CONSOLIDATED FINANCIAL STATEMENTS

As at October 31, 2005 and 2004

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The consolidated financial statements present a recent financial history of the financial condition, results of operations and cash flows of Laurentian Bank of Canada.

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

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

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

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

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

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

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

The Board of Directors is responsible for reviewing and approving the financial statements and management's discussion and analysis of results of operations and financial condition appearing in the Annual Report. It oversees the manner in which management discharges its responsibilities for the presentation and preparation of financial statements, maintenance of appropriate internal controls, risk management as well as assessment of significant transactions and related party transactions through its Audit Committee and its Risk Management Committee. Both Board committees are composed solely of directors who are not officers or employees of the Bank.

RAYMOND McMANUS
PRESIDENT AND CHIEF EXECUTIVE OFFICER

ROBERT CARDINAL
SENIOR EXECUTIVE VICE-PRESIDENT
AND CHIEF FINANCIAL OFFICER

MONTREAL, CANADA
DECEMBER 8, 2005

AUDITORS' REPORT TO THE SHAREHOLDERS OF LAURENTIAN BANK OF CANADA

We have audited the consolidated balance sheets of Laurentian Bank of Canada (the Bank) as at October 31, 2005 and 2004 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

ERNST & YOUNG LLP
CHARTERED ACCOUNTANTS

MONTREAL, CANADA
DECEMBER 8, 2005

CONSOLIDATED BALANCE SHEET

As at October 31 (in thousands of dollars)	Notes	2005	2004
ASSETS			
Cash resources			
Cash and non-interest-bearing deposits with other banks		$ 57,737	$ 47,681
Interest-bearing deposits with other banks		259,791	280,751
		317,528	328,432
Securities	3 and 21		
Investment account		1,911,819	2,007,471
Trading account		1,028,587	995,004
		2,940,406	3,002,475
Assets purchased under reverse repurchase agreements		508,073	1,133,920
Loans	4 and 5		
Personal		3,907,320	3,638,991
Residential mortgages		5,806,853	5,509,022
Commercial mortgages		595,946	604,085
Commercial and other		1,539,893	1,542,760
		11,850,012	11,294,858
Allowance for loan losses		(129,806)	(140,042)
		11,720,206	11,154,816
Other			
Customers' liability under acceptances		145,629	144,830
Property, plant and equipment	6	93,793	94,490
Derivative financial instruments		143,453	201,717
Future tax assets	16	106,932	113,921
Goodwill	7	53,790	54,029
Other intangible assets	7	16,547	18,897
Other assets	8	460,627	359,949
		1,020,771	987,833
		$16,506,984	$16,607,476
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	9		
Personal		$10,575,416	$10,454,368
Business, banks and other		3,121,522	2,456,672
		13,696,938	12,911,040
Other			
Obligations related to assets sold short		726,063	1,495,574
Obligations related to assets sold under repurchase agreements	21	60,065	15,907
Acceptances		145,629	144,830
Derivative financial instruments		105,326	189,489
Other liabilities	10	709,723	713,359
		1,746,806	2,559,159
Subordinated debentures	11	150,000	250,525
Shareholders' equity			
Preferred shares	12	210,000	210,000
Common shares	12	249,633	248,593
Contributed surplus	13	73	–
Retained earnings		454,124	428,159
Treasury shares	12 and 13	(590)	–
		913,240	886,752
		$16,506,984	$16,607,476

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

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

RAYMOND McMANUS
PRESIDENT AND CHIEF EXECUTIVE OFFICER

CONSOLIDATED STATEMENT OF INCOME

For the years ended October 31 (in thousands of dollars, except per share amounts)	Notes	2005	2004
			Restated (note 1)
Interest income			
Loans		$682,591	$690,789
Securities		59,744	57,546
Deposits with other banks		7,864	9,807
		750,199	758,142
Interest expense			
Deposits and other liabilities		408,309	455,950
Subordinated debentures		16,199	27,184
Liability related to preferred shares	1	–	7,814
		424,508	490,948
Net interest income		325,691	267,194
Provision for credit losses	4	40,000	40,000
		285,691	227,194
Other income			
Fees and commissions on loans and deposits		89,164	89,183
Brokerage operations		20,167	20,223
Income from treasury and financial market operations		16,223	30,620
Income from registered self-directed plans		11,830	12,241
Securitization income	5	11,664	4,437
Income from sale and management of mutual funds		9,570	12,886
Insurance income		7,687	6,061
Gain on disposals	2	–	13,517
Other		10,066	9,781
		176,371	198,949
		462,062	426,143
Non-interest expenses			
Salaries and employee benefits		192,163	182,929
Premises and technology		107,559	104,682
Other	15	82,229	82,108
		381,951	369,719
Income from continuing operations before income taxes and non-controlling interest in a subsidiary		80,111	56,424
Income taxes	16	24,488	14,637
Income from continuing operations before non-controlling interest in a subsidiary		55,623	41,787
Non-controlling interest in a subsidiary	2	–	1,916
Income from continuing operations		$ 55,623	$ 39,871
Income from discontinued operations, net of income taxes	2	9,659	–
Net income		$ 65,282	$ 39,871
Preferred share dividends, including applicable income taxes	1	12,030	8,606
Net income available to common shareholders		$ 53,252	$ 31,265
Average number of common shares (in thousands)			
Basic		23,525	23,485
Diluted		23,552	23,521
Net income per common share from continuing operations	17		
Basic		$ 1.85	$ 1.33
Diluted		$ 1.85	$ 1.33
Net income per common share	17		
Basic		$ 2.26	$ 1.33
Diluted		$ 2.26	$ 1.33

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended October 31 (in thousands of dollars)	Notes	2005	2004
			Restated (note 1)
Preferred shares	1 and 12		
Balance at beginning of year and as previously reported		$210,000	$200,000
Impact of the change in accounting policy in respect of liability and equity presentation		–	(100,000)
Restated balance at beginning of year		210,000	100,000
Issued during the year		–	110,000
Balance at end of year		210,000	210,000
Common shares	12		
Balance at beginning of year		248,593	246,813
Issued during the year		1,040	1,780
Balance at end of year		249,633	248,593
Contributed surplus			
Balance at beginning of year		–	–
Stock-based compensation	13	73	–
Balance at end of year		73	–
Retained earnings	1		
Balance at beginning of year		428,159	426,500
Net income		65,282	39,871
Dividends			
Preferred shares, including applicable income taxes		(12,030)	(8,606)
Common shares		(27,287)	(27,248)
Preferred share issue costs, net of income taxes		–	(2,358)
Balance at end of year		454,124	428,159
Treasury shares			
Balance at beginning of year		–	–
Acquisition	12	(590)	–
Balance at end of year		(590)	–
TOTAL SHAREHOLDERS' EQUITY		$913,240	$886,752

