USING OUR STRENGTH

2004 ANNUAL REPORT

LAURENTIAN BANK

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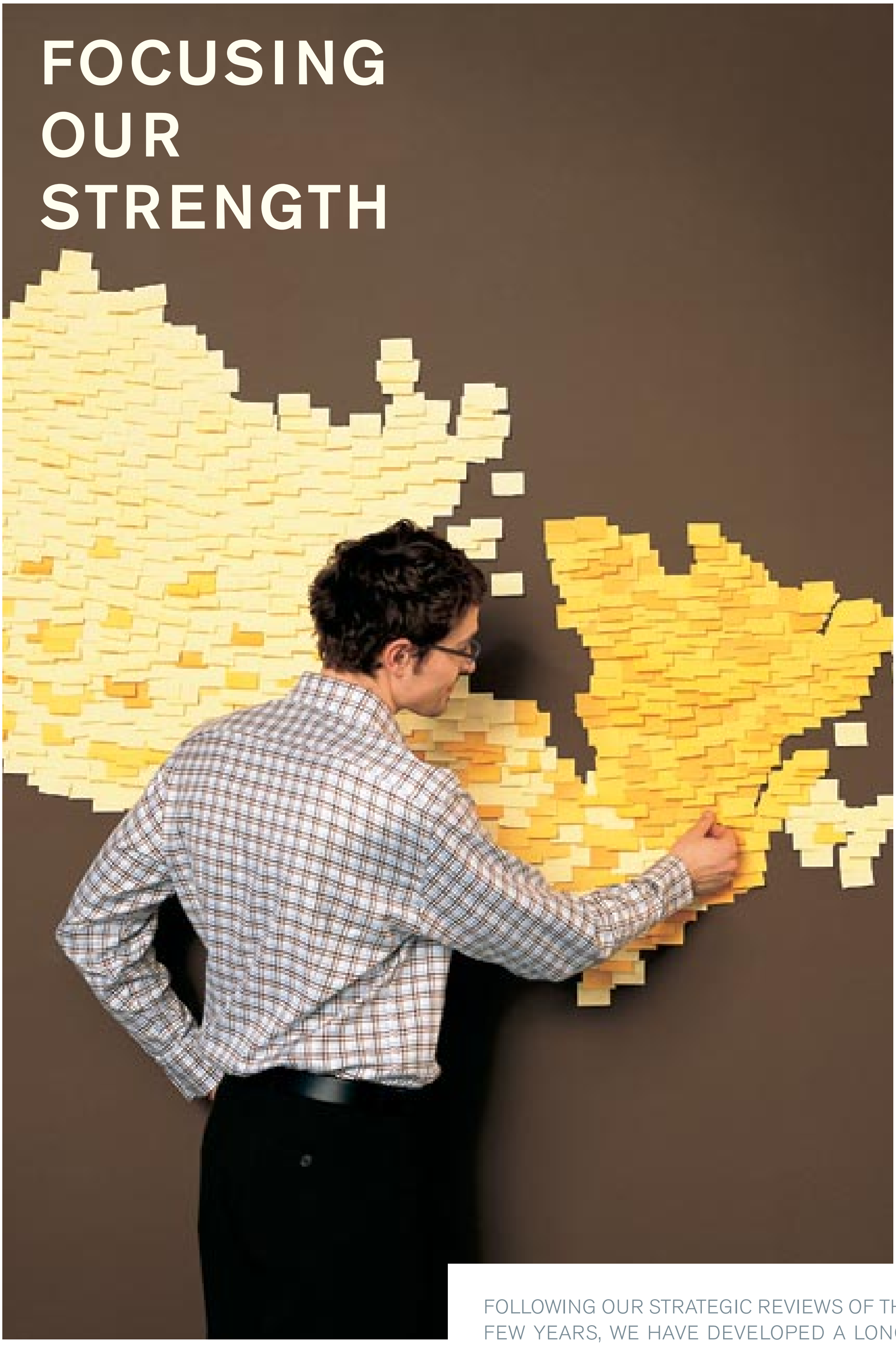
CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

From time to time, the Bank makes written and oral forward-looking statements, included in this Annual Report, in other filings with Canadian regulators, in reports to shareholders and in other communications. These forward looking-statements include, among others, statements regarding the business and objectives for the coming years, and medium- and long-term strategies to achieve these objectives, as well as statements with respect to the Bank's beliefs, plans, expectations, anticipations, estimates and intentions. This Annual Report contains such forward-looking statements. These statements are subject to a number of risks and uncertainties, several of which are independent of the Bank's will, and can have an impact on the Bank's operations, performance and results. These factors may affect actual results, which could differ from results contemplated by the forward-looking statements. Such differences may be caused by factors which include, among others, global capital market activity, changes in government monetary and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, competition and technological change, along with the Bank's success at increasing revenues and managing costs related to executing its business plan. The Bank cautions that the foregoing list of factors is not exhaustive. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and should not place undue reliance on such forward-looking statements. The Bank does not undertake to update any forward-looking statements, oral or written, made by itself or on its behalf.

FOCUSING OUR STRENGTH



FOLLOWING OUR STRATEGIC REVIEWS OF THE PAST FEW YEARS, WE HAVE DEVELOPED A LONG-TERM PLAN TO ENSURE THE BANK'S ONGOING SUCCESS AND PROFITABILITY. IT FOCUSES OUR STRENGTHS ON AREAS WHERE WE BELIEVE WE HAVE OR CAN DEVELOP COMPETITIVE ADVANTAGES OVER OTHER BANKS AND FINANCIAL INSTITUTIONS. ONE SIGNIFICANT ACTION WAS TO CONSOLIDATE ALL OUR RETAIL BRANCH OPERATIONS IN QUEBEC. BUT AS YOU WILL SEE, THE PLAN HAS INSPIRED A HOST OF OTHER PROMISING INITIATIVES. IT'S A GOOD PLAN. IT'S A SOUND PLAN. AND WE WILL STICK WITH IT.

STRENGTH OF HEART

ALL OUR EMPLOYEES, FROM THE BANKING FLOOR TO TOP MANAGEMENT, ARE DEDICATED, HIGHLY MOTIVATED INDIVIDUALS WHO ARE SOLIDLY IN FAVOUR OF THE BANK'S NEW DIRECTION AND LONG-TERM PLAN. THE SUCCESS OF OUR ENTREPRENEURSHIP PROJECT WHERE EMPLOYEES BECOME OUR FRONT-LINE AMBASSADORS CLEARLY DEMONSTRATES THIS STATE OF MIND. WE KNOW THAT OUR EMPLOYEES ARE OUR GREATEST ASSET, AND MANAGEMENT IS DETERMINED TO CONTINUE TO BUILD A HEALTHY AND HARMONIOUS RELATIONSHIP WITH THEM.

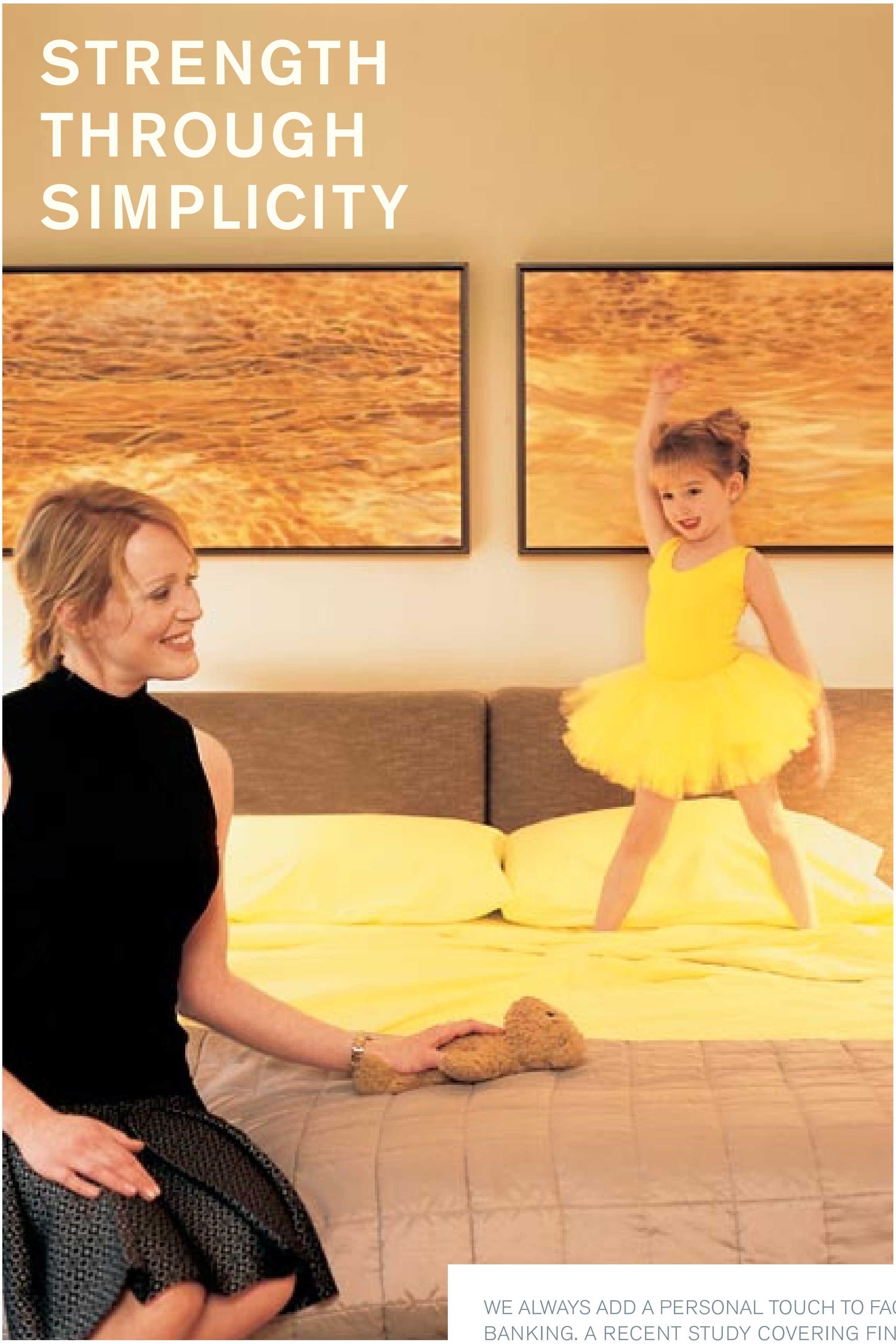
GROWING STRENGTH

AS PART OF OUR COMMITMENT TO GROWTH IN QUEBEC, WE WILL HAVE OPENED 5 NEW BRANCHES IN THE PROVINCE BY THE TIME YOU RECEIVE THIS REPORT, WITH MORE NEW LOCATIONS TO OPEN IN THE YEARS TO COME. THIS IS ONLY ONE OF OUR STRATEGIES TO PURSUE AND PROMOTE GROWTH, INCLUDING MAINTAINING OUTSTANDING CAPITAL RATIOS AND ENTERING INTO A LONG-TERM CONTRACT TO SIGNIFICANTLY INCREASE THE NUMBER OF ATMS UNDER THE BANK'S BANNER.

STRENGTHENING RELATIONSHIPS

COMMERCIAL BANKING IS ONE OF THE BANK'S MOST IMPORTANT SECTORS OF ACTIVITY AND ONE WHERE WE THINK WE CAN DO EVEN BETTER. INDEED, A RECENT NATION-WIDE SURVEY RANKED THE BANK AS A LEADER IN TERMS OF CUSTOMER SATISFACTION AMONG ALL CANADIAN FINANCIAL INSTITUTIONS. ESPECIALLY APPRECIATED WERE THE BUSINESS RELATIONSHIPS CLIENTS HAD WITH THEIR ADVISORS: HIGH MARKS FOR THE WAY THEY WERE TREATED, BUSINESS UNDERSTANDING, AND AVAILABILITY. WE'RE CERTAINLY ON THE RIGHT TRACK – AND WE INTEND TO STAY THE COURSE.

STRENGTH THROUGH SIMPLICITY



WE ALWAYS ADD A PERSONAL TOUCH TO FACILITATE BANKING. A RECENT STUDY COVERING FINANCIAL INSTITUTIONS IN QUEBEC SHOWED THE BANK OUTSCORED THE COMPETITION'S AVERAGE ON RETAIL CUSTOMER SATISFACTION. CUSTOMERS ESPECIALLY APPRECIATED THE KNOWLEDGE AND PERSONAL APPROACH OF THEIR ADVISORS. AND MORE THAN 75% OF THEM WERE PREPARED TO RECOMMEND US AS THEIR BANK OF CHOICE. THAT'S THE KIND OF CHOOSINESS WE HEARTILY APPROVE OF.

INNOVATIVE STRENGTH

COFFEE, TEA, AND YOUR BANK STATEMENT? IT'S A NEW UNDERTAKING IN MONTREAL, TEAMING UP THE BANK WITH A VAN HOUTTE CAFÉ-BISTRO. AND JUST ONE OF A HOST OF NOVEL INITIATIVES INTENDED TO MAKE THE BANK THE INNOVATIVE LEADER IN QUEBEC BANKING. AN AGGRESSIVE RETURN TO ADVERTISING IN MULTIPLE MEDIA. A NEW ARCHITECTURAL LOOK FOR OUR BRANCHES. AS WELL AS OUR B2B TRUST 100% ACCELERATOR LOAN. NOW THAT'S WAKING UP AND SMELLING THE COFFEE.

FROM STRENGTH TO STRENGTH

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

THROUGHOUT 2004, LAURENTIAN BANK'S BOARD OF DIRECTORS, MANAGERS AND EMPLOYEES FOCUSED THEIR ENERGIES AND RESOURCES ON THE IMPLEMENTATION OF THE INITIAL MEASURES OUTLINED IN THE BANK'S BUSINESS PLAN ADOPTED TOWARDS THE END OF 2003.

This plan – whose foremost objectives are to concentrate activities in areas where we hold a leading position, and to further grow in order to improve efficiency and results – represents a veritable turning point in the Bank's development.

A new business plan of this magnitude calls for the unfailing support of everyone involved and concerned by its implementation. I am proud to say that our plan gave rise to a large mobilization throughout the Bank's organization. Managers and employees alike took this challenge to heart and seized the opportunity to contribute, in a concrete manner, to the Bank's growth and success.

The Bank is eager to nourish this spirit of cooperation and teamwork, and we put great stock in the continuing improvement of our relations with all our employees. To this end, various initiatives have been undertaken during the past year and already proven to be rewarding. We are determined to foster such a win-win relationship, in the short term as well as in the long term, as it will benefit both management and employees, and ultimately our clients and shareholders.

The measures put in place during fiscal 2004 within the framework of our business plan have shown early signs of promising success. These early indicators attest to the relevance of our plan and to its impact on the Bank's development.

The past year also brought to light some of the challenges we must take up toward the full realization of our business plan's objectives. For one, its implementation unfolded during a period in which financial institutions throughout Canada were engaged in a fierce competition, particularly in the commercial and retail markets. Moreover, various factors – some of which were beyond our control – have hampered some of our initiatives and, consequently, the expected growth of our volumes of business.

The key to the improvement of the Bank's results is now to pursue our business plan with the same dedication and determination as were shown throughout this first year. We must adhere resolutely to our strategy, dedicate our energy and resources to its continuing implementation and maximize the early returns of our initiatives.

OUR STEADFAST DETERMINATION

The Bank's business plan stems, in a large measure, from our decision to reposition and refocus our activities in those markets and in those market niches where the Bank holds distinctive advantages and can compete efficiently with other financial institutions. The results of the Retail Financial Services and Laurentian Bank Securities, in particular, attest to the soundness and to the relevance of this fundamental orientation.

The Bank's business plan is also supported by our steadfast determination to manage the Bank's affairs in a rigorous and efficient manner in order to improve its profitability, in the short and long terms, and grow shareholder value on a sustainable basis. In this regard, our continuing cost reduction efforts and a host of other financial and organi-

THE BANK'S BUSINESS PLAN IS ALSO SUPPORTED BY OUR STEADFAST DETERMINATION TO MANAGE THE BANK'S AFFAIRS IN A RIGOROUS AND EFFICIENT MANNER IN ORDER TO IMPROVE ITS PROFITABILITY, IN THE SHORT AND LONG TERMS, AND GROW SHAREHOLDER VALUE ON A SUSTAINABLE BASIS.

zational initiatives designed to ensure a steady growth in revenue have had a positive impact on the Bank's results.

Among other cost reduction measures adopted in 2004, for instance, the Bank decided to redeem outstanding preferred shares and issue new preferred shares, at a lower cost. The redemption of all Debentures Series 7 will further translate into tax savings and contribute to the reduction of the Bank's cost of capital. These initiatives moreover enable the Bank to maintain strong capital ratios and continue improving its capital structure.

Credit quality is another area where a proactive management approach is proving successful. Several measures have been introduced in this regard to improve, among other things, the overall performance of our commercial loans portfolio. As a result, the level of impaired loans has decreased by over 30% in 2004 and net impaired loans have shrunk from $22 million in 2003 to minus $13 million in 2004.

OUR DEFINING STRENGTHS

Our commitment to manage the Bank's affairs in the most rigorous manner and to monitor its day-to-day operations as closely as possible goes hand-in-hand with our commitment to leverage the Bank's defining strengths in order to grow each of our business lines efficiently and profitably.

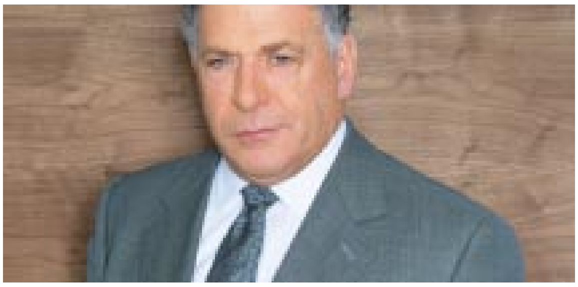
In other words, through the implementation of our business plan, we are strengthening our experience and expertise as managers and operators; we are continuously improving our skills and competence in both areas and, thereby, bringing to the fore the distinctive features of the Bank.

Our business plan is quite explicit in this regard and, throughout fiscal 2004, several initiatives have been implemented that will contribute, directly and indirectly, to the attainment of our performance objectives and to the enhancement of our position in our core market, Quebec, and in our privileged market niches.

Foremost, the *Entrepreneurship* project, now expanded to the Bank's entire retail network, has been instrumental in mobilizing managers and employees to improve the performance of each of our retail branches. As they gain a greater degree of autonomy as well as a greater sense of accountability, employees participate more fully in the Bank's activities and assume accrued responsibility with regard to its long-term development.

The development of this entrepreneurial spirit enables us to build on one of the Bank's foremost strengths – quality of service – and enhance it with distinctive features, such as simplicity, flexibility and personalized attention. Moreover, the positive impact of this entrepreneurship, as embodied in our retail branches, is already measurable, as evidenced by the success of our recent Visa, RRSP and mortgage loans campaigns.

The Retail Financial Services business plan has so far been executed with as much dynamism as positive results. Five new branches will have opened by the time this Annual



RAYMOND McMANUS
PRESIDENT AND CHIEF EXECUTIVE OFFICER

THE POSITIVE REACTION OF OUR CLIENTS, IN BOTH THE RETAIL AND COMMERCIAL SECTORS, AS WELL AS THE HEIGHTENED NOTORIETY GAINED BY THE BANK IN ITS PRINCIPAL MARKETS, REINFORCE OUR COMMITMENT TO THE FULL REALIZATION OF THE INITIATIVES ADOPTED UNDER THIS PLAN.

Report is published. Simultaneously, some 12% of our retail branches have gone through a major design overhaul. This drive, which will gain momentum in the coming months, is designed to enhance the Bank's visibility and also to expand our retail network, particularly in those Quebec municipalities with booming demographics.

To support these actions, the Bank launched a new advertising campaign in January 2004, under the theme DARE, which has noticeably raised our notoriety in all of our markets. Another initiative that has garnered significant attention, from both the media and our clients, is the inauguration of our Espresso Bank-Café in the Outremont borough of Montreal. Operating in partnership with Van Houtte Café, a leader in food services in Quebec, this innovative concept stands as a veritable showcase for our values of proximity and quality of service.

Commercial financial services are another area where the Bank stands out as a quality provider of products and services, and where it enjoys a solid reputation from which we can continue building our client base and improving our profitability. Indeed, a recent independent survey has shown that 93% of our clients in Quebec and 89% of our clients in Ontario, as a whole, are satisfied with the range of products and services offered by the Bank. Moreover, Commercial Financial Services recorded a substantial improvement in the credit quality of its commercial loan portfolio for fiscal 2004, thereby contributing very positively to the Bank's financial condition.

The newly privatized B2B Trust, for its part, further consolidated its business relations with independent financial advisors through a leading line of products and services, and contributed to the enhancement of the Bank's presence across Canada. These assets, as well as a strong equity market, will allow B2B Trust to continue improving its performance. Finally, the contribution of our Wealth Management and Brokerage business line, more specifically Laurentian Bank Securities, was superior to the financial objectives set in our business plan.

OUR LONG-TERM COMMITMENT

More than a year after its adoption, our business plan – in its general principles as well as in its specific measures – has proven as sound and relevant as ever. The Bank's directors, managers and employees fully support its objectives and, most importantly, contribute actively to its implementation within our day-to-day operations.

The positive reaction of our clients, in both the retail and commercial sectors, as well as the heightened notoriety gained by the Bank in its principal markets, reinforce our commitment to the full realization of the initiatives adopted under this plan.

In line with this commitment, two major initiatives were announced toward the end of fiscal 2004. On November 4, 2004, the Bank concluded an agreement whereby Industrial Alliance Insurance and Financial Services Inc. will acquire all of the shares of BLC-Edmond de Rothschild Asset Management Inc. The transaction, completed on December 31, 2004, also provides for the Bank to continue to distribute the R Funds over the next 10 years. Moreover, on November 9, 2004, the Bank announced the redemption of all of its Debentures, Series 8, which will allow it to reduce its cost of capital for the future.

We are keenly aware that the positive impact of our business plan on the Bank's results will not be fully realized as early as we had hoped and expected. Nevertheless, we are confident that this plan is the right plan and we will not deviate from our commitment to implement it efficiently and thoroughly.

We are just as confident that the Bank and its four business lines are on the right track to achieve their performance and financial objectives, and to enhance shareholder value in a sustainable manner.

The support and contribution of our employees, clients and shareholders are the foundations of this confidence and I wish to thank every one of them for their continuing commitment to the future and to the success of Laurentian Bank of Canada.

L. DENIS
DESAUTELS, O.C.
CHAIRMAN OF
THE BOARD

L. Denis Desautels

MESSAGE FROM THE CHAIRMAN OF THE BOARD

2004 has been quite a busy year for the Laurentian Bank of Canada. Indeed, in the wake of its repositioning, the Bank undertook numerous initiatives and completed several significant transactions.

All this activity has enabled the Bank, on the one hand, to better channel its energy in those sectors where it can really distinguish itself from its competitors. On the other hand, it has also enabled the Bank to consolidate its foundations as a solid financial institution, in order to further its growth in the medium and long terms. In a word, the Board of Directors and myself are convinced that, within the framework of the Bank's business plan, these initiatives and transactions will have a positive impact on employees, clients and shareholders alike.

Although the short-term results of the implementation of this business plan did not measure up to our expectations, the Bank's repositioning was nevertheless imperative. In our present competitive environment, the members of the Board of Directors and the members of the Management Committee are of the opinion that the Bank's business plan must be supported and carried out with determination and focus.

Throughout the year moreover, the Board of Directors has steadfastly played its role as the representative of the Bank's shareholders and advocate of their interests. This role calls for a vigilant oversight of the Bank's evolution, with regard to the planning of strategies and their execution, as well as to the monitoring of results. The members of the Board of Directors thus carry on one of the Bank's foremost tradition, which is to stay as vigilant as possible with regard to the observance of exemplary corporate governance rules and policies. In that regard, the Laurentian Bank of Canada remains one of the most reputable institutions in Canada.

In this business environment, the members of the Board of Directors represent important complementary resources, adding to the expertise of the Management Committee members. The sheer diversity of their competence and experience offers a rich and relevant perspective on the overall management of the Bank's operations, as well as on the specific strategies adopted for each of its sectors.

I wish to personally express my thanks to each of the members of the Board of Directors for their active participation and for their strategic input. In 2004, Christiane Germain left the Board of Directors where she had been sitting since 2001. I wish to thank her for her invaluable collaboration. It gives me great pleasure moreover to announce the nomination of a new director, namely Carmand Normand, Chairman of the Board, Chief Executive and Investment Officer at Addenda Capital Inc.

I also wish to underline the vision and pragmatism evidenced by the members of the Bank's Management Committee. They applied much energy in deploying efficient strategies, in accordance with the fundamental principles of our business plan, all within a framework of discipline and rigour.

On behalf of the Board of Directors, I therefore wish to reiterate our support to our President and Chief Executive Officer, Raymond McManus, and to the members of our Management Committee. They manage Laurentian Bank's destiny with considerable determination and competence, and they fully deserve our trust.

FINANCIAL HIGHLIGHTS

IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS	**2004**	2003	2002
Per common share			
Net income			
Basic	**$ 1.33**	$ 3.33	$ 1.27
Diluted	**$ 1.33**	$ 3.32	$ 1.26
Dividends	**$ 1.16**	$ 1.16	$ 1.16
Book value	**$ 28.78**	$ 28.73	$ 26.57
Share price			
High	**$ 29.35**	$ 29.25	$ 41.30
Low	**$ 25.42**	$ 24.91	$ 25.53
Close	**$ 25.45**	$ 27.75	$ 28.08
Number of common shares (in thousands)			
Average	**23,485**	23,416	23,095
End of period	**23,511**	23,436	23,409
Price/earnings ratio	**19.1x**	8.3x	22.1x
Market to book value	**88%**	97%	106%
Dividend yield	**4.56%**	4.18%	4.13%
Earnings			
Total revenue	**$ 474.0**	$ 629.9	$ 600.4
Net income	**$ 47.8**	$ 91.9	$ 44.3
Net income available to common shareholders	**$ 31.3**	$ 77.9	$ 29.3
Other income			
As a % of total revenue	**42.0%**	45.5%	42.4%
As a % of average assets	**1.22%**	1.55%	1.37%
Return on average assets	**0.29%**	0.50%	0.24%
Efficiency ratio			
Non-interest expenses as a % of total revenue	**78.0%**	70.1%	67.8%
Return on common shareholders' equity	**4.6%**	12.4%	4.8%
Balance sheet assets and assets under administration			
Balance sheet assets	**$16,607**	$16,738	$18,596
Cash resources and securities	**$ 3,331**	$ 3,906	$ 3,504
Loans, bankers' acceptances and assets purchased under reverse repurchase agreements, net	**$12,434**	$12,151	$14,324
Personal deposits	**$10,454**	$10,509	$12,008
Assets under administration	**$14,878**	$15,488	$14,893
Cash resources and securities			
As a % of balance sheet assets	**20.1%**	23.3%	18.8%
Personal deposits			
As a % of total deposits	**81.0%**	79.1%	80.2%
As a % of loans, bankers' acceptances and assets purchased under reverse repurchase agreements, net	**84.1%**	86.5%	83.8%

AS AT OCTOBER 31	2004	2003	2002
Quality of assets			
Net impaired loans			
As a % of loans, bankers' acceptances and assets purchased under reverse repurchase agreements	**(0.1)%**	0.2%	0.1%
Allowance for loan losses	**$ 140**	$ 163	$ 218
As a % of gross impaired loans	**110%**	88%	96%
As a % of gross loans, bankers' acceptances and assets purchased under reverse repurchase agreements	**1.11%**	1.33%	1.50%
Geographic distribution of loans			
Quebec	**65%**	64%	53%
Other Canadian provinces	**35%**	36%	47%
Loan distribution			
Personal	**32%**	32%	28%
Residential mortgages	**48%**	46%	49%
Commercial mortgages	**5%**	6%	7%
Commercial and other	**15%**	16%	16%
CMHC insured mortgages			
As a % of residential mortgages	**51%**	57%	61%
Capitalization			
Shareholders' equity, non-controlling interest in a subsidiary and debentures	**$1,137**	$1,315	$1,269
BIS capital ratios			
Tier I	**10.5%**	10.2%	8.8%
Total capital	**14.0%**	15.2%	13.5%
Tangible common equity as a percentage of risk-weighted assets	**7.6%**	7.8%	6.7%
Other information			
Number of full-time equivalent employees	**3,125**	3,159	3,730
Number of branches	**153**	155	214
Number of automated banking machines	**293**	284	351

AS AT OCTOBER 31			2004	2003
	QUEBEC	OTHER	TOTAL	TOTAL
Point-of-sale Financing	**2,740**	**5,641**	**8,381**	8,155
Brokerage Offices	**9**	**2**	**11**	10
Business Service Centers	**18**	**10**	**28**	22
Independant Financial Advisors	**3,187**	**10,480**	**13,667**	13,183

MANAGEMENT COMMITTEE

1994
Bernard Piché
Senior Executive Vice-President and Treasurer, Treasury, Capital Markets, Wealth Management and Brokerage
Financier for 30 years
At Laurentian Bank for 10 years

2002
Raymond McManus
President and Chief Executive Officer (member of the Board of Directors since 1988)
Banker for 44 years
At Laurentian Bank for 16 years

1991
Robert Cardinal
Senior Executive Vice-President, Finance, Administration and Strategic Development and Chief Financial Officer
Chartered accountant for 34 years
At Laurentian Bank for 13 years

2003
Réjean Robitaille
Executive Vice-President, Retail Financial Services
Chartered accountant and financier for 21 years
At Laurentian Bank for 16 years

2003
Lorraine Pilon
Executive Vice-President, Corporate Affairs and Secretary
Attorney for 15 years
At Laurentian Bank for 14 years

2003
André Scott
Executive Vice-President, Commercial Financial Services
Banker for 29 years
At Laurentian Bank for 11 years

CORPORATE GOVERNANCE

BOARD OF DIRECTORS' COMMITTEES

Within the Canadian banking sector, Laurentian Bank of Canada has often been a front-runner in corporate governance. For one, it was the first bank to separate the functions of chairman of the board and president and chief executive officer. Its rules and corporate governance polices, moreover, are among the most exemplary in the Canadian banking and financial industry.

The Board of Directors has established three committees, to which it has delegated particular responsibilities and functions. Their composition takes into account legislative requirements, best corporate governance practices, and the nature of their mandate. All of the Board of Directors' committees are composed of outside directors who are independent of the Bank's management. On a continuous basis, they all report, both in writing and verbally, on their work to the Board of Directors. Furthermore, the **Audit Committee** and the **Human Resources and Corporate Governance Committee** present, in the management proxy circular, a report on their work for the last completed fiscal year.

The **Audit Committee** reviews, before their submission to the Board of Directors, the annual and quarterly financial statements of the Bank, along with all documents that are part of the annual and quarterly financial disclosures, including press releases on quarterly financial results and Management's discussion and analysis of results of operations and financial condition, as prepared and presented by the Bank's management. Moreover, the committee supports the Board of Directors in its supervisory role on the implementation of appropriate control measures, reviews the performance and the reports of the internal auditor, and considers any financial matter that it deems appropriate or that is referred to it by the Board of Directors.

With regard to risk management, the Audit Committee requires that the management implements the appropriate internal control and financial information disclosure mechanisms, and reviews and assesses periodically these mechanisms and ensures that the Board of Directors has pertinent, precise and complete information, and that the Bank complies with regulations. Moreover, the committee is specifically in charge of supervising and evaluating the work, the independence and the fees of the Bank's external auditors. In discharging their responsibilities, the committee members meet, together and separately, with the officers and the external auditors to discuss financial matters within their terms of reference. They also meet annually with the Superintendent of Financial Institutions of Canada or his representative.

As part of its human resources function, the **Human Resources and Corporate Governance Committee** ensures that the compensation plan is compatible with the attainment of the Bank's objectives and with the prudent management of its activities and risks, reviews and approves senior executive compensation, assesses the performance of the President and Chief Executive Officer, in cooperation with the Board of Directors, and reviews the performance of the members of the Management Committee. It also reviews the administration of short-term and long-term incentive programs, approves the annual salary policy, periodically reviews the Bank's organizational structure and approves the appointment of the executive officers. It ensures the succession of senior management, supervises the various issues that relate to labour relations, including the collective bargaining process of unionized employees, and receives regular reports on relations between the Bank and its employees. As part of its corporate governance function, the committee is in charge of implementing and monitoring the corporate governance rules, and formulates recommendations to the Board of Directors in this regard. It ensures the proper functioning and the efficiency of the Board of Directors and its committees, and reviews their composition and nominations. It is this committee that proposes the appointment of new directors and evaluates current directors. Among other duties, it ensures that orientation and training programs for board members are implemented, reviews the compensation of the directors in relation to their responsibilities, ensures that shareholders are properly informed of the Bank's affairs and deals with any major disagreement between the Bank and its shareholders. It also reviews the responsibilities and powers of the Board of Directors' committees.

The **Risk Management Committee** ensures that the Bank has adopted an adequate risk management process intended to identify, evaluate and manage risk, along with the formulation of adequate policies to manage credit, market, structural, capital management, operational and regulatory risks. The committee groups together three functions: conduct, credit and oversight. As part of its conduct function, the committee monitors the application of methods for reviewing transactions with individuals or organizations related to the Bank. It monitors procedures for disclosure of information to customers concerning banking fees as well as procedures for examining customer complaints. Annually, it reviews the Code of Ethics governing the Bank's employees and officers, as well as the one governing the Bank's service providers, and approves the rules of conduct and behaviour that take risks into account. As part of its credit function, the committee reviews the Bank's credit policies and procedures, and ensures that the highest standards of quality are maintained. It also approves loans and advances exceeding the limit established by the Board of Directors, including loans and advances to employees and officers. Furthermore, in its oversight function, the committee reviews the internal policies of the Bank that relate to risk management, and reviews conflict of interest situations between the Bank and its subsidiaries, along with conflicts concerning any individual who holds a dual position. It also examines the important agreements between the Bank and its subsidiaries.

BOARD OF DIRECTORS

FROM LEFT TO RIGHT
GEORGES HÉBERT, RONALD COREY
RAYMOND McMANUS, L. DENIS DESAUTELS
RICHARD BÉLANGER, JEAN BAZIN
ÈVE-LYNE BIRON, DOMINIC J. TADDEO
PIERRE MICHAUD, CARMAND NORMAND
GORDON RITCHIE, JONATHAN I. WENER
AND VERONICA S. MAIDMAN

2002

Jean Bazin, Q.C. Partner, Fraser Milner Casgrain

Attorney since 1965, appointed Queen's Counsel in 1984 and a member of the Senate from 1986 to 1989, Jean Bazin chaired the Canadian Bar Association in 1987-1988 and the Quebec-Japan Business Forum in 1999. Jean Bazin has sat on the Board of Directors of the Bank from 1990 to 2000. Very active within the business community and various cultural organizations, he is known for his discipline and rigour. Mr. Bazin sits on the boards of directors of different companies, including the Société générale de financement.

2003

Richard Bélanger President, Toryvel Group Inc.

A chartered accountant since 1980, Richard Bélanger was awarded the Prix Émérite 2004 and the designation "Fellow" by the *Ordre des comptables agréés du Québec* in May 2004. Toryvel Group Inc. is a holding company which main investment fields lie in the forest and transportation sectors, as well as in that of private and stock market placement. Mr. Bélanger is President and co-owner of this company and he is also President of Stetson Timberlands, Inc. He sits on the board of directors of InterTrade Systems Corporation, Stella-Jones Inc. and Capital L'Estérel Inc., a Capital Pool Company ("CPC") listed on the Toronto TSX Venture Exchange.

2003

Ève-Lyne Biron President and General Manager, Laboratoire Médical Biron Inc.

With a masters in administration to her credit, Ève-Lyne Biron is a young manager who aims for very concrete results and who is actively involved in her community. Her company was ranked 37th of the top 100 Canadian companies directed by women in 2003 and is a 2004 award winner of the Nouveaux Performants competition, "Entrepreneur" category. Ms. Biron sits on the board of directors of l'Orchestre symphonique de Longueuil, the Foundation Armand-Frappier and of DEL (Développement économique Longueuil).

1994

Ronald Corey, O.C. President, Ronald Corey Groupe Conseil Ltée

Member of the Order of Canada, Ronald Corey has displayed exceptional strategic abilities and exemplary social involvement throughout his career, both as honorary president of large fund-raising campaigns and foundations, and as president and CEO of Molson Centre or chairman of the board of the Port of Montreal. The organizations with which he collaborates benefit greatly from his rich experience in the business world.

