CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2003 AND 2002

The consolidated financial statements present a recent financial history of the financial condition, results of operations and cash flows of the Laurentian Bank of Canada.
The accompanying notes are an important part of understanding the Bank's performance. They explain how we arrived at the numbers in the consolidated financial statements, describe significant events or changes that affect the numbers, and explain certain items in the consolidated financial statements. They also include details about the financial results that are not shown in the consolidated financial statements.

Management's responsibility for financial information

The consolidated financial statements of Laurentian Bank of Canada were prepared by management which is responsible for the integrity and fairness of the financial information presented. The financial statements were prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Superintendent of Financial Institutions of Canada. The financial statements reflect amounts which must, of necessity, be based on the best estimates and judgement of management with appropriate consideration as to materiality. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

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

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

Every year, the Superintendent of Financial Institutions of Canada makes such examinations and inquiries as deemed necessary to satisfy itself that the Bank is in a sound financial position and that it complies with the provisions of the *Bank Act* as well as the Standards of Sound Business and Financial Practices of the Canada Deposit Insurance Corporation.

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

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

The Board of Directors is responsible for reviewing and approving the financial statements and management's discussion and analysis of results of operations and financial condition appearing in the annual report. It oversees the manner in which management discharges its responsibilities for the presentation and preparation of financial statements, maintenance of appropriate internal controls, risk management as well as assessment of significant transactions and related party transactions through its Audit Committee and its Risk Management Committee. Both committees are composed solely of external directors.

Raymond McManus
President and Chief Executive Officer

Robert Cardinal
Senior Executive Vice-President
and Chief Financial Officer

Montréal, Canada
December 2, 2003

Auditors' report to the shareholders of Laurentian Bank of Canada

We have audited the consolidated balance sheet of Laurentian Bank of Canada as at October 31, 2003 and 2002 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of Laurentian Bank of Canada's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP
Chartered Accountants

Montréal, Canada
December 2, 2003

Consolidated balance sheet

As at October 31

In thousands of dollars	Notes	2003	2002
ASSETS			
Cash resources			
Cash and due from other financial institutions without interest		**$ 100,001**	$ 168,726
Interest-bearing deposits with other financial institutions		**622,923**	264,972
Cheques and other items in transit, net		**111,809**	19,973
		834,733	453,671
Securities	3 and 22		
Investment account		**2,064,301**	2,084,585
Trading account		**1,006,575**	965,472
		3,070,876	3,050,057
Assets purchased under reverse repurchase agreements		**882,036**	869,830
Loans	4 and 5		
Personal		**3,646,070**	3,865,455
Residential mortgages		**5,274,128**	6,645,899
Commercial mortgages		**705,101**	955,772
Commercial and other		**1,571,491**	1,872,901
		11,196,790	13,340,027
Allowance for loan losses		**(163,177)**	(217,881)
		11,033,613	13,122,146
Other			
Customers' liability under acceptances		**235,286**	332,077
Capital assets	6	**114,479**	160,597
Goodwill	7	**54,029**	54,029
Other assets	8	**512,716**	553,209
		916,510	1,099,912
		$16,737,768	$18,595,616
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	9		
Personal		**$10,508,592**	$12,007,957
Business and other		**2,784,357**	2,960,317
		13,292,949	14,968,274
Other			
Obligations related to assets sold short		**969,663**	861,020
Obligations related to assets sold under repurchase agreements	22	**173,246**	447,862
Acceptances		**235,286**	332,077
Other liabilities	10	**751,484**	716,907
		2,129,679	2,357,866
Subordinated debentures	11	**400,000**	400,000
Non-controlling interest in a subsidiary	17	**41,827**	47,106
Shareholders' equity			
Capital stock	12		
Preferred shares		**200,000**	200,400
Common shares		**246,813**	246,230
Retained earnings		**426,500**	375,740
		873,313	822,370
		$16,737,768	$18,595,616

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

L. Denis Desautels, O.C.
Chairman of the Board

Raymond McManus
President and Chief Executive Officer

Consolidated statement of income

For the years ended October 31

In thousands of dollars, except per share amounts	Notes	**2003**	2002
Interest income			
Loans		**$870,519**	$887,268
Securities		**76,502**	73,341
Deposits with other financial institutions		**11,658**	5,022
		958,679	965,631
Interest expense			
Deposits and other liabilities		**587,711**	591,905
Subordinated debentures		**27,742**	27,750
		615,453	619,655
Net interest income		**343,226**	345,976
Provision for credit losses	4	**54,000**	111,000
		289,226	234,976
Other income			
Fees and commissions on loans and deposits		**101,452**	112,841
Gain on disposal of branches	2	**69,946**	–
Revenues from treasury and financial market operations		**50,858**	61,867
Commissions from brokerage operations		**16,729**	19,201
Revenues from registered self-directed plans		**12,635**	13,192
Revenues from sale and management of mutual funds		**10,654**	13,884
Insurance revenues		**6,694**	5,280
Securitization revenues	5	**1,048**	16,129
Other		**16,704**	12,049
		286,720	254,443
		575,946	489,419
Non-interest expenses			
Salaries and employee benefits		**204,944**	198,694
Premises and technology		**128,982**	120,140
Restructuring costs	15	**19,725**	(629)
Other		**88,129**	89,128
		441,780	407,333
Income before income taxes and non-controlling interest in net income of a subsidiary		**134,166**	82,086
Income taxes	16	**38,659**	32,424
Income before non-controlling interest in net income of a subsidiary		**95,507**	49,662
Non-controlling interest in net income of a subsidiary	17	**3,640**	5,318
Net income		**$ 91,867**	$ 44,344
Preferred share dividends, including applicable income taxes		**13,943**	15,058
Net income available to common shareholders		**$ 77,924**	$ 29,286
Average number of common shares (in thousands)		**23,416**	23,095
Average number of common shares after dilution (in thousands)		**23,457**	23,288
Net income per common share	18		
Basic		**$ 3.33**	$ 1.27
Diluted		**$ 3.32**	$ 1.26

