Cultivating continuity

2006 Annual Report

LAURENTIAN BANK

in our thinking.

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Means banking

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Bank may from time to time, in this Annual Report, in other documents filed with Canadian regulatory authorities or in other communications, make forward-looking statements within the meaning of applicable securities legislation, whether written or oral, including statements regarding the Bank's business plan and financial objectives. These statements typically use the conditional, as well as words such as "prospects", "believe", "estimate", "forecast", "project", "should", "could", "would", etc. 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. The Bank cautions readers against placing undue reliance on forward-looking statements when making decisions, as the actual results could differ appreciably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements, due to various material factors. These factors include, among other things, capital market activity, changes in government monetary, fiscal and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, competition, credit ratings, scarcity of human resources and technological environment. The Bank cautions that the foregoing list of factors is not exhaustive. The Bank does not undertake to update any forward-looking statements, oral or written, made by itself or on its behalf, except to the extent required by securities regulations.

on what distinguishes us.

Laurentian Bank of Canada is a Quebec banking institution operating across Canada, dedicated to meeting the financial needs of its clients through the excellence of its service, its simplicity and its proximity. The Bank serves individual consumers, small- and medium-sized businesses as well as, through B2B Trust, the financial intermediary community. It also provides full-service brokerage services through its subsidiary Laurentian Bank Securities.

BUSINESS LINES

Retail Financial Services

With 158 branches and 325 automated banking machines in Quebec, and a network of more than 3,800 merchants offering its financing programs across Canada, the Retail Financial Services sector provides comprehensive financial products and services that include transaction products, mortgage solutions, loans and lines of credit, investment products, such as Mutual Funds, as well as Visa credit cards and credit insurance.

Commercial Financial Services

The Bank offers a broad range of products and services to small- and medium-sized businesses, as well as to real estate developers and agricultural businesses. Its selection of competitive products, its capacity to continuously innovate in order to meet the diverse business needs of clients and, above all, its superior quality of service give Laurentian Bank a distinct edge. The Bank offers its products and services through 28 commercial banking centres across Canada.

B2B Trust

B2B Trust is committed to provide financial advisors, planners and brokers with superior financial products and services for distribution to their clients across Canada. B2B Trust is a leading third-party supplier of investment and RSP lending products. It is also the leading supplier of wholesale deposit products and it provides self-directed products, banking solutions and mortgage loans.

Laurentian Bank Securities

Laurentian Bank Securities is an integrated full-service investment dealer, offering its products through 14 offices in Quebec and Ontario, and focusing on six lines of business: Institutional Fixed-income; Institutional Equity; Retail; Discount Brokerage; Back Office services; and Immigrant Investors.

Means aiming higher

OUR GOAL

Laurentian Bank wants to be recognized…
- As the third largest banking institution in Quebec serving individual consumers as well as small and medium-sized businesses; and
- Elsewhere in Canada, as a performing player in specific market segments where it holds a significant position and/or where it shows strong profitability.

HIGHLIGHTS

- 3rd largest banking institution in Quebec, in terms of number of branches, and 7th largest chartered Bank in Canada, based on assets
- Balance sheet assets: $17 billion
- Assets under administration: $15 billion
- Main markets: province of Quebec, with major activities elsewhere in Canada (38% of total loans outside Quebec as at October 31, 2006)
- More than 3,200 employees
- Founded in 1846

OUR VALUES

Passion for client interests

Because our clients are our raison d'être… we promote a quality approach with a personal touch to be there for them at every step of their life, and we design our initiatives with the goal to meet their expectations and to amaze them.

Integrity

Because it is all about the assets of our clients and about their future… we maintain our commitment to integrity and rigour in order to earn the trust of our clients and of our shareholders.

Simplicity

Because life is complicated enough… we always seek simple solutions.

Team work

Because our success depends on our collective efforts… we pool and harness the efforts, expertise, know-how and creativity of all our employees and providers.

Entrepreneurship

Because we deeply care about our company's development and growth… we encourage our employees to have the mind-set of the business owner, within the scope of the Bank's policies and principles.

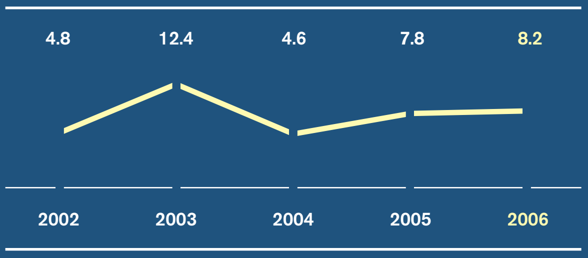
to perform better.

Financial highlights

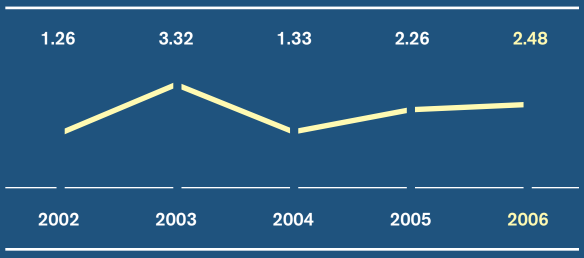
For the years ended October 31

(in millions of dollars, unless otherwise indicated)	**2006**	2005	2004
Per common share			
Diluted net income	**$ 2.48**	$ 2.26	$ 1.33
Diluted income from continuing operations	**$ 2.28**	$ 1.85	$ 1.33
Dividends	**$ 1.16**	$ 1.16	$ 1.16
Book value	**$ 31.18**	$ 29.85	$ 28.78
Share price			
High	**$ 36.72**	$ 32.79	$ 29.35
Low	**$ 28.01**	$ 22.51	$ 25.42
Close	**$ 29.05**	$ 30.35	$ 25.45
Financial ratios			
Price / earnings ratio	**11.7x**	13.4x	19.1x
Market to book value	**93%**	102%	88%
Dividend yield	**3.99%**	3.82%	4.56%
Net interest income as a percentage of average assets	**2.14%**	1.99%	1.64%
Earnings			
Total revenue	**$ 530.7**	$ 502.1	$ 466.1
Net income	**$ 70.3**	$ 65.3	$ 39.9
Income from continuing operations	**$ 65.6**	$ 55.6	$ 39.9
Efficiency ratio			
Non-interest expenses as a % of total revenue	**75.7%**	76.1%	79.3%
Return on common shareholders' equity	**8.2%**	7.8%	4.6%
Financial position			
Balance sheet assets	**$ 17,296**	$ 16,507	$ 16,607
Average earning assets	**$ 15,911**	$ 15,500	$ 15,337
Loans, bankers' acceptances and assets purchased under reverse repurchase agreements, net	**$ 13,117**	$ 12,374	$ 12,434
Net impaired loans	**$ 5.4**	$ (8.9)	$ (13.0)
Net impaired loans as a % of loans, bankers' acceptances and assets purchased under reverse repurchase agreements	**–%**	(0.1)%	(0.1)%
Personal deposits	**$ 10,949**	$ 10,575	$ 10,454
Assets under administration and assets under management	**$ 14,725**	$ 13,766	$ 14,878
Personal deposits			
As a % of total deposits	**83.6%**	77.2%	81.0%
Number of common shares (in thousands)	**23,620**	23,557	23,511
Capitalization			
Shareholders' equity and debentures	**$ 1,096**	$ 1,063	$ 1,137
BIS capital ratios			
Tier I	**10.3%**	10.2%	10.5%
Total capital	**12.4%**	12.3%	14.0%
Tangible common equity as a percentage of risk–weighted assets	**7.7%**	7.5%	7.6%
Other information			
Number of full-time equivalent employees	**3,238**	3,180	3,125
Number of branches	**158**	157	153
Number of automated banking machines	**325**	313	293
Brokerage Offices	**14**	11	9
Commercial Banking Centres	**28**	28	26

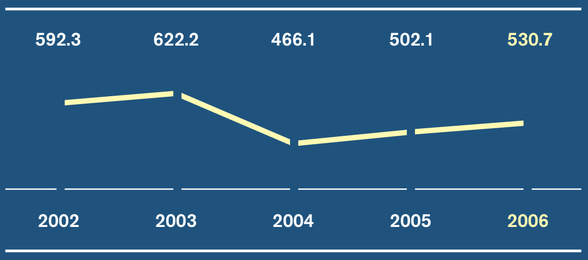
RETURN ON COMMON SHAREHOLDERS' EQUITY
(as a percentage)



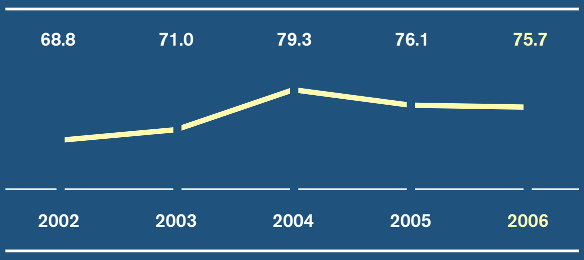
DILUTED NET INCOME PER COMMON SHARE
(in dollars)



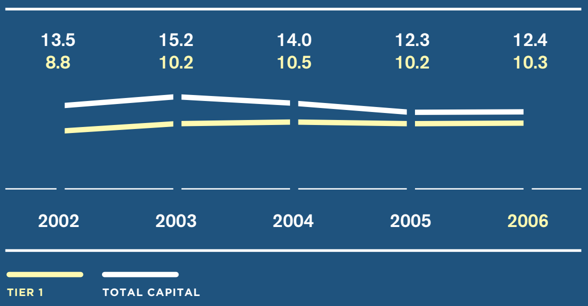
TOTAL REVENUE
(in millions of dollars)



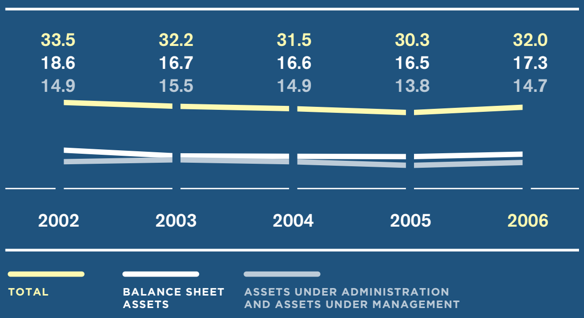
EFFICIENCY RATIO
(non-interest expenses as a percentage of total revenue)



BIS CAPITAL RATIO
(as a percentage)



BALANCE SHEET ASSETS, ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT
(in billions of dollars)



We are proud, very proud. Proud of the 160 years of history of our Bank, proud of its development, and above all, proud of our accomplishments in the last three years.

This great sense of pride takes on multiple forms for the benefit of our clients, our colleagues and our community, and is felt through our attention to and care for each and every person whom we have the honour and pleasure to serve.

To be an employee of Laurentian Bank means to be part of a great organization, to be part of a great family. It is a privilege and a responsibility.

The importance and value that the Bank attaches to us, employees, is thus most gratifying. We are given an equal opportunity to make our contribution to the Bank's development.

At Laurentian Bank, at every level of the organization, each person contributes to the realization of our key objective – to offer unparalleled service in the best interests of our clients. And to achieve this goal, we all share the same values – passion for client interests, entrepreneurship, integrity, simplicity and teamwork – which support this objective and contribute to the high quality of service that we provide to each of our clients.

We are building on the foundation of Laurentian Bank's rich history and proud heritage that still guide us, after 160 years, in the pursuit of our development and growth, to the benefit of all our clients, both in Quebec and elsewhere in Canada.

That's what Laurentian Bank stands for. And we are proud of it!

From left to right
LOUISE YEE-FITTON Executive Assistant, B2B Trust NANCY ROUSSEL Senior Manager, Bill 198 MARYE LYNNE PICARD Retail Services Advisor, Faubourg Boisbriand branch MARIO GALELLA Vice-President, Retail Financial Services, North and West of Montreal MICHEL VERDY Vice-President, Immigrant Investor Program, Laurentian Bank Securities MYRTELLE DEVILMÉ Executive Secretary, Point-of-Sale Financing ANNIE LEFEBVRE Human Resources Advisor RENÉ LACOMBE Senior Manager, IT Audit

left page
DIANE PETIT Agricultural Account Manager

In 2006, the Board of Directors looked into various subjects of great importance, namely, choosing the new president, strategic orientation, implementation of our three-year plan and performance of the business segments.

Particular attention was given to appointing the successor for Raymond McManus. It is a major challenge for a Board of Directors to identify the president and chief executive officer of an organization such as Laurentian Bank. After a thorough examination of the situation and a rigorous process, we unanimously chose Mr. Réjean Robitaille, convinced that he has all the qualities for the job.

Mr. Robitaille has profound first-hand knowledge of the organization. Not only does he count 18 years of dedicated service at the Bank, but his career path here is also quite unique. Indeed, he has held a variety of positions, thus showing a great capacity to adapt and strong skills. For several years, he oversaw the Bank's treasury operations, a central function for any financial institution. Prior to that, he worked in the internal audit group and managed the business development of retail services of a region.

In 2003, it was to him that Mr. McManus entrusted the management of Retail Financial Services with the mandate to reposition this crucial business segment, central to the Bank's growth and development. Again, Mr. Robitaille stood up to the challenge and came out on top in this task through his rigorous approach and effective leadership.

The members of the Board are convinced that Mr. Robitaille will successfully lead the organization in the pursuit of its business plan. Laurentian Bank still faces challenges. However, the organization has completed a significant turnaround in a relatively short period of time, which speaks to the quality of the Bank's management team and employees. The major steps completed with success over the last three years are an eloquent testimonial to the culture of entrepreneurship that drives this organization and to its great flexibility.

These accomplishments are certainly the result of the continuous efforts and leadership of Raymond McManus. On behalf of the Board of Directors and of the shareholders, I would like to express our sincere and profound gratitude to Mr. McManus for the legacy he leaves us. His strategic vision, his sharp mind, his negotiation talent, his great sense of diplomacy and his integrity helped him transform this organization.

Not only did he give his personal best as President and Chief Executive Officer, but he also contributed to the sound management of Laurentian Bank as a member of the Board since 1988. His presence and contribution to the work of the Board are noteworthy. I wish him a great retirement. He can leave with a sense of duty well done and knowing that Laurentian Bank is on the right track with Réjean and the Management Committee at the helm of the organization. Furthermore, I would like to thank the management team for the work they do on a daily basis. They have successfully contributed to drawing and implementing the Bank's business plan, which proved to be the right approach and generated concrete results. The Board of Directors fully supports this plan that will continue in 2007 with focus on the following three priorities: profitability, organizational efficiency and the development of our human capital.

DENIS DESAUTELS, O.C.
Chairman of the Board

RAYMOND McMANUS

RÉJEAN ROBITAILLE

After four and a half years as President and CEO of Laurentian Bank, I am proud to leave this last message to all of the Bank's stakeholders.

This period has been quite intense and, at times, somewhat difficult. Nonetheless, it was always stimulating and, all things considered, very rewarding.

I will be leaving the Bank therefore with a sense of accomplishment and with the definite conviction that it will continue to grow and succeed under the very capable leadership of Mr. Réjean Robitaille, my successor, and his management team, as well as through the determination and enthusiasm of our 3,200 devoted employees.

In 2006, Laurentian Bank celebrated its 160th anniversary. Laurentian Bank now stands as a major banking institution in Quebec, operating the third largest retail branch network, and as a performing player in specific market segments elsewhere in Canada. This is precisely what we have undertaken over the last four years: focusing the Bank's activities and operations in markets and segments where we hold a leading position and definite competitive advantages. Supported by a series of initiatives designed to reduce costs and mitigate risks, we now hold all the necessary tools to accelerate the Bank's development, in line with its long-term vision.

The achievements and overall results of fiscal 2006, are in keeping with this vision and with our continuing efforts to maximize the Bank's performance and profitability.

As at October 31, 2006, Laurentian Bank's total revenue had increased by nearly $29 million to $531 million. This result, which is at the top end of our objectives set at between $522 million and $532 million, stems largely from increases in net interest margins and loan and deposit volumes, two significant indicators of the Bank's performance.

As regards the return on common shareholders' equity, the Bank has also met its 2006 objectives which ranged from 7% to 8%. As at October 31, 2006, the Bank's return on common shareholders' equity stood at 8.2%.

Moreover, diluted net income per share increased by 10% to $2.48 at the close of fiscal 2006.

Of note, income from continuing operations increased by 18%, attesting to the positive impact of the various initiatives we have undertaken to optimize the performance and profitability of all of the Bank's business segments.

Our business segments all made significant progress. In fact, average loans for B2B Trust, Retail Financial Services and Commercial Financial Services increased respectively by 11%, 7% and 5%. Moreover, Laurentian Bank Securities' assets under management increased by 19% during the last year.

B2B Trust's performance throughout fiscal 2006 is particularly noteworthy: its contribution to net income, spurred by higher loan volumes and net interest margins, has increased to $24.3 million in 2006 compared to $19.1 million for fiscal 2005. The development and promotion of B2B Trust's products and services, as well as significant improvements in its efficiency, have played a major role in this performance and should contribute to the continuing development of the business segment.

Retail Financial Services is resolutely moving forward with the renovation and expansion of its branch and ATM networks, a key component of its strategy designed to broaden its customer base. Furthermore, various and original sales and marketing initiatives have already had a positive impact on Retail Financial Services' revenues.

In the Commercial Financial Services business segment, the launch of the marketing signature MAXAffaires, helped to increase our visibility with our targeted clienteles, while the addition of new products continued to improve services to small and medium-sized businesses. Furthermore, the sale of the Bank's stake in Brome Financial Corporation enabled Commercial Financial Services to focus its operations on its core markets.

Means keeping an open mind

For its part, Laurentian Bank Securities has also expanded its range of products and services through the establishment of Institutional Equity, a new business unit catering to small-cap companies.

All things carefully considered, fiscal 2006 has been a satisfactory period in the Bank's development. As in the previous years, employees, managers and directors alike showed the same determination and enthusiasm in carrying out our business plan in the best interests of our clients and shareholders.

This attitude, combined with our collective experience and entrepreneurial spirit, bodes well for the future: Laurentian Bank is well on the path to sustained and sustainable growth.

MOVING FORWARD

Arguably, the appointment by the Board of Directors of Mr. Réjean Robitaille as President and Chief Executive Officer was one of the significant events of fiscal 2006.

Having worked with him for the last four years, I have had ample opportunity to observe and appreciate Mr. Robitaille's superior work ethic in the various positions he held within the Bank's organization.

In recent years, particularly since we began drawing and implementing our business plan, we have been called upon to work together even more closely as the plan's measures and initiatives needed to be fine-tuned and their impact carefully evaluated. Throughout this demanding process, Mr. Robitaille has amply demonstrated his first-hand knowledge of both our organization and our clienteles, as well as his effective leadership.

Moreover, he will be heading an experienced management team, carefully supervised by a dedicated Board of Directors. Laurentian Bank is in good hands.

I wish to sign off this last message by paying a special tribute to each and every employee of Laurentian Bank. Day after day, their strong work ethic, their dedication and their enthusiasm enable Laurentian Bank to deliver its products and services in an effective and efficient manner, and raise our clients' satisfaction and loyalty. Their contribution has been and will continue to be critical to our Bank's growth and success.

I would also like to underline the increasing collaboration we have established with the representatives of our employees' Union. Through respect and dialogue, we have been able to develop an innovative partnership that will have a positive impact on both the Bank and its employees.

From a personal and a professional point of view, the past four years have proven both challenging and rewarding. Raising to the challenges, as they were, required strength, determination, innovation and discipline. The experience and expertise of our management team, combined with the rigorous oversight of our Board of Directors, allowed the Bank to overcome many obstacles.

Working with this exceptional group of men and women was reward enough. However, being assured that they will continue to steer the Bank on the way to continuing growth adds to one's peace of mind.

Our shareholders have expressed their support and loyalty through some demanding times and momentous changes. I wish to thank them for their patience.

Finally, I would like to express my gratitude to Laurentian Bank's clients, individuals as well as enterprises, and to analysts, investors, and to our partners. Their contribution to Laurentian Bank's development must be commended as a critical ingredient in our success.

RAYMOND McMANUS
President and Chief Executive Officer
(until December 12, 2006)

about the future.

It is a great honour for me to address you for the first time as the President and Chief Executive Officer of Laurentian Bank of Canada.

I would like to start by thanking the members of the Board of Directors for the trust they have placed in me. I accept this mandate with enthusiasm, determination and a strong believe in the great potential of our financial institution.

My appointment to this position does not mean a revolution, it is an evolution, which implies continuity, reevaluation when necessary, and progress. Furthermore, it is important that this evolution respect our 160 years of history.

AN ONGOING EVOLUTION

Laurentian Bank is determined to pursue its growth, in a lasting and profitable manner, by building on the values of excellence and service, and acting in the best interests of our clients, employees and shareholders. In this perspective, the business plan we adopted in 2003 remains our reference and serves as a guide in planning and implementing initiatives that would allow us to attain our objectives.

The consolidation and expansion of the Bank's retail, commercial and brokerage networks is an eloquent example. This required substantial investments, but this strategy was necessary to maintain a leadership position among the financial institutions in Quebec. We will progressively continue this work during the ensuing year.

The Bank has also made significant investments in technologies. Major information systems improvements are currently underway throughout the Bank. Additionally, clients now have access to a larger, upgraded ATM network. Along the same line, our increased investments in marketing allowed us to strengthen our brand awareness, which is essential to our growth.

To be able to invest in the Bank's development in this manner, we had to set strict priorities for our actions and sometimes take difficult decisions. As a member of the Bank's Management Committee since 2003, I was part of these decisions. They allowed for a more judicious use of our financial resources and helped us efficiently capitalize on our distinctive strengths and assets.

OUR PRIORITIES

In order to pursue the realization of the Bank's objectives, it is essential to strategically define the priorities to which we should commit our best resources. That is why in 2007 our focus will be on the following priorities:

Profitability: The Bank's day-to-day operations, across its business segments, can and should be a more efficient source of revenue. Therefore, we will put emphasis on resources dedicated to internal growth and to the development of operations with strong profitability.

Operational efficiency: To attain our objectives, it is important to optimize the efficiency of our operations at every level. Thus, in 2007 we will review our key processes and procedures to reduce operational costs, and will focus our efforts on growth-generating activities. Moreover, improved efficiency will further contribute to profitability.

Human capital: Our employees are the most valued asset of the Bank. We will implement measures to develop and promote their talent and skills, at every level of the organization, in order to optimize their contribution to the development and growth of our operations by implementing a more effective performance management approach.

The development of our resources would be impossible without maintaining good relations with the Union representing our employees. In this aspect, I want to pursue the work Mr. McManus undertook and continue our close collaboration with the Union representatives.

In conclusion, I would like to mention the appointment of Luc Bernard, Executive Vice-President, Retail Financial Services, and François Desjardins, President and CEO of B2B Trust, to the Management Committee. Rest assured that all members of the Management Committee will do their absolute best to continue advancing Laurentian Bank.

With the Board of Directors, the Management Committee and all our employees, I would like to express our sincere gratitude to Mr. McManus. His invaluable contribution as President and CEO of the Bank gave a new boost to our organization and indisputably had a great impact on its history. It was a true privilege for me to work with Mr. McManus. Through his leadership, his integrity and his rigour, he became a role model for many of us. He leaves an impressive legacy that, I am convinced, will inspire us for many years to come.

RÉJEAN ROBITAILLE
President and Chief Executive Officer
(starting December 13, 2006)

Management Committee

From left to right

LUC BERNARD
Executive Vice-President
Retail Financial Services
Mr. Bernard joined Laurentian Bank in 2001 as Senior Vice-President, Marketing and Product Management. In August 2005, he was promoted to Executive Vice-President, Retail Financial Services. Mr. Bernard is also President and Chief Executive Officer of Laurentian Trust of Canada Inc. A renowned expert in marketing, he previously managed his own firm in this field and held various top management positions with several companies, including companies operating in the financial sector. He is an associate member of the Insurance Institute of Canada and also holds an MBA degree.

ANDRÉ SCOTT
Executive Vice-President
Commercial Financial Services
Specializing in business financing and credit, Mr. Scott is an experienced banker having worked more than 30 years in the industry. At Laurentian Bank since 1991, he has held several important positions, namely in business development and credit risk management. He also contributed to the establishment and development of B2B Trust, as Executive Vice-President, Administration and Customer Service.

RÉJEAN ROBITAILLE
President and Chief Executive Officer
At Laurentian Bank since 1988, Mr. Robitaille has an in-depth knowledge of the organization as he has held a variety of positions, including Senior Vice-President and Treasurer (2000 to 2003) and Executive Vice-President, Retail Financial Services (2003 to 2005). He was Senior Executive Vice-President, Retail and Commercial Financial Services between August 2005 and June 2006 where he headed three business lines: Retail Financial Services, Commercial Financial Services and B2B Trust. Subsequently, he was appointed as Senior Executive Vice-President and Chief Operating Officer in June 2006 and succeeded as President and Chief Executive Officer of the Bank in December 2006. Mr. Robitaille is also Chairman of B2B Trust. Moreover, he has been chairing the Quebec Committee of the Canadian Bankers Association (CBA) since July 2005.

FRANÇOIS DESJARDINS
Executive Vice-President of the Bank and
President and Chief Executive Officer of B2B Trust
With a Bachelor of Business Administration degree from HEC Montreal, Mr. Desjardins has keen knowledge of Laurentian Bank. Since he joined the Bank in 1991, he worked in various sectors of the organization prior to becoming Vice-President, Direct Financial Services, where his responsibilities included the Call Centres, the websites, the VISA and client cards, as well as the ATM network. In June 2004, he was appointed President and Chief Executive Officer of B2B Trust. Moreover, Mr. Desjardins is President and Chief Executive Officer of LBC Trust.

BERNARD PICHÉ
Senior Executive Vice-President
Treasury, Capital Markets and Brokerage
At Laurentian Bank, Mr. Piché contributes his diversified experience acquired both in Canada and abroad. His extensive knowledge of economics, treasury and capital markets is a sure asset for the Bank which he joined in 1994. He is also Chairman of the Board of Laurentian Bank Securities and of LBC Financial Services, as well as President of 4327853 Canada Inc.

LORRAINE PILON
Executive Vice-President
Corporate Affairs and Secretary
A lawyer by training, Ms. Pilon joined Laurentian Bank in 1990 in the Legal Affairs Department. She climbed the career ladder quickly thanks to her expertise in the banking industry and to her keen business sense. Ms. Pilon oversees several sectors: Legal Affairs and Compliance, Secretary's Office, Public Affairs, Communications and Investor Relations, Internal Audit and Security.

ROBERT CARDINAL
Senior Executive Vice-President
Finance, Administration and Strategic Development
and Chief Financial Officer
A chartered accountant, Mr. Cardinal has been with Laurentian Bank since 1991. He oversees all the Bank's operations in finance, administrative services, integrated risk management, information technologies, as well as real estate management and procurement. His knowledge, experience and integrity earned him several promotions within the organization. Prior to joining the Bank, he held various positions in the banking industry and audit for more than 18 years. Mr. Cardinal is also President of 4364643 Canada Inc. and Chairman of V.R. Holding Insurance Company Ltd.

Management Discussion and Analysis

Summary of Financial Results

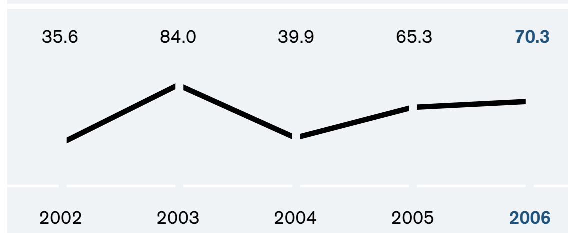
OVERVIEW OF FISCAL 2006

For the year ended October 31, 2006, Laurentian Bank reported net income of $70.3 million or $2.48 diluted per common share, compared to $65.3 million or $2.26 diluted per common share in 2005. Return on common shareholders' equity was 8.2% in 2006, compared to 7.8% in 2005. Income from continuing operations increased to $65.6 million or $2.28 diluted per common share for 2006, excluding income from discontinued operations of $4.7 million related to the recognition of a portion of the deferred gain on the sale of BLC-Edmond de Rothschild Asset Management Inc., as outlined on page 17 of this Annual Report. For fiscal 2005, income from continuing operations stood at $55.6 million or $1.85 diluted per common share, excluding income from discontinued operations of $9.7 million.

FINANCIAL HIGHLIGHTS

- Income from continuing operations increased by 18% during fiscal 2006, from $55.6 million in 2005 to $65.6 million in 2006, and by more than 60% compared to fiscal 2004 when it stood at $39.9 million.
- Total revenue stood at $530.7 million in 2006, compared to $502.1 million in 2005. This improvement, mainly attributable to the increase in net interest income, results from the combined effect of the growth in loan and deposit volumes, as well as from the increase in net interest margins.
- Non-interest expenses rose to $401.7 million in 2006, from $382.0 million in 2005. This increase results in part from the growth in operations, as well as from employee benefits.
- The provision for credit losses remained unchanged at $40.0 million.
- Income tax expense related to continuing operations stood at $23.4 million (26.3% effective tax rate) for fiscal 2006, compared to $24.5 million (30.6% effective tax rate) for fiscal 2005. This tax expense includes the effect of certain tax items, as detailed on page 29 in the Analysis of Consolidated Results section.

NET INCOME
(in millions of dollars)



THIS SECTION OF THE ANNUAL REPORT PRESENTS MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION OF THE BANK FOR THE YEAR ENDED OCTOBER 31, 2006. THE INFORMATION IS PRESENTED ON THE SAME BASIS AS IN THE CONSOLIDATED FINANCIAL STATEMENTS AND WAS PREPARED IN ACCORDANCE WITH CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP), INCLUDING THE ACCOUNTING REQUIREMENTS SPECIFIED BY THE OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS OF CANADA (OSFI). THIS MANAGEMENT DISCUSSION AND ANALYSIS PRESENTS THE VIEWS OF THE BANK'S MANAGEMENT AS AT DECEMBER 11, 2006. ADDITIONAL INFORMATION ON LAURENTIAN BANK OF CANADA, INCLUDING THE ANNUAL INFORMATION FORM FOR THE YEAR ENDED OCTOBER 31, 2006, CAN BE FOUND ON THE BANK'S WEBSITE AT WWW.LAURENTIANBANK.CA AND ON SEDAR AT WWW.SEDAR.COM.

