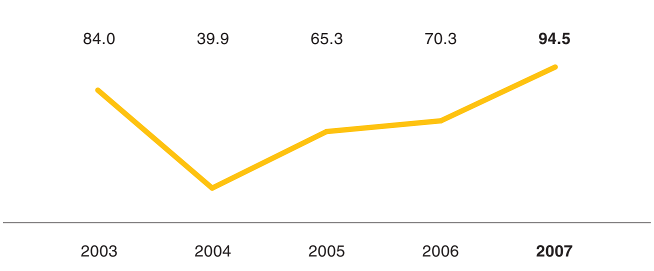
Management discussion and analysis

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.

HYPOTHÈQUE
Moi aussi, je suis capable !
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,

Retail Financial Services

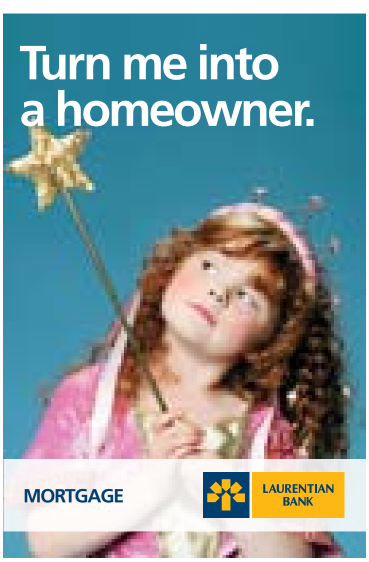
For fiscal 2007, the Retail Financial Services business segment's contribution to the net income of the Bank improved by $10.3 million and stood at $44.9 million, compared to $34.6 million in 2006.

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.

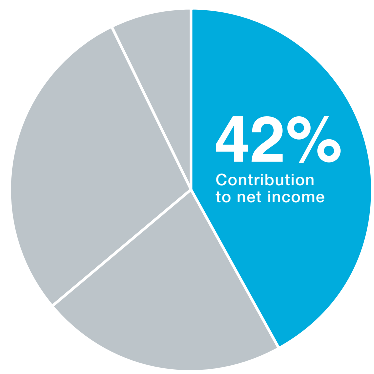
The income tax expense was $14.0 million (25.7% effective tax rate) for 2007, compared with $13.8 million (31.5% effective tax rate) for 2006. This improvement in the effective tax rate mainly resulted from lower taxes on revenues from credit insurance operations and on the Visa gain.



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.

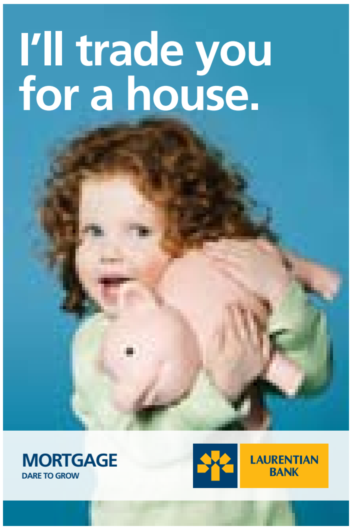
Similarly, with the potential of all its customer information management systems, the sector has the management tools it needs for a good understanding of individual customers and to better support them in managing their financial affairs. The company's objective is to be the best bank possible for all 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.

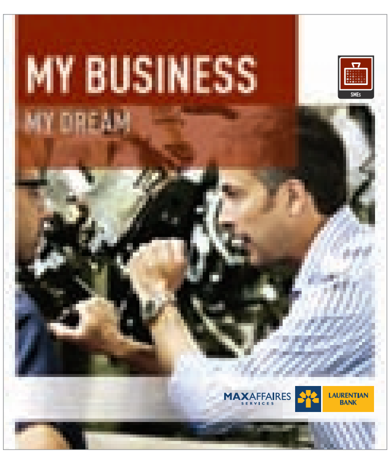
On this basis, the sector is implementing measures designed to develop and showcase the talents and skills of its resources at all levels. With these major investments in human capital, the Bank is implementing a more effective performance management approach, with a goal of optimizing everyone's contribution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