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

Consolidated statement of changes in shareholders' equity

For the years ended October 31

In thousands of dollars	Notes	**2003**	2002
CAPITAL STOCK	12		
Preferred shares			
Balance at beginning of year		**$200,400**	$160,400
Issued during the year		**–**	100,000
Redeemed during the year		**(400)**	(60,000)
Balance at end of year		**$200,000**	$200,400
Common shares			
Balance at beginning of year		**$246,230**	$234,240
Issued during the year		**583**	11,990
Balance at end of year		**$246,813**	$246,230
RETAINED EARNINGS			
Previous balance		**$375,740**	$385,093
Impact of adopting the new accounting policy regarding goodwill, net of applicable income taxes	1 and 7	**–**	(9,670)
Restated balance		**375,740**	375,423
Net income		**91,867**	44,344
Dividends			
Preferred shares, including applicable income taxes		**(13,943)**	(15,058)
Common shares		**(27,164)**	(26,854)
Preferred share issue costs, net of income taxes		**–**	(2,115)
Balance at end of year		**$426,500**	$375,740
TOTAL SHAREHOLDERS' EQUITY		**$873,313**	$822,370

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

Consolidated statement of cash flows

For the years ended October 31

In thousands of dollars	**2003**	2002
Cash flows relating to operating activities		
Net income	**$ 91,867**	$ 44,344
Adjustments to determine net cash flows relating to operating activities:		
Provision for credit losses	**54,000**	111,000
Gains on securitization operations	**(1,859)**	(9,818)
Net loss (gain) on disposal of capital assets	**2,491**	(335)
Restructuring costs	**19,725**	(629)
Gain on disposal of branches	**(69,946)**	–
Net gains on sale of securities held for investment	**(14,043)**	(8,507)
Future income tax expense	**15,425**	10,849
Depreciation and amortization	**43,142**	40,075
Net change in trading securities	**(41,103)**	(365,326)
Change in accrued interest receivable	**5,423**	(17,434)
Increase in unrealized gains and amounts receivable on derivative financial instruments	**(30,539)**	(5,963)
Change in accrued interest payable	**53,590**	3,037
Increase in unrealized losses and amounts payable on derivative financial instruments	**26,498**	27,142
Other, net	**(20,710)**	(52,491)
	133,961	(224,056)
Cash flows relating to financing activities		
Net change in deposits	**209,531**	352,235
Net change in obligations related to assets sold short	**108,643**	191,363
Net change in obligations related to assets sold under repurchase agreements	**(274,616)**	240,361
Issuance of preferred shares, net of issue costs	**–**	97,885
Redemption of preferred shares	**(400)**	(60,000)
Issuance of common shares, net of issue costs	**583**	11,990
Redemption of common shares of a subsidiary	**(6,637)**	–
Dividends, including applicable income taxes	**(42,816)**	(42,807)
	(5,712)	791,027
Cash flows relating to investing activities		
Net cash flows related to an acquisition of net assets	**(28,427)**	30,882
Net change in interest-bearing deposits with other financial institutions	**(357,951)**	(171,293)
Net change in securities held for investment	**34,327**	(328,461)
Net change in loans	**57,742**	(456,403)
Net change in assets purchased under reverse repurchase agreements	**(12,206)**	(220,159)
Proceeds from mortgage loan securitizations	**39,836**	697,555
Acquisitions of capital assets	**(11,229)**	(33,595)
Net cash flows from disposal of branches	**165,112**	–
Proceeds from disposal of capital assets	**7,658**	12,534
	(105,138)	(468,940)
Net change in cash and cash equivalents	**23,111**	98,031
Cash and cash equivalents at beginning of year	**188,699**	90,668
Cash and cash equivalents at end of year	**$ 211,810**	$ 188,699
Cash and cash equivalents are detailed as follows:		
Cash and due from other financial institutions without interest	**$ 100,001**	$ 168,726
Cheques and other items in transit, net	**111,809**	19,973
	$ 211,810	$ 188,699
Supplemental disclosure relating to cash flows:		
Interest paid during the year	**$ 620,218**	$ 602,624
Income taxes paid during the year	**$ 24,994**	$ 30,163

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

Notes to consolidated financial statements

October 31, 2003 and 2002 (All tabular amounts are in thousands of dollars, unless otherwise indicated.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

BASIS OF CONSOLIDATION

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

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

The consolidated financial statements include an interest in a joint venture which is recognized using the proportionate consolidation method. Under this approach, the Bank's prorated share of the assets, liabilities, revenues and expenses are consolidated.