METHODOLOGY FOR THE ANALYSIS OF RESULTS

MANAGEMENT GENERALLY EVALUATES THE BANK'S PERFORMANCE ON A REPORTED BASIS, AS PRESENTED IN THE CONSOLIDATED FINANCIAL STATEMENTS. CONSIDERING THE DISPOSAL OF THE WEALTH MANAGEMENT OPERATIONS ASSOCIATED WITH THE BLC-EDMOND DE ROTHSCHILD ASSET MANAGEMENT INC. JOINT VENTURE IN 2005, FINANCIAL STATEMENTS PRESENT RESULTS FROM CONTINUING OPERATIONS AND RESULTS FROM DISCONTINUED OPERATIONS. THE ANALYSES INCLUDED IN THIS MANAGEMENT DISCUSSION AND ANALYSIS GENERALLY FOLLOW SUCH A PRESENTATION. CERTAIN PERFORMANCE MEASURES ARE NOT TERMS DEFINED UNDER GAAP, AND THEREFORE MAY NOT BE COMPARABLE TO SIMILAR TERMS USED BY OTHER ISSUERS. CERTAIN COMPARATIVE FIGURES FOR FISCAL 2005 HAVE BEEN RECLASSIFIED TO CONFORM TO THE PRESENTATION OF THE INFORMATION FOR FISCAL 2006.

TABLE 1
CONSOLIDATED RESULTS
For the years ended October 31 (in millions of dollars, unless otherwise indicated)

	2006	2005	2004	Variation 06 / 05
Net interest income	$ 357.2	$ 325.7	$ 267.2	10%
Other income	173.5	176.4	198.9	(2)
Total revenue	530.7	502.1	466.1	6
Provision for credit losses	40.0	40.0	40.0	–
Non-interest expenses	401.7	382.0	369.7	5
Income from continuing operations before income taxes and non-controlling interest in a subsidiary	89.0	80.1	56.4	11
Income taxes	23.4	24.5	14.6	(4)
Income from continuing operations before non-controlling interest in a subsidiary	65.6	55.6	41.8	18
Non-controlling interest in a subsidiary	–	–	1.9	–
Income from continuing operations	65.6	55.6	39.9	18
Income from discontinued operations, net of income taxes	4.7	9.7	–	(52)
Net income	$ 70.3	$ 65.3	$ 39.9	8
Preferred share dividends, including applicable income taxes	11.7	12.0	8.6	(3)
Net income available to common shareholders	$ 58.6	$ 53.3	$ 31.3	10%
Average number of common shares (in thousands)				
Basic	23,605	23,525	23,485	
Diluted	23,649	23,552	23,521	
Income per common share from continuing operations				
Basic	$ 2.28	$ 1.85	$ 1.33	23%
Diluted	$ 2.28	$ 1.85	$ 1.33	23%
Net income per common share				
Basic	$ 2.48	$ 2.26	$ 1.33	10%
Diluted	$ 2.48	$ 2.26	$ 1.33	10%
Return on common shareholders' equity	8.2%	7.8%	4.6%	

OVERVIEW OF FISCAL 2005

For the fiscal year ended October 31, 2005, Laurentian Bank reported a significant improvement of its results, compared to fiscal 2004. The growth in revenues, up more than 7% to $502.1 million, as well as in income from continuing operations, up nearly 40% to $55.6 million, clearly illustrated the positive impact of the Bank's three-year business plan adopted in 2003. The measures implemented to improve profitability, particularly the tighter asset and liability management strategies, the capital structure realignment and the strategies designed to grow the loan and deposit portfolios, had already started to bear fruit. Fiscal 2004 had seen the Bank lay out the foundations of its business plan. However, it was also marked by some weaknesses in current operations. For fiscal 2005, return on common shareholders' equity was 7.8% (6.4% from continuing operations), compared to 4.6% for fiscal 2004, well above the 4% to 6% objective set by management.

Results for fiscal 2005 also included the positive impact of the sale of BLC-Edmond de Rothschild Asset Management Inc., as described below.

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

During fiscal 2005, the Bank disposed of its interest in the BLC-Edmond de Rothschild Asset Management Inc. joint venture. This decision to divest these activities served several objectives. First, the transaction allowed for maximizing the capital gain from these operations for the benefit of the Bank's shareholders. Second, and consistent with the Bank's business plan, this divestment allowed for focusing on those activities where the Bank held competitive advantages, namely distribution operations through the branch network and through the indirect networks. Finally, the transaction allowed for building a solid partnership with Industrial Alliance that provided for the Bank to continue to distribute the R Funds, as well as the whole range of Industrial Alliance's mutual funds, during an initial ten-year period ending December 31, 2014. This agreement was subsequently extended until 2016 during 2006. As attested by the strong growth of mutual funds sales over the last two fiscal years and the increase in revenues from these sales, the Bank's decision has so far proven judicious.

In fiscal 2005, this divestment allowed for the recognition of an initial $5.2 million gain. In accordance with the terms of the transaction, a portion of the proceeds was subject to recovery clauses, based on net annual sales of mutual funds. Consequently a $26.2 million portion of the gain on the sale was initially deferred. Considering that, as at the end of November 2005, net sales significantly exceeded minimum requirements, a $5.2 million gain ($4.4 million, net of income taxes) was recognized during the fourth quarter of fiscal 2005. As at the end of November 2006, net sales again exceeded minimum requirements; consequently, a further $5.2 million gain ($4.4 million, net of income taxes) was recognized during the fourth quarter of fiscal 2006. As at October 31, 2006, the remaining portion of the deferred gain amounted to $15.5 million. Note 2 to the consolidated financial statements provides additional information regarding this transaction and its impact on the results for fiscal 2006 and fiscal 2005.

2006 PERFORMANCE IN RELATION TO 2006 OBJECTIVES

The following table summarizes the Bank's performance with regard to its 2006 objectives. The Bank met or exceeded all of its 2006 objectives, except for the efficiency ratio which, nevertheless, improved compared to fiscal 2005.

TABLE 2
FINANCIAL OBJECTIVES AND PERFORMANCE

	2005 Results	2006 Objectives	2006 Performance
Return on common shareholders' equity	7.8% (6.4% from continuing operations)	7% to 8%	**8.2% (7.5% from continuing operations)**
Diluted net income per share	$ 2.26 ($ 1.85 from continuing operations)	$ 2.05 to $ 2.35	**$ 2.48 ($ 2.28 from continuing operations)**
Total revenue	+ 9% $ 502 million	+ 4% to 6% ($ 522 to $ 532 million)	**+ 6% $ 531 million**
Efficiency ratio	76.1%	75% to 73.5%	**75.7%**
Capital ratios			
Tier 1	10.2%	Minimum of 9.5%	**10.3%**
Total	12.3%	Minimum of 12.0%	**12.4%**
Credit quality (loan losses as a % of average assets)	0.24%	0.25% to 0.22%	**0.24%**

Growth in all business segments, as evidenced by the increase in revenues, as well as the favorable effect of certain tax items, as detailed on page 35, of this Annual Report, have been the most important factors behind the Bank's achievements during fiscal 2006. Taking into account the increase in operating expenses, the efficiency ratio remained below management's expectations. Still, at 75.7%, it represents an improvement over fiscal 2005 when it stood at 76.1%.

Objectives for fiscal 2007 and priorities

TABLE 3
2007 FINANCIAL OBJECTIVES

Return on common shareholders' equity	8% to 9%
Diluted net income per share	$ 2.55 to $ 2.85
Total revenue	+ 4% to 5% ($ 550 million to $ 560 million)
Efficiency ratio	75% to 73.5%
Tier 1 Capital ratio	minimum of 9.5%
Credit quality (loan losses as a % of average assets)	0.24% to 0.21%

For fiscal 2007, the capacity of the Bank to ensure the growth of its net interest income through a tighter management of its loan and deposit portfolios, along with the expected positive impact of the development strategies adopted recently (such as the opening of new branches), should contribute to the attainment of the objectives identified here above. These objectives also reflect anticipated progress in efficiency and further improvements in credit quality.

PRIORITIES

The Bank's Management has set three priorities for the next year in order to promote the attainment of its annual targets and to ensure rigorous management of the Bank's long-term development.
The three top priorities are as follows:

INCREASE PROFITABILITY...

… by putting emphasis on resources dedicated to growth and development of operations with strong profitability.

1. Promote internal growth;
2. Focus on the sale of high-margin products;
3. Implement an integrated strategy in wealth and investment product management.

IMPROVE ORGANIZATIONAL EFFICIENCY...

… by reviewing our key processes and procedures to reduce our operational costs and to focus efforts on growth-generating activities.

1. Review our key processes and procedures;
2. Optimize our investments by promoting business growth and personnel development;
3. Adequately control our expenses.

DEVELOP HUMAN CAPITAL...

… by introducing a better performance management approach and ensuring the development of the full potential of all our employees, on one hand; and on the other hand, by targeting the development of our sales culture while maintaining our high level of service.

1. Centre our training on a culture of sales, while maintaining our high level of service quality;
2. Gradually instill a culture of performance, starting with the implementation of a more structured performance management approach;
3. Be more efficient in mobilizing our employees, right from the start, and promote the sense of belonging to the Bank's culture;
4. Continue to ensure good relations and partnership with the Union.

Review of sector activities

This section outlines the Bank's activities according to its organizational structure. Services to individuals, businesses, financial intermediaries and institutional clients are offered through the following business segments:
- Retail Financial Services;
- Commercial Financial Services;
- B2B Trust;
- Laurentian Bank Securities;
- Others

As shown in the following table, all segments enhanced their contribution to the Bank's results for fiscal 2006, except the Other segment which, in fiscal 2005, had benefited from the initial gain on the sale of BLC-Edmond de Rothschild Asset Management Inc. B2B Trust particularly distinguished itself as its net income contribution grew by more than 25%.

TABLE 4
NET INCOME CONTRIBUTIONS
(in millions of dollars)

	Retail Financial Services	Commercial Financial Services	B2B Trust	Laurentian Bank Securities	Other	Total
2006						
Net income	**$ 34.6 ($ 30.2 from cont. operations)**	**$ 22.7**	**$ 24.3**	**$ 3.8**	**$ (15.1) [$ (15.4) from cont. operations]**	**$ 70.3 ($ 65.6 from cont. operations)**
2005						
Net income	$ 34.5 ($ 30.1 from cont. operations)	$ 21.5	$ 19.1	$ 3.4	$ (13.2) [$ (18.5) from cont. operations]	$ 65.3 ($ 55.6 from cont. operations)

The improvement in these results for fiscal 2006 is mainly attributable to the increase in loan and deposit volumes generated by the various strategies designed to further business growth. The opening of new branches and brokerage offices, the promotion campaigns designed to enhance the Bank's share of its clients' financial products, and the development of the Bank's products and services offering are some of the concrete measures that have had a positive impact on operations. Strengthened by these promising results, all business segments have set themselves goals aimed at supporting operations growth and improving their contribution to the Bank's consolidated results in fiscal 2007.

RETAIL FINANCIAL SERVICES

The contribution to consolidated results was relatively unchanged at $34.6 million in 2006 compared to $34.5 million in 2005.

2006 HIGHLIGHTS

The total value of mutual funds under administration was up 19% and the number of credit cards increased by more than 4%

Residential mortgage loans grew by almost 9%

A $511 million or close to 7% increase in total average loans

Two new financial services boutiques and 13 renovated/relocated branches

These results include significant investments in business development activities. Positive impact from these investments are anticipated during fiscal 2007. Income from continuing operations was $30.2 million in 2006, compared to $30.1 million in 2005, excluding the $5.2 million ($4.4 million net of income taxes) portion of the gain on the sale of BLC-Edmond de Rothschild Asset Management Inc. recorded in both fiscal 2006 and fiscal 2005.

Revenues improved significantly in fiscal 2006. Net interest income was up $6.6 million, as a result of the growth in both loan and deposit portfolios, while other revenues increased by $7.5 million. This increase is attributable to the higher income from credit insurance operations, mutual funds distribution and VISA credit card service. These increases in revenues are encouraging and reflect the positive effect of our strategies designed to increase our share of our customers' wallets. Loan losses increased to $23.0 million, compared to $20.7 million for 2005, as a combined effect of the growth in loan volumes and a slight increase of the loss ratio in consumer loan portfolios. Expenses were up $14.0 million to $287.2 million in 2006, from $273.2 million in 2005. This increase results mainly from the hiring of additional employees to support growth and to higher salaries and pension costs.

SECTOR PROFILE
Operations focused in Quebec
Close to 1,900 employees
158 branches and 325 ATMs
A network of over 3,800 merchants offering Laurentian Bank loan products
Transaction products, mortgage solutions, investment products, loans, VISA credit cards and credit insurance

The cumulative effect of all the actions undertaken by the Retail Financial Services business segment over the past three years have translated into a significant growth in business volumes. RFS pursued its development in the same direction during the year, channeling considerable development into improving its offer of products, fine-tuning its marketing strategy, perfecting its training and integration programs for employees entering into new functions, and maintaining its high level of service quality.

PRIORITIES

Increase sales of high-margin products (VISA, Mutual Funds, Credit Insurance and Demand Deposits)

Improve product offering and advisors services with regard to investment and wealth management

Continue the distribution network's optimization program

Optimize administrative processes in order to enhance efficiency of the sales force in branches

Increase investments in training and competency development

IMPROVED PRODUCT AND SERVICE

As part of the strategy to improve and better integrate its offer of products and services, the Bank decided to focus on investment products and wealth management. Therefore, it adopted an action plan to meet client needs in investment and retirement planning, with focus on better integration of the offer of products and services. Various initiatives have already been launched to perfect retirement projections training programs for advisors, which have produced concrete results among clients.

Another consequence of this strategy, mutual fund sales reached a new high in 2006. For a second year, the Bank offered Industrial Alliance's mutual fund products.

The Bank also registered a significant increase in residential mortgage loans, which grew by 9% for the year. The new mortgage line of credit as well as the new 10X Less mortgage product, two products offering much flexibility for clients, have been very popular. In addition to various improvements in its product line, the Bank continued to strengthen its team of mortgage development managers.

For their part, the sales of credit insurance products and of VISA cards benefited from effective and efficient strategies designed to increase volumes.

NETWORK OPTIMIZATION

The sector's business growth can also be attributed to its branch optimization strategy. This year, efforts were focused on the renovation and relocation of its existing branches. Two new financial services boutiques opened their doors in Chambly and Kirkland. To date, close to 25% of the branch network has been upgraded and optimized.

Moreover, more than 90% of the retail branches' signs have been replaced, making the most of the Bank's new, more modern signature. This also allows to build the visibility of the Bank branches, the majority of which are situated in highly strategic locations. It is an important capital for the Bank.

Our ATM network continues to be part of our optimization strategy, with the addition of twelve new ATMs.

TABLE 5
RETAIL FINANCIAL SERVICES
For the years ended October 31 (in millions of dollars)

	2006	2005
Net interest income	$ 259.1	$ 252.5
Other income	95.1	87.6
Total revenue	354.2	340.1
Provision for credit losses	23.0	20.7
Non-interest expenses	287.2	273.2
Income from continuing operations before income taxes	44.0	46.2
Income taxes	13.8	16.1
Income from continuing operations	30.2	30.1
Income from discontinued operations, net of income taxes	4.4	4.4
Net income	$ 34.6	$ 34.5
Efficiency ratio	81.1%	80.3%

COMMERCIAL FINANCIAL SERVICES

Commercial Financial Services' contribution to consolidated results for fiscal 2006 was $22.7 million, compared to $21.5 million in 2005.

2006 HIGHLIGHTS

Loans grew by 5%

Improved portfolio quality

Launch of the new MAXAffaires signature

Excluding the forgone revenues from Brome, sold at the beginning of the year, revenues increased by appproximately $3 million.

The growth in average loans in 2006, of $99 million, mainly came from real estate financing, and should contribute even further to revenues in fiscal 2007.

Loan losses decreased by $2.0 million in 2006, compared to 2005, as the credit environment remained generally stable despite some pressures in Central Canada resulting from the competition from Asian countries and the appreciation of the Canadian dollar. Excluding the effect of the sale of Brome, non-interest expenses increased by nearly $2 million, mainly as a result of higher salaries and employee benefits.

SECTOR PROFILE
Operations across Canada
180 employees
28 business centres
Commercial, real estate, agricultural and micro-business financing

As part of its repositioning strategy, the Commercial Financial Services business segment announced in 2003 its decision to withdraw from the corporate financing sector and to discontinue associated operations to be better positioned to focus on the business activities in which it excels. As a consequence of this business decision, the asset volumes of the sector decreased significantly over the past three years.

This strategy also resulted in lower levels of risk for the line of business. The Bank is now focused on financing for small- and medium-sized businesses, as well as in the real estate and agricultural sectors.

A MORE SOLID GROWTH

In 2006, the Commercial Financial Services business segment got back on the road to growth. The real estate and agricultural financing sectors did particularly well in this respect, achieving 19% and 12% respectively in loan volume growth.

The line of products was strengthened with new additions during the year. Besides its improved transactional website, the sector also launched new products. It introduced new business packages designed specifically for businesses. Grouped in five packages, this product offer is based on competitiveness and simplicity.

PRIORITIES

Increase the commercial loans portfolio by 15%

Intensify the marketing campaigns targeting the acquisition of new clients

Enhance the offer of specialized commercial products

Complete the implementation of Business Centres in Quebec, and gradually increase their number in Ontario

Step up the implementation of the commercial mortgage securitization program in the real estate sector

A new online service has been launched, MAXAffaires Dashboard, which allows for electronic transfer of financial information required for margin-based loan management. Laurentian Bank is the only Canadian banking institution to offer this type of service to its clients. This online service helps to raise efficiency through the automated gathering and management of key loan-related information. It allows thus to improve risk management measures, while reducing administrative tasks for the clients and the Bank alike.

Also, the sector revised its process to evaluate and grant loans of under $250,000. Thus, the response delay has been significantly reduced, and the new, much simpler process reduces the administrative burden on account managers and administrative personnel. And the clients can now have faster access to their funds.

STRONGER MARKETING

In order to prove unequivocally its commitment towards the business sector, the Bank has launched a new signature, MAXAffaires, which supports the marketing activities of the segment. Among others, it allows to confirm the commitment of the Bank towards the commercial clientele. The new signature launch was at the centre of a highly targeted advertising campaign.

Finally, the sector now has a new point of service in Kirkland, which is a one-stop centre that offers all the services that its clients may need in addition to commercial financing, such as transaction services, private banking and brokerage services of Laurentian Bank Securities.

TABLE 6
COMMERCIAL FINANCIAL SERVICES
For the years ended October 31 (in millions of dollars)

	2006	2005
Net interest income	$ 59.2	$ 56.2
Other income	22.7	29.1
Total revenue	81.9	85.3
Provision for credit losses	11.1	13.1
Non-interest expenses	36.7	38.9
Income before income taxes	34.1	33.3
Income taxes	11.4	11.8
Net income	$ 22.7	$ 21.5
Efficiency ratio	44.8%	45.6%

B2B TRUST

B2B Trust's net income contribution improved by 27% to $24.3 million for fiscal 2006, compared to $19.1 million for 2005.

2006 HIGHLIGHTS

A 19% increase in investment loans

A 6% growth in deposits through brokers

6 new partners in investment and RRSP loan programs

Fully redesigned RRSP and investment loan programs

This year over year increase in net income results from higher net interest income generated by additional loan and deposit volumes, and was partially offset by lower revenues from registered self-directed plans and higher non-interest expenses. The level of loan losses on the investment loan portfolios remained excellent, while the level of losses related to the line of credit portfolio has stabilized.

SECTOR PROFILE
Operations across Canada
250 employees
More than 40 partnerships (investment and RRSP lending) with financial intermediaries
A network of 15,000 financial advisors offering B2B Trust products
Investment loans, RRSP loans, mortgage loans and lines of credit, banking products and services, self-directed registered accounts and broker deposits

In 2006, B2B Trust consolidated its position in its primary market, the Financial Intermediaries market, which includes mutual fund companies, investment brokers, insurance/segregated funds companies, as well as insurance, mortgage and deposit brokers.

B2B Trust is the largest investment loan provider in Canada. A true pillar of the business segment, this product offer has been the subject of numerous improvements over the years. In 2006, striving to meet the market needs, it underwent a complete overhaul. Financial advisors now can offer their clients a product range with more choices and additional flexibility, as well as simplified processes and documentation.

Thus, all B2B Trust products to date, including its flagship *100% Accelerator Investment Loan* product, have been merged into a one program. B2B Trust's new investment lending Program offers various options of capital requirements, margin call and monthly payment type, has a revised rate schedule and is available up to $250,000. The fund eligibility criteria have also been updated, broadening the range of investments eligible for financing.

PRIORITIES

Step up efforts dedicated to the sale of high-margin products

Expand distribution channels for lending products

Garner maximum return from existing deposit broker channels

Focus on long-term growth development initiatives

Strenghten the organizational foundation to support accelerated growth

EXTENDED PARTNERS NETWORK

Throughout 2006, B2B Trust signed several new distribution agreements. Thus, Assante Wealth Management, FundEX Investments Inc, Rice Financial Group Inc. and Sterling Mutuals Inc. joined the group of financial intermediaries doing business with B2B Trust. Also, B2B Trust added Stone & Co. Limited to its list of mutual fund companies offering an investment loan program. The team is particularly proud of the trust showed by Fidelity Investments Canada Limited following the signing of an investment loan distribution agreement. Fidelity is the seventh largest mutual fund manufacturer in Canada.

B2B Trust has also completely redesigned its marketing strategy. It has enhanced its visibility among its clientele thanks to an elaborate and well-targeted marketing strategy, as well as its increased investments in terms of human resources and advertising alike.

B2B Trust increases its presence across Canada through its business development offices and has a physical presence in Vancouver, Calgary, Edmonton, Toronto, Montreal, and Halifax. B2B Trust thus ensures more coverage and proximity for its main markets, which helps it better serve the existing clients and develop new business relations.

Furthermore, B2B Trust pursued the development and growth of the deposit broker market, where it is one of the largest providers of wholesale deposit products. Besides, broker deposits are an important part of financing of the Bank's operations.

Moreover, to improve synergy, efficiency and efficacy, the management and development of the mortgage broker market in Ontario and Western Canada have been grouped with the B2B Trust team since last year. Systematic market development activities continue and generate encouraging results.

TABLE 7
B2B TRUST
For the years ended October 31 (in millions of dollars)

	2006	2005
Net interest income	$ 73.6	$ 63.6
Other income	12.6	14.0
Total revenue	86.2	77.6
Provision for credit losses	5.8	6.2
Non-interest expenses	43.6	42.4
Income before income taxes	36.8	29.0
Income taxes	12.5	9.9
Net income	$ 24.3	$ 19.1
Efficiency ratio	50.6%	54.7%

LAURENTIAN BANK SECURITIES

Laurentian Bank Securities reported net income of $3.8 million for fiscal 2006, compared to $3.4 million for fiscal 2005.

HIGHLIGHTS 2006

A 19% growth in assets under administration

Launch of the new Institutional Equity business unit

Revenues increased by $0.9 million to $23.6 million in 2006, mainly as a result of the good performance of the Institutional Fixed income sector. Non-interest expenses were up $0.7 million, mainly as a result of measures taken to develop its retail brokerage division, including the hiring of more than 20 new employees. Also, brokerage assets under administration have increased by 19% or $301 million since the beginning of fiscal 2006.

Since 2003, Laurentian Bank Securities' Management has made significant changes to use the full potential of this subsidiary of Laurentian Bank. The number of investment advisors has more than doubled, and is now almost 70. LBS has also opened four new offices, completely redesigned its discount brokerage service offer and launched a web-based bond platform, one of the best performing platforms on the market.

In 2006, two new chapters of its strategy were launched. LBS established a new institutional brokerage unit specializing in equity markets, with the highly specific mission to focus on the market of small- and medium-sized businesses. Well renowned among institutional investors thanks to its Fixed Income division, the sector now extends its offer to include the equity market with the services of research, sales, trading and financing of companies. Moreover, its new Immigrant Investors program allows LBS to assist people who wish to immigrate to Quebec and who meet certain minimum asset criteria.

The retail services network continued to improve in 2006, with the relocation of the Quebec office and a new office in Kirkland. Laurentian Bank's strategy to group under the same roof the retail and commercial financial services and private banking services of the Bank and those of Laurentian Bank Securities helps meet the particular needs of the Montreal West Island clientele.

SECTOR PROFILE

- Operations across Canada
- More than 180 employees
- 14 brokerage offices in Quebec and Ontario
- Full-service brokerage, discount brokerage, Institutional Brokerage – Fixed Income and Equity, Back Office Services, and Immigrant Investors

PRIORITIES

- Develop the Institutional Equity sector while maintaining the profitability of the business segment
- Pursue the growth of the distribution network to reach a sufficient critical mass
- Pursue the expansion of the fixed-income institutional brokerage
- Continue with the optimization plan to improve operational efficiency
- Maximize synergies between the lines of business

TABLE 8
LAURENTIAN BANK SECURITIES
For the years ended October 31 (in millions of dollars)

	2006	2005
Net interest income	$ 1.0	$ 1.3
Other income	22.6	21.4
Total revenue	23.6	22.7
Non-interest expenses	18.3	17.6
Income before income taxes	5.3	5.1
Income taxes	1.5	1.7
Net income	$ 3.8	$ 3.4
Efficiency ratio	77.6%	77.4%

OTHERS

The Other segment includes the activities of the Bank's corporate sectors. It mainly reflects the effect of Treasury activities as expenses related to the other corporate sectors are generally shared among the other business segments.

The contribution of the Other segment for 2006 stood at $(15.1) million, compared to $(13.2) million for fiscal 2005. Income from continuing operations was $(15.4) million in 2006, compared to $(18.5) million in 2005. This improvement is mainly attributable to the progress in net interest income which stood at $(35.7) million in 2006, compared to $(47.9) million in 2005. The main role of Treasury is to ensure the funding of the other segments' assets and liabilities. The net interest expenses accruing from the Other segment thus mainly reflect the variance between the Bank's actual funding costs and the funding costs as estimated according to transfer pricing rates. The improvement in net interest income for fiscal 2006 mainly results from the stricter asset and liability management strategies implemented in 2004 and the capital structure realignment. For its part, the decline in other income is largely attributable to the lower income from treasury and financial market activities and securitization operations. The effect of certain tax items, described on page 35, also positively contributed to the Other segment results.

SECTOR PROFILE
More than 700 employees
Treasury
Credit
Finance, Administration and Strategic Development
Corporate Affairs
Human Resources

The Treasury sector closely collaborates with the lines of business to develop investment products that meet the needs of an increasingly informed clientele. It is thanks to this collaboration that the China Objective Note product could be launched on the market in 2006.

The actions of the past few years aimed at improving the quality of the portfolios have largely contributed to raising the level of credit quality. Credit quality management will continue to be the focus of attention in the next year.

Furthermore, the review of processes and internal controls, as required under the law (Bill 198), called for significant efforts in 2006. This work will continue in 2007 with the goal to receive certification of internal controls over financial reporting, in 2008.

Developing human capital is one of the Bank's three priorities for 2007. We expect to step up our efforts in this field. The implementation of a new performance management approach in 2006 is the foundation for our efforts to instill a culture of performance at the Bank.

In order to support its growth objectives more efficiently, the Bank will largely focus on the development of the management and sales skills of its employees.

PRIORITIES
Improve net interest income through complementary management of asset/liability and of the Bank's liquidity portfolios
Pursue the improvement of the credit quality level
Continue to review processes and internal controls, as required under Bill 198
Optimize administrative processes to improve efficiency and efficacy
Reinforce the foundation of the culture of performance by ensuring more rigorous management of employee performance

Economic Outlook – 2007

THE LIKELIEST SCENARIO: A SOFT LANDING... WITH INCREASING RISKS.

For quite some time now, the U.S. Federal Reserve has been trying to engineer a “soft landing” of the American economy in order to reduce inflationary pressures. These pressures result from rising wages in an environment of virtually full employment of domestic labour and capital resources. To slow the economy down, the Fed pushed short-term interest rates up by 425 basis points from June 2004 to June 2006. A slowdown in U.S. consumer spending is now underway and overall economic growth is expected to moderate to 2.5% in 2007, from 3.3% in 2006.

U.S. HOUSING IS SLOWING MORE THAN EXPECTED...

One of the key assumptions behind the “soft landing” scenario is that the U.S. housing market will undergo only a mild correction, slowing overall consumer spending enough to ease inflationary pressures but not hard enough to tip the economy over into a recession. Although severely tested in the second semester of 2006, this assumption still holds.

... BUT THE BROADER ECONOMY IS REMARKABLY RESILIENT.

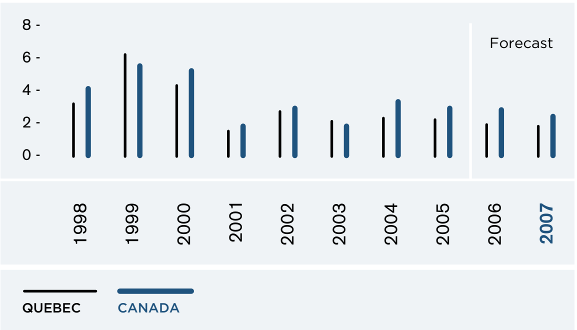
Moreover, evidence continues to mount to the effect that housing remains the only major source of weakness and that so far, it has not “spilled-over” into the rest of the economy. In fact, payroll employment increased by a total of 470,000 new jobs in the third quarter of 2006 and the rate of unemployment hit 4.4% in October, the lowest it has been since May 2001. In this context, the Federal Reserve should remain on hold at least until the spring of 2007. Beyond that, the trajectory for policy rates will depend on inflation expectations and the extent of the projected economic slowdown. All told, the Fed funds rate is expected to be on hold until June 2007 and then to ease moderately.

IN CANADA, THE ECONOMY IS RESILIENT BUT CANNOT ESCAPE SLOWER U.S. GROWTH IN 2007.

