Management Discussion and Analysis

Summary of Financial Results

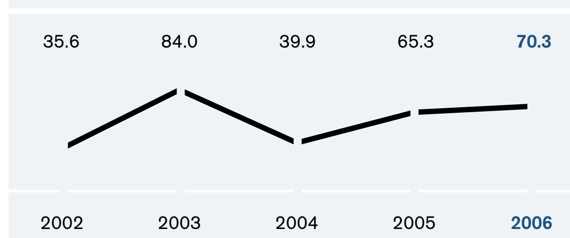
OVERVIEW OF FISCAL 2006

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.

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.

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.

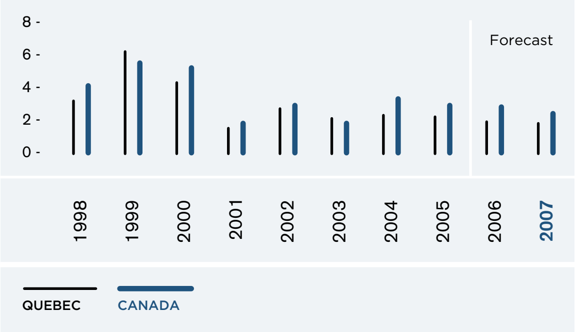
Moreover, evidence continues to mount to the effect that housing remains the only major source of weakness and that so far, it has not "spilled-over" into the rest of the economy. In fact, payroll employment increased by a total of 470,000 new jobs in the third quarter of 2006 and the rate of unemployment 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.

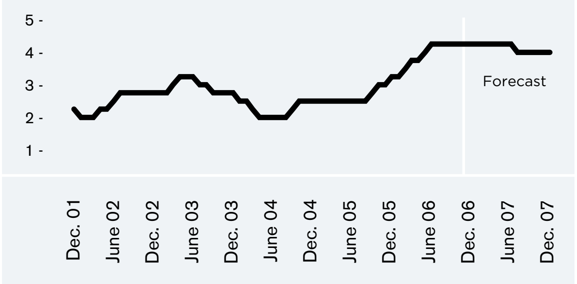
It is now expected that overall economic growth will reach 2.8% in 2006, and will slow further in 2007 to 2.4%, mainly as a result of the anticipated economic slowdown in the United States. Also, a smaller trade surplus should eventually put downward pressure on the Canadian dollar. Business conditions, 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.

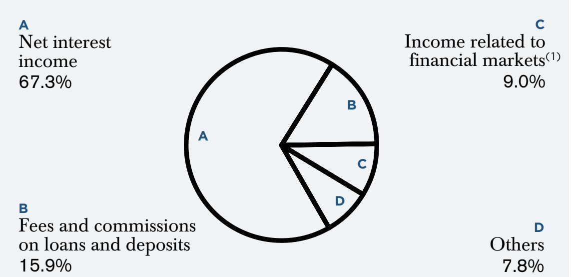
Analysis of Consolidated Results

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.

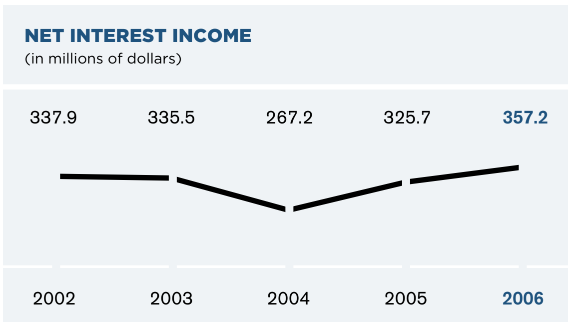
NET INTEREST INCOME

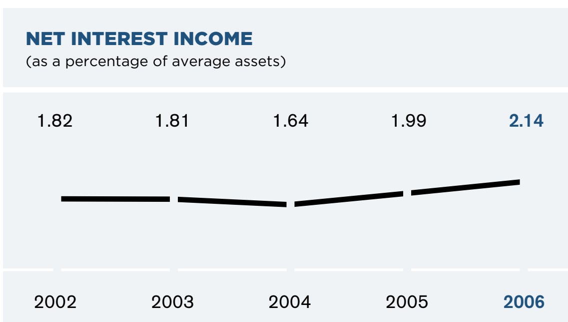
Net interest income increased by 10% and stood at $357.2 million in 2006, compared to $325.7 million in 2005, as shown in table 9 below. This substantial increase in revenues stems mostly from the growth in loan and deposit portfolios, the stricter asset and liability management strategies adopted in 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.