SECURITIES

Investment account

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

Loan substitute securities are included in the investment account. These securities are customer financings that have been structured as after-tax securities rather than conventional loans in order to provide the issuers with a borrowing rate advantage. These securities are recorded on the same basis as loans.

Trading account

Securities purchased for resale over a short period of time are included in the trading account and are recorded at their estimated current market value. Obligations related to assets sold short are reported as liabilities and are stated at their estimated current market value. Realized and unrealized gains and losses on these securities are included in other income. Interest income earned and dividends received are included in interest income.

ASSETS PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS AND ASSETS SOLD UNDER REPURCHASE AGREEMENTS

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

LOANS

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

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

When loans are classified as impaired, the recognition of the interest due ceases. The book values of these loans are then brought back to their estimated realizable value by totally or partially writing off the loan and/or establishing an allowance for loan losses.

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

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

Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal and interest, and payments are not 90 days past due.

Commissions and fees related to loans received as interest or related to changes in credit terms are generally recorded in interest income over the term of these loans.

Assets acquired by way of settlement of a loan initially are measured at fair value less costs to sell, if they meet the criteria to be classified as held for sale. If the assets are to be held and used, they are initially measured at fair value and assigned to an asset class reflecting their kind. The fair value of the foreclosed assets is determined based on a quoted market price, prices for similar assets or another valuation technique. Any difference between the carrying amount of the loan prior to foreclosure and the amount initially measured is recognized on the statement of income. Following initial recognition, the assets held for sale are revalued to reflect subsequent write-downs, as well as future increases in value, but not in excess of the previously recognized cumulative losses. As for assets to be held and used, they are then accounted for in the same manner as similar assets acquired in the normal course of business.

The application of this new recommendation did not have any material effect on the Bank's results. Previously, the property rights of assets acquired in settlement of a loan and intended for resale were also included in impaired loans at the lower of the loan balance and its net realizable value.

ALLOWANCE FOR LOSSES

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

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

Specific allowances

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

General allowances

The general allowance reflects the best estimate of potential losses, related to the deterioration of credit quality, within the portion of the portfolio that has not yet been specifically identified as impaired.

An allocated general allowance, based on the historical loss experience of the previous ten years and an economic cycle reference factor, is now computed for each pool of loans with common risk characteristics. This method allows the specific allocation of the general allowance to the identified pools of loans and the determination of an unallocated general allowance.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCEPTANCES

Acceptances are short-term negotiable instruments issued by the Bank's customers to third parties and guaranteed by the Bank. The potential liability under acceptances is reported as a liability on the balance sheet. The recourse against the customer in the case of a call on these commitments is reported as an asset of the same amount. Commissions earned are reported in other income.

CAPITAL ASSETS

Land is carried at cost. Other capital assets are recorded at cost less accumulated depreciation and are depreciated over their estimated useful lives based on the following methods and rates:

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

Gains and losses resulting from the sale of capital assets are recorded under other income.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and intangible assets determined to have an indefinite useful life are tested for impairment, at least annually, based on their fair values. The impairment test initially compares the fair value of the reporting unit to which the goodwill relates to its carrying amount. When potential impairment is identified, the fair value of goodwill is compared to its carrying amount. Impairment identified in the transitional test as at the initial date of application, November 1, 2001, was charged to opening retained earnings (see note 7). Subsequent impairment is charged to income during the periods in which the losses are incurred.

The Bank mainly uses the discounted cash flows method to determine the fair value of its reporting units.

LOAN SECURITIZATION

Based on securitization arrangements, the Bank transfers pools of mortgages to special-purpose entities, which, in turn, issue securities to investors. Mortgage loan securitization is part of the Bank's liquidity and capital management strategies.

Since June 1, 2001, the Bank has applied the Canadian Institute of Chartered Accountants' (CICA) Accounting Guideline no. 12 with respect to the transfer of receivables. These transfers are accounted for as sales when the Bank is deemed to have surrendered control over these assets.

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

In connection with these transactions, the Bank retains, in some instances, interests in securitized receivables such as cash reserve accounts, one or more subordinated tranches, servicing rights and excess interest spread. The gain or loss depends partly on the previous carrying value of the loans that are included in the transfer, allocated between the assets sold and the interests retained based on their respective fair value at the time of the transfer. To calculate fair values, the Bank usually estimates the discounted value of future cash flows. These calculations are based on management's best estimates with respect to key assumptions–credit losses, rate of prepayment, interest-rate curve and risk-adjusted discount rate.

Cash reserve accounts related to these transactions are initially recorded at cost and presented under other assets. They are subsequently re-evaluated to identify permanent impairments in value.

For certain transactions, the Bank retains an interest, until mortgage-backed securities mature, in the excess interest spread initially recorded at cost and presented in other assets. This excess interest spread, which affects the determination of gains or losses on the transfer date, corresponds to the interest collected from mortgage holders less interest paid to securities' holders. As mortgage payments are received, this excess decreases and the resulting yield is recognized to interest income. Any permanent impairment in value is immediately charged to income.

