Consolidated financial statements

As at october 31, 2006 and 2005

59 Management's responsibility for financial information
60 Auditors' report to shareholders
61 Consolidated balance sheet
62 Consolidated statement of income
63 Consolidated statement of changes in shareholders' equity
64 Consolidated statement of cash flows
65 Notes to consolidated financial statements

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 include important disclosures that are useful in understanding the Bank's performance. They provide information on how amounts presented in the consolidated financial statements were determined, describe significant events or changes that affect these amounts, and explain certain line items in the consolidated financial statements. They also include details about the financial results that are not shown in the body of the consolidated financial statements.

Management's responsibility for financial information

The consolidated financial statements of Laurentian Bank of Canada and the other financial information contained in the Annual Report have been prepared by management, which is responsible for the integrity and fairness of the financial information presented. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) as well as the requirements of the *Bank Act* 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 the implementation of the financial information accounting systems, which support, among others, the preparation of financial statements in accordance with Canadian GAAP. 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, budgetary controls 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 function of integrated risk management 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 assess 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 and shareholders of the Bank.

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 consolidated financial statements, maintenance of appropriate internal controls, risk management as well as assessment of significant transactions through its Audit Committee and its Risk Management Committee. Both Board committees are composed solely of directors who are not officers or employees of the Bank.

RAYMOND McMANUS
President and Chief Executive Officer

ROBERT CARDINAL
Senior Executive Vice-President
and Chief Financial Officer

Montreal, Canada
December 11, 2006

Auditors' report to the shareholders of Laurentian Bank of Canada

We have audited the consolidated balance sheet of Laurentian Bank of Canada (the Bank) as at October 31, 2006 and 2005 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, 2006 and 2005 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 11, 2006

Consolidated balance sheet

As at October 31 (in thousands of dollars)	Notes	2006	2005
ASSETS			
Cash resources			
Cash and non-interest bearing deposits with other banks		$ 70,907	$ 57,737
Interest-bearing deposits with other banks		98,722	259,791
		169,629	317,528
Securities	3 and 20		
Investment account		1,567,222	1,911,819
Trading account		1,675,058	1,028,587
		3,242,280	2,940,406
Assets purchased under reverse repurchase agreements		802,546	508,073
Loans	4 and 5		
Personal		4,168,026	3,907,320
Residential mortgages		5,985,656	5,806,853
Commercial mortgages		659,014	595,946
Commercial and other		1,476,977	1,539,893
		12,289,673	11,850,012
Allowance for loan losses		(125,153)	(129,806)
		12,164,520	11,720,206
Other			
Customers' liabilities under acceptances		149,818	145,629
Property, plant and equipment	6	111,291	93,793
Derivative financial instruments		96,980	143,453
Future tax assets	15	101,048	106,932
Goodwill	7	53,790	53,790
Other intangible assets	7	15,333	16,547
Other assets	8	388,724	460,627
		916,984	1,020,771
		$ 17,295,959	$ 16,506,984
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	9		
Personal		$ 10,949,473	$ 10,575,416
Business, banks and other		2,145,028	3,121,522
		13,094,501	13,696,938
Other			
Obligations related to assets sold short		1,077,009	726,063
Obligations related to assets sold under repurchase agreements	20	1,100,385	60,065
Acceptances		149,818	145,629
Derivative financial instruments		81,807	105,326
Other liabilities	10	696,019	709,723
		3,105,038	1,746,806
Subordinated debentures	11	150,000	150,000
Shareholders' equity			
Preferred shares	12	210,000	210,000
Common shares	12	251,158	249,633
Contributed surplus	13	518	73
Retained earnings		485,334	454,124
Treasury shares	12 and 13	(590)	(590)
		946,420	913,240
		$ 17,295,959	$ 16,506,984

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 for per share amounts)	Notes	2006	2005
Interest income			
Loans		$ 755,009	$ 682,591
Securities		70,446	59,744
Deposits with other banks		11,721	7,864
		837,176	750,199
Interest expense			
Deposits and other liabilities		467,255	408,309
Subordinated debentures		12,714	16,199
		479,969	424,508
Net interest income		357,207	325,691
Provision for credit losses	4	40,000	40,000
		317,207	285,691
Other income			
Fees and commissions on loans and deposits		84,615	89,164
Brokerage operations		22,286	20,167
Income from treasury and financial market operations		15,206	16,223
Credit insurance income		12,578	7,687
Income from sales of mutual funds		10,637	9,570
Income from registered self-directed plans		10,515	11,830
Securitization income	5	9,972	11,664
Gain on disposals	2	931	–
Other		6,728	10,066
		173,468	176,371
		490,675	462,062
Non-interest expenses			
Salaries and employee benefits		205,711	192,163
Premises and technology		106,891	107,559
Other		89,081	82,229
		401,683	381,951
Income from continuing operations before income taxes		88,992	80,111
Income taxes	15	23,436	24,488
Income from continuing operations		65,556	55,623
Income from discontinued operations, net of income taxes	2	4,776	9,659
Net income		$ 70,332	$ 65,282
Preferred share dividends, including applicable income taxes		11,766	12,030
Net income available to common shareholders		$ 58,566	$ 53,252
Average number of common shares outstanding (in thousands)			
Basic		23,605	23,525
Diluted		23,649	23,552
Income per common share from continuing operations	16		
Basic		$ 2.28	$ 1.85
Diluted		$ 2.28	$ 1.85
Net income per common share			
Basic		$ 2.48	$ 2.26
Diluted		$ 2.48	$ 2.26

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	2006	2005
Preferred shares	12		
Balance at beginning and end of year		$ 210,000	$ 210,000
Common shares	12		
Balance at beginning of year		249,633	248,593
Issued during the year		1,525	1,040
Balance at end of year		251,158	249,633
Contributed surplus			
Balance at beginning of year		73	–
Stock-based compensation	13	445	73
Balance at end of year		518	73
Retained earnings			
Balance at beginning of year		454,124	428,159
Net income		70,332	65,282
Dividends			
Preferred shares, including applicable income taxes		(11,766)	(12,030)
Common shares		(27,356)	(27,287)
Balance at end of year		485,334	454,124
Treasury shares			
Balance at beginning of year		(590)	–
Acquisition	12	–	(590)
Balance at end of year		(590)	(590)
TOTAL SHAREHOLDERS' EQUITY		$ 946,420	$ 913,240

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)	Notes	2006	2005
Cash flows relating to operating activities			
Net income		$ 70,332	$ 65,282
Adjustments to determine net cash flows relating to operating activities:			
Provision for credit losses		40,000	40,000
Gains on securitization operations		(6,161)	(8,995)
Net loss on disposal of property, plant and equipment		29	1,312
Net gain from discontinued operations	2	(5,714)	(10,595)
Gain on disposals	2	(931)	–
Net loss (net gain) on sale of investment securities		1,421	(2,019)
Future income taxes		8,036	10,805
Depreciation and amortization		27,193	29,707
Net change in trading securities		(590,977)	(18,431)
Change in accrued interest receivable		1,605	(5,460)
Change in assets relating to derivative financial instruments		46,473	58,264
Change in accrued interest payable		40,224	(45,086)
Change in liabilities relating to derivative financial instruments		(23,519)	(84,163)
Other, net		61,309	(70,604)
		(330,680)	(39,983)
Cash flows relating to financing activities			
Net change in deposits		(602,437)	785,898
Change in obligations related to assets sold short		350,946	(769,511)
Change in obligations related to assets sold under repurchase agreements		1,040,320	44,158
Issuance of subordinated debentures		150,000	–
Redemption of subordinated debentures		(150,000)	(100,525)
Issuance of common shares, net of issue costs		1,525	1,040
Acquisition of treasury shares		–	(590)
Dividends, including applicable income taxes		(39,122)	(39,317)
		751,232	(78,847)
Cash flows relating to investing activities			
Change in investment securities			
Acquisitions		(12,881,435)	(26,117,606)
Proceeds from sales and maturity		13,168,669	26,189,909
Change in loans		(1,150,389)	(948,243)
Change in assets purchased under reverse repurchase agreements		(294,473)	625,847
Proceeds from mortgage loan securitizations		631,896	341,408
Additions to property, plant and equipment		(43,002)	(29,165)
Proceeds from disposal of property, plant and equipment		423	106
Net change in interest-bearing deposits with other banks		161,069	20,960
Net cash flows from sale of a subsidiary	2	(140)	–
Net cash flows from sale of discontinued operations	2	–	45,670
		(407,382)	128,886
Net change in cash and non-interest-bearing deposits with other banks		13,170	10,056
Cash and non-interest-bearing deposits with other banks at beginning of year		57,737	47,681
Cash and non-interest-bearing deposits with other banks at end of year		$ 70,907	$ 57,737
Supplemental disclosure relating to cash flows:			
Interest paid during the year		$ 440,922	$ 475,255
Income taxes paid during the year		$ 18,832	$ 31,640

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

Notes to consolidated financial statements

October 31, 2006 and 2005 (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 (OSFI), 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 OSFI, 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 presentation adopted in the current year.

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.

