Management's discussion and analysis of results of operations and financial condition

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, 2003. 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 Canada (OSFI), which conform, in all material respects, to GAAP.

METHODOLOGY OF ANALYSIS OF RESULTS

Management evaluates the Bank's performance on a core basis, that is excluding special items, and on a reported basis, as presented in the consolidated financial statements. Management views special 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. Therefore, the Bank's results on a core basis are different from reported results determined in accordance with GAAP. Net income, excluding special items is not a defined term under GAAP, and therefore may not be comparable to similar terms used by other issuers. Certain 2002 comparative figures have been reclassified to conform to the current year presentation in order to make the analysis more meaningful to users. Special items have been reported in 2003 and 2002 and are presented in Table 1 of this analysis on page 36 of this Annual Report.

STRATEGIES AND OBJECTIVES

Other sections of this Annual Report contain important information concerning the Bank's strategies and objectives. 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" section.

CRITICAL ACCOUNTING POLICIES

The significant accounting policies are outlined in Note 1 to the consolidated financial statements on page 70 of this Annual Report. In our view, the following policies are critical, since they refer to material amounts and require Management to make estimates that by their very nature involve uncertainties.

Allowance for losses

The allowance for losses reflects Management's estimate of losses related to loan portfolios and other assets. Considering the importance of amounts and related uncertainties, the use of different estimates and assumptions in determining the allowance for losses could produce significantly different levels of provisions. Changes in circumstances may cause future assessments of credit risk to be materially different than current assessments and may require an increase or decrease in the allowance for losses.

Goodwill and other intangible assets

Under the goodwill and other intangible assets accounting standard, goodwill and intangible assets with indefinite useful lives are no longer subject to amortization, but instead have to be tested for impairment, at least annually, based on their fair values. For goodwill, the impairment test initially compares the fair value of the reporting unit to which goodwill relates to its carrying amount. The Bank uses different methods to value its reporting units. The use of other methods or different assumptions could lead to significantly different valuations and accordingly affect results.

Other than temporary impairment of securities
In circumstances where Management determines that an other-than-temporary impairment of a security has occurred, the carrying value of the security is written down to its estimated net realizable value. This determination involves judgement. Once it has been determined that the security has suffered an other-than-temporary decline in value, Management must estimate net realizable value of the security. The use of different assumptions could lead to different determinations of which securities have suffered an other-than-temporary impairment and could lead to significantly different amounts of impairment charges from the amounts actually recorded.

Employee future benefits
Valuation of employee future benefits, for defined benefit plans and other postemployment 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.

Income taxes
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.

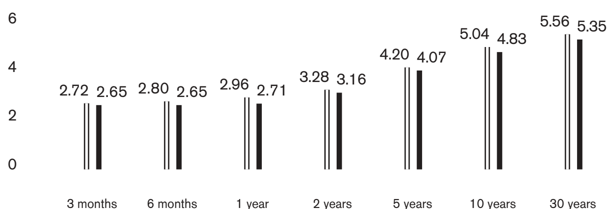
ECONOMIC REVIEW

In 2003, world growth sustained the upswing which began in 2002. This renewed vigour was nonetheless hindered, at first, by a very hesitant recovery in the United States and the European zone's teetering on the brink of recession. Geopolitical uncertainty, which reached its peak between January and March 2003, dampened the firm return of general confidence throughout the year. Rare instability on the exchange markets also stunted the growth of the world economy in 2003.

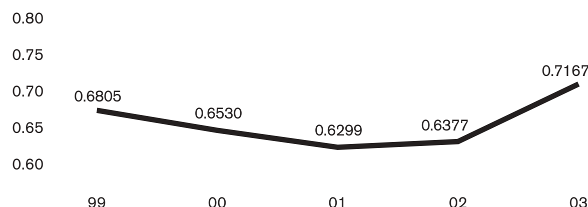
The European economy vacillated considerably: in Germany, economic growth hovered at zero, compounded by a worrisome plunge in the inflation rate; the French economy fared slightly better, but, as in Germany, the labour market remained very sluggish. Overall, the industrial production of European economies remained in the red and the lack of confidence had repercussions on retail sales. In the United Kingdom, growth was robust, spurred by the sound health of the housing sector and vigorous retail sales. In terms of monetary policy, the European Central Bank reduced its policy rates: the main refinancing rate dropped from 3.25% in 2002 to 2% by year-end 2003. The Bank of England followed suit, but to a lesser extent; it recently began to tighten its monetary conditions.

In the United States, growth was impeded early in the year by the war in Iraq. Once the conflict was over, by the end of March 2003, geopolitical tensions rapidly dissipated, but the post-war rebound failed to occur: signs of the recovery in the United States began to be significant and firm only beginning in July. The long correction period is now giving way to very positive economic fundamentals: American companies have realized huge productivity gains, posted strong performance in terms of profits and trimmed their inventories to historic lows. Note, however, that these gains were achieved to the detriment of the labour market. Showing early stirrings of a recovery, this market is still sluggish, imperiling the U.S. economy as a whole, in which two thirds of GDP are supported by consumers. Companies' prudent resumption of recruitment was offset by increased investment, an important growth engine in 2003.

Yield Curve
Treasury Bills and Government of Canada Bonds
As at October 31, as a percentage



Canadian Dollar Average Exchange Rate
In U.S. Dollars



2002
2003

Disinflationary pressures observed throughout the year were followed closely. Whereas the delayed recovery was cause for concern, the possibility of deflation also surfaced. Anemic inflation combined with lacklustre performance of the job market convinced the Federal Reserve to maintain a highly accommodating monetary policy. After having lowered policy rates 11 times since the beginning of 2001, the U.S. central bank initiated a final rate decrease in mid-2003: the federal funds rate ended the year 2003 at 1.0%, its lowest level in 40 years.

The Canadian economy started 2003 off in good health, a remarkable feat given the economic and political instability in the United States. Strengthened by strong domestic demand, the Canadian economy even manifested signs of potential overheating, particularly regarding inflation, which peaked at 4% in February 2003, vastly exceeding the limits set by the Bank of Canada. The Bank reacted quickly, tightening monetary conditions twice. A few months later it had to reverse its course, as the Canadian economy suddenly fell victim to a series of totally unexpected shocks, compressing growth into negative territory in the second quarter of 2003. The wave of crises included the outbreak of SARS, mad cow disease, forest fires in British Columbia, Hurricane Juan in the Maritimes and the massive power failure in Ontario. Another unforeseeable event was the sharp rise in the Canadian dollar vis-à-vis the U.S. dollar, which moved from U.S.$0.65 at the start of the year to about U.S.$0.77 by year's end. The negative impact of a stronger currency on exports was compounded by anemic U.S. demand for Canadian products during the first half of the year. That being said, internal demand remained very robust in 2003, fuelled by a construction sector that maintained its vitality and job creation that, while much more modest than that of 2002, was still positive.

The spread between Canadian and U.S. policy interest rates was 175 basis points at year-end 2003. Barring a major geopolitical or economic disturbance, and assuming that exchange markets regain stability, the Bank of Canada is likely to leave policy rates unchanged until its U.S. counterpart increases interest rates, at which point it will do the same. Monetary conditions are expected to become tighter in North America by late 2004. However, should the impact of the higher Canadian dollar on exports prove to be stronger than expected, the Bank of Canada has served notice that it stands ready to reduce interest rates to offset that impact, possibly in the first quarter of 2004.

Projected growth rates are 2.0% for Canada and 3.0% for the United States in 2003. For 2004, these same forecasts stand at 3.0% in Canada and 4.3% in the United States.

SUMMARY OF FINANCIAL RESULTS

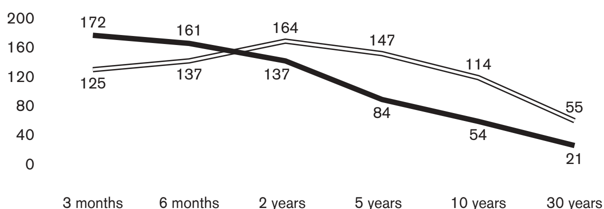
For the year ended October 31, 2003, the Bank reported net income of $91.9 million or $3.32 diluted per common share, compared with $44.3 million or $1.26 diluted per common share in 2002. Return on common shareholders' equity (ROE) climbed to 12.4% in 2003 from 4.8% in 2002. The 2003 results include the gain resulting from the strategic decision to sell 57 branches in Ontario and Western Canada and other special items, while 2002 results were affected among other reasons by an additional provision of $70 million related to the Bank's exposure to Teleglobe and other commercial loans, as detailed in Table 1.

Excluding these special 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 improved throughout the year, have reached record levels following the completion of the sale of the Ontario and Western Canada branches. As at October 31, 2003, BIS Tier I capital and total capital ratios stood at 10.2% and 15.2% respectively, up from 8.8% and 13.5% in 2002.

Interest Rate Spreads

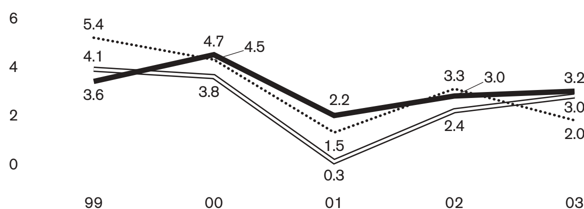
Difference between Canadian and U.S. Rates
As at October 31, in basis points



2002
2003

GDP Growth Rate

As a percentage



World
U.S.
Canada

TABLE 1

Effect of special items

Consolidated statement of income, as reported

In millions of dollars, except per share amounts	**2003**	2002	**Variation 03/02**
Net interest income	**$343.2**	$346.0	**(1)%**
Other income	**286.7**	254.4	**13**
Total revenue	**629.9**	600.4	**5**
Provision for credit losses	**54.0**	111.0	**(51)**
Non-interest expenses	**441.8**	407.3	**8**
Income taxes	**38.6**	32.5	**19**
Income before non-controlling interest in net income of a subsidiary	**95.5**	49.6	**93**
Non-controlling interest in net income of a subsidiary	**3.6**	5.3	**(32)**
Net income	**$ 91.9**	$ 44.3	**107%**
Net income available to common shareholders	**$ 77.9**	$ 29.3	**166%**
Average number of common shares (in thousands)	**23,416**	23,095	**1%**
Average number of common shares after dilution (in thousands)	**23,457**	23,288	**1%**
Net income per common share			
Basic	**$ 3.33**	$ 1.27	**162%**
Diluted	**$ 3.32**	$ 1.26	**163%**
Return on common shareholders' equity	**12.4%**	4.8%	

Special items

In millions of dollars, except per share amounts	**2003**	2002
Gain on sale of Ontario and Western Canada branches ($54.9 net of income taxes)	**$ 69.9**	$ –
Loan losses related to the exposure to Air Canada ($6.5 net of income taxes)	**(10.0)**	–
Loan losses related to exposures to Teleglobe and other commercial loans ($42.4 net of income taxes)	**–**	(70.0)
Restructuring costs ($12.8 net of income taxes)	**(19.7)**	–
Special items before income taxes	**40.2**	(70.0)
Income taxes on special items	**4.6**	(27.6)
Effect on net income	**$ 35.6**	$ (42.4)
Effect on diluted net income per common share	**$ 1.52**	$ (1.83)

Consolidated statement of income, excluding special items

In millions of dollars, except per share amounts	**2003**	2002	**Variation 03/02**
Net interest income	**$343.2**	$346.0	**(1)%**
Other income	**216.8**	254.4	**(15)**
Total revenue	**560.0**	600.4	**(7)**
Provision for credit losses	**44.0**	41.0	**7**
Non-interest expenses	**422.1**	407.3	**4**
Income taxes	**34.1**	60.1	**(43)**
Income before non-controlling interest in net income of a subsidiary	**59.8**	92.0	**(35)**
Non-controlling interest in net income of a subsidiary	**3.6**	5.3	**(32)**
Net income	**$ 56.2**	$ 86.7	**(35)%**
Net income available to common shareholders	**$ 42.3**	$ 71.6	**(41)%**
Diluted net income per common share, excluding special items	**$ 1.80**	$ 3.09	**(42)%**
Return on common shareholders' equity, excluding special items	**6.7%**	11.7%	

SALE OF 57 BRANCHES IN ONTARIO AND WESTERN CANADA

The sale of 57 branches in Ontario and Western Canada had a significant impact on the financial condition of the Bank. It also was a very profitable operation as the Bank recorded a $69.9 million pre-tax gain on the sale. Even more so, the transaction will have a considerable impact on the remaining operations of the Bank, providing additional financial flexibility to focus on the fields where it has real competitive advantages. But it will also have an immediate unfavourable impact on the Bank's financial results in 2004 due to the loss of business volume.