The retained subordinated tranches are also recorded at cost and presented with securities in the investment account.

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

In addition, for certain securitization transactions, the Bank guarantees the return and payment of principal upon maturity to securities' holders. This obligation is initially recorded at fair value and re-evaluated periodically, charging any changes in the fair value to income.

Transactions completed prior to June 1, 2001 are recorded in accordance with the instructions set forth in Abstract no. 9, "Transfers of Receivables," issued by the CICA's Emerging Issues Committee and have not been restated. Gains related to transactions completed according to the former standards are amortized to income when the significant risks and rewards of ownership have been transferred provided there is no possible recourse against the Bank on the transaction. To the extent that there was a recourse against the Bank on the transaction, any gain on sale was deferred until there was no recourse left against the amount collected. Losses on these transactions, if any, were recognized immediately.

EMPLOYEE FUTURE BENEFITS

Pension plans

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

Under the defined benefit plans, retired employees are eligible for benefits based on the length of service and the average salary at retirement. An actuarial valuation is performed periodically to determine the present value of accrued pension obligations based on projected benefits and management's best estimates. The obligation for accrued benefits is valued using market interest rates. Pension plan assets are valued at fair value using a market-related value approach. The method is also used to calculate the expected return on plan assets. For these plans, the pension expense consists of: a) the cost for the current year's service, b) interest expense on the accrued benefit obligation, c) expected return on plan assets, d) amortization of the transitional obligation, the cost for past service and the actuarial gains or losses, e) gains or losses arising from special events, and f) change in the valuation allowance.

The cost for past service resulting from changes to the defined benefit plans is amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the defined benefit plans. Actuarial gains or losses are amortized when, at the beginning of the year, the unamortized balance of the gain or loss exceeds 10% of the accrued benefit obligation or the market value of plan assets, whichever amount is greater. This excess is amortized on a straight-line basis over the expected average remaining service life of the groups covered by the plans. The transitional obligation resulting from the application of the standard with respect to employee future benefits, since November 1, 2000, is amortized on a straight-line basis over the average remaining service period of active employees who should normally receive benefits under these plans, varying from 10 to 20 years.

Since January 1, 2001, one of its plans offers a defined contribution portion for certain categories of employees. Plan members who were active at this date could elect to remain in the defined benefit portion or participate in the defined contribution portion for future years of participation. Members who join the plan after January 1, 2001 are required to participate in the defined contribution portion. The expense for this portion corresponds to the contributions the Bank is required to make during the year.

Other plans

The Bank also provides certain healthcare and life insurance benefits for its employees upon retirement. The costs related to these benefits are accumulated during the employees' service life according to accounting policies similar to those applied to defined benefit plans.

DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses derivatives to manage its exposure to interest rate and currency risks, to serve the needs of customers and earn trading income. The most frequently used derivative products are interest rate and foreign exchange swaps, foreign currency and interest rate futures, and options.

Derivative products are valued at prevailing market rates when used in trading activities or to meet customers' needs. Realized and unrealized gains and losses are included in other income. When derivative products are used to manage the Bank's own exposure, income and expenses are recognized over the term of the transaction in net interest income, while the realized gains and losses are generally deferred and amortized to net interest income over the life of the hedged items.

INCOME TAXES

The Bank uses the liability method of tax allocation and reports, in other assets, the future income tax assets resulting from loss carryforwards and temporary differences between the carrying amounts and the tax basis of assets and liabilities, in accordance with tax laws and rates enacted or substantively enacted on the date the differences are expected to reverse.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and due from other financial institutions without interest and net cheques and other items in transit, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

NET INCOME PER COMMON SHARE

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

Diluted net income per common share is calculated assuming that the proceeds received from the exercise of stock options are used to repurchase common shares at their average market price during the year.

STOCK-BASED COMPENSATION

On November 1, 2002, the Bank adopted, on a prospective basis, the fair-value method of accounting for stock-based compensation to employees. The fair value of new options granted on or after this date is charged to income over the option vesting period. The value of the options granted is determined using the Black-Scholes option-pricing model using management's best estimate. With respect to awards prior to November 1, 2002, the Bank continues to apply the previous standards under which no compensation cost is recognized when stock options are awarded to employees and the consideration paid by the employees who exercise their stock options is credited to common equity.

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

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

The Bank administers and manages assets held by customers that are not recognized on the consolidated balance sheet. Revenues related to these assets are recorded in other income, as the service is provided.

TRANSLATION OF FOREIGN CURRENCIES

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

FUTURE CHANGES TO ACCOUNTING POLICIES

Hedging relationships

In December 2001, the Accounting Standards Board issued Accounting Guideline no. 13 (AcG-13) "Hedging Relationships." In June 2002, the CICA Emerging Issues Committee also issued EIC-128 "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments." AcG-13 establishes criteria for the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. EIC-128 establishes that a free-standing derivative financial instrument that gives rise to a financial asset or financial liability and is entered into for trading or speculative purposes, or that does not qualify for hedge accounting under AcG-13, should be recognized on the balance sheet and measured at fair value, with changes in fair value recognized in current income. The provisions will come into effect for the year beginning November 1, 2003 for the Bank. The initial application of these new accounting pronouncements is not expected to have a material impact on the Bank's consolidated financial statements. Moreover, it is not possible to determine the impact of applying these guidelines on future income, as it depends on, among other things, the nature and fluctuations of the fair value of the contracted derivative financial instruments.

