MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED OCTOBER 31, 2010

SUMMARY OF FINANCIAL RESULTS

OVERVIEW OF FISCAL 2010

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

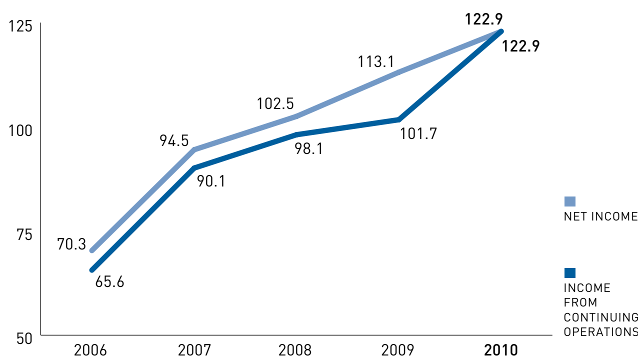
Net income in 2009 included income from discontinued operations of $11.5 million, or diluted earnings of $0.48 per share, related to the sale of asset management activities in fiscal 2005. Income from continuing operations was $101.7 million in 2009, or $3.75 diluted per share, with a return on common shareholders' equity of 10.1%.

The 21% increase in income from continuing operations over last year reflects the strong growth in mortgage loans and commercial loans, as well as a solid contribution from each business segment.

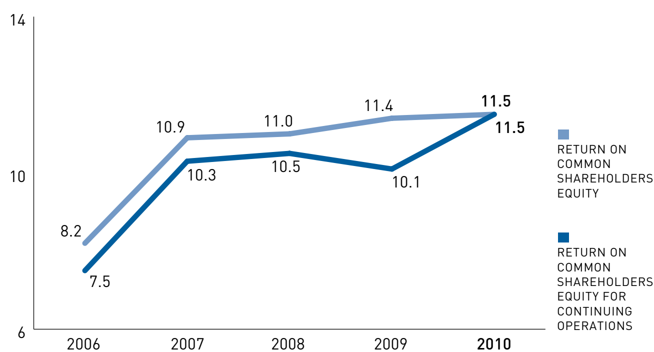
For the fourth year in a row, the Bank reported record results, despite the very challenging economic conditions around the world and fierce competition in most retail segments. In addition, in 2010, the Bank compensated for the lost stream of revenue from discontinued operations, the significantly reduced income from securitization and higher loan losses. The Bank's solid operating foundation built over the recent years, the growth momentum created in all its businesses, and employees' commitment, were at the forefront of the Bank's success in 2010.

With solid liquidity and capital levels, the Bank maintained a strong financial position throughout the year and remains well positioned for fiscal 2011.

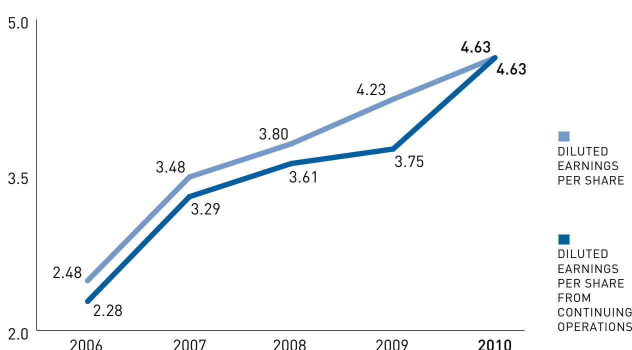
NET INCOME
(in millions of dollars)



RETURN ON COMMON SHAREHOLDERS' EQUITY
(as a percentage)



DILUTED EARNINGS PER SHARE
(in dollars)



CORPORATE PRIORITIES FOR 2011

The Bank's three main priorities will again remain at the forefront of strategic development for 2011. These priorities have provided the Bank with a framework in the operational decision-making process.

1

INCREASE OUR PROFITABILITY

- Ensure sustained growth in each business segment, by focusing on markets in which we have strong competitive advantages
- Continue implementing strategies to develop our sales culture, while maintaining excellence in customer service—the cornerstone of our reputation

2

IMPROVE OUR EFFICIENCY

- Continue optimizing key processes
- Ensure excellence in execution

3

DEVELOP OUR HUMAN CAPITAL

- Reinforce hiring strategies and talent management to support sustained growth
- Support business segment initiatives to enhance employee performance

REVIEW OF 2010 BUSINESS SEGMENT OPERATIONS AND 2011 PRIORITIES

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

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

As of November 1, 2009, certain capital market activities which were previously reported in the Other segment are now reported with Laurentian Bank Securities activities under the newly formed Laurentian Bank Securities and Capital Markets business segment. In addition, foreign exchange and international services, which were also formerly reported in the Other segment, are now reported in the Real Estate & Commercial segment. The Retail & SME Québec and B2B Trust business segments were not affected by this reorganization. Comparative figures were reclassified to conform to the current year presentation.

The solid contribution from each business segment, resulting from an overall higher business activity level, strong volumes increases and better interest margins, played a central role in the Bank's overall good performance in 2010.

TABLE 3
INCOME CONTRIBUTIONS
For the years ended October 31 (in thousands of dollars, except percentage amounts)

	RETAIL & SME QUÉBEC	REAL ESTATE & COMMERCIAL	B2B TRUST	LAURENTIAN BANK SECURITIES AND CAPITAL MARKETS	OTHER	TOTAL
2010						
Income from continuing operations	**$47,013**	**$49,089**	**$46,394**	**$ 9,988**	**$(29,543)**	**$122,941**
Growth 2010/2009	**19%**	**43%**	**45%**	**(17)%**	**n.a.**	**21%**
2009						
Income from continuing operations	$39,623	$34,421	$32,092	$11,976	$(16,448)	$101,664
Growth 2009/2008	(3)%	13%	(8)%	255%	n.a.	4%

BUSINESS SEGMENTS

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

RETAIL & SME QUÉBEC
INCOME FROM CONTINUING OPERATIONS UP
19%

REAL ESTATE & COMMERCIAL
NET INCOME UP
43%

B2B TRUST
CONTINUED REVENUE GROWTH OF $24.3 MILLION OR
24%

LAURENTIAN BANK SECURITIES & CAPITAL MARKETS
STRONG PERFORMANCE OF THE INSTITUTIONAL FIXED INCOME DIVISION

OTHER
IMPROVEMENT IN NET INTEREST MARGINS

RETAIL & SME QUÉBEC

FINANCIAL HIGHLIGHTS 2010

- Income from continuing operations up 19%
- Residential mortgage loan portfolio up 10%
- Commercial loan portfolio up 9%
- Average deposits up 9%
- Revenues up $27.6 million or 6%

OVERVIEW

The Retail & SME business segment provides banking products and services to retail customers as well as to small and medium sized enterprises in Québec. With its network of 157 branches, 23 commercial banking centres and 413 automated banking machines, it operates the third largest retail branch network in Québec.

KEY ACCOMPLISHMENTS

- Diversified revenue streams
- Rolled out a customer relationship management tool (CRM), in all branches
- Expanded mobile banking teams and increased the presence of Financial Planners in all branches
- Furthered the niche strategy by broadening specialist teams to serve the Québec SME market

PRIORITIES FOR 2011

- Maximize benefits of the customer relationship management system for customers and the Bank
- Increase our share of wallet per customer
- Pursue the evolution of the three distribution channels: branches, mobile and virtual
- Continue building specialist teams to serve the Québec SME market
- Improve operational efficiency through end-to-end process streamlining

The Retail & SME Québec business segment had a great year, with income from continuing operations improving 19% to $47.0 million, compared to $39.6 million for 2009. Net income for 2009 was $51.1 million and included income from discontinued operations of $11.5 million related to the sale of asset management activities in fiscal 2005.

Revenues improved by 6% or $27.6 million, from $425.9 million in 2009 to $453.5 million in 2010, as a result of the significant growth in loan and deposit volumes stemming from various growth initiatives and favourable market conditions, as well as higher prepayment penalties on mortgage loans. Credit insurance revenues, income from mutual funds and credit card service revenues all improved year-over-year. Non-interest expenses also increased by 6%, or $19.1 million, from $333.5 million in 2009 to $352.6 million in 2010, essentially due to increased salaries. Loan losses decreased slightly to $40.9 million in 2010 from $41.9 million in 2009, as a result of lower losses on the point-of-sale financing portfolio, partially offset by higher losses in the small commercial business portfolio. Retail credit conditions have steadily improved over the last 18 months and remain sound at the onset of 2011.

TABLE 4
SEGMENT CONTRIBUTION

	2010	2009	2008
Net interest income	**$ 323,740**	$ 305,959	$ 299,336
Other income	**129,774**	119,965	115,894
Total revenue	**453,514**	425,924	415,230
Provision for loan losses	**40,919**	41,887	33,583
Non-interest expenses	**352,621**	333,475	326,871
Income from continuing operations before income taxes	**59,974**	50,562	54,776
Income taxes	**12,961**	10,939	13,785
Income from continuing operations	**47,013**	39,623	40,991
Income from discontinued operations, net of income taxes	**–**	11,469	4,423
Net income	**$ 47,013**	$ 51,092	$ 45,414
Efficiency ratio	**77.8%**	78.3%	78.7%
Average loans	**$11,688,722**	$10,836,421	$ 9,899,648
Average deposits	**$ 8,580,912**	$ 7,881,703	$ 7,460,949

REAL ESTATE & COMMERCIAL

FINANCIAL HIGHLIGHTS 2010

- Net income up 43%
- Average loan growth of 19%
- Revenues up $25.8 million or 28%
- Good credit quality, despite increase in loan losses

OVERVIEW

The Real Estate & Commercial business segment consists of two areas of operation. The first is real estate financing, specializing in financing for condominiums, office buildings, shopping centers and residential developments. The second is commercial financing, specializing in financing for medium-sized enterprises in Québec and Ontario. This segment also offers international services dedicated to the foreign trade activities of small and medium-sized businesses.

KEY ACCOMPLISHMENTS

- Achieved record new business activity and profitability
- Opened a real estate loan syndication desk in Toronto to support growth and facilitate diversification of the portfolio
- Invested in human capital by increasing staff complement by 15%

PRIORITIES FOR 2011

- Grow the balance sheet profitably and within acceptable risk parameters
- Enlarge the deposit base to support loan growth and minimize cost of funds
- Invest in human capital in the areas of business development and support staff
- Build on existing success in commercial lending and develop new market niches
- Invest in information technology to sustain good efficiency ratios

The Real Estate & Commercial business segment's contribution to net income improved by $14.7 million, or 43%, to $49.1 million in 2010, compared with $34.4 million in 2009.

Total revenue increased by 28% or $25.8 million, from $93.5 million in 2009 to $119.3 million in 2010, as a result of strong loan growth and recent initiatives to grow deposit volumes, as well as sound pricing strategies. Loan losses were higher at $24.1 million in 2010, compared with $9.8 million in 2009. The increase mainly reflects losses related to certain commercial and real estate accounts which were adversely impacted by the economic slowdown, as well as higher loan volumes. Nonetheless, overall credit quality improved toward the end of the year, as evidenced by a decline in net impaired loans. Non-interest expenses decreased by 26% or $8.8 million, from $33.6 million in 2009 to $24.8 million in 2010, mainly as results for 2009 included charges related to specific operational issues, mostly recovered early in 2010.

TABLE 5

SEGMENT CONTRIBUTION

	2010	2009	2008
Net interest income	$ 84,475	$ 67,598	$ 56,947
Other income	34,852	25,915	20,406
Total revenue	119,327	93,513	77,353
Provision for loan losses	24,124	9,817	5,374
Non-interest expenses	24,801	33,589	26,441
Income before income taxes	70,402	50,107	45,538
Income taxes	21,313	15,686	15,057
Net income	$ 49,089	$ 34,421	30,481
Efficiency ratio	20.8%	35.9%	34.2%
Average loans	$2,651,586	$2,234,249	$1,984,054
Average deposits	$ 485,012	$ 298,245	$ 179,645

B2B TRUST

FINANCIAL HIGHLIGHTS 2010

- Net income up 45%
- Continued revenue growth of $24.3 million or 24%
- Residential mortgage loans up $0.6 billion or 37%
- Excellent credit quality, despite the recent economic slowdown

OVERVIEW

The B2B Trust business segment is a leader in the financial intermediary market, offering personal banking products through a network of over 15,000 independent financial advisors. Products include investment loans, mortgage loans, high yield investment accounts and self-managed accounts.

KEY ACCOMPLISHMENTS

- Increased emphasis on sales of prime mortgage loans through mortgage brokers to raise market share and geographically diversify the portfolio
- Increased development of distribution channels by expanding relationships with managing general agencies (MGAs) and by adding key fund manufacturers to the distribution alliance program
- Continued to enhance the online loan application (EASE) to help advisors save time
- Improved the loan application process and client service team to deliver on operational excellence

PRIORITIES FOR 2011

- Maximize business development efforts by strengthening infrastructure, better aligning territories to ensure sufficient advisor coverage, and adding more sales tools
- Further the pursuit for operational excellence and increase capacity by re-engineering key operational processes
- Continue to improve product offerings and advisor-focused tools to increase the number of products sold by advisors

The B2B Trust business segment's contribution to net income improved by $14.3 million, or 45%, to $46.4 million in 2010, compared with $32.1 million in 2009. Total revenue increased by $24.3 million, from $100.3 million in 2009 to $124.6 million in 2010. Net interest income increased by $23.5 million year-over-year, as a combined result of higher loan and deposit volumes and B2B Trust's agility to weather the challenges from the evolving market environment and competition. In addition, in the first half of 2009, margins had been under pressure as a result of the introductory promotional pricing on the High Interest Investment Account.

Provision for loan losses related to B2B Trust's various loan portfolios decreased to $3.0 million in 2010, compared with $4.3 million in 2009, reflecting the quality of its portfolios and underwriting practices. In line with increased business activity and enhanced service levels, non-interest expenses rose by $5.4 million, from $49.0 million in 2009 to $54.4 million in 2010, including the effect of additional employees.

Loans increased by $735.4 million over the last twelve months, mostly in mortgage lending. Deposits totalled $9.2 billion as at October 31, 2010, up $43.2 million since the beginning of the year. B2B Trust remains a key source of funding for the Bank.

TABLE 6

SEGMENT CONTRIBUTION

	2010	2009	2008
Net interest income	$ 114,194	$ 90,696	$ 87,297
Other income	10,419	9,560	10,548
Total revenue	124,613	100,256	97,845
Provision for loan losses	2,957	4,296	1,543
Non-interest expenses	54,449	48,995	43,681
Income before income taxes	67,207	46,965	52,621
Income taxes	20,813	14,873	17,748
Net income	$ 46,394	$ 32,092	$ 34,873
Efficiency ratio	43.7%	48.9%	44.6%
Average loans	$4,973,835	$4,255,268	$3,845,035
Average deposits	$9,232,384	$7,892,823	$ 6,058,935

LAURENTIAN BANK SECURITIES & CAPITAL MARKETS

FINANCIAL HIGHLIGHTS 2010

- Significant revenue increases in Retail and Institutional Equity divisions
- Strong performance of the Institutional Fixed Income division

OVERVIEW

The Laurentian Bank Securities & Capital Markets business segment provides full-service brokerage services to retail and institutional clients and manages bank-related capital market activities. Its Institutional fixed income division has a particularly strong presence in Government and Corporate underwriting, as well as in secondary markets.

KEY ACCOMPLISHMENTS

- Expanded the Fixed Income division's presence in Canada
- Continued development of Institutional Equities and Retail Brokerage operations
- Hired select personnel to be better positioned for continued growth
- Realized synergies of combining Laurentian Bank Securities with Capital Markets

PRIORITIES FOR 2011

- Expand and increase the footprint in Fixed Income
- Further develop the Institutional Equities presence
- Continue to differentiate the segment as a bank-owned small cap investment dealer and capitalize on ensuing synergies
- Maximize the return on investment in the divisions and human capital

The Laurentian Bank Securities and Capital Markets business segment's contribution to net income totalled $10.0 million in 2010, compared with $12.0 million in 2009, as the better performance from the Retail brokerage and Institutional Equity divisions were offset by lower income from the Institutional Fixed Income division and the Bank's capital market operations. Non-interest expenses increased, mainly in the brokerage business, essentially as a result of higher variable compensation and higher salaries related to new employees hired to support growth.

