COMMITTED

LAURENTIAN BANK

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

From time to time, the Bank makes written and oral forward-looking statements, included in this Annual Report, in other documents submitted to Canadian regulatory agencies, in reports to shareholders and in other communications. These forward looking-statements include, among others, statements regarding the business and objectives for the coming years, medium- and long-term strategies to achieve these objectives and statements with respect to the Bank's beliefs, plans, expectations, anticipations, estimates and intentions. These statements typically use the conditional and words such as prospects, believe, estimate, forecast, project, should, could and would. By their very nature, forward-looking statements involve inherent risks and uncertainties, and it is possible that the forecasts, projections and other forward-looking statements will not be achieved. The Bank cautions readers against placing undue reliance on these statements when making decisions, as the actual results could differ appreciably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements due to various material factors. These factors include, among other things, capital market activity, changes in government monetary, economic and fiscal policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, competition, credit ratings, scarcity of human resource and technological change, as well as the Bank's success at increasing revenues and managing costs related to carrying out its business plan. The Bank cautions that the foregoing list of factors is not exhaustive. The Bank does not undertake to update any forward-looking statements, oral or written, made by itself or on its behalf.

TOWARDS OUR CLIENTS,
BY GIVING THE HIGHEST PRIORITY TO THE SATISFACTION OF THEIR FINANCIAL SERVICES NEEDS AND TO THE ONGOING IMPROVEMENT OF THE CLIENT EXPERIENCE.

TOWARDS OUR SHAREHOLDERS,
BY ENSURING THE PROFITABLE GROWTH OF OUR ORGANIZATION IN KEEPING WITH THE PRINCIPLES OF TRANSPARENCY, INTEGRITY AND ETHICS.

TOWARDS OUR EMPLOYEES,
BY RECOGNIZING AND ACKNOWLEDGING THE QUALITY OF THEIR WORK AND THEIR DEDICATION, ENCOURAGING THE DEVELOPMENT OF THEIR COMPETENCIES AND OFFERING A WORK ENVIRONMENT OF EQUITY, DYNAMISM AND RESPECT.

TOWARDS OUR COMMUNITY,
BY PURSUING AND SUPPORTING ACTIVE INVOLVEMENT.

YEAR 2004

A FIRM COMMITMENT TO

OUR GOALS

OCTOBER 31, 2003

Sale of
57
BRANCHES
in Ontario and
Western Canada

JANUARY 2004

LAUNCH
of the new marketing
positioning and of the
DARE
slogan

FEBRUARY 2, 2004

Sale of the
VISA portfolio
outside Quebec

APRIL 15, 2004

Issuance
of Preferred
Shares,
Series 10

JUNE 1, 2004

Redemption
of the Series 7
Debentures

JUNE 8, 2004

PRIVATIZATION
OF B2B TRUST

JUNE 16, 2004

REPURCHASE OF THE PREFERRED SHARES, SERIES 7 & 8

SEPTEMBER 13, 2004

Inauguration of the new **ESPRESSO BANK-CAFÉ** concept

DECEMBER 10, 2004

Partial ruling concerning the renewal of the collective agreement

DECEMBER 15, 2004

REDEMPTION of the Series 8 Debentures

DECEMBER 31, 2004

Signing of an exclusive **TEN-YEAR** DISTRIBUTION AGREEMENT with Industrial Alliance

DECEMBER 31, 2004

SALE of BLC-Edmond de Rothschild

YEAR 2005

DETERMINED TO DEPLOY

OUR PLAN

NOVEMBER 25, 2004

OPENING
of the first Financial Services Boutique in Blainville and subsequent openings in:

Gatineau (Hull) December 8, 2004
Mascouche December 8, 2004
Sainte-Dorothée December 8, 2004
La Prairie February 2, 2005
Vaudreuil-Dorion August 29, 2005

JANUARY 24, 2005

Five-year contract for the operation of ATMs inside several Montreal Metro stations

MARCH 7, 2005

RENEWAL OF THE COLLECTIVE AGREEMENT WITH THE UNIONIZED EMPLOYEES

APRIL 11, 2005

Opening
of a new Commercial Banking Centre in Longueuil

JUNE 9, 2005

Implementation of the Western Union product offering at all Laurentian Bank branches

AUGUST 15, 2005

OPENING
OF A NEW COMMERCIAL BANKING CENTRE IN LAVAL

FALL 2005

Opening of a new Laurentian Bank Securities branch in Sainte-Thérèse

OCTOBER 3, 2005

LAUNCH
of M^3,
a Multi-dimensional Managed Account Program offered by Laurentian Bank Securities

OCTOBER 12, 2005

Launch of the Laurentian Bank *Complicité* Program for the **550,000 FTQ members**

OCTOBER 18, 2005

Redemption
of the Series 6 Debentures

EVERY ACTION COUNTS

BY RAYMOND McMANUS

Two years ago, Laurentian Bank of Canada adopted an extensive business plan with a specific goal: to significantly improve the Bank's financial results and further its growth. To reach this goal, the Bank renewed its focus on its core market and activities, while implementing a series of initiatives to capitalize on its distinct competitive advantages.

The Bank's results as at the end of fiscal 2005 provide measurable indications of the progress we have made over this short period of time, and attest to the positive impact our plan has had on our operational efficiency and on our balance sheet.

Our business plan would have remained a mere *plan* however, were it not for the strong support of our employees. At all levels within our organization, employees have adhered to the strategies and objectives of our business plan with enthusiasm and determination. Given such an asset, we are confident of holding all the necessary tools to pursue our plan to its full implementation.

TANGIBLE RESULTS

With a strong sense of achievement we can report that, at the close of fiscal 2005, the Bank has reached its earnings objectives as set out in its business plan. Moreover, our core business lines – most notably Retail Financial Services and B2B Trust – have enhanced their performances, thereby accounting for a significant portion of the increase in the Bank's revenues.

Net interest income increased from $267.2 million in 2004 to $325.7 million in 2005. This result is largely attributable to the sound management strategies we put into place within the framework of our business plan, as well as to the growth in loan portfolios and the increase in net interest margins.

Given the economic and competitive environment in the banking industry, increasing net interest margins is a critical factor in furthering revenue growth. Over the course of fiscal 2005, the Bank has actually succeeded in improving its net interest margins on a continuing basis, thereby measurably improving its overall results. At year end, the margin stood at 1.99%, compared to 1.64% in 2004.

We are also satisfied with our 2005 results with regard to return on common shareholders' equity. While we had set a realistic objective of 4.5% to 5.5% in our business plan, return on common shareholders' equity stood at 7.8% (6.4% from continuing operations) on October 31, 2005, compared to 4.6% on October 31, 2004.

The Bank's financial condition remains sound. Tier 1 capital ratio is strong at 10.2%, compared to 10.5% at year end in 2004. At year end, the Bank's total capital ratio stood at 12.3%, compared to our 2005 objective of 13%. This ratio decreased as a result of the repurchase of debentures and the actual growth of our loan volumes.

While we are certainly satisfied with the Bank's results for fiscal 2005, we must not lose sight of our long-term objectives nor, given the economic climate

and our competitive environment, waver in our resolution to enhance the Bank's profitability. In this view, becoming even better managers is an imperative requirement for the attainment of our financial objectives. Continue to adhere to the best management and operating practices will enable us to realize this goal and is an integral part of our commitment to the Bank's shareholders.

CONCRETE REALIZATIONS

Through the implementation of our business plan's initiatives, we also aim at becoming better operators. In this regard, fiscal 2005 has seen some significant steps being taken in the development of our range of products and services, as well as in the overall enhancement of our operations.

In March 2005, the Bank and the Union representing some 2,000 of our employees accepted the arbitration board's decision relative to the collective agreement. Both parties expressed their satisfaction with this agreement which will be valid until December 2007.

Moreover, the renewed dialogue between the Bank and its employees' representatives has given rise to an innovative partnership between the Bank, its employees' Union and the union's confederation, the *Fédération des travailleurs et travailleuses du Québec (FTQ)*. The three organizations developed strong work relations which, in turn, led to the launch of the Laurentian Bank *Complicité* program offering a score of highly competitive banking and financial products to the 550,000 FTQ members and their families. I am confident that the collective agreement and our partnership with the Union, at both the local and provincial levels, will benefit the Bank as well as its employees in the short and long terms. I would also like to gratefully acknowledge the valued collaboration and input of the president of the Bank employees' union, as well as that of the members of the FTQ executive.

Another partnership that is proving beneficial for both parties is the one between the Bank and Industrial Alliance. Following the purchase of BLC-Edmond de Rothschild, Asset Management Inc. by Industrial Alliance, completed in December 2004, the Bank concluded a 10-year distribution agreement whereby the Bank continues offering R Funds, along with Industrial Alliance's mutual funds, to its clients through various distribution channels. Sharing the same values with regard to product quality and customer service has been instrumental in making this collaboration work effectively.

In this regard, it is well worth noting that the Bank has recorded net sales of mutual funds well above the sales thresholds set in its agreement with Industrial Alliance. This result is attributable to the hard work, dedication and business "savvy" of those employees and managers who are on the front line, while carefully respecting their clients' needs and the Bank's products and services.

The Bank's comprehensive program of optimization and expansion of the branch network has also generated promising results in 2005. For one, the implementation of our "financial services boutique" concept – already fully operational in fiteen locations, of which six are completely new branches, – has been very well received. Thanks to our employees' dedication, as well as specific promotional campaigns and direct marketing initiatives, the Bank's financial services boutiques stand out as an innovative environment for clients to access quality products and services.

Similarly, we are giving special consideration to the specific needs of our commercial and brokerage clienteles, particularly with regard to access to our products and services. During fiscal 2005, Commercial Financial Services opened two new commercial banking centres in order to bring account managers closer to their clients and enhance business development. Laurentian Bank Securities has also opened a new office and plans to open others in carefully targeted regions, with a view to better serve its clients and increase its share of the retail brokerage market.

During fiscal 2005, the Bank has given in-depth consideration to all aspects of its management processes and practices. Moreover, our structure has been modified. From now on, Retail Financial Services, Commercial Financial Services, and B2B Trust are grouped under one executive officer, Réjean Robitaille, in order to enhance operational synergies between these three business lines.

We also plan to pursue the development of the training programs offered to employees and managers alike. These programs will be instrumental in refining our managing and operating skills, and should contribute to our ability to attract and retain the best candidates. Consequently, we will be giving particular attention to these matters during fiscal 2006 with an aim at encouraging all employees to put their best qualities forward.

THE ROAD AHEAD

At this point, I would like to express my sincere appreciation to the Bank's shareholders. Over the last few years, they have shown remarkable patience in the face of significant changes and somewhat underwhelming results. They have also expressed their steadfast support for the Bank's management and Board of Directors. I wish to assure them that their best interests are foremost in our daily pursuits.

I am equally grateful to all of our employees for their dedication to the Bank and to our business plan. One need only set foot inside one of our branches today to sense the infectious enthusiasm and strong work ethic of our staff.

In many aspects, 2005 has been an eventful and rewarding period in the Bank's development. Our financial results provide a tangible indication of the success of our business plan and the soundness of our objectives. Nevertheless, we recognize that our accomplishments to date are merely stepping stones toward reaching the levels that we are confident we can attain in the months and years ahead.

Laurentian Bank is committed to becoming a leading financial institution in Quebec and a performing player elsewhere in Canada, recognized for offering the best products to its various clienteles with a quality of service unsurpassed by any bank.

RAYMOND McMANUS
PRESIDENT AND CHIEF EXECUTIVE OFFICER

GUIDED BY RIGOUR AND TRANSPARENCY

Over the last few years, Laurentian Bank of Canada has made significant changes to its business strategies and structures.

BY L. DENIS DESAUTELS, O.C.

Fiscal 2005 has been an eventful period, and we are starting to see positive results produced from our business plan. It encourages us to stay the course and to pursue our goals to their full realization.

Laurentian Bank operates in a heavily regulated and strictly monitored industry within the context of a highly competitive economic environment. Given these circumstances, especially in light of the financial scandals that have shaken the business world in recent years, the role of sound corporate governance built on solid foundations of clear rules and regulations and of transparency becomes absolutely critical.

Fortunately, we can count on Laurentian Bank's life-long tradition of high standards of corporate governance, making it one of Canada's most reputable financial institutions in this regard.

Furthermore, we also benefit from a spirit of close collaboration between the Bank's Board of Directors and Management. These relations are in constant evolution, further refining their respective roles and responsibilities. More precisely, this true partnership is based on the ongoing commitment of all concerned to act in the best interests of the Bank, of its employees, of its clients and of its shareholders.

The members of the Board therefore act as fiduciairies of the Bank's values and guardians of the shareholders' assets. We advocate long-term growth vision and strategy for the Bank with focus on its profitability, viability and sustainability. Moreover, we are convinced that the principles of transparency and integrity are of the utmost importance for the sound management of our financial institution. These qualities are essential to safeguard the best interests of the shareholders whom we represent.

In this regard, the work of the Board committees becomes crucial. It is at the committee level that all the rigour and transparency prescribed by the applicable laws and regulations and vital for the implementation of appropriate policies and procedures become most apparent.

In short, the Board and the Management Committee have proven again that the synergy they have developed in discharging their duties and responsibilities is a valuable asset for the Bank's development. Each has shown discipline and constancy necessary to reach the set targets within the framework of a well-defined business plan and in the best interests of our employees, clients and shareholders.

Therefore, I would like to thank and congratulate all members of the Management Committee on their great performance. Their steadfast efforts, their dedication and their commitment to the Bank's success and progress, as well as their rigour, expertise and knowledge became a determining factor in the financial results for fiscal 2005 and are a guarantee for the remaining stretch of our business plan. On behalf of the Board of Directors, I therefore wish to reiterate our support to them.

Finally, I would like to take this opportunity to thank Mr. Ronald Corey and Mr. Gordon Ritchie, who will have stepped down as directors at the time of the Annual Meeting of Shareholders, for their invaluable contribution to the work and deliberations of the Board. After more than ten years of dedicated service, Mr. Corey is retiring pursuant to the retirement policy for the Board of Directors. Recognized for his commitment to social issues in Montreal and elsewhere in Canada, he also made a significant contribution to the consolidation of the Bank's relations with the business circles, as well as of the Bank's relations with the communities in which we operate. The contribution of Mr. Ritchie, in particular his work on the Audit Committee, has been greatly appreciated. We are grateful to both Mr. Corey and Mr. Ritchie for their support and their contribution.

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

BOARD OF DIRECTORS

2002 **JEAN BAZIN Q.C.** PARTNER, FRASER MILNER CASGRAIN
Attorney since 1965, appointed Queen's Counsel in 1984 and a member of the Senate from 1986 to 1989, Jean Bazin chaired the Canadian Bar Association in 1987-1988 and the Quebec-Japan Business Forum in 1999. Jean Bazin has sat on the board of directors of the Bank from 1990 to 2000 and was Chairman of B2B Trust from 2000 to 2002. Very active within the business community and various cultural organizations, he is known for his discipline and rigour. Mr. Bazin sits on the boards of directors of different companies, including the Société générale de financement du Québec.

2003 **RICHARD BÉLANGER** PRESIDENT, TORYVEL GROUP INC.
A chartered accountant since 1980, Richard Bélanger was awarded the Prix Émérite and the designation "Fellow" by the Ordre des comptables agréés du Québec in May 2004. Toryvel Group Inc. is a holding company which main investment fields lie in the forest and transportation sectors, as well as in that of private and stock market investment. Mr. Bélanger is President and co-owner of this company and he is also President of Stetson Timberlands Inc. as well as of Theseus Capital Inc., a Capital Pool Company ("CPC") listed on the Toronto TSX Venture Exchange. He sits on the board of directors and the audit committee of Stella-Jones Inc. and he is a member of the board of InterTrade Systems Inc.

2003 **ÈVE-LYNE BIRON** PRESIDENT AND GENERAL MANAGER, LABORATOIRE MÉDICAL BIRON INC.
With a Master degree in administration to her credit, Ève-Lyne Biron is a young manager who aims for very concrete results and who is actively involved in her community. Her company was ranked 37th of the top 100 Canadian companies directed by women in 2003. She was a 2004 award winner of the Nouveaux Performants competition, "Entrepreneur" category and finalist for the 2005 Femmes d'affaires du Québec award. Ms. Biron sits on the board of directors of the Orchestre symphonique de Longueuil, the Armand-Frappier Foundation and of DEL (Développement économique Longueuil).

1994 **RONALD COREY C.M.** PRESIDENT, RONALD COREY GROUPE CONSEIL LTÉE
Member of the Order of Canada, Ronald Corey has displayed exceptional strategic abilities and exemplary social involvement throughout his career, both as honorary president of large fund-raising campaigns and foundations, and as president and CEO of Molson Centre or chairman of the board of the Port of Montreal. The organizations with which he collaborates benefit greatly from his rich experience in the business world.

2001 **L. DENIS DESAUTELS O.C.** CHAIRMAN OF THE BOARD, LAURENTIAN BANK OF CANADA, EXECUTIVE-IN-RESIDENCE SCHOOL OF MANAGEMENT, UNIVERSITY OF OTTAWA
Officer of the Order of Canada, Fellow of the Ordre des comptables agréés du Québec and of the Institute of Chartered Accountants of Ontario, and involved with a number of professional committees including the Accounting Standards Oversight Council of the Canadian Institute of Chartered Accountants, Denis Desautels is a recognized Canadian authority on governance. He was Auditor General of Canada from 1991 to 2001. He also sits on the boards of directors of Alcan Inc., Bombardier Inc., The Jean Coutu Group (PJC) Inc. and CARE Canada.

1990 **GEORGES HÉBERT** PRESIDENT, PROSYS-TEC INC.
George Hébert is, since July 2003, president of ProSys-Tech, one of the largest assemblers of computers, laptops and servers in Canada. Mr. Hébert has long been active in the transport sector. He was notably president of Clarke Transport Inc. before acquiring, in 1988, J.A. Provost Inc., a supplier of home and commercial security systems. He also sits on the board of directors of MDS Aerospace and Vitran Corporation.

2001 **VERONICA S. MAIDMAN** CHAIR ADVISORY COUNCIL, EQUIFAX CANADA INC.
Veronica Maidman is an executive with outstanding strategic vision and a great capacity to meet challenges in a constantly evolving environment. Having recently completed her term as Vice-Chair of Sunnybrook & Women's College Health Sciences Centre, Mrs. Maidman is now a member of the Sunnybrook & Women's Foundation Gouverning Council. She also sits on different corporate boards. Throughout the years she's worked with all levels of government concerning legislative and regulatory issues with particular emphasis on consumer privacy. She was featured in a report on the leaders of tomorrow in Canadian Business Magazine.

1988 **RAYMOND McMANUS** PRESIDENT AND CHIEF EXECUTIVE OFFICER, LAURENTIAN BANK OF CANADA
Raymond McManus has worked in the banking industry since 1960. On the strength of the expertise he developed in corporate loans early in his career, he was promoted to positions of increasing responsibility, including that of Senior Vice-President at the Mercantile Bank. He also founded Cafa Financial Corporation, a private investment bank specializing in mergers and acquisitions, corporate financing and real estate. Mr. McManus is president and chief executive officer of the Bank since August 2002.

1990 **PIERRE MICHAUD, C.M.** VICE-CHAIRMAN OF THE BOARD, LAURENTIAN BANK OF CANADA, CHAIRMAN OF THE BOARD, PROVIGO INC.
Member of the Order of Canada, Pierre Michaud has a vast experience in the retail business as much as in corporate governance. He is director of different companies including Loblaw Companies Limited, Bombardier Recreational Products Inc., Gaz Métro Inc. and Old Port of Montreal Corporation Inc.. Very active in many charitable organizations, Mr. Michaud is a member of the board of governors of Centraide, the Fondation de l'Hôpital Sainte-Justine and the Fondation du Centre hospitalier universitaire de Montréal (CHUM).

2004 **CARMAND NORMAND** CHAIRMAN OF THE BOARD, CHIEF EXECUTIVE AND INVESTMENT OFFICER, ADDENDA CAPITAL INC.
With over 35 years of experience in the field of finance, Carmand Normand is an accomplished businessman with a keen entrepreneurial sense. An excellent investment strategist, Mr. Normand won particular recognition in 2000, when he received the Hermès Award for outstanding career accomplishments from the Faculty of Business Administration of Université Laval. His vast professional involvement includes extensive work as Vice-Chairman of the Board and member of the Audit Committee of the Montreal Exchange,. Mr. Normand is also a co-author of Caisses de retraite et placements, in bookstores since September 1994.

2003 **GORDON RITCHIE** CHAIRMAN, PUBLIC AFFAIRS, HILL & KNOWLTON CANADA
Gordon Ritchie was one of the main architects of the Free Trade Agreement between Canada and the United States. Throughout his illustrious career within the federal public service, he focused on economic development and international trade. On leaving government, he became a business consultant and is now Chairman of Hill & Knowlton Canada. He is also serving on the board of directors of Maple Leaf Foods Inc.

1998 **DOMINIC J. TADDEO** PRESIDENT AND CHIEF EXECUTIVE OFFICER, MONTREAL PORT AUTHORITY
Dominic Taddeo has dedicated most of his career to the maritime industry. Appointed president and chief executive officer of the Montreal Port Authority in 1984, he has played a pivotal role in the economic development of Montreal. He has received many honours and merits, including Transport Personality of the Year for the Province of Quebec and awards of distinction from the Faculty of Commerce and Administration of Concordia University and the Corporation professionnelle des administrateurs agréés du Québec. He is chairman of the board of EDICOM, a Montreal-based EDI project of strategic importance to Canada's transportation and trade community.

1998 **JONATHAN I. WENER, C.M.** CHAIRMAN OF THE BOARD, CANDEREL MANAGEMENT INC.
Member of the Order of Canada, Jonathan Wener, a renowned expert in the real estate sector, has vast experience in the commercial, industrial, residential, recreational and hotel sectors. Associated for 30 years with the success of Canderel Management, Mr. Wener contributes to the well-being of the community through his involvement in numerous professional associations and charitable organizations. Mr. Wener is Vice-Chair of Concordia University and he also sits on different boards of directors including The Foundation of the Montreal Museum of Fine Arts, Fondation du Grand Montreal, The Jewish General Hospital and its Foundation and the Festival des Arts de Mont St-Sauveur.