The Bank also consolidates variable interest entities (VIEs) when it is the primary beneficiary. In general, a VIE is an entity that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) as a group, equity owners are unable to make significant decisions about its activities or have disproportionate voting rights, or (3) as a group, equity owners do not have the obligation to absorb expected losses or the right to receive expected residual returns generated by its operations. If any of these characteristics is present, the entity is subject to a variable interests consolidation model, and consolidation is based on variable interests, not on ownership of the entity's outstanding voting stock. Variable interests are defined as contractual, ownership, or other money interests in an entity that change with fluctuations in the entity's net asset value. The primary beneficiary consolidates the VIE; the primary beneficiary is defined as the enterprise that absorbs a majority of expected losses or receives a majority of residual returns (if the losses or returns occur), or both. Where the Bank holds a significant variable interest in a VIE that it has not consolidated, certain disclosures regarding the nature, purpose, size and activities of the VIE must also be provided.

Until December 2004, the consolidated financial statements included the Bank's interest in BLC-Edmond de Rothschild Asset Management Inc. which was accounted for as a joint venture using the proportionate consolidation method. Under this method, the Bank consolidated its share of the assets, liabilities, revenues and expenses.

SECURITIES

Securities are held, depending on management's intentions, in the investment or trading account. The Bank records securities transactions using settlement date accounting.

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 securities sold short are carried as liabilities and recorded at their estimated fair value. Realized and unrealized gains and losses on these securities are included in income from treasury and financial market operations. Interest income earned and dividends received are included in interest income.

1. Summary of significant accounting policies (cont'd)

SECURITIES ACQUIRED UNDER REVERSE REPURCHASE AGREEMENTS AND OBLIGATIONS RELATED TO SECURITIES 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 is reported as interest income and interest expense, respectively.

LOANS

BALANCE SHEET PRESENTATION

Loans are recorded at cost, net of the allowance for loan losses and any unearned interest.

IMPAIRED LOANS

Loans, except credit card balances, 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 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 the Canadian government, a provincial government or a Canadian government agency; such loans are classified as impaired loans if they are in arrears for 365 days. Credit card balances are fully written off when payments are 180 days in arrears or when management assesses the likelihood of collection to be nil.

When loans are classified as impaired, the accrual of interest income ceases. The carrying amount of these loans is then adjusted to their estimated realizable value by way of a total or partial write-off and/or 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 current and management has no reasonable doubt as to the recovery of the total principal and interest.

When a portion of the loan is written off and the balance is restructured, the new loan is recorded on the accrual basis of accounting where there is no longer any reasonable doubt as to the recovery of capital and interest and where payments are not 90 days past due.

COMMISSIONS ON LOANS AND REVENUE RECOGNITION

Interest income related to loans is accounted for using the accrual basis of accounting. Commissions received and origination fees in respect of loans, including restructuring and renegotiation charges, are generally recorded in interest income over the term of the loans. Loan origination and other fees paid are charged to interest income over the terms of the loans. The fees received for mortgage prepayments are included in interest income upon prepayment.

FORECLOSED ASSETS

Assets acquired by way of settlement of a loan and held for sale are initially measured at fair value less costs to sell, under other assets. 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 cumulative losses recognized subsequent to the foreclosure date, is recognized as other income in the consolidated statement of income. The revenues generated by foreclosed assets and operating expenses are included in other income and non-interest expenses. 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 within the provision for credit losses in the consolidated statement of income.

ALLOWANCES FOR LOSSES

The Bank maintains allowances for losses at amounts 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 amount charged to the provision for credit losses in the statement of income and reduced by the amount of the write-offs, net of recoveries. Loans are written off when all possible restructuring or recovery activities have been completed and the recovery of other amounts is unlikely.

SPECIFIC ALLOWANCES FOR LOAN LOSSES

Specific allowances are established on a loan-by-loan basis for all impaired loans 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 is 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 fully 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.

GENERAL ALLOWANCES FOR LOAN LOSSES

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 past ten years and an economic cycle reference factor, adjusted to reflect changes in the portfolios and credit policies, is constituted for each pool of loans with common risk characteristics.

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

The Bank transfers pools of residential and commercial mortgages to special purpose entities or trusts. These transfers are accounted for as sales when the Bank is deemed to have surrendered control over these assets and has received consideration other than beneficial interests in these assets.

At the transfer date, the Bank derecognizes all assets sold, recognizes at fair value the assets received and the liabilities assumed at the time of sale and recognizes 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 spreads. The gain or loss depends partly on the allocation of the previous carrying value of the loans transferred 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 normally uses the discounted value of expected 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 and excess interest spreads related to these transactions are initially recorded at cost and presented under other assets. The retained subordinated tranches are also recorded at cost. They are presented with securities in the investment account. They are then subsequently tested for impairment on a quarterly basis in order to identify, if any, other than temporary impairments.

The Bank generally transfers receivables on a fully serviced 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.

ACCEPTANCES AND CUSTOMERS' LIABILITY UNDER ACCEPTANCES

Acceptances represent an obligation for the Bank with respect to short-term negotiable instruments issued by the Bank's customers to third parties and guaranteed by the Bank. The recourse against the customer in the event that these obligations give rise to a cash outlay is reported as a corresponding asset. Commissions earned are recorded under other income in the consolidated statement of income.

1. Summary of significant accounting policies (cont'd)

PROPERTY, PLANT AND EQUIPMENT

Land is carried at cost. Other property, plant and equipment are recorded at cost less accumulated depreciation and are depreciated over their estimated useful lives using 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 hardware and software	Straight-line	10% to 30%

Gains and losses on the disposal of property, plant and equipment are recognized in other income.

DEFERRED CHARGES

INCOME AND EXPENSES DURING THE PRE-OPERATING PERIOD

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, is deducted from deferred charges. The net amount of deferred charges is amortized on a straight-line basis over a five-year period.

LOAN AND DEPOSIT ORIGINATION FEES AND COSTS

Loan and deposit origination and commitment fees and costs are deferred and recognized over the life of the related loan or deposit, or over the commitment period, in net interest income.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill from business combinations is tested for impairment, at least annually, based on its fair value. The impairment test initially compares the fair value of the reporting unit to which 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.

Intangible assets with a finite life are amortized over their estimated useful life, which generally does not exceed 15 years, on a straight-line basis and are also tested for impairment whenever circumstances indicate that the carrying value may not be fully recoverable. When the net carrying value exceeds the estimated future net cash flows, intangible assets with finite lives are considered impaired and are written down to their fair value.

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, the Bank records its benefit obligation under employee pension plans and the related costs net of plan assets. An actuarial valuation is performed periodically to determine the present value of accrued pension obligations. The pension obligations of the defined benefit pension plans 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 measured at fair value. The expected return on plan assets is calculated 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. 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 long-term 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 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 greater of the accrued benefit obligation or the market value of plan assets. This excess is amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the plans which varied from 9 to 11 years in 2006 under the plans (from 9 to 11 years in 2005).

The past service cost 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 initial application of the accounting standard with respect to employee future benefits, in November 1, 2000, is amortized on a straight-line basis over the expected average remaining service life of the employee groups on that date, varying from 10 to 16 years.

Accrued benefit assets or liabilities represent the cumulative variance between pension expense and contributions paid and are included in other assets or other liabilities.

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 recognized during the employees' service life according to accounting policies similar to those applied to defined benefit pension plans.

The transitional obligation resulting from the initial application of the accounting standard with respect to employee future benefits, on 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 employee groups covered for the post-employment benefits, which is 13 years.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments 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. All derivative financial instruments are recognized at fair value in other assets or liabilities.

DERIVATIVE FINANCIAL INSTRUMENTS USED TO MANAGE THE BANK'S RISKS

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

Derivative financial instruments that qualify for hedge accounting

When it uses derivative financial instruments to manage its own exposures, the Bank determines for each derivative financial instrument whether hedge accounting can be applied. If it can, a hedging 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 used to measure its effectiveness. The derivative financial instrument 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 financial instrument functions effectively as a fair value or cash flow hedge, the unrealized gain or loss of the derivative financial instrument is deferred in other assets or liabilities. The deferred gain or loss is recognized in net interest income in the periods in which the associated revenues and expenses relating to the hedged item affects income.

1. Summary of significant accounting policies (cont'd)

Hedge accounting is discontinued prospectively when the derivative financial instrument no longer qualifies as an effective hedge or the derivative financial instrument 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, in which case, the deferred gain or loss is recognized in other income.

These derivative financial instruments remain eligible for designation in future hedging relationships. Upon a designation, any previously recognized fair value in the consolidated balance sheet is amortized to other income over the remaining life of the derivative financial instrument.

Derivative financial instruments that do not qualify for hedge accounting

The derivative financial instruments used to manage the Bank's risks that do not meet the requirements for hedge accounting are accounted for using the fair value method in other assets or liabilities. The resulting unrealized gains and losses are recognized in income from treasury and financial market operations.

DERIVATIVE FINANCIAL INSTRUMENTS USED IN CONNECTION WITH TRADING ACTIVITIES

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

OTHER CONSIDERATIONS

The market value of derivative financial instruments is determined using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curves and volatility factors.

EQUITY-LINKED DEPOSIT CONTRACTS

Certain deposit obligations, such as equity-linked Garanteed Investment Certificates where the deposit obligation varies according to the performance of certain indices, may be subject to a guaranteed minimum redemption amount, such as the obligation to return the investor's initial investment at maturity. Obligations related to these deposits are measured at fair value, and changes in fair value are recorded in other income as they arise.

