Management's Discussion and Analysis

FOR THE YEAR ENDED OCTOBER 31, 2009

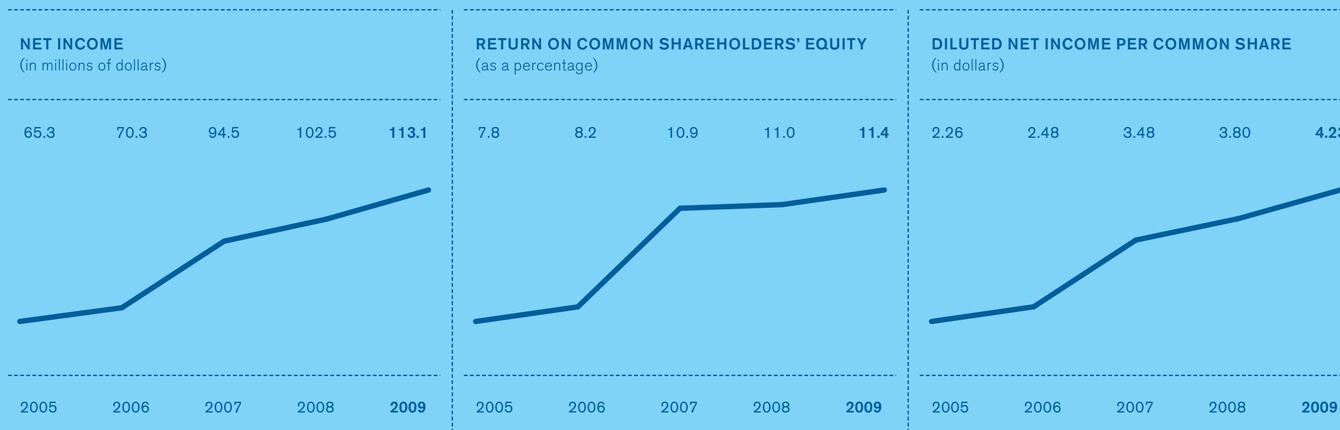
Summary of financial results

OVERVIEW OF FISCAL 2009

For the year ended October 31, 2009, the Bank reported net income of $113.1 million, or diluted net income of $4.23 per common share, compared with $102.5 million, or diluted net income of $3.80 per common 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 common 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 per common share–diluted. Income from continuing operations was $101.7 million in 2009, or $3.75 per common share–diluted, compared with $98.1 million, or $3.61 per common share–diluted in 2008.

The Bank continued to deliver 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. With solid liquidity and capital levels, the Bank maintained a strong financial position throughout the year and is well positioned at the outset of fiscal 2010.



NET INCOME

$113.1 MILLION

HIGHLIGHTS OF 2009

- NET INCOME UP 10% TO $113.1 MILLION
- TOTAL OPERATING REVENUE UP 6% TO $666.5 MILLION
- RETURN ON COMMON SHAREHOLDERS' EQUITY OF 11.4%
- RECORD LOAN AND DEPOSIT GROWTH
- SOLID CAPITAL AND LIQUIDITY POSITIONS

TABLE 1
CONSOLIDATED RESULTS
For the years ended October 31 (in millions of dollars, except per share and percentage amounts)

	2009	2008	2007	VARIANCE 09 / 08
Net interest income	**$ 423.8**	$ 405.3	$ 390.2	5%
Other income	**242.7**	225.2	193.7	8
Total revenue	**666.5**	630.5	583.9	6
Provision for loan losses	**56.0**	48.5	40.0	15
Non-interest expenses	**472.0**	446.0	427.4	6
Income from continuing operations before income taxes	**138.5**	136.0	116.5	2
Income taxes	**36.9**	37.9	26.4	(3)
Income from continuing operations	**101.6**	98.1	90.1	4
Income from discontinued operations, net of income taxes	**11.5**	4.4	4.4	161
Net income	**$ 113.1**	$ 102.5	$ 94.5	10%
Preferred share dividends, including applicable taxes	**$ 12.1**	$ 11.8	$ 11.9	3%
Net income available to common shareholders	**$ 101.0**	$ 90.7	$ 82.6	11%
Average number of common shares outstanding (in thousands)				
Basic	**23,858**	23,837	23,678	
Diluted	**23,876**	23,880	23,728	
Income per common share from continuing operations				
Basic	**$ 3.75**	$ 3.62	$ 3.30	4%
Diluted	**$ 3.75**	$ 3.61	$ 3.29	4%
Net income per common share				
Basic	**$ 4.23**	$ 3.81	$ 3.49	11%
Diluted	**$ 4.23**	$ 3.80	$ 3.48	11%
Return on common shareholders' equity	**11.4%**	11.0%	10.9%	
Return on common shareholders' equity for continuing operations	**10.1%**	10.5%	10.3%	

2009 Financial performance

The Bank met or exceeded all of its published objectives for fiscal 2009, as illustrated in the table below. Considering the prevailing economic conditions, this is a significant achievement. In addition, the Bank has continued to generate strong internal growth and maintained a solid financial position through the year.

TABLE 2
PERFORMANCE INDICATORS

	2008 RESULTS	2009 OBJECTIVES	**2009 RESULTS**
Return on common shareholders' equity	11.0%	10.0% to 12.0%	**11.4%**
Diluted net income per common share	$3.80	$3.70 to $4.40	**$4.23**
Total revenue	+8% $630 million	+ 2% to 5% $645 to $665 million	**+ 6%** **$667 million**
Efficiency ratio	70.7%	73% to 70%	**70.8%**
Tier I BIS capital ratio	10.0%	minimum of 9.5%	**11.0%**

Corporate priorities for 2010

THE BANK'S THREE MAIN PRIORITIES WILL REMAIN AT THE FOREFRONT OF STRATEGIC DEVELOPMENT FOR 2010.

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 top-flight 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 2009 business segment operations and 2010 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:

1. **Retail & SME Québec**
2. **Real Estate & Commercial**
3. **B2B Trust**
4. **Laurentian Bank Securities**
5. **Other**

Record increases in loan and deposit portfolios, solid core operating revenue growth and stringent cost control contributed to sound performance from our business segments in 2009.

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

	RETAIL & SME QUÉBEC	REAL ESTATE & COMMERCIAL	B2B TRUST	LAURENTIAN BANK SECURITIES	OTHER	TOTAL
2009						
Net income	**$51.1**	**$34.1**	**$32.1**	**$8.6**	**$(12.8)**	**$113.1**
Growth 2009 / 2008	**13%**	**20%**	**(8)%**	**399%**	**n.a.**	**10%**
2008						
Net income	$45.4	$28.6	$34.9	$1.7	$(8.1)	$102.5
Growth 2008 / 2007	(4)%	33 %	14%	(76)%	n.a.	8%

BUSINESS SEGMENTS

Retail & SME Québec

The Retail & SME Québec business segment's contribution to net income improved $5.7 million, or 13%, to $51.1 million in 2009, compared with $45.4 million in 2008. Net income for 2009 includes income from discontinued operations of $11.5 million related to the sale of asset management activities in fiscal 2005, while earnings for 2008 included income from discontinued operations of $4.4 million. Income from continuing operations was $39.6 million in 2009, compared with $41.0 million in 2008.

Total revenue increased by 3% or $10.7 million, from $415.2 million in 2008 to $425.9 million in 2009, as a result of continued growth in loan and deposit volumes. Loan losses were higher, at $41.9 million in 2009, compared with $33.6 million in 2008, reflecting ongoing weaker credit conditions. Non-interest expenses rose $6.6 million or 2% to $333.5 million in 2009 from $326.9 million in 2008, due mainly to higher salaries and advertising expenses.

Real Estate & Commercial

The Real Estate & Commercial business segment's contribution to net income improved by $5.5 million or 20% to $34.1 million in 2009, compared with $28.6 million in 2008.

Total revenue rose $19.1 million or 27% to $90.5 million in 2009 from $71.4 million in 2008, driven by strong loan growth and recent initiatives to grow deposits, as well as sound pricing strategies. Loan losses, essentially in commercial lending, were up $9.8 million in 2009, compared with $5.4 million in 2008. Non-interest expenses grew 33% or $7.7 million to $31.0 million in 2009 from $23.3 million in 2008, due mainly to higher salaries and variable compensation and provisions for specific operational issues.

B2B Trust

The B2B Trust business segment's contribution to net income declined by $2.8 million, or 8%, to $32.1 million in 2009, compared with $34.9 million in 2008.

Total revenue rose $2.5 million to $100.3 million in 2009 from $97.8 million in 2008. Net interest income was up $3.4 million year-over-year, driven primarily by loan and deposit growth. While net interest income was under pressure at the beginning of the year, the relative easing of funding conditions during the last six months of 2009 and the gradual reduction of the introductory promotional interest rate on B2B Trust's High Interest Investment Account (HIIA) boosted net interest margin in the latter part of the year. However, deposit pricing has remained historically tight.

Deposits totalled $9.1 billion as at October 31, 2009, up $3.0 billion since the beginning of the year. The sharp increase resulted mainly from our new HIIA, which added a reliable funding source to support retail growth initiatives. Loans also continued their expansion, increasing the average level by $410 million over the last twelve months, mostly in mortgage lending.

The provision for loan losses was up $4.3 million in 2009, compared with $1.5 million in 2008, reflecting the impact of the recent economic slowdown on borrowers' ability to fully service their debt in most loan portfolios. However, loan losses remain low considering the size of the underlying portfolios. In line with increased activity, non-interest expenses rose $5.3 million to $49.0 million in 2009 from $43.7 million in 2008.

Laurentian Bank Securities

The Laurentian Bank Securities (LBS) business segment's contribution to net income rose sharply to $8.6 million in 2009 from $1.7 million in 2008. The strong performance of the Institutional Fixed Income division and improved results in the Institutional Equity and Retail Brokerage activities contributed to this excellent revenue performance.

Non-interest expenses increased markedly to $41.6 million in 2009 from $29.7 million in 2008, primarily due to higher employee compensation.

Other

The Other segment includes the activities of the Bank's various corporate support departments, mainly Treasury, Credit, Finance and Strategic Development, Risk Management, Technology, Operations, Corporate Affairs and Human Resources. However, the segment's results primarily reflected Treasury activities, since expenses from the other corporate support departments are generally charged back to other business segments.

The Other segment posted a negative net income contribution of $12.7 million in 2009, compared with $8.0 million in 2008. Total revenue decreased by $18.5 million, as a result of the lower overall interest rate environment, higher funding costs at the beginning of the year and higher net losses on securities incurred in 2009. Treasury and financial market revenues for 2008 included a $12.9 million gain on the sale of Montréal Exchange shares. Results for 2008 also included an additional general provision for loan losses of $8.0 million and a $5.6 million income tax charge arising from a reduction in federal income tax rates, partly offset by the lower income taxes on certain capital gains.

SEGMENT CONTRIBUTION
For the years ended October 31 (in millions of dollars, except percentage amounts)

TABLE 4	2009	2008	2007
Net interest income	$ 306.0	$299.3	$ 284.2
Other income	119.9	115.9	113.7
Total revenue	425.9	415.2	397.9
Provision for loan losses	41.9	33.6	29.2
Non-interest expenses	333.5	326.8	310.5
Income from continuing operations before income taxes	50.5	54.8	58.2
Income taxes	10.9	13.8	15.2
Income from continuing operations	39.6	41.0	43.0
Income from discontinued operations, net of income taxes	11.5	4.4	4.4
Net income	$ 51.1	$ 45.4	$ 47.4
Efficiency ratio	78.3%	78.7%	78.0%
Average loans	$10,836	$9,900	$ 9,119
Average deposits	$ 7,882	$7,461	$ 7,060

Retail & SME Québec

FINANCIAL HIGHLIGHTS 2009

1. Net income up 13%
2. Residential mortgage loan portfolio up 15%
3. Commercial loan portfolio up 14%
4. Average deposit up 6%
5. Revenues up $10.7 million or 3%

Residential mortgage loan portfolio up 15%

TABLE 5	2009	2008	2007
Net interest income	$ 67.6	$ 55.2	$ 45.9
Other income	22.9	16.2	16.1
Total revenue	90.5	71.4	62.0
Provision for loan losses	9.8	5.4	6.7
Non-interest expenses	31.0	23.3	22.9
Income before income taxes	49.7	42.7	32.4
Income taxes	15.6	14.1	10.8
Net income	$ 34.1	$ 28.6	$ 21.6
Efficiency ratio	34.3%	32.7%	36.9%
Average loans	$ 2,234	$1,984	$ 1,670
Average deposits	$ 298	$ 180	$ 150

Real Estate & Commercial

FINANCIAL HIGHLIGHTS 2009

1. Net income up 20%
2. Average loan growth of 13%
3. Revenues up $19.1 million or 27%
4. Sustained credit quality as evidenced by the low level of loan losses