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended October 31 (in thousands of dollars)	2005	2004
		Restated (note 1)
Cash flows relating to operating activities		
Net income	$ 65,282	$ 39,871
Adjustments to determine net cash flows relating to operating activities:		
Provision for credit losses	40,000	40,000
Gains on securitization operations	(8,995)	(1,437)
Net loss on disposal of property, plant and equipment	1,312	408
Net gain from discontinued operations (see note 2)	(10,595)	–
Gain on disposals (see note 2)	–	(13,517)
Net gains on sale of securities held for investment	(2,019)	(13,832)
Future income taxes	9,869	(3,304)
Depreciation and amortization	29,707	35,755
Net change in trading securities	(18,431)	21,319
Change in accrued interest receivable	(5,460)	11,345
Change in assets relating to derivative financial instruments	58,264	(109,445)
Change in accrued interest payable	(45,086)	(11,085)
Change in liabilities relating to derivative financial instruments	(84,163)	94,797
Other, net	(69,668)	123,890
	(39,983)	214,765
Cash flows relating to financing activities		
Net change in deposits	785,898	(381,909)
Change in obligations related to assets sold short	(769,511)	525,911
Change in obligations related to assets sold under repurchase agreements	44,158	(157,339)
Redemption of subordinated debentures	(100,525)	(149,723)
Issuance of preferred shares, net of issue costs	–	106,588
Redemption of preferred shares	–	(100,000)
Issuance of common shares, net of issue costs	1,040	1,780
Acquisition of treasury shares	(590)	–
Dividends, including applicable income taxes	(39,317)	(36,614)
	(78,847)	(191,306)
Cash flows relating to investing activities		
Net cash flows from the sale of discontinued operations (see note 2)	45,670	–
Net cash flows from disposals (see note 2)	–	38,069
Consideration paid for the privatization of a subsidiary (see note 2)	–	(60,225)
Net change in interest-bearing deposits with other banks	20,960	387,401
Change in investment securities		
Acquisitions	(26,117,606)	(28,052,727)
Proceeds from sales and maturity	26,189,909	28,113,641
Change in loans	(948,243)	(338,789)
Change in assets acquired under reverse repurchase agreements	625,847	(251,884)
Proceeds from mortgage loan securitizations	341,408	149,072
Additions to property, plant and equipment	(29,165)	(18,017)
Proceeds from disposal of property, plant and equipment	106	2,909
	128,886	(30,550)
Net change in cash and non-interest-bearing deposits with other banks	10,056	(7,091)
Cash and non-interest-bearing deposits with other banks at beginning of year	47,681	54,772
Cash and non-interest-bearing deposits with other banks at end of year	$ 57,737	$ 47,681
Supplemental disclosure relating to cash flows:		
Interest paid during the year	$ 475,255	$ 476,965
Income taxes paid during the year	$ 31,640	$ 23,373

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2005 and 2004 (All tabular amounts are in thousands of dollars, unless otherwise indicated.)

1. Summary of significant accounting policies

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

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

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

BASIS OF CONSOLIDATION

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

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

The Bank also consolidates variable interest entities (VIEs) when it is the primary beneficiary, as detailed below under Changes in Accounting Policies.

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

CASH AND NON-INTEREST-BEARING DEPOSITS WITH OTHER BANKS

In 2004, the Bank adopted the Canadian Institute of Chartered Accountants (CICA) Section 1100, *Generally Accepted Accounting Principles*. The Section sets out certain standards for financial reporting in accordance with GAAP. Accordingly, certain amounts related to cheques and other items in transit are now presented on a gross basis according to their nature in cash and non-interest-bearing deposits with other banks and in business, banks and other deposits, whereas previously, cash and non-interest-bearing deposits with other banks also included cheques and other items in transit which are now presented in other assets and liabilities.

SECURITIES

Investment account

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

Trading account

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SECURITIES ACQUIRED UNDER REVERSE REPURCHASE AGREEMENTS
AND OBLIGATIONS RELATED TO SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

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

LOANS

Balance sheet presentation

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

Impaired loans

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

When loans are classified as impaired, the accrual of interest income ceases. The carrying amount of these loans is then adjusted to their estimated realizable value by way of a total or partial write-off and/or an allowance for loan losses.

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

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

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

Commissions on loans and revenue recognition

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

Foreclosed assets

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

ALLOWANCES FOR LOSSES

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

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

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

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

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

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

LOAN SECURITIZATION
The Bank transfers pools of mortgages. These transfers are accounted for as sales when the Bank is deemed to have surrendered control over these assets and has received a consideration other than beneficial interests in these assets.

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

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

Cash reserve accounts and excess interest spreads related to these transactions are initially recorded at cost and presented under other assets. The retained subordinated tranches are also recorded at cost. They are presented with securities in the investment account. They are then subsequently tested for impairment on a quarterly basis in order to identify, if any, other than temporary impairments.

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT

Land is carried at cost. Other property, plant and equipment are recorded at cost less accumulated depreciation and are depreciated over their estimated useful lives using the following methods and rates:

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

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

DEFERRED CHARGES

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

GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

EMPLOYEE FUTURE BENEFITS

Pension plans

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

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

Actuarial gains or losses arise, in particular, from the difference between the actual long-term rate of return on plan assets and the expected rate of return on such assets, based on management's best-estimate assumptions, as well as from changes in actuarial assumptions used to determine the accrued benefit obligation. Net actuarial gains or losses are amortized when, at the beginning of the year, the unamortized balance of the gain or loss exceeds 10% of the greater of the accrued benefit obligation or the market value of plan assets. This excess is amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the plans which varied from 9 to 11 years in 2005 under the plans (from 9 to 11 years in 2004).

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

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

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

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

Other plans

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

Derivative financial instruments used to manage the Bank's risks

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

DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH HEDGE ACCOUNTING IS APPROPRIATE

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH HEDGE ACCOUNTING IS NOT APPROPRIATE

The derivative financial instruments used to manage the Bank's risks, but for which hedge accounting is not appropriate, are accounted for using the fair value method, and the resulting unrealized gains and losses are recognized in income from treasury and financial market operations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments used in connection with trading activities

When used in trading activities or to serve the needs of customers, derivative financial instruments are accounted for using the fair value method, and the resulting realized and unrealized gains and losses are recognized in other income. Unrealized gains and losses are reported on a gross basis in other assets or liabilities.

Other considerations

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

EQUITY-LINKED DEPOSIT CONTRACTS

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

INCOME TAXES

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

NET INCOME PER COMMON SHARE

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

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

STOCK-BASED COMPENSATION

The Bank uses the fair-value method of accounting for stock-based compensation to employees and directors.

For the new share purchase options granted on or after November 1, 2002, the Bank recognizes the fair value of the options granted as an increase in the related compensation expense and contributed surplus over the option vesting period. When the options are exercised, the proceeds received and the amount of the contributed surplus are credited to common capital stock. The value of the options granted is determined using the Black-Scholes option-pricing model using management's best estimates. With respect to awards granted prior to November 1, 2002, the Bank continues to apply the previous standards under which no compensation cost is recognized when share purchase options are awarded to employees and the consideration paid by the employees who exercise their options is credited to common capital stock.

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

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

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

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

TRANSLATION OF FOREIGN CURRENCIES

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

CHANGES IN ACCOUNTING POLICIES

Consolidation of variable interest entities

In September 2004, the CICA issued a revised version of Accounting Guideline no. 15 (AcG-15), *Consolidation of Variable Interest Entities*. AcG-15 provides guidance for applying consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. Under this new standard, the Bank must consolidate these entities if it is the primary beneficiary thereof, that is, if as a result of its investments or financial interests, or the relationships it has with these entities, the Bank would be required to absorb a majority of their expected losses or would be entitled to a majority of their expected residual returns. Where the Bank holds a significant variable interest in a variable interest entity (VIE) that it has not consolidated, certain disclosures regarding the nature, purpose, size and activities of the VIE must also be provided. On November 1, 2004, the Bank adopted this guideline on a retroactive basis without restatement of prior period figures. The main impacts are detailed below.

SECURITIZATION CONDUITS

The Bank securitizes its own assets through single-seller and multi-seller securitization conduits, which are normally considered VIEs. As at November 1, 2004, the Bank consolidated one of these conduits, whose total assets amounted to approximately $109,900,000. During the first quarter, this conduit was converted into a qualifying special-purpose entity and, consequently, was deconsolidated. These transactions did not have a material impact on the consolidated financial statements.

The other conduits were not consolidated under AcG-15 because the Bank is not the primary beneficiary thereof. More details regarding these entities are provided in note 5.

