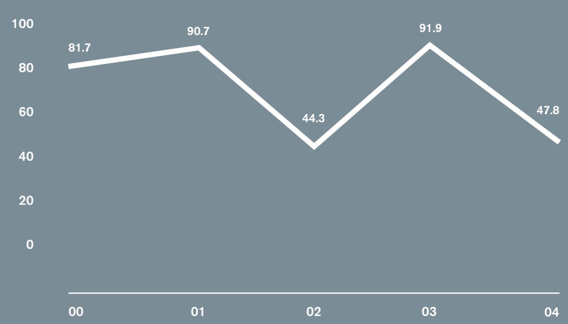
MANAGEMENT'S DISCUSSION AND ANALYSIS

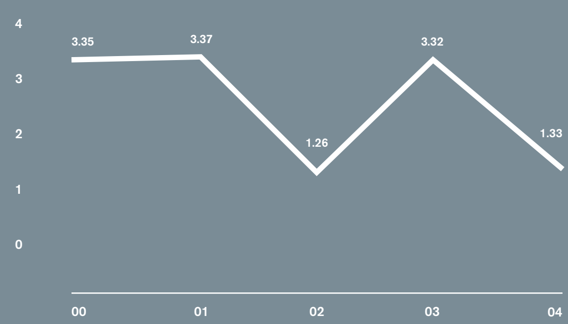
This section of the Annual Report is Management's discussion and analysis of the results of operations and financial condition of the Bank for the year ended October 31, 2004. The information is presented on the same basis as in the consolidated financial statements prepared in accordance with Canadian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