2001

L. Denis Desautels, O.C. Chairman of the Board, Laurentian Bank of Canada, Executive-in-residence School of Management, University of Ottawa

Fellow of the *Ordre des comptables agréés du Québec* and of the Institute of Chartered Accountants of Ontario, and involved with a number of professional committees including the Accounting Standards Oversight Council of the Canadian Institute of Chartered Accountants, Denis Desautels is a recognized Canadian authority on governance. Auditor General of Canada from 1991 to 2001, he was appointed Officer of the Order of Canada in 2001. He also sits on the boards of directors of Alcan Inc., Bombardier Inc., The Jean Coutu Group (PJC) Inc. and CARE Canada.

1990

Georges Hébert President, Prosys-Tec Inc.

Georges Hébert, director of the Bank since 1990, has long been active in the transport sector. Notably he was president of Clarke Transport Inc. before acquiring, in 1988, J.A. Provost Inc., a supplier of home and commercial security systems. He sits on various boards of directors among which is MDS Aerospace, and Vitran Corporation.

2001

Veronica S. Maidman Chair Advisory Council, Equifax Canada Inc.

Veronica Maidman is an executive with outstanding strategic vision and a great capacity to meet challenges in a constantly evolving environment. Ms. Maidman sits on different corporate boards as well as the board of directors of Sunnybrook and Women's College Health Sciences Centre, recently completing her term as Vice Chair. Throughout the years she's worked with all levels of government concerning legislative and regulatory issues with particular emphasis on consumer privacy. She was featured in a report on the leaders of tomorrow in *Canadian Business Magazine*.

1988

Raymond McManus President and Chief Executive Officer, Laurentian Bank of Canada

Raymond McManus has worked in the banking industry since 1960. On the strength of the expertise he developed in corporate loans early in his career, he was promoted to positions of increasing responsibility, including that of Senior Vice-President at the Mercantile Bank. He also founded Cafa Financial Corporation, a private investment bank specializing in mergers and acquisitions, corporate financing and real estate. Mr. McManus is president and chief executive officer of the Bank since August 2002.

1990

Pierre Michaud, O.C. Vice-Chairman of the Board, Laurentian Bank of Canada, Chairman of the Board, Provigo Inc.

Member of the Order of Canada, Pierre Michaud has a vast experience in the retail business as much as in corporate governance. He is Director of different companies including Loblaw Companies Limited, Bombardier Recreational Products Inc., Gaz Métro Inc. and Old Port of Montreal Corporation Inc. and is a member of the Advisory Board of Mont-Tremblant. Very active in many charitable organizations, Mr. Michaud is a member of the board of governors of Centraide, the Fondation de l'Hôpital Sainte-Justine and the Fondation du Centre hospitalier universitaire de Montréal (CHUM).

2004

Carmand Normand Chairman of the Board, Chief Executive and Investment Officer, Addenda Capital Inc.

With over 35 years of experience in the field of finance, Carmand Normand is an accomplished businessman with a keen entrepreneurial sense. An excellent investment strategist, Mr. Normand won particular recognition in 2000, when he received the Hermès Award for outstanding career accomplishments from the Faculty of Business Administration of Université Laval. His vast professional involvement includes extensive work as Vice-Chairman of the Board and Member of the Audit Committee of the Montreal Exchange, Director of the Fondation du Centre hospitalier Jacques Viger and Administrator of the Orchestre Métropolitain. Mr. Normand is also a co-author of *Caisses de retraite et placements,* in bookstores since September 1994.

2003

Gordon Ritchie Chairman, Public Affairs, Hill & Knowlton Canada

Gordon Ritchie was one of the main architects of the Free Trade Agreement between Canada and the United States. Throughout his illustrious career within the federal public service, he focused on economic development and international trade. On leaving government, he became a business consultant and is now Chairman of Hill & Knowlton Canada. He is also serving on the board of directors of Maple Leaf Foods Inc.

1998

Dominic J. Taddeo President and Chief Executive Officer, Montreal Port Authority

A Montrealer by birth, Dominic J. Taddeo has dedicated most of his career to the maritime industry. Appointed president and chief executive officer of the Montreal Port Authority in 1984, he has played a pivotal role in the economic development of Montreal. He has received many honours and merits, including Transport Personality of the Year for the Province of Quebec and awards of distinction from the Faculty of Commerce and Administration of Concordia University and the Corporation professionnelle des administrateurs agréés du Québec. He is chairman of the board of EDICOM, a Montreal-based EDI project of strategic importance to Canada's transportation and trade community.

1998

Jonathan I. Wener, O.C. Chairman of the Board, Canderel Management Inc.

A renowned expert in the real estate sector, Jonathan Wener has vast experience in the commercial, industrial, residential, recreational and hotel sectors. Associated for 30 years with the success of Canderel Management, Mr. Wener contributes to the well-being of his community through his involvement in numerous professional associations and charitable organizations. He sits on different boards of directors including the Board of Governors of Concordia University, the Foundation of the Montreal Museum of Fine Arts, the Fondation du maire de Montréal (pour la jeunesse) and The Jewish General Hospital and its Foundation.

REVIEW OF OPERATIONS

THROUGHOUT THE 2004 FISCAL YEAR, LAURENTIAN BANK OF CANADA HAS MOBILIZED ALL OF ITS RESOURCES AND CHANNELLED ALL OF ITS ENERGY INTO THE MEASURES NECESSARY TO ATTAIN ITS BUSINESS OBJECTIVES. SUCH MOBILIZATION ENSURED THE SUCCESS OF MANY INITIATIVES THROUGHOUT THE YEAR, AND STILL REMAINS A KEY ELEMENT IN THE SUCCESS OF THE BANK'S BUSINESS PLAN.

HOWEVER, THIS PLAN CANNOT BE APPLIED WITHOUT CONSIDERATION FOR EXTERNAL FACTORS. THE OVERALL ECONOMIC CLIMATE, CONSUMER CONFIDENCE, INTEREST RATE FLUCTUATIONS AND THE FIERCE COMPETITION AMONG CANADIAN FINANCIAL INSTITUTIONS HAD AN IMPACT ON THE BANK AND WILL CONTINUE TO IMPACT ITS OPERATIONS.

THE SUSTAINED VIGILANCE OF THE BANK AND OF ITS LINES OF BUSINESS THROUGHOUT THE 2004 FISCAL YEAR CONTRIBUTED TO THE OPTIMAL IMPLEMENTATION OF THE BUSINESS PLAN, AS YOU WILL SEE IN THE FOLLOWING PAGES.

RETAIL FINANCIAL SERVICES

Following the sale of the Ontario and Western Canada branches in 2003 and the adoption of the new business plan, Retail Financial Services has stepped up its initiatives to increase the Bank's visibility and the level of awareness of the organization in Quebec, where its branch operations are now concentrated, while supporting its indirect financial services nationwide.

These initiatives were guided by the Bank's constant concern for the values that give the Bank and its offer of products and services an ever-growing competitive advantage: continuous improvement of service quality; proximity, to meet the needs of the clients in their immediate environment; simplicity, to offer products and services with easy access and adapted to their particular needs; and flexibility, to be fully attuned to the clients' needs, at all times.

With this in mind, Retail Financial Services shows particular care for the employees who are the "role models" in respecting the quality and values of the Bank, and for the branches that are the Bank's "showcases" in its different business markets.

ENTREPRENEURSHIP: A NEW MANAGEMENT MODEL

Essentially, the *Entrepreneurship* project revolves around the implementation of a disciplined and decentralized management method, which promotes the individual and collective role of employees at the branch and local and regional area market level, through various concrete measures to encourage their autonomy, develop their sense of responsibility and acknowledge their contribution to the Bank's growth and development.

Launched in 2003, the *Entrepreneurship* project proved to be a great success. It was decided to expand the project throughout the branch network in fiscal 2004, which translated into a revised structure: each branch is now under the responsibility of a branch manager, and the branches are grouped into 25 local and regional area markets, each reporting to an assistant vice-president.

This structure has proven efficient on different levels. On the one hand, it is a framework that entrusts the employees with a larger share of responsibility in the results of their branch and of their market. On the other hand, it builds on the entrepreneurship of its employees, allowing the Bank to better understand its clienteles and to tailor its products and services to the particular needs and expectations of the local and regional area markets. Moreover, to encourage employees and to acknowledge their contribution to the growth and profitability of the organization, the Bank has adopted incentive compensation programs based on the profitability of such markets.

This management method also contributes to the growing satisfaction of the Bank's clients, who benefit

IN THE FIRST QUARTER OF FISCAL 2005, THE BANK OPENED THE FIRST FIVE OF ITS NEW-CONCEPT "FINANCIAL SERVICES BOUTIQUES" OFFERING A TOTALLY REDESIGNED APPROACH TO BANKING SERVICES.

from the services provided by motivated employees with keen interest in the quality of customer relations.

A number of other measures to promote and to apply the highest standards of quality and excellence have been implemented across the branch network, including continuous training programs, quality service indicators and "mystery shoppers".

OPTIMIZATION AND EXPANSION OF THE BRANCH NETWORK

Throughout the year, Retail Financial Services pursued several initiatives as part of the branch network optimization and expansion program. A new permanent and multidisciplinary committee oversees the implementation of the program. Among other responsibilities, the committee is to analyze the profitability and to assess the potential of the existing branch network in order to pinpoint the markets where the Bank could improve its standing through renovating, relocating or merging its branches, and to identify new markets where it could establish its presence by opening new branches.

The *Espresso* Bank-Café is another example of the network optimization and expansion program. A pilot project was launched in September 2004 with the inauguration of the first *Espresso* Bank-Café in Outremont borough of Montreal, which offers a complete line of products and services from the Bank, complemented by café services from Van Houtte Café. This concept, unique in Canada, has attracted a lot of interest and contributes to promoting the Bank's client-friendly approach, and to strengthening the existing client relations and establishing new ones.

The accessibility, proximity and quality of service offered by the Bank to both individuals and businesses ensure its competitive advantage. The Bank will continue to build on these values by opening new branches, especially in fast-growing municipalities, and installing new automatic banking machines.

In the first quarter of fiscal 2005, the Bank opened the first five of its new-concept branches – called "financial services boutiques" – offering a totally redesigned approach to banking services, in Blainville, Mascouche, Gatineau (Hull), Sainte-Dorothée and La Prairie.

This innovative concept plays up the interaction between the Bank's employees and clients, therefore enhancing the Bank's involvement in the communities where it does business. The new concept is based on the analysis of the best practices in the banking industry and in the retail industry worldwide, and is the result of an in-depth evaluation of the client in-branch experience.

By opening the doors of the new financial services boutiques, the Bank attempts to make the banking experience of its clients more pleasurable, to offer them a destination where they will find answers to their needs and expectations in a warm and welcoming atmosphere. Among the distinct features of such financial services boutiques are service islands (instead of traditional counters), play areas for children, a library zone and a café lounge.

The Bank has also adopted new trademark standards, including its corporate signature (logo design and colours) and certain elements of the branch design to ensure the consistency of its brand image throughout the network.

MARKETING: LEARN TO DARE

In January 2004, the Bank launched a multimedia advertising campaign under the theme "DARE". The new campaign dares consumers to step off the travelled roads and to do business with a financial institution that has more to offer than just another bank alternative.

This daring advertising campaign caught the eye of the media and the public right away. It span off a sequence of ads and marketing activities that continue to promote the Bank, and its products and services among its target clienteles.

Moreover, Retail Financial Services made a more systematic use of the data warehouse for relational marketing purposes. Backed by a customer relation management approach, such activities have already proven their efficiency and profitability. The line of business then plans to

IN JANUARY 2004, THE BANK LAUNCHED A MULTIMEDIA ADVERTISING CAMPAIGN UNDER THE THEME "DARE". THE NEW CAMPAIGN DARES CONSUMERS TO STEP OFF THE TRAVELLED ROADS AND TO DO BUSINESS WITH A FINANCIAL INSTITUTION THAT HAS MORE TO OFFER THAN JUST ANOTHER BANK ALTERNATIVE.

decentralize these tools, handing them over to the branch network. The sector also armed itself with campaign management tools to efficiently manage its initiatives in this domain.

DEVELOPMENT OF DISTRIBUTION CHANNELS

Throughout the 2004 fiscal year, Retail Financial Services focused on developing the Bank's offer of products and services through various distribution channels intended for well-defined target clienteles. These activities include forming a new mortgage sales team of about 20 people; appointing five new Quebec managers in the construction domain to ensure the growth of this important business sector; in Quebec, consolidating a team of mortgage brokers in early 2004, and outside Quebec, reinforcing a similar team with a sales manager.

The accessibility of its services continues to be of great importance to Retail Financial Services, which offers a high-quality service, 24 hours a day, 7 days a week through its network of automatic banking machines, its Telebanking Centre and the Bank's Website. With the accessibility of services in mind, the line of business launched a pilot project, under which an "online" advisor was assigned to certain clients to facilitate their banking.

Moreover, Retail Financial Services continues to invest into detection and prevention of electronic fraud, through its 24/7 transaction watch centre.

Finally, Retail Financial Services and Commercial Financial Services are currently working on a mutual project designed specifically for the Quebec micro-business market. The two sectors will review the Bank's offer of products and services and simplify certain business processes to meet the particular needs of this growing clientele.

The sustained efforts of Retail Financial Services produced convincing results in fiscal 2004, as seen from the success of the marketing campaigns and the sales results of RRSP loans, mortgage loans and Visa credit cards. For example, the number of new Visa Gold cardholders has more than tripled over the year and the number of mortgage commitments was up as well.

COMMERCIAL FINANCIAL SERVICES

The repositioning strategy adopted by Commercial Financial Services two years ago has translated into the business plan that guided its operations throughout the 2004 fiscal year.

As part of this plan, Commercial Financial Services has the mandate to provide basic financial services, complemented by certain products from its partners, to such target clienteles as small- and medium-sized businesses in Quebec, medium-sized businesses in Ontario; real estate developers in the main metropolitan areas of Canada; and agricultural producers in Quebec.

Like the other lines of business, Commercial Financial Services has adopted measures to offer services of the highest quality with the focus on efficiency, innovation, availability and personalized approach.

SMALL- AND MEDIUM-SIZED BUSINESSES

Over fiscal 2004, Commercial Financial Services has been given the responsibility to oversee all commercial operations related to the market of small- and medium-sized enterprises (SMEs), which entailed the reorganization of its business operations. The line of business now operates six regional centres in Quebec. Moreover, to offer better solutions to the needs of this particular market segment, it has established three micro-business service centres.

Commercial Financial Services' objective for 2005 is to boost its SME client base and therefore ensure the growth of its assets, while contributing to the Bank's status of a key player in this Quebec market.

The main objective of its strategy in the Ontario SME market is to become recognized as a niche player. In 2005, Commercial Financial Services will launch a pilot project in Kitchener, which will transform its business

FISCAL 2004 WAS ANOTHER GOOD YEAR FOR COMMERCIAL FINANCIAL SERVICES WITH REGARD TO ITS PERFORMANCE RESULTS IN THE REAL ESTATE MARKET.

centres into commercial branches. In the same year, it will conduct a telemarketing campaign targeting medium-sized businesses in Ontario.

REAL ESTATE MARKET SECTOR

Fiscal 2004 was another good year for Commercial Financial Services with regard to its performance results in the real estate market. However, slowdown in the construction sector remains a possibility. To ensure the stability of its portfolio, the Bank will adopt a more aggressive approach to term financing. With its expertise and reputation in this market, the line of business expects to increase its presence in Western Canada.

AGRICULTURAL MARKET SECTOR

The growth potential of the agricultural sector remains very promising, and Commercial Financial Services has the necessary resources to meet, efficiently and effectively, the banking needs of farmers.

For 2005, once again, Commercial Financial Services set an objective to increase the Bank's visibility, while expanding its client base and its assets in the agricultural financing sector.

Therefore, the line of business will widen the geographical scope of its operations and will improve the accessibility of its services in Quebec agricultural sector through new "satellite" branches. Moreover, it will enhance its product line in order to help the Bank stand out among other financial institutions that currently offer services in this market.

In short, Commercial Financial Services is well positioned for efficient growth in 2005.

B2B TRUST

The decision of the Bank to privatize B2B Trust is undoubtedly one of the highlights of the 2004 fiscal year. This transaction, finalized in the third quarter of 2004, was first and foremost part of the Bank's plan to realize cost savings, evaluated at $1 million to $2 million a year, through eliminating costs associated with the requirements of compliance and corporate governance for public companies.

The B2B Trust line of business is hence determined to pursue its development strategy at the service of intermediaries, all across Canada.

DISTRIBUTION THROUGH INDEPENDENT FINANCIAL INTERMEDIARIES

B2B Trust considers independent financial intermediaries, through their brokerage firms, one of the main distribution networks. B2B Trust offers an array of products and services, such as investment and RRSP loans, deposits, banking products and administrative services for self-directed plans.

The key event of the 2004 fiscal year with regard to investment loan activities was the launch of *100% Accelerator Loan*. This new loan product offers investors and their financial advisors a streamlined process with simplified credit application, underwriting and processing. Funds are normally made available within 24 hours. This product was enthusiastically received by the investment community and is now among the "star" products of the line of business. Anticipating market tendencies and offering innovative solutions to client needs, B2B Trust strengthened its forefront position in the investment loan market.

In the same segment, B2B Trust has already established its position of a Canadian leader in the market of RRSP loans and of self-directed mortgages, a product that is quickly gaining popularity.

DISTRIBUTION THROUGH DISTRIBUTION ALLIANCES IN THE INVESTMENT MARKET

B2B Trust believes that distribution alliances with investment companies, such as mutual fund and life insurance companies, are mutually profitable to the business parties and contribute to strengthening its leading position in the investment market.

In the 2004 fiscal year, as the investment loan and mutual fund market was gaining ground, B2B Trust made the most of these powerful distribution alliances.

DISTRIBUTION THROUGH DISTRIBUTION ALLIANCES WITH RETAILERS

For B2B Trust, distribution alliances with retailers started in 2003 with a marketing agreement with one of the largest retailers in Canada, Canadian Tire Financial Services. Today, B2B Trust supplies a line of credit product that Canadian Tire offers to its clients.

Throughout the 2004 fiscal year, B2B Trust invested significant energy and resources in the implementation and development of this consumer-market product. Particular attention has been given to personal lines of credit, since they represent a relatively new portfolio for B2B Trust, which has to make sure that the processes are adequate to the clients' needs and correspond to its own performance and profitability objectives.

DISTRIBUTION THROUGH DEPOSIT AND MORTGAGE BROKERS

Besides managing broker deposits as part of its own business, B2B Trust provides business relations and administrative services for deposits on behalf of Laurentian Bank. A leader in this domain, B2B Trust ensured access to this important funding source that accounts for over one-fourth of the Bank's deposits.

At the beginning of 2005, the Bank decided to hand the operations of its Toronto Mortgage Broker Centre over to B2B Trust. Well-known in the domain for the excellence of service, the Centre offers a full range of mortgage lines and loans, and specializes in a few specific products intended for the clientele in the domain of multi-unit housing and multi-purpose buildings.

B2B TRUST: AN OVERVIEW

The competitive advantage of B2B Trust is directly linked with the expertise and competency of its employees, who stand apart thanks to their first-hand knowledge of the investment industry and to their capacity to innovate, as well as with the technological tools at disposal of their clients.

In this regard, the 2004 fiscal year validated the success of the electronic platform for online adjudication for RRSP loan applications that was used extensively at over 50% by the partners of B2B Trust during the RRSP campaign.

While ensuring tight cost management and safeguarding revenue growth, B2B Trust will, from now on, prioritize the diversification of its offer of products and services, as well as new agreements with key partners.

WEALTH MANAGEMENT AND BROKERAGE

Laurentian Bank Securities operates four business sectors: capital market, retail brokerage, discount brokerage operations, as well as introducing broker.

Laurentian Bank Securities, a full-service security broker, puts the expertise and the know-how of its team of experienced managers and advisors at the service of governments, institutions and private individuals. It is well known and highly regarded in the Canadian brokerage domain for its research service, trading desks and advanced technology.

Specialized in corporate financing, Laurentian Bank Securities offers institutions, governments and retail clientele a full array of debt financing instruments. Its retail brokerage service, offered to all clients, through a reference agreement with the branch network, is a valuable addition to the Bank's offer of products and services, which also includes the Private Portfolio service for the more wealthy among its clients.

The 2004 fiscal year was exceptionally good for Laurentian Bank Securities, which registered a considerable increase in its contribution to the Bank's financial results and a substantial growth of its net revenue.

The results can be attributed to the efforts of the organization to develop and fine-tune the distribution network, as well as to the measures implemented to rationalize and optimize its operations. Laurentian Bank Securities has enhanced its product offer and developed different functions of its Internet-based transactional platform in order to promote its discount brokerage service.

In fiscal 2005, Laurentian Bank Securities plans to pursue the expansion of its distribution network, to improve its online brokerage service and to strengthen its cooperation with the Bank's branch network through a reference agreement.

The Wealth Management and Brokerage line of business also included the joint-venture BLC-Edmond de Rothschild Asset Management Inc. specializing in mutual fund portfolio management and providing private and institutional financial management services.

However, at the beginning of fiscal 2005, the Bank announced an agreement whereby Industrial Alliance Insurance and Financial Services Inc. acquires all of the shares of BLC-Edmond de Rothschild Asset Management Inc. This transaction, completed on December 31, 2004, also includes a 10-year distribution agreement, in accordance with which the Bank can continue offering the R Fund family mutual funds to its clients through its different distribution channels.

The sale of the BLC-Edmond de Rothschild Asset Management Inc. is part of the measures necessary to execute the Bank's business plan. This agreement completes the Bank's main reorientation actions.

On the one hand, the gain that the Bank realized thanks to this agreement, the amount of which is subject to certain conditions, will provide additional resources that the Bank can use to further strengthen its financial position and to proceed with the execution of its business plan, with all confidence.

On the other hand, it will enhance the offer of products and services of the Bank's network, giving its employees an additional competitive asset in quality service to their clients.

CORPORATE SECTORS

Besides the four lines of business, the organizational structure of the Bank includes four corporate sectors: Treasury and Financial Markets; Finance, Administration and Strategic Development; Credit; Corporate Affairs, Human Resources and Secretariat.

Each of these sectors made an invaluable contribution to the development of the Bank's business plan and, throughout fiscal 2004, continued to support the lines of business in their day-to-day operations and to participate in the implementation and seamless application of measures aimed at ensuring the growth of profitability for the Bank.

TREASURY AND FINANCIAL MARKETS

In the unfavourable market conditions with fluctuating interest rates, the Treasury and Financial Markets sector had to show a lot of determination and rigour in order to offset the narrow interest margins, in particular at the end of 2004.

Since the main role of the Treasury and Financial Markets sector is to manage the Bank's capital, it has been closely involved in the preparation and conclusion of the transactions that marked fiscal 2004 and the beginning of fiscal 2005.

Moreover, this sector also invested significant efforts into the review and evaluation of the Bank's policies and procedures related to the distribution of assets and to matching cash flows. Based on the results, the Treasury and Financial Markets sector will make certain adjustments over the 2005 fiscal year.

The sector also ensures a dynamic and rigorous management of all the elements linked to credit ratings, despite the Bank's relatively limited needs in institutional financing.

FINANCE, ADMINISTRATION AND STRATEGIC DEVELOPMENT

This corporate sector, whose mandate is to support the day-to-day operations of the Bank and to participate in the

IN FISCAL 2005, LAURENTIAN BANK SECURITIES PLANS TO PURSUE THE EXPANSION OF ITS DISTRIBUTION NETWORK, TO IMPROVE ITS ONLINE BROKERAGE SERVICE AND TO STRENGTHEN ITS COOPERATION WITH THE BANK'S BRANCH NETWORK.

development of its lines of business and of its subsidiaries, includes five departments: Information Technology; Real Estate Management and Procurement; Administrative Services; Finance; Investor Relations and Integrated Risk Management.

To ensure the optimal management of the Bank's significant technology investments, the *Information Technology* department reviewed and assessed all technology assets, as well as implemented and ensured the application of preventive measures to avert and respond to faults and eventual failures of electronic and information systems. In 2004, this department prepared and distributed a strategic technology plan and an information security master plan to boost systems' security and to offer better solutions to the business needs of the Bank.

The *Real Estate Management and Procurement* department plays a central role in the optimization of the Bank's branch network and of the new financial services boutiques. While continuing to support the development of the network in fiscal 2005, this service set an objective to reduce lease management costs for the branch network and corporate facilities, as well as to limit and optimize vacant space. It also mapped out a three-year master plan for real estate operations with the objective to support the Bank's strategic plan.

Administrative Services has been closely involved in finalizing the transfer of the Ontario and Western Canada branches, and made sure that this major operation is completed to the satisfaction of the buyer and the clients. In the 2005 fiscal year, this service plans to optimize various administrative operations, including outsourced compensation activities, and to finalize the application of performance indicators to be used in budgeting and budget follow-up.

The *Finance* department worked closely on the major transactions of the 2004 fiscal year, including the sale of BLC-Edmond de Rothschild Asset Management Inc. and the distribution agreement with Industrial Alliance, among others. This service plays a crucial role in tax planning, strategy and control, in particular with respect to the Bank's business plan. Therefore, it ensures a continuous control over various elements of the business plan and could quickly intervene should the Bank deviate from its objectives. In 2005, the Finance department will play an active role in the profitability of the Bank's various lines of business through such measures as analysis tools and models, and rigorous cost control.

The business plan attracted the attention of the partners, shareholders and investors, who have an interest in it or who closely follow the Bank's development. Throughout the 2004 fiscal year, *Investor Relations* used various communication means to provide accurate and exhaustive information to all concerned parties.

The Bank's procedures and operations will be largely affected by the New Basel Capital Accord which will apply soon. The Integrated Risk Management department is responsible for the coordination of the in-depth analysis of the Accord, as well as of the Bank's capital and operating costs to ensure its rigorous and optimal implementation at the Bank.

CREDIT

The Credit department manages all approval mechanisms with regard to commercial and personal consumer loans. All approval processes are centralized. The Credit sector also relies on the risk management team, which is responsible for the implementation and management of scorecards to be used for the approval of loans and for the follow-up of portfolios. The sector is responsible for the collection and recovery of impaired loans, through its collection and recovery centre. It also employs specialists with expertise in company turnaround and commercial recovery.

CORPORATE AFFAIRS, HUMAN RESOURCES AND SECRETARIAT

The Corporate Affairs, Human Resources and Secretariat sector includes Human Resources, Internal Audit, Legal Affairs, Corporate Security, Public Affairs and Communications, and Secretariat.

THE BUSINESS PLAN ATTRACTED THE ATTENTION OF THE PARTNERS, SHAREHOLDERS AND INVESTORS WHO CLOSELY FOLLOW THE BANK'S DEVELOPMENT.

Throughout the year, *Human Resources* continued to ensure optimal management of all related aspects for the whole of the Bank. Besides its on-going management of allocation and hiring of human resources, compensation programs, and development and training of personnel, the Bank has persisted in improving its relations with the Union representing the Bank's unionized employees. At the beginning of fiscal 2005, the arbitrage tribunal that was commissioned to determine the contents of the next collective agreement gave a partial ruling on the monetary aspects of the agreement. The final arbitration with respect to all other aspects is expected in early 2005.

The mandate of the *Internal Audit* department is to provide a systematic and structured approach allowing the Bank to evaluate and improve its risk management processes, control measures and corporate governance. It reports directly to the Audit Committee of the Board of Directors, which ensures the independence and objectivity of the Bank's internal auditors, the two fundamentals of the quality and credibility of their work. In 2005, this sector will form a new function of *Counsel and Support* to offer competency-building tools to the Bank's managers and to increase their contribution to the rigorous management of operations in their responsibility.

Throughout fiscal 2004, the *Legal Affairs* sector contributed to the preparation and implementation of the strategic agreements signed by the Bank, all the while ensuring conformity of such transactions and of the Bank's operations to the applicable laws, regulations and guidelines issued by governments and regulatory authorities.

The *Corporate Security* department ensures that the Bank complies with legislative obligations with respect to reporting suspicious operations to the Financial Transactions Reports Analysis Centre of Canada, minimizes the risk of the Bank's involuntary association with money laundering activities, fights fraud and safeguards the security of the clients, the personnel and the property of the Bank.

Besides providing effective and timely communication of information to various audiences, the *Public Affairs and Communications* department also manages sponsorship and donation programs of the Bank. All donations are managed through the Fondation Banque Laurentienne. As a responsible corporate citizen, each year the Foundation gives substantial amounts of money back to the community, in particular for the health care, education and arts programs, as well as for community organizations.

The *Secretariat* plays an essential supporting role for the Board of Directors by performing tasks related to the secretariat of the Bank and of its subsidiaries.

The financial results of each line of business are presented in Note 23 of the consolidated financial statements, on page 101 of the Annual Report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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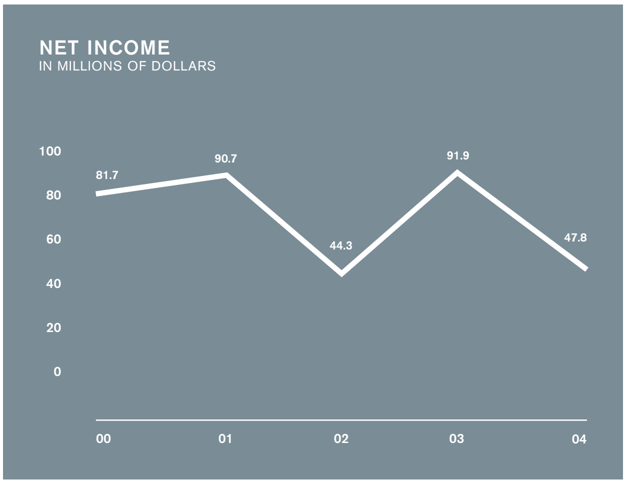
This section of the Annual Report is Management's discussion and analysis of the results of operations and financial condition of the Bank for the year ended October 31, 2004. The information is presented on the same basis as in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements specified by the Office of the Superintendent of Financial Institutions of Canada. This Management's discussion and analysis presents the views of the Bank's Management as at December 7, 2004. Additional information on Laurentian Bank of Canada, including the Annual Information Form for the year ended October 31, 2004, can be found on the Bank's Website at **www.laurentianbank.com** and on SEDAR, www.sedar.com.

FINANCIAL HIGHLIGHTS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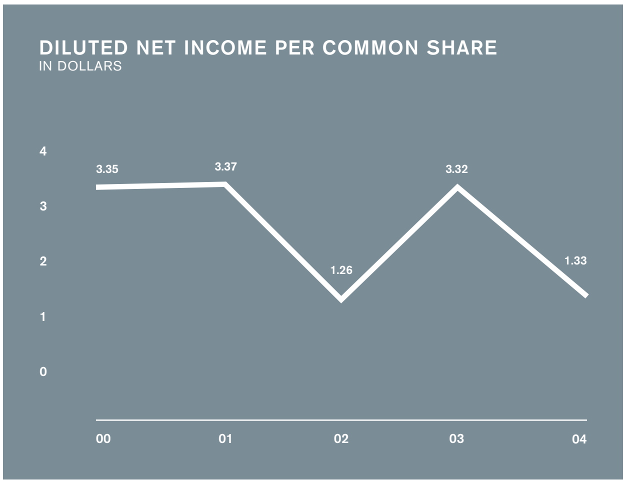
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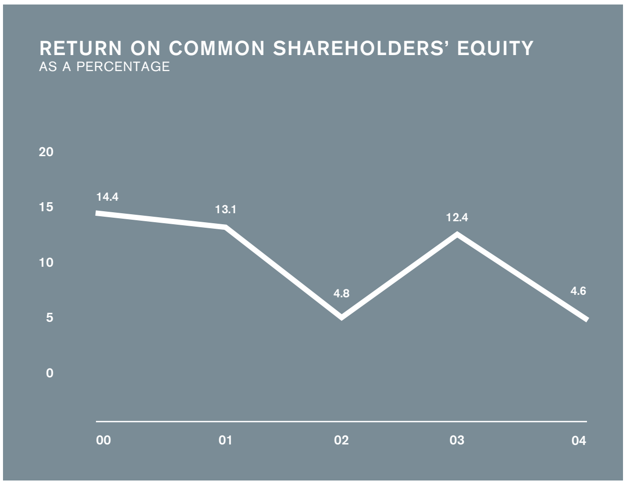
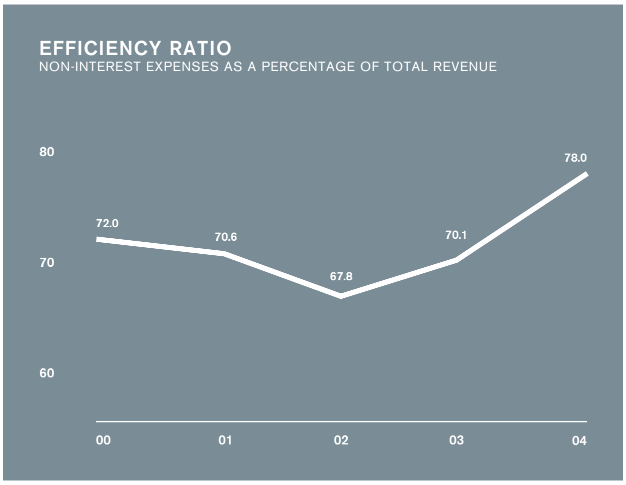
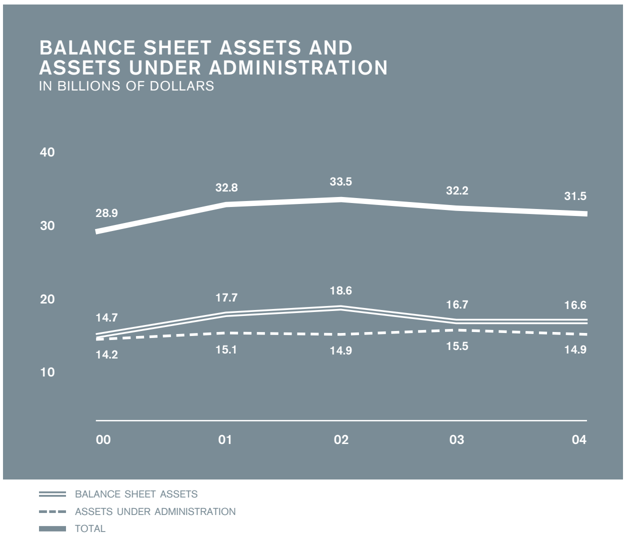
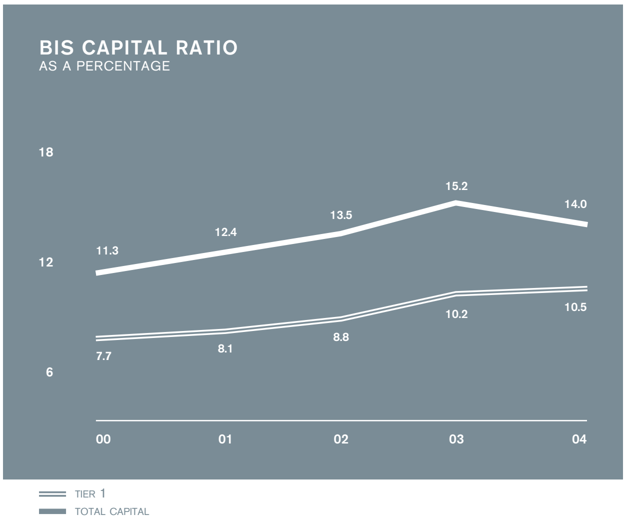

RETURN ON COMMON SHAREHOLDERS' EQUITY
AS A PERCENTAGE


EFFICIENCY RATIO
NON-INTEREST EXPENSES AS A PERCENTAGE OF TOTAL REVENUE


BALANCE SHEET ASSETS AND ASSETS UNDER ADMINISTRATION
IN BILLIONS OF DOLLARS


BIS CAPITAL RATIO
AS A PERCENTAGE

PERFORMANCE AND FINANCIAL OBJECTIVES

2004 Results

The table below summarizes the Bank's performance relative to its 2004 objectives. The following sections should be read in conjunction with the information presented in the "Summary of financial results" and "Analysis of consolidated results" sections, specifically as it relates to the significant items table.