FINANCIAL HIGHLIGHTS

(in millions of dollars, except per share amounts)	2005	2004	2003
Per common share			
Diluted net income	$ 2.26	$ 1.33	$ 3.32
Diluted income from continuing operations	$ 1.85	$ 1.33	$ 3.32
Dividends	$ 1.16	$ 1.16	$ 1.16
Book value	$ 29.85	$ 28.78	$ 28.73
Share price			
High	$ 32.79	$ 29.35	$ 29.25
Low	$ 22.51	$ 25.42	$ 24.91
Close	$ 30.35	$ 25.45	$ 27.75
Financial ratios			
Price / earnings ratio	13.4 x	19.1 x	8.3 x
Market to book value	102%	88%	97%
Dividend yield	3.82%	4.56%	4.18%
Net interest income as a percentage of average assets	1.99%	1.64%	1.81%
Earnings			
Total revenue	$ 502.1	$ 466.1	$ 622.2
Net income	$ 65.3	$ 39.9	$ 84.0
Net income from continuing operations	$ 55.6	$ 39.9	$ 84.0
Efficiency ratio			
Non-interest expenses as a % of total revenue	76.1%	79.3%	71.0%
Return on common shareholders' equity	7.8%	4.6%	12.4%
Financial position			
Balance sheet assets	$16,507	$16,607	$16,738
Loans, bankers' acceptances and assets purchased under reverse repurchase agreements, net	$12,374	$12,434	$12,151
Net impaired loans	$ (8.9)	$ (13.0)	$ 22.0
Net impaired loans as a % of loans, bankers' acceptances and assets purchased under reverse repurchase agreements	(0.1)%	(0.1)%	0.2%
Personal deposits	$10,575	$10,454	$10,509
Assets under administration and assets under management	$13,766	$14,878	$15,488
Personal deposits			
As a % of total deposits	77.2%	81.0%	79.1%
Number of common shares (in thousands)	23,557	23,511	23,436
Capitalization			
Shareholders' equity, non-controlling interest in a subsidiary and debentures (1)	$ 1,063	$ 1,137	$ 1,315
BIS capital ratios			
Tier I	10.2%	10.5%	10.2%
Total capital	12.3%	14.0%	15.2%
Tangible common equity as a percentage of risk – weighted assets	7.5%	7.6%	7.8%
Other information			
Number of full-time equivalent employees	3,180	3,125	3,159
Number of branches	157	153	155
Number of automated banking machines	313	293	284
Brokerage Offices	11	9	10
Commercial banking Centres	28	26	22
Independant Financial Advisors	14,316	13,667	13,183

(1) In 2003, includes liability related to preferred shares

COMMITMENT
WITHOUT RESERVATION
A strong team

RAYMOND McMANUS

PRESIDENT AND CHIEF EXECUTIVE OFFICER

A career banker and a renowned financial strategist, Mr. McManus has held this position since 2002. As a Board member since 1988, he already had good knowledge of the organization. Prior to joining Laurentian Bank, he founded and successfully headed a private investment bank specializing in mergers and acquisitions, corporate financing and real estate. He is also Chairman of B2B Trust.

ROBERT CARDINAL

SENIOR EXECUTIVE VICE-PRESIDENT
FINANCE, ADMINISTRATION AND STRATEGIC DEVELOPMENT AND CHIEF FINANCIAL OFFICER

A charted accountant, Mr. Cardinal has been with Laurentian Bank since 1991. His knowledge, experience and integrity earned him several promotions within the organization. Prior to joining the Bank, he held various positions in the banking industry and audit.

RÉJEAN ROBITAILLE

SENIOR EXECUTIVE VICE-PRESIDENT
RETAIL AND COMMERCIAL FINANCIAL SERVICES

At Laurentian Bank since 1988, Mr. Robitaille has profound knowledge of the organization as he has held a variety of positions with the Bank, including his work as Financial Planner, manager in charge of the branch network and Treasurer. He is also President of Laurentian Trust and President and CEO of LBC Trust of Canada Inc.

ANDRÉ SCOTT

EXECUTIVE VICE-PRESIDENT
COMMERCIAL FINANCIAL SERVICES

Specializing in business financing and credit, Mr. Scott is an experienced banker. At Laurentian Bank since 1991, he has held several important positions, namely in business development and credit risk management. He also contributed to the establishment and development of B2B Trust.

LORRAINE PILON

EXECUTIVE VICE-PRESIDENT
CORPORATE AFFAIRS AND HUMAN RESOURCES, AND SECRETARY

A lawyer by training, Ms. Pilon joined Laurentian Bank in 1990 in the Legal Affairs department. She climbed the career ladder quickly thanks to her expertise in the banking industry and to her keen business sense.

BERNARD PICHÉ

EXECUTIVE VICE-PRESIDENT
TREASURY, CAPITAL MARKETS AND BROKERAGE

At Laurentian Bank, Mr. Piché contributes his diversified experience acquired both in Canada and abroad. His extensive knowledge of economics, treasury and capital markets is a sure asset for Laurentian Bank that he joined in 1994. He is also Chairman of the board of Laurentian Bank Securities.

CORPORATE GOVERNANCE

Laurentian Bank of Canada is recognized as a forerunner in the Canadian banking sector for its strong corporate governance culture. Indeed, in 1987, Laurentian Bank became the first financial institution to separate the roles of Chairman of the Board and of President and CEO. Moreover, its corporate governance policies and procedures are among the most exemplary ones in the Canadian banking and financial industry.

All members of the Board of Directors are independent and unrelated to the Bank's management, with the exception of the President and Chief Executive Officer. The independent status of directors is evaluated in accordance with the requirements defined by the Human Resources and Corporate Governance Committee and approved by the Board of Directors.

The role of the Board of Directors is essentially to supervise the management of the business and affairs of the Bank. The Board members thus commit to act in accordance with the principles and requirements set forth in the *Code of Conduct for Directors* with respect to various dimensions ranging from general conduct to financial situation, conflict of interest, information and data security, and insider transactions.

The Board of Directors has delegated specific responsibilities and functions to three Board committees: the Audit Committee, the Human Resources and Corporate Governance Committee as well as the Risk Management Committee. Their members are appointed from among the Board Directors. These committees provide regular written and verbal updates and reports on their work to the Board. Furthermore, they present a report to be included in the management proxy circular.

AUDIT COMMITTEE

The primary function of the Audit Committee is to support the Board of Directors in overseeing the integrity of the Bank's financial reporting, the pertinence and effectiveness of its internal controls, the qualifications and independence of the external auditors, the performance of the Bank's internal audit function and of the external auditors, as well as the Bank's compliance with regulatory requirements.

More specifically, the responsibilities and duties of the Audit Committee include:

External audit: recommending the appointment of external auditors to shareholders; supervising their work; assessing the scope of their expertise and qualifications, their independence and objectivity; reviewing the mandate of the external auditors and of the external audit programs;

Internal audit function: assessing the effectiveness of the internal controls set up by Management; reviewing the internal audit mandate and programs, the function's staffing resources and the follow-up on the recommendations of the internal auditors;

Financial information disclosure and reporting: reviewing the Management's discussion and analysis of the annual report; examining annual and quarterly financial statements, as well as Management's discussion and analysis and related press releases; reviewing the annual information form, Management's quarterly reports and the annual report of the Chief Compliance Officer with regard to questions of compliance and regulations;

Internal controls: reviewing, evaluating and approving appropriate procedures of internal control and of communication of financial information; verifying all investments and operations that might have a negative impact on the Bank's financial situation; establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal controls or auditing matters; establishing procedures for the confidential anonymous submission of concerns by employees of the Bank regarding questionable accounting or auditing matters;

Supervising authorities: reviewing all recommendations made by the Office of the Superintendent of Financial Institutions; monitoring the application of recommendations from regulatory authorities.

HUMAN RESOURCES AND CORPORATE GOVERNANCE COMMITTEE

The Human Resources and Corporate Governance Committee is responsible for performing two functions:

Human Resources: ensuring that compensation programs of the Bank are aligned with the attainment of the Bank's objectives and to the prudent management of activities and risks; reviewing and approving the compensation structure for Executives; assessing, in collaboration with the Board, the performance of the President and CEO and reviewing the performance of the Management Committee members.

The Committee also reviews short-term and long-term incentive programs, approves the annual salary policy, periodically reviews the Bank's organizational structure and approves the appointment of executive officers.

It ensures the succession planning relating to senior management, supervises various aspects of labour relations, including the collective bargaining process of unionized employees, and receives regular reports on the status of relations between the Bank and its employees.

Governance: overseeing the development and application of the corporate governance principles and rules, and making recommendations to the Board of Directors in this regard; ensuring the proper functioning and effectiveness of the Board and of its committees, and reviewing the composition and renewal of the Board. It is this Committee that identifies and recommends candidates for election or appointment to the Board and oversees the assessment of performance of current Directors.

This Committee also ensures that orientation and training programs for Board members are in place, reviews the compensation levels for Directors based on their responsibilities, ensures that shareholders are properly informed of the Bank's affairs, and deals with any major disagreement between the Bank and its shareholders.

Moreover, it reviews the scope of responsibilities and authorities of the Board committees.

RISK MANAGEMENT COMMITTEE

The Risk Management Committee ensures that the Bank has adopted an adequate risk management process intended to identify, measure and manage risks, and has established relevant policies to manage credit, market, structural, capital management, operational and regulatory risks.

The Committee groups three functions: review, credit and oversight.

Review: overseeing the application of procedures for reviewing transactions with individuals or organizations affiliated with the Bank. It verifies the procedures established to make the disclosure of information to clients with regard to banking fees and monitors the procedures established for dealing with client complaints. It conducts annual reviews of the *Code of Ethics* governing the Bank's employees and officers as well as the one governing the Bank's service providers, and approves standards for business conduct and ethics that take risks into account.

Credit: reviewing the Bank's credit policies and procedures, and ensuring the highest standards of quality. It also approves loan and advance transactions in excess of the limits established by the Board of Directors including loans and advances to the Bank's employees and officers.

Oversight: reviewing the Bank's internal policies and procedures in relation to risk management, and reviewing situations of conflict of interest at the Bank.

RETAIL
FINANCIAL SERVICES

IN 2005, RETAIL FINANCIAL SERVICES CONTINUED TO MAKE GREAT STRIDES IN REVITALIZING ITS BRANCH NETWORK, INCREASING THE IMPACT OF ITS COMMERCIALIZATION ACTIVITIES, FINE-TUNING ITS MARKETING INITIATIVES AND REITERATING ITS COMMITMENT TO SERVICE QUALITY.

157 BRANCHES,
including 6 new financial services boutiques

RENOVATION
of nearly 20% of the branch network

INCREASED ACCESSIBILITY
of our services, now with 313 ATMs, an increase of 20, namely in the Montreal Metro

OUR EMPLOYEES ARE THE KEY TO OUR SERVICE QUALITY

Our employees are the pivot of our unique approach to make the Bank stand out from the competition. Their talents, their commitment and their professionalism are essential to the Bank's development and growth.

Over the next few years, we will introduce several concrete measures, such as new training strategies and programs, to make certain our employees can reach their full potential within our organization and therefore contribute to the outstanding quality of our services.

Cards

Strategic initiatives to increase our credit card market share, more specifically the new VISA Reward Me card and the new VISA Gold Reward program.

GREAT SENSE OF PARTNERSHIP

The new Laurentian Bank *Complicité* Program offered exclusively to 550,000 FTQ members and their families, including the VISA Laurentian Bank *Complicité* card, banking packages for daily banking transactions, as well as various mortgage products promoting access to homeownership, and a Homeowners Hotline exclusive to Laurentian Bank.

EYE-CATCHING BOUTIQUES

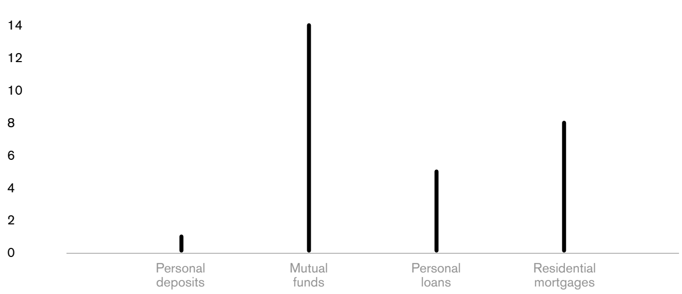
Now with 15 service boutiques, including 6 new locations, this unique concept became a trademark of Laurentian Bank. Play areas for kids, a Café corner, and a library are among the distinctive features that allow our clients to live a unique banking experience.

State-of-the-art tools

The operationalization of our marketing campaign management system is an important phase in our ongoing efforts to design and adopt highly performing business tools to become truly attuned to our clientele and to maximize the effectiveness, efficiency and pertinence of our client communications. A new marketing campaign management system has been added to our data warehouse, our analytical environment as well as our business intelligence tools.

Our next step will be to integrate our customer relations management strategy throughout the branch network and at the Call Centre with specific applications. It will allow us to fulfil our promise always to treat our clients like our guests, whichever distribution channel they choose.

2005 GROWTH OF PORTFOLIOS
(as a percentage)



COMMERCIAL
FINANCIAL SERVICES

IN 2005, COMMERCIAL FINANCIAL SERVICES CHANNELLED ITS ENERGY AND EFFORTS INTO THE CONSOLIDATION AND DEVELOPMENT OF ITS PORTFOLIOS AND INTO THE IMPLEMENTATION OF VARIOUS BUSINESS DEVELOPMENT AND MARKETING INITIATIVES.

Growth

Increase in assets in the Agricultural and Real Estate Financing sectors.

Accessibility

Opening of two new Commercial Banking Centres, on the South Shore and on the North Shore of Montreal.

Sustained performance

Again this year, exceptional results in the Real Estate Financing sector with regard to business volumes and profitability.

HIGHER LEVEL OF EXCELLENCE

In line with the raison d'être of our line of business, i.e. to provide outstanding service while fostering a humane approach and to offer competitive products, our employees spare no effort to maintain the high level of excellence of their service that they are recognized for. With new experts joining our team during the year, we were poised to put forth maximum effort in business development.

INITIATIVES
Effective and profitable promotional campaigns allowing to generate new volumes of business and new clients, mainly among Quebec SMEs.

SME FINANCING

REAL ESTATE FINANCING

AGRICULTURAL FINANCING

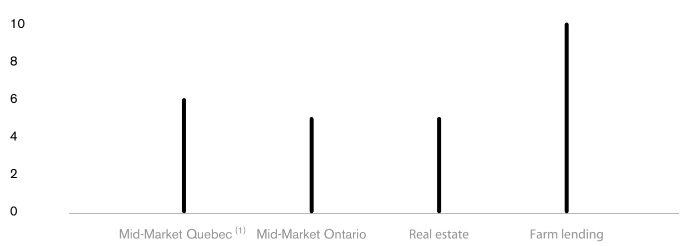
MICRO-BUSINESS FINANCING

Set priorities to grow

Our key priority for the coming year is to redouble our efforts with the goal to accelerate the growth of our business operations. With this in mind, our initiatives will include enhancing our product offering to ensure even more added-value to our clients. We will work to further fine-tune the segmentation of our clientele to make access to our products and services even simpler and faster.

Strengthening synergies with Retail Financial Services will also contribute to reaching this goal by maximizing our expertise and using our full potential.

2005 ASSET GROWTH
(as a percentage)



Growth based on average assets, except for Real Estate which is based on year-end balances.
(1) Excluding micro business and corporate assets.

B2B TRUST

B2B TRUST IS DEDICATED TO SERVING THE NEEDS OF THE FINANCIAL INTERMEDIARY COMMUNITY ACROSS CANADA. B2B TRUST PROVIDES FINANCIAL ADVISORS, PLANNERS AND BROKERS WITH SUPERIOR FINANCIAL PRODUCTS AND SERVICES FOR DISTRIBUTION TO THEIR CLIENTS. IN 2005, B2B TRUST CONTINUED TO ENJOY STANDING AS THE LEADING THIRD-PARTY SUPPLIER OF WHOLESALE DEPOSITS, INVESTMENT LENDING PRODUCTS, AND RSP LENDING PRODUCTS IN CANADA.

2005 – YEAR OF DIRECTION

Above and beyond achieving sustained organic growth, B2B Trust re-evaluated its market context, opportunity and strategic direction. The result: a redefined mission statement, a revisited business plan and new key metrics.

Moreover, key people were added and increased efforts were deployed to mobilize staff, while processing and tools have also been improved.

Increased investments in business development and marketing were made to stimulate revenue generation and build market presence.

2006 YEAR OF MOMENTUM

B2B Trust will be concentrating its focus on its primary markets, long-term growth opportunities and its most productive business relationships.

Efforts will be dedicated to construction of a solid organizational foundation that can support accelerated future growth, enhanced performance and continuous improvements to the operational efficiency baseline.

Organic growth will be cultivated as resources are specifically dedicated to garner maximum value from highest profit contribution product categories and distribution channels.

In preparation for the future, we will continuously evaluate new manufacturing and distribution opportunities, review product offerings and reposition them into market opportunities while selectively using technology to improve capacity, improve service levels or to reduce costs.

PRODUCTS

- Investment Loans
- RSP Loans
- Secured Loans – Mortgages/ Home Equity Lines
- GICs
- Banking Products and Services
- Self-directed Accounts

MARKETS AND DISTRIBUTION CHANNELS

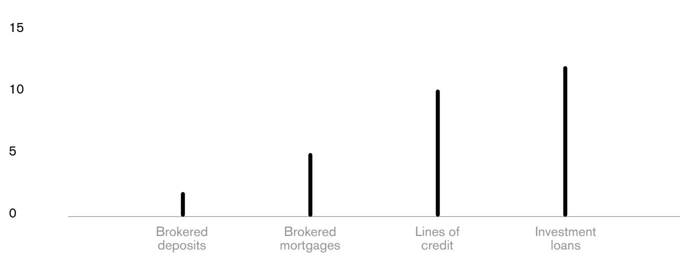
B2B Trust serves more than 14,000 financial advisors across Canada.

- Mutual Fund Manufacturers
- Mutual Fund Dealers
- Investment Brokers
- Insurance Manufacturers – Segregated Funds
- Insurance Brokers
- Mortgage Brokers
- Deposit Brokers

MORE FLEXIBILITY FOR INVESTORS

Building on the success of its 100% Accelerator Investment Loan product which was launched in 2004, B2B Trust has streamlined the application process and increased the maximum loan amount to $100,000. The Accelerator product offers financial advisors and their clients a rich feature set which is now complimented by a highly efficient application process and funding within 24 hours of loan approval.

2005 GROWTH OF PORTFOLIOS
(as a percentage)



NB 2004 was adjusted to include Mortgages business into B2B Business Line.

LAURENTIAN BANK
SECURITIES

FISCAL 2005 WAS A GOOD YEAR FOR LAURENTIAN BANK SECURITIES: LAUNCHING NEW PRODUCTS AND SERVICES, RECRUITING ADDITIONAL SPECIALISTS TO EXPAND ITS TEAM OF INVESTMENT ADVISORS, AND REGISTERING A SIGNIFICANT INCREASE IN ASSETS UNDER MANAGEMENT.

INCREASED PRESENCE
A team of nearly 175 specialists, including 25 new investment advisors, as well as 11 brokerage offices across Quebec and Ontario, including 1 new location in Sainte-Thérèse.

NEW PRODUCT OFFER
Launch of M³, Multi-dimensional Managed Account Program, a new tailored product offering high flexibility in order to meet the different needs of investors with various size portfolios.

A SOLID REPUTATION IN THE INSTITUTIONAL SECTOR

Laurentian Bank Securities has positioned itself as a leader in the institutional sector, mainly in the bond market. Recognized for its efficiency, effectiveness and know-how, the team intends to continue the development of the sector with the goal to become an inevitable player.

The solid expertise acquired in this market is the foundation for the development of our retail services division, which is now regarded as our new growth priority.

IMPROVED SERVICES
The Discount Brokerage division now offers a simple and efficient online transaction service allowing to do online trading in various North American markets, as well as an electronic bond market platform that provides real-time quotes and performance information updates.

FULL-SERVICE BROKERAGE

—

DISCOUNT BROKERAGE

—

CAPITAL MARKETS

—

INTRODUCING BROKER SERVICES

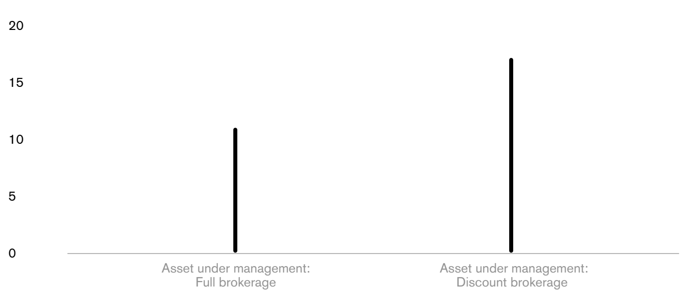
PROFITABLE AND SUSTAINABLE GROWTH

Since 2001, Laurentian Bank Securities has been largely investing in its growth while reaching its profitability targets.

OUR PRIORITY: GROWTH OF THE RETAIL BROKERAGE DIVISION

Laurentian Bank Securities has introduced various initiatives to stimulate the growth of its retail brokerage division, such as hiring some 25 new investment advisors, expanding the Research department with new analysts, implementing IT and technological developments to stay on the cutting edge, as well as ensuring a continued employee training program to be better equipped to meet the growing needs and expectations of its expanding client base.

2005 GROWTH
(as a percentage)



CORPORATE
SECTORS

IN PERFORMING THEIR FUNCTIONS TO SUPPORT THE OPERATIONS OF THE BANK, THE CORPORATE SECTORS OF THE BANK SHOW AS MUCH DETERMINATION TO BE EFFICIENT AND EFFECTIVE AS THE BUSINESS SECTORS DO. THEY ARE DRIVEN BY RIGOUR, EFFECTIVENESS, EFFICIENCY AND INTEGRITY.

CONTROLS

During the year, the Bank started the application of the new Canadian regulations with the goal to enhance financial controls and to ensure rigorous financial accounting and reporting to shareholders. The Bank currently reviews and documents major processes and controls concerning the management of its financial operations in order to comply with the prescribed deadlines.

NEW FOUNDATION FOR LABOUR RELATIONS

No doubt, the signing of the new collective agreement that will govern the terms and conditions of employment for some 2,000 unionized employees of the Bank and the settlement of the main issues that were the subject of disagreement are among the key highlights of 2005. These achievements are the foundation for renewed relations between the Bank and the Union and contribute to building their long-term partnership based on the common goal, i.e. the success of Laurentian Bank.

EFFICIENT PROCESSES TO THE BENEFIT OF OUR CLIENTS

To ensure good service to our clients, the Bank's advisors, account managers, customer service agents and all front-desk personnel count on the support of our administrative teams for the rigorous and efficient management of client transactions. While staying in the background, these teams play a very important role of implementing efficient processes to make life easier for our clients.

OPTIMIZATION AND IMPROVEMENT OF OUR PREMISES

The Bank's numerous initiatives to renovate and extend its branch network have been largely publicized. Moreover, we have made great efforts to optimize our premises – branch locations and corporate offices – which will allow us to generate substantial savings over the next few years.

CORPORATE AFFAIRS

CREDIT

FINANCE, ADMINISTRATION AND STRATEGIC DEVELOPMENT

HUMAN RESOURCES

TREASURY

MOBILIZED EMPLOYEES TO PURSUE OUR DEVELOPMENT

The quality of our workforce is one of the pillars of the Bank. We will step up efforts to help our employees enhance their knowledge and skills and to allow them to reach their full potential.

Therefore, we will invest in strengthening their sense of belonging to the Bank and in reinforcing their commitment to our organization. Service recognition programs, various initiatives to acknowledge and promote employee achievements and improved communication are the projects we work on to ensure a work environment of equity, dynamism and respect.