Impact on results of operations in 2003

The transaction, which closed on October 31, 2003, generated a pre-tax gain of $69.9 million. The sale price reflects the book value of assets sold, less liabilities assumed plus a premium of $112.4 million. The gain on sale takes into account specific costs to transfer the business as well as other fees related to the transaction, valued at $11.8 million. As part of the transaction, the Bank also wrote off certain capital assets and deferred charges related to Ontario and Western Canada operations valued at approximately $16.0 million. Hedging instruments used to manage the loan and deposit portfolios' exposure to interest rate risks were also disposed of, generating a loss of approximately $14.7 million.

Impact on financial condition

The agreement concluded with the TD Bank mainly relates to a loan portfolio of $1.965 billion and a deposit portfolio of $1.885 billion. Assets used in connection with the business at the branch level and other related receivables were also included in the transaction. Table 2 summarizes the assets and liabilities related to the transaction.

TABLE 2

Assets and liabilities related to branches sold

In millions of dollars

Residential mortgage loans	**$1,541**
Commercial mortgage loans	**121**
Personal loans	**274**
Commercial loans and other	**29**
Other	**19**
	$1,984
Personal deposits	**$1,613**
Business and other deposits	**272**
Other	**85**
	$1,970

The transaction also benefited the Bank's financial condition as reflected by its improved capital ratios. A lower level of risk-weighted assets (see Capital section on page 48 of this Annual Report for further details) and an increase in capital as a result of the gain on sale had a combined positive impact of 1.4% and 1.7% on Tier I and Total capital ratios.

Impact on future operating results

As evidenced by the premium obtained from the sale of the 57 branches, the banking activities which were sold generated positive earnings. As of the beginning of 2004, the Bank has thus lost a significant contribution to its results. This stream of revenues will need to be recuperated by the remaining activities of the Bank to ensure it improves its profitability in the future. Accordingly, a three-year plan has been developed to respond to this challenge (please refer to "Our new business plan", on page 12 of this Annual Report section for further information on the three-year plan). The pre-tax results of the Ontario and Western Canada branches were estimated at $14.1 million in 2003. These results take into account corporate, back office and technology charges of $18.5 million of which $12.2 million cannot be reduced immediately and will need to be reallocated to other retained activities. Therefore, the combined effect of the disposal of the branches on 2003 pre-tax income is estimated at $26.3 million ($17.1 million, net of income taxes).

OPERATING RESULTS

Net income was $91.9 million for the year or $3.32 diluted per common share compared with $44.3 million or $1.26 diluted per common share in 2002. Excluding special items as detailed previously, 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.

Results for the 2003 year, as reported, take into account the $69.9 million pre-tax gain on the sale of the Ontario and Western Canada branches, $19.7 million pre-tax net restructuring charges and a $10.0 million pre-tax charge related to Air Canada, as described in Table 1 and detailed below.

- As discussed previously, the Bank sold its network of branches in Ontario and Western Canada (except for its two branches in Ottawa). The transaction, which closed on October 31, 2003, generated a gain of $69.9 million. Also, Note 2 to the consolidated financial statements further details the transaction.
- In light of the disappointing results from operations and the sale of the Ontario and Western Canada branches, the Bank has reviewed its priorities and initiated an expense reduction program resulting in a $21.5 million restructuring charge. Technology-based projects such as the multi-company platform were abandoned, which resulted in a charge of $10.4 million. An additional compensation expense of $6.3 million was incurred as a result of personnel reductions and changes in the Management committee. Charges of $4.8 million were recorded in relation to operating leases and certain other occupancy charges. On an annual basis, these initiatives are expected to reduce the Bank's expense base by $9.0 million in 2004. As a result of the sale of the branches in Ontario and Western Canada, provisions of $1.8 million initially recorded under the 2001 program to restructure some of these branches were also reversed since these costs will no longer be incurred, resulting in a net restructuring charge for the year of $19.7 million.
- During the year, loan losses were affected by the performance of the corporate loan portfolio. A $10.0 million charge related to the Air Canada exposure was recorded. In its analysis of potential alternatives, the Bank decided to dispose of its entire position at what it deemed to be a very reasonable price.
- Results for the 2002 year, as reported, take into account a $70.0 million pre-tax charge related to Teleglobe and other commercial loan exposures.

Total revenue

Total revenue was $629.9 million in 2003, $560.0 million excluding the $69.9 million gain on the sale of the Ontario and Western Canada branches, compared with $600.4 million in 2002, corresponding to a 7% decrease. The reduction is mainly attributable to a decrease in other income from securitization activities, treasury and financial markets operations and lending fees, as detailed below. For the year, the net interest margin remained relatively stable, although a number of factors, such as variation in volumes and interest rates had significant influence.

Net interest income

The Bank's net interest income, as detailed in Table 3 below, decreased by $2.8 million or 1%, from $346.0 million to $343.2 million and the net interest margin decreased from 1.86% to 1.85%. The average prime lending rate increased from 4.15% in 2002 to 4.69% in 2003, improving net interest margin on the Bank's variable rate portfolios. However, related off-balance sheet derivative financial instruments had a $20.3 million negative impact on net interest income. Derivative financial instruments are effective 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 product (fixed and variable rates), 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. 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 Integrated Risk Management section on page 55 of this Annual Report.

Intense competition in retail banking in Canada continued to be a major concern for the Bank. The highly competitive market has lead to more aggressive pricing resulting in lower spreads on fixed-term products, which account for approximately 71% of the Bank's loan portfolio. Furthermore, asset mix has evolved toward a slightly higher proportion of liquid assets and securities, including assets purchased under reverse repurchase agreements, which has reduced interest margins. Excluding the effect of the sale of the branches, the deposit base grew from 2002 to 2003, reflecting continued prudent investment strategies by the Bank's clients. Average interest on deposits and other liabilities was stable at 3.6% during the year. This fact, combined with the increase in deposit volumes, lowered the Bank's cost of funds. However, the decrease in loan volumes, mainly in the commercial loan and residential mortgage loan portfolios, limited the Bank's investment alternatives, which offset the positive impact of deposit increases on net interest margins. Active management of primary and secondary liquidity portfolios (cash resources, securities and assets purchased under reverse repurchase agreements) has again been efficient, generating returns of 2.52% in 2003, compared to 2.16% in 2002. The 36 basis point increase in returns is largely attributable to the increase in short-term rates and changes in portfolio mix.

TABLE 3

Changes in net interest income

For the years ended October 31
In millions of dollars and as a percentage

	2003			2002			Change		
	Average volume	**Interest**	**Average rate**	Average volume	Interest	Average rate	Due to volume	Due to rate	Total
Assets									
Cash resources	**$ 497**	**$ 11.7**	**2.35%**	$ 288	$ 5.0	1.74%	$ 3.7	$ 3.0	$ 6.7
Securities	**3,099**	**76.5**	**2.47**	3,323	73.3	2.21	(4.9)	8.1	3.2
Assets purchased under reverse repurchase agreements	**845**	**23.5**	**2.79**	561	11.9	2.11	6.0	5.6	11.6
Loans									
Personal	**3,901**	**268.1**	**6.87**	3,677	256.6	6.98	15.7	(4.2)	11.5
Residential mortgages	**6,665**	**416.2**	**6.24**	6,784	440.3	6.49	(7.6)	(16.5)	(24.1)
Commercial mortgages	**856**	**57.3**	**6.69**	903	58.9	6.52	(3.1)	1.5	(1.6)
Commercial and other	**1,942**	**104.5**	**5.38**	2,328	119.0	5.11	(19.7)	5.2	(14.5)
Other	**743**	**0.9**	**0.12**	706	0.6	0.08	–	0.3	0.3
Total – assets	**$18,548**	**$958.7**	**5.17%**	$18,570	$965.6	5.20%	$ (9.9)	$ 3.0	$ (6.9)
Liabilities									
Notice and demand deposits	**$ 2,650**	**$ 22.7**	**0.86%**	$ 2,436	$ 19.2	0.79%	$ 1.7	$ 1.8	$ 3.5
Fixed-date deposits	**12,535**	**528.7**	**4.22**	12,631	564.9	4.47	(4.2)	(32.0)	(36.2)
Other	**1,351**	**16.1**	**1.19**	1,429	18.0	1.26	(1.0)	(0.9)	(1.9)
Off-balance sheet derivative financial instruments	**–**	**20.3**	**–**	–	(10.2)	–	–	30.5	30.5
	16,536	**587.8**	**3.55**	16,496	591.9	3.59	(3.5)	(0.6)	(4.1)
Subordinated debentures	**400**	**27.7**	**6.94**	400	27.7	6.94	–	–	–
Acceptances	**278**	**–**	**–**	317	–	–	–	–	–
Other liabilities	**502**	**–**	**–**	539	–	–	–	–	–
Shareholders' equity	**832**	**–**	**–**	818	–	–	–	–	–
Total – liabilities	**$18,548**	**$615.5**	**3.32%**	$18,570	$619.6	3.34%	$ (3.5)	$ (0.6)	$ (4.1)
Net interest income		**$343.2**	**1.85%**		$346.0	1.86%	$ (6.4)	$ 3.6	$ (2.8)

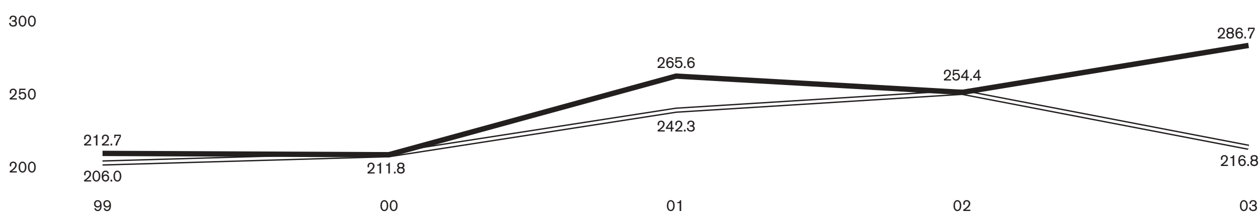
Other income

Other income was $216.8 million in 2003, excluding the gain on the sale of the Ontario and Western Canada branches of $69.9 million, compared with $254.4 million in 2002, corresponding to a 15% decrease. This variation is principally attributable to a decrease in securitization activities, lower treasury and financial markets revenues and a decline in lending fees.

Revenues from fees and commissions on loans and deposits reached $101.5 million, compared to $112.8 million in 2002. The decrease of $11.3 million, or 10%, is essentially attributable to a reduction of lending fees, which decreased to $37.8 million in 2003 from $48.6 million in 2002. The $10.8 million or 22% reduction is related to the repositioning of commercial lending activities in 2003 with the corresponding decrease in business and risk-weighted assets.

Other Income

In millions of dollars



As per financial statements
Excluding special items

Revenues from treasury and financial markets operations totalled $50.9 million in 2003, compared to $61.9 million in 2002. These revenues include gains resulting from management of primary and secondary liquidity portfolios. As noted last year, treasury and financial markets revenues had attained exceptional levels in 2002 due to favourable market conditions. The 2003 revenues were again impressive compared to prior periods as the investment environment remained favourable. Current year's results were also affected by the write-down of certain securities amounting to $4.7 million as certain sectors of the economy continued to show weaknesses.

Commissions from brokerage operations decreased to $16.7 million from $19.2 million, a decline of $2.5 million or 13%, reflecting lower trading volumes in 2003. These revenues have been decreasing since 2000, when they peaked at $23.8 million, as a combined result of downsizing of retail activities and sluggish markets. However, profitability on these operations improved as related costs also decreased.

Mutual fund revenues decreased by $3.2 million to $10.7 million for 2003. This reflects the lost contribution resulting from the sale of the IRIS family of funds to BLC-Edmond de Rothschild Asset Management (BLC-EdR) in December 2001 and lower commission revenues stemming from net redemptions.

Insurance revenues improved significantly from $5.3 million in 2002 to $6.7 million in 2003, a $1.4 million or 26% increase. This results from a lower level of claims on mortgage insurance, which more than offset the reduced level of premiums on personal loans.

Securitization revenues dropped to $1.0 million in 2003 from $16.1 million in 2002. Due to lower securitization needs as a means of funding and for capital management purposes, only $40.0 million of loans were securitized in 2003 compared to $703.3 million in 2002, which resulted in lower securitization gains. Also, gains generated from securitization activities from prior periods decreased as securitized loans matured. Furthermore, revisions in assumptions used to value retained interests in securitized assets, mainly in the pre-payment rates, negatively affected securitization results. Note 5 to the consolidated financial statements further details these activities.

