, notably in the financial sector. He holds an MBA and is a member of the Insurance Institute of Canada.

François Desjardins
Executive Vice-President
of the Bank, and President and
Chief Executive Officer of B2B Trust

With a diploma in business administration from HEC Montréal, Mr. Desjardins has been with the Bank since 1991. Having worked in different sectors of the Bank, he is intimate with all of its inner workings. In 1999, he was name Vice-President, Direct Financial Services, where he managed all operations related to the Client Call Centres, Web sites, debit and credit cards, as well as the automated banking machine network. En 2002, his responsibilities were broadened to include IT Project Management for the Retail Financial Services sector. He was appointed President and Chief Executive Officer of B2B Trust in June 2004.

Bernard Piché
Senior Executive Vice-President
Treasury, Capital Markets and Brokerage

Mr. Piché brings the Bank a wealth of experience, which he acquired both in Canada and abroad. His vast knowledge of economics, treasury and capital markets is a valuable asset for the organization, which he joined in 1994 as Senior Vice-President, Treasury and Brokerage, before becoming the President and Chief Executive Officer of LBC Securities the very next year. In 2000, he was named Co-Chief Operating Officer and Chief Executive Officer of B2B Trust, then its Presidency from September 2002 to July 2004, when the Bank appointed him Senior Executive Vice-President, Treasury, Capital Markets and Brokerage.

Lorraine Pilon
Executive Vice-President
Corporate Affairs and Secretary

A lawyer by training, Ms. Pilon joined the Bank in 1990, working with the Legal Affairs sector. She climbed the career ladder quickly thanks to her expertise in the banking industry and to her keen business sense. Ms. Pilon oversees several sectors: Legal Affairs and Compliance, the Secretariat, Public Affairs, Communications and Investor Relations, Internal Audit, and Security.

Robert Cardinal
Senior Executive Vice-President
Finance, Administration and Strategic
Development and Chief Financial Officer

A chartered accountant, Mr. Cardinal has been with the Bank since 1991. His expertise and integrity have earned him successive promotions through the organization. In 2001, after occupying various vice-presidential posts, he was named Senior Executive Vice-President, Finance, Control and Strategic Development, which position was expanded in 2004 to Senior Executive Vice-President, Finance, Administration and Strategic Development. He oversees all of the Bank's operations in finance, tax services, administrative services, integrated risk management and information technologies, as well as real estate management and purchasing.

Planning committee

Dana Ades-Landy
Senior Vice-President,
National Accounts,
Commercial Banking

Marcel Beaulieu
Vice-President,
Product Management

Yassir Berbiche
Senior Vice-President
and Treasurer

Louise Bourassa
Senior Vice-President,
Administrative Services

Denise Brisebois
Senior Vice-President,
Human Resources

Gladys Caron
Vice-President, Public
Affairs, Communications
and Investor Relations

Daniel Desjardins
Vice-President,
Commercial Banking,
Québec

Jean-François Doyon
Vice-President,
Internal Audit and
Corporate Security

Philippe Duby
Senior Vice-President,
Real Estate Management
and Chief Information Officer

Richard Fabre
Vice-President,
Retail Financial Services,
Northwest Region

Guy Filiatrault
Vice-President,
Point-of-sales Financing

Stéphane Gagnon
Vice-President,
Marketing

William Galbraith
Vice-President,
Business Development
Commercial Banking,
Ontario

Michel Garneau
Vice-President,
Retail Financial Services,
Québec and Eastern Québec

Michel Gendron
Vice-President,
National Accounts,
Commercial Banking

Paul Hurtubise
Senior Vice-President,
Commercial and
Real Estate Financing

Claude Jobin
Vice-President,
Credit

Diane Lafresnaye
Vice-President,
Finance and Administration,
B2B Trust

Rick C. Lane
Vice-President,
Real Estate Financing,
Ontario and Western Canada

André Lopresti
Vice-President
and Chief Accountant

Simon Lussier
Senior Vice-President,
Institutional Equity,
Laurentian Bank Securities Inc.

Sylvain Malo
Vice-President,
Direct Financial Services

Louis Marquis
Senior Vice-President,
Credit

Pierre Minville
Senior Vice-President,
Integrated Risk Management,
Mergers and Acquisitions

Mary Ann Mooney
Vice-President,
Operation, B2B Trust

Marc Paradis
Senior Vice-President,
Strategic Planning
and Control

Yves Ruest
Vice-President,
Finance and Administration,
Chief Financial Officer and
Chief Compliance Officer,
Laurentian Bank Securities Inc.

