LAURENTIAN BANK

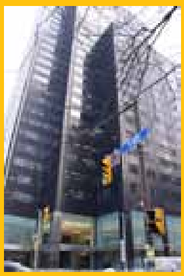
2011 ANNUAL REPORT

Energized, Experienced and Engaged

Heading for the Next Milestone

THE CASE FOR SIMPLICITY

Our team – It's Capital



165 AND KICKING

CONTENTS

BUSINESS REVIEW

OUR BANK

With 158 branches, 427 automated banking machines, more than $24 billion in assets, and almost 3,700 employees, Laurentian Bank is both firmly rooted in Québec and elsewhere in Canada. While it operates the **third largest branch network** in Québec, it has secured a choice position in specific market segments in Canada. Therefore, with almost 40% of its loans originating from other provinces, the Bank enjoys the benefits of **nationwide geographic diversification.**

Established in 1846, Laurentian Bank is widely recognized today for its exceptional **service, simplicity and proximity.** The Bank offers varied financial services to individuals and to Small and Medium-Sized Enterprises. It also provides products to an extensive external network of independent financial advisors through B2B Trust, as well as full-service brokerage services via Laurentian Bank Securities.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

In this document and in other documents filed with Canadian regulatory authorities or in other communications, Laurentian Bank of Canada may from time to time make written or oral forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements include, but are not limited to, statements regarding the Bank's business plan and financial objectives. The forward-looking statements contained in this document are used to assist the Bank's security holders and financial analysts in obtaining a better understanding of the Bank's financial position and the results of operations as at and for the periods ended on the dates presented and may not be appropriate for other purposes. Forward-looking statements typically use the conditional, as well as words such as prospects, believe, estimate, forecast, project, expect, anticipate, plan, may, should, could and would, or the negative of these terms, variations thereof or similar terminology.

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

Financial objectives for 2012 are based on expected results presented on an International Financial Reporting Standards (IFRS) basis. The completion of the IFRS conversion process in 2012 could lead to changes to these objectives.

The *pro forma* impact of Basel III on regulatory capital ratios is based on the Bank's interpretation of the proposed rules announced by the Basel Committee on Banking Supervision (BCBS) and related requirements of the Office of the Superintendent of Financial Institutions Canada (OSFI). The *pro forma* impact of Basel III on regulatory capital ratios also includes the anticipated impact of IFRS conversion. The Basel rules and impact of IFRS conversion could be subject to further change, which may impact the results of the Bank's analysis.

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

With respect to the MRS Companies transactions, such factors also include, but are not limited to: the anticipated benefits from the transaction such as it being accretive to earnings and synergies may not be realized in the time frame anticipated; the ability to promptly and effectively integrate the businesses; reputational risks and the reaction of B2B Trust's or MRS Companies' customers to the transaction; and diversion of management time on acquisition-related issues.

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

AFTER 165 YEARS

ENERGIZED, EXPERIENCED AND ENGAGED

A founding principle, 165 year ago, was to help ordinary people manage their money and encourage them to save. To do this, Laurentian Bank had to get to know their clients well.

As the former Montreal City and District Savings Bank, the Bank operated only on the island of Montreal. This fostered client proximity, a focus on their needs and true, lasting and loyal relationships.

Today, the Bank's founding principles are unchanged. The customer remains the Bank's *raison d'être*, driving it towards excellence in service and innovation. The Bank's prevailing client focus forges enduring relationships.

Laurentian Bank today has retained the best of its Québec based Retail bank while broadening its horizons, adding new businesses to reach new customers and new geography. It has assets of $24 billion, more than 1 million valued clients, and just under 3,700 dedicated employees.

The Bank is proud of its long history, but does not feel old. In the last five years, total assets have increased 42%, revenues 40% and net income 81 %. In fact, after 165 years we feel energized, experienced and totally engaged in meeting the next challenge.

WHO SAYS YOU HAVE TO ACT YOUR AGE?

A BANK IS BORN

1846

A BANK IS BORN
The Bank's predecessor is founded on May 26 as the Montreal City and District Savings Bank by Monsignor Bourget, Louis-Joseph Papineau, Louis-Hyppolite Lafontaine et Georges-Étienne Cartier.

1889

INFORMATION TECHNOLOGY
The branches are connected by telephone. Typewriters will follow in two years.

1911

START OF REMOTE BANKING
Customers are offered banking services by mail, with forms and pre-addressed envelopes provided.

1943

WORKING WOMEN
With over a million Canadians serving overseas in World War II, the Bank hires women to work at branch counters, forever changing the face of banking.

1972

COMPUTERS ARRIVE...
The Bank is the first to connect all branches (81) to a central computer for processing accounts, term deposits, and personal loans.

...AND SO DO CARS
The Bank is the first to offer drive-in banking services with its Autobank.

1976

THE FIRST BILLION
After 130 years, the Bank's assets reach $1 billion. It will only take another eight to reach $5 billion.

1987

NEW NAME, NEW BUSINESS...
The Bank becomes Laurentian Bank of Canada and moves into commercial loans. It is the first initiative outside of retail banking and provides the base for the Real Estate & Commercial financing unit.

1996

HAPPY 150TH!
On its 150th anniversary, the Bank has surpassed $12 billion in assets.

1997

MADAM CHAIRMAN
Jeannine Guillevin-Wood is named Chairman of the Board, becoming the first woman to hold this position in Canadian banking.

2008

THE $100M MARK
The Bank exceeds $100 million dollars in net income for the first time.

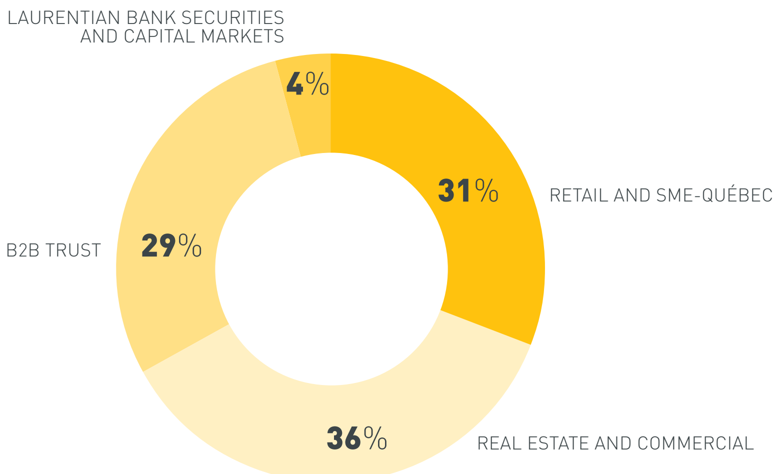
2011

165 ALREADY?
The Bank celebrates its growth with $24 billion in assets, over a million clients and over 200 points of service across Canada.

OVERVIEW OF BUSINESS SEGMENTS

BUSINESS SEGMENT	PRESENCE	POSITIONING	GEOGRAPHIC DISTRIBUTION OF LOAN PORTFOLIOS
RETAIL AND SME-QUÉBEC			
A broad offering of financial products and services for individuals and small and medium-sized enterprises in Québec	■ 158 branches ■ 427 ATMs ■ 18 commercial business centres ■ 6 agricultural business centres	3rd largest branch network in Québec Well known for its superior service to SMEs as well as its specialization in certain sectors	In Québec
REAL ESTATE AND COMMERCIAL			
Real estate financing for commercial property and commercial financing for medium-sized enterprises in Québec and Ontario	■ 8 real estate financing centres in Canada ■ 4 financing centres in Ontario ■ 2 financing centres in Québec	Widely recognized leadership and expertise in the area of real estate financing within Canada	Mainly in Ontario
B2B TRUST			
Select offering of personal banking products distributed by a network of 22,000 independent financial advisors	■ 4 sales offices across Canada	Canadian leader in serving the financial advisors market	Mainly in Ontario
LAURENTIAN BANK SECURITIES AND CAPITAL MARKETS			
Full-service brokerage operation serving Institutional and Retail investors; Bank-related capital market activities	■ 15 offices in Québec and Ontario	Recognized and choice provider of Fixed Income Institutional brokerage service in Canada and the only Bank-owned dealer with a niche small cap focus	Pan Canadian operations

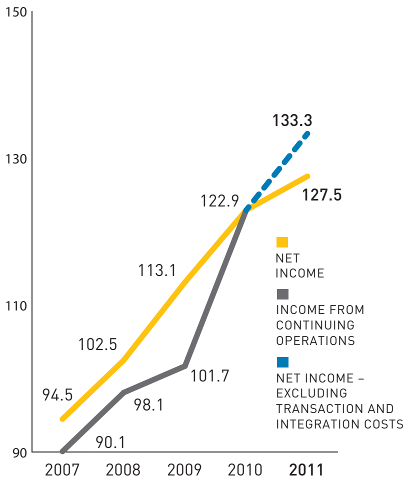
CONTRIBUTION TO THE BANK'S NET INCOME*



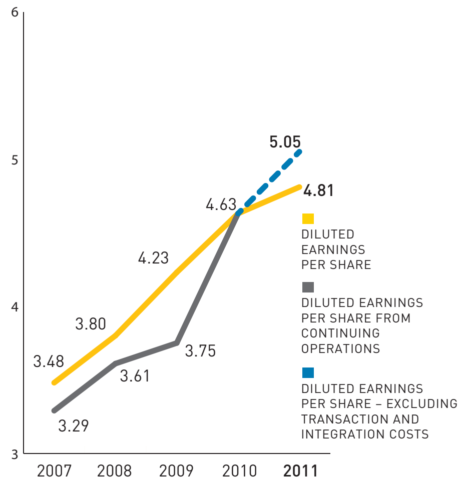
*EXCLUDING OTHER SEGMENT

2011 PERFORMANCE

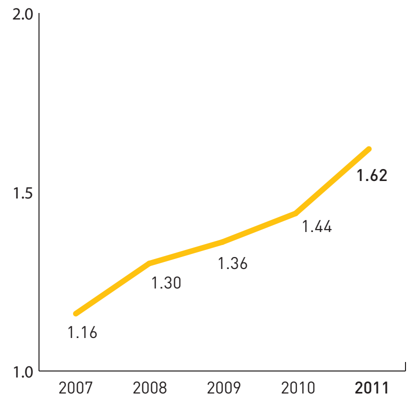
NET INCOME
(in millions of dollars)



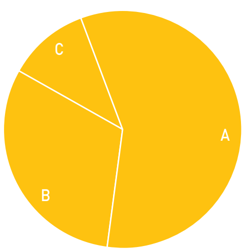
DILUTED EARNINGS PER SHARE
(in dollars)



DIVIDENDS DECLARED PER COMMON SHARE
(in dollars)

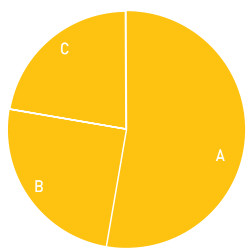


LOAN PORTFOLIO MIX
(as a percentage)



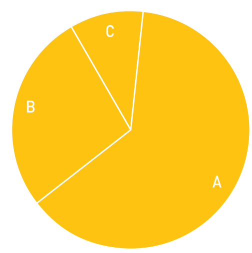
A MORTGAGE LOANS	58%
B PERSONAL LOANS	31%
C COMMERCIAL AND OTHER LOANS (INCLUDING ACCEPTANCES)	11%

DEPOSIT PORTFOLIO MIX
(as a percentage)



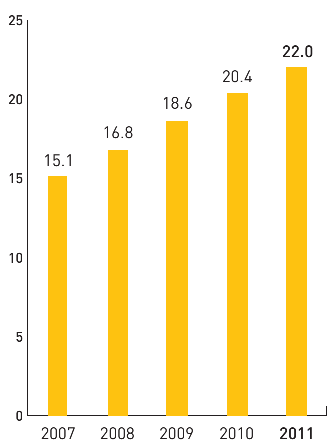
A PERSONAL TERM DEPOSITS	53%
B PERSONAL NOTICE AND DEMAND DEPOSITS	25%
C BUSINESS, BANKS AND OTHER DEPOSITS	22%

GEOGRAPHIC DISTRIBUTION OF LOANS
(as a percentage)

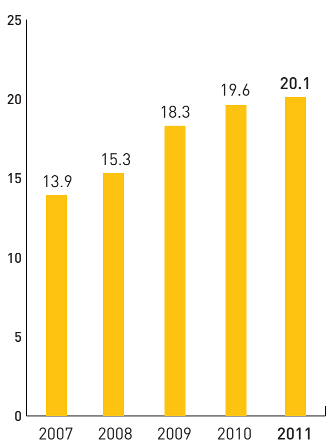


A QUÉBEC	64%
B ONTARIO	26%
C REST OF CANADA	10%

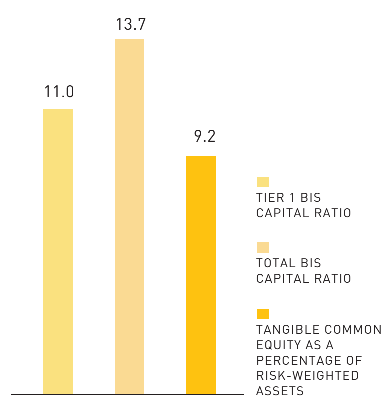
LOANS AND ACCEPTANCES (INCLUDING SECURITIZED LOANS)
(in billions of dollars)



DEPOSITS
(in billions of dollars)



CAPITAL RATIOS
(as a percentage)



HIGHLIGHTS

As at or for the years ended October 31
(in thousands of dollars, except per share and percentage amounts)

	2011	2010	2009
Earnings			
Total revenue	**$753,583**	$737,446	$666,502
Net income	**$127,489**	$122,941	$113,133
Income from continuing operations	**$127,489**	$122,941	$101,664
Profitability			
Diluted earnings per share	**$4.81**	$4.63	$4.23
Diluted earnings per share from continuing operations	**$4.81**	$4.63	$3.75
Return on common shareholders' equity [1]	**11.0%**	11.5%	11.4%
Return on common shareholders' equity for continuing operations [1]	**11.0%**	11.5%	10.1%
Net interest margin [1]	**2.02%**	2.15%	2.07%
Efficiency ratio [1]	**72.0%**	68.4%	70.8%
Excluding Transaction and Integration Costs			
Earnings			
Transaction and Integration Costs	**$8,180**	$ –	$ –
Adjusted net income	**$133,329**	$122,941	$113,133
Profitability			
Adjusted diluted earnings per share	**$5.05**	$4.63	$4.23
Adjusted return on common shareholders' equity [1]	**11.6%**	11.5%	11.4%
Adjusted efficiency ratio [1]	**71.0%**	68.4%	70.8%
Per common share			
Share price			
High	**$55.87**	$47.67	$43.50
Low	**$38.62**	$37.76	$23.90
Close	**$45.98**	$44.25	$39.53
Price/earnings ratio	**9.6x**	9.6x	9.3x
Book value [1]	**$45.05**	$41.87	$38.68
Market to book value	**102%**	106%	102%
Dividends declared	**$1.62**	$1.44	$1.36
Dividend yield [1]	**3.52%**	3.25%	3.44%
Dividend payout ratio [1]	**33.7%**	31.1%	32.1%
Financial position			
Balance sheet assets	**$24,490,451**	$23,772,138	$22,140,121
Loans and acceptances	**$18,590,741**	$17,708,837	$15,932,670
Deposits	**$20,067,418**	$19,647,730	$18,275,307
Other information			
Number of full-time equivalent employees	**3,669**	3,643	3,528
Number of branches	**158**	157	156
Number of automated banking machines	**427**	413	408
Number of brokerage offices	**15**	15	15
Number of commercial banking centres	**36**	36	31

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

MESSAGE FROM **THE PRESIDENT AND CHIEF EXECUTIVE OFFICER**

Réjean Robitaille, President and Chief Executive Officer

HEADING FOR THE NEXT MILESTONE

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

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

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

But that was yesterday.

When we changed our name to Laurentian Bank of Canada in 1987, it marked the start of our expansion to commercial clienteles. Since then, to complement its strong retail activities, the Bank has built solid businesses in three sectors: Real Estate and Commercial, B2B Trust, and Laurentian Bank Securities and Capital Markets. Retail and SME-Québec is still a very important growth engine of the Bank and contributes approximately a third of its profitability. However, it is interesting to note that almost 70% of our profitability now comes from these other businesses that are less than 25 years old.

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

Another solid year

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

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

RECOGNIZING PROXIMITY AND SIMPLICITY

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

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

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

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

Two transactions to propel growth of B2B Trust and of Retail

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

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

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

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

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

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

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

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

Laurentian Bank Securities and Capital Markets continues to pursue the development of its five divisions. Its lean structure and agility enabled this segment to adjust to volatile market conditions and is well positioned for when market conditions improve.

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

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

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

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

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

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

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

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

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

Acknowledgements

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

SERVICE : A COMPETITIVE ADVANTAGE

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

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

The Year Ahead

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

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

Réjean Robitaille, FCA
President and Chief Executive Officer

MESSAGE FROM THE CHAIRMAN OF THE BOARD

THE CASE FOR SIMPLICITY


Denis Desautels, Chairman of the Board

The world seems to be getting increasingly complex and this appears to be particularly the case with financial institutions. At Laurentian Bank, we have a philosophy of keeping things as simple as possible. We have a business model and a structure that are straightforward, a family of products and services that are equally straightforward and a personal approach towards treating our customers. We hold dearly the values of simplicity and proximity which have been the trademark of our bank from its very beginning, 165 years ago.

The world also seems to be stuck in an economic environment that is uncertain and volatile. These are indeed challenging times, but I feel that Laurentian Bank is well equipped to navigate through this turbulence. We may not be as big as some others, but our agility and flexibility enable us to react quickly and adapt to a changing economic context.

These are big advantages and contribute to our good results.

Also contributing to our solid performance is our competent and conscientious senior management team. Collectively, the group is agile and individually, each member is an outstanding operator, capable of finding the delicate balance between short-term results and long-term objectives. This not only requires profound understanding of the operations and risks, but careful assessment of the optimal level of investment to sustain long-term profitability. We, the Bank and our management team, do all of this to ensure the creation of sustainable shareholder value.

The regulatory context

Banking may well be one of the most heavily regulated industries. The recent past shows that, on a global basis, regulators are constantly adjusting the system to respond to new risks.

Since the financial crisis of 2008, financial regulators have taken large strides to limit the opportunistic, high-risk activities that have crept into parts of the banking environment. We are currently at the stage where more rigorous global guidelines for capital adequacy and liquidity have been agreed upon. Now, national regulators are interpreting how best to apply these guidelines within their jurisdictions.

Being agile and flexible allows the Bank to adapt easily and quickly to a changing economic environment

The strength of the Canadian banking system is founded on sound, pertinent and prudent regulation. It is in this same spirit that we expect regulation to continue to preserve the strength and stability of the system while recognizing its diversity. Such an evolution will ensure that regulation is well adapted to all of the players within the Canadian banking system.

Experience and knowledge – irreplaceable

Uncertain times are when the wisdom and experience of the Bank's Board of Directors become of even greater value. It is applied most directly through the oversight of the Board's three committees– the Audit Committee, Risk Management Committee and the Human Resources and Corporate Governance Committee.

The Audit Committee has been working closely with Accounting in a two-year project to report the Bank's activities under the new International Financial Reporting Standards (IFRS), discussed in the Management's Discussion & Analysis section on page 60. The new standards were implemented on November 1, 2011 and will be first reflected in the financial statements for the quarter ending on January 31, 2012.

The Risk Management Committee has also been dealing with new regulations. It has taken the lead in conjunction with our management team in ensuring that the Bank is ready for and will be compliant with Basel III. The third of the Basel Accords strengthens bank capital requirements and introduces new regulatory requirements on bank liquidity and leverage.

The Human Resources and Corporate Governance Committee continues to refine our compensation system to maximize its effectiveness. The goal is to achieve a fair balance between the interests of the Bank, its shareholders, and Management.

Acknowledgements

Once again I am very impressed by the dedication and performance of the Bank's staff and Management in recording yet another strong year against a challenging backdrop. My heartfelt thanks go out to all of them, as they do to the Directors who continue to bring tremendous strength to the organization through their wisdom and experience.

We are also, of course, very grateful for the ongoing support and confidence of our shareholders.

Thank you.

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

It's always been **about people**

Luc Bernard, Executive Vice President, Retail and SME-Québec

Holding fast to its strategy, Retail and SME-Québec continued to deliver growth throughout an uncertain 2011. Contributing to net income of $ 44.5 million was solid loan growth. Residential mortgages increased by 10% and loans to SMEs increased by almost 18%. Double digit growth was recorded in revenues from card services and the sale of mutual funds. Mutual fund sales reached record levels.

"Despite a competitive environment, we decided not to slow down our initiatives but stuck to our plan," says Luc Bernard, Executive Vice President. "We kept pace with our profitable organic growth, thanks to past investments and our focus on growing synergies between our three distribution channels: physical, virtual and mobile. Our agility was a clear asset again this year."

As the Bank marks 165 years, its Québec DNA is firmly embedded where customers are at the heart of the strategy, in a retail network of convenient branches with friendly, knowledgeable service.

Laurentian Bank is a model of how the customer experience has been transformed by new and convenient access, superior service and client-oriented products and services.

Reaching Our Customers

The Bank operates the third largest retail branch network in Quebec. Innovations in the way the Bank interacts with its customers both accentuate the face-to-face intimacy and offer alternatives to customers based on their preferences.

For more straightforward needs, a virtual network gives customers 24/7 access to bank services through ATMs, Internet, telephone, and since the summer of 2011, mobile devices.

Notwithstanding innovative new channels, the "corner branch" network remains a convenient and powerful link with its customer base. A new generation of branches was launched in 2011, with one branch in Montréal and another in Québec City. By early 2012, the majority of branches, thanks to a seven-year optimization program, will have been renovated, relocated or will be completely new.

1873

START OF A NETWORK

With a founding principle to help working families manage their money, the Bank is the first to open four branches in working class districts of Montréal. It is also the first to open six evenings a week as well as the usual 10 a.m. to 3 p.m.

1902

CAN YOU OPEN THIS, PLEASE?

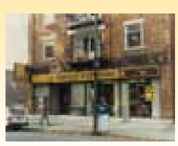
A savings program is launched to children, featuring piggy banks that can only be opened at a branch.

1961

STEPPING OUT

A modification to its charter allows the Bank to open its 46th branch – the first off the island of Montréal.

2001



A GROWTH SPURT

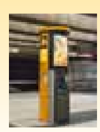
The Bank integrates 43 branches in Québec acquired from Scotiabank.

2004

CREAM WITH YOUR DEPOSIT?

The first "Espresso Bank-Café" is launched, and a new concept of Financial Boutiques is introduced.

2009



BANK GOES UNDERGROUND

The Bank wins an exclusive contract to equip Montréal's subway and train systems with ATMs (there are 81 installed so far).

2011

ANYTIME, ANYWHERE

The Bank adds banking by mobile device to its virtual network for customers.

It's not all face-to-face anymore, but proximity remains paramount

BUSINESS SEGMENT SNAPSHOT

AVERAGE LOANS AND ACCEPTANCES $12.4 BILLION

AVERAGE DEPOSITS $ 9.1 BILLION

Personal Banking:
Transactional, financing and investment products and services

Small and Medium-sized Enterprises:
Financing solutions, deposits, electronic banking, processing of international transactions, etc

Operates in Québec

Mobile bankers who travel to the customer to help with mortgage decisions have become a very popular and performing distribution channel for the Bank. In only five years, almost 50% of mortgage originations come from this team.

Efficiency improvements
During the year, several initiatives were undertaken to improve efficiency. One particularly note-worthy project was the implementation of a new automated mortgage transaction system. This has lead to efficiency improvements, with benefits to the customer, the employee and the Bank.

Knowing the customer better
A major commitment to improving its execution of banking services was the Bank's introduction of a Customer Relationship Management system, or CRM. Implemented during the year, this information system gives advisors a comprehensive view of the customer's current services and holdings, and facilitates appropriate recommendations to better correspond to their financial profile.

The Bank is the first Québec-based financial institution to utilize such a system for its retail clientele. Owing to the Bank's visionary approach, the seeds of this system were sewn several years ago. Today, the system has grown into a strategic asset for this segment; one which should help to propel its growth.

Enhanced mutual fund offering
Mutual funds represent a major area of growth for the Bank. Beginning in 2012, an agreement to distribute the Mackenzie Financial family of mutual funds, one of the leading families of funds in Canada, should contribute to accelerating this growth as well as adding depth to the Wealth Management offering.

Small and Medium-sized Enterprises
In 2011, commercial lending to small and medium-size enterprises exceeded $1 billion. Strong growth resulted in an increase of 59% in deposits and 18% in loans. Four years ago was when the Bank embarked on a strategy to focus on specific niches of commercial lending.

"Decision makers of SMEs are facing more and more complexity in their environments," says Luc Bernard. "The way we see it, the role of the banker is not just to make funds available but to assist these people to succeed." Bankers provide a range of tools specific to each niche. Originally launched in three sectors – pharmacies, private daycare and agriculture - the Bank is already a major lender in the pharmacy sector in Québec.

SPECIALISTS DEDICATED TO THE AGRICULTURAL SECTOR

In the pursuit of client proximity, the Bank has established teams of experts to provide solutions adapted to the needs of entrepreneurs operating in specific sectors. One such team, consisting of agronomists and professional farmers, is devoted to agricultural financing. By developing programs related to intergenerational transfer of farms and succession planning, clients are provided with valuable solutions to their new realities.

Setting the bar higher
and casting the net wider

During the year, B2B Trust continued to grow revenues, push operational excellence to the next level and advance its strategic plan with a significant acquisition.

An important growth engine of the Bank, B2B Trust generated revenue of $126.4 million and net income of $41.9 million in 2011. B2B Trust accounted for 30% of the Bank's loans and 46% of its deposits.

"The company was created in 2000 from organisations that have been in this space for decades" says François Desjardins, President and Chief Executive Officer of B2B Trust. "Although we are a young company, we have built up a solid executive team, with experienced staff and a strong following among advisors".

François Desjardins, Executive Vice President and President & Chief Executive Officer, B2B Trust

The exclusive focus on the needs of Canada's independent-minded financial advisors has resulted in B2B Trust's loans and deposits almost doubling over the past five years and its operations spanning the entire country.

B2B Trust's organic growth is attributable in large part to exceptional execution on two fronts: maximizing distribution and delivering operational excellence to advisors.

Distribution Maximization

Concerted marketing and business development efforts expanded the distribution network further in 2011 as multi-channel, multi-initiative contacts grew significantly, leading to higher business volumes. Sales processes were streamlined and sales teams were equipped with a new advisor relationship management system and re-organized to ensure complete coverage across Canada.

B2B Trust also continued to forge new partnership arrangements with segregated fund and mutual fund manufacturers, and work with existing partners to further growth. Moreover, B2B Trust benefited from the sales force of these partners who have encouraged advisors to expand and broaden their sales to include investment and RRSP loans, high interest savings accounts and GICs.

1996 — THE FIRST STEP

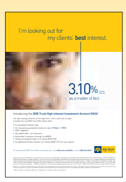
The Bank acquires the personal and commercial portfolios of North American Trust and forms a division known as Agency Banking.

2000 — LAUNCH OF A NEW ACTIVITY

The Bank purchases Sun Life Trust Company, merges the business with Agency Banking and, on July 1, renames the resulting organization B2B Trust.

2007 — PULLING AHEAD

B2B Trust launches a promotional campaign for investment loans which gives a big boost to its leadership in this sector.



2008 — THE RIGHT NUMBERS

Deposits surge $3 billion due to popular new High Interest Savings and Investment Accounts.

2011 — BULKING UP

B2B Trust acquires the MRS Companies and adds to its leading position, now serving more than 22,000 financial advisors.

Meeting the needs of financial advisors fuels growth

Operational Excellence
B2B Trust has continued to prioritize operational excellence in all aspects of its operations. As the advisor sale cycle becomes longer and more complex, B2B Trust's commitment to reduce administrative issues becomes even more relevant. Processing times are down and so are follow-up calls, a testament to the delivery of "error-free, hassle-free processing".

Stellar credit quality
Not only is service quality important, so too is credit quality. On that front, B2B Trust scores equally well. B2B Trust's disciplined and rigorous credit approach has resulted in exceptionally high credit quality and very low loan losses. Despite volatile market conditions for much of 2011, the unit's professional lender philosophy is credited with a loss ratio on the portfolio of only three basis points.

"We have weathered two financial crises in the last decade and loan losses have never exceeded a very low 10 basis points," says François Desjardins.

A strategic acquisition
The acquisition of the MRS Companies will further B2B Trust's strategic plan by combining best in class products and services and increasing the number of financial advisors that B2B Trust serves. A leader in the administration of self-directed products, MRS will be very complementary to B2B Trust, a leader in loans and deposit products.

The acquisition will also accelerate cross-sell strategies, enabling more advisors to sell B2B Trust's complete product line.

Transitioning to a bank
It is planned that in July 2012, B2B Trust will become a federally chartered bank. This is seen as a logical evolution, given its core operations of lending and deposit gathering.

"It was clear to us that the nature of our business had evolved and that becoming a bank was warranted to better reflect the nature of this business," says François Desjardins.

BUSINESS SEGMENT SNAPSHOT

AVERAGE LOANS AND ACCEPTANCES $5.4 BILLION

AVERAGE DEPOSITS $9.2 BILLION

Personal Banking products such as investment loans, mortgage loans, RRSP loans, GICs, high interest savings and investment accounts and self-directed accounts distributed by a network of 22,000 independent financial advisors

Operates Canada-wide

Looking ahead
The coming year will be a busy one, with the integration of the MRS Companies and the transformation to a bank. "Our slate is quite full," acknowledges François Desjardins, "but when I look forward, I see many opportunities to further our growth".

MRS COMPANIES – ACCELERATING B2B TRUST'S GROWTH

B2B Trust's acquisition of the MRS Companies last November resulted in the combination of two strong companies providing complementary products to the financial advisor community. B2B Trust is a leader in loans and deposits, while MRS is a leader in self-directed accounts. Strengthening the product offering, expanding the advisor network and enhancing operating systems should create revenue and expense synergies. This in turn will serve to accelerate growth at B2B Trust.

Do it right **and do it now**

Paul Hurtubise, Senior Vice President, Real Estate and Commercial

For the fourth consecutive year, the Real Estate and Commercial segment earned record profitability with net income of $51.8 million. Average assets grew by 8%, reaching $3.1 billion.

"Considering we have been operating in a competitive and low interest rate environment, I am very proud of what the team has been able to do," says Paul Hurtubise, Senior Vice President, Real Estate and Commercial."

The Real Estate and Commercial Financing business segment has built on specialized knowledge, fast response and a rigorous approach to risk management to become one of the industry's most successful lenders.

Real Estate Financing

Real Estate Financing is the larger of the two groups in the unit and accounts for roughly 70% of both assets and profitability. The division specializes in construction loans and fixed term loans for various real estate projects such as condominiums, office buildings, shopping centres and residential projects across Canada.

Total real estate loans have grown at a 17% compound annual growth rate over the past three years and reached $2.4 billion at the end of 2011. Most construction lending is in the form of floating rate loans of 18-30 months and success in increasing term financing has resulted in a well diversified portfolio.

The Bank's Real Estate Financing activities are provided from offices in British Columbia, Alberta, Ontario and Québec. The bulk of the activity is in Ontario with four offices in high growth areas of the province. Measures to grow a greater presence in Québec include a successful first year of operations in Québec City.

A real estate syndication desk was successfully introduced in 2010 to manage larger loans. Not only does this help the Bank to meet the needs of its clients, it provides opportunities to grow the portfolio with high quality assets, and to diversify revenues with added fee income. In 2011, the desk led 11 transactions amounting to $250 million, of which the Bank retained $150 million.

"The loan syndication business has been well received" says Paul Hurtubise, "and we are laying a strong foundation for the next stage in our growth."

1987
NEW POWERS
Now a Chartered Bank empowered to lend to corporations, the Bank moves into real estate financing.

1988
ACQUISITION
Acquisition of Eaton Bay Trust Company, which allowed creating a critical mass for developing this sector.

1991
THE FIRST BILLION
The year marks a major milestone in the sector with the reach of the first Billion $ in real estate commercial mortgage loans.

2010
SYNDICATION DESK
Syndication desk opens new growth opportunities by enabling the Bank to pursue and accept larger project loans from qualified companies.

A go-to construction lender – quick, savvy and highly service oriented

The business unit has maintained its focus on construction financing, but is also developing new niches. It is financing buildings being built to LEED construction standards. These are energy efficient, have lower operating costs and contribute to a healthier environment.

Commercial Lending

The Commercial lending group provides operating credit facilities, commercial deposits and transactional products from six offices in Québec and Ontario. The commercial loan portfolio totaled $703 million in 2011 with roughly 60% of loans in Québec and the rest in Ontario.

The unit's success is founded in a flat organization structure, highly knowledgeable account managers and rapid turn-around time. Loan growth has been strong over the past several years.

The commercial unit is further diversifying its risk by participating in more syndicated infrastructure financings, such as bridges, roads and hospitals. It is also embarking on new initiatives, including "green banking" to finance renewable energy projects and carbon credits.

Foreign Exchange

An integral part of the Real Estate and Commercial unit is the foreign exchange team. This team provides valuable services for commercial customers, giving them direct access to the Foreign Exchange desk to mitigate the risk of currency fluctuations and offering advice and support for their foreign currency hedging.

If it ain't broke, don't fix it

The noteworthy success of the Real Estate and Commercial segment is based on an approach that doesn't change. The primary components are a disciplined approach to risk assessment, which keeps loan losses low, and service excellence, which keeps customer satisfaction high.