Other revenues in 2003 were positively impacted by the pre-tax gain of $8.5 million ($6.7 million, net of income taxes) on the sale of TSX Group Inc. shares while a pre-tax loss of $2.6 million ($1.7 million, net of income taxes) on the disposal of real estate negatively affected results.

Table 4 presents the changes in other income from 1999 to 2003.

TABLE 4

Other income

For the years ended October 31 In millions of dollars	**2003**	2002	2001	2000	1999	**Variation 03/02**
Fees and commissions on loans and deposits						
Deposit service charges	**$ 51.3**	$ 51.4	$ 47.8	$ 39.4	$ 38.3	**–%**
Lending fees	**37.8**	48.6	43.6	32.7	29.7	**(22)**
Card service revenues	**12.4**	12.8	13.5	8.8	8.0	**(3)**
Sub-total – Fees and commissions on loans and deposits	**101.5**	112.8	104.9	80.9	76.0	**(10)**
As a % of average assets	**0.55%**	0.61%	0.61%	0.56%	0.59%	
Other						
Revenues from treasury and financial market operations	**50.9**	61.9	48.7	40.5	43.7	**(18)**
Commissions from brokerage operations	**16.7**	19.2	23.3	23.8	17.3	**(13)**
Revenues from registered self-directed plans	**12.6**	13.2	14.4	12.9	13.4	**(5)**
Revenues from sale and management of mutual funds	**10.7**	13.9	17.9	16.8	14.5	**(23)**
Insurance revenues	**6.7**	5.3	4.5	4.5	4.5	**26**
Trust services	**2.1**	1.8	1.4	2.3	4.8	**17**
Securitization revenues	**1.0**	16.1	18.7	22.2	25.4	**(94)**
Other	**14.6**	10.2	8.5	7.9	6.4	**43**
Gain on sale of branches	**69.9**	–	–	–	–	**n/a**
Other special items	**–**	–	23.3	–	6.7	**–**
Sub-total – other	**185.2**	141.6	160.7	130.9	136.7	**31**
As a % of average assets	**1.00%**	0.76%	0.94%	0.91%	1.06%	
Total – other income	**$286.7**	$254.4	$265.6	$211.8	$212.7	**13%**
As a % of average assets	**1.55%**	1.37%	1.55%	1.47%	1.65%	

Provision for credit losses

The provision for credit losses, as reported, was $54.0 million in 2003 or 0.37% of average loans, bankers' acceptances and assets purchased under reverse repurchase agreements ($44.0 million or 0.30% excluding the provision for loan losses related to the exposure to Air Canada), including the impact of the reversal of general allowances, as detailed below. In 2002, the provision was $111.0 million or 0.77% of average loans, bankers' acceptances and assets purchased under reverse repurchase agreements ($41.0 million or 0.29% excluding the provision for loan losses associated with the Bank's exposure to Teleglobe and other commercial loans).

Excluding the impact of the sale of the Ontario and Western Canada branches, the 2003 provision for credit losses increased as a result of higher loan losses in personal loans and commercial loans, partially offset by lower losses in residential and commercial mortgages, which continued to perform even better than anticipated.

Personal loans provisions increased from $23.2 million in 2002 to $26.3 million in 2003. In recent years, the Bank has significantly increased its consumer loan (mainly point-of-sale financing) portfolios which represented 38% of personal loans in 2000 and now account for 47%. As the portfolios reache maturity, loan losses slightly increase. Nonetheless, for personal loans, the loss ratio is still relatively low at 0.7%.

Provisions for commercial loans grew to $28.9 million as a result of the $10.0 million loss related to the exposure to Air Canada and due to a $5.8 million charge related to a single exposure in the manufacturing sector.

General allowances decreased to $77.3 million at October 31, 2003 from $85.5 million at year-end 2002, a decrease of $8.2 million. As part of the determination of the gain on sale of the branches, a reduction of the allocated general allowance of $4.5 million has offset increases in provisions for loan losses resulting from non-performing loans retained in the context of the sale of the Ontario and Western Canada branches. Another reduction of $4.0 million in the unallocated general allowance, related to the overall decrease of exposure to credit risk during the year, was recorded as a reduction of the provision for credit losses in the statement of income. See Note 4 to the consolidated financial statements for more details.

Table 5 presents the provision for credit losses from 2001 to 2003.

TABLE 5

Provision for credit losses

For the years ended October 31, in millions of dollars	**2003** (1)	2002	2001
Personal loans	**$26.3**	$ 23.2	$16.1
Residential mortgages	**1.2**	2.9	2.2
Commercial mortgages	**1.6**	2.6	4.2
Commercial loans and other	**28.9**	82.3	12.5
Sub-total	**58.0**	111.0	35.0
Effect of the reversal of general allowances	**(4.0)**	–	–
Total – provision for credit losses	**$54.0**	$111.0	$35.0
As a % of average loans, bankers' acceptances and assets purchased under reverse repurchase agreements	**0.37%**	0.77%	0.25%

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

Non-interest expenses

Non-interest expenses were $441.8 million for the year. Excluding the net restructuring provision of $19.7 million, non-interest expenses were $422.1 in 2003, up from $407.3 million in 2002, representing an increase of $14.8 million or 4%.

Salaries and employee benefits, which account for 46% of total non-interest expenses, increased by $6.2 million, from $198.7 million to $204.9 million. Even though performance targets were not attained, the gain from the sale of the branches prompted the Board of Directors to approve a financial incentive of $7.1 million for employees, thus recognizing the efforts required in implementing the three-year repositioning plan and favoring retention. Pension costs increased by $3.2 million, which also affected compensation costs. The increase of pension costs in 2003 is primarily due to the recent decline in the value of plan assets due to weak equity markets in 2001 and 2002. These increases were partially offset by a reduction in salary expenses resulting from a decrease in the number of employees. Readers are referred to Note 14 of the consolidated financial statements on page 84 of this Annual Report for more detailed information on pension plans.

The number of full time equivalent employees has been reduced to 3,159 at October 31, 2003 from 3,730 at October 31, 2002. The sale of the Ontario and Western Canada branches at year-end involved the transfer of 427 employees (376 full-time equivalent employees) to the TD Bank. The cost reduction program undertaken during the second half of 2003 was responsible for most of the remaining decrease of 195 employees.

Premises and technology costs increased from $120.1 million in 2002 to $129.0 million in 2003. Rent and property taxes increased during the year due to an increased proportion of leased branches, while technology costs increased due to higher depreciation charges and higher fees for the Bank's outsourced technology operations.

Other expenses, excluding restructuring costs, remained stable at $88.2 million in 2003 compared to $89.1 million in 2002. Table 6 illustrates the changes in non-interest expenses from 1999 to 2003.

TABLE 6

Non-interest expenses

For the years ended October 31 In millions of dollars	**2003**	2002	2001	2000	1999	**Variation 03/02**
Salaries and employee benefits	**$204.9**	$198.7	$212.9	$177.2	$162.9	**3%**
As a % of average assets	**1.10%**	1.07%	1.24%	1.23%	1.26%	
Premises and technology						
Depreciation	**42.4**	39.2	36.1	30.9	27.0	
Rent and property taxes	**38.8**	34.2	33.5	28.9	25.2	
Equipment and computer services	**38.4**	37.2	36.2	27.7	28.3	
Maintenance and repairs	**6.3**	6.5	7.1	6.3	6.9	
Public utilities	**1.9**	2.0	2.4	2.3	2.7	
Other	**1.2**	1.0	0.6	0.5	0.2	
Sub-total – premises and technology	**129.0**	120.1	115.9	96.6	90.3	**7%**
As a % of average assets	**0.70%**	0.65%	0.67%	0.67%	0.70%	
Restructuring costs	**19.7**	(0.6)	17.5	–	5.5	**n.m.**
As a % of average assets	**0.11%**	–%	0.10%	–%	0.04%	
Other expenses						
Taxes and insurance	**24.5**	25.2	25.9	17.8	22.6	
Fees and commissions	**18.8**	21.3	17.1	18.9	20.2	
Communications and travelling expenses	**18.1**	18.6	18.8	17.2	16.9	
Advertising and business development	**12.2**	11.2	10.9	9.4	10.1	
Stationery and publications	**6.9**	7.1	7.2	6.3	5.8	
Recruitment and training	**2.2**	1.9	2.4	1.8	2.9	
Other	**5.5**	3.8	16.9	8.1	7.3	
Sub-total – other expenses	**88.2**	89.1	99.2	79.5	85.8	**(1)%**
As a % of average assets	**0.47%**	0.47%	0.58%	0.56%	0.67%	
Total – non-interest expenses	**$441.8**	$407.3	$445.5	$353.3	$344.5	**8%**
As a % of average assets	**2.38%**	2.19%	2.59%	2.46%	2.67%	
As a % of total revenue (efficiency ratio)	**70.1%**	67.8%	70.6%	72.0%	77.7%	

Efficiency ratio

The efficiency ratio, excluding the gain on the sale of the Ontario and Western Canada branches and the restructuring provision, increased to 75.4% in 2003, compared with 67.8% in 2002. Increases in non-interest expenses, combined with the decrease in total revenues hampered efficiency. Management closely monitors the efficiency ratio and has already taken steps, through the cost reduction program, review of processes and stricter controls over hiring and expense approvals, to increase efficiency. The following graph details the performance of the Bank over the last years.

Income taxes

Income tax expenses for the year 2003 were $38.7 million (28.8% effective tax rate) compared with $32.4 million (39.5% effective tax rate) in 2002. The lower effective tax rate in 2003 results principally from lower income taxes on the gain resulting from the sale of the Ontario and Western Canada branches and on the gain on the sale of TSX Group Inc. shares. Excluding these items, the effective tax rate remained relatively stable at 39.3% in 2003 compared to 39.5% in 2002. Additional information concerning the tax position, the provision for income taxes and effective tax rates is also presented in Note 16 of the consolidated financial statements on page 86 of this Annual Report.

FINANCIAL CONDITION

2003 has been a year of transition for the Bank. Increasingly intense competition, particularly in the mortgage market in Ontario and Western Canada, was one of the main factors behind the decision to sell the 57 branches in these regions. The Bank begins 2004 with a stronger financial position and a lower risk profile as evidenced by capital ratios that now reach record levels. The repositioning of Commercial Financial Services, initiated in 2002, also had a significant impact on the loan portfolio during the year.

On October 31, 2003, total assets of the Bank, including assets under administration, stood at $32.2 billion, compared with $33.5 billion on October 31, 2002. Balance sheet assets stood at $16.7 billion, down 10% from 2002, whereas assets under administration totalled $15.5 billion, $0.6 billion higher than last year. These changes are explained in more detail in the "Balance sheet assets" and "Assets under administration and management" sections that follow.

Balance sheet assets

Balance sheet assets stood at $16.7 billion at October 31, 2003 compared with $18.6 billion at year-end 2002, for a decrease of $1.9 billion or 10%, as detailed in Table 7 on page 44 of this Annual Report. The decrease is solely related to the sale of the Ontario and Western Canada branches as total assets sold amounted to $2.0 billion. Even though total assets decreased at year-end, average assets remained stable at $18.5 billion in 2003.

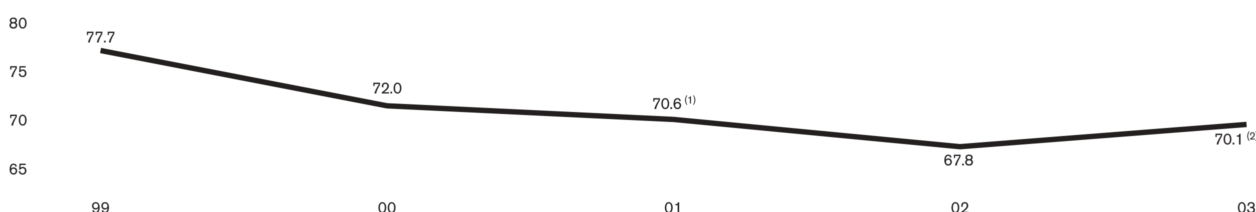
Cash resources and securities increased by $0.4 billion or 11% over the year, from $3.5 billion in 2002 to $3.9 billion in 2003. The increase results from the cash generated by the sale of the Ontario and Western Canada branches and the growth of personal deposits, which outpaced loan growth. Liquidities now account for 23.3% of total assets, compared to 18.8% in 2002.