INCOME TAXES

The Bank uses the liability method of tax allocation and accounts for the future income tax assets and liabilities related to loss carryforwards and other 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, as needed, 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 for the year, are used to repurchase common shares at that average market price.

STOCK-BASED COMPENSATION

Since November 1, 2002, the Bank has used the fair-value method of accounting for share purchase options granted to senior management. For these new awards, the Bank recognizes the fair value of the options granted as an increase in the related compensation expense and contributed surplus during the option vesting period. When the options are exercised, the proceeds received and the amount of the contributed surplus are credited to common shares. The value of the options granted is determined using the Black-Scholes option-pricing model using management's best estimates. With respect to awards granted 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 options is credited to common shares.

For the stock appreciation rights settled in cash, the excess of the share price over the exercise price, reviewed on an ongoing basis, is recognized in income during the option vesting period.

The compensation expense in respect of stock-based awards in connection with a performance-based share program corresponds to the value of the shares at the time of grant and is recognized during the applicable vesting period.

The compensation expense related to the Restricted Share Unit Program is recognized in income similarly to stock appreciation rights, over the option vesting period.

The Bank's contributions related to the employee share purchase program are recognized as compensation expense.

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 derived from the administration and management of 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. Realized or unrealized gains and losses resulting from the translation of foreign currencies are included in other income.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and non-interest-bearing deposits with banks. Cash comprises bank notes and coins.

FUTURE CHANGE TO ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS

On April 1, 2005, the CICA issued three accounting standards *Financial Instruments – Recognition and Measurement, Hedges and Comprehensive Income.* These new standards will be effective for the Bank on November 1, 2006.

Section 3855, Financial Instruments – Recognition and Measurement

All financial assets and liabilities will be carried at fair value in the consolidated balance sheet, except loans and receivables, investments held-to-maturity and non-trading financial liabilities, which will be carried at amortized cost using the effective interest method of amortization. Realized and unrealized gains and losses on trading financial assets and liabilities will be recognized immediately in the consolidated statement of income in income from treasury and financial market operations. Unrealized gains and losses on financial assets that are available for sale will be recognized in other comprehensive income until their realization, after which these amounts will be recognized in the consolidated statement of income. All derivative financial instruments will be carried at fair value in the consolidated balance sheet, including those derivatives that are embedded in other contracts but are not closely related to the host contract. Section 3855 also permits an entity to voluntarily designate a financial instrument as held-for-trading. Instruments that are classified as held-for-trading by way of this "fair value option" are subject to certain conditions and additional requirements set out by OSFI.

Section 3865, Hedges

In a fair value hedge, hedging derivatives are carried at fair value, with changes in fair value recognized in the consolidated statement of income. The changes in the fair value of the hedged items attributable to the hedged risk will also be recorded in consolidated income by way of a corresponding adjustment of the carrying amount of the hedged items recognized in the consolidated balance sheet. In a cash flow hedge, the changes in fair value of derivative financial instruments will be recorded in other comprehensive income. These amounts will be reclassified in the consolidated statement of income in the periods in which results are affected by the cash flows of the hedged item. Similarly, any hedge ineffectiveness will be recorded in the consolidated statement of income in income from treasury and financial market operations.

Section 1530, Comprehensive income

The consolidated financial statements will include a consolidated statement of comprehensive income while the cumulative amount, accumulated other comprehensive income (AOCI), will be presented as a new category of shareholders' equity in the consolidated balance sheet.

Impact of adopting Sections 1530, 3855 and 3865

The Bank is presently reviewing the impact of these standards and the effect of an exposure draft amending the transitional provisions for adopting the new accounting standard for hedges which was released by the CICA on October 18, 2006. The exact impact will also depend on certain choices to be made upon adoption of these new sections.

2. Disposals

2006

SALE OF THE SUBSIDIARY BROME FINANCIAL CORPORATION INC.

On December 31, 2005, the Bank completed the sale of its 51% interest in Brome Financial Corporation Inc. The net sale price, paid in cash, amounted to $3,853,000, for a gain of $931,000 ($931,000 net of taxes). At the date of sale, total assets sold amounted to $32,170,000, including $3,993,000 in cash. Total operations sold were presented in the Commercial Financial Services segment. The gain on the sale was entirely attributed to this segment.

For the years ended October 31, 2006 and 2005, contribution to net income was not material and total income amounted to $1,279,000 and $7,800,000, respectively.

2005

SALE OF THE BLC-EDMOND DE ROTHSCHILD ASSET MANAGEMENT INC. JOINT VENTURE

On December 31, 2004, the Bank completed the acquisition of the 49.9% share of BLC-Edmond de Rothschild Asset Management Inc. (BLCER) that was owned by La Compagnie Financière Edmond de Rothschild Banque (LCFER) for an amount of $23,397,000, subject to certain post-closing adjustments. Subsequently, on December 31, 2004, Industrial Alliance Insurance and Financial Services Inc. (Industrial Alliance) acquired all of the shares of BLC-Edmond de Rothschild Asset Management Inc. from the Bank. The net sale price, paid in cash, amounted to $67,795,000, based on the assets under management as at December 31, 2004. This sale price is subject to certain recovery clauses that initially amounted to $26,930,000, based on net sales of mutual funds for the next six years ending on December 31, 2010 and on the balance of institutional funds under management on December 31, 2005. As a result, an initial gain of $9,777,000 ($8,139,000, net of applicable income taxes) was recognized under income from discontinued operations, net of transaction fees estimated at $2,261,000, and $26,217,000 was recorded as a deferred gain.

The Bank, Industrial Alliance and BLC-Edmond de Rothschild Asset Management Inc. also entered into a ten-year distribution agreement. Under this agreement, the Bank will distribute the R Funds family acquired by Industrial Alliance to the Bank's clients, along with the Industrial Alliance mutual funds. The Bank will continue to receive commissions related to the distribution of funds, under terms equivalent to those prevailing in the industry.

Recovery clauses

Under a recovery clause, the Bank was required to repay Industrial Alliance an annual amount of $5,183,000, for the five years following the sale, if net annual sales of mutual funds do not reach $50,000,000 for the 12-month periods ended December 31 of each of these years. The sale proceeds related to the first two years' sales

threshold were recognized in income at the end of the years ended October 31, 2006 and 2005, in light of net sales levels at those dates relative to sales levels expected to be achieved by December 31 of each year. The deferred portion of the proceeds will be recognized over the next three years as the net sales thresholds are considered achieved. At the end of the six-year period ending on December 31, 2010, if cumulative net sales of mutual funds reach $290,000,000, the amounts that would have been repaid to Industrial Alliance under the recovery clause would be reimbursed to the Bank. Moreover, a final payment of $8,300,000 would be made to the Bank at the end of the first five-year period of the agreement if cumulative net sales of mutual funds reach $350,000,000. Including this premium, the total sale price related to the transaction would be $76,095,000. The gain relating to this final payment will be recognized in income once the conditions are met.

Under a separate recovery clause, the Bank would have been required to repay up to $1,015,000 to Industrial Alliance if the institutional assets under management on December 31, 2005 had not reached a predetermined level. On October 31, 2005, the Bank had deferred revenue of $300,000 related to this clause. In light of the level of assets under management on December 31, 2005, the Bank recognized an additional gain of $187,000 ($124,000, net of applicable income taxes) on that date in respect of this clause.

Investments in seed capital

At the time of sale, the Bank also owned an investment related to seed capital that was carried at cost. Since the Bank is no longer involved in the management of mutual funds, it was agreed that this investment would be disposed of. To carry the investment at market value, an initial $4,400,000 charge was recorded as a decrease in the gain on sale. Subsequently, in 2005, the Bank recorded revenues of $35,000 ($24,000, net of income taxes) to reflect the realized and unrealized net gains related to this investment. In 2006, the Bank completed the sale of this investment and recorded a revenue of $300,000 ($200,000, net of applicable income taxes) to recognize the realized net gains.

The initial gain and the changes in the value of investments in seed capital, as well as the gain with regards to the recovery clause related to institutional funds under management were attributed to the Other segment, whereas the income recognized in respect of the recovery clause related to the sales threshold of mutual funds was attributed to the Retail Financial Services segment.

Transaction summary

	2006	2005
Net sale price	$ –	$ 67,795
Less: Deferred income under the recovery clauses, at the time of sale	–	26,217
Net assets sold, including the amount related to the purchase of LCFER's shares (1)	–	29,540
	–	12,038
Transaction fees	–	2,261
Gain before the following items	–	9,777
Initial write-down of investments related to seed capital	–	4,400
Net gain before income taxes	–	5,377
Income taxes	–	164
Net gain after income taxes	–	5,213
Income recognized with respect to the recovery clauses ($5,370 before income taxes in 2006; $5,183 in 2005)	4,546	4,422
Subsequent change in value of investments related to seed capital and other, net of income taxes ($344 before income taxes in 2006; $35 in 2005)	230	24
Income from discontinued operations, net of income taxes	$ 4,776	$ 9,659

(1) Net assets sold consisted mainly of goodwill and other intangible assets related to the interest acquired in LCFER, as well as $1,507,000 in cash.