27% INCREASE in revenues

TABLE 6	2009	2008	2007
Net interest income	$ 90.7	$ 87.3	$ 81.0
Other income	9.6	10.5	11.5
Total revenue	100.3	97.8	92.5
Provision for loan losses	4.3	1.5	4.1
Non-interest expenses	49.0	43.7	42.4
Income before income taxes	47.0	52.6	46.0
Income taxes	14.9	17.7	15.5
Net income	$ 32.1	$ 34.9	$ 30.5
Efficiency ratio	48.9%	44.6%	45.8%
Average loans	$ 4,255	$3,845	$ 3,089
Average deposits	$ 7,893	$6,059	$ 5,476

B2B Trust

FINANCIAL HIGHLIGHTS 2009

1. Deposits up more than $3 billion
2. Continued revenue growth of $2.5 million or 3%
3. Investment loan portfolio up 4%
4. Residential mortgage loans up 27%
5. Low level of loan losses, despite the recent economic slowdown

DEPOSITS up more than $3 BILLION

TABLE 7	2009	2008	2007
Total revenue	$ 54.8	$ 32.4	$ 39.6
Non-interest expenses	41.6	29.7	30.7
Income before income taxes	13.2	2.7	8.9
Income taxes	4.6	1.0	1.8
Net income	$ 8.6	$ 1.7	$ 7.1
Efficiency ratio	76.0%	91.6%	77.5%
Clients' brokerage assets	$ 1,970	$1,643	$ 1,995

Laurentian Bank Securities

FINANCIAL HIGHLIGHTS 2009

1. Sharp increase in revenues
2. Fivefold growth in net income
3. Strong performance of the Institutional Fixed Income division
4. Improved results in the Institutional Equity and Retail Brokerage divisions

$8.6 MILLION CONTRIBUTION to net income

TABLE 8	2009	2008	2007
Net interest income	$(42.8)	$ (39.5)	$ (22.9)
Other income	37.8	53.2	14.8
Total revenue	(5.0)	13.7	(8.1)
Provision for loan losses	–	8.0	–
Non-interest expenses	16.9	22.5	20.9
Income before income taxes	(21.9)	(16.8)	(29.0)
Income taxes recovery	(9.1)	(8.7)	(16.9)
Net loss	$(12.8)	$ (8.1)	$ (12.1)

Other

FINANCIAL HIGHLIGHTS 2009

1. Securitization revenues of $34.4 million
2. Significant improvements in marketable security portfolios

CAREFULLY managed CREDIT RISK

Retail & SME Québec

2009 KEY ACCOMPLISHMENTS
- Obtained the exclusive contract to operate the ATM network in the Montréal Metro subway system
- Increased our residential mortgage volumes significantly
- Expanded mobile banking teams
- Developed a successful strategy to offer a suite of banking products and services targeted at specific industries within the Québec SME market
- Continued leveraging our business intelligence to drive development

PRIORITIES FOR 2010
- Increase our share of wallet per customer
- Diversify our revenue streams
- Improve branch operating efficiency
- Expand distribution channels, particularly our mobile bankers and investment advisors
- Pursue investments in our branch and ATM network infrastructure
- Continue building specialist teams to serve the Québec SME market

Real Estate & Commercial

2009 KEY ACCOMPLISHMENTS
- Captured market opportunities to significantly grow the loan portfolio while maintaining prudent underwriting standards
- Generated a more balanced portfolio between interim lending and term lending through growth
- Diversified funding sources by growing commercial deposits
- Enhanced the Bank's sound reputation in the real estate market and syndicated loan market

PRIORITIES FOR 2010
- Expand real estate financing while upholding our prudent approach to risk management
- Grow commercial loans and deposits in selected market segments
- Invest in human capital and selectively expand the team
- Cross-sell the Bank's products and services to our existing clientele

B2B Trust

2009 KEY ACCOMPLISHMENTS
- Launched High Interest Investment Account with great success
- Introduced preferred mortgage partner program for mortgage brokers
- Improved our online loan application (EASE) by streamlining the process for advisors
- Extended our investment loan product line-up with the launch of the 3 For 1 loan and the B2B Trust Select loans
- Broadened the distribution alliance program with the addition of 4 new distribution alliances, now totalling 66

PRIORITIES FOR 2010
- Maximize distribution by continuously enhancing our products and services and expanding our distribution channels
- Enhance advisor and consumer loyalty to develop cross-selling opportunities
- Achieve operational excellence
- Invest in training and coaching to improve our leadership bench strength

Laurentian Bank Securities

2009 KEY ACCOMPLISHMENTS
- Delivered strong performance and market share gains in the Institutional Fixed Income business
- Continued to expand the Institutional Equity, Investment Banking and Retail Brokerage operations
- Participated in a growing number of corporate and government syndicates owing to our growing presence and reputation
- Expanded our distribution network as investors and issuers sought new financial relationships

PRIORITIES FOR 2010
- Manage our balance sheet effectively and efficiently
- Continue to differentiate ourselves as a Bank-owned small cap investment dealer and capitalize on ensuing synergies
- Expand our Fixed Income presence in Canada
- Develop our human capital and selectively hire key personnel

Other

2009 KEY ACCOMPLISHMENTS
- Effectively managed high excess liquidity amid challenging markets
- Maintained prudent asset-liability management in a challenging low-interest rate environment
- Carefully managed credit risks in a deteriorating underwriting environment
- Continued implemeting performance management model
- Continued investing in technology to support growth and strengthen processes
- Raised visibility and profile in core markets

PRIORITIES FOR 2010
- Continue optimal liquidity management
- Maintain prudent asset-liability management
- Ensure tight credit management to limit loan losses and maximize recovery
- Improve and strengthen processes through information technology developments
- Implement ongoing improvements to our human resources practices
- Maintain our rigorous risk management approach

Outlook and objectives for 2010

TIMID RECOVERY IN 2010 IS STILL THE MOST LIKELY SCENARIO

A policy-driven global economic rebound is underway, following the Great Recession of 2008-09. As is well known now, this recession was triggered by a massive financial panic that started in the United States and quickly spread globally via trade channels and intertwined financial markets. In Canada, the economy is also returning into positive territory in the fall of 2009 and is expected to expand by about 2.5% in 2010 after having stalled in 2008 and declined by an estimated 2.6% in 2009. While such a rebound is obviously welcome news, it must be pointed out that 2.5% real GDP growth is a significantly slower pace of expansion than in previous cycles.

Activity in the export-oriented, goods-producing industries has plunged sharply and is slow to revive owing, in a large part, to weak U.S. demand for consumer and capital goods and also to the unusual strength of the Canadian dollar (unusual in the sense that coming out of recession, the currency had typically been relatively weak). The United States is still Canada's largest trading partner by far, a well-known fact worth recalling in times of great volatility and uncertainty. In fact, unlike Australia for example, Canadian real GDP logged a sharp 4.2% decline from July 2008 to September 2009. Among other things, this resulted in a major shift from large "twin surpluses" (i.e. fiscal and current account) in the 2004-2008 period, to widening "twin deficits" that will extend well into 2011.

To offset export weakness, the Bank of Canada has kept policy interest rates very low (0.25%) since April 2009, where they should stay at least until the end of June 2010; if anything, the timing of monetary policy normalization might be pushed back if external demand for Canada's exports does not recover convincingly. Those low interest rates and a well-functioning banking system have allowed for moderate domestic demand growth, thus offsetting some of the external weakness. This pattern will likely persist into 2010, although it would become increasingly difficult to maintain it in the absence of a self-sustaining economic recovery in the United States. Housing market activity in particular is vulnerable to moderate "reset" risk, i.e. higher interest rates later in 2010, and deteriorating affordability in an environment of relatively high rates of unemployment (just under 9% on average in 2010 from 8.4% in 2009).

South of the border, there still is great uncertainty as to consumers' ability to drive the recovery given high rates of unemployment, the near-absence of income growth and an overriding desire to rebuild savings. Furthermore, there is also growing concern about the size of the U.S. budget deficit and the process through which that deficit would return to balance. Fiscal uncertainty, therefore, could well put additional pressure on monetary policy and constitutes the key risk hanging over North American financial markets into the medium term.

How we will measure our performance in 2010

As discussed above, the economic outlook remains a significant source of uncertainty. However, as shown in 2009, the Bank has the capacity to adapt its business plan to take advantage of market opportunities in an unsettled environment. Accordingly, the following objectives for 2010 clearly reflect management's confidence in the Canadian economy and its conviction that the Bank has the ability to deliver.

TABLE 9
2010 FINANCIAL OBJECTIVES

	2010 OBJECTIVES [1]
Revenue growth	**5% to 10%**
Efficiency ratio	**70% to 67%**
Return on common shareholders' equity	**10.0% to 12.0%**
Diluted net income per common share	**$4.00 to $4.70**
Tier I BIS capital ratio	**minimum of 9.5%**

(1) These objectives for 2010 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 on the previous page for 2010 assume that the Canadian economy will return to growth cycle in 2010, but that unemployment will remain high and maintain pressure on loan losses. These objectives also assume continued loan growth at a rate similar to 2009, slimmer securitization gains and the lack of future income from discontinued operations. Generating core operating income growth remains at the forefront of the Bank's strategies for 2010.

Analysis of consolidated results

Net income totalled $113.1 million in 2009, as compared with $102.5 million last year. Net income in 2009 includes income from discontinued operations of $11.5 million related to the sale of asset management activities in fiscal 2005, while earnings for 2008 included income from discontinued operations of $4.4 million. Income from continuing operations amounted to $101.7 million in 2009, compared with $98.1 million in 2008.

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

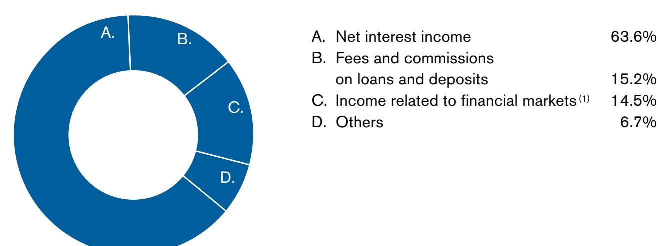
In fiscal 2005, the Bank sold its interest in the joint-venture BLC-Edmond de Rothschild Asset Management Inc. to Industrial Alliance Insurance and Financial Services Inc. As part of this transaction, a portion of the proceeds was subject to recovery clauses, based on net annual mutual fund sales, and therefore, the sale resulted in the recognition of a $26.2 million deferred gain.

During fiscal 2009, the Bank recognized the $5.2 million remainder of the selling price in income, in light of net sales to date. Also in 2009, the Bank recognized a final adjustment to the selling price of $8.3 million in relation to a cumulative net sales threshold for the first five years of the agreement. Note 27 to the annual consolidated financial statements provides additional information regarding this transaction.

TOTAL REVENUE

Total revenue was $666.5 million in 2009, up $36.0 million or 6%, compared to $630.5 million in 2008. Net interest income improved by $18.5 million and other income grew $17.5 million, as detailed hereafter.

TOTAL REVENUE MIX
(as a percentage)

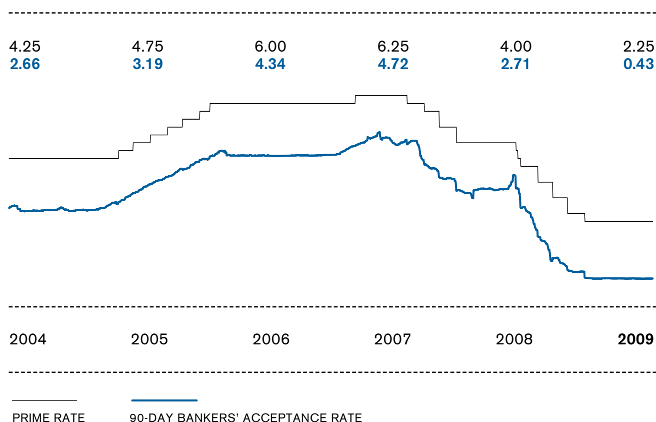


(1) Including income related to brokerage operations, income from treasury and financial market operations and securitization income.

Net interest income

Net interest income rose $18.5 million to $423.8 million in 2009 from $405.3 million in 2008, as shown in Table 10. This improvement essentially reflects the record growth in retail and commercial loans and deposits, as detailed on page 29 of this MD&A. Net interest margin narrowed 14 basis points to 2.07% in 2009, compared with 2.21% in 2008. During the first six months of 2009, the combined effect of a lower overall interest rate environment, the introductory promotional interest rate on B2B Trust HIIA and sustained competition for retail term deposits has particularly impacted net interest margins. However, strategic repricing initiatives launched in early 2009, the gradual reduction in the introductory promotional interest rate on the HIIA and a relative easing in pricing conditions during the latter portion of the year fuelled a sharp recovery in net interest margins, which amounted to 2.19% for the fourth quarter.