Assets purchased under reverse repurchase agreements, which are similar to very short-term investments, remained stable at $0.9 billion as at October 31, 2003 and 2002.

The portfolio of loans and bankers' acceptances before allowance for loan losses, decreased to $11.4 billion at October 31, 2003 from $13.7 billion in 2002. Excluding the impact of the sale of the branches, loans and bankers' acceptances would have stood at $13.4 billion. This decrease of $0.3 billion mainly results from lower commercial mortgages and commercial loans portfolios, as a result of the repositioning of Commercial Financial Services initiated in 2002.

Efficiency ratio

Non-interest expenses as a percentage of total revenue



(1) 70.4% excluding special items
(2) 75.4% excluding special items

Other assets, excluding bankers' acceptances, declined to $681.2 million as at October 31, 2003 from $767.8 million as at October 31, 2002. The 11% decrease results mainly from a reduction of capital assets since depreciation and write-offs recorded during the year exceeded new investments. The Bank invested significant resources in information technology for new product offerings and new initiatives over the last five years, which are steadily being depreciated. Capital investments were lower in 2003, since there were no significant new projects and the Bank was reviewing its strategic positioning. Also, the sale of the Ontario and Western Canada branches contributed to the decrease for approximately $14.2 million.

Table 7 presents additional information on changes in balance sheet assets.

TABLE 7

Balance sheet assets

As at October 31, in millions of dollars	**2003**	2002	2001	**Variation 03/02**
Cash resources and securities	**$ 3,906**	$ 3,504	$ 2,506	**11%**
Assets purchased under reverse repurchase agreements	**882**	870	650	**1**
Loans				
Personal	**3,646**	3,865	3,532	**(6)**
Residential mortgages	**5,274**	6,646	6,971	**(21)**
Commercial mortgages	**705**	956	910	**(26)**
Commercial and other	**1,572**	1,873	2,160	**(16)**
	11,197	13,340	13,573	**(16)**
Allowance for loan losses	**(163)**	(218)	(134)	**(25)**
Total loans	**11,034**	13,122	13,439	**(16)**
Other assets	**916**	1,100	1,101	**(17)**
Balance sheet assets	**$16,738**	$18,596	$17,696	**(10)%**
Cash resources and securities as a % of balance sheet assets	**23.3%**	18.8%	14.2%	
Loans and assets purchased under reverse repurchase agreements as a % of balance sheet assets	**71.2%**	75.2%	79.6%	

Loan portfolio mix

The Bank's loan portfolio consists of personal loans, residential mortgages, commercial mortgages and commercial loans, including bankers' acceptances. At year-end the loan portfolio stood at $11.4 billion, down from $13.7 billion in 2002, before allowance for loan losses.

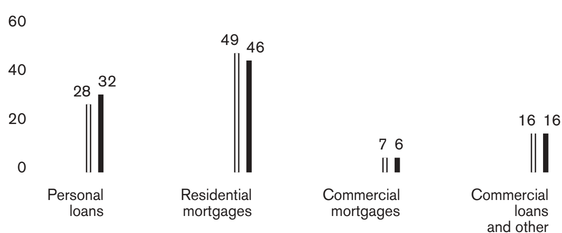
On October 31, 2003, the personal loan portfolio totalled $3.6 billion, representing 32% of the Bank's loan portfolio compared to 28% in 2002.

Residential mortgages represent 46% of this portfolio on the same date compared to 49% in 2002, whereas the proportion of commercial mortgages is 6%, compared to 7% in 2002.

Commercial loans and other loans, including bankers' acceptances, consisting mostly of loans to Canadian small- and medium-sized businesses, decreased by $398 million or 18% during the year, from $2.2 billion in 2002 to $1.8 billion at October 31, 2003. This portfolio represents 16% of the Bank's loan portfolio, the same level as last year. The Bank retained its commercial portfolio outside Quebec, since it was not part of the sale of the branches. Therefore, the proportion of commercial and other loans to total loans did not decrease even though this portfolio decreased by $398 million during the year.

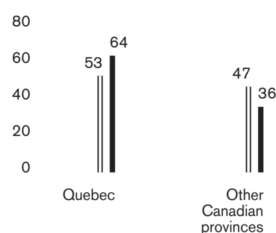
Loan Portfolio Mix

As a percentage



Geographic Distribution of Loans

As a percentage



2002
2003

Geographic diversification
On October 31, 2003, the geographic distribution of the Bank's loans remains diversified, even after giving effect to the disposal of the Ontario and Western Canada branches, from which only 35% of all loans outside Quebec originated. The Bank maintains a strong presence outside Quebec, through indirect retail lending and financing, point-of-sale financing, B2B Trust and commercial financing. Loans located in Quebec nonetheless increased to 64% of total loans, while loans outside of Quebec declined to 36% from 47% a year ago.

Loan size by commercial borrower
As decided in the 2002 commercial lending repositioning strategy, the Bank maintained the limit for the maximum loan to a single new borrower at $20 million. The limit had been $40 million for commercial loans prior to May 2002. As a result, the Bank still holds positions where exposures exceed $20 million. At the beginning of the process in 2002, there were 20 such loans, whereas only 7 remained as at October 31, 2003. The limit for commercial mortgages remains unchanged at $20 million.

Insurance and guarantees
At the end of 2003, 57% of the Bank's residential mortgages were insured by the Canada Mortgage and Housing Corporation (CMHC), compared to 61% at the same date last year. The portfolio insurance program enables the Bank to decrease its overall credit risk and improve its capital ratios. This policy is consistent with the Bank's financial management strategy where through insuring a large proportion of its residential mortgages, the Bank maintains its capacity to pursue its securitization activities if needed and thus optimally finance its operations, manage its cash resources, improve its capital ratios and simultaneously reduce credit risks associated with this type of loan.

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 $85,300, compared to $76,500 at the end of 2002. A wide range of construction projects, commercial properties, shopping centres and office buildings as well as plants, warehouses and industrial condominiums were held as security for commercial mortgages.

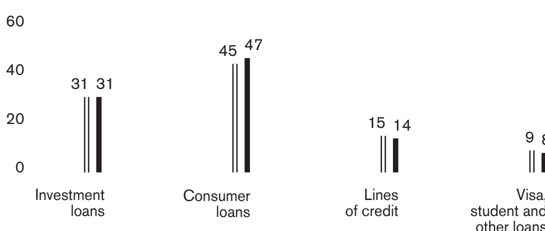
Most of the investment loans which are in B2B Trust's portfolios and are part of the personal loan portfolio, are secured by an average of four to five mutual funds, providing good diversification of risk. The value of these investments must respect the terms and conditions of loan agreements at all times. A large proportion of the Bank's loan portfolio is thus insured or secured by assets pledged as collateral by the borrowers.

Loan portfolio evolution

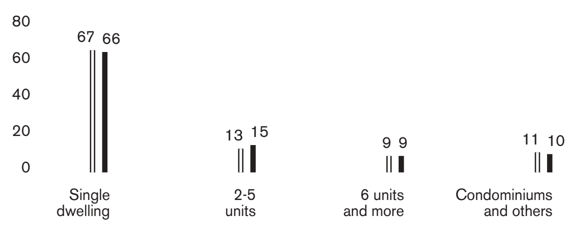
Personal loans
On October 31, 2003, the personal loan portfolio was $3.6 billion, a decrease of $0.3 billion or 6% compared with $3.9 billion on the same date in the year 2002. Excluding the impact of the sale of the Ontario and Western Canada branches, the portfolio increased by $55 million over the year. Consumer loans and investment loans represent the larger portion of the portfolio at 47% and 31% respectively.

Growth in point-of-sale financing volumes was $250 million in 2003, compared to $350 million last year. Growth in volume slowed following the review of pricing and commissioning strategies. This increase in volumes was partially offset by declines in investment loans, including RRSP loans, of $68 million and in other portfolios. Investment loans stood at $1,114 million as at October 31, 2003, compared to $1,182 million a year ago, as the difficult mutual fund market limited growth potential.

Personal Loan Portfolio Mix
As a percentage



Residential Mortgage Loans by Property Type
As a percentage



2002
2003

Residential mortgages

As detailed in Table 8, excluding the impact of the sale of the Ontario and Western Canada branches, total residential mortgage loan portfolios, including both reported and securitized loans, declined by $0.4 billion from October 31, 2002 to October 31, 2003. Despite favourable housing market conditions, intense competition in the mortgage market limited the Bank's ability to grow the portfolios, especially outside Quebec. Mortgage loan volumes in Quebec grew slightly by $0.1 billion in 2003, but this was offset by accelerated erosion in Ontario and Western Canada where volumes decreased by $0.5 billion. Loans, as reported on the balance sheet, but excluding the impact of the sale of the Ontario and Western Canada branches, increased by $0.2 billion mainly as a result of the renewal of maturing securitized loans.

TABLE 8

Residential mortgage loans portfolio

As at October 31, in billions of dollars	**2003**	2002
Residential mortgage loans, as reported on the balance sheet	**$5.3**	$6.6
Portfolio sold to TD Bank	**1.5**	n/a
Residential mortgage loans, excluding the impact of the sale of the portfolio to TD Bank	**6.8**	6.6
Securitized loans	**0.8**	1.4
Total residential mortgage loans, including securitized loans	**$7.6**	$8.0

Commercial mortgages

The Bank is a leader in commercial mortgage lending in Canada. The Bank's commercial mortgage loan portfolio stood at $705 million at the end of 2003, compared with $956 million on October 31, 2002. Including securitized commercial mortgage loans, total commercial mortgages amounted to $796 million as at October 31, 2003, compared to $1,116 million as at October 31, 2002. The decline results mainly from the sale of certain loans in the amount of $121 million as part of the sale of the Ontario and Western Canada branches, and maturities, which outpaced new disbursements.

On October 31, 2003, Ontario and Western Canada represented 55% (61% as at October 31, 2002) of the commercial mortgage loan portfolio, Quebec 45% (39% as at October 31, 2002).

Commercial loans

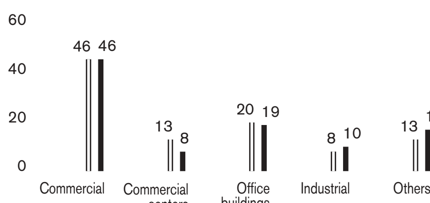
On October 31, 2003, the Bank held a commercial loan portfolio, including bankers' acceptances, amounting to $1.8 billion, compared to $2.2 billion on October 31, 2002, a decrease of $398 million or 18%.

The decrease in the Bank's commercial loan portfolio is principally a result of actions taken to reduce credit risk exposure. The repositioning was principally related to the corporate portfolio. Commercial Financial Services is an important business for the Bank and an area where it can compete efficiently and build good client relationships. As the economic situation improves, this portfolio is positioned for growth in core markets where the Bank has proven expertise.

Commercial loans are well diversified by industry as shown in the following graph. The largest portion of the loan portfolio, 20%, is in the manufacturing sector. The Other sector, which represents 14% of the portfolio, includes social services, health and certain other industries.

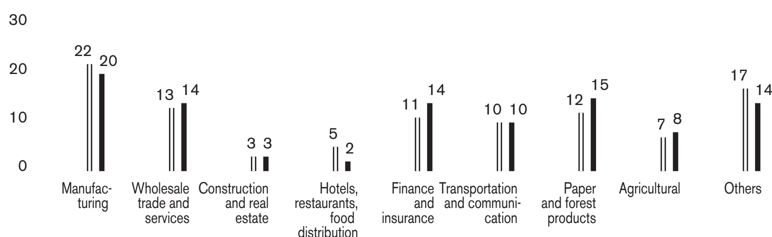
Commercial Mortgage Loans by Property Type

As a percentage



Commercial Loans by Industry

As a percentage



2002
2003

Impaired loans

Based on the level of gross impaired loans as at October 31, 2003, credit quality has improved compared to the situation at the same date a year ago. Lower than anticipated loan losses on residential and commercial mortgage loan portfolios helped offset higher losses on personal and commercial loan portfolios. Gross impaired loans decreased from $227.0 million as at October 31, 2002 to $185.2 million as at October 31, 2003, representing a decrease of $41.8 million or 18%. All portfolios contributed to the improvement as detailed in the Table 9.