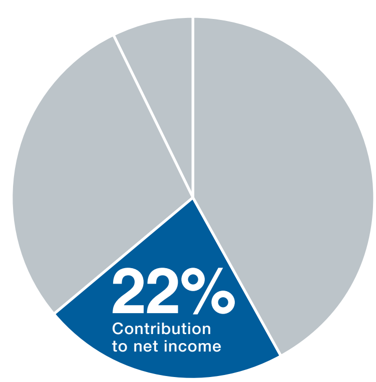
A better-adapted structure
During fiscal 2007, the Commercial Financial Services sector was restructured to provide better efficiencies. The sector is now comprised of three operating units namely, SME Quebec, Major Accounts and Real Estate Financing/Commercial Banking Ontario.
Concurrent with the Bank's 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

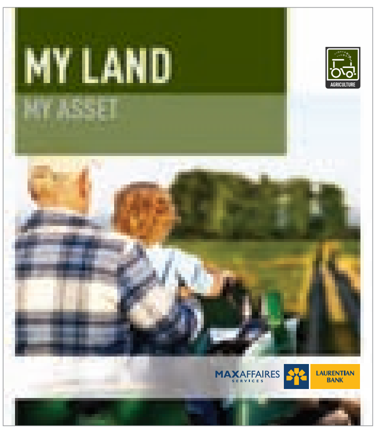
- Operations across Canada
- Approximately 180 employees
- 29 business centres
- Commercial, real estate, agricultural and micro-business financing




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

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. *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.

Highlights 2007

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

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.

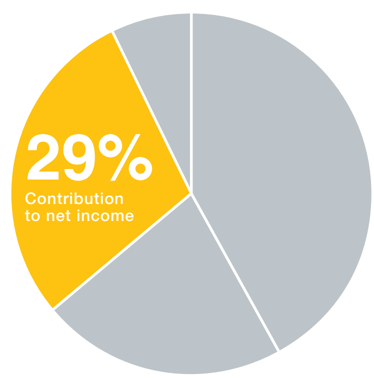
Highly successful investment loan offer

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


RESIDENT
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.
Ce qui compte pour vous, compte pour nous.
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CHOIX
FACILITÉ
ORTGAGES
Laurentian Bank, we're here to
eet all of your client's needs.
Some of the advantages of our one stop mortgage broker program include:
Great rates
Flexible product features
Competitive finder's fees
Broker rewards
An efficiency bonus
New investment loans
— at Prime
Believe your ears
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† 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.
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I'm in the solutions business. B2B Trust's distribution strength in investment lending means that I get preferred loan rates and can choose from over 1,100 funds from the industry's top fund manufacturers. Now that's a solution.
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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%

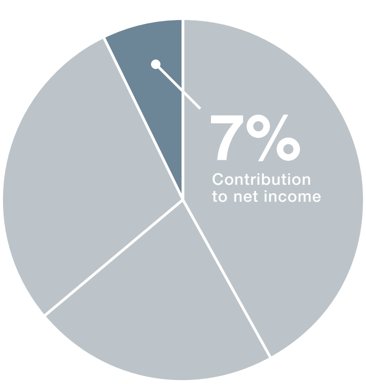
Building organizational foundations to support rapid growth
This year was also marked by significant initiatives aimed at improving capability and capacity to meet expectations. The Operations team has undergone significant reshuffling, while Business development teams have all increased in number and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