	2004 OBJECTIVES	2004 RESULTS
Return on common shareholders' equity	5%	4.6%
Diluted net income per share	$1.44	$1.33
Total revenue	+1%	-5%
Efficiency ratio	77%	78%
Capital ratios		
Tier 1	Minimum of 9.5%	10.5%
Total	Minimum of 13.0%	14.0%
Credit quality (loan losses as a % of average assets)	0.22%	0.24%

- Weaker revenues significantly impacted the Bank's ability to achieve the 2004 diluted net income per share and return on common shareholders' equity objectives. Moreover, the premium paid on the redemption of Class A Preferred Shares Series 7 and 8 further contributed to the reduction of the return on common shareholders' equity and diluted net income per share; however, it allowed the Bank to reduce its cost of capital for the future.
- Moreover, lower net interest margins, lower loan growth in certain portfolios, as well as reduced contribution from treasury and financial markets activities hindered the Bank's ability to meet its total revenue growth objective in 2004.
- During the year, and excluding the impact of the restructuring charge and the estimated expenses related to the branches sold in 2003, non-interest expenses declined by approximately $20 million or more than 5% as a result of cost efficiency initiatives implemented over the last 15 months. This demonstrates the efforts made to improve efficiency and realign the Bank's operating structures following the sale of the branches in 2003. However, the decrease in revenues from retained activities resulted in a weaker than anticipated efficiency ratio, at 78.0%.
- The Tier 1 and total capital ratios exceeded objectives and stood at 10.5% and 14.0% respectively. The Bank is determined to maintain strong capital ratios in order to minimize financial risks at a time when it is implementing its business plan.
- The loan loss ratio for 2004 was 0.24%, while the objective was set at 0.22%. Comparatively, the loan loss ratio reached 0.29% in 2003. Difficulties encountered with some commercial loans limited the Bank's ability to further reduce its loan loss ratio. Nevertheless, the credit quality of the Bank's loan portfolio significantly improved during fiscal 2004. The level of gross impaired loans has decreased by over 30% from $185 million as at October 31, 2003 to $127 million as at October 31, 2004. Net impaired loans have also significantly improved by $35 million, from $22 million in 2003 to negative $13 million in 2004.

METHODOLOGY REGARDING ANALYSIS OF RESULTS

Management normally evaluates the Bank's performance on a reported basis, as presented in the consolidated financial statements. However, certain analyses are presented on a core basis, that is excluding significant items, as they are presented in Table 2 of this Management's discussion and analysis on page 36 of the Annual Report. Management views these significant items as transactions that are not part of normal day-to-day operations or are unusual in nature and could potentially distort the analysis of trends. This distinction is made in order to ensure that Management's analysis of recurring trends is not hindered. Performance measures, excluding significant items, are not defined terms under GAAP, and therefore may not be comparable to similar terms used by other issuers. Certain 2003 comparative figures have been reclassified to conform to the current year presentation in order to make the analysis more meaningful to users.

BANK'S STRATEGIES

Some sections of this Annual Report contain important information concerning the Bank's strategies. Readers should refer to these sections to obtain further information, which complements this Management's discussion and analysis of the results of operations and financial condition of the Bank.

2005 and 2006 objectives

	2004 ACTUAL	2004 *PRO FORMA*[1]	2005 [2]	2006
Return on common shareholders' equity	4.6%	3.4%	4.5% to 5.5%	7% to 8%
Diluted net income per share	$ 1.33	$ 0.97	$1.30 to $1.60	$2.05 to $2.35
Total revenue	$474M	$462M	+4% to 6%	+7% to 9%
Efficiency ratio	78.0%	80.1%	79% to 77.5%	75% to 73.5%
Capital ratios			Minimum of	Minimum of
Tier 1	10.5%	10.5%	9.5%	9.5%
Total	14.0%	14.0%	13.0%	13.0%
Credit quality (loan losses as a % of average assets)	0.24%	0.24%	0.25% to 0.22%	0.25% to 0.22%

[1] Excluding the impact of items presented on page 36, except for capital ratios.
[2] Management anticipates constant growth in revenues sequentially from quarter to quarter.

The table above reflects Management's objectives for 2005 and 2006. The repositioning of the Bank has proven to be more complex and slower to implement than originally anticipated. Also, the interest rate environment and increased competition contributed to the reduction in short-term earnings potential. Therefore, based on these factors, it became clear that the objectives which had been set last year for 2005 and 2006 needed to be revised. Notwithstanding, the Bank believes it has the right plan and will not deviate from it.

In order to achieve these targets, the Bank anticipates improvements from all sectors. Specific initiatives regarding investment and hedging strategies in order to increase interest margin, were introduced in the fourth quarter of 2004. Also, continued efforts from the Retail Financial Services sector will allow the Bank to further increase the loan portfolio volumes, while product developments and strategic pricing should help to resume growth in the Commercial Financial Services sector. Lastly, the full-year effect of cost savings resulting from the capital structure realignment will further contribute to earnings. Management is confident that earnings will increase on a quarter by quarter basis, in order to reach the 2005 return on common shareholders' equity objective by year-end.

SIGNIFICANT ACCOUNTING ESTIMATES AND CRITICAL ACCOUNTING POLICIES

The significant accounting policies are outlined in Note 1 to the consolidated financial statements on page 74 of the Annual Report. The following policies are critical, since they refer to material amounts and require Management to make estimates that by their very nature involve uncertainties.

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

Allowance for loan losses

The allowance for loan losses reflects Management's estimate of losses related to loan portfolios. Management regularly reviews the credit quality of portfolios to ensure that the allowance for loan losses is adequate. Considering the materiality of the amounts and related uncertainties, the use of estimates and assumptions in determining the allowance for loan losses – notably, the evaluation related to the amounts and dates of future cash flows, the fair value of guarantees and realization costs, as well as consideration of economic and business conditions – that differ from those used to determine allowances for 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 require an increase or decrease in the allowance for loan losses. These changes could consequently have a major impact on the provision for credit losses in the consolidated statement of results, which may be difficult to quantify.

In 2004, the Bank reduced the general allowance by $12 million given the reduction in the overall decrease of credit risk exposure in the corporate and commercial loan portfolios over the last few years. In 2003, the general allowance was also reduced by $8.5 million, mainly to reflect the decrease in the volumes of loans following the sale of the branches in Ontario and Western Canada.

A detailed description of the methods used to establish the provision for credit losses is found in Note 1 of the consolidated financial statements on page 75 of this Annual Report.

Goodwill

Goodwill must be tested for impairment, at least annually, based on its fair value.

The impairment test initially compares the fair value of the reporting unit to which goodwill relates with its carrying amount. The Bank mainly uses discounted cash flows to determine the fair value of its reporting units. Bank Management must produce a number of significant estimates when it calculates the fair value using the discounted cash flows method. These estimates include projected growth rates of net income, future cash flows, number of years used in the cash flow model, discount rate of future cash flows and other elements. Management believes that all estimates are reasonable and consistent with the financial objectives of the Bank. They reflect Management's best estimates, but include inherent uncertainties that are not under its control.

All changes made to any of the estimates used may have a significant impact on the calculation of fair value and on the resulting charge for loss in value. Consequently, the Bank cannot reasonably quantify the effect of the use of different assumptions on its overall financial performance.

It is impossible to predict whether an event that triggers an impairment will occur, when it will occur or how this will affect the values of the assets presented by the Bank.

The following table indicates the amount of goodwill as at October 31, 2004 and 2003 by business sector. No impairment charge was reported in 2004 and 2003.

IN MILLIONS OF DOLLARS			2004	2003
	RETAIL FINANCIAL SERVICES	WEALTH MANAGEMENT AND BROKERAGE	TOTAL	TOTAL
Goodwill	$53.8	$0.2	$54.0	$54.0

Evaluation of financial instruments

The Bank reports its trading account securities portfolio and derivative financial instruments at fair value. Fair value is based on market prices when available. In the absence of market prices, the Bank usually uses the discounted value of future cash flows, calculated according to Management's best estimate of key assumptions, yield curves and volatility factors.

Given the importance of judgement in determining such calculations, certain estimates of fair value may not be representative of net realizable value. Additional information on calculating fair value is presented in Note 20 to the consolidated financial statements on page 97 of this Annual Report.

Other than temporary impairment of investment securities

When an other-than-temporary impairment of an investment account's security has occurred, the carrying value of the security is written down to its estimated net realizable value. The determination of which securities have experienced an other-than-temporary decline in value, and the assessment of net realizable value requires Management to exercise judgement and to make estimates.

The use of different assumptions could lead to a different determination of which securities have suffered an other-than-temporary impairment and could lead to significantly different amounts for impairment charges compared to the amounts actually recorded. As at October 31, 2004, unrealized losses pertaining to the investment portfolios totalled $9.8 million. According to Management, these losses will be resorbed and no losses will be incurred.

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 and projected salary increases. Considering the importance of accrued benefit obligations and plan assets, changes in assumptions may produce significantly different results. Similarly, the compensation conditions of unionized employees ensuing from the settlement of the collective agreement may have an impact on the pension plan costs (see contingencies below).

Discount rate and projected long-term performance of plan assets

Management establishes the discount rate and the projected long-term performance of plan assets that serve to determine the pension cost at the beginning of each year. The discount rates were 6.75% and 7.00% for the fiscal years ended October 31, 2004 and October 31, 2003 respectively. The projected long-term return of plan assets was 7.75% for both years ended October 31, 2004 and October 31, 2003. The table below presents an approximation of the effect on the employee benefits expense for 2004 of an increase or decrease of 0.25% in the discount rate and the projected long-term rate of return of plan assets.

IN MILLIONS OF DOLLARS	POTENTIAL IMPACT OF CHANGES OF 0.25%
Discount rate	**$1.2**
Projected long-term rate of return of plan assets	**$0.5**

Income tax

Future income tax assets reflect Management's estimate of the value of loss carryforwards and other temporary differences. The determination of the asset value is based on assumptions related to results of operations of future periods, timing of reversal of temporary differences and tax rates on the date of reversals. The use of different assumptions may produce significantly different results, especially if the Bank does not meet its profitability targets.

Securitization

Securitization is a process by which financial assets, essentially mortgage loans for the Bank, are transformed into securities and sold to investors. When the Bank surrenders control over the receivables sold, and receives a consideration other than a beneficial interest in the transferred assets, the operations are recorded as sales. The determination of the initial gain depends on the value attributed to certain retained interests. Since quoted market prices are not available for retained interests, the Bank estimates the fair value based on the present value of estimated cash flows. As a result, estimates and assumptions could have a material impact on results. Also, retained interests must be reviewed periodically thereafter. The use of different estimates and assumptions could have a material impact on results. Note 5 to the consolidated financial statements, on page 83 of this Annual Report, and the section on Off-balance sheet arrangements on page 52 of this analysis present further information on these transactions.

Contingencies

Renewal of collective agreement

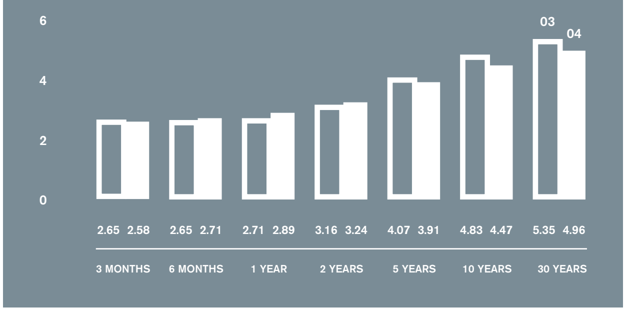
On February 2, 2003, the Bank and the union that represents its unionized employees agreed to permit an arbitrage tribunal, whose decision will be binding, to determine the contents of the next collective agreement. The arbitrage tribunal must rule on the scope of certain retroactive adjustments pertaining to the compensation of these employees since the collective agreement expired. Provisions were recorded with respect to this obligation, according to Management's best estimates. The final settlement may result in a material change in the amount recognized.

Litigation

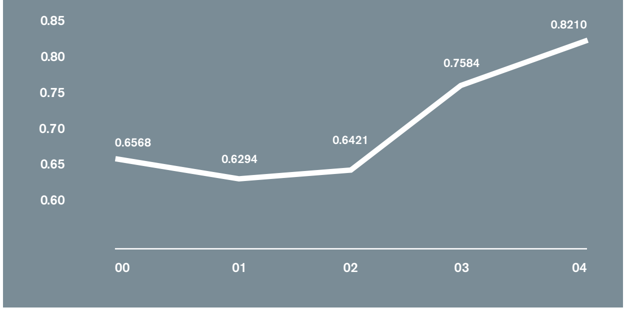
The Bank accrues a potential loss if it considers that the loss is probable and can be reasonably estimated based on available information. To estimate the loss, the Bank consults external legal advisors that act in its defence. An analysis of potential outcomes is performed and considerations are given to various strategies related to litigation and settlements. Final settlements of litigious cases may necessitate significant changes to the amounts recorded.

FUTURE CHANGES TO ACCOUNTING POLICIES

On November 1, 2004, the Bank will adopt the Canadian Institute of Chartered Accountants (CICA) guideline, *Consolidation of variable-interest entities* (AcG-15) and it will apply the new provisions specified in chapter 3860 of the CICA, *Financial Instruments – Disclosure and Presentation*, related to the presentation of certain obligations that could be settled with an entity's own equity instruments, at the issuer's option. As detailed in Note 1 to the consolidated financial statements, the Bank is currently completing its analysis of these new standards and does not



YIELD CURVE
TREASURY BILLS AND GOVERNMENT OF CANADA BONDS
AS AT OCTOBER 31, AS A PERCENTAGE



CANADIAN DOLLAR EXCHANGE RATE
IN AMERICAN DOLLAR, AS AT OCTOBER 31

anticipate that their adoption will have a significant impact. In addition, the Bank is following recent developments related to new CICA standards governing financial instruments (*Comprehensive income, Hedges and Financial Instruments – recognition and measurement*) that should apply to the Bank's fiscal years beginning on November 1, 2006. The impact of the adoption of these standards cannot be reasonably measured for the time being.

ECONOMIC REVIEW

In 2004, the global economy retained the momentum that it gained last year. The vigour of the American and Chinese economies continued to fuel the global recovery, while the European economies remained stagnant. Canada and Quebec enjoyed particularly advantageous economic conditions resulting from a strong demand for commodities and a sustained domestic demand. The outlook for 2005 remains positive as the trends observed in 2004 are expected to persist. In parallel, financial markets exhibited a disciplined response to the gradual increase in interest rates, which facilitated the adaptation of the different stakeholders to the various implications of rises in interest rates.

For much of the year, the American economy continued to benefit from fiscal and monetary stimuli introduced in 2003 to counter deflationary pressures. Special reductions of certain taxes ended only in June, while monetary conditions continued to be accommodating despite the gradual rise in interest rates. In addition, the depreciation of the American dollar increased demand for American exports. Moreover, the rise in energy prices, the lacklustre recovery of the job market and the context of the American elections cast a shadow on the U.S. economy, yet failed to derail its growth, which remained well above the reference threshold, at over 4%.

In China, the economy continues to benefit from the accession to the World Trade Organization in 2001, coupled with massive foreign investment attracted by the development of the political and economic environment. The vigorous growth that ensued caused demand for commodities to increase. However, the Chinese monetary authorities' decision to raise interest rates in the fall reflected a willingness to counter inflationary pressures and to allow market forces to prevail. The next step, eagerly anticipated by the G7, would be the adoption of a flexible exchange rate that would let the Yuan appreciate. However, the dragon may well falter before it gains a solid footing.

In the European zone, the monetary policy remained expansionist, as the Euro acted as the prime counterweight to the falling U.S. currency. Economic growth for 2004 fell short of potential owing to rising oil prices and the appreciation of the Euro: pressures on corporate profits continue to hamper investments and employment.

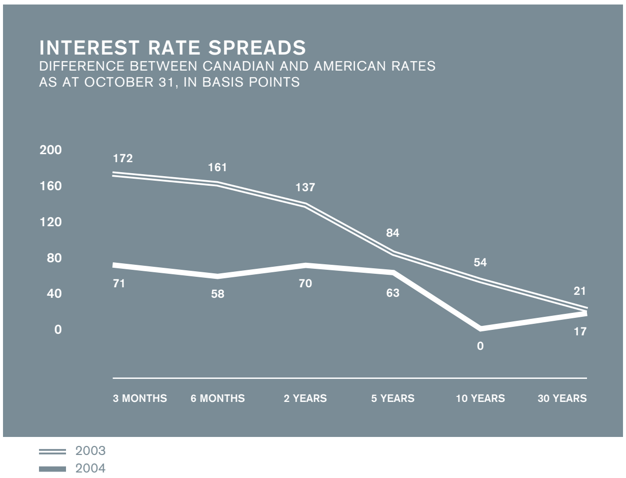
Among all, the Canadian economy benefited the most from the global recovery. Strong demand for commodities, including oil, powered an export boom. Foreign demand surged while domestic demand began to wane. As a result, GDP remained close to its 3% potential. The appreciation of the Canadian dollar continued to represent a major concern throughout the year. This appreciation, compared to the depreciation of the U.S. dollar, is justified by the strength of economic indicators in the country and its performing macro-economic structure. The flight of the loonie nonetheless had repercussions, auguring adjustments to trade volumes. The manufacturing sector, which presumably will improve productivity, may then experience added pressures.

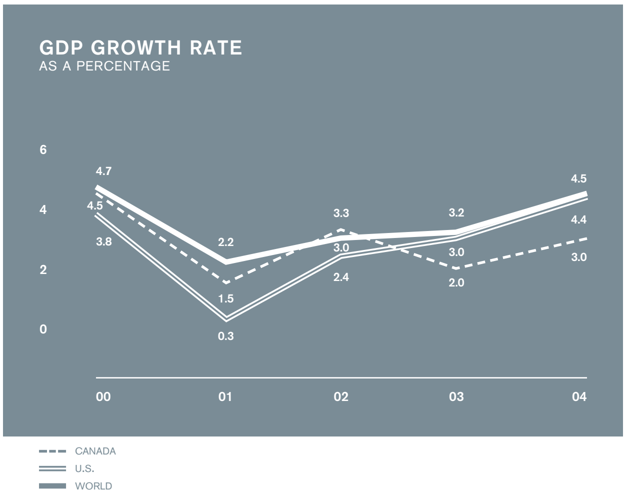
The Quebec economy advanced in 2004, despite difficulties in certain areas of the manufacturing sector. Exports were propelled by rising commodity prices, while housing starts continued to generate growth. Specific sectors such as lumber, industrial products such as chemicals and metal products and machinery benefited from stronger foreign demand, while the aerospace industry suffered another setback. In addition, risky sectors such as apparel, food products and furniture, whose profit margins are relatively slim were buffeted by turbulence. Overall, the growth of GDP accelerated by nearly 2.5% in 2004.

The financial markets adjusted well to the gradual rise of interest rates initiated by several large central banks. Until November, the increases in short-term rates of return nonetheless occurred in parallel with a decrease in long-term rates, leading to a flattening of the yield curve. This downturn in long-term rates resulted from projections of low inflation coupled with the reversal of speculative transactions on yield spread, an option used by many investors when rates were lower. Long-term rates were adjusted upward at the end of the year.

Lastly, after having rebounded last year, stock markets stagnated in 2004. Investor anxiety was triggered by the duration and extent of the economic recovery, soaring oil prices and, until the middle of the year, the possibility that the American Federal Reserve would quickly raise interest rates. The U.S. presidential elections aggravated the uncertainty. Moreover, the low likelihood of improved corporate performance in 2004 reduced the outlook for stock growth.

In 2005, the Canadian economy should grow at a rate approaching its potential of 3%. For Quebec, growth could improve, but





modestly, as a result of the increase in value of the Canadian dollar. These projections presume a substantial rise in corporate investments.

With regard to interest rates, the spread between the American and Canadian leading rates shrunk in 2004, to reach 50 basis points at year-end. The American Federal Reserve is expected to continue "normalizing" interest rates throughout the year. In Canada, uncertainty over foreign trade trends and the appreciation of the Canadian dollar may prompt the Bank of Canada to slightly defer increasing its leading rate, without jeopardizing the gradual reduction in the pace of monetary easing. Adjustment of major currencies, budget and trade imbalances with the United States and negotiations with China should dominate the global economic agenda in 2005.

For the Bank, the positive outlook associated with the Canadian and Quebec economies, sustained housing starts and vigorous demand for commodities should spur the growth of both the commercial and retail loan portfolios. The relatively low levels of interest rates should also help to sustain demand for credit. However, the pressure exerted by the rising Canadian dollar could accentuate difficulties in certain manufacturing sectors, which would necessitate increased vigilance with regard to certain loan portfolios.

In the capital markets, the interest rate context may continue to affect the Bank's ability to generate revenues from its treasury and financial market activities in 2005, as it has since the second half of 2004. This issue is discussed in greater detail in the section on analysis of consolidated results on page 35 of this Annual Report.

SUMMARY OF FINANCIAL RESULTS

Year ended October 31, 2004 compared with year ended October 31, 2003

For the year ended October 31, 2004, the Bank reported net income of $47.8 million or $1.33 diluted per common share, compared with $91.9 million or $3.32 diluted per common share in 2003. Return on common shareholders' equity was 4.6% in 2004, versus 12.4% in 2003. The results for fiscal 2004, like those of 2003, include the impact of certain significant transactions detailed in Table 2 on page 36. Excluding these items, the decline in profitability in 2004 is mainly attributable to the reduction in net interest margin and revenues from treasury and financial markets. The Tier 1 capital ratio was preserved at over 10% throughout the year, and stood at 10.5% as at October 31, 2004, a level far higher than the target OSFI ratio of 7%.

Year ended October 31, 2003 compared with year ended October 31, 2002

For the year ended October 31, 2003, the Bank reported net income of $91.9 million or $3.32 diluted per common share, compared with $44.3 million or $1.26 diluted per common share in 2002. Return on common shareholders' equity climbed to 12.4% in 2003 from 4.8% in 2002. Results for 2003 reflect the gain resulting from the strategic decision to sell 57 branches in Ontario and Western Canada and other significant items, while results for 2002 included additional loan losses of $70 million related to exposures to Teleglobe and other commercial loans, as detailed in table 2.

Excluding these significant items, net income would have been $56.2 million or $1.80 diluted per common share in 2003, compared with $86.7 million or $3.09 diluted per common share in 2002. The decrease of 35% in core profitability year over year mainly results from pressure on other revenues, slightly lower net interest margins, additional provision for loan losses, as well as an increase in expenses.

Capital ratios, which had improved throughout 2003, have reached record levels following the completion of the sale of the Ontario and Western Canada branches. As at October 31, 2003, the BIS Tier 1 capital ratio and Total capital ratio stood at 10.2% and 15.2% respectively, up from 8.8% and 13.5% in 2002.

TABLE 1 // HIGHLIGHTS OF FINANCIAL RESULTS

FOR THE YEARS ENDED OCTOBER 31 IN MILLIONS OF DOLLARS EXCEPT PER SHARE AMOUNTS	2004	2003	2002	04 / 03 VARIATION
Net interest income	**$275.0**	$343.2	$346.0	**(20)%**
Other income	**199.0**	286.7	254.4	**(31)**
Total revenue	**474.0**	629.9	600.4	**(25)**
Provision for credit losses	**40.0**	54.0	111.0	**(26)**
Non-interest expenses	**369.7**	441.8	407.3	**(16)**
Income taxes	**14.6**	38.6	32.5	**(62)**
Income before non-controlling interest in net income of a subsidiary	**49.7**	95.5	49.6	**(48)**
Non-controlling interest in net income of a subsidiary	**1.9**	3.6	5.3	**(47)**
Net income	**$ 47.8**	$ 91.9	$ 44.3	**(48)%**
Net income available to common shareholders	**$ 31.3**	$ 77.9	$ 29.3	**(60)%**
Average number of common shares (in thousands)				
Basic	**23,485**	23,416	23,095	**–**
Diluted	**23,521**	23,457	23,288	**–**
Net income per common share				
Basic	**$ 1.33**	$ 3.33	$ 1.27	**(60)%**
Diluted	**$ 1.33**	$ 3.32	$ 1.26	**(60)%**
Return on common shareholders' equity	**4.6%**	12.4%	4.8%	

ANALYSIS OF CONSOLIDATED RESULTS

Total revenues

Total revenues were $474.0 million in 2004, compared with $629.9 million in 2003. Excluding the $69.9 million gain on the sale of the Ontario and Western Canada branches and the estimated contribution related to these branches of $62.0 million, total revenues for 2003 would have stood at approximately $498.0 million. Results for 2004 also include the favourable impact of $10.0 million from asset disposals and from the review of provisions of $3.5 million, along with the costs associated with the repayment of debentures, for an amount of $1.1 million, as described below. Excluding these items, the year over year decrease in revenues amounted to approximately $36.4 million or 7%. This variation is mainly attributable to a decrease in net interest income following the reduction in interest margins and a decrease in other income originating from treasury and financial markets activities, as described on the following pages.

TABLE 2 // SIGNIFICANT ITEMS AFFECTING RESULTS

IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS			2004
	ITEMS, BEFORE INCOME TAXES	ITEMS, NET OF INCOME TAXES	DILUTED, PER COMMON SHARE
Increase in future tax assets arising from the increase in Ontario income tax rates, net of non-controlling interests	n/a	$ 1.5	$ 0.06
Sale of the Ontario and Western Canada Visa loan portfolio	$ 4.4	3.8	0.16
Sale of the debit and credit card transaction processing activities and certain rights to service mutual funds accounts	5.6	4.6	0.20
Review of the provisions related to the Ontario and Western Canada branches sold during the fourth quarter of 2003	3.5	2.4	0.10
Costs associated with the redemption of the Debentures Series 7	(1.1)	(0.7)	(0.03)
Reduction in the general allowance for loan losses and equivalent increase in specific allowance	–	–	–
Effect on net income	$ 12.4	$ 11.6	$ 0.49
Redemption premium paid on the repurchase of Class A Preferred shares Series 7 and 8 and overlap in dividend payments		(3.1)	(0.13)
Effect on net income available to common shareholders		$ 8.5	$ 0.36
			2003
Gain on sale of the Ontario and Western Canada branches	$ 69.9	$ 54.9	$ 2.34
Restructuring charge	(19.7)	(12.8)	(0.54)
Loan losses related to Air Canada exposure	(10.0)	(6.5)	(0.28)
Contribution of branches sold	26.3	17.1	0.73
Effect on net income and net income available to common shareholders	$ 66.5	$ 52.7	$ 2.25
			2002
Loan losses related to Teleglobe exposure and other commercial loans	$(70.0)	$(42.4)	$ (1.83)
Effect on net income and net income available to common shareholders	$(70.0)	$(42.4)	$ (1.83)

Estimated contribution from the Ontario and Western Canada branches in 2003

IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS	2003 (AS REPORTED)	GAIN ON THE SALE OF THE BRANCHES	CONTRIBUTION OF BRANCHES SOLD	2003 (ADJUSTED)
Net interest income	$ 343.2	$ –	$ 48.9	$ 294.3
Other income	286.7	69.9	13.1	203.7
Total revenue	629.9	69.9	62.0	498.0
Provision for credit losses	54.0	–	3.5	50.5
Non-interest expenses	441.8	–	32.2	409.6
Effect on net income	n/a	$ 54.9	$ 17.1	n/a
Effect on diluted net income per common share	n/a	$ 2.34	$ 0.73	n/a

Net interest income

As shown in Table 3 on the following page, the Bank's net interest income decreased from $343.2 million (or $294.3 million excluding the estimated contribution from the Ontario and Western Canada branches of $48.9 million) in 2003 to $275.0 million in 2004. The decrease mainly results from the decline in net interest margins from 1.85% in 2003 to 1.68% in 2004. A lower average prime lending rate, as well as, to a lesser extent, competitive pressure, contributed to the reduction in margins.

During the year, the net interest margins of the large Canadian banks continued to tighten under the influence of fierce competition and the low rate levels on the market. For the Canadian banking industry, on an average basis, margins decreased by 9 basis points since the first quarter of 2003. While the Bank had successfully maintained the level of its margins in 2003, it could not escape this phenomenon in 2004; margins declined from 1.85% to 1.68%, corresponding to a 17 basis points decrease. Fixed-term products as well as variable rate instruments were affected. In addition, following the sale of the Ontario and Western Canada branches in 2003, the proportion of the loan portfolio relative to other assets, including cash resources, securities and assets purchased under reverse repurchase agreements, decreased from 72% in 2003 to 68% in 2004, which contributed to the reduction of interest margins. Management's decision to maintain additional liquidities was initially intended to facilitate the anticipated growth of loan portfolios in keeping with the Bank's business plan. However, investment alternatives were less attractive than in 2003, as illustrated by the average rate of return of 1.99% in 2004 on cash resources and securities, versus 2.45% last year. Redemption of Series 7 subordinated debentures in the third quarter and the announced redemption of Series 8 debentures in December 2004, combined with the expected volume growth and other margin management initiatives, should help the Bank improve the situation in 2005.

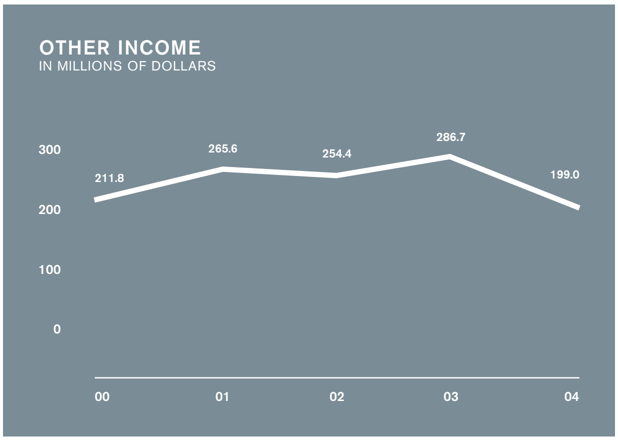
The Bank mainly finances its operations by raising retail deposits and to a lesser extent deposits from businesses and financial institutions. As at October 31, 2004, deposits stood at $12.9 billion, compared with $13.3 billion on that same date a year ago (also see Table 10); this change reflects the Bank's decision to limit excess liquidity and securities (see Table 7 for an overview of assets on October 31, 2004). The average interest rate on these deposits was 3.44% in 2004, versus 3.63% in 2003. The Bank thus took advantage of the lower interest rate environment to renew a portion of its deposit portfolio at more advantageous rates.

To manage risks related to fluctuations in interest rates, the Bank uses derivative financial instruments. Derivative financial instruments are efficient tools to manage interest rate risk and liquidity risk. Depending on the evolution of interest rates and the composition of portfolios in terms of maturity and types of products, actual returns on portfolios can fluctuate substantially. Accordingly, the Bank uses derivative financial instruments to manage its risks and net interest income must be reviewed on a hedged basis. In addition, the Bank uses models to quantify the potential impact on earnings and equity arising from a variety of possible future scenarios as further detailed in the Structural risk section on page 61 of this Annual Report. During the year, the interest rate swap portfolio partly offset the effect of short-term rate reductions mainly associated with the variable loan portfolios and contributed positively to income by $5.8 million. Last year, hedging strategies pertaining to the derivative instruments portfolio reduced net interest income by $20.3 million.

TABLE 3 // CHANGES IN NET INTEREST INCOME

FOR THE YEARS ENDED OCTOBER 31
IN MILLIONS OF DOLLARS AND AS A PERCENTAGE

				2004				2003
	AVERAGE VOLUME IN %	AVERAGE VOLUME	INTEREST	AVERAGE RATE	AVERAGE VOLUME IN %	AVERAGE VOLUME	INTEREST	AVERAGE RATE
Assets								
Cash resources	**3.1%**	**$ 513**	**$ 9.8**	**1.91%**	2.7%	$ 497	$ 11.7	2.35%
Securities	**17.6**	**2,870**	**57.5**	**2.00**	16.7	3,099	76.5	2.47
Assets purchased under reverse repurchase agreements	**6.4**	**1,038**	**24.0**	**2.31**	4.6	845	23.5	2.79
Loans								
Personal	**21.9**	**3,576**	**239.8**	**6.71**	21.0	3,901	268.1	6.87
Residential mortgages	**32.6**	**5,329**	**303.6**	**5.70**	35.9	6,665	416.2	6.24
Commercial mortgages	**3.9**	**639**	**38.9**	**6.08**	4.6	856	57.3	6.69
Commercial and other	**10.0**	**1,625**	**84.1**	**5.18**	10.5	1,942	104.5	5.38
Other assets	**4.5**	**737**	**0.4**	**0.06**	4.0	743	0.9	0.12
Total – assets	**100.0%**	**$16,327**	**$758.1**	**4.64%**	100.0%	$18,548	$958.7	5.17%
Liabilities and shareholders' equity								
Demand and notice deposits		**$ 2,399**	**$ 20.0**	**0.83%**		$ 2,650	$ 22.7	0.86%
Term deposits		**10,455**	**422.3**	**4.04**		12,535	528.7	4.22
Other deposits		**1,507**	**19.4**	**1.29**		1,351	16.1	1.19
Off-balance sheet derivative financial instruments		**–**	**(5.8)**	**–**		–	20.3	–
		14,361	**455.9**	**3.17**		16,536	587.8	3.55
Subordinated debentures		**358**	**27.2**	**7.59**		400	27.7	6.94
Acceptances		**197**	**–**	**–**		278	–	–
Other liabilities		**512**	**–**	**–**		502	–	–
Shareholders' equity		**899**	**–**	**–**		832	–	–
Total – liabilities and shareholders' equity		**$16,327**	**$483.1**	**2.96%**		$18,548	$615.5	3.32%
Net interest income			**$275.0**	**1.68%**			$343.2	1.85%



Other income

Other income was $199.0 million in 2004, compared with $286.7 million in 2003, or $203.7 million excluding the gain on the sale of the Ontario and Western Canada branches of $69.9 million and the estimated forgone contribution from these branches of $13.1 million. The net $4.7 million decrease in 2004 is mainly attributable to a decline in treasury and financial markets revenues of $20.3 million, offset by the gain of $13.5 million resulting from the disposal of assets and the increase in revenues from brokerage operations of $3.5 million.

Revenues from fees and commissions on loans and deposits stood at $89.2 million, compared with $101.5 million in 2003. This decrease of $12.3 million or 12% is mainly attributable to loan and deposit portfolios associated with the Ontario and Western Canada branches that were sold in October 2003, which represented approximately 12% of deposits and 15% of loans.

Income from treasury and financial markets stood at $30.6 million in 2004, compared with $50.9 million in 2003. Revenues from treasury and financial markets were affected by unfavourable market conditions, particularly toward the end of the fiscal year. Moreover, changes in financial markets and regulatory environments have lead to a reduced emphasis on capital gains recorded as other income, to the benefit of net interest income generation. Similar to last year, the annual results were affected by the reduction in the value of certain investments for an amount of $4.9 million ($4.7 million in 2003), caused by the persistent weakness in certain other economic sectors.

Revenues derived from brokerage activities increased to $20.2 million from $16.7 million in 2003, an increase of $3.5 million or 21%. Results exceeded expectations as both retail and institutional activities benefited from increased transaction volumes. The new management team therefore demonstrated its skills to develop the business and taking advantage of this favourable environment.

Revenues from mutual funds also increased by $2.2 million to reach $12.9 million in 2004. These revenues are derived mainly from distribution, whereas fund management activities, mainly grouped within the joint venture BLC-Edmond de Rothschild Asset Management Inc., generated net income of $0.2 million during the year. The growth of mutual fund volume early in the fiscal year largely accounts for the improved profitability of these activities. In November 2004, the Bank announced its intention to divest its interest in the joint venture BLC-Edmond de Rothschild Asset Management Inc. The transaction should translate into a gain that may exceed $30 million (see note 24 to the consolidated financial statements). This transaction should not have a significant effect on recurring revenues, given that the Bank will continue to distribute R funds and other Industrial Alliance Insurance and Financial Services Inc. investment products and will thus earn applicable commissions.

Securitization income rose to $4.5 million in 2004 from $1.0 million in 2003. The need for securitization for financing and capital management purposes remained relatively modest in 2004 and 2003, with only $150.4 million and $40.0 million in loans securitized respectively. The increase in revenues originates primarily from the fact that in 2003, revisions of the assumptions used to determine the value of certain retained interests to securitized assets, notably related to the prepayment rate, had an impact on securitization income. In addition, hedging strategies associated with certain securitization conduits also affected results in 2003. Note 5 to the consolidated financial statements describes these activities in greater detail.

Other income for the 2004 fiscal year mainly includes gains on sales of assets and the review of the provisions as detailed in Table 2. In 2003, other income included the gain on income of $8.5 million resulting from the sale of the TSX shares.