TABLE 9

Impaired loans

As at October 31, in millions of dollars			2003			2002
	Gross	Specific allowances	Net	Gross	Provisions allowances	Net
Personal loans	**$ 19.6**	**$ (9.3)**	**$ 10.3**	$ 24.4	$ (8.6)	$ 15.8
Residential mortgages	**14.0**	**(3.7)**	**10.3**	14.1	(6.9)	7.2
Commercial mortgages	**13.0**	**(6.1)**	**6.9**	26.6	(17.2)	9.4
Commercial loans and other	**138.6**	**(66.8)**	**71.8**	161.9	(99.7)	62.2
Total	**$185.2**	**$(85.9)**	**$ 99.3**	$227.0	$(132.4)	$ 94.6
General allowances			**(77.3)**			(85.5)
Total – net impaired loans			**$ 22.0**			$ 9.1
As a % of total loans and bankers' acceptances and assets purchased under reverse repurchase agreements			**0.2%**			0.1%

Specific provisions decreased by $46.5 million from $132.4 million as at October 31, 2002 to $85.9 million at October 31, 2003, mainly as a result of the write-off of commercial loans. Net impaired loans increased to $22.0 million (0.2% of total loans, bankers' acceptances and assets purchased under reverse repurchase agreements) as at October 31, 2003, compared with $9.1 million (0.1% of total loans, bankers' acceptances and assets purchased under reverse repurchase agreements) as at October 31, 2002, including the impact of the general allowance as discussed previously.

General allowances are recorded to provide for potential losses in the loan portfolios that have not yet been specifically identified as impaired. The general allowance was $77.3 million as at October 31, 2003, compared to $85.5 million in 2002. The decrease results from the reversal of the allowance as previously explained. The 2003 allocated general allowance of $53.1 million is mainly based on historical loss ratios and an economic cycle reference factor for the different portfolios. The unallocated general allowance takes into account recent changes in portfolio mix, in economic and business conditions as well as model and estimation risks. As a percentage of risk-weighted loans, including bankers' acceptances, the general allowance remained stable at 1.10%, compared to 1.06% in 2002. The reduction in general allowance was offset by the positive impact from the decrease in volumes following the sale of the branches in Ontario and Western Canada and the reduction in commercial loans portfolios. See Note 4 to the 2003 consolidated financial statements for more details.

Assets under administration and management

Assets under administration and management consist of financial instruments and other assets administered, serviced or managed on behalf of others, which are not recorded on the balance sheet as the Bank does not exercise control over them. The Bank derives fee income from these assets. Included are commercial and residential mortgage loans under management related to securitization activities, assets held by customers for which the Bank provides services such as investment, trading, administrative services and collection of investment income, as well as assets of self-directed plans offered by its subsidiary B2B Trust.

The Bank, through its subsidiary Laurentian Bank Securities and its joint venture interest in BLC-Edmond de Rothschild Asset Management (BLC-EdR), also manages personal, institutional and mutual fund portfolios.

On October 31, 2003, assets administered by the Bank stood at $15.5 billion compared with $14.9 billion on October 31, 2002 as detailed in Table 10. The year over year increase in self-directed retirement plans is mainly attributable to the performance of the markets which had a positive impact on their valuation. Mortgage loans under management decreased as a result of reduced securitization activities. Mutual funds assets increased as a combined result of market performance and positive net sales. Institutional assets increased significantly as a result of new business development by BLC-EdR. Client brokerage assets and personal trust assets remained relatively stable.

TABLE 10

Assets under administration

As at October 31, in milions of dollars	2003	2002	2001	Variation 03/02
Self-directed RRSPs and RRIFs	**$ 8,512**	$ 8,009	$ 8,328	**6%**
Institutional	**2,644**	2,058	1,432	**28**
Mortgage loans under management	**1,428**	2,055	2,289	**(31)**
Clients' brokerage assets	**1,345**	1,316	1,513	**2**
Mutual funds	**1,238**	1,157	1,238	**7**
Other – Personal	**321**	298	295	**8**
Total – assets under administration	**$15,488**	$14,893	$15,095	**4%**

Deposits

Total personal deposits decreased by $1.5 billion during the fiscal year, from $12.0 billion in 2002 to $10.5 billion in 2003. Excluding the impact of the sale of branches, personal deposits increased by $114 million, reflecting continued investor preference for deposit products.

The Bank maintained its strong presence with independent financial advisors through its B2B Trust line of business and its indirect network of agents throughout Canada. As at October 31, 2003, B2B Trust's deposits remained relatively stable at $2.2 billion compared to $2.3 billion as at October 31, 2002. The deposit portfolio of Retail Financial Services, including agents' deposits, was $8.3 billion at year-end 2003, a $0.2 billion increase over 2002 excluding the impact of the sale of Ontario and Western Canada branches. Personal deposits in the Quebec branch network amounted to $5.6 billion as at October 31, 2003 and $5.3 billion as at October 31, 2002. Agents' deposits were $2.8 billion as at October 31, 2003 and 2002 while Ontario and Western Canada deposits were $1.6 billion as at October 31, 2003, prior to the sale of the branches and $1.5 billion as at October 31, 2002.

Personal deposits represent 79% of total deposits as at October 31, 2003 compared with 80% as at October 31, 2002.

Deposits from businesses, banks and government-related entities decreased slightly to $2.8 billion as at October 31, 2003, compared to $3.0 billion as at October 31, 2002. The decrease essentially results from the sale of the Ontario and Western Canada branches.

TABLE 11

Deposits

As at October 31, in millions of dollars	2003	2002	2001	Variation 03/02
Personal				
Notice and demand	**$ 1,808**	$ 1,985	$ 1,701	**(9)%**
Fixed date	**8,701**	10,023	9,819	**(13)**
Sub-total – personal	**10,509**	12,008	11,520	**(12)**
As a % of total deposits	**79.1%**	80.2%	79.3%	
Business and other				
Notice and demand	**630**	750	618	**(16)**
Fixed date	**2,154**	2,210	2,380	**(3)**
Sub-total – business and other	**2,784**	2,960	2,998	**(6)**
As a % of total deposits	**20.9%**	19.8%	20.7%	
Total – deposits	**$13,293**	$14,968	$14,518	**(11)%**

Capital

Shareholders' equity as at October 31, 2003 was $873.3 million, up $51 million from a year ago. Growth in retained earnings accounted for most of the increase, while marginal changes in common shares and preferred shares offset each other as detailed below. Common shareholders' equity also increased to $673.3 million as at October 31, 2003 from $622.0 million at year-end 2002.

During the year, the Bank issued 26,982 common shares for proceeds of $0.6 million under its stock option plan. As at October 31, 2003, there were 23,435,585 common shares outstanding. Also, in June 2003, the Bank redeemed the remainder of its Cumulative Class A Preferred Shares Series 2 in the amount of $0.4 million.

The capital structure is reviewed periodically to maximise return on investment for the shareholders, while ensuring it meets regulatory requirements.

The Bank's book value per common share increased to $28.73 as at October 31, 2003, from $26.57 a year ago.

Total capital of the Bank, comprised of shareholders' equity, non-controlling interest and debentures, reached $1,315 million as at October 31, 2003, compared with $1,269 million as at October 31, 2002, an increase of $46 million for the year. This results from the increase in retained earnings, less the impact of the share redemption program of B2B Trust, which reduced the non-controlling interest in a subsidiary. 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.

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).

The BIS Tier I and Total capital ratios increased to 10.2% and 15.2%, respectively, as at October 31, 2003, from 8.8% and 13.5% as at October 31, 2002. As a result of the sale of the Ontario and Western Canada branches and the evolution of the balance sheet, the Bank reduced its risk weighted assets by $866 million during the year. The total asset to BIS capital leverage ratio was 13.1 compared with 15.0 as at October 31, 2002. Common equity to risk-weighted assets ratio was 8.5% as at October 31, 2003, up from 7.2% as at October 31, 2002. Tangible common equity (common equity less goodwill and other intangibles) to risk-weighted assets ratio was 7.8% as at October 31, 2003, up from 6.7% as at October 31, 2002, which denotes the low level of goodwill and other intangibles.

In 2003, the Bank reinforced its capital ratios to record levels. This strength is important to protect the Bank's depositors and creditors from risks inherent in its activities, and allows the Bank to seize attractive business opportunities.

TABLE 12

Risk-weighted assets

As at October 31, in thousands of dollars

		2003		2002	
	BIS weighting factor	**Gross notional amount**	**Risk-weighted amount**	Gross notional amount	Risk-weighted amount
Balance sheet assets					
Cash and due from other financial institutions without interest	0%	**$ 97,882**	**$ –**	$ 166,598	$ –
	20%	**2,119**	**424**	2,128	426
Interest-bearing deposits with other financial institutions	20%	**622,923**	**124,584**	264,972	52,994
Cheques and other items in transit, net	20%	**111,809**	**22,362**	19,973	3,995
Securities issued or guaranteed by Canada or provinces	0%	**2,551,061**	**–**	2,687,440	–
Securities issued or guaranteed by municipal corporations	20%	**33,323**	**6,665**	44,033	8,807
Other securities	100%	**332,111**	**332,111**	240,906	240,906
	20%	**100,101**	**20,020**	59,445	11,889
	0%	**54,280**	**–**	18,233	–
Mortgage loans					
CMHC-insured	0%	**3,031,414**	**–**	4,035,549	–
Other insured [(1)]	0%	**134,135**	**–**	147,652	–
Other insured [(1)]	50%	**14,904**	**7,452**	16,406	8,203
Residential four units and less	50%	**1,358,217**	**679,109**	1,547,525	773,763
Residential more than four units	100%	**726,106**	**726,106**	884,681	884,681
Non-residential	100%	**691,492**	**691,492**	928,400	928,400
Other loans and customers' liability under acceptances [(2)]	0%	**1,246,826**	**–**	1,293,094	–
	20%	**198**	**40**	1,937	387
	100%	**4,947,643**	**4,947,643**	5,468,809	5,468,809
Other assets	100%	**596,122**	**596,122**	689,866	689,866
Goodwill and other	0%	**85,102**	**–**	77,969	–
General allowances			**72,954**		81,170
Total – balance sheet assets		**$16,737,768**	**8,227,084**	$18,595,616	9,154,296
Off-balance sheet items					
Derivative financial instruments			**60,293**		49,540
Credit-related commitments			**123,165**		72,692
Total – risk-weighted assets – BIS			**$8,410,542**		$9,276,528

(1) Less the guarantee-related adjustment.
(2) Including assets purchased under reverse repurchase agreements.

TABLE 13

Regulatory capital – BIS

As at October 31, in millions of dollars	2003	2002	2001	Variation 03/02
Tier I capital				
Common shares	$ 246.8	$ 246.2	$ 234.2	–%
Retained earnings	426.5	375.8	385.1	13
Non-cumulative preferred shares	200.0	200.0	160.0	–
Non-controlling Tier I interests in subsidiaries	41.8	52.3	46.6	(20)
Less goodwill	(54.0)	(54.0)	(62.0)	–
Total – Tier I capital (A)	861.1	820.3	763.9	5
Tier II capital				
Permanent preferred shares	–	0.4	0.4	(100)
Subordinated debentures [1]	400.0	400.0	380.5	–
General allowances	73.0	81.2	82.7	(10)
Non-controlling interest in subsidiaries (hybrid capital instruments)	–	1.4	1.4	(100)
Total – Tier II capital	473.0	483.0	465.0	(2)
Investment in non-consolidated corporations, securitizations and other	(54.2)	(53.9)	(58.7)	1
Regulatory capital – BIS (B)	$1,279.9	$1,249.4	$1,170.2	2%
Total risk-weighted assets – BIS (Table 12) (C)	$8,410.5	$9,276.5	$9,444.3	
Tier I BIS capital ratio (A/C)	10.2%	8.8%	8.1%	
Total BIS capital ratio (B/C)	15.2%	13.5%	12.4%	
Financial leverage	13.1x	15.0x	15.2x	
Common equity as a percentage of risk-weighted assets – BIS	8.5%	7.2%	7.0%	
Tangible common equity as a percentage of risk-weighted assets	7.8%	6.7%	6.3%	

(1) Debentures are amortized on a straight-line basis over a five-year period prior to maturity.

Dividends

Shareholders have benefited from our long history of uninterrupted dividend payments. With a strong commitment to shareholder value, the Board of Directors approved an increase of the common share dividend payout ratio to a range of 40% to 50% of earnings. The Board of Directors' intention is to maintain the dividend on common shares at its current level of $0.29 per share per quarter provided financial targets, as detailed in the Performance and financial objectives section of this Annual Report, are met and strong capital ratios can be maintained.