MUTUAL FUNDS

Through its ownership interest in the joint venture BLC-Edmond de Rothschild Asset Management Inc., the Bank was the sponsor of mutual funds that met VIE criteria with assets totalling $910,200,000 as at November 1, 2004. The Bank's joint venture charged fees, mainly based on the value of assets under management, in respect of the management and administration of these funds. This joint venture was disposed on December 31, 2004 (see note 2). The Bank also holds units relating to seed capital investments for certain funds amounting to $14,899,000 as at October 31, 2005. Based on its analysis, the Bank is not the primary beneficiary of these entities and such entities have not been consolidated.

OTHER ENTITIES

The Bank also acts as trustee of a number of personal trusts for which it levies fees. Based on its analyses, the Bank is not the primary beneficiary of these entities and such entities have not been consolidated.

Presentation of liabilities and equity

In January 2004, the CICA issued revised Section 3860, *Financial Instruments – Disclosure and Presentation*, to require that obligations that can be settled, at the issuer's option, by a variable number of the issuer's own equity instruments, under conditions that are potentially unfavourable, be presented as liabilities. The dividend payments on these shares will now be presented as interest expense in the statement of income. The revised recommendations are applicable on a retroactive basis with restatement of corresponding amounts.

The application of this revised standard as at November 1, 2004 did not have any impact on the liabilities and equity of the Bank since the securities issued and outstanding as at November 1, 2004 qualified as equity.

However, the comparative figures relative to the Preferred Shares, Series 7 and 8, for a total amount of $100,000,000 which were redeemed in June 2004, were restated. For fiscal 2004, the dividends and the premium on redemption related to these instruments, which were previously reported in the consolidated statement of changes in shareholders' equity amounting to $7,900,000, including related income taxes, were reclassified to interest expense in the consolidated statement of income for an amount of $7,814,000 and to income taxes for an amount of $86,000. This reclassification had no impact on net income available to common shareholders or on earnings per share.

FUTURE CHANGES TO ACCOUNTING POLICIES

Financial instruments

On April 1, 2005, the CICA issued three accounting standards: *Financial Instruments – Recognition and Measurement, Hedges* and *Comprehensive Income*. These new standards will be effective for the Bank on November 1, 2006. The impact of implementing these standards on the Bank's financial statements cannot yet be determined as it is dependent on the Bank's hedging positions and strategies, as well as on market volatility at the time of application of these standards.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

All financial assets and liabilities will be carried at fair value in the consolidated balance sheet, except loans and receivables, held-to-maturity investments and non-trading financial liabilities, which will be carried at amortized cost. Realized and unrealized gains and losses on trading financial assets and liabilities will be recognized immediately in the consolidated statement of income. Unrealized gains and losses on financial assets that are available for sale will be recognized in other comprehensive income until their realization, after which these amounts will be recognized in the consolidated statement of income. All derivative financial instruments will be carried at fair value in the consolidated balance sheet.

HEDGES

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

COMPREHENSIVE INCOME

Other comprehensive income will be included in the consolidated balance sheet as a separate component of shareholders' equity.

2. Acquisitions and disposals

2005

Sale of BLC–Edmond de Rothschild Asset Management Inc.

On December 31, 2004, the Bank completed the acquisition of the 49.9% share of BLC-Edmond de Rothschild Asset Management Inc. (BLCER) that was owned by La Compagnie Financière Edmond de Rothschild Banque (LCFER) for an amount of $23,397,000, subject to certain post-closing adjustments. Subsequently, on December 31, 2004, Industrial Alliance Insurance and Financial Services Inc. (Industrial Alliance) acquired all of the shares of BLC-Edmond de Rothschild Asset Management Inc. from the Bank. The net sale price, paid in cash, amounts to $67,795,000, based on the assets under management as at December 31, 2004. This sale price is subject to certain recovery clauses that initially amounted to $26,930,000, based on net sales of mutual funds for the next six years ending on December 31, 2010 and on the balance of institutional funds under management on December 31, 2005. As a result, an initial gain of $9,777,000 ($8,139,000, net of applicable income taxes) was recognized under income from discontinued operations, net of transaction fees estimated at $2,261,000, and $26,217,000 was recorded as a deferred gain. In addition, the Bank, Industrial Alliance and BLC-Edmond de Rothschild Asset Management Inc. entered into a ten-year distribution agreement. Under this agreement, the Bank will distribute the R Funds family acquired by Industrial Alliance to the Bank's clients, along with the Industrial Alliance mutual funds. The Bank will continue to receive commissions related to the distribution of funds, under terms equivalent to those prevailing in the industry.

RECOVERY CLAUSES

Under a recovery clause, the Bank must repay Industrial Alliance an annual amount of $5,183,000, for the five years following the sale, if net annual sales of mutual funds do not reach $50,000,000. The sale proceeds related to the first year's sales threshold was recognized in income at the end of the current year, in light of net sales as at October 31, 2005 relative to sales levels expected to be achieved by December 31, 2005. The deferred portion of the proceeds will be recognized over the next four years as the net sales thresholds are considered achieved. At the end of the six-year period ending on December 31, 2010, if cumulative net sales of mutual funds reach $290,000,000, the amounts that would have been repaid to Industrial Alliance under the recovery clause would be reimbursed to the Bank. Moreover, a final payment of $8,300,000 would be made to the Bank at the end of the first five-year period of the agreement if cumulative net sales of mutual funds reach $350,000,000. Including this premium, the total sale price related to the transaction would be $76,095,000. The gain relating to this final payment will be recognized in income once the conditions are met.

Under a separate recovery clause, the Bank could be required to repay up to $1,015,000 to Industrial Alliance based on retention of institutional assets under management in the twelve-month period ending on December 31, 2005. The Bank deferred revenues of $300,000 related to this clause.

INVESTMENTS IN SEED CAPITAL

The Bank also owns an investment related to seed capital that was carried at cost. Since the Bank is no longer involved in the management of mutual funds, it was agreed that this investment would be disposed of. As a result, an initial $4,400,000 charge was recorded in Income from discontinued operations to carry the investment at market value. Since then, the Bank has recorded revenues of $35,000 ($24,000 net of income taxes) to reflect the realized and unrealized net gains related to this investment.

The gain and the changes in the value of investments in seed capital were attributed to the Other segment, whereas the portion of the gain related to recovery clauses was attributed to the Retail Financial Services segment.

Transaction summary

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

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

The operating results and the financial position related to these operations, included in these consolidated financial statements, are presented hereafter. These operations are presented in the Laurentian Bank Securities segment.

The results related to these operations, included in Income from continuing operations, are as follows:

	2005	2004
Other income	$1,036	$5,629
Net income	$ 29	$ 204

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

	2005	2004
Total assets	$14,899	$34,245
Total liabilities	$ –	$ 1,528

2004

Privatization of B2B Trust

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

2. ACQUISITIONS AND DISPOSALS (CONTINUED)

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

Disposal of the debit and credit card transaction processing activities

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

Disposal of certain rights to service mutual fund accounts

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

Disposal of a credit card loan portfolio

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

3. Securities

A) MATURITY SCHEDULE AND RETURN ON SECURITIES

					2005		2004	
	Within 1 year	1 to 5 years	Over 5 years	No specific maturity	Total	Yield	Total	Yield
Investment account								
Securities issued or guaranteed								
by Canada	$1,041,627	$455,102	$121,947	$ –	$1,618,676	2.9%	$1,638,798	2.6%
by provinces	38,854	2,405	–	–	41,259	2.7	153,592	2.4
Other debt securities	46,608	102,961	43,666	–	193,235	4.8	132,214	5.1
Preferred shares	–	–	–	47,884	47,884	4.5	41,837	3.1
Common shares and other	–	–	–	8,627	8,627	4.8	37,288	0.7
Mortgage-backed securities	2,138	–	–	–	2,138	5.0	3,742	5.0
Total carrying amount	1,129,227	560,468	165,613	56,511	1,911,819	3.1%	2,007,471	2.7%
Total fair value	$1,125,654	$554,809	$164,575	$ 56,397	$1,901,435		$2,002,380	
Trading account								
Securities issued or guaranteed								
by Canada	$ 31,448	$ 39,888	$ 85,360	$ –	$ 156,696		$ 195,571	
by provinces	111,021	189,790	174,955	–	475,766		510,058	
by municipal corporations	10,028	21,409	8,265	–	39,702		34,860	
Other debt securities	50,013	67,078	62,151	–	179,242		160,605	
Common shares and other	–	–	–	63,277	63,277		32,169	
Mortgage-backed securities	415	100,240	13,249	–	113,904		61,741	
	202,925	418,405	343,980	63,277	1,028,587		995,004	
Total carrying amount	$1,332,152	$978,873	$509,593	$119,788	$2,940,406		$3,002,475	

The above classification is based on the contractual maturity date of the securities.