If risk management is a defensive strategy, customer service shines on offense. The Real Estate and Commercial teams, consisting of a small select group of about 130, are widely respected and operate in segments they understand and in which they have solid expertise. The Bank is known for one of the best loan adjudication processes in the industry.

The Bank's philosophy of continuous investment applies to this segment as well. This contributes to the strong efficiency ratio of the business line.

"While we are pleased with our progress to date with the strong team that is in place," Paul Hurtubise says, "we have only scratched the surface."

BUSINESS SEGMENT SNAPSHOT

AVERAGE LOANS AND ACCEPTANCES $3.1 BILLION

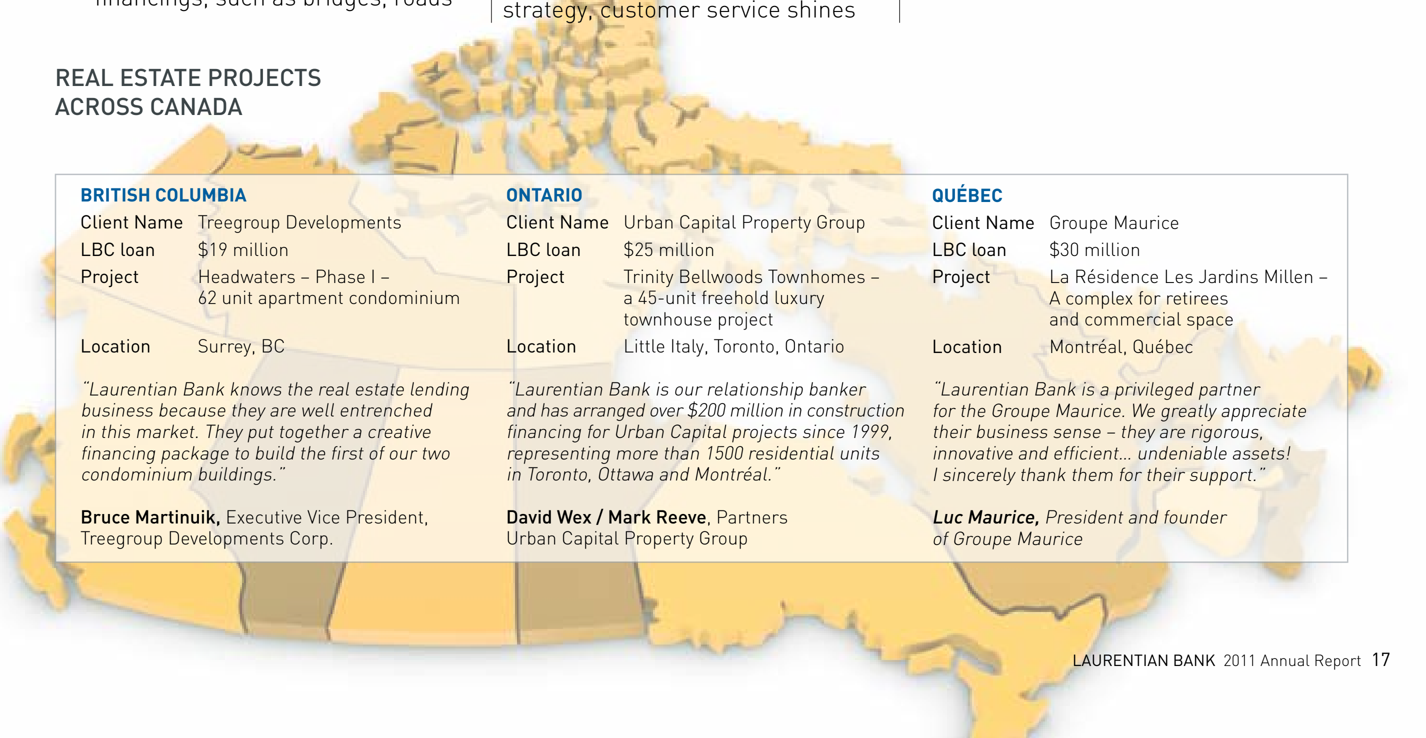
AVERAGE DEPOSITS $0.5 BILLION

Real estate financing for condominiums and office buildings, shopping centres and residential developers across Canada

Commercial financing for medium-sized enterprises in Québec and Ontario

Operates Canada-wide

REAL ESTATE PROJECTS ACROSS CANADA



BRITISH COLUMBIA

Client Name	Treegroup Developments
LBC loan	$19 million
Project	Headwaters – Phase I – 62 unit apartment condominium
Location	Surrey, BC

"Laurentian Bank knows the real estate lending business because they are well entrenched in this market. They put together a creative financing package to build the first of our two condominium buildings."

Bruce Martinuik, Executive Vice President, Treegroup Developments Corp.

ONTARIO

Client Name	Urban Capital Property Group
LBC loan	$25 million
Project	Trinity Bellwoods Townhomes – a 45-unit freehold luxury townhouse project
Location	Little Italy, Toronto, Ontario

"Laurentian Bank is our relationship banker and has arranged over $200 million in construction financing for Urban Capital projects since 1999, representing more than 1500 residential units in Toronto, Ottawa and Montréal."

David Wex / Mark Reeve, Partners Urban Capital Property Group

QUÉBEC

Client Name	Groupe Maurice
LBC loan	$30 million
Project	La Résidence Les Jardins Millen – A complex for retirees and commercial space
Location	Montréal, Québec

"Laurentian Bank is a privileged partner for the Groupe Maurice. We greatly appreciate their business sense – they are rigorous, innovative and efficient… undeniable assets! I sincerely thank them for their support."

***Luc Maurice,** President and founder of Groupe Maurice*

Right-sized **and ready**

After a positive start to the year, market conditions over the last two quarters became increasingly difficult for underwriting and trading activities, leading to declines in both revenues and net income. Laurentian Bank Securities and Capital Markets ended the year with net income of $6.3 million and revenues of $56.4 million.

Michel C. Trudeau, Executive Vice President, Capital Markets and CEO, Laurentian Bank Securities

Focus on niches where we have competitive advantages

Laurentian Bank Securities and Capital Markets began life as a Fixed Income brokerage and has become a significant player in the mid-sized tier across Canada. In business since 1996, it underwrites fixed income securities for provincial, municipal, and corporate entities and is active in secondary markets. The group met its business development plans in 2011 and has room to grow with its current infrastructure.

"We had strong growth projections in the spring, but then we had to slow our development down," says LBS CEO Michel Trudeau. "We're extremely lean and agile which allows us to adapt well and adjust easily, while continuing to execute on our strategies."

An Institutional Equity division added five years ago specializes in small cap equities. Analysts follow close to 60 companies in seven industry sectors.

The Retail Brokerage operation is concentrated in Québec with more than 80 retail advisors in 14 offices. Being the only bank-owned dealer with a "boutique mentality", it has built a culture of flexibility and fast response. A strategist was recently added to the team, catering to the needs of the retail client and adding value to its Wealth Management offer.

The Institutional Services Group provides a steady revenue stream, offering complete back office support for small to mid-sized money managers and brokerage firms. Several new mandates were won in 2011.

"We've managed the risk well. We continue to strengthen relationships and are in a good position when markets improve," says Michel Trudeau. "Our platforms are built and our strategies are solid."

BUSINESS SEGMENT SNAPSHOT

TOTAL ASSETS UNDER ADMINISTRATION $2.2 BILLION

Full-service brokerage services

- Institutional brokerage – Fixed income
- Institutional brokerage – Equity
- Retail brokerage
- Discount brokerage
- Institutional services

Bank-related capital market activities

Operates Canada-wide

1993

ACTIVITIES BEGIN

Beginning of brokerage activities after the acquisition of assets.

2006

INSTITUTIONAL GROWTH

LBS turns to institutional equities, specializing in small cap enterprises. In five years' time it will have one of the largest research teams in Québec.

2009

BEST CRYSTAL BALL

Carlos Leitao, chief economist, is ranked the second best economist in the world by Bloomberg magazine.

Three indispensible **corporate groups**

Lorraine Pilon, Executive Vice President, Corporate Affairs, Human Resources and Secretary

Michel C. Lauzon, Executive Vice President and Chief Financial Officer

Pierre Minville, Executive Vice President and Chief Risk Officer

Providing Bank-wide expertise and support

Corporate Services consists of the corporate sectors that provide Bank-wide expertise and support in three broad areas: Treasury, Finance and Technology; Corporate Affairs and Human Resources; and Integrated Risk Management.

The resources and guidance provided by these groups ensure that the individual business units as well as the overall Bank operate smoothly and efficiently to maximize performance.

From margin management to project management – We get things done!
The Bank's transition to International Financial Reporting Standards (IFRS) is well underway and will be implemented in 2012, conforming to all requirements. This year, margin management was particularly challenging given a very competitive environment, low interest rates and a flat yield curve. While some margin compression ensued, effective strategies were deployed to minimize the impact. As well, the Information Technology and Real Estate group continued to provide rigorous project management and execution, allowing the Bank to benefit from the added value of these important investments.

We manage risk and capital judiciously
Risk management is an important component of the Bank's decisions and operations. This team effectively supports the various business and corporate sectors to help identify, assess, manage and mitigate the various risks which face the Bank in the normal course of its business activities. In addition, this group is responsible for assessing capital to support risks and to ensure that the Bank is compliant with evolving Basel regulations.

We take compliance and communication seriously
The Bank continued to improve its processes and procedures to ensure compliance. On the communications front, initiatives were established to further effective and transparent communication with employees. As a result, there is tremendous pride in the organization and a very strong sense of belonging. On the following pages, the Bank's people are highlighted, providing an overview of the activities relating to Human Resources.

Our team – It's Capital

At Laurentian Bank, people are recognized as being a core asset. One of three governing corporate objectives is the development of human capital.

Finding the right labour pool

The Career Station is Laurentian Bank's permanent recruitment station, located in the Berri-UQAM subway station, a major transfer point for students and young people. This real job shop not only attracts new talent, but also offers a full range of transactional services and banking advice. Laurentian Bank is the first financial institution to meet its recruitment needs in such a dynamic way. The centre has already received more than 7,500 candidates to date, illustrating the importance placed by the Bank on both human capital and the need for proximity.

Putting the "extra" in "extraordinary"

The Bank is the kind of workplace where shared values are a shared goal. This was exemplified during 2011 by the introduction of two new recognition programs, results of recommendations made by two consultative management and employee committees.

The first, the Month of Extraordinary Employees, began in mid-May and featured a series of innovative celebrations in departments and branches throughout the organization.

The Month of Extraordinary Employees, was followed by the Flame of Recognition, which added a new twist to rewarding employees on a daily basis. The Bank has a formal program whereby management recognizes exceptional employees, but the Flame of Recognition is based on employees honoring their peers for their special, every-day efforts.

Would you hold this for me?

Each employee receiving the flame in turn chooses a deserving colleague and passes it on. After only five months, close to 120 employees have been singled out by their colleagues to be recognized in this way.

The Bank's exemplary performance leads to special recognition for all employees

The envelope please

Recognition takes many forms at the Bank, but top honors go the recipients of two formal programs recognizing excellence across the organization.

The Guy-Vanier Award program pays tribute to five individual employees while the Ray McManus Award recognizes multi-sector project team efforts. In 2011, a new category was added to recognize a team of individuals working together on a daily basis, showing it is possible to meet and exceed its objectives while embracing the Bank's five values: passion for client interests, simplicity, entrepreneurship, integrity and teamwork.

1846 – 2011

CARING & SHARING
Since its formation, the Bank has actively involved itself in the social life of the community and each year distributes funds to aid the less fortunate.

1902

GROWING UP
Just after the turn of the century, the Bank has 56 employees and five branches.

1939

300 STRONG
At the start of the Second World War, the Bank has reached 25 offices and branches, and 300 employees.

2007

LBC ACADEMY
Laurentian Bank Academy is created to further the Bank's reputation for exceptional client service with the latest training methods.

2010

A UNIQUE STATION
The Bank introduces a new concept by creating a Career Station underground at the Berri-UQAM subway station, which carries the heaviest traffic for university students.

2011

MOST ADMIRED CORPORATE CULTURES
The Bank won the 2011 Canada's Most Admired Corporate Cultures in the Québec and Atlantic region.

CANADA'S 10 MOST ADMIRED CORPORATE CULTURES 2011
Presented by Waterstone
Regional Winner
Quebec and Atlantic Canada

And this year's winners are...

GUY-VANIER AWARDS

The Guy-Vanier Mosaic

The Guy-Vanier Award recipients are featured in an enamel-on-copper mosaic displayed in the executive suite of the Bank's headquarters.

Michel Charbonneau

Michel Charbonneau, Sales and Advising Manager in the Lanaudière region, is a noted innovator that has now worked at the Bank for thirty nine years. Appreciated by all, he always takes the time to lend a helping hand to his colleagues.

Jocelyne Delaney

Jocelyne Delaney, Senior Account Manager, Real Estate Financing, Ontario. JD, as colleagues call her, radiates passion in everything she does and has been a member of the $100 Million Club for three years.

Sylvie Bédard

Sylvie Bédard, Advisor, Retail Services, sets out to excel in everything she does and is recognized for exceptional devotion and professionalism after 30 years of service at the Bank.

Andrée Hurtubise

Andrée Hurtubise, Assistant Vice President, Continuous Improvement – B2B Trust. Andrée is the kind of person who is constantly finding a better way. She recently implemented a methodology for decision-making centred on client needs which is already yielding results.

Sophie Lambert

Sophie Lambert, Manager of the Victoriaville branch. Sophie's leadership at the branch since 2003 has produced striking results. Her passion for excellence seems contagious as her branch has attained the No.1 position and two of her advisors have also been honoured for their remarkable performance.

Projects and Quality Assurance team, Retail and SME-Québec

Business Development Team, B2B Trust

RAY MCMANUS AWARDS

Team Award: Antoine Lavoie's team in the performance and organizational development sector is accustomed to mobilizing resources with little notice, if any, in order to complete a project. This Montréal-based Projects and Quality Assurance team is responsible for the quality tests that precede the implementation of computer solutions. Their special strength lies in being able to simplify the relationship between the technology team and the system users' team – a much appreciated skill.

Project Award: This second Ray McManus Award recognizes exceptional sucess by a multi-disciplinary team assembled for a specific project. These are the 25 people who made up the B2B Trust Business Development Team which reviewed the unit's practices in minute detail and then put them back together again so as to improve both methods and results. B2B Trust's business development performance has been greatly enhanced.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED OCTOBER 31, 2011

SUMMARY OF FINANCIAL RESULTS

OVERVIEW OF FISCAL 2011

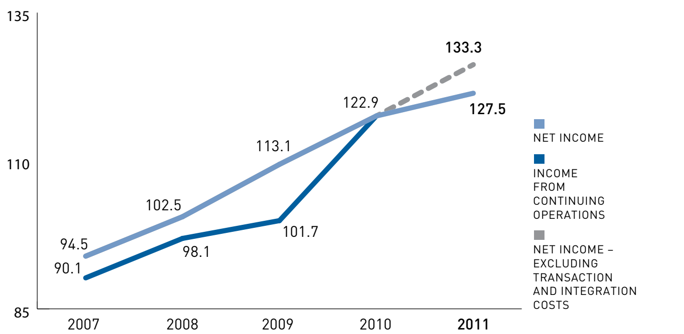
For the year ended October 31, 2011, the Bank reported net income of $127.5 million, or diluted earnings of $4.81 per share, compared with $122.9 million, or diluted earnings of $4.63 per share in 2010. Return on common shareholders' equity was 11.0% in 2011, compared with 11.5% in 2010.

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

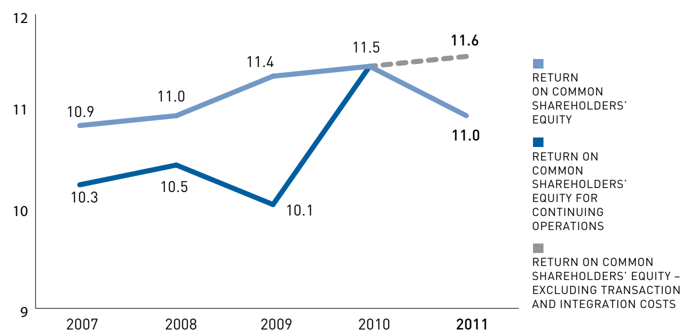
The Bank reported good results for fiscal 2011, despite the challenging retail banking environment. In 2011, the Bank compensated for interest margin compressions with higher other income. Significant improvements in the credit quality of the Bank's loan portfolios also contributed to these results.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

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

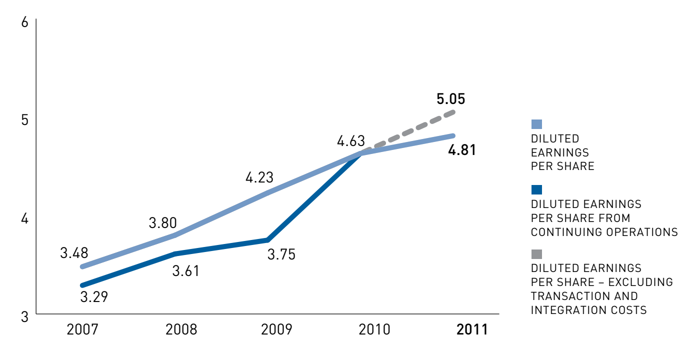
NET INCOME
(in millions of dollars)



RETURN ON COMMON SHAREHOLDERS' EQUITY
(as a percentage)



DILUTED EARNINGS PER SHARE
(in dollars)



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

CORPORATE PRIORITIES **FOR 2012**

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

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

REVIEW OF 2011 BUSINESS SEGMENT OPERATIONS AND 2012 PRIORITIES

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

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

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

BUSINESS SEGMENTS

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

FINANCIAL HIGHLIGHTS 2011

RETAIL & SME-QUÉBEC

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

REAL ESTATE & COMMERCIAL

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

B2B TRUST

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

LAURENTIAN BANK SECURITIES & CAPITAL MARKETS

- Continued profitability in a relatively unfavourable environment

OTHER

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

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

PRIORITIES FOR 2012

SEGMENT CONTRIBUTION

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

TABLE 3

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

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

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

TABLE 4

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

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

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

TABLE 5

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

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

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

TABLE 6

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

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

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

TABLE 7

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

HIGHLIGHTS OF 2011

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

TABLE 1

CONSOLIDATED RESULTS

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

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

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

2011 FINANCIAL PERFORMANCE

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

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

TABLE 2

PERFORMANCE INDICATORS

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

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

OUTLOOK AND OBJECTIVES FOR 2012

ECONOMIC OUTLOOK:
SOVEREIGN DEBT CONCERNS CONSTRAIN ECONOMIC GROWTH

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

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

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

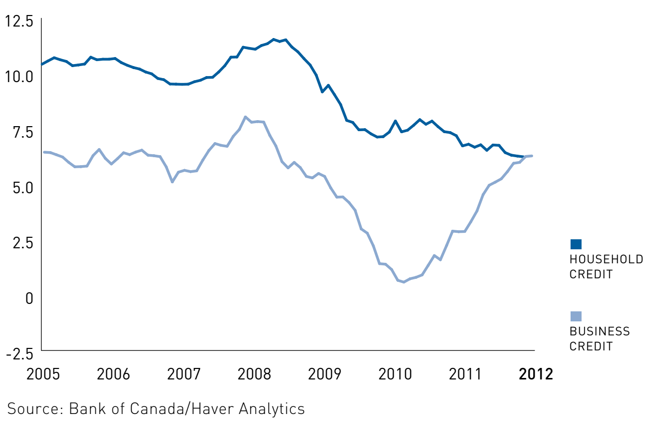
Notwithstanding a reduced contribution from households, businesses and governments in 2012, a weaker external sector, and the risk of financial instability, the Bank does not believe that the Canadian economy will fall back into recession, short of a major international financial shock. Nevertheless,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

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

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

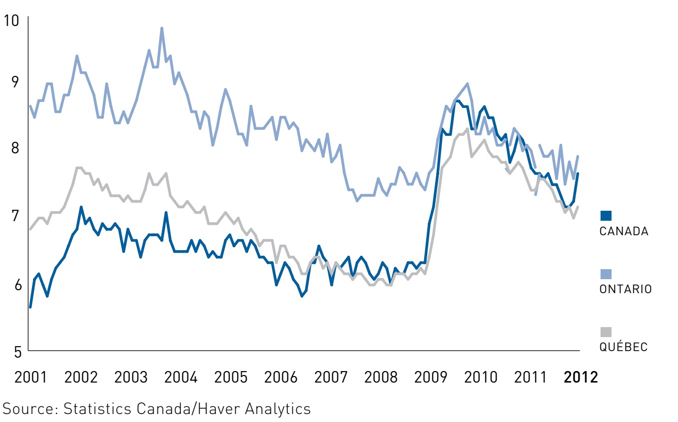
Since September 2010, the Bank of Canada has kept its key interest rate at 1.00%. This long pause should last another year at the very least given the uncertain external economic and financial outlook.

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



Source: Bank of Canada/Haver Analytics

UNEMPLOYMENT RATES
(as a percentage)



Source: Statistics Canada/Haver Analytics

HOW WE WILL MEASURE OUR PERFORMANCE IN 2012

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

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

TABLE 8
2012 FINANCIAL OBJECTIVES

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

(1) Refer to the non-GAAP financial measures on page 67.
(2) Expected results for 2011 are determined with reference to the preliminary restated 2011 IFRS comparative figures and exclude Transaction and Integration Costs. Therefore, the actual results may be adjusted upon completion of the conversion process in 2012.
(3) These objectives for 2012 exclude Transaction and Integration Costs and should be read concurrently with the following paragraphs.

Key assumptions supporting the Bank's objectives

The following assumptions are the most significant items considered in setting the Bank's strategic priorities and financial objectives. The Bank's objectives do not constitute guidance and are based on certain key planning assumptions. In addition, uncertainties regarding potential accounting standard changes and potential regulatory changes could cause actual results to differ materially from management objectives. Other factors such as those detailed in the Caution Regarding Forward-Looking Statements and Integrated Risk Management Framework sections of this MD&A could also cause future results to differ materially from these objectives.

The objectives for 2012 reflect management's confidence in the sustainability of the Bank's operating profitability. However, the ongoing uncertainty in the Canadian economy, with continued challenges stemming from international financial instability, very low interest rates and strong competition for retail deposits and loans leads to persistent pressure on pricing and margins. Nonetheless, these challenges should be compensated by good loan and deposit growth anticipated in 2012 as well as higher other income stemming from various business initiatives and increased sales capabilities of the Bank. The targets for 2012 also incorporate increased spending necessary to meet heightened regulatory requirements as well as investments in technology and people to support growth and service levels. These targets exclude expected integration costs related to the acquisition of the MRS Companies. Despite the challenges stemming from the business environment expected in the upcoming year, management remains confident that the Bank can provide continued solid return on common shareholders' equity by maintaining appropriate cost controls while effectively executing its business plan.

TRANSACTIONS WITH MACKENZIE FINANCIAL

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

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

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

ANALYSIS OF CONSOLIDATED RESULTS

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

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

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

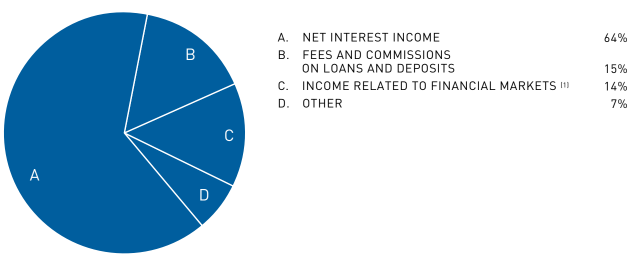
	SEGMENT	ITEMS BEFORE INCOME TAXES	ITEMS NET OF INCOME TAXES	DILUTED, PER COMMON SHARE[1]
Net income as per consolidated statement of income			$127,489	$4.81
Transaction and Integration Costs:				
Integration-related costs	B2B Trust	$ 523	375	0.02
Compensation for the termination in 2012 of the existing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

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

TOTAL REVENUE

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

TOTAL REVENUE MIX
(as a percentage)



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

NET INTEREST INCOME

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

The Bank uses derivatives to manage the interest rate risk associated with some of its loan and deposit portfolios. In 2011, interest rate swaps generated revenues of $66.5 million and partly compensated lower interest income stemming from variable rate loan portfolios resulting from the low interest rate environment. Depending on interest rate fluctuations and on the portfolio mix in terms of maturity and product types, actual return on portfolios can vary substantially. The Bank uses models to quantify the potential impact of various rate scenarios on future revenues and equity, as explained in the Asset and Liability Management Activities section on page 52 of this MD&A.

TABLE 10
CHANGES IN NET INTEREST INCOME

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

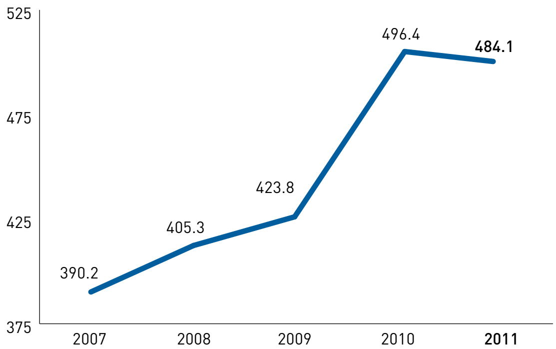
	2011				2010			
	AVERAGE VOLUME IN %	AVERAGE VOLUME	INTEREST	AVERAGE RATE	AVERAGE VOLUME IN %	AVERAGE VOLUME	INTEREST	AVERAGE RATE
Assets								
Cash resources and securities	20.1%	$ 4,813,135	$ 66,864	1.39%	20.5%	$ 4,736,468	$ 73,273	1.55%
Securities purchased under reverse repurchase agreements	2.3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

TABLE 11
ANALYSIS OF CHANGE IN NET INTEREST INCOME

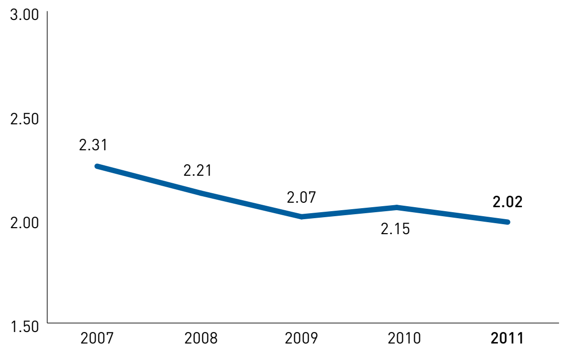
For the years ended October 31 (in thousands of dollars)

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

NET INTEREST INCOME
(in millions of dollars)



NET INTEREST MARGIN
(as a percentage of average assets)



OTHER INCOME

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

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

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

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

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

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

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

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

OTHER INCOME
(in millions of dollars)

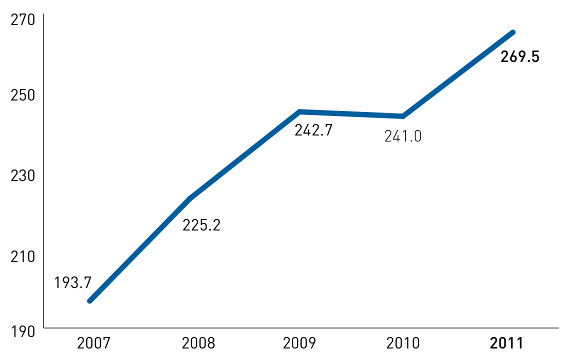


TABLE 12
OTHER INCOME
For the years ended October 31 (in thousands of dollars, except percentage amounts)

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

PROVISION FOR LOAN LOSSES

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

NON-INTEREST EXPENSES

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

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

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

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

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

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

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

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

TABLE 14
NON-INTEREST EXPENSES
For the years ended October 31 (in thousands of dollars, except percentage amounts)

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

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

EFFICIENCY RATIO

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

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

INCOME TAX EXPENSE

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

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

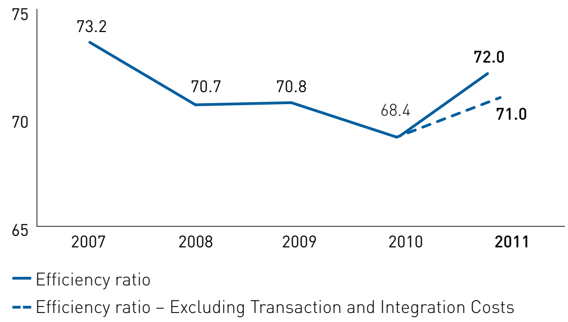


TABLE 15
RECONCILIATION OF THE INCOME TAX EXPENSE TO THE DOLLAR AMOUNT OF INCOME TAX USING THE STATUTORY RATE
For the years ended October 31 (in thousands of dollars, except percentage amounts)

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

TRANSACTIONS WITH RELATED PARTIES

The Bank provides loans to directors and officers and their related companies. Loans to directors are granted under market conditions for similar risks and are measured at the exchanged amount. Loans to officers consist mostly of residential mortgage loans at posted rates less 2%, as well as personal loans and personal lines of credit at market rates less a discount based on the type and amount of the loan. Loans to related companies are granted under terms similar to those offered to arm's length parties. The interest earned on these loans is recorded under interest income in the consolidated statement of income. In the normal course of business, the Bank also provides usual banking services to certain directors and officers, including bank accounts (deposits) under terms similar to those offered to arm's length parties. The Bank also offers employees a subsidy on annual credit card fees. See Note 19 to the annual consolidated financial statements for additional information on related party transactions.

OVERVIEW OF FISCAL 2010

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

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

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

ANALYSIS OF QUARTERLY RESULTS

SUMMARY ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF FISCAL 2011

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

TABLE 16
IMPACT OF TRANSACTION AND INTEGRATION COSTS

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

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

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

Total revenue

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

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

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

Provision for loan losses

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

Non-interest expenses

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

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

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

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

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

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

Income taxes

For the quarter ended October 31, 2011, the income tax expense was $6.5 million and the effective tax rate was 18.6%. The lower tax rate, compared to the statutory rate, mainly resulted from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income and the lower taxation level on revenues from credit insurance operations. In addition, compared to the same quarter of 2010, income taxes for the fourth quarter ended October 31, 2011 benefited from the effect of the reduction in Federal income tax rates of 1.4% which became effective this year and a year-end favourable adjustment to future income taxes. For the quarter ended October 31, 2010, the income tax expense was $9.1 million and the effective tax rate was 21.8%.

ANALYSIS OF THE EVOLUTION OF THE QUARTERLY RESULTS

The Bank's intermediation business provides a relatively steady source of income, stemming from large volumes of loans and deposits not likely to experience significant fluctuations in the short term. However, treasury operations and certain activities related to financial markets, such as securitization operations and trading activities, may result in significant volatility. In addition, sharp variations in market interest rates or equity markets may also influence operating results. Other transactions, specific events or regulatory developments may also influence the Bank's results. Given that the second quarter usually consists of only 89 days, compared with 92 days for the other quarters, net interest income for that quarter is generally lower. The following table summarizes quarterly results for fiscal 2011 and 2010.

TABLE 17
QUARTERLY RESULTS

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

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

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

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

2011

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

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

2010

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

ANALYSIS OF FINANCIAL CONDITION

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

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

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

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

LIQUID ASSETS

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

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

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

LOAN PORTFOLIO

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

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

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

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

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

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

Impaired loans

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

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

OTHER ASSETS

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

DEPOSITS

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

Additional information on deposits and other funding sources is included in the Liquidity and Funding Risk Management sub-section of the Integrated Risk Management Framework section.

OTHER LIABILITIES

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

SUBORDINATED DEBT

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

SHAREHOLDERS' EQUITY

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

TABLE 20
SHARES ISSUED AND OUTSTANDING
As at November 30, 2011 (in number of shares/options)

Preferred shares	
Series 9	**4,000,000**
Series 10	**4,400,000**
Total preferred shares	**8,400,000**
Common shares	**23,925,037**
Options	**50,000**

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of its operations, the Bank makes ample use of off-balance sheet arrangements. In particular, the Bank manages or administers clients' assets that are not reported on the balance sheet. Moreover, off-balance sheet items include derivatives, as well as assets and liabilities arising from the utilization of special purpose entities set up for financing purposes.

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

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

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

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

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

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

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

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

DERIVATIVES

In the normal course of its operations, the Bank enters into various contracts and commitments to protect itself against the risk of fluctuations in interest rates, foreign exchange rates and indices on which returns of index-linked deposits are based, as well as to provide protection against the risk of fluctuations in interest rates to special purpose entities with regard to the Bank's securitization transactions, meet clients' requirements and generate revenues from trading activities. These contracts and commitments constitute derivatives. The Bank does not enter into any credit default swaps.

All derivatives are recorded in the balance sheet at fair value. Derivative values are calculated using notional amounts. However, these amounts are not recorded in the balance sheet, as they do not represent the actual amounts exchanged. Likewise, notional amounts do not reflect the credit risk related to derivatives, although they serve as a reference for determining the amount of cash flows to be exchanged. The notional amounts of the Bank's derivatives totalled $24.1 billion as at October 31, 2011 with a net negative fair value at $32.0 million.

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

SECURITIZATION ACTIVITIES

The Bank uses special purpose entities to securitize mortgage loans in order to obtain funding and, to some extent, to reduce credit risk and manage its capital position.

As part of a securitization transaction, an entity transfers assets to a special purpose entity, which generally consists of a Canadian trust, in exchange for cash. The special purpose entity finances these purchases through the issuance of term bonds or commercial paper. Sales of receivables are sometimes accompanied by credit enhancement features to improve the bonds' or commercial paper's credit ratings. Credit enhancements mainly take the form of cash reserve accounts, over-collateralization in the form of excess assets, and liquidity guarantees. Securitization programs generally include seller swap contracts to protect the special purpose entities against certain interest rate and prepayment risks. Under current Canadian GAAP, securitization operations are reported as sales of assets only when the seller is deemed to have surrendered control over these assets and to the extent it receives consideration other than beneficial interests in the transferred assets.