FINANCIAL HIGHLIGHTS

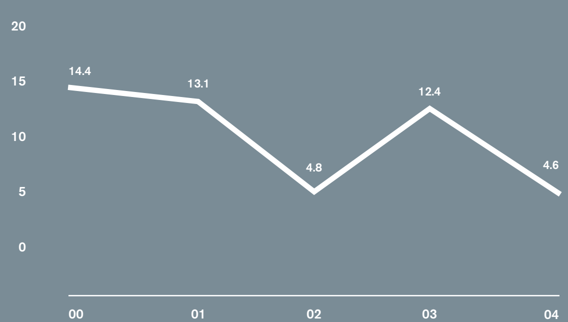
NET INCOME
IN MILLIONS OF DOLLARS



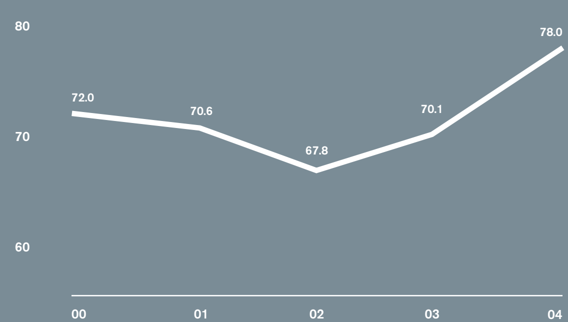
DILUTED NET INCOME PER COMMON SHARE
IN DOLLARS



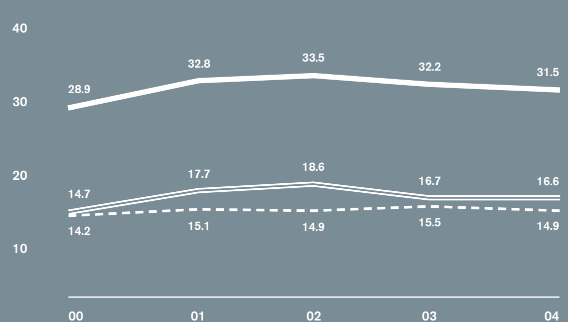
RETURN ON COMMON SHAREHOLDERS' EQUITY
AS A PERCENTAGE



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

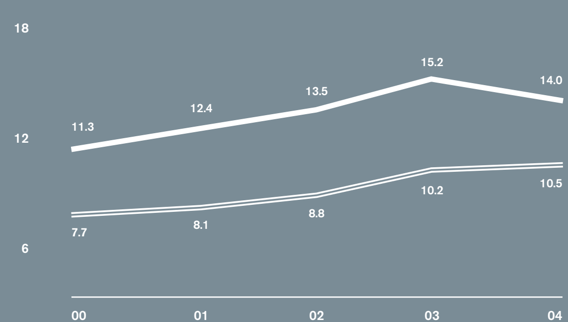


BALANCE SHEET ASSETS AND ASSETS UNDER ADMINISTRATION
IN BILLIONS OF DOLLARS



BALANCE SHEET ASSETS
ASSETS UNDER ADMINISTRATION
TOTAL

BIS CAPITAL RATIO
AS A PERCENTAGE



TIER 1
TOTAL CAPITAL

PERFORMANCE AND FINANCIAL OBJECTIVES

2004 Results

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

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

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

METHODOLOGY REGARDING ANALYSIS OF RESULTS

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

BANK'S STRATEGIES

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

2005 and 2006 objectives

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

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

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

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

SIGNIFICANT ACCOUNTING ESTIMATES AND CRITICAL ACCOUNTING POLICIES

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

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

Allowance for loan losses

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

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

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

Goodwill

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

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

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

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

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

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

Evaluation of financial instruments

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

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

Other than temporary impairment of investment securities

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

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

Employee future benefits

Valuation of employee future benefits, for defined benefit plans and other post-employment benefits, is based on a number of assumptions such as discount rates, expected returns on assets and projected salary increases. Considering the importance of accrued benefit obligations and plan assets, changes in assumptions may produce significantly different results. Similarly, the compensation conditions of unionized employees ensuing from the settlement of the collective agreement may have an impact on the pension plan costs (see contingencies below).

Discount rate and projected long-term performance of plan assets

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

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

Income tax

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

Securitization

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

Contingencies

Renewal of collective agreement

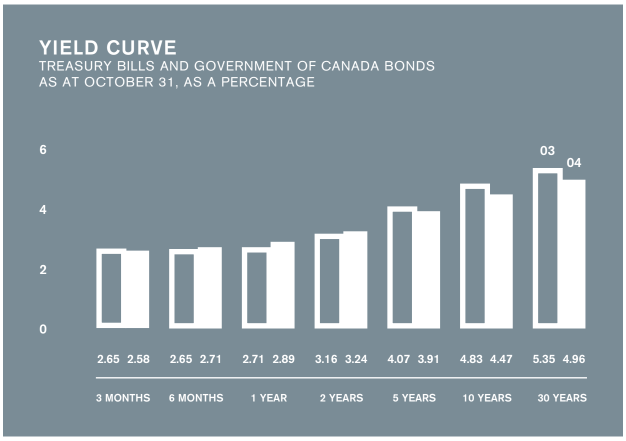
On February 2, 2003, the Bank and the union that represents its unionized employees agreed to permit an arbitrage tribunal, whose decision will be binding, to determine the contents of the next collective agreement. The arbitrage tribunal must rule on the scope of certain retroactive adjustments pertaining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