During the year, 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, up from $26.9 million in 2002. The difference relates to the full-year impact of shares issued in 2002 and the issuance of shares during 2003. Dividends on preferred shares, including applicable income taxes, amounted to $13.9 million, compared to $15.1 million in 2002, although the dividends paid remained unchanged. The reduction is mainly attributable to the increase of income tax savings related to tax payable on dividends.

Credit ratings

The following table provides information on the Bank's credit ratings.

On December 15, 2003, Dominion Bond Rating Service (DBRS) reduced credit ratings related to long-term instruments, but maintained ratings on short-term instruments. On October 7, 2003, Standard & Poor's announced that it had downgraded certain ratings of the Bank but revised outlooks from negative to stable. These changes reflect the lower profitability compared to prior years and other Canadian banks. However, the sound financial position of the Bank helped maintained favourable ratings, mainly as it regards to short-term instruments. Therefore, these changes in outlook are not expected to have a significant impact on liquidity and funding costs. These ratings will be reviewed in light of the future results of the Bank and its ability to implement its business plan.

TABLE 14

Credit ratings

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

SEGMENTED RESULTS BY LINE OF BUSINESS

The Bank has four lines of business: Retail Financial Services, Commercial Financial Services, B2B Trust and Wealth Management and Brokerage.

For the year 2003, net income contributions, excluding the other segment, were 30.6% from Retail Financial Services, 33.4% from Commercial Financial Services, 20.1% from B2B Trust and 15.9% from Wealth Management and Brokerage, compared to 81.2%, (12.9)%, 29.9% and 1.8% respectively in 2002. The 2003 lines of business net income contributions as shown in Table 15, when compared with 2002, were affected by the additional $10 million ($70 million in 2002) provisions for credit losses recorded in Commercial Financial Services. Other special items were not attributed to lines of business.

TABLE 15

Segmented results

For the years ended October 31, as a percentage

	2003			2002		
	Total revenue	**Net income**	**Efficiency ratio**	Total revenue	Net income	Efficiency ratio
Retail Financial Services	**66.5%**	**30.6%**	**84.7%**	65.9%	81.2%	75.6%
Commercial Financial Services	**16.7%**	**33.4%**	**37.5%**	18.2%	(12.9)%	34.2%
B2B Trust	**11.2%**	**20.1%**	**60.2%**	12.0%	29.9%	51.4%
Wealth Management and Brokerage	**5.6%**	**15.9%**	**62.6%**	3.9%	1.8%	93.2%

Retail financial services

Net income from Retail Financial Services decreased to $16.8 million in 2003 from $41.6 million in 2002. The 2003 net income was negatively impacted by a decrease in net interest margins, arising mainly from more aggressive pricing of loans and to a lesser extent deposits, which lead to thinner margins. The decrease in Ontario and Western Canada mortgage loan portfolios has also negatively impacted net interest margins.

The efficiency ratio deteriorated to 84.7% in 2003, compared with 75.6% the previous year. This resulted from a 7% reduction in net interest margins, compared to 2002, explained by intense rate competition in Canada as other banks decided to focus on retail services, and 5% decrease in other revenues, along with a 5% increase in operating expenses, mainly compensation costs, including pension costs, and rent expenses.

The Retail Financial Services line of business accounts for more than 50% of total revenues. Important efforts have been made to ensure it increases its contribution to earnings and generates growth for the Bank. The *Entrepreneurship* project, which started a year ago as a pilot test in 18 branches, was a major initiative undertaken to improve results. The *Entrepreneurship* pilot project has definitively boosted the motivation of the staff, improved customer relations and satisfaction and has fuelled growth. Furthermore, the launch of the “Simplified Mortgage,” aimed at streamlining the product offering was another initiative to differentiate the Bank with user friendly products. In the second half of the year, the Bank also reviewed its pricing and commissioning strategy for point-of-sale financing to optimise the return of this line of business. All these projects should contribute positively to results in 2004.

Beginning in 2003, Retail Financial Services managed all indirect retail business of the Bank, including point-of-sale financing, agent deposits and broker mortgages across Canada. The 2002 comparative figures have been reclassified to conform to the current year presentation.

TABLE 16

Retail Financial Services

For the years ended October 31, in millions of dollars	**2003**	2002
Net interest income	**$274.2**	$295.0
Other income	**95.2**	100.3
Total revenue	**369.4**	395.3
Provision for credit losses	**28.8**	27.6
Non-interest expenses	**312.9**	298.8
Income before income taxes	**27.7**	68.9
Income taxes	**10.9**	27.3
Net income	**$ 16.8**	$ 41.6

Business Plan highlights

The recent sale of the Ontario and Western Canada branches will allow the Bank to focus its direct Retail Financial Services line of business in Quebec, while maintaining its presence throughout Canada via its indirect retail business. The contribution to net income of the Ontario and Western Canada branches was approximately $26.3 million on a pre-tax basis ($17.1 million after tax) for 2003, including expenses of $12.2 million which cannot be reduced immediately.

Following the analysis of operations which led to the repositioning plan, strategies were developed to increase revenues in the remaining line of business to compensate for this lost revenue stream. The principal strategies are detailed in “Our new business plan” section and relate to the following concepts:

- Introduce the new Laurentian Bank “Signature” and optimize the branch network;
- Extend the *Entrepreneurship* project;
- Develop a “Retailer Approach” to client servicing; and
- Enhance the multi-channel strategy across Canada.

Commercial Financial Services

Commercial Financial Services reported net income in 2003 of $18.3 million, compared with a net loss of $6.6 million in 2002, and the efficiency ratio was 37.5% in 2003 versus 34.2% in 2002. The results for 2003 were impacted by the $10.0 million Air Canada loan loss and a $5.8 million loan loss on a single exposure in the manufacturing sector, while 2002 results were affected by the additional $70.0 million provision for loan losses related to the Bank’s exposure to Teleglobe and other commercial loans. Other revenues declined from $41.5 million in 2002 to $29.8 million in 2003, as a result of the repositioning which reduced the level of new business and risk-weighted assets as well as related lending fees.

Commercial loans and bankers’ acceptances totalled $1,807 million on October 31, 2003, compared with $2,205 million at the 2002 year-end, for a decrease of $398 million during the period. Following the significant provisions for loan losses recorded in 2002, Commercial Financial Services initiated a repositioning plan that included the reduction of credit risk exposure. In May 2002, there were 20 loans in excess of $20 million, while at year-end 2003, only 7 remained. The Bank will aim to increase the commercial loan portfolio’s size with high quality loans over the coming years.

To assist Management with credit reviews and loan approvals, the Bank has developed its risk adjusted return on capital system. New loans are now approved based on this new model to optimize pricing and improve results.

Commercial mortgages are an important source of business for the Bank. The fierce rate competition for term lending has forced the Bank to rely mainly on shorter term real estate project financing during the year. The reduction in term lending volumes has lowered Commercial Financial Services contribution to results in 2003. However, new loan commitments, mainly construction lending, at year-end exceeded $350 million, which confirms the Bank’s strong position in this market.

TABLE 17

Commercial Financial Services

For the years ended October 31, in millions of dollars	**2003**	2002
Net interest income	**$62.8**	$ 67.4
Other income	**29.8**	41.5
Total revenue	**92.6**	108.9
Provision for credit losses	**27.5**	82.7
Non-interest expenses	**34.8**	37.3
Income (loss) before income taxes	**30.3**	(11.1)
Income taxes (recovery)	**12.0**	(4.5)
Net income (loss)	**$18.3**	$ (6.6)

Business Plan highlights
Commercial Financial Services' commitment to relationship banking is its key strength. Commercial Financial Services will deploy a multi-pronged strategy based on relationship banking:
– Continue the deployment of a more personalized approach to meeting client needs;
– Significantly increase the volume of high quality commercial loans over the coming years;
– Build on reputation as a prime construction lender to grow the real estate loan portfolio in and outside Quebec;
– Better serve the small business banking market through an internal reorganization; and
– Become a recognized agricultural lender in Quebec.

B2B Trust
B2B Trust is a federally chartered regulated financial institution and a 77.3% (74.3% in 2002) owned subsidiary of the Bank that supplies generic and complementary banking and financial products to independent financial advisors, non-bank financial institutions and retailers across Canada.

The contribution to net income of B2B Trust, after the impact of income attributable to non-controlling interest, decreased to $11.0 million in 2003 from $15.3 million in 2002. The change in B2B Trust's profitability between 2002 and 2003 is mainly attributable to the following factors:
– Total revenue was $62.5 million in 2003, compared with $71.8 million in 2002, a decrease of $9.3 million. Net interest income decreased by $8.1 million to $46.8 million in 2003 from $54.9 million in 2002. The net interest margin decreased to 1.77% in 2003, compared with 2.16% in 2002. This decline in interest income results mainly from lower volumes of investment loans and residential mortgages, as well as growth in high-interest deposits, partially offset by an increase in the lines of credit portfolios.
– The provision for loan losses was $1.7 million in 2003, compared with $0.8 million in 2002.
– Non-interest expenses remained stable at $37.6 million, compared to $36.9 million in 2002.
– The efficiency ratio increased to 60.2% in 2003 compared with 51.4% in 2002, essentially as a result of lower revenues.

Growth in the investment loans is mainly tied to a successful RSP season, and strong equity markets. B2B Trust is expecting these lending products to resume growth in fiscal 2004 as equity markets resume their historical pattern of outperforming fixed income markets, and mutual fund flows turn positive heading into the 2004 RSP season. B2B Trust is currently anticipating internal growth from the lines of credit portfolio as new credit lines are initiated, and existing approved credit facilities are taken advantage of by customers. Growth over the past two years has primarily been due to asset acquisitions and marketing agreements signed with third parties.

TABLE 18
B2B Trust

For the years ended October 31, in millions of dollars	**2003**	2002
Net interest income	**$46.8**	$54.9
Other income	**15.7**	16.9
Total revenue	**62.5**	71.8
Provision for credit losses	**1.7**	0.8
Non-interest expenses	**37.6**	36.9
Income before income taxes and non-controlling interest in net income of a subsidiary	**23.2**	34.1
Income taxes	**8.6**	13.5
Non-controlling interest in net income of a subsidiary	**3.6**	5.3
Net income	**$11.0**	$15.3

Business Plan highlights
B2B Trust has adjusted its business model to concentrate on delivering more credit-related products. Its future growth will rely on these two axes:
– Enlarge the investment loan offering in terms of product design, delivery channels and markets reached to become progressively less dependent on the mutual fund lending business; and
– Grow the consumer lending business through traditional channels and large scale retailers.

Wealth Management and Brokerage

Wealth Management and Brokerage reported net income of $8.7 million in 2003 compared with net income of $0.9 million in 2002. The sale of the TSX Group Inc. shares in the first quarter of 2003 resulted in an after-tax gain of $6.7 million. BLC-Edmond de Rothschild Asset Management (BLC-EdR) and Laurentian Bank Securities (LBS) both slightly improved their core results in 2003.

BLC-EdR manages total assets of $1.6 billion in its retail mutual fund and private and institutional money management divisions, compared to $1.2 billion of total assets at year-end in 2002. Customers of the Bank and BLC-EdR have access to a full line of funds under the R Funds banner.

LBS has a leading fixed-income trading and origination franchise along with retail brokerage activities. LBS managed total assets of $2.7 billion as at October 31, 2003, including its own assets of $1.3 billion and its customers' portfolios of $1.4 billion. At the 2002 year-end, LBS managed total assets of $3.3 billion, including its own assets of $2.0 billion and its customers' portfolios of $1.3 billion.

TABLE 19

Wealth Management and Brokerage

For the years ended October 31, in millions of dollars

	2003	2002
Net interest income	**$ 1.3**	$ 0.2
Other income	**29.7**	23.1
Total revenue	**31.0**	23.3
Non-interest expenses	**19.4**	21.7
Income before income taxes	**11.6**	1.6
Income taxes	**2.9**	0.7
Net income	**$ 8.7**	$ 0.9

Business Plan highlights

Wealth Management and Brokerage will deploy a multi-pronged strategy for growth:

- Leverage current activities to generate internal growth in mutual funds, as well as in institutional and private portfolio management;
- Continue to grow corporate finance and institutional activities;
- Grow retail brokerage through internal referrals and by increasing the sales team; and
- Launch a transactional Internet site for retail brokerage.

Other sectors

The net contribution of other activities amounted to $37.0 million in 2003, compared with a loss of $7.0 million in 2002. Excluding the after-tax gain on the sale of the Ontario and Western Canada branches of $54.9 million and the after-tax restructuring charge of $12.8 million, the net loss for the year is $5.1 million. Other activities consist mainly in treasury and securitization activities, and include other activities that are not attributable to the above-mentioned segments.