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

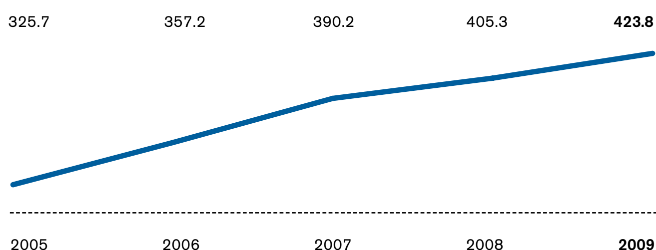


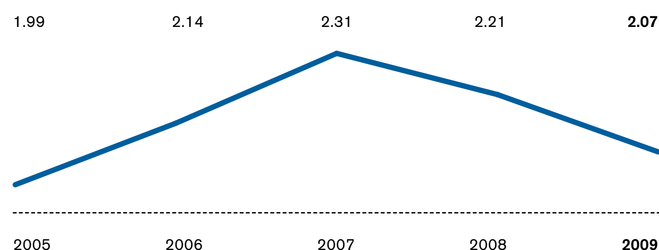
As shown in the accompanying graph, short-term interest rates reached record lows in fiscal 2009.

The Bank uses derivative financial instruments to manage the interest rate risk associated with some of its loan and deposit portfolios. In 2009, interest rate swaps generated revenues of $137.3 million and effectively compensated lower interest income stemming from variable rate loan portfolios in the context of the unusually 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 43 of this MD&A.

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

	2009				2008			
	AVERAGE VOLUME IN %	**AVERAGE VOLUME**	**INTEREST**	**AVERAGE RATE**	AVERAGE VOLUME IN %	AVERAGE VOLUME	INTEREST	AVERAGE RATE
Assets								
Cash resources and securities	**20.5%**	**$ 4,193**	**$ 75.3**	**1.80%**	19.0%	$ 3,488	$ 87.2	2.50%
Assets purchased under reverse repurchase agreements	**3.4**	**702**	**4.0**	**0.57**	3.2	588	11.4	1.94
Loans								
Personal	**27.7**	**5,668**	**279.7**	**4.94**	29.8	5,454	359.2	6.59
Residential mortgages	**31.9**	**6,531**	**310.4**	**4.75**	32.9	6,041	329.1	5.45
Commercial mortgages	**5.1**	**1,055**	**55.2**	**5.24**	4.4	813	49.1	6.04
Commercial and other	**7.9**	**1,609**	**70.2**	**4.36**	7.7	1,411	85.0	6.02
Derivate financial instruments	**–**	**–**	**137.3**	**–**	–	–	34.0	–
Other assets	**3.5**	**726**	**–**	**–**	3.0	545	–	–
Total – assets	**100.0%**	**$20,484**	**$932.1**	**4.55%**	100.0%	$18,340	$ 955.0	5.21%
Liabilities and shareholders' equity								
Demand and notice deposits		**$ 4,753**	**$ 35.2**	**0.74%**		$ 2,759	$ 17.3	0.63%
Term deposits		**12,318**	**458.6**	**3.72**		11,910	491.1	4.12
Obligations related to assets sold short or under repurchase agreements		**1,489**	**6.8**	**0.45**		1,994	27.4	1.37
Derivative financial instruments		**–**	**–**	**–**		–	6.2	–
		18,560	**500.6**	**2.70**		16,663	542.0	3.25
Acceptances		**155**	**–**	**–**		97	–	–
Other liabilities		**495**	**–**	**–**		393	–	–
Subordinated debentures		**150**	**7.7**	**5.16**		150	7.7	5.16
Shareholders' equity		**1,124**	**–**	**–**		1,037	–	–
Total – liabilities and shareholders' equity		**$20,484**	**$508.3**	**2.48%**		$18,340	$ 549.7	3.00%
Net interest income			**$423.8**	**2.07%**			$ 405.3	2.21%





Other income

Other income totalled $242.7 million in 2009, compared with $225.2 million in 2008. The increase resulted mainly from fees and commissions on loans and deposits and brokerage revenues, as detailed below.

Fees and commissions on loans and deposits rose to $101.4 million for fiscal 2009 from $91.9 million in 2008. The increase was mainly attributable to overall lending business growth.

Income from brokerage operations grew markedly to $51.8 million for fiscal 2009 from $28.7 million in 2008, driven by continued strong performance from the Institutional Fixed Income division of Laurentian Bank Securities and recovering equity markets. Results for 2008 included an additional $3.0 million charge related to securities issued by conduits covered by the Montréal Accord.

Revenues from securitization remained relatively unchanged at $34.4 million for fiscal 2009, compared with $35.9 million for fiscal 2008. During the year, the securitization of $1.0 billion in residential mortgages generated gains on sale of $37.4 million, up $7.7 million compared with last year. This result stems from the favourable market conditions prevailing early in the year and the Bank's ability to grow its loan portfolio. In addition, servicing revenues of $7.3 million for fiscal 2009 were more than offset by changes in fair value of certain retained interests, seller swaps and financial instruments held as economic hedges related to securitization activities, as further detailed in Note 6 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 17% to $16.0 million for fiscal 2009, owing mainly to strong growth in mortgage loan portfolios.

Revenues from the sale of mutual funds fell $1.7 million to $12.4 million in fiscal 2009. These revenues were impacted mainly at the beginning of the year by lower market value of the mutual fund portfolio under administration.

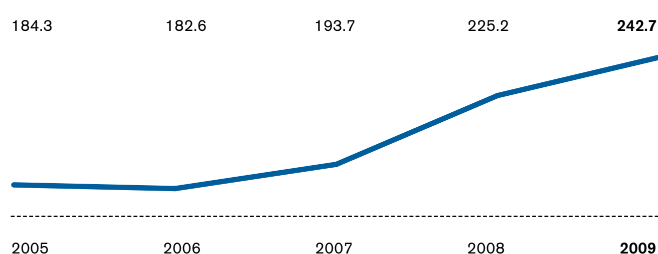
Income from treasury and financial market operations was down $14.0 million to $10.5 million for fiscal 2009. Treasury and financial market revenues for fiscal 2009 were particularly affected by net losses on securities amounting to $9.0 million, including $5.2 million in impairment charges. Revenues for 2008 included a $12.9 million gain on sale of Montreal Exchange shares and offsetting net losses of $10.3 million, mainly on certain U.S. and international financial institution's fixed-income securities. Additional information related to the Bank's security portfolios is presented in Note 4 to the annual consolidated financial statements.

Revenues from registered self-directed plans fell to $8.0 million for fiscal 2009 from $8.7 million in 2008. This result is linked to changes in market conditions, weighing down the number of registered self-directed plans. See the Off-Balance Sheet Arrangements section on page 31 of this MD&A for additional information.

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

	2009	2008	2007	VARIANCE 09/08
Fees and commissions on loans and deposits				
Deposit service charges	**$ 53.4**	$ 52.3	$ 50.7	2%
Lending fees	**30.0**	23.0	23.4	30
Card service revenues	**18.0**	16.6	14.6	8
Sub-total — fees and commissions on loans and deposits	**101.4**	91.9	88.7	10
As a % of average assets	**0.50%**	0.50%	0.53%	
Other				
Income from brokerage operations	**51.8**	28.7	32.4	80
Securitization income	**34.4**	35.9	6.4	(4)
Credit insurance income	**16.0**	13.7	12.6	17
Income from sales of mutual funds	**12.4**	14.2	13.4	(13)
Income from treasury and financial market operations	**10.5**	24.5	19.3	(57)
Income from registered self-directed plans	**8.0**	8.7	9.6	(8)
Trust services	**1.0**	1.2	1.3	(17)
Gain on disposal and on modification in ownership interest	**–**	–	4.0	n.a.
Other	**7.2**	6.4	6.0	13
Sub-total — other	**141.3**	133.3	105.0	6
As a % of average assets	**0.69%**	0.73%	0.62%	
Total - other income	**$ 242.7**	$ 225.2	$ 193.7	8%
As a % of average assets	**1.18%**	1.23%	1.15%	

OTHER INCOME
(in millions of dollars)



PROVISION FOR LOAN LOSSES

The provision for loan losses amounted to $56.0 million for fiscal 2009, compared with $48.5 million for fiscal 2008, which included an $8.0 million increase in general provisions. The increase generally reflects ongoing credit market challenges owing to a weaker economy and higher unemployment, as well as larger loan volumes. The following table details the provision for loan losses from 2007 to 2009.

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

	2009	2008	2007
Personal loans	**$ 37.1**	$ 29.5	$ 27.7
Residential mortgages	**1.5**	0.6	1.3
Commercial mortgages	**1.0**	0.5	0.2
Commercial and other loans	**16.4**	9.9	10.8
Sub-total	**56.0**	40.5	40.0
Increase in general allowances	**–**	8.0	–
Total – provision for loan losses	**$ 56.0**	$ 48.5	$ 40.0
As a % of average loans, bankers' acceptances and assets purchased under reverse repurchase agreements	**0.36%**	0.34%	0.30%

Increases in provisions for loan losses for personal loans have remained well under control considering economic conditions. However, unsecured lines of credit and credit card receivable portfolios were predictably the hardest hit compared with last year. Losses stemming from the point-of-sale financing portfolio increased in the latter part of the year, despite measures aimed at reducing the Bank's exposure. However, impaired loans for this portfolio decreased during the latter part of the year. Losses on investment loans also increased in 2009, but have remained relatively low to date.

NON-INTEREST EXPENSES

Non-interest expenses totalled $472.0 million for fiscal 2009, compared with $446.0 million for fiscal 2008. Salaries and employee benefits grew $13.4 million compared with fiscal 2008. This increase resulted primarily from higher employee compensation, partially offset by lower pension costs.

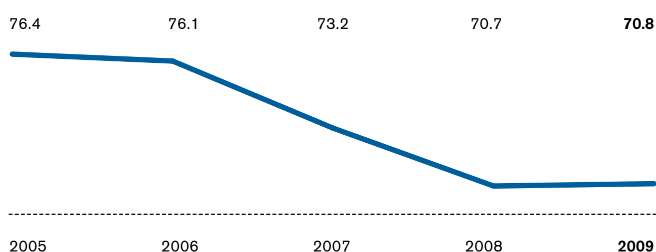
Premises and technology costs remained relatively unchanged at $120.0 million for fiscal 2009, compared with $119.2 million for fiscal 2008. The slightly higher amortization expense, arising from strategic investments to support growth initiatives and optimize processes was offset by tight cost controls in other areas. Technology costs for 2008 included a $2.2 million write-off of technology development costs.

Other expenses stood at $102.3 million in 2009, compared with $90.5 million in 2008. This increase is mainly attributable to higher advertising expenses and adjustments to capital tax charges, as well as provisions related to specific operational issues. Table 13 illustrates the changes in non-interest expenses from 2007 to 2009.

TABLE 13
NON-INTEREST EXPENSES
For the years ended October 31 (in millions of dollars, except percentage amounts)

	2009	2008	2007	VARIANCE 09/08
Salaries and employee benefits				
Salaries	**$166.3**	$155.7	$146.9	
Employee benefits	**46.6**	50.1	53.1	
Performance-based compensation	**36.8**	30.5	29.3	
Sub-total – salaries and employee benefits	**249.7**	236.3	229.3	6%
As a % of average assets	**1.22%**	1.29%	1.36%	
Premises and technology				
Equipment and computer services	**45.9**	45.2	42.5	
Rent and property taxes	**35.3**	34.5	34.5	
Depreciation	**32.4**	29.9	27.4	
Maintenance and repairs	**4.7**	5.5	5.4	
Public utilities	**1.4**	1.3	1.3	
Other	**0.3**	2.8	0.4	
Sub-total – premises and technology	**120.0**	119.2	111.5	1%
As a % of average assets	**0.59%**	0.65%	0.66%	
Other				
Fees and commissions	**21.4**	21.1	19.0	
Advertising and business development	**21.1**	18.0	16.8	
Taxes and insurance	**20.7**	17.6	18.8	
Communications and travelling expenses	**18.1**	18.9	18.3	
Stationery and publications	**5.9**	6.3	6.2	
Recruitment and training	**3.6**	3.7	2.8	
Other	**11.5**	4.9	4.7	
Sub-total – other	**102.3**	90.5	86.6	13%
As a % of average assets	**0.50%**	0.49%	0.52%	
Total – non-interest expenses	**$472.0**	$446.0	$427.4	6%
As a % of average assets	**2.30%**	2.43%	2.54%	
As a % of total revenue (efficiency ratio)	**70.8%**	70.7%	73.2%	

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



EFFICIENCY RATIO

The efficiency ratio remained relatively unchanged at 70.8% for fiscal 2009, compared with 70.7% for fiscal 2008, as the Bank's earning momentum was, to some extent, affected during the year by unfavourable economic conditions and lower interest rates.