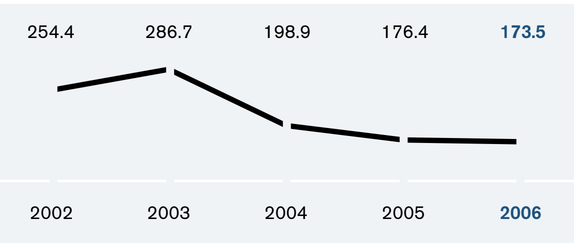
Revenues from registered self-directed plans slightly decreased and stood at $10.5 million for fiscal 2006, compared to $11.8 million in 2005. This result is linked to changes in market conditions, weighing down the number of registered self-directed plans. The section on off-balance sheet arrangements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

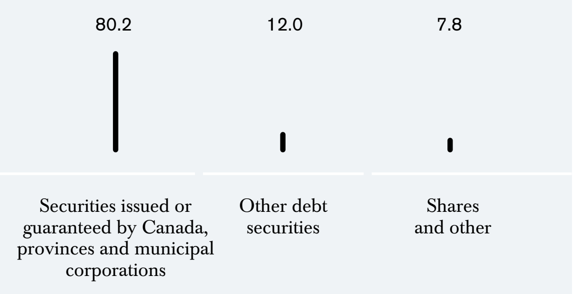
CASH RESOURCES AND SECURITIES

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

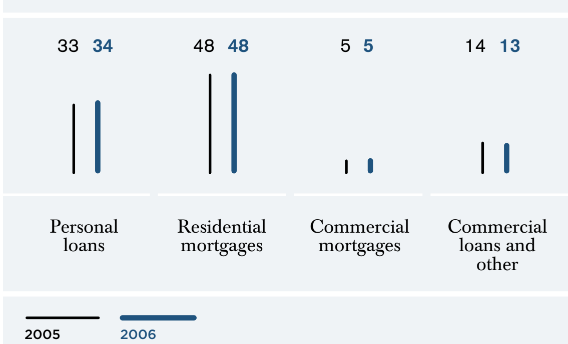
The loan and bankers' acceptance portfolio, before provision for credit losses, increased by 4% to $12.4 billion as at October 31, 2006, compared to $12.0 billion on October 31, 2005. The mix of the various loan portfolios is described below.

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.

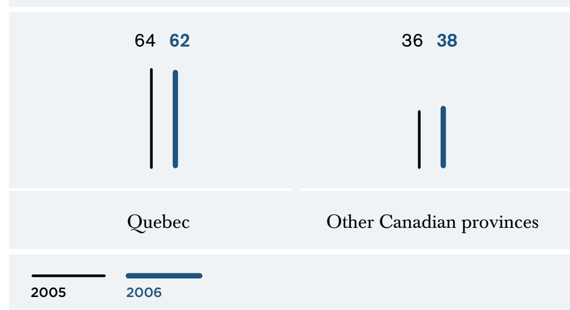
LOAN PORTFOLIO MIX
(as a percentage)



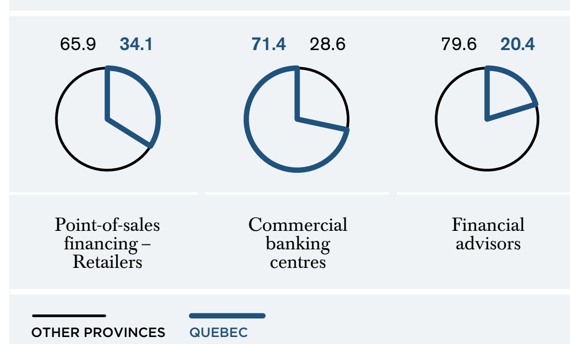
Geographic distribution

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.

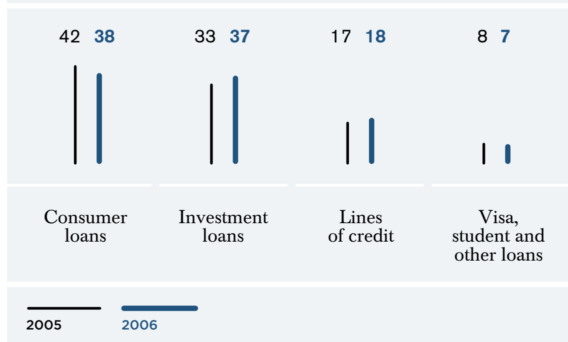
CHANGES IN LOAN PORTFOLIOS

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)