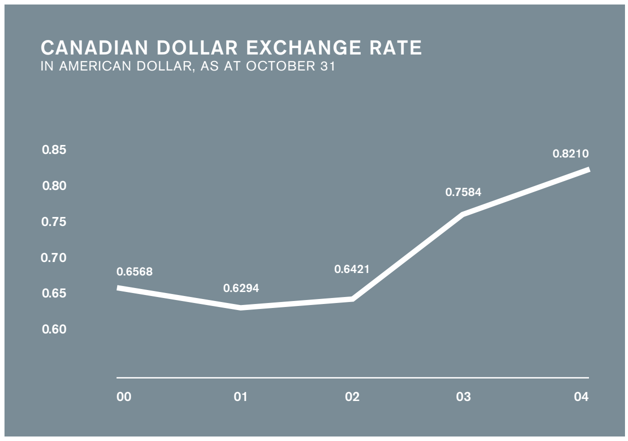
Litigation

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

FUTURE CHANGES TO ACCOUNTING POLICIES

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





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

ECONOMIC REVIEW

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

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

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

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

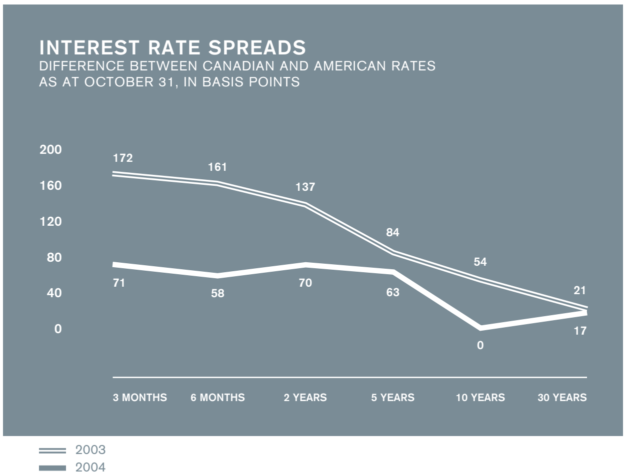
Among all, the Canadian economy benefited the most from the global recovery. Strong demand for commodities, including oil, powered an export boom. Foreign demand surged while domestic demand began to wane. As a result, GDP remained close to its 3% potential. The appreciation of the Canadian dollar continued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

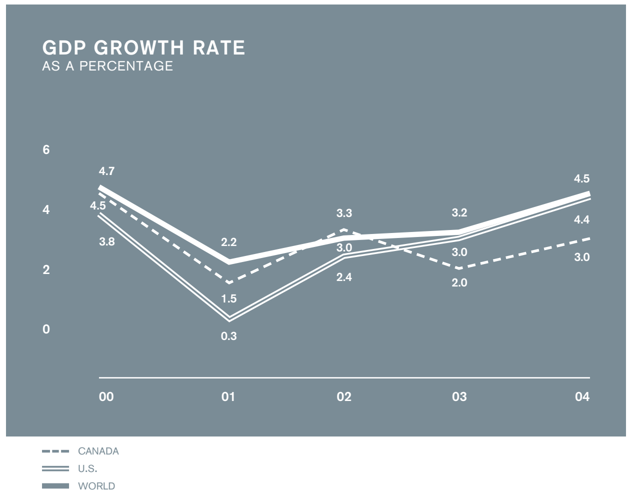
The Quebec economy advanced in 2004, despite difficulties in certain areas of the manufacturing sector. Exports were propelled by rising commodity prices, while housing starts continued to generate growth. Specific sectors such as lumber, industrial products such as chemicals and metal products and machinery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

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

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

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





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

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

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

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

SUMMARY OF FINANCIAL RESULTS

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

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

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

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

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

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

TABLE 1 // HIGHLIGHTS OF FINANCIAL RESULTS

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

ANALYSIS OF CONSOLIDATED RESULTS

Total revenues

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

TABLE 2 // SIGNIFICANT ITEMS AFFECTING RESULTS

IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS

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

Estimated contribution from the Ontario and Western Canada branches in 2003

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

Net interest income

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

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

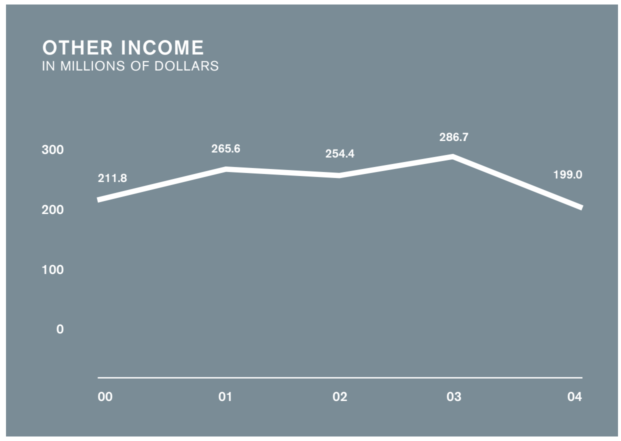
The Bank mainly finances its operations by raising retail deposits and to a lesser extent deposits from businesses and financial institutions. As at October 31, 2004, deposits stood at $12.9 billion, compared with $13.3 billion on that same date a year ago (also see Table 10); this change reflects the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

