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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
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

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	SPECIFIC ALLOWANCES	GENERAL ALLOWANCES	TOTAL ALLOWANCES
					2003
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

	PERSONAL LOANS	RESIDENTIAL MORTGAGES	COMMERCIAL MORTGAGES	COMMERCIAL LOANS AND OTHER	TOTAL SPECIFIC ALLOWANCES	TOTAL SPECIFIC ALLOWANCES
					2004	2003
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

	PERSONAL LOANS	RESIDENTIAL MORTGAGES	COMMERCIAL MORTGAGES	COMMERCIAL LOANS AND OTHER	UNALLOCATED GENERAL ALLOWANCE	TOTAL GENERAL ALLOWANCES	TOTAL GENERAL ALLOWANCES
						2004	2003
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.