The weighted average return is calculated based on the carrying amount of each type of security at year-end.
US–dollar–denominated securities amounted to $91,412,000 ($48,408,000 in 2004).

B) INVESTMENT ACCOUNT – UNREALIZED GAINS AND LOSSES

				2005				2004
	Carrying amount	Unrealized gains	Unrealized losses	Fair value	Carrying amount	Unrealized gains	Unrealized losses	Fair value
Securities issued or guaranteed								
by Canada	$1,618,676	$ 999	$11,646	$1,608,029	$1,638,798	$ 376	$2,463	$1,636,711
by provinces	41,259	17	55	41,221	153,592	47	225	153,414
Other debt securities	193,235	2,255	1,855	193,635	132,214	3,182	859	134,537
Preferred shares	47,884	510	457	47,937	41,837	560	246	42,151
Common shares and other	8,627	71	238	8,460	37,288	514	6,049	31,753
Mortgage-backed securities	2,138	15	–	2,153	3,742	72	–	3,814
	$1,911,819	$3,867	$14,251	$1,901,435	$2,007,471	$4,751	$9,842	$2,002,380

4. Loans

A) LOANS AND IMPAIRED LOANS

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

					2004
	Gross amount of loans	Gross amount of impaired loans	Specific allowances	General allowances	Total allowances
Personal loans	$ 3,638,991	$ 18,103	$10,059	$23,795	$ 33,854
Residential mortgages	5,509,022	13,199	3,935	5,832	9,767
Commercial mortgages	604,085	15,482	6,064	3,625	9,689
Commercial loans and other	1,542,760	80,213	54,734	23,063	77,797
Unallocated general allowance	–	–	–	8,935	8,935
	$11,294,858	$126,997	$74,792	$65,250	$140,042

US–dollar–denominated loans totalled $59,283,000 ($48,071,000 in 2004).

In 2005, foreclosed assets held for sale amounted to $1,440,000 ($9,990,000 in 2004) with no eliminations to the related specific allowances ($5,164,000 in 2004).

B) SPECIFIC ALLOWANCES FOR LOAN LOSSES

					2005	2004
	Personal loans	Residential mortgages	Commercial mortgages	Commercial loans and other	Total specific allowances	Total specific allowances
Balance at beginning of year	$10,059	$3,935	$6,064	$54,734	$74,792	$85,927
Provision for credit losses recorded in the consolidated statement of income	25,069	626	1,557	12,748	40,000	52,000
Provision for credit losses resulting from sale of branches	–	–	–	–	–	(737)
Write-offs [1]	(33,020)	(1,097)	(1,724)	(20,160)	(56,001)	(67,887)
Recoveries	5,159	271	7	328	5,765	5,489
Balance at end of year	$ 7,267	$3,735	$5,904	$47,650	$64,556	$74,792

(1) No restructured loans were written-off during the years ended October 31, 2005 and 2004.

4. LOANS (CONTINUED)

C) GENERAL ALLOWANCES FOR LOAN LOSSES

						2005	2004
	Personal loans	Residential mortgages	Commercial mortgages	Commercial loans and other	Unallocated general allowance	Total general allowances	Total general allowances
Balance at beginning of year	$23,795	$5,832	$3,625	$23,063	$8,935	$65,250	$77,250
Change during the year	1,033	(273)	1,023	2,755	(4,538)	–	–
Reduction in provision for credit losses recorded in the consolidated statement of income	–	–	–	–	–	–	(12,000)
Balance at end of year	$24,828	$5,559	$4,648	$25,818	$4,397	$65,250	$65,250

5. Loan securitization

Under the mortgage-backed securities program provided for under the *National Housing Act*, the Bank securitized residential mortgages, during the year, secured by the Canadian Mortgage and Housing Corporation (CMHC) totalling $266,850,000 ($150,432,000 in 2004) through the creation of mortgage-backed securities. The Bank subsequently sold all of these mortgage-backed securities. In addition, during the year, the Bank securitized conventional mortgages totalling $75,998,000 (nil in 2004).

In relation to these transactions, during the year, the Bank collected cash proceeds amounting to $341,408,000 ($149,072,000 in 2004) and recognized, in other income, securitization gains of $8,995,000 ($1,437,000 in 2004) net of transaction-related costs. The calculation of these gains mainly takes into account the rights to future excess interest of $14,567,000 ($5,539,000 in 2004) net of servicing liabilities of $2,889,000 ($1,068,000 in 2004) and cash reserve accounts of $760,000 (nil in 2004).

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

Key assumptions	2005	2004
Rate of prepayment	19%	26%
Excess interest spread	1.60%	1.74%
Discount rate	4.03%	5.28%
Rate of credit losses	0.05%	n/a

No loss is expected on insured residential mortgages.

During the year, the Bank collected cash flows from retained interests totalling $8,074,000 ($8,169,000 in 2004). The amortization relating to the servicing liability recognized in income amounted to $1,460,000 ($1,726,000 in 2004).

The following table shows the value of retained interests, as well as the sensitivity of the fair value of these interests to immediate unfavourable changes of 10% and 20% in the key assumptions used to value retained interests as at October 31, 2005.

Sensitivity of key assumptions to unfavourable changes	2005	2004
Carrying amount of retained interests	$21,175	$15,132
Fair value of retained interests	$26,005	$17,544
Weighted average life (in months)	24	25
Rate of prepayment	17%	20%
Impact on fair value of unfavourable change of 10%	$ 508	$ 280
Impact on fair value of unfavourable change of 20%	$ 1,002	$ 532
Rate of credit losses (1)	0.15%	0.25%
Impact on fair value of unfavourable change of 10%	$ 20	$ 41
Impact on fair value of unfavourable change of 20%	$ 41	$ 81
Discount rate	3.7%	6.5%
Impact on fair value of unfavourable change of 10%	$ 144	$ 133
Impact on fair value of unfavourable change of 20%	$ 289	$ 261

(1) Expected credit losses on conventional residential mortgages only. No loss is expected on insured residential mortgages.

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

The total principal amount of securitized loans amounted to $702,718,000 at year-end ($551,964,000 at the end of 2004).

6. Property, plant and equipment

			2005	2004
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 651	$ –	$ 651	$ 651
Premises	3,548	1,420	2,128	2,177
Leasehold improvements	45,319	26,130	19,189	15,217
Equipment and furniture	70,692	60,254	10,438	9,721
Computer hardware and software	290,631	229,244	61,387	66,724
	$410,841	$317,048	$93,793	$94,490

Depreciation expense recorded in the consolidated statement of income amounts to $28,192,000 ($34,445,000 in 2004). Computer hardware and software include an amount totalling $6,543,000 ($6,922,000 in 2004) related to projects under development that are not depreciated.

7. Goodwill and other intangible assets

Goodwill is detailed as follows:

	Retail Financial Services	Wealth Management and Brokerage	Total
Balance as at October 31, 2003 and 2004	$53,790	$ 239	$54,029
Disposal related to the sale of the joint venture			
BLC-Edmond de Rothschild Asset Management Inc. (see note 2)	–	(239)	(239)
Balance as at October 31, 2005	$53,790	$ –	$53,790

See note 23 for segment descriptions.