At the end of 2005, the widely-held view was that the Canadian economy would cool off in 2006-2007. This was well under way by the third quarter of 2006. A robust global economy and high commodity prices sustained Canadian economic growth despite the combined impact of interest rate hikes and currency appreciation. The current slowdown reflects declining exports to the United States and a moderate cooling of the housing market in Central Canada. Consumer spending and business investment, on the other hand, are expected to remain robust, especially in Western Canada.

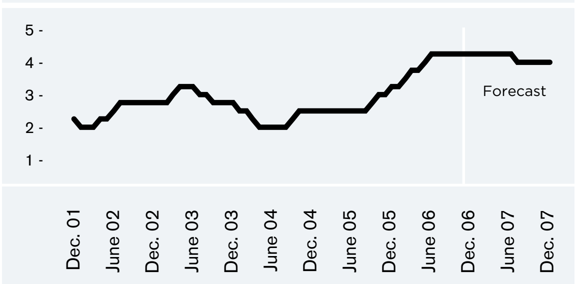
It is now expected that overall economic growth will reach 2.8% in 2006, and will slow further in 2007 to 2.4%, mainly as a result of the anticipated economic slowdown in the United States. Also, a smaller trade surplus should eventually put downward pressure on the Canadian dollar. Business conditions, particularly in Central Canada, are expected to deteriorate further as firms face the triple threat of slowing U.S. demand for consumer durable goods, intense competition from Asian producers both at home and abroad, and the cumulative effects of the sharp appreciation of the Canadian dollar since 2003. The manufacturing sectors in Quebec and Ontario have been particularly hard hit and further restructuring seems inevitable in 2007.

QUEBEC AND CANADIAN – REAL GDP
(as a percentage)



Regarding monetary policy, such an outlook confirms that the Bank of Canada was well advised to have left interest rates unchanged since July 2006. Policy interest rates in Canada, as in the United States, are expected to remain unchanged at 4.25% up to the second half of 2007.

BANK OF CANADA OVERNIGHT RATE
(as a percentage)



This will undoubtedly have an impact on the Bank's growth opportunities in the near future, mainly as it regards lending activities in the manufacturing sectors. However, the recent stability in energy prices and Canadian dollar have somewhat eased some of these concerns. Moreover, the Bank is relying more on retail activities, which should be less affected. The low unemployment and interest rates levels should continue to support consumer spending, while the slowdown in the housing market may not be as severe in Quebec and Ontario.

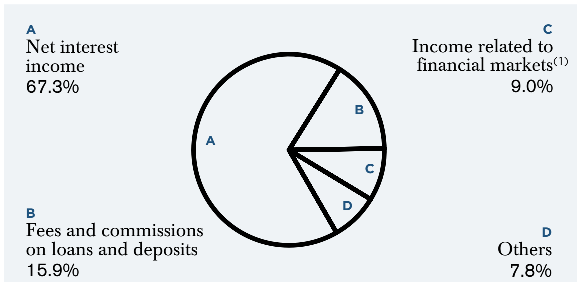
Analysis of Consolidated Results

For the fiscal year ended October 31, 2006, the Bank reported net income of $70.3 million, compared to $65.3 million in 2005. Income from continuing operations increased by 18% and stood at $65.6 million in 2006, compared to $55.6 million in 2005.

TOTAL REVENUE

Total revenue was $530.7 million in 2006, up $28.6 million or 6%, compared to revenues of $502.1 million for fiscal 2005. This growth is mainly attributable to the improvement in net interest income; the contribution from certain other sources has nevertheless been quite significant, as detailed below.

TOTAL REVENUE MIX
For the year ended October 31, 2006 (as a percentage)



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

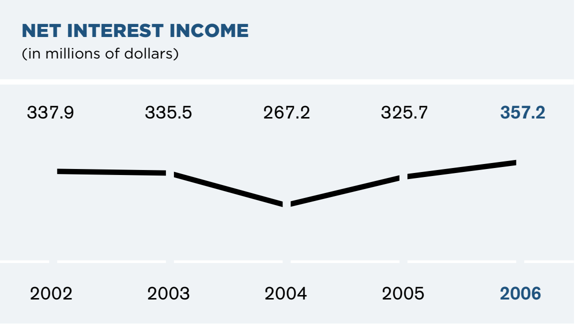
NET INTEREST INCOME

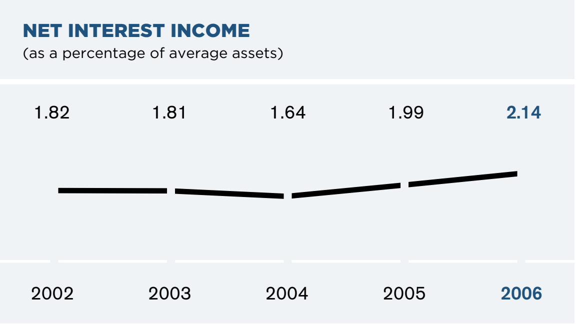
Net interest income increased by 10% and stood at $357.2 million in 2006, compared to $325.7 million in 2005, as shown in table 9 below. This substantial increase in revenues stems mostly from the growth in loan and deposit portfolios, the stricter asset and liability management strategies adopted in 2004 and the Bank's capital structure realignment. These factors also contributed to the marked increase of the net interest margin, which improved from 1.99% in 2005 to 2.14% in 2006. The anticipated growth in loan and deposit portfolios, combined with the continuous efforts to improve the asset mix, should ensure future revenue growth, as the major effects of the asset and liability management measures are now embedded in the net interest margin.

Derivative financial instruments are efficient tools for the management of interest rate risk and liquidity risk. Depending on the evolution of interest rates and the composition of portfolios in terms of maturity and types of products, actual return on portfolios can fluctuate substantially. The Bank therefore uses derivative financial instruments to manage its risks, and net interest income must be analyzed taking their impact into consideration. The Bank also uses models to quantify the potential impact of various future scenarios on revenues and equity, as explained in the Asset and liability management activities section on page 51 of this Annual Report.

TABLE 9
CHANGES IN NET INTEREST INCOME
For the years ended October 31 (in millions of dollars and as a percentage)

				2006				2005
	Average volume in %	Average volume	Interest	Average rate	Average volume in %	Average volume	Interest	Average rate
Assets								
Cash resources and securities	20.8%	$ 3,472	$ 82.1	2.36%	21.4%	$ 3,485	$ 67.6	1.94%
Assets purchased under reverse repurchase agreements	3.9	653	19.5	2.98	3.8	626	14.4	2.30
Loans								
Personal	24.2	4,035	292.5	7.25	22.9	3,735	247.6	6.63
Residential mortgages	34.5	5,753	306.5	5.33	34.6	5,649	298.2	5.28
Commercial mortgages	3.6	607	39.4	6.48	3.5	572	34.9	6.11
Commercial and other	9.4	1,562	94.9	6.07	9.9	1,621	87.0	5.37
Other assets	3.6	609	2.3	0.38	3.9	640	0.5	0.08
Total – assets	100.0%	$ 16,691	$ 837.2	5.02%	100.0%	$ 16,328	$ 750.2	4.59%
Liabilities and shareholders' equity								
Demand and notice deposits		$ 2,560	$ 15.4	0.60%		$ 2,497	$ 10.3	0.41%
Term deposits		10,895	426.6	3.92		10,806	415.2	3.84
Other deposits		1,648	19.3	1.17		1,368	13.0	0.95
Derivative financial instruments		–	6.0	–		–	(30.2)	–
		15,103	467.3	3.09		14,671	408.3	2.78
Acceptances		111	–	–		131	–	–
Other liabilities		349	–	–		426	–	–
Subordinated debentures		203	12.7	6.26		204	16.2	7.93
Shareholders' equity		925	–	–		896	–	–
Total – liabilities and shareholders' equity		$ 16,691	$ 480.0	2.88%		$ 16,328	$ 424.5	2.60%
Net interest income			$ 357.2	2.14%			$ 325.7	1.99%





OTHER INCOME

Other income stood at $173.5 million in 2006, compared to $176.4 million in 2005. The $2.9 million decrease for fiscal 2006 is mainly attributable to the forgone revenues from Brome Financial Corporation Inc. (Brome) and, but to a lesser extent, to the lower income from treasury and financial markets activities and securitization operations. These decreases were partly offset by the significant improvements in credit insurance income, card service revenues and revenues from brokerage operations. Management is pleased with the contribution of these operations as it validates the relevance of its strategies. Furthermore, these activities generate a recurring and stable stream of revenues, whereas treasury and financial markets activities and securitization operations, given their very nature, are more volatile.

Fees and commissions on loans and deposits decreased to $84.6 million for fiscal 2006, whereas they stood at $89.2 million in 2005. This decrease is mainly attributable to the sale of Brome, during the first quarter of 2006, which affected commissions on loans by some $4.1 million.

Income from brokerage operations increased to $22.3 million, whereas they stood at $20.2 million in 2005. The two major divisions – institutional brokerage and retail brokerage – both contributed to this increase in revenues.

At $15.2 million for fiscal 2006, revenues from treasury and financial market activities were slightly lower than in 2005 when they stood at $16.2 million. Introduced in 2004, changes in asset management strategies did however effectively contribute to reducing volatility and significantly improving net interest income.

Credit insurance revenues are generated by insurance programs related to loans disbursed by the Bank. As anticipated, these revenues increased by $4.9 million in 2006 to $12.6 million, as a result of the expiration of a reinsurance agreement concluded in 2000. This substantial increase is also attributable to the growth in business volumes.

Revenues from mutual funds distribution activities increased by $1.0 million and stood at $10.6 million in 2006. Presently, the Bank benefits from the continuing demand for this type of investment in Canada. Moreover, the partnership with Industrial Alliance allows the Bank to offer an excellent range of funds. In order to fully appreciate the importance of these operations for the Bank, one must also take into account the $5.2 million income from discontinued operations, detailed on page 17 of this Annual Report. The recognition of this income, for both fiscal 2006 and fiscal 2005, is largely attributable to the good performance of the Bank's distribution network.

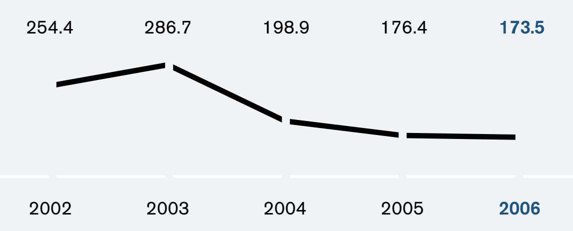
Revenues from registered self-directed plans slightly decreased and stood at $10.5 million for fiscal 2006, compared to $11.8 million in 2005. This result is linked to changes in market conditions, weighing down the number of registered self-directed plans. The section on off-balance sheet arrangements on page 44 of this Annual Report offers additional information on this matter.

Revenues from securitization decreased to $10.0 million in 2006, compared to $11.7 million in 2005. In order to finance the significant growth in loan volumes and optimize the Bank's funding structure, among others, transfers of receivables have been more frequent during fiscal 2006. Considering the market conditions however, these transfers generated slightly less revenues. Note 5 to the consolidated financial statements provides further information on these operations.

TABLE 10
OTHER INCOME
For the years ended October 31 (in millions of dollars)

	2006	2005	2004	Variation 06 / 05
Fees and commissions on loans and deposits				
Deposit service charges	$ 47.9	$ 47.7	$ 45.8	–%
Lending fees	23.7	30.4	32.1	(22)
Card service revenues	13.0	11.1	11.3	17
Sub-total – fees and commissions on loans and deposits	84.6	89.2	89.2	(5)
As a % of average assets	0.51%	0.55%	0.55%	
Other				
Brokerage operations	22.3	20.2	20.2	10
Income from treasury and financial market operations	15.2	16.2	30.6	(6)
Credit insurance income	12.6	7.7	6.1	64
Income from sale and management of mutual funds	10.6	9.6	12.9	10
Income from registered self-directed plans	10.5	11.8	12.2	(11)
Securitization income	10.0	11.7	4.4	(15)
Trust services	1.2	1.0	2.1	20
Gain on disposals	0.9	–	13.5	–
Other	5.6	9.0	7.7	(38)
Sub-total – other	88.9	87.2	109.7	2
As a % of average assets	0.53%	0.53%	0.67%	
Total – other income	$ 173.5	$ 176.4	$ 198.9	(2)%
As a % of average assets	1.04%	1.08%	1.22%	

OTHER INCOME
(in millions of dollars)



PROVISION FOR CREDIT LOSSES

The provision for credit losses amounted to $40.0 million for fiscal 2006, the same level as for 2005. This represents 0.32% of the average portfolio of loans, bankers' acceptances and assets purchased under reverse repurchase agreements.

The Canadian economy has enjoyed another good year, thus enabling the Bank to contain credit losses within management's expectations. Earlier in fiscal 2006, the surges in the Canadian dollar and energy prices caused difficulties for exporting industries, such as forestry and wood manufacturing, and generated some losses for the Bank. However, measures taken over the last two years have significantly reduced the Bank's exposure to these industries.

The higher loan losses on the personal loan portfolio are attributable, in part, to the growth in loan volumes and, for certain categories of loans, to a slight increase in the loss ratio, which nonetheless remains generally in line with the industry. Residential and commercial mortgage loan portfolios, as well as the other personal loan portfolios, continued otherwise to perform very well.

The following table presents the provision for credit losses from 2004 to 2006.

TABLE 11
PROVISION FOR CREDIT LOSSES
For the years ended October 31 (in millions of dollars)

	2006	2005	2004
Personal loans	$ 27.7	$ 25.1	$ 25.6
Residential mortgages	0.4	0.6	1.7
Commercial mortgages	(0.2)	1.6	3.1
Commercial loans and other	12.1	12.7	21.6
Sub-total	40.0	40.0	52.0
Effect of the reversal of general allowances	–	–	(12.0)
Total – provision for credit losses	$ 40.0	$ 40.0	$ 40.0
As a % of average loans, bankers' acceptances and assets purchased under reverse repurchase agreements	0.32%	0.33%	0.32%

NON-INTEREST EXPENSES

Non-interest expenses were $401.7 million in 2006, while they stood at $382.0 million in 2005.

Salaries and employee benefits increased by $13.5 million, compared to fiscal 2005. This is mainly attributable to the increase in activities in all business segments, including the opening of new branches, the expansion of brokerage operations, the hiring of personnel to support sales initiatives, as well as to the yearly salaries adjustments. The $5.9 million increase in employee future benefits also had an impact on non-interest expenses in 2006. After some important increases over the recent years, employee future benefit costs should stabilize in fiscal 2007. Note 14 to the consolidated financial statements, on page 82 of this Annual Report, offers more information regarding pension plans. These increases have been partly offset by the $2.7 million reduction in salaries and employee benefits related to Brome's operations. The number of full-time equivalent employees increased by 58, from 3,180 as at October 31, 2005 to 3,238 as at October 31, 2006.

Premises and technology costs slightly decreased, from $107.6 million in 2005 to $106.9 million in 2006. The increase in the costs of equipment and computer services has been offset by the decrease in amortization expenses and other expenses. In this respect, the higher level of expenses recorded in fiscal 2005 was mainly attributable to the branch network renovation program, as well as to the final amortization of some important projects. The expenses related to the Bank's information systems may fluctuate significantly from year to year, depending on which technological solutions are adopted. In 2006, the Bank allocated substantial resources to updating its internal office network. This large-scale project required an investment of more than $12 million in 2006, and is expected to require further investments of close to $18 million in 2007. The renewed internal office network should enable the Bank to significantly improve the efficiency of its communications and the security of its network. Moreover, improvements in the ATM network also required an important investment. Beginning in fiscal 2007, these expenses will translate into an increase of some $6 million in amortization expenses.

Other expenses stood at $89.1 million in 2006, compared to $82.2 million in 2005. This increase is mainly attributable to higher advertising and business development expenses, designed to further growth, as well as to fees on projects related to Bill 198 on the certification of issuers' annual and interim financial information.

Table 12 illustrates the changes in non-interest expenses from 2004 to 2006.

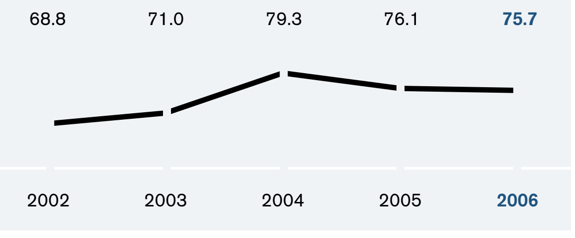
TABLE 12
NON-INTEREST EXPENSES
For the years ended October 31 (in millions of dollars)

	2006	2005	2004	Variation 06 / 05
Salaries	$ 155.7	$ 146.8	$ 140.4	
Employee benefits	50.0	45.4	42.5	
Sub-total – salaries and employee benefits	205.7	192.2	182.9	7%
As a % of average assets	1.23%	1.18%	1.12%	
Premises and technology				
Equipment and computer services	40.8	37.6	30.1	
Rent and property taxes	33.6	33.1	33.4	
Depreciation	26.0	28.4	34.5	
Maintenance and repairs	4.9	5.3	4.8	
Public utilities	1.2	1.1	1.0	
Other	0.4	2.1	0.9	
Sub-total – premises and technology	106.9	107.6	104.7	(1)%
As a % of average assets	0.64%	0.66%	0.64%	
Other expenses				
Taxes and insurance	23.9	23.6	25.1	
Fees and commissions	19.2	16.5	17.1	
Communications and travelling expenses	17.5	17.6	16.1	
Advertising and business development	15.3	13.2	11.6	
Stationery and publications	6.0	6.0	6.0	
Recruitment and training	2.1	2.3	2.2	
Other	5.1	3.0	4.0	
Sub-total – other expenses	89.1	82.2	82.1	8%
As a % of average assets	0.53%	0.50%	0.50%	
Total – non-interest expenses	$ 401.7	$ 382.0	$ 369.7	5%
As a % of average assets	2.41%	2.34%	2.26%	
As a % of total revenue (efficiency ratio)	75.7%	76.1%	79.3%	

EFFICIENCY RATIO

The efficiency ratio slightly improved, from 76.1% in 2005 to 75.7% in 2006 (on the basis of continuing operations). Even at this level, efficiency remains below expectations. Management is convinced however that, through the increase in revenues and an efficient control of expenses, this indicator will gradually improve. The graph beside illustrates the Bank's performance over the last years.

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



INCOME TAX EXPENSE

Income tax expense for fiscal 2006 stood at $23.4 million (26.3% effective tax rate), compared to $24.5 million (30.6% effective tax rate) for fiscal 2005.

TABLE 13
RECONCILIATION OF THE INCOME TAX EXPENSE FROM CONTINUING OPERATIONS TO THE DOLLAR AMOUNT OF INCOME TAX USING THE STATUTORY RATE
(in millions of dollars)

	2006		2005	
Income taxes at statutory rate	$ 29.3	32.9%	$ 25.7	32.0%
Change resulting from:				
Resolution of income tax exposures	(11.3)	(12.7)	–	–
Tax rate changes	8.6	9.7	–	–
Realized gain on repatriation of accumulated foreign retained earnings	4.5	5.1	–	–
Recognition of previously unrecognized temporary differences related to the minimum tax on financial institutions	(2.8)	(3.2)	–	–
Tax exempt revenues (dividends)	(1.1)	(1.2)	(0.3)	(0.4)
Lower tax rate on foreign credit insurance operations	(2.4)	(2.7)	–	–
Federal large corporations tax	–	–	0.8	1.0
Corporate reorganization and other	(1.4)	(1.6)	(1.7)	(2.0)
Income taxes from continuing operations	$ 23.4	26.3%	$ 24.5	30.6%

The tax rate changes resulting from the recent federal and Quebec budgets, the repatriation of accumulated foreign credit insurance retained earnings, the resolution of various income tax exposures and the recognition of previously unrecognized temporary differences, as detailed in the table above, were the most significant items which specifically affected the income tax expense in 2006. Excluding the impact of these items, the effective tax rate for 2006 would have been 27.4%, compared to 30.6% in 2005. This lower tax rate, in 2006, mainly results from the increase in investments in Canadian securities that generate tax-exempt income (dividends), as well as from a corporate reorganization that reduced the tax rate on foreign credit insurance income.

The adoption of the federal budget mentioned earlier has had an immediate effect, reducing future income tax assets and generating an income tax expense for fiscal 2006. However, the gradual reduction of the federal income tax rate from 22% to 19%, between 2008 and 2010, will allow for a reduction of the income tax expense starting in 2008. Moreover, the same federal budget provides for raising the threshold of the federal minimum tax on financial institutions to $1 billion, as of July 1st, 2006. This adjustment represents a very positive point for the Bank, as it will allow for the reduction of future income tax assets at an accelerated pace and thereby for the reduction of the financial burden that these non-productive assets constitute.

Note 15 to the consolidated financial statements provides further information on the income tax expense.

Analysis of Financial Condition

During fiscal 2006, the strategies adopted by the Bank to improve its financial condition generated a substantial increase in the personal loan and deposit portfolios. Throughout 2006 likewise, the Bank pursued its operations designed to realign capital, including subordinated debentures, as well as the implementation of more efficient investment strategies.

As at October 31, 2006, the Bank's total assets stood at $17.3 billion, compared to $16.5 billion as at October 31, 2005, as indicated in table 14 on page 36 of this Annual Report. Assets under administration stood at $14.7 billion, compared to $13.8 billion at the end of fiscal 2005. These changes are explained in the next sections of this Management Discussion and Analysis.

TABLE 14
BALANCE SHEET ASSETS
As at October 31 (in millions of dollars)

	2006	2005	2004	Variation 06 / 05
Cash resources and securities	$ 3,412	$ 3,258	$ 3,331	5%
Assets purchased under reverse repurchase agreements	802	508	1,134	58
Loans				
Personal	4,168	3,907	3,639	7
Residential mortgages	5,986	5,807	5,509	3
Commercial mortgages	659	596	604	11
Commercial and other	1,477	1,540	1,543	(4)
	12,290	11,850	11,295	4
Allowance for loan losses	(125)	(130)	(140)	(4)
Total loans	12,165	11,720	11,155	4
Customers' liability under acceptances	150	146	145	3
Other assets	767	875	842	(12)
Balance sheet assets	$ 17,296	$ 16,507	$ 16,607	5%
Cash resources and securities as a % of balance sheet assets	19,7%	19,7%	20,1%	
Loans and assets purchased under reverse repurchase agreements as a % of balance sheet assets	75,0%	74,1%	74,0%	

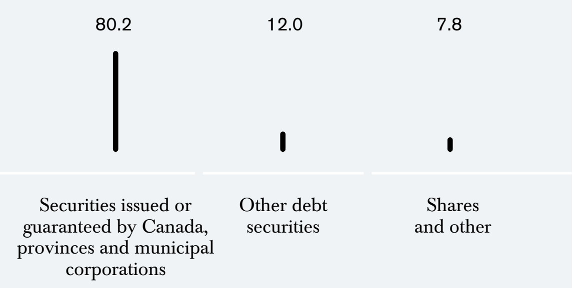
CASH RESOURCES AND SECURITIES

Cash resources and securities remained relatively stable, standing at $3.4 billion as at October 31, 2006, compared to $3.3 billion as at October 31, 2005.

More than 80% of the Bank's liquidities are composed of securities issued or guaranteed by Canada, provinces and municipal corporations. The remainder of the portfolio is composed of cash, other debt securities and equity securities. Cash resources and securities constitute nearly 20% of balance sheet assets, a level comparable to last year's. Cash resources enable the Bank to meet its short-term commitments, particularly loan disbursements and the management of its deposit portfolio maturities, as well as provide for its other current operations. Return on cash resources however is generally lower than what the Bank can generate through its loan operations.

As at October 31, 2006, some securities presented losses in value totalling $6.8 million, as detailed in note 3 to the consolidated financial statements on page 75 of this Annual Report. These losses in value essentially concern debt securities issued or guaranteed by the Canadian government, and are linked to changes in interest rates in the markets. The Bank considers that it can hold these securities to maturity or until such losses in value are resolved. Consequently, no loss in value has been recognized.

SECURITIES
As at October 31, 2006 (as a percentage)



ASSETS PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS

The value of assets purchased under reverse repurchase agreements stood at $0.8 billion as at October 31, 2006, compared to $0.5 billion as at October 31, 2005. These assets are used as very short term investments, mainly in order to reposition the Bank's cash resources and to cover some commitments related to securities sold short.

OTHER ASSETS

The other assets, excluding customers' liabilities under acceptances, decreased from $875 million as at October 31, 2005 to $767 million on October 31, 2006. This decrease is mainly attributable to the decreases in items in transit linked to the settlement of banking transactions at year-end, and in assets related to derivative financial instruments. These mainly correspond to the fair value of the derivative financial instruments, to the accrued interests on these instruments, as well as to the deferred losses related to the derivative financial instruments that qualify for hedge accounting.

LOANS AND BANKERS' ACCEPTANCES

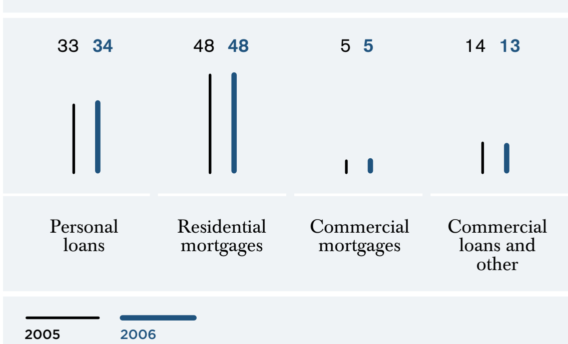
The loan and bankers' acceptance portfolio, before provision for credit losses, increased by 4% to $12.4 billion as at October 31, 2006, compared to $12.0 billion on October 31, 2005. The mix of the various loan portfolios is described below.

LOAN PORTFOLIOS MIX

The Bank's loan portfolios consist of personal loans, residential mortgages, commercial mortgages and commercial loans, including bankers' acceptances. The proportion of the various types of loans as at October 31, 2006 is basically the same as at October 31, 2005.

The personal loan portfolio and the residential mortgage loan portfolio stood at $4.2 billion and $6.0 billion respectively, representing more than 80% of the Bank's loan portfolio, a level similar to 2005. This proportion reflects the Bank's strong presence with individual clients through Retail Financial Services and B2B Trust. Commercial financing, essentially for small and medium-sized businesses, remained stable in comparison with 2005, at $2.3 billion as at October 31, 2006.

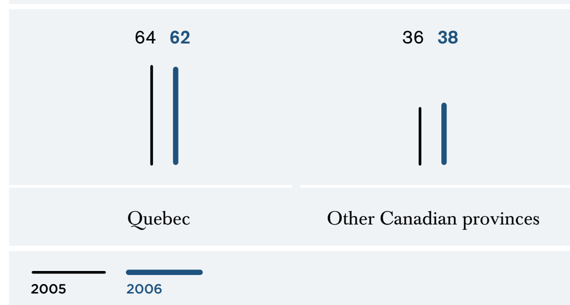
LOAN PORTFOLIO MIX
(as a percentage)



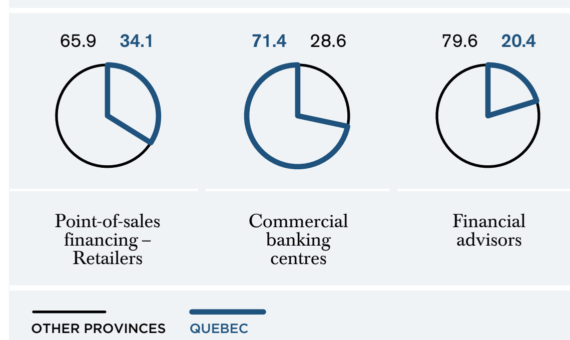
Geographic distribution

In line with its business plan, the Bank is mainly active in Quebec. In practical terms, the Bank's presence manifests itself through its network of retail branches and business centres. Moreover, the Bank extends its activities throughout Canada via business centres, a vast network of brokers and financial advisors, as well as through its relations with retailers acting as intermediaries for point-of-sale financing activities. B2B Trust also maintains a significant physical presence in Ontario. As at October 31, 2006, the proportion of loans granted in Quebec represented 62% of total loans, a level similar to last year's (64%), whereas the proportion of loans granted outside Quebec stood at 38%.

GEOGRAPHIC DISTRIBUTION OF LOANS
(as a percentage)



LOAN SOURCES
As at October 31, 2006 (as a percentage)



Loan size by commercial borrower

The Bank maintains the size of loans granted at a level consistent with the level of risks it is willing to assume, in keeping with its credit risk management policies. For both commercial mortgage loans and commercial loans, this limit has generally been set at $20 million.

Insurance and guarantees

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

The CMHC offers a mortgage loan insurance program designed to guarantee loans in order to give Canadians access to mortgage financing at a more affordable cost. The Bank participates in this program as an approved lender, which enables it to benefit from insurance coverage and thus reduce its global credit risk and improve its capital ratios. Moreover, by maintaining a high proportion of insured residential mortgages, the Bank preserves its capacity to pursue its securitization operations which in turn enables it to optimize the financing of its activities and manage its cash resources. By year-end 2006, 50% of residential mortgages were insured by the CMHC, compared to 49% in 2005. Furthermore, the Bank considers that it holds excellent guarantees for the other conventional mortgage loans where the loan value never exceeds 75% of the estimated value of the property at origin, in accordance with legal requirements.

Buildings with five units or less, a significant number of which are single-family units, comprise 78% of the volume of residential mortgages outstanding. The average balance of these loans stood at $100,100, compared to $87,300 at year-end 2005.

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

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

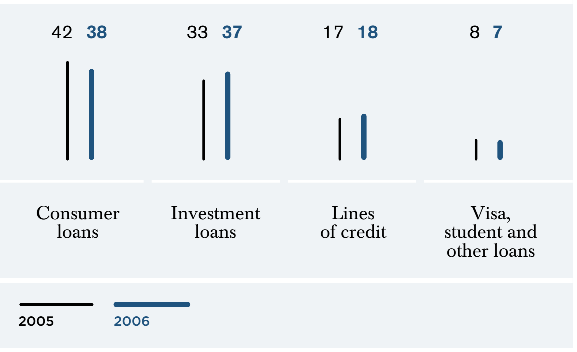
CHANGES IN LOAN PORTFOLIOS

Personal loans

As at October 31, 2006, the personal loans portfolio stood at $4.2 billion, an increase of $261 million over fiscal 2005. This increase is mainly attributable to B2B Trust's investment loan portfolio which continued to benefit from favorable market conditions over the first quarters of 2006, as well as to the continuing business development with B2B Trust's partners.