Claude Sasseville
Vice-President,
Retail Financial Services,
Montréal Centre

Al Spadaro
Vice-President,
Business Development,
B2B Trust

Eva Stamadianos
Vice-President,
Human Resources
and Chief Risk Officer,
B2B Trust

Michel C. Trudeau
President and Chief
Executive Officer,
Laurentian Bank Securities Inc.

Riccardo Magini
Senior Vice-President*,
Retail Services, Laurentian
Bank Securities Inc.

* Title subject to approval of
self-regulatory organizations

Branches

Alma
500 Sacré-Cœur W.

Amos
1 1st Avenue W.

Baie Comeau
600 Laflèche

Belœil
546 Sir-Wilfrid-Laurier

Blainville
1356 Curé-Labelle
9 de la Seigneurie

Boisbriand
2250 du Faubourg

Boucherville
999 Montarville

Brossard
1635 Rome

Campbell's Bay
148 Front

Chambly
1495 Brassard

Côte St-Luc
5479 Westminster

Châteauguay
111 Saint-Jean Baptiste

Chibougamau
530 3rd Street

Dolbeau–Mistassini
1372 Wallberg

Dollard-des-Ormeaux
4057 Saint-Jean
3500 des Sources

Dorval
325 Dorval

Drummondville
571 Saint-Joseph

Fort Coulonge
532 Baume

Gatineau
139 de l'Hôpital
75 du Plateau
770 Saint-Joseph

Granby
40 Évangéline

Grand-Mère
531 6th Avenue

Grenville
240 Principale

Joliette
373 Notre-Dame

Kirkland
3876 St-Charles

Lachute
470 Principale W.

La Prairie
995 Taschereau

Laval
928 Highway Chomedey W.
233 Curé-Labelle
3387 Dagenais W.
510 des Laurentides
750 Montrose
3870 Notre-Dame
1899 René-Laennec
1995 Saint-Martin W.
4600 Samson

Longueuil
2836 chemin Chambly
4 Saint-Charles E.
6250 Cousineau
5925 Payer
3700 Taschereau

Maniwaki
111 Desjardins

Mascouche
848 Masson

Mont Laurier
476 de la Madone

Montréal
4945 Beaubien E.
6593 Beaubien E.
4155 rue Bélanger E.
5900 Bélanger E., Saint-Leonard
290 Chabanel W.
8262 Champlain, Lasalle
4135 D'Amiens, Montreal N.
6225 Darlington
865 Décarie, Saint-Laurent
5159 Décarie
88 Don Quichotte
885 Fleury E.
2200 Fleury E.
10451 Gouin W., Pierrefonds– Roxboro
5501 Henri-Bourassa E., Montreal N.
8595 Hochelaga
136 Jacques-Bizard, Bizard Island
7050 Jarry E., Anjou
4725 Jarry E., Saint-Léonard
10 Jean-Talon E.
5355 Jean-Talon E., Saint-Leonard
555 Jean-Talon W.
6651 Joseph-Renaud, Anjou
9095 Lajeunesse
8410 Langelier, Saint-Leonard
6525 Léger, Montreal-N.
6500 de Lorimier
2937 Masson
8646 Maurice-Duplessis, Rivière des Prairies
6270 Monk
1981 McGill College
1100 du Mont Royal E.
8787 Newman, Lasalle
1675 Notre-Dame, Lachine
3720 Ontario E.
7705 Papineau
5059 du Parc
1430 Poirier, Saint-Laurent
1100 René-Lévesque W.
1155 Sainte-Catherine E.
8090 Saint-Denis
391 Saint-Jacques
4080 Saint-Jacques
3730 Saint-Laurent
7192 Saint-Michel
8930 Saint-Michel
2490 de Salaberry
1805 Sauvé W.
801 Sherbrooke E.
6615 Sherbrooke E.
12050 Sherbrooke E.
5651 Sherbrooke W.
1291 Shevchenko, Lasalle
6640 Somerled
1447 Van Horne, Outremont
4790 Van Horne
5501 Verdun, Verdun
8945 Viau, Saint-Leonard
4214 Wellington, Verdun

Murdochville
601, 5th Street

New Carlisle
168 Gérard-D.-Lévesque

New Richmond
228 Perron

Nicolet
92 Place 21 Mars

Ottawa
1021 Cyrille Road

Paspébiac
120 Gérard-D.-Lévesque

Port Daniel
10 132 Road

Québec
999 de Bourgogne
510 Charest E.
1221 Charles-Albanel
580 Grande Allée E.
8000 Henri-Bourassa
2600 Laurier
2700 Laurier
1275 Chemin Sainte-Foy
3930 Wilfrid-Hamel W.
3323 du Carrefour
1350 Lebourneuf

Repentigny
150 Iberville
910A Iberville

Rimouski
320 Saint-Germain E.