Other intangible assets consist of the following:

			2005	2004
	Cost	Accumulated amortization	Net book value	Net book value
Contractual relations and client relationships	$18,278	$1,731	$16,547	$17,770
Mutual fund management contract relationships	–	–	–	1,127
	$18,278	$1,731	$16,547	$18,897

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

Amortization of other intangible assets recorded in the consolidated statement of income during the year amounts to $1,344,000 ($1,259,000 in 2004).

The Bank tests goodwill and other intangible assets for impairment on an annual basis. No impairment was identified in 2005 and 2004.

8. Other assets

	2005	2004
Other items in transit (note 1)	$180,923	$ 85,730
Deferred charges related to loan and deposit origination	92,218	98,615
Accrued interest receivable	73,877	68,417
Accrued benefit assets (note 14)	42,458	43,821
Assets related to securitized mortgage loans	26,682	32,582
Accounts receivable, prepaid expenses and other items	44,469	30,784
	$460,627	$359,949

9. Deposits

				2005	2004
	Demand	Notice	Term	Total	Total
Personal	$ 99,867	$1,771,059	$ 8,704,490	$10,575,416	$10,454,368
Business, banks and other	657,026	109,830	2,354,666	3,121,522	2,456,672
	$756,893	$1,880,889	$11,059,156	$13,696,938	$12,911,040

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

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

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

Deposits denominated in U.S. dollars amount to $271,618,000 ($347,938,000 in 2004) and deposits denominated in other foreign currencies, primarily in euros, amount to $654,000 ($697,000 in 2004).

10. Other liabilities

	2005	2004
Accrued interest payable	$411,503	$456,589
Cheques and other items in transit (note 1)	173,580	133,830
Deferred gain related to the sale of BLCER (note 2)	20,738	–
Liabilities related to securitized mortgage loans	15,088	31,520
Accrued benefit liabilities (note 14)	10,340	9,600
Accounts payable, accrued expenses and other items (note 15)	78,474	81,820
	$709,723	$713,359

11. Subordinated debentures and liability related to preferred shares

SUBORDINATED DEBENTURES

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

ISSUED AND OUTSTANDING AS AT OCTOBER 31

Maturity	Series	Interest rate	Special terms	2005	2004
December 2009	8	7.00%	Redeemable at par as of December 2004.	$ –	$ 50,525
October 2010	6	8.90%	Redeemable at par as of October 2005.	–	50,000
June 2011	9	6.50%	Redeemable at par as of June 2006; rate to be revised in June 2006 and set at the 90-day bankers' acceptance rate plus 1.25%.	150,000	150,000
				$150,000	$250,525

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

2006	$150,000

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

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

On June 1, 2004, the Bank completed the early redemption of all of its 5.75% Debentures, Series 7, maturing in 2009, with an aggregate principal amount of $100,000,000, plus accrued and unpaid interest to the date of redemption. As part of this transaction, costs of $1,063,000 were charged to income.

LIABILITY RELATED TO PREFERRED SHARES

On June 16, 2004, the Bank completed the early redemption of all of its Preferred Shares, Series 7 and 8, at a price of $25.50 per share, for a total consideration of $102,000,000, including a redemption premium amounting to $2,000,000, plus the declared but unpaid dividends to the redemption date. The premium and the dividends related to these shares are presented as interest expense in the statement of income in accordance with the new requirements regarding financial instruments (see note 1).

As of the redemption date, these redeemed preferred shares ceased to bear dividends.

12. Capital stock

AUTHORIZED

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

ISSUED AND OUTSTANDING AS AT OCTOBER 31

		2005			2004		
	Dividends per share (1)	Number of shares	Amount	Declared dividends	Number of shares	Amount	Declared dividends
Class A Preferred Shares							
Series 9	$1.500	4,000,000	$100,000	$ 6,132	4,000,000	$100,000	$ 6,132
Series 10	$1.312	4,400,000	110,000	5,898	4,400,000	110,000	2,474
Total preferred shares		8,400,000	$210,000	$12,030	8,400,000	$210,000	$ 8,606
Common shares		23,556,545	$249,633	$27,293	23,511,343	$248,593	$27,248
Treasury shares		(20,000)	$ (590)	$ (6)	–	$ –	$ –

(1) Non-cumulative dividend.

12. CAPITAL STOCK (CONTINUED)

PREFERRED SHARES

Terms of shares

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

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

Issuance of preferred shares

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

COMMON SHARES

Issuance of common shares

During the year, 45,202 common shares (75,758 shares in 2004) were issued under the employee share purchase option plan for the management of the Bank for a cash consideration of $1,040,000 ($1,780,000 in 2004).

TREASURY SHARES

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

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

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

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

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

SHAREHOLDER RIGHTS PLAN

The Bank has a Shareholder Rights Plan intended to encourage the fair treatment of shareholders in connection with any take-over bid for the Bank. The rights issued under the Rights Plan become exercisable only when a person, including related persons, acquires or announces its intention to acquire 20% or more of the Bank's outstanding common shares without complying with the Permitted Bid provisions of the Rights Plan or without approval of the Board of Directors of the Bank. Should such an acquisition occur, each right would entitle a rights holder, other than the acquiring person and related persons, to purchase common shares of the Bank at a 50% discount of the market price at the time. Under the Rights Plan, a Permitted Bid is a bid made by means of a take-over bid circular sent to all shareholders of the Bank and is open for not less than 60 days. If at the end of the 60 days, at least 50% of the outstanding common shares have been tendered, other than those belonging to the offeror or related persons, the offeror may take up and pay for the shares but must extend his bid for a further 10 days to allow other shareholders to tender their shares. In the event of a hostile take-over bid, the rights will cause substantial dilution to the person attempting the take-over.

13. Stock-based compensation

SHARE PURCHASE OPTIONS

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

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

As at October 31, 2005, the Bank has reserved 1,600,000 common shares (1,600,000 shares in 2004) for the potential exercise of share purchase options, of which 114,418 (112,568 in 2004) were still available.

Given that the Bank has not granted any options since November 1, 2002, no expense was recognized for the years ended October 31, 2005 and 2004, as permitted by the transitional provisions of the CICA.

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

	2005		2004	
	Number of options	Weighted average exercise price per option	Number of options	Weighted average exercise price per option
Outstanding, beginning of year	476,089	$26.99	595,522	$26.76
Exercised	(45,202)	$23.00	(75,758)	$23.49
Cancelled	(1,850)	$30.58	(43,675)	$29.88
Outstanding, end of year	429,037	$27.40	476,089	$26.99
Exercisable, end of year	404,037	$27.35	416,239	$26.75

The following table summarizes information relating to share purchase options outstanding and exercisable as at October 31, 2005.

	Options outstanding			Options exercisable	
Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price per option	Number of options exercisable	Weighted average exercise price per option
$15.85 – $19.94	49,800	2.32	$18.38	49,800	$18.38
$22.08 – $25.14	33,517	3.61	$22.12	33,517	$22.12
$27.08 – $31.80	345,720	3.97	$29.21	320,720	$29.29
	429,037			404,037	

OTHER STOCK-BASED COMPENSATION PLANS

The Bank offers a stock appreciation rights (SARs) plan to members of senior management of the Bank and its subsidiaries. These SARs may be settled in consideration for a cash amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs vest over a maximum period of five years and can be exercised over a maximum period of ten years. In addition, during the fourth quarter of the current year, the Bank established a performance–based share program, under which 20,000 common shares of the Bank have been granted. The rights in respect of these shares will vest at the end of the 16-month period ending on January 1, 2007, if the Bank meets certain performance objectives.