The portfolio of lines of credit has also increased during fiscal 2006 and stood at $750.1 million as at October 31, 2006, including home equity lines of credit for $244 million. Finally, the portfolio of loans subscribed through the point-of-sales financing network throughout Canada has remained relatively stable during fiscal 2006.

PERSONAL LOAN PORTFOLIO MIX
(as a percentage)



Residential mortgage loans

As shown in table 15, the residential mortgage loan portfolios, including on-balance sheet loans and securitized loans, increased by $564 million during fiscal 2006. This performance is mainly attributable to the favorable economic conditions, to the strength of the real estate market and to the solid performance of Retail Financial Services in the face of continuing competition.

RESIDENTIAL MORTGAGE LOANS BY PROPERTY TYPE
(as a percentage)

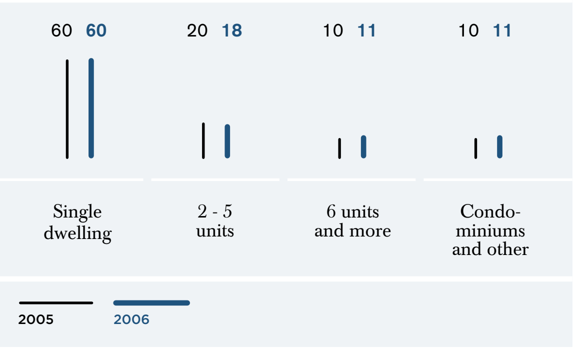
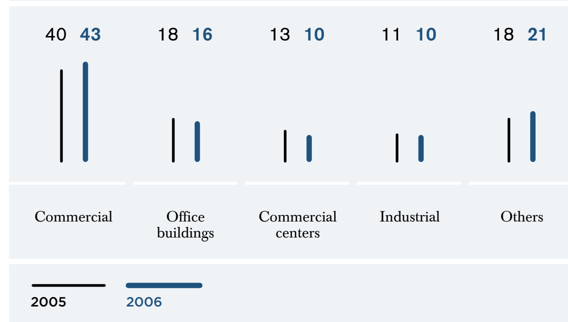


TABLE 15
RESIDENTIAL MORTGAGE LOANS PORTFOLIO
As at October 31 (in millions of dollars)

	2006	2005
Residential mortgage loans, as reported on balance sheet	$ 5,986	$ 5,807
Securitized loans	1,039	654
Total residential mortgage loans, including securitized loans	$ 7,025	$ 6,461

COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE
(as a percentage)



Commercial mortgage loans

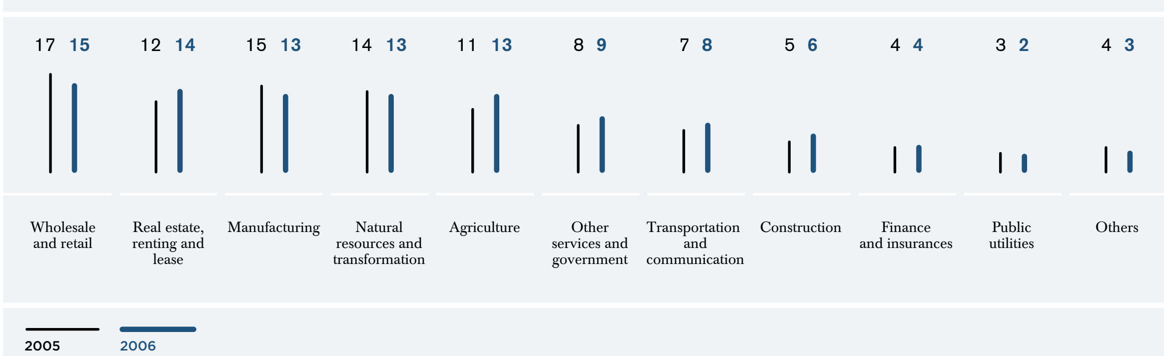
The volume of commercial mortgage loans increased by more than 10% over fiscal 2005, and stood at $659 million, compared to $596 million as at October 31, 2005. The Bank still plays an active role in the field of commercial mortgage loans all over Canada. This position enabled the Bank to benefit from, among other things, the positive market developments in Western Canada.

As at October 31, 2006, Ontario and Western Canada represented 72% of the commercial mortgage loan portfolio and Quebec 28%, whereas their respective shares were 67% and 33% as at October 31, 2005.

Commercial Loans

As at October 31, 2006, the portfolio of commercial loans, including bankers' acceptances, stood at $1.6 billion, which is slightly less than as at October 31, 2005 when it stood at $1.7 billion. The portfolio of loans in Ontario and Western Canada, as well as the corporate loan portfolio, decreased by close to $60 million in 2006. Moreover, the sale of Brome Financial Corporation Inc. during the first quarter of 2006, resulted in a $30 million reduction in the loan portfolio. These reductions were partly offset by the nearly $20 million increase recorded in Quebec with agricultural enterprises as well as with small and medium-sized businesses. This development is perfectly consistent with the Bank's strategy designed to focus on those business sectors where it can differentiate itself from its competitors.

COMMERCIAL LOANS BY INDUSTRY
(as a percentage)



Impaired loans

Gross impaired loans increased from $120.9 million in 2005 to $130.6 million in 2006. Net impaired loans stood at $5.4 million as at October 31, 2006, compared to $(8.9) million as at October 31, 2005. Despite the deterioration of these indicators, the credit quality of the loan portfolios remains solid. The excellent economic conditions in Quebec and Canada over the last few years have allowed the Bank to significantly improve the quality of the portfolios. Moreover, the measures taken over the last four years to reduce the Bank's exposure to major credit risks, as well as an higher proportion of personal loans, have improved the Bank's risk profile. Table 16 details impaired loans per portfolio.

TABLE 16
IMPAIRED LOANS
As at October 31 (in millions of dollars)

			2006			2005
	Gross	Specific allowances	Net	Gross	Specific allowances	Net
Personal loans	$ 16.1	$ (5.6)	$ 10.5	$ 16.9	$ (7.3)	$ 9.6
Residential mortgages	16.5	(3.5)	13.0	9.8	(3.7)	6.1
Commercial mortgages	8.4	(3.5)	4.9	12.2	(5.9)	6.3
Commercial loans and other	89.6	(47.3)	42.3	82.0	(47.6)	34.4
Total	$ 130.6	$ (59.9)	$ 70.7	$ 120.9	$ (64.5)	$ 56.4
General allowances			(65.3)			(65.3)
Total – net impaired loans			$ 5.4			$ (8.9)
As a % of total loans, bankers' acceptances and assets purchased under reverse repurchase agreements			–%			(0.1)%

General allowances stood at $65.3 million as at October 31, 2006, the same as at October 31, 2005. This reflects the estimate as to potential losses attributable to the deterioration in credit quality of loans that have still not been categorized as impaired. Note 4 to the consolidated financial statements provide more information on this topic.

DEPOSITS

The deposit portfolio decreased from $13.7 billion as at October 31, 2005, to $13.1 billion as at October 31, 2006. This reduction is basically linked to the maturity of treasury deposits. Excluding these maturities, deposits rose by more than $400 million. This increase in deposits has contributed in improving the Bank's mix of financing sources and in financing the growth of the loan portfolios. Table 17 offers a summary of the various portfolios.

PERSONAL DEPOSITS

Total personal deposits increased to $11.0 billion as at October 31, 2006, compared to $10.6 billion as at October 31, 2005. This increase is mainly attributable to deposits generated through B2B Trust, up to $262 million, as well as through branches, up to $107 million. Personal deposits collected through the branch network and through financial advisors totalled respectively $5.8 billion and $5.1 billion as at October 31, 2006. Personal deposits constitute a particularly advantageous and stable source of financing for the Bank, owing among other things to their availability and low cost, compared to institutional deposits. As at October 31, 2006, these deposits constituted 84% of the Bank's total deposit portfolio.

BUSINESS, BANK AND OTHER DEPOSITS

Deposits from businesses and banks, and other deposits, decreased by $977 million and stood at $2.1 billion as at October 31, 2006, compared to $3.1 billion as at October 31, 2005. This decrease is attributable to the fact that some treasury deposits matured at the beginning of the fiscal year, and that the availability and pricing of other sources of financing, including securitization, personal deposits and obligations related to assets sold under repurchase agreements, proved to be more attractive.

TABLE 17
DEPOSITS
As at October 31 (in millions of dollars)

	2006		2005	
Personal				
Notice and demand	$ 1,843	14.1%	$ 1,871	13.7%
Fixed date				
Branch network	4,221	32.2	4,105	29.9
Brokers	4,886	37.3	4,599	33.6
	9,107	69.5	8,704	63.5
Sub-total – personal	10,950	83.6	10,575	77.2
Business, banks and other				
Notice and demand	832	6.4	767	5.6
Fixed date	1,313	10.0	2,355	17.2
Sub-total – Business, banks and other	2,145	16.4	3,122	22.8
Total – deposits	$ 13,095	100.0%	$ 13,697	100.0%

OTHER LIABILITIES

The increase of more than $1.4 billion in other liabilities during fiscal 2006 is mainly attributable to obligations related to assets sold short and to obligations related to assets sold under repurchase agreements, which are dependent on trading activities and investment strategies. The other elements, such as accrued interest on deposit portfolios, cheques and other items in transit, and accounts payable, have varied little compared to fiscal 2005.

SUBORDINATED DEBENTURES

As at October 31, 2006, just as at October 31, 2005, subordinated debentures totalled $150 million. The issuance of the 4.90% subordinated debentures, Series 10 in January 2006 offset the effect of the redemption of the 6.50% Debentures, Series 9, in June 2006. These operations, which formed part of the Bank's strategies to enhance its results, allowed for a substantial reduction in financing costs, while maintaining equivalent protection for depositors.

SHAREHOLDERS' EQUITY

Shareholders' equity stood at $946.4 million as at October 31, 2006, compared to $913.2 million as at October 31, 2005, an increase of $33.2 million. This increase in value was generated mainly by the net income for fiscal 2006, net of declared dividends. The Bank's book value per common share increased from $29.85 as at October 31, 2005, to $31.18 as at October 31, 2006. During fiscal 2006, the Bank issued 63,891 common shares under its stock option plan for proceeds of $1.5 million. As at October 31, 2006, there were 23,620,436 common shares outstanding.

FUNDING SOURCES
As at October 31, 2006 (as a percentage)

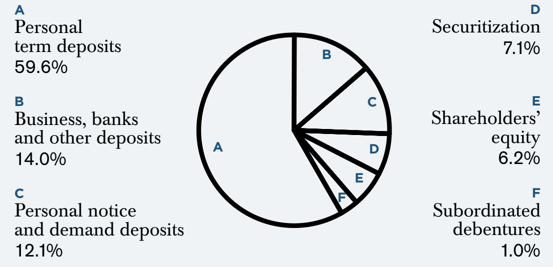


TABLE 18
SHARES ISSUED AND OUTSTANDING
As at November 30, 2006 (in number of shares)

Class A Preferred shares	
Series 9	4,000,000
Serie 10	4,400,000
Total preferred shares	8,400,000
Common shares	23,627,455
Options	332,585

REGULATORY CAPITAL

The Bank carefully monitors its capital base as it represents a critical factor in assessing its strength and security in relation to the risks associated with its activities. The calculation of regulatory capital is subject to the guidelines issued by the Office of the Superintendent of Financial Institutions of Canada (OSFI). These guidelines originate from the Bank for International Settlements (BIS) regulatory risk-based capital framework. According to BIS standards, banks must maintain a minimum Tier 1 capital ratio of 4% and a total capital ratio of at least 8%. OSFI decreed that Canadian deposit-taking financial institutions had to achieve a minimum Tier 1 capital ratio of at least 7% and a total capital ratio of at least 10%.

Table 19 and table 20 outline the risk-weighted assets and the regulatory capital which are used to calculate ratios, as established by the BIS.

TABLE 19
RISK-WEIGHTED ASSETS
As at October 31 (in millions of dollars)

	2006	2005
Balance sheet items		
Cash resources	$ 42	$ 88
Securities	481	397
Mortgage loans	2,400	2,329
Other loans and customers' liability under acceptances	5,147	5,063
Other assets	463	497
General allowances	65	65
Total – balance sheet items	$ 8,598	$ 8,439
Off-balance sheet items		
Derivative financial instruments	27	34
Credit-related commitments	77	50
Total – risk-weighted assets	$ 8,702	$ 8,523

TABLE 20
REGULATORY CAPITAL – BIS
As at October 31 (in millions of dollars)

	2006	2005	Variation 06 / 05
Tier I capital			
Common shares	$ 250.6	$ 249.0	1%
Contributed surplus	0.5	0.1	400
Retained earnings	485.3	454.1	7
Non-cumulative preferred shares	210.0	210.0	–
Non-controlling interest in a subsidiary	–	6.8	(100)
Less: goodwill	(53.8)	(53.8)	–
Total – Tier I capital (A)	892.6	866.2	3
Tier II capital			
Subordinated debentures	150.0	150.0	–
General allowances	65.3	65.3	–
Total – Tier II capital	215.3	215.3	–
Securization and other	(28.5)	(32.4)	(12)
Regulatory capital – BIS (B)	$ 1,079.4	1 049.1	3%
Total risk-weighted assets (Table 19) (C)	$ 8,702.2	$ 8,522.6	
Tier I BIS capital ratio (A/C)	10.3%	10.2%	
Total BIS capital ratio (B/C)	12.4%	12.3%	
Assets to capital multiple	16.1x	15.8x	
Tangible common equity as a percentage of risk-weighted assets	7.7%	7.5%	

DIVIDENDS

After a few difficult years, recent results allowed for the dividend ratio to reach a level closer to the industry's, and within the 40% to 50% range determined by the Bank's management. Throughout this period, the Bank maintained its tradition of uninterrupted dividend payments, demonstrating thereby its commitment to its shareholders.

The Board of Directors must approve dividend payments on preferred and common shares on a quarterly basis. Moreover, the declaration and payment of dividends are subject to certain legal restrictions, as explained in note 12 to the consolidated financial statements.

TABLE 21
SHARE DIVIDENDS AND PAYOUT RATIO
(in millions of dollars, except per share amounts and payout ratios)

For the years ended October 31	2006	2005	2004
Dividends declared on preferred shares (1)	$ 11,775	$ 11,775	$ 16,218
Dividends declared per common share	$ 1.16	$ 1.16	$ 1.16
Dividends declared on common shares	$ 27,356	$ 27,287	$ 27,248
Payout ratio	46.7%	51.2%	87.1%

(1) Include the dividends of Class A preferred shares Series 7 and 8 amounting to $6 million in 2004, as well as the premium on redemption of $2 million in 2004 which were reclassified to the consolidated statement of income.

CREDIT RATINGS

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

TABLE 22
CREDIT RATINGS
As at October 31, 2006

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

The Bank's credit ratings remained unchanged during fiscal 2006. Standard & Poor's has nevertheless revised the credit ratings outlook from negative to stable, taking into account the progress made with regard to the Bank's operating results.

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

CONTRACTUAL OBLIGATIONS

The following table presents a summary of the Bank's principal contractual obligations as at October 31, 2006, maturing over each of the next five years and thereafter. Note 20 to the consolidated financial statements provides further information on this subject.

TABLE 23
CONTRACTUAL OBLIGATIONS
As at October 31 (in millions of dollars)

	2007	2008	2009	2010	2011	Thereafter	Total
Term deposits	$ 5,097	$ 2,150	$ 1,891	$ 826	$ 454	$ 1	$ 10,419
Obligations related to assets sold short	1,044	–	–	1	–	32	1 077
Obligations related to assets sold under repurchase agreements	1,100	–	–	–	–	–	1 100
Subordinated debentures	–	–	–	–	150	–	150
Commitments under leases, technology services and other contracts	73	67	64	60	47	195	506
Total	$ 7,314	$ 2,217	$ 1,955	$ 887	$ 651	$ 228	$ 13,252

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

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

Off-balance sheet arrangements

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

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

Assets under administration and assets under management mainly include assets of clients to whom the Bank provides various administrative services, as well as commercial and residential mortgage loans under management related to securitization activities. Through Laurentian Bank Securities, the Bank also manages retail and institutional investment portfolios. The table below presents all of the assets under administration and assets under management. As at October 31, 2006, these items totalled $14.7 billion, an increase of $1 billion over fiscal 2005.

Assets related to self-directed pension plans have slightly increased year over year. Improvements in the Bank's and B2B Trust's products and services offering, combined with markets appreciation, have enable to offset the impact of changes in the regulatory environment that encourage stakeholders to manage their self-directed plans themselves. The Bank anticipates that this trend will persist medium-term, weighing negatively of business opportunities related to these activities.

Clients' brokerage assets increased by more than 19% under the combined effect of a positive securities market performance as well as of initiatives designed to increase brokerage operations.

For their part, institutional assets related to trust services have slightly decreased compared to fiscal 2005.

Mutual fund assets grew by $192 million, or 16%, during fiscal 2006. Favorable market conditions and the continuing demand for these savings products, as well as the initiatives designed to enhance the distribution of these products, account for this promising result. It is worth noting that, since selling its mutual funds management activities to Industrial Alliance in fiscal 2005, the Bank has focused its efforts on the distribution of mutual funds to its retail clientele through its branch network.

Mortgage loans under management increased by 45%, essentially by means of securitization operations carried out during fiscal 2006. The Bank will be able to draw sizeable revenues from the management of these assets over the coming years.

Other personal assets in trust decreased by $155 million, compared to fiscal 2005.

Fees, commissions and other income from these assets, detailed in table 10 on page 32, represent a significant contribution to the Bank's profitability.

TABLE 24
ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT
As at October 31 (in millions of dollars)

	2006	2005	Variation 06 / 05
Self-directed RRSPs and RRIFs	$ 8,283	$ 7,958	4%
Clients' brokerage assets	1,924	1,623	19
Institutional	1,725	1,809	(5)
Mutual funds	1,405	1,213	16
Mortgage loans under management	1,223	843	45
Other – Personal	165	320	(48)
Total – assets under administration and assets under management	$ 14,725	$ 13,766	7%

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The notional principal amounts of the Bank's derivatives totalled $12.6 billion as at October 31, 2006, compared to $13.1 billion as at October 31, 2005. The positive fair value of the derivative financial instruments designated as hedge contracts or as other contracts totalled $3 million and $58 million respectively, compared to $15 million and $75 million respectively as at October 31, 2005. The negative fair value of the derivative financial instruments designated as hedge contracts or as other contracts totalled $17 million and $20 million respectively, compared to $13 million and $49 million respectively as at October 31, 2005.

Note 1 and note 19 to the consolidated financial statements provide further information on the various types of derivative products and their accounting basis.

SPECIAL PURPOSE ENTITIES

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

As part of a securitization transaction, an entity transfers assets to a special-purpose entity, which generally consists of a trust company in Canada, in exchange for cash. The special-purpose entity finances these purchases through the issuance of term bonds or commercial paper. Most often, the sale of receivables is accompanied by credit enhancements that improve the credit ratings of the bonds or commercial paper involved. These enhancements habitually take the form of cash reserve accounts, over-collateralization in the form of excess assets and liquidity guarantees. Securitization programs often include interest swap contracts in order to guarantee payments to investors.

Securitization operations are reported as sales of assets only when the Bank is deemed to have ceded control of these assets and when it receives a consideration other than beneficial interests in the transferred assets. The Bank mainly uses conduits set up by large Canadian banks, along with the Canada Mortgage Bonds program developed by the Canada Mortgage and Housing Corporation (CMHC). When assets are sold, the Bank retains certain rights related to excess interest spreads and cash reserve accounts, which constitute retained interests. The Bank periodically reviews the value of these rights and any permanent impairment in value is charged to income, if applicable. Likewise, the Bank has concluded interest swap agreements intended to guarantee payments to investors. The Bank also continues to manage all securitized assets after the sales. As at October 31, 2006, total outstanding securitized mortgage loans stood at $1,079 million, and related retained interests stood at $38 million. Revenues of $10.0 million were recorded in 2006 as part of securitization operations, including $6.2 million in gains on sales. Note 5 to the consolidated financial statements provides more information about these entities.

EFFECT OF SECURITIZATION PROGRAMS ON REGULATORY CAPITAL RATIOS

Transfers effected through the Canada Mortgage Bonds program do not have a significant impact on regulatory capital ratios, as the mortgages sold are insured by CMHC and already present a risk weight equal to 0%. Transfers of conventional residential mortgage loans as well do not generally have a significant effect on capital ratios, as regulatory capital is adjusted to take into account the credit risk that the Bank continues to assume through retained interests. Finally, transfers of commercial mortgage loans effected by the Bank generally have a positive impact on capital ratios, as the Bank usually does not retain any credit risk when transferring such loans.

CREDIT COMMITMENTS

In the normal course of its operations, the Bank uses various off-balance sheet credit instruments. The credit instruments used as a means of meeting its clients' financial needs represent the maximum amount of additional credit that the Bank may be obligated to extend if the commitments are used entirely. Note 20 to the consolidated financial statements provides more information on this issue.

GUARANTEES

In the normal course of its operations, the Bank enters into guarantee agreements that satisfy the definition in the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline No. 14 "Disclosure of Guarantees" (AcG-14). The principal types of guarantees are standby letters of credit and performance guarantees. Note 20 to the consolidated financial statements provides more information on these guarantees.

TABLE 25
CREDIT COMMITMENTS
As at October 31 (in thousands of dollars)

	2006	2005
Undraw amounts under approved credit facilities (1)	$ 2,185,535	$ 1,931,808
Documentary letters of credit	$ 12,902	$ 15,076
Standby letters of credit and performance guarantees	$ 94,775	$ 60,672

(1) Exclude personal credit facilities totalling $940 851 000 ($1,087,013,000 as at October 31, 2005) and credit card lines amounting to $799,113,000 ($718,770,000 as at October 31, 2005) since they are revocable at the Bank's option.

Analysis of Quarterly Results

SUMMARY ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF 2006

For the fourth quarter ended October 31, 2006, the Bank reported net income of $22.6 million or $0.84 diluted per common share, compared to $21.6 million or $0.79 diluted per common share for the fourth quarter of 2005. Return on common shareholders' equity stood at 10.8% for the fourth quarter of 2006 versus 10.6% for the same quarter of 2005. Income from continuing operations reached $18.1 million or $0.65 diluted per common share for the fourth quarter of 2006, compared to $17.4 million or $0.61 diluted per common share in 2005.

As was the case in fiscal 2005, discontinued operations, resulting from the sale of the BLC-Edmond de Rothschild Asset Management Inc. joint-venture described on page 17 of this Annual Report, also contributed positively to the global increase in the Bank's profitability for the fourth quarter, taking into account the recognition of an additional $5.2 million portion of the gain on sale.

For the fourth quarter of fiscal 2006, total revenue amounted to $134.8 million, compared to $133.8 million for the same quarter in 2005. Net interest income improved by 8%, or $6.7 million. Otherwise, the increase results mainly from the growth in loan and deposit portfolios, the stricter asset and liability management strategies and the capital structure realignment. As for the $5.7 million decline in other income, it is mainly attributable to the forgone revenues from Brome, as well as the reduced contribution from securitization operations and from treasury and financial market activities. The Bank did not securitize any mortgages during the fourth quarter, whereas it had recognized gains amounting to $4.2 million on such transactions in the fourth quarter of 2005.

For the fourth quarter of 2006, the provision for credit losses stood at $10.0 million, compared to $11.8 million for the same quarter a year ago. This improvement reflects the relative stability of the quality of the portfolio throughout fiscal 2006.

For the fourth quarter of 2006, non-interest expenses amounted to $102.6 million, compared to $99.0 million for the fourth quarter of 2005. This year over year increase is largely attributable to the increase in compensation costs, including employee future benefits, and to other expenses, including advertising costs and professional fees.

For the fourth quarter of 2006, the income tax expense amounted to $4.1 million (18.5% effective tax rate), compared to $5.6 million (24.5% effective tax rate) for the fourth quarter of 2005. The lower tax expense mainly results from the positive effect of corporate reorganizations. Management further decided that income from foreign credit insurance operations, realized after the repatriation of the third quarter of 2006, would not be distributed in a foreseeable future. Consequently, no tax expense on these revenues has been recognized during the fourth quarter of 2006.

Results for the fourth quarter of 2005 included the effect of adjustments of $1.7 million related to the optimization of the Bank's tax position and the favorable results for the quarter.

ANALYSIS OF THE EVOLUTION OF THE QUARTERLY RESULTS

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

The following table presents the quarterly results for fiscal 2006 and fiscal 2005.

TABLE 26
QUARTERLY RESULTS
(in millions of dollars, except per share amounts)

				2006
				Quarters ended
	Oct. 31	July 31	Apr. 30	Jan. 31
Total revenue	$ 134.8	$ 135.8	$ 128.5	$ 131.5
Income from continuing operations	18.1	6.2	24.6	16.7
Net income	$ 22.6	$ 6.2	$ 24.6	$ 17.0
Net income per common share				
Basic	$ 0.84	$ 0.13	$ 0.92	$ 0.59
Diluted	$ 0.84	$ 0.13	$ 0.91	$ 0.59

				2005
				Quarters ended
	Oct. 31	July 31	Apr. 30	Jan. 31
Total revenue	$ 133.8	$ 131.1	$ 118.0	$ 119.2
Income from continuing operations	17.4	15.2	11.0	12.1
Net income	$ 21.6	$ 15.8	$ 10.6	$ 17.3
Net income per common share				
Basic	$ 0.79	$ 0.54	$ 0.33	$ 0.61
Diluted	$ 0.79	$ 0.54	$ 0.33	$ 0.60

Total revenue has generally improved from one quarter to the next, mainly through the growth in net interest income. This relatively constant improvement in revenues should have translated into a similar improvement in net income, however, the elements described hereafter have significantly impacted the profitability of certain quarters.

FACTORS WITH A SIGNIFICANT IMPACT ON QUARTERLY RESULTS

Fourth quarter of 2006
Additional $5.2 million gain ($4.4 million, net of applicable income taxes) recognized as part of discontinued operations, related to the recovery clauses based on net annual sales of mutual funds.

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

Second quarter of 2006
$10.7 million income tax recovery, resulting from the resolution of various fiscal items.

Fourth quarter of 2005
Additional $4.8 million net gain ($4.2 million, net of applicable income taxes) recognized as part of discontinued operations, related to the recovery clauses based on net annual sales of mutual funds and other adjustments.

First quarter of 2005
$5.4 million initial gain ($5.2 million, net of applicable income tax) recognized as part of discontinued operations.

Integrated risk management framework

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

The main objective of this framework is to create a risk management culture that centers on establishing measures that allow maximization of the risk/return ratio in all of the Bank's spheres of activity. These measures also entail the establishment of processes to detect, understand and evaluate major risks, on an ongoing basis, the establishment of sound and prudent risk limits and risk management policies, the establishment and application of efficient internal controls and the definition of the Committee responsibilities regarding risk management.

The Integrated Risk Management Framework is divided into two sections: control and corporate governance. The control aspect refers to the control and follow-up of documented and applied processes, procedures and measures that allow the institution to manage and control its commercial activities as well as the significant risks it incurs. The control aspect thus rests on five functions: human resources, strategic planning, financial integrity, risk management and compliance. Regarding corporate governance, the Board of Directors has the ultimate responsibility to ensure as much as possible that the global risk tolerance is consistent with the Bank's strategies and objectives, and that its resources, technologies and processes are aligned with its objectives. Responsibility for each function is delegated to certain members of the Management acting as control coordinators and functions are supervised by the Board of Directors' committees. A description of each of these committees can be found on page 100 of this Annual Report.

Internal audit also plays a key role in the framework structure through the set-up of reliable and comprehensive systems aimed at adequately monitoring the effectiveness of the controls exercised within the different framework functions. Regulatory and statutory requirements form an integral part of the Bank's integrated risk management framework.

REGULATION

MANAGERS

CONTROL ENVIRONMENT FUNCTIONS	COORDINATORS	CORPORATE GOVERNANCE
Human resources	Head of Human Resources	Human Resources and Corporate Governance Committee
Strategic planning	President and Chief Executive Officer Chief Financial Officer	Board of Directors
Financial integrity	Chief Financial Officer	Audit Committee
Risk management	Chief Risk Officer	Risk Management Committee
Compliance	Chief Compliance Officer	Audit Committee

INTERNAL AUDIT

RISK MANAGEMENT STRUCTURE

The Management has put in place a risk management structure approved by the Board of Directors. This structure is based on specific policies governing credit risk, market risk, liquidity and financing risk, operational risk and capital management risk. The regulatory risk and reputation risk are also subject to Management's formal supervision. Management and follow-up tools have been developed to ensure continued monitoring of the risks described below by the Management Committee.

CREDIT RISK MANAGEMENT

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

Credit risk management is independent of operations, thus protecting the independence and integrity of risk assessment. The Internal Credit Committee is responsible for the operational supervision of overall credit risk management.

A credit risk management report is presented on a quarterly basis to the Management Committee and to the Board of Directors' Risk Management Committee. The credit risk policies adopted by the Bank provide for appropriate risk assessment and the setting of lending rates accordingly. These policies cover the approval of credit applications by the line of authority concerned, attribution of risk ratings, management of impaired loans, establishment of general and specific provisions, and pricing based on risk.

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

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

The authorization process for counterparties and loans is highly centralized. The Bank uses expert systems to support the decision-making process inherent in applications for personal consumer credit, residential mortgage loans and credit cards as well as for small commercial loans (generally under $100,000). With regard to other commercial loans, applications are analyzed on an individual basis by specialized teams. The Bank ensures a rigorous and systematic follow-up of its loan portfolio both in terms of quality and quantity through mechanisms and policies related to the systematic revision of various categories of files and risk rating updating systems, and pricing analysis. Each month, the Bank's Management Committee reviews impaired loans and follows up on loans where payment is past due by 90 days or more. Collection processes are centralized and are based on specialized expertise.

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

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

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

In addition to specific provisions, the Bank establishes a general provision in order to provide for eventual losses ensuing from its performing loan portfolios, according to a method that includes factors such as portfolio size, risk profile and loss history, based on Guideline C-5 "General allowances for credit risk" of the Office of the Superintendent of Financial Institutions of Canada.