Roberval
773 Saint-Joseph

Rosemère
401 Labelle

Rouyn–Noranda
24 Perreault E.

Saguenay
1611 Talbot, Chicoutimi
3460 Saint-François, Jonquière
1220 du Port, La Baie

Saint-Bruno de Montarville
1354 Roberval

Saint-Constant
400 132 Road

Sainte-Marie-de-Beauce
16 Notre-Dame N.

Sainte-Thérèse-de-Blainville
95 Curé-Labelle

Saint-Eustache
569 Arthur-Sauvé

Saint-Georges
11400 1st Avenue

Saint-Hyacinthe
5915 Martineau

Saint-Jean-sur-Richelieu
605 Pierre-Caisse

Saint-Jérome
900 Grignon

Saint-Lambert
400 Victoria

Saint-Raymond
300 Saint-Joseph

Sept-Îles
770 Laure

Sherbrooke
2637 King W.
4857 Bourque, Rock Forest

Sorel–Tracy
831 route Marie-Victorin

Terrebonne
1090 Moody

Thetford Mines
222 Frontenac W.

Trois-Rivières
425 des Forges
4450 des Forges

Val d'Or
872 3rd Avenue

Vaudreuil–Dorion
43 Cité des Jeunes

Valleyfield
187 Victoria

Victoriaville
1073 Jutras E.

Westmount
4848 Sherbrooke W.

Offices

Agricultural Financing

Drummondville
571 Saint-Joseph

Granby
40 Évangéline

Lachute
470 Principale

Saint-Hyacinthe
5915 Martineau

Saint-Jean-sur-Richelieu
605 Pierre-Caisse

Sainte-Marie-de-Beauce
16 Notre-Dame N.

Victoriaville
1073 Jutras E.

B2B Trust

Calgary
2635-37th Avenue NE.
Suite 203

Halifax
2059 Saskville Dr.

Montréal
1981 McGill College Avenue
Suite 1675

Toronto – Head Office
130 Adelaide Street W.
Suite 200

Vancouver
1124 Lonsdale Avenue
Suite 405

Commercial Financing

Drummondville
571 St-Joseph

Gatineau
770 Saint-Joseph

Kitchener
10 Duke Street W.

Laval
1995 St-Martin W.
2nd floor

Longueuil
4 St-Charles E.

Mississauga
989 Derry Road E.
Suite 303

Montréal
255 Crémazie E.
Suite 1100

Montréal – National Accounts
1981 McGill College Avenue
Suite 1670

Montréal E.
6625 Sherbrooke E.
Suite 203

Québec
2700 Laurier
Suite 2287

Saguenay
1611 Talbot
Suite 100

Sherbrooke
2637 King W.

Thornhill
8500 Leslie Street
Suite 100

International Services

Markham (Ontario)
11 Allstate Parkway
Suite 430

Montréal
1981 McGill College Avenue
Suite 1750

Laurentian Bank Securities Inc.

Saguenay
1611 Talbot
Chicoutimi Sector

Cornwall
55 Water Street W.
Suite 385

Drummondville
645 Saint-Joseph
Suite 100

Granby
20 Place du Lac

Kamouraska
622 Elzéar

Kirkland
3876 Saint Charles

Laval
2525 Daniel-Johnson
Suite 500

Longueuil
1111 St-Charles W.
Suite 350

Montréal – Head Office
1981 McGill College Avenue
Suite 100

Québec
2505 Laurier
Suite 100

Saint-Jean-sur-Richelieu
100 Richelieu
Suite 150

Saint-Hyacinthe
1870 Saint-Antoine

Toronto
130 Adelaide Street W.

Sainte-Thérèse-de-Blainville
212 Labelle
Suite 102

Laurentian Trust of Canada Inc.