2. Disposals (cont'd)

Income per common share from discontinued operations is as follows:

	2006	2005
Income per common share from discontinued operations		
Basic	$ 0.20	$ 0.41
Diluted	$ 0.20	$ 0.41

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

	2006	2005
Total assets	$ –	$ 14,899
Total liabilities	$ –	$ –

3. Securities

MATURITY SCHEDULE AND RETURN ON SECURITIES

	2006						2005	
	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	656,617	608,727	12,335	–	1,277,679	3.8	1,618,676	2.9
by provinces	–	2,674	–	–	2,674	4.2	41,259	2.7
Other debt securities	59,217	96,235	40,860	–	196,312	5.2	193,235	4.8
Preferred shares	–	–	–	56,556	56,556	4.8	47,884	4.2
Common and other shares	–	–	–	34,001	34,001	3.7	8,627	4.8
Mortgage-based securities	–	–	–	–	–	–	2,138	5.0
Total carrying amount	715,834	707,636	53,195	90,557	1,567,222	4.1	1,911,819	3.1
Total fair value	715,339	703,481	54,652	92,728	1,566,200		1,901,435	
Trading account								
Securities issued or guaranteed								
by Canada	60,511	592,407	88,927	–	741,845		156,696	
by provinces	64,918	230,660	179,166	–	474,744		475,766	
by municipal corporations	27,006	38,979	37,981	–	103,966		39,702	
Other debt securities	57,647	71,680	64,252	–	193,579		179,242	
Common and other shares	–	–	–	73,638	73,638		63,277	
Mortgage-backed securities	128	57,664	29,494	–	87,286		113,904	
	210,210	991,390	399,820	73,638	1,675,058		1,028,587	
Total carrying amount	926,044	1,699,026	453,015	164,195	3,242,280		2,940,406	

The above classification is based on the contractual maturity date of the securities.
The weighted average return is calculated based on the carrying amount of each type of security at year-end.
US–dollar–denominated securities amounted to $103,556,000 ($91,412,000 in 2005).

INVESTMENT ACCOUNT – UNREALIZED GAINS AND LOSSES

	2006				2005			
	Carrying amount	Unrealized gains	Unrealized losses	Fair value	Carrying amount	Unrealized gains	Unrealized losses	Fair value
Securities issued or guaranteed								
by Canada	$ 1,277,679	$ 1,600	$ 5,016	$ 1,274,263	$ 1,618,676	$ 999	$ 11,646	$ 1,608,029
by provinces	2,674	6	8	2,672	41,259	17	55	41,221
Other debt securities	196,312	1,411	1,185	196,538	193,235	2,255	1,855	193,635
Preferred shares	56,556	550	428	56,678	47,884	510	457	47,937
Common and other shares	34,001	2,194	146	36,049	8,627	71	238	8,460
Mortgage-based securities	–	–	–	–	2,138	15	–	2,153
	$ 1,567,222	$ 5,761	$ 6,783	$ 1,566,200	$ 1,911,819	$ 3,867	$ 14,251	$ 1,901,435

As at October 31, 2006, five investment account securities represented $5,474,000 of total unrealized losses of $6,783,000. These unrealized losses essentially relate to securities issued or guaranteed by Canada.

4. Loans

LOANS AND IMPAIRED LOANS

2006	Gross amount of loans	Gross amount of impaired loans	Specific allowances	General allowances	Total allowances
Personal loans	$ 4,168,026	$ 16,100	$ 5,659	$ 26,436	$ 32,095
Residential mortgages	5,985,656	16,501	3,479	4,771	8,250
Commercial mortgages	659,014	8,393	3,472	2,471	5,943
Commercial and other loans	1,476,977	89,603	47,293	26,900	74,193
Unallocated general allowance	–	–	–	4,672	4,672
	$ 12,289,673	$ 130,597	$ 59,903	$ 65,250	$ 125,153

2005	Gross amount of loans	Gross amount of impaired loans	Specific allowances	General allowances	Total allowances
Personal loans	$ 3,907,320	$ 16,919	$ 7,267	$ 24,828	$ 32,095
Residential mortgages	5,806,853	9,783	3,735	5,559	9,294
Commercial mortgages	595,946	12,173	5,904	4,648	10,552
Commercial and other loans	1,539,893	82,063	47,650	25,818	73,468
Unallocated general allowance	–	–	–	4,397	4,397
	$ 11,850,012	$ 120,938	$ 64,556	$ 65,250	$ 129,806

US–dollar–denominated loans totalled $54,605,000 ($59,283,000 in 2005).

In 2006, foreclosed assets held for sale amounted to $1,269,000 ($1,440,000 in 2005) with eliminations to the related specific allowances totalling nil (nil in 2005).

4. Loans (cont'd)

SPECIFIC ALLOWANCES FOR LOAN LOSSES

	2006					2005
	Personal loans	Residential mortgages	Commercial mortgages	Commercial and other loans	Total specific allowances	Total specific allowances
Balance at beginning of year	$ 7,267	$ 3,735	$ 5,904	$ 47,650	$ 64,556	$ 74,792
Provision for credit losses recorded in the consolidated statement of income	27,660	369	(145)	12,116	40,000	40,000
Write-offs [1]	(33,721)	(662)	(2,287)	(12,398)	(49,068)	(56,001)
Recoveries	4,453	37	–	336	4,826	5,765
Provision for credit losses resulting from the sale of a subsidiary (see note 2)	–	–	–	(411)	(411)	–
Balance at end of year	$ 5,659	$ 3,479	$ 3,472	$ 47,293	$ 59,903	$ 64,556

(1) No restructured loans were written-off during the years ended October 31, 2006 and 2005.

GENERAL ALLOWANCES FOR LOAN LOSSES

	2006						2005
	Personal loans	Residential mortgages	Commercial mortgages	Commercial and other loans	Unallocated general allowance	Total general allowances	Total general allowances
Balance at beginning of year	$ 24,828	$ 5,559	$ 4,648	$ 25,818	$ 4,397	$ 65,250	$ 65,250
Change during the year	1,608	(788)	(2,177)	1,082	275	–	–
Balance at end of year	$ 26,436	$ 4,771	$ 2,471	$ 26,900	$ 4,672	$ 65,250	$ 65,250

5. Loan securitization

Under the mortgage-backed securities program governed by the *National Housing Act*, the Bank securitizes residential mortgage loans secured by the Canadian Mortgage and Housing Corporation (CMHC) through the creation of mortgage-backed securities. The Bank also securitizes conventional residential mortgages. Gains before income taxes, net of transaction costs, are recognized in other income.

The following table summarizes the securitization transactions carried out by the Bank:

	2006	2005
Cash proceeds, net of transaction costs	$ 631,896	$ 341,408
Rights to future excess interest	14,375	14,567
Servicing liability	(4,401)	(2,889)
Cash reserve accounts	15,582	760
Other	(3,646)	(2,003)
	653,806	351,843
Residential mortgages securitized and sold [1]	647,645	342,848
Gains before income taxes, net of transaction costs	$ 6,161	$ 8,995

(1) Including $51,289,000 in loans insured by the CMHC ($266,850,000 in 2005).

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

KEY ASSUMPTIONS

	2006	2005
Rate of prepayment	17%	19%
Discount rate	4.83%	4.03%
Rate of credit losses	0.05%	0.05%

No loss is expected on insured residential mortgages.

During the year, the Bank collected cash flows from retained interests totalling $12,450,000 ($8,074,000 in 2005). The amortization relating to the servicing liability recognized in income amounted to $2,495,000 ($1,460,000 in 2005).

The following table shows the value of retained interests, as well as the sensitivity of the fair value of these interests to immediate unfavourable changes of 10% and 20% in the key assumptions used to value retained interests as at October 31, 2006.

SENSITIVITY OF KEY ASSUMPTIONS TO UNFAVOURABLE CHANGES

	2006	2005
Carrying amount of retained interests	$ 38,221	$ 21,175
Fair value of retained interests	$ 42,153	$ 26,005
Weighted average life (in months)	26	24
Rate of prepayment	19%	17%
Impact on fair value of unfavourable change of 10%	$ 606	$ 508
Impact on fair value of unfavourable change of 20%	$ 1,187	$ 1,002
Rate of credit losses [(1)]	0.06%	0.15%
Impact on fair value of unfavourable change of 10%	$ 68	$ 20
Impact on fair value of unfavourable change of 20%	$ 135	$ 41
Discount rate	4.3%	3.7%
Impact on fair value of unfavourable change of 10%	$ 160	$ 144
Impact on fair value of unfavourable change of 20%	$ 318	$ 289

(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 amounted to $1,079,026,000 at year-end ($702,718,000 at the end of 2005).

6. Property, plant and equipment

	2006			2005
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 651	$ –	$ 651	$ 651
Premises	3,610	1,528	2,082	2,128
Leasehold improvements	51,822	29,119	22,703	19,189
Equipment and furniture	73,797	62,269	11,528	10,438
Computer hardware and software	322,401	248,074	74,327	61,387
	$ 452,281	$ 340,990	$ 111,291	$ 93,793

Depreciation expense recorded during the year in the consolidated statement of income amounts to $25,052,000 ($28,192,000 in 2005).

Computer hardware and software include an amount totalling $26,790,000 ($6,543,000 in 2005) 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 [1]	Total
Balance as at October 31, 2004	$ 53,790	$ 239	$ 54,029
Disposal related to the sale of the BLC-Edmond de Rothschild Asset Management Inc. joint venture in 2005 (see note 2)	–	(239)	(239)
Balance as at October 31, 2005 and 2006	**$ 53,790**	**$ –**	**$ 53,790**

(1) This goodwill was related to asset management operations that were sold on December 31, 2004. See note 2.
See note 23 for segment descriptions.