TABLE 7
SEGMENT CONTRIBUTION

	2010	2009	2008
Total revenue	$ 61,115	$ 61,573	$ 37,338
Non-interest expenses	46,938	43,473	32,150
Income before income taxes	14,177	18,100	5,188
Income taxes	4,189	6,124	1,818
Net income	$ 9,988	$ 11,976	$ 3,370
Efficiency ratio	76.8%	70.6%	86.1%
Clients' brokerage assets	$2,274,998	$1,969,917	$1,643,088

OTHER

FINANCIAL HIGHLIGHTS 2010

- Significant increase in income from treasury and financial market operations
- Improvement in net interest margins
- Securitization income down $28.4 million to $6.0 million

OVERVIEW

The Other segment includes the activities of the Bank's various corporate support sectors, mainly Treasury, Credit, Finance, Risk Management, Technology, Operations, Corporate Affairs and Human Resources. Revenues and expenses from these sectors are generally allocated to the other business segments. However, certain treasury operations such as securitization activities and other corporate activities are reported in this segment.

KEY ACCOMPLISHMENTS

- Introduced a Dynamic Liquidity Management process to optimize this function
- Attained an upgrade of the Bank's credit rating from Standard and Poor's, the first bank in North America to be upgraded since the financial crisis
- Returned to the institutional funding market with LBS-led issuances totaling $350 million
- Implemented re-engineered processes to improve efficiency
- Deployed the 'leaders in action' management training program to all Head Office managers
- Maintained credit quality at sound levels

PRIORITIES FOR 2011

- Ensure conversion to IFRS on November 1, 2011
- Optimize capital adequacy and liquidity management to new Basel III international regulatory requirements
- Further strengthen the risk management processes
- Continue to invest in operational efficiency projects
- Further enhance employee engagement through efficient human resources practices and inspiring communications

The Other segment posted a negative contribution to net income of $29.5 million in 2010, compared with a negative contribution of $16.4 million in 2009.

Net interest income improved as asset-liability management activities contributed more positively to results. However, securitization income declined sharply as lower volumes of loans were securitized. In addition, interest spreads on securitized loans narrowed in 2010, compared to 2009 and the mark-to-market revaluation on seller swaps affected results during 2010.

TABLE 8
SEGMENT CONTRIBUTION

	2010	2009	2008
Net interest income	$(28,429)	$(42,830)	$(40,793)
Other income	7,306	28,066	43,508
Total revenue	(21,123)	(14,764)	2,715
Provision for loan losses	–	–	8,000
Non-interest expenses	25,427	12,458	16,848
Income before income taxes	(46,550)	(27,222)	(22,133)
Income taxes recovery	(17,007)	(10,774)	(10,526)
Net loss	$(29,543)	$(16,448)	$(11,607)

NET INCOME

$122.9 million

HIGHLIGHTS OF 2010

- RECORD NET INCOME, UP 9% TO $122.9 MILLION
- INCOME FROM CONTINUING OPERATIONS UP 21%
- TOTAL REVENUE UP 11% TO $737.4 MILLION
- RETURN ON COMMON SHAREHOLDERS' EQUITY OF 11.5%
- STRONG LOAN GROWTH AT 12%

TABLE 1

CONSOLIDATED RESULTS

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

	2010	2009	2008	VARIANCE 10 / 09
Net interest income	**$496,421**	$423,777	$405,263	17%
Other income	**241,025**	242,725	225,218	(1)
Total revenue	**737,446**	666,502	630,481	11
Provision for loan losses	**68,000**	56,000	48,500	21
Non-interest expenses	**504,236**	471,990	445,991	7
Income from continuing operations before income taxes	**165,210**	138,512	135,990	19
Income taxes	**42,269**	36,848	37,882	15
Income from continuing operations	**122,941**	101,664	98,108	21
Income from discontinued operations, net of income taxes	**–**	11,469	4,423	(100)
Net income	**$122,941**	$113,133	$102,531	9%
Preferred share dividends, including applicable taxes	**$ 12,122**	$ 12,116	$ 11,818	–%
Net income available to common shareholders	**$110,819**	$101,017	$ 90,713	10%
Average number of common shares outstanding (in thousands)				
Basic	**23,921**	23,858	23,837	
Diluted	**23,937**	23,876	23,880	
Earnings per share from continuing operations				
Basic	**$ 4.63**	$ 3.75	$ 3.62	23%
Diluted	**$ 4.63**	$ 3.75	$ 3.61	23%
Earnings per share				
Basic	**$ 4.63**	$ 4.23	$ 3.81	9%
Diluted	**$ 4.63**	$ 4.23	$ 3.80	9%
Return on common shareholders' equity	**11.5%**	11.4%	11.0%	
Return on common shareholders' equity for continuing operations	**11.5%**	10.1%	10.5%	

2010 FINANCIAL PERFORMANCE

The Bank met or exceeded all of its published objectives for fiscal 2010, as illustrated in the table below. As a result of its strong commitment to improve its efficiency and profitability, the Bank significantly improved its performance. Furthermore, the Bank maintained its financial strength through sound risk and capital management.

TABLE 2

PERFORMANCE INDICATORS

	2009 RESULTS	2010 OBJECTIVES	**2010 RESULTS**
Revenue growth	6%	5% to 10%	**11%**
Efficiency ratio	70.8%	70% to 67%	**68.4%**
Return on common shareholders' equity	11.4%	10.0% to 12.0%	**11.5%**
Diluted earnings per share	$4.23	$4.00 to $4.70	**$4.63**
Tier I BIS capital ratio	11.0%	minimum of 9.5%	**10.9%**

OUTLOOK AND OBJECTIVES FOR 2011

ECONOMIC OUTLOOK: AN UNEVEN AND FRAGILE RECOVERY

In June 2009, the "Great Recession" came to an end in the United States according to the National Bureau of Economic Research. In all likelihood, the recession also came to an end in Canada at around the same time. Normally, a strong recovery should therefore be in progress. That is not the case however. The least that can be said is that, less than a year after it started, the economic recovery in North America is slowing down. For the United States, which remains Canada's foremost commercial partner, the risk of falling back into a recession is even relatively significant.

The Bank considers that a double-dip recession and deflation in the U.S., while possible, is still quite unlikely, mostly because the Federal Reserve would not "allow" it, meaning that successive waves of quantitative easing would be launched. However, economic growth should not exceed 2% to 2.5% in 2011 and 2012, which is clearly not sufficient to lower unemployment in any significant way. In Canada, the direct implication of this situation is that U.S. domestic demand will remain very weak for at least two years. The Canadian economy is thus entering a transition period under ongoing difficult external conditions.

As for domestic demand, the Bank notes that, during 2009 and 2010, households have reacted well to expansionist policies, thus rapidly reviving economic activities. Extremely low interest rates have encouraged Canadians to increase their use of credit, as opposed to income, to finance their expenses, which contributed to a marked increase of their indebtedness in proportion to their disposable income. It does not come as a surprise therefore that consumer credit, in proportion to consumption expenditures, has increased during the recession, which is unusual.

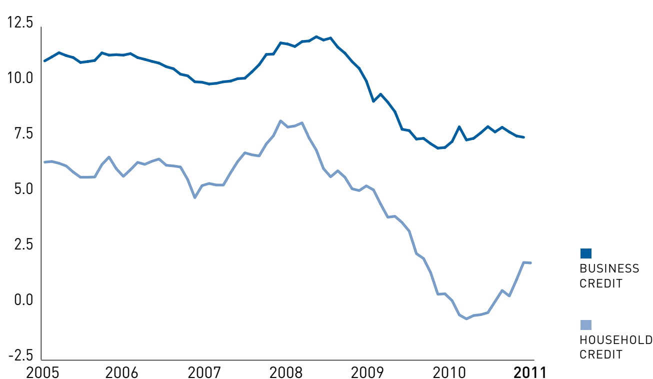
In the future, the contribution of households to the economic recovery is bound to decrease, considering that their level of indebtedness is rather high, that interest levels will not remain at such a low level and that the value of assets will not increase as rapidly, as was the case in 2010. Moreover, the relatively weak domestic demand in the U.S. will hinder the growth of exports. Elsewhere globally, particularly in Asia, economic growth should remain quite strong, thereby exerting upward pressure on the price of raw materials and, indirectly, on the Canadian dollar. Lastly, the risk of global financial instability remains high due to concerns over the public debt of the euro zone's peripheral countries, the current account imbalances among the large trading blocs (USD-EUR-JPY-CNY), and the less than traditional monetary policies of the U.S. and Japan.

Despite a reduced contribution from households and governments in 2011, and the risk of financial instability, the Bank does not believe that the Canadian economy is at risk of falling back into a recession. Other factors are expected to improve, contributing thereby to support economic growth to a larger degree. Specifically, Canadian businesses, particularly in industries exporting outside North America, well profitable as a whole, are in a good position to stimulate private investments and thereby support job creation.

All things considered, economic growth (real GDP) in Canada should reach 2.5% in 2011 and 2012, which should bring about a very slight reduction in the unemployment rate (from 8% in the fourth quarter of 2010 to 7.8% in 2011 and 7.6% in 2012) and in Québec (from 7.9% to 7.8% and 7.7% respectively). From June to September 2010, the Bank of Canada increased its key interest rate three times, in 25 basis points tranches, to 1.00%. Presently, a pause, lasting 6 to 9 months at least, is expected, given the cooling of the economic outlook, particularly in the United States. The situation in the U.S. presents so many difficulties that, in November 2010, the Federal Reserve initiated a new quantitative easing program (QE2) to ward off a deflationary spiral. In general, short- and medium-term interest rates should remain very low throughout most of 2011. Interest rates should return to normal levels only in 2012, depending on the outcome of QE2.

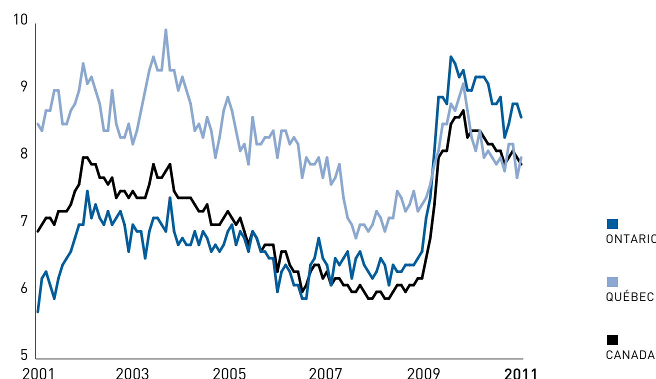
In Québec, as in Canada, 2011 will be a more complex year. The economic recovery will slow down in part due to the higher taxes and tariffs announced at both the provincial and municipal levels.

CREDIT GROWTH IN CANADA
(Year over year change in %)



Source: Bank of Canada/Haver Analytics

UNEMPLOYMENT RATES
(as a percentage)



Source: Statistics Canada/Haver Analytics

HOW WE WILL MEASURE OUR PERFORMANCE IN 2011

As discussed above, the economic outlook remains a significant source of uncertainty. However, the following objectives for 2011 clearly reflect management's confidence in the Canadian economy and its conviction that the Bank has the ability to take advantage of market opportunities.

TABLE 9
2011 FINANCIAL OBJECTIVES

	2011 OBJECTIVES[1]
Revenue growth	> 5%
Efficiency ratio	**70% to 67%**
Return on common shareholders' equity	**11.0% to 13.0%**
Diluted earnings per share	**$4.80 to $5.40**

(1) These objectives for 2011 should be read concurrently with the following paragraphs.

Key assumptions supporting the Bank's objectives

The following assumptions are the most significant items considered in setting the Bank's strategic priorities and financial objectives. Other factors such as those detailed in the Caution Regarding Forward-Looking Statements and Integrated Risk Management Framework sections of this MD&A could also cause future results to differ materially from these objectives.

The objectives for 2011 assume that the Canadian economy is entering a period of slow transition from recession to recovery, with continued challenges stemming from low interest rates and increased competition, leading to ongoing pressure on pricing and margins. Nonetheless, the Bank expects loan growth to continue at a healthy rate in 2011. The targets for 2011 also incorporate increased spending necessary to meet heightened regulatory requirements, higher salaries and employee benefits resulting from ongoing hiring to support growth and service levels, as well as higher pension costs. However, the Bank expects to maintain a solid return on common shareholders' equity by maintaining appropriate cost controls while ensuring it continues to further build its key growth engines.

ANALYSIS OF CONSOLIDATED RESULTS

Net income totalled $122.9 million in 2010, compared with $113.1 million last year. Net income in 2009 included income from discontinued operations of $11.5 million related to the sale of asset management activities in fiscal 2005. Income from continuing operations amounted to $101.7 million in 2009.

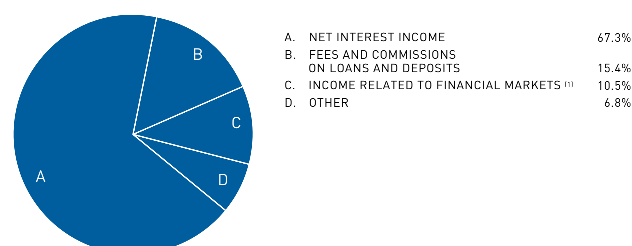
Discontinued Operations —
Sale of BLC-Edmond de Rothschild Asset Management Inc.

In fiscal 2005, the Bank sold its interest in the joint-venture BLC-Edmond de Rothschild Asset Management Inc. to Industrial Alliance Insurance and Financial Services Inc. As part of this transaction, a portion of the proceeds was subject to recovery clauses, based on net annual mutual fund sales, and therefore, the sale resulted in the recognition of a $26.2 million deferred gain. During fiscal 2009, the Bank recognized $11.5 million, net of income taxes, in income as sale thresholds were met. Note 28 to the annual consolidated financial statements provides additional information regarding this transaction.

TOTAL REVENUE

Total revenue improved 11% to $737.4 million for the year ended October 31, 2010, compared to $666.5 million for the year ended October 31, 2009. Net interest income improved 17% to $496.4 million, while other income remained relatively unchanged at $241.0 million, as detailed in the following paragraphs.

TOTAL REVENUE MIX
(as a percentage)



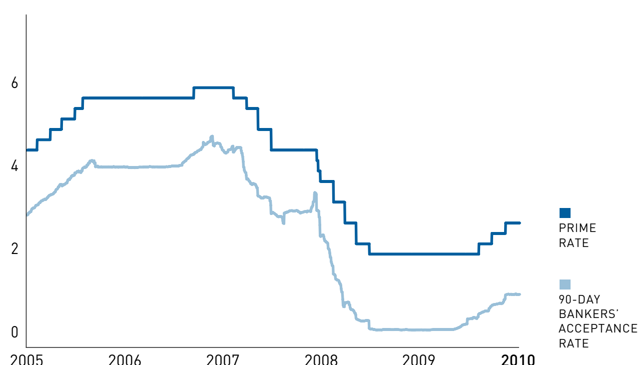
(1) Including income from brokerage operations, income from treasury and financial market operations and securitization income.

NET INTEREST INCOME

Net interest income rose by $72.6 million to $496.4 million in 2010 from $423.8 million in 2009. The year-over-year increase resulted mainly from the significant growth in average loan and deposit volumes of $2.0 billion and $1.9 billion respectively. In addition, net interest margins improved 8 basis points in 2010 to 2.15%, mainly as a result of the introductory promotional pricing on B2B Trust's High Interest Investment Accounts and a generally declining interest rate environment in the first part of 2009. Table 10 provides a summary of net interest income.

The following graph shows historical interest rates since 2005.

LAURENTIAN BANK PRIME RATE AND BANKERS' ACCEPTANCE RATE
As at October 31 (in percentages)

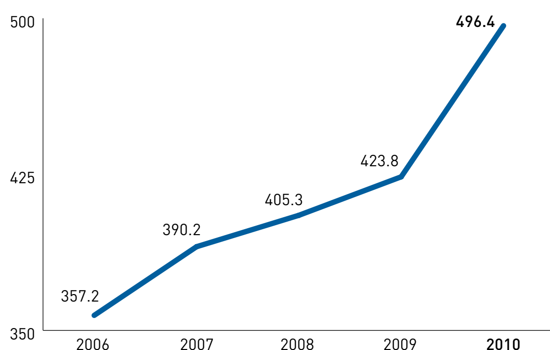


The Bank uses derivative financial instruments to manage the interest rate risk associated with some of its loan and deposit portfolios. In 2010, interest rate swaps generated revenues of $116.3 million and effectively compensated lower interest income stemming from variable rate loan portfolios resulting from the low interest rate environment. Depending on interest rate fluctuations and on the portfolio mix in terms of maturity and product types, actual return on portfolios can vary substantially. The Bank uses models to quantify the potential impact of various rate scenarios on future revenues and equity, as explained in the Asset and Liability Management Activities section on page 51 of this MD&A.