REVIVED TECHNOLOGICAL ENVIRONMENT

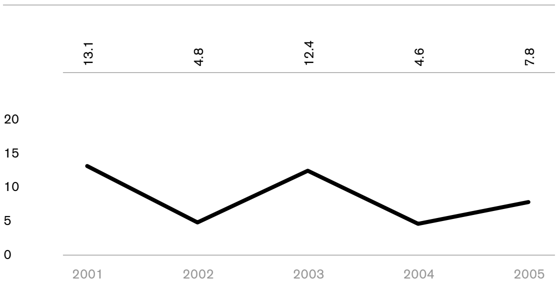
IT tools and systems are an integral part of operations of any financial institution. Each year, the Bank invests in its infrastructures, IT hardware and software to ensure the most efficient environment for its clients. Therefore, we channel substantial resources in our ATM network, our internal office network and our data warehouse, which contributes to raising the efficiency of our operations.

MANAGEMENT DISCUSSION AND ANALYSIS

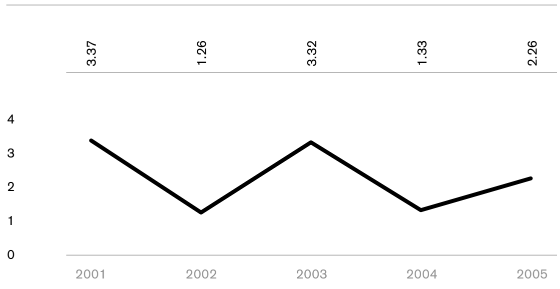
This section of the Annual Report is management's discussion and analysis of the results of operations and financial condition of the Bank for the year ended October 31, 2005. The information is presented on the same basis as in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements specified by the Superintendent of Financial Institutions of Canada. This Management Discussion and Analysis presents the views of the Bank's management as at December 8, 2005. Additional information on Laurentian Bank of Canada can be found on the Bank's Website at **www.laurentianbank.ca** and on SEDAR at www.sedar.com.

FINANCIAL HIGHLIGHTS

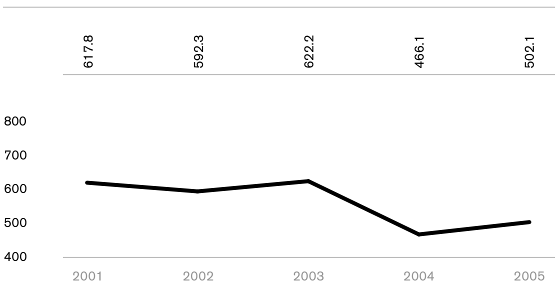
RETURN ON COMMON SHAREHOLDERS' EQUITY
(as a percentage)



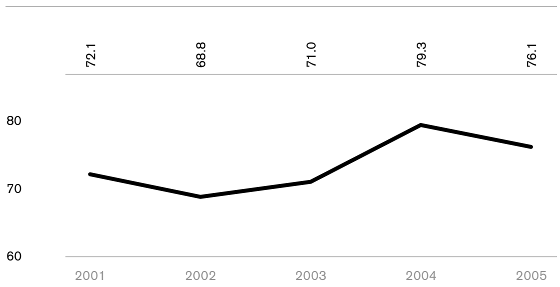
DILUTED NET INCOME PER COMMON SHARE
(in dollars)



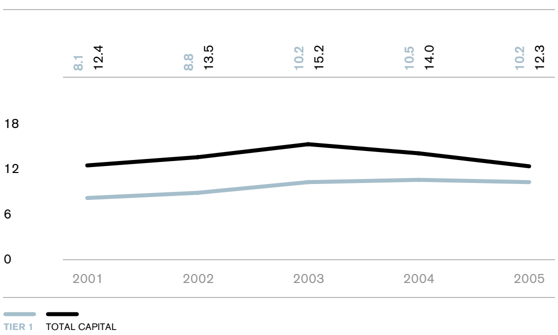
TOTAL REVENUE
(in millions of dollars)



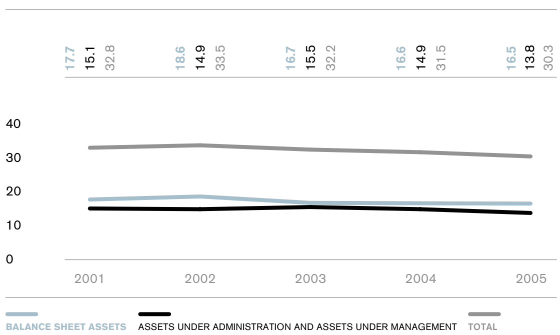
EFFICIENCY RATIO
(non-interest expenses as a percentage of total revenue)



BIS CAPITAL RATIO
(as a percentage)



BALANCE SHEET ASSETS, ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT
(in billions of dollars)



PERFORMANCE AND FINANCIAL OBJECTIVES

The table below summarizes the Bank's results, compared to its objectives for fiscal 2005. The Bank has reached all of its objectives, except for the total capital ratio, which nonetheless remains comparable with that of the other Canadian banks. This table also presents the Bank's objectives for 2006, as defined by management.

Table 1
PERFORMANCE AND FINANCIAL OBJECTIVES

	2005 Objectives	2005 Results	2006 Objectives
Return on common shareholders' equity	4.5% to 5.5%	7.8% (6.4% from continuing operations)	7% to 8%
Diluted net income per share	$1.30 to $1.60	$2.26 ($1.85 from continuing operations)	$2.05 to $2.35
Total revenue	+ 4% to 6% ($480 to $490 million)	9% $502 million	+ 4% to 6% ($522 to $532 million)
Efficiency ratio	79% to 77.5%	76.1%	75% to 73.5%
Capital ratios			
Tier I	minimum of 9.5%	10.2%	minimum of 9.5%
Total	minimum of 13.0%	12.3%	minimum of 12.0%
Credit quality (loan losses as a % of average assets)	0.25% to 0.22%	0.24%	0.25% to 0.22%

The implementation of specific asset and liability management strategies designed to improve net interest income, ongoing since fiscal 2004, has been instrumental in the attainment of the objectives with regard to revenues. Moreover, the growth of Retail Financial Services and B2B Trust, as well as the cost savings resulting from the capital structure realignment, have allowed the Bank to surpass its objectives. The growth in loan portfolios and capital transactions however have had an impact on the Total capital ratio during fiscal 2005. The current ratio level is more appropriate, taking into account the balance between level of capital and profitability. Consequently, the new objective in this regard has been set at a minimum of 12.0%. The Bank intends to continue monitoring this ratio throughout fiscal 2006 in order to ensure that it stays well above the regulatory threshold.

For fiscal 2006, the Bank's management expects some improvement, although more modest, with regard to investment and hedging strategies designed to increase interest margin. Moreover, continuing efforts in loan and deposit operations should contribute to the improvement in profitability, notwithstanding the anticipated increase in salaries and employee benefits.

METHODOLOGY FOR THE ANALYSIS OF RESULTS

Management normally evaluates the Bank's performance on a reported basis, as presented in the consolidated financial statements. Considering the disposal of the wealth management operations associated with BLC-Edmond de Rothschild Asset Management Inc., financial statements for fiscal 2005 present results from continuing operations and results from discontinued operations. The analyses included in this Management Discussion and Analysis generally follow such a presentation.

Moreover, certain analyses are carried out in relation with the Bank's core activities, that is excluding the significant items recorded in fiscal 2003 and fiscal 2004, as presented in Table 3 in this Management Discussion and Analysis, on page 33 of this Annual Report. Management considers that these significant items are not part of normal day-to-day operations or are unusual in nature and could potentially distort the analysis of trends. This distinction is made in order to ensure that management's analysis of recurring trends is not skewed. Performance measures, excluding significant items, are not terms defined under GAAP, and therefore may not be comparable to similar terms used by other issuers.

Certain comparative figures for fiscal 2004 have been reclassified to conform to the fiscal 2005 presentation in order to make the analysis more meaningful to users.

BANK'S STRATEGIES

Some sections of this Annual Report contain important information concerning the Bank's strategies. Readers should refer to these sections to obtain further information, as they complement this Management Discussion and Analysis.

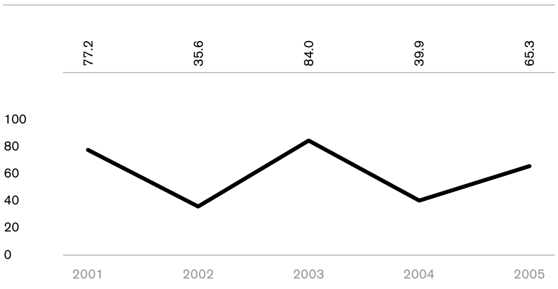
SUMMARY OF FINANCIAL RESULTS

Table 2

CONSOLIDATED RESULTS

For the years ended October 31 (in millions of dollars except per share amounts)	2005	2004	2003	Variation 05/04
Net interest income	$ 325.7	$ 267.2	$ 335.5	22%
Other income	176.4	198.9	286.7	(11)
Total revenue	502.1	466.1	622.2	8
Provision for credit losses	40.0	40.0	54.0	–
Non-interest expenses	382.0	369.7	441.8	3
Income from continuing operations before income taxes and non-controlling interest in a subsidiary	80.1	56.4	126.4	42
Income taxes	24.5	14.6	38.8	68
Income from continuing operations before non-controlling interest in a subsidiary	55.6	41.8	87.6	33
Non-controlling interest in a subsidiary	–	1.9	3.6	–
Income from continuing operations	55.6	39.9	84.0	39
Income from discontinued operations, net of income taxes	9.7	–	–	–
Net income	$ 65.3	$ 39.9	$ 84.0	64
Preferred share dividends, including applicable income taxes	12.0	8.6	6.1	40
Net income available to common shareholders	$ 53.3	$ 31.3	$ 77.9	70%
Average number of common shares (in thousands)				
Basic	23,525	23,485	23,416	
Diluted	23,552	23,521	23,457	
Net income per common share from continuing operations				
Basic	$ 1.85	$ 1.33	$ 3.33	39%
Diluted	$ 1.85	$ 1.33	$ 3.32	39%
Net income per common share				
Basic	$ 2.26	$ 1.33	$ 3.33	70%
Diluted	$ 2.26	$ 1.33	$ 3.32	70%
Return on common shareholders' equity	7.8%	4.6%	12.4%	

NET INCOME
(in millions of dollars)



FISCAL YEARS ENDED OCTOBER 31, 2005 AND 2004

The Bank's performance during fiscal 2005, as reflected in its net income of $65.3 million, or $2.26 diluted per common share ($55.6 million, or $ 1.85 diluted per common share, from continuing operations), has significantly improved compared to fiscal 2004 when net income stood at $39.9 million, or $1.33 diluted per common share. However, at 7.8% (6.4% from continuing operations), return on common shareholders' equity remains below management's expectations in the long term.

The significant improvement in the Bank's net interest income – attributable to tighter asset and liability management strategies, the redemption of debentures in 2004 and 2005, and the growth in residential mortgage and personal loan portfolios – has been partly offset by a decrease in other income, particularly in revenues from treasury and financial market activities. Results for fiscal 2004 included the effect of the significant items mentioned in Table 3, on page 33.

Non-interest expenses increased, a result mainly attributable to variable compensation costs reflecting the improvement in revenues and profitability. Other expenses also increased, as additional resources were devoted to advertising and business development.

The provision for credit losses remained stable at $40 million or 0.24% of average assets in 2005, the same as in 2004. This level of provisions reflects the portfolios' condition which continues to benefit from a relatively favourable economic environment.

Discontinued operations – Sale of BLC-Edmond de Rothschild Asset Management Inc.

During the first quarter of fiscal 2005, the Bank disposed of its mutual fund management and institutional financial management operations, grouped in the BLC-Edmond de Rothschild Asset Management Inc. joint venture, to Industrial Alliance Insurance and Financial Services Inc. This disposal allowed for the recognition of an initial gain of $5.4 million ($5.2 million net of income taxes) in income from discontinued operations, including the loss related to the decrease in value of investments in seed capital of some BLC-Edmond de Rothschild Asset Management Inc. mutual funds. The disposal agreement provides for the Bank to continue to distribute the R Funds during a ten-year period, ending December 31, 2014, as well as Industrial Alliance's mutual funds.

The initial proceeds of the disposal, based on assets under management at the closing date of the transaction, amounted to $67.8 million. A $26.2 million portion of this amount was subject to a recovery clause relative to the volume of net sales of mutual funds, and initially recognized as deferred income. At the end of the fourth quarter of fiscal 2005, it was apparent that the recovery clause requirements for the first year would be satisfied. Consequently, an additional gain of $5.2 million ($4.4 million net of income taxes) was recognized in income from discontinued operations. The deferred income related to the last four fiscal years will be recognized as income over the next fiscal years inasmuch as the minimum net sales requirements are satisfied.

Withdrawing from these asset management operations should not have much of an impact on the Bank's future profitability, as these operations were only marginally profitable. On the other hand, the distribution agreement with Industrial Alliance will enable the Bank to focus on the distribution of financial products and should have a positive impact on revenue growth over the coming years.

Note 2 to the consolidated financial statements provides information relevant to this transaction.

FISCAL YEARS ENDED
OCTOBER 31, 2004 AND 2003

For the fiscal year ended October 31, 2003, the Bank reported net income of $84.0 million, or $3.32 diluted per common share. Return on common shareholders' equity was 12.4% for that fiscal period. Results for fiscal 2003, as those for fiscal 2004, included the impact of certain significant transactions, as detailed in Table 3 on page 33, including the $69.9 million ($54.9 million net of income taxes) gain realized on the sale of the Ontario and Western Canada branches. Excluding these significant items, net income for 2003 would have been $31.3 million, or $1.07 diluted per common share, and return on common shareholders' equity would have been 4.0%. These results already reflected the reduction in profitability which was to continue until the end of fiscal 2004. This was mainly attributable to a decrease in net interest margin and in revenues from treasury and financial markets activities. Nonetheless, strong capital ratios recorded during that period allowed for withstanding such a level of profitability, long enough for adjustment measures to translate into results.

ECONOMIC OUTLOOK – 2006

MODERATE GROWTH AND RESTRAINED INFLATION... BUT THE RISKS ARE RISING

Looking at the economic landscape in the autumn of 2005, what is most striking is the remarkable capacity of the Canadian and Quebec economies to adjust to a rapidly changing environment. Despite a series of increases in energy prices, despite an appreciating currency, despite heightened competition from offshore producers and higher interest rates, the Canadian and Quebec economies have held up reasonably well, certainly better than the overly dramatic media coverage would have us believe. Real GDP growth has averaged just under 3% in 2004-2005 and we forecast a similar rate of growth for 2006. In Quebec, firm domestic demand has kept the economy moving forward and the rate of unemployment relatively stable at around 8.5% during the same period.

However, the Canadian economy, while resilient, is still far from perfect. For one thing, there is a widening regional divide with Western Canada growing very rapidly, fuelled by the boom in natural resources, while Central Canada is undergoing a significant restructuring of its large manufacturing sector. This restructuring was triggered by the combined impact of a rising currency and heightened competition from emerging market economies. Moreover, the significant increase in energy prices during 2005, without being devastating, will contribute to slowing the economy down in 2006 while feeding inflationary expectations. In fact, the greatest risk as far as this 2006 outlook is concerned comes from energy prices for, the longer they remain elevated, the greater the constraint on future economic growth and, simultaneously, the greater the risk as regards inflation expectations. Inflation is still expected to return to 2% in the second half of 2006 but should average at least 3% until then. Should inflation expectations harden at higher levels and start feeding into core inflation, the Bank of Canada will not hesitate to tighten monetary policies more aggressively than currently anticipated, regardless of the negative implications of such actions on short-term growth prospects.

With inflationary pressures likely to be transitory, the current monetary tightening cycle should be rather mild. In fact, the Bank of Canada has consistently emphasized the considerable downside risks to the global economy in 2007 and does not appear in a great rush to move interest rates up aggressively. Our interest rate forecast reflects this view and calls for the overnight rate to move to 3.50% in the first quarter of 2006 and then stay at that level for quite some time, that is to say well into the autumn of 2006 or at least until the outlook for 2007 is a little clearer.

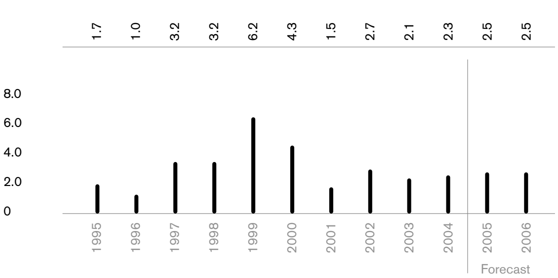
The risks with regard to the outlook on global economic growth arise mainly out of the serious international imbalances that persist and that will inevitably need to be addressed in the near future. The major risk is that the unwinding of these imbalances could be less than orderly and, consequently, usher in a period of great financial market volatility. Ultimately, this would translate into significantly weaker global economic growth which, in turn, would reduce the demand for Canadian goods and services.

In the United States, still the key destination for Canadian and Quebec exports, the economic fundamentals remain solid despite the significant shocks that hit that economy late in the summer of 2005. Generally speaking, powerful hurricanes and other natural disasters tend to have little to no lasting impact on large developed economies. These economies typically have ready access to plentiful public and private financial resources to fund the required reconstruction work. While this was certainly the case with hurricanes Katrina and Rita, the impact of these terrible disasters was nonetheless magnified by the extensive damage they wrought on the Gulf Coast's key ports, and energy and petrochemical infrastructures. Furthermore, the unprecedented emptying of whole cities affecting millions of people became not only the dominant economic factor producing distorted indicators well into November, but also impacted consumer confidence nationally in ways that are not yet fully understood. In the longer term, the impact of these disasters will be ultimately determined by how long it will take to fully repair the damaged infrastructures and what happens in the meantime to energy prices, other input prices and the federal government's fiscal position.

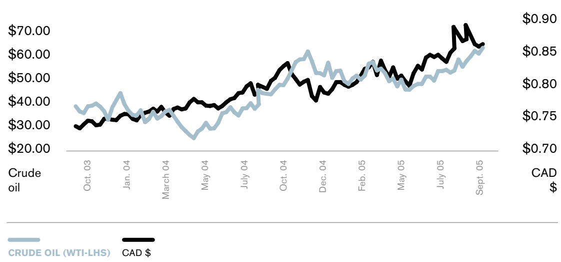
In Quebec, we expect real GDP growth to reach 2.5% in 2005 and 2006, only marginally higher than the 2.3% recorded in 2004. In 2005, consumer spending and residential construction remained solid but investment and exports turned out to be weaker than expected. For 2006, the overall picture is not expected to change much as a pickup in investment spending should compensate for a modest deceleration in consumer spending. Nevertheless, the risks appear substantially higher than in 2005, particularly as they pertain to energy prices and the value of the Canadian dollar. Our base case forecast is built on the assumptions that crude oil prices will remain within the US$55-US$60 per barrel range and that the Canadian dollar will average US$0.82-US$0.83. Higher than expected energy prices or a stronger Canadian dollar would result in a downward revision to our forecast.

As for the Bank, such outlook on the growth of the Canadian and Quebec economies, as well as steady residential construction, should contribute to supporting the growth of retail and commercial loan portfolios, and to improving profitability. Pressures from a rising Canadian dollar however could intensify difficulties for some manufacturing sectors. Inflation risks linked to energy prices could, moreover, bring about a gradual rise in interest rates which, medium-term, would impact the growth of loan volumes and increase the risk of losses. As for capital markets, the Bank expects the level of activity to remain similar to 2004, while treasury and financial market activities will have to proceed with caution considering the situation with regard to interest rates.

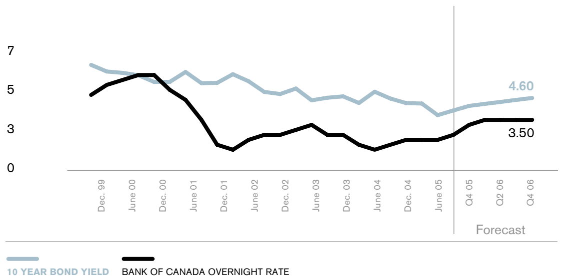
QUEBEC – REAL GDP
(as a percentage)



CRUDE OIL VS. CAD DOLLARS



CANADIAN RATES
(as a percentage)



ANALYSIS OF CONSOLIDATED RESULTS

TOTAL REVENUE

Total revenue was $502.1 million for fiscal 2005, an increase of $36 million or 8%, compared to $466.1 million for fiscal 2004. This performance is mainly attributable to the improvement in net interest margin as well as in loan and deposit volumes during the fiscal year, partially offset by a reduction in other revenues, particularly revenues from treasury and financial market activities. It is worth noting that revenues for 2004 included the favourable impact of the disposal of certain activities and portfolios, as well as other transactions as detailed in the following table. Taking into account these items, the improvement with regard to revenues is all the more interesting.

Table 3

SIGNIFICANT ITEMS AFFECTING RESULTS

(in millions of dollars, except per share amounts)	Items, before income taxes	Items, net of income taxes	Diluted, per common share
	Favorable (unfavorable)		
2004			
Items affecting net interest income			
Interest expense resulting from the reclassification of dividends and of the redemption premium on Class A Preferred Shares Series 7 and 8, including the overlap in dividends	$ (7.4)	$ (7.6)	$(0.32)
Costs associated with the redemption of the Debentures Series 7	(1.1)	(0.7)	(0.03)
	(8.5)	(8.3)	(0.35)
Items affecting other income			
Sale of the Ontario and Western Canada Visa loan portfolio	4.4	3.8	0.16
Sale of the debit and credit card transaction processing activities and certain rights to service mutual fund accounts	5.6	4.6	0.20
Review of the provisions related to the Ontario and Western Canada branches sold during the fourth quarter of 2003	3.5	2.4	0.10
	13.5	10.8	0.46
Items affecting income taxes			
Increase in future tax assets arising from the increase in Ontario income tax rates, net of non-controlling interest		1.5	0.06
		1.5	0.06
Effect on net income		$ 4.0	$ 0.17
Effect of reclassification of dividends on Class A Preferred shares Series 7 and 8		3.9	0.17
Partial dividend on Class A Preferred shares Series 10		0.5	0.02
Effect on net income available to common shareholders		$ 8.4	$ 0.36
2003			
Items affecting the provision for credit losses			
Loan losses related to Air Canada exposure	$(10.0)	$ (6.5)	$(0.28)
	(10.0)	(6.5)	(0.28)
Items affecting other income			
Gain on sale of the Ontario and Western Canada branches	69.9	54.9	2.34
Contribution of branches sold	26.3	17.1	0.73
	96.2	72.0	3.07
Items affecting non-interest expenses			
Restructuring charge	(19.7)	(12.8)	(0.54)
	(19.7)	(12.8)	(0.54)
Effect on net income and net income available to common shareholders		$ 52.7	$ 2.25

NET INTEREST INCOME

The Bank's net interest income, as shown in Table 4 below, increased from $267.2 million in 2004 to $325.7 million in 2005. This improvement is mainly the result of the increase of the net interest margin from 1.64% in 2004 to 1.99% in 2005. The tighter asset and liability management strategies pursued since 2004, the $250 million repurchase of debentures in 2004 and 2005, and the optimization of the liquidity investment strategies have all been instrumental in restoring the net margin to a level more in keeping with the banking industry and the Bank's retail activities. This momentum should continue throughout 2006, although more discreetly. These items have also allowed the Bank to offset the ever present impact of the fierce competition within the Canadian market.