Other intangible assets consist of the following:

	2006			2005
	Cost	Accumulated amortization	Net book value	Net book value
Contractual relations and client relationships	$ 18,278	$ 2,945	$ 15,333	$ 16,547

The other intangible 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 $1,214,000 ($1,344,000 in 2005).

The Bank tests goodwill and other intangible assets for impairment on an annual basis. No impairment was identified in 2006 and 2005.

8. Other assets

	2006	2005
Cheques and other items in transit	$ 112,442	$ 180,923
Deferred charges related to loan and deposit origination	80,008	92,218
Accrued interest receivable	72,272	73,877
Assets related to securitized mortgage loans	44,490	26,682
Accrued benefit assets (note 14)	36,940	42,458
Accounts receivable, prepaid expenses and other items	42,572	44,469
	$ 388,724	$ 460,627

9. Deposits

	2006				2005
	Demand	Notice	Term	Total	Total
Personal	$ 100,055	$ 1,743,084	$ 9,106,334	$ 10,949,473	$ 10,575,416
Business, banks and other	718,770	113,496	1,312,762	2,145,028	3,121,522
	$ 818,825	$ 1,856,580	$ 10,419,096	$ 13,094,501	$ 13,696,938

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.

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 $245,027,000 ($271,618,000 in 2005) and deposits denominated in other foreign currencies, primarily in euros, amount to $3,608,000 ($654,000 in 2005).

10. Other liabilities

	2006	2005
Accrued interest payable	$ 451,727	$ 411,503
Cheques and other items in transit	131,675	173,580
Liabilities related to securitized mortgage loans	24,790	15,088
Deferred gain related to the sale of BLCER (note 2)	15,554	20,738
Accrued benefit liabilities (note 14)	11,430	10,340
Accounts payable, accrued expenses and other items (note 15)	60,843	78,474
	$ 696,019	$ 709,723

11. Subordinated debentures

SUBORDINATED DEBENTURES

The subordinated 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.

ISSUED AND OUTSTANDING AS AT OCTOBER 31

Maturity	Series	Interest rate	Special terms	2006	2005
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
January 2016	10	4.90%	Redeemable at par as of January 2011; rate to be revised in January 2011 and set at the 90-day bankers' acceptance rate plus 1.65%	150,000	–
				$ 150,000	$ 150,000

On June 1, 2006, the Bank completed the early redemption of all of its 6.50% Debentures, Series 9, maturing in 2011, with an aggregate notional amount of $150,000,000, plus accrued and unpaid interest to the date of redemption.

On January 23, 2006, the Bank issued subordinated debentures, Series 10, maturing in January 2016, with an aggregate value of $150,000,000.

On October 18, 2005, the Bank completed the early redemption of all of its 8.90% Debentures, Series 6, maturing in 2010, with an aggregate principal amount of $50,000,000, plus accrued and unpaid interest to the date of redemption.

On December 15, 2004, the Bank completed the early redemption of all of its 7.00% Debentures, Series 8, maturing in 2009 with an aggregate notional amount of $100,000,000, including debentures amounting to $49,475,000 that it had redeemed as at October 31, 2004, plus accrued and unpaid interest to the date of redemption. The debenture redemption during 2004, amounting to $49,723,000, generated a loss of $248,000, which was included in other income in the consolidated statement of income.

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.

12. Capital stock (cont'd)

ISSUED AND OUTSTANDING AS AT OCTOBER 31

	2006				2005		
	Dividends per share [(1)]	Number of shares	Amount	Declared dividends	Number of shares	Amount	Declared dividends
Class A Preferred Shares							
Series 9	$ 1,500	4,000,000	$ 100,000	$ 6,000	4,000,000	$ 100,000	$ 6,000
Series 10	$ 1,312	4,400,000	110,000	5,775	4,400,000	110,000	5,775
Total preferred shares		8,400,000	$ 210,000	$ 11,775	8,400,000	$ 210,000	$ 11,775
Common shares	$ 1,160	23,620,436	$ 251,158	$ 27,379	23,556,545	$ 249,633	$ 27,293
Treasury shares		(20,000)	$ (590)	$ (23)	(20,000)	$ (590)	$ (6)

(1) Non-cumulative dividends on preferred shares

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 redemption date. Moreover, the Bank will be able, on or after December 15, 2006, to convert all or a portion of the Preferred Shares into a whole 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 redemption date. Moreover, the Bank will be able, on or after June 15, 2009, to convert all or a portion of the Preferred Shares into a whole 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.

COMMON SHARES

ISSUANCE OF COMMON SHARES

During the year, 63,891 common shares (45,202 shares in 2005) were issued under the employee share purchase option plan for the management of the Bank for a cash consideration of $1,525,000 ($1,040,000 in 2005).

TREASURY SHARES

During fiscal 2005, 20,000 common shares were acquired in the marketplace with respect to obligations under a performance-based share program. These shares are presented under treasury shares as a reduction of shareholders' equity.

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

The Bank is prohibited by the *Bank Act* (Canada) from declaring or paying any dividends on its preferred shares or common shares if there are reasonable grounds for believing that, in so doing, the Bank would be in contravention of any capital adequacy and liquidity regulations or any direction to the Bank made by the Superintendent of Financial Institutions of Canada regarding the Bank's capital or liquidity.

In addition, under the *Bank Act*, the Bank is prohibited from declaring or paying a dividend in any financial year without the approval of OSFI if, on the day the dividend is declared, the total of all dividends declared by the Bank in that year would exceed the aggregate of the Bank's net income up to that day in that year and its retained net income for the preceding two financial years.

The Bank's ability to pay common share dividends is also restricted by the terms of the outstanding preferred shares. These terms provide that the Bank may not pay dividends on its common shares at any time without the approval of holders of the outstanding preferred shares, unless all dividends that are then payable have been declared and paid or set apart for payment.

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 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, 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

The Bank offers a share purchase option plan to senior managers of the Bank and its subsidiaries. Under this plan, the exercise price of options for the purchase of common shares must not be less than the market prices of such shares immediately prior to the grant date.

The right to exercise the options vests gradually over a maximum five-year period and the options may be exercised at any time up to ten years after they have been granted.

As at October 31, 2006, the Bank had reserved 1,600,000 common shares (1,600,000 shares in 2005) for the potential exercise of share purchase options, of which 139,960 (114,418 in 2005) were still available.

Given that the Bank has not granted any options since November 1, 2002, no expense was recognized for the years ended October 31, 2006 and 2005, as permitted by the transitional provisions of the CICA.

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

	2006		2005	
	Number of options	Weighted average exercise price per option	Number of options	Weighted average exercise price per option
Outstanding, beginning of year	429,037	$ 27.40	476,089	$ 26.99
Exercised	(63,891)	$ 23.88	(45,202)	$ 23.00
Cancelled	(25,542)	$ 30.97	(1,850)	$ 30.58
Outstanding, end of year	339,604	$ 27.79	429,037	$ 27.40
Exercisable, end of year	339,604	$ 27.79	404,037	$ 27.35

The following table summarizes information relating to share purchase options outstanding. As at October 31, 2006, all options are exercisable.

	Options outstanding and exercisable		
Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price per option
$18.70 – $19.94	28,362	2.33	$ 19.31
$22.08 – $22.08	21,455	2.58	$ 22.08
$27.08 – $31.80	289,787	3.24	$ 29.04
	339,604		

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 for 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 vest over a maximum period of five years and can be exercised over a maximum period of ten years. As at October 31, 2006, 621,756 SARs (687,721 in 2005) were outstanding at a weighted average exercise price of $27.24 ($26.98 in 2005), of which 283,212 (205,021 in 2005) were exercisable at the end of the year. As at October 31, 2006, the weighted average remaining life of SARs was 5.84 years (6.61 years in 2005). During the year, an expense of $177,000 ($1,361,000 in 2005) was recognized in respect of this plan.

During the first quarter of 2006, the Bank established a new stock-based compensation program, the Restricted Share Unit Program, for certain senior managers. Under the program, 50% of the annual bonus otherwise payable to an eligible employee, under the Bank's short term incentive compensation program, could be withheld and converted into entirely vested restricted share units at the employees' option. The Bank undertakes to contribute additional restricted share units for an amount equal to 60% of the withheld bonus.

These additional units will vest at the end of the three-year period following their award. The holders of such share units are entitled to an amount equivalent to the dividends paid on the Bank's common shares, which is also converted into additional share units. The expense related to these units is recognized in income similarly to stock appreciation rights, over their vesting period. On January 19, 2006, annual bonuses for certain employees amounting to $854,000 were converted into 24,382 entirely vested restricted share units. On the same date, the Bank granted 14,629 additional restricted share units that will vest in December 2008. During the year, income of $28,000 (nil in 2005) was recognized in respect of this plan.

In 2005, the Bank initiated a performance-based share agreement, under which 20,000 common shares of the Bank valued at $29.50 each have been granted. The rights in respect of these shares will vest at the end of the 16-month period ending on January 1, 2007, if the Bank meets certain performance objectives. During the year, an expense of $445,000 (income of $73,000 in 2005) was recognized in respect of this plan.