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

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

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

With regards to transactions with multi-seller conduits, the Bank provides credit enhancements in the form of cash reserve accounts and rights to future excess interests, which constitute retained interests. Similarly, the Bank has concluded seller swap agreements designed to protect the special purpose entities against interest rate risks. As at October 31, 2011, total outstanding securitized residential mortgage loans sold to these structures amounted to $35.8 million ($159.4 million as at October 31, 2010).

The Bank does not act as an agent for clients engaged in this type of activity and has no other significant involvement, such as liquidity and credit enhancement facilities, with any securitization conduit.

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

Effect of loan transfers on regulatory capital ratios

Transfers made through the Canada Mortgage Bonds Program do not significantly impact Tier 1 and Total capital ratios, as the mortgage loans sold are insured by CMHC and already have a 0% risk weight. Similarly, transfers of conventional residential mortgage loans generally do not have a significant impact on capital ratios, as regulatory capital is adjusted to take into account the credit risk that the Bank continues to assume through retained interests. However, these sales do reduce the assets to capital multiple, as the mortgage loans are derecognized under current Canadian GAAP.

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

CREDIT COMMITMENTS AND GUARANTEES

In the normal course of its operations, the Bank uses various off-balance sheet credit instruments. The credit instruments used as a means of meeting client financial needs represent the maximum amount of additional credit that the Bank may be required to extend if the commitments are fully used.

In the normal course of its operations, the Bank also enters into guarantee agreements that satisfy the definition of guarantees established by the Canadian Institute of Chartered Accountants (CICA) in Accounting Guideline No. 14, *Disclosure of Guarantees.* The principal types of guarantees are standby letters of credit and performance guarantees.

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

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

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

(1) Exclude personal credit facilities totalling $1.6 billion ($1.4 billion as at October 31, 2010) and credit card lines amounting to $1.2 billion ($1.0 billion as at October 31, 2010) since they are revocable at the Bank's option.

CAPITAL MANAGEMENT

Management's objective is to maintain an adequate level of capital, in line with its risk profile, to support the Bank's activities while enhancing shareholder value. In order to achieve this objective, the Bank has a capital management framework that includes a Capital Management Policy, a Capital Plan and an Internal Capital Adequacy Assessment Process ("ICAAP").

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

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

REGULATORY CAPITAL

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

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

PROPOSAL FOR NEW CAPITAL AND LIQUIDITY REGULATORY MEASURES

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

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

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

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

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

IMPLICATION OF THE ACQUISITION OF THE MRS COMPANIES

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

TABLE 23
RISK-WEIGHTED ASSETS
As at October 31 (in thousands of dollars)

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

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

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

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

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

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

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

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

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

DIVIDENDS

The Board of Directors must approve dividend payments on preferred and common shares on a quarterly basis. The declaration and payment of dividends are subject to certain legal restrictions, as explained in Note 13 to the annual consolidated financial statements. The level of dividends declared on common shares reflects management and Board views of the Bank's financial outlook and takes into consideration market and regulatory expectations, as well as the Bank's growth objectives in its Strategic Plan. The following table summarizes dividends declared for the last three years.

TABLE 25
SHARE DIVIDENDS AND PAYOUT RATIO
For the years ended October 31 (in thousands of dollars, except per share amounts and payout ratios)

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

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

INTEGRATED RISK MANAGEMENT FRAMEWORK

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

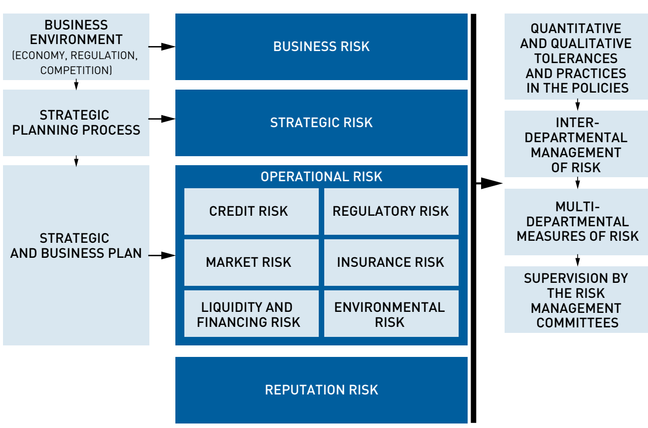
The Framework defines the governance structure, risk management process and major risks the Bank may encounter. The internal control and corporate governance structure that promotes sound integrated risk management and the organization of the control environment is also presented herein. The Framework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

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

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

RISK MANAGEMENT PROCESS

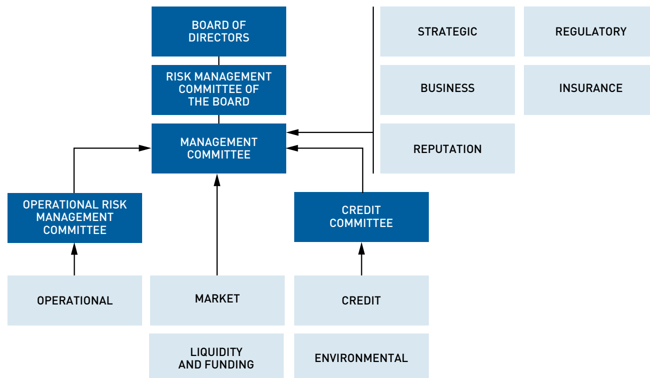
The Bank's risk management process, as illustrated below, is closely tied to the strategic planning process from which the Bank's strategic and business plan is defined. Policies approved by the Board describe tolerances, measures and responsibilities for each significant risk. These policies must be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



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

GOVERNANCE STRUCTURE

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



ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS' COMMITTEES

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

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

ROLES AND RESPONSIBILITIES OF INTERNAL RISK MANAGEMENT COMMITTEES

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

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

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

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

The **Credit Committee** is primarily responsible for ensuring that adequate credit policies and procedures are in place and that information systems related to managing the Bank's current and potential credit risks have been implemented, and for approving loans within set limits. It also reviews delinquency on all types of loans, authorizes loan losses within set limits and ensures the adequacy of the provisions for loan losses.

GOVERNANCE FUNCTIONS SUPPORTING INTEGRATED RISK MANAGEMENT

The following table presents the Bank's corporate control and governance structure (the "Structure"), which includes several governance functions designed to enhance integrated risk management. The Structure is divided into three distinct areas: operations, control environment and corporate governance. Operations are key to risk management as operations managers are on the front lines to identify risks and actively manage them by applying the risk policies and implementing controls and risk mitigation measures. The control environment hinges on five functions: human resources, strategic planning, financial integrity, integrated risk management and regulatory risk management. Responsibility for each function is delegated to members of senior management (the coordinators). The control environment is responsible for the Framework and oversight of risk management, including an independent risk assessment. The Board of Directors' committees oversee the control environment. From a governance perspective, the Board of Directors is responsible for ensuring, to the extent possible, that global risk tolerance is consistent with the Bank's strategies and objectives.

The Internal Audit Department also plays a key role, as it is responsible for implementing and maintaining a reliable and comprehensive system to adequately monitor the effectiveness of the controls exercised within the different Framework functions. In addition, regulatory and statutory requirements are an integral part of the Bank's Integrated Risk Management Framework.

CORPORATE CONTROL AND GOVERNANCE STRUCTURE

OPERATIONS	CONTROL ENVIRONMENT		CORPORATE GOVERNANCE[1]
ACTIVITIES	FUNCTIONS	COORDINATORS	COMMITTEES
• RETAIL AND SME-QUÉBEC • REAL ESTATE & COMMERCIAL • B2B TRUST • LBS & CM • TREASURY • IT • OTHER CORPORATE SECTORS	INTEGRATED RISK MANAGEMENT	CHIEF RISK OFFICER	RISK MANAGEMENT COMMITTEE
	REGULATORY RISK AND PCMLTF[2]	CHIEF COMPLIANCE OFFICER	RISK MANAGEMENT COMMITTEE
	FINANCIAL INTEGRITY CERTIFICATION	CEO / CFO	AUDIT COMMITTEE
	HUMAN RESOURCES	EVP, CORPORATE AFFAIRS, HUMAN RESOURCES, AND SECRETARY	HR AND CORPORATE GOVERNANCE COMMITTEE
	STRATEGIC PLANNING	CEO / CFO	BOARD OF DIRECTORS
• POLICY IMPLEMENTATION • IDENTIFICATION, DETECTION AND RISK MANAGEMENT • RISK DISCLOSURE AND LOSSES • CONTROL IMPLEMENTATION • BUSINESS CONTINUITY PLANS • COMPLIANCE AND PCMLTF[2] IMPLEMENTATION[3]	• DESIGNING AND DEVELOPING POLICIES AND PROGRAMS • DEVELOPING RISK TOLERANCES • RISK MEASURES • DEVELOPMENT OF MEASUREMENT AND SELF-ASSESSMENT TOOLS • RISK DISCLOSURE • COORDINATION OF CONTINUITY PLANS AND TEMPLATES • COORDINATION OF COMPLIANCE PROGRAMS, PCMLTF[2] AND FINANCIAL CERTIFICATION[3]		• APPROVAL AND SUPERVISION OF THE STRATEGIC PLAN • APPROVAL AND SUPERVISION OF POLICIES • APPROVAL OF RISK TOLERANCES • REVIEW OF THE MOST CRITICAL RISKS[3]
INTERNAL AUDIT			AUDIT COMMITTEE

(1) Corporate governance provided by the Board of Directors and its committees.
(2) Proceeds of Crime (Money Laundering) and Terrorist Financing.
(3) This list of functions is not exhaustive.

STRATEGIC AND BUSINESS RISK MANAGEMENT

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

Business risk is the potential adverse effect of changes in the tax, economic, competitive, regulatory or accounting environment on the Bank's results.

Senior management is responsible for managing the Bank's strategic and business risk. Each year, a strategic planning process is carried out. The Bank then analyzes strengths, weaknesses, threats and opportunities to determine the profitability and risk profiles of its different business segments. The Bank's overall strategy is established by senior management and submitted to the Board of Directors for approval.

CREDIT RISK MANAGEMENT

Credit risk is the risk of a financial loss occurring if a counterparty (including a debtor, an issuer or a guarantor) does not fully honour its contractual or financial obligations towards the Bank with regard to a balance sheet or an off-balance sheet financial instrument.

Credit risk management is independent of operations, thus protecting the independence and integrity of risk assessment. The Credit Committee is responsible for operational oversight of overall credit risk management. The integrated risk management report, presented quarterly to the Management Committee and to the Board of Directors' Risk Management Committee, provides a summary of key information on credit risks. The credit risk management policies adopted by the Bank provide for appropriate risk assessment. These policies cover approval of credit applications by authority level, assignment of risk ratings, management of impaired loans, establishment of general and specific provisions, and risk-based pricing. The policies are periodically reviewed and approved by the Board of Directors' Risk Management Committee.

The authorization process for counterparties and loans is centralized. The Bank uses expert systems to support the decision-making process for most applications for consumer credit, residential mortgage loans and credit cards, as well as commercial loans. With regard to commercial loans, applications are also analyzed on a case-by-case basis by specialized teams. Through its credit risk management department, the Bank monitors its financial instrument portfolios on a qualitative and quantitative basis through: [i] mechanisms and policies governing the review of the various types of files; [ii] risk rating systems, and [iii] pricing analysis. Each month, the Bank's Credit Committee reviews impaired loans and performs high-level analyses on loans where payment is past due by 90 days or more. Collection processes are centralized and are based on specialized expertise.

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

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

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

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

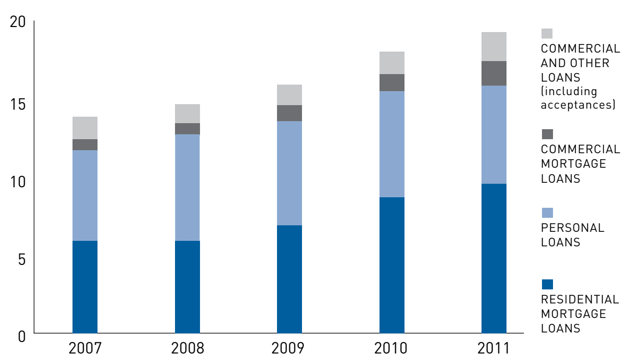
Diversification is one of the fundamental principles of risk management. To this effect, the credit policy establishes guidelines to limit concentration of credit by counterparty and sector of activity, and identifies sectors considered risky and thus to be avoided. The loan portfolio mix is detailed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

Loan portfolio mix

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

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

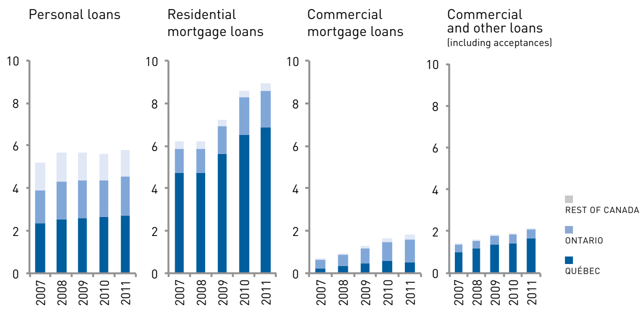
LOAN PORTFOLIO MIX
(in billions of dollars)



Geographic distribution

The Bank operates across Canada. In Québec, it offers most of its lending products mainly through its retail branch network and commercial banking centers. Throughout Canada, the Bank extends its operations through several other commercial banking centers. The Bank also offers its products to a wide network of independent financial intermediaries through B2B Trust. As at October 31, 2011, the proportion of loans granted to borrowers in Québec represented 64% of total loans while loans granted to borrowers outside of Québec stood at 36% (63% and 37% respectively as at October 31, 2010).

GEOGRAPHIC DISTRIBUTION OF LOANS
(in billions of dollars)



Insurance and guarantees

A significant proportion of the Bank's loan portfolio is insured by Canada Mortgage and Housing Corporation (CMHC), or secured by assets pledged as collateral by borrowers.

CMHC offers a mortgage loan insurance program which ultimately aims to improve access to affordable mortgage loan financing for Canadians. As an approved lender under the program, the Bank benefits from insurance coverage, thereby reducing its global credit risk and improving its capital ratios. The Bank also insures pools of mortgages loans through a specific CMHC insurance program. Moreover, by maintaining a high proportion of insured residential mortgage loans, the Bank retains its capacity to engage in securitization operations to finance its activities at optimal cost and manage its cash resources. By the end of fiscal 2011, 46% of residential mortgage loans were insured by CMHC, relatively unchanged compared to 2010. The Bank considers that it holds excellent guarantees for the other conventional mortgage loans whose loan value never exceeds 80% of the initially estimated value of the property, in accordance with legal requirements.

Commercial mortgage loans are secured by specific assets, including construction projects, commercial properties, shopping centers, office buildings, plants, warehouses and industrial condominiums. In general, the value of these loans does not exceed 60% to 75% of the initially estimated value of the property, depending on the nature of the loan.

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

B2B Trust's investment loan portfolio consists mainly of mutual fund loans. Loan underwriting is subject to a rigorous process which allows for the efficient assessment of client credit risk. Authorizations are heavily based on clients' loan servicing ability and overall financial strength, mainly based on credit scoring. Moreover, the portfolio is periodically analyzed to identify potential credit issues. In addition, loans are collateralized by a comprehensive list of eligible mutual and segregated funds. Stricter credit criteria must be met as loan-to-value ratios increase. For loans where disbursements are significant, additional personal income and net worth information areusually required.

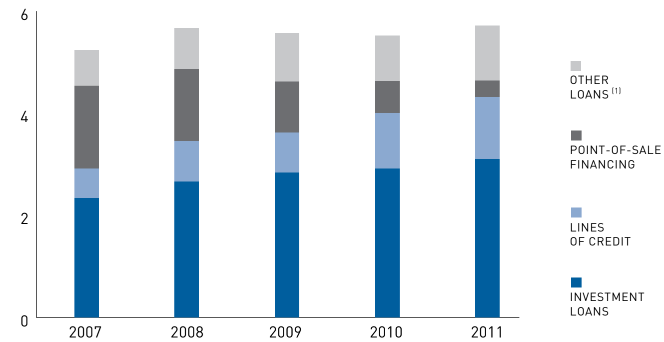
Loan underwriting for home equity lines of credit and point-of-sale financing loans allows for the assessment of client credit risk. In addition, these loans are collateralized by real estate assets and other assets. Also, more than 10% of the Bank's personal loan portfolio consists of student loans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

Changes in loan portfolio mix

Personal loans

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

PERSONAL LOAN PORTFOLIO MIX
(in billions of dollars)



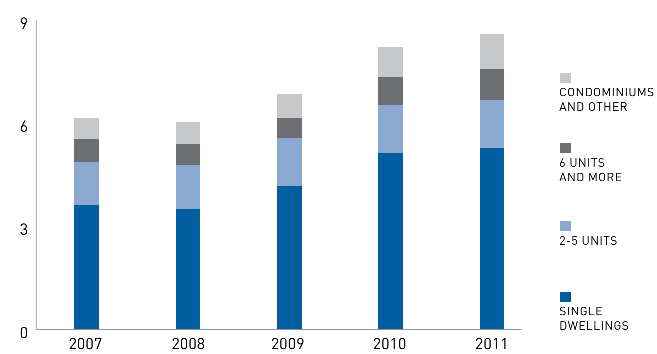
(1) Including credit card loans, student loans, loans granted under the Immigrant Investor Program and other loans.

Residential mortgage loans

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

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

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



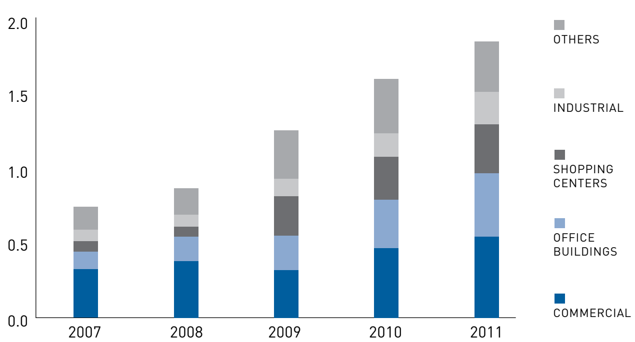
(1) As reported on the balance sheet

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

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

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

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



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

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

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

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

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

2011

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

(1) Recorded in the consolidated statement of income

2010

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

(1) Recorded in the consolidated statement of income

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

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

MARKET RISK MANAGEMENT

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

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

Foreign exchange risk is the losses that the Bank may incur subsequent to adverse exchange rate fluctuations. It originates mainly from foreign exchange positions held by the Bank to support the offering of products and services in currencies other than the Canadian dollar, trading operations and, to a lesser extent, mismatches in currencies of balance sheet and off-balance sheet assets and liabilities, as well as mismatches in receipts and payments of funds in foreign currencies.

Equity risk is the financial losses that the Bank may incur subsequent to adverse fluctuations in certain equity prices or stock market instability in general.

Policies and standards

The primary objective of effective market risk management is to adequately measure significant market risks and ensure that these risks stay within the Bank's risk tolerance level. The Bank has thus adopted policies and limits to oversee exposure to market risks arising from its trading, investment and asset and liability management activities. The policies and limits establish the Bank's management practices pertaining to various risks associated with its treasury activities. These policies and limits are approved by the Management Committee and the Board of Directors' Risk Management Committee at least annually, to ensure their alignment to principles, objectives and management strategies.

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

- Daily, to risk and portfolio managers; and
- Quarterly, to the Management Committee and to the Board of Directors' Risk Management Committee.

Market risk assessment and management methods (interest rate, foreign exchange and equity)

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

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

The Bank sets limits that are consistent with its business plan and its tolerance for market risk. In setting limits, the Bank takes into account market volatility, market liquidity, organizational experience and business strategies. Limits are set at the portfolio level, the business segment level, the risk factor level, as well as at the aggregate Bank level, and are monitored on a daily basis. Market risk limits are based on the key risk drivers in the business and can include limits on notional amounts, sensitivity measures, VaR and other stress testing. The Bank uses a combination of these methods according to the complexity and nature of its activities.

Value at Risk

Value at Risk (VaR) corresponds to the potential loss the Bank may incur over a one-day period, with a confidence level of 99%. Consequently, the chances that real losses incurred on any given day exceed the VaR are theoretically 1%. To calculate the VaR, historical simulations that implicitly take into account correlations between various risk factors are performed. The VaR is based on 300 days of historical data. VaRs are calculated daily for all financial market activities. The Bank uses backtesting processes to compare theoretical profits and losses to the results of the VaR for trading activities. This allows validation of the VaR model's statistical hypotheses. These tests are conducted for each business segment and each risk factor, as well as for the entire trading portfolio. The theoretical change in profits and losses is generated using the daily price movements, and on the assumption that there is no change in the composition of the portfolio.

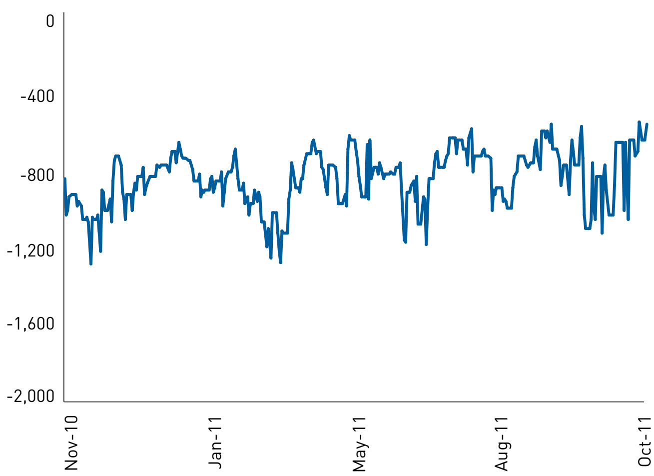
Stress tests and sensitivity measures

Parallel to VaR calculations, the impact of stress tests on profits and losses is assessed for the trading and investment portfolios and the ensuing results are used to assess the impact of exceptional market situations. Stress tests constitute a complementary risk measure to VaR and strive to provide an estimate of the worst loss the Bank could incur under multiple scenarios. The Bank's stress testing program combines historical, theoretical and statistical scenarios to simulate the impact of significant changes in risk factors on the portfolios' market value. The Bank also produces daily sensitivity measures, including measures of volatility and parallel yield curve shifts on specific business units and financial markets activities as a whole.

Trading activities

Trading activities are aligned with the needs of the Bank and its customers. The market risk associated with trading activities ensues from activities for which the Bank acts as the principal or agent for its customers. These activities are primarily carried out by Laurentian Bank Securities and Capital Markets segment and, to a lesser extent, by the Bank's Corporate Treasury. The graph below presents the daily total VaR of the trading portfolio for the 2011 fiscal year.

DAILY TRADING VaR OVER THE LAST 12 MONTHS
(in thousands of dollars)



Asset and liability management activities

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

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

- Banking activities of the Bank's clientele, which are affected by customer choices, product availability and term-dependent pricing policies;
- Investment activities, comprising marketable securities and institutional funding;
- Securities trading activities, which are marked-to-market on a daily basis in line with rate movements; and
- A hedging portfolio that helps the Bank control overall interest rate risk within strict internal limits.

Dynamic management of structural risk is intended to maximize the Bank's profitability while preserving the economic value of common shareholders' equity. To attain this objective, various treasury and derivative instruments, mainly interest rate swaps, are used to modify the interest rate characteristics of the instruments underlying the Bank's balance sheet and to cover the risk inherent in options embedded in loan and deposit products.

Structural risk is globally managed by the Bank's Corporate Treasury Department and monitored by the Management Committee in accordance with the structural risk management policy, which is approved by the Risk Management Committee of the Board of Directors. This policy defines limits relative to the measurement of economic value and net interest income risk. Risk limits are based on measures calculated by simulating the impact of immediate and sustained parallel movements of 100 basis points in rates for all maturities.

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

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

To ensure sound management of structural risk, a repricing gap report is produced monthly. This statement is then used as the basis for the simulation analysis of the impact of interest rate variation on net interest income and economic value of common shareholders' equity. One of the simulation exercises consists of subjecting the Bank's balance sheet to sudden parallel and sustained 1% and 2% increases and decreases in interest rates. For example, as at October 31, 2011, for all portfolios, a 1% increase in interest rate would have triggered an increase of approximately $12.0 million in net interest income before taxes over the next 12 months and a $20.9 million negative impact on the economic value of common shareholders' equity. Table 28 below details other interest rate movements. These results reflect management's efforts to take advantage of anticipated short-term and long-term interest rate movements, while maintaining the sensitivity to these fluctuations well within approved limits. The Bank's interest rate gap position as at October 31, 2011 appears in Note 21 to the annual consolidated financial statements.

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

	2011		2010	
	EFFECT ON NET INTEREST INCOME (1)	EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY (2)	EFFECT ON NET INTEREST INCOME (1)	EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY (2)
Change in interest rates				
Increase of 100 basis points	**$ 11,965**	**$(20,939)**	$ 4,650	$ (22,638)
Decrease of 100 basis points	**(14,481)**	**22,809**	(10,411)	25,714
Change in interest rates				
Increase of 200 basis points	**23,943**	**(39,988)**	9,091	(44,050)
Decrease of 200 basis points	**$(54,931)**	**$ 36,236**	$(46,073)	$ 49,540

(1) As a result of the unusually low interest rate levels at year end, the rate sensitivity analysis provides certain asymmetrical results with regards to the impact on net interest income over the next 12 months.
(2) Net of income taxes

OPERATIONAL RISK MANAGEMENT

Operational risk is inherent to the activities of financial institutions. It results from inadequacy or failure attributable to processes, persons, systems or external events.

The Operational Risk Management Policy, reviewed annually by the Board of Directors' Risk Management Committee, describes the Operational Risk Management Framework and defines the roles and responsibilities of various stakeholders. It is incumbent upon managers of business units and subsidiaries to proactively manage the operational risk inherent to their daily operations. The Operational Risk Management group oversees the operational risk management process. The Bank's Internal Audit Department contributes to this process by transmitting the conclusions of its auditing mandates to the Operational Risk Management group as well as to the Board of Directors' Risk Management and Audit Committees.

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

Adoption of policies by the Board of Directors
The Operational Risk Management Framework includes the following policies: operational risk management; outsourcing risk management; business continuity management; information security risk management; protection of personal information, and professional liability risk management.

Collection of operational loss data
Data concerning operational losses are centralized within the Operational Risk Management group.

Identification of operational risk
Managers must identify the risks arising from their activities, including risks related to new products, new activities and new processes.

Evaluation of operational risk
All of the Bank's activities are grouped within large processes. Following any significant change to these processes or to the implementation of a new process, managers must perform an assessment to assign appropriate risk ratings to each of their processes. If necessary, action plans are designed to minimize any significant detected risks.

Management of operational risk
Operational risk management involves, among other things, deciding to accept, reduce, avoid or transfer certain risks and put in place appropriate procedures and control measures. The Bank uses several means to minimize or transfer its risks, including participation in a corporate insurance program and development of a global and integrated plan for business continuity.

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

Outsourcing management

The Bank relies on various strategies to maintain a competitive cost structure and product diversification. Outsourcing constitutes one of these important strategies. It facilitates access to state-of-the-art technologies, fosters economies of scale and allows for improvements to process efficiency. An outsourcing agreement will be deemed acceptable if it provides short- and long-term advantages to the Bank and involves an acceptable level of risk. The Bank has implemented an outsourcing risk management policy covering all of the Bank's businesses. It is designed to oversee outsourcing activities and ensure that the major agreements are managed in a prudent manner and that their monitoring and supervision are adequate based on their significance.

LIQUIDITY AND FUNDING RISK MANAGEMENT

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

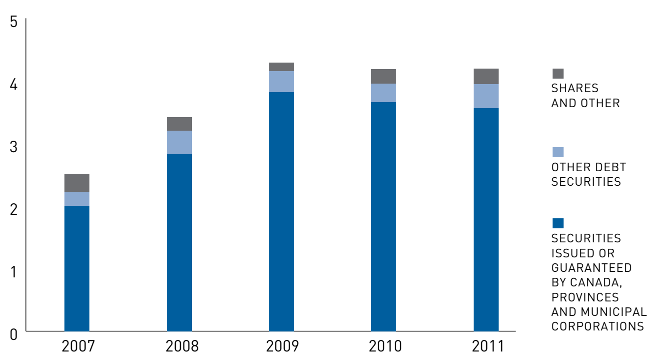
The Bank's overall liquidity risk is managed by Corporate Treasury with oversight by the Management Committee, in accordance with the policies governing cash resources, financing and collateral management. The main purpose of these policies is to ensure that the Bank has sufficient cash resources to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

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

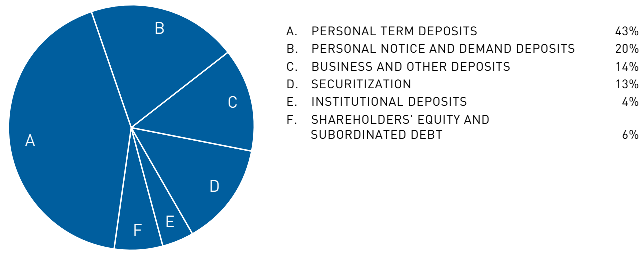
Detailed information on liquid assets

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

SECURITIES
(in billions of dollars)



FUNDING SOURCES
(as a percentage)



Funding

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

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

Personal deposits

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

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

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

Business, banks and other deposits

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

Credit ratings

Personal deposits, collected through the branch network and financial intermediaries, constitute the most important source of financing for the Bank. In certain circumstances, however, particularly during periods of strong growth, the Bank must turn to the markets to obtain financing through securitization and unsecured financing. The Bank's capacity to obtain such financing, as well as the related conditions, are tied to the credit ratings set by rating agencies such as DBRS Limited and Standard & Poor's. Revisions of the Bank's credit ratings may therefore have an effect on the financing of operations as well as on requirements with regard to guarantees.

During fiscal 2011, all ratings for the Bank were confirmed and remained unchanged. As of the date of this report, the ratings outlook, as determined by the DBRS Limited and Standard & Poor's credit rating agencies, were stable [1].

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

TABLE 30
CREDIT RATINGS
As at October 31, 2011

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

Contractual obligations

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

In addition, the Bank must also ensure that cash resources are available to meet the requirements related to ongoing operating expenses. Furthermore, significant investments are required annually for infrastructure investments, notably the maintenance of its branch network, the modernization maintenance of its information technology platforms, as well as to projects related to new products and services, sales and management tools, or to stay in compliance with regulatory requirements.

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

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

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

(1) An S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future action.
The S&P rating outlooks have the following meanings:
– "Positive" means that a rating may be raised
– "Negative" means that a rating may be lowered
– "Stable" means that a rating is not likely to change
– "Developing" means a rating may be raised or lowered

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

REPUTATIONAL RISK MANAGEMENT

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

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

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

REGULATORY RISK MANAGEMENT

Regulatory risk refers to the risk of non-compliance by the Bank with applicable laws, regulations, regulatory authority guidelines and voluntary codes. The Regulatory Risk Management Policy implements the Bank's Regulatory Risk Management Framework, which comprises the following elements:

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

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

INSURANCE RISK MANAGEMENT

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

Insurance risk is managed within an independently managed program overseen by insurance experts and by Bank representatives. Reinsurance coverage is underwritten to reduce the Bank's exposure arising from significant claims and catastrophes, including terrorist events. In addition, the design and pricing of insurance products distributed by the Bank are reviewed by actuarial consultants, based on best practices.

ENVIRONMENTAL RISK MANAGEMENT

Environmental risk is the risk of financial loss when restoring the assets of the Bank or those seized from clients to a sound environmental state.

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

ADDITIONAL RISKS THAT COULD POTENTIALLY AFFECT FUTURE RESULTS

The major business risks that may affect the Bank's results are detailed in the previous sections. This section describes other factors that could have a significant impact on the Bank's results and cause these results to differ materially from the Bank's forward-looking statements at the beginning of this Annual Report. Although the Bank maintains comprehensive controls and processes to mitigate the risks associated with these factors, by their very nature, they may significantly impact the Bank's performance.

Economic climate in Canada

The Bank operates mainly in Québec and Ontario but also, to a lesser extent, in the rest of Canada. Consequently, its earnings are particularly sensitive to the economic and commercial climate in Canada. Major factors include interest rates, inflation, capital market fluctuations, the strength of the economy and the Bank's volume of business in certain key regions. A prolonged deterioration in the Canadian economic climate could therefore adversely affect the Bank's activities.

Monetary policies and other policies

The monetary policies adopted by the Bank of Canada and the U.S. Federal Reserve's Board of Governors, as well as other measures adopted by central banks, have a major impact on several variables, such as interest rates, exchange rates and bond markets, that can have an impact on the Bank's earnings. The Bank has no control, however, on changes in monetary policies, or on capital market fluctuations.

Competition

The Bank's performance is affected by the level of competition in its markets. The intense competition in the financial services industry could interfere with the Bank's capacity to reach its objectives. Several factors, including the price of products and services, their quality and variety, and also the actions taken by its competitors, could negatively impact the Bank's positioning.

Legislative and regulatory amendments and legal proceedings

Legislative and regulatory amendments could affect the Bank by impacting its product and service offering and modifying the financial industry's competitiveness. Moreover, the Bank's failure to comply with applicable legislation and regulations could result in sanctions and financial penalties that would have a negative impact on its earnings and reputation. As well, legal proceedings could affect the Bank negatively. Further details are provided in Note 26 to the annual consolidated financial statements.

