MANAGEMENT DISCUSSION AND ANALYSIS

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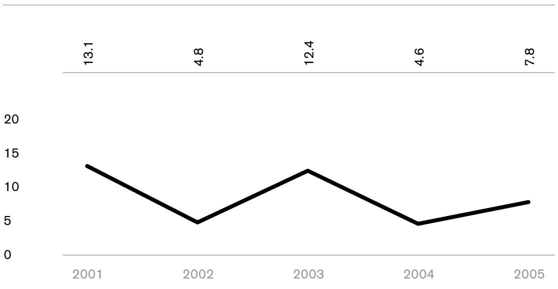
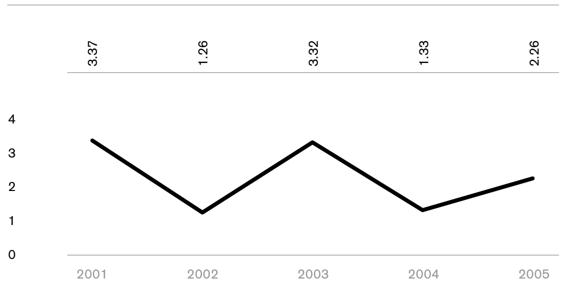
This section of the Annual Report is management's discussion and analysis of the results of operations and financial condition of the Bank for the year ended October 31, 2005. The information is presented on the same basis as in the consolidated financial statements prepared in accordance with Canadian 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

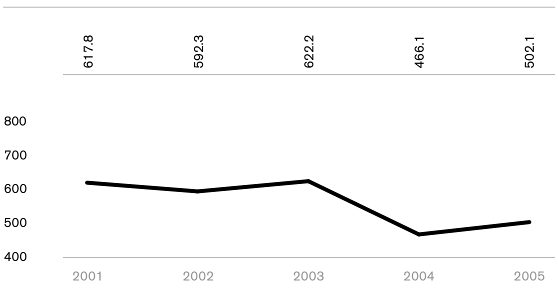
RETURN ON COMMON SHAREHOLDERS' EQUITY
(as a percentage)



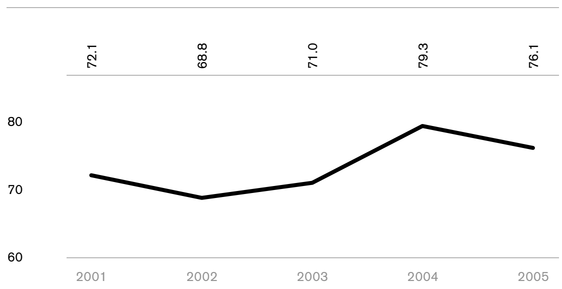
DILUTED NET INCOME PER COMMON SHARE
(in dollars)



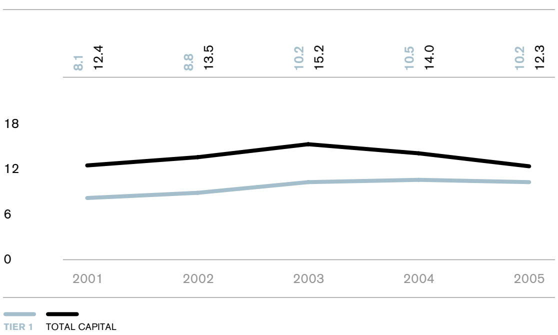
TOTAL REVENUE
(in millions of dollars)



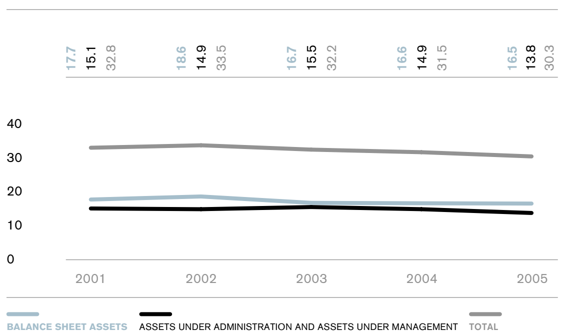
EFFICIENCY RATIO
(non-interest expenses as a percentage of total revenue)



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.