The accompanying graph plots the Bank's performance in this regard over the last few years.

INCOME TAX EXPENSE

For fiscal 2009, income tax expense totalled $36.8 million and the effective income tax rate stood at 26.6%, compared with $37.9 million and 27.9%, respectively, for fiscal 2008. Results for fiscal 2008 included the effect of a $5.6 million unfavourable tax adjustment resulting from lower federal income tax rates, partly offset by lower income taxes on certain capital gains. Note 17 to the consolidated financial statements provides further information on income tax expense.

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 millions of dollars, except percentage amounts)

		2009		2008
Income taxes at statutory rates	**$ 43.3**	**31.3%**	$42.9	31.6%
Change resulting from:				
Income related to foreign credit insurance operations	**(4.5)**	**(3.2)**	(3.8)	(2.8)
Tax-exempt dividends	**(1.6)**	**(1.2)**	(1.9)	(1.4)
	37.2	**26.9**	37.2	27.4
Resolution of income tax exposures	**(2.4)**	**(1.7)**	(1.8)	(1.3)
Tax rate changes	**–**	**–**	5.6	4.2
Non taxable portion of capital gains	**–**	**–**	(2.7)	(2.0)
Other	**2.0**	**1.4**	(0.4)	(0.4)
Income taxes from continuing operations, as reported in the consolidated statement of income and effective tax rate	**$ 36.8**	**26.6%**	$37.9	27.9%

OVERVIEW OF FISCAL 2008

For the year ended October 31, 2008, Laurentian Bank reported net income totalling $102.5 million or diluted net income per common share of $3.80, compared with $94.5 million or $3.48, respectively, in 2007. Return on common shareholders' equity was 11.0% in 2008, compared with 10.9% in 2007.

Income from continuing operations grew to $98.1 million or $3.61 per common share–diluted for 2008, excluding an after-tax gain of $4.4 million on the 2005 sale of BLC-Edmond de Rothschild Asset Management Inc., as detailed on page 21 of this MD&A. For fiscal 2007, income from continuing operations stood at $90.1 million or $3.29 per common share–diluted, excluding a similar after-tax gain of $4.4 million.

Results for 2008 included a number of significant offsetting items as detailed on the following page. In addition, the Bank incurred net losses of approximately $10.3 million ($6.7 million after income taxes) in 2008 on certain U.S. and international financial institution fixed-income securities.

TABLE 15
SIGNIFICANT ITEMS AFFECTING RESULTS OF FISCAL 2008
(in millions of dollars)

	ITEMS, BEFORE INCOME TAXES	ITEMS, NET OF INCOME TAXES
Decrease in future tax assets arising from the reduction of federal income tax rates	**$ n/a**	**$ (5.6)**
Gain on sale of Montréal Exchange shares	**12.9**	**11.1**
Increase in the general allowance for loan losses	**$ (8.0)**	**$ (5.5)**

Analysis of quarterly results

SUMMARY ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF FISCAL 2009

Net income for the fourth quarter ended October 31, 2009 totalled $38.2 million, compared with $27.3 million for the same period last year. Net income for the fourth quarter of 2009 includes income from discontinued operations of $11.5 million related to the sale of asset management activities in fiscal 2005, while income for the fourth quarter of 2008 included income from discontinued operations of $4.4 million. Income from continuing operations amounted to $26.8 million for the fourth quarter of 2009, compared with $22.9 million for the fourth quarter of 2008.

Total revenue was up 17% to $178.5 million in the fourth quarter of 2009 from $152.8 million in the fourth quarter of 2008. Net interest income grew $14.9 million to $118.2 million in the fourth quarter of 2009 from $103.3 million in the fourth quarter of 2008, driven mainly by higher loan and deposit volumes. Net interest margin in the fourth quarter recovered to 2.19% after being under pressure early in the year, while it stood at 2.15% a year ago. During the year, the Bank held a relatively higher level of lower yielding liquid assets fuelled by record personal deposit growth. This additional flexibility, against a backdrop of uncertain economic conditions, has secured the Bank's funding needs and enabled it to capitalize on growth opportunities.

Other income totalled $60.3 million during the fourth quarter of 2009, compared with $49.5 million in the fourth quarter of 2008. Income from brokerage operations improved markedly by $11.5 million to $16.9 million, compared with the same period last year, owing to continued strong performance from the Institutional Fixed Income division of Laurentian Bank Secutities and recovering equity markets. Fees and commissions on loans and deposits also rose $2.3 million, due to an overall increase in business activity. The contribution from treasury and financial market operations was hampered by net losses on securities of approximately $3.5 million for the fourth quarter of 2009. Income from treasury and financial market operations for the fourth quarter of 2008 included net losses of $8.3 million, mainly on certain U.S. and international financial institution fixed-income securities. Revenues from securitization activities totalled $5.6 million for the fourth quarter of 2009, including net gains of $6.2 million on sale of $269 million of residential mortgages. Securitization revenues amounted to $10.2 million for the fourth quarter of 2008. Other activities yielded generally comparable year-over-year results.

The provision for loan losses amounted to $16.0 million in the fourth quarter of 2009, compared with $10.5 million in the fourth quarter of 2008. The year-over-year increase reflects the effect of an overall deterioration in economic conditions.

Non-interest expenses totalled $128.1 million for the fourth quarter of 2009, compared with $113.0 million for the fourth quarter of 2008. Salaries and employee benefits rose $7.5 million, mainly as a result of higher variable compensation, partially offset by lower pension expenses. Other expenses were up $6.5 million, due mainly to tax charges and provisions related to specific operational issues. Premises and technology costs remained relatively unchanged year-over-year. The efficiency ratio (non-interest expenses divided by total revenue) improved to 71.8% in the fourth quarter of 2009 from 74.0% in the fourth quarter of 2008.

For the quarter ended October 31, 2009, income tax expense related to continuing operations stood at $7.6 million with an effective tax rate of 22.1%. For the quarter ended October 31, 2008, income tax expense related to continuing operations amounted to $6.4 million with an effective tax rate of 21.7%.

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 our results. Given that the second quarter usually consists of only 89 days, compared with 92 days for the other quarters, net interest income for that quarter is generally lower. The following table summarizes quarterly results for fiscal 2009 and fiscal 2008.

TABLE 16
QUARTERLY RESULTS
For the quarters ended (in millions of dollars, except per share amounts)

				2009				2008
	OCT. 31	**JULY 31**	**APRIL 30**	**JAN. 31**	OCT. 31	JULY 31	APRIL 30	JAN. 31
Total revenue	**$178.5**	**$176.7**	**$154.8**	**$156.5**	$152.8	$171.1	$155.5	$151.1
Income from continuing operations	**26.7**	**28.7**	**21.2**	**25.0**	23.0	30.9	25.1	19.1
Net income	**$ 38.2**	**$ 28.7**	**$ 21.2**	**$ 25.0**	$ 27.4	$ 30.9	$ 25.1	$ 19.1
Income per common share from continuing operations								
Basic	**$ 0.99**	**$ 1.08**	**$ 0.76**	**$ 0.92**	$ 0.84	$ 1.17	$ 0.93	$ 0.68
Diluted	**$ 0.99**	**$ 1.08**	**$ 0.76**	**$ 0.91**	$ 0.84	$ 1.17	$ 0.93	$ 0.68
Net income per common share								
Basic	**$ 1.47**	**$ 1.08**	**$ 0.76**	**$ 0.92**	$ 1.02	$ 1.17	$ 0.93	$ 0.68
Diluted	**$ 1.47**	**$ 1.08**	**$ 0.76**	**$ 0.91**	$ 1.02	$ 1.17	$ 0.93	$ 0.68

Over the past eight quarters, income from continuing operations has generally trended upward, driven mainly by sustained growth in loan and deposit portfolios. Income from discontinued operations of $11.5 million in the fourth quarter of 2009 and $4.4 million in the fourth quarter of 2008 had a significant impact on net income for these quarters. Furthermore, certain specific factors, as detailed below, have affected income from continuing operations.

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 quarter of 2009, loan losses increased to $16.0 million for each quarter as a result of the overall deterioration in economic conditions.

2008

- Results for the first quarter of 2008 were affected by a decrease in future tax assets of $5.6 million arising from lower federal income tax rates.
- Results for the third quarter included a $12.9 million gain on sale of Montréal Exchange shares ($11.1 million after income taxes), which was offset by losses on securities of $5.3 million ($3.6 million after income taxes) and an $8.0 million increase in general provisions ($5.5 million after income taxes).
- Results for the fourth quarter were affected by impairment charges of $8.3 million ($5.5 million after income taxes) on certain U.S. and international financial institutions fixed-income securities.

Analysis of financial condition

Over the past three years, ongoing business development initiatives have significantly strengthened the Bank's balance sheet. What's more, improved profitability has translated into a stronger capital position, standing the Bank in good stead for continued growth in 2010.

As at October 31, 2009, the Bank reported total assets of $22.2 billion, compared with $19.6 billion as at October 31, 2008, as shown in Table 17. Assets under administration amounted to $14.3 billion, compared with $14.4 billion at the end of fiscal 2008. These changes are explained in the following sections of this MD&A.

TABLE 17
BALANCE SHEET ASSETS
As at October 31 (in millions of dollars, except percentage amounts)

	2009	2008	2007	VARIANCE 09/08
Cash, deposits with banks and securities	**$ 4,733**	$ 3,639	$ 3,023	30%
Assets purchased under reverse repurchase agreements	**536**	661	540	(19)
Loans				
Personal	**5,655**	5,694	5,222	(1)
Residential mortgages	**7,220**	6,183	6,233	17
Commercial mortgages	**1,285**	933	684	38
Commercial and other	**1,556**	1,455	1,293	7
	15,716	14,265	13,432	10
Allowance for loan losses	**(115)**	(112)	(115)	3
Total loans	**15,601**	14,153	13,317	10
Customers' liabilities under acceptances	**217**	110	112	97
Other assets	**1,078**	1,016	795	6
Balance sheet assets	**$22,165**	$19,579	$17,787	13%
Cash, deposits with banks and securities as a % of balance sheet assets	**21.4%**	18.6%	17.0%	
Loans and assets purchased under reverse repurchase agreements as a % of balance sheet assets	**72.8%**	75.7%	77.9%	

CASH RESOURCES

The Bank's cash resources consist of cash and non-interest bearing deposits with other banks, interest-bearing deposits with other banks, securities and assets purchased under reverse repurchase agreements. As at October 31, 2009, these assets totalled $5.3 billion, compared with $4.3 billion as at October 31, 2008. During the year, the Bank held a relatively higher level of lower yielding liquid assets fuelled by record personal deposit growth. This additional flexibility, against a backdrop of uncertain economic conditions, has secured the Bank's funding needs and enabled it to capitalize on growth opportunities. It has however slightly affected net interest margins over the past year, even more so given the lower overall interest rate environment, which limits the return on excess cash resources.

As at October 31, 2009, the Bank had no significant direct exposure to collateralized debt obligations (CDO), credit default swap (CDS) or monoline insurers. The Bank held asset-backed securities[1] amounting to approximately $31 million, which are generally secured by Canadian commercial mortgages.

Additional information on liquidity and funding risk management is included on page 45 of this MD&A.

LOANS AND BANKERS' ACCEPTANCES

Loans and bankers' acceptances portfolio rose more than $1.6 billion to $15.9 billion as at October 31, 2009, compared with $14.4 billion at October 31, 2008. Successful business development, combined with sustained demand for personal and commercial credit fuelled by historically low interest rates, helped drive this 11% growth year-over-year.

The residential mortgage portfolio was up $1,037 million in 2009. Considering the increase of $304 million in securitized loans, as shown in the table 18, total residential mortgage loan growth amounted to $1,341 million over the same period.

1 Excluding asset-backed securities that are fully guaranteed by the Canada Mortgage and Housing Corporation.

TABLE 18
RESIDENTIAL MORTGAGES PORTFOLIO
As at October 31 (in millions of dollars)

	2009	2008	VARIANCE 09/08
On-balance sheet residential mortgage loans	**$7,220**	$6,183	$1,037
Securitized residential mortgage loans (off-balance sheet)	**2,703**	2,399	304
Total residential mortgage loans, including securitized loans	**$9,923**	$8,582	$1,341

Personal loans were down $40 million in 2009, as the decline in the point-of-sale financing portfolio more than offset increases in home equity lines of credit and B2B Trust's investment loan portfolio. Commercial mortgages added $352 million in 2009, while commercial loans, including bankers' acceptances, grew $208 million. This strong performance arose in part from the Bank's ability to maintain business activity throughout the economic crisis when other financial institutions pulled back.