Ability to attract and retain key employees

The Bank's future performance is largely dependent on its ability to attract and retain key employees. Within the financial industry, competition for employees and executives is very intense, and there can be no assurance that the Bank will be able to attract and retain these individuals, which could significantly impact its operations and competitiveness.

Business infrastructure
The Bank deals with third parties to secure the components essential to its business infrastructure, such as Internet connections and various communication and database services. Disruption of such services could adversely affect the Bank's capacity to provide its products and services to its various clienteles, and ensure the continuity of its ongoing operations.

Other factors
Other factors, which are not under the Bank's control, could affect results, as discussed in the Caution Regarding Forward-Looking Statements at the beginning of this Annual Report. It should be noted that the foregoing list of factors is not exhaustive.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures (DC&P) are designed to provide reasonable assurance that all relevant information has been collected and submitted to the Bank's senior management which ensures adequate disclosure of such information. Internal control over financial reporting (ICFR) is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with the Canadian GAAP.

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

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

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

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

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

Changes to Internal Controls over Financial Reporting
During the year ended October 31, 2011, no changes to internal controls over financial reporting affected materially, or are reasonably likely to materially affect, internal controls over financial reporting.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies followed by the Bank are outlined in Notes 2 and 3 to the annual consolidated financial statements. Some of these accounting policies are deemed critical as they require management to make estimates that, by their very nature, involve uncertainties. Changes in these estimates could materially affect the Bank's consolidated financial statements. The critical accounting policies that require management's judgment and estimates are described below.

ALLOWANCES FOR LOAN LOSSES

The allowances for loan losses reflect management's estimate of losses incurred in the loan portfolios. Management regularly reviews the portfolios' credit quality to ensure the adequacy of the allowances for loan losses. These allowances are dependent upon the evaluation of the amounts and dates of future cash flows, the fair value of guarantees and realization costs, and the interpretation of the impact of market and economic conditions.

Considering the materiality of the amounts and their inherent uncertainty, the use of estimates and assumptions that differ from those used in determining the allowances for loan losses could produce significantly different levels of allowances. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments and may consequently entail a significant increase or a decrease in the allowances for loan losses in the consolidated statement of income for a given fiscal year. A detailed description of the methods used to determine the allowances for loan losses can be found in Note 3 to the annual consolidated financial statements, and in the Credit Risk Management section on page 47 of this MD&A.

Management has developed a valuation model for the general allowances, based on the internal risk rating of credit facilities and on the related probability of default factors, as well as the loss given default associated with each type of facility. This model validates the $73.6 million general allowances recorded on the balance sheet as at October 31, 2011. Changes in assumptions and parameters to this model could have produced different valuations.

This critical accounting estimate affects all business segments.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank reports most of its financial instruments, including derivatives, at fair value. Fair value is defined as the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Changes in the fair value of the Bank's trading book's securities and obligations related to assets sold short, as well as derivatives not designated in hedge relationships, are generally recognized under other income.

Management uses quoted market prices in active markets, when available, as the best evidence of fair value of its financial instruments as it requires minimal subjectivity. Quoted prices essentially include those obtained from an exchange. For certain instruments not listed on an exchange, but actively traded, fair values may be obtained from a broker, dealer, industry group or from pricing services. For other financial instruments, the Bank typically uses pricing models based on the discounted value of future cash flows. These models may include observable or unobservable market parameters.

Management's judgment is required when observable market prices do not exist or when only prices from inactive markets are available. Judgment may also be required to develop valuation techniques and determine parameters that are not readily observable on the market. Additional information on fair value is presented in Note 20 to the annual consolidated financial statements.

Available-for-sale financial assets are assessed for impairment periodically, and management must examine various factors to determine whether a decline in fair value is other than temporary. These factors include the type of investment as well as the length of time and extent by which fair value is below amortized cost. In addition, management considers other factors such as bankruptcy, capital restructuring or dilution, significant modifications in the issuer's operations or other uncertainties. Management must also assert its intent and ability to hold the securities until recovery.

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

These critical accounting estimates mainly affect the Laurentian Bank Securities & Capital Markets and Other segments. Additional information on the calculation of fair value is provided in Note 20 to the annual consolidated financial statements.

SECURITIZATION

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

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

The fair value of retained interests for securitized mortgage loans was $122.8 million as at October 31, 2011. Note 6 to the annual consolidated financial statements presents a sensitivity analysis of the current fair value of these retained interests to immediate 10% and 20% adverse changes in key assumptions. The fair value of seller swaps was negative $116.0 million as at October 31, 2011. Different assumptions with regard to anticipated prepayment rates and risk-adjusted discount rates could translate into significantly different fair values for these instruments.

This critical accounting estimate mainly affects the Other segment.

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

EMPLOYEE FUTURE BENEFITS

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

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

In accordance with current Canadian GAAP, actual results that differ from the expected results as determined using the assumptions are accumulated and amortized over future periods and therefore affect actual costs for these periods. As at October 31, 2011, the net amount of the unamortized actuarial losses was $145.8 million ($116.9 million in 2010) for pension plans, and $13.6 million ($13.9 million in 2010) for other benefits.

Discount rates stood at 5.25% as at October 31, 2011 and 5.40% as at October 31, 2010. The expected long-term rate of return on plan assets was unchanged at 7.25% for fiscal 2011 and 2010. The trend rate of the estimated annual growth of health-care costs covered, per participant, has been set at 8.8% for 2011 (9.4% for 2010). According to the accepted assumption, this rate should decrease progressively, reaching 4.0% in 2019 and remaining at that level thereafter.

Considering the importance of accrued benefit obligations and plan assets, changes in assumptions could have a significant impact on the accrued benefit assets (liabilities), as well as, depending of the funding status of the plan, on pension plan and other employee future benefit expenses. Table 32 summarizes the impact of a 0.25% increase or decrease in the key assumptions on accrued benefit obligations would have had as at October 31, 2011 and related defined benefit pension plan costs for 2011.

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

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

The sensitivities presented in this table should be used with caution, as the effects are hypothetical and changes in assumptions may not be linear.

This critical accounting estimate affects all business segments. Further information on the Bank's pension plans and other future benefits can be found in Note 16 to the annual consolidated financial statements.

INCOME TAX

Future income tax assets and liabilities reflect management's estimate of the value of loss carry-forwards, minimum tax carry-overs and other temporary differences. Asset value is determined using assumptions regarding the results of operations of future fiscal years, timing of reversal of temporary differences and tax rates on the date of reversals, which may well change depending on governments' fiscal policies. Moreover, management must assess whether it is more likely than not that future income tax assets will be realized prior to their expiration and, based on all available evidence, determine whether a valuation allowance is required on all or a portion of future income tax assets. The use of different assumptions could translate into significantly different income tax expenses.

This critical accounting estimate affects all business segments. Further information on income tax expense can be found in Note 17 to the annual consolidated financial statements.

CONTINGENT LIABILITIES

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

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

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

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Goodwill

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

The impairment test initially compares the fair value of the reporting unit, to which goodwill relates, to its carrying amount. When potential impairment is identified, the fair value of goodwill is compared to its carrying amount. Management mainly uses the discounted cash flow method to determine the fair value of its reporting units. The impairment assessment process includes a number of significant estimates, including projected net income growth rates, future cash flows, the number of years used in the cash flow model and the discount rate of future cash flows. Management considers that all estimates are reasonable and consistent with the Bank's financial objectives. They reflect management's best estimates but include inherent uncertainties that are not under its control.

Changes made to one or any of these estimates may significantly impact the calculation of fair value and the resulting impairment charge. Consequently, management cannot reasonably quantify the effect of the use of different assumptions on the Bank's overall financial performance. Moreover, it is impossible to predict whether an event that triggers an impairment will occur, nor when it will occur or how this will affect the asset values reported by the Bank.

No impairment charge was reported in fiscal 2011 or in fiscal 2010. If need be, the amount of the losses in value would be recorded as a non-interest expense for Retail & SME-Québec, under other expenses.

Further information on goodwill can be found in Note 8 to the annual consolidated financial statements.

Other intangible assets and other assets

Other intangible assets with finite lives are also tested for impairment when events or changes in circumstances indicate that the carrying value may not be fully recoverable. As it conducts this test, management evaluates the future cash flows it expects to realize from these assets, along with their possible disposition. An impairment loss is recognized if the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset. No significant impairment charge was reported in fiscal 2011 or in fiscal 2010.

Management also periodically reviews the value of the Bank's other assets, such as fixed assets and other deferred charges, in order to identify potential losses in value and to validate the related amortization periods. Changes in estimates and assumptions could significantly impact results.

FUTURE CHANGES TO ACCOUNTING POLICIES

BUSINESS COMBINATION

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

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

Project status

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

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

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

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

Other impacts related to the conversion

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

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

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

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

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

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

First-time adoption of IFRS

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

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

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

Analysis of key differences

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

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

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

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

Reconciliation of condensed consolidated balance sheet between Canadian GAAP and IFRS

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

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

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

Nature of adjustments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Future IFRS changes post initial adoption in 2012 (effective 2013 or later)

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

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

Capital implications

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

BASIS OF PRESENTATION

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

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

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

METHODOLOGY FOR THE ANALYSIS OF RESULTS

Discontinued operations

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

Non-GAAP Financial Measures

The Bank uses both GAAP and certain non-GAAP measures to assess performance. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are unlikely to be comparable to any similar measures presented by other companies. These non-GAAP measures are considered useful to investors and analysts in obtaining a better understanding of the Bank's financial results and analyzing its growth and profit potential more effectively. The Bank's non-GAAP financial measures are defined as follows:

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

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

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

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

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

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

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

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

LAURENTIAN BANK OF CANADA CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2011 AND 2010

These consolidated financial statements present a recent financial history of the financial condition, results of operations and cash flows of Laurentian Bank of Canada.

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

CONSOLIDATED FINANCIAL STATEMENTS AT A GLANCE

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

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

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

RÉJEAN ROBITAILLE
President and
Chief Executive Officer

MICHEL C. LAUZON
Executive Vice-President
and Chief Financial Officer

Montréal, Canada
December 7, 2011

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LAURENTIAN BANK OF CANADA

We have audited the accompanying consolidated financial statements of Laurentian Bank of Canada ("the Bank") which comprise the consolidated balance sheet as at October 31, 2011 and 2010, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP[1]

CHARTERED ACCOUNTANTS
Montréal, Canada
December 7, 2011

[1] CA auditor permit no. 17959

CONSOLIDATED BALANCE SHEET

As at October 31 (in thousands of dollars)

	NOTES	2011	2010
ASSETS			
Cash and non-interest bearing deposits with other banks		$ 81,600	$ 70,537
Interest-bearing deposits with other banks		276,429	95,561
Securities accounts	4 and 24		
Available-for-sale		1,096,333	1,103,744
Held-for-trading		2,181,969	1,496,583
Designated as held-for-trading		1,011,742	1,658,478
		4,290,044	4,258,805
Securities purchased under reverse repurchase agreements	24	318,753	803,874
Loans	5, 6 and 24		
Personal		5,768,787	5,630,788
Residential mortgage		8,928,544	8,582,548
Commercial mortgage		1,813,293	1,638,861
Commercial and other		1,900,977	1,691,190
		18,411,601	17,543,387
Allowances for loan losses		(149,743)	(138,143)
		18,261,858	17,405,244
Other			
Customers' liabilities under acceptances		179,140	165,450
Premises and equipment	7	64,752	58,536
Derivatives	22	228,704	162,610
Goodwill	8	53,790	53,790
Other intangible assets	8	123,357	112,369
Other assets	9	612,024	585,362
		1,261,767	1,138,117
		$24,490,451	$23,772,138
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	10		
Personal		$ 15,610,012	$ 15,396,911
Business, banks and other		4,457,406	4,250,819
		20,067,418	19,647,730
Other			
Obligations related to securities sold short		1,471,254	1,362,336
Obligations related to securities sold under repurchase agreements		36,770	60,050
Acceptances		179,140	165,450
Derivatives	22	246,475	199,278
Other liabilities	11	912,190	947,879
		2,845,829	2,734,993
Subordinated debt	12	242,512	150,000
Shareholders' equity			
Preferred shares	13	210,000	210,000
Common shares	13	259,492	259,363
Contributed surplus	15	227	243
Retained earnings		818,207	741,911
Accumulated other comprehensive income	14	46,766	27,898
		1,334,692	1,239,415
		$24,490,451	$23,772,138

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

L. DENIS DESAUTELS, O.C.
Chairman of the Board

RÉJEAN ROBITAILLE
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

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

	NOTES	2011	2010
Interest income			
Loans		$808,995	$757,677
Securities		61,631	72,975
Deposits with other banks		5,233	298
Other, including derivatives		66,475	116,273
		942,334	947,223
Interest expense			
Deposits		444,463	440,053
Subordinated debt		11,574	7,738
Other, including derivatives		2,236	3,011
		458,273	450,802
Net interest income		484,061	496,421
Other income			
Fees and commissions on loans and deposits		116,595	113,700
Income from brokerage operations		48,429	52,934
Securitization income	6	35,486	5,996
Credit insurance income		19,141	17,785
Income from treasury and financial market operations		18,973	18,035
Income from sales of mutual funds		17,308	15,012
Income from registered self- directed plans		7,253	8,680
Other		6,337	8,883
		269,522	241,025
Total revenue		753,583	737,446
Provision for loan losses	5	47,000	68,000
Non-interest expenses			
Salaries and employee benefits		293,930	275,964
Premises and technology		140,839	132,540
Other		99,910	95,732
Costs related to an acquisition and other	28	8,180	–
		542,859	504,236
Income before income taxes		163,724	165,210
Income taxes	17	36,235	42,269
Net income		$127,489	$122,941
Preferred share dividends, including applicable taxes		12,436	12,122
Net income available to common shareholders		$115,053	$110,819
Average number of common shares outstanding (in thousands)			
Basic		23,924	23,921
Diluted		23,943	23,937
Earnings per share	18		
Basic		$ 4.81	$ 4.63
Diluted		$ 4.81	$ 4.63
Dividends declared per share		$ 1.62	$ 1.44

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended October 31 (in thousands of dollars)

	NOTES	2011	2010
Net income		$ 127,489	$122,941
Other comprehensive income, net of income taxes	14		
Unrealized gains (losses) on available-for-sale securities		(1,595)	7,256
Reclassification of net gains on available-for-sale securities to net income		(3,501)	(2,263)
Net change in value of derivatives designated as cash flow hedges		23,964	(13,366)
		18,868	(8,373)
Comprehensive income		$ 146,357	$114,568

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended October 31 (in thousands of dollars)

	NOTES	2011	2010
Preferred shares	13		
Balance at beginning and end of year		$ 210,000	$ 210,000
Common shares	13		
Balance at beginning of year		259,363	259,208
Issued during the year under share purchase option plan		129	155
Balance at end of year		259,492	259,363
Contributed surplus			
Balance at beginning of year		243	209
Stock-based compensation	15	(16)	34
Balance at end of year		227	243
Retained earnings			
Balance at beginning of year		741,911	665,538
Net income		127,489	122,941
Dividends			
Preferred shares, including applicable taxes		(12,436)	(12,122)
Common shares		(38,757)	(34,446)
Balance at end of year		818,207	741,911
Accumulated other comprehensive income	14		
Balance at beginning of year		27,898	36,271
Other comprehensive income, net of income taxes		18,868	(8,373)
Balance at end of year		46,766	27,898
Shareholders' equity		$1,334,692	$1,239,415

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended October 31 (in thousands of dollars)

	NOTES	2011	2010
Cash flows relating to operating activities			
Net income		$ 127,489	$ 122,941
Adjustments to determine net cash flows relating to operating activities:			
Provision for loan losses		47,000	68,000
Gains on securitization operations		(42,475)	(13,471)
Net gain on disposal of available-for-sale securities		(4,503)	(3,245)
Future income taxes		21,095	24,340
Depreciation		11,077	10,868
Amortization of other intangible assets		29,945	26,338
Net change in held-for-trading securities		(685,386)	(105,270)
Change in accrued interest receivable		2,136	(1,216)
Change in derivative assets		(66,094)	91,051
Change in accrued interest payable		(13,329)	33,745
Change in derivative liabilities		47,197	24,419
Other, net		5,330	52,551
		(520,518)	331,051
Cash flows relating to financing activities			
Net change in deposits		419,688	1,372,423
Change in obligations related to securities sold short		108,918	307,866
Change in obligations related to securities sold under repurchase agreements		(23,280)	(224,938)
Issuance of subordinated debt, net of issue costs		248,403	–
Redemption of subordinated debentures		(150,000)	–
Issuance of common shares		129	155
Dividends, including applicable income taxes		(51,193)	(46,568)
		552,665	1,408,938
Cash flows relating to investing activities			
Change in securities available-for-sale and designated as held-for-trading			
Acquisitions		(1,925,078)	(3,614,580)
Proceeds on sale and at maturities		2,565,736	3,920,820
Change in loans, net		(2,455,673)	(2,696,044)
Change in securities purchased under reverse repurchase agreements		485,121	(267,810)
Proceeds from mortgage loan securitizations		1,547,904	821,364
Additions to premises and equipment and software		(58,226)	(46,565)
Change in interest-bearing deposits with other banks		(180,868)	144,045
Net cash flows from discontinued operations		–	8,308
		(21,084)	(1,730,462)
Net change in cash and non-interest-bearing deposits with other banks		11,063	9,527
Cash and non-interest-bearing deposits with other banks at beginning of year		70,537	61,010
Cash and non-interest-bearing deposits with other banks at end of year		$ 81,600	$ 70,537
Supplemental disclosure relating to cash flows:			
Interest paid during the year		$ 470,522	$ 416,374
Income taxes paid during the year		$ 26,796	$ 14,856

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2011 and 2010 (All tabular amounts are in thousands of dollars, unless otherwise indicated.)

1 GENERAL

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

2 BASIS OF PRESENTATION

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

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

2.1 BASIS OF CONSOLIDATION

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

The Bank also consolidates variable interest entities (VIEs) when it is the primary beneficiary. Generally, VIEs are entities that are subject to control on a basis other than ownership of voting interests. The primary beneficiary is the enterprise that has the variable interests that will absorb the majority of expected losses or receive the majority of residual returns, as defined. Variable interests are defined as contractual, ownership or other financial interests in an entity that change with fluctuations in the entity's net asset value.

2.2 FUTURE ACCOUNTING POLICY CHANGES

Business combination

On January 5, 2009, three new sections of the *CICA Handbook* were issued: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*. These new standards replace Section 1581, *Business Combinations* and Section 1600 *Consolidated Financial Statements* and would have been effective for the Bank on November 1, 2011 under current Canadian GAAP. Earlier adoption was permitted provided that all three sections were adopted at the same time. However, the Bank has not elected to early adopt these new sections.

The new recommendations in Section 1582 require measuring business acquisitions at the fair value of the acquired business, including the measurement at fair value of items such as non-controlling interests and contingent payment considerations. Also, the previously unrecognized future income tax assets related to the acquiree subsequent to the business combination are recognized in the consolidated statements of income rather than as a reduction in goodwill. In addition, business acquisition related costs are expensed as incurred.

Section 1601 establishes standards for the preparation of consolidated financial statements and is aligned with the corresponding provisions of Section 1600.

Section 1602 establishes standards for accounting for non-controlling interests in a subsidiary subsequent to a business combination.

International Financial Reporting Standards

In February 2008, the Accounting Standards Board confirmed the convergence of financial reporting standards for Canadian public companies with International Financial Reporting Standards (IFRS). As a result, the Bank will adopt IFRS on November 1, 2011 and will issue its first consolidated financial statements, prepared in accordance with IFRS, for the quarter ending January 31, 2012. Comparative financial information for fiscal 2011 will be provided at that time, prepared in accordance with IFRS, including an opening balance sheet as at November 1, 2010.

2.3 USE OF ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in accordance with GAAP requires the Bank to make estimates and assumptions that affect the carrying amounts of assets and liabilities on the balance sheet date, income and other related information. The most significant areas for which the Bank has prepared estimates and assumptions are the allowances for credit losses, the fair value of financial instruments, securitization, pension plans and other employee future benefits, and income taxes. Accordingly, actual results could differ from these estimates, in which case the impact would be recognized in the consolidated financial statements in future periods.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 FINANCIAL INSTRUMENTS

Held-for-trading financial instruments

Financial instruments purchased for resale over a short period of time, obligations related to securities sold short, and derivatives not designated in hedge relationships are classified as held-for-trading.

Held-for-trading financial instruments are initially recorded at fair value on the settlement date in the consolidated balance sheet. Subsequently, these financial assets are remeasured at fair value and the realized and unrealized gains and losses are immediately recognized in the consolidated statement of income under income from treasury and financial market operations or income from brokerage operations. Interest income earned, amortization of premiums and discounts as well as dividends received are included in interest income using the accrual basis of accounting. Transaction costs and other fees associated with held-for-trading financial instruments are expensed as incurred.

Financial instruments designated as held-for-trading

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

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

Financial instruments designated as held-for-trading are initially recorded at fair value on the settlement date in the consolidated balance sheet. Subsequently, they are remeasured at fair value and the realized and unrealized gains and losses are immediately recognized in the consolidated statement of income under income from treasury and financial market operations, or in securitization income when arising from financial instruments related to securitization transactions. Interest income earned, amortization of premiums and discounts as well as dividends received are included in interest income using the accrual basis of accounting. Transaction costs and other fees associated with financial instruments designated as held-for-trading are expensed as incurred.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Available-for-sale assets

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

These assets are initially recorded at fair value on the settlement date in the consolidated balance sheet. Except for equity instruments that do not have a quoted market price in an active market, available-for-sale financial assets are remeasured at fair value and unrealized gains and losses are recorded in other comprehensive income. When realized, unrealized gains and losses are recognized in the consolidated statement of income under income from treasury and financial market operations. Where there is objective evidence that the asset is impaired and the decline in fair value of the available-for-sale financial asset is other than temporary, the unrealized loss is immediately recognized in the consolidated statement of income. In certain circumstances, particularly where the issuer's financial position subsequently recovers from a particular event, previously recognized impairment losses are reversed. Equity instruments that do not have a quoted market price in an active market are recorded at cost. Interest income earned and amortization of premiums and discounts are included in interest income using the accrual basis of accounting under the effective interest method. Dividends are recognized in interest income on the ex-dividend date. Transaction costs and other fees associated with the acquisition of available-for-sale financial assets are initially deferred and subsequently amortized using the effective interest method according to the instrument to which they relate.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables that an entity has the clear intention and ability to hold to maturity. These financial assets are recorded at amortized cost on the settlement date. As at October 31, 2011, and 2010, the Bank had not designated any financial assets as held-to-maturity.

Securities purchased under reverse repurchase agreements and obligations related to securities sold under repurchase agreements

The Bank enters into short-term purchases of securities under agreements to resell as well as short-term sales of securities under agreements to repurchase at predetermined prices and dates. Given the low risk transfer associated with these purchases and sales, these agreements are treated as collateralized lending and borrowing transactions and are carried in the consolidated balance sheet at the amounts at which the securities were initially acquired or sold, plus accrued interest. Accordingly, securities purchased under reverse repurchase agreements are classified as loans and receivables and obligations related to securities sold under repurchase agreements are classified as other liabilities. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are reported as interest income and interest expense, respectively, using the effective interest method.

Loans

Loans are non-derivative financial assets with fixed or determinable payments and are therefore classified as loans and receivables. However, financial assets quoted in an active market do not meet the necessary conditions to be classified as loans and receivables and must be classified as held-for-trading, available-for-sale or held-to-maturity. Moreover, loans that the Bank would intend to sell immediately or in the near term would be classified as held-for-trading.

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

Impaired loans

Loans, except credit card balances, are classified as impaired when, in management's opinion, there is a reasonable doubt as to the timely recovery of the principal or interest. Loans are classified as impaired when payment of principal or interest is 90 days past due, unless they are well secured or in the process of recovery.

Notwithstanding management's assessment of collectability, all loans which are 180 days past due are classified as impaired except when they are guaranteed or insured by the Canadian government, a provincial government or a Canadian government agency; such loans are classified as impaired loans if they are in arrears for 365 days. Credit card balances are fully written off when payments are 180 days in arrears or when management assesses the likelihood of recovery to be nil.

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

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

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

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

Foreclosed assets

Assets acquired by way of settlement of a loan and held for sale are initially measured at fair value less estimated costs to sell, under other assets. The difference between the carrying amount of the loan prior to foreclosure and the amount at which the foreclosed assets are initially measured is recognized in the provision for loan losses.

Any future change in their fair value, but not in excess of the cumulative losses recognized subsequent to the foreclosure date, is recognized as other income in the consolidated statement of income. The revenues generated by foreclosed assets and operating expenses are included in other income and non-interest expenses. If the assets are to be held and used, they are initially measured at fair value and then accounted for in the same manner as similar assets acquired in the normal course of business.

Allowances for losses

The Bank maintains allowances for losses at amounts deemed adequate to absorb all estimated incurred losses in its portfolios. Allowances are mainly related to loans and undrawn amounts under approved credit facilities, but may also apply to other assets.

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

Specific allowances for loan losses

Specific allowances are maintained to absorb losses on both specifically identified borrowers and other homogeneous loans classified as impaired. Losses relating to loans included in the commercial loan and mortgage loan portfolios and to investment loans included in the personal loan portfolio are determined on a loan-by-loan basis during periodic portfolio reviews. These losses are established by estimating the amounts recoverable in relation to the loan amounts using expected future cash flows discounted at the effective interest rate inherent in the loans.

When these amounts cannot be reasonably estimated, the fair value of the underlying collateral or the observable market price of the loans is used. Losses relating to other personal loans classified as impaired, other than losses arising from credit card balances, are determined based on the write-off experience of the past few years when payments are more than 90 days in arrears. For credit card balances, no specific allowance is maintained; however, outstanding balances are fully written off when payments are 180 days in arrears or when management assesses the likelihood of recovery to be nil.

General allowances for loan losses

General allowances reflect the best estimate of losses incurred in the portfolios in respect of loans that have yet to be identified as impaired.

To establish general allowances, the Bank uses a model based on the internal risk rating of credit facilities and on the related probability of default factors, as well as the loss given default associated with each type of facility. The probability of default and loss given default factors reflect the Bank's historical experience. General allowances are adjusted to reflect changes in the portfolios and credit policies and are maintained for each pool of loans with shared risk characteristics. These estimates include consideration of economic and business conditions, management's judgment and the risks related to the model.

Acceptances and customers' liabilities under acceptances

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Loan securitization

The Bank transfers pools of residential and commercial mortgages to special purpose entities or trusts. These transfers are accounted for as sales when the Bank is deemed to have surrendered control over these assets and has received consideration other than beneficial interests in these assets. At the transfer date, the Bank derecognizes all assets sold, recognizes at fair value the assets received and the liabilities assumed and recognizes the gain or loss on the sale in other income.

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

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

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

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

Derivatives and hedges

Derivatives are primarily used to manage the Bank's exposure to interest rate and currency risks and, occasionally, in trading activities or to serve the needs of customers.

All derivatives are recognized at fair value in other assets or liabilities, including derivatives embedded in financial instruments or other contracts that are not closely related to the financial instrument or to the host contract. Changes in fair value of derivatives are immediately recognized in income from treasury and financial market operations or securitization income, except for derivatives designated as cash flow hedges as described below. Interest income and costs related to derivatives are recognized in net interest income in the consolidated statement of income.

When using derivatives to manage its own risks, the Bank determines for each derivative whether hedge accounting is appropriate. If deemed appropriate, the Bank formally documents the hedging relationship, detailing among other things the type of hedge—fair value or cash flow hedge, the item being hedged, the risk management objective, the hedging strategy and the method used to measure its effectiveness. Hedge accounting is deemed appropriate where the derivative is highly effective in offsetting changes in the hedged item's fair value attributed to the hedged risk, both at the hedge's inception and on an ongoing basis. Effectiveness is generally reviewed every month using statistical regression models.

Fair value hedges

Fair value hedge transactions predominantly use interest rate swaps to hedge changes in fair value of assets, liabilities or firm commitments.

For these hedging relationships, the changes in the hedged items' fair value attributable to the hedged risk are recognized in the consolidated statement of income under income from treasury and financial market operations with a corresponding adjustment to the carrying amount of the hedged items in the consolidated balance sheet. Changes in fair value of the hedged items, to the extent that the hedging relationship is effective, are offset by changes in fair value of the hedging derivative. When the hedging relationship ceases to be effective or the hedging instrument is sold or terminated early, hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying amount of the hedged item linked to a hedging relationship that ceases to be effective or for which the hedging derivative is terminated or sold is recognized in net interest income in the periods during which the hedged item affects income. Hedge accounting is also discontinued on the sale or early termination of the hedged item, whereupon the cumulative adjustment to the hedged item's carrying amount is immediately recognized in other income.

Cash flow hedges

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

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

When the hedging relationship ceases to be effective or the hedging instrument is sold or terminated early, hedge accounting is discontinued prospectively. Changes in fair value recognized in other comprehensive income in respect of a cash flow hedging relationship that ceases to be effective or for which the hedging instrument is sold or terminated early are reclassified in the consolidated statement of income under net interest income in the periods during which the cash flows comprising the hedged item affect income. Hedge accounting is also discontinued on the sale or early termination of the hedged item, whereupon the changes in fair value recognized in accumulated other comprehensive income are then immediately reclassified in the consolidated statement of income under other income.

Deposits

Deposits are generally accounted for at amortized cost using the effective interest method and are classified as other liabilities. Interest expense on deposits is recorded on the accrual basis of accounting under the effective interest method. The commissions paid and other fees are added to interest expense over the term of the deposits. Deposits are presented net of unamortized commissions and other fees on the consolidated balance sheet.

Indexed deposit contracts

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

Subordinated debt

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

Measuring the fair value of financial instruments

Fair value is defined as the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

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

Subsequent to initial recognition, the fair values of financial instruments that have a quoted market price in an active market are generally based on bid prices for financial assets held and offer prices for financial liabilities. Where financial instruments have no quoted prices in active markets, fair values are determined using valuation techniques incorporating, among other things, current market prices for financial instruments with similar characteristics and risk profiles, contractual prices of the underlying instruments, yield curves and volatility factors. In certain cases, parameters not based on observable market data must also be used. The valuations may also be adjusted to reflect the uncertainty in these parameters. In particular, valuation adjustments may be made with respect to the liquidity or counterparty credit risk of financial instruments that have no available quoted market prices in an active market.

Fair values of derivatives are generally determined using valuation techniques incorporating certain observable data, such as current market prices and the contractual prices of the underlying instruments, yield curves and volatility factors. The determination of the fair value of derivatives related to securitization transactions also involves unobservable data.

Measurement of the fair value of financial instruments is described in greater detail in note 20.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.2 PREMISES AND EQUIPMENT

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

	METHODS	RATE/PERIOD
Premises	Declining balance	5%
Leasehold improvements	Straight-line	Term of the lease, plus initial renewal option
Equipment and furniture	Declining balance	20%
Computer hardware	Straight-line	5–10 years

Gains and losses on the disposal of premises and equipment are recognized in other income.

3.3 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill from business combinations is tested for impairment annually, unless there is clear evidence that, based on the most recent valuation and the current circumstances, the fair value of the reporting unit to be tested significantly exceeds its carrying amount.

The impairment test initially compares the fair value of the reporting unit to which the goodwill relates to its carrying amount. When potential impairment is identified, the fair value of goodwill is compared to its carrying amount. The Bank mainly uses the discounted cash flow method to determine the fair value of its reporting units.

Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful life, which is fifteen years for contractual relationships with financial intermediaries and customer relationships and ranges from five to ten years for software, and are also tested for impairment whenever circumstances indicate that the carrying value may not be fully recoverable. When the net carrying amount exceeds the estimated future net cash flows, intangible assets with finite lives are considered impaired and are written down to their fair value.

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

3.4 EMPLOYEE FUTURE BENEFITS

Pension plans

The Bank maintains a number of defined benefit pension plans for its employees, including certain defined contribution portions. Funding is generally provided by both the Bank and the members of the plans.

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

Actuarial gains or losses arise, in particular, from the difference between the actual long-term rate of return on plan assets and the expected rate of return on such assets, based on management's best-estimate assumptions, as well as from changes in actuarial assumptions used to determine the accrued benefit obligation. Net actuarial gains or losses are amortized when, at the beginning of the year, the unamortized balance of the gain or loss exceeds 10% of the greater of the accrued benefit obligation or the market value of plan assets. This excess is amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the plans which varied from 4 to 11 years in 2011 under the plans (from 8 to 11 years in 2010).

The past service cost resulting from changes to the defined benefit plans is amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the defined benefit plans. The transitional obligation resulting from the initial application of the accounting standard with respect to employee future benefits, on November 1, 2000, is amortized on a straight-line basis over the expected average remaining service life of the employee groups on that date, ranging from 10 to 16 years.

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

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

Other plans

The Bank offers its employees certain post-employment benefits. In addition, under former agreements, the Bank provides certain health care and life insurance benefits to retired employees. The costs related to these benefits are recognized during the employees' service life according to accounting policies similar to those applied to defined benefit pension plans. The transitional obligation resulting from the initial application of the accounting standard with respect to employee future benefits, on November 1, 2000, is amortized on a straight-line basis over the remaining life expectancy of retirees for post-retirement benefits, which equals 20 years, and over the expected average remaining service life of the employee groups covered for the post-employment benefits, which was 13 years.

3.5 INCOME TAXES

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

3.6 EARNINGS PER SHARE

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

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

3.7 INSURANCE

Through an agreement with an unrelated insurance company, the Bank is engaged mainly in credit life and disability insurance activities. Insurance premiums are recognized as revenue, net of reinsurance, on a pro rata basis over the terms of the underlying policies. Insurance claims and changes in policy holder benefits estimates are recorded as incurred. These activities are presented in other income under credit insurance income.