Montréal – Head Office
1981 McGill College Avenue
20th floor

Montréal
425 de Maisonneuve W.
1st floor
555 Chabanel Street W.
Suite 520

LBC Financial Services Inc.

Montréal – Head Office
1981 McGill College Avenue
20th floor

Montréal
425 de Maisonneuve W.
1st Floor

LBC Trust

Toronto– Head Office
130 Adelaide Street W.
Suite 200

Montréal
1981 McGill College Avenue
20th floor
555 Chabanel Street W.
Suite 520

Micro-business

Alma
500 Sacré-Cœur W.

Chicoutimi
1611 Talbot
Suite 100

Montréal
255 Crémazie E.
Suite 1100

Québec
2700 Laurier
Suite 2287

Private Banking

Montréal
1981 McGill College Avenue
Mezzanine, South Tower

Real Estate Financing

Calgary
1122 – 4 Street South W.
Suite 450

Kitchener
10 Duke Street W.
Suite 100

Montréal
1981 McGill College Avenue
Mezzanine

Ottawa
1021 Cyrville Road
Unit 9

Toronto
130 Adelaide Street W.
3rd floor

Vancouver
700 W. Georgia Street
Suite 603

Main subsidiaries

As at October 31, 2007

Name	Head office address	Carrying value of voting shares owned by the Bank (1) ($000)	Percentage of voting shares owned by the Bank
B2B Trust	Toronto, Canada	$ 224,767	100%
Laurentian Trust of Canada Inc.	Montréal, Canada	$ 71,376	100%
LBC Trust	Toronto, Canada	$ 47,627	100%
Laurentian Bank Securities Inc.	Montréal, Canada	$ 25,824	100%
LBC Financial Services Inc.	Montréal, Canada	$ 2,213	100%
LBC Investment Management Inc.	Montréal, Canada	$ 149,910	100%
V.R. Holding Insurance Company Ltd. (2)	St. James, Barbados	$ 14,468	100%

(1) The carrying value of voting shares is stated at the Bank's net equity in these investments.
(2) V.R. Holding Insurance Company Ltd. is owned at 100% by LBC Investment Management Inc.

Shareholder information

Head office
Tour Banque Laurentienne
1981 McGill College Avenue
Montréal, Québec H3A 3K3
Tel.: 514 284-4500 ext. 5996
Fax: 514 284-3396

Telebanking Centre,
Automated Banking
and customer service:
(514) 252-1846
(Montreal region)
No charge dial:
1-800-252-1846
Website:
www.laurentianbank.ca
Swift Code: BLCM CA MM

Annual meeting
The Annual Meeting of the Shareholders of the Bank will be held on Tuesday, March 11, 2008, at 9:30 a.m., at the Monument-National, Salle Ludger-Duvernay, 1182 boul. Saint-Laurent, Montréal, Québec H2X 2S5.

Valuation day price
For capital gains purposes, the market value of Laurentian Bank common shares on Valuation day, December 22, 1971, adjusted for the stock splits of July 1983 and January 1987, was $3.72.

Transfer agent and Registrar
Computershare
Investor Services Inc.
1500 University Street
Suite 700
Montréal, Québec H3A 3S8

Ombudsman's office
Laurentian Bank of Canada 1981
McGill College Avenue 14th Floor
Montréal, Québec H3A 3K3
514 284-7192
1-800-473-4782

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

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

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

Direct deposit service
Shareholders of the Bank may, by advising the Transfer Agent in writing, have their dividends deposited directly into an account held at any financial institution member of the Canadian Payments Association.

This Annual Report was produced by the Public Affairs, Communications and Investor Relations Department of Laurentian Bank.

Vous pouvez recevoir une version française de ce rapport annuel en faisant parvenir votre demande par écrit à :
Banque Laurentienne
1981, avenue McGill College,
20e étage
Montréal (Québec) H3A 3K3

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Stock symbol and dividend payment

The common and preferred shares indicated below are listed on the Toronto Stock Exchange.	Code CUSIP / Stock Symbol	Dividend Record Date*	Dividend Payment Date*
Common shares	51925D 10 6 LB	First business day of:	
		January	February 1
		April	May 1
		July	August 1
		October	November 1
Preferred shares			
Series 9	51925D 87 4 LB.PR.D	**	March 15
Series 10	51925D 86 6 LB.PR.E	**	June 15
			September 15
			December 15

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

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