Variable interest entities

In June 2003, the CICA issued Accounting Guideline no. 15 (AcG-15) "Consolidation of Variable Interest Entities." This guideline sets out the criteria for determining variable interest entities (VIEs), the primary beneficiary among the VIEs and the entity who will be required to consolidate the latter. A VIE is an entity whose total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties. This accounting guideline will apply to the year beginning on November 1, 2004 for the Bank, except for certain disclosure requirements pertaining to the entities' activities and maximum exposure to loss, which will apply as of February 1, 2004. The Bank is currently assessing the impact of this new guideline.

2. ACQUISITIONS AND SALE

2003

Sale of branches to Toronto-Dominion Bank

The Bank entered into an agreement to sell, as of October 31, 2003, 57 branches located in Ontario and Western Canada to The Toronto-Dominion Bank (TD Bank). The sale price, payable in cash, represents the book value, as at October 31, 2003, of the loans and other assets sold less deposits and other liabilities assumed plus a premium of $112,400,000. A preliminary instalment, based on the volumes as at September 30, 2003 of net assets held for sale, was payable on October 31, 2003. These operations were presented in the Retail Financial Services line of business.

Net value of assets sold:

Identifiable assets sold	
Cash	$ 8,969
Loans	1,965,219
Other assets	9,778
Liabilities transferred	
Cheques and other items in transit, net	32,273
Deposits	1,884,856
Other liabilities	53,277
Net value of assets sold	13,560
Excess of sale price over net value of assets sold (premium)	112,400
Sale price	$ 125,960
Composed of:	
Preliminary instalment, received in cash	$ 156,521
Adjustment payable related to decrease in volumes sold (note 10)	$ (30,561)

Calculation of gain on disposal:

Excess of sale price over net value of assets sold (premium)	$ 112,400
Expenses related to the transaction [1]	42,454
Gain on disposal ($54,946,000, net of taxes)	$ 69,946

(1) Costs related to the transaction include, among other things, write-offs of capital assets and deferred charges totalling $15,958,000, losses on hedging items related to interest rate risk management amounting to $14,713,000 and costs related to the transfer of activities and other costs for a total of $11,783,000. As at October 31, 2003, $32,510,000 had been incurred.

Acquisition of loans of Canadian Tire Financial Services

On December 24, 2002, B2B Trust, a subsidiary of the Bank, completed the purchase, for a cash consideration of $28,427,000, of certain Canadian Tire Financial Services Limited branded consumer lines of credit from another financial institution.

2002

Acquisition of net assets of Sun Life Financial Trust Inc.

On September 3, 2002, B2B Trust, a subsidiary of the Bank, and the Bank jointly completed the acquisition of portfolios of mortgage loans and personal loans valued at approximately $28,528,000 and $38,227,000 respectively of Sun Life Financial Trust Inc. In return, the Bank and its subsidiary assumed deposit liabilities valued at approximately $98,002,000 and received an amount of $30,882,000, net of acquisition costs incurred of approximately $365,000.

3. SECURITIES

A) MATURITY SCHEDULE AND RETURN ON INVESTMENT ACCOUNT

					2003		2002	
	Within 1 year $	1 to 5 years $	Over 5 years $	No stated maturity $	Total $	%	Total $	%
Investment account								
Securities issued								
or guaranteed								
by Canada	370,066	897,683	49,965	–	1,317,714	3.1	1,165,862	3.0
by provinces	256,497	128,385	8,047	–	392,929	3.0	703,206	3.4
Other debt securities	21,331	87,237	100,927	–	209,495	5.2	71,924	6.0
Preferred shares	–	–	–	52,785	52,785	2.1	29,771	1.5
Common shares and other	–	–	–	54,148	54,148	3.0	63,454	2.2
Mortgage-backed securities	–	25,872	11,358	–	37,230	8.2	43,900	7.9
Loan substitutes	–	–	–	–	–	–	6,468	3.2
	647,894	1,139,177	170,297	106,933	2,064,301	3.3	2,084,585	3.3
Trading account								
Securities issued								
or guaranteed								
by Canada	14,400	73,585	91,990	–	179,975		418,958	
by provinces	69,368	312,567	217,641	–	599,576		367,188	
by municipal corporations	10,187	9,452	13,684	–	33,323		44,033	
Other debt securities	32,491	25,476	97,266	–	155,233		123,703	
Common shares and other	–	–	–	–	–		2	
Mortgage-backed securities	3,589	29,433	5,446	–	38,468		11,588	
	130,035	450,513	426,027	–	1,006,575		965,472	
	777,929	1,589,690	596,324	106,933	3,070,876		3,050,057	

The term to maturity included in the schedule above is based on the contractual maturity date of the security.

The weighted average return is calculated based on the book value at the year-end of each type of security.