Growth in the residential mortgage and personal loan portfolios as well as in personal deposits, has also contributed to the improvement of net interest income. The Bank finances its operations mainly by raising such personal deposits and, to a lesser extent, deposits from businesses and financial institutions.

Derivative financial instruments are efficient tools to manage interest rate risk and liquidity risk. Depending on the evolution of interest rates and the composition of portfolios in terms of maturity and types of products, actual return on portfolios can fluctuate substantially. Accordingly, the Bank uses derivative financial instruments to manage its risks, and net interest income must be reviewed on a hedged basis. The Bank also uses models to quantify the potential impact of various future scenarios on revenues and equity, as detailed in the Structural risk management section on page 56 of this Annual Report.

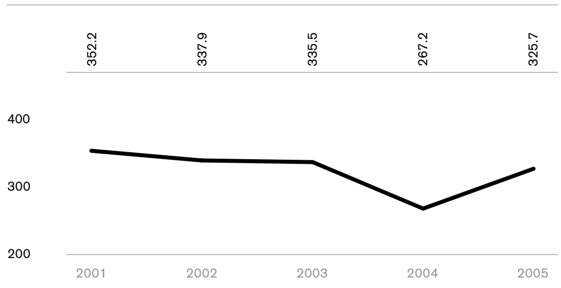
In accordance with the new accounting standards governing financial instruments (see Note 1 to the consolidated financial statements), results for fiscal 2004 have been adjusted and include a $7.4 million interest charge resulting from the payment of dividends and from the redemption premium on Class A Preferred Shares Series 7 and Series 8, including the effect of the overlap in dividend payments. As these shares were repurchased in 2004, there is no equivalent expense for fiscal 2005. Interest expense for fiscal 2004 also includes costs of $1.1 million associated with the repurchase of Series 7 debentures.

Table 4

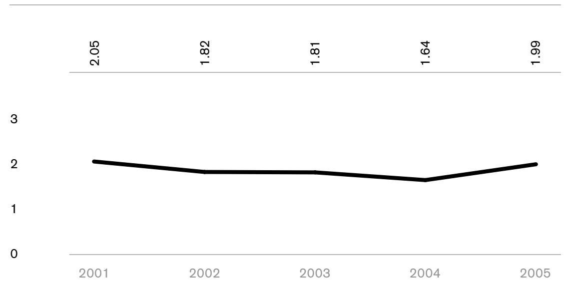
CHANGES IN NET INTEREST INCOME

For the years ended October 31 (in millions of dollars and as a percentage)				2005				2004
	Average volume in %	Average volume	Interest	Average rate	Average volume in %	Average volume	Interest	Average rate
Assets								
Cash resources								
Interest-bearing	1.9%	$ 307	$ 7.9	2.56%	2.8%	$ 457	$ 9.8	2.14%
Non-interest-bearing	0.4	58	–	–	0.3	56	–	–
Securities	19.1	3,120	59.7	1.91	17.6	2,870	57.5	2.00
Assets purchased under reverse repurchase agreements	3.8	626	14.4	2.30	6.4	1,038	24.0	2.31
Loans								
Personal	22.9	3,735	247.6	6.63	21.9	3,576	239.8	6.71
Residential mortgages	34.6	5,649	298.2	5.28	32.6	5,329	303.6	5.70
Commercial mortgages	3.5	572	34.9	6.11	3.9	639	38.9	6.09
Commercial and other	9.9	1,621	87.0	5.37	10.0	1,625	84.1	5.18
Other assets	3.9	640	0.5	0.08	4.5	737	0.5	0.07
Total – assets	100.0%	$16,328	$750.2	4.59%	100.0%	$16,327	$758.2	4.65%
Liabilities and shareholders' equity								
Demand and notice deposits		$ 2,497	$ 10.3	0.41%		$ 2,399	$ 9.4	0.39%
Term deposits		10,806	415.2	3.84		10,455	433.9	4.15
Other deposits		1,368	13.0	0.95		1,507	19.5	1.29
Derivative financial instruments		–	(30.2)	–		–	(6.8)	–
		14,671	408.3	2.78		14,361	456.0	3.18
Acceptances		131	–	–		197	–	–
Other liabilities		426	–	–		512	–	–
Subordinated debentures		204	16.2	7.93		358	27.2	7.59
Liability related to preferred shares		–	–	–		62	7.8	12.60
Shareholders' equity		896	–	–		837	–	–
Total – liabilities and shareholders' equity		$16,328	$424.5	2.60%		$16,327	$491.0	3.01%
Net interest income			$325.7	1.99%			$267.2	1.64%

NET INTEREST INCOME
(in millions of dollars)



NET INTEREST INCOME
(as a percentage of average assets)



OTHER INCOME

Other income stood at $176.4 million for fiscal 2005, compared to $198.9 million in 2004. This $22.5 million decrease results mainly from the reduction of revenues from treasury and financial market activities which was partly offset by the improvement in revenues from securitization operations. Other income for fiscal 2004 also included the impact of the disposal of assets, as shown in Table 3 and Table 5 on page 33 and 36.

Revenues from loans and deposits remained at $89.2 million for fiscal 2005, as the reduction in commercial lending fees was offset by the increase in fees for the use of automated banking machines.

Revenues from treasury and financial market activities stood at $16.2 million for fiscal 2005, compared to $30.6 million in 2004. These revenues were affected by market conditions that were less favourable than in 2004 and by the change in liquidity management strategies aimed at reducing volatility and improving net interest income.

After a strong growth in fiscal 2004, revenues derived from brokerage activities held steady at $20.2 million in 2005. The two major services – institutional brokerage and retail brokerage – recorded revenues more or less equivalent to last year's.

Revenues from mutual funds decreased by $3.3 million and stood at $9.6 million in 2005. These revenues are now derived exclusively from distribution activities whose revenues increased by $1.3 million during fiscal 2005 as a result of the growth in the volumes of distributed mutual funds. Revenues from fund management activities, which were grouped within the BLC-Edmond de Rothschild Asset Management Inc. joint venture, decreased by $4.6 million, taking into account that these activities were disposed of at the beginning of fiscal 2005. This reduction in revenues was offset however by an equivalent reduction in expenditures.

Revenues from securitization rose to $11.7 million in 2005, compared to $4.4 million in 2004. Transfers of receivables for financing and capital management purposes have been more frequent during fiscal 2005 in order to meet the significant growth in loan volumes. These operations result in recognizing in income a significant portion of the net interest margin which otherwise would have been earned over the term of the loans. Note 5 to the consolidated financial statements provides further information on these operations.

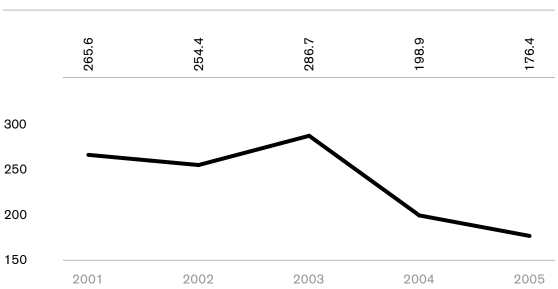
Insurance revenues are essentially generated by insurance programs related to loans disbursed by the Bank. Taking into account that certain risks associated with these operations will not be reinsured at the beginning of fiscal 2006, insurance revenues should increase significantly from fiscal 2006 onwards, inasmuch as the level of losses linked to these operations remains similar to that of previous years.

Revenues from registered self-directed plans decreased slightly and stood at $11.8 million for fiscal 2005, compared to $12.2 million in 2004. This result is linked to changes in market conditions that weigh the number of registered self-directed plans downward, and this despite the increase in assets under administration (see the section on off-balance sheet arrangements on page 46 of this Management Discussion and Analysis).

Table 5
OTHER INCOME

For the years ended October 31 (in millions of dollars)	2005	2004	2003	2002	2001	Variation 05/04
Fees and commissions on loans and deposits						
Deposit service charges	$ 47.7	$ 45.8	$ 51.3	$ 51.4	$ 47.8	4%
Lending fees	30.4	32.1	37.8	48.6	43.6	(5)
Card service revenues	11.1	11.3	12.4	12.8	13.5	(2)
Sub-total – fees and commissions on loans and deposits	89.2	89.2	101.5	112.8	104.9	–
As a % of average assets	0.55%	0.55%	0.55%	0.61%	0.61%	
Other						
Brokerage operations	20.2	20.2	16.7	19.2	23.3	–
Income from treasury and financial market operations	16.2	30.6	50.9	61.9	48.7	(47)
Income from registered self-directed plans	11.8	12.2	12.6	13.2	14.4	(3)
Securitization income	11.7	4.4	1.0	16.1	18.7	166
Income from sale and management of mutual funds	9.6	12.9	10.7	13.9	17.9	(26)
Insurance income	7.7	6.1	6.7	5.3	4.5	26
Trust services	1.0	2.1	2.1	1.8	1.4	(52)
Gain on disposals	–	13.5	69.9	–	–	–
Other	9.0	7.7	14.6	10.2	8.5	17
Other special items	–	–	–	–	23.3	–
Sub-total – other	87.2	109.7	185.2	141.6	160.7	(21)
As a % of average assets	0.53%	0.67%	1.00%	0.76%	0.94%	
Total – other income	$176.4	$198.9	$286.7	$254.4	$265.6	(11)%
As a % of average assets	1.08%	1.22%	1.55%	1.37%	1.55%	

OTHER INCOME
(in millions of dollars)



PROVISION FOR CREDIT LOSSES

The provision for credit losses stood at $40.0 million in 2005, or 0.33% of the average portfolio of loans, bankers' acceptances and assets purchased under reverse repurchase agreements. In 2004, the provision also stood at $40.0 million, including the impact of a $12.0 million reversal of general allowance and equivalent additional provisions of $6.4 million, $1.9 million and $3.7 million related to the commercial loan, commercial mortgage and personal loan portfolios respectively. The level of losses remains high, but is still in line with the objectives set at the start of fiscal 2005. Slightly higher losses related to a specific personal lines of credit portfolio, as well as some credit losses related to the commercial loan portfolio, had a negative impact on the loan loss provision. On the other hand, the residential and commercial mortgage loan portfolios, as well as the other personal loan portfolios, continue to perform very well.

The following table presents the provision for credit losses from 2003 to 2005.

Table 6
PROVISION FOR CREDIT LOSSES

For the years ended October 31 (in millions of dollars)	2005	2004	2003 (1)
Personal loans	$25.1	$25.6	$26.3
Residential mortgages	0.6	1.7	1.2
Commercial mortgages	1.6	3.1	1.6
Commercial loans and other	12.7	21.6	28.9
Sub-total	40.0	52.0	58.0
Effect of the reversal of general allowances	–	(12.0)	(4.0)
Total – provision for credit losses	$40.0	$40.0	$54.0
As a % of average loans, bankers' acceptances and assets purchased under reverse repurchase agreements	0.33%	0.32%	0.37%

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

NON-INTEREST EXPENSES

Non-interest expenses stood at $382.0 million for 2005, compared to $369.7 million for 2004.

Compensation costs increased by $9.3 million, mainly because employee benefits and costs associated with incentive compensation are substantially higher for this fiscal year, considering the improvement in the Bank's results as well as the level at which the objectives have been attained. For fiscal 2006, compensation costs should increase nearly 7%, as a result, among other things, of the increase in actuarial deficits related to employee future benefits in the wake of the reduction in interest rates during fiscal 2005, and of the anticipated growth in the number of employees and in salaries. Note 14 to the consolidated financial statements on page 88 of this Annual Report offers more information regarding pension plans. The number of full-time equivalent employees increased by 55, from 3,125 as at October 2004 to 3,180 as at October 31, 2005. This increase is mainly attributable to the opening of new branches and the hiring of personnel in the Bank's business segments. Meanwhile, the number of employees in the Bank's corporate sectors has decreased. This mirrors the Bank's significant efforts towards better efficiency and better quality of customer service with an aim to furthering its growth.

Premises and technology costs increased slightly, from $104.7 million in 2004 to $107.6 million in 2005. In fiscal 2004, the Bank benefited from the positive effect of the service agreement related the management of the Ontario and Western Canada branches. Moreover, this result is also attributable to the increase in the costs of outsourced technology services, which was offset by the reduction in amortization expenses. The increase in maintenance and repairs expenses, for its part, is mainly related to the renovation program underway in the branch network.

Other expenses stood at $82.1 million in 2004, compared to $82.2 million in 2005. The increase in advertising and business development expenses, as well as in communications and traveling expenses, further attest to the Bank's new development priorities. These increases were partly offset by the reduction in fees and commissions, as well as by tax reductions.

Table 7 illustrates the changes in non-interest expenses from 2001 to 2005.

Efficiency ratio

The efficiency ratio improved, from 79.3% in 2004 to 76.1% in 2005 (on the basis of continuing operations). This improvement is basically related to the increase in revenues. The following graph illustrates the Bank's performance over the last fiscal years.

EFFICIENCY RATIO
(non-interest expenses as a percentage of total revenue)

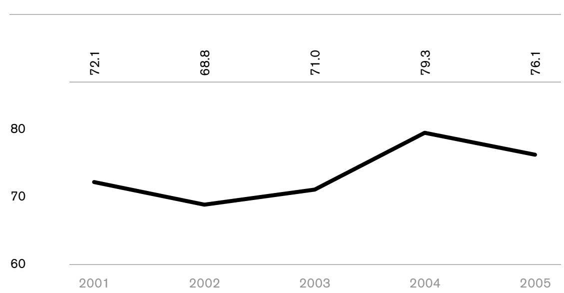


Table 7

NON-INTEREST EXPENSES

For the years ended October 31 (in millions of dollars)	2005	2004	2003	2002	2001	Variation 05/04
Salaries	$146.8	$140.4	$162.9	$159.7	$178.3	
Employee benefits	45.4	42.5	42.0	39.0	34.6	
Sub-total – salaries and employee benefits	192.2	182.9	204.9	198.7	212.9	5%
As a % of average assets	1.18%	1.12%	1.10%	1.07%	1.24%	
Premises and technology						
Equipment and computer services	37.6	30.1	38.4	37.2	36.2	
Rent and property taxes	33.1	33.4	38.8	34.2	33.5	
Depreciation	28.4	34.5	42.4	39.2	36.1	
Maintenance and repairs	5.3	4.8	6.3	6.5	7.1	
Public utilities	1.1	1.0	1.9	2.0	2.4	
Other	2.1	0.9	1.2	1.0	0.6	
Sub-total – premises and technology	107.6	104.7	129.0	120.1	115.9	3%
As a % of average assets	0.66%	0.64%	0.70%	0.65%	0.67%	
Restructuring costs	–	–	19.7	(0.6)	17.5	–%
As a % of average assets	–%	–%	0.11%	–%	0.10%	
Other expenses						
Taxes and insurance	23.6	25.1	24.5	25.2	25.9	
Communications and travelling expenses	17.6	16.1	18.1	18.6	18.8	
Fees and commissions	16.5	17.1	18.8	21.3	17.1	
Advertising and business development	13.2	11.6	12.2	11.2	10.9	
Stationery and publications	6.0	6.0	6.9	7.1	7.2	
Recruitment and training	2.3	2.2	2.2	1.9	2.4	
Other	3.0	4.0	5.5	3.8	16.9	
Sub-total – other expenses	82.2	82.1	88.2	89.1	99.2	–%
As a % of average assets	0.50%	0.50%	0.47%	0.47%	0.58%	
Total – non-interest expenses	$382.0	$369.7	$441.8	$407.3	$445.5	3%
As a % of average assets	2.34%	2.26%	2.38%	2.19%	2.59%	
As a % of total revenue (efficiency ratio)	76.1%	79.3%	71.0%	68.8%	72.1%	

INCOME TAX EXPENSE

Income tax expense for 2005 stood at $24.5 million, for an effective tax rate of 30.6%. For 2004, income tax expense was $14.6 million, for an effective tax rate of 25.9%. In 2004, lower income taxes on gains related to the various disposals of assets and the adjustment to the future tax assets resulting from the increase in Ontario income tax rates, had a favorable impact on income tax expense.

The Bank pays special attention to its fiscal situation, making sure in particular of optimizing the use of income tax loss carryforwards and recoverable minimum taxes.

Note 16 to the consolidated financial statements on page 91 of this Annual Report offers more information on the Bank's fiscal situation, particularly with regard to future income tax assets, provision for income taxes and effective tax rates.

ANALYSIS OF FINANCIAL CONDITION

During 2005, the Bank pursued its initiatives designed to further develop its activities in areas where it holds a competitive position. This translated into the disposal of BLC-Edmond de Rothschild Asset Management Inc. and, most importantly, the opening of new branches in Quebec, a forceful marketing strategy as regards advertising as well as within the branch network, and renewed efforts with regard to its relations with financial intermediaries. These initiatives, among other things, have contributed to the modification of the Bank's asset mix. Likewise, the realignment of the Bank's capital structure, as well as new investment and hedging strategies, have had an impact on the Bank's financial condition as compared to fiscal 2004. Finally, the notable improvement in results has enabled the Bank to maintain a strong level of capitalization while ensuring the payment of dividends.

As at October 31, 2005, the Bank's total assets stood at $16.5 billion, compared to $16.6 billion as at October 31, 2004, as indicated in Table 8 below. Assets under administration stood at $13.8 billion, compared to $14.9 billion at the end of fiscal 2004. These changes are explained in the next sections of this Management Discussion and Analysis.

Table 8

BALANCE SHEET ASSETS

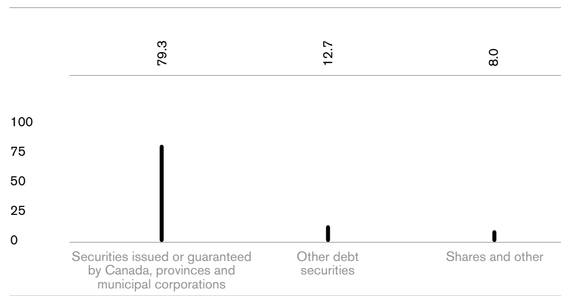
As at October 31 (in millions of dollars)	2005	2004	2003	Variation 05/04
Cash resources and securities	$ 3,258	$ 3,331	$ 3,906	(2)%
Assets purchased under reverse repurchase agreements	508	1,134	882	(55)
Loans				
Personal	3,907	3,639	3,646	7
Residential mortgages	5,807	5,509	5,274	5
Commercial mortgages	596	604	705	(1)
Commercial and other	1,540	1,543	1,572	–
	11,850	11,295	11,197	5
Allowance for loan losses	(130)	(140)	(163)	(7)
Total loans	11,720	11,155	11,034	5
Customers' liability under acceptances	146	145	235	1
Other assets	875	842	681	4
Balance sheet assets	$16,507	$16,607	$16,738	(1)%
Cash resources and securities as a % of balance sheet assets	19.7%	20.1%	23.3%	
Loans and assets purchased under reverse repurchase agreements as a % of balance sheet assets	74.1%	74.0%	71.2%	

CASH RESOURCES AND SECURITIES

Cash resources and securities remained relatively stable during 2005, compared to last year, standing at $3.3 billion as at October 31, 2005. More than 79% of the Bank's securities are composed of securities issued or guaranteed by Canada, provinces or municipal corporations. The remainder of the portfolio is composed of cash, other debt securities and equity securities. Cash resources and securities now constitute nearly 20% of balance sheet assets, a level comparable to last year's. Cash resources enable the Bank to meet its commitments and limit its eventual use of more costly sources of financing. Return on cash resources however is generally lower than what the Bank can generate through its loan operations. Consequently, the management of cash resources as well as their mix have a significant impact on results. The improvement in net interest income for 2005 is attributable, among other things, to the relative lengthening of the maturity of these portfolios.

As at October 31, 2005, certain securities presented losses in value totalling $10.4 million, as detailed in Note 3 to the consolidated financial statements on page 80 of this Annual Report. These losses in value essentially concern debt securities issued or guaranteed by the Canadian government or the government of a Canadian province, and are linked to changes in the interest rates on the market at year-end. The Bank believes that it can hold these securities to maturity or until such impairments in value resorb. Consequently, no loss impairment has been recognized in income.

SECURITIES
(as a percentage)



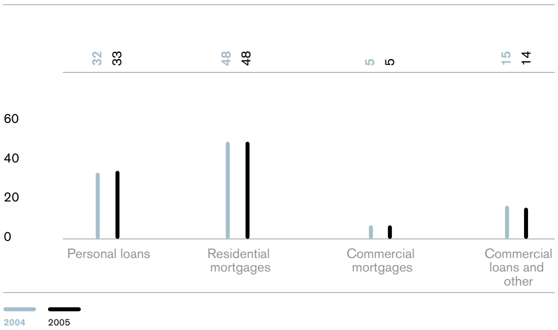
ASSETS PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS

The value of assets purchased under reverse repurchase agreements stood at $0.5 billion as at October 31, 2005, compared to $1.1 billion on October 31, 2004. These assets are used as very short term investments, mainly to reposition the Bank's cash resources and cover certain commitments related to securities sold short.

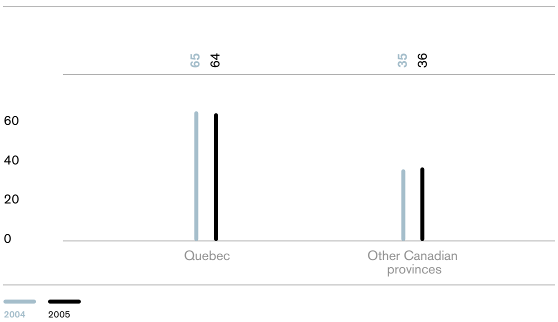
OTHER ASSETS

Other assets, excluding customers' liabilities under acceptances, increased from $842 million as at October 31, 2004 to $875 million on October 31, 2005. This slight increase is mainly attributable to the increase in items in transit linked to the settlement of banking transactions at the end of the year, offset by the reduction in assets related to derivative financial instruments.

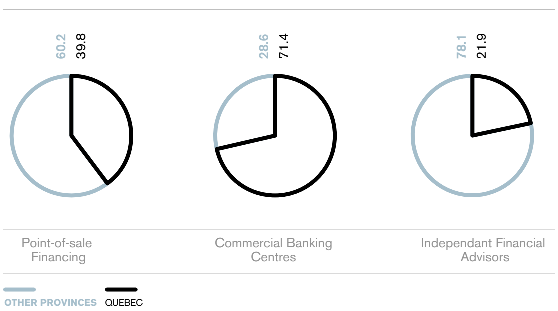
LOAN PORTFOLIO MIX
(as a percentage)



GEOGRAPHIC DISTRIBUTION OF LOANS
(as a percentage)



GEOGRAPHIC DISTRIBUTION
(as a percentage)



LOANS AND BANKERS' ACCEPTANCES

The loans and bankers' acceptances portfolio, before provision for credit losses, increased by 5% to $12.0 billion as at October 31, 2005, compared to $11.4 billion at October 31, 2004. The mix of the various portfolios is described below.