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, 2006, there were 19,623 units (21,755 in 2005) outstanding with a total value of $570,000 ($660,000 in 2005). During the year, the compensation expense recognized in respect of this plan was $99,000 ($209,000 in 2005).

During fiscal 2006, the Bank established a new employee share purchase program. Under this program, employees who meet the eligibility criteria can contribute up to 5% of their annual gross salary by way of payroll deductions. The Bank matches 30% of the employee contribution amount, to a maximum of $1,500 per annum. The Bank's contributions vest to the employee two years after each employee contribution. The Bank's contributions, amounting to $113,000 for fiscal 2006, were recognized under salaries and employee benefits. Under this program, the average value of the vested shares was $29.13 during fiscal 2006.

14. Employee future benefits

DESCRIPTION OF BENEFIT PLANS

The Bank has a number of funded 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 2006, 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 $17,329,000 ($15,985,000 in 2005).

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, 2005 and as of December 31, 2003 for one of the plans. The next required actuarial valuation for funding purposes for the funded plans will be as of December 31, 2006.

DEFINED BENEFIT PLAN OBLIGATIONS

	2006		2005	
	Pension plans	Other plans	Pension plans	Other plans
Change in accrued benefit obligation				
Accrued benefit obligation at beginning of year	$ 346,363	$ 25,584	$ 276,906	$ 23,169
Current service cost	9,385	52	6,318	41
Interest cost on accrued benefit obligation	18,790	1,153	18,325	1,257
Benefits paid	(15,612)	(1,576)	(15,021)	(1,824)
Employee contributions	2,583	–	2,411	–
Past service costs	666	–	240	–
Actuarial losses (gain)	(1)	7,589	56,992	2,941
Other	–	–	192	–
Accrued benefit obligation at end of year	$ 362,174	$ 32,802	$ 346,363	$ 25,584

DEFINED BENEFIT PLAN ASSETS

	2006		2005	
	Pension plans	Other plans	Pension plans	Other plans
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	$ 267,078	$ –	$ 244,183	$ –
Actual return on plan assets	24,170	–	23,526	–
Bank contributions	12,945	–	11,717	–
Employee contributions	2,583	–	2,411	–
Benefits paid	(15,395)	–	(14,759)	–
Faire value of plan assets at end of year	$ 291,381	$ –	$ 267,078	$ –

RECONCILIATION OF THE FUNDED STATUS OF THE BENEFIT PLANS TO THE AMOUNTS RECORDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

	2006		2005	
	Pension plans	Other plans	Pension plans	Other plans
Fair value of plan assets	$ 291,381	$ –	$ 267,078	$ –
Accrued benefit obligation	362,174	32,802	346,363	25,584
Funded status of plans – deficit	(70,793)	(32,802)	(79,285)	(25,584)
Unamortized transitional obligation	320	11 012	584	11,834
Unamortized past service costs	3,864	–	3,840	–
Unamortized net actuarial loss	98,126	15,783	112,050	8,679
Accrued benefit assets (liabilities) at end of year	$ 31,517	$ (6,007)	$ 37,189	$ (5,071)
Accrued benefit assets included in other assets	$ 36,940	$ –	$ 42,458	$ –
Accrued benefit liabilities included in other liabilities	$ 5,423	$ 6,007	$ 5,269	$ 5,071

14. Employee future benefits (cont'd)

ALLOCATION OF PLAN ASSETS AS A PERCENTAGE [1]

	2006	2005
Asset category		
Equity securities	51%	54%
Debt and other securities	49	46
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, 2006 and 2005.

PLANS WITH ACCRUED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS

The amounts, at year-end, related to the accrued benefit obligation and the fair value of the assets of plans that are not fully funded are as follows:

	2006		2005	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit obligation	$ 347,243	$ 32,802	$ 332,561	$ 25,584
Fair value of plan assets	272,368	–	249,739	–
Funded status – plan deficit	$ (74,875)	$ (32,802)	$ (82,822)	$ (25,584)

ELEMENTS OF DEFINED BENEFIT COSTS RECOGNIZED DURING THE YEAR

	2006		2005	
	Pension plans	Other plans	Pension plans	Other plans
Defined benefit costs recognized during the year	$ 9,385	$ 52	$ 6,318	$ 41
Interest cost on accrued benefit obligation	18,790	1,153	18,325	1,257
Actual return on plan assets	(24,170)	–	(23,526)	–
Actuarial losses (gain) on accrued benefit obligation	(1)	7,589	56,992	2,941
Other	666	–	192	–
Elements of employee future benefit costs before adjustments to recognize their long-term nature	4,670	8,794	58,301	4,239
Excess of actual return over expected return	6,031	–	6,846	–
Deferral of amounts arising during period:				
Actuarial gain (losses) on accrued benefit obligation	1	(7,589)	(56,992)	(2,941)
Past service costs	(666)	–	–	–
Amortization of previously deferred amounts:				
Past service costs	643	–	569	–
Actuarial losses	7,892	486	4,420	378
Transitional obligation	264	821	264	821
Adjustments to recognize long-term nature of employee future benefit costs	14,165	(6,282)	(44,893)	(1,742)
Total defined benefit costs	18,835	2,512	13,408	2,497
Total defined contribution portion costs	2,591	–	2,183	–
Employee future benefit costs	$ 21,426	$ 2,512	$ 15,591	$ 2,497

SIGNIFICANT ASSUMPTIONS

	2006		2005	
	Pension plans	Other plans	Pension plans	Other plans
Weighted average of assumptions				
Accrued benefit obligation as at October 31:				
Discount rate at end of year	5.35%	5.35%	5.35%	5.35%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Benefit costs for the years ended October 31:				
Discount rate for the year	5.35%	5.35%	6.50%	6.50%
Expected long-term rate of return on plan assets	7.25%	–	7.25%	–
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

ASSUMED HEALTH CARE COST TREND RATES AS AT OCTOBER 31

	2006	2005
Assumed annual rate of increase in the cost of healthcare benefits	10%	9%
Level to which it should decline and at which it is assumed to subsequently stabilize	4%	5%
Year that the rate is assumed to stabilize	2016	2013

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 2006:

	1% increase	1% decrease
Total of service and interest cost	$ 95	$ (80)
Accrued benefit obligation	$ 2,556	$ (2,146)

15. Income taxes

FUTURE INCOME TAX ASSETS

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

	2006	2005
Property, plant and equipment	$ 82,667	$ 70,903
Allowance for credit losses	33,386	35,504
Recoverable minimum income tax of financial institutions	1,825	10,615
Prospective tax loss deferrals	14,865	15,491
Intangible assets	1,545	2,387
Accrued benefit assets – pension plans	(8,342)	(10,310)
Deferred charges	(19,241)	(20,864)
Securitization and securities	(5,607)	(4,310)
Deferred revenue	2,655	3,658
Other temporary differences	(2,705)	3,858
Futures income tax assets, net	$ 101,048	$ 106,932

Income tax loss carryforwards, as at October 31, 2006, consist of federal income tax losses amounting to $51,379,000 ($43,974,000 in 2005) that can be used to reduce future taxable income. These losses expire at various dates ranging from 2010 to 2026. Recoverable minimum income taxes of financial institutions, which are recoverable over a three-year period where the minimum tax threshold has been exceeded, expire between 2007 and 2009.

15. Income taxes (cont'd)

INCOME TAX EXPENSE

Significant components of income tax expense are as follows:

	2006	2005
Consolidated statement of income		
Continuing operations		
Current income tax expense	$ 16,338	$ 14,619
Future income tax expense (benefit)		
Reversal (creation) of temporary differences	(1,504)	9,869
Tax rate changes	8,602	–
	7,098	9,869
	23,436	24,488
Discontinued operations		
Future income tax expense	938	936
	$ 24,374	$ 25,424
Consolidated statement of changes in shareholders' equity		
Income taxes on preferred share dividends and other		
Current income tax expense	$ 2,564	$ 5,749
Future income tax benefit	(2,573)	(5,494)
	$ (9)	$ 255

RECONCILIATION WITH THE STATUTORY RATE

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

	2006		2005	
	Amount		Amount	
Income taxes at statutory rate	$ 29,280	32.9%	$ 25,651	32.0%
Change resulting from:				
Resolution of income tax exposures	(11,300)	(12.7)	–	–
Tax rate changes	8,602	9.7	–	–
Realized gain on repatriation of accumulated foreign retained earnings	4,520	5.1	–	–
Recognition of previously unrecognized temporary differences related to the minimum tax on financial institutions	(2,750)	(3.2)	–	–
Tax exempt revenues (dividends)	(1,061)	(1.2)	(343)	(0.4)
Lower tax rate on foreign credit insurance operations	(2,441)	(2.7)	–	–
Federal large corporations tax	–	–	779	1.0
Corporate reorganization and other	(1,414)	(1.6)	(1,599)	(2.0)
Income taxes from continuing operations, as reported in the consolidated statement of income	$ 23,436	26.3%	$ 24,488	30.6%

The net charge resulting from tax rate changes of $8,602,000, presented above, is attributable to the $2,398,000 gain resulting from the increase in the corporate tax rate in Quebec for the years 2006 and thereafter, as well as from the $11,000,000 charge resulting from the reduction of the Federal Corporate Income Tax Rate for the years 2008 and thereafter.