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

TABLE 3 // CHANGES IN NET INTEREST INCOME

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

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



Other income

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

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

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

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

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

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

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

TABLE 4 // OTHER INCOME

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

Provision for credit losses

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

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

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

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

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

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

TABLE 5 // PROVISION FOR CREDIT LOSSES

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

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

Non-interest expenses

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

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

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

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

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

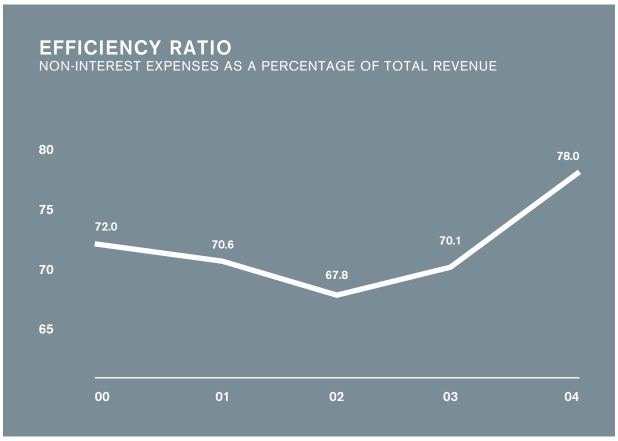


TABLE 6 // NON-INTEREST EXPENSES

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

Efficiency ratio

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

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

Income tax expense

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

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

ANALYSIS OF FINANCIAL CONDITION

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

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

Cash resources and securities

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

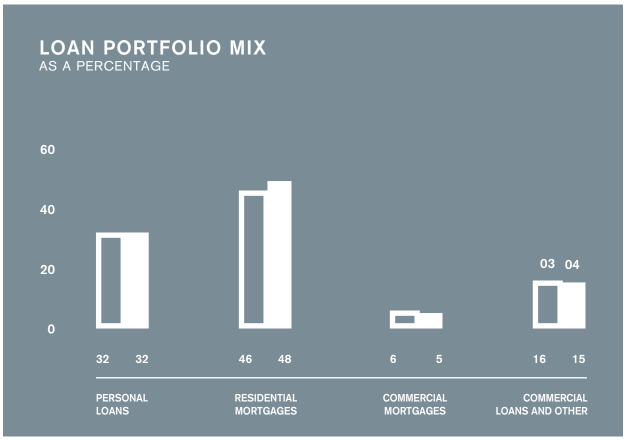
Cash resources and securities now represent 20.1% of balance sheet assets, down from 23.3% in 2003. This relatively high level grants the Bank manoeuvring room to meet its commitments and limits its eventual use of more costly sources of financing.