B) INVESTMENT ACCOUNT – UNREALIZED GAINS AND LOSSES

				2003				2002
	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value
Securities issued								
or guaranteed								
by Canada	$1,317,714	$ 142	$ 4,442	$1,313,414	$1,165,862	$1,272	$ 4	$1,167,130
by provinces	392,929	42	206	392,765	703,206	1,276	1,805	702,677
Other debt securities	209,495	2,480	2,580	209,395	71,924	557	404	72,077
Preferred shares	52,785	574	900	52,459	29,771	1	843	28,929
Common shares and other	54,148	191	9,413	44,926	63,454	157	12,785	50,826
Mortgage-backed securities	37,230	1,184	–	38,414	43,900	830	–	44,730
Loan substitutes	–	–	–	–	6,468	–	–	6,468
	$2,064,301	$4,613	$17,541	$2,051,373	$2,084,585	$4,093	$15,841	$2,072,837

For the year ended October 31, 2003, the net change in securities held for investment totalling $34,327,000 represents acquisitions amounting to $30,244,718,000, maturities in the amount of $186,997,000 and proceeds of sales of $30,092,048,000.

4. LOANS

A) LOANS AND IMPAIRED LOANS

					2003
	Gross amount of loans	Gross amount of impaired loans	Specific allowances	General allowances	Total allowances
Personal loans	**$ 3,646,070**	**$ 19,594**	**$ 9,311**	**$19,715**	**$ 29,026**
Residential mortgages	**5,274,128**	**13,991**	**3,741**	**5,611**	**9,352**
Commercial mortgages	**705,101**	**13,030**	**6,048**	**7,561**	**13,609**
Commercial loans and other	**1,571,491**	**138,571**	**66,827**	**20,167**	**86,994**
Unallocated general allowance	**–**	**–**	**–**	**24,196**	**24,196**
	$11,196,790	**$185,186**	**$85,927**	**$77,250**	**$163,177**

					2002
	Gross amount of loans	Gross amount of impaired loans	Specific allowances	General allowances	Total allowances
Personal loans	$ 3,865,455	$ 24,364	$ 8,563	$19,479	$ 28,042
Residential mortgages	6,645,899	14,152	6,952	7,133	14,085
Commercial mortgages	955,772	26,561	17,216	10,156	27,372
Commercial loans and other	1,872,901	161,920	99,650	24,356	124,006
Unallocated general allowance	–	–	–	24,376	24,376
	$13,340,027	$226,997	$132,381	$85,500	$217,881

In 2003, the recorded investment in foreclosed loans amounts to $6,469,000 and the elimination of the related specific allowances totals $1,412,000. In 2002, impaired loans included foreclosed assets in the amount of $9,867,000 and specific allowances related to these foreclosed assets totalled $4,377,000.

B) SPECIFIC ALLOWANCES FOR LOAN LOSSES

					2003	2002
	Personal loans	Residential mortgages	Commercial mortgages	Commercial loans and other	Total specific allowances	Total specific allowances
Balance at beginning of year	**$ 8,563**	**$ 6,952**	**$ 17,216**	**$ 99,650**	**$ 132,381**	$ 48,512
Provision for credit losses recorded in the consolidated statement of income	**26,267**	**1,201**	**1,603**	**28,929**	**58,000**	111,000
Allowance for loan losses resulting from sale of branches	**3,453**	**–**	**–**	**1,047**	**4,500**	–
Write-offs (1)	**(32,327)**	**(4,963)**	**(12,874)**	**(63,216)**	**(113,380)**	(30,924)
Recoveries	**3,355**	**551**	**103**	**417**	**4,426**	3,793
Balance at end of year	**$ 9,311**	**$ 3,741**	**$ 6,048**	**$ 66,827**	**$ 85,927**	$132,381

(1) No restructured loans were written-off during the years ended October 31, 2003 and 2002.

C) GENERAL ALLOWANCES FOR LOAN LOSSES

						2003	2002
	Personal loans	Residential mortgages	Commercial mortgages	Commercial loans and other	Unallocated general allowance	Total general allowances	Total general allowances
Balance at beginning of year	**$19,479**	**$ 7,133**	**$10,156**	**$24,356**	**$24,376**	**$85,500**	$85,000
Change during the year	**1,485**	**151**	**(1,361)**	**(4,095)**	**3,820**	**–**	–
Reduction in provision for credit losses recorded in the consolidated statement of income	**–**	**–**	**–**	**–**	**(4,000)**	**(4,000)**	–
Allowances for loan losses resulting from sale of branches	**(1,499)**	**(1,673)**	**(1,234)**	**(94)**	**–**	**(4,500)**	–
Allowances for loan losses resulting from acquisitions	**250**	**–**	**–**	**–**	**–**	**250**	500
Balance at end of year	**$19,715**	**$ 5,611**	**$ 7,561**	**$20,167**	**$24,196**	**$77,250**	$85,500

5. LOAN SECURITIZATION

Under the mortgage-backed securities program provided for under the *National Housing Act,* residential mortgage loans insured by the Canadian Mortgage and Housing Corporation (CMHC) totalling $39,999,000 ($275,646,000 in 2002) were securitized through the creation of mortgage-backed securities. The Bank subsequently sold all of these mortgage-backed securities (for $249,144,000 of such securities in 2002 and recorded the difference on the balance sheet as securities in the investment account). The Bank also securitized conventional residential mortgages for $401,013,000 in 2002 and commercial mortgages for $53,117,000 in 2002, under other programs.