3.8 STOCK-BASED COMPENSATION

Since November 1, 2002, the Bank has used the fair-value method of accounting for share purchase options granted to senior management. For these awards, the Bank recognizes the fair value of the options granted as an increase in the related compensation expense and contributed surplus during the option vesting period. When the options are exercised, the proceeds received and the amount of the contributed surplus are credited to common shares. The value of the options granted is determined using the Black and Scholes option-pricing model using management's best estimates.

With respect to awards granted prior to November 1, 2002, the Bank continues to apply the previous standards under which no compensation cost is recognized when share purchase options are awarded to employees and the consideration paid by the employees who exercise their options is credited to common shares.

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

Compensation expense in respect of the restricted share unit plan and in respect of the performance-based share plan is recognized during the rights' vesting period, based on the Bank's market share price and on defined performance criteria.

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

3.9 ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

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

3.10 TRANSLATION OF FOREIGN CURRENCIES

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

3.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and non-interest-bearing deposits with other banks, and are classified in the loans and receivables category. Cash comprises bank notes and coins.

4 SECURITIES

MATURITY SCHEDULE AND YIELD ON SECURITIES

Portfolio of available-for-sale securities

	2011						2010	
	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	NO SPECIFIC MATURITY	TOTAL	YIELD(1)	TOTAL	YIELD(1)
Securities issued or guaranteed								
by Canada(2)	$229,521	$ 8,137	$ –	$ –	$ 237,658	0.9%	$ 432,670	0.8%
by provinces	203,308	211,810	–	–	415,118	2.1%	411,947	2.1%
Other debt securities	143,864	117,088	49,681	–	310,633	2.9%	139,428	4.5%
Asset-backed securities	2,174	22,880	–	–	25,054	5.5%	25,919	5.9%
Preferred shares	–	–	–	56,929	56,929	4.6%	58,248	4.6%
Common shares and other securities	–	–	–	50,941	50,941	3.3%	35,532	4.3%
	$578,867	$359,915	$49,681	$107,870	$1,096,333	2.3%	$1,103,744	2.2%

Portfolio of held-for-trading securities

	2011					2010
	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	NO SPECIFIC MATURITY	TOTAL	TOTAL
Securities issued or guaranteed						
by Canada(2)	$388,110	$219,365	$166,910	$ –	$ 774,385	$ 452,011
by provinces	64,290	377,175	420,915	–	862,380	494,946
by municipal corporations	35,837	56,714	26,931	–	119,482	117,864
Other debt securities	22,993	73,219	97,690	–	193,902	253,115
Asset-backed securities	2,060	661	5,239	694	8,654	12,253
Preferred shares	–	–	–	172	172	–
Common shares and other securities	–	–	–	222,994	222,994	166,394
	$513,290	$727,134	$717,685	$223,860	$2,181,969	$1,496,583

Portfolio of securities designated as held-for-trading

	2011				2010
	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL	TOTAL
Securities issued or guaranteed					
by Canada(2)	$299,788	$711,954	$ –	$1,011,742	$1,653,509
by provinces	–	–	–	–	4,969
	$299,788	$711,954	$ –	$1,011,742	$1,658,478

(1) Yield based on the amortized cost of available-for-sale securities.
(2) Including mortgage-backed securities that are fully guaranteed by the Canada Mortgage and Housing Corporation pursuant to the *National Housing Act*.

GAINS AND LOSSES RECOGNIZED IN INCOME

Gains and losses on the portfolio of available-for-sale securities

The following items were recognized in income with regard to the portfolio of available-for-sale securities:

	2011	2010
Realized net gains	**$4,503**	$3,165
Write-downs for impairment recognized in income	**(369)**	(198)
	$4,134	$2,967

Write-downs for impairment recognized in 2011, as in 2010, stemmed from available-for-sale securities for which the unrealized losses were deemed other than temporary. Assessing whether impairment is other than temporary requires judgment. The Bank considered many factors in making the other-than-temporary impairment assessment. These factors include the duration of the impairment and its significance compared to amortized cost, bankruptcy, capital restructuring or dilution, and significant modifications in the issuer's operations, as well as other uncertainties that could impact future cash flows.

GAINS AND LOSSES RECOGNIZED IN COMPREHENSIVE INCOME

Unrealized gains and losses on the portfolio of available-for-sale securities

				2011
	AMORTIZED COST	**UNREALIZED GAINS**	**UNREALIZED LOSSES**	**FAIR VALUE**
Securities issued or guaranteed				
by Canada(1)	**$ 237,509**	**$ 149**	**$ –**	**$ 237,658**
by provinces	**410,861**	**4,286**	**29**	**415,118**
Other debt securities	**303,797**	**7,396**	**560**	**310,633**
Asset-backed securities	**23,292**	**1,765**	**3**	**25,054**
Preferred shares	**57,142**	**1,172**	**1,385**	**56,929**
Common shares and other securities	**50,011**	**3,578**	**2,648**	**50,941**
	$1,082,612	**$18,346**	**$4,625**	**$ 1,096,333**

				2010
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Securities issued or guaranteed				
by Canada(1)	$ 432,649	$ 45	$ 24	$ 432,670
by provinces	407,449	4,498	–	411,947
Other debt securities	132,595	6,996	163	139,428
Asset-backed securities	24,694	1,278	53	25,919
Preferred shares	56,776	1,524	52	58,248
Common shares and other securities	32,796	3,392	656	35,532
	$1,086,959	$17,733	$948	$1,103,744

(1) Including mortgage-backed securities that are fully guaranteed by the CMHC pursuant to the *National Housing Act*.

As at October 31, 2011, unrealized losses related mainly to listed securities of Canadian financial institutions and energy companies. Decreases in value are fairly recent, and, in addition, these companies have maintained a strong financial position and their business plans remain sound. As a result, management has determined these declines in fair value to be temporary and included them in accumulated other comprehensive income.

OTHER CONSIDERATIONS

Additional information regarding securities

Note 20 contains additional information on the determination of fair value of securities.

5 LOANS

LOANS AND IMPAIRED LOANS

					2011
	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	SPECIFIC ALLOWANCES	GENERAL ALLOWANCES	TOTAL ALLOWANCES
Personal	$ 5,768,787	$ 14,395	$ 4,239	$28,580	$ 32,819
Residential mortgages[1]	8,928,544	50,903	7,370	11,825	19,195
Commercial mortgages	1,813,293	28,691	16,212	11,558	27,770
Commercial and other	1,900,977	69,736	48,320	21,639	69,959
	$ 18,411,601	$163,725	$76,141	$73,602	$149,743

					2010
	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	SPECIFIC ALLOWANCES	GENERAL ALLOWANCES	TOTAL ALLOWANCES
Personal	$ 5,630,788	$ 16,397	$ 5,312	$29,294	$ 34,606
Residential mortgages[1]	8,582,548	39,304	4,256	2,861	7,117
Commercial mortgages	1,638,861	34,316	10,934	6,212	17,146
Commercial and other	1,691,190	98,106	44,391	34,883	79,274
	$17,543 387	$188,123	$64,893	$73,250	$138,143

(1) Include mortgage loans on residential real estate development properties and projects.

Foreclosed assets

Held-for-sale assets acquired in 2011 with respect to impaired loans which are managed for sale in an orderly manner amounted to $5.5 million ($3.7 million in 2010). There were no specific allowances with regards to these loans prior to foreclosure (nil in 2010).

SPECIFIC ALLOWANCES FOR LOAN LOSSES

					2011	2010
	PERSONAL LOANS	RESIDENTIAL MORTGAGES	COMMERCIAL MORTGAGES	COMMERCIAL AND OTHER LOANS	TOTAL SPECIFIC ALLOWANCES	TOTAL SPECIFIC ALLOWANCES
Balance at beginning of year	$ 5,312	$ 4,256	$10,934	$44,391	$ 64,893	$41,296
Provision for loan losses recorded in the consolidated statement of income	22,802	5,593	5,282	12,971	46,648	68,000
Write-offs[1]	(26,566)	(3,296)	(30)	(9,293)	(39,185)	(46,823)
Recoveries	2,691	817	26	251	3,785	2,420
Balance at end of year	$ 4,239	$ 7,370	$16,212	$48,320	$ 76,141	$64,893

(1) No restructured loans were written off during the fiscal years ended October 31, 2011 and 2010.

GENERAL ALLOWANCES FOR LOAN LOSSES

					2011	2010
	PERSONAL LOANS	RESIDENTIAL MORTGAGES	COMMERCIAL MORTGAGES	COMMERCIAL AND OTHER LOANS	TOTAL GENERAL ALLOWANCES	TOTAL GENERAL ALLOWANCES
Balance at beginning of year	$29,294	$2,861	$6,212	$34,883	$73,250	$73,250
Provision for loan losses recorded in the consolidated statement of income	(714)	8,964	5,346	(13,244)	352	–
Balance at end of year	$28,580	$11,825	$11,558	$21,639	$73,602	$73,250

LOANS PAST DUE BUT NOT IMPAIRED

Personal and residential mortgage loans past due shown in the table below are not classified as impaired because they are less than 90 days past due or they are secured such as to reasonably expect full recovery. Commercial loans past due but not impaired are not significant.

				As at October 31, 2011
	1 DAY– 31 DAYS	32 DAYS– 90 DAYS	OVER 90 DAYS	TOTAL
Personal loans	$ 98,641	$37,630	$ 5,188	$141,459
Residential mortgages[1]	176,959	23,710	22,406	223,075
	$275,600	$61,340	$27,594	$364,534

				As at October 31, 2010
	1 DAY– 31 DAYS	32 DAYS– 90 DAYS	OVER 90 DAYS	TOTAL
Personal loans	$ 103,203	$26,478	$ 7,160	$136,841
Residential mortgages[1]	251,282	26,850	21,085	299,217
	$354,485	$53,328	$28,245	$436,058

(1) Include mortgage loans on residential real estate development properties and projects.

6. LOAN SECURITIZATION

RESIDENTIAL MORTGAGE LOANS

Under the securitization program governed by the *National Housing Act*, the Bank securitizes residential mortgage loans secured by the Canadian Mortgage and Housing Corporation (CMHC) through the creation of mortgage-backed securities. The Bank also securitized conventional residential mortgages prior to 2008. Gains before income taxes, net of transaction costs, are recognized in other income under securitization income.

The following table summarizes the residential mortgage securitization transactions carried out by the Bank.

	2011	2010
Cash proceeds, net of transaction costs	**$1,547,904**	$821,364
Rights to future excess spreads	**80,105**	36,923
Servicing liability	**(12,878)**	(6,168)
Other	**(3,260)**	(5,461)
	1,611,871	846,658
Residential mortgages securitized and sold [1]	**(1,552,059)**	(824,107)
Write-off of loan origination costs	**(17,337)**	(9,080)
Gains before income taxes, net of transaction costs	**$ 42,475**	$ 13,471

(1) Fully insured by the CMHC.

Key assumptions used to determine the initial fair value of retained interests regarding the transfer of residential mortgages are summarized as follows.

KEY ASSUMPTIONS

	2011	2010
Weighted average term (months)	**32**	30
Rate of prepayment	**18%**	19%
Discount rate	**1.7%**	1.9%

No loss is expected on insured residential mortgages.

Securitization income, as reported in the consolidated statement of income, is detailed in the following table.

	2011	2010
Gains on securitization operations	**$42,475**	$13,471
Changes in fair value of retained interests related to excess spreads, securitization swaps and financial instruments held for economic hedging purposes	**(11,028)**	(8,611)
Management income	**8,058**	6,958
Other	**(4,019)**	(5,822)
	$35,486	$ 5,996

During the year, the Bank collected cash flows from retained interests totalling $65.3 million ($54.2 million in 2010).

Sensitivity analysis

The following table shows the value of retained interests, as well as the sensitivity of the fair value of these interests to immediate unfavourable changes of 10% and 20% in the key assumptions used to value retained interests as at October 31, 2011 and 2010.

SENSITIVITY OF KEY ASSUMPTIONS TO UNFAVOURABLE CHANGES

	2011	2010
Fair value of retained interests	**$122,760**	$97,085
Weighted average life (in months)	**23**	22
Rate of prepayment	**20%**	20%
Impact on fair value of unfavourable change of 10%	**$ 3,223**	$ 2,484
Impact on fair value of unfavourable change of 20%	**$ 6,301**	$ 4,857
Discount rate	**1.22%**	1.50%
Impact on fair value of unfavourable change of 10%	**$ 195**	$ 166
Impact on fair value of unfavourable change of 20%	**$ 389**	$ 331

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

LOANS UNDER MANAGEMENT

The total principal amount of outstanding securitized residential mortgage loans under management amounted to $3.4 billion at the end of fiscal 2011 ($2.7 billion in 2010). Of that amount, loans that are more than 31 days past due totalled $20.5 million ($18.9 million in 2010). There were no credit losses in respect of these loans in 2011 and in 2010.

COMMERCIAL MORTGAGE LOANS

Apart from the above-mentioned securitization transactions, the Bank sold $29.3 million in commercial mortgages, generating a $296,000 gain in 2011 ($1.5 million in 2010, generating a $18,000 gain). In addition, the Bank manages commercial loans for third parties amounting to $300 million ($207 million in 2010).

7 PREMISES AND EQUIPMENT

			2011	2010
	COST	**ACCUMULATED DEPRECIATION**	**NET BOOK VALUE**	NET BOOK VALUE
Land	**$ 416**	**$ –**	**$ 416**	$ 416
Premises	**3,445**	**1,446**	**1,999**	2,010
Leasehold improvements	**79,636**	**46,354**	**33,282**	29,130
Equipment and furniture	**85,587**	**72,502**	**13,085**	11,283
Computer hardware	**134,463**	**118,493**	**15,970**	15,697
	$303,547	**$238,795**	**$64,752**	$58,536

Depreciation expense for the year in the consolidated statement of income amounted to $11.1 million ($10.9 million in 2010).

8 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill totalling $53.8 million was recognized in the Retail & SME-Québec segment.

Other intangible assets consist of the following.

			2011	2010
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	NET BOOK VALUE
Software	$371,321	$257,205	$114,116	$101,910
Contractual and customer relationships	18,278	9,037	9,241	10,459
	$389,599	$266,242	$123,357	$112,369

Software includes $29.9 million ($11.9 million in 2010) pertaining to projects under development yet to be amortized.

Amortization expense of other intangible assets recorded in the consolidated statement of income during the year was $29.9 million ($26.3 million in 2010).

The Bank tests goodwill for impairment on an annual basis. No impairment was recognized in 2011 and 2010.

9 OTHER ASSETS

	2011	2010
Assets related to securitized mortgage loans	$136,048	$107,460
Cheques and other items in transit	128,904	115,710
Accrued benefit assets (note 16)	122,203	127,349
Accrued interest receivable	80,344	82,480
Deferred charges related to loan origination	72,826	71,557
Future income tax assets (note 17)	4,160	29,579
Accounts receivable, prepaid expenses and other items	67,539	51,227
	$612,024	$585,362

10 DEPOSITS

				2011
	DEMAND	NOTICE	TERM	TOTAL
Personal	$ 119,022	$4,801,007	$10,689,983	$15,610,012
Business, banks and other	1,469,372	1,025,594	1,962,440	4,457,406
	$1,588,394	$5,826,601	$12,652,423	$20,067,418

				2010
	DEMAND	NOTICE	TERM	TOTAL
Personal	$ 122,717	$4,557,386	$10,716,808	$15,396,911
Business, banks and other	1,481,642	850,899	1,918,278	4,250,819
	$1,604,359	$5,408,285	$12,635,086	$19,647,730

Demand deposits consist of deposits in respect of which the Bank is not authorized to require notice prior to withdrawal by customers. These deposits primarily consist of chequing accounts.

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

Term deposits include deposits maturing at a specific date, particularly term deposits and guaranteed investment certificates.

11 OTHER LIABILITIES

	2011	2010
Accrued interest payable	**$452,308**	$465,637
Cheques and other items in transit	**179,222**	244,342
Liabilities related to securitized mortgage loans	**51,636**	33,190
Future income tax liabilities (note 17)	**43,482**	41,520
Accrued benefit liabilities (note 16)	**19,498**	17,874
Accounts payable, accrued expenses and other items	**166,044**	145,316
	$912,190	$947,879

12 SUBORDINATED DEBT

The subordinated debt is a direct unsecured obligation of the Bank and is subordinated in right of payment to the claims of depositors and certain other creditors of the Bank. Any repurchase or cancellation of subordinated debt must be approved by OSFI.

ISSUANCE

On November 2, 2010, the Bank issued $250.0 million Series 2010-1 Medium Term Notes (Subordinated Indebtedness), for net proceeds of $248.4 million. The contractual maturity of the Series 2010-1 Medium Term Notes is November 2, 2020. Holders of the Series 2010-1 Medium Term Notes are entitled to receive semi-annually fixed interest payments for the initial five-year period ending November 2, 2015 at a rate of 3.70% per annum. The interest rate on the Series 2010-1 Medium Term Notes will reset on November 2, 2015 at the three-month bankers' acceptance rate plus 1.76% per annum.

The Series 2010-1 Medium Term Notes will not be redeemable prior to November 2, 2015. Subject to the provisions of the *Bank Act*, to the prior consent of OSFI and to the provisions described in the pricing supplement dated October 25, 2010, at any time on or after November 2, 2015, the Bank may redeem all or any part of the then outstanding Series 2010-1 Medium Term Notes, at the Bank's option, by the payment of an amount in cash equal to the par value together with unpaid accrued interest.

The $250.0 million Series 2010-1 Medium Term Notes are presented net of unamortized issue costs of $1.6 million on the consolidated balance sheet and include a net fair value adjustment of $5.9 million to reflect the change in the carrying value previously covered by a fair value hedge.

REDEMPTION

On January 25, 2011, the Bank redeemed all of its 4.90% Subordinated Debentures, Series 10, maturing in 2016, with an aggregate notional amount of $150.0 million. The Debentures were redeemed at par plus accrued and unpaid interest to the date of redemption.

ISSUED AND OUTSTANDING

MATURITY	SERIES	INTEREST RATE	SPECIAL TERMS	2011	2010
November 2020	2010-1	3.70%	Redeemable at par as of November 2, 2015; rate to be revised on November 2, 2015 and set at the 90-day bankers' acceptance rate plus 1.76%	**$250,000**	$ -
January 2016	10	4.90%	Redeemable at par as of January 25, 2011; rate to be revised on January 25, 2011 and set at the 90-day bankers' acceptance rate plus 1.65%	**$ –**	$150,000

13 CAPITAL STOCK

AUTHORIZED CAPITAL STOCK

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

Common shares – Unlimited number of common shares, without par value.

ISSUED AND OUTSTANDING

			2011				2010
	DIVIDENDS PER SHARE(1)	NUMBER OF SHARES	AMOUNT	DECLARED DIVIDENDS	NUMBER OF SHARES	AMOUNT	DECLARED DIVIDENDS
Class A Preferred Shares							
Series 9	**$1.500**	**4,000,000**	**$100,000**	**$ 6,000**	4,000,000	$100,000	$ 6,000
Series 10	**1.312**	**4,400,000**	**110,000**	**5,775**	4,400,000	110,000	5,775
Total preferred shares		**8,400,000**	**$210,000**	**$11,775**	8,400,000	$210,000	$11,775
Common shares	**$ 1.62**	**23,925,037**	**$259,492**	**$38,757**	23,920,962	$259,363	$34,446

(1) Non-cumulative dividends on preferred shares.

13 CAPITAL STOCK [CONT'D]

PREFERRED SHARES

Terms of shares

The Class A Preferred Shares, Series 9, are redeemable at the Bank's option since December 15, 2006 at a price of $25 each.

The Class A Preferred Shares, Series 10, are redeemable at the Bank's option since June 15, 2009 at a price of $25 each plus, if the redemption takes place before June 15, 2013, a premium of $1 which will decrease to zero depending on the redemption date.

The Bank could also convert all or a portion of these preferred shares into common shares under certain circumstances; however, on November 17, 2010, the Bank irrevocably renounced its right of conversion into common shares.

COMMON SHARES

Issuance of common shares

During the year, 4,075 common shares (6,999 common shares in 2010) were issued under the employee share purchase option plan for the management of the Bank for a cash consideration of $0.1 million ($0.2 million in 2010).

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

The Bank is prohibited by the *Bank Act* (Canada) from declaring or paying any dividends on its preferred shares or common shares if there are reasonable grounds for believing that, in so doing, the Bank would not comply with capital adequacy and liquidity regulations or guidance given by OSFI regarding the Bank's capital or liquidity.

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

CAPITAL MANAGEMENT

Management's objective is to maintain an adequate level of capital, in line with its risk profile, to support the Bank's activities, while enhancing shareholder value. In order to achieve this objective, the Bank has a capital management framework that includes a Capital Management and Adequacy Policy, a Capital Plan and an Internal Capital Adequacy Assessment Process (ICAAP).

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

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

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

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

Regulatory capital is detailed below.

REGULATORY CAPITAL

	2011	2010
Tier I capital		
Common shares	$ 259,492	$ 259,363
Contributed surplus	227	243
Retained earnings	818,207	741,911
Non-cumulative preferred shares	210,000	210,000
Goodwill	(53,790)	(53,790)
Securitization-related and other deductions	(16,911)	(16,936)
Total – Tier I capital	1,217,225	1,140,791
Tier II capital		
Subordinated debt	242,512	150,000
General allowances	73,602	73,250
Securitization-related and other deductions	(16,499)	(13,714)
Total – Tier II capital	299,615	209,536
Total regulatory capital	$1,516,840	$1,350,327

14 ADDITIONAL INFORMATION REGARDING OTHER COMPREHENSIVE INCOME

OTHER COMPREHENSIVE INCOME

			2011
	AMOUNTS BEFORE INCOME TAXES	INCOME TAXES	AMOUNTS, NET OF INCOME TAXES
Unrealized net losses on available-for-sale securities	$ (1,712)	$ 117	$ (1,595)
Reclassification of net gains on available-for-sale securities to net income	(4,503)	1,002	(3,501)
	(6,215)	1,119	(5,096)
Net change in value of derivatives designated as cash flow hedges	31,369	(7,405)	23,964
Other comprehensive income	$ 25,154	$(6,286)	$ 18,868

ACCUMULATED OTHER COMPREHENSIVE INCOME

			2011
	CASH FLOW HEDGES	AVAILABLE-FOR-SALE SECURITIES	ACCUMULATED OTHER COMPREHENSIVE INCOME
Balance at beginning of year	$ 19,230	$8,668	$27,898
Change during the year, net of income taxes	23,964	(5,096)	18,868
Balance at end of year	$ 43,194	$3,572	$46,766

14 ADDITIONAL INFORMATION REGARDING OTHER COMPREHENSIVE INCOME (CONT'D)

OTHER COMPREHENSIVE INCOME

			2010
	AMOUNTS BEFORE INCOME TAXES	INCOME TAXES	AMOUNTS, NET OF INCOME TAXES
Unrealized net gains on available-for-sale securities	$ 9,617	$(2,361)	$ 7,256
Reclassification of net gains on available-for-sale securities to net income	(3,165)	902	(2,263)
	6,452	(1,459)	4,993
Net change in value of derivatives designated as cash flow hedges	(19,709)	6,343	(13,366)
Other comprehensive income	$(13,257)	$ 4,884	$ (8,373)

ACCUMULATED OTHER COMPREHENSIVE INCOME

			2010
	CASH FLOW HEDGES	AVAILABLE-FOR-SALE SECURITIES	ACCUMULATED OTHER COMPREHENSIVE INCOME
Balance at beginning of year	$ 32,596	$3,675	$36,271
Change during the year, net of income taxes	(13,366)	4,993	(8,373)
Balance at end of year	$ 19,230	$8,668	$27,898

15 STOCK-BASED COMPENSATION

SHARE PURCHASE OPTION PLAN

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

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

The Bank had reserved 1,600,000 common shares (1,600,000 shares in 2010) for the potential exercise of share purchase options, of which 124,962 were still available as at October 31, 2011 (124,962 in 2010).

No new share options were granted in 2011 and 2010.

The following table summarizes the Bank's share purchase option activities for the years ended October 31.

		2011		2010
	NUMBER OF OPTIONS	**WEIGHTED AVERAGE EXERCISE PRICE PER OPTION**	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER OPTION
Outstanding at beginning of year	**54,075**	**$29.65**	61,074	$28.79
Exercised	**(4,075)**	**$31.80**	(6,999)	$22.13
Outstanding at end of year	**50,000**	**$29.47**	54,075	$29.65
Exercisable at end of year	**50,000**	**$29.47**	41,575	$29.70

All outstanding options as at October 31, 2011 are expiring in December 2016.

STOCK APPRECIATION RIGHTS PLAN

The Bank offers a stock appreciation rights (SARs) plan to members of senior management of the Bank and its subsidiaries. These SARs may be cash settled for an amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs vest over a maximum period of five years and can be exercised over a maximum period of ten years. The expense related to these units is recognized in income over their vesting period. No SARs were granted during 2011 and 2010.

The following table summarizes the Bank's SARs outstanding balances as at October 31.

STOCK APPRECIATION RIGHTS

	AVERAGE EXERCISE PRICE	NUMBER OF SARs OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF SARs EXERCISABLE
2011	**$34.44**	**427,540**	**5.27**	**283,923**
2010	$34.01	517,510	6.06	258,235

PERFORMANCE-BASED SHARE UNIT PLAN

The Bank offers a performance-based share unit (PSU) plan to certain members of senior management. The plan provides for the grant of performance-based share units calculated using a certain percentage of the plan member's salary. Under the plan, rights to 37.5% of these units vest over three years. The rights to the remaining 62.5% units vest after three years and upon meeting certain financial objectives. The holders of such share units are entitled to an amount equivalent to the dividends paid on the Bank's common shares, which is also converted into additional share units. The expense related to these units is recognized in income over their vesting period.

The following table summarizes the Bank's PSU plan activities for the years ended October 31 and the related outstanding balances as at October 31.

PERFORMANCE SHARE UNITS

	FOR THE YEARS ENDED OCTOBER 31			AS AT OCTOBER 31
	NUMBER OF UNITS GRANTED	VALUE OF UNITS GRANTED	VESTING DATE	NUMBER OF UNITS OUTSTANDING
2011	**50,700**	**$45.77**	**December 2013**	**164,782**
2010	50,926	$43.15	December 2012	136,851

RESTRICTED SHARE UNIT PLANS

The Bank offers a restricted share unit (RSU) plan to certain members of senior management. Under the plan, 50% of the annual bonus otherwise payable to an eligible employee, under the Bank's short-term incentive compensation program, can be withheld and converted into fully vested restricted share units at the employees' option. The Bank undertakes to grant additional RSUs equal to 60% of the withheld bonus. These additional units will vest at the end of the three-year period following their award. A deferred version of the plan exists under which the participant is paid on termination of employment rather than at the end of the three-year period.

The Bank also offers a RSU plan to certain employees of the capital markets sector. Under that plan, 30% of the annual bonus over a certain amount that would otherwise be payable to an eligible employee has to be withheld and converted into fully vested restricted share units. This plan does not provide for any employer contribution and a third of the restricted share units are redeemed at each of the first three anniversary dates of the grant.

The holders of share units of both plans are entitled to an amount equivalent to the dividends paid on the Bank's common shares, which is also converted into additional share units. The expense related to these units is recognized in income over their vesting period.

The following table summarizes the Bank's RSU plans activities for the years ended October 31 and related outstanding balances as at October 31.

RESTRICTED SHARE UNITS

		FOR THE YEARS ENDED OCTOBER 31				AS AT OCTOBER 31	
	PLANS	NUMBER OF UNITS CONVERTED(1)	NUMBER OF UNITS GRANTED	VALUE OF UNITS GRANTED	VESTING DATE	NUMBER OF UNITS OUTSTANDING	NUMBER OF UNITS VESTED
2011	**Senior management**	**39,559**	**23,736**	**$45.77**	**December 2013**	**225,936**	**197,666**
	Capital markets	**25,029**	**–**	**$45.77**	**n.a.**	**25,892**	**25,892**
2010	Senior management	38,268	22,961	$43.15	December 2012	217,002	102,780

(1) Corresponds to the portion of annual bonuses converted in RSU. These units are fully vested at grant date.

DEFERRED SHARE UNIT PLAN

The Bank offers a deferred share unit plan to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his or her remuneration in the form of deferred share units which can be settled in cash. The deferred share units are converted when the holder steps down from the Board of Directors. In 2011, the Bank paid out 2,843 deferred share units as compensation (2,944 in 2010). As at October 31, 2011, there were 7,176 units (4,333 in 2010) outstanding with a total value of $0.3 million ($0.2 million in 2010).

15 STOCK-BASED COMPENSATION (CONT'D)

EMPLOYEE SHARE PURCHASE PLAN

The Bank offers an employee share purchase plan. Under this plan, employees who meet the eligibility criteria can contribute up to 5% of their annual gross salary by way of payroll deductions. The Bank matches 30% of the employee contribution amount, up to a maximum of $1,500 per year. The Bank's contributions vest to the employee two years after each employee contribution. The Bank's contributions, totalling $0.4 million during fiscal 2011 ($0.4 million in 2010), are recognized in salaries and employee benefits. The average value of the granted shares under this plan was $47.17 in fiscal 2011 ($43.02 in 2010).

STOCK-BASED COMPENSATION PLAN EXPENSE

The following table presents the expense related to all stock-based compensation plans, net of the effect of related hedging transactions.

	2011	2010
Stock-based compensation plan expense	**$ 5,211**	$ 6,831
Effect of hedges	**(1,975)**	(4,013)
Total	**$ 3,236**	$ 2,818

With a view to reducing volatility in the SAR plan compensation expense, the Bank enters into total return swap contracts, the value of which is linked to the price of the Bank's shares. Changes in fair value of these derivative instruments partially offset the stock-based compensation expense over the period in which the swaps are in effect.

16 EMPLOYEE FUTURE BENEFITS

DESCRIPTION OF BENEFIT PLANS

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

The Bank offers other post-employment benefits to its employees such as a salary continuance plan during maternity leave and the payment of group insurance plan premiums during a disability period or maternity leave. In addition, certain retired employees have other retirement benefits, including health and life insurance.

TOTAL CASH PAYMENTS

Total cash payments for future employee benefits for 2011, consisting of cash contributed by the Bank to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution portions, amounted to $16.0 million ($17.3 million in 2010).

DEFINED BENEFIT PLAN MEASUREMENT DATES

The Bank measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at October 31 of each year. The most recent actuarial valuations were performed as at December 31, 2008 and at December 31, 2010 for two plans. The next required actuarial valuation for funding purposes will be as at December 31, 2011 for all funded plans.

DEFINED BENEFIT PLAN OBLIGATIONS

		2011		2010
	PENSION PLANS	**OTHER PLANS**	PENSION PLANS	OTHER PLANS
Change in accrued benefit obligation				
Accrued benefit obligation at beginning of year	**$413,218**	**$34,463**	$346,107	$32,643
Current service cost	**12,727**	**45**	10,039	67
Interest cost on accrued benefit obligation	**22,475**	**1,558**	22,568	1,772
Benefits paid	**(18,988)**	**(1,397)**	(20,306)	(1,477)
Employee contributions	**242**	**–**	232	–
Effect of changes to plans	**578**	**–**	–	–
Actuarial losses	**17,152**	**527**	54,578	1,638
Accrued benefit obligation at end of year	**$447,404**	**$35,196**	$413,218	$34,643

DEFINED BENEFIT PLAN ASSETS

	2011		2010	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	$428,337	$ –	$390,602	$ –
Actual return on plan assets	7,751	–	46,594	–
Bank contributions	9,131	–	10,720	–
Employee contributions	242	–	232	–
Benefits paid	(18,561)	–	(19,811)	–
Fair value of plan assets at end of year	$426,900	$ –	$428,337	$ –

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

	2011		2010	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Fair value of plan assets	$426,900	$ –	$428,337	$ –
Accrued benefit obligation	447,404	35,196	413,218	34,463
Funded status – plan surplus (deficit)	(20,504)	(35,196)	15,119	(34,463)
Unamortized transitional obligation	(613)	6,907	(735)	7,728
Unamortized past service costs	(7,307)	–	(8,879)	–
Unamortized net actuarial loss	145,812	13,606	116,855	13,850
Accrued benefit assets (liabilities) at end of year	$117,388	$(14,683)	$122,360	$(12,885)
Accrued benefit assets included in other assets	$122,203	$ –	$127,349	$ –
Accrued benefit liabilities included in other liabilities	$ 4,815	$ 14,683	$ 4,989	$ 12,885

ALLOCATION OF PLAN ASSETS AS A PERCENTAGE [1]

	2011	2010
Asset category		
Equity securities	59%	61%
Debt securities	40	38
Other	1	1
Total	100%	100%

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

Plan assets do not include any equity securities of the Bank as at October 31, 2011 and 2010.