Assets purchased under reverse repurchase agreements

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

Other assets

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



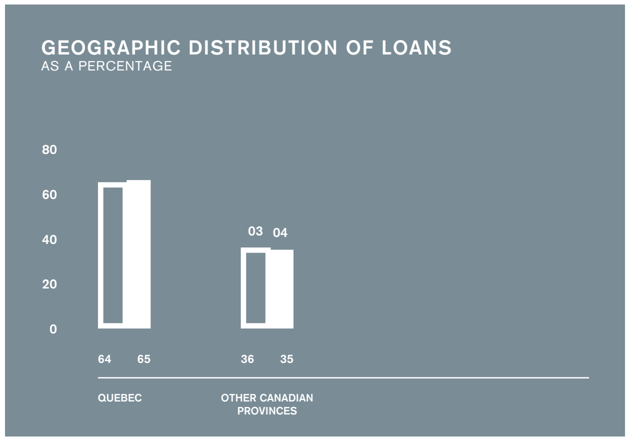


TABLE 7 // BALANCE SHEET ASSETS

AS AT OCTOBER 31 IN MILLIONS OF DOLLARS	2004	2003	2002	04 / 03 VARIATION
Cash resources and securities	**$ 3,331**	$ 3,906	$ 3,504	**(15)%**
Assets purchased under reverse repurchase agreements	**1,134**	882	870	**29**
Loans				
Personal	**3,639**	3,646	3,865	**–**
Residential mortgages	**5,509**	5,274	6,646	**4**
Commercial mortgages	**604**	705	956	**(14)**
Commercial and other	**1,543**	1,572	1,873	**(2)**
	11,295	11,197	13,340	**1**
Allowance for loan losses	**(140)**	(163)	(218)	**(14)**
Total loans	**11,155**	11,034	13,122	**1**
Customers' liability under acceptances	**145**	235	332	**(38)**
Other assets	**842**	681	768	**24**
Balance sheet assets	**$ 16,607**	$16,738	$18,596	**(1)%**
Cash resources and securities as a % of balance sheet assets	**20.1%**	23.3%	18.8%	
Loans and assets purchased under reverse repurchase agreements as a % of balance sheet assets	**74.0%**	71.2%	75.2%	

Loans and bankers' acceptances

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

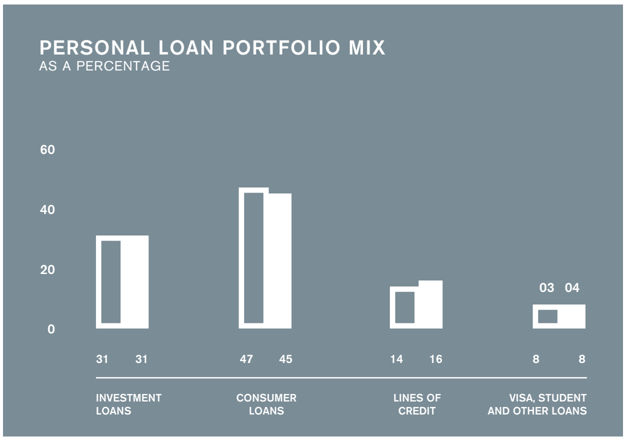
Loan portfolio mix

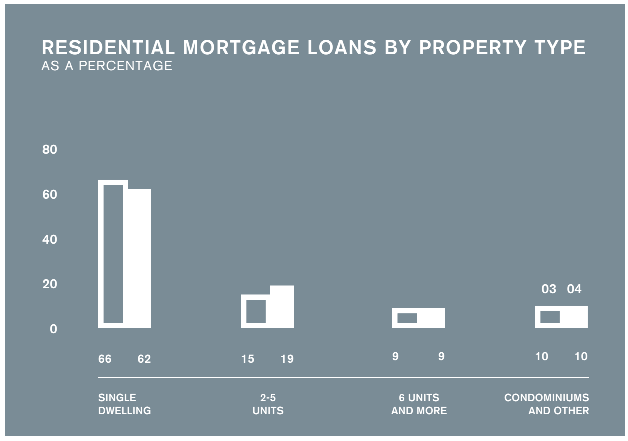
The loan portfolio consists of personal loans, residential mortgages, commercial mortgages and commercial loans, including bankers' acceptances. The proportion of different types of loans as at October 31, 2004 is largely the same as at October 31, 2003.