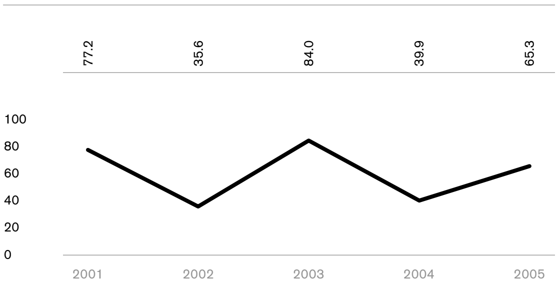
SUMMARY OF FINANCIAL RESULTS

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.

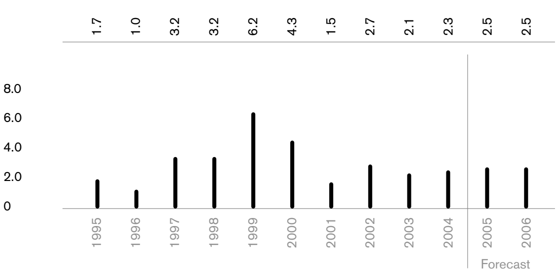
The risks with regard to the outlook on global economic growth arise mainly out of the serious international imbalances that persist and that will inevitably need to be addressed in the near future. The major risk is that the unwinding of these imbalances could be less than orderly and, consequently, 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.

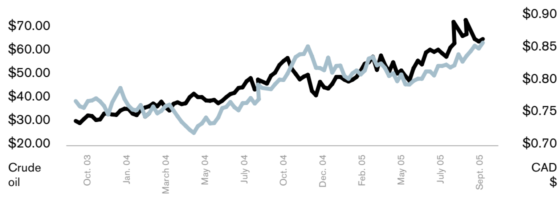
In Quebec, we expect real GDP growth to reach 2.5% in 2005 and 2006, only marginally higher than the 2.3% recorded in 2004. In 2005, consumer spending and residential construction remained solid but investment and exports turned out to be weaker than expected. For 2006, the overall picture is not expected 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)

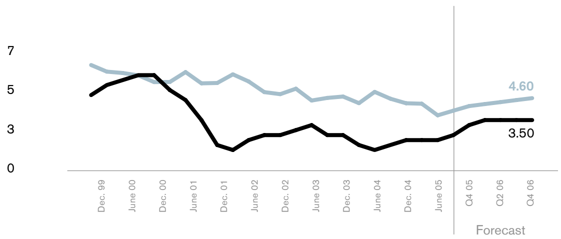


CRUDE OIL VS. CAD DOLLARS



CRUDE OIL (WTI-LHS) CAD $

CANADIAN RATES
(as a percentage)



10 YEAR BOND YIELD BANK OF CANADA OVERNIGHT RATE

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.

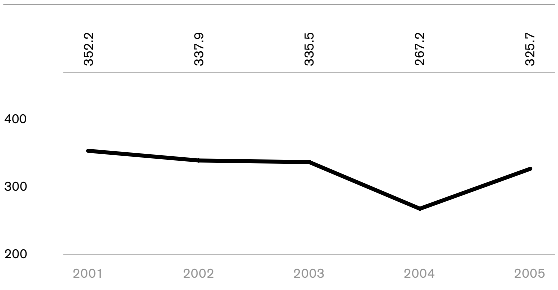
Table 4

CHANGES IN NET INTEREST INCOME

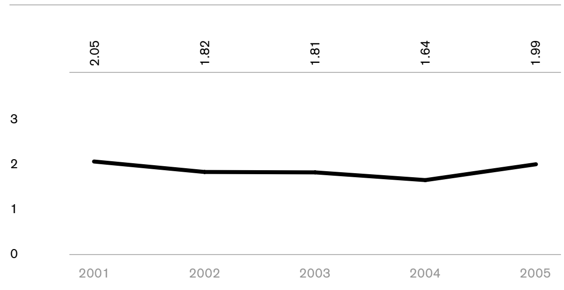
For the years ended October 31 (in millions of dollars and as a percentage)

	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.