Income earned on foreign credit insurance operations would generally be taxed only upon repatriation to Canada. As at October 31, 2005, since the Bank did not intend to repatriate accumulated income prior to November 1, 2003, no income taxes were recognized. As a result of certain amendments to the Income Tax Act which prompted the Bank to repatriate its foreign credit insurance income, income taxes were recognized from November 1, 2003 to July 27, 2006, on these operations.

On July 27, 2006, the Bank repatriated virtually all of income accumulated as at that date, including income accumulated prior to November 1, 2003. This transaction generated an additional income tax expense of $4,520,000.

Since the Bank's management does not expect to repatriate income accumulated after July 27, 2006, no future income tax expense has been recognized on such income. Taxes that would be payable if all unremitted earnings were repatriated are estimated at $837,000 as at October 31, 2006.

16. Net income per common share

Average number of common shares outstanding (in thousands) is as follows:

	2006	2005
Basic net income per common share		
Net income from continuing operations	$ 65,556	$ 55,623
Preferred share dividends, including applicable income taxes	11,766	12,030
Net income attributable to common shares from continuing operations	$ 53,790	$ 43,593
Average number of outstanding common shares	23,605,077	23,525,404
Basic net income per common share from continuing operations	$ 2.28	$ 1.85
Diluted net income per common share		
Net income attributable to common shares from continuing operations	$ 53,790	$ 43,593
Average number of outstanding common shares	23,605,077	23,525,404
Dilutive and other share purchase options	43,741	27,026
Weighted average number of outstanding common shares	23,648,818	23,552,430
Diluted net income per common share from continuing operations	$ 2.28	$ 1.85
Average number of share purchase options not taken into account in the calculation of diluted net income per share (1)	60,510	290,285

(1) The average number of share purchase options was 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 these years.

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.

17. 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 mostly of residential mortgage loans at posted rates less 2%, as well as personal loans and personal lines of credit at market rates less a discount based on the type and amount of the loan. 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:

	2006	2005
Mortgage loans	$ 112	$ 143
Other loans	393	386
	$ 505	$ 529

In the normal course of business, the Bank also provides usual banking services to certain directors and officers, including bank accounts (deposits) under terms similar to those offered to arm's length parties.

18. 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, foreign exchange rates and indexes used to determine the return of index-linked deposits, as well as to meet its customers' demands and to earn trading income, as described below.

The various derivative financial instruments listed in the tables below are 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 over a given period.

ii) Forward rate agreements are contracts fixing a future 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 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 agreement is entered into. 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 pre-determined rate.

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.

AGGREGATE NOTIONAL AMOUNTS

(in millions of dollars)	Period to maturity			2006		
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Contracts designated as a hedge	Other contracts[1]
Interest rate contracts						
OTC contracts						
Swaps	$ 3,223	$ 6,180	$ 18	$ 9,421	$ 3,982	$ 5,439
Options purchased	154	–	–	154	–	154
Options written	14	–	–	14	–	14
Exchange-traded contracts						
Futures	71	–	–	71	–	71
Options purchased	15	–	–	15	–	15
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	1,006	5	–	1,011	–	1,011
Cross-currency interest rate swaps	–	23	–	23	23	–
Forwards	484	7	–	491	–	491
Options purchased	674	–	–	674	–	674
Options written	590	–	–	590	–	590
Other contracts [2]	57	79	1	137	–	137
	$ 6,288	$ 6,294	$ 19	$ 12,601	$ 4,005	$ 8,596

(in millions of dollars)	Period to maturity					2005
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Contracts designated as a hedge	Other contracts [1]
Interest rate contracts						
OTC contracts						
Swaps	$ 3,203	$ 6,681	$ 10	$ 9,894	$ 3,677	$ 6,217
Exchange-traded contracts						
Futures	46	–	–	46	–	46
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	1,250	23	–	1,273	–	1,273
Forwards	881	33	–	914	–	914
Options purchased	439	–	–	439	–	439
Options written	336	–	–	336	–	336
Other contracts [2]	27	124	–	151	–	151
	$ 6,182	$ 6,861	$ 10	$ 13,053	$ 3,677	$ 9,376

(1) Include derivative financial instruments used in connection with trading operations to meet customer needs, as well as derivatives used to manage the Bank's risks that do not qualify for hedge accounting.

(2) Include equity derivatives.

CREDIT EXPOSURE

(in millions of dollars)			2006			2005
	Replacement cost [1]	Credit equivalent amount [2]	Risk-weighted amount [3]	Replacement cost	Credit equivalent amount	Risk-weighted amount
Interest rate contracts						
Swaps	$ 15	$ 47	$ 9	$ 38	$ 72	$ 14
Options purchased	1	1	–	–	–	–
Foreign exchange contracts						
Foreign exchange swaps	5	10	3	13	20	5
Cross-currency interest rate swaps	–	1	–	–	–	–
Forwards	1	4	2	2	8	4
Options purchased	–	6	2	3	6	2
Other contracts [4]	39	48	10	34	46	9
	$ 61	$ 117	$ 26	$ 90	$ 152	$ 34

(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 equity derivatives.

DERIVATIVE-RELATED RISK MANAGEMENT

In order to manage risks related to its derivative financial instruments, the Bank has put in place processes to detect and evaluate the major risks it faces. Risk management policies and various risk limits constitute the Bank's key controls to supervise these operations.

MARKET RISK

Market risk corresponds to the financial losses that the Bank could incur because of unfavorable fluctuations in the value of derivative financial instruments, following variations in the parameters that affect their evaluation, such as interest rates, exchange rates or quoted prices. Risks associated with these parameters are monitored daily.

18. Derivative financial instruments (cont'd)

CREDIT RISK

The utilization of derivative financial instruments could lead to credit risk exposures which correspond to the risk of a financial loss occurring because of the inability or refusal of a counterparty to fully honor its contractual obligations with regard to a derivative financial instrument. Derivative-related credit risk is generally managed using the same credit approval, limit and monitoring standards that are used for managing other transactions that create credit exposure. Moreover, the Bank negotiates derivative master netting agreements with counterparties with which it contracts. In case of default, such agreements provide for the simultaneous netting of all transactions with a counterparty, therefore reducing credit risk exposure.

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 financial instrument transaction is defined as the sum of the replacement cost plus an amount 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.

19. Financial instruments

The amounts in the tables below present the fair value of financial instruments of the Bank 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. As a result, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of the net realizable value.

FAIR VALUE OF ASSETS AND LIABILITIES

(in millions of dollars)	2006			2005		
	Book value	Fair value	Favourable (unfavourable) variance	Book value	Fair value	Favourable (unfavourable) variance
Assets						
Cash resources	$ 170	$ 170	$ –	$ 318	$ 318	$ –
Securities	3,242	3,241	(1)	2,940	2,930	(10)
Assets purchased under reverse repurchase agreements	803	803	–	508	508	–
Loans	12,165	12,213	48	11,720	11,897	177
Customers' liability under acceptances	150	150	–	146	146	–
Derivative financial instruments	59	59	–	117	117	–
Other assets	133	133	–	120	120	–
Liabilities						
Deposits	13,095	13,148	(53)	13,697	13,853	(156)
Obligations related to assets sold short	1,077	1,077	–	726	726	–
Obligations related to assets sold under repurchase agreements	1,100	1,100	–	60	60	–
Acceptances	149	149	–	146	146	–
Derivative financial instruments	82	82	–	105	105	–
Other liabilities	677	677	–	696	696	–
Subordinated debentures	150	152	(2)	150	153	(3)

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 unavailable, it is estimated using quoted market prices of similar investments.

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

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

(in millions of dollars)			2006
	Favourable fair value	Unfavourable fair value	Net amount
DESIGNATED AS HEDGE CONTRACTS			
Interest rate contracts			
Swaps	$ 3	$ (17)	$ (14)
OTHER CONTRACTS [1]			
Interest rate contracts			
Swaps	12	(14)	(2)
Options purchased	1	–	1
Options written	–	(1)	(1)
	13	(15)	(2)
Foreign exchange contracts			
Foreign exchange swaps	5	(1)	4
Forwards	1	(4)	(3)
	6	(5)	1
Other contracts [2]	39	–	39
	58	(20)	38
TOTAL	$ 61	$ (37)	$ 24

(in millions of dollars)			2005
	Favourable fair value	Unfavourable fair value	Net amount
DESIGNATED AS HEDGE CONTRACTS			
Interest rate contracts			
Swaps	$ 15	$ (13)	$ 2
OTHER CONTRACTS [1]			
Interest rate contracts			
Swaps	23	(32)	(9)
Foreign exchange contracts			
Foreign exchange swaps	13	(4)	9
Forwards	2	(10)	(8)
Options purchased	3	–	3
Options written	–	(3)	(3)
	18	(17)	1
Other contracts [2]	34	–	34
	75	(49)	26
TOTAL	$ 90	$ (62)	$ 28

(1) Include derivative financial instruments used in connection with trading operations to meet customer needs, as well as derivatives used to manage the Bank's risks that do not qualify for hedge accounting.

(2) Include equity derivatives.

The fair value of 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.

The fair value of derivative financial instruments is shown under derivative financial instruments, as assets or liabilities as appropriate.

19. Financial instruments (cont'd)

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.