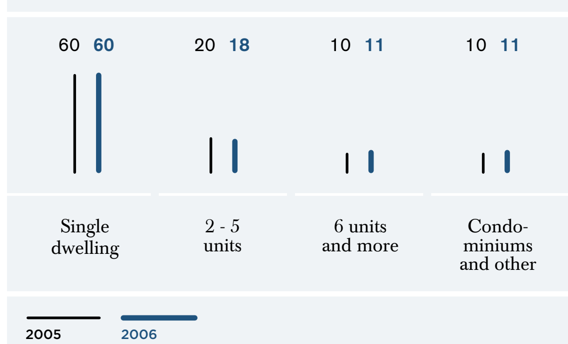
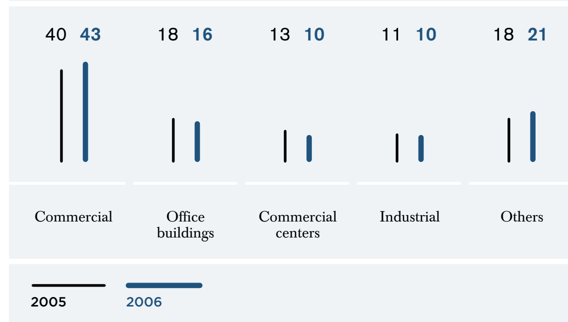


TABLE 15
RESIDENTIAL MORTGAGE LOANS PORTFOLIO
As at October 31 (in millions of dollars)

	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

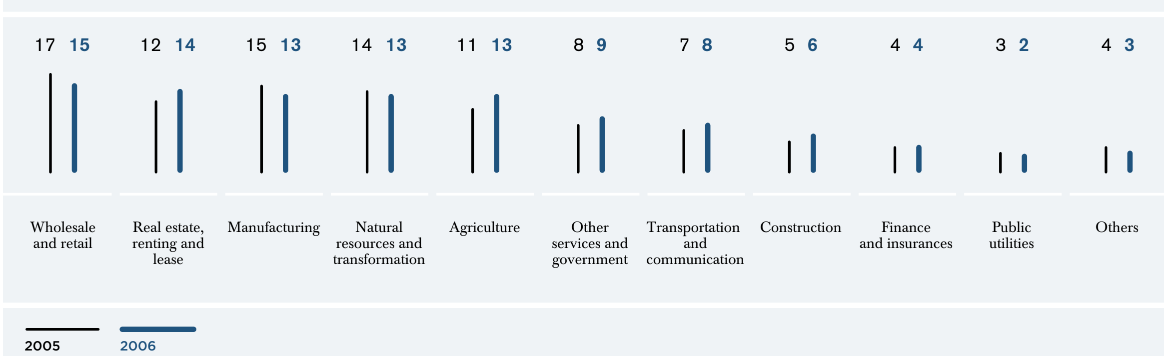
The volume of commercial mortgage loans increased by more than 10% over fiscal 2005, and stood at $659 million, compared to $596 million as at October 31, 2005. The Bank still plays an active role in the field of commercial mortgage loans all over Canada. This position enabled the Bank to benefit from,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

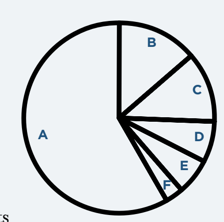


TABLE 18
SHARES ISSUED AND OUTSTANDING
As at November 30, 2006 (in number of shares)

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

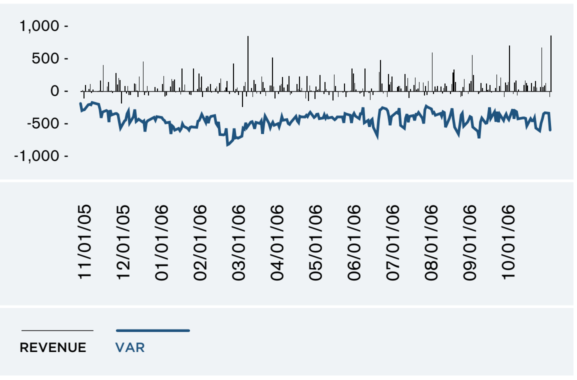
The Bank has implemented a market risk management and monitoring structure that entails the use of VAR methodology for all of its trading portfolios. Value at risk corresponds to the maximum loss the Bank may incur over a one-day period, with a confidence level of 99%. Consequently, the chances that 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.

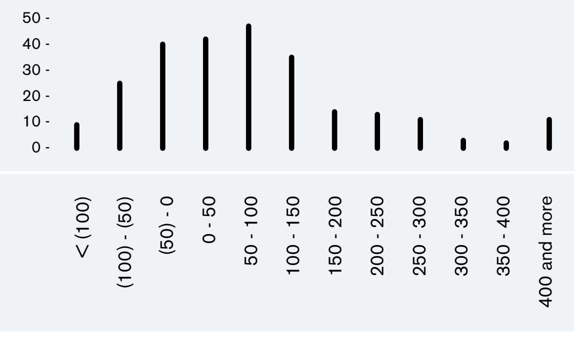
TRADING ACTIVITIES

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.