Loan portfolio mix

The Bank's loan portfolio consists of personal loans, residential mortgages, commercial mortgages and commercial loans, including bankers' acceptances. The proportion of the different types of loans as at October 31, 2005 is largely the same as at October 31, 2004.

The personal loan portfolio and the residential mortgage portfolio stood at $3.9 billion and $5.8 billion respectively, representing more than 80% of the Bank's loan portfolio, a level similar to 2004. This proportion reflects the Bank's strong retail presence through Retail Financial Services and B2B Trust. Commercial financing, essentially for small- and medium-sized businesses, remained stable at $2.3 billion as at October 31, 2005, compared to October 31, 2004.

GEOGRAPHIC DISTRIBUTION

In line with its business plan, the Bank is principally active in Quebec where its distinct strengths enables it to compete efficiently. In practical terms, the Bank's presence manifests itself through its network of retail branches and commercial banking centres. Moreover, the Bank extends its activities throughout Canada via 28 commercial banking centres, a vast network of more than 14,300 brokers and financial advisors, as well as through its relations with more than 3,100 retailers acting as intermediaries for point-of-sale financing activities. B2B Trust also maintains a significant physical presence in Ontario. As at October 31, 2005, the proportion of loans granted in Quebec represented 64% of total loans, a level similar to last year's (65%), whereas the portion of loans granted outside Quebec stood at 36%.

LOAN SIZE BY COMMERCIAL BORROWER

The Bank maintains the size of loans granted at a level consistent with the level of risks it is willing to assume, in keeping with its credit risk management policies. For both commercial mortgages and commercial loans, this limit has generally been set to $20 million.

INSURANCE AND GUARANTEES

A significant proportion of the Bank's loan portfolio is insured by Canada Mortgage and Housing Corporation (CMHC) or secured by assets pledged as collateral by the borrowers.

The CMHC offers a mortgage loan insurance program designed to give Canadians access to mortgage financing at an affordable cost. The Bank participates in the program as an approved lender, which enables it to benefit from insurance coverage and thus reduce its global credit risk and improve its capital ratios. Moreover, by maintaining a high proportion of insured residential mortgages, the Bank preserves its capacity to pursue its securitization operations which in turn enables it to optimize the financing of its activities and manage its cash resources. By year-end 2005, 49% of residential mortgages were insured by the CMHC, compared to 51% in 2004. Furthermore, the Bank considers that it holds excellent guarantees for the other conventional mortgage loans where the loan value never exceeds 75% of the estimated value of the property at origin, in accordance with legal requirements.

Buildings with five units or less, a significant number of which are single-family units, comprise 80% of the volume of residential mortgages outstanding (81% in 2004). The average loan balance of these loans was $87,300, compared to $87,200 at the end of fiscal 2004.

Commercial mortgage loans are guaranteed as well by specific assets, including construction projects, commercial properties, shopping centres, office buildings, plants, warehouses and industrial condominiums, among other things.

B2B Trust's investment loan portfolio mainly consists of mutual fund loans. These loans, with an average value of some $49,000, are generally secured by four to five mutual funds, thereby ensuring a good diversification of risk. The value of these investments must respect the terms and conditions of loan agreements at all times.

Changes in loan portfolios

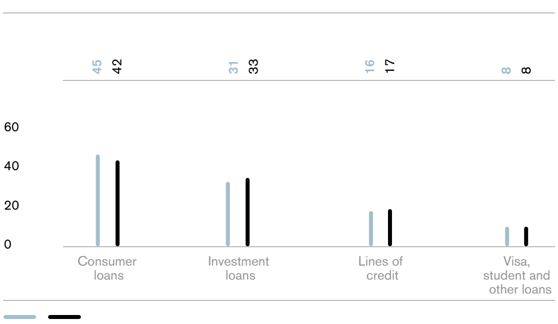
PERSONAL LOANS

As at October 31, 2005, the personal loans portfolio stood at $3.9 billion, an increase of $268 million over fiscal 2004. This increase is mainly attributable to the investment loan portfolio which benefited from favorable market conditions, and to the continuing development of business with B2B Trust's partners. The portfolio of lines of credit subscribed through the branch network, including mortgage lines of credit, increased by more than 20% during 2005 and stood at $520 million as at October 31, 2005. Finally, the portfolio of loans subscribed to, throughout Canada, by the point-of-sales financing network increased as well during fiscal 2005.

RESIDENTIAL MORTGAGE LOANS

As shown in Table 9, the residential mortgage portfolios, including on-balance sheet loans and securitized loans, increased by $470 million during fiscal 2005. This performance is mainly attributable to the favorable conditions in the real estate market and to the efficiency shown by Retail Financial Services in the face of continuing competition.

PERSONAL LOAN PORTFOLIO MIX
(as a percentage)



RESIDENTIAL MORTGAGE LOANS BY PROPERTY TYPE
(as a percentage)

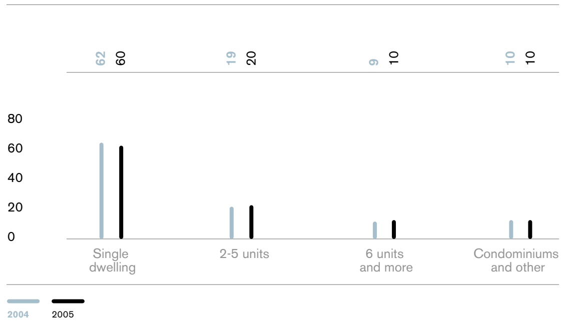


Table 9
RESIDENTIAL MORTGAGE LOANS PORTFOLIO

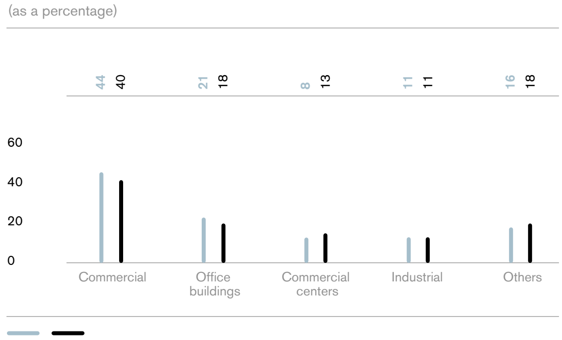
As at October 31 (in millons of dollars)	2005	2004
Residential mortgage loans, as reported on balance sheet	$5,807	$5,509
Securitized loans	654	482
Total residential mortgage loans, including securitized loans	$6,461	$5,991

COMMERCIAL MORTGAGE LOANS

The volume of commercial mortgage loans remained virtually the same as last year's and stood at $595.9 million as at October 31, 2005, compared to $604.1 million as at October 31, 2004. The Bank still plays an active role in the field of construction mortgage loans all over Canada. During fiscal 2005, the Bank transferred some $23 million in loans to special-purpose entities or other entities. These operations allow the Bank to benefit from more favorable financing costs and, therefore, offer its clients more advantageous borrowing rates. This strategy, designed to promote loan origination, should be pursued during fiscal 2006.

As at October 31, 2005, Ontario and Western Canada represented 67% of the commercial mortgage loan portfolio and Quebec 33%, whereas their respective shares were 61% and 39% on October 31, 2004.

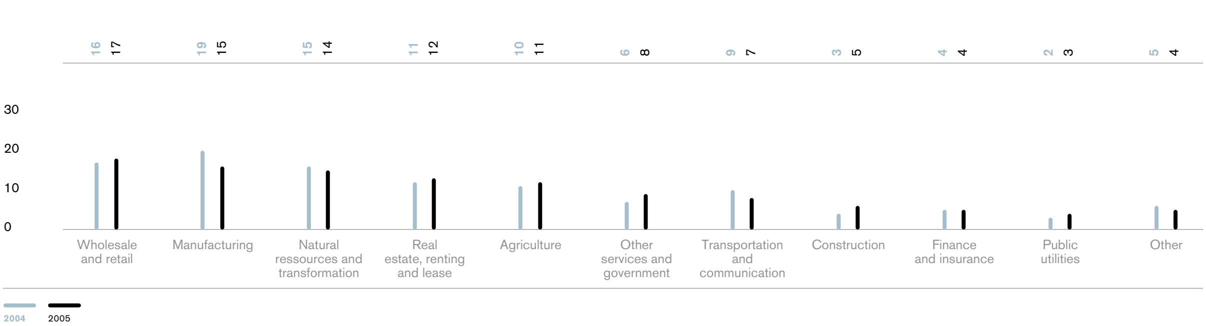
COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE
(as a percentage)



COMMERCIAL LOANS

As at October 31, 2005, the Bank's portfolio of commercial loans, including bankers' acceptances, stood at $1.7 billion, the same as at October 31, 2004. The growth recorded with small- and medium-sized businesses in Quebec and Ontario, as well as with agricultural enterprises, has been instrumental in offsetting the reduction in the corporate loan portfolio. This development is perfectly consistent with the Bank's strategy designed to focus its activities in those markets where it can compete efficiently. This well-diversified commercial loan portfolio represented 14% of the Bank's total loans.

COMMERCIAL LOANS BY INDUSTRY
(as a percentage)



Impaired loans

The credit quality was still satisfactory, as at October 31, 2005. The economic environment in Quebec and all of Canada has contributed to a substantial reduction in credit risks over the past few years. Gross impaired loans decreased from $127.0 million in 2004 to $120.9 million in 2005. Net impaired loans stood at $(8.9) million as at October 31, 2005, compared to $(13.0) million as at October 31, 2004. This reflects the fact that the global level of provisions is higher than the level of gross impaired loans, as shown in Table 10.

Table 10
IMPAIRED LOANS

As at October 31 (in millions of dollars)			2005			2004
	Gross	Specific allowances	Net	Gross	Specific allowances	Net
Personal loans	$ 16.9	$ (7.3)	$ 9.6	$ 18.1	$(10.1)	$ 8.0
Residential mortgages	9.8	(3.7)	6.1	13.2	(3.9)	9.3
Commercial mortgages	12.2	(5.9)	6.3	15.5	(6.1)	9.4
Commercial loans and other	82.0	(47.6)	34.4	80.2	(54.7)	25.6
Total	$120.9	$(64.5)	$ 56.4	$127.0	$(74.8)	$ 52.3
General allowances			(65.3)			(65.3)
Total – net impaired loans			$ (8.9)			$(13.0)
As a % of total loans, bankers' acceptances and assets purchased under reverse repurchase agreements			(0.1)%			(0.1)%

General allowances stood at $65.3 million as at October 31, 2005, the same as at October 31, 2004. This reflects the estimate as to potential losses attributable to the deterioration in credit quality of loans that have still not been categorized as impaired. Note 4 to the consolidated financial statements provides more information on this topic.

DEPOSITS

The deposit portfolio increased from $12.9 billion at the beginning of fiscal 2005 to $13.7 billion as at October 31, 2005, so as to meet growing financing needs in the wake of the increase in loan volumes. Table 11 on page 43 offers a summary of the various deposit portfolios.

Personal deposits

Total personal deposits increased to $10.6 billion as at October 31, 2005, compared to $10.5 billion as at October 31, 2004. This $121 million increase is mainly attributable to deposits generated through the branch network. Personal deposits still represent more than 75% of total deposits as at October 31, 2005, even though deposits from other sources had increased as at year-end. Personal deposits are a particularly advantageous and stable source of financing for the Bank, particularly because of its availability and its low cost compared with institutional deposits. On the other hand, mutual funds, along with other investment options, have contributed to fuelling competition in this targeted market.

The Bank maintained a strong presence with financial advisors throughout Canada by means of its B2B Trust business segment and its brokers' network in Quebec. As at October 31, 2005, deposits totalled $4.8 billion, at the same level as year-end 2004. These deposits are more sensitive to pricing and are thus more easily adjusted to the Bank's financing needs.

Business, bank and other deposits
Deposits from businesses, banks and government institutions increased by $665 million, from $2.5 billion as at October 31, 2004, to $3.1 billion as at October 31, 2005. This increase, which essentially occurred at year-end, was generated by short-term deposits from certain institutional clients. Notwithstanding this punctual increase, these cash resources are necessary to finance operations, particularly the growth in loan volumes. The section on the Bank's credit ratings, on page 45 of this Annual Report offers further explanations on certain concepts pertaining to the cost associated with this type of financing.

Table 11
DEPOSITS

As at October 31 (In millions of dollars)	2005		2004	
Personal				
Notice and demand	$ 1,871	13.7%	$ 1,858	14.4%
Fixed date				
Branch network	4,105	29.9%	4,046	31.3%
Brokers	4,599	33.6%	4,550	35.3%
	8,704	63.5%	8,596	66.6%
Sub-total – personal	10,575	77.2%	10,454	81.0%
Business, banks and other				
Notice and demand	767	5.6%	662	5.1%
Fixed date	2,355	17.2%	1,795	13.9%
Sub-total – business, banks and other	3,122	22.8%	2,457	19.0%
Total – deposits	$13,697	100.0%	$12,911	100.0%

OTHER LIABILITIES
The reduction of more than $800 million in other liabilities during fiscal 2005 is essentially attributable to obligations related to assets sold short, which depend upon trading activities and investment strategies. Other elements, such as interest accrued on deposit portfolios, cheques and other items in transit, and other accounts payable, have varied little compared to fiscal 2004.

SUBORDINATED DEBENTURES
Subordinated debentures decreased by $101 million, following the redemptions of the Series 6 and Series 8 debentures during fiscal 2005. This realignment of the Bank's capital according to its financing needs and to regulatory requirements, was an integral part of the strategies designed to improve results in 2005.

SHAREHOLDERS' EQUITY
Shareholders' equity stood at $913.2 million as at October 31, 2005, a $26.5 million increase over fiscal 2004. This increase results mainly from net income for 2005, net of declared dividends. The carrying value of common shares increased from $28.78 as at October 31, 2004 to $29.85 as at October 31, 2005. During fiscal 2005, the Bank issued 45,202 common shares under its stock option plan for proceeds of $1.0 million. As at October 31, 2005, there were 23,556,545 common shares outstanding.

Table 12
SHARES ISSUED AND OUTSTANDING

As at November 30, 2005 (in number of shares)	
Class A Preferred shares	
Series 9	4,000,000
Series 10	4,400,000
Total preferred shares	8,400,000
Common shares	23,569,045
Options	416,537

REGULATORY CAPITAL
The Bank carefully monitors its capital base as it represents an essential factor in assessing its strength and security in relation to the risks associated with its activities. The BIS Tier 1 capital ratio had slightly decreased as at October 31, 2005 to 10.2%, compared to 10.5% as at October 31, 2004. This reduction is mainly attributable to higher risk-weighted assets generated by the growth in loan volumes. The BIS

total capital ratio decreased to 12.3% as at October 31, 2005, whereas it stood at 14.0% as at October 31, 2004. This ratio takes into account the level of total capital which is comprised of common shareholders' equity, non-controlling interest in subsidiaries and subordinated debentures. The reduction is mainly attributable to the redemption of subordinated debentures and to the growth in loan volumes during fiscal 2005.

Table 13 and Table 14 outline the risk-weighted assets and the regulatory capital which are used to calculate ratios, as established by the Bank for International Settlements (BIS).

Table 13
RISK-WEIGHTED ASSETS

As at October 31 (in millions of dollars)	2005	2004	2003
Balance sheet items			
Cash resources	$ 88	$ 68	$ 148
Securities	397	255	359
Mortgage loans	2,329	2,123	2,104
Other loans and customers' liability under acceptances	5,063	4,828	4,948
Other assets	497	543	596
General allowances	65	65	73
Total – balance sheet items	$8,439	$7,882	$8,228
Off-balance sheet items			
Derivative financial instruments	34	50	60
Credit-related commitments	50	54	123
Total – risk-weighted assets	$8,523	$7,986	$8,411

Table 14
REGULATORY CAPITAL – BIS

As at October 31 (in millions of dollars)	2005	2004	2003	Variation 05/04
Tier I capital				
Common shares	$ 249.0	$ 248.6	$ 246.8	–%
Contributed surplus	0.1	–	–	–
Retained earnings	454.1	428.1	426.5	6
Non-cumulative preferred shares	210.0	209.7	200.0	–
Non-controlling interests in subsidiaries	6.8	6.3	41.8	8
Less: goodwill	(53.8)	(54.0)	(54.0)	–
Total – Tier I capital (A)	866.2	838.7	861.1	3
Tier II capital				
Non-cumulative preferred shares (1)	–	0.3	–	–
Subordinated debentures	150.0	250.5	400.0	(40)
General allowances	65.3	65.3	73.0	–
Total – Tier II capital	215.3	316.1	473.0	(32)
Investment in non-consolidated corporations, securization and other	(32.4)	(41.0)	(54.2)	(21)
Regulatory capital – BIS (B)	$1,049.1	$1,113.8	$1,279.9	(6)%
Total risk-weighted assets – BIS (Table 13) (C)	$8,522.6	$7,985.7	$8,410.5	
Tier I BIS capital ratio (A/C)	10.2%	10.5%	10.2%	
Total BIS capital ratio (B/C)	12.3%	14.0%	15.2%	
Assets to capital multiple	15.8x	15.0x	13.1x	
Tangible common equity as a percentage of risk-weighted assets	7.5%	7.6%	7.8%	

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

DIVIDENDS

Throughout 2005, the Bank demonstrated the relevance of its business plan and succeeded in generating growth in its volumes of loans and deposits, as well as in its net income. These major indicators have enabled the Board of Directors to uphold the tradition of uninterrupted dividend payments. During fiscal 2006, on a quarterly basis, the Board of Directors will continue to review the Bank's financial condition as well as its capacity to meet its financial objectives, in order to support the declarations of dividends.

Table 15

CASH DIVIDENDS

For the years ended October 31	2005	2004	2003
Dividends declared per common share (in dollars)	$ 1.16	$ 1.16	$ 1.16
Dividends declared on common shares (in thousands of dollars)	$27,287	$27,248	$27,164
Dividends declared on preferred shares (1) (in thousands of dollars)	$11,775	$16,218	$13,771

(1) Include the dividends of Class A preferred shares Series 7 and 8 amounting to $6 million in 2004 and $8 million in 2003, as well as the premium on redemption of $2 million in 2004 which were reclassified to the consolidated statement of income as liability related to preferred shares.

CREDIT RATINGS

Table 16 presents the Bank's credit ratings as established by rating agencies.

Table 16

CREDIT RATINGS

	DBRS	STANDARD & POOR'S
Deposits and senior debt	BBB	BBB (negative)
Short-term instruments	R-2 (high)	A-2
Subordinated debentures	BBB (low)	BBB–
Preferred shares	Pfd-3n	BB+

Personal deposits collected through the branch network as well as through financial advisors constitute the most important source of financing for the Bank. The Bank can also use securitization as a mean to finance its activities. In certain circumstances however, the Bank must obtain institutional financing, notably during periods of strong growth or in order to meet important punctual financing needs. The Bank's capacity to obtain such financing as well as related costs is tied to the credit ratings set by rating agencies such as Dominion Bond Rating Service Limited (DBRS) and Standard & Poor's.

Considering the limited use of this type of financing by the Bank, the credit ratings' level has had little impact on financing costs to this day.

CONTRACTUAL OBLIGATIONS

The following table presents a summary of the Bank's principal contractual obligations as at October 31, 2005, that will be maturing in the next five years and thereafter. Note 21 to the consolidated financial statements provides further information on this subject.

Table 17

CONTRACTUAL OBLIGATIONS

As at October 31 (in millons of dollars)	2006	2007	2008	2009	2010	Thereafter	Total
Term deposits	$5,253	$2,232	$1,308	$1,545	$711	$ 10	$11,059
Obligations related to assets sold short	697	–	–	–	–	29	726
Obligations related to assets sold under repurchase agreements	60	–	–	–	–	–	60
Subordinated debentures	150	–	–	–	–	–	150
Commitments under leases, technology services and other contracts	66	72	64	59	58	100	419
Total	$6,226	$2,304	$1,372	$1,604	$769	$139	$12,414

In the normal course of its activities, the Bank concludes various types of contractual agreements. The main obligations result from the issuance of debt instruments, including deposits written with individuals, businesses and other institutions. This financing, combined with the issuance of shares, is used primarily to finance loan and investment operations.

During fiscal 2005, the Bank has renewed some obligations related to rental space and telecommunication services contracts, which explains the relatively higher level of obligations under leases, computer services and other contracts, compared to 2004. However, these new contracts will enable the Bank to reduce the cost of theses services in the years to come.

In addition, the Bank must also ensure that cash resources are available to meet certain requirements related to infrastructure investments, notably the projected opening of a number of branches, the updating of hardware platforms and initiatives designed to conform to regulatory requirements. The projects will inevitably demand significant investments, estimated from $30 million to $40 million annually over the next five years.

OFF-BALANCE SHEET ARRANGEMENTS

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

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

Assets under administration and assets under management mainly include commercial and residential mortgage loans under management associated with securitization activities, as well as assets of clients to whom the Bank and B2B Trust provide various administrative services. Through Laurentian Bank Securities, the Bank also manages retail and institutional investment portfolios. The table below details all of the assets under administration and assets under management. As at October 31, 2005, these items totalled $13.8 billion, a decrease of $1.1 billion compared to fiscal 2004.

The assets of self-directed pension plans have decreased year over year. This change is mainly attributable to changes in the regulatory environment which encourages stakeholders to manage their self-directed plans themselves. The Bank anticipates that this trend will persist medium-term. Nevertheless, the Bank and B2B Trust are working diligently to develop their service offering. These initiatives have been instrumental in maintaining market positions, as witnessed by the more than $125 million growth in volumes recorded over the last three quarters of fiscal 2005.

Institutional assets also decreased compared to fiscal 2004 following the disposal of the BLC-Edmond de Rothschild Asset Management Inc. joint venture. Clients' brokerage assets increased by 17% under the combined effect of a positive securities market performance and of initiatives designed to increase brokerage operations.

Excluding the impact of the disposal of the BLC-Edmond de Rothschild Asset Management Inc. joint venture, mutual fund assets grew by more than $70 million or 6% as a result of favorable market conditions and the continuing demand for these savings products. In a strong position thanks to its distribution agreement with Industrial Alliance, the Bank, through its network of branches, remains an important distributor of mutual funds.

Mortgage loans under management, essentially tied to securitization operations, and other personal assets in trust remained relatively stable in comparison with fiscal 2004.

The fees, commissions and other income from these assets, which are detailed in Table 5, represent a significant contribution to the Bank's profitability.