TABLE 4 // OTHER INCOME

FOR THE YEARS ENDED OCTOBER 31 IN MILLIONS OF DOLLARS	2004	2003	2002	2001	2000	04 / 03 VARIATION
Fees and commissions on loans and deposits						
Deposit service charges	**$ 45.8**	$ 51.3	$ 51.4	$ 47.8	$ 39.4	**(11)%**
Lending fees	**32.1**	37.8	48.6	43.6	32.7	**(15)**
Card service revenues	**11.3**	12.4	12.8	13.5	8.8	**(9)**
Sub-total – fees and commissions on loans and deposits	**89.2**	101.5	112.8	104.9	80.9	**(12)**
As a % of average assets	**0.55%**	0.55%	0.61%	0.61%	0.56%	
Other						
Revenues from treasury and financial market operations	**30.6**	50.9	61.9	48.7	40.5	**(40)**
Brokerage operations	**20.2**	16.7	19.2	23.3	23.8	**21**
Gain on disposal of assets	**13.5**	69.9	–	–	–	**(81)**
Revenues from sale and management of mutual funds	**12.9**	10.7	13.9	17.9	16.8	**21**
Revenues from registered self-directed plans	**12.2**	12.6	13.2	14.4	12.9	**(3)**
Insurance revenues	**6.1**	6.7	5.3	4.5	4.5	**(9)**
Securitization revenues	**4.5**	1.0	16.1	18.7	22.2	**350**
Trust services	**2.1**	2.1	1.8	1.4	2.3	**–**
Other	**7.7**	14.6	10.2	8.5	7.9	**(47)**
Other special items	**–**	–	–	23.3	–	**–**
Sub-total – other	**109.8**	185.2	141.6	160.7	130.9	**(41)**
As a % of average assets	**0.67%**	1.00%	0.76%	0.94%	0.91%	
Total – other income	**$199.0**	$286.7	$254.4	$265.6	$211.8	**(31)%**
As a % of average assets	**1.22%**	1.55%	1.37%	1.55%	1.47%	

Provision for credit losses

The provision for credit losses, as reported, was $40.0 million in 2004 or 0.32% of the average portfolio of loans, bankers' acceptances and assets purchased under reverse repurchase agreements, including the impact of a $12.0 million reversal of general allowance and equivalent additional provisions of $6.4 million, $1.9 million and $3.7 million related to the commercial loans, commercial mortgages and personal loans portfolios respectively. In 2003, the provision for credit losses was $54.0 million (0.37% of the average loan portfolio), including a $4.0 million reversal of general allowance. The improvement results mainly from the decrease in losses on commercial loans, as the 2003 provision included a $10 million credit loss associated with the Bank's exposure to Air Canada.

Provisions for credit losses on personal loans declined from $26.3 million in 2003 to $25.6 million in 2004. In recent years, the growth of the consumer loan portfolio increased loan losses. Given the stability of the portfolio during the fiscal year 2004, losses were maintained at a level fairly comparable to last year. Moreover, the Bank reported an additional loss of $1.6 million specifically related to a B2B Trust's personal line of credit portfolio.

During the fiscal year, the provision for credit losses on commercial loans decreased by 25%, to $21.6 million. Last year, loan losses of $10.0 million related to the Bank's exposure to Air Canada particularly affected the level of provisions. In 2004, the portfolio performed relatively well, as illustrated by the low level of impaired loans.

The performance of the residential and commercial mortgage loan portfolios remains excellent.

In 2003, the gain realized on the sale of the Ontario and Western Canada branches took into account a reduction of $4.5 million in the general allowance. This offset the additional provisions for credit losses linked to non-productive loans related to branches in Ontario and Western Canada, that the Bank continues to manage. Note 4 to the consolidated financial statements describes the portfolios in greater detail.

Table 5 presents the provision for credit losses from 2002 to 2004.

TABLE 5 // PROVISION FOR CREDIT LOSSES

FOR THE YEARS ENDED OCTOBER 31 IN MILLIONS OF DOLLARS	**2004**	2003[1]	2002
Personal loans	**$ 25.6**	$ 26.3	$ 23.2
Residential mortgages	**1.7**	1.2	2.9
Commercial mortgages	**3.1**	1.6	2.6
Commercial loans and other	**21.6**	28.9	82.3
Sub-total	**52.0**	58.0	111.0
Effect of the reversal of general allowances	**(12.0)**	(4.0)	–
Total – provision for credit losses	**$ 40.0**	$ 54.0	$ 111.0
As a % of average loans, bankers' acceptances and assets purchased under reverse repurchase agreements	**0.32%**	0.37%	0.77%

[1] Excluding the impact of the sale of the Ontario and Western Canada branches.

Non-interest expenses

Non-interest expenses were $369.7 million in 2004, while they stood at $441.8 million in 2003 or $389.9 million excluding the $19.7 million pre-tax net restructuring charge and the estimated $32.2 million of expenses related to the Ontario and Western Canada branches.

Salaries and employee benefits decreased by $22.0 million, of which $18.1 million is related to the branches sold in 2003. Benefits resulting from the expense reduction program initiated in 2003 and the decrease in costs associated with incentive compensation also reduced costs and offset the effect of the increased pension charge of $1.7 million mainly attributed to the decline in value of the plans assets in 2001 and 2002. However, the strong performance of the plans assets in 2004 and the contributions made during the year lead Management to believe that pension costs should now stabilize. Note 14 to the consolidated financial statements on page 89 of this Annual Report contains more information concerning pension plans. The number of full-time equivalent employees remained relatively stable varying from 3,159 on October 31, 2003 to 3,125 on October 31, 2004. This reflects the Bank's decision to maintain resources in order to improve the quality of service.

Premises and technology costs decreased from $129.0 million in 2003 to $104.7 million in 2004 due to lower rent expenses following the sale of the branches in 2003, lower amortization expenses and numerous other initiatives undertaken during the year.

Other expenses, excluding restructuring costs incurred in 2003, stood at $82.1 million in 2004, compared with $88.2 million in 2003. The improvement results mainly from the impact of the sale of the branches, estimated at $2.2 million.

Table 6 illustrates the changes in non-interest expenses from 2000 to 2004.

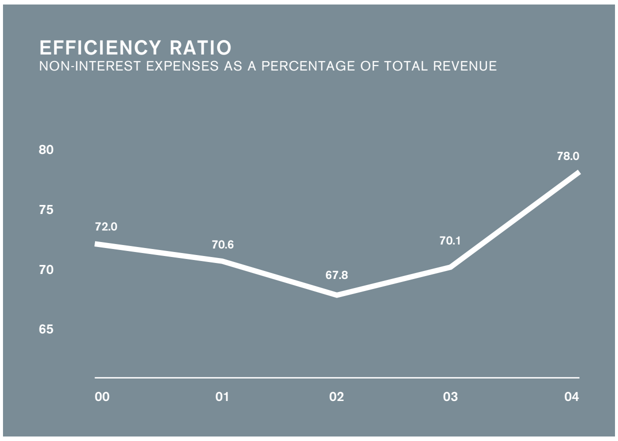


TABLE 6 // NON-INTEREST EXPENSES

FOR THE YEARS ENDED OCTOBER 31 IN MILLIONS OF DOLLARS	2004	2003	2002	2001	2000	04 / 03 VARIATION
Salaries	**$ 140.4**	$162.9	$159.7	$178.3	$150.5	
Employee benefits	**42.5**	42.0	39.0	34.6	26.7	
Sub-total – salaries and employee benefits	**182.9**	204.9	198.7	212.9	177.2	**(11)%**
As a % of average assets	**1.12%**	1.10%	1.07%	1.24%	1.23%	
Premises and technology						
Depreciation	**34.5**	42.4	39.2	36.1	30.9	
Rent and property taxes	**33.4**	38.8	34.2	33.5	28.9	
Equipment and computer services	**30.1**	38.4	37.2	36.2	27.7	
Maintenance and repairs	**4.8**	6.3	6.5	7.1	6.3	
Public utilities	**1.0**	1.9	2.0	2.4	2.3	
Other	**0.9**	1.2	1.0	0.6	0.5	
Sub-total – premises and technology	**104.7**	129.0	120.1	115.9	96.6	**(19)%**
As a % of average assets	**0.64%**	0.70%	0.65%	0.67%	0.67%	
Restructuring costs	**–**	19.7	(0.6)	17.5	–	**–**
As a % of average assets	**–%**	0.11%	–%	0.10%	–%	
Other expenses						
Taxes and insurance	**25.1**	24.5	25.2	25.9	17.8	
Fees and commissions	**17.1**	18.8	21.3	17.1	18.9	
Communications and travelling expenses	**16.1**	18.1	18.6	18.8	17.2	
Advertising and business development	**11.6**	12.2	11.2	10.9	9.4	
Stationery and publications	**6.0**	6.9	7.1	7.2	6.3	
Recruitment and training	**2.2**	2.2	1.9	2.4	1.8	
Other	**4.0**	5.5	3.8	16.9	8.1	
Sub-total – other expenses	**82.1**	88.2	89.1	99.2	79.5	**(7)%**
As a % of average assets	**0.50%**	0.47%	0.47%	0.58%	0.56%	
Total – non-interest expenses	**$ 369.7**	$441.8	$407.3	$445.5	$353.3	**(16)%**
As a % of average assets	**2.26%**	2.38%	2.19%	2.59%	2.46%	
As a % of total revenue (efficiency ratio)	**78.0%**	70.1%	67.8%	70.6%	72.0%	

Efficiency ratio

The efficiency ratio was stable at 78.0% in 2004, when compared with the pro forma efficiency ratio of 2003, which excluded the gain realized on the sale of the Ontario and Western Canada branches and the estimated contribution of these branches, along with restructuring costs. Although the ratio did not improve, it reflects significant cost control initiatives that offset the impact of the reduction in total revenue.

The chart above illustrates the Bank's performance in the past few years.

Income tax expense

Income tax expense for fiscal 2004 was $14.6 million (22.7% effective tax rate). Excluding the favourable impact of lower income taxes on gains resulting from the various disposals of assets during the year and the adjustment to the future tax assets resulting from the increase in Ontario income tax rates, the effective tax rate would have been 27.6%. For 2003, the income tax expense was $38.6 million (28.8% effective tax rate), reflecting the favourable impact of lower income taxes on the gain resulting from the sale of the Ontario and Western Canada branches. The higher tax rate in 2003, compared with 2004, results from the higher tax rates applied to revenues earned in Ontario and Western Canada, among other factors.

Note 16 to the consolidated financial statements on page 93 of the Annual Report offers more information about the Bank's condition related to income taxes, the provision for income taxes and effective tax rates.

ANALYSIS OF FINANCIAL CONDITION

During fiscal 2004, the Bank continued to deploy efforts to improve its financial situation. Transactions intended to realign the capital structure with the Bank's requirements significantly reduced its capital cost. In parallel, the disposal of assets that were no longer part of the Bank's main activities helped to improve short-term profitability, while simplifying the nature of operations and freeing resources to develop sectors in which it holds strategic positions. Lastly, the quality of the loan portfolios greatly improved, as reflected by the level of impaired loans. The last two fiscal years were years of transition that allowed the Bank to regain vigour. Strengthened by a more solid financial status and by well-defined development strategies, the Bank's business sectors are now sufficiently bolstered to orchestrate the growth of operations.

At October 31, 2004, total assets of the Bank stood at $16.6 billion, compared with $16.7 billion on October 31, 2003, as indicated in Table 7, on page 44 of this Annual Report. Assets under administration stood at $14.9 billion, compared with $15.5 billion at year-end 2003. These changes are explained in the following sections of this Management's discussion and analysis.

Cash resources and securities

Cash resources and securities decreased by $0.6 billion or 15% during the fiscal year, from $3.9 billion in 2003 to $3.3 billion in 2004. This decrease originates mainly from the reduction in term deposits, repurchase of subordinated debentures and the privatization of B2B Trust. More than 75% of the liquidities are composed of securities issued or guaranteed by Canada or provinces. Cash, other debt securities and equity securities complete the portfolio.

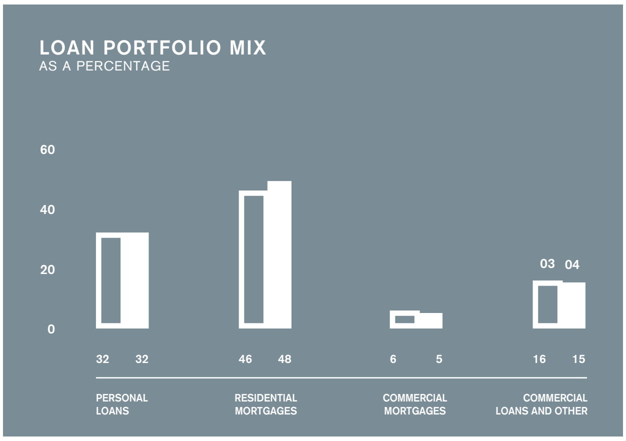
Cash resources and securities now represent 20.1% of balance sheet assets, down from 23.3% in 2003. This relatively high level grants the Bank manoeuvring room to meet its commitments and limits its eventual use of more costly sources of financing.

Assets purchased under reverse repurchase agreements

The value of assets purchased under reverse repurchase agreements, which are similar to very short-term investments, rose to $1.1 billion at October 31, 2004, from $0.9 billion on October 31, 2003. These assets are very short term investments used mainly to reposition the cash resources of the Bank and cover certain liability positions.

Other assets

Other assets increased from $681 million at October 31, 2003 to $842 million at October 31, 2004. This 24% increase is mainly attributable to the increase in amounts related to derivative instruments, following the adoption of the new standard for hedge accounting, along with the changes in the presentation of other items in transit, which are now presented together with other assets. In addition, the increase in other intangible assets reflects the contractual relations and ensuing relations with customers resulting from the privatization of B2B Trust. Lastly, the level of capital assets decreased compared with last year, whereas significant investments in technologies made from 1999 to 2001, intended to develop the product offering, stimulate the expansion of B2B Trust and ensure the integrity of systems, are gradually being amortized.


LOAN PORTFOLIO MIX
AS A PERCENTAGE

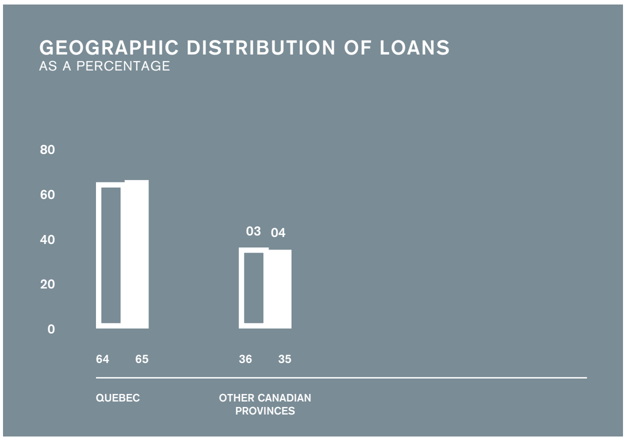

GEOGRAPHIC DISTRIBUTION OF LOANS
AS A PERCENTAGE

TABLE 7 // BALANCE SHEET ASSETS

AS AT OCTOBER 31
IN MILLIONS OF DOLLARS

	2004	2003	2002	04 / 03 VARIATION
Cash resources and securities	**$ 3,331**	$ 3,906	$ 3,504	**(15)%**
Assets purchased under reverse repurchase agreements	**1,134**	882	870	**29**
Loans				
Personal	**3,639**	3,646	3,865	**–**
Residential mortgages	**5,509**	5,274	6,646	**4**
Commercial mortgages	**604**	705	956	**(14)**
Commercial and other	**1,543**	1,572	1,873	**(2)**
	11,295	11,197	13,340	**1**
Allowance for loan losses	**(140)**	(163)	(218)	**(14)**
Total loans	**11,155**	11,034	13,122	**1**
Customers' liability under acceptances	**145**	235	332	**(38)**
Other assets	**842**	681	768	**24**
Balance sheet assets	**$ 16,607**	$16,738	$18,596	**(1)%**
Cash resources and securities as a % of balance sheet assets	**20.1%**	23.3%	18.8%	
Loans and assets purchased under reverse repurchase agreements as a % of balance sheet assets	**74.0%**	71.2%	75.2%	

Loans and bankers' acceptances

The loans and bankers' acceptances portfolio, before provision for credit losses, remained at $11.4 billion as at October 31, 2004, unchanged from 2003. However, the loan volume and mix of the various portfolios fluctuated as described below.

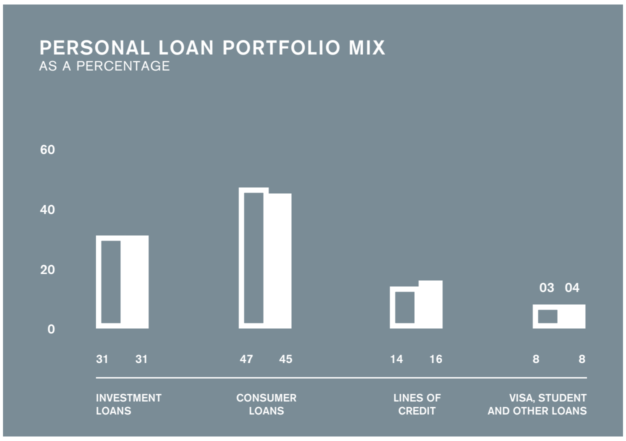
Loan portfolio mix

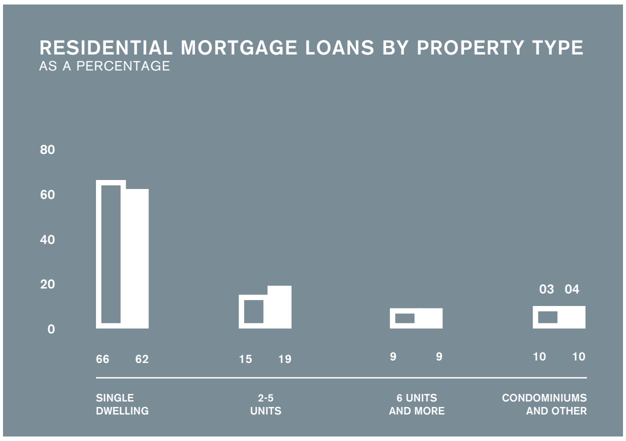
The loan portfolio consists of personal loans, residential mortgages, commercial mortgages and commercial loans, including bankers' acceptances. The proportion of different types of loans as at October 31, 2004 is largely the same as at October 31, 2003.

The personal loans portfolio stood at $3.6 billion in 2004, representing 32% of the Bank's loan portfolio, as in 2003. At $5.5 billion, residential mortgage loans represented 48% of the loan portfolio at the end of the year, versus 46% in 2003; the increase resulted from the growth of volumes of over $200 million, or 4%. Commercial mortgage loans totalled $0.6 billion or 5% of the loan portfolio, compared with 6% in 2003. Commercial loans (including bankers' acceptances) amounted to $1.7 billion as at October 31, 2004, representing 15% of the loans. In 2003, commercial loans stood at $1.8 billion or 16% of the portfolio. The decrease in volume of commercial loans results mainly from the weak demand for commercial credit, along with the Bank's strategy of reducing its exposure to risks associated with corporate loans.

Geographic distribution

The Bank's activities are concentrated in Quebec, where it operates over 150 branches and 18 commercial business centres. In addition, the Bank extends its activities throughout Canada via ten commercial business centres, a vast network of over 13,000 brokers and independent financial planners and relations it maintains with over 8,000 retailers that act as intermediaries for point-of-sale financing activities. B2B Trust also maintained a significant physical presence in Ontario. As at October 31, 2004, the geographic





distribution of the loans therefore remained diversified, despite the sale of the branches in Ontario and Western Canada in 2003. The proportion of loans granted in Quebec represented 65% of total loans, a similar level to 2003 where it stood at 64%, while the level of loans issued outside Quebec decreased to 35% as at October 31, 2004.

Loan size by commercial borrower

Since May 2002, the maximum loan to a single new borrower is limited to $20 million. The previous limit had been $40 million. The Bank wishes to maintain the size of loans granted at a level consistent with the level of risks it is willing to assume, in keeping with its credit risk management policies. Some loans granted before this date exceed $20 million. These loans are closely monitored to limit the concentration of credit risk. As at October 31, 2004, the Bank held loan positions exceeding $20 million with six enterprises, for a total of $128.5 million. The limit for commercial mortgages has remained unchanged at $20 million.

Insurance and guarantees

One of the pillars of action of the Canada Mortgage and Housing Corporation (CMHC) is to facilitate Canadians' access to mortgage financing at an affordable cost in order to increase access to housing. To this effect, the CMHC offers a mortgage insurance program that guarantees mortgage loans granted by lenders. The Bank participates in the program as an approved lender, which enables it to benefit from insurance coverage and thus reduce its global credit risk and improve its capital ratios. In addition, by maintaining a high proportion of insured residential mortgage loans, the Bank preserves its capacity to pursue its securitization activities that enable it to optimize the financing of its operations and manage its cash resources. By year-end 2004, 51% of residential mortgage loans were insured by the CMHC, down from 57% in 2003. Moreover, the Bank considers that it holds excellent guarantees for the other conventional loans for which the loan value does not exceed 75% of the estimated value of the property at origin, in accordance with legal requirements.

Buildings with five units or less comprise 81% of the volume of residential mortgages outstanding, a significant number of which are single-family units, with an average loan balance of $87,200, compared with $85,300 at the end of fiscal year 2003.

A wide range of construction projects, commercial properties, shopping centres and office buildings as well as plants, warehouses and industrial condominiums were also held as security for commercial mortgages.

A significant portion of B2B Trust's investment loans portfolio consists of mutual fund loans. These loans, with an average value of $45,000, are generally secured by an average of four to five mutual funds, providing good diversification of risk. The value of these investments must respect the terms and conditions of loan agreements at all times.

As a result, a large proportion of the Bank's loan portfolio is thus insured or secured by assets pledged as collateral by the borrowers.

Changes in loan portfolios

Personal loans

As at October 31, 2004, the personal loans portfolio stood at $3.6 billion, unchanged from the corresponding date in 2003. Consumer loans, mainly comprising of loans written throughout Canada by the point-of-sales financing network, decreased slightly by $105 million during the fiscal year. This reduction is consistent with the adjustment of the pricing and commission strategies initiated in 2003 intended to improve the profitability of these operations. The investment loan portfolio, which accounts for 31% of personal loans, benefited from an improvement of the mutual fund market to grow by nearly 3%. The line of credit portfolio also showed strong growth at 18% for 2004, as loans from the branch network in Quebec and partnership agreements with B2B Trust contributed by $39 million and $44 million, respectively.

Residential mortgage loans

As Table 8 indicates, the residential mortgage loans portfolio, including on balance sheet loans and securitized loans, increased by $145 million during the fiscal year 2004. The favourable conditions in the real estate market and particular attention given by the direct Retail Financial Services in Quebec enabled the Bank to take advantage of market growth despite fierce competition.

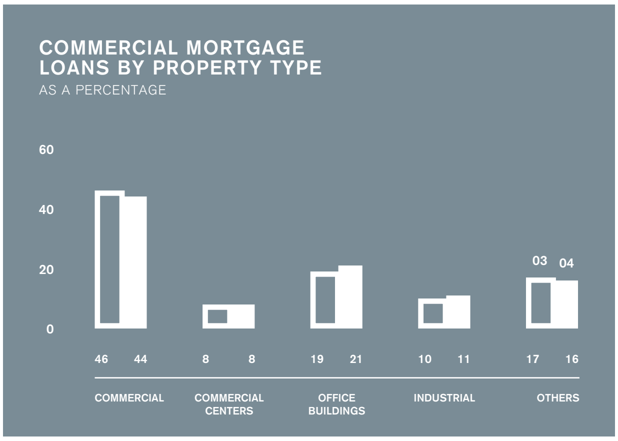


TABLE 8 // RESIDENTIAL MORTGAGE LOANS PORTFOLIO

AS AT OCTOBER 31
IN MILLIONS OF DOLLARS

	2004	2003
Residential mortgage loans, as reported on balance sheet	**$5,509**	$5,274
Securitized loans, excluding loans related to the Ontario and Western Canada branches	**482**	572
Total residential mortgage loans, including securitized loans	**$5,991**	$5,846

Commercial mortgage loans

The Bank continues to be a renowned player in commercial mortgage loans across Canada. Its commercial mortgage loan portfolio stood at $604 million at the end of the 2004 fiscal year, compared with $705 million as at October 31, 2003. This decline is mainly attributable to maturities in the term loan portfolio. However, the excellent performance of the construction loan portfolio enabled the Bank to maintain volumes.

As at October 31, 2004, Ontario and Western Canada represented 61% of the commercial mortgage loan portfolio and Quebec 39%, whereas on October 31, 2003, the respective shares were 55% and 45%.

Commercial loans

As at October 31, 2004, the Bank held a portfolio of commercial loans, including bankers' acceptances, valued at $1.7 billion, compared with $1.8 billion as at October 31, 2003, for a decrease of $119 million, or 7%.

The decrease in the commercial loan portfolio results mainly from a weak demand for commercial credit, as well as, from the repositioning of Commercial Financial Services initiated during the 2002 fiscal year and intended to reduce the Bank's exposure to credit risk related to its corporate loans portfolio. This portfolio represents 15% of the total loans of the Bank and positively contributes to profitability, as illustrated by the results of the Commercial Financial Services business sector.

Commercial loans are well diversified in terms of industry, as shown in the chart on the opposite page. The largest share of the loan portfolio, at 40%, is allocated to the vast Manufacturing sectors, along with Wholesale trade and services. The Bank also holds significant positions in the Finance and Insurance sector and Paper and forest products.

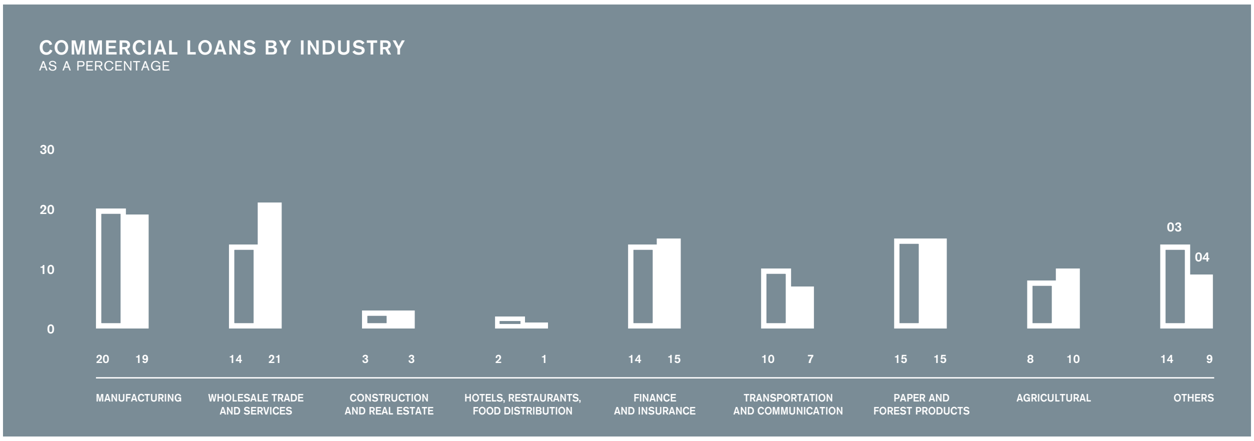
Impaired loans

The quality of credit improved significantly in the past fiscal year, despite what the level of credit losses would imply. In fact, gross impaired loans decreased from $185 million in 2003 to $127 million in 2004, corresponding to an improvement of over 30%. The global level of provisions is now higher than that of gross impaired loans, which is translated by net impaired loans of ($13.0 million) or -0.1% of total loans, bankers' acceptances and assets purchased under reverse repurchase agreements. As at October 31, 2003, net impaired loans stood at $22.0 million, or 0.2% of total loans, bankers' acceptances and assets purchased under reverse repurchase agreements. This improvement is mainly attributable to the commercial loan portfolios, whereas other loan portfolios, remained at comparable levels to those of the previous fiscal year, as shown in Table 9.

TABLE 9 // IMPAIRED LOANS

AS AT OCTOBER 31
IN MILLIONS OF DOLLARS

	2004			2003		
	GROSS	SPECIFIC ALLOWANCES	NET	GROSS	SPECIFIC ALLOWANCES	NET
Personal loans	**$ 18.1**	**$ (10.1)**	**$ 8.0**	$ 19.6	$ (9.3)	$ 10.3
Residential mortgage loans	**13.2**	**(3.9)**	**9.3**	14.0	(3.7)	10.3
Commercial mortgage loans	**15.5**	**(6.1)**	**9.4**	13.0	(6.1)	6.9
Commercial loans and other	**80.2**	**(54.7)**	**25.6**	138.6	(66.8)	71.8
Total	**$127.0**	**$ (74.8)**	**$ 52.3**	$185.2	$ (85.9)	$ 99.3
General allowances			**(65.3)**			(77.3)
Total – net impaired loans			**$(13.0)**			$ 22.0
As a % of total loans, bankers' acceptances and assets purchased under reverse repurchase agreements			**(0.1)%**			0.2%



General allowances reflect the best estimates of possible losses attributable to the deterioration in the credit quality of loans that had not been categorized as impaired. The allocated general allowance is estimated according to the historical loss profile and a reference factor to the economic cycle for various portfolios. The unallocated general allowance takes into account recent changes in the portfolio mix, as well as, economic and market conditions, along with the risk associated with the model and the estimates.

As at October 31, 2004, the general allowance for loan losses stood at $65.3 million, compared with $77.3 million in 2003, for a net decrease of $12.0 million. During the fiscal year, the Bank reviewed the level of its general allowances and determined that given the changes made to its credit policies limiting loan size to $20 million, together with the decrease in the commercial loan volume and corresponding credit risk during the past 12 months, a decrease was necessary. More information can be found in Note 4 to the consolidated financial statements.

Derivative instruments portfolio

In the normal course of business, the Bank enters into various contracts and commitments which translate in derivate instruments in order to protect itself against the risk of fluctuations in interest rates and foreign exchange rates and to meet its customers' demands as well as to earn trading income. More information on the Bank's portfolio can be found in Note 19 to the consolidated financial statements.

Deposits

The deposit portfolio decreased from $13.3 billion at the beginning of the year, to $12.9 billion as at October 31, 2004, thus reflecting the changes in the different types of deposits that the Bank raises to finance its operations. Table 10 on the next page presents a summary of the various portfolios.

Personal deposits

Total personal deposits remained relatively stable at $10.5 billion as at October 31, 2004, when compared to October 31, 2003. The decrease of $105 million in term deposits, essentially from broker sources, was partially offset by a $50 million increase in notice and demand deposits generated through the branch network. Personal deposits represent 81% of total deposits as at October 31, 2004 compared with 79% as at October 31, 2003.

Personal deposits are a particularly advantageous and stable source of financing for the Bank, mainly because of its availability and its low cost compared with institutional deposits. During the fiscal year 2004, the Bank increased the proportion of demand and notice deposits, which are significantly less costly than term deposits. These deposits are at the fore-front of the Bank's business relations with its main clients and are a good indicator of the Bank's capacity to improve its positioning. The level of term deposits raised by the branch network increased slightly in 2004. Although these deposits compete directly with mutual funds, in recent years, investors' preference for more conservative investment products has allowed the Bank to stabilize the level of these deposits.

The Bank maintained a strong presence among independent financial advisors throughout Canada by means of its B2B Trust business sector and its brokers' network. As at October 31, 2004, B2B Trust deposits totalled $2.1 billion, compared with $2.2 billion as at October 31, 2003. These deposits are more sensitive to pricing and thus adjust more easily to the financing needs of the Bank.

Business and other deposits

Deposits from businesses, banks and government institutions decreased by $327 million, from $2.8 billion as at October 31, 2003 to $2.5 billion as at October 31, 2004, as other sources were sufficient to finance activities. The section on the Bank's credit rating on page 51 of this Management's discussion and analysis provides more information about the cost associated with this type of financing.

TABLE 10 // DEPOSITS

AS AT OCTOBER 31
IN MILLIONS OF DOLLARS

	2004		2003	
Personal deposits				
Notice and demand	$ 1,858	14.4%	$ 1,808	13.6%
Fixed date				
Branch network	4,046	31.3	4,032	30.4
Brokers	4,550	35.3	4,669	35.1
	8,596	66.6	8,701	65.5
Sub-total – personal deposits	10,454	81.0	10,509	79.1
Business and other				
Notice and demand	662	5.1	630	4.7
Fixed date	1,795	13.9	2,154	16.2
Sub-total – business and other	2,457	19.0	2,784	20.9
Total – deposits	$12,911	100.0%	$13,293	100.0%

Capital

Shareholders' equity stood at $886.8 million as at October 31, 2004, for an increase of $13.4 million compared with the previous fiscal year. This increase results mainly from changes in preferred shares, as explained below. Common shareholders' equity also increased from $673.3 million as at October 31, 2003 to $676.8 million as at October 31, 2004, in line with the carrying value of the common shares, which rose from $28.73 on October 31, 2003 to $28.78 on October 31, 2004. During the 2004 fiscal year, the Bank issued 75,758 common shares for proceeds of $1.8 million under its stock option plan. As at October 31, 2004, there were 23,511,343 common shares outstanding.

During the 2004 fiscal year, the redemption of the 7.75% Non-Cumulative Class A Preferred Shares Series 7 and 8 in the amount of $102 million and the public offering of the 5.25% Non-Cumulative Class A Preferred Shares Series 10 in the amount of $108 million (including issuance costs) resulted in an increase in shareholders' equity of $6 million, while reducing the Bank's capital cost.

The Bank re-examines its capital structure periodically to maximize the rate of return on capital invested, for the shareholders' benefit, while ensuring that it meets regulatory requirements. The Bank also considers the level of its total capital, which is comprised of common shareholders' equity, preferred shares, non-controlling interest in subsidiaries and subordinated debentures. As at October 31, 2004, total capital stood at $1,137 million, compared with $1,315 million as at October 31, 2003, equal to a decrease of $178 million. This variance is mainly attributable to the redemption for cancellation purposes of Series 7 debentures at 5.75% for an amount of $100 million, along with the repurchase on the market, through the subsidiary Laurentian Bank Securities Inc., of Series 8 debentures at 7.0% for an amount of $49.5 million. These investment instruments were deducted from the corresponding commitments, in accordance with the new accounting standards for Generally Accepted Accounting Principles. The privatization of B2B Trust also decreased total capital by $43 million.

The Bank closely monitors its capital base, which represents an essential factor in assessing the strength and security in relation to the risks associated with its activities.

The BIS Tier 1 capital ratio improved slightly since October 31, 2003, to 10.5%, a result mainly attributable to the decrease in risk-weighted assets. The total capital BIS ratio decreased to 14.0%, compared with 15.2% on October 31, 2003, a result mainly attributable to the debenture-related transactions described above. These ratios compare favourably with those of other Canadian banks. The ratio of tangible common equity (common shareholders' equity less goodwill and other intangibles) as a percentage of risk-weighted assets decreased to 7.6%, from 7.8% at October 31, 2003, mainly due to the privatization of B2B Trust. The Bank's assets to capital multiple stood at 15.0, compared with 13.1 on October 31, 2003.

Tables 12 and 13 present the risk-weighted assets and the regulatory capital used to calculate the ratios established by the Bank for International Settlements (BIS).