MARKET RISK MANAGEMENT

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

INTEREST RATE RISK

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

FOREIGN EXCHANGE RISK

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

EQUITY RISK

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

POLICIES AND STANDARDS

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

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

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

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

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

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

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

VALUE AT RISK

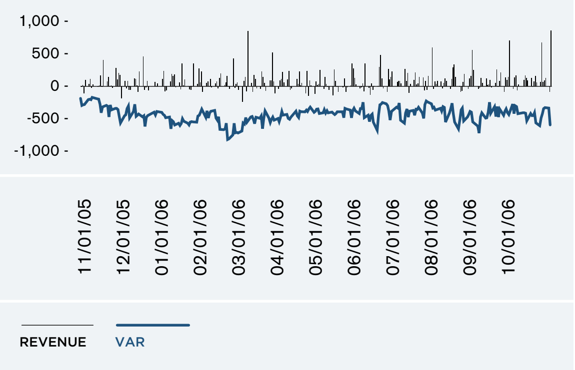
The Bank has implemented a market risk management and monitoring structure that entails the use of VAR methodology for all of its trading portfolios. Value at risk corresponds to the maximum loss the Bank may incur over a one-day period, with a confidence level of 99%. Consequently, the chances that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

Global value at risk is calculated for all financial market activities. Values at risk are also calculated for specific portfolios. These values at risk are compared daily with the limits approved by the Bank's Board of Directors and Management Committee. In parallel with VAR calculations, the impact of shock scenario on profits and losses is evaluated for most portfolios.

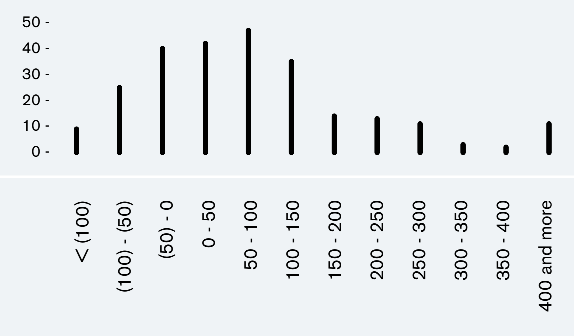
TRADING ACTIVITIES

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

DAILY NET TRADING REVENUE VS GLOBAL TRADING VAR
(C$ thousands)



HISTOGRAM OF DAILY NET TRADING REVENUE
(# of days / C$ thousands)



The first-preceding graph compares revenues from trading activities and the daily value at risk associated with these activities.

The second graph shows the daily distribution of trading revenues for fiscal year 2006.

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 reevaluation dates of balance sheet and off-balance sheet items along with the options embedded in certain banking products, notably clauses on early loan repayment, deposit redemption and mortgage commitments.

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

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

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

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

Economic value risk measures the net negative impact on the present value of balance sheet and off-balance sheet assets and liabilities.

Interest income risk measures the negative impact on net interest income from interest rate movements over the next 12 months. Portfolio positions are reviewed periodically by the Asset and Liability Management Committee, which is in charge of monitoring the Bank's positioning with regard to anticipated interest rate movements and recommending hedging of all undesirable or unforeseen interest rate risk.
In addition, risk monitoring reports are presented periodically to the Management Committee and the Board of Directors' Risk Management Committee.

To ensure sound management of structural risk, a repricing gap report is produced periodically, from which simulation analysis of the impact of interest rate variation on net income and economic value of common shareholders are conducted. One of the simulation exercises consists in subjecting the Bank's balance sheet to a sudden and sustained 1% increase in interest rates. For example, as at October 31, 2006, for all portfolios, this 1% increase in interest rate would have triggered an increase of approximately $5.5 million in net income before taxes over the next 12 months and would have a $(27.8) million impact on the value of common shareholders' equity. These results reflect Management's efforts to take advantage of short and long-term interest rate movements, while maintaining the sensitivity to these fluctuations well within the limits set by the Board of Directors. The Bank's interest rate gap position as at October 31, 2006 appears in Note 19 of the consolidated financial statements.

LIQUIDITY AND FINANCING RISK MANAGEMENT

Liquidity risk is the risk the Bank may incur if it does not have sufficient cash resources, when required, to meet all its financial obligations.

Policies for management of collateral, liquidities and financing, together with the liquidity management plan, define the management structure, responsibilities and indicators linked to the management of liquidities and financing. This management framework provides the Bank and its subsidiaries with the assurance that sufficient funds will be available to meet their commitments.

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

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

A contingency plan is put in place to provide measures that enable the Bank to fulfill its obligations in the event of a high demand for liquid assets.

OPERATIONAL RISK MANAGEMENT

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

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

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

ADOPTION OF POLICIES BY THE BOARD OF DIRECTORS

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

COLLECTION OF OPERATIONAL LOSS DATA

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

IDENTIFICATION OF OPERATIONAL RISK

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

EVALUATION OF OPERATIONAL RISKS

All of the activities of the Bank are grouped within large processes. In self-assessment workshops or following any significant change, managers must perform an evaluation in order to attribute the appropriate risk rating to each of their processes. If necessary, action plans are designed to minimize the detected risks.

MANAGEMENT OF OPERATIONAL RISK

Operational risk management means, among other things, deciding to accept, control, avoid or transfer certain risks and put in place appropriate procedures and control measures. The Bank uses several means to minimize or transfer its risks, including participation in a corporate insurance program and formulation of a global and integrated plan for business continuity. Furthermore, a Fraud Prevention Committee, composed of security officers and business unit representatives meets periodically to analyze the trends with regard to fraud and continuously improve the Bank's methods and means of preventing fraud.

PRODUCTION OF OPERATIONAL RISK REPORTS

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

RISK RELATED TO CAPITAL MANAGEMENT

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

The capital of the Bank is comprised of common shareholders' equity, retained earnings, preferred shares and subordinated debentures. Capital is an important factor in assessing the Bank's stability and security in relation to the risks associated with its activities. Strict capital management contributes to the Bank's profitability, as capital is allocated to key sectors for which precise profitability objectives and criteria have been established.

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

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

NEW BASEL FRAMEWORK

The Basel Committee on Banking Supervision has formulated a new framework (Basel II) that will come into effect in November 2007. This framework is supported by three pillars instead of one, namely the minimum capital requirements, a prudent monitoring framework and financial disclosure. Basel II will take into account the real risks of the Bank, and will allow a choice among three risk evaluation methods to assess credit risk and operational risk. The Bank is presently implementing the New Basel Framework to evaluate credit risk and operational risk using the Standard Approach for credit risk and the Basic Indicator Approach for operational risk.

REGULATORY RISK MANAGEMENT

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

REPUTATION RISK MANAGEMENT

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

Reputation risk most often results from the 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 company value in the eyes of shareholders. Reputation is therefore a strategic asset.

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

Controls and Procedures regarding Financial Information

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

The adoption, by the Canadian Securities Administrators, of regulations designed to reinforce investors' confidence – notably regulation 52-109 on the certification of issuers' annual and interim financial information – has prompted the Bank, as early as 2004, to review its financial reporting process.

An information disclosure policy constitutes the framework for the information disclosure process with regard to the annual and interim filings, as well as to other reports filed or submitted under securities legislation. This policy aims in particular at identifying material information and validating the related reporting. The Disclosure Committee, established in 2005, is responsible for ensuring compliance with this policy. The members of the Disclosure Committee therefore review the main documents to be filed with regulatory authorities to ensure that all significant information regarding operations is communicated in a timely manner.

During fiscal 2006, the Bank continued its documentation and assessment of internal controls over financial reporting, leading to the regulatory certification of the annual filings. The financial certification process project team has documented and assessed the design of the internal controls in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. This undertaking has enabled the President and Chief Executive Officer and the Senior Executive Vice-President and Chief Financial Officer to attest that the design of the internal controls with regard to financial information is efficient.

The President and Chief Executive Officer and the Senior Executive Vice-President and Chief Financial Officer also assessed that the disclosure controls and procedures were adequate, as at October 31, 2006, so as to provide reasonable assurance that the financial information to be disclosed is both complete and reliable.

During the quarter ended October 31, 2006, no changes to internal controls over financial reporting had or is reasonably likely to materially affect internal controls over financial reporting.

Significant critical accounting policies and estimates

The significant accounting policies adopted by the Bank are outlined in note 1 to the consolidated financial statements. Some accounting policies are deemed critical inasmuch as they refer to material amounts reported in the consolidated financial statements and require management to make estimates that, by their very nature, involve uncertainties.

Changes in these estimates could materially affect the Bank's consolidated financial statements. The critical accounting policies that require management's judgment and estimates are described below.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses reflects management's estimate of losses related to the loan portfolios. Management regularly reviews the portfolios' credit quality to ensure that the allowance for loan losses is adequate. This allowance is dependent upon the evaluation related to the amounts and dates of future cash flows, the fair value of guarantees and realization costs, and the interpretation of the impact of market and economic conditions.

Considering the materiality of the amounts and of the uncertainties related to these amounts, the use of estimates and assumptions that differ from those used in determining the allowance for loan losses could produce significantly different levels of allowances. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments and may entail an increase or a decrease in the allowance for loan losses.

These changes could consequently have a significant impact on the allowance for loan losses in the consolidated statement of results for the fiscal year. A detailed description of the methods used to determine the allowance for loan losses can be found under note 1 to the consolidated financial statements on page 66, and under the "Credit Risk Management" heading on page 48 of this Annual Report.

The Bank has developed a model for the evaluation of the general allowance, based on the historical losses of the various portfolios. This model validates the $65.3 allowance as at October 31, 2006. Different assumptions and parameters could have produced different evaluations.

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

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

GOODWILL

Goodwill is subject at least annually to an impairment test, based on its fair value. As at October 31, 2006, the balance of goodwill stood at $53.8 million and this amount was entirely allocated to Retail Financial Services.

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

All changes made to any of these estimates may have a significant impact on the calculation of fair value and on the resulting charge for loss in value. Consequently, management cannot reasonably quantify the effect of the use of different assumptions on the Bank's overall financial performance. Moreover, it is impossible to predict whether an event that triggers an impairment will occur, nor when it will occur or how this will affect the values of the assets presented by the Bank.

No impairment charge was reported in fiscal 2006 and fiscal 2005. If need be, the amount of the losses in value would be recorded as non-interest expense for Retail Financial Services, under the "Other" heading.

More information on goodwill can be found under note 7 to the consolidated financial statements.

OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Management also subjects the Bank's other intangible assets with finite lives to the impairment test when events or changes in circumstances indicate that it may not be possible to recover their book value. As it conducts this test, management evaluates the future cash flows that it expects to realize from these assets and their possible disposition. An impairment loss is recognized if the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset. No significant impairment charge was reported in fiscal 2006 and fiscal 2005.

Management also periodically reviews the value of the Bank's other assets, such as fixed assets and other deferred charges, in order to identify potential losses in value and validate the pertaining amortization periods. The use of estimates and assumptions that differ from those that were retained could significantly influence results.

EVALUATION OF FINANCIAL INSTRUMENTS

Management reports the Bank's trading book's securities, derivative financial instruments and obligations related to assets sold short at fair value. Changes in the fair value of these financial instruments, excluding those which qualify for hedge accounting, are recognized under the "Other income" heading. Fair value is defined as the amount at which a financial instrument could be traded by willing parties dealing at arm's length in the ordinary course of business. Fair value is based on market prices when available. In the absence of market prices, management habitually uses pricing models based on the discounted value of future cash flows, calculated according to its best estimate of key assumptions, yield curves and volatility factors.

Considering the importance of judgment in determining such calculations, certain estimates of fair value may not be representative of net realizable value. This critical accounting estimate affects all business segments. Additional information on the calculation of fair value is presented under note 19 to the consolidated financial statements on page 90 of this Annual Report.

EMPLOYEE FUTURE BENEFITS

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

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

In accordance with Canadian GAAP, actual results that differ from the expected results as indicated by the assumptions are accumulated and amortized over future periods and therefore affect actual costs and recorded obligations for these periods. As at October 31, 2006, the net amount of the unamortized actuarial losses was $98.1 million ($112.1 million in 2005) as regards pension plans, and $15.8 million ($8.7 million in 2005) as regards other benefits.

Discount rates stood at 5.35% as at October 31, 2006 and 2005. The expected long-term rate of return on the plans' assets was 7.25% for both fiscal 2006 and fiscal 2005. The trend rate of the estimated annual growth of health-care costs covered, per participant, has been set at 10% for 2006 (9% for 2005). According to the accepted assumption, this rate should decrease progressively, reaching 4% in 2016 and remaining at that level thereafter.

Considering the importance of accrued benefit obligations and plan assets, changes in assumptions could have a significant impact on the accrued benefit assets (liabilities), as well as on pension plan and other employee future benefit expenses. The following table presents an approximation of the incidence of a 0.25% increase or decrease in the principal assumptions on accrued benefit obligations and related pension plan expenses for 2006.

TABLE 27
SENSITIVITY ANALYSIS
(in millions of dollars)

	Potential impact of changes of 0.25%	
	Obligation	Cost
Discount rate	$ 13.9	$ 1.6
Projected long-term rate of return of plan assets	n/a	$ 0.7

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

This critical accounting estimate affects all business segments. Further information on the Bank's pension plans and other future benefits can be found under note 14 to the consolidated financial statements on page 82 of this Annual Report.

INCOME TAX

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

This critical accounting estimate affects all business segments. Further information on income tax expense can be found under note 15 to the consolidated financial statements on page 85 of this Annual Report.

SECURITIZATION

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

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

Note 5 to the consolidated financial statements, on page 77 of this Annual Report, presents a sensitivity analysis of the current fair value of the retained interests to immediate 10% and 20% adverse changes in key assumptions. The "Off-Balance Sheet Arrangements" section on page 45 of this Annual Report offers further information on these transactions.

The balance of retained interests for securitized mortgage loans was $38.2 million as at October 31, 2006.

This critical accounting estimate mainly affects the Other segment.

Future change to accounting policies

FINANCIAL INSTRUMENTS

On April 1, 2005, the CICA issued three accounting standards *Financial Instruments – Recognition and Measurement, Hedges and Comprehensive Income.* These new standards will be effective for the Bank on November 1, 2006.

SECTION 3855, FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

All financial assets and liabilities will be carried at fair value in the consolidated balance sheet, except loans and receivables held-to-maturity, investments held-to-maturity and non-trading financial liabilities, which will be carried at amortized cost using the effective interest method of amortization. Realized and unrealized gains and losses on trading financial assets and liabilities will be recognized immediately in the consolidated statement of income in income from treasury and financial market operation. Unrealized gains and losses on financial assets that are available for sale will be recognized in other comprehensive income until their realization, after which these amounts will be recognized in the consolidated statement of income. All derivative financial instruments will be carried at fair value in the consolidated balance sheet, including those derivatives that are embedded in other contracts but are not closely related to the host contract. Section 3855 also permits an entity to voluntarily designate a financial instrument as held-for-trading. Instruments that are classified as held-for-trading by way of this "fair value option" are subject to certain conditions and additional requirements set out by the OSFI.

SECTION 3865, HEDGES

In a fair value hedge, hedging derivatives are carried at fair value, with changes in fair value recognized in the consolidated statement of income. The changes in the fair value of the hedged items attributable to the hedged risk will also be recorded in consolidated income by way of a corresponding adjustment of the carrying amount of the hedged items recognized in the consolidated balance sheet. In a cash flow hedge, the changes in fair value of derivative financial instruments will be recorded in other comprehensive income. These amounts will be reclassified in the consolidated statement of income in the periods in which results are affected by the cash flows of the hedged items. Similarly, any hedge ineffectiveness will be recorded in the consolidated statement of income in income from treasury and financial market operation.

SECTION 1530, COMPREHENSIVE INCOME

The consolidated financial statements will include a consolidated statement of comprehensive income while the cumulative amount, accumulated other comprehensive income, will be presented as a new category of shareholders' equity in the consolidated balance sheets.

IMPACT OF ADOPTING SECTIONS 1530, 3855 AND 3865

The Bank is presently reviewing the impact of these standards and the effect of an exposure draft amending the transitional provisions for adopting the new accounting standard for hedges which was released by the CICA on October 18, 2006. The exact impact will also depend of certain choices to be made along with the adoption of these new sections.

Consolidated financial statements

As at october 31, 2006 and 2005

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

Management's responsibility for financial information

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

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

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

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

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

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

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

RAYMOND McMANUS
President and Chief Executive Officer

ROBERT CARDINAL
Senior Executive Vice-President
and Chief Financial Officer

Montreal, Canada
December 11, 2006

Auditors' report to the shareholders of Laurentian Bank of Canada

We have audited the consolidated balance sheet of Laurentian Bank of Canada (the Bank) as at October 31, 2006 and 2005 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Montreal, Canada
December 11, 2006

Consolidated balance sheet

As at October 31 (in thousands of dollars)	Notes	2006	2005
ASSETS			
Cash resources			
Cash and non-interest bearing deposits with other banks		$ 70,907	$ 57,737
Interest-bearing deposits with other banks		98,722	259,791
		169,629	317,528
Securities	3 and 20		
Investment account		1,567,222	1,911,819
Trading account		1,675,058	1,028,587
		3,242,280	2,940,406
Assets purchased under reverse repurchase agreements		802,546	508,073
Loans	4 and 5		
Personal		4,168,026	3,907,320
Residential mortgages		5,985,656	5,806,853
Commercial mortgages		659,014	595,946
Commercial and other		1,476,977	1,539,893
		12,289,673	11,850,012
Allowance for loan losses		(125,153)	(129,806)
		12,164,520	11,720,206
Other			
Customers' liabilities under acceptances		149,818	145,629
Property, plant and equipment	6	111,291	93,793
Derivative financial instruments		96,980	143,453
Future tax assets	15	101,048	106,932
Goodwill	7	53,790	53,790
Other intangible assets	7	15,333	16,547
Other assets	8	388,724	460,627
		916,984	1,020,771
		$ 17,295,959	$ 16,506,984
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	9		
Personal		$ 10,949,473	$ 10,575,416
Business, banks and other		2,145,028	3,121,522
		13,094,501	13,696,938
Other			
Obligations related to assets sold short		1,077,009	726,063
Obligations related to assets sold under repurchase agreements	20	1,100,385	60,065
Acceptances		149,818	145,629
Derivative financial instruments		81,807	105,326
Other liabilities	10	696,019	709,723
		3,105,038	1,746,806
Subordinated debentures	11	150,000	150,000
Shareholders' equity			
Preferred shares	12	210,000	210,000
Common shares	12	251,158	249,633
Contributed surplus	13	518	73
Retained earnings		485,334	454,124
Treasury shares	12 and 13	(590)	(590)
		946,420	913,240
		$ 17,295,959	$ 16,506,984

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

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

RAYMOND McMANUS
President and Chief Executive Officer

Consolidated statement of income

For the years ended October 31 (in thousands of dollars, except for per share amounts)	Notes	2006	2005
Interest income			
Loans		$ 755,009	$ 682,591
Securities		70,446	59,744
Deposits with other banks		11,721	7,864
		837,176	750,199
Interest expense			
Deposits and other liabilities		467,255	408,309
Subordinated debentures		12,714	16,199
		479,969	424,508
Net interest income		357,207	325,691
Provision for credit losses	4	40,000	40,000
		317,207	285,691
Other income			
Fees and commissions on loans and deposits		84,615	89,164
Brokerage operations		22,286	20,167
Income from treasury and financial market operations		15,206	16,223
Credit insurance income		12,578	7,687
Income from sales of mutual funds		10,637	9,570
Income from registered self-directed plans		10,515	11,830
Securitization income	5	9,972	11,664
Gain on disposals	2	931	–
Other		6,728	10,066
		173,468	176,371
		490,675	462,062
Non-interest expenses			
Salaries and employee benefits		205,711	192,163
Premises and technology		106,891	107,559
Other		89,081	82,229
		401,683	381,951
Income from continuing operations before income taxes		88,992	80,111
Income taxes	15	23,436	24,488
Income from continuing operations		65,556	55,623
Income from discontinued operations, net of income taxes	2	4,776	9,659
Net income		$ 70,332	$ 65,282
Preferred share dividends, including applicable income taxes		11,766	12,030
Net income available to common shareholders		$ 58,566	$ 53,252
Average number of common shares outstanding (in thousands)			
Basic		23,605	23,525
Diluted		23,649	23,552
Income per common share from continuing operations	16		
Basic		$ 2.28	$ 1.85
Diluted		$ 2.28	$ 1.85
Net income per common share			
Basic		$ 2.48	$ 2.26
Diluted		$ 2.48	$ 2.26

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	2006	2005
Preferred shares	12		
Balance at beginning and end of year		$ 210,000	$ 210,000
Common shares	12		
Balance at beginning of year		249,633	248,593
Issued during the year		1,525	1,040
Balance at end of year		251,158	249,633
Contributed surplus			
Balance at beginning of year		73	–
Stock-based compensation	13	445	73
Balance at end of year		518	73
Retained earnings			
Balance at beginning of year		454,124	428,159
Net income		70,332	65,282
Dividends			
Preferred shares, including applicable income taxes		(11,766)	(12,030)
Common shares		(27,356)	(27,287)
Balance at end of year		485,334	454,124
Treasury shares			
Balance at beginning of year		(590)	–
Acquisition	12	–	(590)
Balance at end of year		(590)	(590)
TOTAL SHAREHOLDERS' EQUITY		$ 946,420	$ 913,240

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	2006	2005
Cash flows relating to operating activities			
Net income		$ 70,332	$ 65,282
Adjustments to determine net cash flows relating to operating activities:			
Provision for credit losses		40,000	40,000
Gains on securitization operations		(6,161)	(8,995)
Net loss on disposal of property, plant and equipment		29	1,312
Net gain from discontinued operations	2	(5,714)	(10,595)
Gain on disposals	2	(931)	–
Net loss (net gain) on sale of investment securities		1,421	(2,019)
Future income taxes		8,036	10,805
Depreciation and amortization		27,193	29,707
Net change in trading securities		(590,977)	(18,431)
Change in accrued interest receivable		1,605	(5,460)
Change in assets relating to derivative financial instruments		46,473	58,264
Change in accrued interest payable		40,224	(45,086)
Change in liabilities relating to derivative financial instruments		(23,519)	(84,163)
Other, net		61,309	(70,604)
		(330,680)	(39,983)
Cash flows relating to financing activities			
Net change in deposits		(602,437)	785,898
Change in obligations related to assets sold short		350,946	(769,511)
Change in obligations related to assets sold under repurchase agreements		1,040,320	44,158
Issuance of subordinated debentures		150,000	–
Redemption of subordinated debentures		(150,000)	(100,525)
Issuance of common shares, net of issue costs		1,525	1,040
Acquisition of treasury shares		–	(590)
Dividends, including applicable income taxes		(39,122)	(39,317)
		751,232	(78,847)
Cash flows relating to investing activities			
Change in investment securities			
Acquisitions		(12,881,435)	(26,117,606)
Proceeds from sales and maturity		13,168,669	26,189,909
Change in loans		(1,150,389)	(948,243)
Change in assets purchased under reverse repurchase agreements		(294,473)	625,847
Proceeds from mortgage loan securitizations		631,896	341,408
Additions to property, plant and equipment		(43,002)	(29,165)
Proceeds from disposal of property, plant and equipment		423	106
Net change in interest-bearing deposits with other banks		161,069	20,960
Net cash flows from sale of a subsidiary	2	(140)	–
Net cash flows from sale of discontinued operations	2	–	45,670
		(407,382)	128,886
Net change in cash and non-interest-bearing deposits with other banks		13,170	10,056
Cash and non-interest-bearing deposits with other banks at beginning of year		57,737	47,681
Cash and non-interest-bearing deposits with other banks at end of year		$ 70,907	$ 57,737
Supplemental disclosure relating to cash flows:			
Interest paid during the year		$ 440,922	$ 475,255
Income taxes paid during the year		$ 18,832	$ 31,640

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

Notes to consolidated financial statements

October 31, 2006 and 2005 (All tabular amounts are in thousands of dollars, unless otherwise indicated.)

1. Summary of significant accounting policies

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

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

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

BASIS OF CONSOLIDATION

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

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

Until December 2004, the consolidated financial statements included the Bank's interest in BLC-Edmond de Rothschild Asset Management Inc. which was accounted for as a joint venture using the proportionate consolidation method. Under this method, the Bank consolidated its share of the assets, liabilities, revenues and expenses.

SECURITIES

Securities are held, depending on management's intentions, in the investment or trading account. The Bank records securities transactions using settlement date accounting.

INVESTMENT ACCOUNT

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

TRADING ACCOUNT

Securities purchased for resale over a short period of time are included in the trading account and are recorded at their estimated market value. Obligations related to securities sold short are carried as liabilities and recorded at their estimated fair value. Realized and unrealized gains and losses on these securities are included in income from treasury and financial market operations. Interest income earned and dividends received are included in interest income.

1. Summary of significant accounting policies (cont'd)

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

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

LOANS

BALANCE SHEET PRESENTATION

Loans are recorded at cost, net of the allowance for loan losses and any unearned interest.

IMPAIRED LOANS

Loans, except credit card balances, are classified as impaired when, in management's opinion, there is a reasonable doubt as to the timely collectibility of the principal or interest. When payment of principal or interest is 90 days past due, the loans are classified as impaired (if they are not already classified as such), unless they are well-secured or in the process of recovery. All loans which are 180 days past due are classified as impaired except when they are guaranteed or insured by the Canadian government, a provincial government or a Canadian government agency; such loans are classified as impaired loans if they are in arrears for 365 days. Credit card balances are fully written off when payments are 180 days in arrears or when management assesses the likelihood of collection to be nil.

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

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

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

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

COMMISSIONS ON LOANS AND REVENUE RECOGNITION

Interest income related to loans is accounted for using the accrual basis of accounting. Commissions received and origination fees in respect of loans, including restructuring and renegotiation charges, are generally recorded in interest income over the term of the loans. Loan origination and other fees paid are charged to interest income over the terms of the loans. The fees received for mortgage prepayments are included in interest income upon prepayment.

FORECLOSED ASSETS

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

ALLOWANCES FOR LOSSES

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

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

SPECIFIC ALLOWANCES FOR LOAN LOSSES

Specific allowances are established on a loan-by-loan basis for all impaired loans which have been identified as a result of the regular review of the commercial and mortgage loan portfolios. These provisions are established by estimating the amounts recoverable in relation to the loan amounts; estimated future cash flows are discounted at the effective interest rate inherent in the loan. When these amounts cannot be reasonably estimated, the fair value of the underlying collateral or the observable market price of the loans is used. For impaired personal loans, other than credit card balances and investment loans, an allowance is established based on the write-off experience on such loans in recent years when no payment has been received for more than 90 days, and generally, outstanding balances are fully written off when no payment has been received for 180 days. For credit card balances, no specific allowance is established; however, when no payment has been received for 180 days, outstanding balances are written off. For impaired investment loans, a specific allowance is established on a loan-by-loan basis at the time of the regular review of the portfolio, generally by measuring the amounts collected in relation to the amount of the loans.

GENERAL ALLOWANCES FOR LOAN LOSSES

The general allowance reflects the best estimate of potential losses related to the deterioration of credit quality and relates to the loans that have not yet been specifically identified as impaired.

An allocated general allowance, based on the historical loss experience of the past ten years and an economic cycle reference factor, adjusted to reflect changes in the portfolios and credit policies, is constituted for each pool of loans with common risk characteristics.

The unallocated general allowance reflects the assessment of potential losses on the portfolio which are not covered by the specific allowances and the allocated general allowance. This estimate includes consideration of economic and business conditions, management's judgment and the risks related to the model.

LOAN SECURITIZATION

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

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

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

Cash reserve accounts and excess interest spreads related to these transactions are initially recorded at cost and presented under other assets. The retained subordinated tranches are also recorded at cost. They are presented with securities in the investment account. They are then subsequently tested for impairment on a quarterly basis in order to identify, if any, other than temporary impairments.

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

ACCEPTANCES AND CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

1. Summary of significant accounting policies (cont'd)

PROPERTY, PLANT AND EQUIPMENT

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

	Methods	Rates
Premises	Declining balance	5%
Leasehold improvements	Straight-line	Term of the lease plus initial renewal option
Equipment and furniture	Declining balance	20%
Computer hardware and software	Straight-line	10% to 30%

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

DEFERRED CHARGES

INCOME AND EXPENSES DURING THE PRE-OPERATING PERIOD

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

LOAN AND DEPOSIT ORIGINATION FEES AND COSTS

Loan and deposit origination and commitment fees and costs are deferred and recognized over the life of the related loan or deposit, or over the commitment period, in net interest income.

GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

EMPLOYEE FUTURE BENEFITS

PENSION PLANS

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

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

Actuarial gains or losses arise, in particular, from the difference between the actual long-term rate of return on plan assets and the expected rate of return on such assets, based on management's best-estimate assumptions, as well as from changes in actuarial assumptions used to determine the accrued benefit obligation. Net actuarial gains or losses are amortized when, at the beginning of the year, the unamortized balance of the gain or loss exceeds 10% of the greater of the accrued benefit obligation or the market value of plan assets. This excess is amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the plans which varied from 9 to 11 years in 2006 under the plans (from 9 to 11 years in 2005).

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

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

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

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

OTHER PLANS

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are primarily used to manage the Bank's exposure to interest rate and currency risks, and occasionally, in trading activities or to serve the needs of customers. All derivative financial instruments are recognized at fair value in other assets or liabilities.

DERIVATIVE FINANCIAL INSTRUMENTS USED TO MANAGE THE BANK'S RISKS

Derivative financial instruments used to manage the Bank's interest rate risk are accounted for using the accrual method. Under this method, interest income or expense on these derivative instruments is accrued and included in interest expense in the consolidated statement of income.

Derivative financial instruments that qualify for hedge accounting

When it uses derivative financial instruments to manage its own exposures, the Bank determines for each derivative financial instrument whether hedge accounting can be applied. If it can, a hedging relationship is designated as a fair value hedge or a cash flow hedge. The hedge is documented detailing, among other things, the item being hedged, the risk management objective, the hedging strategy and the method used to measure its effectiveness. The derivative financial instrument must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge. Effectiveness is generally reviewed on a monthly basis using statistical regression models.