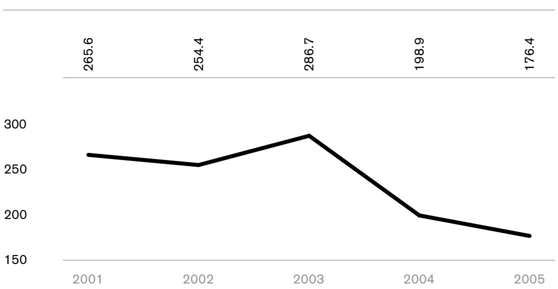
Revenues from registered self-directed plans decreased slightly and stood at $11.8 million for fiscal 2005, compared to $12.2 million in 2004. This result is linked to changes in market conditions that weigh the number of registered self-directed plans downward, and this despite the increase in assets 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)

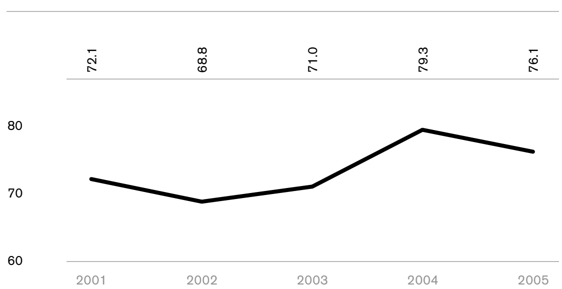


Table 7

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

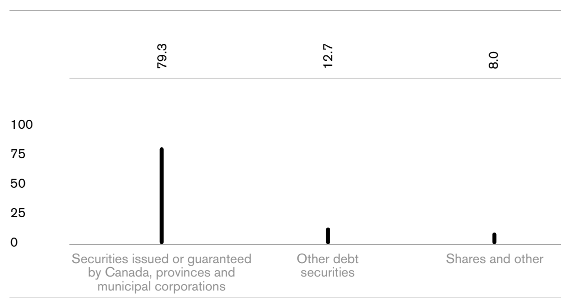
As at October 31 (in millions of dollars)	2005	2004	2003	Variation 05/04
Cash resources and securities	$ 3,258	$ 3,331	$ 3,906	(2)%
Assets purchased under reverse repurchase agreements	508	1,134	882	(55)
Loans				
Personal	3,907	3,639	3,646	7
Residential mortgages	5,807	5,509	5,274	5
Commercial mortgages	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)



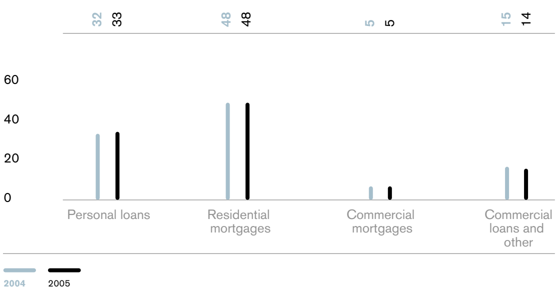
ASSETS PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS

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.

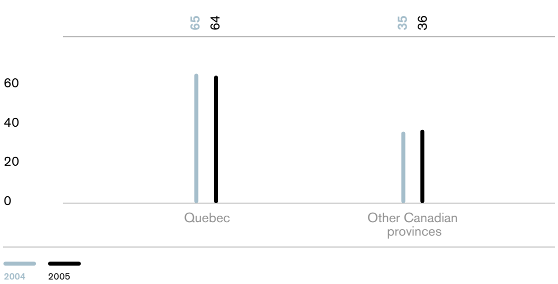
OTHER ASSETS

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.

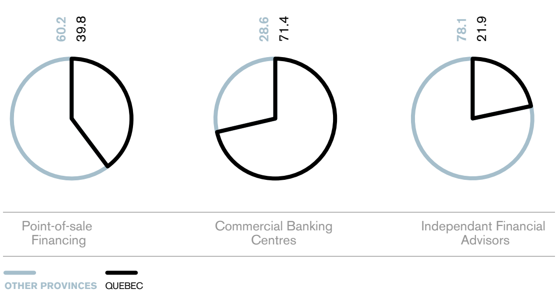
LOAN PORTFOLIO MIX
(as a percentage)



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

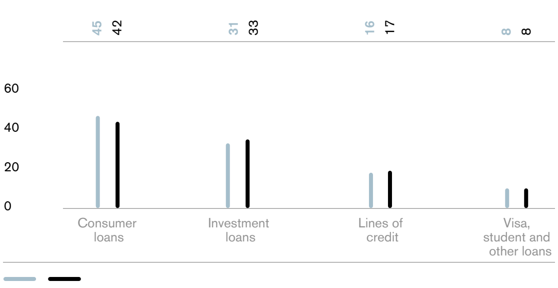
PERSONAL LOANS

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)