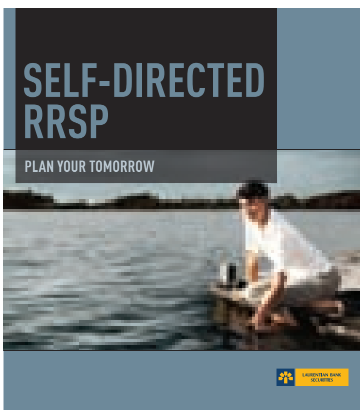

FULL-SERVICE BROKERAGE
EXPERT ADVICE AT WORK
REEE
VOIR GRAND
COMPTE À HONORAIRES
TRANSIGER LIBREMENT
REEE
VOIR GRAND

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

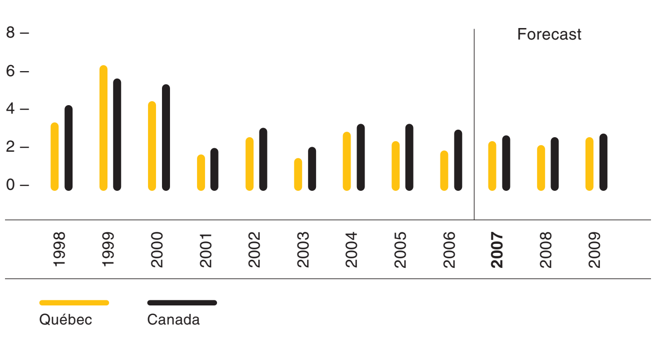
2008 Economic outlook for North America

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.

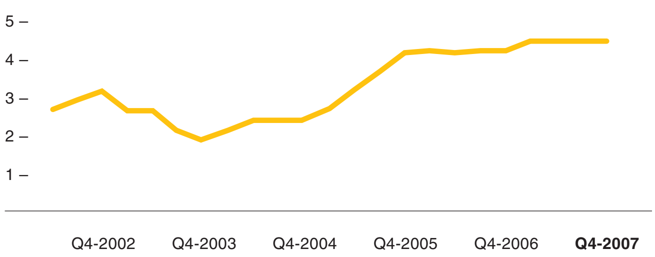
Econometric estimates suggest that the full impact of currency movements is only felt in the economy one to one and a half years later. This implies that Quebec and Ontario exporters have only fully "digested" the rise in the Canadian dollar to about 85-to-90 US cents, the level prevailing from mid to 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

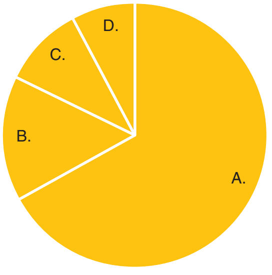
As part of its funding strategies over the recent years, the Bank has relied on residential mortgages securitization through bank-sponsored conduits. As part of these transactions, the Bank has entered into interest-rate swaps (seller-swaps) where it pays to the securitization conduits the funding costs 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

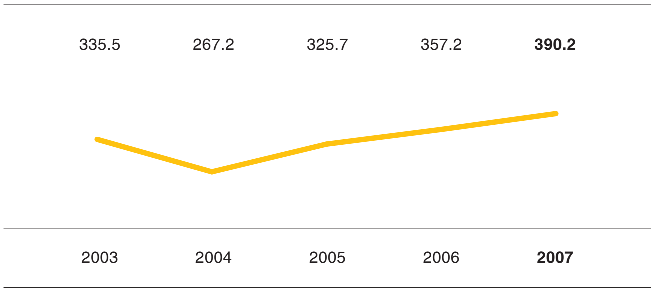
Net interest income increased by 9% and stood at $390.2 million in 2007, compared to $357.2 million in 2006, as shown in table 8 below. This substantial increase in revenues mainly stems from the growth in loan and deposit portfolios, as well as from the Bank's stricter management of its liquidities. 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.

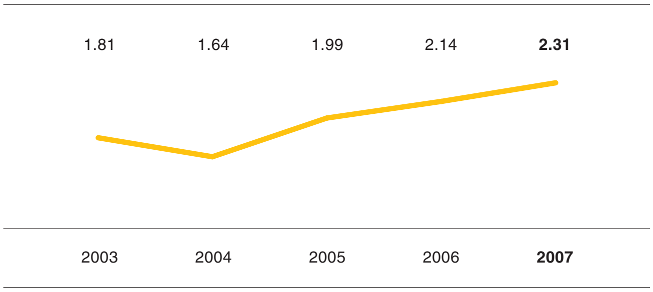
Table 8
Changes in net interest income
For the years ended October 31 (in millions of dollars and as a percentage)

	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.