Fair value hedge transactions predominantly use interest rate swaps to hedge the changes in the fair value of an asset, liability or firm commitment. Cash flow hedge transactions predominantly use interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability. When a derivative financial instrument functions effectively as a fair value or cash flow hedge, the unrealized gain or loss of the derivative financial instrument is deferred in other assets or liabilities. The deferred gain or loss is recognized in net interest income in the periods in which the associated revenues and expenses relating to the hedged item affects income.

1. Summary of significant accounting policies (cont'd)

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

These derivative financial instruments remain eligible for designation in future hedging relationships. Upon a designation, any previously recognized fair value in the consolidated balance sheet is amortized to other income over the remaining life of the derivative financial instrument.

Derivative financial instruments that do not qualify for hedge accounting

The derivative financial instruments used to manage the Bank's risks that do not meet the requirements for hedge accounting are accounted for using the fair value method in other assets or liabilities. The resulting unrealized gains and losses are recognized in income from treasury and financial market operations.

DERIVATIVE FINANCIAL INSTRUMENTS USED IN CONNECTION WITH TRADING ACTIVITIES

When used in trading activities or to serve the needs of customers, the resulting realized and unrealized gains and losses are recognized in other income. Unrealized gains and losses are reported on a gross basis in other assets or liabilities.

OTHER CONSIDERATIONS

The market value of derivative financial instruments is determined using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curves and volatility factors.

EQUITY-LINKED DEPOSIT CONTRACTS

Certain deposit obligations, such as equity-linked Garanteed Investment Certificates where the deposit obligation varies according to the performance of certain indices, may be subject to a guaranteed minimum redemption amount, such as the obligation to return the investor's initial investment at maturity. Obligations related to these deposits are measured at fair value, and changes in fair value are recorded in other income as they arise.

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.

NET INCOME PER COMMON SHARE

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

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

STOCK-BASED COMPENSATION

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

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

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

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

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

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.

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing year-end exchange rates. Income and expenses are translated at the average monthly exchange rates. Realized or unrealized gains and losses resulting from the translation of foreign currencies are included in other income.

CASH AND CASH EQUIVALENTS

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

FUTURE CHANGE TO ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS

On April 1, 2005, the CICA issued three accounting standards *Financial Instruments – Recognition and Measurement, Hedges and Comprehensive Income*. These new standards will be effective for the Bank on November 1, 2006.

Section 3855, Financial Instruments – Recognition and Measurement

All financial assets and liabilities will be carried at fair value in the consolidated balance sheet, except loans and receivables, investments held-to-maturity and non-trading financial liabilities, which will be carried at amortized cost using the effective interest method of amortization. Realized and unrealized gains and losses on trading financial assets and liabilities will be recognized immediately in the consolidated statement of income in income from treasury and financial market operations. Unrealized gains and losses on financial assets that are available for sale will be recognized in other comprehensive income until their realization, after which these amounts will be recognized in the consolidated statement of income. All derivative financial instruments will be carried at fair value in the consolidated balance sheet, including those derivatives that are embedded in other contracts but are not closely related to the host contract. Section 3855 also permits an entity to voluntarily designate a financial instrument as held-for-trading. Instruments that are classified as held-for-trading by way of this "fair value option" are subject to certain conditions and additional requirements set out by OSFI.

Section 3865, Hedges

In a fair value hedge, hedging derivatives are carried at fair value, with changes in fair value recognized in the consolidated statement of income. The changes in the fair value of the hedged items attributable to the hedged risk will also be recorded in consolidated income by way of a corresponding adjustment of the carrying amount of the hedged items recognized in the consolidated balance sheet. In a cash flow hedge, the changes in fair value of derivative financial instruments will be recorded in other comprehensive income. These amounts will be reclassified in the consolidated statement of income in the periods in which results are affected by the cash flows of the hedged item. Similarly, any hedge ineffectiveness will be recorded in the consolidated statement of income in income from treasury and financial market operations.

1. Summary of significant accounting policies (cont'd)

Section 1530, Comprehensive income

The consolidated financial statements will include a consolidated statement of comprehensive income while the cumulative amount, accumulated other comprehensive income (AOCI), will be presented as a new category of shareholders' equity in the consolidated balance sheet.

Impact of adopting Sections 1530, 3855 and 3865

The Bank is presently reviewing the impact of these standards and the effect of an exposure draft amending the transitional provisions for adopting the new accounting standard for hedges which was released by the CICA on October 18, 2006. The exact impact will also depend on certain choices to be made upon adoption of these new sections.

2. Disposals

2006

SALE OF THE SUBSIDIARY BROME FINANCIAL CORPORATION INC.

On December 31, 2005, the Bank completed the sale of its 51% interest in Brome Financial Corporation Inc. The net sale price, paid in cash, amounted to $3,853,000, for a gain of $931,000 ($931,000 net of taxes). At the date of sale, total assets sold amounted to $32,170,000, including $3,993,000 in cash. Total operations sold were presented in the Commercial Financial Services segment. The gain on the sale was entirely attributed to this segment.

For the years ended October 31, 2006 and 2005, contribution to net income was not material and total income amounted to $1,279,000 and $7,800,000, respectively.

2005

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

On December 31, 2004, the Bank completed the acquisition of the 49.9% share of BLC-Edmond de Rothschild Asset Management Inc. (BLCER) that was owned by La Compagnie Financière Edmond de Rothschild Banque (LCFER) for an amount of $23,397,000, subject to certain post-closing adjustments. Subsequently, on December 31, 2004, Industrial Alliance Insurance and Financial Services Inc. (Industrial Alliance) acquired all of the shares of BLC-Edmond de Rothschild Asset Management Inc. from the Bank. The net sale price, paid in cash, amounted to $67,795,000, based on the assets under management as at December 31, 2004. This sale price is subject to certain recovery clauses that initially amounted to $26,930,000, based on net sales of mutual funds for the next six years ending on December 31, 2010 and on the balance of institutional funds under management on December 31, 2005. As a result, an initial gain of $9,777,000 ($8,139,000, net of applicable income taxes) was recognized under income from discontinued operations, net of transaction fees estimated at $2,261,000, and $26,217,000 was recorded as a deferred gain.

The Bank, Industrial Alliance and BLC-Edmond de Rothschild Asset Management Inc. also entered into a ten-year distribution agreement. Under this agreement, the Bank will distribute the R Funds family acquired by Industrial Alliance to the Bank's clients, along with the Industrial Alliance mutual funds. The Bank will continue to receive commissions related to the distribution of funds, under terms equivalent to those prevailing in the industry.

Recovery clauses

Under a recovery clause, the Bank was required to repay Industrial Alliance an annual amount of $5,183,000, for the five years following the sale, if net annual sales of mutual funds do not reach $50,000,000 for the 12-month periods ended December 31 of each of these years. The sale proceeds related to the first two years' sales threshold were recognized in income at the end of the years ended October 31, 2006 and 2005, in light of net sales levels at those dates relative to sales levels expected to be achieved by December 31 of each year. The deferred portion of the proceeds will be recognized over the next three years as the net sales thresholds are considered achieved. At the end of the six-year period ending on December 31, 2010, if cumulative net sales of mutual funds reach $290,000,000, the amounts that would have been repaid to Industrial Alliance under the recovery clause would be reimbursed to the Bank. Moreover, a final payment of $8,300,000 would be made to the Bank at the end of the first five-year period of the agreement if cumulative net sales of mutual funds reach $350,000,000. Including this premium, the total sale price related to the transaction would be $76,095,000. The gain relating to this final payment will be recognized in income once the conditions are met.

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

Investments in seed capital

At the time of sale, the Bank also owned an investment related to seed capital that was carried at cost. Since the Bank is no longer involved in the management of mutual funds, it was agreed that this investment would be disposed of. To carry the investment at market value, an initial $4,400,000 charge was recorded as a decrease in the gain on sale. Subsequently, in 2005, the Bank recorded revenues of $35,000 ($24,000, net of income taxes) to reflect the realized and unrealized net gains related to this investment. In 2006, the Bank completed the sale of this investment and recorded a revenue of $300,000 ($200,000, net of applicable income taxes) to recognize the realized net gains.

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

Transaction summary

	2006	2005
Net sale price	$ –	$ 67,795
Less: Deferred income under the recovery clauses, at the time of sale	–	26,217
Net assets sold, including the amount related to the purchase of LCFER's shares (1)	–	29,540
	–	12,038
Transaction fees	–	2,261
Gain before the following items	–	9,777
Initial write-down of investments related to seed capital	–	4,400
Net gain before income taxes	–	5,377
Income taxes	–	164
Net gain after income taxes	–	5,213
Income recognized with respect to the recovery clauses ($5,370 before income taxes in 2006; $5,183 in 2005)	4,546	4,422
Subsequent change in value of investments related to seed capital and other, net of income taxes ($344 before income taxes in 2006; $35 in 2005)	230	24
Income from discontinued operations, net of income taxes	$ 4,776	$ 9,659

(1) Net assets sold consisted mainly of goodwill and other intangible assets related to the interest acquired in LCFER, as well as $1,507,000 in cash.

2. Disposals (cont'd)

Income per common share from discontinued operations is as follows:

	2006	2005
Income per common share from discontinued operations		
Basic	$ 0.20	$ 0.41
Diluted	$ 0.20	$ 0.41

Assets held for sale and liabilities related to these assets are detailed as follows:

	2006	2005
Total assets	$ –	$ 14,899
Total liabilities	$ –	$ –

3. Securities

MATURITY SCHEDULE AND RETURN ON SECURITIES

	2006						2005	
	Within 1 year $	1 to 5 years $	Over 5 years $	No specific maturity $	Total $	Yield %	Total $	Yield %
Investment account								
Securities issued or guaranteed								
by Canada	656,617	608,727	12,335	–	1,277,679	3.8	1,618,676	2.9
by provinces	–	2,674	–	–	2,674	4.2	41,259	2.7
Other debt securities	59,217	96,235	40,860	–	196,312	5.2	193,235	4.8
Preferred shares	–	–	–	56,556	56,556	4.8	47,884	4.2
Common and other shares	–	–	–	34,001	34,001	3.7	8,627	4.8
Mortgage-based securities	–	–	–	–	–	–	2,138	5.0
Total carrying amount	715,834	707,636	53,195	90,557	1,567,222	4.1	1,911,819	3.1
Total fair value	715,339	703,481	54,652	92,728	1,566,200		1,901,435	
Trading account								
Securities issued or guaranteed								
by Canada	60,511	592,407	88,927	–	741,845		156,696	
by provinces	64,918	230,660	179,166	–	474,744		475,766	
by municipal corporations	27,006	38,979	37,981	–	103,966		39,702	
Other debt securities	57,647	71,680	64,252	–	193,579		179,242	
Common and other shares	–	–	–	73,638	73,638		63,277	
Mortgage-backed securities	128	57,664	29,494	–	87,286		113,904	
	210,210	991,390	399,820	73,638	1,675,058		1,028,587	
Total carrying amount	926,044	1,699,026	453,015	164,195	3,242,280		2,940,406	

The above classification is based on the contractual maturity date of the securities.
The weighted average return is calculated based on the carrying amount of each type of security at year-end.
US–dollar–denominated securities amounted to $103,556,000 ($91,412,000 in 2005).

INVESTMENT ACCOUNT – UNREALIZED GAINS AND LOSSES

	2006				2005			
	Carrying amount	Unrealized gains	Unrealized losses	Fair value	Carrying amount	Unrealized gains	Unrealized losses	Fair value
Securities issued or guaranteed								
by Canada	$ 1,277,679	$ 1,600	$ 5,016	$ 1,274,263	$ 1,618,676	$ 999	$ 11,646	$ 1,608,029
by provinces	2,674	6	8	2,672	41,259	17	55	41,221
Other debt securities	196,312	1,411	1,185	196,538	193,235	2,255	1,855	193,635
Preferred shares	56,556	550	428	56,678	47,884	510	457	47,937
Common and other shares	34,001	2,194	146	36,049	8,627	71	238	8,460
Mortgage-based securities	–	–	–	–	2,138	15	–	2,153
	$ 1,567,222	$ 5,761	$ 6,783	$ 1,566,200	$ 1,911,819	$ 3,867	$ 14,251	$ 1,901,435

As at October 31, 2006, five investment account securities represented $5,474,000 of total unrealized losses of $6,783,000. These unrealized losses essentially relate to securities issued or guaranteed by Canada.

4. Loans

LOANS AND IMPAIRED LOANS

	2006				
	Gross amount of loans	Gross amount of impaired loans	Specific allowances	General allowances	Total allowances
Personal loans	$ 4,168,026	$ 16,100	$ 5,659	$ 26,436	$ 32,095
Residential mortgages	5,985,656	16,501	3,479	4,771	8,250
Commercial mortgages	659,014	8,393	3,472	2,471	5,943
Commercial and other loans	1,476,977	89,603	47,293	26,900	74,193
Unallocated general allowance	–	–	–	4,672	4,672
	$ 12,289,673	$ 130,597	$ 59,903	$ 65,250	$ 125,153

	2005				
	Gross amount of loans	Gross amount of impaired loans	Specific allowances	General allowances	Total allowances
Personal loans	$ 3,907,320	$ 16,919	$ 7,267	$ 24,828	$ 32,095
Residential mortgages	5,806,853	9,783	3,735	5,559	9,294
Commercial mortgages	595,946	12,173	5,904	4,648	10,552
Commercial and other loans	1,539,893	82,063	47,650	25,818	73,468
Unallocated general allowance	–	–	–	4,397	4,397
	$ 11,850,012	$ 120,938	$ 64,556	$ 65,250	$ 129,806

US–dollar–denominated loans totalled $54,605,000 ($59,283,000 in 2005).

In 2006, foreclosed assets held for sale amounted to $1,269,000 ($1,440,000 in 2005) with eliminations to the related specific allowances totalling nil (nil in 2005).

4. Loans (cont'd)

SPECIFIC ALLOWANCES FOR LOAN LOSSES

	2006					2005
	Personal loans	Residential mortgages	Commercial mortgages	Commercial and other loans	Total specific allowances	Total specific allowances
Balance at beginning of year	$ 7,267	$ 3,735	$ 5,904	$ 47,650	$ 64,556	$ 74,792
Provision for credit losses recorded in the consolidated statement of income	27,660	369	(145)	12,116	40,000	40,000
Write-offs (1)	(33,721)	(662)	(2,287)	(12,398)	(49,068)	(56,001)
Recoveries	4,453	37	–	336	4,826	5,765
Provision for credit losses resulting from the sale of a subsidiary (see note 2)	–	–	–	(411)	(411)	–
Balance at end of year	$ 5,659	$ 3,479	$ 3,472	$ 47,293	$ 59,903	$ 64,556

(1) No restructured loans were written-off during the years ended October 31, 2006 and 2005.

GENERAL ALLOWANCES FOR LOAN LOSSES

	2006						2005
	Personal loans	Residential mortgages	Commercial mortgages	Commercial and other loans	Unallocated general allowance	Total general allowances	Total general allowances
Balance at beginning of year	$ 24,828	$ 5,559	$ 4,648	$ 25,818	$ 4,397	$ 65,250	$ 65,250
Change during the year	1,608	(788)	(2,177)	1,082	275	–	–
Balance at end of year	$ 26,436	$ 4,771	$ 2,471	$ 26,900	$ 4,672	$ 65,250	$ 65,250

5. Loan securitization

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

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

	2006	2005
Cash proceeds, net of transaction costs	$ 631,896	$ 341,408
Rights to future excess interest	14,375	14,567
Servicing liability	(4,401)	(2,889)
Cash reserve accounts	15,582	760
Other	(3,646)	(2,003)
	653,806	351,843
Residential mortgages securitized and sold (1)	647,645	342,848
Gains before income taxes, net of transaction costs	$ 6,161	$ 8,995

(1) Including $51,289,000 in loans insured by the CMHC ($266,850,000 in 2005).

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

KEY ASSUMPTIONS

	2006	2005
Rate of prepayment	17%	19%
Discount rate	4.83%	4.03%
Rate of credit losses	0.05%	0.05%

No loss is expected on insured residential mortgages.

During the year, the Bank collected cash flows from retained interests totalling $12,450,000 ($8,074,000 in 2005). The amortization relating to the servicing liability recognized in income amounted to $2,495,000 ($1,460,000 in 2005).

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, 2006.

SENSITIVITY OF KEY ASSUMPTIONS TO UNFAVOURABLE CHANGES

	2006	2005
Carrying amount of retained interests	$ 38,221	$ 21,175
Fair value of retained interests	$ 42,153	$ 26,005
Weighted average life (in months)	26	24
Rate of prepayment	19%	17%
Impact on fair value of unfavourable change of 10%	$ 606	$ 508
Impact on fair value of unfavourable change of 20%	$ 1,187	$ 1,002
Rate of credit losses (1)	0.06%	0.15%
Impact on fair value of unfavourable change of 10%	$ 68	$ 20
Impact on fair value of unfavourable change of 20%	$ 135	$ 41
Discount rate	4.3%	3.7%
Impact on fair value of unfavourable change of 10%	$ 160	$ 144
Impact on fair value of unfavourable change of 20%	$ 318	$ 289

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

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

The total principal amount of securitized loans amounted to $1,079,026,000 at year-end ($702,718,000 at the end of 2005).

6. Property, plant and equipment

	2006			2005
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 651	$ –	$ 651	$ 651
Premises	3,610	1,528	2,082	2,128
Leasehold improvements	51,822	29,119	22,703	19,189
Equipment and furniture	73,797	62,269	11,528	10,438
Computer hardware and software	322,401	248,074	74,327	61,387
	$ 452,281	$ 340,990	$ 111,291	$ 93,793

Depreciation expense recorded during the year in the consolidated statement of income amounts to $25,052,000 ($28,192,000 in 2005).

Computer hardware and software include an amount totalling $26,790,000 ($6,543,000 in 2005) related to projects under development that are not depreciated.

7. Goodwill and other intangible assets

Goodwill is detailed as follows:

	Retail Financial Services	Wealth Management and Brokerage [1]	Total
Balance as at October 31, 2004	$ 53,790	$ 239	$ 54,029
Disposal related to the sale of the BLC-Edmond de Rothschild Asset Management Inc. joint venture in 2005 (see note 2)	–	(239)	(239)
Balance as at October 31, 2005 and 2006	**$ 53,790**	**$ –**	**$ 53,790**

(1) This goodwill was related to asset management operations that were sold on December 31, 2004. See note 2.
See note 23 for segment descriptions.

Other intangible assets consist of the following:

	2006			2005
	Cost	Accumulated amortization	Net book value	Net book value
Contractual relations and client relationships	$ 18,278	$ 2,945	$ 15,333	$ 16,547

The other intangible assets consist of contractual relations with financial intermediaries and the associated client relationships and are amortized over a 15-year period.

Amortization of other intangible assets recorded in the consolidated statement of income during the year amounts to $1,214,000 ($1,344,000 in 2005).

The Bank tests goodwill and other intangible assets for impairment on an annual basis. No impairment was identified in 2006 and 2005.

8. Other assets

	2006	2005
Cheques and other items in transit	$ 112,442	$ 180,923
Deferred charges related to loan and deposit origination	80,008	92,218
Accrued interest receivable	72,272	73,877
Assets related to securitized mortgage loans	44,490	26,682
Accrued benefit assets (note 14)	36,940	42,458
Accounts receivable, prepaid expenses and other items	42,572	44,469
	$ 388,724	$ 460,627

9. Deposits

	2006				2005
	Demand	Notice	Term	Total	Total
Personal	$ 100,055	$ 1,743,084	$ 9,106,334	$ 10,949,473	$ 10,575,416
Business, banks and other	718,770	113,496	1,312,762	2,145,028	3,121,522
	$ 818,825	$ 1,856,580	$ 10,419,096	$ 13,094,501	$ 13,696,938

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

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

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

Deposits denominated in U.S. dollars amount to $245,027,000 ($271,618,000 in 2005) and deposits denominated in other foreign currencies, primarily in euros, amount to $3,608,000 ($654,000 in 2005).

10. Other liabilities

	2006	2005
Accrued interest payable	$ 451,727	$ 411,503
Cheques and other items in transit	131,675	173,580
Liabilities related to securitized mortgage loans	24,790	15,088
Deferred gain related to the sale of BLCER (note 2)	15,554	20,738
Accrued benefit liabilities (note 14)	11,430	10,340
Accounts payable, accrued expenses and other items (note 15)	60,843	78,474
	$ 696,019	$ 709,723

11. Subordinated debentures

SUBORDINATED DEBENTURES

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

ISSUED AND OUTSTANDING AS AT OCTOBER 31

Maturity	Series	Interest rate	Special terms	2006	2005
June 2011	9	6.50%	Redeemable at par as of June 2006; rate to be revised in June 2006 and set at the 90-day bankers' acceptance rate plus 1.25%	$ –	$ 150,000
January 2016	10	4.90%	Redeemable at par as of January 2011; rate to be revised in January 2011 and set at the 90-day bankers' acceptance rate plus 1.65%	150,000	–
				$ 150,000	$ 150,000

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

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

On October 18, 2005, the Bank completed the early redemption of all of its 8.90% Debentures, Series 6, maturing in 2010, with an aggregate principal amount of $50,000,000, plus accrued and unpaid interest to the date of redemption.

On December 15, 2004, the Bank completed the early redemption of all of its 7.00% Debentures, Series 8, maturing in 2009 with an aggregate notional amount of $100,000,000, including debentures amounting to $49,475,000 that it had redeemed as at October 31, 2004, plus accrued and unpaid interest to the date of redemption. The debenture redemption during 2004, amounting to $49,723,000, generated a loss of $248,000, which was included in other income in the consolidated statement of income.

12. Capital stock

AUTHORIZED

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

12. Capital stock (cont'd)

ISSUED AND OUTSTANDING AS AT OCTOBER 31

	2006				2005		
	Dividends per share (1)	Number of shares	Amount	Declared dividends	Number of shares	Amount	Declared dividends
Class A Preferred Shares							
Series 9	$ 1,500	4,000,000	$ 100,000	$ 6,000	4,000,000	$ 100,000	$ 6,000
Series 10	$ 1,312	4,400,000	110,000	5,775	4,400,000	110,000	5,775
Total preferred shares		8,400,000	$ 210,000	$ 11,775	8,400,000	$ 210,000	$ 11,775
Common shares	$ 1,160	23,620,436	$ 251,158	$ 27,379	23,556,545	$ 249,633	$ 27,293
Treasury shares		(20,000)	$ (590)	$ (23)	(20,000)	$ (590)	$ (6)

(1) Non-cumulative dividends on preferred shares

PREFERRED SHARES

TERMS OF SHARES

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

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

COMMON SHARES

ISSUANCE OF COMMON SHARES

During the year, 63,891 common shares (45,202 shares in 2005) were issued under the employee share purchase option plan for the management of the Bank for a cash consideration of $1,525,000 ($1,040,000 in 2005).

TREASURY SHARES

During fiscal 2005, 20,000 common shares were acquired in the marketplace with respect to obligations under a performance-based share program. These shares are presented under treasury shares as a reduction of shareholders' equity.

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

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

In addition, under the *Bank Act*, the Bank is prohibited from declaring or paying a dividend in any financial year without the approval of OSFI if, on the day the dividend is declared, the total of all dividends declared by the Bank in that year would exceed the aggregate of the Bank's net income up to that day in that year and its retained net income for the preceding two financial years.

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.

SHAREHOLDER RIGHTS PLAN

The Bank has a Shareholder Rights Plan intended to encourage the fair treatment of shareholders in connection with any take-over bid for the Bank. The rights issued under the Rights Plan become exercisable only when a person, including related persons, acquires or announces its intention to acquire 20% or more of the Bank's outstanding common shares without complying with the Permitted Bid provisions of the Rights Plan or without approval of the Board of Directors of the Bank. Should such an acquisition occur, each right would entitle a rights holder, other than the acquiring person and related persons, to purchase common shares of the Bank at a 50% discount of the market price at the time. Under the Rights Plan, a Permitted Bid is a bid made by means of a take-over bid circular sent to all shareholders of the Bank and is open for not less than 60 days. If at the end of the 60 days, at least 50% of the outstanding common shares have been tendered, other than those belonging to the offeror or related persons, the offeror may take up and pay for the shares but must extend his bid for a further 10 days to allow other shareholders to tender their shares. In the event of a hostile take-over bid, the rights will cause substantial dilution to the person attempting the take-over.

13. Stock-based compensation

SHARE PURCHASE OPTIONS

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

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

As at October 31, 2006, the Bank had reserved 1,600,000 common shares (1,600,000 shares in 2005) for the potential exercise of share purchase options, of which 139,960 (114,418 in 2005) were still available.

Given that the Bank has not granted any options since November 1, 2002, no expense was recognized for the years ended October 31, 2006 and 2005, as permitted by the transitional provisions of the CICA.

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

	2006		2005	
	Number of options	Weighted average exercise price per option	Number of options	Weighted average exercise price per option
Outstanding, beginning of year	429,037	$ 27.40	476,089	$ 26.99
Exercised	(63,891)	$ 23.88	(45,202)	$ 23.00
Cancelled	(25,542)	$ 30.97	(1,850)	$ 30.58
Outstanding, end of year	339,604	$ 27.79	429,037	$ 27.40
Exercisable, end of year	339,604	$ 27.79	404,037	$ 27.35

The following table summarizes information relating to share purchase options outstanding. As at October 31, 2006, all options are exercisable.

	Options outstanding and exercisable		
Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price per option
$18.70 – $19.94	28,362	2.33	$ 19.31
$22.08 – $22.08	21,455	2.58	$ 22.08
$27.08 – $31.80	289,787	3.24	$ 29.04
	339,604		

OTHER STOCK-BASED COMPENSATION PLANS

The Bank offers a stock appreciation rights (SARs) plan to members of senior management of the Bank and its subsidiaries. These SARs may be settled in consideration for a cash amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs vest over a maximum period of five years and can be exercised over a maximum period of ten years. As at October 31, 2006, 621,756 SARs (687,721 in 2005) were outstanding at a weighted average exercise price of $27.24 ($26.98 in 2005), of which 283,212 (205,021 in 2005) were exercisable at the end of the year. As at October 31, 2006, the weighted average remaining life of SARs was 5.84 years (6.61 years in 2005). During the year, an expense of $177,000 ($1,361,000 in 2005) was recognized in respect of this plan.

During the first quarter of 2006, the Bank established a new stock-based compensation program, the Restricted Share Unit Program, for certain senior managers. Under the program, 50% of the annual bonus otherwise payable to an eligible employee, under the Bank's short term incentive compensation program, could be withheld and converted into entirely vested restricted share units at the employees' option. The Bank undertakes to contribute additional restricted share units for an amount equal to 60% of the withheld bonus.

These additional units will vest at the end of the three-year period following their award. The holders of such share units are entitled to an amount equivalent to the dividends paid on the Bank's common shares, which is also converted into additional share units. The expense related to these units is recognized in income similarly to stock appreciation rights, over their vesting period. On January 19, 2006, annual bonuses for certain employees amounting to $854,000 were converted into 24,382 entirely vested restricted share units. On the same date, the Bank granted 14,629 additional restricted share units that will vest in December 2008. During the year, income of $28,000 (nil in 2005) was recognized in respect of this plan.

In 2005, the Bank initiated a performance-based share agreement, under which 20,000 common shares of the Bank valued at $29.50 each have been granted. The rights in respect of these shares will vest at the end of the 16-month period ending on January 1, 2007, if the Bank meets certain performance objectives. During the year, an expense of $445,000 (income of $73,000 in 2005) was recognized in respect of this plan.

A deferred share unit plan is also offered to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his remuneration in the form of deferred share units settled in cash. The deferred share units are converted when the holder steps down from the Board of Directors. As at October 31, 2006, there were 19,623 units (21,755 in 2005) outstanding with a total value of $570,000 ($660,000 in 2005). During the year, the compensation expense recognized in respect of this plan was $99,000 ($209,000 in 2005).

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

14. Employee future benefits

DESCRIPTION OF BENEFIT PLANS

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

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

TOTAL CASH PAYMENTS

Total cash payments for future employee benefits for 2006, consisting of cash contributed by the Bank to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution plans, were $17,329,000 ($15,985,000 in 2005).

DEFINED BENEFIT PLAN MEASUREMENT DATES

The Bank measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at October 31 of each year. The most recent actuarial valuations are as of December 31, 2005 and as of December 31, 2003 for one of the plans. The next required actuarial valuation for funding purposes for the funded plans will be as of December 31, 2006.

DEFINED BENEFIT PLAN OBLIGATIONS

	2006		2005	
	Pension plans	Other plans	Pension plans	Other plans
Change in accrued benefit obligation				
Accrued benefit obligation at beginning of year	$ 346,363	$ 25,584	$ 276,906	$ 23,169
Current service cost	9,385	52	6,318	41
Interest cost on accrued benefit obligation	18,790	1,153	18,325	1,257
Benefits paid	(15,612)	(1,576)	(15,021)	(1,824)
Employee contributions	2,583	–	2,411	–
Past service costs	666	–	240	–
Actuarial losses (gain)	(1)	7,589	56,992	2,941
Other	–	–	192	–
Accrued benefit obligation at end of year	$ 362,174	$ 32,802	$ 346,363	$ 25,584

DEFINED BENEFIT PLAN ASSETS

	2006		2005	
	Pension plans	Other plans	Pension plans	Other plans
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	$ 267,078	$ –	$ 244,183	$ –
Actual return on plan assets	24,170	–	23,526	–
Bank contributions	12,945	–	11,717	–
Employee contributions	2,583	–	2,411	–
Benefits paid	(15,395)	–	(14,759)	–
Faire value of plan assets at end of year	$ 291,381	$ –	$ 267,078	$ –

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

	2006		2005	
	Pension plans	Other plans	Pension plans	Other plans
Fair value of plan assets	$ 291,381	$ –	$ 267,078	$ –
Accrued benefit obligation	362,174	32,802	346,363	25,584
Funded status of plans – deficit	(70,793)	(32,802)	(79,285)	(25,584)
Unamortized transitional obligation	320	11 012	584	11,834
Unamortized past service costs	3,864	–	3,840	–
Unamortized net actuarial loss	98,126	15,783	112,050	8,679
Accrued benefit assets (liabilities) at end of year	$ 31,517	$ (6,007)	$ 37,189	$ (5,071)
Accrued benefit assets included in other assets	$ 36,940	$ –	$ 42,458	$ –
Accrued benefit liabilities included in other liabilities	$ 5,423	$ 6,007	$ 5,269	$ 5,071

14. Employee future benefits (cont'd)

ALLOCATION OF PLAN ASSETS AS A PERCENTAGE (1)

	2006	2005
Asset category		
Equity securities	51%	54%
Debt and other securities	49	46
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, 2006 and 2005.