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

Geographic distribution

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





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

Loan size by commercial borrower

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

Insurance and guarantees

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

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

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

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

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

Changes in loan portfolios

Personal loans

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

Residential mortgage loans

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

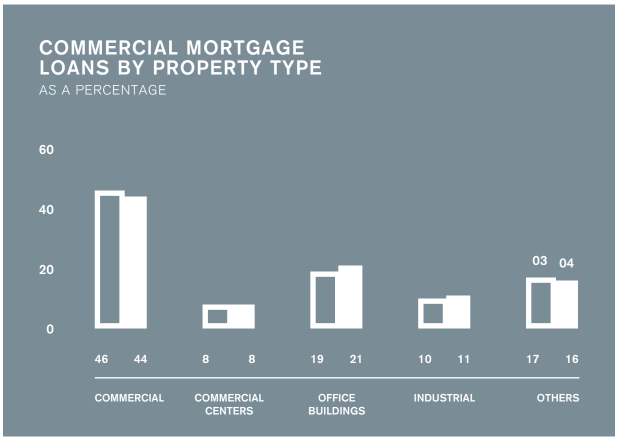


TABLE 8 // RESIDENTIAL MORTGAGE LOANS PORTFOLIO

AS AT OCTOBER 31 IN MILLIONS OF DOLLARS	**2004**	2003
Residential mortgage loans, as reported on balance sheet	**$5,509**	$5,274
Securitized loans, excluding loans related to the Ontario and Western Canada branches	**482**	572
Total residential mortgage loans, including securitized loans	**$5,991**	$5,846

Commercial mortgage loans

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

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

Commercial loans

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

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

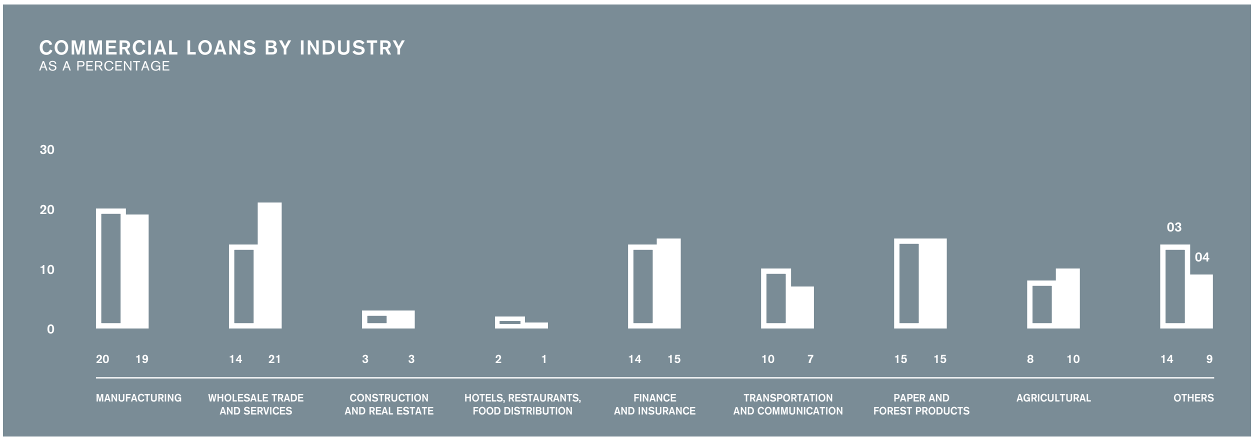
Commercial loans are well diversified in terms of industry, as shown in the chart on the opposite page. The largest share of the loan portfolio, at 40%, is allocated to the vast Manufacturing sectors, along with Wholesale trade and services. The Bank also holds significant positions in the Finance and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

Impaired loans

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

TABLE 9 // IMPAIRED LOANS

AS AT OCTOBER 31 IN MILLIONS OF DOLLARS		**2004**			2003	
	GROSS	**SPECIFIC ALLOWANCES**	**NET**	GROSS	SPECIFIC ALLOWANCES	NET
Personal loans	**$ 18.1**	**$ (10.1)**	**$ 8.0**	$ 19.6	$ (9.3)	$ 10.3
Residential mortgage loans	**13.2**	**(3.9)**	**9.3**	14.0	(3.7)	10.3
Commercial mortgage loans	**15.5**	**(6.1)**	**9.4**	13.0	(6.1)	6.9
Commercial loans and other	**80.2**	**(54.7)**	**25.6**	138.6	(66.8)	71.8
Total	**$127.0**	**$ (74.8)**	**$ 52.3**	$185.2	$ (85.9)	$ 99.3
General allowances			**(65.3)**			(77.3)
Total – net impaired loans			**$(13.0)**			$ 22.0
As a % of total loans, bankers' acceptances and assets purchased under reverse repurchase agreements			**(0.1)%**			0.2%