Table 18
ASSETS UNDER ADMINISTRATION

As at October 31 (in millions of dollars)	2005	2004	2003	Variation 05/04
Self-directed RRSPs and RRIFs	$ 7,958	$ 8,378	$ 8,512	(5)%
Institutional	1,809	2,695	2,644	(33)
Clients' brokerage assets	1,623	1,390	1,345	17
Mutual funds	1,213	1,332	1,238	(9)
Mortgage loans under management	843	800	1,428	5
Other – Personal	320	283	321	13
Total – assets under administration	$13,766	$14,878	$15,488	(7)%

DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of its operations, the Bank enters into various contracts and commitments in order to protect itself against the risk of fluctuations in interest rates, in foreign exchange rates and in indexes on which returns of index-linked deposits are based, and in order to meet the needs of its clients as well as to earn revenues from its own trading activities. These contracts and commitments translate into derivatives. All derivatives are recorded on the balance sheet at fair value. Derivative transactions are calculated based on notional principal amounts. These amounts however are not recorded on the balance sheet as they do not represent the actual amounts exchanged. Likewise, notional amounts do not reflect the credit risk related to derivative financial instruments, even though they serve as a reference for calculating payments.

Notes 1 and 19 to the consolidated financial statements provide further information on the types of derivative products and their accounting basis.

SPECIAL-PURPOSE ENTITIES

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

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

Securitization operations are reported as sales of assets only when the Bank is deemed to have ceded control of these assets and when it receives a consideration other than beneficial interests in the transferred assets. The Bank mainly uses conduits set up by large Canadian banks, along with the Canada Mortgage Bonds program developed by Canada Mortgage and Housing Corporation. When assets are sold, the Bank retains certain rights related to excess interest spreads and cash reserve accounts, which constitute retained interests. The Bank periodically reviews the value of these rights and any permanent impairment in value is charged to income, if applicable. Likewise, the Bank has concluded interest swap agreements intended to guarantee payments to investors. The Bank also continues to administer all securitized assets after the sales. During the year, the Bank securized approximately $340 million of residential mortgages to, among other things, finance its growth. As at October 31, 2005, total outstanding securitized mortgage loans stood at $703 million and related retained interests stood at $21 million. Revenues of $11.7 million were recorded in 2005 as part of securitization operations, including $9.0 million in gains on sales. Note 5 to the consolidated financial statements provides more information about these entities.

CREDIT COMMITMENTS

In the normal course of its operations, the Bank uses various off-balance sheet credit instruments. The credit instruments used as a means of meeting its clients' financial needs represent the maximum amount of additional credit that the Bank could be obligated to extend if the commitments are used entirely. Note 21 to the consolidated financial statements provides more information on this issue.

GUARANTEES

In the normal course of its operations, the Bank enters into guarantee agreements that satisfy the definition in the Canadian Institute of Chartered Accountants' (CICA) Accounting Guideline No. 14 *Disclosure of Guarantees* (AcG-14). The principal types of guarantees are standby letters of credit and performance guarantees. Note 21 to the consolidated financial statements provides more information on these guarantees.

Table 19

CREDIT COMMITMENTS

As at october 31 (in thousands of dollars)	2005	2004
Unutilized credit balances	$3,737,591	$3,474,492
Documentary letters of credit	$ 15,076	$ 19,371
Standby letters of credit and performance guarantees	$ 60,672	$ 55,329

SEGMENTED INFORMATION

The Bank is striving to distinguish itself in areas where it holds a leading position, especially in Quebec, but also across Canada for specific operations. Accordingly, the Bank's service offering covers the whole range of banking operations for retail services and small and medium businesses in Quebec. The Bank is also present throughout Canada via its indirect networks of financial advisors, its business alliances and its retailer network who contribute in originating loans and deposits. The Bank is also offering commercial financing products throughout Canada. The organizational structure of the Bank is mostly focused on the service offering and the targeted clientele:

- Retail Financial Services
- Commercial Financial Services
- B2B Trust segment
- Laurentian Bank Securities (formerly Wealth Management and Brokerage)
- Other segment

As shown in the following table, all segments contributed positively to the results in 2005. Contribution to the benefits stemming from continuing operations, excluding the Other sector, were 38% for Retail Financial Services, 32% for Commercial Financial Services, 25% for B2B Trust and at 5% for Laurentian Bank Securities.

The improvement of profitability is principally attributable to the Other sector. This sector comprises the asset-liability management, which is responsible for the improvement in net interest income. Results of the Retail Financial Services and B2B Trust segments have benefited from the increase in business volume, which allowed to offset the increase in expenses. The Commercial Financial Services contribution decreased slightly due to a reduction in revenues therefore affecting profitability. The Laurentian Bank Securities segment has, for its part, maintained its contribution despite its business development investments.

Some important transactions in 2004 and 2005, notably, the sale of the BLC-Edmond de Rothschild Asset Management Inc. joint-venture were attributed in part to business segments. The analysis presented hereafter specifies these attributions.

Table 20

NET INCOME CONTRIBUTIONS

(in millions of dollars)	Retail Financial Services	Commercial Financial Services	B2B Trust	Laurentian Bank Securities	Other	Total
2005						
Net income	$29.8	$21.6	$16.3	$3.4	$ (5.8)	$65.3
	[$25.4 from continuing operations]				[$(11.1) from continuing operations]	[$55.6 from continuing operations]
	42%	30%	23%	5%	n/a	100%
	[38% from continuing operations]	[32% from continuing operations]	[25% from continuing operations]	[5% from continuing operations]		
2004						
Net income	$22.2	$24.4	$12.5(1)	$4.3	$(23.5)	$ 39.9
	35%	38%	20%	7%	n/a	100%

(1) Based on a 77% participation prior to the privatization of B2B Trust in June of 2004.

RETAIL FINANCIAL SERVICES

2006 Priorities

- Pursue the expansion of the branch network and its optimization
- Develop the partnership with the FTQ
- Further define service and product integrated offering
- Develop synergies between business segments

Table 21

RETAIL FINANCIAL SERVICES

For the years ended October 31 (in millions of dollars)	2005	2004
Net interest income	$250.1	$233.6
Other income	87.5	85.8
Total revenue	337.6	319.4
Provision for credit losses	20.7	19.7
Non-interest expenses	277.9	265.6
Income from continuing operations before income taxes	39.0	34.1
Income taxes	13.6	11.9
Income from continuing operations	25.4	22.2
Income from discontinued operations, net of income taxes	4.4	–
Net income	$ 29.8	$ 22.2
Efficiency ratio	82.3%	83.2%

For fiscal 2005, the Retail Financial Services contribution to the consolidated results of the Bank increased by 34%, and stood at $29.8 million, compared to $22.2 million in 2004. Results from continuing operations was $25.4 million, which nonetheless corresponds to a 14% increase compared to last year's results. Furthermore, it should be noted that, in 2004, a portion of the gain on the sale of a Visa portfolio, as well as of the debit and credit card processing activities and of certain management rights of mutual funds accounts amounting to $2.1 million and $1.0 million respectively, were attributed to the Retail Financial Services segment.

Ever since 2003, Retail Financial Services have multiplied their initiatives in order for the Bank to differentiate itself from its competitors and thereby ensure the growth of its activities. These initiatives rapidly proved fruitful and, as early as 2004, improvements in business and profitability were already measurable. During fiscal 2005, Retail Financial Services pursued the implementation of its initiatives and the pace of growth accelerated. There are still significant efforts to dedicate to this development, but the Bank's new positioning already allows for a more optimistic outlook. After disposing of nonpriority portfolios, the Bank expended a lot of energy and resources in growing its business in markets and market niches where it held distinct competitive advantages. The $375 million growth in residential mortgage loans and the $112 million growth in personal deposits, both generated by the Bank's branch network, attest to the positive impact of these efforts. They further attest to the commitment and dedication of all of the Bank's employees. In short, this growth in volumes translated into a direct contribution of $18 million to the Bank's revenue.

Loan losses moreover have remained relatively stable and stood at $20.7 million for fiscal 2005. Operating expenses increased by $12.3 million, mainly due to salary expenses and incentive compensation. At 82.3%, compared to 83.2% for fiscal 2004, the efficiency ratio is still cause for concern. However, the continuing growth in revenue should contribute to the improvement of this indicator during fiscal 2006.

Among the list of initiatives undertaken or finalized during fiscal 2005, the opening of six new branches may be considered foremost as it will allow the Bank to enhance its product and service offerings in fast growing markets.

So far, the satisfactory performance of the new branches, which are located in Blainville, Gatineau, Sainte-Dorothée, Mascouche, La Prairie and Vaudreuil, has been instrumental in the pursuit of the Bank's growth objectives. At the same time, the Bank has pursued its branch renovation program. By the end of 2005, nearly 20% of all branches, essentially those on the Island of Montreal, will have been renovated. This undertaking required some $6.1 million in capital investment during fiscal 2005 and also contributed to the increase in maintenance and repairs expenses. For fiscal 2006, the Bank looks forward to the opening of three new branches and the continuation of its renovation program.

As they developed closer relations, the Fédération des travailleurs et travailleuses du Québec (FTQ) and the Bank worked in collaboration to design a program that would meet the needs and expectations of the FTQ members. The launch of the "*Complicité*" program represents a significant business development opportunity as it will enable Retail Financial Services to reach a whole new clientele.

Furthermore, marketing initiatives undertaken during fiscal 2004, including direct-response advertising and media placing, have been instrumental in enhancing the Bank's visibility and reputation in 2005. These initiatives will be continued during fiscal 2006.

During fiscal 2005, the Bank also pursued the development of its automated banking machines network. Among other things, the Bank signed a five-year contract with the Société de transport de Montréal (STM) for the operation of 17 automated banking machines inside several metro stations. The updating of the automated banking machine network, which will be ongoing until the end of fiscal 2007, represents an investment of more than $20.5 million and is designed to modernize the Bank's equipment, thereby improving the quality of its network and of its services to its clients.

COMMERCIAL FINANCIAL SERVICES

2006 Priorities

- Develop synergies between business segments
- Further develop commercial mortgage securitization activities
- Continue the small and medium-sized businesses, as well as with agricultural enterprises, loan development activities

Table 22

COMMERCIAL FINANCIAL SERVICES

For the years ended October 31 (in millions of dollars)	2005	2004
Net interest income	$56.2	$56.8
Other income	29.1	32.4
Total revenue	85.3	89.2
Provision for credit losses	13.1	15.6
Non-interest expenses	38.8	36.0
Income before income taxes	33.4	37.6
Income taxes	11.8	13.2
Net income	$21.6	$24.4
Efficiency ratio	45.5%	40.3%

For fiscal 2005, Commercial Financial Services' contribution to consolidated results has decreased to $21.6 million, compared to $24.4 million in 2004. This decrease is mostly associated with the decline in loan volumes and the increase in salaries and employee benefits.

During the last 24 months, the small and medium-sized businesses loan activities, mostly in Quebec and Ontario, as well as in the agricultural lending sector enabled the Bank to limit the decrease of the commercial loan volumes consequent to the realignment of its lending policy in 2003. Loan volumes, following their stabilization in 2005, are now expected to gradually resume growth. However, sustained efforts will have to be deployed in order to pursue this development. In this regard, the opening of new commercial banking centres catering to the needs of small and medium-sized businesses, such as the Longueuil and Laval centres opened in 2005, should contribute to this growth objective.

The Commercial Financial Services segment has also benefited from the strong real estate market in Canada in 2005. Furthermore, the additional resources hired in 2004 in Western Canada enabled this segment to actively participate in the rapid development in this region. These activities remained very profitable, through limited loan losses and relatively stable loan volumes over the year.

The credit quality of the commercial loan portfolio remains an important concern in the current environment. In 2005, despite the increase in the Canadian dollar exchange rate, the sustained competitive pressure from Asia and the increase in energy prices, the portfolio fared very well. The sensitivity of this loan portfolio in regards to these factors is constantly reviewed and will remain a priority during the next year.

B2B TRUST

2006 Priorities

- Concentrate efforts where B2B Trust has competitive advantages, as with the financial advisors
- Increase investments and resources dedicated to marketing
- Further develop mortgage lending activities through the broker network

Table 23

B2B TRUST

For the years ended October 31 (in millions of dollars)	2005	2004
Net interest income	$55.2	$48.8
Other income	14.0	14.9
Total revenue	69.2	63.7
Provision for credit losses	6.2	4.7
Non-interest expenses	38.3	37.2
Income before income taxes and non-controlling interest in a subsidiary	24.7	21.8
Income taxes	8.4	7.4
Non-controlling interest in a subsidiary	–	1.9
Net income	$16.3	$12.5
Efficiency ratio	55.4%	58.4%

The net income contribution of B2B Trust improved by $3.8 million, and stood at $16.3 million in 2005, compared to $12.5 million in 2004. This improvement in the net income year over year, is mainly related to the increase of net interest income by more than 10%. Higher loan volumes and the effect of the lower funding costs are directly driven by the business segment and favourably impacted results in 2005. This improvement, in an always competitive environment reflects the effectiveness of development strategies.

Furthermore, the $1.5 million increase in loan losses, essentially related to a specific line of credit portfolio, has somewhat offset the growth in revenue. Non-interest expenses increased by $1.1 million and stood at $38.3 million for fiscal 2005, compared to $37.2 million for fiscal 2004. This increase is attributable to higher salaries and professional fees. In fiscal 2004, the $1.9 million minority interest adjustment, recorded prior to B2B Trust's privatization, had contributed to the reduction in this business segment's net income.

Investment loans and RRSP loans stood at $1.3 billion as at October 31, 2005. This represents a year over year increase of $135 million, or 12%. It further attests to the stability of these key investment products with consumers, as well as to the close business relations between B2B Trust and financial advisors. Moreover, the quality of the investment loan portfolio remained very good, as witnessed by the 0.08% loan loss ratio. On the strength of its close business relations with mutual funds brokers and stockbrokers, as well as with insurance, mortgage and deposit brokers, and further strengthened by its strategic alliances with the most important financial institutions in Canada, B2B Trust expects to maintain its market share and grow its business activities.

LAURENTIAN BANK SECURITIES

2006 Priorities

- Pursue the development of institutional brokerage activities – fixed income
- Develop synergies between business segments
- Develop retail brokerage operations

Table 24

LAURENTIAN BANK SECURITIES

For the years ended October 31 (in millions of dollars)	2005	2004
Net interest income	$ 1.3	$ 1.4
Other income	21.3	26.0
Total revenue	22.6	27.4
Non-interest expenses	17.5	21.5
Income before income taxes	5.1	5.9
Income taxes	1.7	1.6
Net income	$ 3.4	$ 4.3
Efficiency ratio	77.4%	78.4%

The Laurentian Bank Securities business segment (formerly Wealth Management and Brokerage) reported net income of $3.4 million for fiscal 2005, compared to $4.3 million for fiscal 2004. Excluding the effect of the BLC-Edmond de Rothschild Asset Management Inc. joint-venture operations, which were included in this business segment prior to the sale, the reduction in profitability results mainly from the increase in expenses driven by the hiring of more than 25 new investment advisors and support staff during the year.

Revenues from brokerage activities remained relatively stable at $21.6 million, compared to $21.8 million in 2004, excluding revenues of $1.0 million and $5.6 million from BLC-Edmond de Rothschild Asset Management Inc. operations in 2005 and 2004 respectively.

Laurentian Bank Securities is primarily active in corporate financing and fixed income financial instruments, as well as retail and discount brokerage.

Prior to the disposal of BLC-Edmond de Rothschild Asset Management Inc., on December 31, 2004, this business segment also offered mutual funds management services, as well as private and institutional wealth management services. These activities had reached the break-even point.

OTHER

2006 Priorities

- Improve net interest income through a still more efficient management of the Bank's assets and liabilities
- Further the development of management tools designed to improve overall credit quality
- Assure an effective support for all sectors of activity

The contribution of the Other segment for 2005 stood at $(5.8) million or $(11.1) million from continuing operations, compared to $(23.5) million a year ago. Excluding the effect of the fiscal 2004 transactions presented below, the improvement in the Other segment's results is mainly attributable to the growth in net interest income, which was partially offset by a reduction in revenues from treasury and financial market activities.

Results for fiscal 2004 included a $1.7 million portion of the gain (net of income taxes) on the disposal of the credit card loan portfolio, a $3.6 million portion of the gain on the disposal of the debit and credit card processing activities and of certain management rights of mutual funds accounts, as well as the positive impact of adjustments to the estimate of certain provisions related to the sale of the Ontario and Western Canada branches, to the amount of $2.4 million. Results for fiscal 2004 also included the effect of the $5.9 million dividends and of the $2.0 million repurchase premium related to the Class A Preferred shares Series 7 and Series 8, which were reclassified retroactively in the fiscal 2004 income statement, in accordance with the new accounting standard governing financial instruments, along with the additional $0.7 million charge related to the redemption of the Series 7 Debentures.

ANALYSIS OF QUARTERLY RESULTS

SUMMARY ANALYSIS OF FOURTH QUARTER RESULTS

For the fourth quarter ended October 31, 2005, the Bank reported net income of $21.6 million or $0.79 diluted per common share, compared to $7.1 million or $0.17 diluted per common share for the fourth quarter of 2004. Return on common shareholders' equity was 10.6% for the fourth quarter of 2005 versus 2.4% for the same quarter of 2004. For the fourth quarter of 2005, results from continuing operations stood at $17.4 million or $0.61 diluted per common share.

The increase in profitability, compared to the fourth quarter of 2004, is largely attributable to the tighter asset and liability management strategies initiated in 2004, the capital structure realignment, as well as the growth in loan portfolios. Discontinued operations, resulting from the sale of the BLC-Edmond de Rothschild Asset Management Inc. joint-venture, as detailed on page 78, have also contributed to the overall increase in profitability in the fourth quarter, as the Bank recognized an additional $5.2 million portion of the gain on sale.

The provision for credit losses rose to $11.8 million, compared to $8.9 million for the same quarter a year ago. It should be noted that for the fourth quarter of 2004, an additional $12.0 million provision was recorded on certain commercial loans and personal loan portfolios. However, these provisions were offset by an equivalent reversal in the general provision.

Non-interest expenses amounted to $99.0 million in the fourth quater of 2005, compared to $91.3 million for the fourth quarter of 2004. The year over year increase mainly results from higher variable compensation costs.

The income tax expense amounted to $5.6 million (a 24.5% effective tax rate) and included the favorable impact of adjustments amounting to $1.7 million, related to certain initiatives during the quarter to optimize the Bank's tax position and the favorable results of the quarter.

ANALYSIS OF THE EVOLUTION OF THE QUARTERLY RESULTS

Quarterly results of the Bank should generally be relatively stable from one quarter to another, most notably because of the nature of banking operations, which rely on important volume of operations not likely of significant fluctuation in the short term. However, certain treasury operations and certain activities related to the financial markets, notably securitization operations and trading activities, generate volatility. Furthermore, results can be influenced by certain specific transactions, such as sales of assets and portfolios. Finally, on a longer period, results of the Bank are influenced by macroeconomic changes which can happen both in Canada and in the rest of the world, especially with regards to interest rates, monetary policies and economic growth as well as by the regulatory developments.

The following table presents, by quarter, the significant items as described in the table 3 on page 33 of the current Annual Report. Excluding the effect of these items, changes in results from one quarter to another is mainly explained by the fluctuation in revenues from treasury and financial markets activities. Also, the net interest margin has improved since the second quarter of 2004, notably because of the investment and hedging strategies undertaken during the fourth quarter of 2004 and also as a result of the cost savings related to the realignment of the Bank's capital structure in 2004.

Table 25

QUARTERLY RESULTS

(in millions of dollars)				2005
				Quarters ended
	Oct. 31	July 31	April 30	Jan. 31
Total revenue	$133.8	$131.1	$118.0	$119.2
Income from continuing operations	17.4	15.2	11.0	12.1
Net income	$ 21.6	$ 15.8	$ 10.6	$ 17.3

(in millions of dollars)				2004
				Quarters ended
	Oct. 31	July 31	April 30	Jan. 31
Total revenue	$108.9	$117.2	$121.5	$118.5
Net income	$ 7.1	$ 9.7	$ 11.4	$ 11.7
Factors that have caused variations over the 2004 quarters:				
Interest expense resulting from the reclassification of dividends and of the redemption premium on Class A Preferred Shares Series 7 and 8, including the overlap in dividends		$ (3.8)	$ (1.9)	$ (1.9)
Increase in future tax assets arising from the increase in Ontario income tax rates				1.5
Sale of the Ontario and Western Canada Visa loan portfolio			3.8	
Sale of the debit and credit card transaction processing activities and certain rights to service mutual funds accounts		4.6		
Review of the provisions related to the Ontario and Western Canada branches sold during the fourth quarter of 2003		2.4		
Costs associated with the redemption of the Debentures Series 7		(0.7)		
Total of items affecting net income in 2004	$ –	$ 2.5	$ 1.9	$ (0.4)

INTEGRATED RISK MANAGEMENT FRAMEWORK

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

The main objective of this framework is to create a risk management culture that centers on establishing measures that allow optimization of the risk/return ratio in all of the spheres of activity of the Bank. These measures entail the establishment of processes to detect, understand and evaluate major risks, on an ongoing basis; the establishment of sound and prudent risk limits and risk management policies; the establishment and application of efficient internal controls and the definition of the responsibilities of the Management Committee regarding risk management.

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

Table 26

REGULATION

MANAGERS

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

INTERNAL AUDIT

RISK MANAGEMENT STRUCTURE

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

CREDIT RISK MANAGEMENT

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

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

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

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

The authorization process for counterparties and loans is highly centralized. The Bank uses expert systems to support the decision-making process relating to most applications for personal consumer credit, residential mortgage loans and credit cards. As for commercial loans, applications are analyzed one at a time by teams of experts. The Bank ensures a rigorous and systematic follow-up of its loan portfolio both in terms of quality and quantity through mechanisms and policies related to the systematic revision of the various categories of files, risk rating updating systems and pricing analysis. Each month, the Bank's Credit Committee reviews impaired loans and follows up on loans where payment is past due by 90 days or more. Collection processes are centralized and based on specialized expertise.

The Bank has various risk management tools at its disposal. These include an 18-level risk rating system used to evaluate all types of commercial credit. Above a specific rating, files are considered to be under credit watch and are managed in keeping with specific procedures.

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

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

For consumer impaired loans, provisions are established on portfolios based on a formula that takes into account the loss history or, in some instances, one loan at a time.

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

MARKET RISK MANAGEMENT

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

Policies and standards

The Bank attaches fundamental importance to the efficient management of market risk, given that its primary objective is to maximize the risk/return relationship within previously defined limits, taking into account the degree of risk that the Bank and its subsidiaries are willing to assume.

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

Detailed reports on the level of risk and on the monitoring of limits are produced daily and submitted:
- daily, to risk and portfolio managers;
- quarterly, to the Management Committee and to the Board of Directors' Risk Management Committee.

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

Interest rate risk

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

Foreign exchange risk

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

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

Liquidity risk

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

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

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

Securitization of assets offers an additional source of financing through the sale of assets. Moreover, the Bank constantly monitors its operating requirements. In particular, it evaluates and anticipates its commitments, and ensures that a minimum amount of quality liquid assets is immediately available to respond to any eventuality.