TABLE 11 // SHARES ISSUED AND OUTSTANDING

AS AT NOVEMBER 30, 2004
IN NUMBER OF SHARES

Class A Preferred shares	
Series 9	4,000,000
Series10	4,400,000
Total preferred shares	8,400,000
Common shares	23,511,343

TABLE 12 // RISK-WEIGHTED ASSETS

AS AT OCTOBER 31 IN MILLIONS OF DOLLARS	**2004**	2003	2002
Balance sheet items			
Cash resources	**$ 68**	$ 148	$ 57
Securities	**255**	359	262
Mortgage loans	**2,123**	2,104	2,595
Other loans and customers' liability under acceptances	**4,828**	4,948	5,469
Other assets	**543**	596	690
General allowances	**65**	73	81
Total – balance sheet items	**7,882**	8,228	9,154
Off-balance sheet items			
Derivative financial instruments	**50**	60	50
Credit-related commitments	**54**	123	73
Total – risk-weighted assets	**$7,986**	$8,411	$9,277

TABLE 13 // REGULATORY CAPITAL – BIS

AS AT OCTOBER 31 IN MILLIONS OF DOLLARS	2004	2003	2002	04 / 03 VARIATION
Tier I capital				
Common shares	$ 248.6	$ 246.8	$ 246.2	1%
Retained earnings	428.1	426.5	375.8	–
Non-cumulative preferred shares	209.7	200.0	200.0	5
Non-controlling interests in subsidiaries	6.3	41.8	52.3	(85)
Less: goodwill	(54.0)	(54.0)	(54.0)	–
Total – Tier I capital (A)	838.7	861.1	820.3	(3)
Tier II capital				
Non-cumulative preferred shares [1]	0.3	–	–	–
Permanent preferred shares	–	–	0.4	–
Subordinated debentures	250.5	400.0	400.0	(37)
General allowances	65.3	73.0	81.2	(11)
Non-controlling interest in subsidiaries (hybrid capital instruments)	–	–	1.4	–
Total – Tier II capital	316.1	473.0	483.0	(33)
Investment in non-consolidated corporations, securization and other	(41.0)	(54.2)	(53.9)	(24)
Regulatory capital – BIS (B)	$1,113.8	$1,279.9	$ 1,249.4	(13)%
Total risk-weighted assets (Table 12) (C)	$7,985.7	$8,410.5	$ 9,276.5	
Tier I BIS capital ratio (A / C)	10.5%	10.2%	8.8%	
Total BIS capital ratio (B / C)	14.0%	15.2%	13.5%	
Assets to capital multiple	15.0x	13.1x	15.0x	
Tangible common equity as a percentage of risk-weighted assets	7.6%	7.8%	6.7%	

[1] Represents the amount of preferred shares exceeding 25 % of Tier 1 Capital.

Dividends

Throughout the year, the Bank demonstrated its ability to generate income to maintain its uninterrupted tradition of dividend payments. The delay in the execution of the business plan nonetheless forced the Board of Directors to examine the situation during the fiscal year. However, gains resulting from asset disposals and signs that allowed to acknowledge improvements in certain activities, enabled the declaration of dividends every quarter. For the 2005 fiscal year, quarterly, the Board of Directors will review the Bank's financial condition and evaluate its ability to meet its financial objectives, in order to support the dividends.

During the fiscal year 2004, the Bank declared dividends of $0.29 per common share in each quarter, for a total of $1.16 per common share or $27.2 million, unchanged from 2003. Dividends on preferred shares, including applicable income taxes, amounted to $14.5 million, compared with $13.9 million in 2003. This change is mainly attributable to the overlapping of dividend payments resulting from the issuance of Class A preferred shares Series 10 in the second quarter and the repurchase of Class A preferred shares Series 7 and 8 in the third quarter. In addition, a $2 million premium was paid as part of the repurchase of these shares.

TABLE 14 // CASH DIVIDENDS

FOR THE YEARS ENDED OCTOBER 31	**2004**	2003	2002
Dividends declared per common share (in dollars)	**$ 1.16**	$ 1.16	$ 1.16
Dividends declared on common shares (in thousands of dollars)	**$27,248**	$27,164	$26,854
Dividends declared on preferred shares[1] (in thousands of dollars)	**$16,218**	$13,771	$12,903

[1] Including the premium on redemption of Class A preferred shares Series 7 and 8 of $2 million in 2004.

Credit ratings

Both the Bank's capacity to obtain institutional financing and the cost of this type of financing are dependant on the credit ratings set by rating agencies such as Dominion Bond Rating Service Limited (DBRS) and Standard & Poor's.

On October 7, 2004, DBRS lowered the Bank's ratings, but revised its outlook from negative to stable. On September 29, 2004, Standard & Poor's announced that it adjusted the outlook from stable to negative. These changes follow delays in the implementation of the Bank's repositioning plan and a level of profitability that fell short of expectations.

However, given that deposits from retail customers and independent financial advisors are the main source of financing for the Bank, further changes to the Bank's credit ratings should not have a major impact on operations, cash resources or financing costs.

TABLE 15 // CREDIT RATINGS

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

Contractual obligations

The following table presents a summary of the principal contractual obligations as at October 31, 2004 that are due in each of the next five years and thereafter.

TABLE 16 // CONTRACTUAL OBLIGATIONS

AS AT OCTOBER 31 IN MILLIONS OF DOLLARS	2005	2006	2007	2008	2009	THEREAFTER	TOTAL
Term deposits	$4,596	$2,033	$1,420	$942	$1,400	$ –	$10,391
Obligations related to assets sold short	952	200	320	–	–	24	1,496
Obligations related to assets sold under repurchase agreements	16	–	–	–	–	–	16
Subordinated debentures	101	150	–	–	–	–	251
Commitments under leases, technology service contracts and others[1]	60	48	46	43	37	74	308
Total	$5,725	$2,431	$1,786	$985	$1,437	$98	$12,462

[1] The Bank also signed letters of understanding with certain suppliers, covering total commitments of $70.0 million that should lead to signed agreements in 2005.

In the normal course of its activities, the Bank concludes various types of contractual agreements. The main obligations result from the issuance of debt instruments, including deposits written with individuals, businesses and other institutions, intended to finance its activities. The Bank is also bound by the leases and service contracts it signs. In addition, the Bank must ensure that sufficient cash resources and other assets are available to meet requirements related to the projected opening of a number of branches within the next three years and to participate in compensation and payment systems. Note 21 to the consolidated financial statements provides additional information.

OFF-BALANCE SHEET ARRANGEMENTS

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

Assets under administration and assets under management

Assets under administration and assets under management include commercial and residential mortgage loans under management associated with securitization activities, assets held by clients to whom the Bank provides services such as investment, settlement of purchase and sale transactions, administrative services and the collection of investment income, along with the assets of self-directed plans offered by the subsidiary B2B Trust. The Bank collects fees and commissions on these assets.

Through its subsidiaries Laurentian Bank Securities and BLC-Edmond de Rothschild Asset Management Inc., the Bank manages retail and institutional investment portfolios. During the year, the Bank also managed mutual funds through its holding in the joint venture BLC-Edmond de Rothschild Asset Management Inc.

The table below details all of the assets under administration and assets under management. As at October 31, 2004, these items totalled $14.9 billion, a decrease of $0.6 billion compared with the previous year.

The year over year decrease in self-directed pension plans is mainly attributable to changes in the regulatory environment, in particular the creation of the Mutual Fund Dealers Association, which encourages stakeholders to manage their self-directed plans themselves. The Bank and its subsidiary B2B Trust are working diligently to develop the service offering to consolidate their market position. Mortgage loans under management decreased owing to the decline in securitization operations. Mutual fund assets grew under the combined effect of market performance and positive net sales. Institutional assets remained relatively stable compared with the previous year, as did clients' brokerage assets and other personal trust assets.

TABLE 17 // ASSETS UNDER ADMINISTRATION

AS AT OCTOBER 31
IN MILLIONS OF DOLLARS

	2004	2003	2002	**04 / 03 VARIATION**
Self-directed RRSPs and RRIFs	**$ 8,378**	$ 8,512	$ 8,009	**(2)**%
Institutional	**2,695**	2,644	2,058	**2**
Clients' brokerage assets	**1,390**	1,345	1,316	**3**
Mutual funds	**1,332**	1,238	1,157	**8**
Mortgage loans under management	**800**	1,428	2,055	**(44)**
Other – Personal	**283**	321	298	**(12)**
Total – assets under administration	**$14,878**	$15,488	$14,893	**(4)**%

Special-purpose entities

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

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

Securitization operations are reported as sales of assets only when the Bank is deemed to have ceded control of these assets and it receives a consideration other than beneficial interests in the transferred assets. The Bank mainly uses conduits of large Canadian banks, along with the Canada Mortgage Bonds program developed by the Canada Mortgage and Housing Corporation. When assets are sold, the Bank retains rights to certain excess interest spread and cash reserve accounts, which constitute retained interests. The Bank periodically reviews the value of these rights and any permanent impairment in value is charged to income, if applicable. In addition, the Bank has concluded interest swap agreements intended to guarantee payments to investors. The Bank also continues to administer all securitized assets after the sales. As at October 31, 2004, total outstanding securitized mortgage loans stood at $603.6 million ($940.5 million in 2003) and retained interests of $15.1 million ($18.0 million in 2003). Revenues of $1.4 million were recorded in 2004 ($1.9 million in 2003) as part of securitization operations. Note 5 to the consolidated financial statements provides more information about these entities.

Credit commitments

In the normal course of its activities, the Bank offers certain off-balance sheet credit instruments as a means of meeting financial needs of its customers. The table below presents the related Bank's commitments. Note 21 to the consolidated financial statements also provides additional information.

TABLE 18 // CREDIT COMMITMENTS

AS AT OCTOBER 31 IN THOUSANDS OF DOLLARS	2004	2003
Unutilized credit balances	$2,793,807	$ 2,485,170
Documentary letters of credit	$ 19,371	$ 13,470
Stand-by letters of credit and performance guarantees	$ 55,329	$ 65,445

SEGMENTED INFORMATION

The Bank operates four business sectors:

- Retail Financial Services
- Commercial Financial Services
- B2B Trust
- Wealth Management and Brokerage

For the fiscal year 2004, the contribution of the business sectors to the Bank's net revenues, excluding the Other sector, was 38% for Retail Financial Services, 39% for Commercial Financial Services, 16% for B2B Trust and 7% for Wealth Management and Brokerage. The corresponding contributions in 2003 were 30%, 36%, 19% and 15%.

The contribution from the Retail Financial Services business sector improved substantially compared to 2003, mainly as a result of lower loan losses and increased level of activities. Commercial Financial Services also improved their contribution as a result of lower loan losses, while B2B Trust's performance remained relatively stable. The Wealth Management and Brokerage sector benefited from increases in activities, which enabled it to surpass its objectives for the year.

Certain significant transactions, described in Table 2, were attributed to the business sectors. The analysis below describes these allocations in greater detail.

TABLE 19 // SEGMENTED RESULTS

FOR THE YEARS ENDED OCTOBER 31, AS A PERCENTAGE	2004			2003		
	TOTAL REVENUE	NET INCOME	EFFICIENCY RATIO	TOTAL REVENUE	NET INCOME	EFFICIENCY RATIO
Retail Financial Services	65.1%	37.9%	82.7%	66.5%	29.3%	84.7%
Commercial Financial Services	17.8%	39.0%	40.3%	16.7%	36.2%	37.5%
B2B Trust	11.6%	16.3%	63.3%	11.2%	19.2%	60.2%
Wealth Management and Brokerage	5.5%	6.8%	78.4%	5.6%	15.3%	62.6%

Retail Financial Services

For fiscal 2004, the Retail Financial Services contribution to consolidated results improved by 41% to $23.7 million, compared to $16.8 million in 2003. Results for the fiscal year included a portion of the gain on the sale of the Visa portfolio amounting to $2.1 million, and $1.0 million from the sale of the debit and credit card transaction processing activities and certain rights to service mutual funds accounts. Excluding these items, results nonetheless improved significantly by more than 20%.

Historically, Retail Financial Services have always been the cornerstone of the Bank. Significant energy and resources were granted to this business sector during the year, to revive its brand image and instil renewed optimism and vigour. The results quickly became apparent. The growth of mortgage loans of $194 million and the growth of personal deposits of $55 million attributable to the branch network illustrate the commitment of all employees to participate in the Bank's development. These increases in volume contributed to additional revenues of approximately $15 million year over year, excluding the effect of the sale of the Ontario and Western Canada branches at the end of 2003 and the disposal of assets referred to above. Changes to pricing strategies for point-of-sale financing and for other types of products also improved profitability.

Loan losses also improved significantly in 2004, by $9.0 million, of which approximately $3.5 million relates to the branches sold in 2003. Expenses decreased by $43.7 million, mainly as a result of the savings related to the branches sold and the expense reduction program of 2003. The combined effect of the increase in revenues and the reduction in expenditures allowed the Bank to improve its efficiency ratio to 82.7%, compared with 84.7% in 2003.

Throughout fiscal 2004, several initiatives have been implemented or carried out that contributed, directly and indirectly, to the attainment of performance objectives. Most importantly, the *Entrepreneurship* project, initiated in 2002 and expanded to the Bank's entire retail network. The widespread deployment of the entrepreneurial spirit has enabled the Bank to build on one of its foremost strengths – quality of service.

Moreover, intensified marketing efforts, including direct and mass media advertising, have heightened the visibility and awareness of the Bank in 2004. These initiatives will continue during the 2005 fiscal year.

The Bank recently announced the opening of five branches with an entirely new concept of financial services boutique. This concept reflects a totally innovative approach to in-branch banking. Four new branches were opened in November and early December 2004; and another one is planned to open in January 2005. These openings should continue in the coming years, as 15 other branches are being considered. This significant investment, of approximately $10 million, remains a strong element of the business sector plan and a tangible proof of its will to succeed. These new branches, among other initiatives, should further drive growth in fiscal 2005 and beyond.

TABLE 20 // RETAIL FINANCIAL SERVICES

FOR THE YEARS ENDED OCTOBER 31 IN MILLIONS OF DOLLARS	**2004**	2003
Net interest income	**$238.2**	$274.2
Other income	**87.2**	95.2
Total revenue	**325.4**	369.4
Provision for credit losses	**19.8**	28.8
Non-interest expenses	**269.2**	312.9
Income before income taxes	**36.4**	27.7
Income taxes	**12.7**	10.9
Net income	**$ 23.7**	$ 16.8

Commercial Financial Services

For fiscal 2004, the Commercial Financial Services' contribution to consolidated results improved by 17% to $24.4 million, compared with $20.8 million in 2003. This business sector continued to deliver steady results throughout the year. Revenue growth was hampered by the persistent low level of demand for commercial credit. However, lower loan losses enabled the business sector to increase its contribution. Moreover, the improvement in the credit quality of the commercial loan portfolio was substantial over the last 12 months, as reflected by the level of impaired loans, which decreased by 35%.

In retrospect, 2004 brought mixed results to the various niches. The Real Estate group benefited from a strong market, which permitted to generate all-time records for the construction loans activity. This was achieved through the opening of an office in Ottawa and the increased activity level in the Montreal region, combined with a steady flow of deals in the GTA. While construction is expected to slow down in certain of these areas, the recently increased sales force in Western Canada will enable the Bank to capitalize on new profitable opportunities.

The farm lending portfolio remained stable in 2004 as the mad-cow crisis continued to impact this sector. Furthermore, increased competition through fierce pricing for government guaranteed loans limited growth opportunities. In 2005, the implementation of a satellite centre concept will enhance the geographic presence of the Bank.

The small – and medium – sized businesses loan portfolio remained stable in 2004 due to low demand and increased competition, especially in Quebec. In addition, Ontario's operations are now dedicated to the $1 million to $20 million niche, where the Bank believes it can succeed.

The Corporate portfolio decreased substantially in 2004, further to the decision to reduce the Bank's risk exposure. As of fiscal 2005, the remaining portfolio will be taken over by the Corporate Treasury group, in an integrated risk approach that will include direct loans as well as investments in synthetic products.

TABLE 21 // COMMERCIAL FINANCIAL SERVICES

FOR THE YEARS ENDED OCTOBER 31 IN MILLIONS OF DOLLARS	**2004**	2003
Net interest income	**$56.9**	$62.8
Other income	**32.4**	29.8
Total revenue	**89.3**	92.6
Provision for credit losses	**15.7**	23.5
Non-interest expenses	**36.0**	34.8
Income before income taxes	**37.6**	34.3
Income taxes	**13.2**	13.5
Net income	**$24.4**	$20.8

B2B Trust

The B2B Trust business sector provides financial products and services to retail consumers through independent financial advisors and their dealerships, non-bank financial institutions and retailers across Canada under their own brand or B2B Trust's "Advisor's Choice" brand. Following the privatization of B2B Trust on June 8, 2004, the results now reflect operations of B2B Trust as a wholly-owned subsidiary of the Bank.

The net income contribution of B2B Trust declined by $0.8 million to $10.2 million in 2004 versus $11.0 million in 2003. The year over year decline in net income was due to decreased revenue of $4.4 million, an increase in the provision for loan losses of $2.9 million offset by lower operating expenses of $0.8 million, lower income taxes of $4.0 million, and a lower minority interest adjustment of $1.7 million due to the privatization of B2B Trust.

Total revenue was $58.1 million in 2004, compared to $62.5 million in 2003, a decrease of $4.4 million or 7%. Net interest income declined by $3.8 million principally due to a decrease in the net interest margin from 1.77% in 2003 to 1.64% in 2004. The margin compression experienced was a result of changes in asset mix, and a competitive low interest rate environment reducing the net interest spread historically earned from funding sources.

The provision for loan losses was $4.6 million in 2004, a year over year increase of $2.9 million from $1.7 million in 2003. The increase is largely attributable to a personal line of credit portfolio being developed. Total personal credit facilities increased by $44 million or 45% over the previous year. However, the quality of the investment loan portfolio remained extremely sound, as evidenced by the loan loss ratio of 0.04%.

Non-interest expenses decreased by $0.8 million or 2% to $36.8 million in 2004 from $37.6 million in 2003. The efficiency ratio increased from 60.2% in the prior year to 63.3%. The decline in operational productivity is reflective of the 7% decline in revenue, partially offset by a 2% decrease in expenses.

Investment and RRSP loans stood at $1.1 billion as at October 31, 2004 a year over year increase of $32 million or 3%, thereby confirming the stability of these core products with consumers and B2B Trust's relationship with financial intermediaries. These core products represent more than 50% of B2B Trust's revenue. B2B Trust's contribution and economic advantage of distributing lending products through independent third parties is expected to increase with strong equity markets.

TABLE 22 // B2B TRUST LOAN PORTFOLIOS

AS AT OCTOBER 31 IN MILLIONS OF DOLLARS	2004	2003
Investment	$1,145	$1,113
Residential mortgages	616	784
Lines of credit	141	97
	$1,902	$1,994

TABLE 23 // B2B TRUST

FOR THE YEARS ENDED OCTOBER 31 IN MILLIONS OF DOLLARS	2004	2003
Net interest income	$ 43.0	$ 46.8
Other income	15.1	15.7
Total revenue	58.1	62.5
Provision for credit losses	4.6	1.7
Non-interest expenses	36.8	37.6
Income before income taxes and non-controlling interest in net income of a subsidiary	16.7	23.2
Income taxes	4.6	8.6
Non-controlling interest in net income of a subsidiary	1.9	3.6
Net income	$ 10.2	$ 11.0

Wealth Management and Brokerage

The Wealth Management and Brokerage business sector reported net income of $4.3 million in 2004, compared with $8.7 million in 2003, including the $6.7 million after-tax gain on the sale of the TSX shares.

Laurentian Bank Securities Inc. (LBS) substantially improved its contribution to results in 2004. For the year, net income was $4.1 million, a significant improvement over last year's contribution of $2.2 million, excluding the $6.7 million after-tax gain on the sale of the TSX shares. This performance allows the Bank to start 2005 with enthusiasm, even more so that Management is particularly motivated by the challenge to improve growth. Total revenues amounted to $21.7 million in 2004, compared to $18.2 million in 2003, excluding the gain on the sale of the TSX shares. LBS operates mainly in the following sectors: leading fixed income and retail brokerage activities.

The BLC-Edmond de Rothschild Asset Management Inc. (BLC-EdR) joint venture improved its results to $0.4 million ($0.2 million – 50% participation) for 2004, up from a loss of $0.4 million ($0.2 million – 50% participation) in 2003. Management fees improved to $11.2 million ($5.6 million – 50% participation) for 2004, compared with $8.5 million ($4.3 million – 50% participation) in 2003. Mutual funds under management increased by 24% at $910 million as at October 31, 2004, as a result of positive sales performance and increases in market values. Total assets under management increased to $1.7 billion at October 31, 2004, compared with $1.6 billion a year ago. BLC-EdR manages portfolios for its retail mutual funds and its private and institutional money management divisions.

Sale of BLC-Edmond de Rothschild Asset Management Inc.

On November 4, 2004, the Bank and its co-venturer Compagnie Financière Edmond de Rothschild Banque entered into an agreement in principle to sell all of the outstanding shares of BLC-Edmond de Rothschild Asset Management Inc. to Industrial Alliance Insurance and Financial Services Inc. This agreement also provides for the Bank to continue to distribute the R Funds over the next 10 years under an exclusive distribution agreement. The transaction is expected to close in the first quarter of 2005 subject to regulatory approvals. The agreement foresees the payment of an initial amount of approximately $65 million, based on the assets under management at the time of closing of the transaction, and a final amount of $8 million at the end of the fifth year. The initial amount is subject to a recovery clause that can reach up to $28 million within the first five years if certain minimal net sales conditions are not met. The final amount is also subject to certain conditions based on sales.

The agreement would result in a gain that may exceed $30 million, subject to certain conditions, including sales results. A portion of this gain will be recognized at the closing date of the transaction, and the remaining amount subsequently. Note 24 to the consolidated financial statements provides more details.

TABLE 24 // WEALTH MANAGEMENT AND BROKERAGE

FOR THE YEARS ENDED OCTOBER 31 IN MILLIONS OF DOLLARS	**2004**	2003
Net interest income	**$ 1.4**	$ 1.3
Other income	**26.0**	29.7
Total revenue	**27.4**	31.0
Non-interest expenses	**21.5**	19.4
Income before income taxes	**5.9**	11.6
Income taxes	**1.6**	2.9
Net income	**$ 4.3**	$ 8.7

Others

The contribution of the Other sector for 2004 amounted to -$14.8 million, compared to $34.6 million in 2003. Results for 2004 include the $1.7 million portion of the gain resulting from the disposal of a credit card loan portfolio, the $3.6 million portion of the gain on the sale of the debit and credit card transaction processing activities and certain rights to service mutual funds accounts, as well as the favourable impact of changes in estimates for certain provisions related to the sale of the Ontario and Western Canada branches of $2.4 million. These items were however offset by treasury and securitization activities, as well as other activities. The net contribution of 2003 included the gain on the sale of the Ontario and Western Canada branches of $54.9 million after-tax and the $12.8 million after-tax charge related to the cost reduction program.

ANALYSIS OF QUARTERLY RESULTS

In the past two years, the Bank's results have been significantly influenced by the effect of particular transactions. These transactions and other events are analyzed throughout the Management's discussion and analysis and are presented in table 25. Moreover, the Bank's results are also strongly influenced by Canadian and international macro-economic changes, regarding in particular the interest rate situation, monetary policies and economic growth, along with regulatory changes.

In both 2003 and 2004, changes in results between quarters, excluding the effect of the transactions described above, are explained mainly by the fluctuation in revenues from treasury activities, which are fairly volatile by nature. The net interest margin also decreased regularly since the start of the 2003 fiscal year, owing to the interest rate environment and competition on the Canadian market. The loss of the Ontario and Western Canada branches' contribution to earnings also explains the decrease in profitability, quarter over quarter, between 2004 and 2003.

CONTROLS AND PROCEDURES OVER FINANCIAL INFORMATION

To ensure the impartiality of the consolidated financial statements and of the Management's discussion and analysis, the Bank has put in place controls and procedures for financial information over the years. Voluntarily, in the fall of 2002, the Bank introduced a quarterly certification process that covered a set of items throughout the organization. The introduction in June 2003 of more stringent regulations regarding financial information certification underlines the importance granted to the processes related to the preparation of these reports. The Bank is now working actively on the following phases that should lead to certification of the disclosure controls and procedures and internal controls over financial reporting. The Bank has also put in place a number of additional measures intended to enhance the quality of financial information, in particular a formal disclosure committee which will be fully operational in the first quarter of 2005 and a policy concerning services provided by external auditors.

TABLE 25 // QUARTERLY RESULTS

IN MILLIONS OF DOLLARS				2004				2003
				QUARTERS ENDED				QUARTERS ENDED
	OCT. 31	JULY 31	APRIL 30	JAN. 31	OCT. 31	JULY 31	APRIL 30	JAN. 31
Net interest income	$ 70.0	$ 68.3	$ 66.8	$ 70.0	$ 83.0	$ 87.9	$ 84.6	$ 87.6
Other income	38.9	52.9	56.6	50.5	117.8	55.9	53.1	60.0
Total revenue	108.9	121.2	123.4	120.5	200.8	143.8	137.7	147.6
Provision for credit losses	8.9	10.9	10.5	9.8	11.0	16.0	16.0	11.0
Non-interest expenses	91.3	91.5	94.2	92.8	125.8	109.3	102.0	104.6
Income taxes	1.6	4.9	4.7	3.3	12.5	7.3	7.8	11.0
Non-controlling interest in net income of a subsidary	–	0.2	0.7	1.0	0.8	0.9	0.9	1.1
Net income	$ 7.1	$ 13.7	$ 13.3	$ 13.6	$ 50.7	$ 10.3	$ 11.0	$ 19.9
Factors that have caused variations over the quarters:								
Increase in future tax assets arising from the increase in Ontario income tax rate	$ –	$ –	$ –	$ 1.5	$ –	$ –	$ –	$ –
Sale of the Ontario and Western Canada Visa loan portfolio	–	–	3.8	–	–	–	–	–
Sale of the debit and credit card transaction processing activities and certain rights to service mutual funds accounts	–	4.6	–	–	–	–	–	–
Review of the provisions related to the Ontario and Western Canada branches sold during the fourth quarter of 2003	–	2.4	–	–	–	–	–	–
Costs associated with the redemption of the Debentures Series 7	–	(0.7)	–	–	–	–	–	–
Reduction in the general allowance for loan losses and equivalent increase in specific allowance	–	–	–	–	–	–	–	–
Gain on sale of the Ontario and Western Canada branches	–	–	–	–	54.9	–	–	–
Restructuring charge	–	–	–	–	(10.8)	(2.0)	–	–
Loan losses related to Air Canada	–	–	–	–	–	(3.2)	(3.3)	–
Total of items affecting net income	$ –	$ 6.3	$ 3.8	$ 1.5	$ 44.1	$ (5.2)	$ (3.3)	$ –

INTEGRATED RISK MANAGEMENT FRAMEWORK

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

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

The Integrated Risk Management Framework is divided into two sections: control and corporate governance. The control aspect rests on five functions: human resources, strategic planning, financial integrity, risk management and compliance. Regarding corporate governance, the Board of Directors has the ultimate responsibility to ensure as much as possible that the global risk tolerance is consistent with the Bank's strategies and objectives and that its resources, technologies and processes are aligned with its objectives. Responsibility for each function is delegated to certain members of the Management and is supervised by the Board of Directors' Committees. A description of each of these committees can be found on page 15 of this Annual Report.

Risk management structure

The Management has put in place a risk management structure that was approved by the Board of Directors. It has established that credit risk, market risk (including interest rate risk, foreign exchange risk and liquidity risk), capital management risk, structural risk, operational risk and regulatory risk are more controllable and measurable, and can be more formally supervised. Consequently, these risks are subject to particular policies and are constantly monitored by the Management Committee, as described below.

Credit risk management

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

Credit risk management is independent of operations, thus protecting the independence and integrity of risk evaluation. The Internal Credit Committee is responsible for the operational supervision of overall credit risk management. A credit risk management report is presented on a quarterly basis to the Management Committee and to the Board of Directors' Risk Management Committee. The credit risk policies adopted by the Bank provide for appropriate risk assessment and the setting of lending rates in consequence. These policies cover the approval of credit applications by the line of authority concerned, attribution of risk ratings, management of impaired loans, establishment of general and specific provisions, and pricing based on risk.

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

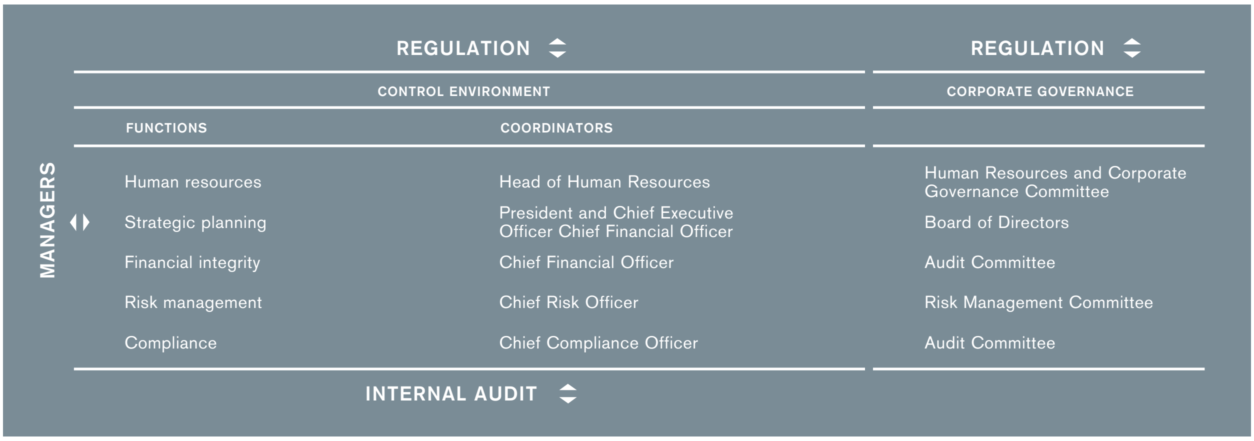
The policies are periodically reviewed and approved by the Board of Directors' Risk Management Committee.

The authorization process for counterparties and loans is highly centralized. The Bank uses expert systems to support the decision-making process inherent in applications for personal consumer credit, residential mortgage loans and credit cards. The Bank ensures a rigorous and systematic follow-up of its loan portfolio both in terms of quality and quantity by applying several mechanisms and policies; this entails systematically reviewing various categories of files and risk rating updating systems, and analysing pricing. Each month, the Bank's Management Committee reviews impaired loans and follows up on loans where payment is past due by 90 days or more. As well, the collection process is centralized and is based on specialized expertise.

The Bank has various risk management tools at its disposal. These include a 17-level risk rating system used to evaluate all types of commercial credit. Above a specific rating, files are considered to be under credit watch and are managed in keeping with particular procedures.

With regards to portfolio quality, a loan is considered impaired when interest payments are past due by three months or more, or if the Management considers that there is a reasonable doubt that all of the interest and principal will be repaid at maturity.

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



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

For consumer impaired loans, provisions are established on portfolios based on a formula that takes into account the loss history or on a loan by loan basis in certain cases.

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

Market risk management

Market risk corresponds to the financial losses that the Bank could incur because of unfavourable fluctuations in the value of balance sheet or off-balance sheet financial instruments, following movements in parameters that underlie their evaluation, notably interest rates, exchange rates and bond and equity prices. This risk arises from the Bank’s financing, investment and trading activities.

Policies and standards

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

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

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

a_daily, to risk and portfolio managers

b_quarterly, to the Management Committee and to the Board of Directors’ Risk Management Committee.

Market risk management includes interest rate, foreign exchange and liquidity risks management.

Interest rate risk

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

Foreign exchange risk

Foreign exchange risk corresponds to the loss in Canadian dollars that the Bank and/or its subsidiaries may incur because of negative movements of exchange rates. It originates mainly from the foreign exchange positions maintained by the Bank to support the offering of products and services in currencies other than Canadian dollars, 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.

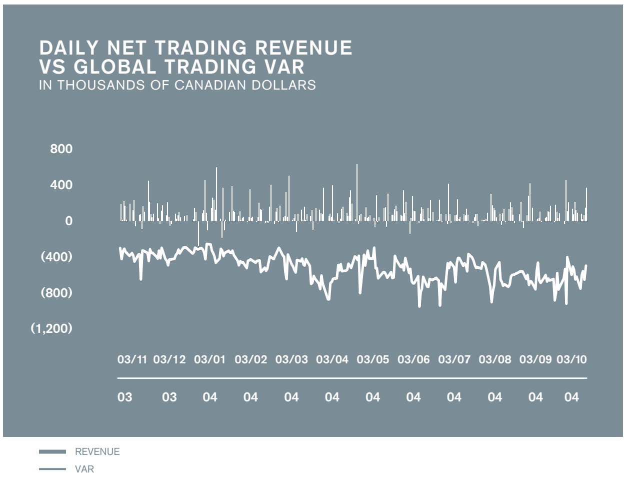
Foreign exchange risk control therefore implies that non-covered positions be maintained and managed to take advantage of short-term market fluctuations, hence the setting of global limits, reviewed at least annually, specifying the maximum risk the Bank is ready to assume, considering its activities.

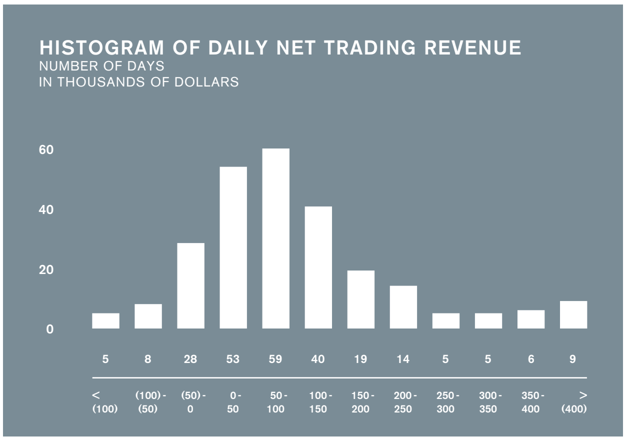
Liquidity risk

Liquidity risk is the risk of loss if the Bank does not have sufficient cash resources, when required, to meet all its cash flow obligations, whether for balance sheet or off-balance sheet instruments.

Efficient liquidity management is essential to maintaining market confidence and protecting the Bank’s capital. Policies for management of collateral, liquidities and financing, together with the liquidity management plan, define the management structure, responsibilities and indicators that underlie prudent liquidity management. This management framework provides the Bank and its subsidiaries with the assurance that sufficient funds will be available to meet their commitments. The Bank monitors cash resources daily and abides by the corporate indicators and legislative imperatives governing it and its subsidiaries.

An integral part of asset and liability management, liquidity management pays particular attention to deposit and loan maturities, along with funding availability and demand. The Bank strives to maintain a stable volume of base deposits originating from its retail and deposit brokerage clientele, along with the diversification of financing sources by client, deposit type, market and maturity dates. The use of capital markets, either through the issuance of capital stock or short-term debt instruments, is a component of financing. Securitization of assets offers an additional source





of financing through the sale of assets. Moreover, the Bank constantly monitors its operating requirements. In particular, it evaluates and anticipates its commitments, and ensures that a minimum amount of quality liquid assets are immediately available to respond to any contingency.

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

Methods of evaluating and controlling market risks (Interest rate and exchange rate risk)

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

a_value at risk (VAR) and the application of shock scenarios;

b_“notional” limits and other various measures of sensitivity that allow management of the risks that are not captured by the VAR measures and scenarios.

Value at risk

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

Global value at risk is calculated for all financial market activities. Value at risk is also calculated for specific portfolios. The outstanding value at risk thus obtained is compared with the limits set on a daily basis to limit the risks incurred. In parallel with the VAR model, shock scenarios are calculated and their impact on profits and losses of certain portfolios is evaluated.

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 LBC Securities and, to a lesser extent, by the Bank’s treasury department. The following table and graphs above refer to the Bank’s trading portfolios.

The upper left-hand graph compares revenues from trading activities and the daily value at risk associated with these activities. During the 2004 fiscal year, we experienced 41 days of losses. None of the net losses incurred exceeded the estimated VAR for these same days. The biggest loss occurred on January 2nd and stood at $(273,000). The average VAR during the fiscal year stood at $523,000 compared with average revenues of $98,000.

The upper right-hand graph shows the daily distribution of trading revenues for fiscal year 2004.

The table below shows the VAR per major risk category for fiscal year 2004. It also shows the total VAR that includes the impact of the correlation in interest rate and exchange rate movements, along with the advantages resulting from diversification of the Bank’s trading portfolio.

GLOBAL VAR BY MAJOR RISK CATEGORY–
TRADING PORTFOLIOS[1]

IN THOUSANDS OF CANADIAN DOLLARS	YEAR-END	AVERAGE	HIGH	LOW
Interest Rate	566	489	911	264
Foreign Exchange	10	122	841	2
Diversification Effect	(51)	(88)	(565)	51
Global VAR	525	523	n.a.	n.a.

[1] Amounts are presented on a pre-tax basis and represent one-day VAR at a 99% confidence level.
Trading portfolios do not include investment in shares.
n.a. = non applicable

Structural risk

Structural risk is the potential negative impact of interest rate movements on the Bank’s results and economic value. This risk is mainly attributable to differences in maturities or reevaluation dates of balance sheet and off-balance sheet items along with the options embedded in certain banking products, notably early redemption clauses and mortgage commitments.