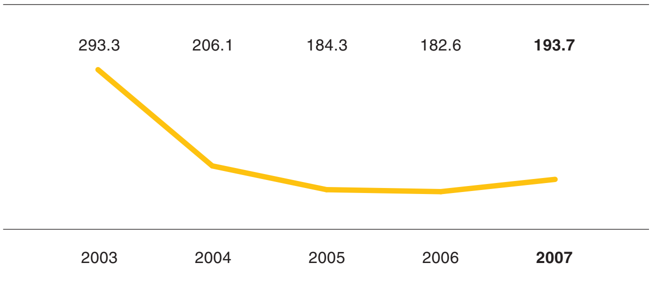
Revenues from securitization decreased to $6.4 million for fiscal 2007, compared to $10.0 million for fiscal 2006. This result stems mainly from the $2.8 million charge related to the revaluation of certain seller-swaps contracted as part of these operations in the wake of the liquidity and credit crisis 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.

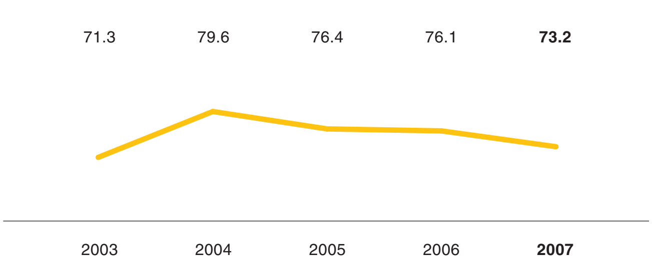
Premises and technology costs have slightly increased, from $108.1 million in 2006 to $111.5 million in 2007. This increase is mainly attributable to higher depreciation on capitalized technology developments and higher rent and property taxes. The expenses related to the Bank's information systems may 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.

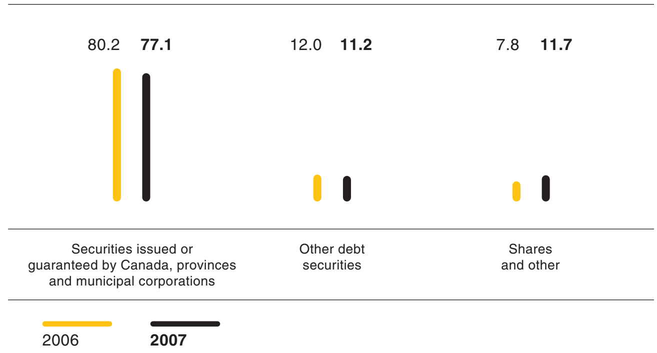
As at October 31, 2007, the net unrealized gain related to the available-for-sale securities portfolio was $10.3 million, as detailed in note 6 to the consolidated financial statements. This net gain results primerly from the Montreal Exchange shares.

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.

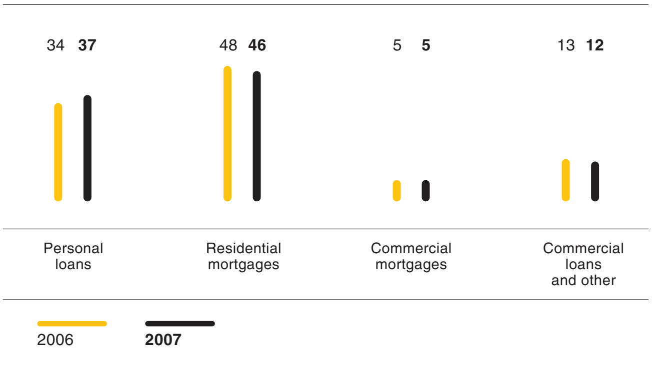
LOANS AND BANKERS' ACCEPTANCES

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.

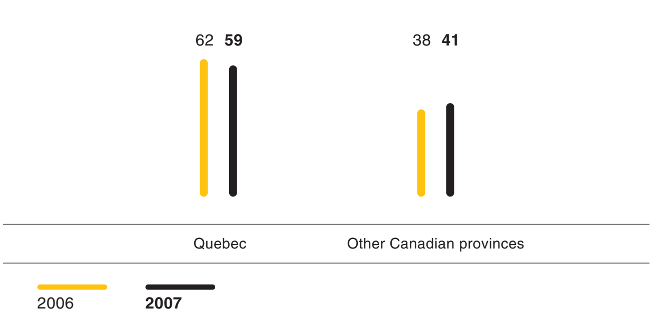
Loan portfolio mix
(as a percentage)



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.