PLANS WITH ACCRUED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS

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

	2011		2010	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Accrued benefit obligation	$235,286	$ 35,196	$209,847	$ 34,463
Fair value of plan assets	205,314	–	200,089	–
Funded status – plan deficit	$ (29,972)	$(35,196)	$ (9,758)	$(34,463)

16 EMPLOYEE FUTURE BENEFITS (CONT'D)

ELEMENTS OF DEFINED BENEFIT COSTS RECOGNIZED DURING THE YEAR

		2011		2010
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Current service cost	$ 12,727	$ 45	$ 10,039	$ 67
Interest cost on accrued benefit obligation	22,475	1,558	22,568	1,772
Actual return on plan assets	(7,751)	–	(46,594)	–
Actuarial losses on accrued benefit obligation	17,152	527	54,578	1,638
Effect of changes to plans	578	–	–	–
Elements of employee future benefit costs before adjustments to recognize their long-term nature	45,181	2,130	40,591	3,477
Excess (deficit) of actual return over expected return	(20,704)	–	18,793	–
Deferral of amounts arising during the year:				
Actuarial losses on accrued benefit obligation	(17,152)	(527)	(54,578)	(1,638)
Past service costs	(578)	–	–	–
Amortization of previously deferred amounts:				
Past service costs	(994)	–	(885)	–
Actuarial differences	8,899	771	3,444	724
Transitional obligation	(123)	821	265	821
Adjustments to recognize long-term nature of employee future benefit costs	(30,652)	1,065	(32,961)	(93)
Total defined benefit costs	14,529	3,195	7,630	3,384
Total cost of defined contribution portion	5,078	–	4,606	–
Employee future benefit costs	$ 19,607	$ 3,195	$ 12,236	$ 3,384

SIGNIFICANT ASSUMPTIONS

		2011		2010
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Weighted average of assumptions				
Accrued benefit obligation as at October 31:				
Discount rate at end of year	5.25%	5.25%	5.40%	5.40%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Benefit costs for the years ended October 31:				
Discount rate for the year	5.40%	5.40%	6.50%	6.50%
Expected long-term rate of return on plan assets	7.25%	–	7.25%	–
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

ASSUMED HEALTH CARE COST TREND RATES AS AT OCTOBER 31.

	2011	2010
Assumed annual rate of increase in the cost of health care benefits	8.8%	9.4%
Level to which it should decline and at which it is assumed to subsequently stabilize	4.0%	4.0%
Year that the rate is assumed to stabilize	2019	2019

SENSITIVITY ANALYSIS

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2011.

	1% INCREASE	1% DECREASE
Total of service and interest cost	$ 134	$ (113)
Accrued benefit obligation	$2,521	$(2,116)

17 INCOME TAXES

FUTURE INCOME TAXES

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

	2011	2010
Future income tax assets		
Allowances for loan losses	$ 21,900	$ 22,068
Premises and equipment	10,668	15,168
Provisions	7,282	4,804
Amount related deferred remuneration	5,305	4,709
Tax loss carryforwards	3,222	–
Software	–	11,551
Other temporary differences	3,059	2,899
	51,436	61,199
Future income tax liabilities		
Accrued benefit assets-pension plans	(27,410)	(29,318)
Securitization and securities	(21,732)	(16,414)
Deferred charges	(17,149)	(15,640)
Derivatives	(16,110)	(8,118)
Software	(5,494)	–
Other temporary differences	(2,863)	(3,650)
	(90,758)	(73,140)
Future income taxes, net	$(39,322)	$(11,941)

Net future income taxes are reported in other assets (note 9) and other liabilities (note 11) in the consolidated balance sheet.

	2011	2010
Future income tax assets	$ 4,160	$ 29,579
Future income tax liabilities	(43,482)	(41,520)
	$ (39,322)	$ (11,941)

Income tax loss carryforwards, as at October 31, 2011 were $11.2 million (nil in 2010).

INCOME TAX EXPENSE

Significant components of income tax expense are as follows.

	2011	2010
Consolidated statement of income		
Current income tax expense	$15,140	$17,929
Future income tax expense		
Reversal of temporary differences	21,095	23,753
Tax rate changes	–	587
	21,095	24,340
	$36,235	$42,269
Consolidated statement of comprehensive income		
Income taxes (recovery) related to change in unrealized gains (losses) on available-for-sale securities	$ (117)	$ 2,361
Income taxes recovery related to reclassification of net gains on available-for-sale securities to net income	(1,002)	(902)
Income taxes (recovery) related to net change in value of derivatives designated as cash flow hedges	7,405	(6,343)
	$ 6,286	$ (4,884)
Consolidated statement of changes in shareholders' equity		
Income taxes on preferred share dividends and other		
Current income tax expense	$ 4,710	$ 4,710
Current income tax benefit	(4,049)	(4,363)
	$ 661	$ 347

17 INCOME TAXES (CONT'D)

RECONCILIATION WITH THE STATUTORY RATE

The reconciliation of income tax expense reported in the consolidated statement of income to the dollar amount of income taxes using the statutory rates is as follows.

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

Income earned on foreign credit insurance operations would generally be taxed only upon repatriation to Canada. Since the Bank's management does not expect to repatriate income accumulated after July 27, 2006, no future income tax expense has been recognized on such income. Income taxes that would be payable if all unremitted earnings were repatriated are estimated at $20.8 million as at October 31, 2011 ($15.9 million as at October 31, 2010).

18 EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended October 31 is detailed as follows.

	2011	2010
Earnings per share – basic		
Net income	**$ 127,489**	$ 122,941
Preferred share dividends, including related income taxes	**12,436**	12,122
Net income attributable to common shares	**$ 115,053**	$ 110,819
Average number of outstanding common shares	**23,923,754**	23,920,529
Earnings per share – basic	**$ 4.81**	$ 4.63
Earnings per share – diluted		
Net income attributable to common shares	**$ 115,053**	$ 110,819
Average number of outstanding common shares	**23,923,754**	23,920,529
Dilutive share purchase options	**19,067**	16,938
Diluted weighted average number of outstanding common shares	**23,942,821**	23,937,467
Earnings per share – diluted	**$ 4.81**	$ 4.63

The preferred shares were convertible into common shares at the Bank's option. However, on November 17, 2010, the Bank irrevocably renounced its right of conversion of its Class A preferred shares into common shares. In prior periods, these conversions were not taken into account in the calculation of diluted earnings per share because the Bank could settle such conversions in cash rather than common shares and, based on past experience, the Bank had opted for a cash settlement.

19 RELATED PARTY TRANSACTIONS

The Bank provides loans to directors and officers and their related companies. Loans to directors are granted under market conditions for similar risks and are measured at the exchange amount. Loans to officers consist mostly of term residential mortgage loans at posted rates less 2%, as well as personal loans and personal lines of credit at market rates less a discount based on the type and amount of the loan. Loans to related companies of directors and officers are granted under terms similar to those offered to arm's length parties. The interest earned on these loans is recorded under interest income in the consolidated statement of income. The outstanding balances of these loans are as follows.

	2011	2010
Mortgage loans	**$ 1,377**	$ 1,159
Other loans	**14,690**	15,699
	$16,067	$16,858

In the normal course of business, the Bank also provides usual banking services to certain directors and officers, including bank accounts (deposits) under terms similar to those offered to arm's length parties.

20 FINANCIAL INSTRUMENTS – FAIR VALUE

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

CLASSIFICATION OF FAIR VALUE MEASUREMENTS IN THE FAIR VALUE HIERARCHY

CICA Handbook Section 3862 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1—Quoted prices in active markets for *identical* financial instruments.
- Level 2—Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable*.

The amounts in the following tables present the fair value of financial instruments of the Bank based on the valuation methods and assumptions as set out below. In addition, pertaining only to the financial instruments recorded at fair value in the financial statements, the tables show their valuation levels in the fair value hierarchy.

20 FINANCIAL INSTRUMENTS – FAIR VALUE (CONT'D)

(in millions of dollars) 2011

				FAIR VALUE HIERARCHY LEVEL OF FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE[1]		
	CARRYING AMOUNT	FAIR VALUE	FAVOURABLE (UNFAVOURABLE) VARIANCE	LEVEL 1	LEVEL 2	LEVEL 3
Assets						
Cash and non-interest-bearing deposits with other banks	$ 82	$ 82	$ –	$ n/a	$ n/a	$ n/a
Interest-bearing deposits with other banks	276	276	–	n/a	n/a	n/a
Securities accounts						
Available-for-sale	1,096	1,096	–	102	993	1
Held-for-trading	2,182	2,182	–	223	1,956	3
Designated as held-for-trading	1,012	1,012	–	–	1,012	–
Securities purchased under reverse repurchase agreements	319	319	–	n/a	n/a	n/a
Loans	18,262	18,466	204	n/a	n/a	n/a
Customers' liabilities under acceptances	179	179	–	n/a	n/a	n/a
Derivatives	229	229	–	–	227	2
Other assets	486	486	–	–	–	119
	$24,123	$24,327	$ 204	$325	$4,188	$125
Liabilities						
Deposits	$ 20,067	$ 20,279	$(212)	$ n/a	$ n/a	$ n/a
Obligations related to securities sold short	1,471	1,471	–	34	1,437	–
Obligations related to securities sold under repurchase agreements	37	37	–	n/a	n/a	n/a
Acceptances	179	179	–	n/a	n/a	n/a
Derivatives	246	246	–	–	118	128
Other liabilities	819	819	–	n/a	n/a	n/a
Subordinated debt	243	252	(9)	n/a	n/a	n/a
	$ 23,062	$ 23,283	$(221)	$ 34	$1,555	$ 128

(1) For financial instruments recorded at fair value only.

(in millions of dollars) 2010

				FAIR VALUE HIERARCHY LEVEL OF FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE[1]		
	CARRYING AMOUNT	FAIR VALUE	FAVOURABLE (UNFAVOURABLE) VARIANCE	LEVEL 1	LEVEL 2	LEVEL 3
Assets						
Cash and non-interest-bearing deposits with other banks	$ 71	$ 71	$ –	$ n/a	$ n/a	$ n/a
Interest-bearing deposits with other banks	96	96	–	n/a	n/a	n/a
Securities accounts						
Available-for-sale	1,104	1,104	–	89	1,007	8
Held-for-trading	1,497	1,497	–	166	1,324	7
Designated as held-for-trading	1,658	1,658	–	–	1,658	–
Securities purchased under reverse repurchase agreements	804	804	–	n/a	n/a	n/a
Loans	17,405	17,628	223	n/a	n/a	n/a
Customers' liabilities under acceptances	165	165	–	n/a	n/a	n/a
Derivatives	163	163	–	–	157	6
Other assets	415	415	–	–	–	98
	$23,378	$23,601	$ 223	$255	$4,146	$119
Liabilities						
Deposits	$19,648	$19,895	$(247)	$ n/a	$ n/a	$ n/a
Obligations related to securities sold short	1,362	1,362	–	7	1,355	–
Obligations related to securities sold under repurchase agreements	60	60	–	n/a	n/a	n/a
Acceptances	165	165	–	n/a	n/a	n/a
Derivatives	199	199	–	–	100	99
Other liabilities	873	873	–	n/a	n/a	n/a
Subordinated debt	150	151	(1)	n/a	n/a	n/a
	$22,457	$22,705	$(248)	$ 7	$1,455	$ 99

(1) For financial instruments recorded at fair value only.

DETERMINING FAIR VALUE

For assets and liabilities carried at fair value, the Bank measures such value as follows.

When available, the Bank generally uses quoted market prices to determine fair value and classifies such items in Level 1.

If quoted market prices are not available, fair value is based on internally developed valuation techniques that use, where possible, current market-based or independently sourced market inputs, such as interest rates, exchange rates and option volatility. Instruments valued using internal valuation techniques are classified according to the lowest level input or value driver that is significant to the fair value measurement. Thus, an instrument may be classified in Level 3 even though some significant inputs may be observable.

Where available, the Bank may also make use of quoted prices for recent trading activity in positions with the same or similar characteristics to that being valued. The frequency and size of transactions and the amount of the bid-ask spread are among the factors considered in determining the liquidity of markets and the relevance of observed prices from those markets. If relevant and observable prices are available, those valuations would be classified in Level 2. If prices are not available, other valuation techniques are used and items are classified in Level 3. For these assets and liabilities, the inputs used in determining fair value may require significant management judgment. Due to the inherent uncertainty in these estimates, the values may differ significantly from those that would have been used if an active market had existed for the financial instruments.

The following section describes the valuation methodologies used by the Bank to measure certain significant financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

Securities purchased under reverse repurchase agreements and obligations related to securities sold under repurchase agreements

Given that quoted prices are not available for such financial instruments, fair value is determined using a discounted cash flow technique. Cash flows are estimated based on the terms of the contract and discounted using appropriate market rates. Since these instruments are recorded at amortized cost, they are not classified in the fair value hierarchy.

Securities accounts

When available, the Bank uses quoted market prices to determine the fair value of securities; such instruments are classified in Level 1 of the fair value hierarchy; for example exchange-traded equity securities. For bonds traded over the counter, the Bank generally determines fair value using internal valuation techniques or prices obtained from independent vendors. Where available, the Bank may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Securities priced using such methods are generally classified in Level 2. However, less liquid securities may be classified in Level 3 given that the Bank must then determine the parameters related to certain significant value drivers, including liquidity premiums and credit spreads.

Loans

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of loans is estimated by discounting cash flows adjusted to reflect prepayments, if any, at the prevailing market interest rates for new loans with substantially similar terms. For certain variable rate loans subject to frequent rate revisions and loans with indeterminate maturities, the fair value is deemed to represent the carrying amount. Since these instruments are recorded at amortized cost, they are not classified in the fair value hierarchy.

Other assets

Other assets consist primarily of cheques and other items in transit, accrued interest receivable and certain retained interests related to securitization transactions. Quoted market prices in an active market are not available for these financial instruments.

The fair value of cheques and other items in transit and accrued interest receivable is determined using the discounted cash flow method. Since these instruments are all recorded at amortized cost, they are not classified in the fair value hierarchy.

The fair value of retained interest related to securitization transactions is calculated based on a discounted net value analysis that factors in the time value of money and anticipated rates of prepayment. The retained interests are classified in Level 3. More details regarding these interests are provided in note 6, including sensitivity analysis.

Derivatives

The fair value of over-the-counter derivatives is calculated using prevailing market prices for instruments with similar characteristics and maturities, based on a discounted net value analysis or an appropriate pricing model that factors in the current and contractual prices of the underlying instruments, the time value of money, the yield curve and volatility factors. These derivatives are classified in Level 2 or Level 3 depending on whether the significant inputs to those pricing models include observable or unobservable inputs. Also, certain exchange-traded derivatives, whose fair value is based on quoted market prices, are classified in Level 1 of the fair value hierarchy.

20 FINANCIAL INSTRUMENTS – FAIR VALUE (CONT'D)

Deposits

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of fixed rate deposits is estimated using discounted cash flows based on prevailing market interest rates for deposits with substantially similar terms. The fair value of deposits without stated maturities or variable rate deposits is deemed to represent their carrying amount. Since these instruments are primarily recorded at amortized cost, they are not classified in the fair value hierarchy.

Obligations related to securities sold short

When available, the Bank uses quoted market prices to determine the fair value of obligations related to securities sold short; such instruments are classified in Level 1. For bonds traded over the counter, the Bank generally determines fair value using internal valuation techniques or prices obtained from independent vendors. Where available, the Bank may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Securities priced using such methods are generally classified in Level 2.

Subordinated debt

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of subordinated debt is estimated using discounted cash flows based on prevailing market interest rates for similar issues or rates currently offered for debt securities with the same term to maturity. Since these instruments are recorded at amortized cost, they are not classified in the fair value hierarchy.

LEVEL TRANSFERS AND RECLASSIFICATION

There were no significant changes in fair value measurement methods during the year.

CHANGE IN LEVEL 3 FAIR VALUE CATEGORY

The following tables show the changes in the Level 3 of the fair value hierarchy for the years ended October 31, 2011 and 2010. The Bank classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically rely on a number of inputs that are observable either directly or indirectly. Accordingly, the gains and losses shown below include changes in fair value related to both observable and unobservable inputs.

(in millions of dollars) 2011

		REALIZED/UNREALIZED NET GAINS (LOSSES) INCLUDED IN		MOVEMENTS				
	BALANCE AS AT OCT. 31, 2010	INCOME[1]	OTHER COMPREHENSIVE INCOME	PURCHASES AND ISSUANCES	SALES AND SETTLEMENTS	TRANSFERS IN AND OUT OF LEVEL 3	BALANCE AS AT OCT. 31, 2011	UNREALIZED GAINS (LOSSES) RELATED TO INSTRUMENTS STILL HELD AT PERIOD-END
Assets								
Securities accounts								
Available-for-sale	$ 8	$ 1	$ –	$ –	$ (7)	$ (1)	$ 1	$ –
Held-for-trading	7	1	–	–	(5)	–	3	–
Derivatives	6	3	–	–	(7)	–	2	2
Other assets	98	11	–	80	(70)	–	119	9
	$119	$ 16	$ –	$80	$(89)	$ (1)	$ 125	$ 11
Liabilities								
Derivatives	$ (99)	$(46)	$ –	$ –	$ 17	$ –	$(128)	$(30)

(1) Gains and losses related to financial instruments in Level 3 have been included in income from treasury and financial market operations and in securitization income.

(in millions of dollars)								2010
		REALIZED/UNREALIZED NET GAINS (LOSSES) INCLUDED IN		MOVEMENTS				
	BALANCE AS AT OCT. 31, 2009	INCOME[1]	OTHER COMPREHENSIVE INCOME	PURCHASES AND ISSUANCES	SALES AND SETTLEMENTS	TRANSFERS IN AND OUT OF LEVEL 3	BALANCE AS AT OCT. 31, 2010	UNREALIZED GAINS (LOSSES) RELATED TO INSTRUMENTS STILL HELD AT PERIOD-END
Assets								
Securities accounts								
Available-for-sale	$ 9	$ –	$ –	$ –	$ (1)	$ –	$ 8	$ –
Held-for-trading	12	1	–	–	(2)	(4)	7	–
Derivatives	16	4	–	–	(14)	–	6	4
Other assets	109	7	–	37	(55)	–	98	5
	$146	$ 12	$ –	$37	$ (72)	$(4)	$119	$ 9
Liabilities								
Derivatives	$ (65)	$(37)	$ –	$ (6)	$ 9	$ –	$ (99)	$(28)

(1) Gains and losses related to financial instruments in Level 3 have been included in income from treasury and financial market operations and in securitization income.

SENSITIVITY ANALYSIS OF LEVEL 3 FINANCIAL INSTRUMENTS

As at October 31, 2011, retained interests related to securitization activities were included within Level 3 other assets for a fair value of $122.8 million. The sensitivity analysis for these instruments is disclosed in note 6. For other instruments, when other reasonably possible alternative assumptions were available for the valuation models, the Bank used these assumptions to recalculate the fair value of these instruments, resulting in a potential increase or decrease in total Level 3 fair value of $10.2 million.

21 FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Bank is exposed to various types of risks owing to the nature of the business activities it pursues. To ensure that all of the significant risks to which the Bank could be exposed are taken into consideration, an Integrated Risk Management Framework has been developed to provide for oversight of risk assessment and control. Risk management is conducted according to tolerance levels established by management committees and approved by the Board of Directors through its committees.

In order to manage the risks associated with financial instruments, including loan and deposit portfolios, securities and derivatives, the Bank has implemented policies prescribing how various risks are to be managed. In practice, management closely monitors various risk limits, as well as a number of other indicators. Oversight of operations is performed by groups independent of the business lines.

The main risks to which the Bank is exposed in respect of financial instruments are set out below.
- Credit risk
- Liquidity and funding risk
- Market risk
  - *Interest rate risk*
  - *Foreign exchange risk*
  - *Equity risk*

A) CREDIT RISK

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

The credit risk management policies adopted by the Bank aim at assessing this risk. These policies cover the approval of credit applications by the line of authority concerned, attribution of risk ratings, management of impaired loans, establishment of provisions and risk-based pricing. With respect to diversification, the credit policy sets the guidelines intended to limit credit concentration by counterparty and industry sector, and identifies sectors that are considered riskier and thus to be avoided. The policies are periodically reviewed and approved by the Board of Directors' Risk Management Committee.

21 FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONT'D)

Acting through a risk management group independent of the business lines, the Bank monitors its financial instrument portfolios in terms of both quality and quantity through: [i] mechanisms and policies governing the review of various types of files; [ii] risk rating systems, and [iii] pricing analysis. Note 5 to these consolidated financial statements provides additional information on the Bank's loan portfolios.

The majority of the Bank's credit concentration in derivatives is with financial institutions, primarily Canadian banks. Credit risk in derivative transactions arises from a potential counterparty default on its contractual obligations when one or more transactions have a positive replacement cost for the Bank. Replacement cost represents what it would cost to replace transactions at prevailing market rates in the event of a default. The credit equivalent amount arising from a derivative transaction is defined as the sum of the replacement cost plus an estimated amount reflecting the potential change in market value of the transaction through to maturity. Note 22 provides additional information on credit exposure.

Derivative-related credit risk is generally managed using the same credit approval, limit and monitoring standards as those used for managing other credit transactions. Moreover, the Bank negotiates derivative master netting agreements with counterparties with which it contracts. These agreements reduce credit risk exposure in the event of a default by providing for the simultaneous netting of all transactions with a given counterparty. These contracts also allow the Bank to require the counterparty to pay or guarantee the current market value of its positions when the value exceeds a given threshold.

The amount that best represents the Bank's maximum exposure to credit risk as at October 31, without factoring in any collateral held or other credit enhancements, represents the sum of financial assets in the Bank's consolidated balance sheet, plus credit-related commitments as set out below.

(in millions of dollars)	**2011**	2010
Financial assets, as stated in the consolidated balance sheet[1]	**$23,791**	$23,116
Credit-related commitments		
Personal credit facilities	**1,624**	1,403
Credit card lines	**1,170**	1,004
Undrawn amounts under approved credit facilities	**2,603**	2,469
	$ 5,397	$ 4,876
Total	**$29,188**	$27,992

(1) Excludes equity securities.

Concentration of credit risk

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

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

	2011	2010
Québec	**64%**	63%
Other Canadian provinces[1]	**36**	37
Total	**100%**	100%

(1) Mainly in the province of Ontario.

No single industry segment accounted for more than 3% (3% in 2010) of the total loans and customers' liabilities under acceptances.

Guarantees held in respect of loan portfolios

Nearly 50% of the Bank's residential mortgage loan portfolio is insured by CMHC. Moreover, the Bank holds guarantees in respect of the real estate property for the other conventional mortgage loans. In addition, the value of such loans never exceeds 80% of the property's initially estimated value, in accordance with statutory requirements.

Nearly 72% of the Bank's personal loan portfolio consists of investment loans, home equity lines of credit and point-of-sale financing loans. Loan underwriting for these loans is subject to a process which allows for the assessment of client credit risk. In addition, the Bank has defined and requires eligible collateral. Specifically, investment loans are collateralized by qualified Canadian mutual funds, home equity lines of credit are collateralized by real estate assets and point-of-sale financing loans are collateralized by fixed assets. Also, more than 10% of the Bank's personal loan portfolio consists of student loans and loans granted under the Immigrant Investor program, which are guaranteed by the federal or provincial government.

Commercial mortgage loans are secured by specific assets, including construction projects, commercial properties, shopping centers, office buildings, plants, warehouses and industrial condominiums. In general, the value of these loans does not exceed 60% to 75% of the initially estimated value of the property, depending on the nature of the loan.

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

Other guarantees held

When entering into trading activities such as reverse repurchase agreements and derivative transactions, the Bank requires counterparties to pledge collateral that will protect the Bank from losses in the event of the counterparty's default. Collateral transactions are conducted under terms that are usual and customary in standard trading activities. The following are examples of general terms and conditions on collateral assets that the Bank may sell, pledge or repledge.

- The risks and rewards of the pledged assets reside with the pledgor.
- The pledged asset is returned to the pledgor when the necessary conditions have been satisfied.
- The right of the pledgee to sell or repledge the asset is dependent on the specific agreement under which the collateral is pledged.
- If there is no default, the pledgee must return the comparable asset to the pledgor upon satisfaction of the obligation.

As at October 31, 2011 the approximate market value of collateral pledged to the Bank in connection with assets purchased under reverse repurchase agreements was $318.8 million ($803.9 million as at October 31, 2010).

B) LIQUIDITY AND FUNDING RISK

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

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

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

Contractual maturities of financial liabilities

The following table shows the principal obligations related to financial liabilities by contractual maturity.

2011

		TERM			
	DEMAND AND NOTICE	UNDER 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Deposits	**$7,414,995**	**$5,866,983**	**$6,758,554**	**$26,886**	**$20,067,418**
Obligations related to securities sold short	**–**	**1,471,254**	**–**	**–**	**1,471,254**
Obligations related to securities sold under repurchase agreements	**–**	**36,770**	**–**	**–**	**36,770**
Subordinated debt	**–**	**–**	**250,000**	**–**	**250,000**
Derivatives(1)	**–**	**11,468**	**22,555**	**(422)**	**33,601**
	$7,414,995	**$7,386,475**	**$7,031,109**	**$26,464**	**$21,859,043**

2010

		TERM			
	DEMAND AND NOTICE	UNDER 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Deposits	$7,012,644	$5,534,012	$7,082,806	$18,268	$19,647,730
Obligations related to securities sold short	–	1,362,336	–	–	1,362,336
Obligations related to securities sold under repurchase agreements	–	60,050	–	–	60,050
Subordinated debt	–	150,000	–	–	150,000
Derivatives(1)	–	6,086	8,595	(346)	14,335
	$7,012,644	$7,112,484	$7,091,401	$17,922	$21,234,451

(1) The obligations related to derivatives represent solely the theoretical payments related to derivatives designated as cash flow hedges and used for interest rate risk management whose net fair values were negative as at October 31. The notional amounts associated with the derivatives are summarized by maturity in note 22.

The Bank is also exposed to liquidity risk when it contracts credit commitments. As at October 31, 2011, these commitments amounted to approximately $2.6 billion ($2.5 billion as at October 31, 2010), excluding personal credit facilities and credit card lines since revocable at the Bank's option.

21 FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONT'D)

C) MARKET RISK

Market risk represents the financial losses that the Bank could incur following unfavourable fluctuations in the value of financial instruments subsequent to changes in the underlying factors used to measure them, such as interest rates, exchange rates or equity prices. Exposure to market risk arising from trading, investment, financing and asset and liability management activities is mainly monitored by notional limits, stress testing and various other sensitivity measures, such as value at risk (VaR).

Interest rate risk

Asset and liability management activities are designed to control structural interest rate risk, which corresponds to the potential negative impact of interest rate movements on the Bank's revenues and economic value. This risk is mainly attributable to differences in maturity dates or re-pricing dates of balance sheet and off-balance sheet items along with the options embedded in certain banking products, notably clauses on prepayment, deposit redemption clauses. To manage this risk, various treasury and derivative instruments, mainly interest rate swaps, futures and options, are used to modify the interest rate characteristics of the underlying instruments in the balance sheet and to cover the inherent risk of options embedded in loan and deposit products. The Bank periodically assesses the effect on the economic value of common shareholders' equity and on its net interest income of a sudden and sustained 1% parallel change of the interest rate curve. The table below presents the estimated effect of such a change as at October 31.

The estimates are based on a number of assumptions and factors, consistent with the guidelines approved by the Management Committee, which include:

- Floor levels for deposit liabilities;
- For net interest income simulations, the renewal of matured loans and deposits at current market terms;
- On- and off-balance sheet assets and liabilities are generally considered to mature on the earlier of their contractual re-pricing or maturity date.

SENSITIVITY ANALYSIS OF THE STRUCTURAL INTEREST RATE RISK

	2011		2010	
	EFFECT ON NET INTEREST INCOME[1]	**EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY[2]**	EFFECT ON NET INTEREST INCOME[1]	EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY[2]
Change in interest rates				
Increase of 100 basis points	**$ 11,965**	**$(20,939)**	$ 4,650	$(22,638)
Decrease of 100 basis points	**$(14,481)**	**$ 22,809**	$(10,411)	$ 25,714

(1) Over the next 12 months
(2) Net of income taxes

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

(in millions of dollars)							2011
	FLOATING	0 TO 3 MONTHS	OVER 3 MONTHS TO 1 YEAR	OVER 1 YEAR TO 5 YEARS	OVER 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
Assets							
Cash, deposits and securities	$ 2,174	$ 796	$ 478	$1,024	$ 50	$ 126	$ 4,648
Actual return		1.0%	1.0%	1.2%	3.7%		
Securities purchased under reverse repurchase agreements	319	–	–	–	–	–	319
Loans	8,425	1,009	2,237	6,073	222	296	18,262
Actual return		4.3%	4.7%	4.7%	5.4%		
Other assets	–	–	–	–	–	1,261	1,261
Total	10,918	1,805	2,715	7,097	272	1,683	24,490
Actual return		2.9%	4.1%	4.2%	5.1%		
Liabilities and equity							
Deposits	3,000	2,761	4,992	8,645	27	642	20,067
Actual return		2.1%	2.0%	2.4%	3.5%		
Treasury items	929	579	–	–	–	–	1,508
Actual return		1.0%	–%	–%	–%		
Other liabilities	–	40	63	162	–	1,073	1,338
Actual return		3.5%	2.7%	2.9%	–%		
Subordinated debt and equity	–	–	110	350	–	1,117	1,577
Actual return		–%	–%	2.6%	–%		
Total	3,929	3,380	5,165	9,157	27	2,832	24,490
Actual return		1.9%	2.0%	2.4%	3.5%		
Swaps, net	–	(4,659)	386	4,236	37	–	–
Sensitivity gap	6,989	(6,234)	(2,064)	2,176	282	(1,149)	–
Cumulative gap	$ 6,989	$ 755	$(1,309)	$ 867	$1,149	$ –	$ –

(in millions of dollars)							2010
	FLOATING	0 TO 3 MONTHS	OVER 3 MONTHS TO 1 YEAR	OVER 1 YEAR TO 5 YEARS	OVER 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
Assets	$ 10,068	$ 1,359	$ 2,311	$8,178	$ 294	$1,562	$23,772
Actual return		3.8%	4.5%	4.2%	5.1%		
Liabilities and equity	4,135	2,990	4,957	8,997	18	2,675	23,772
Actual return		2.0%	2.2%	2.6%	3.5%		
Swaps, net	(12)	(4,597)	1,657	2,891	61	–	–
Sensivity gap	5,921	(6,228)	(989)	2,072	337	(1,113)	–
Cumulative gap	$ 5,921	$ (307)	$(1,296)	$ 776	$1,113	$ –	$ –

Maturity assumptions

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

- Deposits for which the interest rates are not indexed on a specific rate and which can be non-sensitive to changes in market rates are classified based on the historical trends in balances;
- Subordinated debt for which interest rates can be revised at a future date are classified at the re-pricing date;
- Preferred shares are classified using the date on which they become redeemable.

21 FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONT'D)

Foreign exchange risk

Foreign exchange risk is the losses that the Bank may incur subsequent to adverse exchange rate fluctuations. It originates mainly from foreign exchange positions held by the Bank to support the offering of products and services in currencies other than the Canadian dollar, trading operations and, to a lesser extent, mismatches in currencies of balance sheet and off-balance sheet assets and liabilities, as well as mismatches in receipts and payments of funds in foreign currencies. This risk is monitored using notional limits and other sensitivity analysis for trading operations. As at October 31, financial instruments denominated in U.S. dollars are detailed below.

(in thousands of Canadian dollars)	**2011**	2010
Assets		
Cash and Securities	**$ 92,090**	$142,833
Loans	**81,332**	82,738
Other	**23,711**	26,980
	$197,133	$252,551
Liabilities		
Deposits	**$175,393**	$150,697
Obligations related to securities sold short	**22,173**	99,983
Other	**278**	235
	$197,844	$250,915
Net exposure	**$ (711)**	$ 1,636

In addition, U.S. dollar exposure related to derivatives is limited as these contracts are bought and sold mainly to meet specific customer needs. As at October 31, the effect of a sudden 5% change in foreign exchange rates would have no significant impact on net income and shareholder's equity.

Deposit assets and deposit liabilities denominated in other foreign currencies, primarily in euros, amount to $23.3 million ($10.8 million in 2010) and $12.7 million ($5.6 million in 2010) respectively. Currencies other than U.S. dollars are generally bought and sold solely to meet specific customer needs. As a result, the Bank has limited exposure to these currencies.

Equity risk

Equity risk is the financial losses that the Bank may incur subsequent to adverse fluctuations in certain equity prices or the stock market in general. The Bank's equity positions consist primarily of Canadian publicly traded securities and, as a result, portfolio sensitivity mainly correlates to Canadian stock market performance. A portion of the Bank's equity positions is used to hedge index-linked deposits. The residual portion represents less than 3% (less than 3% in 2010) of the total securities portfolio. A fluctuation in the Canadian stock market of 10% could have a $5.6 million impact on the Bank's shareholders' equity.

22 DERIVATIVES AND HEDGING

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

The various derivatives listed in the tables below are as follows:

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

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

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

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

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

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

AGGREGATE NOTIONAL AMOUNTS
(in millions of dollars)

	PERIOD TO MATURITY					2011
Notional amount	**WITHIN 1 YEAR**	**1 TO 5 YEARS**	**OVER 5 YEARS**	**TOTAL**	**DESIGNATED AS HEDGE CONTRACTS(1)**	**OTHER CONTRACTS(2)**
Interest rate contracts						
OTC contracts						
Swaps	$4,637	$13,567	$1,686	$19,890	$8,505	$11,385
Exchange-traded contracts						
Futures	244	–	–	244	–	244
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	1,875	54	–	1,929	–	1,929
Forwards	525	37	–	562	–	562
Options purchased	556	–	–	556	–	556
Options written	530	–	–	530	–	530
Equity- and index-linked contracts						
Options purchased	25	21	4	50	–	50
Options written	39	76	4	119	–	119
Total return swaps	185	17	–	202	–	202
	$8,616	$13,772	$1,694	$24,082	$8,505	$15,577

(in millions of dollars)

	PERIOD TO MATURITY					2010
Notional amount	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL	DESIGNATED AS HEDGE CONTRACTS(1)	OTHER CONTRACTS(2)
Interest rate contracts						
OTC contracts						
Swaps	$3,584	$8,548	$488	$12,620	$7,666	$ 4,954
Exchange-traded contracts						
Futures	19	–	–	19	–	19
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	4,604	35	–	4,639	–	4,639
Forwards	796	46	–	842	–	842
Options purchased	265	–	–	265	–	265
Options written	268	–	–	268	–	268
Equity- and index-linked contracts						
Options purchased	6	33	5	44	–	44
Options written	54	94	5	153	–	153
Total return swaps	130	5	–	135	–	135
	$9,726	$8,761	$498	$18,985	$7,666	$11,319

(1) Include notional amounts of $0.6 billion related to basis swaps ($1.2 billion in 2010).
(2) Include derivatives used in trading operations to meet customer demands and to earn trading income, as well as derivatives used to manage the Bank's risk exposures that do not qualify for hedge accounting.