Impaired loans
Gross impaired loans rose from $101.9 million in 2008 to $137.5 million in 2009, while net impaired loans stood at $23.0 million as at October 31, 2009, compared with $-10.6 million as at October 31, 2008. The decline reflects the effect of ongoing credit market challenges resulting from a weaker economy and higher unemployment, as well as loan growth. Overall, loan portfolio performance remains nonetheless satisfactory in light of current economic conditions. See note 5 to the consolidated financial statements for additional information.

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

OTHER ASSETS
Other assets, excluding customers' liabilities under acceptances, rose to $1,077.8 million as at October 31, 2009 from $1,016.4 million as at October 31, 2008. The growth resulted mainly from additional contributions of approximately $60 million to defined benefit pension plan assets.

DEPOSITS
The deposit portfolio was up $3.0 billion or 19% to $18.3 billion as at October 31, 2009 from $15.3 billion as at October 31, 2008. B2B Trust HIIA generated growth of $3.1 billion during the year. In addition, significant increases in retail and commercial deposits have helped reduce the Bank's money market funding needs. Personal deposits represented 83% of total deposits at October 31, 2009, compared to 81% at October 31, 2008. These deposits are the Bank's preferred funding source because of their relative stability, as well as their lower marginal cost compared to wholesale deposits.

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

OTHER LIABILITIES
Other liabilities fell to $2.5 billion as at October 31, 2009 from $3.0 billion as at October 31, 2008. The decline resulted mainly from lower commitments related to securities sold under repurchase agreements, as the Bank relied more heavily on deposits to fund purchases of securities.

SUBORDINATED DEBENTURES
As at October 31, 2009, subordinated debentures totalled $150 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.

SHAREHOLDERS' EQUITY
Shareholders' equity was $1,171 million as at October 31, 2009, compared with $1,083 million as at October 31, 2008. This increase stemmed mainly from net income for fiscal 2009, net of declared dividends, as well as the favourable adjustment to accumulated other comprehensive income (AOCI), owing mainly to the market value recovery of available-for-sale securities. The Bank's book value per common share, excluding AOCI, appreciated to $38.68 as at October 31, 2009 from $35.84 as at October 31, 2008.

TABLE 19
SHARES ISSUED AND OUTSTANDING
As at December 1, 2009 (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	**23,919,887**
Options	**55,150**

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 Laurentian Bank Securities, the Bank also manages retail and institutional investment portfolios. Table 20 below summarizes assets under administration and assets under management. As at October 31, 2009, these items totalled $14.3 billion, down $172 million compared with October 31, 2008. Fees, commissions and other income from these assets, detailed in Table 11, on page 24 of this MD&A, contribute significantly to the Bank's profitability.

TABLE 20
ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT
As at October 31 (in millions of dollars)

	2009	2008
Self-directed RRSPs and RRIFs	**$ 7,599**	$ 7,196
Clients' brokerage assets	**1,970**	1,643
Institutional	**341**	1,702
Mortgage loans under management	**2,877**	2,564
Mutual funds	**1,441**	1,306
Other – Personal	**28**	17
Total – assets under administration and assets under management	**$14,256**	$14,428

Assets related to self-directed plans grew $0.4 billion compared with last year owing to market recoveries, partially offset by increased segment competition. In light of a regulatory environment that encourages other financial institutions to manage their clients' self-directed plans themselves, we continue to anticipate that, in the medium term, these activities will continue to be impacted negatively, regardless of market valuations.

Mortgage loans under management were up 12%, primarily due to securitization operations carried out during fiscal 2009.

Clients' brokerage assets rose nearly 20%, driven mainly by market performance in 2009. Moreover, institutional assets related to trust services were down $1.4 billion, compared with October 31, 2008.

Mutual fund assets under administration increased by $135 million or 10% during fiscal 2009, owing to favourable market conditions and positive net annual sales of mutual funds.

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, meet the client requirements and generate revenues from its 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 $19.9 billion as at October 31, 2009, compared with $11.2 billion as at October 31, 2008. The net positive fair value of derivative financial instruments stood at $43 million as at October 31, 2009, compared with $79 million as at October 31, 2008.

Notes 20 to 22 to the 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 a credit enhancement 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 receivables 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. With regard to the CMB Program, the Bank must manage the 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, 2009, total outstanding securitized residential mortgage loans amounted to $2,703 million.

Revenues of $34.4 million were recorded in 2009 as part of securitization operations, including $37.4 million in gains on sale and $7.3 million in servicing revenues, offset by net charges of $10.3 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 24 to the consolidated financial statements and the discussion on critical accounting policies and estimates on page 51 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 mortgages 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 asset to capital multiple ratio, as the mortgages 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 23 to the 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* (AcG-14). The principal types of guarantees are standby letters of credit and performance guarantees. Note 23 to the consolidated financial statements provides additional information on these guarantees.

TABLE 21
CREDIT COMMITMENTS AND GUARANTEES
As at October 31 (in millions of dollars)

	2009	2008
Undrawn amounts under approved credit facilities [1]	**$ 2,581**	$ 2,071
Documentary letters of credit	**$ 9**	$ 6
Standby letters of credit and performance guarantees	**$ 157**	$ 138

(1) Exclude personal credit facilities totalling $1,285,000,000 ($1,160,000,000 as at October 31, 2008) and credit card lines amounting to $845,000,000 ($923,000,000 as at October 31, 2008) since they are revocable at the Bank's option.

Capital management

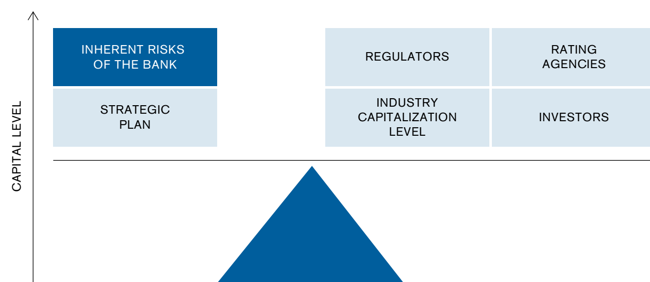
Management's objective is to maintain an adequate level of capital, in line with its risk profile, to support the Bank's activities while generating an acceptable shareholder return.

Capital adequacy depends on various internal and external factors. The Bank's capital position underscores its solvency and capacity to fully cover risks related to its operations while providing depositors and creditors with the safeguards they seek. Moreover, capital requirements are influenced by the Bank's strategic plan, industry capitalization levels and investor and shareholder 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. The Bank's capital adequacy targets may vary over time in line with these factors.

The capital and adequacy planning process starts with strategic planning. This exercise allows the Bank to set its main orientations and priorities by taking into account various internal and external factors. The ensuing guidelines, combined with a report assessing capital adequacy relative to the Bank's objectives, serve as inputs to the Capital Plan, which sets out 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 the Capital Management and Adequacy Policy, the Business and Financial Three-Year Plan and the Capital Plan. Management receives quarterly capital ratio and capital structure reports, while the Board's Risk Management Committee reviews the level and adequacy of capital on a quarterly basis. The Integrated Risk Management Group is responsible for establishing the capital management framework, particularly through the Capital Management and Adequacy Policy. The Group also monitors capital limits and adequacy. The Bank's Corporate Treasury Department reviews the Capital Plan and manages capital on an ongoing basis.

REGULATORY CAPITAL

The Bank assesses capital adequacy based on compliance with prescribed minimum regulatory levels of capital together with other factors. Regulatory capital is determined based on the guidelines of the Office of the Superintendent of Financial Institutions Canada (OSFI) originating from the Bank for International Settlements' (BIS) regulatory risk-based capital framework. Under BIS standards, banks must maintain a minimum Tier 1 capital ratio of 4% and a total capital ratio of at least 8%. OSFI guidelines require Canadian deposit-taking financial institutions to maintain a minimum Tier 1 capital ratio of 7% and a total capital ratio of at least 10%. The Bank uses the standardized approach in determining credit risk and the basic indicator approach in determining operational risk. Tables 22 and 23 outline the risk-weighted assets and regulatory capital used to calculate BIS ratios. During the year, the Bank opted to use the Comprehensive approach to account for credit risk mitigation under the Standardized Basel II Framework, instead of the Simple approach. The Comprehensive approach allows fuller offset of collateral against exposures. In addition, the risk weight associated with certain credit commitments was also reviewed. These changes led to a net reduction in risk-weighted assets of approximately $900 million.

TABLE 22
RISK-WEIGHTED ASSETS
As at October 31 (in millions of dollars)

	2009	2008
Balance sheet items		
Cash resources	**$ 12.7**	$ 9.8
Securities	**220.2**	310.1
Mortgage loans	**3,222.9**	2,426.2
Other loans and customers' liabilities under acceptances	**3,807.9**	5,057.6
Other assets	**516.6**	422.8
Total – balance sheet items	**7,780.3**	8,226.5
Off-balance sheet items		
Derivative financial instruments	**76.0**	77.0
Credit-related commitments	**471.0**	250.2
	8,327.3	8,553.7
Operational risk	**1,153.5**	1,075.4
Total – risk-weighted assets	**$ 9,480.8**	$9,629.1

TABLE 23
REGULATORY CAPITAL – BIS
As at October 31 (in millions of dollars, except percentage amounts)

	2009	2008	VARIANCE 09 / 08
Tier I capital			
Common shares	**$ 259.2**	$ 257.4	1%
Contributed surplus	**0.2**	0.2	–
Retained earnings	**665.5**	597.0	11
Non-cumulative preferred shares	**210.0**	210.0	–
Goodwill	**(53.8)**	(53.8)	–
Securitization-related deductions and other	**(35.3)**	(45.4)	(22)
Total – Tier I capital (A)	**1,045.8**	965.4	8
Tier II capital			
Subordinated debentures	**150.0**	150.0	–
General allowances	**72.9**	73.2	–
Securitization-related deductions and other	**(32.8)**	(31.7)	3
Total – Tier II capital	**190.1**	191.5	(1)
Regulatory capital – BIS (B)	**$ 1,235.9**	$ 1,156.9	7%
Total risk-weighted assets (Table 22) (C)	**$ 9,480.8**	$ 9,629.1	
Tier I BIS capital ratio (A/C)	**11.0 %**	10.0 %	
Total BIS capital ratio (B/C)	**13.0 %**	12.0 %	
Assets to capital multiple	**18.0 x**	17.0 x	
Tangible common equity as a percentage of risk-weighted assets	**9.1 %**	8.2 %	

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 consolidated financial statements. The level of dividends declared on common shares reflects management and Board views of the Bank's financial outlook and would take 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.

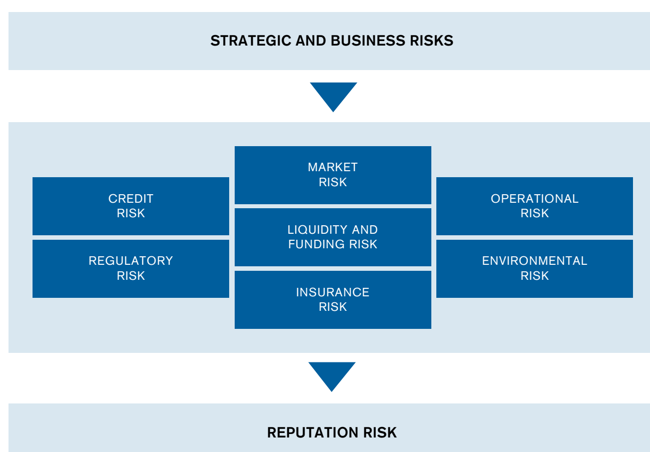
TABLE 24
SHARE DIVIDENDS AND PAYOUT RATIO
For the years ended October 31 (in millions of dollars, except per share amounts and payout ratios)

	2009	2008	2007
Dividends declared on preferred shares	**$ 11.8**	$11.8	$ 11.8
Dividends declared per common share	**$ 1.36**	$1.30	$ 1.16
Dividends declared on common shares	**$ 32.5**	$31.0	$ 27.5
Payout ratio	**32.1%**	34.2%	33.3%

Integrated risk management framework

The Bank is exposed to various types of risks owing to the nature of its activities. To ensure that all of the significant risks it could face are taken into consideration, the Bank's management has created an Integrated Risk Management Framework designed to enable the directors to properly supervise risk evaluation and control.