A contingency plan includes measures to ensure that the Bank can fulfill its obligations in the event of a high demand for liquid assets.

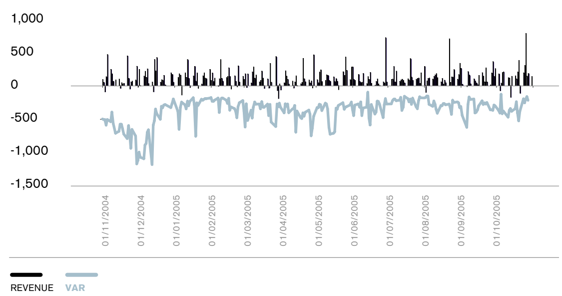
Methods of evaluating and controlling market risks(interest rate and exchange rate)
The evaluation of market risks at the Bank is underpinned by a combination of two groups of measures:
- value at risk (VAR) and the application of shock scenarios;
- "notional" limits and various other measures of sensitivity that allow management of the risks that are not captured by the VAR measures and scenarios.

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

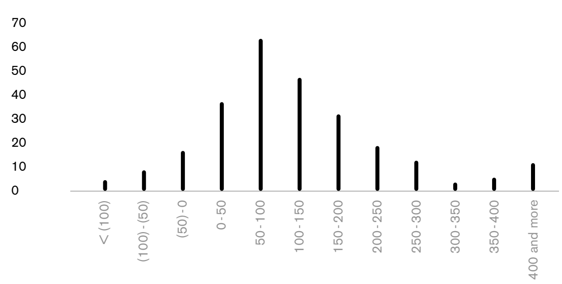
Global value at risk is calculated for all financial market activities. Values at risk are also calculated for specific portfolios. The outstanding value at risk thus obtained is compared to the limits set on a daily basis to limit the risks incurred. In parallel with the VAR model, shock scenarios are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

Trading activities
Trading activities are aligned with the needs of the Bank and those of its clients. Market risks associated with trading activities ensue from activities for which the Bank acts as the principal or as the agent for its clients. These activities are primarily carried out by Laurentian Bank Securities and, to a lesser extent, by the Bank's treasury department. The graphs below refer to the Bank's trading portfolios.

DAILY NET TRADING REVENUE
VS GLOBAL TRADING VAR
(in thousands of dollars)



HISTOGRAM OF DAILY NET TRADING REVENUE
(number of days / thousands of dollars)



The first graph above compares net revenue from trading activities and the daily value at risk associated with these activities. During fiscal 2005, we experienced 28 days of net losses. None of the net losses incurred exceeded the estimated VAR for these same days. The biggest loss occurred on March 30 and stood at $192,000. The average VAR during fiscal 2005 stood at $378,000, compared to average revenues of $124,000.

The second graph on page 55 shows the daily distribution of trading revenues for fiscal 2005.

STRUCTURAL RISK MANAGEMENT

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

Structural risk management requires rigorous monitoring of four distinct groups of portfolios:

- banking activities of the Bank's clientele, which are affected by clients' choices, product offerings and term-dependent pricing policies;
- investment activities, comprised of marketable securities and institutional funding grouped in the primary and secondary liquidity portfolios and in the investment portfolio;
- securities trading activities, that are marked-to-market on a daily basis in line with rate movements; and
- a hedging portfolio that allows the Bank to control overall interest rate risk within stringent internal limits.

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

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

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

Interest income risk measures the negative impact of interest rate movements over the next twelve months on net interest income. Portfolio positions are reviewed weekly by the Asset and Liability Management Committee, which is in charge of establishing the Bank's positioning with regard to anticipated interest rate movements and of recommending hedging of all undesirable or unforeseen interest rate risk. In addition, risk monitoring reports are submitted periodically to the Management Committee and to the Risk Management Committee of the Board of Directors. Structural risk management ensues from a weekly gap report. The Bank's interest rate gap position as at October 31, 2005 is set out in Note 20 to the consolidated financial statements. To ensure sound structural risk management, management also conducts simulation analysis of the variations in net income and the economic value of common shareholders' equity based on a repricing gap report and various interest rate scenarios. One of the main simulation exercises consists of subjecting the Bank's balance sheet to a sudden and sustained 1% increase in interest rates. For example, as at October 31, 2005, such a sudden and sustained 1% increase in interest rates for all portfolios would have triggered a $3.6 million decrease in net income before taxes over the following 12 months and would have had a $(50.6) million impact on the value of common shareholders' equity. These results reflect management's efforts to take advantage of short-term and long-term interest rate movements, while maintaining the sensitivity to these fluctuations well within the limits set by the Board of Directors.

RISK RELATED TO CAPITAL MANAGEMENT

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

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

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

A capital plan prepared annually specifies the target capital ratios, taking into account the projected levels of risk-weighted assets and the anticipated initiatives with regard to capital management. Statutory capital ratio monitoring reports are submitted on a quarterly basis to the members of the Management Committee and to the Risk Management Committee of the Board of Directors.

New Basel Accord
The Basel Committee on Banking Supervision has formulated a new accord (Basel II) that will come into effect in November 2007. This accord will rest on three pillars instead of one, namely the minimum capital requirements, a prudent monitoring framework and financial disclosure. Basel II will take greater account of real risks and allow a choice among three evaluation methods to assess credit risk and operational risk. The Bank is presently engaged in the process of implementing the New Basel Accord using the Standard Approch for market risk and the Basic Indicator Approch for Operational Risk.

OPERATIONAL RISK MANAGEMENT

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

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

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

Adoption of policies by the Board of Directors
The operational risk management framework includes the following policies: operational risk management policy; outsourcing risk management policy; information security risk management policy; professional liability risk management policy.

Collection of operational losses data
Information concerning operational losses is centralized within the operational risk management group.

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

Evaluation of operational risks
All of the Bank's activities are grouped within large processes. In self-assessment workshops, or as important changes occur, managers must perform an evaluation in order to attribute the appropriate risk rating to each of their processes.

Management of operational risks
This process consists in deciding to accept, control, avoid or transfer certain risks and put in place appropriate procedures and control measures. The Bank uses several means to minimize or transfer its risks, including participation in a corporate insurance program and formulation of a global and integrated plan for the continuity of operations. Furthermore, a Fraud Prevention Committee, composed of security coordinators and business segments' representatives, meets on a periodic basis to analyze trends with regard to fraud and identify ways to improve the Bank's methods and means of preventing fraud on a continuing basis.

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

REGULATORY RISK MANAGEMENT

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

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

CONTROLS AND PROCEDURES REGARDING FINANCIAL INFORMATION

To ensure that the consolidated financial statements and Management Discussion and Analysis truly reflect in all significant respects the Bank's financial condition as well as the results of its operations, the controls and procedures regarding financial information are reviewed and refined on a continuing basis.

In 2004, the adoption by the Canadian Securities Administrators of regulations designed to reinforce investors' confidence in financial markets – notably regulation 52-109 on the certification of issuers' annual and interim financial information – has prompted the Bank to review its financial reporting process. Among other initiatives, a formal disclosure committee is now mandated to review the most important documents to be filed with the regulatory agencies. Furthermore, this committee is in a position to ensure that all significant information regarding the Bank's operations is disclosed.

The Bank is now actively working on the next phases that will lead to the certification of internal controls over financial reporting, as required under the draft regulation 52-111. A financial certification process project team, staffed with professional experts in control and audit, has been formed in fiscal 2005 to ensure that the Bank meets these new requirements.

The President and Chief Executive Officer and the Senior Executive Vice-President and Chief Financial Officer of the Bank, with the participation of the Bank's management, have evaluated that disclosure controls and procedures, at October 31, 2005, were effective to ensure that all significant information is disclosed.

SIGNIFICANT CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies adopted by the Bank are outlined in Note 1 to the consolidated financial statements. Some accounting policies are deemed critical inasmuch as they refer to material amounts and require management to make estimates that, by their very nature, involve uncertainties. The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP) requires management to make estimates and assumptions, mainly in relation to the valuation of items that affect the amounts reported in the consolidated financial statements. Consequently, actual results could differ from these estimates.

The critical accounting policies that require management's judgment and estimates are described below.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses reflects management's estimate of losses related to loan portfolios. Management regularly reviews the portfolios' credit quality to ensure that the allowance for loan losses is adequate. Considering the materiality of the amounts and the related uncertainties, the use of estimates and assumptions that differ from those used in determining the allowance for loan losses – notably, the evaluation related to the amounts and dates of future cash flows, the fair value of guarantees and realization costs, as well as consideration of economic and business conditions – could produce significantly different levels of allowances. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments and may require an increase or decrease in the allowance for loan losses. These changes could consequently have a significant impact on the provision for credit losses in the consolidated statement of results. A detailed description of the methods used to determine the allowance for loan losses can be found under Note 1 to the consolidated financial statements on page 72 of this Annual Report.

The Bank has developed a model for the evaluation of the general allowance, based on the historical losses of the various portfolios. This model validates the $65.3 allowance as at October 31, 2005. Different assumptions and parameters could have produced different evaluations.

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Goodwill

Goodwill is subject at least annually to an impairment test, based on its fair value. As at October 31, 2005, the balance of goodwill stood at $53.8 million and this amount was entirely allocated to Retail Financial Services.

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

All changes made to any of the estimates used may have a significant impact on the calculation of fair value and on the resulting charge for loss in value. Consequently, the Bank cannot reasonably quantify the effect of the use of different assumptions on its overall financial performance. Moreover, it is impossible to predict whether an event that triggers an impairment will occur, when it will occur or how this will affect the values of the assets presented by the Bank.

No impairment charge was reported in 2005 and 2004.

More information on goodwill can be found in Note 7 to the consolidated financial statements.

Other intangible assets and other assets

The Bank also subjects its other intangible assets with finite lives to the impairment test when events or changes in circumstances indicate that it may not be possible to recover their book value. As it conducts this test, management evaluates the future cash flows that it expects to realize from these assets and their possible disposition. An impairment loss is recognized if the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset. No impairment charge was reported in 2005 and 2004.

The Bank also periodically reviews the value of its other assets, such as property, plant and equipment and other deferred charges, in order to identify potential losses in value and validate the pertaining amortization periods. The use of estimates and assumptions that differ from those that are retained could significantly influence results.

EVALUATION OF FINANCIAL INSTRUMENTS

The Bank reports its trading account securities portfolio, derivative financial instruments and obligations related to assets sold short at fair value. Changes in the fair value of these financial instruments, excluding those which qualify for hedge accounting, are recognized under the "Other income" line item. Fair value is based on market prices when available. In the absence of market prices, the Bank normally uses pricing models based on the discounted value of future cash flows, calculated according to management's best estimate of key assumptions, yield curves and volatility factors.

Considering the importance of judgment in determining such calculations, certain estimates of fair value may not be representative of net realizable value. Additional information on calculating fair value is presented in Note 20 to the consolidated financial statements on page 95 of this Annual Report.

EMPLOYEE FUTURE BENEFITS

Valuation of employee future benefits, for defined benefit plans and other post-employment benefits, is based on a number of assumptions such as discount rates, expected return on assets, projected salary increases, health-care cost trend rates, employee turnover rate and retirement age. These assumptions are reviewed annually in accordance with accepted actuarial practice and approved by management.

The discount rate used in determining the actual costs and obligations related to pension plans and other future benefits reflects the market yields, as at the measurement date, on high-quality debt instruments with cash flows that match expected benefit payments.

The expected rate of return on the plans' assets corresponds to the expected returns for various asset categories, weighted by portfolio allocation. Anticipated future long-term performance of individual asset categories is considered, according to the expected future inflation rate and the real yields on fixed income securities and equities.

In accordance with Canadian GAAP, actual results that differ from the expected results as indicated by the assumptions are accumulated and amortized over future periods and, therefore, affect actual costs and recorded obligations for these periods. As at October 31, 2005, the net amount of the unamortized actuarial losses was $112.1 million ($66.3 million in 2004) as regards pension plans and $8.7 million ($6.1 million in 2004) as regards other benefits.

Discount rates for the accrued benefit obligation stood at 5.35% and 6.50% as at October 31, 2005 and 2004, respectively. The expected long-term rate of return on the plans' assets was 7.25% in 2005 (7.75% in 2004). The trend rate of the estimated annual growth of health-care costs covered, per participant, has been set at 9% in 2005 (9.5% in 2004). According to the accepted assumption, this rate should decrease progressively, reaching 5.0% in 2013 and remaining at that level thereafter.

Considering the importance of accrued benefit obligations and plan assets, changes in assumptions could have a significant impact on the accrued benefit asset (liability), as well as on pension plan and other employee future benefit expenses. The table on page 60 presents an approximation of the incidence of a 0.25% increase or decrease in the principal assumptions, on accrued benefit obligations and related pension plan expenses for 2005.

Table 27

EFFECT OF CHANGE OF 0.25%

(in millons of dollars)	Potential impact of changes of 0.25%	
	Obligation	Cost
Discount rate	$13.3	$1.6
Projected long-term rate of return of plan assets	n/a	$0.6

The sensitivities presented in this table should be used with caution, as the effects are hypothetical and changes in assumptions may not be linear.

Further information on the Bank's pension plans and other future benefits can be found in Note 14 to the consolidated financial statements on page 88 of this Annual Report.

INCOME TAX

Future income tax assets reflect management's estimate of the value of loss carry-forwards, minimum tax carry-overs and other temporary differences. The determination of the assets' value is based on assumptions related to results of operations of future fiscal years, timing of reversal of temporary differences and tax rates on the date of reversals, which may change depending on governments' fiscal policies. Management must assess whether it is more likely than not that future income tax assets will be realized prior to their expiration and, based on all available evidence, determine if a valuation allowance is required on all or a portion of future income tax assets.

The use of different assumptions could translate into significantly different income tax expenses, particularly if the Bank does not meet its profitability objectives.

Further information on income tax can be found in Note 1 and Note 16 to the consolidated financial statements on pages 76 and 91 of this Annual Report.

SECURITIZATION

Securitization is a process whereby financial assets, essentially mortgage loans as far as the Bank is concerned, are converted into securities and sold to investors. When the Bank surrenders control over the receivables sold, and receives a consideration other than a beneficial interest in the transferred assets, the operations are recorded as sales. Note 5 to the consolidated financial statements, on page 82 of this Annual Report, and the "Off-balance sheet arrangements" section on page 47 of this Management Discussion and Analysis offer further information on these transactions.

The determination of the initial gain depends on the value attributed to certain retained interests. Since quoted market prices are not available for retained interests, the Bank must estimate the fair value based on the present value of estimated cash flows. The Bank therefore must use estimates and assumptions particularly for expected credit losses, prepayment rates, discount rates and other factors that influence the value of the retained interests. Moreover, this value must be reviewed periodically thereafter. The use of different estimates and assumptions could have a material impact on results.

In this regard, Note 5 to the consolidated financial statements contains a sensitivity analysis of the current fair value of the retained interests to immediate 10% and 20% adverse changes in key assumptions. The balance of retained interests for securitized mortgage loans was $21.2 million as at October 31, 2005.

CHANGES TO ACCOUNTING POLICIES

CHANGES DURING THE YEAR

Consolidation of variable interest entities

On November 1, 2004, the Bank adopted 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. The initial adoption did not have a material impact on the consolidated financial statements. Refer to Note 1 to the consolidated financial statements for additional information on this matter.

Presentation of liabilities and equity

On November 1, 2004, the Bank retroactively adopted the modification to Section 3860, *Financial Instruments – Disclosure and Presentation*. The revised section requires 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 impact of the initial adoption is detailed in Note 1 to the consolidated financial statements.

FUTURE CHANGES

On April 1, 2005, the Canadian Institute of Chartered Accountants (CICA) issued three new accounting standards governing financial instruments (*Financial Instruments – Recognition and Measurement; Hedges; Comprehensive Income*) which will come into effect for the Bank on November 1, 2006. The impact of these standards cannot yet be determined, as it will depend on the financial instruments held at the time of application. Note 1 to the consolidated financial statements provides detailed information on these new accounting standards.

Table 28

STATISTICAL REVIEW – CONSOLIDATED BALANCE SHEET

As at October 31 (in thousands of dollars)	2005	2004	2003	2002	2001	Average annual variation 05/01
ASSETS						
Cash resources						
Cash and non-interest-bearing deposits with other banks	$ 57,737	$ 47,681	$ 54,772	$ 82,164	$ 81,162	(8)%
Interest-bearing deposits with other banks	259,791	280,751	668,152	351,534	94,748	29
Cheques and other items in transit, net	–	–	111,809	19,973	8,437	–
	317,528	328,432	834,733	453,671	184,347	15
Securities						
Issued or guaranteed by Canada	1,775,372	1,834,369	1,497,689	1,584,820	1,432,946	7
Issued or guaranteed by provinces and municipal corporations	556,727	698,510	1,025,828	1,114,427	650,685	(4)
Other securities	608,307	469,596	547,359	350,810	237,630	20
	2,940,406	3,002,475	3,070,876	3,050,057	2,321,261	6
Assets purchased under reverse repurchase agreements	508,073	1,133,920	882,036	869,830	649,671	(6)
Loans						
Personal	3,907,320	3,638,991	3,646,070	3,865,455	3,532,655	3
Residential and commercial mortgages	6,402,799	6,113,107	5,979,229	7,601,671	7,880,870	(5)
Commercial and other	1,539,893	1,542,760	1,571,491	1,872,901	2,159,752	(8)
	11,850,012	11,294,858	11,196,790	13,340,027	13,573,277	(3)
Allowance for loan losses	(129,806)	(140,042)	(163,177)	(217,881)	(133,512)	(1)
	11,720,206	11,154,816	11,033,613	13,122,146	13,439,765	(3)
Other						
Customers' liability under acceptances	145,629	144,830	235,286	332,077	336,292	(19)
Property, plant and equipment	93,793	94,490	114,479	160,597	178,766	(15)
Other assets	781,349	748,513	566,745	607,238	585,722	7
	1,020,771	987,833	916,510	1,099,912	1,100,780	(2)
	$16,506,984	$16,607,476	$16,737,768	$18,595,616	$17,695,824	(2)%
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits						
Personal	$10,575,416	$10,454,368	$10,508,592	$12,007,957	$11,519,743	(2)%
Business, banks and other	3,121,522	2,456,672	2,784,357	2,960,317	2,998,294	1
	13,696,938	12,911,040	13,292,949	14,968,274	14,518,037	(1)
Other						
Obligations related to assets sold short or under repurchase agreements	786,128	1,511,481	1,142,909	1,308,882	877,158	(3)
Acceptances	145,629	144,830	235,286	332,077	336,292	(19)
Other liabilities	815,049	902,848	751,484	716,907	741,921	2
	1,746,806	2,559,159	2,129,679	2,357,866	1,955,371	(3)
Subordinated debentures	150,000	250,525	400,000	400,000	400,000	(22)
Liability related to preferred shares	–	–	100,000	100,000	160,000	–
Non-controlling interest in a subsidiary	–	–	41,827	47,106	42,683	–
Shareholders' equity						
Preferred shares	210,000	210,000	100,000	100,400	400	–
Common shares	249,633	248,593	246,813	246,230	234,240	2
Contributed surplus	73	–	–	–	–	–
Retained earnings	454,124	428,159	426,500	375,740	385,093	4
Treasury stock	(590)	–	–	–	–	–
	913,240	886,752	773,313	722,370	619,733	10
	$16,506,984	$16,607,476	$16,737,768	$18,595,616	$17,695,824	(2)%

Table 29

STATISTICAL REVIEW – CONSOLIDATED STATEMENT OF INCOME

For the years ended October 31 (in thousands of dollars, except per share amounts)	2005	2004	2003	2002	2001	Average annual variation 05/01
Loans	$682,591	$690,789	$870,519	$887,268	$1,005,061	(9)%
Securities	59,744	57,546	76,502	73,341	66,284	(3)
Deposits with other banks	7,864	9,807	11,658	5,022	8,243	(1)
Interest income	750,199	758,142	958,679	965,631	1,079,588	(9)
Deposits and other liabilities	408,309	455,950	587,711	591,905	680,035	(12)
Subordinated debentures	16,199	27,184	27,742	27,750	34,395	(17)
Liability related to preferred shares	–	7,814	7,750	8,121	13,000	–
Interest expense	424,508	490,948	623,203	627,776	727,430	(13)
Net interest income	325,691	267,194	335,476	337,855	352,158	(2)
Provision for credit losses	40,000	40,000	54,000	111,000	35,000	3
	285,691	227,194	281,476	226,855	317,158	(3)
Other income	176,371	198,949	286,720	254,443	265,641	(10)
	462,062	426,143	568,196	481,298	582,799	(6)
Salaries and employee benefits	192,163	182,929	204,944	198,694	212,878	(3)
Premises and technology	107,559	104,682	128,982	120,140	115,829	(2)
Other	82,229	82,108	107,854	88,499	116,736	(8)
Non-interest expenses	381,951	369,719	441,780	407,333	445,443	(4)
Income from continuing operations before income taxes and non-controlling interest in a subsidiary	80,111	56,424	126,416	73,965	137,356	(13)
Income taxes	24,488	14,637	38,757	33,009	58,112	(19)
Income from continuing operations before non-controlling interest in a subsidiary	55,623	41,787	87,659	40,956	79,244	(8)
Non-controlling interest in a subsidiary	–	1,916	3,640	5,318	2,041	–
Income from continuing operations	55,623	39,871	84,019	35,638	77,203	(8)%
Income from discontinued operations, net of income taxes	9,659	–	–	–	–	–
Net income	$ 65,282	$ 39,871	$ 84,019	$ 35,638	$ 77,203	(4)%
Preferred shares dividends, including applicable income taxes	$ 12,030	$ 8,606	$ 6,095	$ 6,352	$ 28	–
Net income available to common shareholders	$ 53,252	$ 31,265	$ 77,924	$ 29,286	$ 77,175	(9)%
Common shares dividends	$ 27,287	$ 27,248	$ 27,164	$ 26,854	$ 24,098	3%
Average number of common shares (in thousands)						
Basic	23,525	23,485	23,416	23,095	22,710	1%
Diluted	23,552	23,521	23,457	23,288	22,896	1%
Net income per common share from continuing operations						
Basic	$ 1.85	$ 1.33	$ 3.33	$ 1.27	$ 3.40	(14)%
Diluted	$ 1.85	$ 1.33	$ 3.32	$ 1.26	$ 3.37	(14)%
Net income per common share						
Basic	$ 2.26	$ 1.33	$ 3.33	$ 1.27	$ 3.40	(10)%
Diluted	$ 2.26	$ 1.33	$ 3.32	$ 1.26	$ 3.37	(10)%
Dividends	$ 1.16	$ 1.16	$ 1.16	$ 1.16	$ 1.06	2%
Dividend payout ratio	51.2%	87.1%	34.9%	91.5%	31.2%	
Book value	$ 29.85	$ 28.78	$ 28.73	$ 26.57	$ 27.08	2%
Return on common shareholders' equity	7.8%	4.6%	12.4%	4.8%	13.1%	
(as a percentage of average assets)						
Net interest income	1.99%	1.64%	1.81%	1.82%	2.05%	
Provision for credit losses	0.24%	0.24%	0.29%	0.60%	0.20%	
Other income	1.08%	1.22%	1.55%	1.37%	1.55%	
Non-interest expenses	2.34%	2.26%	2.38%	2.19%	2.59%	
Income from continuing operations	0.34%	0.24%	0.45%	0.19%	0.45%	
Net income	0.40%	0.24%	0.45%	0.19%	0.45%	
Net income available to common shareholders	0.33%	0.19%	0.42%	0.16%	0.45%	
Average assets (in millions of dollars)	$ 16,328	$ 16,327	$ 18,548	$ 18,570	$ 17,176	(1)%
Number of full-time equivalent employees	3,180	3,125	3,159	3,730	3,884	(5)%
Number of branches	157	153	155	214	230	(9)%
Number of automated banking machines	313	293	284	351	360	(3)%