22 DERIVATIVES AND HEDGING (CONT'D)

FAIR VALUE OF DERIVATIVES

(in millions of dollars)

2011	FAVOURABLE FAIR VALUE	UNFAVOURABLE FAIR VALUE	NET AMOUNT
DESIGNATED AS HEDGE CONTRACTS			
Interest rate contracts			
Swaps	$ 88	$ (41)	$ 47
OTHER CONTRACTS (1)			
Interest rate contracts			
Swaps	85	(155)	(70)
Foreign exchange contracts			
Foreign exchange swaps	20	(15)	5
Forwards	6	(10)	(4)
Options purchased	10	–	10
Options written	-	(10)	(10)
Equity- and index-linked contracts			
Options purchased	2	–	2
Options written	-	(12)	(12)
TOTAL (2)	$211	$(243)	$(32)

(in millions of dollars)

2010	FAVOURABLE FAIR VALUE	UNFAVOURABLE FAIR VALUE	NET AMOUNT
DESIGNATED AS HEDGE CONTRACTS			
Interest rate contracts			
Swaps	$ 57	$ (22)	$ 35
OTHER CONTRACTS (1)			
Interest rate contracts			
Swaps	9	(90)	(81)
Foreign exchange contracts			
Foreign exchange swaps	63	(51)	12
Forwards	6	(12)	(6)
Options purchased	4	–	4
Options written	–	(4)	(4)
Equity- and index-linked contracts			
Options purchased	3	–	3
Options written	–	(14)	(14)
TOTAL (2)	$142	$(193)	$(51)

(1) Include derivatives used in trading operations to meet customer demands and to earn trading income as well as derivatives used to manage the Bank's risk exposures that do not qualify for hedge accounting.
(2) Excluding accrued interest.

INFORMATION REGARDING HEDGING RELATIONSHIPS

Financial instruments designated as hedging instruments

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

In addition, certain non-derivative instruments are designated and qualify for hedge accounting. The Bank applies hedge accounting to minimize volatility in other income caused by changes in foreign exchange rates.

The following table presents the notional amounts of derivative and non-derivative contracts designated as hedging instruments.

	2011		2010	
	CASH FLOW HEDGES	FAIR VALUE HEDGES	CASH FLOW HEDGES	FAIR VALUE HEDGES
Derivative contracts	$7,101,500	$805,250	$4,296,000	$2,158,850
Non-derivative instruments	$ –	$ 17,360	$ –	$ 18,194

Ineffective portions of hedging relationships

The following table shows the ineffective portions of the cumulative changes in fair value of hedging instruments recognized in the consolidated statement of income.

	2011	2010
Cash flow hedges	**$(171)**	$(593)
Fair value hedges	**422**	161
	$ 251	$(432)

Other information regarding hedging relationships

Net deferred gains of $6.8 million ($7.6 million as at October 31, 2010), included in accumulated other comprehensive income as at October 31, 2011, are expected to be reclassified to the consolidated statement of income over the next twelve months.

The maximum term of cash flow hedging relationships in respect of future transactions was eight years as at October 31, 2011 (nine years in 2010).

CREDIT EXPOSURE

(in millions of dollars)		**2011**				2010
	REPLACEMENT COST[1]	**CREDIT EQUIVALENT AMOUNT**[2]	**RISK-WEIGHTED AMOUNT**[3]	REPLACEMENT COST	CREDIT EQUIVALENT AMOUNT	RISK-WEIGHTED AMOUNT
Interest rate contracts						
Swaps	**$173**	**$266**	**$54**	$ 66	$116	$24
Foreign exchange contracts						
Foreign exchange swaps	**20**	**41**	**9**	63	110	23
Forwards	**6**	**13**	**10**	6	16	11
Options purchased	**10**	**15**	**11**	4	6	3
Equity- and index-linked contracts						
Options purchased	**2**	**5**	**1**	3	6	1
Total return swaps	**–**	**12**	**2**	-	8	2
	$211	**$352**	**$87**	$142	$262	$64

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

Note 21 hereto provides additional disclosures on the credit risk related to derivatives and how it is assessed.

23 INCOME RELATED TO FINANCIAL INSTRUMENTS HELD-FOR-TRADING

Financial instruments held–for–trading, including held –fort–rading securities, derivatives not designated in hedge relationships, and obligations related to securities sold short are measured at fair value, with gains and losses recognized in the consolidated statement of income.

Management can elect to designate financial instruments as held-for-trading instruments, with changes in fair value recorded in income, provided that such designations meet specific criteria. Certain securities and retained interests related to securitization transactions were designated as held-for-trading in order to significantly reduce a recognition inconsistency that would otherwise have arisen from recognizing gains and losses on different bases. These financial instruments are used as part of the Bank's overall asset-liability management and provide an economic hedge for other financial instruments that are measured at fair value. Gains and losses on these instruments are therefore generally offset by changes in value of other financial instruments.

23 INCOME RELATED TO FINANCIAL INSTRUMENTS HELD-FOR-TRADING (CONT'D)

The following table presents the income related to these instruments. Income comprises net interest income and other income included in income from treasury and financial market operations, income from brokerage operations as well as securitization income. Income excludes underwriting fees and commissions on securities transactions.

	2011		2010	
	FINANCIAL INSTRUMENTS		FINANCIAL INSTRUMENTS	
	HELD-FOR-TRADING	**DESIGNATED AS HELD-FOR-TRADING**	HELD-FOR-TRADING	DESIGNATED AS HELD-FOR-TRADING
Net interest income	**$ 12,762**	**$32,486**	$ 5,018	$49,929
Other income included in:				
Securitization income	**(8,362)**	**(3,463)**	(31,964)	23,841
Income from brokerage operations	**11,963**	**–**	18,616	–
Income from treasury and financial market operations	**5,819**	**–**	4,702	17
	$ 9,420	**$ (3,463)**	$ (8,646)	$23,858
Total	**$ 22,182**	**$29,023**	$ (3,628)	$73,787

24 COMMITMENTS AND GUARANTEES

CREDIT-RELATED COMMITMENTS

The Bank uses certain off-balance sheet credit instruments as a means of meeting the financial needs of its customers. Undrawn amounts under approved credit facilities represent a commitment to make credit available in the form of loans or other credit instruments for specific amounts and maturities, subject to specific conditions.

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

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

	2011	2010
Undrawn amounts under approved credit facilities[1]	**$2,603,217**	$2,468,800
Documentary letters of credit	**$ 4,358**	$ 6,670

(1) Exclude personal credit facilities totalling $1.6 billion ($1.4 billion as at October 31, 2010) and credit card lines amounting to $1.2 billion ($1.0 billion as at October 31, 2010) since they are revocable at the Bank's option.

GUARANTEES

Standby letters of credit and performance guarantees

In the normal course of its operations, the Bank offers its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that clients cannot meet their obligations to third parties. The term of these guarantees varies according to the contracts and normally does not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. No specific provision is currently recorded with regard to these guarantees. The maximum potential amount of future payments under these guarantees totalled $146.8 million as at October 31, 2011 ($175.2 million in 2010).

Derivatives

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank sells put options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of foreign currencies at a predetermined price. The term of these options does not exceed 12 months. No specific provision is recorded with respect to these derivatives. The maximum potential amount of future payments under these derivatives, corresponding to the notional value of outstanding contracts, totalled $213.3 million as at October 31, 2011 ($201.8 million in 2010).

Collateral received and pledged as security

As at October 31, 2011, the approximate market value of collateral pledged to the Bank that it can sell or re-pledge as security amounted to $318.8 million ($803.9 million as at October 31, 2010). This collateral pledged to the Bank as security was obtained under reverse repurchase and securities borrowing agreements. All collateral received was pledged as security in connection with obligations related to securities sold short.

Other indemnification agreements

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

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

As at October 31, 2011, minimum future commitments under leases, service contracts for outsourced technology services and other contracts are as follows.

	PREMISES	INFORMATION TECHNOLOGY SERVICE CONTRACTS[1]	OTHER	TOTAL
2012	$ 38,481	$ 44,788	$ 3,247	$ 86,516
2013	36,243	40,281	3,247	79,771
2014	33,855	32,888	2,775	69,518
2015	31,663	32,014	1,178	64,855
2016	27,766	32,754	212	60,732
Thereafter	75,870	6,300	–	82,170
Total	$243,878	$189,025	$10,659	$443,562

(1) The Bank may terminate certain major service contracts in certain circumstances.

PLEDGED ASSETS

In the normal course of its operations, the Bank pledges financial assets presented in the consolidated balance sheet. This collateral security is pledged under the usual terms that provide, among other things, that the Bank bear the risks and rewards related to the collateral security and the pledged assets be returned to the Bank when the terms and conditions requiring them to be pledged as security cease to apply.

The following table details the granted guarantees.

	2011	2010
Pledged assets to participate in clearing and payment systems	$320,348	$337,376
Pledged assets for obligations related to securities sold under repurchase agreements and for securities borrowed	1,130,896	179,334
Pledged assets for obligations related to derivatives in a liability position	96,785	95,362
	$1,548,029	$612,072
Assets pledged are detailed as follows:		
Securities	$1,438,807	$354,040
Residential mortgage loans	109,222	258,032
	$1,548,029	$612,072

25 VARIABLE INTEREST ENTITIES

The Bank analyzes the interests it holds in certain entities to determine whether they satisfy the definition of a variable interest entity (VIE), and whether the Bank is the primary beneficiary and must therefore consolidate them. The Bank normally considers its single-seller and multi-seller securitization conduits as VIEs. However, these conduits are not consolidated, as these special purpose entities are specifically excluded from the scope of the accounting standard or because the Bank is not their primary beneficiary. More details regarding transactions with these entities are provided in note 6.

26 CONTINGENCIES

LITIGATION

Marcotte v. Banks class action

On June 11, 2009, the Superior Court of Québec granted a class action against ten Canadian financial institutions, including Laurentian Bank, with regard to mark-ups charged by the banks to their credit card holders on translation of foreign currency transactions into Canadian dollars. The judgment ordered the Bank to repay the mark-ups it collected, with interest, plus an additional amount of compensation. Together with its Canadian financial institution co-defendants, the Bank submits that the judgment contains several errors of fact and law that are sufficiently decisive as to invalidate the judgment, and therefore moved to appeal. Given that, in the current circumstances, the Bank is unable to determine the outcome of this litigation, no provision has been set aside.

Other

The Bank and its subsidiaries are also involved in various other legal actions and claims, including some with regulatory bodies. Many of these disputes are related to loans granted by the Bank and are in reaction to steps taken by the Bank to collect delinquent loans and realize the underlying collateral. Certain claims have also been brought against the Bank, particularly with respect to trustee operations related to portfolio administration and the charging of certain bank fees. Management considers that adequate provisions have been set aside to cover any potential losses and any amounts that might not be recoverable from insurance companies, as the case may be, in connection with these actions.

27 SEGMENTED INFORMATION

The Bank determines its reportable segments based on the different services it provides to individuals, businesses, financial intermediaries and institutional clients. The four business segments of the Bank are: Retail & SME-Québec, Real Estate & Commercial, B2B Trust, and Laurentian Bank Securities and Capital Markets.

The Retail & SME-Québec segment provides a full range of savings, investment and financing products, and transactional products and services offered through its direct distribution network, which includes branches, electronic networks, a call centre and a mobile sales force. This business segment also offers Visa credit card services, insurance products and trust services. As well, it offers a wide range of commercial financial services to small and medium-sized enterprises in Québec.

The Real Estate & Commercial segment provides real estate financing throughout Canada, commercial financing in Ontario and Quebec, as well as foreign exchange and international services.

The B2B Trust segment supplies banking and financial products to independent financial advisors and non-bank financial institutions across Canada.

Laurentian Bank Securities and Capital Markets segment consists of the Laurentian Bank Securities Inc. subsidiary and the Bank's capital market activities.

A fifth "Other segment" encompasses the Bank's corporate functions, including Corporate Treasury and securitization activities.

Results for the Bank's segments are based on internal financial reporting systems and are consistent with the accounting principles followed in the preparation of the Bank's consolidated financial statements, except for loan securitization. As noted in Note 6, the Bank securitizes residential mortgage loans held by the Retail & SME-Québec and B2B Trust segments in transactions that are accounted for as sales. For the purpose of segmented reporting, Retail & SME-Québec and B2B Trust account for the transactions as though they are financing arrangements. Accordingly, the interest income earned on the loans sold net of the funding costs is recorded in net interest income and impairment related to these loans is charged to provision for loan losses. This accounting is reversed in the Other segment and the gain recognized on sale together with income earned on the retained interests, net of loan losses incurred, are included in other income.

All transactions between business segments are conducted on an arm's length basis, with inter-segments revenues and costs being eliminated in the Other segment. Transfer pricing regarding the funding of segments' assets and liabilities is based on funding costs which best reflect the nature and maturities of these items. Income and expenses directly associated with each segment are included in determining business segment performance. Corporate expenses are generally allocated pro-rata to each business segment.

2011

	RETAIL & SME-QUÉBEC	REAL ESTATE & COMMERCIAL	B2B TRUST[3]	LAURENTIAN BANK SECURITIES AND CAPITAL MARKETS	OTHER[2][3]	TOTAL
Net interest income	**$ 319,113**	**$ 87,710**	**$ 117,426**	**$ 3,146**	**$(43,334)**	**$ 484,061**
Other income	**133,939**	**33,738**	**8,966**	**53,207**	**39,672**	**269,522**
Total revenue (loss)	**453,052**	**121,448**	**126,392**	**56,353**	**(3,662)**	**753,583**
Provision for loan losses	**26,172**	**18,687**	**1,789**	**–**	**352**	**47,000**
Non-interest expenses	**371,258**	**30,241**	**66,173**	**47,902**	**27,285**	**542,859**
Income (loss) before income taxes	**55,622**	**72,520**	**58,430**	**8,451**	**(31,299)**	**163,724**
Income taxes (recovered)	**11,163**	**20,762**	**16,564**	**2,180**	**(14,434)**	**36,235**
Net income (loss)	**$ 44,459**	**$ 51,758**	**$ 41,866**	**$ 6,271**	**$ (16,865)**	**$ 127,489**
Average assets[1]	**$12,760,174**	**$3,122,603**	**$5,414,912**	**$2,559,495**	**$122,800**	**$23,979,984**

2010

	RETAIL & SME-QUÉBEC	REAL ESTATE & COMMERCIAL	B2B TRUST	LAURENTIAN BANK SECURITIES AND CAPITAL MARKETS	OTHER[2]	TOTAL
Net interest income	$ 323,740	$ 84,475	$ 114,194	$ 2,441	$ (28,429)	$ 496,421
Other income	129,774	34,852	10,419	58,674	7,306	241,025
Total revenue (loss)	453,514	119,327	124,613	61,115	(21,123)	737,446
Provision for loan losses	40,919	24,124	2,957	–	–	68,000
Non-interest expenses	352,621	24,801	54,449	46,938	25,427	504,236
Income (loss) before income taxes	59,974	70,402	67,207	14,177	(46,550)	165,210
Income taxes (recovered)	12,961	21,313	20,813	4,189	(17,007)	42,269
Net income (loss)	$ 47,013	$ 49,089	$ 46,394	$ 9,988	$ (29,543)	$ 122,941
Average assets[1]	$11,978,573	$2,904,816	$5,023,397	$2,408,842	$777,790	$23,093,418

(1) Assets are disclosed on an average basis, as this measure is most relevant to a financial institution.
(2) The 2011 and 2010 effective tax rates were influenced by a number of items – see note 17 related to income taxes.
(3) Non-interest expenses in 2011 include a $7.7 million charge for the termination in 2012 of the existing distribution agreement of IA Clarington funds in the other segment and a $0.5 million charge related to integration costs of the MRS Companies in the B2B Trust segment (see note 28).

28 SUBSEQUENT EVENTS AND RELATED COSTS

On November 16, 2011, the Bank completed the acquisition of the M.R.S. Trust Company and M.R.S. Inc. (together, the MRS Companies) for cash consideration of approximately $199.5 million, including a premium of $50.0 million over the net book value of the acquired companies. The MRS Companies, previously part of the Mackenzie Financial Corporation, provide trust and administrative services to dealers, advisors and investors in Canada. The MRS Companies will be part of the B2B Trust reporting segment; goodwill associated with this transaction will be allocated to this segment. The allocation of the purchase price for the MRS Companies will be subject to refinement as the Bank completes the valuation of the assets acquired and liabilities assumed.

On October 14, 2011, the Bank and Mackenzie Investments also entered into a distribution agreement for a preferred series of Mackenzie mutual funds. Under this agreement, the Bank, as principal distributor, will distribute a preferred series of Mackenzie mutual funds as of the beginning of 2012.

As of October 31, 2011, with regards to these transactions, the Bank has incurred a $7.7 million charge for termination in 2012 of the existing distribution agreement of IA Clarington funds and a $0.5 million charge related to integration costs of the MRS Companies.

STATISTICAL REVIEW – CONSOLIDATED BALANCE SHEET

Unaudited, as at October 31 (in thousands of dollars)	2011	2010	2009	2008	2007	AVERAGE ANNUAL VARIANCE 11 / 07
ASSETS						
Cash and non-interest-bearing deposits with other banks	**$ 81,600**	$ 70,537	$ 61,010	$ 54,410	$ 65,245	6%
Interest-bearing deposits with other banks	**276,429**	95,561	239,606	94,291	283,255	(1)
Securities						
Issued or guaranteed by Canada	**2,023,785**	2,538,190	2,864,454	2,415,863	1,615,695	6
Issued or guaranteed by provinces and municipal corporations	**1,396,980**	1,029,726	1,157,180	466,735	446,401	33
Other securities	**869,279**	690,889	410,549	607,574	612,283	9
	4,290,044	4,258,805	4,432,183	3,490,172	2,674,379	13
Securities purchased under reverse repurchase agreements	**318,753**	803,874	536,064	661,391	540,304	(12)
Loans						
Personal	**5,768,787**	5,630,788	5,655,055	5,694,574	5,222,217	3
Residential mortgage	**8,928,544**	8,582,548	7,219,830	6,182,871	6,232,778	9
Commercial mortgage	**1,813,293**	1,638,861	1,285,012	932,688	684,625	28
Commercial and other	**1,900,977**	1,691,190	1,555,956	1,454,799	1,292,790	10
	18,411,601	17,543,387	15,715,853	14,264,932	13,432,410	8
Allowances for loan losses	**(149,743)**	(138,143)	(114,546)	(112,434)	(115,322)	7
	18,261,858	17,405,244	15,601,307	14,152,498	13,317,088	8
Other						
Customers' liabilities under acceptances	**179,140**	165,450	216,817	110,342	111,891	12
Premises and equipment	**64,752**	58,536	58,163	59,927	56,053	4
Other assets	**1,017,875**	914,131	994,971	934,246	719,084	9
	1,261,767	1,138,117	1,269,951	1,104,515	887,028	9
	$24,490,451	$23,772,138	$22,140,121	$19,557,277	$17,767,299	8%
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits						
Personal	**$15,610,012**	$15,396,911	$15,113,978	$12,407,843	$11,544,983	8%
Business, banks and other	**4,457,406**	4,250,819	3,161,329	2,903,774	2,314,178	18
	20,067,418	19,647,730	18,275,307	15,311,617	13,859,161	10
Other						
Obligations related to securities sold short or under repurchase agreements	**1,508,024**	1,422,386	1,339,458	1,955,332	1,797,662	(4)
Acceptances	**179,140**	165,450	216,817	110,342	111,891	12
Other liabilities	**1,158,665**	1,147,157	987,313	946,551	843,904	8
	2,845,829	2,734,993	2,543,588	3,012,225	2,753,457	1
Subordinated debt	**242,512**	150,000	150,000	150,000	150,000	13
Shareholders' equity						
Preferred shares	**210,000**	210,000	210,000	210,000	210,000	–
Common shares	**259,492**	259,363	259,208	257,462	256,445	–
Contributed surplus	**227**	243	209	173	105	21
Retained earnings	**818,207**	741,911	665,538	596,974	537,254	11
Accumulated other comprehensive income	**46,766**	27,898	36,271	18,826	877	170
	1,334,692	1,239,415	1,171,226	1,083,435	1,004,681	7
	$24,490,451	$23,772,138	$22,140,121	$19,557,277	$17,767,299	8%

STATISTICAL REVIEW – CONSOLIDATED STATEMENT OF INCOME

Unaudited, as at or for the years ended October 31 (in thousands of dollars, except per share and percentage amounts)	2011	2010	2009	2008	2007	AVERAGE ANNUAL VARIANCE 11 / 07
Interest income						
Loans	**$ 808,995**	$ 757,677	$ 719,538	$ 837,532	$ 837,092	(1)%
Securities	**61,631**	72,975	71,373	60,873	58,000	2
Deposits with other banks	**5,233**	298	3,903	26,360	13,802	(22)
Other, including derivatives	**66,475**	116,273	137,275	30,190	–	n.a.
	942,334	947,223	932,089	954,955	908,894	1
Interest expense						
Deposits	**444,463**	440,053	493,812	508,403	466,867	(1)
Subordinated debt	**11,574**	7,738	7,735	7,742	7,738	11
Other, including derivatives	**2,236**	3,011	6,765	33,547	44,089	(53)
	458,273	450,802	508,312	549,692	518,694	(3)
Net interest income	**484,061**	496,421	423,777	405,263	390,200	6
Other income	**269,522**	241,025	242,725	225,218	193,726	9
Total revenue	**753,583**	737,446	666,502	630,481	583,926	7
Provision for loan losses	**47,000**	68,000	56,000	48,500	40,000	4
Non-interest expenses						
Salaries and employee benefits	**293,930**	275,964	249,658	236,280	229,290	6
Premises and technology	**140,839**	132,540	120,054	119,192	111,559	6
Other	**99,910**	95,732	102,278	90,519	86,561	4
Costs related to an acquisition and other [1]	**8,180**	–	–	–	–	n.a.
	542,859	504,236	471,990	445,991	427,410	6
Income from continuing operations before income taxes	**163,724**	165,210	138,512	135,990	116,516	9
Income taxes	**36,235**	42,269	36,848	37,882	26,394	8
Income from continuing operations	**127,489**	122,941	101,664	98,108	90,122	9
Income from discontinued operations, net of income taxes	**–**	–	11,469	4,423	4,423	(100)
Net income	**$ 127,489**	$ 122,941	$ 113,133	$ 102,531	$ 94,545	8%
Preferred share dividends, including applicable income taxes	**$ 12,436**	$ 12,122	$ 12,116	$ 11,818	$ 11,966	1%
Net income available to common shareholders	**$ 115,053**	$ 110,819	$ 101,017	$ 90,713	$ 82,579	9%
Common share dividends	**$ 38,757**	$ 34,446	$ 32,453	$ 30,993	$ 27,474	9%
Average number of common shares outstanding (in thousands)						
Basic	**23,924**	23,921	23,858	23,837	23,678	–%
Diluted	**23,943**	23,937	23,876	23,880	23,728	–%
Earnings per share from continuing operations						
Basic	**$ 4.81**	$ 4.63	$ 3.75	$ 3.62	$ 3.30	10%
Diluted	**$ 4.81**	$ 4.63	$ 3.75	$ 3.61	$ 3.29	10%
Earnings per share						
Basic	**$ 4.81**	$ 4.63	$ 4.23	$ 3.81	$ 3.49	8%
Diluted	**$ 4.81**	$ 4.63	$ 4.23	$ 3.80	$ 3.48	8%
Dividends declared per common share	**$ 1.62**	$ 1.44	$ 1.36	$ 1.30	$ 1.16	9%
Dividend payout ratio [2]	**33.7%**	31.1%	32.1%	34.2%	33.3%	
Book value per common share [2]	**$ 45.05**	$ 41.87	$ 38.68	$ 35.84	$ 33.34	8%
Return on common shareholders' equity [2]	**11.0%**	11.5%	11.4%	11.0%	10.9%	
Net interest margin [2]	**2.02%**	2.15%	2.07%	2.21%	2.31%	
Provision for loan losses (as a percentage of average loans and acceptances)	**0.26%**	0.40%	0.38%	0.35%	0.31%	
Average assets	**$ 23,979,984**	$ 23,093,418	$ 20,483,841	$ 18,339,811	$ 16,859,605	9%
Number of full-time equivalent employees	**3,669**	3,643	3,528	3,393	3,289	3%
Number of branches	**158**	157	156	156	157	–%
Number of automated banking machines	**427**	413	408	342	338	6%

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

QUARTERLY HIGHLIGHTS

Unaudited, as at or for the quarters ended (in thousands of dollars, except per share and percentage amounts)	2011				2010			
	OCT. 31	JULY 31	APRIL 30	JAN. 31	OCT. 31	JULY 31	APRIL 30	JAN. 31
Interest income	**$ 235,044**	**$ 238,727**	**$ 228,803**	**$ 239,760**	$ 243,471	$ 242,360	$ 226,877	$ 234,515
Interest expense	**112,653**	**114,909**	**112,369**	**118,342**	115,269	112,490	109,244	113,799
Net interest income	**122,391**	**123,818**	**116,434**	**121,418**	128,202	129,870	117,633	120,716
Other income	**65,023**	**67,155**	**69,283**	**68,061**	61,872	58,940	60,480	59,733
Total revenue	**187,414**	**190,973**	**185,717**	**189,479**	190,074	188,810	178,113	180,449
Provision for loan losses	**12,000**	**8,000**	**12,000**	**15,000**	16,000	20,000	16,000	16,000
Non-interest expenses	**140,305**	**136,772**	**134,824**	**130,958**	132,484	127,820	123,549	120,383
Income before income taxes	**35,109**	**46,201**	**38,893**	**43,521**	41,590	40,990	38,564	44,066
Income taxes	**6,537**	**10,919**	**8,751**	**10,028**	9,076	10,926	10,215	12,052
Net income	**$ 28,572**	**$ 35,282**	**$ 30,142**	**$ 33,493**	$ 32,514	$ 30,064	$ 28,349	$ 32,014
Preferred share dividends, including applicable taxes	**$ 3,111**	**$ $3,107**	**$ 3,109**	**$ 3,109**	$ 2,899	$ 3,075	$ 3,074	$ 3,074
Net income available to common shareholders	**$ 25,461**	**$ 32,175**	**$ 27,033**	**$ 30,384**	$ 29,615	$ 26,989	$ 25,275	$ 28,940
Net interest margin [1]	**2.00%**	**2.03%**	**2.01%**	**2.03%**	2.15%	2.22%	2.10%	2.13%
Provision for loan losses (as a percentage of average loans and acceptances)	**0.26%**	**0.18%**	**0.28%**	**0.34%**	0.36%	0.46%	0.39%	0.39%
Average assets	**$24,270,292**	**$24,146,118**	**$23,786,039**	**$23,711,163**	$23,688,890	$23,234,924	$22,950,062	$22,495,121
Return on common shareholders' equity [1]	**9.4%**	**12.1%**	**10.7%**	**11.9%**	11.8%	11.0%	10.9%	12.3%
Average number of common shares outstanding (in thousands)								
Basic	**23,925**	**23,925**	**23,923**	**23,922**	23,921	23,921	23,921	23,919
Diluted	**23,941**	**23,943**	**23,946**	**23,942**	23,939	23,938	23,937	23,935
Earnings per share								
Basic	**$ 1.06**	**$ 1.34**	**$ 1.13**	**$ 1.27**	$ 1.24	$ 1.13	$ 1.06	$ 1.21
Diluted	**$ 1.06**	**$ 1.34**	**$ 1.13**	**$ 1.27**	$ 1.24	$ 1.13	$ 1.06	$ 1.21
Dividends per common share	**$ 0.42**	**$ 0.42**	**$ 0.39**	**$ 0.39**	$ 0.36	$ 0.36	$ 0.36	$ 0.36
Book value per common share [1]	**$ 45.05**	**$ 44.41**	**$ 43.49**	**$ 42.75**	$ 41.87	$ 40.99	$ 40.22	$ 39.52
Share price – Close	**$ 45.98**	**$ 42.86**	**$ 50.27**	**$ 53.10**	$ 44.25	$ 46.00	$ 44.12	$ 38.03
Common share dividends	**$ 10,049**	**$ 10,048**	**$ 9,331**	**$ 9,329**	$ 8,612	$ 8,611	$ 8,612	$ 8,611
Balance sheet assets	**$24,490,451**	**$24,082,688**	**$24,059,424**	**$23,329,722**	$23,772,138	$23,548,706	$23,062,156	$23,159,368
Risk-weighted assets	**$11,071,971**	**$10,879,847**	**$10,562,773**	**$10,424,261**	$10,453,565	$10,244,069	$ 9,924,365	$ 9,708,653
Tier 1 capital – BIS	**$ 1,217,225**	**$ 1,198,722**	**$ 1,177,648**	**$ 1,160,231**	$ 1,140,791	$ 1,098,670	$ 1,081,593	$ 1,066,390
Total regulatory capital – BIS	**$ 1,516,840**	**$ 1,494,221**	**$ 1,477,834**	**$ 1,458,957**	$ 1,350,327	$ 1,285,421	$ 1,270,338	$ 1,255,570
Tier 1 BIS capital ratio	**11.0%**	**11.0%**	**11.1%**	**11.1%**	10.9%	10.7%	10.9%	11.0%
Total BIS capital ratio	**13.7%**	**13.7%**	**14.0%**	**14.0%**	12.9%	12.5%	12.8%	12.9%
Assets to capital multiple	**16.2x**	**16.2x**	**16.4x**	**16.1x**	17.7x	18.4x	18.3x	18.6x

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

CORPORATE GOVERNANCE

Today, as in the past, strong corporate governance is an important component in managing Laurentian Bank's activities. In 1987, the Bank became the first financial institution to separate the roles of Chairman of the Board and of President and CEO. Moreover, its corporate governance practices are among the most exemplary.

All members of the Board of Directors, except the President and Chief Executive Officer, are independent and unrelated to the Bank's management. The independent status of directors is determined in accordance with criteria defined by the Human Resources and Corporate Governance Committee which are used to evaluate the status of every director on which ever committee he or she sits.

The role of the Board of Directors is essentially to supervise the management of the business and internal affairs of the Bank. Board deliberations generally end with a discussion period held without the presence of management. The members of the Board commit to act in accordance with standards set forth in the *Code of Conduct for Directors,* which covers issues such as general conduct, contribution to the work of the Board and its committees, insider trading, conflicts of interest and other situations that may affect a director's independence.

The Board of Directors has delegated some of its responsibilities and functions to three committees whose members are appointed from among the members of the Board. The Audit Committee, the Risk Management Committee and the Human Resources and Corporate Governance Committee provide regular written and verbal updates and reports on their work to the Board of Directors. Furthermore, these committees present a report to shareholders to be included in the management proxy circular.

AUDIT COMMITTEE

The primary function of the Audit Committee is to support the Board of Directors in overseeing the integrity of the Bank's financial statements, the relevance and effectiveness of its internal controls, the qualifications and independence of the external auditor and the performance of the internal audit function and of the external auditor. In order to do so, the Board appointed directors meeting the criteria for independence and possessing an appropriate financial literacy level. The Committee meets on a regular basis with the internal and external auditor without the presence of management. Furthermore, the Committee meetings generally end with a discussion period held without the presence of management.

More specifically, its responsibilities include:

With respect to the external auditor: recommend the appointment or dismissal of the external auditor; assure itself of its competence, independence and the adequacy of its resources and review its mandate and compensation; oversee its activities and review its performance;

With respect to financial information: oversee the integrity and quality of financial statements and assure itself that the institution's accounting practices are prudent and appropriate; review the annual and interim financial statements, management's discussion and analysis and press releases regarding annual and interim results, the annual information form and any statement required by regulatory authorities prior to their publication;

With respect to the internal audit function: assure itself of the competence, independence and the adequacy of the resources of the officer in charge of internal audit and approve his/her mandate as well as the audit plan; follow up on his/her material findings and recommendations;

With respect to internal controls: assure itself that management implements appropriate internal control and management information systems; assure itself of their integrity and effectiveness; assure itself that management implements procedures regarding the receipt, retention and handling of complaints received with respect to accounting, internal accounting controls or audit;

With respect to supervisory agencies: follow up on the findings and recommendations of the regulatory authorities.

RISK MANAGEMENT COMMITTEE

In addition to discharging statutory obligations to review transactions with related parties of the Bank, the Risk Management Committee ensures that the Bank has adopted an adequate and effective risk management process intended to identify, measure and manage risks, and has established relevant policies to manage credit, market, liquidity and financing, operational, capital management, regulatory and reputation risks. In September 2010, the supervision of the regulatory risk was added to the mandate of the Committee. The Committee is composed of independent directors which hold discussions with persons in charge of supervisory activities (the internal auditor as well as the chief risk officer and the chief regulatory risk management officer) without the presence of management. Furthermore, the Committee meetings generally end with a discussion period held without the presence of management.