INTEGRATED RISK MANAGEMENT FRAMEWORK

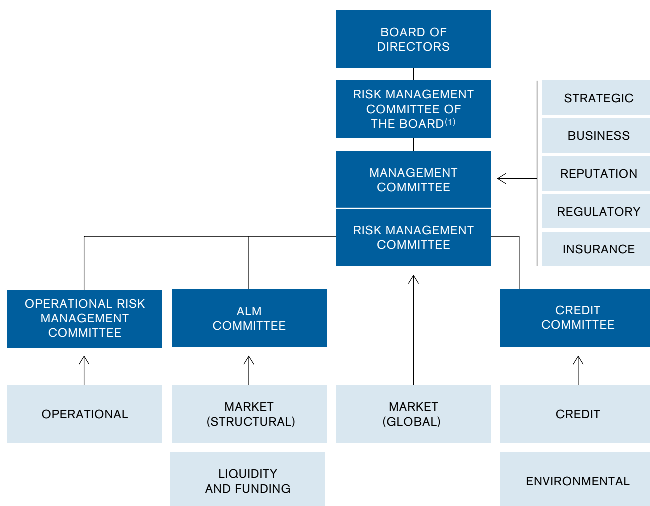


The main objective of this framework is to develop and maintain a risk management culture centered on establishing measures that allow for the optimization of the risk/return ratio in all of the Bank's areas of activity. The framework also highlights the following objectives:

- 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 the Management Committee and approved by the Board of Directors and 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's 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, 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 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 guidelines pertaining to structural interest rate risk monitoring, as well as the rate 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.

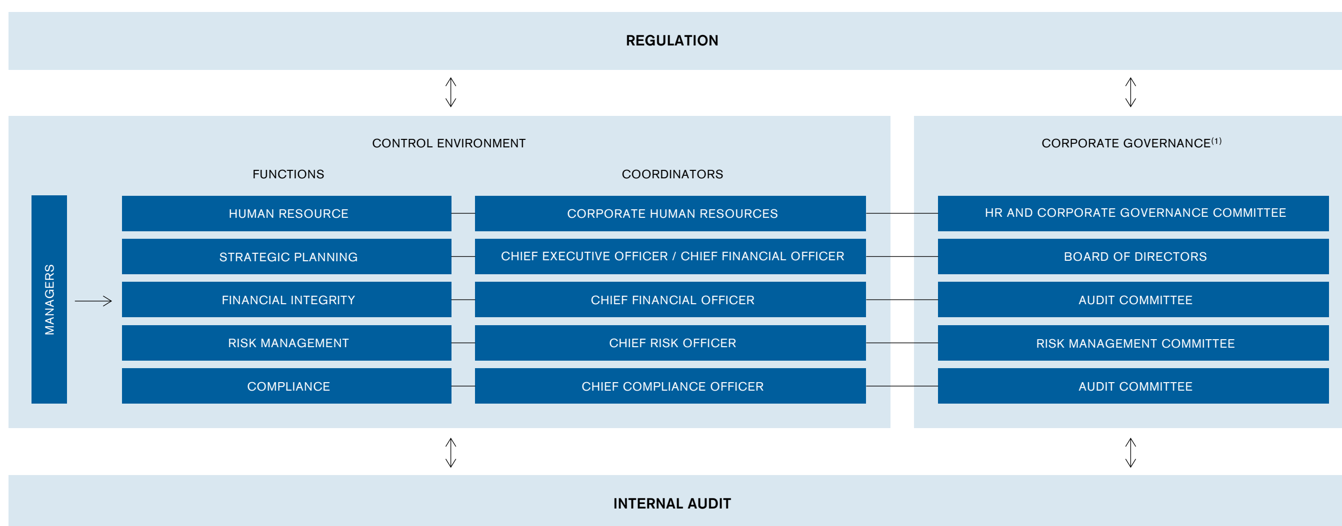
The **Credit Committee** is primarily responsible for ensuring that credit policies and procedures are drafted and that information systems related to the management of the Bank's current and potential credit risks are implemented, as well as for authorizing loans within established limits. It also reviews 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 setting up 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 honor 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. The Bank ensures a rigorous and systematic monitoring of its loan portfolio, both in terms of quality and quantity, through mechanisms and policies concerning the systematic revision of various categories of files, risk rating updating systems and 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 particular 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 Table 25 on page 41.

In addition to specific provisions, the Bank establishes a general provision in order to provide for eventual 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.

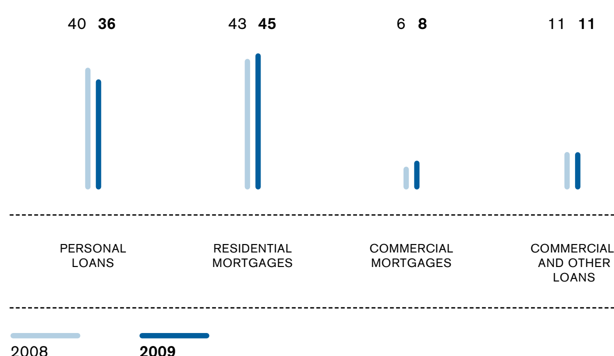
Diversification is one of the fundamental principles of risk management. To this effect, the credit policy establishes the guidelines intended to limit concentration of credit by counterparty and sector of activity, and identifies sectors considered risky and thus to be avoided. The loan portfolio mix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

Loan portfolio mix

The Bank's loan portfolio consists of personal loans, residential mortgages, commercial mortgages and commercial loans, including bankers' acceptances. The loan portfolio mix as at October 31, 2009 remains relatively unchanged, compared with a year ago. Residential mortgages include mortgages on individual condominium residences and one-to-four-unit residences of $6,231 million, as well as mortgages on multi-units residential properties of $989 million.

Retail exposures represent more than 82% of the loan portfolio, reflecting the Bank's strong presence with personal clients through its Retail & SME Québec and B2B Trust business segments. Commercial loans and mortgages are essentially granted to small and medium-sized businesses.

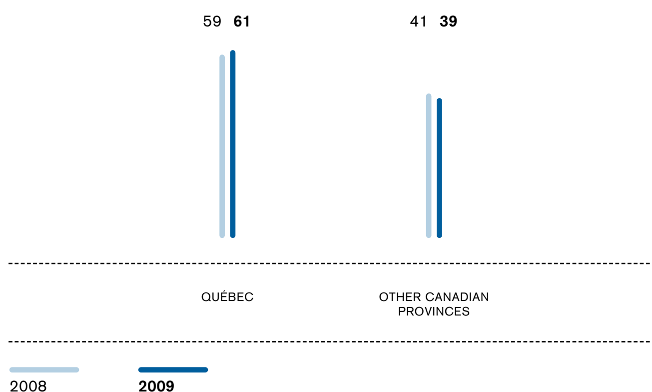
LOAN PORTFOLIO MIX
(as a percentage)



Geographic distribution

The Bank operates across Canada. In Québec, it offers all 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. The proportion of loans granted in Québec represented 61% of total loans as at October 31, 2009, compared to 59% as at October 31, 2008, while the proportion of loans granted outside Québec stood at 39% and 41% for the same periods.

GEOGRAPHIC DISTRIBUTION OF LOANS
(as a percentage)



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 designed to guarantee loans to provide Canadians with access to affordable mortgage financing. 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 mortgages, the Bank retains its capacity to engage in securitization operations to finance its activities at optimal cost and manage its cash resources. By year-end 2009, 48% of residential mortgages were insured by CMHC, compared with 48% in 2008. 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 are loans 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.

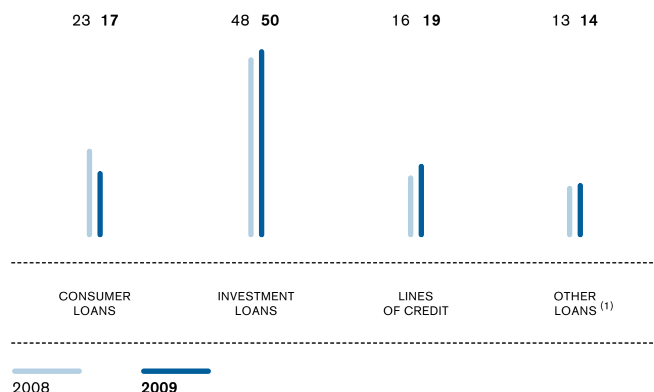
B2B Trust's investment loan portfolio consists mainly of mutual fund loans. Loan underwriting is subject to a rigorous process which allows for the efficient assessment of client credit risk. Authorizations are heavily based on clients' loan servicing ability and overall financial strength, mainly based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

Changes in loan portfolio mix

Personal loans [2]

As at October 31, 2009, the personal loan portfolio was $5.7 billion, a slight decrease of $40.0 million compared to October 31, 2008. 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 $153 million and $107 million respectively during the year.

PERSONAL LOAN PORTFOLIO MIX
(as a percentage)



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

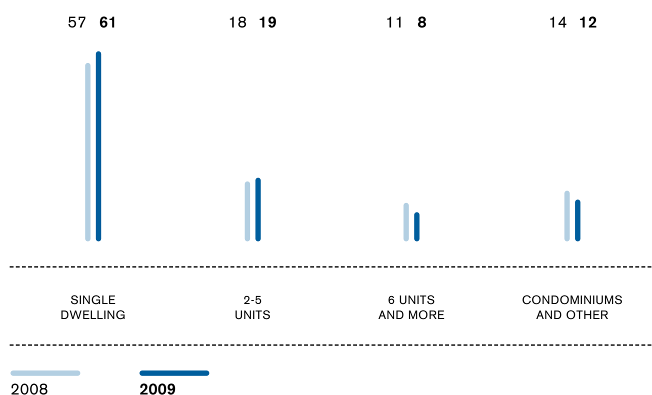
2 Loans related to the Immigrant Investor program are now included in personal loans. Previously, these loans were included in commercial and other loans.

Residential mortgage loans

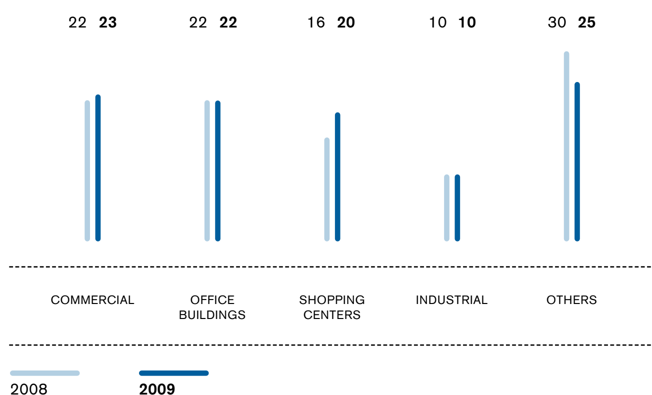
As shown in Table 18 on page 30, the residential mortgage loan portfolios, including on-balance sheet loans and securitized loans, added $1,341 million or 16% during fiscal 2009. This growth was primarily driven by the solid performance of our mortgage underwriting networks and the persistent strength of the Canadian real estate market.

The portfolio provides for sound risk diversification. As at October 31, 2009, Ontario and Western Canada represented 64% of the commercial mortgage loan portfolio and Québec 36%, whereas their respective shares were 63% and 37% as at October 31, 2008. The average loan value was $1.9 million as at October 31, 2009 ($1.3 million as at October 31, 2008).

RESIDENTIAL MORTGAGE LOANS BY PROPERTY TYPE
(as a percentage)



COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE
(as a percentage)



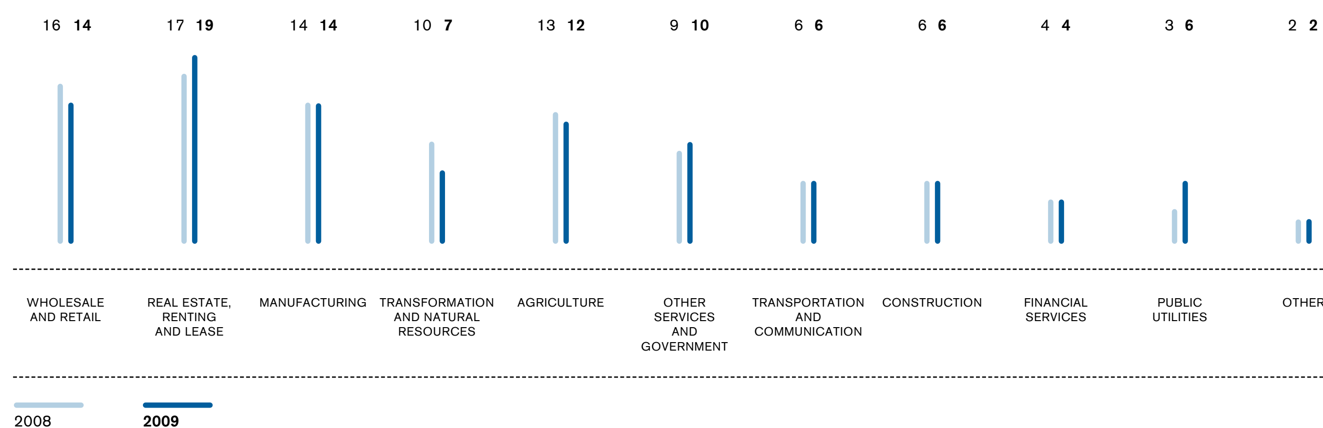
Commercial mortgage loans

Commercial mortgages were up 38% over fiscal 2008, totalling $1,285 million as at October 31, 2009, compared with $933 million as at October 31, 2008. As an active player in the Canadian commercial mortgage business in 2009, the Bank strengthened its enviable industry position. Maintaining this presence throughout the recession allowed it to further capitalize on opportunities arising from the retreat of certain market lenders.