Integrated risk management framework

The Bank has adopted an Integrated Risk Management Framework (the Framework) that constitutes one of the main risk management measures that enable the Directors to fulfil their obligations regarding evaluation of the risks the Bank faces.

Objectives of the framework

– To create a risk management culture;
– To ensure that risk tolerance is consistent with the strategy and objectives of the Bank and that the Bank's resources, technology and processes are aligned to meet its objectives;
– To identify, understand and evaluate, on an ongoing basis, the major risks that the Bank faces;
– To establish measures that allow optimization of the risk/return ratio;
– To establish sound and prudent risk limits and risk management policies;
– To establish and apply efficient internal controls;
– To establish roles and responsibilities of Management regarding risk management; and
– To ensure that the risk management process abides by best practices in the industry.

To meet these objectives, the Framework is divided into two distinct sections: control and corporate governance. The Control aspect rests on five functions: human resources, strategic planning, financial integrity, risk management and compliance. The responsibility for each function is delegated to members of Management and is supervised by the committees of the Board of Directors of the Bank. The Board of Directors ensures that the Bank has an effective strategic management process that takes risks into account. Page 16 contains a detailed description of each of the committees.

Integrated risk management

The Integrated Risk Management function is an independent unit that overviews management of credit, market (including interest rate risk, foreign exchange risk and liquidity risk), capital and operational risk. In particular, this function:

– Establishes, co-ordinates and updates the Integrated Risk Management framework;
– Establishes and updates a monitoring framework for credit, market and operational risk that allows monitoring of and compliance with corporate policies related to risk management;
– Establishes and updates the information security framework and its business continuity plan;
– Identifies and summarizes all risks and controls through a risk matrix;
– Integrates credit, market and operational risk by the economic capital measure in a (RAROC) framework; and
– Validates models that are used to measure risks at the Bank.

This function periodically reports to the Risk Management Committee of Management and the Board to enable the committees to evaluate whether the Bank has adopted a satisfactory and effective risk management process.

Risk management structure

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

	Regulation		**Regulation**
	Control environment		**Corporate governance**
	Functions	**Coordinators**	
Managers	Human resources	Human resources Officer	Human resources and Corporate governance Committee
	Strategic planning	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
	Internal audit		

1. 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 Board's 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.

In 2002, the Bank set a limit of $20 million for each new loan commitment. More restrictive sublimits are foreseen for some economic sectors. Commitment and sector ceilings have also been established. Fiscal 2003 was a challenging year for syndicated loans, the Bank upheld its efforts to reduce its commitments in loans greater than $20 million, which represented only 4 files at October 31, 2003, compared with 17 at October 31, 2002. No loan exceeded $25 million as at October 31, 2003.

The authorization process for counterparties and loans is highly centralized. The Bank uses state-of-the-art software systems to support the decision-making process with regard to 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 different mechanisms and policies; this includes systematically reviewing various categories of files, reviewing risk rating updating systems and analysing pricing. Each month, Bank Management 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.

During the 2003 fiscal year, the Bank reviewed its internal risk rating system for commercial borrowers; it notably increased the number of grades from 9 to 18 and added a facility rating. This improvement is compatible with the requirements for the adoption of internal methods of calculation of regulatory capital under the Basel II Accord.

2. MARKET RISK MANAGEMENT

Policies and standards

Market risk is the risk of financial loss due to movements in interest rates and foreign exchange rates, as well as bond and equity prices for balance sheet and off-balance sheet financial instruments. This risk arises from the Bank's financing, investment and trading activities.

Market risks are inherent in the operations of an institution that trades financial instruments whose value is determined according to market rates or prices. These instruments consist of stocks, bonds, options and spot transactions, futures transactions and other transactions with derivatives. Efficient management of market risk implies management of the risk-return ratio and market commitments, in light of diverse factors.

The Bank establishes 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. The management strategy retained, the principles adopted and objectives set reflect the degree of risk that the Bank and its subsidiaries are prepared to assume in relation to the anticipated results. Detailed reports on risk and monitoring of the limits are produced daily.

The limit monitoring reports are presented:

- Daily to risk portfolio managers;
- Monthly to the asset and liability management committee; and
- Quarterly to the Risk Management Committees of Management and of the Board.

Management of market risk encompasses management of interest rate risk, foreign exchange risk and liquidity risk.

Interest rate risk

Interest rate risk is the potential negative impact of interest rate movements on the Bank's results and economic value.

Apart from analysing the trading portfolio, the section covering structural risk describes the global management of interest rate risk as performed by the Bank.

Foreign exchange risk

Foreign exchange risk is linked to the possible negative impact of exchange rate variations on the Bank's results and economic value.

The Bank's foreign exchange position is attributable to products and services that the Bank offers its clients in currencies other than Canadian dollars. Foreign exchange positions may also result from arbitrage activities. 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 on an annual basis, 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.

Liquidity management provides the Bank and its subsidiaries with the assurance that sufficient funds will be available to meet its commitments. Efficient liquidity management is essential to maintaining market confidence and protecting the Bank's capital. It is an integral part of asset and liability management. The Bank monitors cash resources daily and applies a prudent liquidity management policy that enables it to meet its cash requirements at all times. It pays particular attention to deposit and loan maturities, along with funding availability and demand, while abiding by the legislative imperatives governing it and its subsidiaries. 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) by means of numerous controls and limits. 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 eventuality. Scenario-based contingency plans are 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 foreign exchange rate risk)

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

– Value at risk (VAR) and the application of shock scenarios; and
– "Nominal" limits (in various measures of sensitivity), that allow management of the risks that are not captured by the VAR measures and scenarios.

Value at risk

The techniques of analysis, quantification and management of financial market risks have evolved at an extremely rapid pace in recent years. In addition, the Bank has implemented a market risk management and monitoring structure that entails the use of VAR methodology for all of its treasury portfolios.

The method retained, which implicitly considers correlations between the various markets, is that of historical simulations. It rests on the following principles:

– Production of a history of market parameters that are representative of the risks incurred by the Bank;
– Determination of 300 scenarios that correspond to variations observed in one day;
– Distortion of the parameters of the day according to the 300 scenarios; and
– Re-evaluation of the positions of the day based on these 300 distortions of market conditions.

The value at risk of 99% corresponds to the greatest risk obtained after elimination of 1% of the most unfavourable observations: out of 300 observations, it reflects the third largest risk noted.

Global value at risk is calculated for all financial market activities. VAR is also calculated per type of portfolio and type of product. In parallel with the VAR model, test scenarios are calculated according to products and determined based on historical data analysis.

3. STRUCTURAL RISK MANAGEMENT

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 re-evaluation 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:

– Banking activities of the Bank's clientele, which are affected by customer choices, product availability and term-dependent pricing policies;
– Investment activities, comprised of marketable securities and institutional funding composed of primary and secondary liquidity portfolios and the positioning portfolio;
– Securities trading portfolios, that are marked-to-market on a daily basis in line with rate movements; and
– Hedging transactions that help 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 underlying instruments on the balance sheet 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 established by the Board of Directors. This policy defines relative ceilings 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 risk management committees of management and of the Board of Directors. Structural risk management ensues from a weekly gap report. The Bank's interest rate gap position at October 31, 2003 appears in Note 21 of the Consolidated Financial Statements. The net sensitivity gap for one year or less is $0.1 billion, or 0.6% of total consolidated assets. To ensure sound management of structural risk, Management also conducts simulation analysis of the variation in net income and the economic value of common shareholders' equity based on a repricing spread report and various interest rate scenarios over a 24-month period. One of the main simulation exercises consists of subjecting the Bank's balance sheet to a sudden sustained 1% increase in interest rates. For example, at October 31, 2003, for all portfolios, this 1% rate increase would have triggered an increase of $2.7 million in net income before taxes over the next 12 months and would have had a $39.8 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.

4. CAPITAL MANAGEMENT RISK

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.

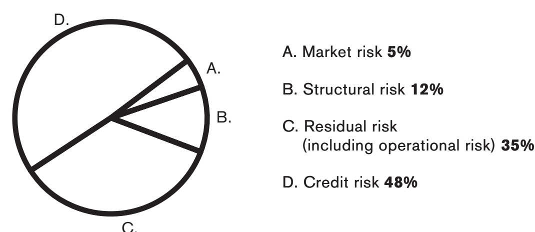
The capital of the Bank is comprised of common shareholders' equity, retained earnings, preferred shares, subordinated debentures and a non-controlling interest in a subsidiary. The Bank's capital represents an essential factor in assessing the Bank's stability and security in relation to the risks associated 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 (OSFI). Capital ratio monitoring reports are presented, every quarter, to the members of the Risk Management Committee of Management and of the Board.

Economic capital

The Bank continues 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 profile, 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.

The chart below shows the daily distribution of economic capital by risk type.

Economic Capital by Risk Type



New Basel Accord

The Basel Committee on Banking Supervision is currently formulating a new accord (the New Basel Accord), that:

- Is supported by three pillars instead of one:
  1. minimum requirements;
  2. a monitoring framework; and
  3. financial disclosure;
- Will take into account the real risks of the Bank to a greater extent than the initial accord did; and
- Will allow a choice among three risk assessment methods of increasing sensitivity, to measure credit risk and operational risk.

The Bank supports this evolution and is collaborating closely with the regulatory bodies to fine-tune aspects of the New Basel Accord.

During the 2003 fiscal year, the Bank participated in the third quantitative survey (QIS3) of the Basel Committee, which enabled it to determine the calculation method of regulatory capital that was most advantageous for its shareholders. In view of the implementation of the New Basel Accord, scheduled for November 2006, the Bank has formed a task force that will report on the progress of the project, every quarter, to the members of the Risk Management Committee of Management and of the Board.

5. OPERATIONAL RISK MANAGEMENT

Operational risk results from insufficiency or failure attributable to procedures, personnel, internal systems or external events.

The operational risk management policy amended in January 2003 describes the operational risk management framework and defines the roles and responsibilities of various stakeholders. Specifically, managers are responsible for daily management of operational risk, whereas the operational risk management department strives to develop appropriate policies, gathers data on operational losses, assists managers in identifying operational risks, evaluates the frequency and potential impact of these risks, maintains an operational risk management framework that includes a management framework for information and security, coordinates the business continuity plan and prepares quarterly progress reports for the operational risk management committee and the Risk Management Committee of Management and the Board of Directors. To this effect, the following policies have been adopted: the outsourcing risk management policy, the policy on information security management, the policy on protection of personal information, the policy on recycling of the proceeds of crime and the financing of terrorism activities, and the policy on professional liability risk management.

In addition, the operational risk management department created a database of operational loss events and a self-evaluation program for risks and controls. All of the Bank's operations are now grouped into broad business processes, and each process is covered in an intersectoral workshop, during which operational risks related to the process are evaluated in terms of frequency and impact, and appropriate controls are identified. This program is intended to establish the dashboard for operational risks and reflect the efficiency of controls in place.

6. REGULATORY RISK MANAGEMENT

Regulatory risk results from risk related to 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 chairman of the board, the Risk Management Committee of Management and the Audit Committee of the Board.