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

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

Derivative instruments portfolio

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

Deposits

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

Personal deposits

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

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

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

Business and other deposits

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

TABLE 10 // DEPOSITS

AS AT OCTOBER 31 IN MILLIONS OF DOLLARS	2004		2003	
Personal deposits				
Notice and demand	$ 1,858	14.4%	$ 1,808	13.6%
Fixed date				
Branch network	4,046	31.3	4,032	30.4
Brokers	4,550	35.3	4,669	35.1
	8,596	66.6	8,701	65.5
Sub-total – personal deposits	10,454	81.0	10,509	79.1
Business and other				
Notice and demand	662	5.1	630	4.7
Fixed date	1,795	13.9	2,154	16.2
Sub-total – business and other	2,457	19.0	2,784	20.9
Total – deposits	$12,911	100.0%	$13,293	100.0%

Capital

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

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

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

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

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

The Bank's assets to capital multiple stood at 15.0, compared with 13.1 on October 31, 2003.

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

TABLE 11 // SHARES ISSUED AND OUTSTANDING

AS AT NOVEMBER 30, 2004
IN NUMBER OF SHARES

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

TABLE 12 // RISK-WEIGHTED ASSETS

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

TABLE 13 // REGULATORY CAPITAL – BIS

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

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

Dividends

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

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

TABLE 14 // CASH DIVIDENDS

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

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

Credit ratings

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

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

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

TABLE 15 // CREDIT RATINGS

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

Contractual obligations

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

TABLE 16 // CONTRACTUAL OBLIGATIONS

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

Assets under administration and assets under management

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

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

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

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

TABLE 17 // ASSETS UNDER ADMINISTRATION

AS AT OCTOBER 31 IN MILLIONS OF DOLLARS	**2004**	2003	2002	**04 / 03 VARIATION**
Self-directed RRSPs and RRIFs	**$ 8,378**	$ 8,512	$ 8,009	**(2)**%
Institutional	**2,695**	2,644	2,058	**2**
Clients' brokerage assets	**1,390**	1,345	1,316	**3**
Mutual funds	**1,332**	1,238	1,157	**8**
Mortgage loans under management	**800**	1,428	2,055	**(44)**
Other – Personal	**283**	321	298	**(12)**
Total – assets under administration	**$14,878**	$15,488	$14,893	**(4)**%

Special-purpose entities

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

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

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

Credit commitments

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

TABLE 18 // CREDIT COMMITMENTS

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

SEGMENTED INFORMATION

The Bank operates four business sectors:

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

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

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

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

TABLE 19 // SEGMENTED RESULTS

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

Retail Financial Services

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

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

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

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

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

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

TABLE 20 // RETAIL FINANCIAL SERVICES

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

Commercial Financial Services

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

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

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

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

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

TABLE 21 // COMMERCIAL FINANCIAL SERVICES

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

B2B Trust

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

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

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

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

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

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

TABLE 22 // B2B TRUST LOAN PORTFOLIOS

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

TABLE 23 // B2B TRUST

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

Wealth Management and Brokerage

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

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

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

Sale of BLC-Edmond de Rothschild Asset Management Inc.

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

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

TABLE 24 // WEALTH MANAGEMENT AND BROKERAGE

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

Others

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

ANALYSIS OF QUARTERLY RESULTS

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

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

CONTROLS AND PROCEDURES OVER FINANCIAL INFORMATION

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

TABLE 25 // QUARTERLY RESULTS

IN MILLIONS OF DOLLARS

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

INTEGRATED RISK MANAGEMENT FRAMEWORK

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

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

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

Risk management structure

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

Credit risk management

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

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

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

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

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

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

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

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

REGULATION | REGULATION

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

MANAGERS

INTERNAL AUDIT

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

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

Market risk management

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

Policies and standards

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

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

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

a_daily, to risk and portfolio managers

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

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

Interest rate risk

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

Foreign exchange risk

Foreign exchange risk corresponds to the loss in Canadian dollars that the Bank and/or its subsidiaries may incur because of negative movements of exchange rates. It originates mainly from the foreign exchange positions maintained by the Bank to support the offering of products and services in currencies other than Canadian dollars, along with arbitrage activities and to a lesser extent mismatches in currencies of balance sheet and off-balance sheet asset and liability items and mismatches in receipts and payments of funds in foreign currencies.