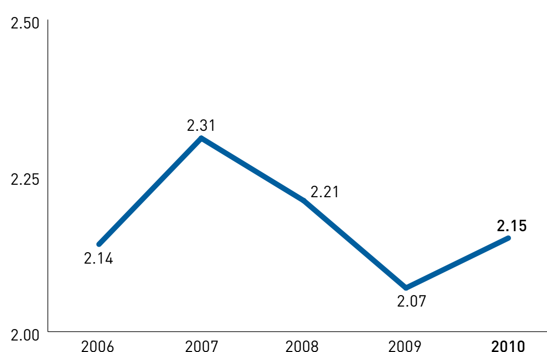
TABLE 10
CHANGES IN NET INTEREST INCOME
For the years ended October 31 (in thousands of dollars, except percentage amounts)

			2010					2009
	AVERAGE VOLUME IN %	AVERAGE VOLUME	INTEREST	AVERAGE RATE	AVERAGE VOLUME IN %	AVERAGE VOLUME	INTEREST	AVERAGE RATE
Assets								
Cash resources and securities	20.5%	$ 4,736,468	$ 73,273	1.55%	20.5%	$ 4,192,907	$ 75,276	1.80%
Securities purchased under reverse repurchase agreements	2.6	598,983	3,240	0.54	3.4	701,662	4,014	0.57
Loans								
Personal	24.5	5,653,441	266,030	4.71	27.7	5,667,866	279,730	4.94
Residential mortgage	34.8	8,030,720	340,581	4.24	31.9	6,531,433	310,479	4.75
Commercial mortgage	6.1	1,419,800	74,283	5.23	5.1	1,054,518	55,139	5.23
Commercial and other	7.7	1,785,067	73,543	4.12	7.9	1,609,180	70,176	4.36
Derivative financial instruments	–	–	116,273	–	–	–	137,275	–
Other assets	3.8	868,939	–	–	3.5	726,275	–	–
Total – assets	100.0%	$23,093,418	$947,223	4.10%	100.0%	$20,483,841	$932,089	4.55%
Liabilities and shareholders' equity								
Demand and notice deposits		$ 7,056,613	$ 48,417	0.69%		$ 4,752,585	$ 35,219	0.74%
Term deposits		11,940,790	391,636	3.28		12,318,315	458,593	3.72
Obligations related to securities sold short or under repurchase agreements		1,991,117	3,011	0.15		1,489,522	6,765	0.45
Acceptances		198,337	–	–		155,100	–	–
Other liabilities		558,827	–	–		494,758	–	–
Subordinated debentures		150,000	7,738	5.16		150,000	7,735	5.16
Shareholders' equity		1,197,734	–	–		1,123,561	–	–
Total – liabilities and shareholders' equity		$23,093,418	$450,802	1.95%		$20,483,841	$508,312	2.48%
Net interest income			$496,421	2.15%			$423,777	2.07%

NET INTEREST INCOME
(in millions of dollars)



NET INTEREST MARGIN
(as a percentage of average assets)



OTHER INCOME

Other income totalled $241.0 million in 2010, compared with $242.7 million in 2009. The decrease essentially resulted from the lower income from securitization activities, as other sources of other income generally improved, as detailed below.

Fees and commissions on loans and deposits rose 12% to $113.7 million for fiscal 2010 from $101.4 million in 2009, mainly as a result of higher lending fees stemming from the increased level of business activity.

Income from brokerage operations improved slightly to $52.9 million for fiscal 2010 from $51.8 million in 2009, driven by continued strong performance from the Institutional Fixed Income division of Laurentian Bank Securities and better performance from retail operations.

Income from treasury and financial market operations improved by $7.6 million to $18.0 million for fiscal 2010. As market conditions improved in 2010, income generally improved. For fiscal 2009, treasury and financial market revenues were particularly affected by net losses on securities amounting to $9.0 million. Additional information related to the Bank's securities portfolio is presented in Note 4 to the annual consolidated financial statements.

Credit insurance revenues are mainly generated by insurance programs related to loans disbursed by the Bank. These revenues grew by 11% to $17.8 million for fiscal 2010, owing mainly to strong growth in mortgage loan portfolios.

Revenues from mutual funds improved $2.6 million to $15.0 million in fiscal 2010. The increase results from continuing growth in sales and the positive impact on trailer fees from the recovering market values of mutual funds under administration.

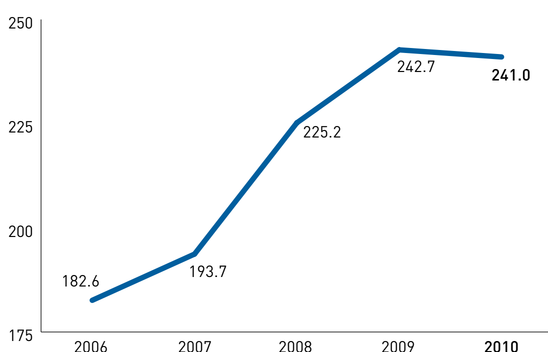
Revenues from registered self-directed plans improved slightly to $8.7 million for fiscal 2010 from $8.0 million in 2009, mainly as a result of improving market values. See the Off-Balance Sheet Arrangements section on page 39 of this MD&A for additional information.

Securitization income decreased significantly to $6.0 million for fiscal 2010, compared with $34.4 million for fiscal 2009. In 2010, the Bank relied less on securitization to fund its loan growth. Nonetheless, securitization of $823.0 million in residential mortgage loans generated gains on sale of $13.5 million. In 2009, the Bank had securitized $1.0 billion in residential mortgage loans and generated gains on sale of $37.4 million. The lower gains mainly reflect the tighter spreads on mortgage loans sold. Income from securitization operations was also negatively affected by mark-to-market revaluation of seller swaps, partly offset by servicing revenues, as further detailed in Note 6 to the annual consolidated financial statements.

TABLE 11
OTHER INCOME
For the years ended October 31 (in thousands of dollars, except percentage amounts)

	2010	2009	2008	VARIANCE 10 / 09
Fees and commissions on loans and deposits				
Deposit service charges	**$ 54,172**	$ 53,377	$ 52,314	1%
Lending fees	**38,985**	30,028	22,976	30
Card service revenues	**20,543**	18,040	16,623	14
Sub-total – fees and commissions on loans and deposits	**113,700**	101,445	91,913	12
Other				
Income from brokerage operations	**52,934**	51,788	28,707	2
Income from treasury and financial market operations	**18,035**	10,472	24,474	72
Credit insurance income	**17,785**	15,994	13,717	11
Income from sales of mutual funds	**15,012**	12,429	14,170	21
Income from registered self-directed plans	**8,680**	7,960	8,736	9
Securitization income	**5,996**	34,441	35,865	(83)
Trust services	**1,020**	1,038	1,152	(2)
Other	**7,863**	7,158	6,484	10
Sub-total – other	**127,325**	141,280	133,305	(10)
Total – other income	**$241,025**	$242,725	$225,218	(1)%

OTHER INCOME
(in millions of dollars)



PROVISION FOR LOAN LOSSES

The provision for loan losses amounted to $68.0 million for fiscal 2010, compared with $56.0 million for fiscal 2009. The increase mainly reflects losses related to certain commercial and real estate accounts, which were impacted by the soft North American economic environment, as well as the higher loan volumes. Nonetheless, overall credit quality improved in the latter part of the year. Retail portfolios performed well during the year, as borrowers benefited from improved employment conditions in Canada and a low interest rate environment. The following table details the provision for loan losses from 2008 to 2010.

TABLE 12
PROVISION FOR LOAN LOSSES
For the years ended October 31 (in thousands of dollars, except percentage amounts)

	2010	2009	2008
Personal loans	**$31,460**	$37,112	$29,541
Residential mortgage loans	**3,486**	1,527	582
Commercial mortgage loans	**8,729**	980	510
Commercial and other loans	**24,325**	16,381	9,867
Sub-total	**68,000**	56,000	40,500
Increase in general allowances	**–**	–	8,000
Total – provision for loan losses	**$68,000**	$56,000	$48,500
As a % of average loans and acceptances	**0.40%**	0.38%	0.35%

NON-INTEREST EXPENSES

Non-interest expenses totalled $504.2 million for fiscal 2010, compared with $472.0 million for fiscal 2009. Salaries and employee benefits increased by 11% or $26.3 million compared with fiscal 2009. The increase is principally attributable to higher salaries and costs related to growth and customer service initiatives, as well as higher pension costs and compensation tax.

Premises and technology costs increased to $132.5 million for fiscal 2010, compared with $120.1 million for fiscal 2009, mainly as a result of higher amortization expense related to IT development projects and overall increases in technology costs to support higher business activity levels.

Other expenses stood at $95.7 million in 2010, compared with $102.3 million in 2009. Expenses for 2009 included the effect of a $5.5 million charge related to two specific operational issues, which were partially recovered in 2010. Excluding this item, other expenses were relatively unchanged, as lower capital tax charges were offset by increases in advertising and business development costs. Table 13 illustrates the changes in non-interest expenses from 2008 to 2010.

TABLE 13
NON-INTEREST EXPENSES

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

	2010	2009	2008	VARIANCE 10 / 09
Salaries and employee benefits				
Salaries	**$ 181,040**	$ 166,256	$ 155,691	
Employee benefits	**55,795**	46,629	50,127	
Performance-based compensation	**39,129**	36,773	30,462	
Sub-total – salaries and employee benefits	**275,964**	249,658	236,280	11%
Premises and technology				
Equipment and computer services	**52,108**	45,859	45,243	
Rent and property taxes	**37,731**	35,333	34,475	
Depreciation	**35,987**	32,380	29,872	
Maintenance and repairs	**5,271**	4,745	5,491	
Public utilities	**1,355**	1,361	1,277	
Other	**88**	376	2,834	
Sub-total – premises and technology	**132,540**	120,054	119,192	10%
Other				
Advertising and business development	**22,089**	21,057	18,041	
Fees and commissions	**21,700**	21,395	21,078	
Communications and travelling expenses	**19,037**	18,068	18,907	
Taxes and insurance	**16,518**	20,720	17,571	
Stationery and publications	**5,962**	5,905	6,333	
Recruitment and training	**4,591**	3,563	3,717	
Other	**5,835**	11,570	4,872	
Sub-total – other	**95,732**	102,278	90,519	(6)%
Total – non-interest expenses	**$504,236**	$ 471,990	$ 445,991	7%
As a % of total revenue (efficiency ratio)	**68.4%**	70.8%	70.7%	

EFFICIENCY RATIO

The efficiency ratio (non-interest expenses divided by total revenue) improved markedly to 68.4% for fiscal 2010, compared with 70.8% for fiscal 2009, driven by strong revenue growth. This translated into a 3.8% positive operating leverage (percentage growth in total revenues, less percentage growth in non-interest expenses).

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

INCOME TAX EXPENSE

For fiscal 2010, income tax expense totalled $42.3 million and the effective income tax rate stood at 25.6%, compared with $36.8 million and 26.6%, respectively, for fiscal 2009. Note 17 to the annual consolidated financial statements provides further information on income tax expense.

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

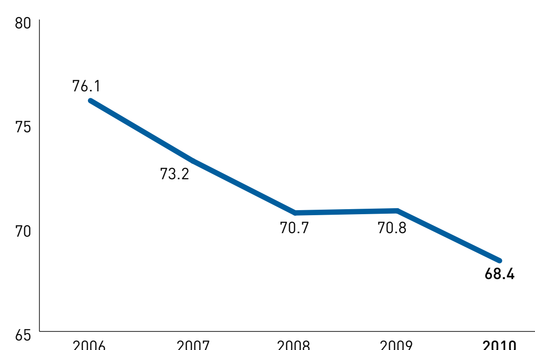


TABLE 14
RECONCILIATION OF THE INCOME TAX EXPENSE FROM CONTINUING OPERATIONS TO THE DOLLAR AMOUNT OF INCOME TAX USING THE STATUTORY RATE
For the years ended October 31 (in thousands of dollars, except percentage amounts)

	2010		2009	
Income taxes at statutory rates	**$50,027**	**30.3%**	$43,312	31.3%
Change resulting from:				
Income related to foreign credit insurance operations	**(4,891)**	**(3.0)**	(4,471)	(3.2)
Dividends and tax-exempt gains	**(1,919)**	**(1.2)**	(1,626)	(1.2)
	43,217	**26.1**	37,215	26.9
Resolution of income tax exposures	**(1,010)**	**(0.6)**	(2,418)	(1.7)
Tax rate changes	**587**	**0.4**	–	–
Other	**(525)**	**(0.3)**	2,051	1.4
Income taxes from continuing operations, as reported in the consolidated statement of income and effective tax rate	**$42,269**	**25.6%**	$36,848	26.6%

TRANSACTIONS WITH RELATED PARTIES

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

OVERVIEW OF FISCAL 2009

For the year ended October 31, 2009, the Bank reported net income of $113.1 million, or diluted earnings of $4.23 per share, compared with $102.5 million, or diluted earnings of $3.80 per share in 2008. Return on common shareholders' equity was 11.4% in 2009, compared with 11.0% in 2008.

Net income in 2009 includes income from discontinued operations of $11.5 million, or $0.48 diluted per share, related to the sale of asset management activities in fiscal 2005. Net income in 2008 included income from discontinued operations of $4.4 million, or $0.19 diluted per share. Income from continuing operations was $101.6 million in 2009, or $3.75 diluted per share, compared with $98.1 million, or $3.61 diluted per share in 2008.

The Bank delivered a solid performance in 2009. Record growth in personal and commercial loan and deposit portfolios significantly improved revenues, while tight cost control contributed to improve efficiency. However, higher loan losses resulting from poor economic conditions throughout the year and losses on securities dampened the Bank's results.

ANALYSIS OF QUARTERLY RESULTS

SUMMARY ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF FISCAL 2010

Net income for the fourth quarter ended October 31, 2010 was $32.5 million, compared with $38.2 million for the same period last year. Net income for the fourth quarter of 2009 included income from discontinued operations of $11.5 million related to the sale of asset management activities in fiscal 2005. Income from continuing operations amounted to $26.8 million for the fourth quarter of 2009.

Total revenue

Total revenue increased by 6% to $190.1 million in the fourth quarter of 2010, compared with $178.5 million in the fourth quarter of 2009. Net interest income increased to $128.2 million in the fourth quarter of 2010 from $118.2 million in the fourth quarter of 2009, mainly attributable to the strong loan and deposit growth year-over-year. Interest margins decreased slightly in the fourth quarter of 2010, when compared to the fourth quarter of 2009 as interest margins remained under pressure, because of sustained competition for retail customers, a flatter yield curve and the continued low interest rate environment.

Other income improved to $61.9 million in the fourth quarter of 2010, compared to $60.3 million in the fourth quarter of 2009. Overall retail business growth contributed to higher fees and commissions on loans and deposits, as well as to the increase in credit insurance income. In addition, income from treasury and financial market operations improved by more than $5.0 million in the fourth quarter of 2010, when compared to the fourth quarter of 2009, as results for 2009 were hampered by net losses on securities of $3.5 million. Securitization income decreased by $5.0 million compared to the same quarter a year ago, as a result of lower gains on reduced level of mortgage loan securitization and tighter spreads on mortgage loans sold. Income from brokerage operations decreased by $2.0 million in the fourth quarter of 2010, when compared to the fourth quarter of 2009. Results from these operations, for the fourth quarter of 2009, benefitted from the recovering equity markets, as well as from the particularly good quarter for the Institutional Fixed Income division of Laurentian Bank Securities. At $14.9 million for the fourth quarter of 2010, brokerage revenues were nonetheless satisfactory.

Provision for loan losses

The provision for loan losses amounted to $16.0 million in the fourth quarter of 2010, unchanged from the fourth quarter of 2009, as lower losses on retail portfolios were offset by increases in commercial portfolios. This level of losses is in line with the overall good credit quality of the Bank's loan portfolio given the current soft North American economic conditions.