In relation to this transaction, during the year, the Bank collected cash proceeds amounting to $39,836,000 ($697,555,000 in 2002) and recognized, in other income, a securitization gain of $1,859,000 ($9,818,000 in 2002) net of transaction-related costs. The calculation of this gain takes into account the rights to excess interest spread of $2,529,000 ($24,869,000 in 2002) and cash reserve accounts of $nil ($8,017,000 in 2002) and a servicing liability of $383,000 ($5,198,000 in 2002). The Bank has not retained any right or obligation with respect to the commercial mortgages sold in 2002.

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

Key assumptions	2003	2002
Rate of prepayment	11%	10% to 11%
Excess spread	2.21%	1.5%
Expected credit losses on conventional residential mortgages [(1)]	n/a	0.25%
Discount rate	6.45%	6.5% to 7.2%

(1) No loss is expected on insured residential mortgages.

During the year, the Bank collected cash flows from retained interests totalling $18,175,000 ($8,690,000 in 2002). The amortization relating to the servicing liability recognized in income amounted to $2,327,000 ($1,454,000 in 2002).

On October 31, 2003, the Bank had retained interests related to residential mortgage securitization transactions amounting to $18,002,000 ($29,143,000 in 2002). The sensitivity of the fair value of the retained interests to immediate unfavorable changes of 10% and 20% in the key assumptions used to value retained interests as at October 31, 2003.

Sensitivity of key assumptions to unfavorable changes	2003	2002
	Residential mortgages	Residential mortgages
Weighted average life (in months)	29	35
Rate of prepayment	14.8%	11%
Impact on fair value of unfavorable change of 10%	$192	$ 765
Impact on fair value of unfavorable change of 20%	$382	$1,512
Excess spread	1.93%	1.51%
Impact on fair value of unfavorable change of 10%	$416	$1,191
Impact on fair value of unfavorable change of 20%	$832	$2,382
Expected credit losses [(1)]	0.25%	0.25%
Impact on fair value of unfavorable change of 10%	$ 97	$ 221
Impact on fair value of unfavorable change of 20%	$194	$ 403
Discount rate	6.5%	6.9%
Impact on fair value of unfavorable change of 10%	$103	$ 55
Impact on fair value of unfavorable change of 20%	$206	$ 112

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

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

The total principal amount of securitized loans under the new standards totalled $611,393,000 at the end of the year ($738,558,000 at the end of 2002).

The total principal amount of securitized loans accounted for under the former standards totalled $329,120,000 at the end of the year ($842,593,000 at the end of 2002).

6. CAPITAL ASSETS

			2003	2002
	Cost	Accumulated depreciation	Net book value	Net book value
Land	**$ 773**	**$ –**	**$ 773**	$ 3,541
Premises	**4,788**	**249**	**4,539**	13,124
Leasehold improvements	**41,449**	**25,193**	**16,256**	20,490
Equipment and furniture	**69,999**	**59,088**	**10,911**	13,269
Computer equipment and software	**262,226**	**180,226**	**82,000**	110,173
	$379,235	**$264,756**	**$114,479**	$160,597

Depreciation expense recorded in the consolidated statement of income amounts to $42,390,000 ($39,199,000 in 2002).

Computer equipment and software include an amount totalling $3,579,000 ($13,712,000 in 2002) related to projects under development that are not depreciated.

7. GOODWILL

Changes in goodwill are detailed as follows:

	Retail Financial Services	Commercial Financial Services	B2B Trust	Wealth Management and Brokerage	Total
Balance as at October 31, 2001	$53,790	$ 4,771	$91	$ 5,400	$64,052
Impairment based on transitional test	–	(4,771)	–	(5,161)	(9,932)
Write-off	–	–	(91)	–	(91)
Balance as at October 31, 2002	$53,790	$ –	$ –	$ 239	$54,029
Balance as at October 31, 2003	**$53,790**	**$ –**	**$ –**	**$ 239**	**$54,029**

Refer to note 23 for the description of business segments.

8. OTHER ASSETS

	2003	2002
Future income tax assets (note 16)	**$109,730**	$121,200
Assets related to securitized mortgage loans	**46,852**	71,899
Accrued interest receivable	**79,762**	90,334
Derivative financial instruments related amounts	**92,272**	63,747
Accrued benefit assets (note 14)	**36,244**	38,272
Mutual fund management contract (see below)	**1,878**	2,630
Accounts receivable, prepaid expenses and other items	**145,978**	165,127
	$512,716	$553,209

Reorganization of Iris and R mutual funds

On December 31, 2001, the Bank proceeded with the reorganization of IRIS Funds and R Funds. The management contract relating to the IRIS Funds was sold to BLC-Edmond de Rothschild Asset Management Inc., a joint venture of the Bank and Compagnie financière Edmond de Rothschild Banque, for a cash consideration totalling $12,500,000 that generated a gain of $2,694,000. Following the sale of the management contract, the Bank only maintains its share of the contract that pertains to its interest in the joint venture. Amortization of the mutual fund contract recorded in the consolidated statement of income, during the year, amounts to $752,000 ($876,000 in 2002).