Management of structural risk requires rigorous monitoring of four distinct portfolio groups:

a_Banking activities of the Bank’s clientele, which are affected by customer choices, product availability and term-dependent pricing policies;

b_Investment activities, comprised of marketable securities, and institutional funding composed of primary and secondary liquidity portfolios and the investment portfolio;

c_Securities trading portfolios, that are marked-to-market on a daily basis in line with rate movements;
d_Hedging portfolio that helps the Bank control overall interest rate risk within stringent internal limits.

Both the dynamic management and disciplined control of structural risk are intended to maximize the Bank's profitability and preserve the economic value of common shareholders' equity. To attain 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 that underlie the balance sheets and to cover the risk inherent in options embedded in loan and deposit products.

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

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

Interest income risk measures the negative impact on net interest income from interest rate movements over the next twelve months. Portfolio positions are reviewed weekly by the Asset and Liability Management Committee, which is in charge of establishing 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 quarterly to the Management Committee and the Risk Management Committee of the Board of Directors. Structural risk management ensues from a weekly gap report. The Bank's interest rate gap position at October 31, 2004 appears in Note 20 of the Consolidated Financial Statements. To ensure sound management of structural risk, the Management also conducts simulation analysis of the variation in net income and the economic value of common shareholders' equity based on a repricing gap report and various interest rate scenarios. One of the main simulation exercises consists of subjecting the Bank's balance sheet to a sudden and sustained 1% increase in interest rates. For example, at October 31, 2004, for all portfolios, this 1% rate increase would have triggered an increase of $10.6 million in net income before taxes over the next 12 months and would have a $(15.7) million impact on the value of common shareholders' equity. These results reflect Management's efforts to take advantage of short-term and long-term interest rate movements, while maintaining the sensitivity to these fluctuations well within the limits set by the Board of Directors.

Risk related to capital management

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

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

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

A capital plan prepared annually specifies the target capital ratios by taking into account the projected asset levels weighted by forecast risk and initiatives in capital management. Statutory capital ratio monitoring reports are presented, every quarter, to the members of the Management Committee and the Risk Committee of the Board of Directors.

Economic capital

The Bank continued to improve its economic capital model. This methodology allows the Bank to group and manage the various risk components to calculate the maximum potential loss that the Bank or a sector may sustain with a degree of predetermined confidence, for a predefined period of time. This process is intended to define the risk element in the risk-return ratio, which contributes to evaluating the economic profit and the increase in the value of shareholders' equity. The lines of development are intended to improve risk coverage and ensure permanent validation of the parameters of the model.

New basel accord

The Basel Committee on Banking Supervision has formulated a new accord (Basel II) that will take into effect in November 2006. This accord is supported by three pillars instead of one, namely the minimum capital requirements, a prudent monitoring framework and financial disclosure. Basel II will take into account the real risks of the Bank more than the initial accord did, and will allow a choice among three risk methods to assess credit risk and operational risk. The Bank is presently implementing the New Basel Accord to evaluate credit risk and operational risk.

Operational risk management

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

The operational risk management policy, reviewed annually by the Risk Management Committee of the Board of Directors, describes the operational risk management framework and defines the roles and responsibilities of various stakeholders. Managers of business units and subsidiaries are responsible for managing operational risk inherent in their daily operations. The operational risk management group must oversee the operational risk management process. Complete and independent verification of this process is performed by the internal audit department of the Bank, which transmits the conclusions of its auditing mandates to the operational risk management group and to the Audit Committee of the Board of Directors.

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

Adoption of policies by the board of directors

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

Collection of operational loss data

Data concerning operational losses is centralized within the operational risk management group.

Identification of operational risk

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

Evaluation of the frequency and potential impact of operational loss events

All of the activities of the Bank are grouped within large processes. In self-assessment workshops, managers must perform an evaluation in order to attribute the appropriate risk rating to each of their processes.

Management of operational risks

This process consists in deciding to accept, control, avoid or transfer certain risks and put in place appropriate procedures and control measures. The Bank uses several means to minimize its risks, including participation in a corporate insurance program and formulation of a global and integrated plan for the continuity of operations.

Production of operational risk reports

These reports are sent to managers, members of top management and Directors. They include action plans intended to reduce the level of risk of business processes whose global operational risk rating is considered to be too high, according to the tolerance levels set by the Bank.

Regulatory risk management

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

Compliance reports are submitted to the President and Chief Executive Officer, the Management Committee, the Risk Management Committee of the Board of Directors and the Audit Committee of the Board of Directors.

STATISTICAL REVIEW – CONSOLIDATED BALANCE SHEET

AS AT OCTOBER 31 IN THOUSANDS OF DOLLARS	2004	2003	2002	2001	2000	04 / 00 AVERAGE ANNUAL VARIATION
ASSETS						
Cash resources						
Cash and due from other financial institutions without interest	$ 75,653	$ 100,001	$ 168,726	$ 82,231	$ 83,130	(2)%
Interest-bearing deposits with other financial institutions	252,779	622,923	264,972	93,679	167,904	11
Cheques and other items in transit, net	–	111,809	19,973	8,437	29,177	–
	328,432	834,733	453,671	184,347	280,211	4
Securities						
Issued or guaranteed by Canada	1,834,369	1,497,689	1,584,820	1,432,946	822,894	23
Issued or guaranteed by provinces and municipal corporations	698,510	1,025,828	1,114,427	650,685	428,946	13
Other securities	469,596	547,359	350,810	237,630	136,620	32
	3,002,475	3,070,876	3,050,057	2,321,261	1,388,460	21
Assets purchased under reverse repurchase agreements	1,133,920	882,036	869,830	649,671	638,400	15
Loans						
Personal	3,638,991	3,646,070	3,865,455	3,532,655	2,863,333	6
Residential and commercial mortgages	6,113,107	5,979,229	7,601,671	7,880,870	6,977,955	(3)
Commercial and other	1,542,760	1,571,491	1,872,901	2,159,752	1,783,173	(4)
	11,294,858	11,196,790	13,340,027	13,573,277	11,624,461	(1)
Allowance for loan losses	(140,042)	(163,177)	(217,881)	(133,512)	(115,661)	5
	11,154,816	11,033,613	13,122,146	13,439,765	11,508,800	(1)
Other						
Customers' liability under acceptances	144,830	235,286	332,077	336,292	244,586	(12)
Capital assets	94,490	114,479	160,597	178,766	164,914	(13)
Other assets	748,513	566,745	607,238	585,722	515,947	10
	987,833	916,510	1,099,912	1,100,780	925,447	2
	$ 16,607,476	$16,737,768	$18,595,616	$17,695,824	$14,741,318	3%
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits						
Personal	$ 10,454,368	$10,508,592	$12,007,957	$11,519,743	$10,202,957	1%
Business and other	2,456,672	2,784,357	2,960,317	2,998,294	2,036,094	5
	12,911,040	13,292,949	14,968,274	14,518,037	12,239,051	1
Other						
Obligations related to assets sold short or under repurchase agreements	1,511,481	1,142,909	1,308,882	877,158	619,264	25
Acceptances	144,830	235,286	332,077	336,292	244,586	(12)
Other liabilities	902,848	751,484	716,907	741,921	629,412	9
	2,559,159	2,129,679	2,357,866	1,955,371	1,493,262	14
Subordinated debentures	250,525	400,000	400,000	400,000	346,833	(8)
Non-controlling interest in a subsidiary	–	41,827	47,106	42,683	–	–
Shareholders' equity						
Preferred shares	210,000	200,000	200,400	160,400	160,400	7
Common shares	248,593	246,813	246,230	234,240	167,042	10
Retained earnings	428,159	426,500	375,740	385,093	334,730	6
	886,752	873,313	822,370	779,733	662,172	8
	$ 16,607,476	$16,737,768	$18,595,616	$17,695,824	$14,741,318	3%

STATISTICAL REVIEW – CONSOLIDATED STATEMENT OF INCOME

FOR THE YEARS ENDED OCTOBER 31 IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS	**2004**	2003	2002	2001	2000	**04/00 AVERAGE ANNUAL VARIATION**
Loans	**$ 690,789**	$ 870,519	$ 887,268	$ 1,005,061	$ 835,759	**(5)%**
Securities	**57,546**	76,502	73,341	66,284	70,181	**(5)**
Deposits with other financial institutions	**9,807**	11,658	5,022	8,243	5,712	**14**
Interest income	**758,142**	958,679	965,631	1,079,588	911,652	**(5)**
Deposits and other liabilities	**455,950**	587,711	591,905	680,035	605,281	**(7)**
Subordinated debentures	**27,184**	27,742	27,750	34,395	27,475	**–**
Interest expense	**483,134**	615,453	619,655	714,430	632,756	**(7)**
Net interest income	**275,008**	343,226	345,976	365,158	278,896	**–**
Provision for credit losses	**40,000**	54,000	111,000	35,000	25,000	**12**
	235,008	289,226	234,976	330,158	253,896	**(2)**
Other income	**198,949**	286,720	254,443	265,641	211,777	**(2)**
	433,957	575,946	489,419	595,799	465,673	**(2)**
Salaries and employee benefits	**182,929**	204,944	198,694	212,878	177,147	**1**
Premises and technology	**104,682**	128,982	120,140	115,829	96,641	**2**
Other	**82,108**	107,854	88,499	116,736	79,539	**1**
Non-interest expenses	**369,719**	441,780	407,333	445,443	353,327	**1**
Income before income taxes and non-controlling interest in net income of a subsidiary	**64,238**	134,166	82,086	150,356	112,346	**(13)**
Income taxes	**14,551**	38,659	32,424	57,610	30,686	**(17)**
Income before non-controlling interest in net income of a subsidiary	**49,687**	95,507	49,662	92,746	81,660	**(12)**
Non-controlling interest in net income of a subsidiary	**1,916**	3,640	5,318	2,041	–	**–**
Net income	**$ 47,771**	$ 91,867	$ 44,344	$ 90,705	$ 81,660	**(13)%**
Preferred shares dividends, including applicable income taxes	**$ 14,506**	$ 13,943	$ 15,058	$ 13,530	$ 13,932	**1%**
Premium on redemption of preferred shares	**2,000**	–	–	–	–	**–**
Net income available to common shareholders	**$ 31,265**	$ 77,924	$ 29,286	$ 77,175	$ 67,728	**(18)%**
Dividends on common shares	**$ 27,248**	$ 27,164	$ 26,854	$ 24,098	$ 18,945	**10%**
Average number of common shares (in thousands)						
Basic	**23,485**	23,416	23,095	22,710	20,154	**4%**
Diluted	**23,521**	23,457	23,288	22,896	20,224	**4%**
Per common share:						
Net income						
Basic	**$ 1.33**	$ 3.33	$ 1.27	$ 3.40	$ 3.36	**(21)%**
Diluted	**$ 1.33**	$ 3.32	$ 1.26	$ 3.37	$ 3.35	**(21)%**
Dividends	**$ 1.16**	$ 1.16	$ 1.16	$ 1.06	$ 0.94	**5%**
Book value	**$ 28.78**	$ 28.73	$ 26.57	$ 27.08	$ 24.90	**4%**
Return on common shareholders' equity	**4.6%**	12.4%	4.8%	13.1%	14.4%	
AS A PERCENTAGE OF AVERAGE ASSETS						
Net interest income	**1.68%**	1.85%	1.86%	2.13%	1.94%	
Provision for credit losses	**0.24**	0.29	0.60	0.20	0.17	
Other income	**1.22**	1.55	1.37	1.55	1.47	
Non-interest expenses	**2.26**	2.38	2.19	2.59	2.46	
Income taxes	**0.09**	0.21	0.17	0.35	0.21	
Non-controlling interest in net income of a subsidiary	**0.02**	0.02	0.03	0.01	–	
Net income	**0.29**	0.50	0.24	0.53	0.57	
Dividends on preferred shares	**0.10**	0.08	0.08	0.08	0.10	
Net income available to common shareholders	**0.19%**	0.42%	0.16%	0.45%	0.47%	
Average assets (in millions of dollars)	**$ 16,327**	$ 18,548	$ 18,570	$ 17,176	$ 14,377	**3%**
Number of full-time equivalent employees	**3,125**	3,159	3,730	3,884	3,481	**(3)%**
Number of branches	**153**	155	214	230	204	**(7)%**
Number of automated banking machines	**293**	284	351	360	315	**(2)%**

QUARTERLY HIGHLIGHTS

IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS				2004				2003
				QUARTERS ENDED				QUARTERS ENDED
	OCT. 31	JULY 31	APRIL 30	JAN. 31	OCT. 31	JULY 31	APRIL 30	JAN. 31
Interest income	$186,153	$184,543	$185,096	$202,350	$235,488	$247,357	$235,753	$240,081
Interest expense	116,121	116,305	118,337	132,371	152,409	159,438	151,137	152,469
Net interest income	70,032	68,238	66,759	69,979	83,079	87,919	84,616	87,612
Provision for credit losses	8,888	10,862	10,500	9,750	11,000	16,000	16,000	11,000
	61,144	57,376	56,259	60,229	72,079	71,919	68,616	76,612
Other income	38,891	52,913	56,643	50,502	117,765	55,856	53,089	60,010
Non-interest expenses	91,287	91,500	94,166	92,766	125,839	109,342	102,023	104,576
Income before income taxes and non-controlling interest in net income of a subsidiary	8,748	18,789	18,736	17,965	64,005	18,433	19,682	32,046
Income taxes	1,618	4,860	4,719	3,354	12,533	7,281	7,781	11,064
Income before non-controlling interest in net income of a subsidiary	7,130	13,929	14,017	14,611	51,472	11,152	11,901	20,982
Non-controlling interest in net income of a subsidary	–	260	677	979	751	893	920	1,076
Net income	$ 7,130	$ 13,669	$ 13,340	$ 13,632	$ 50,721	$ 10,259	$ 10,981	$ 19,906
As a percentage of average assets								
Net interest income	1.71%	1.68%	1.66%	1.69%	1.79%	1.87%	1.86%	1.88%
Provision for credit losses	0.22%	0.27%	0.26%	0.24%	0.24%	0.34%	0.35%	0.24%
Other income	0.95%	1.31%	1.41%	1.22%	2.53%	1.19%	1.17%	1.29%
Non-interest expenses	2.23%	2.26%	2.34%	2.24%	2.71%	2.32%	2.25%	2.25%
Net income	0.17%	0.34%	0.33%	0.33%	1.09%	0.22%	0.24%	0.43%
Net income available to common shareholders	0.10%	0.18%	0.25%	0.24%	1.02%	0.14%	0.17%	0.35%
Average assets (in millions of dollars)	$ 16,318	$ 16,118	$ 16,380	$ 16,492	$ 18,446	$ 18,671	$ 18,628	$ 18,449
Return on common shareholders' equity	2.4%	4.2%	5.9%	6.0%	29.5%	4.3%	4.9%	10.3%
Average number of common shares (in thousands)								
Basic	23,511	23,490	23,481	23,457	23,426	23,413	23,412	23,411
Diluted	23,539	23,524	23,519	23,501	23,465	23,452	23,453	23,460
Per common share								
Net income								
Basic	$ 0.17	$ 0.31	$ 0.42	$ 0.43	$ 2.02	$ 0.29	$ 0.32	$ 0.70
Diluted	$ 0.17	$ 0.31	$ 0.42	$ 0.43	$ 2.01	$ 0.29	$ 0.32	$ 0.70
Dividends	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29
Book value	$ 28.78	$ 28.90	$ 28.89	$ 28.86	$ 28.73	$ 27.01	$ 27.01	$ 26.98
Share price – Close	$ 25.45	$ 28.02	$ 27.67	$ 28.60	$ 27.75	$ 26.00	$ 27.00	$ 25.95
Dividends								
Preferred shares and related taxes	$ 3,062	$ 4,486	$ 3,431	$ 3,527	$ 3,466	$ 3,497	$ 3,422	$ 3,558
Common shares	$ 6,818	$ 6,812	$ 6,810	$ 6,808	$ 6,795	$ 6,789	$ 6,790	$ 6,790
IN MILLIONS OF DOLLARS								
Total assets (end of period)	$16,607.5	$16,905.6	$16,756.9	$16,723.2	$16,737.8	$18,609.3	$18,677.2	$18,582.3
Risk-weighted assets	$ 7,985.7	$ 8,136.4	$ 8,093.4	$ 8,120.5	$ 8,410.5	$ 9,244.5	$ 9,432.2	$ 9,210.2
Tier I capital	$ 838.7	$ 841.5	$ 897.6	$ 871.9	$ 861.1	$ 828.5	$ 831.5	$ 830.6
Total capital	$ 1,113.8	$ 1,168.1	$ 1,408.1	$ 1,298.1	$ 1,279.9	$ 1,256.3	$ 1,256.2	$ 1,239.2
Capital ratios								
Tier I	10.5%	10.3%	11.1%	10.7%	10.2%	9.0%	8.8%	9.0%
Total capital	14.0%	14.4%	17.4%	16.0%	15.2%	13.6%	13.3%	13.5%
Assets to capital multiple	15.0x	14.5x	11.9x	12.9x	13.1x	14.9x	15.0x	15.1x

CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2004 AND 2003

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The consolidated financial statements present a recent financial history of the financial condition, results of operations and cash flows of Laurentian Bank of Canada. The accompanying notes are an important part of understanding the Bank's performance. They explain how we arrived at the numbers in the consolidated financial statements, describe significant events or changes that affect the numbers, and explain certain items in the consolidated financial statements. They also include details about the financial results that are not shown in the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The consolidated financial statements of Laurentian Bank of Canada were prepared by management, which is responsible for the integrity and fairness of the financial information presented. The financial statements were prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Superintendent of Financial Institutions of Canada, and reflect amounts which must, of necessity, be based on the best estimates and judgment of management. The financial information presented in the annual report is consistent with that in the financial statements.

Management is responsible for ensuring the fairness and integrity of the financial information. It is also responsible for the implementation of the supporting accounting systems. In discharging its responsibilities, management maintains the necessary internal control systems designed to provide assurance that transactions are properly authorized, assets are safeguarded and proper accounting records are held. The controls include quality standards in hiring and training of employees, written policies, compliance with authorized limits for managers, procedure manuals, a corporate code of conduct and appropriate management information systems.

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

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

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

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

The Board of Directors is responsible for reviewing and approving the financial statements and management's discussion and analysis of results of operations and financial condition appearing in the annual report. It oversees the manner in which management discharges its responsibilities for the presentation and preparation of financial statements, maintenance of appropriate internal controls, risk management as well as assessment of significant transactions and related party transactions through its Audit Committee and its Risk Management Committee. Both committees are composed solely of external directors.

RAYMOND McMANUS
President and Chief Executive Officer

ROBERT CARDINAL
Senior Executive Vice-President
and Chief Financial Officer

Montreal, Canada
December 7, 2004

AUDITORS' REPORT TO THE SHAREHOLDERS OF LAURENTIAN BANK OF CANADA

We have audited the consolidated balance sheets of Laurentian Bank of Canada (the Bank) as at October 31, 2004 and 2003 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

ERNST & YOUNG LLP
Chartered Accountants

Montreal, Canada
December 7, 2004

CONSOLIDATED BALANCE SHEET

AS AT OCTOBER 31 IN THOUSANDS OF DOLLARS	NOTES	2004	2003
ASSETS			
Cash resources			
Cash and due from other financial institutions without interest		$ 75,653	$ 100,001
Interest-bearing deposits with other financial institutions		252,779	622,923
Cheques and other items in transit, net	1	–	111,809
		328,432	834,733
Securities	3 AND 21		
Investment account		2,007,471	2,054,553
Trading account		995,004	1,016,323
		3,002,475	3,070,876
Assets purchased under reverse repurchase agreements		1,133,920	882,036
Loans	4 AND 5		
Personal		3,638,991	3,646,070
Residential mortgages		5,509,022	5,274,128
Commercial mortgages		604,085	705,101
Commercial and other		1,542,760	1,571,491
		11,294,858	11,196,790
Allowance for loan losses		(140,042)	(163,177)
		11,154,816	11,033,613
Other			
Customers' liability under acceptances		144,830	235,286
Capital assets	6	94,490	114,479
Amounts related to derivative financial instruments		201,717	92,272
Goodwill	7	54,029	54,029
Other intangible assets	7	18,897	1,878
Other assets	8	473,870	418,566
		987,833	916,510
		$16,607,476	$16,737,768
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	9		
Personal		$10,454,368	$10,508,592
Business and other		2,456,672	2,784,357
		12,911,040	13,292,949
Other			
Obligations related to assets sold short		1,495,574	969,663
Obligations related to assets sold under repurchase agreements	21	15,907	173,246
Acceptances		144,830	235,286
Amounts related to derivative financial instruments		189,489	94,692
Other liabilities	10	713,359	656,792
		2,559,159	2,129,679
Subordinated debentures	11	250,525	400,000
Non-controlling interest in a subsidiary	2	–	41,827
Shareholders' equity			
Preferred shares	12	210,000	200,000
Common shares	12	248,593	246,813
Retained earnings		428,159	426,500
		886,752	873,313
		$16,607,476	$16,737,768

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

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

RAYMOND McMANUS
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEARS ENDED OCTOBER 31 IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS	NOTES	2004	2003
Interest income			
Loans		**$690,789**	$870,519
Securities		**57,546**	76,502
Deposits with other financial institutions		**9,807**	11,658
		758,142	958,679
Interest expense			
Deposits and other liabilities		**455,950**	587,711
Subordinated debentures		**27,184**	27,742
		483,134	615,453
Net interest income		**275,008**	343,226
Provision for credit losses	4	**40,000**	54,000
		235,008	289,226
Other income			
Fees and commissions on loans and deposits		**89,183**	101,452
Revenues from treasury and financial market operations		**30,620**	50,858
Brokerage operations		**20,223**	16,729
Gain on disposal of assets	2	**13,517**	69,946
Revenues from sale and management of mutual funds		**12,886**	10,654
Revenues from registered self-directed plans		**12,241**	12,635
Insurance revenues		**6,061**	6,694
Securitization revenues	5	**4,437**	1,048
Other		**9,781**	16,704
		198,949	286,720
		433,957	575,946
Non-interest expenses			
Salaries and employee benefits		**182,929**	204,944
Premises and technology		**104,682**	128,982
Restructuring costs	15	**–**	19,725
Other		**82,108**	88,129
		369,719	441,780
Income before income taxes and non-controlling interest in net income of a subsidiary		**64,238**	134,166
Income taxes	16	**14,551**	38,659
Income before non-controlling interest in net income of a subsidiary		**49,687**	95,507
Non-controlling interest in net income of a subsidiary	2	**1,916**	3,640
Net income		**$ 47,771**	$ 91,867
Preferred share dividends, including applicable income taxes		**14,506**	13,943
Premium on redemption of preferred shares		**2,000**	–
Net income available to common shareholders		**$ 31,265**	$ 77,924
Average number of common shares (in thousands)			
Basic		**23,485**	23,416
Diluted		**23,521**	23,457
Net income per common share	17		
Basic		**$ 1.33**	$ 3.33
Diluted		**$ 1.33**	$ 3.32

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED OCTOBER 31 IN THOUSANDS OF DOLLARS	NOTES	2004	2003
Preferred shares	12		
Balance at beginning of year		**$ 200,000**	$200,400
Issued during the year		**110,000**	–
Redeemed during the year		**(100,000)**	(400)
Balance at end of year		**210,000**	200,000
Common shares	12		
Balance at beginning of year		**246,813**	246,230
Issued during the year		**1,780**	583
Balance at end of year		**248,593**	246,813
Retained earnings			
Balance at beginning of year		**426,500**	375,740
Net income		**47,771**	91,867
Dividends			
Preferred shares, including applicable income taxes		**(14,506)**	(13,943)
Common shares		**(27,248)**	(27,164)
Preferred share issue costs, net of income taxes		**(2,358)**	–
Premium on redemption of preferred shares		**(2,000)**	–
Balance at end of year		**428,159**	426,500
Total shareholders' equity		**$ 886,752**	$873,313

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED OCTOBER 31 IN THOUSANDS OF DOLLARS	2004	2003
Cash flows relating to operating activities		
Net income	$ 47,771	$ 91,867
Adjustments to determine net cash flows:		
Provision for credit losses	40,000	54,000
Gains on securitization operations	(1,437)	(1,859)
Net loss on disposal of capital assets	408	2,491
Restructuring costs	–	19,725
Gain on disposal of assets (see note 2)	(13,517)	(69,946)
Net gains on sale of securities held for investment	(13,832)	(22,649)
Future income taxes	(3,304)	15,425
Depreciation and amortization	35,755	43,142
Change in trading securities	21,319	(50,851)
Change in accrued interest receivable	11,345	5,423
Change in assets related to derivative financial instruments	(109,445)	(30,539)
Change in accrued interest payable	(11,085)	53,590
Change in liabilities related to derivative financial instruments	94,797	26,498
Other, net	123,890	(20,710)
	222,665	115,607
Cash flows relating to financing activities		
Change in deposits	(381,909)	209,531
Change in obligations related to assets sold short	525,911	108,643
Change in obligations related to assets sold under repurchase agreements	(157,339)	(274,616)
Redemption of subordinated debentures	(149,723)	–
Issuance of preferred shares, net of issue costs	106,588	–
Redemption of preferred shares	(102,000)	(400)
Issuance of common shares, net of issue costs	1,780	583
Redemption of common shares of a subsidiary	–	(6,637)
Dividends, including applicable income taxes	(42,514)	(42,816)
	(199,206)	(5,712)
Cash flows relating to investing activities		
Net proceeds from the sale of assets (see note 2)	38,069	165,112
Consideration paid for the privatization of a subsidiary (see note 2)	(60,225)	–
Net cash flows related to an acquisition of net assets	–	(28,427)
Change in interest-bearing deposits with other financial institutions	370,144	(357,951)
Change in securities held for investment		
Acquisitions	(28,052,727)	(30,226,364)
Maturities	28,572	186,997
Proceeds from sales	28,085,069	30,092,048
Change in loans	(338,789)	57,742
Change in assets purchased under reverse repurchase agreements	(251,884)	(12,206)
Proceeds from mortgage loan securitizations	149,072	39,836
Acquisitions of capital assets	(18,017)	(11,229)
Proceeds from disposal of capital assets	2,909	7,658
	(47,807)	(86,784)
Change in cash and cash equivalents during the year	(24,348)	23,111
Cash and cash equivalents at beginning of year	211,810	188,699
Effect of adopting the standard on generally accepted accounting principles relating to cheques and other items in transit (see note 1)	(111,809)	–
Cash and cash equivalents at end of year	$ 75,653	$ 211,810
Cash and cash equivalents at end of year represented by:		
Cash and due from other financial institutions without interest	$ 75,653	$ 100,001
Cheques and other items in transit, net	–	111,809
	$ 75,653	$ 211,810
Supplemental disclosure relating to cash flows:		
Interest paid during the year	$ 476,965	$ 620,218
Income taxes paid during the year	$ 23,373	$ 24,994

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2004 AND 2003 [ALL TABULAR AMOUNTS ARE IN THOUSANDS OF DOLLARS, UNLESS OTHERWISE INDICATED.]

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Generally accepted accounting principles

In July 2003, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 1100, "Generally Accepted Accounting Principles." This section establishes standards for financial reporting in accordance with GAAP and provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures when a matter is not dealt with explicitly in the primary sources of GAAP. The initial adoption of this new section, on a prospective basis on November 1, 2003, did not have any significant impact on the Bank's consolidated financial statements, except as indicated hereafter.

On August 1, 2004, the Bank amended, also on a prospective basis, the presentation in the financial statements of certain amounts receivable which, historically, were accounted for based on their net value in cheques and other items in transit, in accordance with industry practices. Certain amounts receivable are now presented on a gross basis according to their nature in due from other financial institutions without interest and Business and other deposits, while other amounts receivable continue to be presented on the basis of their net value in other assets and liabilities.

In addition, under the new rules, purchases and sales of debt or equity instruments of the Bank by the entities of the group are now accounted for as a reduction of the corresponding equity or debt instruments. Previously, such securities were recorded at market value in the trading accounts.

Basis of consolidation

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

When the Bank effectively controls a subsidiary but does not hold all common and preferred shares, the non-controlling interest in the net book value of the subsidiary is presented separately from the shareholders' equity in the Bank's consolidated balance sheet. The non-controlling interest in the subsidiary's net income is presented net of income taxes as a separate item on the consolidated statement of income.

The consolidated financial statements include an interest in a joint venture which is recognized using the proportionate consolidation method. Under this approach, the Bank's prorated share of the assets, liabilities, revenues and expenses are consolidated.

Cash resources

Cash resources include cash and cash equivalents represented by cash and due from other financial institutions without interest. In 2003, cash and cash equivalents also included cheques and other items in transit.

Securities

Investment account

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

Trading account

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

Assets purchased under reverse repurchase agreements and obligations related to assets sold under repurchase agreements

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

Loans

Loans are stated net of the allowance for loan losses and any unearned interest.

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

When loans are classified as impaired, the recognition of the interest due ceases. The book value of these loans is then brought back to their estimated realizable value by totally or partially writing off the loan and/or establishing an allowance for loan losses.

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

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

Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal and interest, and payments are not 90 days past due.

Commissions and origination fees in respect of loans, including restructuring and renegotiation charges, are generally recorded in interest income over the term of the loans.

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

Allowances for losses

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

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

Specific allowances

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

General allowances

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

An allocated general allowance, based on the historical loss experience of the previous ten years and an economic cycle reference factor, adjusted to reflect the changes in the portfolios and credit policies, is now constituted for each pool of loans with common risk characteristics. This method allows the specific allocation of the general allowance to the identified pools of loans.

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

Loan securitization

Based on securitization arrangements, the Bank transfers pools of mortgages to special-purpose entities, which, in turn, issue securities to investors. Mortgage loan securitization is part of the Bank's liquidity and capital management strategies. These transfers are accounted for as sales when the Bank is deemed to have surrendered control over these assets and it has received a consideration other than beneficial interests in these assets.

At this point, the Bank derecognizes all assets sold, recognizes at fair value the assets received and the liabilities assumed in the sale and records the gain or loss on the sale in other income.

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

Cash reserve accounts related to these transactions are initially recorded at cost and presented under other assets. They are then re-evaluated to identify permanent impairments in value.

For certain transactions, the Bank retains an interest, until mortgage-backed securities mature, in the excess interest spread initially recorded at cost and presented in other assets. This excess interest spread, which affects the determination of gains or losses on the transfer date, corresponds to the interest collected from mortgage holders less interest paid to securityholders. As mortgage payments are received, this excess decreases and the resulting yield is recognized to interest income. Any permanent impairment in value is immediately charged to income.

The retained subordinated tranches are also recorded at cost and presented with securities in the investment account.

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

In addition, for certain securitization transactions, the Bank guarantees the return and payment of principal upon maturity to security-holders. This obligation is initially recorded at fair value and re-evaluated periodically, charging any changes in the fair value to income.

Transactions completed prior to June 1, 2001 are recorded in accordance with the instructions set forth in Abstract EIC-9, "Transfers of Receivables," issued by the CICA's Emerging Issues Committee and have not been restated. Gains related to transactions completed according to the former standards are amortized to income when the significant risks and rewards of ownership have been transferred provided there is no possible recourse against the Bank regarding the consideration derived from the sale. Losses on these transactions, if any, were recognized immediately.

Acceptances and customers' liability under acceptances

Acceptances are short-term negotiable instruments issued by the Bank's customers to third parties and guaranteed by the Bank. The potential liability under acceptances is reported as a liability in the consolidated balance sheet. The recourse against the customer in the case of a call on these commitments is reported as an asset of the same amount. Commissions earned are reported under other income in the consolidated statement of income.

Capital assets

Land is carried at cost. Other capital assets are recorded at cost less accumulated depreciation and are depreciated over their estimated useful lives based on the following methods and rates:

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

Gains and losses resulting from the disposal of capital assets are recorded under other income.

Deferred charges

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

Goodwill and other intangible assets

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

Intangibles with a finite life are amortized over their estimated useful life on a straight-line basis and also are tested for impairment whenever circumstances indicate that the carrying value may not be recoverable. Finite life intangible assets are considered impaired and written down to their net recoverable amount when their net carrying value exceeds their estimated future net cash flows.

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

Employee future benefits

Pension plans

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

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

Actuarial gains or losses arise, in particular, from the difference between the actual long-term rate of return on plan assets and the expected rate of return on such assets, based on the management's best-estimate assumptions, as well as from changes in actuarial assumptions used to determine the accrued benefit obligation. Net actuarial gains or losses are amortized when, at the beginning of the year, the unamortized balance of the gain or loss exceeds 10% of the accrued benefit obligation or the market value of plan assets, whichever amount is greater. This excess is amortized on a straight-line basis over the expected average remaining service life of the groups covered by the plans which varied from 9 to 11 years in 2004 under the plans (from 9 to 12 years in 2003).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The transitional obligation resulting from the application of the standard with respect to employee future benefits, since November 1, 2000, is amortized on a straight-line basis over the expected average remaining service life of the groups covered at the time of the standard's application, varying from 10 to 16 years.

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

Other plans

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

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

Derivative financial instruments

On November 1, 2003, the Bank adopted CICA Accounting Guideline no. 13 "Hedging Relationships" (AcG-13) and Emerging Issues Committee Abstract no. 128 "Accounting for trading, speculative or non-hedging derivative financial instruments" (EIC-128). This guideline establishes certain qualifying conditions for the use of hedge accounting, which are more stringent than previous standards.

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

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

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

Fair value hedge transactions predominantly use interest rate swaps to hedge the changes in the fair value of an asset, liability or firm commitment. Cash flow hedge transactions predominantly use interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability. When a derivative functions effectively as a fair value or cash flow hedge, the fair value of the derivative is recognized in other assets or liabilities, on a gross basis, and the profit or loss of the derivative is deferred.

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

Non-trading derivatives that do not qualify for hedge accounting are carried at fair value in other assets or liabilities, on a gross basis, with changes in fair value recorded in other income. These non-trading derivatives are still eligible for designation in future hedging relationships. Upon a designation, any previously recorded fair value on the consolidated balance sheet is amortized to other income over the remaining life of the derivative.

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

Market values are determined using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curves and volatility factors.

Margin requirements are also included in other assets.

In the past, under the previous standards, derivative portfolios were valued at prevailing market rates when used in trading activities or to meet the needs of customers. Realized and unrealized gains and losses were included in other income. When derivatives were used to manage the Bank's own exposure, income and expenses were recognized over the term of the transaction in net interest income, while the realized gains and losses were generally deferred and amortized to net interest income over the life of the hedged items.

Due to the initial application of this guidance, as at November 1, 2003, other assets and deferred gains were increased by $108,810,000, of which $19,087,000 related to derivative financial instruments still qualifying for hedge accounting. In addition, other liabilities and deferred losses were increased by $102,553,000, of which $4,434,000 related to derivative financial instruments still qualifying for hedge accounting. These adjustments were intended to recognize in the balance sheet the fair value of derivatives which, up until then, had been deferred. Under the new guidance transition rules, the net deferred losses related to the derivative financial instruments no longer qualifying for hedge accounting as at November 1, 2003 amounted to $8,396,000. These deferred losses are recognized in earnings over the remaining term of the hedging items.

Equity-linked deposit contracts

On November 1, 2003, the Bank adopted the CICA AcG-17, "Equity-Linked Deposit Contracts." The guideline pertains to certain deposit obligations, such as equity-linked GICs where the deposit obligation varies according to the performance of certain indices. These deposit obligations may be subject to a guaranteed minimum redemption amount, such as the obligation to return the investor's initial investment at maturity. Under AcG-17, obligations related to these deposits are measured at fair value with changes in fair value recorded in other income. The adoption of this guideline did not have a material impact on the consolidated financial statements.

Income taxes

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

Net income per common share

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

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

Stock-based compensation

The Bank uses the fair-value method of accounting for stock-based compensation to employees. The fair value of new share purchase options granted on or after November 1, 2002 is charged to income over the option vesting period. The value of the options granted is determined using the Black-Scholes option-pricing model using management's best estimates. With respect to awards that occurred prior to November 1, 2002, the Bank continues to apply the previous standards under which no compensation cost is recognized when share purchase options are awarded to employees and the consideration paid by the employees who exercise their share purchase options is credited to common equity.

The fair value of stock appreciation rights (SARs) settled in cash, representing the excess of the share price over the exercise price, is recognized in income over the rights' vesting period.