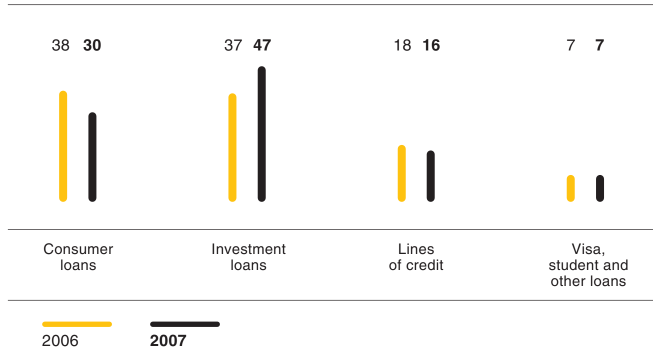
B2B Trust's investment loan portfolio mainly consists of mutual fund loans. The value of these investments must at all times respect certain terms of the loan agreements.

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)

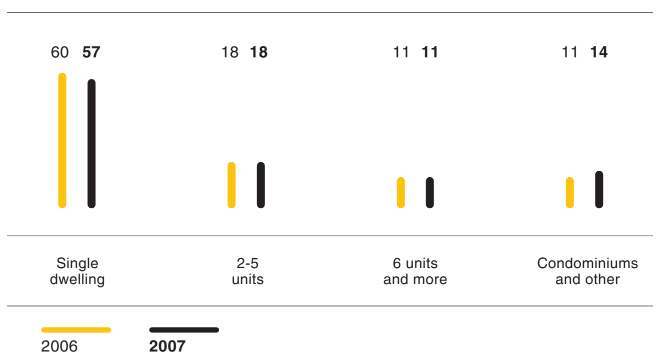
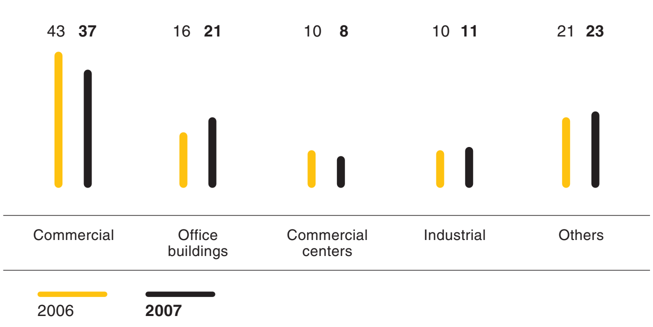


Table 14
Residential mortgage loans portfolio
As at October 31 (in millions of dollars)

	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

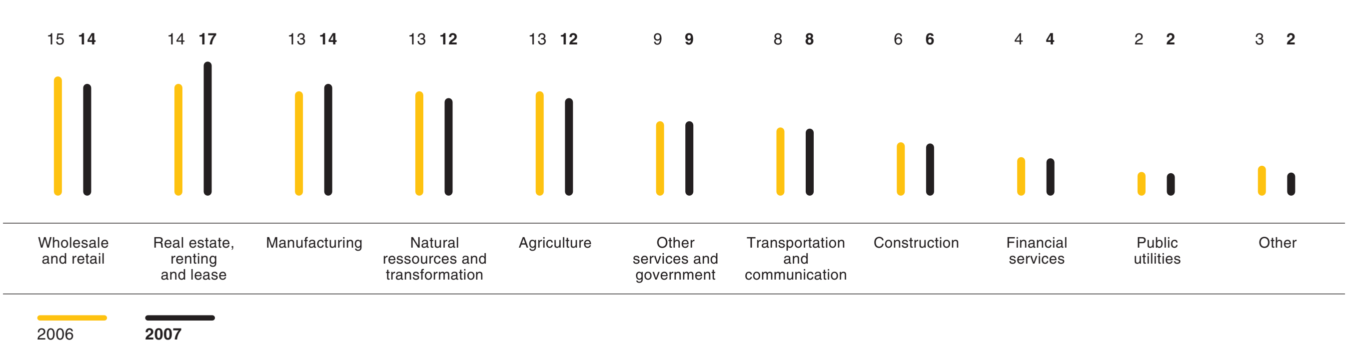
The volume of commercial mortgage loans increased by nearly 4% over fiscal 2006, and stood at $684 million as at October 31, 2007, compared to $659 million as at October 31, 2006. The Bank still plays an active role in the field of commercial mortgage loans all over Canada. This position enabled the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