Commercial loans

As at October 31, 2009, the portfolio of commercial loans, including bankers' acceptances, amounted to $1.8 billion, up $208 million from $1.6 billion as at October 31, 2008. This increase stemmed entirely from growth in Québec. As presented in the table on the following page, the portfolio covers a wide range of industries, with no specific industry representing more than 20% of the overall portfolio.

COMMERCIAL LOANS BY INDUSTRY
(as a percentage)



Impaired loans

Gross impaired loans are up $35.6 million since the beginning of the year, totalling $137.5 million as at October 31, 2009. Net impaired loans amounted to $23.0 million as at October 31, 2009, compared with –$10.6 million as at October 31, 2008. The increase is consistent with the overall weakening in the economic environment and also reflects the significant volume growth. However, various measures taken to lower the Bank's risk profile in recent years have curtailed such deteriorations. Overall, loan portfolio credit quality remains nonetheless satisfactory in light of the current economic conditions.

General allowances amounted to $73.3 million as at October 31, 2009, 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 consolidated financial statements for additional information.

TABLE 25
IMPAIRED LOANS
As at October 31 (in millions of dollars, except percentage amounts)

		2009			2008	
	GROSS	**SPECIFIC ALLOWANCES**	**NET**	GROSS	SPECIFIC ALLOWANCES	NET
Personal loans	**$ 23.7**	**$ (7.0)**	**$ 16.7**	$ 19.2	$ (6.6)	$ 12.6
Residential mortgages	**32.4**	**(1.9)**	**30.5**	16.6	(1.4)	15.2
Commercial mortgages	**11.2**	**(2.5)**	**8.7**	6.3	(1.9)	4.4
Commercial and other loans	**70.2**	**(29.9)**	**40.3**	59.8	(29.3)	30.5
Total	**$ 137.5**	**$ (41.3)**	**$ 96.2**	$ 101.9	$ (39.2)	$ 62.7
General allowance			**(73.3)**			(73.3)
Total – net impaired loans			**$ 22.9**			$ (10.6)
As a % of total loans, bankers' acceptances and assets purchased under reverse repurchase agreements	**0.83 %**		**0.14 %**	0.68 %		(0.07) %

TABLE 26
GEOGRAPHIC DISTRIBUTION OF IMPAIRED LOANS BY CREDIT PORTFOLIO AND INDUSTRY
As at October 31 (in millions of dollars)

	2009	2008
Personal loans	**$ 23.7**	$ 19.2
Residential mortgages	**32.4**	16.6
Commercial mortgages	**11.2**	6.3
	67.3	42.1
Commercial and other loans		
Manufacturing	**23.0**	22.3
Transformation and natural resources	**16.2**	7.8
Agriculture	**12.4**	4.9
Public utilities	**4.8**	6.0
Wholesale and retail	**4.0**	3.4
Construction	**2.6**	2.1
Financial services	**1.9**	0.8
Real estate, renting and lease	**1.6**	5.8
Other services and government	**0.7**	0.7
Transportation and communication	**0.6**	2.9
Other	**2.4**	3.1
	70.2	59.8
Total impaired loans	**137.5**	101.9
Québec		
Personal loans	**6.5**	9.0
Residential mortgages	**10.7**	6.6
Commercial mortgages	**6.0**	6.1
Commercial and other loans	**62.5**	47.1
	85.7	68.8
Other Canadian provinces		
Personal loans	**17.2**	10.2
Residential mortgages	**21.7**	10.0
Commercial mortgages	**5.2**	0.2
Commercial and other loans	**7.7**	12.7
	51.8	33.1
Total impaired loans	**$137.5**	$101.9

MARKET RISK MANAGEMENT

Market risk is the financial loss that the Bank may incur due to unfavourable fluctuations in the value of balance sheet or off-balance sheet financial instruments, following movements in parameters that underlie their valuation, notably interest rates, exchange rates and stock market prices. This risk is inherent to the Bank's financing, investment, trading and asset and liability management (ALM) activities.

Interest rate risk is the financial loss that the Bank may incur due to unfavourable fluctuations of interest rates. The section covering asset and liability management activities describes the global management of interest rate risk. Structural market risk is the interest rate risk arising from our banking activities and is primarily the result of differences in the scheduled maturity and repricing dates of assets and liabilities (interest rate mismatches).

Foreign exchange risk is the loss in Canadian dollars that the Bank may incur due to unfavourable fluctuations in exchange rates. It originates mainly from the foreign exchange positions that the Bank maintains to provide products and services in currencies other than the Canadian dollar, along with arbitrage activities and, to a lesser extent, mismatches in currencies of balance sheet and off-balance sheet asset and liability items and mismatches in receipts and payments of funds in foreign currencies.

Equity risk is the financial loss that the Bank may incur due to unfavourable fluctuations in some equity prices or in the equity 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 limit 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:
– "notional" limits;
– value at risk (VaR); and
– stress testing and other sensitivity measures.

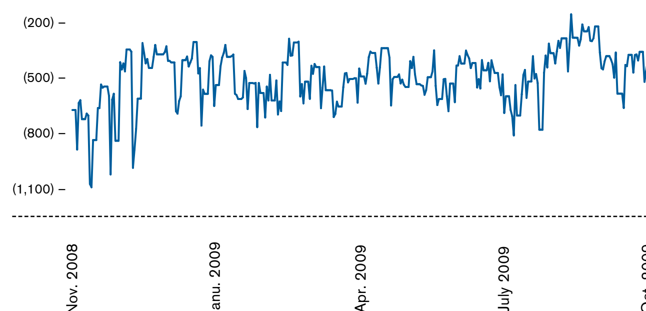
Limits to manage market risk
The Bank sets limits that are consistent with its business plan and its tolerance for market risk. In setting limits, the Bank takes into account market volatility, market liquidity, organizational experience and business strategies. Limits are set at the portfolio level, the business segment level, 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 maximum 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 of 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 in assessing the impact of abnormal 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 over a period of approximately one month. 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 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 graph below presents the daily total value at risk of the trading portfolio for the 2009 fiscal year.

DAILY TRADING VAR EVOLUTION 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 revaluation 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 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.

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

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

To ensure sound management of structural risk, a repricing gap report is produced periodically. This statement is then used as the basis for the simulation analysis of the impact of interest rate variation on net interest income and economic value of common shareholders. 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, 2009, for all portfolios, a 1% increase in interest rate would have triggered a decrease of approximately $5.0 million in net interest income before taxes over the next 12 months and a $20.0 million negative impact on the economic value of common shareholders' equity. Table 27 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, 2009 appears in Note 21 to the consolidated financial statements.

TABLE 27
RISK SENSITIVITY ANALYSIS
As at October 31 (in millions of dollars)

	2009		2008	
	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	**$ (5)**	**$(20)**	$ 9	$(19)
100bp decrease in rates	**(22)**	**23**	(11)	19
Impact of:				
200bp increase in rates	**(10)**	**(38)**	18	(37)
200bp decrease in rates	**$(67)**	**$ 22**	$(21)	$ 40

(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. Although it cannot be eliminated, its management is integrated in the decision-making process of the Bank's directors, members of senior management and managers.

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

Liquidity and funding risk is globally managed by the Bank's Corporate Treasury Department and supervised by the Asset and Liability Management Committee (ALM Committee), in compliance with the Pledging Management Policy and the Liquidity and Funding Management Policy. The main purpose of these policies is to ensure that the Bank always has sufficient cash resources to meet its current and future financial obligations, both under normal conditions and exceptional circumstances.

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

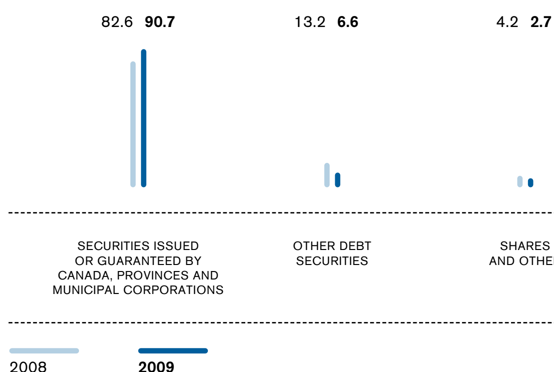
The Bank strives to maintain a steady volume of core deposits originating from its retail clientele and sourced through its branch and intermediary networks. It also maintains a variety of alternate sources of funding in order to have sufficient diversification. Funding strategies also include loan securitization and the use of capital markets, either through the issuance of capital stock or debt instruments.

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 cash resources

The Bank's cash resources consist of cash and non-interest bearing deposits with other banks, interest-bearing deposits with other banks, securities and assets purchased under reverse repurchase agreements. As at October 31, 2009, these assets totalled $5.3 billion, compared with $4.3 billion as at October 31, 2008. Year over year, cash resources rose $1.0 billion, mainly by particularly strong deposit growth, as detailed below. More than 90% of the Bank's cash resources are composed of marketable securities issued or guaranteed by the Canadian government, provinces or municipal corporations. Cash resources provide the Bank with flexibility to manage its loans and deposit portfolio maturities and commitments, and meet other current operating needs. In addition, Held-for-trading and Designated-as-held-for-trading portfolios offer fixed-income trading opportunities or are used to hedge certain exposures.

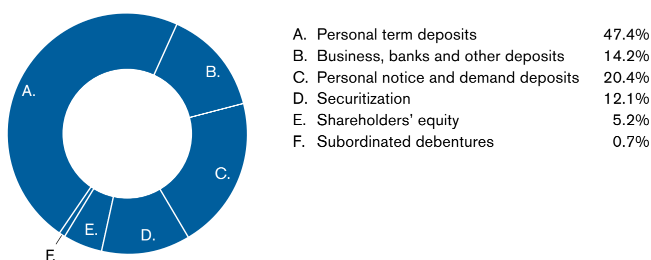
SECURITIES
(as a percentage)



Funding

The Bank's main funding sources, consisting of retail deposits (both branch and broker-sourced) and securitization of residential mortgages through the Canada Mortgage Bonds (CMB) Program, remained particularly efficient throughout 2009, in spite of market turmoil. Furthermore, the introduction of B2B Trust HIIA has provided the Bank with a significant new source of retail funding and further reduced its use of money market funding.

FUNDING SOURCES
(as a percentage)



Personal deposits
Total personal deposits were up to $15.1 billion as at October 31, 2009, compared with $12.4 billion as at October 31, 2008. B2B Trust HIIA generated growth of $2.4 billion during the year, while deposits from other retail operations added more than $340 million. These increases were slightly offset by a managed reduction in broker-sourced term deposits. 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. Personal deposits constitute a particularly advantageous and stable source of financing for the Bank, due among other things to their availability and low cost, compared with institutional deposits. As at October 31, 2009, these deposits represented 83% of the Bank's total deposit portfolio.

Business, banks and other deposits
Deposits from businesses, banks and other rose $258 million, totalling $3.2 billion as at October 31, 2009, compared with $2.9 billion as at October 31, 2008. This growth stemmed mainly from small business deposits in B2B Trust HIIA, and additional deposits related to commercial accounts, partially offset by a decline in money market funding.

TABLE 28
DEPOSITS
As at October 31 (in millions of dollars, except percentage amounts)

	2009		2008	
Personal				
Notice and demand				
Branch network	**$ 1,993**	**10.9%**	$ 1,833	12.0%
Financial intermediaries	**2,571**	**14.0**	189	1.2
	4,564	**24.9**	2,022	13.2
Term				
Branch network	**4,895**	**26.8**	4,628	30.2
Financial intermediaries	**5,680**	**31.0**	5,780	37.6
	10,575	**57.8**	10,408	67.8
Sub-total – personal	**15,139**	**82.7**	12,430	81.0
Business, banks and other				
Notice and demand	**2,186**	**12.0**	899	5.9
Term	**975**	**5.3**	2,005	13.1
Sub-total – Business, banks and other	**3,161**	**17.3**	2,904	19.0
Total – deposits	**$18,300**	**100.0%**	$15,334	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.