Assets under administration and assets under management

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

Translation of foreign currencies

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

Future changes to accounting policies

Consolidation of variable interest entities

In September 2004, the CICA issued a revised version of Accounting Guideline 15, "Consolidation of Variable Interest Entities" (AcG-15). AcG-15 provides guidance for applying consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. Under this new standard, the Bank must consolidate these entities if it is the principal beneficiary thereof, that is, if as a result of its investments or the relationships it has with these entities, the Bank risks being exposed to a majority of their expected losses or is in a position to benefit from a majority of their expected residual returns. Where the Bank holds a significant variable interest in a variable interest entity (VIE) that it has not consolidated, certain disclosures regarding the nature, purpose, size and activities of the VIE must also be made. AcG-15 will be effective for all periods starting on or after November 1, 2004 on a retroactive basis without restatement of prior period figures of the entities subject to the standard. The Bank is currently completing its analysis of the entities subject to this guideline. Subject to the confirmation of certain interpretations and, based on the preliminary analysis, the possible consolidation of these entities as at November 1, 2004 should not have a significant impact on shareholders' equity or net income.

Securitization conduits

The Bank securitizes its own assets through single-seller and multi-seller securitization conduits. Based on its assessment, the Bank may have to consolidate certain single-seller conduits.

Mutual funds

Through its ownership interest in the joint venture BLC-Edmond de Rothschild Asset Management Inc., the Bank is the sponsor of several mutual funds that are VIEs. The Bank charges fees, mainly based on the value of assets under management, in respect of the management and administration of these funds. The Bank provides no guarantee with respect to these funds. In certain circumstances, particularly for certain funds in which the Bank also holds units relating to investments in seed capital, certain funds may need to be consolidated.

Other entities

The Bank acts as trustee of a certain number of personal trusts for which it levies fees. Based on its assessment, the application of AcG-15 is not expected to affect the Bank, since it is not the principal beneficiary of these entities.

Presentation of liabilities and equity

In January 2004, the CICA issued revised Section 3860, "Financial Instruments – Disclosure and Presentation", to require that obligations that can be settled, at the issuer's option, by a variable number of the issuer's own equity instruments be presented as liabilities. The revised recommendations are applicable on a retroactive basis with restatement of corresponding amounts.

The application of this revised standard as at November 1, 2004 will not have any impact on the liabilities and equities of the Bank since the securities issued by the Bank as at November 1, 2004 qualify to be presented as equity items.

However, the revised standard will result in certain reclassifications of comparative figures for the year ended October 31, 2004 relative to the redemption of Preferred Shares, Series 7 and 8 in June 2004.

2. ACQUISITIONS AND DISPOSALS

Privatization of B2B Trust

Following the approval of B2B Trust's shareholders at a special meeting of shareholders, B2B Trust and a wholly owned subsidiary of the Bank amalgamated on June 8, 2004. As part of this amalgamation, the Bank acquired all of the outstanding common shares of B2B Trust that it previously did not own. The purchase price for the additional participation of 22.7% (25.2% taking into account the exercised options issued in accordance with B2B Trust's share purchase option plan) was $60,225,000, which was paid in cash. The purchase method of accounting was used to account for the acquisition of the B2B Trust non-controlling interest.

This transaction resulted in an increase in other intangible assets of $18,278,000, a net credit adjustment of $2,813,000 to reflect the fair value of financial instruments acquired, the recognition of a future income tax liability of $5,413,000, as well as a reduction in non-controlling interest in a subsidiary of $50,173,000. Other intangible assets consist of contractual relations with financial intermediaries and the associated client relationships. These assets are amortized over 15 years.

On June 3, 2003, B2B Trust initiated a normal course issuer bid. The notice provided that B2B Trust intended to purchase up to 1,240,000 of its common shares, or approximately 5% of its 24,844,355 issued and outstanding common shares as at April 30, 2003. The Bank announced that it would not tender any common shares under the bid. In 2003, B2B Trust redeemed 964,500 common shares for a consideration of $6,637,000 and as a result, the Bank increased its participation in its subsidiary from 74.3% to 77.3%. No redemptions occurred in 2004.

Sale of branches to Toronto-Dominion Bank

On October 31, 2003, the Bank entered into an agreement to sell 57 branches located in Ontario and Western Canada to The Toronto-Dominion Bank (TD Bank). The sale price, payable in cash, represented the book value, as at October 31, 2003, of the loans and other assets sold less deposits and other liabilities assumed plus a premium of $112,400,000. A preliminary instalment, based on the volume as at September 30, 2003 of net assets held for sale, was payable on October 31, 2003. These operations were presented in the Retail Financial Services segment.

Net value of assets sold:

Identifiable assets sold	
Cash	$ 8,969
Loans	1,965,219
Other assets	9,778
Liabilities transferred	
Cheques and other items in transit, net	32,273
Deposits	1,884,856
Other liabilities	53,277
Net value of assets sold	13,560
Excess of sale price over net value of assets sold (premium)	112,400
Sale price	$ 125,960
Composed of:	
Preliminary instalment, received in cash	$ 156,521
Adjustment payable related to decrease in volume sold	$ (30,561)

Calculation of gain on disposal:

Excess of sale price over net value of assets sold (premium)	$ 112,400
Expenses related to the transaction (see below)	42,454
Gain on disposal recognized in 2003 ($54,946,000 net of income taxes)	69,946
Adjustment of expenses related to the transaction in 2004	3,523
Adjusted gain on disposal	$ 73,469

Costs related to the transaction amounting initially to $42,454,000 included write-offs of capital assets and deferred charges totalling $15,958,000, losses on hedging items related to interest rate risk management amounting to $14,713,000 and costs related to the transfer of activities and other costs for a total of $11,783,000. During the year ended October 31, 2004, the amount used totalled $4,644,000. Subsequent to the finalization of the system conversion, the provisions were reduced by $2,786,000 to reflect a lower cost level than initially estimated. In addition, a provision for credit losses related to the branches in Ontario and Western Canada, initially constituted on October 31, 2003, was written down by $737,000 due to better-than-anticipated recoveries.

Disposal of the debit and credit card transaction processing activities

On July 9, 2004, the Bank entered into an agreement to sell its debit and credit card transaction processing activities. The sale price, paid in cash, amounted to $3,900,000, for a gain of approximately $3,631,000 ($3,042,000 net of taxes), net of related transaction costs. Capital assets, in the amount of $244,000, net of accumulated depreciation were sold as part of the transaction. These operations were previously presented in the Other segment. The gain resulting from the sale was attributed to the Retail Financial Services and Other segments for $300,000 and $3,331,000 respectively.

Disposal of certain rights to service mutual fund accounts

On July 8, 2004, the Bank completed the sale of certain rights to service mutual funds in Ontario and Western Canada. The sale price, paid in cash, amounted to $1,953,000, for a gain of $1,928,000 ($1,605,000 net of taxes), net of related transaction costs. These operations were previously presented in the Retail Financial Services segment. The gain was attributed to the Retail Financial Services and Other segments for $900,000 and $1,028,000 respectively.

Disposal of a credit card loan portfolio

On February 2, 2004, the Bank sold its Ontario and Western Canada credit card loan portfolio and related contract rights, valued at $27,891,000. The sale price, paid in cash on February 2, 2004, amounted to approximately $32,216,000, for a gain of $4,435,000 ($3,794,000 net of taxes), net of related transaction and conversion fees. These assets were included in the Retail Financial Services segment. The gain resulting from the sale was attributed to the Retail Financial Services and Other segments for $2,400,000 and $2,035,000 respectively.

Acquisition of loans of Canadian Tire Financial Services

On December 24, 2002, B2B Trust, a subsidiary of the Bank, completed the purchase, for a cash consideration of $28,427,000, of certain Canadian Tire Financial Services Limited branded consumer lines of credit from another financial institution.

3. SECURITIES

A_MATURITY SCHEDULE AND RETURN ON SECURITIES

	2004						2003	
	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	NO SPECIFIC MATURITY	TOTAL	YIELD	TOTAL	YIELD
Investment account								
Securities issued or guaranteed								
by Canada	$1,136,863	$ 488,326	$ 13,609	$ –	$1,638,798	2.6%	$1,317,714	3.1%
by provinces	122,973	30,537	82	–	153,592	2.4	392,641	3.0
Other debt securities	15,256	70,583	46,375	–	132,214	5.1	209,495	5.2
Preferred shares	–	–	–	41,837	41,837	1.3	52,785	2.1
Common shares and other	–	–	–	37,288	37,288	0.7	44,688	1.4
Mortgage-backed securities	–	3,742	–	–	3,742	5.0	37,230	8.2
	$1,275,092	$ 593,188	$ 60,066	$ 79,125	$2,007,471	2.7%	$2,054,553	3.3%
Trading account								
Securities issued or guaranteed								
by Canada	$ 14,415	$ 101,790	$ 79,366	$ –	$ 195,571		$ 179,975	
by provinces	96,674	193,606	219,778	–	510,058		599,864	
by municipal corporations	9,412	9,920	15,528	–	34,860		33,323	
Other debt securities	39,416	60,448	60,741	–	160,605		155,233	
Common shares and other	–	–	–	32,169	32,169		9,460	
Mortgage-backed securities	35	53,995	7,711	–	61,741		38,468	
	$ 159,952	$ 419,759	$383,124	$ 32,169	$ 995,004		$1,016,323	
	$1,435,044	$1,012,947	$443,190	$111,294	$3,002,475		$3,070,876	

The term to maturity included in the schedule above is based on the contractual maturity date of the security.

The weighted average return is calculated based on the book value at the year-end of each type of security.

B_INVESTMENT ACCOUNT – UNREALIZED GAINS AND LOSSES

	2004				2003			
	BOOK VALUE	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE	BOOK VALUE	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
Securities issued								
or guaranteed								
by Canada	$1,638,798	$ 376	$2,463	$1,636,711	$1,317,714	$ 142	$ 4,442	$1,313,414
by provinces	153,592	47	225	153,414	392,641	42	206	392,477
Other debt securities	132,214	3,182	859	134,537	209,495	2,480	2,580	209,395
Preferred shares	41,837	560	246	42,151	52,785	574	900	52,459
Common shares and other	37,288	514	6,049	31,753	44,688	191	9,413	35,466
Mortgage-backed securities	3,742	72	–	3,814	37,230	1,184	–	38,414
	$2,007,471	$4,751	$9,842	$2,002,380	$2,054,553	$4,613	$17,541	$2,041,625

4. LOANS

A_LOANS AND IMPAIRED LOANS

	2004				
	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	SPECIFIC ALLOWANCES	GENERAL ALLOWANCES	TOTAL ALLOWANCES
Personal loans	$ 3,638,991	$ 18,103	$10,059	$23,795	$ 33,854
Residential mortgages	5,509,022	13,199	3,935	5,832	9,767
Commercial mortgages	604,085	15,482	6,064	3,625	9,689
Commercial loans and other	1,542,760	80,213	54,734	23,063	77,797
Unallocated general allowance	–	–	–	8,935	8,935
	$11,294,858	$126,997	$74,792	$65,250	$140,042

					2003
	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	SPECIFIC ALLOWANCES	GENERAL ALLOWANCES	TOTAL ALLOWANCES
Personal loans	$ 3,646,070	$ 19,594	$ 9,311	$19,715	$ 29,026
Residential mortgages	5,274,128	13,991	3,741	5,611	9,352
Commercial mortgages	705,101	13,030	6,048	7,561	13,609
Commercial loans and other	1,571,491	138,571	66,827	20,167	86,994
Unallocated general allowance	–	–	–	24,196	24,196
	$11,196,790	$185,186	$85,927	$77,250	$163,177

In 2004, foreclosed assets held for sale amounted to $9,990,000 ($6,469,000 in 2003) and the elimination of the related specific allowances totals $5,164,000 ($1,412,000 in 2003).

B_SPECIFIC ALLOWANCES FOR LOAN LOSSES

					2004	2003
	PERSONAL LOANS	RESIDENTIAL MORTGAGES	COMMERCIAL MORTGAGES	COMMERCIAL LOANS AND OTHER	TOTAL SPECIFIC ALLOWANCES	TOTAL SPECIFIC ALLOWANCES
Balance at beginning of year	$ 9,311	$ 3,741	$ 6,048	$ 66,827	$ 85,927	$ 132,381
Provision for credit losses recorded in the consolidated statement of income	25,625	1,675	3,127	21,573	52,000	58,000
Allowance for loan losses resulting from sale of branches	(356)	–	46	(427)	(737)	4,500
Write-offs[1]	(29,202)	(1,733)	(3,171)	(33,781)	(67,887)	(113,380)
Recoveries	4,681	252	14	542	5,489	4,426
Balance at end of year	$ 10,059	$ 3,935	$ 6,064	$ 54,734	$ 74,792	$ 85,927

[1] No restructured loans were written-off during the years ended October 31, 2004 and 2003.

C_GENERAL ALLOWANCES FOR LOAN LOSSES

						2004	2003
	PERSONAL LOANS	RESIDENTIAL MORTGAGES	COMMERCIAL MORTGAGES	COMMERCIAL LOANS AND OTHER	UNALLOCATED GENERAL ALLOWANCE	TOTAL GENERAL ALLOWANCES	TOTAL GENERAL ALLOWANCES
Balance at beginning of year	$19,715	$5,611	$ 7,561	$20,167	$ 24,196	$ 77,250	$85,500
Change during the year	4,080	221	(3,936)	2,896	(3,261)	–	–
Reduction in provision for credit losses recorded in the consolidated statement of income	–	–	–	–	(12,000)	(12,000)	(4,000)
Allowances for loan losses resulting from sale of branches	–	–	–	–	–	–	(4,500)
Allowances for loan losses resulting from an acquisition	–	–	–	–	–	–	250
Balance at end of year	$23,795	$5,832	$ 3,625	$23,063	$ 8,935	$ 65,250	$77,250

5. LOAN SECURITIZATION

Under the mortgage-backed securities program provided for under the *National Housing Act*, the Bank securitized residential mortgage loans, during the year, secured by the Canadian Mortgage and Housing Corporation (CMHC) totalling $150,432,000 ($39,999,000 in 2003) through the creation of mortgage-backed securities. The Bank subsequently sold all of these mortgage-backed securities.

In relation to these transactions, during the year, the Bank collected cash proceeds amounting to $149,072,000 ($39,836,000 in 2003) and recognized, in other income, a securitization gain of $1,437,000 ($1,859,000 in 2003) net of transaction-related costs. The calculation of this gain takes into account the rights to future excess interest of $5,539,000 ($2,529,000 in 2003) net of a servicing liability of $1,068,000 ($383,000 in 2003).

5. LOAN SECURITIZATION (CONTINUED)

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

Key assumptions

	2004	2003
Rate of prepayment	26%	11%
Excess spread	1.74%	2.21%
Discount rate	5.28%	6.45%

No loss is expected on insured residential mortgages.

During the year, the Bank collected cash flows from retained interests totalling $8,169,000 ($18,175,000 in 2003). The amortization relating to the servicing liability recognized in income amounted to $1,726,000 ($2,327,000 in 2003).

As at October 31, 2004, the Bank had retained interests related to both insured and uninsured residential mortgage securitization transactions amounting to $15,132,000 ($18,002,000 in 2003). The following table shows the sensitivity of the fair value of the retained interests to immediate unfavourable changes of 10% and 20% in the key assumptions used to value retained interests as at October 31, 2004.

Sensitivity of key assumptions to unfavourable changes

	2004	2003
Weighted average life (in months)	25	29
Rate of prepayment	20%	15%
Impact on fair value of unfavourable change of 10%	$280	$192
Impact on fair value of unfavourable change of 20%	$532	$382
Expected credit losses [1]	0.25%	0.25%
Impact on fair value of unfavourable change of 10%	$ 41	$ 97
Impact on fair value of unfavourable change of 20%	$ 81	$194
Discount rate	6.5%	6.5%
Impact on fair value of unfavourable change of 10%	$133	$103
Impact on fair value of unfavourable change of 20%	$261	$206

[1] Expected credit losses on conventional residential mortgages only. No loss is expected on insured residential mortgages.

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

The total principal amount of securitized loans under the new standards (CICA AcG-12) amounted to $500,349,000 at the end of the year ($611,393,000 at the end of 2003).

The total principal amount of securitized loans accounted for under the former standards (CICA EIC-9) amounted to $51,614,000 at the end of the year ($329,120,000 at the end of 2003).

6. CAPITAL ASSETS

	2004			2003
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Land	$ 651	$ –	$ 651	$ 773
Premises	3,479	1,302	2,177	4,539
Leasehold improvements	39,601	24,384	15,217	16,256
Equipment and furniture	68,351	58,630	9,721	10,911
Computer equipment and software	273,686	206,962	66,724	82,000
	$385,768	$291,278	$94,490	$114,479

Depreciation expense recorded in the consolidated statement of income amounts to $34,445,000 ($42,390,000 in 2003). Computer equipment and software include an amount totalling $6,922,000 ($3,579,000 in 2003) related to projects under development that are not depreciated.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is detailed as follows:

	RETAIL FINANCIAL SERVICES	WEALTH MANAGEMENT AND BROKERAGE	TOTAL
Balance as at October 31, 2004 and 2003	**$53,790**	**$239**	**$54,029**

Refer to note 23 for the description of business segments.

No change has occurred in goodwill in the past two years.

Other intangible assets consist of the following:

	2004			2003
	COST	**ACCUMULATED AMORTIZATION**	**NET BOOK VALUE**	NET BOOK VALUE
Mutual fund management contract	**$ 3,256**	**$2,129**	**$ 1,127**	$1,878
Contractual relations and client relationships	**18,278**	**508**	**17,770**	–
	$21,534	**$2,637**	**$18,897**	$1,878

On June 8, 2004, the privatization of B2B Trust resulted in the recognition of intangible assets totalling $18,278,000. These assets consist of contractual relations with financial intermediaries and the associated client relationships and are amortized over a 15-year period.

Amortization of other intangible assets recorded in the consolidated statement of income during the year amounts to $1,259,000 ($752,000 in 2003).

8. OTHER ASSETS

	2004	2003
Future income tax assets (note 16)	**$113,921**	$109,730
Other items in transit (note 1)	**85,730**	–
Accrued interest receivable	**68,417**	79,762
Accrued benefit assets (note 14)	**43,821**	36,244
Assets related to securitized mortgage loans	**32,582**	46,852
Accounts receivable, prepaid expenses and other items	**129,399**	145,978
	$473,870	$418,566

9. DEPOSITS

				2004
	DEMAND	**NOTICE**	**TERM**	**TOTAL**
Personal	**$ 97,528**	**$ 1,760,509**	**$ 8,596,331**	**$10,454,368**
Business and other	**548,716**	**113,051**	**1,794,905**	**2,456,672**
	$ 646,244	**$ 1,873,560**	**$10,391,236**	**$12,911,040**

				2003
	DEMAND	NOTICE	TERM	TOTAL
Personal	$ 98,543	$1,709,566	$ 8,700,483	$10,508,592
Business and other	506,971	123,640	2,153,746	2,784,357
	$605,514	$1,833,206	$10,854,229	$13,292,949

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

9. DEPOSITS (CONTINUED)

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

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

Deposits denominated in U.S. dollars amount to $347,938,000 ($421,106,000 in 2003) and deposits denominated in other foreign currencies, primarily in euros, amount to $697,000 ($1,573,000 in 2003).

10. OTHER LIABILITIES

	2004	2003
Accrued interest payable	**$456,589**	$467,674
Cheques and other items in transit (note 1)	**133,830**	–
Liabilities related to securitized mortgage loans [1]	**31,520**	47,653
Accrued benefit liabilities (note 14)	**9,600**	13,294
Adjustment of sale price of branches (note 2)	**–**	30,561
Accounts payable, accrued expenses and other items (note 15)	**81,820**	97,610
	$713,359	$656,792

[1] Includes deferred gains in the amount of $924,000 ($4,014,000 in 2003).

11. SUBORDINATED DEBENTURES

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

On June 1, 2004, the Bank redeemed all of its 5.75% Debentures, Series 7, due 2009, of a notional amount of $100,000,000, plus accrued and unpaid interest to the date of repayment. As part of this transaction, costs of $1,063,000 were charged to income.

MATURITY	SERIES	INTEREST RATE	SPECIAL TERMS	**2004**	2003
June 2009	7	5,75%	Redeemable at par as of June 2004; rate to be revised in June 2004 and set at the 90-day bankers' acceptance rate plus 1%.	**$ –**	$100,000
December 2009	8	7,00%	Redeemable at par as of December 2004; rate to be revised in December 2004 and set at the 90-day bankers' acceptance rate plus 1.25% [1];	**50,525**	100,000
October 2010	6	8,90%	Redeemable at par as of October 2005; rate to be revised in October 2005 and set at the 90-day bankers' acceptance rate plus 1%.	**50,000**	50,000
June 2011	9	6,50%	Redeemable at par as of June 2006; rate to be revised in June 2006 and set at the 90-day bankers' acceptance rate plus 1.25%.	**150,000**	150,000
				$250,525	$400,000

The maturities of the debentures, assuming the earliest possible dates of repayment under the terms of issue, are as follows:

2005	**$100,525**
2006	**150,000**
	$250,525

[1] As at October 31, 2004, the Bank had repurchased $49,475,000 Debentures, Series 8 on the market for an amount totalling $49,723,000. These securities, which are currently being held in a trading account, are treated as a reduction of the corresponding obligation in accordance with the new CICA Section 1100, "Generally Accepted Accounting Principles." Subsequent to this transaction, a loss of $248,000 was recognized under other income in the consolidated statement of income (see note 24).

12. CAPITAL STOCK

Authorized:

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

Issued and outstanding as at October 31:

		2004		2003	
	DIVIDENDS PER SHARE [1]	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT
Class A Preferred Shares					
Series 7	**$1.938**	**–**	**$ –**	2,000,000	$ 50,000
Series 8	**$1.938**	**–**	**–**	2,000,000	50,000
Series 9	**$1.500**	**4,000,000**	**100,000**	4,000,000	100,000
Series 10	**$1.312**	**4,400,000**	**110,000**	–	–
Total preferred shares		**8,400,000**	**210,000**	8,000,000	200,000
Common Shares		**23,511,343**	**248,593**	23,435,585	246,813
Total capital stock			**$458,593**		$446,813

[1] Non-cumulative dividend

Preferred shares

Terms of shares

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

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

Issuance of preferred shares

On April 15, 2004, the Bank issued 4,400,000 Preferred Shares, Series 10 at a price of $25 per share, for an aggregate amount of $110,000,000. Net proceeds totalled $106,588,000, net of issue costs.

Redemption of preferred shares

On June 16, 2004, the Bank redeemed all of its Preferred Shares, Series 7 and 8 at a price of $25.50 per share, for a total consideration of $102,000,000, including a redemption premium of $2,000,000, together with declared and unpaid dividends to the redemption date. These preferred shares called for redemption ceased to be entitled to dividends from the redemption date.

On June 30, 2003, the Bank redeemed all of its Cumulative Class A Preferred Shares, Series 2 at a price of $100 per share, for a consideration of $400,000. The preferred shares called for redemption ceased to be entitled to dividends from the redemption date.

Common shares

Issuance of common shares

During the year, 75,758 common shares (26,982 shares in 2003) were issued under the employee share purchase option plan for the management of the Bank for a cash consideration of $1,780,000 ($583,000 in 2003).

Shareholder Rights Plan

The Bank has a Shareholder Rights Plan intended to encourage the fair treatment of shareholders in connection with any take-over bid for the Bank. The rights issued under the Rights Plan become exercisable only when a person, including related persons, acquires or announces its intention to acquire 20% or more of the Bank's outstanding common shares without complying with the "Permitted Bid" provisions of the Rights Plan or without approval of the Board of Directors of the Bank. Should such an acquisition occur, each right would, upon exercise, entitle a rights holder, other than the acquiring person and related persons, to purchase common shares of the Bank at a 50% discount of the market price at the time. Under the Rights Plan, a Permitted Bid is a bid made by means of a take-over bid circular sent to all shareholders of the Bank and is open for not less than 60 days. If at the end of the 60 days,

12. CAPITAL STOCK (CONTINUED)

at least 50% of the outstanding common shares have been tendered, other than those belonging to the offeror or related persons, the offeror may take up and pay for the shares but must extend his bid for a further 10 days to allow other shareholders to tender their shares. In the event of a hostile take-over bid, the rights will cause substantial dilution to the person attempting the take-over.

13. STOCK-BASED COMPENSATION

Share purchase options

Pursuant to a share purchase option plan, options are granted to key employees for the purchase of common shares at prices not less than the market prices of such shares immediately prior to the grant date.

The right to exercise the options is acquired gradually over a maximum period of five years and the options can be exercised at all times up to ten years after they have been granted.

As at October 31, 2004, the Bank had reserved 1,600,000 common shares (1,600,000 shares in 2003) for the potential exercise of share purchase options, of which 112,568 (68,893 in 2003) were still available.

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

		2004		2003
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER OPTION	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER OPTION
Outstanding, beginning of year	**595,522**	**$26.76**	624,554	$26.54
Exercised	**(75,758)**	**$23.49**	(26,982)	$21.62
Cancelled	**(43,675)**	**$29.88**	(2,050)	$27.03
Outstanding at end of year	**476,089**	**$26.99**	595,522	$26.76
Exercisable at end of year	**416,239**	**$26.75**	476,848	$26.60

The following table summarizes information relating to share purchase options outstanding and exercisable at October 31, 2004:

		OPTIONS OUTSTANDING			OPTIONS EXERCISABLE
RANGE OF EXERCISE PRICES	NUMBER OF OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE PER OPTION	NUMBER OF OPTIONS EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE PER OPTION
$15.85 – $19.94	**63,721**	**3.71**	**$18.60**	**63,721**	**$18.60**
$22.08 – $25.14	**51,292**	**4.65**	**$22.20**	**50,042**	**$22.13**
$27.08 – $31.80	**361,076**	**4.93**	**$29.16**	**302,476**	**$29.23**
	476,089			**416,239**	

Fair value method

On November 1, 2002, the Bank adopted, on a prospective basis, the CICA's recommendations regarding the recognition of an expense in income for share purchase option awards using the fair value method of accounting. Since the Bank did not award any options in 2004 and 2003, no expense was recognized.

Other stock-based compensation plans

The Bank offers a stock appreciation rights (SARs) plan to members of senior management of the Bank and its subsidiaries. These SARs may be settled in consideration of a cash amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs are acquired over a maximum period of five years and can be exercised over a maximum period of ten years. During the year, an income of $271,000 (expense of $31,000 in 2003) was recorded relating to this plan. As at October 31, 2004, 880,220 SARs (438,031 in 2003) were outstanding at a weighted average exercise price of $26.60 ($25.25 in 2003), of which 258,158 (286,441 in 2003) were exercisable at the end of the year. As at October 31, 2004, the weighted average remaining life of SARs was 7,35 years (5.57 years in 2003).

A deferred share unit plan is also offered to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his remuneration in the form of deferred share units settled in cash. The deferred share units are converted when the holder steps down from the Board of Directors. As at October 31, 2004, there were 16,884 units (13,168 in 2003) outstanding with a total value of $451,000 ($365,000 in 2003). The compensation expense recorded during the year, in respect of this plan, was $86,000 ($114,000 in 2003).

B2B Trust share purchase option plan

B2B Trust offered a share purchase option plan to its directors, officers and key employees, as well as to the directors and officers of Laurentian Bank. Upon the privatization of B2B Trust, all the rights under options outstanding vested in accordance with the plan. The 798,500 options with an exercise price lower than $9.50, that is, the Bank's offer, were exercised whereas the other options were cancelled. As at October 31, 2003, there were 849,000 options outstanding at a weighted average exercise price of $8.92, of which 252,975 could be exercised at year-end. The weighted average remaining life of the options was 7.7 years as at October 31, 2003.

During the year, B2B Trust awarded no options (45,000 in 2003). An expense of $85,000 ($43,000 in 2003) was recognized in consolidated income, which included the impact of the accelerated vesting of rights during the year.

14. EMPLOYEE FUTURE BENEFITS

Description of benefit plans

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

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

Total cash payments

Total cash payments for future employee benefits for 2004, consisting of cash contributed by the Bank to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution plans, were $27,479,000 ($10,068,000 in 2003).

Defined benefit plan measurement dates

The Bank measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at October 31 of each year. The most recent actuarial valuations are as of December 31, 2003. The next required actuarial valuation for funding purposes for the funded plans will be as of December 31, 2004 and, for one of the plans, as of December 31, 2006.

Defined benefit plan obligations

	2004		2003	
	PENSION PLANS	**OTHER PLANS**	PENSION PLANS	OTHER PLANS
Change in accrued benefit obligation				
Accrued benefit obligation at beginning of year	**$251,595**	**$22,470**	$231,628	$16,403
Current service cost	**6,146**	**38**	6,530	127
Interest cost on accrued benefit obligation	**17,464**	**1,263**	16,502	1,055
Benefits paid	**(14,814)**	**(1,294)**	(10,999)	(1,040)
Employees' contributions	**2,369**	**–**	3,082	–
Actuarial losses	**2,029**	**692**	3,217	5,925
Transfer related to the branches acquired in 2001	**12,117**	**–**	–	–
Other	**–**	**–**	1,635	–
Accrued benefit obligation at end of year	**$276,906**	**$23,169**	$251,595	$22,470

Defined benefit plan assets

	2004		2003	
	PENSION PLANS	**OTHER PLANS**	PENSION PLANS	OTHER PLANS
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	**$195,861**	**$ –**	$184,014	$ –
Actual return on plan assets	**24,435**	**–**	13,097	–
Bank contributions	**23,947**	**–**	6,002	–
Employees' contributions	**2,369**	**–**	3,082	–
Benefits paid	**(14,546)**	**–**	(10,334)	–
Transfer related to the branches acquired in 2001	**12,117**	**–**	–	–
Fair value of plan assets at end of year	**$244,183**	**$ –**	$195,861	$ –

14. EMPLOYEE FUTURE BENEFITS (CONTINUED)

Reconciliation of the funded status of the benefit plans to the amounts recorded in the consolidated financial statements

	2004		2003	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Fair value of plan assets	$244,183	$ –	$195,861	$ –
Accrued benefit obligation	276,906	23,169	251,595	22,470
Funded status of plans – deficit	(32,723)	(23,169)	(55,734)	(22,470)
Unamortized transitional obligation	848	12,655	1,111	13,476
Unamortized past service costs	4,168	–	4,710	–
Unamortized net actuarial loss	66,325	6,117	75,932	5,925
Accrued benefit asset (liability) at end of year	$ 38,618	$ (4,397)	$ 26,019	$ (3,069)
Accrued benefit asset included in other assets	$ 43,821	$ –	$ 36,244	$ –
Accrued benefit liability included in other liabilities	$ 5,203	$ 4,397	$ 10,225	$ 3,069

Allocation of plan assets as a percentage[1]

	2004	2003
Asset category		
Equity securities	58%	62%
Debt securities and other	42	38
Total	100%	100%

[1] Measured as of the measurement date of October 31 of each year.

Plan assets do not include any equity securities of the Bank as at October 31, 2004 and 2003.

Plans with accrued benefit obligations in excess of plan assets

Included in the above accrued benefit obligation and fair value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	2004		2003	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Accrued benefit obligation	$265,751	$ 23,169	$251,595	$ 22,470
Fair value of plan assets	229,595	–	195,861	–
Funded status – plan deficit	$ (36,156)	$(23,169)	$ (55,734)	$(22,470)

Elements of defined benefit costs recognized in the year

	2004		2003	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Defined benefit costs recognized in the year	$ 6,146	$ 38	$ 6,530	$ 127
Interest cost on accrued benefit obligation	17,464	1,263	16,502	1,055
Actual return on plan assets	(24,435)	–	(13,097)	–
Actuarial losses on accrued benefit obligation	2,029	692	3,217	5,925
Other	–	–	1,635	–
Elements of employee future benefit costs before adjustments to recognize their long-term nature	1,204	1,993	14,787	7,107
Excess (deficiency) of actual return over expected return	7,783	–	(3,689)	–
Deferral of amounts arising during period:				
Gains on accrued benefit obligation	(2,029)	(692)	(3,217)	(5,925)
Amortization of previously deferred amounts:				
Past service costs	542	–	652	–
Actuarial losses	3,851	501	1,330	–
Transitional obligation	264	821	264	821
Adjustments to recognize long-term nature of employee future benefit costs	10,411	630	(4,660)	(5,104)
Total defined benefit costs	11,615	2,623	10,127	2,003
Total defined contribution portion costs	1,970	–	2,361	–
Employee future benefit costs	$ 13,585	$2,623	$12,488	$ 2,003

Significant assumptions

	2004		2003	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Weighted average of assumptions				
Accrued benefit obligation as at October 31:				
Discount rate	6.50%	6.50%	6.75%	6.75%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Benefit costs for the years ended October 31:				
Discount rate	6.75%	6.75%	7.00%	7.00%
Expected long-term rate of return on plan assets	7.75%	–	7.75%	–
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

Assumed health care cost trend rates as at October 31:

	2004	2003
Initial health care cost trend rate	9.5%	10%
Cost trend rate declines to	5%	5%
Year that the rate reaches the rate it is assumed to remain at	2013	2013

14. EMPLOYEE FUTURE BENEFITS (CONTINUED)

Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2004:

	INCREASE	DECREASE
Total of service and interest cost	$ 101	$ (94)
Accrued benefit obligation	$1,740	$(1,454)

Sale of branches to TD Bank

In 2003, under the agreement regarding the sale of branches to TD Bank (see note 2), the pension plan of employees affected by the sale were not transferred. The participants are no longer accumulating new benefits, but the accumulated entitlements on the date of sale remain in the plans of the Bank until employment with TD Bank is terminated. At the time of the sale of the branches, the Bank revised its estimates related to the indexation of benefits for these employees, which generated an additional expense of $1,500,000, which was charged against the gain on disposal in 2003.

15. RESTRUCTURING COSTS

2003 program

Consolidated income for 2003 included restructuring costs totalling $21,569,000 ($14,020,000 after taxes). This expense, which was associated with an expense reduction program, included termination benefits, as well as the write-off of certain computer equipment and software and lease terminations. Certain information system development projects were written off subsequent to the decision to discontinue the project of transforming the Bank into a holding company and to the sale of branches in Ontario and Western Canada. The expense reduction program is substantially completed as at the end of fiscal 2004.

The following table presents the change in restructuring costs. The balance of these costs is included in other liabilities in the consolidated balance sheet.

			2004	2003
	PREMISES AND TECHNOLOGY	HUMAN RESOURCES	TOTAL RESTRUCTURING COSTS	TOTAL RESTRUCTURING COSTS
Balance at beginning of year	$5,944	$3,163	$9,107	$ –
Costs incurred during the year				
Retail Financial Services	–	–	–	10,727
Commercial Financial Services	–	–	–	2,109
Wealth Management and Brokerage	–	–	–	364
Other	–	–	–	8,369
Amount used during the year				
Retail Financial Services	2,110	1,302	3,412	6,066
Commercial Financial Services	519	718	1,237	212
Wealth Management and Brokerage	–	10	10	354
Other	944	1,133	2,077	5,830
Balance at end of year	$2,371	$ –	$2,371	$ 9,107

The provision as at October 31, 2004 consists primarily of a liability in respect of future lease payments for certain vacant premises.

2001 program

The consolidated statement of income for 2001 included restructuring costs of $17,540,000 ($11,401,000 net of income taxes). These costs included the write-off of certain assets and lease terminations, severance payments and other costs. The reversal during 2003 was in respect of branches in Ontario and Western Canada, for which the Bank had expected to incur restructuring costs. As a result of the selling project initiated in early 2003, the costs were not incurred.

	2004	2003
	PREMISES AND TECHNOLOGY	PREMISES AND TECHNOLOGY
Balance at beginning of year	$ 294	$ 2,662
Amount used	76	524
Net reversal	–	1,844
Balance at end of year	$ 218	$ 294

The provision as at October 31, 2004 consists primarily of a liability in respect of future lease payments for certain vacant premises.