Non-interest expenses

Non-interest expenses totalled $132.5 million for the fourth quarter of 2010, compared with $128.1 million for the fourth quarter of 2009. Salaries and employee benefits rose by $6.1 million, mainly as a result of higher salary charges, compensation tax and pension costs. Over the last twelve months, headcount has increased by more than one hundred mainly to support growth and service quality initiatives. Premises and technology costs rose from $31.9 million for the fourth quarter of 2009 to $35.2 million for the fourth quarter of 2010, mainly as a result of higher amortization expenses related to recently completed IT development projects, technology costs to support business growth and rental costs. Other non-interest expenses decreased from $30.2 million for the fourth quarter of 2009 to $25.2 million for the fourth quarter of 2010. Other expenses for 2009 included the effect of a $5.5 million charge related to two specific operational issues. Excluding this item, other expenses were relatively stable as a result of sustained cost control.

The efficiency ratio improved to 69.7% in the fourth quarter of 2010, compared with 71.8% in the fourth quarter of 2009; reflecting a 3.1% positive operating leverage.

Income taxes

For the quarter ended October 31, 2010, income tax expense was $9.1 million and the effective tax rate was 21.8%. The lower tax rate, compared to the statutory rate, mainly resulted from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income and the lower taxation level on revenues from credit insurance operations. Results for the fourth quarter also include year-end favourable adjustments of $2.2 million to future income taxes. For the quarter ended October 31, 2009, the income tax expense related to continuing operations was $7.6 million and the effective tax rate was 22.1%.

ANALYSIS OF THE EVOLUTION OF THE QUARTERLY RESULTS

The Bank's intermediation business provides a relatively steady source of income, stemming from large volumes of loans and deposits not likely to experience significant fluctuations in the short term. However, treasury operations and certain activities related to financial markets, such as securitization operations and trading activities, may result in significant volatility. In addition, sharp variations in market interest rates or equity markets may also influence operating results. Other transactions, specific events or regulatory developments may also influence the Bank's results. Given that the second quarter usually consists of only 89 days, compared with 92 days for the other quarters, net interest income for that quarter is generally lower. Table 15 summarizes quarterly results for fiscal 2010 and 2009.

TABLE 15
QUARTERLY RESULTS

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

				2010				2009
	Oct. 31	**July 31**	**April 30**	**Jan. 31**	Oct. 31	July 31	April 30	Jan. 31
Net interest income	**$128,202**	**$129,870**	**$117,633**	**$120,716**	$118,235	$112,766	$94,073	$98,703
Other income	**61,872**	**58,940**	**60,480**	**59,733**	60,305	63,891	60,695	57,834
Total revenue	**190,074**	**188,810**	**178,113**	**180,449**	178,540	176,657	154,768	156,537
Provision for loan losses	**16,000**	**20,000**	**16,000**	**16,000**	16,000	16,000	12,000	12,000
Non-interest expenses	**132,484**	**127,820**	**123,549**	**120,383**	128,143	119,081	114,034	110,732
Income from continuing operations before income taxes	**41,590**	**40,990**	**38,564**	**44,066**	34,397	41,576	28,734	33,805
Income taxes	**9,076**	**10,926**	**10,215**	**12,052**	7,618	12,893	7,579	8,758
Income from continuing operations	**32,514**	**30,064**	**28,349**	**32,014**	26,779	28,683	21,155	25,047
Income from discontinued operations, net of income taxes	**–**	**–**	**–**	**–**	11,469	–	–	–
Net income	**$ 32,514**	**$ 30,064**	**$ 28,349**	**$ 32,014**	$ 38,248	$ 28,683	$21,155	$25,047
Earnings per share from continuing operations								
Basic	**$ 1.24**	**$ 1.13**	**$ 1.06**	**$ 1.21**	$ 0.99	$ 1.08	$ 0.76	$ 0.92
Diluted	**$ 1.24**	**$ 1.13**	**$ 1.06**	**$ 1.21**	$ 0.99	$ 1.08	$ 0.76	$ 0.91
Earnings per share								
Basic	**$ 1.24**	**$ 1.13**	**$ 1.06**	**$ 1.21**	$ 1.47	$ 1.08	$ 0.76	$ 0.92
Diluted	**$ 1.24**	**$ 1.13**	**$ 1.06**	**$ 1.21**	$ 1.47	$ 1.08	$ 0.76	$ 0.91
Net interest income (as a percentage of average assets)	**2.15%**	**2.22%**	**2.10%**	**2.13%**	2.19%	2.15%	1.92%	2.00%
Return on common shareholders' equity	**11.8%**	**11.0%**	**10.9%**	**12.3%**	15.3%	11.6%	8.5%	10.0%
Segment net income (loss)								
Retail & SME Québec	**$ 9,746**	**$ 14,633**	**$ 10,082**	**$ 12,552**	$ 21,482	$ 9,674	$ 9,756	$10,180
Real Estate & Commercial	**12,319**	**10,427**	**13,655**	**12,688**	7,611	11,170	7,600	8,040
B2B Trust	**12,156**	**11,818**	**11,359**	**11,061**	7,468	8,665	7,833	8,126
Laurentian Bank Securities and Capital Markets	**3,468**	**2,100**	**2,586**	**1,834**	2,730	3,379	3,344	2,523
Other	**(5,175)**	**(8,914)**	**(9,333)**	**(6,121)**	(1,043)	(4,205)	(7,378)	(3,822)
Net income	**$ 32,514**	**$ 30,064**	**$ 28,349**	**$ 32,014**	$ 38,248	$ 28,683	$21,155	$25,047

Over the past eight quarters, income from continuing operations has generally trended upward, driven mainly by sustained growth in loan and deposit portfolios as well as the sustained growth momentum the Bank has created in all its businesses. Income from discontinued operations of $11.5 million in the fourth quarter of 2009 had a significant impact on net income. Furthermore, certain specific factors, as detailed below, have affected results during fiscal 2010 and 2009.

2010

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

2009

- During the first six months of 2009, net interest income declined despite growth in loans and deposits, as net interest margins were impacted by market conditions and the introduction of the B2B Trust HIIA at promotional pricing. Margins recovered in the latter part of 2009, which helped restore profitability.
- In the third and fourth quarters of 2009, loan losses increased to $16.0 million for each quarter as a result of the overall deterioration in economic conditions.

ANALYSIS OF FINANCIAL CONDITION

Over the past three years, the growth momentum the Bank has created in all its businesses has significantly strengthened its balance sheet. In addition, improved profitability has translated into a stronger capital position and provided the Bank with added flexibility to pursue its growth initiatives and to meet new pending regulatory capital requirements.

As at October 31, 2010, the Bank reported total assets of $23.8 billion, compared with $22.2 billion as at October 31, 2009, as shown in Table 16. Assets under administration amounted to $15.0 billion, compared with $14.3 billion at the end of fiscal 2009. These changes are explained in the following sections of this MD&A.

TABLE 16
BALANCE SHEET ASSETS
As at October 31 (in thousands of dollars, except percentage amounts)

	2010	2009	2008	VARIANCE 10 / 09
Cash, deposits with other banks and securities	**$4,424,903**	$ 4,732,799	$ 3,638,873	(7)%
Securities purchased under reverse repurchase agreements	**803,874**	536,064	661,391	50
Loans				
Personal	**5,630,788**	5,655,055	5,694,574	–
Residential mortgage	**8,582,548**	7,219,830	6,182,871	19
Commercial mortgage	**1,638,861**	1,285,012	932,688	28
Commercial and other	**1,691,190**	1,555,956	1,454,799	9
	17,543,387	15,715,853	14,264,932	12
Allowance for loan losses	**(138,143)**	(114,546)	(112,434)	21
Total loans	**17,405,244**	15,601,307	14,152,498	12
Customers' liabilities under acceptances	**165,450**	216,817	110,342	(24)
Other assets	**1,000,532**	1,077,793	1,016,368	(7)
Balance sheet assets	**$23,800,003**	$22,164,780	$19,579,472	7%
Cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements as a % of balance sheet assets	**22.0%**	23.8%	22.0%	
Total loans and acceptances as a % of balance sheet assets	**73.8%**	71.4%	72.8%	

LIQUID ASSETS

Liquid assets consist of cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements. As at October 31, 2010, these assets totalled $5.2 billion and were relatively unchanged compared to October 31, 2009 where they stood at $5.3 billion. However, liquid assets now represent 22% of total assets, compared to 24% at the beginning of the year as the Bank is gradually reducing its level of liquid assets to fund loan disbursements. This has helped net interest margins year over year. Nevertheless, the Bank prudently maintained a relatively high level of lower yielding liquid assets during the year, fuelled by the growth of its deposit base.

As at October 31, 2010, the Bank held securities amounting to $4.3 billion, including a portfolio of available-for-sale securities totalling $1.1 billion. Net unrealized gains, included in accumulated other comprehensive income (AOCI), increased $6.5 million in 2010 to $11.4 million as at October 31, 2010.

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

LOAN PORTFOLIO

Loans and bankers' acceptances rose by $1.8 billion and totalled $17.7 billion as at October 31, 2010, compared with $15.9 billion at October 31, 2009. The Bank's ability to meet customers' needs, combined with the low interest rate environment, better economic conditions and overall favourable housing markets in Canada contributed to maintain the momentum in this portfolio's growth and yielded an 11% growth rate for the second consecutive year.

The residential mortgage loan portfolio was up $1.4 billion to $8.6 billion at the end of 2010. Considering securitized loans, as shown in the table 17, total residential mortgage loans amounted to $11.3 billion as at October 31, 2010.

Commercial mortgage loans and commercial loans, including banker's acceptances, increased by a combined $437.7 million, as the Bank continued to capitalize on growth opportunities in the Canadian market. Personal loans decreased slightly and were down $24.3 million in 2010, as growth in investment loans and home equity lines of credit did not fully compensate for ongoing run-offs in point-of-sale financing.

TABLE 17
RESIDENTIAL MORTGAGE LOANS PORTFOLIO
As at October 31 (in thousands of dollars)

	2010	2009	VARIANCE 10 / 09
On-balance sheet residential mortgage loans	$ 8,582,548	$7,219,830	$1,362,718
Securitized residential mortgage loans (off-balance sheet)	2,715,535	2,702,762	12,773
Total residential mortgage loans, including securitized loans	$11,298,083	$9,922,592	$1,375,491

Impaired loans

Gross impaired loans rose from $137.5 million in 2009 to $188.1 million in 2010, while net impaired loans stood at $50.0 million as at October 31, 2010, compared with $22.9 million as at October 31, 2009. The increase in impaired loans since October 31, 2009 essentially results from certain specific commercial loans and commercial mortgage loans as well as loan growth. Conversely, despite ongoing credit market challenges resulting from a slow economic recovery, the credit quality of retail portfolios has improved. See Note 5 to the annual consolidated financial statements for additional information.

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

OTHER ASSETS

Other assets, excluding customers' liabilities under acceptances, decreased to $1.0 billion as at October 31, 2010 from $1.1 billion as at October 31, 2009. The decline mostly resulted from changes in the fair value of derivative financial instruments, which are mainly used to hedge the Bank's exposure to market risks.

DEPOSITS

The deposit portfolio was up $1.4 billion to $19.7 billion as at October 31, 2010 from $18.3 billion as at October 31, 2009. Personal deposits of $15.4 billion represented 78% of total deposits at October 31, 2010, an increase of $286.1 million compared to October 31, 2009. Growth in personal deposits was limited during the year, as the Bank opted for other sources of funding and gradually reduced its liquidity level. Nonetheless, the Bank maintained its privileged access to the retail market through its Retail &SME Québec and B2B Trust business segments. Business and other deposits increased by $1.1 billion during the year to $4.3 billion as at October 31, 2010. Specific initiatives were launched during the year to gather deposits from the Bank's commercial clients. This led to net new deposits in excess of $250 million. In addition, the Bank increased its presence in the institutional money market which enabled it to raise $0.8 billion. These new sources of funding will provide additional flexibility in the future.

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

OTHER LIABILITIES

Other liabilities increased to $2.7 billion as at October 31, 2010 from $2.5 billion as at October 31, 2009. The year-over-year increase resulted mainly from higher obligations related to securities sold short, which offset decreases in acceptances and obligations related to securities sold under repurchased agreements, as the Bank relied more heavily on deposits to fund purchases of securities.

SUBORDINATED DEBENTURES

As at October 31, 2010, subordinated debentures totalled $150.0 million, unchanged from last year. As further explained below, these debentures are an integral part of the Bank's regulatory capital and afford its depositors additional protection.

On November 2, 2010, the Bank completed the issuance of $250.0 million Medium Term Notes (subordinated indebtedness) due November 2, 2020. On December 6, 2010, the Bank also announced its intention to redeem the $150.0 million subordinated debentures Series 10. When combined, these transactions will provide the Bank with added flexibility to pursue its growth initiatives and contribute to meeting regulatory capital requirements.

See Note 29 to the annual consolidated financial statements for additional information.

SHAREHOLDERS' EQUITY

Shareholders' equity was $1,239.4 million as at October 31, 2010, compared with $1,171.2 million as at October 31, 2009. This increase mainly resulted from net income for fiscal 2010, net of declared dividends, partly offset by a decrease in the net gain related to interest rate swaps designated as cash flow hedges presented in accumulated other comprehensive income (AOCI). The Bank's book value per common share, excluding AOCI, appreciated to $41.87 as at October 31, 2010 from $38.68 as at October 31, 2009. The table below provides the details of the capital stock.

TABLE 18
SHARES ISSUED AND OUTSTANDING
As at December 1, 2010 (in number of shares/options)

Preferred shares	
Series 9	4,000,000
Series 10	4,400,000
Total preferred shares	8,400,000
Common shares	23,921,762
Options	53,275

OFF-BALANCE SHEET ARRANGEMENTS

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

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

Assets under administration and assets under management mainly include assets of clients to whom the Bank provides various administrative services, as well as residential mortgage loans under management related to securitization operations. Through its subsidiary Laurentian Bank Securities, the Bank also manages retail and institutional investment portfolios. Table 19 below summarizes assets under administration and assets under management. As at October 31, 2010, these items totalled $15.0 billion, up $784.9 million compared with October 31, 2009. Fees, commissions and other income related to these assets contribute significantly to the Bank's profitability. Certain fees, commissions and other income related to these assets are shown in Table 11.

TABLE 19
ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT
As at October 31 (in thousands of dollars)

	2010	2009
Self-directed RRSPs and RRIFs	**$ 7,820,707**	$ 7,599,034
Mortgage loans under management	**2,923,236**	2,876,695
Clients' brokerage assets	**2,274,998**	1,969,917
Mutual funds	**1,697,377**	1,440,852
Institutional assets	**299,927**	341,628
Other – Personal	**25,034**	28,299
Total – assets under administration and assets under management	**$15,041,279**	$14,256,425

Assets related to self-directed plans grew $221.7 million compared with last year owing to recovering markets, partially offset by increased competition. Helped by a favourable regulatory environment, financial institutions are motivated to manage their own clients' self-directed plans themselves. As a result, over the medium term, these activities should continue to be impacted negatively, regardless of market valuations.

Mortgage loans under management were up $46.5 million, as securitization operations carried out during fiscal 2010 more than offset maturities and pre-payments on mortgage loans sold in prior years.

Clients' brokerage assets rose by more than 15%, driven by solid organic growth and a good market performance in 2010.

Mutual fund assets under administration increased by $256.5 million or 18% during fiscal 2010, owing to favourable market conditions and strong net annual sales of mutual funds.

Institutional assets related to trust services were relatively unchanged at $300.0 million, compared with the October 31, 2009 level.

DERIVATIVE FINANCIAL INSTRUMENTS

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

All derivatives are recorded in the balance sheet at fair value. Derivative values are calculated using notional amounts. However, these amounts are not recorded in the balance sheet, as they do not represent the actual amounts exchanged. Likewise, notional amounts do not reflect the credit risk related to derivative financial instruments, although they serve as a reference for calculating payments.