During the year, an expense of $1,361,000 (income of $271,000 in 2004) was recorded relating to these plans. As at October 31, 2005, 687,721 SARs (880,220 in 2004) were outstanding at a weighted average exercise price of $26.98 ($26.60 in 2004), of which 205,021 (258,158 in 2004) were exercisable at the end of the year. As at October 31, 2005, the weighted average remaining life of SARs was 6.61 years (7.35 years in 2004).

A deferred share unit plan is also offered to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his remuneration in the form of deferred share units settled in cash. The deferred share units are converted when the holder steps down from the Board of Directors. As at October 31, 2005, there were 21,755 units (16,884 in 2004) outstanding with a total value of $660,000 ($451,000 in 2004). The compensation expense recorded during the year, in respect of this plan, was $209,000 ($86,000 in 2004).

13. STOCK-BASED COMPENSATION (CONTINUED)

B2B TRUST SHARE PURCHASE OPTION PLAN

B2B Trust offered a share purchase option plan to its directors, officers and key employees, as well as to the directors and officers of Laurentian Bank. Upon the privatization of B2B Trust in 2004, all the rights with respect to these options outstanding vested pursuant to the terms of the plan. The 798,500 options with an exercise price lower than $9.50, that is, the Bank's offer, were exercised whereas the other options were cancelled. During 2004, B2B Trust awarded no options. An expense of $85,000 was recognized in consolidated income in 2004, which included the impact of the accelerated vesting of rights at the time of the privatization.

14. Employee future benefits

DESCRIPTION OF BENEFIT PLANS

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

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

TOTAL CASH PAYMENTS

Total cash payments for future employee benefits for 2005, consisting of cash contributed by the Bank to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution plans, were $15,985,000 ($27,479,000 in 2004).

DEFINED BENEFIT PLAN MEASUREMENT DATES

The Bank measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at October 31 of each year. The most recent actuarial valuations are as of December 31, 2004 and as of December 31, 2003 for one of the plans. The next required actuarial valuation for funding purposes for the funded plans will be as of December 31, 2005 and, for one of the plans, as of December 31, 2006.

DEFINED BENEFIT PLAN OBLIGATIONS

		2005		2004
	Pension plans	Other plans	Pension plans	Other plans
Change in accrued benefit obligation				
Accrued benefit obligation at beginning of year	$276,906	$23,169	$251,595	$22,470
Current service cost	6,318	41	6,146	38
Interest cost on accrued benefit obligation	18,325	1,257	17,464	1,263
Benefits paid	(15,021)	(1,824)	(14,814)	(1,294)
Employee contributions	2,411	–	2,369	–
Past service costs	240	–	–	–
Actuarial losses	56,992	2,941	2,029	692
Transfer related to the branches acquired in 2001	–	–	12,117	–
Other	192	–	–	–
Accrued benefit obligation at end of year	$346,363	$25,584	$276,906	$23,169

DEFINED BENEFIT PLAN ASSETS

	2005		2004	
	Pension plans	Other plans	Pension plans	Other plans
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	$244,183	$–	$195,861	$–
Actual return on plan assets	23,526	–	24,435	–
Bank contributions	11,717	–	23,947	–
Employee contributions	2,411	–	2,369	–
Benefits paid	(14,759)	–	(14,546)	–
Transfer related to the branches acquired in 2001	–	–	12,117	–
Fair value of plan assets at end of year	$267,078	$–	$244,183	$–

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

	2005		2004	
	Pension plans	Other plans	Pension plans	Other plans
Fair value of plan assets	$267,078	$ –	$244,183	$ –
Accrued benefit obligation	346,363	25,584	276,906	23,169
Funded status of plans – deficit	(79,285)	(25,584)	(32,723)	(23,169)
Unamortized transitional obligation	584	11,834	848	12,655
Unamortized past service costs	3,840	–	4,168	–
Unamortized net actuarial loss	112,050	8,679	66,325	6,117
Accrued benefit asset (liability) at end of year	$ 37,189	$ (5,071)	$ 38,618	$ (4,397)
Accrued benefit asset included in other assets	$ 42,458	$ –	$ 43,821	$ –
Accrued benefit liability included in other liabilities	$ 5,269	$ 5,071	$ 5,203	$ 4,397

ALLOCATION OF PLAN ASSETS AS A PERCENTAGE (1)

	2005	2004
Asset category		
Equity securities	54%	58%
Debt securities and other	46	42
Total	100%	100%

(1) Measured as of the measurement date of October 31 of each year.

Plan assets do not include any equity securities of the Bank as at October 31, 2005 and 2004.

PLANS WITH ACCRUED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS

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

	2005		2004	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit obligation	$ 332,561	$ 25,584	$ 265,751	$ 23,169
Fair value of plan assets	249,739	–	229,595	–
Funded status – plan deficit	$ (82,822)	$(25,584)	$ (36,156)	$(23,169)

14. EMPLOYEE FUTURE BENEFITS (CONTINUED)

ELEMENTS OF DEFINED BENEFIT COSTS RECOGNIZED DURING THE YEAR

		2005		2004
	Pension plans	Other plans	Pension plans	Other plans
Defined benefit costs recognized during the year	$ 6,318	$ 41	$ 6,146	$ 38
Interest cost on accrued benefit obligation	18,325	1,257	17,464	1,263
Actual return on plan assets	(23,526)	–	(24,435)	–
Actuarial losses on accrued benefit obligation	56,992	2,941	2,029	692
Other	192	–	–	–
Elements of employee future benefit costs before adjustments to recognize their long-term nature	58,301	4,239	1,204	1,993
Excess of actual return over expected return	6,846	–	7,783	–
Deferral of amounts arising during period:				
Actuarial losses on accrued benefit obligation	(56,992)	(2,941)	(2,029)	(692)
Amortization of previously deferred amounts:				
Past service costs	569	–	542	–
Actuarial losses	4,420	378	3,851	501
Transitional obligation	264	821	264	821
Adjustments to recognize long-term nature of employee future benefit costs	(44,893)	(1,742)	10,411	630
Total defined benefit costs	13,408	2,497	11,615	2,623
Total defined contribution portion costs	2,183	–	1,970	–
Employee future benefit costs	$ 15,591	$ 2,497	$13,585	$2,623

SIGNIFICANT ASSUMPTIONS

		2005		2004
	Pension plans	Other plans	Pension plans	Other plans
Weighted average of assumptions				
Accrued benefit obligation as at October 31:				
Discount rate at end of year	5.35%	5.35%	6.50%	6.50%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Benefit costs for the years ended October 31:				
Discount rate for the year	6.50%	6.50%	6.75%	6.75%
Expected long-term rate of return on plan assets	7.25%	–	7.75%	–
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

ASSUMED HEALTH CARE COST TREND RATES AS AT OCTOBER 31

	2005	2004
Assumed annual rate of increase in the cost of healthcare benefits	9.0%	9.5%
Level to which it should decline and at which it is assumed to subsequently stabilize	5%	5%
Year that the rate is assumed to stabilize	2013	2013

SENSITIVITY ANALYSIS

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2005:

	1% increase	1% decrease
Total of service and interest cost	$ 103	$ (86)
Accrued benefit obligation	$1,730	$(1,448)

15. Restructuring costs

In 2003, the Bank initiated a cost reduction program of an initial amount of $21,569,000, including termination benefits, the write-off of certain technological assets and the optimized use of certain premises. The remaining provision amounting to $1,173,000 ($2,371,000 in 2004) is primarily related to obligations in respect of future lease payments for unoccupied premises. During the year, the provision was reduced by $697,000 subsequent to an adjustment of the anticipated occupancy level of certain premises.