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:

	2006		2005	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit obligation	$ 347,243	$ 32,802	$ 332,561	$ 25,584
Fair value of plan assets	272,368	–	249,739	–
Funded status – plan deficit	$ (74,875)	$ (32,802)	$ (82,822)	$ (25,584)

ELEMENTS OF DEFINED BENEFIT COSTS RECOGNIZED DURING THE YEAR

	2006		2005	
	Pension plans	Other plans	Pension plans	Other plans
Defined benefit costs recognized during the year	$ 9,385	$ 52	$ 6,318	$ 41
Interest cost on accrued benefit obligation	18,790	1,153	18,325	1,257
Actual return on plan assets	(24,170)	–	(23,526)	–
Actuarial losses (gain) on accrued benefit obligation	(1)	7,589	56,992	2,941
Other	666	–	192	–
Elements of employee future benefit costs before adjustments to recognize their long-term nature	4,670	8,794	58,301	4,239
Excess of actual return over expected return	6,031	–	6,846	–
Deferral of amounts arising during period:				
Actuarial gain (losses) on accrued benefit obligation	1	(7,589)	(56,992)	(2,941)
Past service costs	(666)	–	–	–
Amortization of previously deferred amounts:				
Past service costs	643	–	569	–
Actuarial losses	7,892	486	4,420	378
Transitional obligation	264	821	264	821
Adjustments to recognize long-term nature of employee future benefit costs	14,165	(6,282)	(44,893)	(1,742)
Total defined benefit costs	18,835	2,512	13,408	2,497
Total defined contribution portion costs	2,591	–	2,183	–
Employee future benefit costs	$ 21,426	$ 2,512	$ 15,591	$ 2,497

SIGNIFICANT ASSUMPTIONS

	2006		2005	
	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	5.35%	5.35%	5.35%	5.35%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Benefit costs for the years ended October 31:				
Discount rate for the year	5.35%	5.35%	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

	2006	2005
Assumed annual rate of increase in the cost of healthcare benefits	10%	9%
Level to which it should decline and at which it is assumed to subsequently stabilize	4%	5%
Year that the rate is assumed to stabilize	2016	2013

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 2006:

	1% increase	1% decrease
Total of service and interest cost	$ 95	$ (80)
Accrued benefit obligation	$ 2,556	$ (2,146)

15. Income taxes

FUTURE INCOME TAX ASSETS

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

	2006	2005
Property, plant and equipment	$ 82,667	$ 70,903
Allowance for credit losses	33,386	35,504
Recoverable minimum income tax of financial institutions	1,825	10,615
Prospective tax loss deferrals	14,865	15,491
Intangible assets	1,545	2,387
Accrued benefit assets – pension plans	(8,342)	(10,310)
Deferred charges	(19,241)	(20,864)
Securitization and securities	(5,607)	(4,310)
Deferred revenue	2,655	3,658
Other temporary differences	(2,705)	3,858
Futures income tax assets, net	$ 101,048	$ 106,932

Income tax loss carryforwards, as at October 31, 2006, consist of federal income tax losses amounting to $51,379,000 ($43,974,000 in 2005) that can be used to reduce future taxable income. These losses expire at various dates ranging from 2010 to 2026. Recoverable minimum income taxes of financial institutions, which are recoverable over a three-year period where the minimum tax threshold has been exceeded, expire between 2007 and 2009.

15. Income taxes (cont'd)

INCOME TAX EXPENSE

Significant components of income tax expense are as follows:

	2006	2005
Consolidated statement of income		
Continuing operations		
Current income tax expense	$ 16,338	$ 14,619
Future income tax expense (benefit)		
Reversal (creation) of temporary differences	(1,504)	9,869
Tax rate changes	8,602	–
	7,098	9,869
	23,436	24,488
Discontinued operations		
Future income tax expense	938	936
	$ 24,374	$ 25,424
Consolidated statement of changes in shareholders' equity		
Income taxes on preferred share dividends and other		
Current income tax expense	$ 2,564	$ 5,749
Future income tax benefit	(2,573)	(5,494)
	$ (9)	$ 255

RECONCILIATION WITH THE STATUTORY RATE

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

	2006		2005	
	Amount		Amount	
Income taxes at statutory rate	$ 29,280	32.9%	$ 25,651	32.0%
Change resulting from:				
Resolution of income tax exposures	(11,300)	(12.7)	–	–
Tax rate changes	8,602	9.7	–	–
Realized gain on repatriation of accumulated foreign retained earnings	4,520	5.1	–	–
Recognition of previously unrecognized temporary differences related to the minimum tax on financial institutions	(2,750)	(3.2)	–	–
Tax exempt revenues (dividends)	(1,061)	(1.2)	(343)	(0.4)
Lower tax rate on foreign credit insurance operations	(2,441)	(2.7)	–	–
Federal large corporations tax	–	–	779	1.0
Corporate reorganization and other	(1,414)	(1.6)	(1,599)	(2.0)
Income taxes from continuing operations, as reported in the consolidated statement of income	$ 23,436	26.3%	$ 24,488	30.6%

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

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

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

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

16. Net income per common share

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

	2006	2005
Basic net income per common share		
Net income from continuing operations	$ 65,556	$ 55,623
Preferred share dividends, including applicable income taxes	11,766	12,030
Net income attributable to common shares from continuing operations	$ 53,790	$ 43,593
Average number of outstanding common shares	23,605,077	23,525,404
Basic net income per common share from continuing operations	$ 2.28	$ 1.85
Diluted net income per common share		
Net income attributable to common shares from continuing operations	$ 53,790	$ 43,593
Average number of outstanding common shares	23,605,077	23,525,404
Dilutive and other share purchase options	43,741	27,026
Weighted average number of outstanding common shares	23,648,818	23,552,430
Diluted net income per common share from continuing operations	$ 2.28	$ 1.85
Average number of share purchase options not taken into account in the calculation of diluted net income per share (1)	60,510	290,285

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

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

17. Related party transactions

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

	2006	2005
Mortgage loans	$ 112	$ 143
Other loans	393	386
	$ 505	$ 529

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.

18. Derivative financial instruments

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

The various derivative financial instruments listed in the tables below are as follows:
i) Interest rate swaps involve the exchange of fixed and floating interest payment obligations based on a predetermined notional amount for a specified period of time. Foreign exchange swaps involve the exchange of the principal and fixed or floating interest payments in different currencies. Cross-currency interest rate swaps involve the exchange of both the principal amount and fixed and floating interest payment obligations in two different currencies over a given period.
ii) Forward rate agreements are contracts fixing a future interest rate to be paid or received, calculated on a notional principal amount with a specified maturity commencing at a specified future date.
iii) Options are agreements between two parties in which the writer of the option grants the buyer the right, but not the obligation, to buy or to sell, at or by a specified date, a specific amount of a financial instrument at a price agreed upon when the agreement is entered into. The writer receives a premium for selling this instrument.
iv) Futures are future commitments to purchase or deliver a financial instrument on a specified future date at a specified price. Futures are traded in standardized amounts on organized exchanges and are subject to daily cash margining.
v) Foreign exchange forward contracts are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a pre-determined rate.

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

AGGREGATE NOTIONAL AMOUNTS

(in millions of dollars)	Period to maturity					2006
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Contracts designated as a hedge	Other contracts[1]
Interest rate contracts						
OTC contracts						
Swaps	$ 3,223	$ 6,180	$ 18	$ 9,421	$ 3,982	$ 5,439
Options purchased	154	–	–	154	–	154
Options written	14	–	–	14	–	14
Exchange-traded contracts						
Futures	71	–	–	71	–	71
Options purchased	15	–	–	15	–	15
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	1,006	5	–	1,011	–	1,011
Cross-currency interest rate swaps	–	23	–	23	23	–
Forwards	484	7	–	491	–	491
Options purchased	674	–	–	674	–	674
Options written	590	–	–	590	–	590
Other contracts[2]	57	79	1	137	–	137
	$ 6,288	$ 6,294	$ 19	$ 12,601	$ 4,005	$ 8,596

(in millions of dollars)	Period to maturity			2005		
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Contracts designated as a hedge	Other contracts [1]
Interest rate contracts						
OTC contracts						
Swaps	$ 3,203	$ 6,681	$ 10	$ 9,894	$ 3,677	$ 6,217
Exchange-traded contracts						
Futures	46	–	–	46	–	46
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	1,250	23	–	1,273	–	1,273
Forwards	881	33	–	914	–	914
Options purchased	439	–	–	439	–	439
Options written	336	–	–	336	–	336
Other contracts [2]	27	124	–	151	–	151
	$ 6,182	$ 6,861	$ 10	$ 13,053	$ 3,677	$ 9,376

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

(2) Include equity derivatives.

CREDIT EXPOSURE

(in millions of dollars)	2006			2005		
	Replacement cost [1]	Credit equivalent amount [2]	Risk-weighted amount [3]	Replacement cost	Credit equivalent amount	Risk-weighted amount
Interest rate contracts						
Swaps	$ 15	$ 47	$ 9	$ 38	$ 72	$ 14
Options purchased	1	1	–	–	–	–
Foreign exchange contracts						
Foreign exchange swaps	5	10	3	13	20	5
Cross-currency interest rate swaps	–	1	–	–	–	–
Forwards	1	4	2	2	8	4
Options purchased	–	6	2	3	6	2
Other contracts [4]	39	48	10	34	46	9
	$ 61	$ 117	$ 26	$ 90	$ 152	$ 34

(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) Represents total replacement cost, plus any corresponding potential credit risk amount, using guidelines issued by the Superintendent of Financial Institutions of Canada.

(3) Using guidelines issued by the Superintendent of Financial Institutions of Canada.

(4) Include equity derivatives.

DERIVATIVE-RELATED RISK MANAGEMENT

In order to manage risks related to its derivative financial instruments, the Bank has put in place processes to detect and evaluate the major risks it faces. Risk management policies and various risk limits constitute the Bank's key controls to supervise these operations.

MARKET RISK

Market risk corresponds to the financial losses that the Bank could incur because of unfavorable fluctuations in the value of derivative financial instruments, following variations in the parameters that affect their evaluation, such as interest rates, exchange rates or quoted prices. Risks associated with these parameters are monitored daily.

18. Derivative financial instruments (cont'd)

CREDIT RISK

The utilization of derivative financial instruments could lead to credit risk exposures which correspond to the risk of a financial loss occurring because of the inability or refusal of a counterparty to fully honor its contractual obligations with regard to a derivative financial instrument. Derivative-related credit risk is generally managed using the same credit approval, limit and monitoring standards that are used for managing other transactions that create credit exposure. Moreover, the Bank negotiates derivative master netting agreements with counterparties with which it contracts. In case of default, such agreements provide for the simultaneous netting of all transactions with a counterparty, therefore reducing credit risk exposure.

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

19. Financial instruments

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

Fair value represents the amount at which a financial instrument could be exchanged between willing parties. Quoted market prices are not available for a significant portion of the Bank's financial instruments. As a result, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of the net realizable value.

FAIR VALUE OF ASSETS AND LIABILITIES

(in millions of dollars)

	2006			2005		
	Book value	Fair value	Favourable (unfavourable) variance	Book value	Fair value	Favourable (unfavourable) variance
Assets						
Cash resources	$ 170	$ 170	$ –	$ 318	$ 318	$ –
Securities	3,242	3,241	(1)	2,940	2,930	(10)
Assets purchased under reverse repurchase agreements	803	803	–	508	508	–
Loans	12,165	12,213	48	11,720	11,897	177
Customers' liability under acceptances	150	150	–	146	146	–
Derivative financial instruments	59	59	–	117	117	–
Other assets	133	133	–	120	120	–
Liabilities						
Deposits	13,095	13,148	(53)	13,697	13,853	(156)
Obligations related to assets sold short	1,077	1,077	–	726	726	–
Obligations related to assets sold under repurchase agreements	1,100	1,100	–	60	60	–
Acceptances	149	149	–	146	146	–
Derivative financial instruments	82	82	–	105	105	–
Other liabilities	677	677	–	696	696	–
Subordinated debentures	150	152	(2)	150	153	(3)

The fair value of items which are short-term in nature or contain variable rate features is considered to be equal to book value.

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

The fair value of loans, term deposits and subordinated debentures is estimated by discounting cash flows using market interest rates.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

(in millions of dollars)

2006	Favourable fair value	Unfavourable fair value	Net amount
DESIGNATED AS HEDGE CONTRACTS			
Interest rate contracts			
Swaps	$ 3	$ (17)	$ (14)
OTHER CONTRACTS (1)			
Interest rate contracts			
Swaps	12	(14)	(2)
Options purchased	1	–	1
Options written	–	(1)	(1)
	13	(15)	(2)
Foreign exchange contracts			
Foreign exchange swaps	5	(1)	4
Forwards	1	(4)	(3)
	6	(5)	1
Other contracts (2)	39	–	39
	58	(20)	38
TOTAL	$ 61	$ (37)	$ 24

(in millions of dollars)

2005	Favourable fair value	Unfavourable fair value	Net amount
DESIGNATED AS HEDGE CONTRACTS			
Interest rate contracts			
Swaps	$ 15	$ (13)	$ 2
OTHER CONTRACTS (1)			
Interest rate contracts			
Swaps	23	(32)	(9)
Foreign exchange contracts			
Foreign exchange swaps	13	(4)	9
Forwards	2	(10)	(8)
Options purchased	3	–	3
Options written	–	(3)	(3)
	18	(17)	1
Other contracts (2)	34	–	34
	75	(49)	26
TOTAL	$ 90	$ (62)	$ 28

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

(2) Include equity derivatives.

The fair value of derivative financial instruments is based on quoted market prices or dealer quotes. Otherwise, fair value is estimated on the basis of pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows.

The fair value of derivative financial instruments is shown under derivative financial instruments, as assets or liabilities as appropriate.

19. Financial instruments (cont'd)

INTEREST RATE RISK

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

(in millions of dollars) **2006**

	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash resources and securities	$ 1,460	$ 692	$ 115	$ 1,016	$ 53	$ 75	$ 3,411
Actual return		4.2%	2.6%	3.5%	5.3%		
Assets purchased under reverse repurchase agreements	803	–	–	–	–	–	803
Loans	4,321	756	1,846	4,783	207	252	12,165
Actual return		6.3%	6.2%	6.0%	7.0%		
Other assets	–	–	–	–	–	917	917
Total	6,584	1,448	1,961	5,799	260	1,244	17,296
Actual return		5.3%	6.0%	5.5%	6.7%		
Liabilities and equity							
Deposits	450	1,875	3,647	6,638	1	484	13,095
Actual return		2.9%	3.5%	3.1%	4.8%		
Treasury items	1,946	198	–	1	32	–	2,177
Actual return		4.3%	–%	4.3%	6.3%		
Other liabilities	–	28	87	127	–	686	928
Actual return		3.3%	3.9%	3.9%	–%		
Debentures and equity	–	–	–	360	–	736	1,096
Actual return		–%	–%	2.0%	–%		
Total	2,396	2,101	3,734	7,126	33	1,906	17,296
Actual return		3.0%	3.5%	3.1%	6.3%		
Swaps, net	–	(3,444)	1,668	1,776	–	–	–
Sensitivity gap	4,188	(4,097)	(105)	449	227	(662)	–
Cumulative gap	$ 4,188	$ 91	$ (14)	$ 435	$ 662	$ –	$ –

(in millions of dollars) 2005

	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	$ 5,713	$ 1,582	$ 2,226	$ 5,506	$ 287	$ 1,193	$ 16,507
Actual return		3.7%	4.4%	6.2%	5.4%		
Liabilities and equity	1,178	2,590	3,254	7,473	40	1,972	16,507
Actual return		3.2%	3.4%	3.2%	5.9%		
Swaps, net	–	(3,485)	302	3,183	–	–	–
Sensivity gap	4,535	(4,493)	(726)	1,216	247	(779)	–
Cumulative gap	$ 4,535	$ 42	$ (684)	$ 532	$ 779	$ –	$ –

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

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

CONCENTRATION OF CREDIT RISK

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

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

	2006	2005
Quebec	62%	64%
Other Canadian provinces	38%	36%
Total	100%	100%

No single industry segment accounted for more than 3% (3% in 2005) of the total loans and customers' liability under acceptances.

20. 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.

	2006	2005
Undrawn amounts under approved credit facilities (1)	$ 2,185,535	$ 1,931,808
Documentary letters of credit	$ 12,902	$ 15,076

(1) Exclude personal credit facilities totalling $940,851,000 ($1,087,013,000 as at October 31, 2005) and credit card lines amounting to $799,113,000 ($718,770,000 as at October 31, 2005) since they are revocable at the Bank's option.

GUARANTEES

STANDBY LETTERS OF CREDIT AND PERFORMANCE GUARANTEES

In the normal course of its operations, the Bank offers to its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that clients cannot meet their obligations to third parties. The terms of these guarantees vary according to the contracts and normally do not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. No specific provision is currently recorded with regard to these guarantees. The maximum potential amount of future payments under these guarantees totalled $94,775,000 as at October 31, 2006 ($60,672,000 in 2005).

DERIVATIVE FINANCIAL INSTRUMENTS

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank sells put options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of foreign currencies at a predetermined price. The term of these options does not exceed 12 months. No specific provision is recorded with respect to these derivatives. The maximum potential amount of future payments under these derivatives, corresponding to the notional value of outstanding contracts, totalled $278,892,000 as at October 31, 2006 ($200,061,000 in 2005).

OTHER INDEMNIFICATION AGREEMENTS

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

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

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

	Premises	Information technology service contracts	Other	Total
2007	$ 20,018	$ 46,656	$ 6,227	$ 72,901
2008	18,798	41,836	6,027	66,661
2009	16,506	44,048	3,912	64,466
2010	14,772	41,842	3,142	59,756
2011	10,715	33,852	2,187	46,754
Thereafter	43,913	144,003	7,474	195,390
Total	$ 124,722	$ 352,237	$ 28,969	$ 505,928

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

PLEDGED ASSETS

In the normal course of its operations, the Bank pledges securities presented in the balance sheet. The following table details the granted guarantees:

	2006	2005
Pledge assets in order to participate in clearing and payment systems	$ 382,856	$ 260,247
Pledged assets for obligations related to assets sold under repurchase agreements	1,100,385	60,065
	$ 1,483,241	$ 320,312

21. Variable interest entities

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

The Bank securitizes its own assets through single-seller and multi-seller securitization conduits, which are normally considered VIEs. These conduits are not consolidated under AcG-15, as these special purpose entities are specifically excluded from its scope or because the Bank is not the primary beneficiary. More details regarding these entities are provided in note 5.

As at October 31, 2005, the Bank held units relating to seed capital investments totalling $14,899,000. Based on its analysis, the Bank was not the primary beneficiary of these entities and they have not been consolidated. These units relating to seed capital investments were sold during fiscal 2006 (see note 2).

The Bank uses a compensation trust, which holds its own shares, to economically hedge its obligation to certain employees under its stock-based compensation program. This trust is consolidated because the Bank is the primary beneficiary.

22. Contingencies

LITIGATION

The Bank and its subsidiaries are involved in various pending legal actions which arise in the normal course of business. Many of these proceedings are related to loans granted by the Bank and are in reaction to steps taken by the Bank to collect delinquent loans and enforce the underlying securities. Certain claims for damages have also been brought against the Bank, particularly with respect to the role of one of its subsidiaries as bare trustee with regard to operations related to the administration of portfolios, as well as to applications for authorization to institute class actions in connection with certain bank fees. Management considers that adequate provisions have been set aside to cover any future losses and any amounts that might not be recoverable from insurance companies, as the case may be, in connection with these actions.

23. Segmented information

The Bank offers its services through four business segments: Retail Financial Services, Commercial Financial Services, B2B Trust and Laurentian Bank Securities (LBS).

The Retail Financial Services segment covers the full range of savings, investment and financing products, and transactional products and services offered through its direct distribution network, which includes branches, the electronic network and the call centre, as well as Point-of-Sale financing across Canada. This business segment also offers Visa credit card services and credit insurance products, as well as trust services.

The Commercial Financial Services segment handles commercial loans and larger financings as part of banking syndicates, as well as commercial mortgage financing, leasing, factoring and other services.

The B2B Trust segment supplies generic and complementary banking and financial products to financial advisors and non-bank financial institutions across Canada. This segment also includes the deposit brokerage operations.

The LBS segment consists of the activities of the subsidiary Laurentian Bank Securities Inc. and until December 31, 2004, the Bank's share of the BLC-Edmond de Rothschild Asset Management Inc. joint venture.

The Other segment includes treasury and securitization activities and other activities of the Bank including revenues and expenses that are not attributable to the above-mentioned segments.

Results for the Bank's segments are based on internal financial reporting systems and are consistent with the accounting principles followed in the preparation of the Bank's consolidated financial statements. Transfer pricing regarding the funding of segments' assets and liabilities is based on institutional funding costs which best reflect the nature and maturities of these items. Non-interest expenses are matched against the revenues to which they relate. Indirect costs are allocated to the segments based on appropriate criteria.

23.Segmented information (cont'd)

2006	Retail Financial Services(2)	Commercial Financial Services(4)	B2B Trust(2)	Laurentian Bank Securities	Other(5)	Total
Net interest income	$ 259,091	$ 59,166	$ 73,606	$ 1,018	$ (35,674)	$ 357,207
Other income	95,139	22,762	12,633	22,619	20,315	173,468
Total revenue	354,230	81,928	86,239	23,637	(15,359)	530,675
Provision for credit losses	23,047	11,136	5,817	–	–	40,000
Non-interest expenses	287,158	36,705	43,657	18,331	15,832	401,683
Income (loss) from continuing operations before income taxes	44,025	34,087	36,765	5,306	(31,191)	88,992
Income taxes (recovered)	13,873	11,417	12,473	1,458	(15,785)	23,436
Income (loss) from continuing operations	30,152	22,670	24,292	3,848	(15,406)	65,556
Income from discontinued operations, net of income taxes	4 422	–	–	–	354	4,776
Net income (loss)	$ 34,574	$ 22,670	$ 24,292	$ 3,848	$ (15,052)	$ 70,332
Average assets (1)	$ 8,206,159	$ 2,260,638	$ 2,713,829	$ 1,506,531	$ 2,004,321	$ 16,691,478

2005	Retail Financial Services(2), (3)	Commercial Financial Services(3)	B2B Trust(2), (3)	Laurentian Bank Securities(6)	Other	Total
Net interest income	$ 252,496	$ 56,221	$ 63,577	$ 1,290	$ (47,893)	$ 325,691
Other income	87,639	29,112	14,036	21,361	24,223	176,371
Total revenue	340,135	85,333	77,613	22,651	(23,670)	502,062
Provision for credit losses	20,685	13,107	6,208	–	–	40,000
Non-interest expenses	273,198	38,874	42,435	17,535	9,909	381,951
Income (loss) from continuing operations before income taxes	46,252	33,352	28,970	5,116	(33,579)	80,111
Income taxes (recovered)	16,140	11,813	9,886	1,733	(15,084)	24,488
Income (loss) from continuing operations	30,112	21,539	19,084	3,383	(18,495)	55,623
Income from discontinued operations, net of income taxes	4,422	–	–	–	5,237	9,659
Net income (loss)	$ 34,534	$ 21,539	$ 19,084	$ 3,383	$ (13,258)	$ 65,282
Average assets (1)	$ 7,684,783	$ 2,221,761	$ 2,451,836	$ 1,439,039	$ 2,530,115	$ 16,327,534

(1) Assets and liabilities are disclosed on an average basis, as this measure is most relevant to a financial institution.

(2) Since November 1, 2005, results from all deposit broker operations are now included with the B2B Trust business segment, whereas certain operations were previously included with the Retail Financial Services business segment. Comparative figures have been restated to conform with current period presentation.

(3) In 2006, the Bank reviewed its internal transfer pricing assumptions, resulting in modified net interest margin allocation between segments. Comparative figures were restated to reflect current year presentation.

(4) Results for the first quarter of 2006 include a $0.05 million contribution to net income from Brome Financial Corporation Inc. for the two months prior to the sale of the subsidiary and the $0.93 million gain from this sale (note 2).

(5) See note 15 related to income taxes.

(6) Results for the first quarter of 2005 include a $0.03 million contribution from BLC-Edmond de Rothschild Asset Management Inc. for the two months prior to the sale of the joint venture (note 2).

Statistical review – Consolidated balance sheet

Unaudited, as at October 31 (in thousands of dollars)	2006	2005	2004	2003	2002	Average annual variation 06/02
ASSETS						
Cash resources						
Cash and non-interest-bearing deposits with other banks	$ 70,907	$ 57,737	$ 47,681	$ 54,772	$ 82,164	(4)%
Interest-bearing deposits with other banks	98,722	259,791	280,751	668,152	351,534	(27)
Cheques and other items in transit, net	–	–	–	111,809	19,973	–
	169,629	317,528	328,432	834,733	453,671	(22)
Securities						
Issued or guaranteed by Canada	2,019,524	1,775,372	1,834,369	1,497,689	1,584,820	6
Issued or guaranteed by provinces and municipal corporations	581,384	556,727	698,510	1,025,828	1,114,427	(15)
Other securities	641,372	608,307	469,596	547,359	350,810	16
	3,242,280	2,940,406	3,002,475	3,070,876	3,050,057	2
Assets purchased under reverse repurchase agreements	802,546	508,073	1,133,920	882,036	869,830	(2)
Loans						
Personal	4,168,026	3,907,320	3,638,991	3,646,070	3,865,455	2
Residential and commercial mortgages	6,644,670	6,402,799	6,113,107	5,979 229	7,601,671	(3)
Commercial and other	1,476,977	1,539,893	1,542,760	1,571,491	1,872,901	(6)
	12,289,673	11,850,012	11,294,858	11,196,790	13,340,027	(2)
Allowance for loan losses	(125,153)	(129,806)	(140,042)	(163,177)	(217,881)	(13)
	12,164,520	11,720,206	11,154,816	11,033,613	13,122,146	(2)
Other						
Customers' liability under acceptances	149,818	145,629	144,830	235,286	332,077	(18)
Property, plant and equipment	111,291	93,793	94,490	114,479	160,597	(9)
Other assets	655,875	781,349	748,513	566,745	607,238	2
	916,984	1,020,771	987,833	916,510	1,099,912	(4)
	$ 17,295,959	$ 16,506,984	$ 16,607,476	$ 16,737,768	$ 18,595,616	(2)%
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits						
Personal	$ 10,949,473	$ 10,575,416	$ 10,454,368	$ 10,508,592	$ 12,007,957	(2)%
Business, banks and others	2,145,028	3,121,522	2,456,672	2,784,357	2,960,317	(8)
	13,094,501	13,696,938	12,911,040	13,292,949	14,968,274	(3)
Other						
Obligations related to assets sold short or under repurchase agreements	2,177,394	786,128	1,511,481	1,142,909	1,308,882	14
Acceptances	149,818	145,629	144,830	235,286	332,077	(18)
Other liabilities	777,826	815,049	902,848	751,484	716,907	2
	3,105,038	1,746,806	2,559,159	2,129,679	2,357,866	7
Subordinated debentures	150,000	150,000	250,525	400,000	400,000	(22)
Liability related to preferred shares	–	–	–	100,000	100,000	–
Non-controlling interest in a subsidiary	–	–	–	41,827	47,106	–
Shareholders' equity						
Preferred shares	210,000	210,000	210,000	100,000	100,400	20
Common shares	251,158	249,633	248,593	246,813	246,230	–
Contributed surplus	518	73	–	–	–	–
Retained earnings	485,334	454,124	428,159	426,500	375,740	7
Treasury shares	(590)	(590)	–	–	–	–
	946,420	913,240	886,752	773,313	722,370	7
	$ 17,295,959	$ 16,506,984	$ 16,607,476	$ 16,737,768	$ 18,595,616	(2)%