Table 30

QUARTERLY HIGHLIGHTS

(in thousands of dollars, except per share amounts)				2005				2004
				Quarters ended				Quarters ended
	Oct. 31	July 31	April 30	Jan. 31	Oct. 31	July 31	April 30	Jan. 31
Interest income	$ 191,983	$ 189,070	$ 181,439	$ 187,707	$ 186,153	$ 184,543	$ 185,096	$ 202,350
Interest expense	106,571	103,590	102,351	111,996	116,121	120,243	120,275	134,309
Net interest income	85,412	85,480	79,088	75,711	70,032	64,300	64,821	68,041
Provision for credit losses	11,750	9,750	8,750	9,750	8,888	10,862	10,500	9,750
	73,662	75,730	70,338	65,961	61,144	53,438	54,321	58,291
Other income	48,400	45,631	38,891	43,449	38,891	52,913	56,643	50,502
Non-interest expenses	99,010	98,494	92,759	91,688	91,287	91,500	94,166	92,766
Income from continuing operations before income taxes and non-controlling interest in a subsidiary	23,052	22,867	16,470	17,722	8,748	14,851	16,798	16,027
Income taxes	5,642	7,660	5,518	5,668	1,618	4,889	4,747	3,383
Income from continuing operations before non-controlling interest in a subsidiary	17,410	15,207	10,952	12,054	7,130	9,962	12,051	12,644
Non-controlling interest in a subsidiary	–	–	–	–	–	260	677	979
Income from continuing operations	17,410	15,207	10,952	12,054	7,130	9,702	11,374	11,665
Income (loss) from discontinued operations, net of income taxes	4,149	600	(303)	5,213	–	–	–	–
Net income	$ 21,559	$ 15,807	$ 10,649	$ 17,267	$ 7,130	$ 9,702	$ 11,374	$ 11,665
Preferred shares dividends including applicable income taxes	2,998	2,998	2,999	3,035	3,062	2,519	1,465	1,560
Net income available to common shareholders	$ 18,561	$ 12,809	$ 7,650	$ 14,232	$ 4,068	$ 7,183	$ 9,909	$ 10,105
(as a percentage of average assets)								
Net interest income	2.06%	2.06%	2.02%	1.83%	1.71%	1.59%	1.61%	1.64%
Provision for credit losses	0.28%	0.24%	0.22%	0.24%	0.22%	0.27%	0.26%	0.24%
Other income	1.17%	1.10%	0.99%	1.05%	0.95%	1.31%	1.41%	1.22%
Non-interest expenses	2.39%	2.38%	2.37%	2.22%	2.23%	2.26%	2.34%	2.24%
Net income	0.52%	0.38%	0.27%	0.42%	0.17%	0.24%	0.28%	0.28%
Net income available to common shareholders	0.45%	0.31%	0.20%	0.34%	0.10%	0.18%	0.25%	0.24%
Average assets (in millions of dollars)	$ 16,431	$ 16,426	$ 16,062	$ 16,383	$ 16,318	$ 16,118	$ 16,380	$ 16,492
Return on common shareholders' equity	10.6%	7.4%	4.6%	8.3%	2.4%	4.2%	5.9%	6.0%
Average number of common shares (in thousands)								
Basic	23,546	23,532	23,511	23,511	23,511	23,490	23,481	23,457
Diluted	23,586	23,557	23,534	23,531	23,539	23,524	23,519	23,501
Net income per common share from continuing operations								
Basic	$ 0.61	$ 0.52	$ 0.34	$ 0.38	$ 0.17	$ 0.31	$ 0.42	$ 0.43
Diluted	$ 0.61	$ 0.52	$ 0.34	$ 0.38	$ 0.17	$ 0.31	$ 0.42	$ 0.43
Net income per common share								
Basic	$ 0.79	$ 0.54	$ 0.33	$ 0.61	$ 0.17	$ 0.31	$ 0.42	$ 0.43
Diluted	$ 0.79	$ 0.54	$ 0.33	$ 0.60	$ 0.17	$ 0.31	$ 0.42	$ 0.43
Dividends	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29
Book value	$ 29.85	$ 29.38	$ 29.14	$ 29.10	$ 28.78	$ 28.90	$ 28.89	$ 28.86
Share price-Close	$ 30.35	$ 27.25	$ 26.52	$ 23.60	$ 25.45	$ 28.02	$ 27.67	$ 28.60
Dividends on common shares	$ 6,823	$ 6,827	$ 6,818	$ 6,819	$ 6,818	$ 6,812	$ 6,810	$ 6,808
(in millions of dollars)								
Total assets (end of period)	$16,507.0	$16,125.0	$16,671.0	$15,816.9	$16,607.5	$16,905.6	$16,756.9	$16,723.2
Risk-weighted assets	$ 8,522.6	$ 8,501.7	$ 8,349.3	$ 8,082.8	$ 7,985.7	$ 8,136.4	$ 8,093.4	$ 8,120.5
Tier I capital	$ 866.2	$ 854.4	$ 847.7	$ 846.7	$ 838.7	$ 841.5	$ 897.6	$ 871.9
Total capital	$ 1,049.1	$ 1,081.6	$ 1,075.6	$ 1,074.1	$ 1,113.8	$ 1,168.1	$ 1,408.1	$ 1,298.1
Capital ratios								
Tier I	10.2%	10.1%	10.2%	10.5%	10.5%	10.3%	11.1%	10.7%
Total capital	12.3%	12.7%	12.9%	13.3%	14.0%	14.4%	17.4%	16.0%
Assets to capital multiple	15.8 x	15.0 x	15.5 x	14.8 x	15.0 x	14.5 x	11.9 x	12.9 x

CONSOLIDATED FINANCIAL STATEMENTS

As at October 31, 2005 and 2004

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

	Personal loans	Residential mortgages	Commercial mortgages	Commercial loans and other	Unallocated general allowance	2005 Total general allowances	2004 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	
				Restated (note 1)
	Amount		Amount	
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.

DIRECTION

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Président et chef de la direction

Robert Cardinal
Premier vice-président exécutif, Finances, administration et développement stratégique et chef de la direction financière

Bernard Piché
Premier vice-président exécutif, Trésorerie, marchés financiers et courtage

Lorraine Pilon
Vice-présidente exécutive, Affaires corporatives et ressources humaines et Secrétaire

Réjean Robitaille
Premier vice-président exécutif, Services financiers aux particuliers et aux entreprises

André Scott
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Vice-président, Gestion des produits

Yassir Berbiche
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Première vice-présidente, Services administratifs

Denise Brisebois
Première vice-présidente, Ressources humaines

François Desjardins
Président et chef de la direction, B2B Trust

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Vice-président, Vérification interne

Philippe Duby
Premier vice-président, Gestion immobilière et chef de la direction informatique

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Vice-président, Services financiers aux particuliers, Région Rive-Nord, Centre-ville de Montréal et Ouest du Québec

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Vice-président, Financement commercial

Mario Galella
Vice-président, Services financiers aux particuliers, Région Nord et Ouest de Montréal

Michel Gendron
Vice-président, Grandes entreprises, Québec

Paul Hurtubise
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Rick C. Lane
Vice-président, Financement immobilier, Ontario

Chantal Lauzon
Vice-présidente, Fiscalité

André Lopresti
Vice-président et chef comptable

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Louis Marquis
Premier vice-président, Crédit

Pierre Minville
Premier vice-président, Gestion intégrée des risques et fusions et acquisitions

Marc Paradis
Premier vice-président, Planification stratégique et contrôle

Yves Ruest
Vice-président, Finances et administration et directeur financier, Valeurs mobilières Banque Laurentienne inc.

Claude Sasseville
Vice-président, Services financiers aux particuliers, Région Est de Montréal et Rive-Sud, et développement hypothécaire

Al Spadaro
Vice-président, Développement des affaires, B2B Trust

Eva Stamadiamos
Vice-présidente, Ressources humaines et chef de la gestion des risques, B2B Trust

Michel C. Trudeau
Président et chef de la direction, Valeurs mobilières Banque Laurentienne inc.

Raymond Trudeau
Premier vice-président, Services aux particuliers, Valeurs mobilières Banque Laurentienne inc.

SUCCURSALES

Alma
500, rue Sacré-Cœur O.

Amos
1, 1ère Avenue O.

Baie Comeau
600, boul. Laflèche

Belœil
706, boul. Laurier

Blainville
1356, boul. Curé-Labelle
9, boul. de la Seigneurie

Boucherville
999, boul. Montarville

Brossard
1635, boul. Rome

Campbell's Bay
148, rue Front

Côte St-Luc
5479, av. Westminster

Chateauguay
111, boul. Saint-Jean Baptiste
530, 3e rue

Dolbeau – Mistassini
1372, boul. Wallberg

Dollard-des-Ormeaux
4057, montée Saint-Jean
3500, boul. des Sources

Dorval
325, av. Dorval

Drummondville
571, boul. Saint-Joseph

Fort Coulonge
532, rue Baume

Gatineau
139, boul. de l'Hôpital
75, du Plateau
770, boul. Saint-Joseph

Granby
40, rue Évangéline

Grand-Mère
531, 6e Avenue

Grenville
240, rue Principale

Joliette
373, rue Notre-Dame

Lachute
470, rue Principale O.

La Prairie
995, boul. Taschereau

Laval
928, Autoroute 13
928, Autoroute Chomedey O.
233, boul. Curé-Labelle
3387, boul. Dagenais O.
510, boul. des Laurentides
750, rue Montrose
3870, boul. Notre-Dame
1899, boul. René-Laennec
1995, boul. Saint-Martin O.
4600, boul. Samson

Longueuil
2836, chemin Chambly
4, rue Saint-Charles E.
6250, boul. Cousineau
5925, boul. Payer
3700, boul. Taschereau

Maniwaki
111, boul. Desjardins

Mascouche
848, montée Masson

Mont Laurier
476, rue de la Madone

Montréal
4945, rue Beaubien E.
6593, rue Beaubien E.
4155, rue Bélanger E.
5900, rue Bélanger E., Saint-Léonard
290, rue Chabanel O.
8262, boul. Champlain, Lasalle
4135, rue D'Amiens, Montréal Nord
6225, av. Darlington
865, boul. Décarie, Saint-Laurent
5159, boul. Décarie
88, boul. Don Quichotte
885, rue Fleury E.
2200, rue Fleury E.
10451, boul. Gouin O., Pierrefonds – Roxboro
5501, boul. Henri-Bourassa E., Montréal Nord
8595, rue Hochelaga
136, boul. Jacques-Bizard, Île Bizard
7050, rue Jarry E., Anjou
4725, rue Jarry E., Saint-Léonard
790, rue Jarry O.
10, rue Jean-Talon E.
5355, rue Jean-Talon E., Saint-Léonard
555, rue Jean-Talon O.
6651, boul. Joseph-Renaud, Anjou
9095, rue Lajeunesse
8410, boul. Langelier, Saint-Léonard
6525, boul. Léger, Montréal-Nord
6500, av. de Lorimier
2937, rue Masson
8646, boul. Maurice-Duplessis, Rivière des Prairies
6270, boul. Monk
1981, av. McGill College
1100, av. du Mont Royal E.
8787, boul. Newman, Lasalle
1675, rue Notre-Dame, Lachine
3720, rue Ontario E.
7705, av. Papineau
5059, av. du Parc
1430, rue Poirier, Saint-Laurent
1100, boul. René-Lévesque O.
936, rue Sainte-Catherine E.
8090, rue Saint-Denis
391, rue Saint-Jacques
4080, rue Saint-Jacques
3730, boul. Saint-Laurent
7192, boul. Saint-Michel
8930, boul. Saint-Michel
2490, rue de Salaberry
1805, rue Sauvé O.
801, rue Sherbrooke E.
6615, rue Sherbrooke E.
12050, rue Sherbrooke E.
5651, rue Sherbrooke O.
1291, boul. Shevchenko, Lasalle
6640 av. Somerled
1447, av. Van Horne, Outremont
4790, av. Van Horne
5501, av. Verdun, Verdun
8945, boul. Viau, Saint-Léonard
4214, rue Wellington, Verdun

Murdochville
601, 5e rue

New Carlisle
168, boul. Gérard-D.-Lévesque

New Richmond
228, boul. Perron

Nicolet
92, place 21 mars

Ottawa
1021 Cyrille Road

Paspébiac
120, boul. Gérard-D.-Lévesque

Port Daniel
10, route 132

Québec
999, rue de Bourgogne
510, boul. Charest E.
1221, Charles-Albanel
580, Grande Allée E.
8000, boul. Henri-Bourassa
2600, boul. Laurier
2700, boul. Laurier
1275, Chemin Sainte-Foy
3930, boul. Wilfrid-Hamel O.
3333, boul. du Carrefour
5401, boul. des Galeries

Repentigny
150, boul. Iberville
910A, boul. Iberville

Rimouski
320, rue Saint-Germain E.

Roberval
773, boul. Saint-Joseph

Rosemère
401, boul. Labelle

Rouyn – Noranda
24, rue Perreault E.

Saguenay
1611, boul. Talbot, Chicoutimi
3460, boul. Saint-François, Jonquière
1220, av. du Port, La Baie

Saint-Bruno de Montarville
690, montée Montarville
335, boul. des Promenades

Saint-Constant
400, route 132

Sainte-Marie-de-Beauce
16, rue Notre-Dame N.

Sainte-Thérèse-de-Blainville
95, boul. Labelle
81, rue Turgeon

Saint-Eustache
250, boul. Arthur-Sauvé

Saint-Georges
11400, 1ère Avenue

Saint-Hyacinthe
5915, rue Martineau

Saint-Jean-sur-Richelieu
605, Pierre-Caisse

Saint-Jérome
900, boul. Grignon

Saint-Lambert
400, av. Victoria

Saint-Raymond
300, rue Saint-Joseph

Sept-Îles
770, boul. Laure

Sherbrooke
2637, rue King O.
4857, boul. Bourque, Rock Forest

Sorel – Tracy
831, route Marie-Victorin

Terrebonne
1035, boul. des Seigneurs

Thetford Mines
222, boul. Frontenac O.

Trois-Rivières
425, rue des Forges
4450, boul. des Forges

Val d'Or
872, 3e Avenue

Vaudreuil – Dorion
43 Cité des Jeunes

Valleyfield
187, Victoria

Victoriaville
403, boul. Jutras E.

Westmount
4848, rue Sherbrooke O.

BUREAUX

B2B TRUST
Toronto – Siège social
130 Adelaide Street W.
2nd Floor

BLC CAPITAL II INC.
Montréal
1981, avenue McGill College
20e étage

BLC SERVICES FINANCIERS INC.
Montréal
425, boul. de Maisonneuve O.
Bureau 105

BLC TRUST
Montréal
1981, avenue McGill College
20e étage

FINANCEMENT AGRICOLE
Drummondville
571, boul. Saint-Joseph

Granby
40, rue Évangéline

Lachute
470, rue Principale

Saint-Hyacinthe
5915, rue Martineau

Saint-Jean-sur-Richelieu
605, boul. Pierre-Caisse

Sainte-Marie-de-Beauce
16, rue Notre-Dame Nord

Victoriaville
403, boul. Jutras E.

FINANCEMENT COMMERCIAL
Drummondville
571 boul St-Joseph

Gatineau
770, boul. Saint-Joseph
Hull

Kitchener
10 Duke Street W.

Laval
1991, Boul St-Martin O.
Bureau 105

Longueuil
4, rue St-Charles E.

Markham
11 Allstate Parkway
Bureau 430

Mississauga
989 Derry Road E.
Bureau 303

Montréal
255, boul. Crémazie E.
Bureau 1100

Montréal – Comptes majeurs
1981, avenue McGill College
Bureau 1670

Québec
2700, boul. Laurier
Bureau 2287
Sainte-Foy

Saguenay
1611, boul. Talbot
Bureau 100
Chicoutimi

Sherbrooke
2637, rue King O.

FINANCEMENT IMMOBILIER
Calgary
1122 – 4 Street SW
Suite 450

Kitchener
10 Duke Street W.
Suite 100

Montréal
1981, McGill College
Mezzanine

Ottawa
1021 Cyrville Road
Unit 9

Toronto
130 Adelaide Street W.
3nd Floor

Vancouver
700 West Georgia Street
Suite 603

GESTION PRIVÉE
Montréal
1981, avenue McGill College
Mezzanine Tour Sud

MICRO-ENTREPRISES
Alma
500, rue Sacré-Cœur O.

Montréal
425, boul. de Maisonneuve O.
Bureau 105

Québec
2600, boul. Laurier
Bureau 25
Sainte-Foy

SERVICES INTERNATIONAUX
Markham (Ontario)
11 Allstate Parkway
Bureau 430

Montréal
1981, avenue McGill College
Bureau 1750

TRUST LA LAURENTIENNE DU CANADA INC.
Montréal
425, boul. de Maisonneuve O.

VALEURS MOBILIÈRES BANQUE LAURENTIENNE INC.
Cornwall
55 Water Street W.
Suite 385

Drummondville
645, boul. Saint-Joseph
Bureau 100

Granby
20, Place du Lac

Laval
2525, boul. Daniel-Johnson
Bureau 500

Longueuil
1111, rue St-Charles O.
Bureau 350

Montréal
1981, avenue McGill College
Bureau 100

Québec
2600, boul. Laurier
Bureau 2280
Sainte-Foy

Saint-Jean-sur-Richelieu
100, rue Richelieu
Bureau 150

Toronto
130 Adelaide Street W.

Sainte-Thérèse-de-Blainville
212, boul. Labelle
Bureau 102

Kamouraska
622, rue Elzéar

FILIALES ET SOCIÉTÉS AFFILIÉES

Au 31 octobre 2005 Dénomination sociale	Adresse du bureau principal	Valeur comptable des actions avec droit de vote que détient la Banque (en milliers de dollars) (1)	Pourcentage des actions avec droit de vote que détient la Banque
B2B Trust	Toronto, Canada	177 123 $	100 %
Trust La Laurentienne du Canada inc.	Montréal, Canada	65 425 $	100 %
BLC Trust	Toronto, Canada	44 654 $	100 %
Valeurs mobilières Banque Laurentienne inc.	Montréal, Canada	24 682 $	100 %
BLC Services financiers inc.	Montréal, Canada	1 918 $	100 %
BLC Capital II Inc.	Montréal, Canada	18 067 $	100 %
4327853 Canada Inc.	Montréal, Canada	79 806 $	100 %
Corporation Financière Brome inc.	Montréal, Canada	6 812 $	51 %

(1) La valeur comptable des actions avec droit de vote correspond à la participation de la Banque dans l'avoir des actionnaires des filiales.

RENSEIGNEMENTS AUX ACTIONNAIRES

Siège social
Tour Banque Laurentienne 1981, avenue McGill College Montréal (Québec) H3A 3K3 Téléphone : (514) 284-4500, poste 5996
Télécopieur : (514) 284-3396

Centre télébancaire, Services bancaires automatisés et service à la clientèle :
(514) 252-1846
(région de Montréal)
Sans frais : 1 800 252-1846
Site Internet :
www.banquelaurentienne.ca
Télex : 145069
Code Swift : BLCM CA MM

Assemblée annuelle
L'assemblée annuelle des détenteurs d'actions ordinaires de la Banque se tiendra le mardi 7 mars 2005, à 9 h 30, à l'Impérial, 1430 rue de Bleury, Montréal (Québec) H3A 2J1.

Prix au jour d'évaluation
Aux fins des calculs des gains en capital, la valeur marchande des actions ordinaires de la Banque Laurentienne au 22 décembre 1971, jour d'évaluation, redressée en fonction des fractionnements de juillet 1983 et de janvier 1987, s'établit à 3,72 $.

Agent des transferts et registraire
Société de fiducie
Computershare du Canada
1500, rue University
Bureau 700
Montréal (Québec) H3A 3S8

Bureau de l'ombudsman
Banque Laurentienne
Tour Banque Laurentienne
1981, avenue McGill College
14e étage
Montréal (Québec) H3A 3K3
(514) 284-7192
1 800 473-4782

Changement d'adresse et autres renseignements
Les actionnaires sont priés de communiquer tout changement d'adresse à l'agent des transferts de la Banque. Pour toute autre demande ou question, veuillez communiquer avec le Secrétariat situé au siège social ou en téléphonant au (514) 284-4500, poste 7545.

Investisseurs et analystes
Les investisseurs et analystes peuvent communiquer avec le secteur des Relations avec les investisseurs situé au siège social en téléphonant au (514) 284-4500, poste 7511.

Médias
Les journalistes peuvent communiquer avec le secteur des Affaires publiques et communications situé au siège social en téléphonant au (514) 284-4500, poste 7511.

Service de dépôt direct
Les actionnaires de la Banque qui le désirent peuvent faire déposer les dividendes qui leur sont distribués directement dans leurs comptes tenus par toute institution financière membre de l'Association canadienne des paiements en avisant par écrit l'agent des transferts.

Ce rapport annuel est produit par le service des Affaires publiques, communications et Relations avec les investisseurs de la Banque Laurentienne.

An English version of this Annual Report can be obtained by writing to:
Laurentian Bank Tour
Banque Laurentienne
1981 McGilll College Avenue,
20th Floor
Montreal, Quebec H3A 3K3

INSCRIPTION BOURSIÈRE ET DATES DE PAIEMENT DES DIVIDENDES

Les actions ordinaires et les actions privilégiées décrites ci-dessous sont inscrites à la bourse de Toronto.	Symbole boursier Code CUSIP	Dates de clôture des registres*	Dates de paiement des dividendes*
Actions ordinaires	51925D 10 6 LB	Premiers jours ouvrables de :	Premiers jours ouvrables de :
		janvier	février
		avril	mai
		juillet	août
		octobre	novembre
Actions privilégiées			
Série 9	51925D 87 4 LB.PR.D	**	15 mars
Série 10	51925D 86 6 LB.PR.E	**	15 juin
			15 septembre
			15 décembre

* Sous réserve de l'approbation du conseil d'administration
** À une date (qui ne doit pas devancer de plus de 30 jours la date fixée pour le paiement des dividendes) pouvant être déterminée de temps à autre par le conseil d'administration de la Banque

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