The notional amounts of the Bank's derivatives totalled $19.0 billion as at October 31, 2010, compared with $19.9 billion as at October 31, 2009. The net negative fair value of derivative financial instruments stood at $51.1 million as at October 31, 2010, compared with a net positive fair value of $43.1 million as at October 31, 2009, resulting in a net decrease in fair value of $94.2 million. The year-over-year decrease resulted mainly from interest receipts totalling $116.3 million during the year relating to interest rate swaps held for hedging purposes, partly compensated by the effect of changes in interest rates in 2010, as well as the decline in value of seller swaps.

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

SECURITIZATION ACTIVITIES

The Bank uses special purpose entities to securitize mortgage loans in order to obtain funding and, to some extent, to reduce credit risk and manage its capital position. The Bank does not act as an agent for clients engaged 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 Canadian trust, in exchange for cash. The special purpose entity finances these purchases through the issuance of term bonds or commercial paper. Sales of receivables are sometimes accompanied by credit enhancement features to improve the bonds' or commercial paper's credit ratings. Credit enhancements mainly take the form of cash reserve accounts, over-collateralization in the form of excess assets, and liquidity guarantees. Securitization programs generally include seller swap contracts to protect the special purpose entities against certain interest rate and prepayment risks. Securitization operations are reported as sales of assets only when the seller is deemed to have surrendered control over these assets and to the extent it receives consideration other than beneficial interests in the transferred assets.

The Bank securitizes mortgage loans primarily through the Canada Mortgage Bonds Program (CMB Program) developed by the Canada Mortgage and Housing Corporation (CMHC) and multi-seller conduits set up by large Canadian banks. As part of transactions with multi-seller conduits, the Bank provides credit enhancements in the form of cash reserve accounts and rights to future excess interests, which constitute retained interests. Similarly, the Bank has concluded seller swap agreements designed to protect the special purpose entities against interest rate risks. With regard to the CMB Program, the Bank must manage the maturity and duration mismatch between the amortizing mortgage pool and the Canada Mortgage Bonds (CMB), as well as the ensuing reinvestment risk. As part of this arrangement, the Bank enters into seller swaps which guarantee payments to investors. These seller swaps are derivatives and were therefore marked-to-market through the consolidated statement of income.

The Bank also continues to manage all securitized assets after they are sold. As at October 31, 2010, total outstanding securitized residential mortgage loans amounted $2.7 billion. Total outstanding securitized residential mortgage loans also amounted to $2.7 billion as at October 31, 2009.

Revenues of $6.0 million were recorded in 2010 as part of securitization operations, including $13.5 million in gains on sale and $7.0 million in servicing revenues, offset by net charges of $14.4 million mainly related to changes in fair values of retained interest, securitization swaps and financial instruments held for economic hedging purposes.

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

Notes 6 and 25 to the annual consolidated financial statements and the discussion on critical accounting policies and estimates on page 58 of this MD&A provide additional information on these transactions.

Effect of securitization programs on regulatory capital ratios

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

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

CREDIT COMMITMENTS

In the normal course of its operations, the Bank uses various off-balance sheet credit instruments. The credit instruments used as a means of meeting client financial needs represent the maximum amount of additional credit that the Bank may be required to extend if the commitments are fully used. See Note 24 to the annual consolidated financial statements for further information.

GUARANTEES

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

TABLE 20
CREDIT COMMITMENTS AND GUARANTEES
As at October 31 (in thousands of dollars)

	2010	2009
Undrawn amounts under approved credit facilities [1]	**$2,468,800**	$2,581,176
Documentary letters of credit	**$ 6,670**	$ 8,675
Standby letters of credit and performance guarantees	**$ 175,245**	$ 157,102

(1) Exclude personal credit facilities totalling $1.4 billion ($1.3 billion as at October 31,2009) and credit card lines amounting to $1.0 billion ($0.8 billion as at October 31, 2009) since they are revocable at the Bank's option.

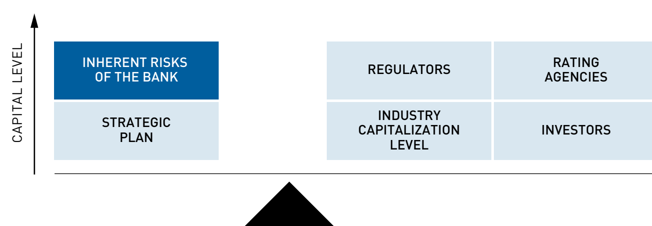
CAPITAL MANAGEMENT

Management's objective is to maintain an adequate level of capital, in line with its risk profile, to support the Bank's activities while enhancing shareholder value.

The Bank has an Internal Capital Adequacy Assessment Process (ICAAP) in place, which forms an integral part of the capital management planning process. Capital adequacy depends on various internal and external factors. The Bank's capital level underscores its solvency and capacity to cover risks related to its operations while providing depositors and creditors with the safeguards they seek. Moreover, capital requirements are aligned with its Strategic Plan, industry capitalization levels and investors' and shareholders' expectations. While rating agencies do not assign credit ratings to the Bank based solely on capital levels, the Bank's capital must be consistent with the credit rating sought. As a result, the Bank's capital adequacy targets vary over time in line with these factors. The ICAAP starts with strategic planning, which sets main targets and priorities for the Bank. The guidelines ensuing from the ICAAP, combined with a report assessing capital adequacy relative to the Bank's objectives, serve as inputs to the Capital Plan, which itself defines guidelines governing proactive capital management.

As shown in the following diagram, capital adequacy is influenced by various factors.

FACTORS INFLUENCING CAPITAL ADEQUACY



Each year, the Board of Directors reviews and approves several capital-related documents, including the Capital Management and Adequacy Policy, the Business and Financial Three-Year Plan and the Capital Plan. Management monitors capital ratios on a monthly basis, while the Board's Risk Management Committee reviews capital adequacy on a quarterly basis. The Integrated Risk Management Group oversees the Bank's capital management framework, particularly through the Capital Management and Adequacy Policy. The Group also monitors capital limits and adequacy. The Bank's Treasury Department reviews the Capital Plan and manages capital on an ongoing basis.

REGULATORY CAPITAL

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

Regulatory capital requirements impose minimum levels of capital that have to be taken into consideration with the other factors mentioned above when assessing the Bank's capital adequacy. Under BCBS standards, banks must maintain a minimum Tier 1 capital ratio of 4% and a total capital ratio of at least 8%. OSFI requires that Canadian deposit-taking financial institutions maintain a minimum Tier 1 capital ratio of 7% and a total capital ratio of at least 10%. The Bank opted for the standardized approach in determining credit risk capital and used the basic indicator approach in determining operational risk capital. Tables 21 and 22 outline the risk-weighted assets and regulatory capital used to calculate BCBS ratios. The Bank and its subsidiaries were in compliance with OSFI's capital requirements throughout the year.

PROPOSAL FOR NEW CAPITAL AND LIQUIDITY REGULATORY MEASURES

In December 2009, the BCBS published proposals on new capital and liquidity requirements. Updates were also published in July and September 2010, providing additional information. The proposals introduce new global liquidity standards and provide more stringent capital adequacy standards. More information regarding these new regulatory requirements is expected over the coming months. At this stage, it is still too early to determine the definitive impact on capital ratios and liquidity requirements, considering the proposals are yet to be finalized at both the international (BCBS) and national (OSFI) levels and may further change between now and when the final rules take effect. Nonetheless, considering the Bank's strong capital position and the nature of its operations, and based on available information, management believes that the Bank is well positioned to meet upcoming capital requirements.

TABLE 21
RISK-WEIGHTED ASSETS
As at October 31 (in thousands of dollars)

2010

	0%	20%	35%	50%	75%	100%	150%	TOTAL	RISK-WEIGHTED ASSETS
Exposure Class									
Corporate	$ 1,622	$ 29,210	$ –	$48,368	$ –	$3,761,869	$36,949	$ 3,878,018	$ 3,847,319
Sovereign	3,740,188	139,289	–	–	–	–	–	3,879,477	27,858
Bank	–	209,246	–	–	–	–	–	209,246	41,849
Retail residential mortgage loans	4,046,779	–	4,415,333	–	–	35,299	–	8,497,411	1,580,666
Other retail	638,031	–	–	–	2,667,424	10,833	–	3,316,288	2,011,401
Small business entities treated as other retail	90,388	–	–	–	343,749	–	–	434,137	257,812
Equity	–	–	–	–	–	260,099	–	260,099	260,099
Securitization	–	21,187	–	6,006	–	1,646	–	28,839	8,886
Other assets	61,599	115,710	–	–	–	490,605	–	667,914	513,747
	8,578,607	514,642	4,415,333	54,374	3,011,173	4,560,351	36,949	21,171,429	8,549,637
Derivative financial instruments	135	273,850	–	–	–	14,534	–	288,519	69,304
Credit-related commitments	34,338	6,000	–	–	–	520,634	–	560,972	521,834
Operational risk									1,247,275
	$8,613,080	$794,492	$4,415,333	$54,374	$3,011,173	$5,095,519	$36,949	$22,020,920	$10,388,050

Balance sheet items	
Cash resources	$ 7,004
Securities	409,363
Mortgage loans	3,907,555
Other loans and customers' liabilities under acceptances	3,710,884
Other assets	514,831
	$ 8,549,637

2009

	0%	20%	35%	50%	75%	100%	150%	TOTAL	RISK-WEIGHTED ASSETS
Exposure Class									
Corporate	$ 2,964	$ 18,363	$ –	$32,628	$ –	$3,249,101	$23,799	$ 3,326,855	$3,304,787
Sovereign	4,469,789	90,987	–	–	–	–	–	4,560,776	18,197
Bank	–	229,054	–	–	–	–	–	229,054	45,811
Retail residential mortgage loans	3,588,597	–	3,477,915	–	–	31,171	–	7,097,683	1,248,441
Other retail	580,959	–	–	–	2,947,036	16,009	–	3,544,004	2,226,286
Small business entities treated as other retail	84,267	–	–	–	392,550	–	–	476,817	294,413
Equity	–	–	–	–	–	118,983	–	118,983	118,983
Securitization	–	14,328	–	6,604	–	1,539	–	22,471	7,707
Other assets	55,206	60,283	–	–	–	503,578	–	619,067	515,635
	8,781,782	413,015	3,477,915	39,232	3,339,586	3,920,381	23,799	19,995,710	7,780,260
Derivative financial instruments	997	298,827	–	291	–	16,106	–	316,221	76,017
Credit-related commitments	36,191	8,000	–	–	–	469,433	–	513,624	471,033
Operational risk									1,153,513
	$8,818,970	$719,842	$3,477,915	$39,523	$3,339,586	$4,405,920	$23,799	$20,825,555	$9,480,823

Balance sheet items	
Cash resources	$ 12,697
Securities	220,257
Mortgage loans	3,222,867
Other loans and customers' liabilities under acceptances	3,807,878
Other assets	516,561
	$7,780,260

TABLE 22
REGULATORY CAPITAL – BIS
As at October 31 (in thousands of dollars, except percentage amounts)

	2010	2009	VARIANCE 10 / 09
Tier 1 capital			
Common shares	$ 259,363	$ 259,208	–%
Contributed surplus	243	209	16
Retained earnings	741,911	665,538	11
Non-cumulative preferred shares	210,000	210,000	–
Goodwill	(53,790)	(53,790)	–
Securitization-related deductions and other	(23,436)	(35,341)	(34)
Total Tier 1 capital (A)	1,134,291	1,045,824	8
Tier 2 capital			
Subordinated debentures	150,000	150,000	–
General allowances	73,250	72,864	1
Securitization-related deductions and other	(20,214)	(32,822)	(38)
Total Tier 2 capital	203,036	190,042	7
Total regulatory capital - BIS (B)	$ 1,337,327	$1,235,866	8%
Total risk-weighted assets (Table 21) (C)	$10,388,050	$9,480,823	
Tier 1 BIS capital ratio (A/C)	10.9%	11.0%	
Total BIS capital ratio (B/C)	12.9%	13.0%	
Assets to capital multiple	17.9 x	18.0 x	
Tangible common equity as a percentage of risk-weighted assets	9.0%	9.1%	

DIVIDENDS

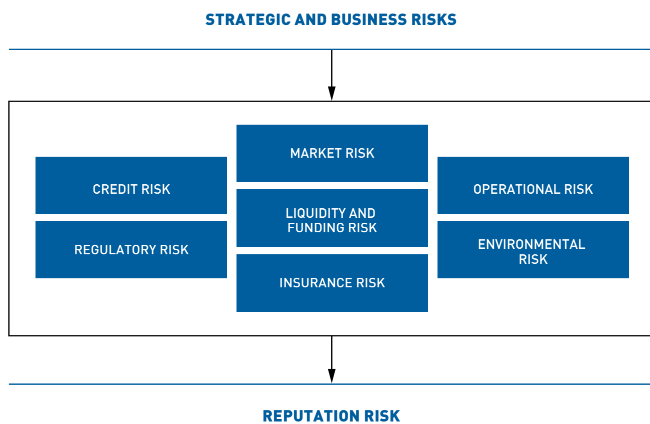
The Board of Directors must approve dividend payments on preferred and common shares on a quarterly basis. The declaration and payment of dividends are subject to certain legal restrictions, as explained in Note 13 to the annual consolidated financial statements. The level of dividends declared on common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

TABLE 23
SHARE DIVIDENDS AND PAYOUT RATIO
For the years ended October 31 (in thousands of dollars, except per share amounts and payout ratios)

	2010	2009	2008
Dividends declared on preferred shares	$11,775	$11,775	$11,775
Dividends declared per common share	$ 1.44	$ 1.36	$ 1.30
Dividends declared on common shares	$34,446	$32,453	$30,993
Payout ratio	31.1%	32.1%	34.2%

INTEGRATED RISK MANAGEMENT FRAMEWORK

The Bank is exposed to various types of risks owing to the nature of the activities it pursues. To ensure that all of the significant risks to which the Bank could be exposed are taken into consideration, an Integrated Risk Management Framework has been developed. The framework provides a comprehensive view of risk assessment and control for various stakeholders.

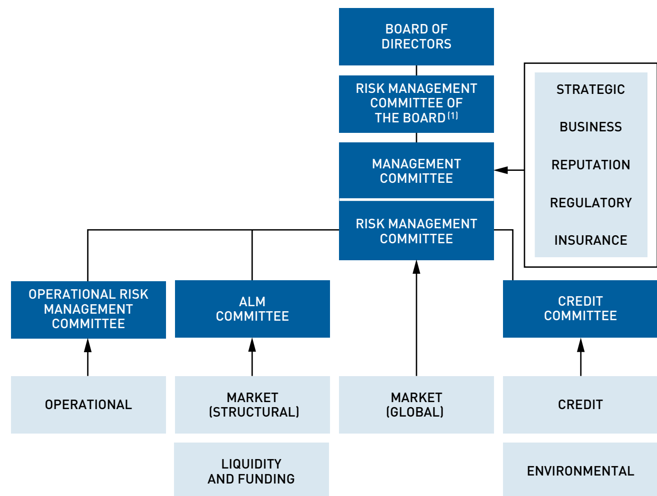


The main objective of this framework is to develop and maintain a risk management culture centered on establishing measures that allow for the optimization of the risk/return ratio in all of the Bank's areas of activity. The framework also highlights the following objectives:

- The establishment of processes to continuously detect, understand and evaluate major risks;
- The adoption of sound and prudent risk limits and risk management policies;
- The establishment and application of effective internal controls;
- The definition of the Management Committee's roles and responsibilities regarding risk management;
- The alignment of the Bank's strategy and objectives with its risk tolerance; and
- The reporting to the Board of Directors of all risks through a quarterly Integrated Risk Management Report.

Risk management is conducted according to tolerance levels established by management committees and approved by the Board of Directors through its committees. Risks are therefore managed in compliance with policies and risk limits approved by the Board of Directors and in accordance with the governance structure outlined hereafter.

GOVERNANCE STRUCTURE



[1] Other Board committees are also responsible for certain risks.

ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS' COMMITTEES

The **Board of Directors** ascertains that the Bank is equipped with an appropriate strategic management process that takes risks into consideration. Moreover, on the strength of the certifications and consolidated reports prepared by management, the Board of Directors assesses, on a yearly basis, whether the Bank presents an environment conducive to control.

The **Board of Directors' Risk Management Committee** must ascertain whether the Integrated Risk Management Framework has been properly implemented, and periodically reviews its operation. It must also ascertain whether the Framework is equipped with an appropriate risk management process directed at identifying, measuring, quantifying and managing risks, as well as setting appropriate policies with regard to market, liquidity and funding, credit, reputational and operational risks.