During fiscal 2009, all ratings for the Bank were confirmed and remained unchanged, except for DBRS' two-notch downgrade of the Bank's preferred share ratings resulting from changes in its global banking assessment methodology. 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 and positive, respectively[3].

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

3 A S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future action. The S&P rating outlooks have the following meanings:
– "Positive" means that a rating may be raised
– "Negative" means that a rating may be lowered
– "Stable" means that a rating is not likely to change
– "Developing" means a rating may be raised or lowered
Each DBRS rating category is appended with one of three rating trends – "Positive," "Stable," "Negative" – in addition to "Under Review." The rating trend helps to give the investor an understanding of DBRS's opinion regarding the outlook for the rating in question. However, the investor must not assume that a positive or negative trend necessarily indicates that a rating change is imminent.

TABLE 29
CREDIT RATINGS
AS AT OCTOBER 31, 2009

	DBRS	STANDARD & POOR'S
Deposits and senior debt	BBB (high)	BBB
Short-term instruments	R-1 (low)	A-2
Subordinated debentures	BBB	BBB-
Preferred shares	Pfd-3 (low)	BB+

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 renovation 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, 2009, maturing over each of the next five years and thereafter. Note 23 to the consolidated financial statements provides further information on this subject.

TABLE 30
CONTRACTUAL OBLIGATIONS
As at October 31, 2009 (in millions of dollars)

	2010	2011	2012	2013	2014	THEREAFTER	TOTAL
Term deposits	$4,382	$3,389	$1,880	$1,111	$777	$ 11	11,550
Obligations related to assets sold short	999	55	–	–	–	–	1,054
Obligations related to assets sold under repurchase agreements	285	–	–	–	–	–	285
Subordinated debentures	–	150	–	–	–	–	150
Commitments under leases, technology services and other contracts	67	64	61	54	43	97	386
Total	$5,733	$3,658	$1,941	$1,165	$820	$108	$13,425

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' Audit Committee. A review mechanism, designed to evaluate the Regulatory Risk Management Framework's effectiveness, is also in place.

CREDIT 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 valuation of reserves, differ from actual insurance underwriting results.

Insurance risk is managed within an independently managed program overseen by the Bank's representatives and experts in the insurance field. 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 of the Bank's 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 25 to the 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, that are not under our 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 controls over financial reporting

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

Disclosure controls and procedures
Disclosure controls and procedures 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. An information disclosure policy constitutes the framework for the information disclosure process with regard to the annual and interim filings, as well as to other reports filed or submitted under securities legislation. The Disclosure Committee is responsible for ensuring compliance with this policy. The members of the Disclosure Committee therefore review the main documents to be filed with regulatory authorities to ensure disclosure of all significant information regarding operations in a timely manner.

The President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer evaluated the effectiveness of disclosure controls and procedures as at October 31, 2009 and concluded that they were adequately designed and effectively managed to provide reasonable assurance regarding the completeness and reliability of financial reporting.

Internal controls over financial reporting
During fiscal 2009, management evaluated the design and effectiveness of internal controls over financial reporting, leading to the regulatory certification of the annual filings in accordance with National Instrument 52-109. As for the evaluation of controls and procedures regarding information disclosure, the evaluation of the design and effectiveness of disclosure internal controls was performed using the control framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Given the inherent limitations of any control systems, it is possible that internal controls over financial reporting do not prevent or detect all misstatements due to error or fraud. However, management's evaluation of internal controls provides a reasonable assurance that all internal control problems which could lead to important misstatements have been detected.

Tests have been performed throughout the 2009 fiscal year to evaluate the effectiveness of internal controls over financial reporting.

This undertaking has enabled the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer to certify that internal controls over financial reporting are effective and adequately designed to provide reasonable assurance regarding the reliability of financial reporting.

Changes to internal controls over financial reporting
During the year ended October 31, 2009, no changes to internal controls over financial reporting affected materially, or are reasonably likely to materially affect, internal controls over financial reporting.

Critical accounting policies and estimates

The significant accounting policies followed by the Bank are outlined in Notes 2 and 3 to the 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, and 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 entail an increase or a decrease in the allowance for loan losses.

These changes could consequently have a significant impact on the allowance for loan losses in the consolidated statement of results for 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 consolidated financial statements, and in the Credit Risk Management section on page 37 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 $73.5 million allowance as at October 31, 2009. Changes in assumptions and parameters 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 at which a financial instrument could be traded by knowledgeable and willing parties dealing at arm's length and 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 which do not qualify for hedge accounting, are generally recognized under other income.

Management uses quoted market prices, 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. In the absence of quoted market prices, 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 market prices are not observable due to insufficient trading volume in an inactive market. 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 consolidated financial statements.

Available-for-sale financial assets are assessed for impairment periodically, and management must examine various factors to determine whether declines in value are other-than-temporary. These factors include the type of investment, the length of time and extent by which fair values are below 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.

Using other alternative assumptions could translate into significantly different income recognition.

These critical accounting estimates mainly affect the LBS and Other segments. Additional information on the calculation of fair value is provided in Note 22 to the 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 recorded as a sale.

The determination of the initial gain, in such circumstances, depends on the value attributed to certain retained interests, mainly rights to future excess spreads and holdbacks, as well as to seller swaps. Since quoted market prices are not available for these financial instruments, management must estimate their value based on the present value of estimated cash flows. Management must therefore use estimates and assumptions, particularly for expected credit losses, anticipated prepayment rates, discount rates and other factors that influence the value of these instruments. Moreover, these values must be reviewed periodically thereafter.

The fair value of retained interests for securitized mortgage loans was $108.4 million as at October 31, 2009. Note 6 to the 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 – $44.2 million as at October 31, 2009. Different assumptions with regard to anticipated prepayment rates and discount rates could translate into significantly different fair values for these instruments.

The Off-Balance Sheet Arrangements section on page 31 of this MD&A provides further information on these transactions.

This critical accounting estimate mainly affects the Other segment.

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 assets, projected salary increases, health-care cost trend rates, employee turnover rate and retirement age. These assumptions are reviewed annually in accordance with accepted actuarial practice and approved by management.

The discount rate used in determining the actual costs and obligations related to pension plans and other future benefits reflects the market yields, as at the measurement date, on high-quality debt instruments with cash flows 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 real yields on fixed income securities and equities. Other assumptions are based on the plans' actual results and management's best estimates.

In accordance with Canadian GAAP, actual results that differ from the expected results as determined using the assumptions are accumulated and amortized over future periods and therefore affect actual costs and recorded obligations for these periods. As at October 31, 2009, the net amount of the unamortized actuarial losses was $84.5 million ($47.9 million in 2008) for pension plans, and $12.9 million ($14.2 million in 2008) for other benefits.

Discount rates stood at 6.50% as at October 31, 2009 and 7.50% as at October 31, 2008. The expected long-term rate of return on plan assets was unchanged at 7.25% for fiscal 2009 and 2008. The trend rate of the estimated annual growth of health-care costs covered, per participant, has been set at 10% for 2009 (8.8% for 2008). According to the accepted assumption, this rate should decrease progressively, reaching 4% 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 31 summarizes the impact of a 0.25% increase or decrease in the principal assumptions on accrued benefit obligations as at October 31, 2009 and related defined benefit pension plan costs for 2010.

TABLE 31
SENSITIVITY ANALYSIS
(in millions of dollars)

	POTENTIAL IMPACT OF CHANGES OF 0.25%	
	OBLIGATION	COST
Discount rate	$9.6	$0.5
Expected long-term rate of return of plan assets	n.a.	$0.8

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 consolidated financial statements.

INCOME TAX

Future income tax assets reflect management's estimate of the value of loss carry-forwards, minimum tax carry-overs and other temporary differences. 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 consolidated financial statements.

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Goodwill

As at October 31, 2009, the balance of goodwill stood at $53.8 million and this amount was entirely allocated to Retail and SME Québec. Goodwill is subject to an impairment test annually or more frequently if an event or change in circumstances indicates that the asset might be impaired.

The impairment test initially compares the fair value of the reporting unit, to which goodwill relates, to its carrying amount. Management mainly uses the discounted cash flow method to determine the fair value of its reporting units. 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 2009 or in fiscal 2008. If need be, the amount of the losses in value would be recorded as a non-interest expense for Retail and SME Québec, under Other.

More information on goodwill can be found in Note 8 to the 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 it may not be possible to recover their book value. 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 2009 or in fiscal 2008.

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 pertaining amortization periods. Changes in estimates and assumptions could significantly impact results.

New accounting standards in 2009

GOODWILL AND OTHER INTANGIBLE ASSETS

In November 2007, the Canadian Accounting Standards Board (AcSB) approved new Section 3064, Goodwill and Intangible Assets, which supersedes Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. New Section 3064 reinforces a principle-based approach to the recognition of costs as assets in accordance with the definition of an asset and the criteria for asset recognition in Section 1000. The Section also sets out specific criteria for the recognition of internally developed intangible assets. In addition, EIC-27, Revenues and Expenditures during the Pre-operating Period, will no longer apply following the adoption of Section 3064. These changes, adopted as of November 1, 2008, had no significant impact on the Bank's results. The unamortized balance of $91.7 million in software was reclassified from property, plant and equipment to other intangible assets in the consolidated balance sheet ($83.6 million as at October 31, 2008).

CREDIT RISK AND THE FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

On January 20, 2009, the Emerging Issue Committee of the Canadian Institute of Chartered Accountants (CICA) issued Abstract EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which applies to the Bank retroactively as of November 1, 2008. The Abstract confirms that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. This Abstract had no significant effect on the annual consolidated financial statements.

FINANCIAL INSTRUMENT DISCLOSURES

In June 2009, the AcSB issued amendments to Section 3862 – Financial instruments disclosures to improve disclosure requirements on fair value measurement and liquidity risk. The amendments are effective for the Bank's October 31, 2009 annual consolidated financial statements. As the amendments only concern disclosure requirements, they had no significant impact on results or financial position.

IMPAIRMENT OF FINANCIAL ASSETS

In August 2009, the CICA amended Section 3855, *Financial Instruments – Recognition and Measurement*, as it relates to the timing of impairment recognition for debt instruments. The amendments apply to financial statements relating to fiscal years beginning on or after November 1, 2008. The Section has been amended to [i] change the categories into which a debt instrument is required or permitted to be classified; [ii] change the impairment model for held-to-maturity financial assets to the incurred credit loss model of Section 3025, *Impaired Loans*; and [iii] require reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances. These amendments, adopted by the Bank as of October 31, 2009, had no significant impact on the consolidated financial statements, primarily because no changes in category occurred and no reversals of impairment losses were required during the year.

Future changes to accounting policies

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the AcSB confirmed the convergence of financial reporting standards for Canadian public companies with International Financial Reporting Standards (IFRS). The Bank will use IFRS for interim and annual financial statements relating to fiscal periods beginning on or after November 1, 2011.

The Bank has prepared a conversion plan and assembled a project team to coordinate the conversion.

The conversion plan consists of the following phases:

- Preliminary assessment – This phase, completed early in the year, 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. Work on this phase is well underway and should be completed at the beginning of 2010, subject to changes to IFRS by the International Accounting Standards Board (IASB).
- Selection of key accounting policies – The initial adoption of IFRS will require the Bank to make certain elections. The alternatives are currently being assessed concurrently with standards analysis.
- Implementation – This phase consists in implementing the necessary information systems to comply with the new IFRS requirements.

The Bank has analyzed the new requirements, particularly with respect to the recognition of financial instruments, including securitization transactions, hedging transactions and loan losses. The standards regarding employee future benefits, business combinations, income taxes and stock-based compensation have also been analyzed in detail. In addition, the Bank is closely monitoring the potential impact of such changes on capital requirements.

In 2009, the IASB proposed major amendments to the accounting standards governing the recognition of financial instruments, including securitization transactions, hedging transactions and loan losses. Since the proposed standards have yet to be finalized, their potential impact cannot be determined at this time.

Our analysis of the accounting consequences for these items, as well as for all other matters related to the Bank's preparedness for an orderly transition to IFRS, will continue in 2010.

BASIS OF PRESENTATION

This Management Discussion and Analysis (MD&A) refers to the results of operations and financial condition of the Bank for the year ended October 31, 2009 and presents the views of the Bank's management as at December 9, 2009. The information is presented on the same basis as in the 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 of Canada.

Additional information on Laurentian Bank of Canada, including the Annual Information Form for the year ended October 31, 2009, can be found on the Bank's website at www.laurentianbank.ca and on SEDAR at www.sedar.com.

METHODOLOGY FOR THE ANALYSIS OF RESULTS

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

The Bank uses both GAAP and certain non-GAAP measures to assess performance, such as return on common shareholders' equity, net interest margin and efficiency ratios. 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 issuers. 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 profitability potential more effectively.

Certain comparative figures for fiscal 2008 have been reclassified to conform to the current year presentation.