16. INCOME TAXES

Future income tax assets

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

	2004	2003
Capital assets	$ 67,358	$ 53,266
Allowance for credit losses	38,815	27,724
Recoverable minimum tax of financial institutions	22,419	33,312
Prospective tax loss deferrals	13,800	13,494
Intangible assets	2,244	5,489
Accrued benefit asset – pension plans	(10,802)	(6,935)
Deferred charges	(21,094)	(18,214)
Other temporary differences	1,181	1,594
Future income tax assets, net	$ 113,921	$109,730

Income tax expense

Significant components of the provision for income taxes are as follows:

	2004	2003
Consolidated statement of income		
Current income tax expense	$ 17,855	$ 23,168
Future income tax expense (benefit)		
Tax rate changes	(1,700)	–
Creation and reversal of temporary differences	(1,604)	15,491
	(3,304)	15,491
	$ 14,551	$ 38,659
Consolidated statement of changes in shareholders' equity		
Income taxes on preferred share dividends and other		
Current income tax expense	$ 5,076	$ 4,195
Future income tax benefit	(5,939)	(4,021)
	$ (863)	$ 174

16. INCOME TAXES (CONTINUED)

Reconciliation with the statutory rate

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

	2004		2003	
	AMOUNT		AMOUNT	
Income taxes at statutory rate	**$ 21,161**	**32.9%**	$ 46,730	34.8%
Change resulting from:				
Tax rate changes	**(1,700)**	**(2.6)**	–	–
Non-taxable portion of gain on disposal of assets	**(1,646)**	**(2.6)**	(12,269)	(9.1)
Large corporations tax	**1,223**	**1.9**	2,703	2.0
Other, net	**(4,487)**	**(6.9)**	1,495	1.1
Income taxes reported in income and effective tax rate	**$ 14,551**	**22.7%**	$ 38,659	28.8%

Net income earned on credit insurance from foreign operations prior to November 1, 2003 will only be taxed upon repatriation to Canada. Since management of the Bank currently does not anticipate repatriating these retained earnings given it considers this capital necessary for ongoing operations, no future income tax expense was recorded in this regard.

17. NET INCOME PER COMMON SHARE

Average number of common shares outstanding is as follows:

IN THOUSANDS OF SHARES	2004	2003
Average number of common shares outstanding	**23,485**	23,416
Share purchase options	**36**	41
Average number of common shares outstanding after dilution	**23,521**	23,457

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

An average of 316,187 (404,220 in 2003) share purchase options were not taken into account in the calculation of diluted net income per common share since the average exercise price of these options exceeded the average market price of the Bank's shares during the year.

18. RELATED PARTY TRANSACTIONS

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

	2004	2003
Mortgage loans	**$1,100**	$1,131
Other loans	**356**	347
	$1,456	$1,478

19. DERIVATIVE FINANCIAL INSTRUMENTS

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

The various derivative financial instruments listed in the tables below are defined as follows:

i_ Interest rate swaps involve the exchange of fixed and floating interest payment obligations based on a predetermined notional amount for a specified period of time. Foreign exchange swaps involve the exchange of the principal and fixed or floating interest payments in different currencies. Cross-currency interest rate swaps involve the exchange of both the principal amount and fixed and floating interest payment obligations in two different currencies.

ii_ Forward rate agreements are contracts fixing an interest rate to be paid or received, calculated on a notional principal amount with a specified maturity commencing at a specified future date.

iii_Options are agreements between two parties in which the writer of the option grants the buyer the future right, but not the obligation, to buy or to sell, at or by a specified date, a specific amount of a financial instrument at a price agreed upon when the option is arranged. The writer receives a premium for selling this instrument.

iv_Futures are future commitments to purchase or deliver a financial instrument on a specified future date at a specified price. Futures are traded in standardized amounts on organized exchanges and are subject to daily cash margining.

v_ Foreign exchange forward contracts are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

The Bank also conducts equity derivative transactions in order to hedge its index-linked deposits.

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

A_REMAINING TERM TO MATURITY

IN MILLIONS OF DOLLARS		PERIOD TO MATURITY				2004
NOTIONAL AMOUNT	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL	OTHER THAN HEDGING	HEDGING
Interest rate contracts						
OTC contracts						
Swaps	$3,300	$7,535	$ –	$10,835	$ 7,406	$3,429
Forward rate agreements	482	–	–	482	482	–
Options written	–	–	–	–	–	–
Exchange-traded contracts						
Futures	427	–	–	427	427	–
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	789	42	–	831	831	–
Cross-currency interest rate swaps	50	–	–	50	–	50
Forwards	648	30	–	678	678	–
Options purchased	803	–	–	803	803	–
Options written	733	–	–	733	733	–
Other contracts [1]	44	137	–	181	181	–
	$7,276	$7,744	$ –	$15,020	$11,541	$3,479

[1] Includes over-the-counter equity derivatives.

19. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

IN MILLIONS OF DOLLARS			PERIOD TO MATURITY			2003
NOTIONAL AMOUNT	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL	TRADING	OTHER THAN TRADING
Interest rate contracts						
OTC contracts						
Swaps	$ 6,540	$ 8,144	$61	$14,745	$ –	$14,745
Forward rate agreements	481	75	–	556	–	556
Options written	150	–	–	150	–	150
Exchange-traded contracts						
Futures	699	–	–	699	99	600
Options purchased	264	–	–	264	264	–
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	805	101	–	906	906	–
Cross-currency interest rate swaps	–	50	–	50	–	50
Forwards	436	95	–	531	531	–
Options purchased	2,339	–	–	2,339	–	2,339
Options written	2,333	–	–	2,333	–	2,333
Exchange-traded contracts						
Futures	14	–	–	14	14	–
Other contracts [1]	51	145	–	196	–	196
	$14,112	$ 8,610	$61	$22,783	$1,814	$20,969

[1] Include over-the-counter equity derivatives.

B_CREDIT EXPOSURE

IN MILLIONS OF DOLLARS			2004			2003
	REPLACEMENT COST [1]	CREDIT EQUIVALENT AMOUNT [2]	RISK-WEIGHTED AMOUNT [3]	REPLACEMENT COST	CREDIT EQUIVALENT AMOUNT	RISK-WEIGHTED AMOUNT
Interest rate contracts						
Swaps	**$ 74**	**$ 111**	**$22**	$ 92	$ 134	$ 27
Foreign exchange contracts						
Foreign exchange swaps	**42**	**51**	**11**	35	46	11
Cross-currency interest rate swaps	**–**	**–**	**–**	–	2	–
Forwards	**7**	**12**	**6**	8	16	8
Options purchased	**6**	**13**	**4**	6	28	9
Other contracts [4]	**27**	**41**	**8**	18	32	6
	$ 156	**$ 228**	**$51**	$ 159	$ 258	$ 61

[1] Represents favourable fair market value, excluding the impact of master netting agreements. Exchange-traded instruments and options written are excluded since they do not constitute a credit risk.

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

[3] Using guidelines issued by the Superintendent of Financial Institutions of Canada.

[4] Include over-the-counter equity derivatives.

The majority of the credit concentration of the Bank with respect to derivative financial instruments is with financial institutions, primarily Canadian banks.

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value for the Bank. Replacement cost represents what it would cost to replace transactions at prevailing market rates if a default occurred.

The credit equivalent amount arising from a derivative transaction is defined as the sum of the replacement cost plus an add-on that is an estimate of the potential change in the market value of the transaction through to maturity.

The risk-weighted amount is determined by applying standard measures of counterparty risk to the credit equivalent amount.

20. FINANCIAL INSTRUMENTS

The amounts in tables A and B below present the fair value of on- and off-balance sheet financial instruments based on the valuation methods and assumptions as set out below.

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

A_FAIR VALUE OF ASSETS AND LIABILITIES

IN MILLIONS OF DOLLARS			2004			2003
	BOOK VALUE	FAIR VALUE	FAVORABLE (UNFAVORABLE) VARIANCE	BOOK VALUE	FAIR VALUE	FAVORABLE (UNFAVORABLE) VARIANCE
Assets						
Cash resources	$ 328	$ 328	$ –	$ 835	$ 835	$ –
Securities	3,002	2,997	(5)	3,071	3,058	(13)
Assets purchased under reverse repurchase agreements	1,134	1,134	–	882	882	–
Loans	11,155	11,278	123	11,034	11,198	164
Customers' liability under acceptances	145	145	–	235	235	–
Amounts related to derivative financial instruments	180	180	–	76	76	–
Other assets	119	119	–	140	140	–
Liabilities						
Deposits	12,911	13,097	(186)	13,293	13,500	(207)
Obligations related to assets sold short	1,496	1,496	–	970	970	–
Obligations related to assets sold under repurchase agreements	16	16	–	173	173	–
Acceptances	145	145	–	235	235	–
Amounts related to derivative financial instruments	189	189	–	95	95	–
Other liabilities	700	700	–	637	637	–
Subordinated debentures	$ 251	$ 261	$ (10)	$ 400	$ 421	$ (21)

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

The fair value of securities is based on quoted market prices or, if not available, it is estimated using quoted market prices of similar investments.

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

20. FINANCIAL INSTRUMENTS (CONTINUED)

B_FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

IN MILLIONS OF DOLLARS	2004		
	FAVOURABLE FAIR VALUE	UNFAVOURABLE FAIR VALUE	NET AMOUNT
NON-HEDGING PURPOSES			
Interest rate contracts			
Swaps	$ 50	$ (68)	$(18)
Foreign exchange contracts			
Foreign exchange swaps	42	(12)	30
Forwards	7	(32)	(25)
Options purchased	6	–	6
Options written	–	(6)	(6)
	55	(50)	5
Other contracts [1]	27	–	27
	132	(118)	14
HEDGING PURPOSES			
Interest rate contracts			
Swaps	24	(10)	14
Foreign exchange contracts			
Cross-currency interest rate swaps	–	(9)	(9)
	24	(19)	5
TOTAL	$ 156	$ (137)	$ 19

[1] Includes over-the-counter equity derivatives.

IN MILLIONS OF DOLLARS	2003		
	FAVOURABLE FAIR VALUE	UNFAVOURABLE FAIR VALUE	NET AMOUNT
TRADING ACCOUNT			
Foreign exchange contracts			
Foreign exchange swaps	$ 35	$ (15)	$ 20
Forwards	8	(31)	(23)
	43	(46)	(3)
NON-TRADING ACCOUNT			
Interest rate contracts			
Swaps	92	(106)	(14)
Forward rate agreements	–	(2)	(2)
	92	(108)	(16)
Foreign exchange contracts			
Cross-currency interest rate swaps	–	(5)	(5)
Options purchased	6	–	6
Options written	–	(6)	(6)
	6	(11)	(5)
Other contracts [1]	18	–	18
	116	(119)	(3)
TOTAL	$159	$(165)	$ (6)

[1] Includes over-the-counter equity derivatives.

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

C_INTEREST RATE RISK

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

2004

IN MILLIONS OF DOLLARS	FLOATING	0 TO 3 MONTHS	OVER 3 MONTHS TO 1 YEAR	OVER 1 YEAR TO 3 YEARS	OVER 3 YEARS TO 5 YEARS	OVER 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
Assets								
Cash resources and securities	$1,088	$ 1,407	$ 78	$ 482	$ 142	$ 60	$ 73	$ 3,330
Actual return	2.5%	2.3%	2.5%	3.1%	2.7%	5.5%	–	2.5%
Assets purchased under reverse repurchase agreements	1,134	–	–	–	–	–	–	1,134
Actual return	2.5%	–	–	–	–	–	–	2.5%
Loans	3,679	695	1,500	2,792	2,317	144	28	11,155
Actual return	5.4%	5.3%	6.0%	6.3%	6.3%	6.8%	–	5.9%
Other assets	145	299	–	–	–	–	544	988
Actual return	–	–	–	–	–	–	–	–
Total	6,046	2,401	1,578	3,274	2,459	204	645	16,607
Actual return	4.2%	2.9%	5.8%	5.8%	6.1%	6.4%	–	4.6%
Liabilities and equity								
Demand and notice deposits	453	106	233	652	653	–	423	2,520
Actual return	1.7%	0.2%	0.2%	0.2%	0.2%	–	–	0.4%
Term deposits	–	1,894	2,702	3,453	2,342	–	–	10,391
Actual return	–	2.9%	3.5%	4.4%	4.0%	–	–	3.8%
Other liabilities	149	1,346	261	609	63	24	107	2,559
Actual return	–	2.1%	0.8%	3.3%	4.0%	6.6%	–	2.1%
Debentures and equity	–	50	50	250	110	–	677	1,137
Actual return	–	7.0%	8.9%	6.3%	5.3%	–	–	2.6%
Total	602	3,396	3,246	4,964	3,168	24	1,207	16,607
Actual return	1.3%	2.6%	3.1%	3.8%	3.3%	6.6%	–	3.0%
Swaps, net	–	(2,155)	242	1,258	655	–	–	–
Other derivative financial instruments	–	37	(37)	–	–	–	–	–
Sensitivity gap	5,444	(3,113)	(1,463)	(432)	(54)	180	(562)	–
Cumulative gap	$5,444	$ 2,331	$ 868	$ 436	$ 382	$562	$ –	$ –

2003

IN MILLIONS OF DOLLARS	FLOATING	0 TO 3 MONTHS	OVER 3 MONTHS TO 1 YEAR	OVER 1 YEAR TO 3 YEARS	OVER 3 YEARS TO 5 YEARS	OVER 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
Assets	$5,852	$ 2,023	$ 1,678	$3,286	$2,924	$348	$ 627	$16,738
Rate	4.8%	3.7%	6.0%	5.7%	6.2%	6.2%	–	5.0%
Liabilities and equity	842	3,166	4,429	4,585	2,526	27	1,163	16,738
Rate	2.0%	1.9%	3.3%	4.4%	3.5%	6.2%	–	3.1%
Swaps, net	–	(3,240)	1,962	1,085	223	(30)	–	–
Other derivative financial instruments	–	69	(14)	(24)	(31)	–	–	–
Sensivity gap	5,010	(4,314)	(803)	(238)	590	291	(536)	–
Cumulative gap	$5,010	$ 696	$ (107)	$ (345)	$ 245	$536	$ –	$ –

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

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

20. FINANCIAL INSTRUMENTS (CONTINUED)

D_CONCENTRATION OF CREDIT RISK

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

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

	2004	2003
Quebec	**65%**	64%
Other Canadian provinces	**35%**	36%
Total	**100%**	100%

No single industry segment accounted for more than 3% (3% in 2003) of the total loans and customers' liability under acceptances.

21. COMMITMENTS AND GUARANTEES

A_CREDIT-RELATED COMMITMENTS

The Bank uses certain off-balance sheet credit instruments as a means of meeting the financial needs of its customers.

Unutilized credit balances represent a commitment to make credit available in the form of loans or other credit instruments for specific amounts and maturities, subject to specific conditions.

Documentary letters of credit are documents issued by the Bank on behalf of customers, authorizing a third party to draw drafts to a stipulated amount under specific conditions. These letters are guaranteed by the underlying shipments of goods.

The amounts of credit-related commitments represent the maximum amount of additional credit that the Bank could be obliged to extend. These amounts are not necessarily indicative of credit risk as many of these arrangements are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon.

	2004	2003
Unutilized credit balances	**$ 2,793,807**	$ 2,485,170
Documentary letters of credit	**$ 19,371**	$ 13,470

B_ GUARANTEES

i_Standby letters of credit and performance guarantees

In the normal course of its operations, the Bank offers to its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that the client cannot meet its obligations to third parties. The terms of these guarantees vary according to the contracts and normally do not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. No specific provision is currently recorded with regard to these guarantees. The maximum potential amount of future payments under these guarantees totalled $55,329,000 as at October 31, 2004 ($65,445,000 in 2003).

ii_Derivative financial instruments

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank uses written options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of a financial instrument at a predetermined price. The term of these options does not exceed 12 months. No specific provision is recorded with respect to these guarantees. The maximum potential amount of future payments under these guarantees, corresponding to the notional value of outstanding contracts, totalled $236,545,000 as at October 31, 2004 ($862,945,000 in 2003).

iii_Other indemnification agreements

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

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

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

	PREMISES	INFORMATION TECHNOLOGY SERVICE CONTRACTS	OTHER
2005	$20,087	$ 35,726	$4,392
2006	17,089	28,680	2,676
2007	15,386	28,756	1,480
2008	11,372	29,965	1,284
2009	6,882	30,204	–
Thereafter	15,962	57,793	–
Total	$86,778	$211,124	$9,832

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

The Bank also signed letters of understanding with certain suppliers, which are expected to lead to signed agreements, under which the Bank would undertake to pay the following amounts: $9,219,000 in 2005, $10,193,000 in 2006, $8,090,000 in 2007, $6,799,000 in 2008, $6,702,000 in 2009 and $28,956,000 thereafter.

D_PLEDGED ASSETS

Assets with a book value of $876,385,000 ($260,911,000 in 2003) have been pledged as collateral in order to participate in clearing and payment systems. In addition, securities amounting to $15,907,000 ($173,246,000 in 2003) have been sold under repurchase agreements containing collateral recorded as loans.

22. CONTINGENCIES

A_RENEWAL OF COLLECTIVE AGREEMENT

On February 2, 2003, the Bank and the union representing its unionized employees agreed to have an arbitration tribunal determine the content of the next collective agreement via a binding decision. The arbitration tribunal must, among other things, determine the scope of certain retroactive adjustments affecting employee compensation as of the expiry of the collective agreement. Provisions have been recorded in this regard using management's best estimates. The final settlement may result in a material change in the amount recognized.

B_ LITIGATION

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

23. SEGMENTED INFORMATION

The Bank offers its services through four business segments: Retail Financial Services, Commercial Financial Services, B2B Trust and Wealth Management and Brokerage.

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

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

The B2B Trust segment supplies generic and complementary banking and financial products to independent financial advisors and non-bank financial institutions across Canada.

Wealth Management and Brokerage consists of the activities of the subsidiary Laurentian Bank Securities Inc. and the Bank's share of the joint venture BLC-Edmond de Rothschild Asset Management Inc. (see note 24).

23. SEGMENTED INFORMATION (CONTINUED)

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

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

2004

	RETAIL FINANCIAL SERVICES	COMMERCIAL FINANCIAL SERVICES	B2B TRUST	WEALTH MANAGEMENT AND BROKERAGE	OTHER	TOTAL
Net interest income [1]	$ 238,201	$ 56,860	$ 43,052	$ 1,344	$ (64,449)	$ 275,008
Other income	87,267	32,384	15,109	26,030	38,159	198,949
Total revenue	325,468	89,244	58,161	27,374	(26,290)	473,957
Provision for credit losses [2]	19,762	15,646	4,592	–	–	40,000
Non-interest expenses	269,246	35,993	36,820	21,456	6,204	369,719
Income before income taxes and non-controlling interest in net income of a subsidiary	36,460	37,605	16,749	5,918	(32,494)	64,238
Income taxes	12,719	13,176	4,636	1,644	(17,624)	14,551
Non-controlling interest in net income of a subsidiary	–	–	1,916	–	–	1,916
Net income	$ 23,741	$ 24,429	$ 10,197	$ 4,274	$ (14,870)	$ 47,771
Average assets [3]	$ 8,366,372	$2,370,500	$2,579,158	$ 1,451,752	$ 1,558,969	$16,326,751
Average loans [3]	$ 8,154,258	$1,938,158	$1,883,055	$ 8	$(1,280,220)	$10,695,259
Average deposits [3]	$ 9,234,770	$ 85,065	$2,270,715	$ 133	$ 1,293,339	$12,884,022

2003

	RETAIL FINANCIAL SERVICES	COMMERCIAL FINANCIAL SERVICES [4]	B2B TRUST	WEALTH MANAGEMENT AND BROKERAGE [5]	OTHER [6]	TOTAL
Net interest income	$ 274,167	$ 62,797	$ 46,815	$ 1,256	$ (41,809)	$ 343,226
Other income	95,227	29,766	15,715	29,715	116,297	286,720
Total revenue	369,394	92,563	62,530	30,971	74,488	629,946
Provision for credit losses [2]	28,834	23,516	1,650	–	–	54,000
Non-interest expenses	312,903	34,750	37,627	19,373	37,127	441,780
Income before income taxes and non-controlling interest in net income of a subsidiary	27,657	34,297	23,253	11,598	37,361	134,166
Income taxes	10,853	13,538	8,631	2,865	2,772	38,659
Non-controlling interest in net income of a subsidiary	–	–	3,640	–	–	3,640
Net income	$ 16,804	$ 20,759	$ 10,982	$ 8,733	$ 34,589	$ 91,867
Average assets [3]	$10,986,717	$2,693,434	$2,637,578	$1,367,399	$ 862,893	$18,548,021
Average loans [3]	$10,762,710	$2,154,194	$2,094,479	$ 9	$(2,196,895)	$12,814,497
Average deposits [3]	$10,975,978	$ 36,999	$2,359,322	$ 257	$ 1,845,962	$15,218,518

[1] In 2004, the Bank reviewed its internal transfer pricing assumptions and modified net interest margin allocation between segments.

[2] Includes the reversal of general allowances for loan losses of $5.4 million attributed to the Retail Financial Services segment and $6.6 million ($4.0 million in 2003) attributed to the Commercial Financial Services segment.

[3] Assets and liabilities are disclosed on an average basis as this measure is most relevant to a financial institution.

[4] Includes the provision for loan losses of $10.0 million ($6.5 million net of taxes) related to the exposure to Air Canada.

[5] Includes the gain of $8.5 million ($6.7 million net of taxes) on the sale of shares of TSX Group Inc.

[6] Includes the gain on sale of branches of $69.9 million ($54.9 million net of taxes) and restructuring costs of $19.7 million ($12.8 million net of taxes).

24. SUBSEQUENT EVENTS

Sale of BLC-Edmond de Rothschild Asset Management Inc.

On November 4, 2004, the Bank and its co-venturer, la Compagnie Financière Edmond de Rothschild Banque, entered into an agreement in principle to sell all of the outstanding shares of the joint venture BLC-Edmond de Rothschild Asset Management Inc. to Industrial Alliance Insurance and Financial Services Inc. The joint venture encompassed mutual fund operations and certain private and institutional financial management operations. This transaction also provides for the implementation of a 10-year distribution agreement. The Bank expects to conclude the sale of the operations during the first quarter of 2005, subject to regulatory approvals.

The agreement provides for the payment of an initial amount of approximately $65,000,000 based on assets under management on the closing date of the transaction and a final amount of $8,000,000 at the end of the fifth year. The initial amount is subject to a recovery clause that may reach up to $28,000,000 within the first five years, if certain minimal net sales conditions are not met. The final amount is also subject to certain conditions based on sales. This agreement could enable the Bank to realize a gain that may exceed $30,000,000, subject to certain conditions, including sales results. The Bank plans to account for a portion of this gain as at the closing date of the transaction, and the remaining amount subsequently.

The operating results and financial position related to such operations, included in these consolidated financial statements, are presented below. These operations are presented in the Wealth Management and Brokerage segment.

The results of operations, presented in the attached consolidated statement of income, are detailed as follows:

	2004	2003
Other income	**$ 5,629**	$ 4,279
Net income (loss)	**$ 204**	$ (189)

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

	2004	2003
Total assets	**$16,101**	$ 15,548
Total liabilities	**$ 1,528**	$ 1,178

Redemption of Series 8 debentures

On November 9, 2004, the Bank announced plans to redeem all Debentures, Series 8 on December 15, 2004.

EXECUTIVE OFFICERS

MEMBERS OF THE MANAGEMENT COMMITTEE

Raymond McManus
President and
Chief Executive Officer
Chairman of the Board,
B2B Trust

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

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

Lorraine Pilon
Executive Vice-President,
Corporate Affairs
and Secretary

Réjean Robitaille
Executive Vice-President,
Retail Financial Services

André Scott
Executive Vice-President,
Commercial Financial Services

MEMBERS OF THE PLANNING COMMITTEE

Marcel Beaulieu
Vice-President,
Product Management

Chantal Bélanger
Ombudsman, Laurentian Bank
and subsidiaries

Yassir Berbiche
Vice-President and
Assistant Treasurer

Luc Bernard
Senior Vice-President,
Marketing

Louise Bourassa
Senior Vice-President,
Administrative Services

Denise Brisebois
Vice-President,
Human Resources

François Desjardins
President and Chief
Executive Officer,
B2B Trust

Jean-François Doyon
Vice-President,
Internal Audit

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

Richard Fabre
Vice-President,
Retail Financial Services and
Private Banking, North Shore,
Downtown Montreal and
Western Quebec

William Galbraith
Vice-President,
Commercial Banking

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

Michel Gendron
Vice-President, Corporate
Banking, Quebec

Luc Gingras
Vice-President,
Retail Financial Services,
Indirect Sales Network

Ronald Hodges (guest)
Vice-President,
Product Management and
Client Services, B2B Trust

Paul Hurtubise
Senior Vice-President,
Real Estate Financing

Michel Lafontaine
Vice-President, Capital Markets

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

Chantal Lauzon
Vice-President,
Taxation

André Lopresti
Vice-President
and Chief Accountant

Jacques Lussier
Vice-President,
Retail Financial Services
Quebec, Eastern Quebec
and Mauricie

Louis Marquis
Senior Vice-President, Credit

Pierre Minville
Vice-President,
Mergers and Acquisitions

Marlène Otis
Vice-President,
Commercial Financing

Marc Paradis
Senior Vice-President,
Strategic Planning and Control

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

Claude Sasseville
Vice-President,
Retail Financial Services,
East Montreal and South Shore

Al Spadaro (guest)
Vice-President, Business
Development, B2B Trust

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

Alicia Zemanek
Senior Vice-President, Investor
Relations and Integrated
Risk Management

BRANCHES

BY TOWN OR BOROUGH

Alma
500, rue Sacré-Cœur O.

Amos
1, 1ère Avenue O.

Anjou
7050, rue Jarry E.
6651, boul. Joseph-Renaud

Baie Comeau
600, boul. Laflèche

Beauport
3333, boul. du Carrefour

Belœil
706, boul. Laurier

Blainville
1356, boul. Curé-Labelle
9, boul. de la Seigneurie

Boucherville
999, boul. Montarville

Brossard
1635, boul. Rome

Campbell's Bay
148, rue Front

Charlesbourg
8000, boul. Henri-Bourassa

Chateauguay
111, boul. Saint-Jean Baptiste
530, 3e rue

Chicoutimi
1611, boul. Talbot

Côte Saint-Luc
5479, av. Westminster

Dolbeau
1372, boul. Wallberg

Dollard-des-Ormeaux
3500, boul. des Sources
4057, montée Saint-Jean

Dorval
325, av. Dorval

Drummondville
571, boul. Saint-Joseph

Fort Coulonge
532, rue Baume

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

Granby
40, rue Évangéline

Grand-Mère
531, 6e Avenue

Greenfield Park
3700, boul. Taschereau

Grenville
240, rue Principale

Île Bizard
136, boul. Jacques-Bizard

Île Perrot
88, boul. Don Quichotte

Joliette
373, rue Notre-Dame

Jonquière
3460, boul. Saint-François

La Baie
1220, av. du Port

Lachine
1675, rue Notre-Dame

Lachute
470, rue Principale O.

Lasalle
8262, boul. Champlain
8787, boul. Newman
1291, boul. Shevchenko

Laval
928, Autoroute Chomedey O.
233, boul. Curé-Labelle
3387, boul. Dagenais O.
510, boul. des Laurentides
750, rue Montrose
3870, boul. Notre-Dame
1899, boul. René-Laennec
1995, boul. Saint-Martin O.
4600, boul. Samson

Longueuil
2836, chemin Chambly
4, rue Saint-Charles E.

Maniwaki
111, boul. Desjardins

Mascouche
848, montée Masson

Mont Laurier
476, rue de la Madone

Montréal
4945, rue Beaubien E.
6593, rue Beaubien E.
4155, rue Bélanger E.
290, rue Chabanel O.
6225, av. Darlington
5159, boul. Décarie
885, rue Fleury E.
2200, rue Fleury E.
8595, rue Hochelaga
790, rue Jarry O.
10, rue Jean-Talon E.
555, rue Jean-Talon O.
9095, rue Lajeunesse
6500, av. de Lorimier
2937, rue Masson
6270, boul. Monk
1981, av. McGill College
1100, av. du Mont Royal E.
3720, rue Ontario E.
7705, av. Papineau
5059, av. du Parc
1100, boul. René-Lévesque O.
936, rue Sainte-Catherine E.
8090, rue Saint-Denis
391, rue Saint-Jacques
4080, rue Saint-Jacques
3730, boul. Saint-Laurent
7192, boul. Saint-Michel
8930, boul. Saint-Michel
2490, rue de Salaberry
1805, rue Sauvé O.
801, rue Sherbrooke E.
6615, rue Sherbrooke E.
12050, rue Sherbrooke E.
5651, rue Sherbrooke O.
6640 av. Somerled
4790, av. Van Horne

Montréal Nord
4135, rue D'Amiens
5501, boul. Henri-Bourassa E.
6525, boul. Léger

Murdochville
601, 5e rue

New Carlisle
168, boul. Gérard-D.-Lévesque

New Richmond
228, boul. Perron

Nicolet
92, place 21 mars

Ottawa / Vanier
1237 Donald Street

Outremont
1447, av. Van Horne

Paspébiac
120, boul. Gérard-D.-Lévesque

Port Daniel
10, route 132

Québec
510, boul. Charest E.
5401, boul. des Galeries
580, Grande Allée E.
1275, Chemin Sainte-Foy
3930, boul. Wilfrid-Hamel O.

Repentigny
150, boul. Iberville
910A, boul. Iberville

Rimouski
320, rue Saint-Germain E.

Rivière des Prairies
8646, boul. Maurice-Duplessis

Roberval
773, boul. Saint-Joseph

Rock Forest
4857, boul. Bourque

Rosemère
401, boul. Labelle

Rouyn Noranda
24, rue Perreault E.

Roxboro
10451, boul. Gouin O.

Saint-Bruno
690, montée Montarville
335, boul. des Promenades

Saint-Constant
400, route 132

Sainte-Foy
999, rue de Bourgogne
1221, Charles-Albanel
2600, boul. Laurier
2700, boul. Laurier

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

Sainte-Thérèse
95, boul. Labelle
81, rue Turgeon

Saint-Eustache
250, boul. Arthur-Sauvé

Saint-Georges
11400, 1ère Avenue

Saint-Hubert
5925, boul. Payer
6250, boul. Cousineau

Saint-Hyacinthe
5915, rue Martineau

Saint-Jean-sur-Richelieu
605, Pierre-Caisse

Saint-Jérome
900, boul. Grignon

Saint-Lambert
400, av. Victoria

Saint-Laurent
865, boul. Décarie
1430, rue Poirier

Saint-Léonard
5900, rue Bélanger E.
4725, rue Jarry E.
5355, rue Jean-Talon E.
8410, boul. Langelier
8945, boul. Viau

Saint-Raymond
300, rue Saint-Joseph

Sept-Îles
770, boul. Laure

Sherbrooke
2637, rue King O.

Terrebonne
1035, boul. des Seigneurs

Thetford Mines
222, boul. Frontenac O.

Tracy
831, route Marie-Victorin

Trois-Rivières
425, rue des Forges
4450, boul. des Forges

Val d'Or
872, 3e Avenue

Valleyfield
187, Victoria

Verdun
5501, av. Verdun
4214, rue Wellington

Victoriaville
403, boul. Jutras E.

Westmount
4848, rue Sherbrooke O.

OFFICES

AGRICULTURAL FINANCING

Drummondville
1240, boul. Saint-Joseph

Granby
40, rue Évangéline

Lachute
470, rue Principale

Saint-Hyacinthe
5915, rue Martineau

Saint-Jean-sur-Richelieu
605, boul. Pierre-Caisse

Sainte-Marie
16, rue Notre-Dame N.

Victoriaville
403, boul. Jutras E.

B2B TRUST

Toronto – Head Office
130 Adelaide Street W.
2nd Floor

BROME FINANCIAL CORPORATION INC.

Montréal
500, rue Sherbrooke O.
Bureau 400

COMMERCIAL FINANCING

Chicoutimi
1611, boul. Talbot
Bureau 100

Drummondville
1240, boul. Saint-Joseph

Hull
770, boul. Saint-Joseph

Kitchener
10 Duke Street W.

Markham
11 Allstate Parkway
Suite 430

Mississauga
989 Derry Road E.
Suite 303

Montréal
255, boul. Crémazie E.
Bureau 1100

Montréal – Major accounts
1981 McGill College avenue
Suite 1670

Québec (Sainte-Foy)
2700, boul. Laurier
Bureau 2287

Sherbrooke
2637, rue King O.

INTERNATIONAL SERVICES

Montréal
1981, avenue McGill College
Bureau 1750

Toronto
130 Adelaide Street W.

LAURENTIAN BANK SECURITIES INC.

Drummondville
645, boul. Saint-Joseph
Bureau 100

Granby
20, Place du Lac

Laval
2525, boul. Daniel-Johnson
Bureau 500

Longueuil
370, chemin Chambly

Montréal
1981, avenue McGill College
Bureau 100

Québec (Sainte-Foy)
2600, boul. Laurier
Bureau 2280

Saint-Jean-sur-Richelieu
100, rue Richelieu
Bureau 150

Toronto
130 Adelaide Street W.

LAURENTIAN TRUST OF CANADA INC.

Montréal
425, boul. de Maisonneuve O.

LBC CAPITAL II INC.

Montréal
1981, avenue McGill College
20^{e} étage

LBC FINANCIAL SERVICES INC.

Montréal
425, boul. de Maisonneuve O.
Bureau 105

LBC TRUST

Montréal
1981, avenue McGill College
20^{e} étage

MICRO-BUSINESS

Alma
500, rue Sacré-Cœur O.

Montréal
425, boul. de Maisonneuve O.
Bureau 105

Québec (Sainte-Foy)
2600, boul. Laurier
Bureau 25

PRIVATE BANKING

Montréal
1981, avenue McGill College
Mezzanine 255

REAL ESTATE FINANCING

Calgary
1122 – 4 Street SW
Suite 450

Kitchener
10 Duke Street W.
Suite 100

Montréal
1981, McGill College
Mezzanine

Ottawa
1420 Blair Place
Suite 603

Toronto
130 Adelaide Street W.
2nd Floor

Vancouver
700 West Georgia Street
Suite 603

SUBSIDIARIES AND AFFILIATED COMPANIES

AS AT OCTOBER 31, 2004

NAME	PRINCIPAL OFFICE ADDRESS	CARRYING VALUE OF VOTING SHARES OWNED BY THE BANK [1] ($000)	PERCENTAGE OF VOTING SHARES OWNED BY THE BANK
B2B Trust [2]	Toronto, Canada	$ 209,063	100%
Laurentian Trust of Canada Inc.	Montréal, Canada	$ 125,832	100%
LBC Trust	Toronto, Canada	$ 48,668	100%
Laurentian Bank Securities Inc.	Montréal, Canada	$ 47,616	100%
LBC Financial Services Inc.	Montréal, Canada	$ 1,821	100%
LBC Capital II Inc.	Montréal, Canada	$ 8,160	100%
BLC-Edmond de Rothschild Asset Management Inc. [3]	Montréal, Canada	$ 14,573	50.1%
Brome Financial Corporation Inc.	Montréal, Canada	$ 7,897	51%

[1] The carrying value of voting shares is stated at the Bank's net equity in these investments.
[2] B2B Trust was a public company from June 27, 2001 to June 8, 2004.
[3] BLC-Edmond de Rothschild Asset Management Inc. is a joint venture.

SHAREHOLDER INFORMATION

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

Telebanking Centre,
Automated Banking
and customer service:
(514) 522-1846
(Montreal region)
No charge dial:
1-800-522-1846
Website:
www.laurentianbank.com
Telex: 145069
Swift Code: BLCM CA MM

Annual meeting
The Annual Meeting of the Shareholders of the Bank will be held Wenesday, March 16, 2005, at 9:00 a.m., at *Le Windsor*, 1170, rue Peel, Montréal (Québec) H3B 4P2.

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

Transfer agent and Registrar
Computershare Trust
Company of Canada
1500 University Street
Suite 700
Montreal, Quebec H3A 3S8

Ombudsman's office
Laurentian Bank of Canada
Tour Banque Laurentienne
1981 McGill College Avenue
14th Floor
Montreal, Quebec H3A 3K3
(514) 284-7192
1-800-473-4782

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

Investors and analysts
Investors and analysts may contact the Investors Relations Department at Head Office by calling (514) 284-4500 ext. 5916.

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

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

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

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

STOCK SYMBOL AND DIVIDEND PAYMENT

THE COMMON AND PREFERRED SHARES INDICATED BELOW ARE LISTED ON THE TORONTO STOCK EXCHANGE.	STOCK SYMBOL CODE CUSIP	DIVIDEND RECORD DATE*	DIVIDEND PAYMENT DATE*
Common shares	51925D 10 6 LB	First business day of: January April July October	First business day of: February May August November
Preferred shares			
Series 9	51925D 87 4 LB.PR.D	**	March 15
Series 10	51925D 86 6 LB.PR.E	**	June 15
			September 15
			December 15

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

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