16. Income taxes

FUTURE INCOME TAX ASSETS

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

	2005	2004
Property, plant and equipment	$ 70,903	$ 67,358
Allowance for credit losses	35,504	38,815
Recoverable minimum income tax of financial institutions	10,615	22,419
Prospective tax loss deferrals	15,491	13,800
Intangible assets	2,387	2,244
Accrued benefit asset-pension plans	(10,310)	(10,802)
Deferred charges	(20,864)	(21,094)
Other temporary differences	3,206	1,181
Futures income tax assets, net	$106,932	$113,921

INCOME TAX EXPENSE

Significant components of income tax expense are as follows:

	2005	2004
		Restated (note 1)
Consolidated statement of income		
Current income tax expense	$14,619	$17,941
Future income tax expense (benefit)		
Reversal (creation) of temporary differences	9,869	(1,604)
Tax rate changes	–	(1,700)
	9,869	(3,304)
	$24,488	$14,637
Consolidated statement of changes in shareholders' equity		
Income taxes on preferred share dividends and other		
Current income tax expense	$ 5,745	$ 1,950
Future income tax benefit	(5,494)	(2,899)
	$ 251	$ (949)

RECONCILIATION WITH THE STATUTORY RATE

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

	2005		2004	
	Amount		Amount	Restated (note 1)
Income taxes at statutory rate	$25,651	32.0%	$18,653	33.1%
Change resulting from:				
Corporations tax	779	1.0	1,223	1.9
Tax rate changes	–	–	(1,700)	(2.6)
Non-taxable portion of gain on disposal of assets	–	–	(1,646)	(2.6)
Other, net	(1,942)	(2.4)	(1,893)	(3.9)
Income taxes from continuing operations reported in income and effective tax rate	$24,488	30.6%	$14,637	25.9%

16. INCOME TAXES (CONTINUED)

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

17. Net income per common share

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

	2005	2004
Basic net income per common share		
Net income from continuing operations	$55,623	$39,871
Preferred share dividends, including applicable income taxes	12,030	8,606
Net income attributable to common shares from continuing operations	$43,593	$31,265
Weighted average number of outstanding common shares	23,525	23,485
Basic net income per common share from continuing operations	$ 1.85	$ 1.33
Diluted net income per common share		
Net income attributable to common shares from continuing operations	$43,593	$31,265
Average number of outstanding common shares	23,525	23,485
Dilutive share options and other	27	36
Weighted average number of outstanding common shares	23,552	23,521
Diluted net income per common share from continuing operations	$ 1.85	$ 1.33

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

An average of 290,285 (316,187 in 2004) share purchase options were not taken into account in the calculation of diluted net income per common share since the average exercise price of these options exceeded the average market price of the Bank's shares during the year.

18. Related party transactions

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

	2005	2004
Mortgage loans	$143	$193
Other loans	386	80
	$529	$273

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

19. Derivative financial instruments

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

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

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

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

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

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

v) Foreign exchange forward contracts are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a pre-determined rate.

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

A) REMAINING TERM TO MATURITY

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

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

19. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(in millions of dollars)			Period to maturity			2004
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Contracts designated as a hedge	Other contracts [1]
Interest rate contracts						
OTC contracts						
Swaps	$3,300	$7,535	$–	$10,835	$3,429	$ 7,406
Forward rate agreements	482	–	–	482	–	482
Exchange-traded contracts						
Futures	427	–	–	427	–	427
Foreign exchange contracts						
OTC contracts						
Foreign exchange swaps	789	42	–	831	–	831
Cross-currency interest rate swaps	50	–	–	50	50	–
Forwards	648	30	–	678	–	678
Options purchased	803	–	–	803	–	803
Options written	733	–	–	733	–	733
Other contracts [2]	44	137	–	181	–	181
	$7,276	$7,744	$–	$15,020	$3,479	$11,541

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

B) CREDIT EXPOSURE

(in millions of dollars)			2005			2004
	Replacement cost [1]	Credit equivalent amount [2]	Risk-weighted amount [3]	Replacement cost	Credit equivalent amount	Risk-weighted amount
Interest rate contracts						
Swaps	$38	$72	$14	$74	$111	$22
Foreign exchange contracts						
Foreign exchange swaps	13	20	5	42	51	11
Forwards	2	8	4	7	12	6
Options purchased	3	6	2	6	13	4
Other contracts [4]	34	46	9	27	41	8
	$90	$152	$34	$156	$228	$51

(1) Represents favourable fair market value, excluding the impact of master netting agreements. Exchange-traded instruments and options written are excluded since they do not constitute a credit risk.
(2) Represents total replacement cost, plus any corresponding potential credit risk amount, using guidelines issued by the Superintendent of Financial Institutions of Canada.
(3) Using guidelines issued by the Superintendent of Financial Institutions of Canada.
(4) Includes over-the-counter equity derivatives.

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

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

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

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

20. Financial instruments

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

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

A) FAIR VALUE OF ASSETS AND LIABILITIES

(in millions of dollars)

	2005			2004		
	Book value	Fair value	Favourable (unfavourable) variance	Book value	Fair value	Favourable (unfavourable) variance
Assets						
Cash resources	$ 318	$ 318	$ –	$ 328	$ 328	$ –
Securities	2,940	2,930	(10)	3,002	2,997	(5)
Assets purchased under reverse repurchase agreements	508	508	–	1,134	1,134	–
Loans	11,720	11,897	177	11,155	11,278	123
Customers' liability under acceptances	146	146	–	145	145	–
Derivative financial instruments	117	117	–	180	180	–
Other assets	120	120	–	119	119	–
Liabilities						
Deposits	13,697	13,853	(156)	12,911	13,097	(186)
Obligations related to assets sold short	726	726	–	1,496	1,496	–
Obligations related to assets sold under repurchase agreements	60	60	–	16	16	–
Acceptances	146	146	–	145	145	–
Derivative financial instruments	105	105	–	189	189	–
Other liabilities	696	696	–	700	700	–
Subordinated debentures	150	153	(3)	251	261	(10)

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

The fair value of securities is based on quoted market prices or, if unavailable, it is estimated using quoted market prices of similar investments.

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

B) FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

(in millions of dollars)

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

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

20. FINANCIAL INSTRUMENTS (CONTINUED)

(in millions of dollars)			2004
	Favourable fair value	Unfavourable fair value	Net amount
DESIGNATED AS HEDGE CONTRACTS			
Interest rate contracts			
Swaps	$ 24	$ (10)	$14
Foreign exchange contracts			
Cross-currency interest rate swaps	–	(9)	(9)
	24	(19)	5
OTHER CONTRACTS (1)			
Interest rate contracts			
Swaps	50	(68)	(18)
Foreign exchange contracts			
Foreign exchange swaps	42	(12)	30
Forwards	7	(32)	(25)
Options purchased	6	–	6
Options written	–	(6)	(6)
	55	(50)	5
Other contracts (2)	27	–	27
	132	(118)	14
TOTAL	$156	$(137)	$19

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

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

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

C) INTEREST RATE RISK

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

(in millions of dollars)							2005
	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash resources and securities	$ 997	$ 805	$ 546	$ 659	$166	$ 85	$ 3,258
Actual return		2.7%	2.7%	3.2%	4.3%		
Assets purchased under reverse repurchase agreements	508	–	–	–	–	–	508
Loans	4,208	777	1,680	4,847	121	87	11,720
Actual return		4.7%	4.9%	6.6%	7.0%		
Other assets	–	–	–	–	–	1,021	1,021
Total	5,713	1,582	2,226	5,506	287	1,193	16,507
Actual return		3.7%	4.4%	6.2%	5.4%	–	
Liabilities and equity							
Deposits	421	2,570	3,045	7,127	11	523	13,697
Actual return		3.2%	3.2%	3.1%	4.1%		
Treasury items	757	–	–	–	29	–	786
Actual return		–%	–%	–%	6.6%		
Other liabilities	–	20	59	136	–	746	961
Actual return		3.1%	3.2%	3.8%	–%		
Debentures and equity	–	–	150	210	–	703	1,063
Actual return		–%	6.5%	5.7%	–%		
Total	1,178	2,590	3,254	7,473	40	1,972	16,507
Actual return		3.2%	3.4%	3.2%	5.9%		
Swaps, net	–	(3,485)	302	3,183	–	–	–
Sensitivity gap	4,535	(4,493)	(726)	1,216	247	(779)	–
Cumulative gap	$4,535	$ 42	$ (684)	$ 532	$779	$ –	$ –