To this end, the Committee must assure itself that management identifies the business's principal risks and implements systems to enable to measure and adequately manage them and assure itself of the integrity and effectiveness of such systems; review the overall risk philosophy and risk tolerance; assure itself of the competence, independence and the adequacy of the resources of the officer in charge of integrated risk management and approve his/her mandate; follow up on his/her material findings and recommendations; approve loans which under the credit policies are the responsibility of the Committee and examine the quality of the loan portfolio and the adequacy of allowances for loan losses; assure itself that management adopts a process to determine the appropriate capital level for the Bank based on assumed risks; review the Code of Ethics and Privacy Code for the Protection of Personal Information applicable to officers and employees and assure itself of their respect; assure itself of the competence, independence and the adequacy of the resources of the officer in charge of regulatory risk management and risk management; follow up on their material findings and recommendations; monitor annually, in collaboration with the Human Resources and Corporate Governance Committee, the links between the compensation, the performance and the risk and the Bank's alignment with the remuneration standards and principles issued by the Financial Stability Board.

HUMAN RESOURCES AND CORPORATE GOVERNANCE COMMITTEE

The Human Resources and Corporate Governance Committee is responsible for human resources and corporate governance matters. The Committee is composed of independent directors of which none heads a public company. Certain elements of its mandate are discussed without the presence of management.

With respect to human resources, the Committee's duties include:

With respect to human resources management: annually review the performance management process and evaluate its effectiveness; assure itself that management implements a plan to promote the hiring, retention and motivation of qualified personnel;

With respect to senior officers: review appointments of senior officers; approve the establishment of objectives for members of the management committee and evaluate their performance; assure itself of the integrity of senior officers and that they create a culture of integrity throughout the Bank;

With respect to compensation: review the overall compensation framework (including incentive compensation, fringe benefits and pension plans) for senior officers, with a view to furthering the Bank's business objectives, as well as the material terms and conditions of the compensation and employment conditions applicable to the Bank's other employees and officers; monitor annually, in collaboration with the Risk Management Committee, the links between the compensation, the performance and the risk and of the Bank's alignment with the remuneration standards and principles issued by the Financial Stability Board;

With respect to pension plans: assure itself that management implements appropriate internal oversight systems with a view to adequately manage pension plans.

With respect to corporate governance, the Committee's duties include:

With respect to the President and Chief Executive Officer: recommend to the Board the appointment and dismissal of the President and Chief Executive Officer; review in collaboration with the Board, the objectives of the President and Chief Executive, his/her evaluation, compensation and employment conditions; implement a succession plan for the President and Chief Executive Officer;

With respect to the Board and committees: review corporate governance rules and assure itself of their respect; review the functions of the Board of Directors, its membership, compensation and size; review the constitution, membership and functions of the committees; review the Code of Conduct for the members of the Board and assure itself of its respect; ensure continuing training for the members of the Board; establish criteria to evaluate the independence of the members of the Board and assess their independence periodically; evaluate the Board and its members; ensure the recruitment of new Board members to be submitted to election by the shareholders, and see to their orientation and integration;

With respect to public disclosure: assure itself that the shareholders are well informed of the Bank's state of affairs and deal with all material disagreements between the Bank and its shareholders.

The complete text of the functions of the Board of Directors and the mandates of each Committee as well as the Committees' report can be found in the management proxy circular.

MANAGEMENT COMMITTEE

RÉJEAN ROBITAILLE
President and Chief Executive Officer

WITH THE BANK SINCE 1988

PREVIOUS POSITIONS HELD AT THE BANK

June 2006 – December 2006:
Senior Executive Vice President and Chief Operating Officer

August 2005 – June 2006:
Senior Executive Vice President, Retail and Commercial Financial Services

2003 – 2005:
Executive Vice President, Retail Financial Services

2001 – 2003:
Senior Vice President and Treasurer, Corporate Treasury

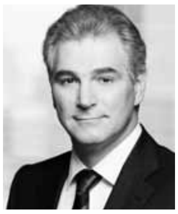
2000 – 2001:
Vice President and Treasurer, Corporate Treasury

1988 – 1998:
Various functions within the Bank's Senior Management Team

EDUCATION
Bachelor's degree in Business Administration (Accounting specialization), HEC Montréal

Certified Chartered Accountant

SPECIAL MENTION
Received the title of Fellow from the Québec Order of Chartered Accountants



LUC BERNARD
Executive Vice President Retail and SME Financial Services

WITH THE BANK SINCE 2001

PREVIOUS POSITIONS HELD AT THE BANK

2005 – 2007:
Executive Vice President, Retail Financial Services

2001 – 2005:
Senior Vice President, Marketing and Product Management

EDUCATION
MBA, Université de Sherbrooke

Bachelor's degree in Urban Studies, Université du Québec à Montréal

FRANÇOIS DESJARDINS
Executive Vice President and President and Chief Executive Officer of B2B Trust

WITH THE BANK SINCE 1991

PREVIOUS POSITIONS HELD AT THE BANK

2004 – 2005:
Senior Vice President, Intermediary Banking Services, and President and Chief Operating Officer of B2B Trust

2002 – 2004:
Vice President, Direct Financial Services

2001 – 2002:
Vice President, Telebanking and Electronic Centres

1999 – 2001:
Vice President, Telebanking Centres

1991 – 1999:
Various functions within the Bank's Senior Management Team

EDUCATION
Bachelor's degree in Business Administration, HEC Montréal

MICHEL C. LAUZON
Executive Vice President and Chief Financial Officer

WITH THE BANK SINCE 2009 (ALSO WITH THE BANK FROM 1988 TO 1998)

PREVIOUS POSITIONS HELD AT THE BANK

1996 – 1998:
Vice President and Treasurer

1995 – 1996:
Vice President, Money Market and Foreign Exchange

1993 – 1995:
Vice President, Product Management

1988 – 1993:
Assistant Vice President and Corporate Controller

EDUCATION
MBA, Concordia University

Bachelor's degree in Economics, University of Montréal

PIERRE MINVILLE
Executive Vice President and Chief Risk Officer

WITH THE BANK SINCE 2000

PREVIOUS POSITIONS HELD AT THE BANK

2010-2011:
Senior Vice President and Chief Risk Officer

2005-2010:
Senior Vice President, Integrated Risk Management

2003– 2005:
Vice President, Mergers and Acquisition

2000– 2003:
Vice President, Finances Planning and Regulated Product

Education
Chartered Financial Analyst (CFA)

Masters in Sciences (M.Sc.) (Finances specialization), HEC Montréal

Bachelor's Degree in Business Administration (Finances specialization) Université du Québec à Montréal

LORRAINE PILON
Executive Vice President, Corporate Affairs, Human Resources and Secretary

WITH THE BANK SINCE 1990

PREVIOUS POSITIONS HELD AT THE BANK

2003 – 2011:
Executive Vice President, Corporate Affairs and Secretary

2000 – 2003:
Senior Vice President, Legal Affairs and Compliance

1999 – 2000:
Vice President, Legal Affairs and Compliance

1997 – 1998:
Director, Legal Affairs, and Chief Compliance Officer

1990 – 1997:
Various posts in Legal Affairs

EDUCATION
Executive MBA, Université du Québec à Montréal

Specialized diploma in Commercial Law, Université de Montréal

Professional Training Program in Law, École du Barreau du Québec

Bachelor of Law degree in Civil Law, McGill University

Bachelor's degree in Science (concentration in Administration), Mississippi University for Women, Columbus, United States

MICHEL C. TRUDEAU
Executive Vice President, Capital Markets and President and CEO of Laurentian Bank Securities Inc. (LBS)

WITH THE BANK SINCE 1999

PREVIOUS POSITIONS HELD AT THE BANK

2009 - 2011:
Senior Vice President of the Bank and President and CEO of LBS

2003 – 2009:
President and CEO of LBS

2002 – 2003:
Executive Vice President, Fixed Income and Chief Operating Officer, Institutional Group of LBS

1999 – 2002:
Executive Vice President, Fixed Income of LBS

EDUCATION
Master's degree in Finance, McGill University

Bachelor's degree in Finance and Marketing Administration, McGill University

PLANNING COMMITTEE

RETAIL AND SME QUÉBEC

MARCEL BEAULIEU
Senior Vice President,
Distribution Networks,
Retail Financial Services

LISE CAZA
Vice President,
Retail Financial Services
Southwestern Québec Region

DANIEL DESJARDINS
Vice President,
Commercial Banking,
Québec

RICHARD FABRE
Vice President,
Retail Financial Services,
Northwest Québec Region

STÉPHANE GAGNON
Senior Vice President,
Marketing and Product Management

MICHEL GARNEAU
Vice President,
Retail Financial Services,
Québec and Eastern Québec Region

NATHALIE GÉNÉREUX
Senior Vice President,
Operations and Expert Services

SYLVAIN MALO
Vice President,
Direct Financial Services

B2B TRUST

MICHAEL KAZMIEROWSKI
Vice President,
Operations,
B2B Trust

DIANE LAFRESNAYE
Vice President,
Finance and Administration
and Chief Financial Officer,
B2B Trust

SUSI MCCORD
Senior Vice President,
Marketing and Distribution,
B2B Trust

DEBORAH ROSE
Senior Vice President,
Operations and Business Solutions,
B2B Trust

PAUL SMITH
Vice President,
Business Development,
B2B Trust

EVA STAMADIANOS
Vice President,
Human Resources
and Chief Risk Officer,
B2B Trust

DORIS TOURKOYIANNIS
Vice President,
Operations, B2B Trust

CHRISTINE ZALZAL
Vice President,
Marketing, B2B Trust

REAL ESTATE AND COMMERCIAL

DANA ADES-LANDY
Senior Vice President,
Commercial and National Accounts,

PAUL HURTUBISE
Senior Vice President,
Commercial and
Real Estate Financing

RICK C. LANE
Senior Vice President,
Real Estate Financing

CAPITAL MARKETS AND LAURENTIAN BANK SECURITIES

PIERRE GODBOUT
Senior Vice President,
Institutional Services
Laurentian Bank Securities Inc.

CARLOS LEITAO
Chief Economist and Strategist
Laurentian Bank Securities Inc.

SIMON LUSSIER
Senior Vice President,
Institutional Equity,
Laurentian Bank Securities Inc.

YVES RUEST
Senior Vice President,
Finance and Administration,
Chief Financial Officer and
Chief Compliance Officer,
Laurentian Bank Securities Inc.

CORPORATE SECTORS

YASSIR BERBICHE
Senior Vice President
and Treasurer
Corporate Treasury

LILIANE BLAIS
Vice President,
Internal Audit

GLADYS CARON
Vice President, Public
Affairs, Communications
and Investor Relations

PHILIPPE DUBY
Senior Vice President,
Real Estate Management
and Chief Information Officer

CLAUDE JOBIN
Vice President,
Commercial Credit

ANDRÉ LOPRESTI
Vice President
and Chief Accountant

LOUIS MARQUIS
Senior Vice President,
Credit

STÉFANIE PELLETIER
Vice President,
Finance

MEMBERS OF THE BOARD OF DIRECTORS

PIERRE ANCTIL
Pierre Anctil is engineer by trade and as more than 25 years of public and private sector experience in strategic planning, business development and executive management.

Main occupation:
President and Chief Executive Officer of Fiera Axium Infrastructure Inc.

- Has served on the board of directors since March 2011
- Member of the Audit Committee
- Boards of directors of publicly traded companies: Gaz Métro inc.
- Boards and committees of other corporations and organizations: Montréal Heart Institute

LISE BASTARACHE
Lise Bastarache has worked in the Canadian banking industry for over ten years, holding, among others, the position of Regional Vice President, Québec, Private Banking for a Canadian bank.

Main occupation:
Economist and Corporate Director

- Has served on the board of directors since March 2006
- Member of the Risk Management Committee
- Boards of directors of publicly traded companies: The Jean Coutu Group (PJC) Inc., Chartwell Seniors Housing Real Estate Investment Trust
- Boards and committees of other corporations and organizations: Board of Governors of the Université de Moncton

JEAN BAZIN, C.R.
Attorney since 1965, appointed Queen's Counsel in 1984 and a member of the Senate from 1986 to 1989, Jean Bazin chaired the Canadian Bar Association and the Québec-Japan Business Forum. He is also Chairman of the Board of Investissement Québec.

Main occupation:
Counsel at Fraser Milner Casgrain LLP

- Has served on the board of directors since September 2002
- Member of the Human Resources and Corporate Governance Committee
- Boards of directors of publicly traded companies: Miranda Technologies Inc.
- Boards and committees of other corporations and organizations: Investissement Québec, Lambert-Somec Inc., Canadian Association of Former Parliamentarians

RICHARD BÉLANGER, FCA
In 2004, Richard Bélanger was made Fellow and received the Prix Émérite of the Ordre des comptables agréés du Québec. Mr. Bélanger is also Chairman of the Board of Genivar Inc.

Main occupation:
President of Toryvel Group Inc.

- Has served on the board of directors since March 2003
- Chair of the Audit Committee
- Member of the Risk Management Committee
- Boards of directors of publicly traded companies: Stella-Jones Inc. and Genivar Inc.
- Boards and committees of other corporations and organizations: Toryvel Group Inc.

ÈVE-LYNE BIRON
Ève-Lyne Biron is President and General Manager of a private company of diagnostic and therapeutic services, which ranked 37th among the top 100 Canadian companies managed by women in 2003.

Main occupation:
President and General Manager of Biron Health Group Inc.

- Has served on the board of directors since March 2003
- Member of the Audit Committee
- Boards of directors of publicly traded companies: Ms. Biron does not sit on the board of directors of any publicly traded company other than the Bank
- Boards and committees of other corporations and organizations: Biron Health Group Inc., Epiderma Inc., Sainte-Justine UHC Foundation and Orchestre symphonique de Longueuil

ISABELLE COURVILLE
Isabelle Courville is an engineer and a lawyer. Before joining the team at Hydro-Québec, she was President of Bell Enterprise Group and President and General Manager of Bell Nordiq Inc. (Télébec Northern Tel).

Main occupation:
President of Hydro-Québec Distribution

- Has served on the board of directors since March 2007
- Chair of the Human Resources and Corporate Governance Committee
- Boards of directors of publicly traded companies: Miranda Technologies Inc.
- Boards and committees of other corporations and organizations: École Polytechnique de Montréal, Board of Trade of Metropolitan Montréal and APEC (Asia-Pacific Economic Cooperation) Business Advisory Council (ABAC)

L. DENIS DESAUTELS, O.C., FCA
Officer of the Order of Canada, Fellow of the Ordre des comptables agréés du Québec and the Institute of Chartered Accountants of Ontario, Denis Desautels was Auditor General of Canada from 1991 to 2001. He is renowned as a Canadian authority in matters of governance.

Main occupation:
Chartered accountant and Corporate Director

- Has served on the board of directors since December 2001
- Chairman of the Board
- Member of the Audit Committee
- Member of the Human Resources and Corporate Governance Committee
- Boards of directors of publicly traded companies: The Jean Coutu Group (PJC) Inc. and Bombardier Inc.
- Boards and committees of other corporations and organizations: Accounting Standards Oversight Council of the Canadian Institute of Chartered Accountants (CICA), International Development Research Centre (IDRC), Fonds Oblat de l'Université Saint-Paul inc. and Community Foundation of Ottawa

PIERRE GENEST
Actuary by trade, Pierre Genest was President and Chief Executive Officer of SSQ Financial Group for over 15 years before becoming President and Chief Executive Officer of the Fonds de solidarité des travailleurs du Québec (F.T.Q.) until 2006.

Main occupation:
Chairman of the Board of SSQ, Life Insurance Company Inc.

- Has served on the board of directors since March 2006
- Chair of the Risk Management Committee
- Boards of directors of publicly traded companies: Mr. Genest does not sit on the board of directors of any publicly traded company other than the Bank
- Boards and committees of other corporations and organizations: Manac Inc., Professionals' Financial Inc., PFT Management Inc., Socodevi: Société de cooperation pour le développement international and Conseil québécois de la cooperation et de la mutualité

MICHEL LABONTÉ
Michel Labonté has worked in the banking industry for over 13 years, notably as Senior Vice President, Finance and Control of a Canadian bank.

Main occupation:
Corporate Director

- Has served on the board of directors since March 2009
- Member of the Risk Management Committee
- Boards of directors of publicly traded companies: Métro Inc.
- Boards and committees of other corporations and organizations: Manac inc., Otéra Capital Inc., Canadian International Organ Competition and Orchestre de la francophonie canadienne

JACQUELINE C. ORANGE
Jacqueline Orange has worked in the financial services sector for over 20 years, holding a variety of senior positions in the banking, trust and life insurance industries. From 1996 to 2005, she was President and CEO of Canada Investment and Savings, a special operating agency of Finance Canada.

Main occupation:
Corporate Director

- Has served on the board of directors since March 2008
- Member of the Audit Committee
- Boards of directors of publicly traded companies: Ms. Orange does not sit on the board of directors of any publicly traded company other than the Bank
- Boards and committees of other corporations and organizations: First Trust Portfolios Canada and Public Accountants Council of the Province of Ontario

MARIE-FRANCE POULIN
Marie-France Poulin held various positions within the family business, Maax Inc., from 1987 to 2004. She is also Vice President of Kalia Inc.

Main occupation:
Vice President, Camada Group Inc.

- Has served on the board of directors since October 2009
- Member of the Human Resources and Corporate Governance Committee
- Boards of directors of publicly traded companies: Ms. Poulin does not sit on the board of directors of any publicly traded company other than the Bank
- Boards and committees of other corporations and organizations: Groupe Camada inc., Hydro-Québec, Industrial Alliance - Auto and Home Insurance Inc., Kalia inc., Université Laval and Festival d'été de Québec

RÉJEAN ROBITAILLE, FCA
Fellow of the Ordre des comptables agréés du Québec, Réjean Robitaille is a renowned executive. He has in-depth knowledge of the Bank, having held a variety of positions within the management team since 1988.

Main occupation:
President and Chief Executive Officer of the Bank

- Has served on the board of directors since December 2006
- Mr. Robitaille does not sit on any of the Bank's committees
- Boards of directors of publicly traded companies: Mr. Robitaille does not sit on the board of directors of any publicly traded company other than the Bank
- Boards and committees of other corporations and organizations: Subsidiaries of the Bank

JONATHAN I. WENER, C.M.
Member of the Order of Canada, Jonathan Wener is a renowned real estate expert with vast experience in the commercial, industrial, residential, recreational and hotel sectors.

Main occupation:
Chairman of the board at Canderel Management Inc.

- Has served on the board of directors since January 1998
- Member of the Risk Management Committee
- Boards of directors of publicly traded companies: Silanis Technologies Inc.
- Boards and committees of other corporations and organizations: Concordia University, The Montréal Museum of Fine Arts Foundation, The Fraser Institute, Goodman Research Cancer Center, Jewish General Hospital and Festival des arts de Saint-Sauveur

BRANCHES

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500 Sacré-Cœur St. W.

AMOS
1 1st Avenue W.

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600 Laflèche Blvd.

BELOEIL
546 Sir-Wilfrid-Laurier Blvd.

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9 de la Seigneurie

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532 Baume St.

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325 Gréber Blvd, L Unit
75 du Plateau, Unit 109
770 Saint-Joseph Blvd.

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40 Évangéline St.

GRAND-MÈRE
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373 Notre-Dame St.

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3876 St-Charles Blvd.

LACHUTE
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LA PRAIRIE
995 Taschereau Blvd.

LAVAL
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233 Curé-Labelle Blvd.
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5720 des Laurentides Blvd.
750 Montrose St.
3870 Notre-Dame Blvd.
1899 René-Laennec Blvd.
1995 Saint-Martin Blvd. W.
4600 Samson Blvd., Suite 19

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3700 Taschereau Blvd.

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111 Desjardins Blvd.

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6593 Beaubien St. E.
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5900 Bélanger St. E., Saint-Léonard
290 Chabanel St. W.
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865 Décarie Blvd., Saint-Laurent
5159 Décarie Blvd.
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2200 Fleury St. E.
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8595 Hochelaga St.
136 Jacques-Bizard Blvd., Bizard Island
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4725 Jarry St. E., Saint-Léonard
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5355 Jean-Talon St. E., Saint-Léonard
555 Jean-Talon St. W.
6651 Joseph-Renaud Blvd., Anjou
9095 Lajeunesse St.
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400 132 Road, Suite 170

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3 de la Salette Blvd.

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4450 des Forges Blvd.

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187 Victoria

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Suite 200

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1124 Lonsdale Avenue
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4th Floor – Suite 425

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Jules Dallaire

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9999 Cavendish Blvd
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MISSISSAUGA
979 Derry Road E.
Suite 303

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8500 Leslie St.
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130 Adelaide Street W.
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1981 McGill College Avenue
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1981 McGill College Avenue
Suite 1485

MONTRÉAL
1981 McGill College Avenue
Suite 1900

TORONTO
130 Adelaide St. W.
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LAURENTIAN BANK SECURITIES INC.

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55 Water St. W.
Suite 385

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645 Saint-Joseph Blvd.
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20 Place du Lac

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622 Elzéar St.

LAVAL
2525 Daniel-Johnson Blvd.
Suite 500

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1981 McGill College
Suite 100

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1021 Cyrville Road
Unit 9

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2505 Laurier Blvd.
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100 Richelieu St.
Suite 150

SAINTE-THÉRÈSE-DE-BLAINVILLE
212 Labelle Blvd.
Suite 102

SAGUENAY
1611 Talbot Blvd.
Chicoutimi Sector

TORONTO
130 Adelaide St. W.,
Suite 300

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MONTRÉAL – HEAD OFFICE
1981 McGill College Avenue

MONTRÉAL
425 de Maisonneuve Blvd. W.
Suite 040

555 Chabanel St. W.
Suite 520

LBC FINANCIAL SERVICES INC.

MONTRÉAL – HEAD OFFICE
1981 McGill College Avenue
20th Floor

MONTRÉAL
425 de Maisonneuve Blvd. W.
Suite 040

LBC TRUST

MONTRÉAL – HEAD OFFICE
1981 McGill College Avenue

555 Chabanel Street W.
Suite 520

SMALL BUSINESS LOAN

ALMA
500 Sacré-Coeur St. W.

CHICOUTIMI
1611 Talbot Blvd.
Suite 100

MONTRÉAL
555 Chabanel Ouest,
Suite 430

QUÉBEC
2828 Laurier Blvd.
Suite 100

PRIVATE BANKING

MONTRÉAL
1981 McGill College Avenue
Mezzanine, South Tower

REAL ESTATE FINANCING

CALGARY
1122 – 4th St. South W.
Suite 450

KITCHENER
10 Duke St. W.
Suite 100

MONTRÉAL
1981 McGill College Avenue
Mezzanine, South Tower
Suite 210

OTTAWA
1021 Cyrville Road
Unit 9

QUÉBEC
2828 Laurier Blvd
Suite 100

THORNHILL
8500 Leslie Street, suite 100

TORONTO
130 Adelaide St. W.
3rd Floor

VANCOUVER
700 W. Georgia St.
Suite 603

LIST OF SUBSIDIARIES
On October 31, 2011

CORPORATE NAME	HEAD OFFICE LOCATION	CARRYING VALUE OF VOTING SHARES OWNED BY THE BANK(1) ($000)	PERCENTAGE OF VOTING SHARES OWNED BY THE BANK
B2B Trust	Toronto, Canada	$305 904	100%
LBC Investment Management Inc.	Montréal, Canada	$235 669	100%
V.R. Holding Insurance Company Ltd(2)	St. James, Barbados		
Laurentian Trust of Canada Inc.	Montréal, Canada	$ 86 677	100%
LBC Trust	Montréal, Canada	$ 64 410	100%
Laurentian Bank Securities Inc.	Montréal, Canada	$ 62 133	100%
LBC Financial Services Inc.	Montréal, Canada	$ 6 508	100%

(1) The book value of shares with voting rights corresponds to the Bank's interest in the equity of subsidiary shareholders.
(2) V.R. Holding Insurance Company Ltd is 100% owned by LBC Investment Management Inc.

GLOSSARY OF FINANCIAL TERMS

Allowances for Loan Losses represent an amount deemed adequate by the Bank to absorb credit-related losses on loans, acceptances and undrawn amounts under approved credit facilities. Total allowances for loan losses consists of specific and general allowances and are recorded on the balance sheet as a deduction from loans and acceptances.

Assets under Administration and under Management mostly refers to assets such as deposits, mutual funds and mortgages administered by the Bank that are beneficially owned by clients and therefore not reported on the balance sheet of the Bank.

Assets to Capital Multiple is an OSFI-regulated capital ratio defined as total assets plus specified off-balance sheet items, divided by total regulatory capital.

Bankers' Acceptances (BAs) are bills of exchange or negotiable instruments drawn by a borrower for payment at maturity and accepted by a bank. BAs constitute a guarantee of payment by the Bank and can be traded in the money market. The Bank earns a "stamping fee" for providing this guarantee.

Basel II is the second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision. The purpose of Basel II is to create an international standard that banking regulators can use when creating regulations about how much capital banks need to put aside to guard against the types of financial and operational risks banks face.

Basel III is the third of the Basel Accords, which was developed in response to the deficiencies in financial regulation revealed by the global financial crisis. Basel III introduces new regulatory requirements on bank liquidity and bank leverage.

Basis Point: One one-hundredth of a percentage point.

Credit and Counterparty Risk is the risk of a financial loss occurring if a counterparty (including a debtor, an issuer or a guarantor) does not fully honour its contractual or financial obligations towards the Bank with regard to a balance sheet or an off-balance sheet financial instrument.

Derivatives are contracts whose value is "derived" from movements in interest or foreign exchange rates, or equity or commodity prices. Derivatives allow for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Dividend Payout Ratio is defined as dividends declared on common shares as a percentage of net income available to common shareholders.

Dividend Yield represents dividends declared per common share divided by the closing common share price.

Earnings per share (EPS) is calculated by dividing net income after deduction of preferred dividends, by the average number of shares outstanding. Diluted EPS is calculated by adjusting the number of shares outstanding for possible conversions of financial instruments into common shares.

Effective Interest Rate represents the discount rate applied to estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to arrive at the net carrying amount of the financial asset or liability.

Efficiency Ratio is a key measure of productivity and cost control. It is defined as non-interest expenses as a percentage of total revenue.

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

Hedging is a risk management technique used to neutralize or manage interest rate, foreign currency, or credit exposures arising from normal banking activities by taking positions that are expected to react to market conditions in an offsetting manner.

Impaired Loans are loans for which there is no longer reasonable assurance of the timely recovery of principal or interest.

Liquidity and Funding Risk is 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.

Mark-to-Market is the valuation of financial instruments that are carried at fair value at market prices as of the balance sheet date.

Market Risk is the financial losses that the Bank could incur following unfavourable fluctuations in the value of financial instruments subsequent to changes in the underlying factor used to measure them, such as interest rates, exchange rates or equity prices.

Net Interest Income is comprised of earnings on assets, such as loans and securities, including interest and dividend income, less interest expense paid on liabilities, such as deposits.

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

Notional Amount refers to the principal used to calculate interest and other payments under derivative contracts.

Off-Balance Sheet Financial Instruments represent a variety of financial arrangements offered to clients, which include for the Bank derivatives, credit commitments and guarantees, and other indemnifications as well as assets and liabilities arising from the utilization of special purpose entities set up for financing purposes.

Office of the Superintendant of Financial Institutions Canada (OSFI) is the primary Canadian regulator and supervisor of federally regulated deposit-taking institutions, insurance companies and federally regulated private pension plans.

Operating Leverage is the difference between total revenue and non-interest expenses growth rates.

Operational Risk is the potential for loss resulting from inadequacy or failure attributable to processes, persons or internal systems or from external events.

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

Provision for Loan Losses is a charge to income that represents an amount deemed adequate by management considering the allowances for loan losses already established to absorb all loan losses in its portfolio, given the composition of the portfolios, the probability of default and the economic environment.

Regulatory Risk is the risk of non-compliance by the Bank with applicable laws, regulations, regulatory authority guidelines and voluntary codes.

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

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

Risk-weighted Assets are assets calculated by applying a regulatory risk-weight factor to on and off-balance sheet exposure as stipulated by OSFI, based on the guidelines developed by the Bank for International Settlement (BIS). The risk-weight factors for the Bank conform to OSFI requirements and enable banks to convert on and off-balance sheet exposures on a comparable risk level.

Securities Purchased Under Reverse Repurchase Agreements and Obligations Related to Securities Sold Under Repurchase Agreements are short-term purchases of securities under agreements to resell as well as short-term sales of securities under agreements to repurchase at predetermined prices and dates. Given the low risk transfer associated with these purchases and sales, these agreements are treated as collateralized lending.

Specific Allowances reduce the carrying value of impaired loans to the amount the Bank expects to recover if there is evidence of deterioration in credit quality.

Swaps are contractual agreements between two parties to exchange a series of cash flows for a specified period of time. The various swap agreements that the Bank enters into are as follows:
- *Interest rate swaps* – counterparties generally exchange fixed and floating rate interest payments based on a predetermined notional amount in a single currency.
- *Cross-currency interest rate swaps* – fixed and floating rate interest payments and principal amounts are exchanged in different currencies.
- *Foreign exchange swaps* – fixed rate interest payments and principal amounts are exchanged in different currencies.

Tangible Common Equity is defined as common shareholders' equity, excluding accumulated other comprehensive income, less goodwill and contractual and customer relationship intangible assets.

Tangible Common Equity Ratio is defined as the tangible common equity as a percentage of risk-weighted assets.

Tier 1 BIS Capital Ratio is defined as Tier 1 capital divided by risk-weighted assets.

Tier 1 Capital represents, under Basel II, more permanent forms of capital, and primarily consists of common shareholders' equity and preferred shares, less a deduction for goodwill and excess intangible assets, securitization, insurance operations and certain other required deductions.

Total BIS Capital Ratio is defined as total capital divided by risk-weighted assets.

Total Capital includes Tier 1 and Tier 2 capital, net of certain deductions. Tier 2 capital is primarily comprised of subordinated debt and the eligible portion of the general allowance for loan losses. Deductions from Tier 2 capital are primarily related to insurance operations and other items prescribed by OSFI.

Value at Risk (VaR) corresponds to the potential loss the Bank may incur for a specific portfolio or a group of portfolios over a one-day period, with a confidence level of 99%.

Variable Interest Entities (VIEs) include entities with equity that is considered insufficient to finance the entity's activities or in which the equity holders do not have a controlling financial interest. The Bank is required to consolidate VIEs if the investments it holds in these entities and/or the relationships it has with them result in the Bank being exposed to the majority of their expected losses and/or being able to benefit from a majority of their expected residual returns, based on a calculation determined by standard setters.

SHAREHOLDER INFORMATION

HEAD OFFICE
Tour Banque Laurentienne
1981 McGill College Avenue
Montréal, Québec H3A 3K3
Tel.: 514 284-4500 ext. 5996
Fax: 514 284-3396

TELEBANKING CENTRE,
Automated Banking and Customer Service
Tel.: (514) 252-1846 or 1-800-252-1846
Website: www.laurentianbank.ca
Swift Code: BLCM CA MM

ANNUAL MEETING
The Annual Meeting of the Common Shareholders of the Bank will be held on Tuesday, March 20, 2012, at 9:30 a.m., at the Pierre-Péladeau Center, Pierre-Mercure Hall, 300, de Maisonneuve Est Blvd., Montréal, Québec H2X 3X6

VALUATION DAY PRICE
For capital gains purposes, the market value of Laurentian Bank common shares on Valuation day, December 22, 1971, adjusted for the stock splits of July 1983 and January 1987, was $3.72

TRANSFER AGENT AND REGISTRAR
Computershare
Investor Services Inc.
1500 University Street
Suite 700
Montréal, Québec H3A 3S8

OMBUDSMAN'S OFFICE
Laurentian Bank
1981 McGill College Avenue
Suite 1420
Montréal, Québec H3A 3K3
Tel.: 514 284-7192 or
1-800-479-1244

CHANGE OF ADDRESS AND INQUIRIES
Shareholders should notify the Transfer Agent of any change of address. Inquiries or requests may be directed to the Corporate Secretary's Office at Head Office or by calling 514 284-4500 ext. 7545

INVESTORS AND ANALYSTS
Investors and analysts may contact the Investor Relations Department at Head Office by calling 514 284-4500 ext. 7511 or 4926

MEDIA
Journalists may contact the Public Affairs and Communications Department at Head Office by calling 514 284-4500 ext. 7511 or 8232

DIRECT DEPOSIT SERVICE
Shareholders of the Bank may, by advising the Transfer Agent in writing, have their dividends deposited directly into an account held at any financial institution member of the Canadian Payments Association.

This Annual Report was produced by the Public Affairs, Communications and Investor Relations Department of Laurentian Bank.

Vous pouvez recevoir une version française de ce rapport annuel en faisant parvenir votre demande par écrit à :
Banque Laurentienne
1981, avenue McGill College, 20e étage
Montréal, Québec H3A 3K3

STOCK SYMBOL AND DIVIDEND RECORD AND PAYMENT DATES

THE COMMON AND PREFERRED SHARES INDICATED BELOW ARE LISTED ON THE TORONTO STOCK EXCHANGE.	CUSIP CODE/ STOCK SYMBOL	RECORD DATE*	DIVIDEND PAYMENT DATE*
Common shares	51925D 10 6 LB	First business day of:	
		January	February 1
		April	May 1
		July	August 1
		October	November 1
Preferred shares			
Series 9	51925D 87 4 LB.PR.D	**	March 15
Series 10	51925D 86 6 LB.PR.E	**	June 15
			September 15
			December 15

* Subject to the approval of the Board of Directors.
** On such day (which shall not be more than 30 days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Board of Directors of the Bank.

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