Statistical review – Consolidated statement of income

Unaudited, for the years ended October 31 (in thousands of dollars, unless otherwise indicated)	2006	2005	2004	2003	2002	Average annual variation 06/02
Loans	$ 755,009	$ 682,591	$ 690,789	$ 870,519	$ 887,268	(4)%
Securities	70,446	59,744	57,546	76,502	73,341	(1)
Deposits with other banks	11,721	7,864	9,807	11,658	5,022	24
Interest income	837,176	750,199	758,142	958,679	965,631	(4)
Deposits and other liabilities	467,255	408,309	455,950	587,711	591,905	(6)
Subordinated debentures	12,714	16,199	27,184	27,742	27,750	(18)
Liability related to preferred shares	–	–	7,814	7,750	8,121	–
Interest expense	479,969	424,508	490,948	623,203	627,776	(6)
Net interest income	357,207	325,691	267,194	335,476	337,855	1
Provision for credit losses	40,000	40,000	40,000	54,000	111,000	(23)
	317,207	285,691	227,194	281,476	226,855	9
Other income	173,468	176,371	198,949	286,720	254,443	(9)
	490,675	462,062	426,143	568,196	481,298	–
Salaries and employee benefits	205,711	192,163	182,929	204,944	198,694	1
Premises and technology	106,891	107,559	104,682	128,982	120,140	(3)
Other	89,081	82,229	82,108	107,854	88,499	–
Non-interest expenses	401,683	381,951	369,719	441,780	407,333	–
Income from continuing operations before income taxes and non-controlling interest in a subsidiary	88,992	80,111	56,424	126,416	73,965	5
Income taxes	23,436	24,488	14,637	38,757	33,009	(8)
Income from continuing operations before non-controlling interest in a subsidiary	65,556	55,623	41,787	87,659	40,956	12
Non-controlling interest in a subsidiary	–	–	1,916	3,640	5,318	–
Income from continuing operations	65,556	55,623	39,871	84,019	35,638	16
Income from discontinued operations, net of income taxes	4,776	9,659	–	–	–	–
Net income	$ 70,332	$ 65,282	$ 39,871	$ 84,019	$ 35,638	19%
Preferred shares dividends, including applicable income taxes	$ 11,766	$ 12,030	$ 8,606	$ 6,095	$ 6,352	17%
Net income available to common shareholders	$ 58,566	$ 53,252	$ 31,265	$ 77,924	$ 29,286	19%
Common share dividends	$ 27,356	$ 27,287	$ 27,248	$ 27,164	$ 26,854	–%
Average number of common shares (in thousands)						
Basic	23,605	23,525	23,485	23,416	23,095	1%
Diluted	23,649	23,552	23,521	23,457	23,288	–%
Income per common share from continuing operations						
Basic	$ 2.28	$ 1.85	$ 1.33	$ 3.33	$ 1.27	16%
Diluted	$ 2.28	$ 1.85	$ 1.33	$ 3.32	$ 1.26	16%
Net income per common share						
Basic	$ 2.48	$ 2.26	$ 1.33	$ 3.33	$ 1.27	18%
Diluted	$ 2.48	$ 2.26	$ 1.33	$ 3.32	$ 1.26	18%
Dividends	$ 1.16	$ 1.16	$ 1.16	$ 1.16	$ 1.16	–%
Dividend payout ratio	46.7%	51.2%	87.1%	34.9%	91.5%	
Book value	$ 31.18	$ 29.85	$ 28.78	$ 28.73	$ 26.57	4%
Return on common shareholders' equity	8.2%	7.8%	4.6%	12.4%	4.8%	
(as a percentage of average assets)						
Net interest income	2.14%	1.99%	1.64%	1.81%	1.82%	
Provision for credit losses	0.24%	0.24%	0.24%	0.29%	0.60%	
Other income	1.04%	1.08%	1.22%	1.55%	1.37%	
Non-interest expenses	2.41%	2.34%	2.26%	2.38%	2.19%	
Income from continuing operations	0.39%	0.34%	0.24%	0.45%	0.19%	
Net income	0.42%	0.40%	0.24%	0.45%	0.19%	
Net income available to common shareholders	0.35%	0.33%	0.19%	0.42%	0.16%	
Average assets (in millions of dollars)	$ 16,691	$ 16,328	$ 16,327	$ 18,548	$ 18,570	(3)%
Number of full-time equivalent employees	3,238	3,180	3,125	3,159	3,730	(3)%
Number of branches	158	157	153	155	214	(7)%
Number of automated banking machines	325	313	293	284	351	(2)%

Quarterly highlights

Unaudited (in thousands of dollars, unless otherwise indicated)	2006				2005			
	Quarters ended				Quarters ended			
	Oct. 31	July 31	April 30	Jan. 31	Oct. 31	July 31	April 30	Jan. 31
Interest income	$ 218,751	$ 218,943	$ 200,757	$ 198,725	$ 191,983	$ 189,070	$ 181,439	$ 187,707
Interest expense	126,669	127,451	115,073	110,776	106,571	103,590	102,351	111,996
Net interest income	92,082	91,492	85,684	87,949	85,412	85,480	79,088	75,711
Provision for credit losses	10,000	10,000	10,000	10,000	11,750	9,750	8,750	9,750
	82,082	81,492	75,684	77,949	73,662	75,730	70,338	65,961
Other income	42,729	44,350	42,832	43,557	48,400	45,631	38,891	43,449
Non-interest expenses	102,570	101,062	97,521	100,530	99,010	98,494	92,759	91,688
Income from continuing operations before income taxes	22,241	24,780	20,995	20,976	23,052	22,867	16,470	17,722
Income tax provision (recovery)	4,105	18,624	(3,610)	4,317	5,642	7,660	5,518	5,668
Income from continuing operations	18,136	6,156	24,605	16,659	17,410	15,207	10,952	12,054
Income (loss) from discontinued operations, net of income taxes	4,422	–	30	324	4,149	600	(303)	5,213
Net income	$ 22,558	$ 6,156	$ 24,635	$ 16,983	$ 21,559	$ 15,807	$ 10,649	$ 17,267
Preferred shares dividends, including applicable income taxes	2,811	2,986	2,987	2,982	2,998	2,998	2,999	3,035
Net income available to common shareholders	$ 19,747	$ 3,170	$ 21,648	$ 14,001	$ 18,561	$ 12,809	$ 7,650	$ 14,232
(as a percentage of average assets)								
Net interest income	2.19%	2.16%	2.11%	2.10%	2.06%	2.06%	2.02%	1.83%
Provision for credit losses	0.24%	0.24%	0.25%	0.24%	0.28%	0.24%	0.22%	0.24%
Other income	1.02%	1.05%	1.05%	1.04%	1.17%	1.10%	0.99%	1.05%
Non-interest expenses	2.44%	2.38%	2.40%	2.41%	2.39%	2.38%	2.37%	2.22%
Net income	0.54%	0.15%	0.61%	0.41%	0.52%	0.38%	0.27%	0.42%
Net income available to common shareholders	0.47%	0.07%	0.53%	0.34%	0.45%	0.31%	0.20%	0.34%
Average assets (in millions of dollars)	$ 16,679	$ 16,832	$ 16,675	$ 16,579	$ 16,431	$ 16,426	$ 16,062	$ 16,383
Return on common shareholders' equity	10.8%	1.7%	12.5%	7.9%	10.6%	7.4%	4.6%	8.3%
Average number of common shares (in thousands)								
Basic	23,616	23,613	23,612	23,580	23,546	23,532	23,511	23,511
Diluted	23,639	23,644	23,673	23,640	23,586	23,557	23,534	23,531
Income per common share from continuing operations								
Basic	$ 0.65	$ 0.13	$ 0.92	$ 0.58	$ 0.61	$ 0.52	$ 0.34	$ 0.38
Diluted	$ 0.65	$ 0.13	$ 0.91	$ 0.58	$ 0.61	$ 0.52	$ 0.34	$ 0.38
Net income per common share								
Basic	$ 0.84	$ 0.13	$ 0.92	$ 0.59	$ 0.79	$ 0.54	$ 0.33	$ 0.61
Diluted	$ 0.84	$ 0.13	$ 0.91	$ 0.59	$ 0.79	$ 0.54	$ 0.33	$ 0.60
Dividends	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29
Book value	$ 31.18	$ 30.63	$ 30.78	$ 30.15	$ 29.85	$ 29.38	$ 29.14	$ 29.10
Share price – Close	$ 29.05	$ 30.45	$ 32.58	$ 35.15	$ 30.35	$ 27.25	$ 26.52	$ 23.60
Common share dividends	$ 6,843	$ 6,843	$ 6,835	$ 6,835	$ 6,823	$ 6,827	$ 6,818	$ 6,819
(in millions of dollars)								
Balance sheet assets	$ 17,296	$ 17,062	$ 17,307	$ 16,742	$ 16,507	$ 16,125	$ 16,671	$ 15,817
Risk-weighted assets	$ 8,702	$ 8,533	$ 8,612	$ 8,450	$ 8,523	$ 8,502	$ 8,349	$ 8,083
Tier I capital	$ 893	$ 879	$ 883	$ 868	$ 866	$ 854	$ 848	$ 847
Total capital	$ 1,079	$ 1,067	$ 1,193	$ 1,192	$ 1,049	$ 1,082	$ 1,076	$ 1,074
Tier I BIS capital ratio	10.3%	10.3%	10.3%	10.3%	10.2%	10.1%	10.2%	10.5%
Total BIS capital ratio	12.4%	12.5%	13.9%	14.1%	12.3%	12.7%	12.9%	13.3%
Assets to capital multiple	16.1x	16.1x	14.6x	14.1x	15.8x	15.0x	15.5x	14.8x

CORPORATE GOVERNANCE

Today, as it has always been in the past, strong corporate governance is an important component of Laurentian Bank's activities management. Indeed, in 1987, Laurentian Bank became the first financial institution to separate the roles of Chairman of the Board and of President and CEO. Moreover, its corporate governance policies and procedures are among the most exemplary ones.

All members of the Board of Directors are independent and unrelated to the Bank's management, with the exception of the President and Chief Executive Officer. The independent status of directors is evaluated in accordance with the requirements defined by the Human Resources and Corporate Governance Committee and approved by the Board of Directors.

The role of the Board of Directors is essentially to supervise the management of the business and affairs of the Bank. The Board members thus commit to act in accordance with the principles and requirements set forth in the *Code of Conduct for Directors* with respect to various dimensions ranging from general conduct to financial situation, conflict of interest, information and data security, and insider transactions.

The Board of Directors has delegated some of its responsibilities and functions to three Board committees: the Audit Committee, the Human Resources and Corporate Governance Committee as well as the Risk Management Committee. Their members are appointed from among the Board Directors. These committees provide regular written and verbal updates and reports on their work to the Board. Furthermore, they present a report to shareholders to be included in the management proxy circular.

AUDIT COMMITTEE

The primary function of the Audit Committee is to support the Board of Directors in overseeing the integrity of the Bank's financial reporting, the pertinence and effectiveness of its internal controls, the qualifications and independence of the external auditors, the performance of the Bank's internal audit function and of the external auditors, as well as the Bank's compliance with regulatory requirements.

More specifically, the responsibilities and duties of the Audit Committee include:

- **External audit:** recommending the appointment of external auditors to shareholders; supervising their work; assessing the scope of their expertise and qualifications, their independence and objectivity; and reviewing the mandate of the external auditors and of the external audit programs;
- **Internal audit function:** assessing the effectiveness of the internal controls set up by Management; reviewing the internal audit mandate and programs; ensuring the function's staffing resources are adequate; and following-up on the recommendations of the internal auditors;
- **Financial information disclosure and reporting:** reviewing the Management's discussion and analysis of the annual report; examining annual and quarterly financial statements, as well as the related press releases; and reviewing the annual information form, Management quarterly reports and the annual report of the Chief of Compliance with regard to questions of compliance and regulations;
- **Internal controls:** reviewing, evaluating and approving appropriate procedures of internal control and of communication of financial information; establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal controls or auditing matters; and establishing procedures for the confidential submission of concerns by employees of the Bank regarding questionable accounting or auditing matters;
- **Supervising authorities:** reviewing all recommendations made by the Office of the Superintendent of Financial Institutions; and monitoring the application of recommendations from regulating authorities.

HUMAN RESOURCES AND CORPORATE GOVERNANCE COMMITTEE

The Human Resources and Corporate Governance Committee is responsible for performing two functions: human resources and corporate governance.

- **Human Resources:** ensuring that the compensation structure of the Bank is aligned with the attainment of the Bank's objectives and to the prudent management of activities and risks; reviewing and approving the compensation structure for Executives; and assessing, in collaboration with the Board, the performance of the President and CEO and reviewing the performance of the Management Committee members.

  The Committee also reviews short, mid and long-term incentive programs, approves the annual salary policy, periodically review the Bank's organizational structure and approves the appointment of executive officers.

  It ensures the succession planning relating to senior management, supervises various aspects of labour relations, including the collective bargaining process of unionized employees, and receives regular reports on the status of relations between the Bank and its employees.
- **Corporate Governance:** overseeing the development and application of the corporate governance principles and rules, and making recommendations to the Board of Directors in this regard; ensuring the proper functioning and effectiveness of the Board

and of its committees, and reviewing the composition of the Board. It is this Committee that identifies and recommends candidates for election or appointment to the Board and oversees the assessment of performance of current Directors.

This Committee also ensures that orientation and training programs for Board members are in place, reviews the compensation levels for Directors based on their responsibilities, ensures that shareholders are properly informed of the Bank's affairs, and deals with any major disagreement between the Bank and its shareholders.

RISK MANAGEMENT COMMITTEE

The Risk Management Committee ensures that the Bank has adopted an adequate risk management process intended to identify, measure and manage risks, and has established relevant policies to manage credit, market, structural, capital management, operational and regulatory risks.

The Committee groups has three functions: review, credit and oversight.

- **Review:** overseeing the application of procedures for reviewing transactions with individuals or organizations affiliated with the Bank; verifying the procedures established to make the disclosure of information to clients with regard to banking fees; monitoring the procedures established for dealing with client complaints; conducting annual reviews of the *Code of Ethics* governing the Bank's employees and officers as well as the one governing the Bank's service providers; and approving standards for business conduct and ethics that take risks into account.
- **Credit:** reviewing the Bank's credit policies and procedures, and ensuring the highest standards of quality; and approving loan and advance transactions in excess of the limits established by the Board of Directors for management, including loans and advances to the Bank's employees and officers.
- **Oversight:** reviewing the Bank's internal policies and procedures in relation to risk management, and reviewing situations of conflict of interests at the Bank.

BOARD OF DIRECTORS

L. Denis Desautels O.C. (2001)
Ottawa ON
Chairman of the Board
Laurentian Bank of Canada
Executive-in-Residence,
School of Management
University of Ottawa

Pierre Michaud C.M. (1990)
Montreal QC
Vice Chairman of the Board
Laurentian Bank of Canada
Chairman of the Board
Provigo Inc.

Lise Bastarache (2006)
Candiac QC
Corporate Director and
Economist

Jean Bazin Q.C. (2002)
Nuns' Island, Verdun QC
Counsel
Fraser Milner Casgrain

Richard Bélanger (2003)
Lac-Beauport QC
President
Toryvel Group Inc.

Ève-Lyne Biron (2003)
Candiac QC
President and General
Manager
Laboratoire Médical Biron inc.

Pierre Genest (2006)
Québec QC
Chairman of the Board
SSQ, Life Insurance
Company Inc.

Georges Hébert (1990)
Town of Mount-Royal QC
President
Prosys-Tec Inc.

Veronica S. Maidman (2001)
Toronto ON
Chair, Advisory Council
Equifax Canada Inc.

Raymond McManus (1988)
Baie d'Urfé QC
President and Chief
Executive Officer
Laurentian Bank of Canada
(until December 12, 2006)

Carmand Normand (2004)
North Hatley QC
Executive Chairman
of the Board
Addenda Capital Inc.

Réjean Robitaille (2006)
La Prairie QC
President and Chief
Executive Officer
Laurentian Bank of Canada
(starting December 13, 2006)

Dominic J. Taddeo (1998)
Kirkland QC
President and Chief
Executive Officer
Montreal Port Authority

Jonathan I. Wener C.M. (1998)
Hampstead QC
Chairman of the Board
Canderel Management Inc.

EXECUTIVE OFFICERS

Members of the management committee

Réjean Robitaille
President and
Chief Executive Officer

Luc Bernard
Executive Vice-President,
Retail Financial Services

Robert Cardinal
Senior Executive
Vice-President, Finance,
Administration and
Strategic Development,
and Chief Financial Officer

François Desjardins
Executive Vice-President
of the Bank and
President and Chief
Executive Officer, B2B Trust

Bernard Piché
Senior Executive
Vice-President, Treasury,
Capital Markets and Brokerage

Lorraine Pilon
Executive Vice-President,
Corporate Affairs
and Secretary

André Scott
Executive Vice-President,
Commercial Financial Services

Raymond McManus
Outgoing President and
Chief Executive Officer
(until December 12, 2006)

Members of the planning committee

Dana Ades-Landy
Senior Vice-President,
National Accounts,
Commercial Banking

Marcel Beaulieu
Vice-President,
Product Management

Yassir Berbiche
Senior Vice-President
and Treasurer

Louise Bourassa
Senior Vice-President,
Administrative Services

Denise Brisebois
Senior Vice-President,
Human Resources

Gladys Caron
Vice-President, Public
Affairs, Communications
and Investor Relations

Jean-François Doyon
Vice-President,
Internal Audit and
Corporate Security

Philippe Duby
Senior Vice-President,
Real Estate and Chief
Information Officer

Richard Fabre
Vice-President,
Retail Financial Services,
North Shore, Downtown
Montréal and West of Québec

Guy Filiatrault
Vice-President,
Point-of-sales Financing

Stéphane Gagnon
Vice-President, Marketing

William Galbraith
Vice-President,
Commercial Banking,
Ontario

Mario Galella
Vice-President,
Retail Financial Services,
North and West of Montréal

Michel Garneau
Vice-President,
Retail Financial Services,
Québec, Eastern Quebec
and Mauricie

Michel Gendron
Vice-President,
National Accounts,
Commercial Banking

Paul Hurtubise
Senior Vice-President,
Real Estate Financing

Claude Jobin
Vice-President, Credit

Diane Lafresnaye
Vice-President, Finance
and Administration, B2B Trust

Rick C. Lane
Vice-President,
Real Estate Financing,
Ontario

Chantale Lauzon
Vice-President,
Taxation

André Lopresti
Vice-President
and Chief Accountant

Simon Lussier
Senior Vice-President,
Institutional Equity,
Laurentian Bank Securities Inc.

Louis Marquis
Senior Vice-President,
Credit

Pierre Minville
Senior Vice-President,
Integrated Risk Management,
Mergers and Acquisitions

Mary Ann Mooney
Vice-President,
Operations, B2B Trust

Marc Paradis
Senior Vice-President,
Strategic Planning
and Control

Yves Ruest
Vice-President,
Finance and Administration,
Chief Financial Officer and
Chief Compliance Officer,
Laurentian Bank Securities Inc.

Claude Sasseville
Vice-President,
Retail Financial Services,
East of Montréal and
South Shore, and Mortgage
Development

Al Spadaro
Vice-President, Business
Development, B2B Trust

Eva Stamadianos
Vice-President, Human
Resources and Chief
Risk Officer, B2B Trust

Michel C. Trudeau
President and Chief Executive
Officer, Laurentian Bank
Securities Inc.

Raymond Trudeau
Senior Vice-President,
Retail Services, Laurentian
Bank Securities Inc.

BRANCHES

Alma
500 Sacré-Cœur W.

Amos
1 1st Avenue W.

Baie Comeau
600 Laflèche

Belœil
546 Sir-Wilfrid-Laurier

Blainville
1356 Curé-Labelle
9 de la Seigneurie

Boisbriand
2250 du Faubourg

Boucherville
999 Montarville

Brossard
1635 Rome

Campbell's Bay
148 Front

Chambly
1495 Brassard

Côte St-Luc
5479 W.minster

Chateauguay
111 Saint-Jean Baptiste
530 3rd Street

Dolbeau – Mistassini
1372 Wallberg

Dollard-des-Ormeaux
4057 Saint-Jean
3500 des Sources

Dorval
325 Dorval

Drummondville
571 Saint-Joseph

Fort Coulonge
532 Baume

Gatineau
139 de l'Hôpital
75 du Plateau
770 Saint-Joseph

Granby
40 Évangéline

Grand-Mère
531 6th Avenue

Grenville
240 Principale

Joliette
373 Notre-Dame

Kirkland
3876 St-Charles

Lachute
470 Principale W.

La Prairie
995 Taschereau

Laval
928 Highway 13
928 Highway Chomedey W.
233 Curé-Labelle
3387 Dagenais W.
510 des Laurentides
750 Montrose
3870 Notre-Dame
1899 René-Laennec
1995 Saint-Martin W.
4600 Samson

Longueuil
2836 chemin Chambly
4 Saint-Charles E.
6250 Cousineau
5925 Payer
3700 Taschereau

Maniwaki
111 Desjardins

Mascouche
848 Masson

Mont Laurier
476 de la Madone

Montréal
4945 Beaubien E.
6593 Beaubien E.
4155 rue Bélanger E.
5900 Bélanger E., Saint-Leonard
290 Chabanel W.
8262 Champlain, Lasalle
4135 D'Amiens, Montreal N.
6225 Darlington
865 Décarie, Saint-Laurent
5159 Décarie
88 Don Quichotte
885 Fleury E.
2200 Fleury E.
10451 Gouin W., Pierrefonds – Roxboro
5501 Henri-Bourassa E., Montreal N.
8595 Hochelaga
136 Jacques-Bizard, Bizard Island
7050 Jarry E., Anjou
4725 Jarry E., Saint-Léonard
790 Jarry W.
10 Jean-Talon E.
5355 Jean-Talon E., Saint-Leonard
555 Jean-Talon W.
6651 Joseph-Renaud, Anjou
9095 Lajeunesse
8410 Langelier, Saint-Leonard
6525 Léger, Montreal-N.
6500 de Lorimier
2937 Masson
8646 Maurice-Duplessis, Rivière des Prairies
6270 Monk
1981 McGill College
1100 du Mont Royal E.
8787 Newman, Lasalle
1675 Notre-Dame, Lachine
3720 Ontario E.
7705 Papineau
5059 du Parc
1430 Poirier, Saint-Laurent
1100 René-Lévesque W.
936 Sainte-Catherine E.
8090 Saint-Denis
391 Saint-Jacques
4080 Saint-Jacques
3730 Saint-Laurent
7192 Saint-Michel
8930 Saint-Michel
2490 de Salaberry
1805 Sauvé W.
801 Sherbrooke E.
6615 Sherbrooke E.
12050 Sherbrooke E.
5651 Sherbrooke W.
1291 Shevchenko, Lasalle
6640 Somerled
1447 Van Horne, Outremont
4790 Van Horne
5501 Verdun, Verdun
8945 Viau, Saint-Leonard
4214 Wellington, Verdun

Murdochville
601, 5th Street

New Carlisle
168 Gérard-D.-Lévesque

New Richmond
228 Perron

Nicolet
92 place 21 Mars

Ottawa
1021 Cyrille Road

Paspébiac
120 Gérard-D.-Lévesque

Port Daniel
10 132 Road

Québec
999 de Bourgogne
510 Charest E.
1221 Charles-Albanel
580 Grande Allée E.
8000 Henri-Bourassa
2600 Laurier
2700 Laurier
1275 Chemin Sainte-Foy
3930 Wilfrid-Hamel W.
3323 du Carrefour
5401 des Galeries

Repentigny
150 Iberville
910A Iberville

Rimouski
320 Saint-Germain E.

Roberval
773 Saint-Joseph

Rosemère
401 Labelle

Rouyn – Noranda
24 Perreault E.

Saguenay
1611 Talbot, Chicoutimi
3460 Saint-François, Jonquière
1220 du Port, La Baie

Saint-Bruno de Montarville
1354 Roberval
335 des Promenades

Saint-Constant
400 132 Road

Sainte-Marie-de-Beauce
16 Notre-Dame N.

Sainte-Thérèse-de-Blainville
95 Labelle
81 Turgeon

Saint-Eustache
250 Arthur-Sauvé

Saint-Georges
11400 1st Avenue

Saint-Hyacinthe
5915 Martineau

Saint-Jean-sur-Richelieu
605 Pierre-Caisse

Saint-Jérome
900 Grignon

Saint-Lambert
400 Victoria

Saint-Raymond
300 Saint-Joseph

Sept-Îles
770 Laure

Sherbrooke
2637 King W.
4857 Bourque, Rock Forest

Sorel – Tracy
831 route Marie-Victorin

Terrebonne
1035 des Seigneurs

Thetford Mines
222 Frontenac W.

Trois-Rivières
425 des Forges
4450 des Forges

Val d'Or
872 3rd Avenue

Vaudreuil – Dorion
43 Cité des Jeunes

Valleyfield
187 Victoria

Victoriaville
1073 Jutras E.

Westmount
4848 Sherbrooke W.

OFFICES

Agricultural Financing

Drummondville
571 Saint-Joseph

Granby
40 Évangéline

Lachute
470 Principale

Montréal
425 de Maisonneuve W.
1st floor

Saint-Hyacinthe
5915 Martineau

Saint-Jean-sur-Richelieu
605 Pierre-Caisse

Sainte-Marie-de-Beauce
16 Notre-Dame N.

Victoriaville
1073 Jutras E.

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130 Adelaide Street W.
Suite 200

Vancouver
1124 Lonsdale Avenue
Suite 405

Commercial Financing

Drummondville
571 St-Joseph

Gatineau
770 Saint-Joseph
Hull Sector

Kitchener
10 Duke Street W.

Laval
1995 St-Martin W.
2nd floor

Longueuil
4 St-Charles E.

Markham
11 Allstate Parkway
Suite 430

Mississauga
989 Derry Road E.
Suite 303

Montréal
255 Crémazie E.
Suite 1100

Montréal – Major Accounts
1981 McGill College Avenue
Suite 1670

Montréal E.
6625 Sherbrooke E.
Suite 203

Québec
2700 Laurier
Suite 2287

Saguenay
1611 Talbot
Suite 100
Chicoutimi Sector

Sherbrooke
2637 King W.

International Services

Markham (Ontario)
11 Allstate Parkway
Suite 430

Montréal
1981 McGill College Avenue
Suite 1750

Laurentian Bank Securities Inc.

Saguenay
1611 Talbot
Chicoutimi Sector

Cornwall
55 Water Street W.
Suite 385

Drummondville
645 Saint-Joseph
Suite 100

Granby
20 Place du Lac

Kamouraska
622 Elzéar

Kirkland
3876 Saint Charles

Laval
2525 Daniel-Johnson
Suite 500

Longueuil
1111 St-Charles W.
Suite 350

Montréal – Head Office
1981 McGill College Avenue
Suite 100

Québec
2505 Laurier
Suite 100

Saint-Jean-sur-Richelieu
100 Richelieu
Suite 150

Saint-Hyacinthe
1870 Saint-Antoine

Toronto
130 Adelaide Street W.

Sainte-Thérèse-de-Blainville
212 Labelle
Suite 102

Laurentian Trust of Canada Inc.

Montréal – Head Office
1981 McGill College Avenue
20th floor

Montréal
425 de Maisonneuve W.
1st floor

LBC Financial Services Inc.

Montréal – Head Office
1981 McGill College Avenue
20th floor

Montréal
425 de Maisonneuve W.
Suite 105

LBC Trust

Toronto – Head Office
130 Adelaide Street W.
Suite 200

Montréal
425 de Maisonneuve W.
1st floor

Montréal
1981 McGill College Avenue
20th floor

Micro-business

Alma
500 Sacré-Cœur W.

Montréal
425 de Maisonneuve W.
Suite 105

Québec
2700 Laurier
Suite 2287

Private Banking

Montréal
1981 McGill College Avenue,
Mezzanine, South Tower

Real Estate Financing

Calgary
1122 – 4 Street South W.
Suite 450

Kitchener
10 Duke Street W.
Suite 100

Montréal
1981 McGill College Avenue
Mezzanine

Ottawa
1021 Cyrville Road
Unit 9

Toronto
130 Adelaide Street W.
3rd floor

Vancouver
700 W. Georgia Street
Suite 603

MAIN SUBSIDIARIES

As at October 31, 2006

Name	Head Office Address	Carrying value of voting shares owned by the Bank (1) ($000)	Percentage of voting shares owned by the Bank
B2B Trust	Toronto, Canada	$ 206,648	100%
Laurentian Trust of Canada Inc.	Montréal, Canada	$ 68,487	100%
LBC Trust	Toronto, Canada	$ 46,652	100%
Laurentian Bank Securities Inc.	Montréal, Canada	$ 26,029	100%
LBC Financial Services Inc.	Montréal, Canada	$ 2,052	100%
4327853 Canada Inc.	Montréal, Canada	$ 80,633	100%
4364643 Canada Inc.	Montréal, Canada	$ 36,415	100%
V.R. Holding Insurance Company Ltd. (2)	St. James, Barbados	$ 3,368	100%

(1) The carrying value of voting shares is stated at the Bank's net equity in these investments.

(2) V.R. Holding Insurance Company Ltd. is owned at 100% by 4364643 Canada Inc.

SHAREHOLDER INFORMATION

Head office
Tour Banque Laurentienne
1981 McGill College Avenue
Montréal, Québec H3A 3K3
Tel.: 514 284-4500 ext. 5996
Fax: 514 284-3396

Telebanking Centre,
Automated Banking
and customer service:
(514) 252-1846
(Montreal region)
No charge dial:
1-800-252-1846
Website:
www.laurentianbank.ca
Swift Code: BLCM CA MM

Annual meeting
The Annual Meeting of the Shareholders of the Bank will be held on Tuesday, March 6, 2007, at 9:30 a.m., at the Impérial, Centre Sandra & Leo Kolber, Salle Lucie et André Chagnon, 1430 rue de Bleury, Montréal, Québec H3A 2J1.

Valuation day price
For capital gains purposes, the market value of Laurentian Bank common shares on Valuation day, December 22, 1971, adjusted for the stock splits of July 1983 and January 1987, was $3.72.

Transfer agent and Registrar
Computershare
Investor Services Inc.
1500 University Street
Suite 700
Montréal, Québec H3A 3S8

Ombudsman's office
Laurentian Bank of Canada
1981 McGill College Avenue
14th Floor
Montréal, Québec H3A 3K3
514 284-7192
1-800-473-4782

Change of address and inquiries
Shareholders should notify the Transfer Agent of a change of address. Inquiries or requests may be directed to the Secretary's Office at Head Office or by calling 514 284-4500 ext. 7545.

Investors and analysts
Investors and analysts may contact the Investor Relations Department at Head Office by calling 514 284-4500 ext. 7511.

Media
Journalists may contact the Public Affairs and Communications Department at Head Office by calling 514 284-4500 ext. 7511.

Direct deposit service
Shareholders of the Bank may, by advising the Transfer Agent in writing, have their dividends deposited directly into an account held at any financial institution member of the Canadian Payments Association.

This Annual Report was produced by the Public Affairs, Communications and Investor Relations Department of Laurentian Bank.

Vous pouvez recevoir un exemplaire français de ce rapport annuel en faisant parvenir votre demande par écrit à :
Banque Laurentienne
1981, avenue McGill College, 20^{e} étage
Montréal (Québec) H3A 3K3

STOCK SYMBOL AND DIVIDEND PAYMENT

The common and preferred shares indicated below are listed on the Toronto Stock Exchange.	Stock Symbol Code CUSIP	Dividend Record Date*	Dividend Payment Date*
Common shares	51925D 10 6 LB	First business day of:	
		January	February 1
		April	May 1
		July	August 1
		October	November 1
Preferred shares			
Series 9	51925D 87 4 LB.PR.D	**	March 15
Series 10	51925D 86 6 LB.PR.E	**	June 15
			September 15
			December 15

* Subject to the approval of the Board of Directors.

** On such day (which shall not be more than 30 days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Board of Directors of the Bank.

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LAURENTIAN
BANK