ROLES AND RESPONSIBILITIES OF INTERNAL RISK MANAGEMENT COMMITTEES

The **Management Committee**, chaired by the President and Chief Executive Officer, functions as the Bank's primary risk management committee. It ensures that the Integrated Risk Management Framework is properly implemented. The Committee also reviews the Code of Ethics and the Regulatory Risk Management Policy and is responsible for implementing the necessary framework for business, regulatory, strategic, reputation and insurance risk management. Furthermore, the Committee, assisted by the Risk Management Committees, assesses and reviews the risk management policies on market, liquidity and funding, credit, reputation and operational risks.

The **Operational Risk Management Committee** reviews and recommends to the Management Committee the approval of policies on operational risk management and reviews the report on operational losses incurred. Moreover, it reviews and approves the tools for the identification and evaluation of operational risks, reviews reports for the Management Committee on the business segments' action plans designed to mitigate and better manage operational risk, and finally, reviews the operational risk indicators. Furthermore, this committee is responsible for the supervision of the business continuity plan.

The **Asset and Liability Management (ALM) Committee** oversees the activities related to the management of structural interest rate risk and of liquidity and funding risk, as well as to capital management. Specifically, it:
– Oversees general orientations pertaining to structural interest rate risk, as well as the risk sensitivity of interest margin results by business segment;
– Approves ALM and liquidity assumptions and ascertains whether the transfer pricing rules are in compliance with these assumptions; and
– Approves the strategies related to funding and capital.

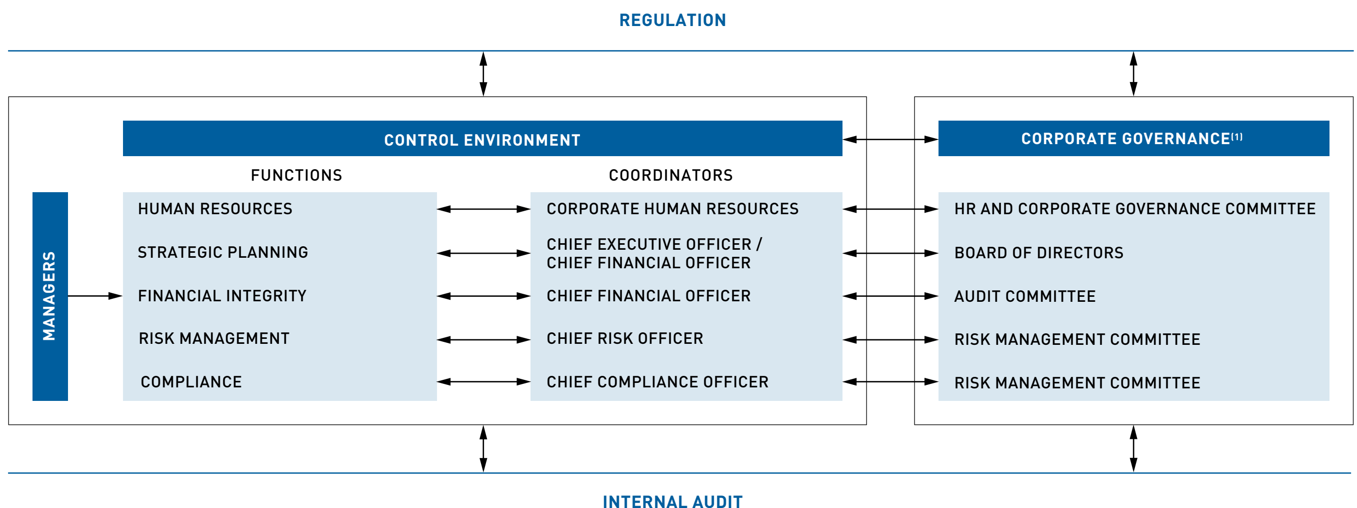
The **Credit Committee** is primarily responsible for ensuring that credit policies and procedures are drafted and that information systems related to the management of the Bank's current and potential credit risks are implemented, as well as for approving loans within established limits. It also reviews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

GOVERNANCE FUNCTIONS SUPPORTING INTEGRATED RISK MANAGEMENT

The following table presents the Bank's corporate control and governance structure (hereafter the "Structure"), which includes several governance functions designed to contribute to integrated risk management. The Structure is divided into two distinct areas: the control environment and the corporate governance. The control environment refers to the documented and applied monitoring and control processes, procedures and measures that allow the Bank to manage and control its commercial activities, as well as the significant risks it incurs. The control environment 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 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 particular members of management acting as control environment coordinators, under supervision by the Board of Directors' committees.

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

CORPORATE CONTROL AND GOVERNANCE STRUCTURE



[1] Corporate governance provided by the Board of Directors and its committees.

STRATEGIC AND BUSINESS RISK MANAGEMENT

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

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

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

CREDIT RISK MANAGEMENT

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

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

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

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

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

For impaired loans related to consumer loan portfolios, provisions are generally established on a portfolio basis, using models that take into account the loss history. Further details on impaired loans are provided in Tables 24 and 25.

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

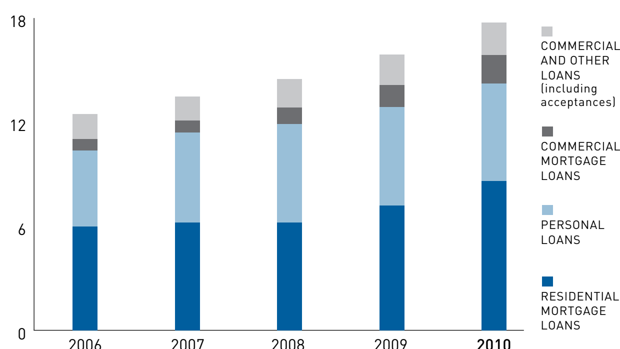
Diversification is one of the fundamental principles of risk management. To this effect, the credit policy establishes the guidelines intended to limit concentration of credit by counterparty and sector of activity, and identifies sectors considered risky and thus to be avoided. The loan portfolio mix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

Loan portfolio mix

The Bank's loan portfolio consists of personal loans, residential mortgage loans, commercial mortgage loans and commercial loans, including bankers' acceptances. The loan portfolio mix as at October 31, 2010 remains relatively unchanged, compared with a year ago. Residential mortgage loans mainly include retail mortgage loans, as well as mortgage loans on larger residential real estate development properties and projects of $0.5 billion.

Reflecting the Bank's strong presence with personal clients through its Retail & SME Québec and B2B Trust business segments, exposures to individuals and micro-enterprises represent close to 80% of the Bank's total loan portfolio. Furthermore, commercial loans and mortgage loans are essentially granted to small and medium-sized businesses.

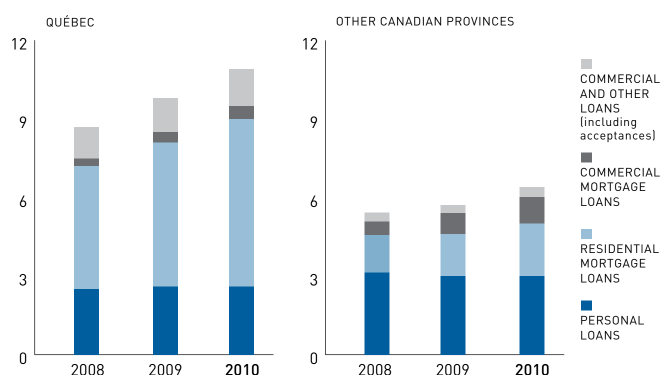
LOAN PORTFOLIO MIX
(in billions of dollars)



Geographic distribution

The Bank operates across Canada. In Québec, it offers most of its lending products mainly through its retail branch network and commercial banking centers. Throughout Canada, the Bank extends its operations through several other commercial banking centers. The Bank also offers its products to a wide network of independent financial intermediaries through B2B Trust. As of October 31, 2010, the proportion of loans granted in Québec represented 63% of total loans while loans granted outside of Québec stood at 37% (unchanged from October 31, 2009).

GEOGRAPHIC DISTRIBUTION OF LOANS
(in billions of dollars)



Insurance and guarantees

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

CMHC offers a mortgage loan insurance program which ultimately aims to improve access to affordable mortgage loan financing for Canadians. As an approved lender under the program, the Bank benefits from insurance coverage, thereby reducing its global credit risk and improving its capital ratios. Moreover, by maintaining a high proportion of insured residential mortgage loans, the Bank retains its capacity to engage in securitization operations to finance its activities at optimal cost and manage its cash resources. By the end of fiscal 2010, 47% of residential mortgage loans were insured by CMHC, compared with 48% in 2009. The Bank considers that it holds excellent guarantees for the other conventional mortgage loans whose loan value never exceeds 80% of the initially estimated value of the property, in accordance with legal requirements.

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

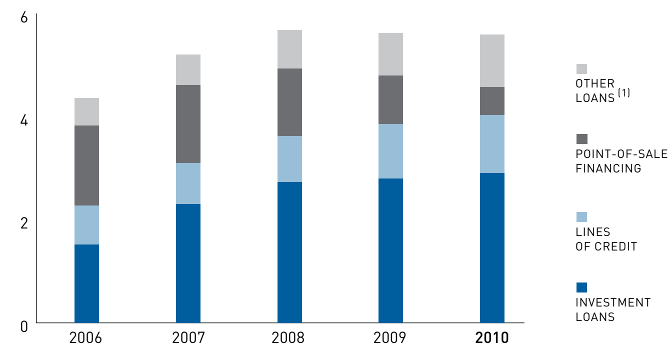
B2B Trust's investment loan portfolio consists mainly of mutual fund loans. Loan underwriting is subject to a rigorous process which allows for the efficient assessment of client credit risk. Authorizations are heavily based on clients' loan servicing ability and overall financial strength, mainly based on credit scoring. Moreover, the portfolio is periodically analyzed to identify potential credit issues. In addition, loans are collateralized by a comprehensive list of eligible mutual and segregated funds. Stricter credit criteria must be met as loan-to-value ratios increase. For loans where disbursements are significant, additional personal income and net worth information are usually required. Loan underwriting for home equity lines of credit and point-of-sale financing loans allows for the assessment of client credit risk. In addition, these loans are collateralized by real estate assets and other assets. Also, more than 10% of the Bank's personal loan portfolio consists of student loans and loans granted under the Immigrant Investor program, which are guaranteed by the federal or provincial government.

Changes in loan portfolio mix

Personal loans

As at October 31, 2010, the personal loan portfolio was $5.6 billion, a slight decrease of $24.3 million compared to October 31, 2009. This resulted mainly from the decline in the point-of-sale financing portfolio, reflecting management's decision to gradually reduce the risk related to these operations. Home equity lines of credit and B2B Trust's investment loan portfolio rose by $74.4 million and $95.8 million respectively during the year.

PERSONAL LOAN PORTFOLIO MIX
(in billions of dollars)



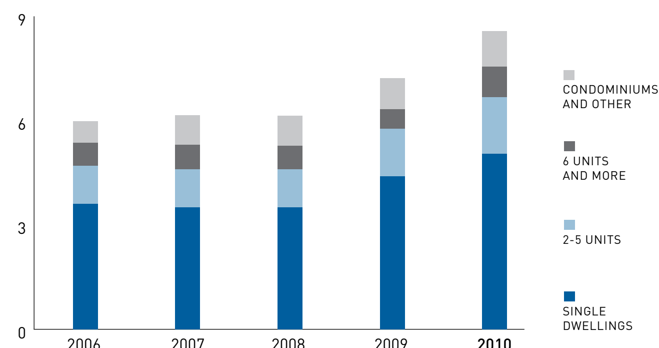
(1) Including credit card loans, student loans, loans granted under the Immigrant Investor program and other loans.

Residential mortgage loans

As shown in Table 17 on page 38, the residential mortgage loan portfolio, including on-balance sheet loans and securitized loans, increased by $1.4 billion or 14% during fiscal 2010. The Bank's ability to meet customer's needs, combined with the low interest rate environment, a better economic outlook and overall favourable housing market conditions in Canada contributed to maintaining the momentum in this portfolio's growth.

RESIDENTIAL MORTGAGE LOANS BY PROPERTY TYPE

(in billions of dollars)



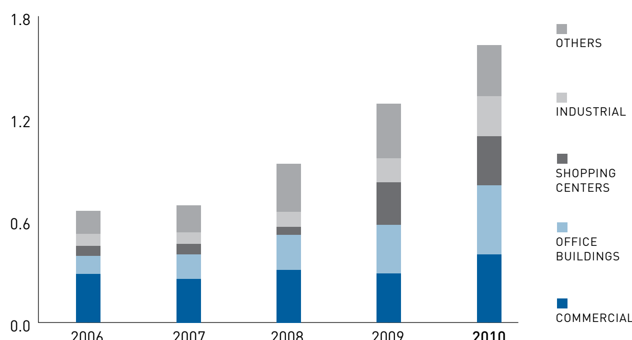
Commercial mortgage loans

Commercial mortgage loans were up 27.5% over fiscal 2009, totalling $1.6 billion as at October 31, 2010, compared with $1.3 billion as at October 31, 2009. Through its Real Estate & Commercial business segment, the Bank continued to generate significant growth in this portfolio. In 2010, the proportion of fixed term loans within this portfolio increased to 63%, from 53% at the end of fiscal 2009. The term business, although yielding narrower margins, provides additional stability to the portfolio as it turns over less frequently than construction lending.

The portfolio provides for sound risk diversification. As at October 31, 2010, the proportion of the portfolio granted in Ontario and Western Canada represented 64% of the total commercial mortgage loan portfolio and 34% in Québec, unchanged from October 31, 2009. The average loan value was $2.3 million as at October 31, 2010 ($1.9 million as at October 31, 2009).

COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE

(in billions of dollars)



Commercial loans

As at October 31, 2010, the portfolio of commercial loans, including bankers' acceptances, amounted to $1.9 billion, up $83.9 million from $1.8 billion as at October 31, 2009. This increase results mainly from the small and medium enterprise business in Québec. As presented in Table 24, the portfolio covers a wide range of industries, with no specific industry representing more than 20% of the overall portfolio.

Impaired loans

Gross impaired loans were up $50.6 million since the beginning of the year, totalling $188.1 million as at October 31, 2010. Net impaired loans amounted to $50.0 million as at October 31, 2010, compared with $23.0 million as at October 31, 2009. The increase since October 31, 2009 essentially resulted from the commercial loan and commercial mortgage loans portfolios, as the recent economic slowdown strained certain commercial and real estate accounts. However, the overall quality of the portfolio remains good. On the other hand, the retail portfolios performed very well. Impaired loans related to the Bank's point-of-sale portfolio improved markedly, as a result of measures taken to lower the Bank's risk profile in recent years. In addition, borrowers continued to benefit from the improved employment conditions in Canada and a low interest rate environment. At approximately 34% of gross impaired loans, specific provisioning was relatively stable compared to the beginning of the year when it stood at 30%. This level of provision reflects the good quality of the underlying collateral.

General allowances amounted to $73.3 million as at October 31, 2010, the same level as a year ago. This general provision reflects the estimated losses due to the deterioration in credit quality of loans not yet classified as impaired.