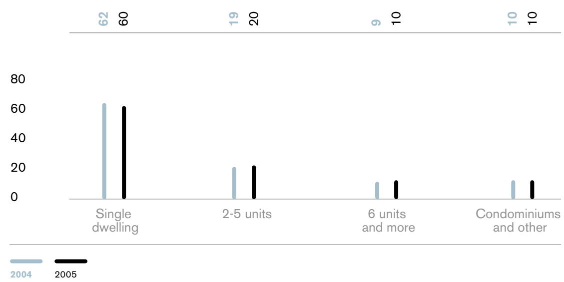


Table 9
RESIDENTIAL MORTGAGE LOANS PORTFOLIO

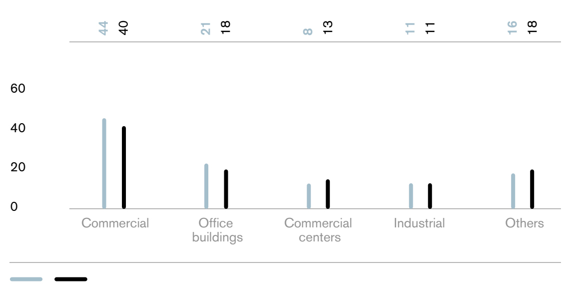
As at October 31 (in millons of dollars)	2005	2004
Residential mortgage loans, as reported on balance sheet	$5,807	$5,509
Securitized loans	654	482
Total residential mortgage loans, including securitized loans	$6,461	$5,991

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.

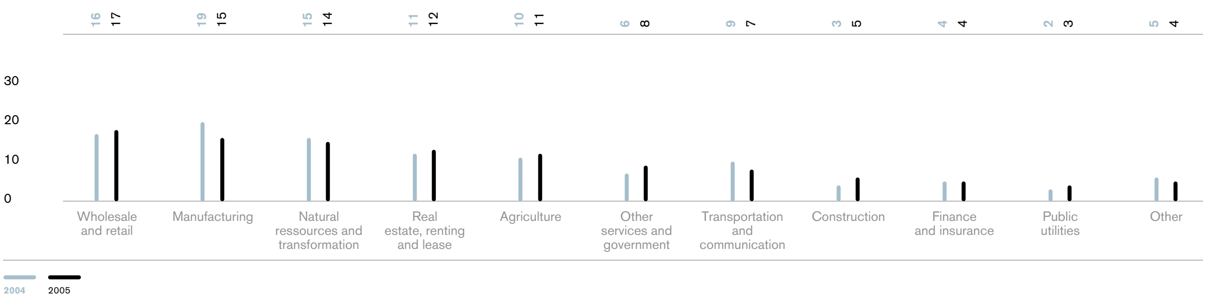
COMMERCIAL MORTGAGE LOANS
BY PROPERTY TYPE
(as a percentage)



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

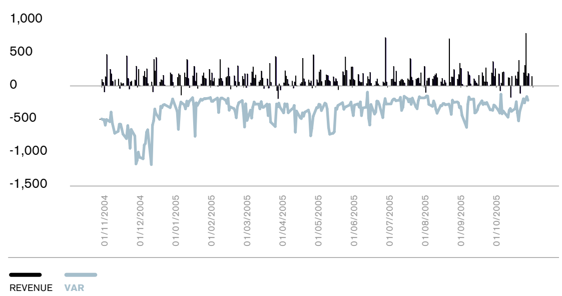
The Bank has implemented a market risk management and monitoring structure that entails the use of the VAR methodology for all of its trading portfolios. Value at risk corresponds to the maximum loss that the Bank may incur over a one-day period, with a confidence level of 99%. Consequently, the chances 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.

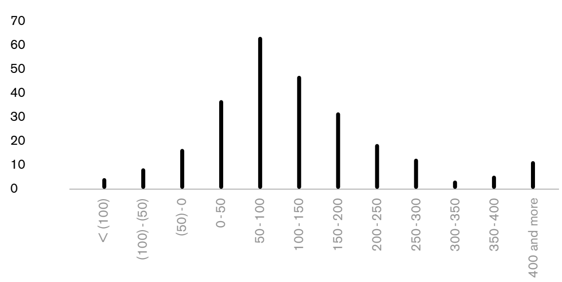
Trading activities

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