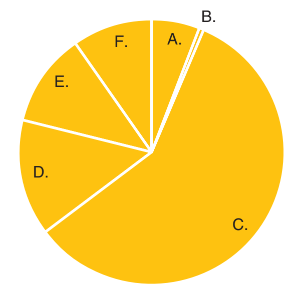


Table 17
Shares issued and outstanding
As at Novembre 28, 2007 (in number of shares)

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

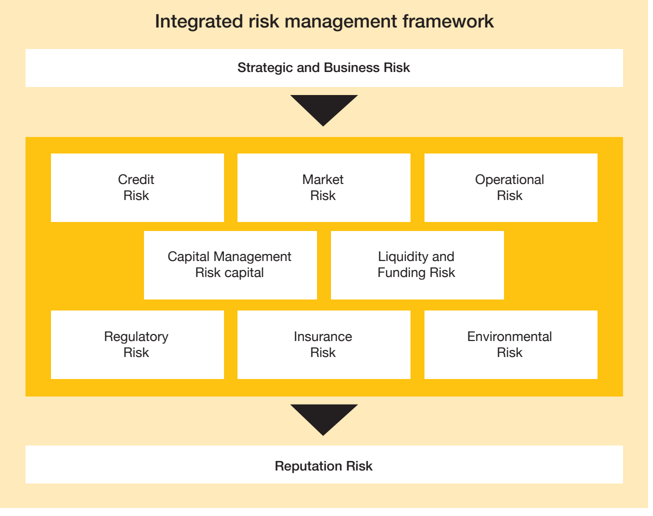
- $10.7 million income tax recovery, resulting from the resolution of various tax exposures.

Integrated risk management framework

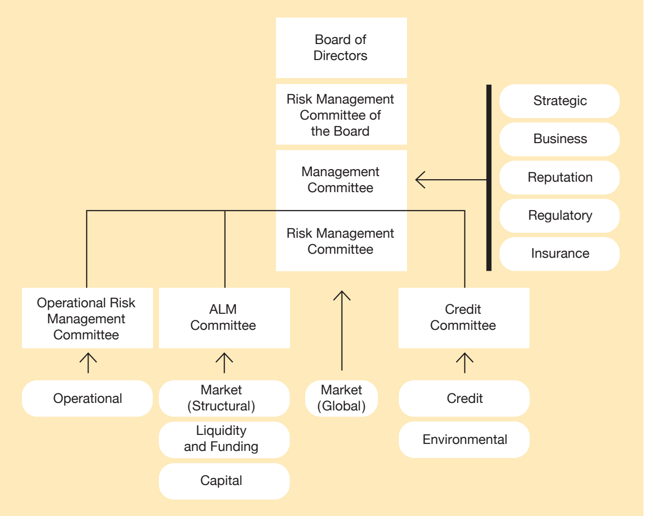
The Bank is exposed to various types of risks owing to the nature of the commercial activities it pursues. To ensure that all of the significant risks it faces are assessed, the Bank has adopted an Integrated Risk Management Framework that will enable the directors to properly supervise risk evaluation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

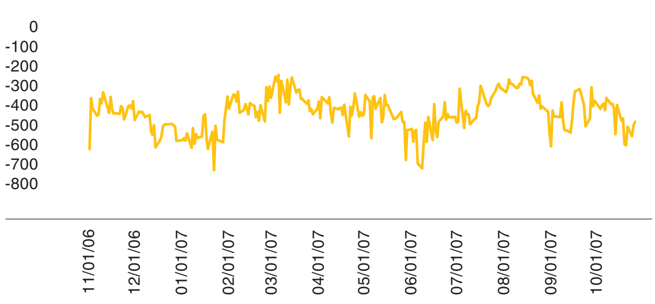
Trading activities are aligned with the needs of the Bank and those of its customers. The market risk associated with trading activities ensues from activities for which the Bank acts as the principal or agent for its customers. These activities are primarily carried out by Laurentian Bank Securities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