(in millions of dollars)							2004
	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets	$5,901	$ 2,102	$ 1,578	$5,733	$204	$1,089	$16,607
Actual return		3.3%	5.8%	5.9%	6.4%		
Liabilities and equity	1,191	2,305	3,049	8,133	24	1,905	16,607
Actual return		2.9%	3.4%	3.5%	6.5%		
Swaps, net	–	(2,155)	242	1,913	–	–	–
Other derivative financial instruments	–	37	(37)	–	–	–	–
Sensivity gap	4,710	(2,321)	(1,266)	(487)	180	(816)	–
Cumulative gap	$4,710	$ 2,389	$ 1,123	$ 636	$816	$ –	$ –

Assets, liabilities and equity are shown at the earlier of the date of maturity or contractual re-evaluation while taking into consideration estimated redemptions or prepayments, except for the following:
- Loans and deposits for which the interest rates are not indexed on a specific rate and which can be non-sensitive to changes in market rates are classified based on the historical evolution of their sensitivity.
- Debentures for which interest rates can be revised at a future date are classified at the re-evaluation date; those for which rates cannot be revised are classified at their maturity.
- Preferred shares are classified using the date on which they become redeemable.

D) CONCENTRATION OF CREDIT RISK

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

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

	2005	2004
Quebec	64%	65%
Other Canadian provinces	36%	35%
Total	100%	100%

No single industry segment accounted for more than 3% (3% in 2004) of the total loans and customers' liability under acceptances.

21. Commitments and guarantees

A) CREDIT-RELATED COMMITMENTS

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

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

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

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

	2005	2004
Undrawn amounts under approved credit facilities (1)	$3,737,591	$3,474,492
Documentary letters of credit	$ 15,076	$ 19,371

(1) Notably include personal credit facilities totalling $1,087,013,000 ($1,020,205,000 as at October 31, 2004) and credit card lines amounting to $718,770,000 ($680,685,000 as at October 31, 2004) which are revocable at the Bank's option.

21. COMMITMENTS AND GUARANTEES (CONTINUED)

B) GUARANTEES

i) Standby letters of credit and performance guarantees

In the normal course of its operations, the Bank offers to its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that the client cannot meet its obligations to third parties. The terms of these guarantees vary according to the contracts and normally do not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. No specific provision is currently recorded with regard to these guarantees. The maximum potential amount of future payments under these guarantees totalled $60,672,000 as at October 31, 2005 ($55,329,000 in 2004).

ii) Derivative financial instruments

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank sells put options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of foreign currencies at a predetermined price. The term of these options does not exceed 12 months. No specific provision is recorded with respect to these derivatives. The maximum potential amount of future payments under these derivatives, corresponding to the notional value of outstanding contracts, totalled $200,061,000 as at October 31, 2005 ($236,545,000 in 2004).

iii) Other indemnification agreements

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

C) LEASE COMMITMENTS, SERVICE CONTRACTS FOR INFORMATION TECHNOLOGY SERVICES AND OTHER CONTRACTS

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

	Premises	Information technology service contracts	Other	Total
2006	$ 17,340	$ 42,189	$ 6,104	$ 65,633
2007	18,377	48,312	5,413	72,102
2008	17,165	41,185	4,976	63,326
2009	14,587	41,162	3,554	59,303
2010	13,256	42,053	2,840	58,149
Thereafter	47,361	44,703	8,147	100,211
Total	$128,086	$259,604	$31,034	$418,724

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

D) PLEDGED ASSETS
Assets with a book value of $260,247,000 ($876,385,000 in 2004) have been pledged as collateral in order to participate in clearing and payment systems. In addition, securities amounting to $60,065,000 ($15,907,000 in 2004) have been sold under repurchase agreements recorded as secured loans.

22. Contingencies

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

23. Segmented information

The Bank offers its services through four business segments: Retail Financial Services, Commercial Financial Services, B2B Trust and Laurentian Bank Securities (LBS).

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

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

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

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

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

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

23. SEGMENTED INFORMATION (CONTINUED)

2005	Retail Financial Services [2]	Commercial Financial Services	B2B Trust [2]	Laurentian Bank Securities [3]	Other [2]	Total
Net interest income	$ 250,055	$ 56,174	$ 55,194	$ 1,290	$ (37,022)	$ 325,691
Other income	87,528	29,112	13,947	21,361	24,423	176,371
Total income	337,583	85,286	69,141	22,651	(12,599)	502,062
Provision for credit losses	20,685	13,107	6,208	–	–	40,000
Non-interest expenses	277,856	38,745	38,275	17,535	9,540	381,951
Income (loss) from continuing operations before income taxes	39,042	33,434	24,658	5,116	(22,139)	80,111
Income taxes (recovered)	13,616	11,797	8,377	1,733	(11,035)	24,488
Income (loss) from continuing operations	25,426	21,637	16,281	3,383	(11,104)	55,623
Income from discontinued operations, net of income taxes	4,422	–	–	–	5,237	9,659
Net income (loss)	$ 29,848	$ 21,637	$ 16,281	$ 3,383	$ (5,867)	$ 65,282
Average assets [1]	$7,697,432	$2,221,761	$2,438,147	$1,439,039	$2,531,155	$16,327,534
Average loans [1]	$7,490,265	$2,006,398	$2,414,217	$ 3	$ (464,456)	$11,446,427
Average deposits [1]	$9,433,089	$ 92,137	$2,239,732	$ –	$1,584,603	$13,349,561

2004	Retail Financial Services [2]	Commercial Financial Services	B2B Trust [2]	Wealth Management and Brokerage	Other [2]	Total
Net interest income	$ 233,650	$ 56,860	$ 48,846	$ 1,344	$ (73,506)	$ 267,194
Other income	85,774	32,384	14,878	26,030	39,883	198,949
Total income	319,424	89,244	63,724	27,374	(33,623)	466,143
Provision for credit losses [4]	19,663	15,646	4,691	–	–	40,000
Non-interest expenses	265,607	35,993	37,215	21,456	9,448	369,719
Income (loss) before income taxes and non-controlling interest in net income of a subsidiary	34,154	37,605	21,818	5,918	(43,071)	56,424
Income taxes (recovered)	11,911	13,176	7,432	1,644	(19,526)	14,637
Non-controlling interest in net income of a subsidiary	–	–	1,916	–	–	1,916
Net income (loss)	$ 22,243	$ 24,429	$ 12,470	$ 4,274	$ (23,545)	$ 39,871
Average assets [1]	$7,309,320	$2,370,500	$2,314,738	$1,451,752	$2,880,441	$16,326,751
Average loans [1]	$7,119,845	$2,052,924	$2,292,772	$ 8	$ (494,636)	$10,970,913
Average deposits [1]	$9,230,089	$ 85,065	$2,275,396	$ 133	$1,293,339	$12,884,022

(1) Assets and liabilities are disclosed on an average basis as this measure is most relevant to a financial institution.
(2) Since November 1, 2004, results from broker-sourced mortgages are now included with the B2B Trust business segment, whereas they were previously included with the Retail Financial Services business segment. Also, B2B Trust's treasury operations were integrated into the Bank's treasury operations and certain other items related to corporate activities were reclassified in the Other category. Comparative figures have been restated to conform with current period presentation.
(3) Results for the first quarter of 2005 include a $0.03 million contribution from BLC-Edmond de Rothschild Asset Management Inc. for the two months prior to the sale (note 2).
(4) Includes the reversal of general allowances for loan losses of $5.4 million attributable to the Retail Financial Services segment and $6.6 million attributable to the Commercial Financial Services segment.