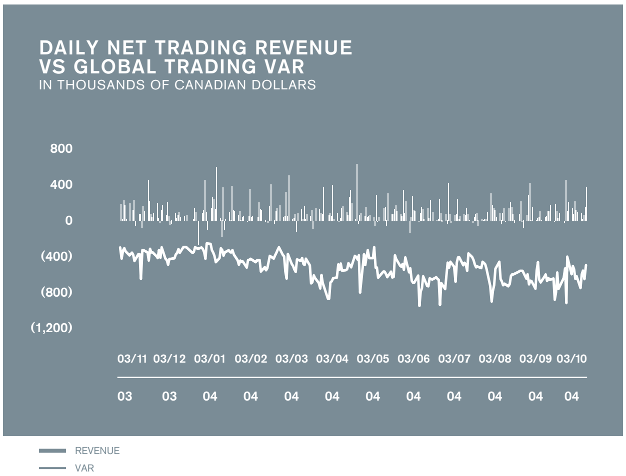
Foreign exchange risk control therefore implies that non-covered positions be maintained and managed to take advantage of short-term market fluctuations, hence the setting of global limits, reviewed at least annually, specifying the maximum risk the Bank is ready to assume, considering its activities.

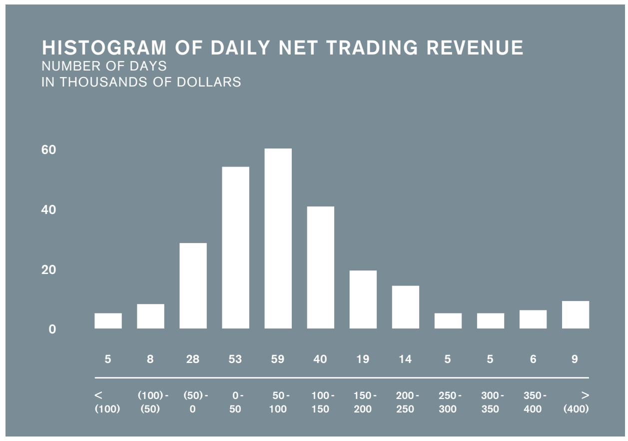
Liquidity risk

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

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

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





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

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

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

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

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

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

Value at risk

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

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

Trading activities

Trading activities are aligned with the needs of the Bank and those of its customers. The market risk associated with trading activities ensues from activities for which the Bank acts as the principal or agent for its customers. These activities are primarily carried out by LBC Securities and, to a lesser extent, by the Bank's treasury department. The following table and graphs above refer to the Bank's trading portfolios.

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

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

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

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

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

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

Structural risk

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

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

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

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

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

Both the dynamic management and disciplined control of structural risk are intended to maximize the Bank's profitability and preserve the economic value of common shareholders' equity. To attain this objective, various treasury and derivative instruments, mainly interest rate swaps, futures and options, are used to modify the interest rate characteristics of the instruments that underlie the balance sheets and to cover the risk inherent in options embedded in loan and deposit products.

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

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

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

Risk related to capital management

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

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

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

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

Economic capital

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

New basel accord

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

Operational risk management

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

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

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

Adoption of policies by the board of directors

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

Collection of operational loss data

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

Identification of operational risk

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

Evaluation of the frequency and potential impact of operational loss events

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

Management of operational risks

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

Production of operational risk reports

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

Regulatory risk management

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

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

STATISTICAL REVIEW – CONSOLIDATED BALANCE SHEET

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

STATISTICAL REVIEW – CONSOLIDATED STATEMENT OF INCOME

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

QUARTERLY HIGHLIGHTS

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