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

TABLE 24
DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO AND INDUSTRY
As at or for the years ended October 31 (in thousands of dollars, except percentage amounts)

2010

	LOANS	GROSS IMPAIRED LOANS	SPECIFIC ALLOWANCES	NET IMPAIRED LOANS	PROVISION FOR LOAN LOSSES[1]
Personal	$ 5,630,788	$ 16,397	$ 5,312	$ 11,085	$31,460
Residential mortgage	8,582,548	39,304	4,256	35,048	3,486
Commercial mortgage	1,638,861	34,316	10,934	23,382	8,729
	15,852,197	90,017	20,502	69,515	43,675
Commercial and other					
Manufacturing	194,993	27,042	18,540	8,502	
Transformation and natural resources	138,407	24,948	4,520	20,428	
Agriculture	220,957	15,168	1,471	13,697	
Public utilities	53,640	3,385	1,000	2,385	
Wholesale and retail	310,949	10,272	6,435	3,837	
Construction	140,702	2,006	1,485	521	
Financial services	105,254	332	272	60	
Real estate, renting and lease	346,338	5,605	4,805	800	
Other services and government	200,180	2,037	1,153	884	
Transportation and communication	101,974	6,038	4,377	1,661	
Other	43,246	1,273	333	940	
	1,856,640	98,106	44,391	53,715	24,325
Total	$17,708,837	$188,123	$64,893	123,230	$68,000
General allowance				(73,250)	
Total – net impaired loans				$ 49,980	
As a % of average loans and acceptances		1.11%		0.30%	

(1) Recorded in the consolidated statement of income

2009

	LOANS	GROSS IMPAIRED LOANS	SPECIFIC ALLOWANCES	NET IMPAIRED LOANS	PROVISION FOR LOAN LOSSES[1]
Personal	$ 5,655,055	$ 23,738	$ 7,048	$ 16,690	$37,112
Residential mortgage	7,219,830	32,368	1,878	30,490	1,527
Commercial mortgage	1,285,012	11,230	2,525	8,705	980
	14,159,897	67,336	11,451	55,885	39,619
Commercial and other					
Manufacturing	240,218	22,960	9,002	13,958	
Transformation and natural resources	132,090	16,187	8,668	7,519	
Agriculture	210,910	12,413	1,761	10,652	
Public utilities	104,104	4,809	1,000	3,809	
Wholesale and retail	253,103	4,024	2,921	1,103	
Construction	110,258	2,561	1,384	1,177	
Financial services	68,698	1,944	743	1,201	
Real estate, renting and lease	344,606	1,547	1,476	71	
Other services and government	178,480	719	699	20	
Transportation and communication	100,980	618	601	17	
Other	29,326	2,376	1,590	786	
	1,772,773	70,158	29,845	40,313	16,381
Total	$15,932,670	$137,494	$41,296	96,198	$56,000
General allowance				(73,250)	
Total – net impaired loans				$ 22,948	
As a % of average loans and acceptances		0.93%		0.15%	

(1) Recorded in the consolidated statement of income

TABLE 25
GEOGRAPHIC DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO
As at October 31 (in thousands of dollars)

	2010		2009	
	LOANS	GROSS IMPAIRED LOANS	LOANS	GROSS IMPAIRED LOANS
Québec				
Personal	$ 2,623,991	$ 4,667	$2,612,611	$ 6,516
Residential mortgage	6,489,265	13,870	5,588,148	10,711
Commercial mortgage	589,498	13,473	452,838	5,998
Commercial and other	1,441,310	82,987	1,376,204	62,493
	11,144,064	114,997	10,029,801	85,718
Other Canadian provinces				
Personal	3,006,797	11,730	3,042,444	17,222
Residential mortgage	2,093,283	25,434	1,631,682	21,657
Commercial mortgage	1,049,363	20,843	832,174	5,232
Commercial and other	415,330	15,119	396,569	7,665
	6,564,773	73,126	5,902,869	51,776
Total	$17,708,837	$188,123	$15,932,670	$137,494

MARKET RISK MANAGEMENT

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

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

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

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

Policies and standards

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

Detailed risk level and limit monitoring reports are produced daily and are presented:
- Daily, to risk and portfolio managers; and
- Quarterly, to the Management Committee and to the Board of Directors' Risk Management Committee.

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

The evaluation of the Bank's market risks is supported by a combination of various measures such as:
- Limits on notional amount;
- Value at Risk (VaR); and
- Stress testing and other sensitivity measures.

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

Value at Risk

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

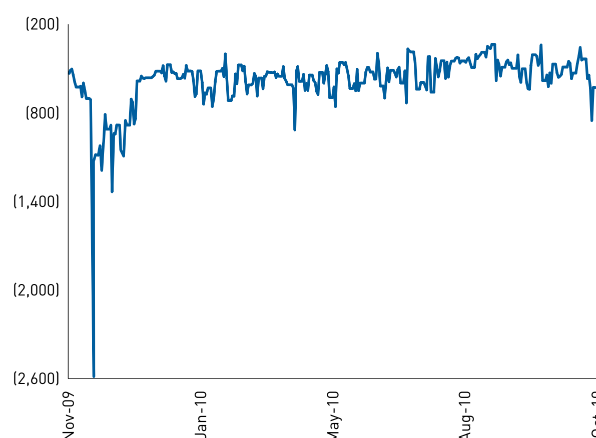
Stress tests and sensitivity measures

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

Trading activities

Trading activities are aligned with the needs of the Bank and 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 Corporate Treasury. The following graph presents the daily total VaR of the trading portfolio for the 2010 fiscal year. In December 2009, the Bank participated in an important equity underwriting which resulted in a temporary increase in VaR. The VaR was reduced shortly thereafter as equity instruments were sold.

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



Asset and liability management activities

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

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

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

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

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

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

Portfolio positions are reviewed periodically by the 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 monthly. This statement is then used as the basis for the simulation analysis of the impact of interest rate variation on net interest income and economic value of shareholders' equity. One of the simulation exercises consists of subjecting the Bank's balance sheet to sudden parallel and sustained 1% and 2% increases and decreases in interest rates. For example, as at October 31, 2010, for all portfolios, a 1% increase in interest rate would have triggered an increase of approximately $4.7 million in net interest income before taxes over the next 12 months and a $22.6 million negative impact on the economic value of common shareholders' equity. Table 26 below details other interest rate movements. These results reflect management's efforts to take advantage of anticipated short-term and long-term interest rate movements, while maintaining the sensitivity to these fluctuations well within approved limits. The Bank's interest rate gap position as at October 31, 2010 appears in Note 21 to the annual consolidated financial statements.

TABLE 26
RISK SENSITIVITY ANALYSIS
As at October 31 (in thousands of dollars)

	2010		2009	
	NET INTEREST INCOME (1)	**ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY (2)**	NET INTEREST INCOME (1)	ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY (2)
Impact of:				
100bp increase in rates	**$ 4,650**	**$(22,638)**	$ (4,779)	$(19,626)
100bp decrease in rates	**(10,411)**	**25,714**	(21,506)	22,682
Impact of:				
200bp increase in rates	**9,091**	**(44,050)**	(9,540)	(38,160)
200bp decrease in rates	**$(46,073)**	**$ 49,540**	$(67,298)	$ 22,063

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

OPERATIONAL RISK MANAGEMENT

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

The Operational Risk Management Policy, reviewed annually by the Board of Directors' Risk Management Committee, describes the operational risk management framework and defines the roles and responsibilities of various stakeholders. The Operational Risk Management Committee, which reports to the Management Committee, constitutes one of the basic 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 oversees the operational risk management process. The Bank's Internal Audit Department contributes to this process by transmitting the conclusions of its auditing mandates to the Operational Risk Management group as well as to the Board of Directors' Risk Management and Audit Committees.

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

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

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

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

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

Management of operational risk
Operational risk management means, among other things, deciding to accept, reduce, avoid or transfer certain risks and put in place appropriate procedures and control measures. The Bank uses several means to minimize or transfer its risks, including participation in a corporate insurance program and elaboration of a global and integrated plan for business continuity. Furthermore, a Fraud Prevention Committee, composed of security specialists and business unit representatives meets periodically to analyze fraud trends 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 the senior management team and the Risk Management Committee of the Board. These reports include information on operational losses per risk category and major business segment.

Outsourcing management

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

LIQUIDITY AND FUNDING RISK MANAGEMENT

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

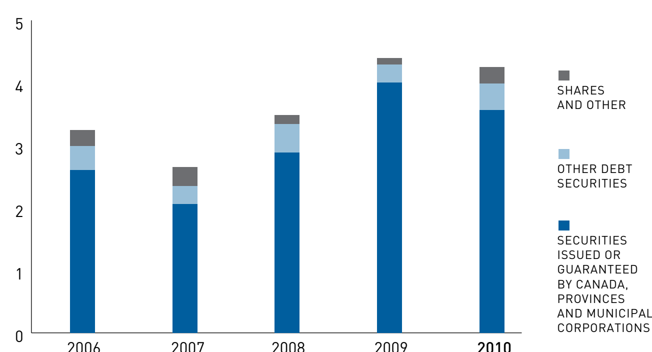
The Bank's overall liquidity risk is managed by Corporate Treasury with oversight by a management committee in charge of asset and liability management, in accordance with the policies governing cash resources, financing and collateral management. The main purpose of these policies is to ensure that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

The Bank monitors cash resources daily and ensures that liquidity indicators are within established limits. 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 reserve of unencumbered liquid assets that are readily available to face contingencies. 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 retail deposits. The Bank strives to maintain a stable volume of base deposits originating from its retail and brokerage clientele, as well as well-diversified financing sources. The Bank monitors guidelines on funding sources at the management and board level. Financing strategies also include loan securitization and the issuance of equity or debt instruments through capital markets. A liquidity contingency plan is prepared and reviewed on a regular basis. It provides a detailed action plan that would enable the Bank to fulfill its obligations in the event of an internal or external liquidity crisis.

Detailed information on liquid assets

The Bank's liquid assets consist of cash and non-interest bearing deposits with other banks, interest-bearing deposits with other banks, securities and securities purchased under reverse repurchase agreements. As at October 31, 2010, these assets totalled $5.2 billion, a slight decrease compared with $5.3 billion as at October 31, 2009. More than 80% of the Bank's liquid assets are composed of marketable securities issued or guaranteed by the Canadian government, provinces or municipal corporations. Liquid assets provide the Bank with flexibility to manage its loans and deposit portfolio maturities and commitments, and meet other current operating needs. In addition, within the marketable securities portfolio, held-for-trading and designated-as-held-for-trading portfolios offer fixed-income trading opportunities or are used to hedge certain exposures.

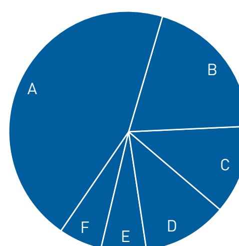
SECURITIES
(in billions of dollars)



Funding

The Bank relies mainly on retail deposits (both branch and advisor-sourced) to fund its operations. Retail deposits continue to be a particularly stable source of funding for the Bank, owing to their availability and lower cost when compared to institutional deposits. To a lesser extent, the Bank also uses securitization of residential mortgage loans through the Canada Mortgage Bonds (CMB) Program. This liquidity source provides added flexibility to meet specific increases in funding needs. The introduction of B2B Trust HIIA, in 2009, has also provided a significant new source of retail funding and temporarily reduced the Bank's use of institutional money-market funding.

FUNDING SOURCES
(as a percentage)



A.	PERSONAL TERM DEPOSITS	45.2%
B.	PERSONAL NOTICE AND DEMAND DEPOSITS	19.7%
C.	BUSINESS AND OTHER DEPOSITS	11.8%
D.	SECURITIZATION	11.4%
E.	INSTITUTIONAL DEPOSITS	6.1%
F.	SHAREHOLDERS' EQUITY AND SUBORDINATED DEBENTURES	5.8%

Personal deposits

Total personal deposits increased $0.3 billion, to $15.4 billion as at October 31, 2010, compared with $15.1 billion as at October 31, 2009. This muted growth in deposits reflects the Bank's continued optimization of its liquidity levels, maintaining its privileged position in the retail market and advisor-sourced deposit market in particular. A significant proportion of these deposits is insured by the Canada Deposit Insurance Corporation, up to $100,000 per client, per regulated deposit-taking financial institution. As at October 31, 2010, these deposits represented 78% of the Bank's total deposit portfolio.

Business, banks and other deposits

Deposits from businesses, banks and other increased by $1.1 billion, totalling $4.3 billion as at October 31, 2010, compared with $3.2 billion as at October 31, 2009. This growth stemmed mainly from semi-institutional and institutional money market funding, but also from initiatives to raise deposits related to commercial accounts, which resulted in increases of more than $250 million during the year.

TABLE 27
DEPOSITS
As at October 31 (in thousands of dollars, except percentage amounts)

	2010		2009	
Personal				
Notice and demand				
Branch network	$ 2,112,762	10.7%	$ 1,992,975	10.9%
Financial intermediaries	2,567,341	13.1	2,571,138	14.0
	4,680,103	23.8	4,564,113	24.9
Term				
Branch network	4,996,163	25.4	4,894,401	26.8
Financial intermediaries	5,748,510	29.2	5,680,123	31.0
	10,744,673	54.6	10,574,524	57.8
Sub-total – personal	15,424,776	78.4	15,138,637	82.7
Business, banks and other				
Notice and demand	2,332,541	11.9	2,186,101	12.0
Term	1,918,278	9.7	975,228	5.3
Sub-total – Business, banks and other	4,250,819	21.6	3,161,329	17.3
Total – deposits	$19,675,595	100.0%	$18,299,966	100.0%

Credit ratings

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

On July 22, 2010, Standard & Poor's upgraded the Bank's long-term counterparty credit rating to BBB+ from BBB and subordinated debt rating to BBB from BBB-, reflecting the Bank's improved and more sustainable core operating performance and stable asset quality. During fiscal 2010, all other ratings for the Bank were confirmed and remained unchanged. As of the date of this report, the ratings outlook, as determined by the DBRS Limited and Standard & Poor's credit rating agencies, were stable.[1]

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

TABLE 28
CREDIT RATINGS
As at October 31, 2010

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

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

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

Contractual obligations
In the normal course of its activities, the Bank enters into 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 maintenance of its branch network, the modernization of its information technology platforms, as well as to projects related to compliance with regulatory requirements. These projects inevitably require significant investments annually.

The following table summarizes the Bank's principal contractual obligations as at October 31, 2010, maturing over each of the next five years and thereafter. Note 24 to the annual consolidated financial statements provides further information on this subject.

TABLE 29
CONTRACTUAL OBLIGATIONS
As at October 31, 2010 (in thousands of dollars)

	NO FIXED MATURITY	2011	2012	2013	2014	2015	THEREAFTER	TOTAL
Deposits	$7,012,644	$5,561,877	$3,519,030	$1,850,539	$898,851	$814,386	$ 18,268	$19,675,595
Obligations related to securities sold short	–	1,362,336	–	–	–	–	–	1,362,336
Obligations related to securities sold under repurchase agreements	–	60,050	–	–	–	–	–	60,050
Subordinated debentures	–	150,000	–	–	–	–	–	150,000
Commitments under leases, technology services and other contracts	–	74,671	72,579	71,007	52,040	49,169	89,560	409,026
Total	$7,012,644	$7,208,934	$ 3,591,609	$1,921,546	$950,891	$863,555	$107,828	$21,657,007

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

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

REGULATORY RISK MANAGEMENT
Regulatory risk refers to the risk of non-compliance by the Bank with applicable laws, regulations, regulatory authority guidelines and voluntary codes. The regulatory risk management policy implements the Bank's Regulatory Risk Management Framework, which comprises the following elements:
- Identification of the regulatory requirements applicable to the Bank;
- Assessment of the risk attributable to each regulatory requirement;
- Development, updating and application of controls designed to ensure compliance with the regulatory requirement;
- Evaluation of the effectiveness of the controls; and
- Identification and correction of situations of non-compliance.

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

INSURANCE RISK MANAGEMENT

Insurance risk is the risk of loss that may occur when hypotheses related to creditor insurance products offered by the Bank, notably with regard to the determination of assumptions used to set premiums or for valuation of reserves, differ from actual insurance underwriting results.

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

ENVIRONMENTAL RISK MANAGEMENT

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

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

ADDITIONAL RISKS THAT COULD POTENTIALLY AFFECT FUTURE RESULTS

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

Economic climate in Canada

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

Monetary policies and other policies

The monetary policies adopted by the Bank of Canada and the U.S. Federal Reserve's Board of Governors, as well as other measures adopted by central banks, have a major impact on several variables, such as interest rates, exchange rates and bond markets, that can have an impact on the Bank's earnings. The Bank has no control, however, on changes in monetary policies, nor on capital markets fluctuations.

Competition

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

Legislative and regulatory amendments and legal proceedings

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

Ability to attract and retain key employees

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

Business infrastructure

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

Other factors

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

The President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the effectiveness of DC&P as at October 31, 2010 and, based on that evaluation, concluded that they were effective at that date and adequately designed.

Also as at October 31, 2010, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the effectiveness of ICFR and, based on that evaluation, concluded that it was effective at that date and adequately designed.

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

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

Changes to Internal Control over Financial Reporting

During the year ended October 31, 2010, no changes to internal control over financial reporting affected materially, or are reasonably likely to materially affect, internal control over financial reporting.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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 the adequacy of the allowance for loan losses. This allowance is dependent upon the evaluation of the amounts and dates of future cash flows, the fair value of guarantees and realization costs, and the interpretation of the impact of market and economic conditions.