Statistical review – Consolidated balance sheet

As at October 31

In thousands of dollars	2003	2002	2001	2000	1999	Average annual variation 03/99
ASSETS						
Cash resources						
Cash and due from other financial institutions without interest	**$ 100,001**	$ 168,726	$ 82,231	$ 83,130	$ 92,083	**2%**
Interest-bearing deposits with other financial institutions	**622,923**	264,972	93,679	167,904	21,005	**133**
Cheques and other items in transit, net	**111,809**	19,973	8,437	29,177	–	**n/a**
	834,733	453,671	184,347	280,211	113,088	**65**
Securities						
Issued or guaranteed by Canada	**1,497,689**	1,584,820	1,432,946	822,894	996,776	**11**
Issued or guaranteed by provinces and municipal corporations	**1,025,828**	1,114,427	650,685	428,946	802,627	**6**
Other securities	**547,359**	350,810	237,630	136,620	136,272	**42**
	3,070,876	3,050,057	2,321,261	1,388,460	1,935,675	**12**
Assets purchased under reverse repurchase agreements	**882,036**	869,830	649,671	638,400	917,710	**(1)**
Loans						
Personal	**3,646,070**	3,865,455	3,532,655	2,863,333	2,418,210	**11**
Residential and commercial mortgages	**5,979,229**	7,601,671	7,880,870	6,977,955	6,164,441	**(1)**
Commercial and other	**1,571,491**	1,872,901	2,159,752	1,783,173	1,466,230	**2**
	11,196,790	13,340,027	13,573,277	11,624,461	10,048,881	**3**
Allowance for loan losses	**(163,177)**	(217,881)	(133,512)	(115,661)	(106,019)	**11**
	11,033,613	13,122,146	13,439,765	11,508,800	9,942,862	**3**
Other						
Customers' liability under acceptances	**235,286**	332,077	336,292	244,586	116,248	**19**
Capital assets	**114,479**	160,597	178,766	164,914	157,104	**(8)**
Other assets	**566,745**	607,238	585,722	515,947	461,127	**5**
	916,510	1,099,912	1,100,780	925,447	734,479	**6**
	$16,737,768	$18,595,616	$17,695,824	$14,741,318	$13,643,814	**5%**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits						
Personal	**$10,508,592**	$12,007,957	$11,519,743	$10,202,957	$ 8,021,908	**7%**
Business and other	**2,784,357**	2,960,317	2,998,294	2,036,094	2,447,629	**3**
	13,292,949	14,968,274	14,518,037	12,239,051	10,469,537	**6**
Other						
Cheques and other items in transit, net	**–**	–	–	–	7,587	**(100)**
Obligations related to assets sold short or under repurchase agreements	**1,142,909**	1,308,882	877,158	619,264	1,698,612	**(9)**
Acceptances	**235,286**	332,077	336,292	244,586	116,248	**19**
Other liabilities	**751,484**	716,907	741,921	629,412	453,841	**13**
	2,129,679	2,357,866	1,955,371	1,493,262	2,276,288	**(2)**
Subordinated debentures	**400,000**	400,000	400,000	346,833	284,600	**9**
Non-controlling interest in a subsidiary	**41,827**	47,106	42,683	–	–	**n/a**
Shareholders' equity						
Capital stock						
Preferred shares	**200,000**	200,400	160,400	160,400	160,400	**6**
Common shares	**246,813**	246,230	234,240	167,042	167,042	**10**
Retained earnings	**426,500**	375,740	385,093	334,730	285,947	**11**
	873,313	822,370	779,733	662,172	613,389	**9**
	$16,737,768	$18,595,616	$17,695,824	$14,741,318	$13,643,814	**5%**

Statistical review – Consolidated statement of income

For the years ended October 31

In thousands of dollars, except per share amounts	**2003**	2002	2001	2000	1999	**Average annual variation 03/99**
Loans	**$ 870,519**	$ 887,268	$ 1,005,061	$ 835,759	$ 696,732	**6%**
Securities	**76,502**	73,341	66,284	70,181	70,673	**2**
Deposits with other financial institutions	**11,658**	5,022	8,243	5,712	7,414	**12**
Interest income	**958,679**	965,631	1,079,588	911,652	774,819	**5**
Deposits and other liabilities	**587,711**	591,905	680,035	605,281	521,736	**3**
Subordinated debentures	**27,742**	27,750	34,395	27,475	22,546	**5**
Interest expense	**615,453**	619,655	714,430	632,756	544,282	**3**
Net interest income	**343,226**	345,976	365,158	278,896	230,537	**10**
Provision for credit losses	**54,000**	111,000	35,000	25,000	18,700	**30**
	289,226	234,976	330,158	253,896	211,837	**8**
Other income	**286,720**	254,443	265,641	211,777	212,734	**8**
	575,946	489,419	595,799	465,673	424,571	**8**
Salaries and employee benefits	**204,944**	198,694	212,878	177,147	162,935	**6**
Premises and technology	**128,982**	120,140	115,829	96,641	90,319	**9**
Other	**107,854**	88,499	116,736	79,539	91,247	**4**
Non-interest expenses	**441,780**	407,333	445,443	353,327	344,501	**6**
Income before income taxes and non-controlling interest in net income of a subsidiary	**134,166**	82,086	150,356	112,346	80,070	**14**
Income taxes	**38,659**	32,424	57,610	30,686	24,400	**12**
Income before non-controlling interest in net income of a subsidiary	**95,507**	49,662	92,746	81,660	55,670	**14**
Non-controlling interest in net income of a subsidiary	**3,640**	5,318	2,041	–	–	**n/a**
Net income	**$ 91,867**	$ 44,344	$ 90,705	$ 81,660	$ 55,670	**13%**
Preferred share dividends, including applicable income taxes	**$ 13,943**	$ 15,058	$ 13,530	$ 13,932	$ 13,386	**1%**
Net income available to common shareholders	**$ 77,924**	$ 29,286	$ 77,175	$ 67,728	$ 42,284	**17%**
Dividends on common shares	**$ 27,164**	$ 26,854	$ 24,098	$ 18,945	$ 18,540	**10%**
Average number of common shares outstanding (in thousands)	**23,416**	23,095	22,710	20,154	20,151	**4%**
Average number of common shares outstanding after dilution (in thousands)	**23,457**	23,288	22,896	20,224	20,303	**4%**
Per common share:						
Net income						
– Basic	**$ 3.33**	$ 1.27	$ 3.40	$ 3.36	$ 2.10	**12%**
– Diluted	**$ 3.32**	$ 1.26	$ 3.37	$ 3.35	$ 2.08	**12%**
Dividends	**$ 1.16**	$ 1.16	$ 1.06	$ 0.94	$ 0.92	**6%**
Book value	**$ 28.73**	$ 26.57	$ 27.08	$ 24.90	$ 22.48	**6%**
Return on common shareholders' equity	**12.4%**	4.8%	13.1%	14.4%	9.6%	
As a percentage of average assets						
Net interest income	**1.85%**	1.86%	2.13%	1.94%	1.79%	
Provision for credit losses	**0.29**	0.60	0.20	0.17	0.14	
Other income	**1.55**	1.37	1.55	1.47	1.65	
Non-interest expenses	**2.38**	2.19	2.59	2.46	2.67	
Income taxes	**0.21**	0.17	0.35	0.21	0.20	
Non-controlling interest in net income of a subsidiary	**0.02**	0.03	0.01	–	–	
Net income	**0.50**	0.24	0.53	0.57	0.43	
Dividends on preferred shares	**0.08**	0.08	0.08	0.10	0.10	
Net income available to common shareholders	**0.42%**	0.16%	0.45%	0.47%	0.33%	
Average assets (in millions of dollars)	**$ 18,548**	$ 18,570	$ 17,176	$ 14,377	$ 12,914	**9%**
Number of full-time equivalent employees	**3,159**	3,730	3,884	3,481	3,236	**(1)%**
Number of branches	**155**	214	230	204	203	**(7)%**
Number of automated banking machines	**284**	351	360	315	326	**(3)%**

Quarterly highlights

In thousands of dollars, except per share amounts (unaudited)	2003				2002			
	Quarters ended				Quarters ended			
	Oct. 31	**July 31**	**April 30**	**Jan. 31**	Oct. 31	July 31	April 30	Jan. 31
Interest income	**$ 235,488**	**$ 247,357**	**$ 235,753**	**$ 240,081**	$ 237,913	$ 250,373	$ 236,244	$ 241,101
Interest expense	**152,409**	**159,438**	**151,137**	**152,469**	155,792	160,850	149,425	153,588
Net interest income	**83,079**	**87,919**	**84,616**	**87,612**	82,121	89,523	86,819	87,513
Provision for credit losses	**11,000**	**16,000**	**16,000**	**11,000**	11,000	10,000	80,000	10,000
	72,079	**71,919**	**68,616**	**76,612**	71,121	79,523	6,819	77,513
Other income	**117,765**	**55,856**	**53,089**	**60,010**	53,172	60,662	66,800	73,809
Non-interest expenses	**125,839**	**109,342**	**102,023**	**104,576**	96,171	101,682	101,637	107,843
Income (loss) before income taxes and non-controlling interest in net income of a subsidiary	**64,005**	**18,433**	**19,682**	**32,046**	28,122	38,503	(28,018)	43,479
Income taxes (recovery)	**12,533**	**7,281**	**7,781**	**11,064**	11,108	15,209	(11,069)	17,176
Income (loss) before non-controlling interest in net income of a subsidiary	**51,472**	**11,152**	**11,901**	**20,982**	17,014	23,294	(16,949)	26,303
Non-controlling interest in net income of a subsidiary	**751**	**893**	**920**	**1,076**	1,146	1,311	1,422	1,439
Net income (loss)	**$ 50,721**	**$ 10,259**	**$ 10,981**	**$ 19,906**	$ 15,868	$ 21,983	$ (18,371)	$ 24,864
As a percentage of average assets								
Net interest income	**1.79%**	**1.87%**	**1.86%**	**1.88%**	1.76%	1.86%	1.88%	1.95%
Provision for credit losses	**0.24%**	**0.34%**	**0.35%**	**0.24%**	0.24%	0.21%	1.74%	0.22%
Other income	**2.53%**	**1.19%**	**1.17%**	**1.29%**	1.14%	1.26%	1.45%	1.65%
Non-interest expenses	**2.71%**	**2.32%**	**2.25%**	**2.25%**	2.06%	2.11%	2.21%	2.41%
Net income (loss)	**1.09%**	**0.22%**	**0.24%**	**0.43%**	0.34%	0.46%	(0.40)%	0.55%
Net income (loss) available to common shareholders	**1.02%**	**0.14%**	**0.17%**	**0.35%**	0.26%	0.38%	(0.48)%	0.47%
Average assets (in millions of dollars)	**$ 18,446**	**$ 18,671**	**$ 18,628**	**$ 18,449**	$ 18,505	$ 19,115	$ 18,897	$ 17,775
Return on common shareholders' equity	**29.5%**	**4.3%**	**4.9%**	**10.3%**	7.8%	12.0%	(14.4)%	13.5%
Average number of common shares outstanding (in thousands)	**23,426**	**23,413**	**23,412**	**23,411**	23,376	23,132	22,969	22,898
Average diluted number of common shares outstanding (in thousands)	**23,465**	**23,452**	**23,453**	**23,460**	23,439	23,289	22,969	23,155
Per common share								
Net income (loss) – basic	**$ 2.02**	**$ 0.29**	**$ 0.32**	**$ 0.70**	$ 0.52	$ 0.79	$ (0.95)	$ 0.91
Net income (loss) – diluted	**$ 2.01**	**$ 0.29**	**$ 0.32**	**$ 0.70**	$ 0.52	$ 0.78	$ (0.95)	$ 0.90
Dividends	**$ 0.29**	**$ 0.29**	**$ 0.29**	**$ 0.29**	$ 0.29	$ 0.29	$ 0.29	$ 0.29
Book value	**$ 28.73**	**$ 27.01**	**$ 27.01**	**$ 26.98**	$ 26.57	$ 26.36	$ 25.91	$ 27.16
Share price – Close	**$ 27.75**	**$ 26.00**	**$ 27.00**	**$ 25.95**	$ 28.08	$ 28.80	$ 31.30	$ 36.14
Dividends								
Preferred shares and related taxes	**$ 3,466**	**$ 3,497**	**$ 3,422**	**$ 3,558**	$ 3,786	$ 3,766	$ 3,540	$ 3,966
Common shares	**$ 6,795**	**$ 6,789**	**$ 6,790**	**$ 6,790**	$ 6,788	$ 6,768	$ 6,646	$ 6,652
In millions of dollars								
Total assets (end of period)	**$16,737.8**	**$18,609.3**	**$18,677.2**	**$18,582.3**	$18,595.6	$19,179.0	$19,093.4	$18,013.0
Risk-weighted assets	**$ 8,410.5**	**$ 9,244.5**	**$ 9,432.2**	**$ 9,210.2**	$ 9,276.5	$ 9,384.6	$ 9,637.8	$ 9,569.8
Tier I capital	**$ 861.1**	**$ 828.5**	**$ 831.5**	**$ 830.6**	$ 820.3	$ 811.8	$ 788.9	$ 817.8
Total capital	**$ 1,279.9**	**$ 1,256.3**	**$ 1,256.2**	**$ 1,239.2**	$ 1,249.4	$ 1,244.2	$ 1,215.9	$ 1,243.0
Capital ratios								
Tier I	**10.2%**	**9.0%**	**8.8%**	**9.0%**	8.8%	8.7%	8.2%	8.6%
Total capital	**15.2%**	**13.6%**	**13.3%**	**13.5%**	13.5%	13.3%	12.6%	13.0%
Financial leverage	**13.1x**	**14.9x**	**15.0x**	**15.1x**	15.0x	15.5x	15.8x	14.6x