(in millions of dollars) 2006

	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash resources and securities	$ 1,460	$ 692	$ 115	$ 1,016	$ 53	$ 75	$ 3,411
Actual return		4.2%	2.6%	3.5%	5.3%		
Assets purchased under reverse repurchase agreements	803	–	–	–	–	–	803
Loans	4,321	756	1,846	4,783	207	252	12,165
Actual return		6.3%	6.2%	6.0%	7.0%		
Other assets	–	–	–	–	–	917	917
Total	6,584	1,448	1,961	5,799	260	1,244	17,296
Actual return		5.3%	6.0%	5.5%	6.7%		
Liabilities and equity							
Deposits	450	1,875	3,647	6,638	1	484	13,095
Actual return		2.9%	3.5%	3.1%	4.8%		
Treasury items	1,946	198	–	1	32	–	2,177
Actual return		4.3%	–%	4.3%	6.3%		
Other liabilities	–	28	87	127	–	686	928
Actual return		3.3%	3.9%	3.9%	–%		
Debentures and equity	–	–	–	360	–	736	1,096
Actual return		–%	–%	2.0%	–%		
Total	2,396	2,101	3,734	7,126	33	1,906	17,296
Actual return		3.0%	3.5%	3.1%	6.3%		
Swaps, net	–	(3,444)	1,668	1,776	–	–	–
Sensitivity gap	4,188	(4,097)	(105)	449	227	(662)	–
Cumulative gap	$ 4,188	$ 91	$ (14)	$ 435	$ 662	$ –	$ –

(in millions of dollars) 2005

	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets	$ 5,713	$ 1,582	$ 2,226	$ 5,506	$ 287	$ 1,193	$ 16,507
Actual return		3.7%	4.4%	6.2%	5.4%		
Liabilities and equity	1,178	2,590	3,254	7,473	40	1,972	16,507
Actual return		3.2%	3.4%	3.2%	5.9%		
Swaps, net	–	(3,485)	302	3,183	–	–	–
Sensivity gap	4,535	(4,493)	(726)	1,216	247	(779)	–
Cumulative gap	$ 4,535	$ 42	$ (684)	$ 532	$ 779	$ –	$ –

Assets, liabilities and equity are shown at the earlier of the date of maturity or contractual re-evaluation while taking into consideration estimated redemptions or 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, or based on management intention.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk may exist where a number of counterparties engaged in similar activities are located in the same geographic area or have comparable economic characteristics. Their ability to meet contractual obligations could be similarly compromised 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:

	2006	2005
Quebec	62%	64%
Other Canadian provinces	38%	36%
Total	100%	100%

No single industry segment accounted for more than 3% (3% in 2005) of the total loans and customers' liability under acceptances.

20. Commitments and guarantees

CREDIT-RELATED COMMITMENTS

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

Undrawn amounts under approved credit facilities 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 commitments are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon.

	2006	2005
Undrawn amounts under approved credit facilities [1]	$ 2,185,535	$ 1,931,808
Documentary letters of credit	$ 12,902	$ 15,076

(1) Exclude personal credit facilities totalling $940,851,000 ($1,087,013,000 as at October 31, 2005) and credit card lines amounting to $799,113,000 ($718,770,000 as at October 31, 2005) since they are revocable at the Bank's option.

GUARANTEES

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 clients cannot meet their 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 $94,775,000 as at October 31, 2006 ($60,672,000 in 2005).

DERIVATIVE FINANCIAL INSTRUMENTS

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank sells put 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 foreign currencies at a predetermined price. The term of these options does not exceed 12 months. No specific provision is recorded with respect to these derivatives. The maximum potential amount of future payments under these derivatives, corresponding to the notional value of outstanding contracts, totalled $278,892,000 as at October 31, 2006 ($200,061,000 in 2005).

20. Commitments and guarantees (cont'd)

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 indemnification agreements. No amount has been accrued with respect to these indemnification agreements.

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	Total
2007	$ 20,018	$ 46,656	$ 6,227	$ 72,901
2008	18,798	41,836	6,027	66,661
2009	16,506	44,048	3,912	64,466
2010	14,772	41,842	3,142	59,756
2011	10,715	33,852	2,187	46,754
Thereafter	43,913	144,003	7,474	195,390
Total	$ 124,722	$ 352,237	$ 28,969	$ 505,928

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

PLEDGED ASSETS

In the normal course of its operations, the Bank pledges securities presented in the balance sheet.
The following table details the granted guarantees:

	2006	2005
Pledge assets in order to participate in clearing and payment systems	$ 382,856	$ 260,247
Pledged assets for obligations related to assets sold under repurchase agreements	1,100,385	60,065
	$ 1,483,241	$ 320,312

21. Variable interest entities

The Bank analyses the interests it holds in certain entities to determine whether they satisfy the definition of a variable interest entity (VIE), and whether the Bank is the primary beneficiary and must therefore consolidate them. The following items constitute an overview of the VIEs in which the Bank holds significant interests.

The Bank securitizes its own assets through single-seller and multi-seller securitization conduits, which are normally considered VIEs. These conduits are not consolidated under AcG-15, as these special purpose entities are specifically excluded from its scope or because the Bank is not the primary beneficiary. More details regarding these entities are provided in note 5.

As at October 31, 2005, the Bank held units relating to seed capital investments totalling $14,899,000. Based on its analysis, the Bank was not the primary beneficiary of these entities and they have not been consolidated. These units relating to seed capital investments were sold during fiscal 2006 (see note 2).

The Bank uses a compensation trust, which holds its own shares, to economically hedge its obligation to certain employees under its stock-based compensation program. This trust is consolidated because the Bank is the primary beneficiary.

22. Contingencies

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 Laurentian Bank Securities (LBS).

The Retail Financial Services segment covers the full range of savings, investment and financing products, 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 across Canada. This business segment also offers Visa credit card services and credit 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 financial advisors and non-bank financial institutions across Canada. This segment also includes the deposit brokerage operations.

The LBS segment consists of the activities of the subsidiary Laurentian Bank Securities Inc. and until December 31, 2004, the Bank's share of the BLC-Edmond de Rothschild Asset Management Inc. joint venture.

The Other segment 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.

23.Segmented information (cont'd)

2006

	Retail Financial Services[2]	Commercial Financial Services[4]	B2B Trust[2]	Laurentian Bank Securities	Other[5]	Total
Net interest income	$ 259,091	$ 59,166	$ 73,606	$ 1,018	$ (35,674)	$ 357,207
Other income	95,139	22,762	12,633	22,619	20,315	173,468
Total revenue	354,230	81,928	86,239	23,637	(15,359)	530,675
Provision for credit losses	23,047	11,136	5,817	–	–	40,000
Non-interest expenses	287,158	36,705	43,657	18,331	15,832	401,683
Income (loss) from continuing operations before income taxes	44,025	34,087	36,765	5,306	(31,191)	88,992
Income taxes (recovered)	13,873	11,417	12,473	1,458	(15,785)	23,436
Income (loss) from continuing operations	30,152	22,670	24,292	3,848	(15,406)	65,556
Income from discontinued operations, net of income taxes	4 422	–	–	–	354	4,776
Net income (loss)	$ 34,574	$ 22,670	$ 24,292	$ 3,848	$ (15,052)	$ 70,332
Average assets [1]	$ 8,206,159	$ 2,260,638	$ 2,713,829	$ 1,506,531	$ 2,004,321	$ 16,691,478

2005

	Retail Financial Services[2],[3]	Commercial Financial Services[3]	B2B Trust[2],[3]	Laurentian Bank Securities[6]	Other	Total
Net interest income	$ 252,496	$ 56,221	$ 63,577	$ 1,290	$ (47,893)	$ 325,691
Other income	87,639	29,112	14,036	21,361	24,223	176,371
Total revenue	340,135	85,333	77,613	22,651	(23,670)	502,062
Provision for credit losses	20,685	13,107	6,208	–	–	40,000
Non-interest expenses	273,198	38,874	42,435	17,535	9,909	381,951
Income (loss) from continuing operations before income taxes	46,252	33,352	28,970	5,116	(33,579)	80,111
Income taxes (recovered)	16,140	11,813	9,886	1,733	(15,084)	24,488
Income (loss) from continuing operations	30,112	21,539	19,084	3,383	(18,495)	55,623
Income from discontinued operations, net of income taxes	4,422	–	–	–	5,237	9,659
Net income (loss)	$ 34,534	$ 21,539	$ 19,084	$ 3,383	$ (13,258)	$ 65,282
Average assets [1]	$ 7,684,783	$ 2,221,761	$ 2,451,836	$ 1,439,039	$ 2,530,115	$ 16,327,534

(1) Assets and liabilities are disclosed on an average basis, as this measure is most relevant to a financial institution.

(2) Since November 1, 2005, results from all deposit broker operations are now included with the B2B Trust business segment, whereas certain operations were previously included with the Retail Financial Services business segment. Comparative figures have been restated to conform with current period presentation.

(3) In 2006, the Bank reviewed its internal transfer pricing assumptions, resulting in modified net interest margin allocation between segments. Comparative figures were restated to reflect current year presentation.

(4) Results for the first quarter of 2006 include a $0.05 million contribution to net income from Brome Financial Corporation Inc. for the two months prior to the sale of the subsidiary and the $0.93 million gain from this sale (note 2).

(5) See note 15 related to income taxes.

(6) Results for the first quarter of 2005 include a $0.03 million contribution from BLC-Edmond de Rothschild Asset Management Inc. for the two months prior to the sale of the joint venture (note 2).