Considering the materiality of the amounts and their inherent uncertainty, the use of estimates and assumptions that differ from those used in determining the 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 consequently entail a significant increase or a decrease in the allowance for loan losses in the consolidated statement of income for a given fiscal year. A detailed description of the methods used to determine the allowance for loan losses can be found in Note 3 to the annual consolidated financial statements, and in the Credit Risk Management section on page 46 of this MD&A.

Management has developed a valuation model for the general allowance, based on the historical losses of the various portfolios. This model validates the $73.3 million allowance as at October 31, 2010. Changes in assumptions and parameters to this model could have produced different valuations.

This critical accounting estimate affects all business segments.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

SECURITIZATION

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

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

The fair value of retained interests for securitized mortgage loans was $97.1 million as at October 31, 2010. Note 6 to the annual consolidated financial statements presents a sensitivity analysis of the current fair value of these retained interests to immediate 10% and 20% adverse changes in key assumptions. The fair value of seller swaps was –$81.9 million as at October 31, 2010. Different assumptions with regard to anticipated prepayment rates and risk-adjusted discount rates could translate into significantly different fair values for these instruments.

This critical accounting estimate mainly affects the Other segment.

The Off-Balance Sheet Arrangements section on page 39 of this MD&A provides further information on these transactions.

EMPLOYEE FUTURE BENEFITS

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

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

In accordance with Canadian GAAP, actual results that differ from the expected results as determined using the assumptions are accumulated and amortized over future periods and therefore affect actual costs for these periods. As at October 31, 2010, the net amount of the unamortized actuarial losses was $116.9 million ($84.5 million in 2009) for pension plans, and $13.9 million ($12.9 million in 2009) for other benefits.

Discount rates stood at 5.40% as at October 31, 2010 and 6.50% as at October 31, 2009. The expected long-term rate of return on plan assets was unchanged at 7.25% for fiscal 2010 and 2009. The trend rate of the estimated annual growth of health-care costs covered, per participant, has been set at 9.4% for 2010 (10.0% for 2009). According to the accepted assumption, this rate should decrease progressively, reaching 4.0% in 2019 and remaining at that level thereafter.

Considering the importance of accrued benefit obligations and plan assets, changes in assumptions could have a significant impact on the accrued benefit assets (liabilities), as well as on pension plan and other employee future benefit expenses. Table 30 summarizes the impact of a 0.25% increase or decrease in the key assumptions on accrued benefit obligations as at October 31, 2010 and related defined benefit pension plan costs for 2011.

TABLE 30
SENSITIVITY ANALYSIS
(in millions of dollars)

		POTENTIAL IMPACT OF CHANGES OF 0.25%
	OBLIGATION	COST
Discount rate	$13.5	$1.5
Expected long-term rate of return of plan assets	n.a.	$1.0

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

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

INCOME TAX

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

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

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Goodwill

As at October 31, 2010, the balance of goodwill stood at $53.8 million and this amount was entirely allocated to Retail & SME Québec. Goodwill is subject to an impairment test annually, unless certain specific criteria are met, as described in Note 3 to the annual consolidated financial statements.

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

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

No impairment charge was reported in fiscal 2010 or in fiscal 2009. If need be, the amount of the losses in value would be recorded as a non-interest expense for Retail & SME Québec, under Other.

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

Other intangible assets and other assets
Other intangible assets with finite lives are also tested for impairment when events or changes in circumstances indicate that the carrying value may not be fully recoverable. As it conducts this test, management evaluates the future cash flows it expects to realize from these assets, along with their possible disposition. An impairment loss is recognized if the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset. No significant impairment charge was reported in fiscal 2010 or in fiscal 2009.

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

FUTURE CHANGES TO ACCOUNTING POLICIES

BUSINESS COMBINATION

On January 5, 2009, three new sections of the CICA Handbook were issued: Section 1582, *Business Combinations,* Section 1601, *Consolidated Financial Statements,* and Section 1602, *Non-controlling Interests*. These new standards are applicable to the Bank effective November 1, 2011. Earlier application is permitted provided Section 1582 is applied at the same time. However, to date, the Bank has not opted to early adopt these new sections.

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

The Bank has prepared a conversion plan and assembled a project team, including both internal and external resources, to coordinate and execute the conversion to IFRS. The Bank considers having the appropriate resources to finalize the IFRS conversion plan on schedule. The key elements of the IFRS transition plan include developing a project governance framework, updating accounting policies, preparing financial statements, building financial reporting expertise, identifying impact on business processes and information technology; implementing internal control over financial reporting (ICFR), and implementing appropriate disclosure controls and procedures (DC&P), including investor relations and communication plans.

The conversion plan consists of the following phases:

- Preliminary assessment – This phase served to heighten management's awareness of the key conversion issues and establish a timeline mapping out the Bank's priorities with regard to analyses and significant issues.
- Financial standards analysis – This phase consists of a detailed assessment of the quantitative, qualitative and technological impact of IFRS implementation.
- Selection of key accounting policies – The initial adoption of IFRS will require the Bank to make certain elections.
- Implementation – This phase consists of implementing the necessary information systems to comply with the new IFRS requirements.

The Bank completed its preliminary assessment of the IFRS impact during the planning stage of the project in early 2009. Work on the financial standards analysis is nearly completed as at the end of the fourth quarter of 2010, subject to changes to IFRS by the International Accounting Standards Board (IASB). Key differences between IFRS and Canadian GAAP have been summarized below. The impact of certain key differences is still being evaluated. The selection of key accounting policies is currently being assessed concurrently with standards analysis. The Bank is now progressing to the implementation of the necessary changes to processes and systems. The implementation phase is expected to be completed by the end of fiscal 2011. The Bank has therefore not finalized the estimation and analysis of the expected financial impact of its IFRS conversion as at the end of the year 2010.

Governance of the IFRS conversion plan

The Bank has put in place a Steering Committee that is responsible for ensuring the conversion plan is adequately followed. The Bank's Board of Directors, mainly through its Audit Committee, is also involved in the IFRS conversion plan. They receive quarterly updates of the timeline for implementation, the implications of IFRS standards on the business and an overview of the impact on the financial statements. The Audit Committee will continue to receive quarterly project status updates to ensure proper oversight of the conversion project. Another important component of the IFRS conversion plan consists of training key finance and operational staff. This ongoing process was initiated in 2008. As the Bank progresses in its conversion plan in 2011, it will also, together with other members of the banking community, communicate IFRS implications to the various interested stakeholders.

Progress to date

The following project statuses have been presented to the Audit Committee in 2010:

First quarter

- A preliminary IFRS analysis, which consisted of an assessment of the quantitative, qualitative and technological impact of IFRS implementation;
- A list of potential transition date and ongoing accounting policy choices;
- A list of technological changes which have been identified with respect to certain items, namely hedging, securitization, impaired loans, share-based compensation and customer loyalty programs. The necessary adjustments to the information system supporting these items are expected to be completed before the end of 2010.

Second quarter

- An assessment of the main IFRS disclosure impacts based on the October 31, 2009 year end financial statements. This exercise was aimed at identifying the areas where additional disclosure is required.
- A communication plan highlighting the impact for all known stakeholders.

Third quarter

- A summary of the main findings from a pro forma conversion of the 2009 year-end financial statements to IFRS. This exercise allowed the Bank to better assess the workload and potential impact of first-time adoption and future accounting policy choices under IFRS, as well as to evaluate the potential impact on capital and other financial ratios.
- An update of certain IFRS analyses pursuant to new developments published by the IASB. The Bank will continue to monitor future developments.
- An IT strategy defined to appropriately manage the dual-accounting period in fiscal 2011.

Fourth quarter

- A summary of the potential impact of IFRS on the Bank's financial forecasts for the next three years.
- A pro forma conversion of the third quarter financial statements under IFRS. Similar to the work done for the 2009 year-end financial statements, this exercise allowed the Bank to assess the workload and prepare the supporting documents for the upcoming reporting in the dual-accounting period in fiscal 2011.
- Updated status regarding IFRS conversion plan, specifically related to securitization, loan provisioning, hedge accounting and employee benefits.

Analysis of key differences

IFRS were developed using a conceptual framework similar to Canadian GAAP, although significant differences exist in certain areas including recognition, measurement and disclosures. The following key differences between the Bank's current accounting practices and the corresponding accounting treatment under IFRS have been identified:

a) Loan provisioning

In line with current Canadian GAAP, the Bank's provisioning for impaired loans is designed to take into account incurred losses in the Bank's loan portfolio. This principle will not change as IFRS also currently require that provisioning be based on incurred losses. However, under IFRS, loan losses and allowances will be presented based on whether they are assessed individually or collectively for groups of similar loans. The methodologies to calculate these provisions are still being developed. As a result, there may be changes in the amount of the Bank's collective provisioning, mainly for loans which are not classified as impaired.

Specific provisions for loan losses must be based on the discounted values of estimated future cash flows. This amount is accreted over the period from the initial recognition of the provision to the eventual recovery of the present value of the loan, resulting in the recording of interest in the statement of income, within interest income. Under Canadian GAAP, the accretion amount is generally presented as a reduction of the provision for credit losses.

b) Securitization
The combined effect of financial asset derecognition rules and the consolidation of special purpose entity rules will impact securitization arrangements involving the Bank's off balance sheet loans. The rules provide more stringent criteria for the derecognition of financial assets. Based on the financial standards analysis, the criteria would not be met. This should lead to a gross-up of the Bank's balance sheet of approximately $2.7 billion at transition. In addition, prior net unrealized gains related to these transactions would be eliminated and the corresponding net interest income recorded in future period earnings. In July, the IFRS Interpretations Committee issued an Exposure Draft which would modify guidance applicable on transition (IFRS 1) with regard to the derecognition exemption. The revised IFRS 1 would provide the option to grandfather certain securitization transactions up to October 31, 2010, instead of January 1, 2004. The Bank will closely monitor this proposed change and reassess its choices accordingly.

c) Employee benefits
At transition, IFRS generally provide for a retrospective adoption of the *Employee Benefits* standard (IAS 19). To date, the Bank has not determined its potential impact given the significant challenge posed by the complexity of pension benefit plans and the fact that the Bank has been offering pension plans for more than 30 years. However, IFRS provide the option of not retrospectively applying IAS 19. If this election is made, gains and losses accumulated to the date of transition amounting to $130.7 million would be charged to retained earnings. This may have a significant effect on shareholders' equity. Actuarial gains or losses post transition to IFRS could be recognized in income immediately, amortized to income using a "Corridor Method" similar to Canadian GAAP, or directly in equity (the "SORIE Method"). The Bank is currently assessing its options and will make its election in 2011, mainly based on regulatory capital requirements.

d) Share-based payments
IFRS introduce a new requirement for the Bank to recognize as an expense the fair value of stock appreciation rights. Under Canadian GAAP, these rights are presently accounted for using the intrinsic value method. This should lead to an adjustment of the Bank's financial liabilities and shareholders' equity. With respect to stock option awards granted prior to November 1, 2002, the Bank is not required to apply IFRS 2 – *Share-based Payment* retrospectively, therefore, the Bank will continue to apply the previous Canadian GAAP under which no compensation cost is recognized for these options. In the second quarter of 2010, a new software application was implemented that will allow the Bank to automate the calculations and ensure appropriate internal controls.

e) Business combinations
IFRS 3 and Section 1582 of the CICA Handbook have been harmonized since January 2009. Henceforth, there will be no accounting differences beyond the IFRS transition date. However, at the transition date, the Bank has to make an election to either apply IFRS 3 retrospectively to all past business acquisitions before a chosen date or apply it prospectively from the transition date. The Bank is currently analyzing the impact of the two options and will make an election in the coming months.

f) Earnings per share
IAS 33 is similar to Section 3500 of the CICA Handbook in many regards. However, based on its financial standards analysis, the Bank concluded that, in their current form, its perpetual preferred shares would have been included in the calculation of the diluted earnings per share as they may have been converted into common shares; even though the conversion option was up to the Bank. As a result, in order to increase consistency in the Bank's diluted earnings per share calculation under current GAAP and IFRS and avoid irrelevant dilution, the Bank waived its conversion right on November 17, 2010.

The differences identified in the above discussion on IFRS transition should not be regarded as an exhaustive list and other changes may result from the transition to IFRS. Furthermore, the disclosed impacts of the transition to IFRS reflect the most recent assumptions, estimates and expectations, including the assessment of IFRS expected to be applicable at the time of transition. As a result of changes in circumstances, such as economic conditions or operations, and the inherent uncertainty from the use of assumptions, the actual impacts of the transition to IFRS may be different from those presented above.

Throughout the current year and the period leading up to the transition to IFRS in 2012, the Bank will continue to monitor the above-mentioned accounting policies and finalize its assessment of policy decisions available under IFRS in order to prepare the Bank for an orderly transition to IFRS. The evolving nature of IFRS will also likely result in additional accounting changes, some of which may be significant, in the years following the initial conversion. The Bank will continue to actively monitor all of the IASB's projects that are relevant to the Bank's financial reporting and accounting policies and adjust its IFRS conversion project accordingly.

Furthermore, the Bank is specifically addressing internal controls, lending practices and capital issues, as summarized below, as well as all other matters to ensure an orderly transition.

Internal control over financial reporting (ICFR)

As the review of accounting policies is completed, appropriate changes to ensure the integrity of internal control over financial reporting and disclosure controls and procedures will be made. Based on existing IFRS, the Bank has not identified the need for any significant modifications to its financial information technology architecture or to existing internal control over financial reporting and disclosure controls. ICFR will be appropriately addressed as processes and system assessments are finalized in the upcoming periods.

Lending practices

The transition to IFRS will not only impact the Bank's financial statements, but also some of its clients' financial statements. This will have repercussions on the various loan covenants monitored by underwriting groups and the credit department. The Bank has met with commercial account managers as well as credit analysts, to foster a better internal understanding of IFRS to properly analyze the clients' IFRS financial statements and the impacts on ratios and covenants.

Capital implications

The Bank is closely monitoring the potential impact of IFRS conversion on capital requirements. Securitization and employee benefits are the two main areas which could have a significant impact on capital.

The Office of the Superintendent of Financial Institutions (OSFI) has issued an IFRS advisory that permits a five-quarter phase-in of the adjustment to retained earnings arising from the first time adoption of certain IFRS changes for purposes of calculating certain ratios. Transitional relief for the impact to the asset to capital multiple will also be provided in the form of exclusion of the effect of any on-balance sheet recognition of mortgage loans sold through CMHC programs up to March 31, 2010, that under current practice are not reported on the Bank's balance sheet.

The potential implications of the proposed capital and liquidity requirements issued by the Basel Committee on Banking Supervision in December 2009 and further detailed in July and September 2010 are also being considered closely as part of the IFRS transition plan.

Other considerations

The Bank is also assessing the impact of the IFRS conversion on its performance measurement processes, including planning and budgeting.

BASIS OF PRESENTATION

This Management's Discussion and Analysis (MD&A) refers to the results of operations and financial condition of the Bank for the year ended October 31, 2010 and presents the views of the Bank's management as at December 8, 2010. The information is presented on the same basis as in the annual consolidated financial statements and has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the accounting requirements of the Office of the Superintendent of Financial Institutions Canada.

Additional information on Laurentian Bank of Canada, including the Annual Information Form for the year ended October 31, 2010, 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

Discontinued operations

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

Non-GAAP Financial Measures

The Bank uses both GAAP and certain non-GAAP measures to assess performance, such as return on common shareholders' equity, tangible common equity ratio, net interest margin and efficiency ratios. With regard to the calculation of the return on common shareholders' equity, the Bank considers that net income is the best measure of profitability and that common shareholders' equity, excluding accumulated other comprehensive income, should be used as a measure of capital. The calculation of the Bank's book value per share is also based on common shareholders' equity, excluding accumulated other comprehensive income. Tangible common equity is defined as common shareholders' equity, excluding accumulated other comprehensive income, less goodwill and contractual and customer relationship intangible assets. The tangible common equity ratio is defined as the tangible common equity divided by the risk-weighted assets.

Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are unlikely to be comparable to any similar measures presented by other companies. The Bank believes that these non-GAAP financial measures provide investors and analysts with useful information so that they can better understand financial results and analyze the Bank's growth and profit potential more effectively.

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