9. DEPOSITS

				2003
	Demand	**Notice**	**Term**	**Total**
Personal	**$ 98,543**	**$1,709,566**	**$ 8,700,483**	**$10,508,592**
Business and other	**506,971**	**123,640**	**2,153,746**	**2,784,357**
	$605,514	**$1,833,206**	**$10,854,229**	**$13,292,949**

				2002
	Demand	Notice	Term	Total
Personal	$105,609	$1,879,458	$10,022,890	$12,007,957
Business and other	618,792	131,108	2,210,417	2,960,317
	$724,401	$2,010,566	$12,233,307	$14,968,274

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

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

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

Deposits denominated in U.S. dollars amount to $421,106,000 ($303,593,000 in 2002) and deposits denominated in other foreign currencies amount to $1,573,000 ($43,061,000 in 2002).

10. OTHER LIABILITIES

	2003	2002
Accrued interest payable	**$467,674**	$467,361
Liabilities related to securitized mortgage loans [1]	**47,653**	96,410
Derivative financial instruments related amounts	**94,692**	68,194
Adjustment of sale price of branches (note 2)	**30,561**	–
Accrued benefit liabilities (note 14)	**13,294**	10,975
Accounts payable, accrued expenses and other items (note 15)	**97,610**	73,967
	$751,484	$716,907

(1) Includes deferred gains in the amount of $4,014,000 ($10,475,000 in 2002).

11. SUBORDINATED DEBENTURES

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

Maturity	Series	Interest rate	Special terms	2003	2002
June 2009	7	5.75%	Redeemable at par as of June 2004; rate to be revised in June 2004 and set at the 90-day bankers' acceptance rate plus 1%.	**$100,000**	$100,000
December 2009	8	7.00%	Redeemable at par as of December 2004; rate to be revised in December 2004 and set at the 90-day bankers' acceptance rate plus 1.25%.	**100,000**	100,000
October 2010	6	8.90%	Redeemable at par as of October 2005; rate to be revised in October 2005 and set at the 90-day bankers' acceptance rate plus 1%.	**50,000**	50,000
June 2011	9	6.50%	Redeemable at par as of June 2006; rate to be revised in June 2006 and set at the 90-day bankers' acceptance rate plus 1.25%.	**150,000**	150,000
				$400,000	$400,000

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

2004	**$100,000**
2005	**150,000**
2006	**150,000**
	$400,000

12. CAPITAL STOCK

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

Issued and outstanding as at October 31:	2003		2002	
	Number of shares	**Amount**	Number of shares	Amount
Class A Preferred Shares				
Series 2	**–**	**$ –**	4 000	$ 400
Series 7	**2,000,000**	**50,000**	2,000,000	50,000
Series 8	**2,000,000**	**50,000**	2,000,000	50,000
Series 9	**4,000,000**	**100,000**	4,000,000	100,000
Total preferred shares	**8,000,000**	**200,000**	8,004,000	200,400
Common Shares	**23,435,585**	**246,813**	23,408,603	246,230
Total capital stock		**$446,813**		$446,630

12. CAPITAL STOCK (CONTINUED)

Preferred shares

Terms of shares

The Class A Preferred Shares, Series 2, were entitled to a cumulative dividend at a rate equal to the greater of 7% or 70% of the average daily prime rate. These shares were redeemable at the option of the Bank at a price of $100 per share. The Bank also could purchase the shares for cancellation, on the market or by invitation for tender to all holders at a price per share not exceeding the redemption price applicable plus any related purchase fees.

The Class A Preferred Shares, Series 6, were entitled to a non-cumulative quarterly dividend of $0.547 per share. On or after November 26, 2001, the Bank was able to redeem these shares at a price of $25 each or to convert them into the number of common shares determined by dividing $25 by the greater of $3 or 95% of the weighted average prevailing market price of the common shares at that date. On or after February 26, 2002, each share was convertible, at the option of the holder, into the number of common shares determined by dividing $25 by the greater of $3 or 95% of the weighted average prevailing market price of the common shares at that date; this conversion was subject to the right of the Bank to redeem the shares for cash or to find substitute purchasers.

The Class A Preferred Shares, Series 7 and 8, are entitled to a non-cumulative quarterly dividend of $0.484 per share. Since June 15, 2003, the Bank can redeem these shares at a price of $25 each plus, if the redemption takes place before June 15, 2005, a premium of $1 which will decrease to zero depending on the date of redemption. Moreover, since June 15, 2003, the Bank can convert all or a portion of the Preferred Shares, Series 7 and 8, into a round number of common shares determined by dividing the redemption price then applicable by the greater of $3 or 95% of the weighted average prevailing market price of the common shares at that date. On or after June 15, 2005, each share will be convertible, at the option of the holder, into the number of common shares determined by dividing $25 by the greater of $3 or 95% of the weighted average prevailing market price of the common shares at that date; this conversion will be subject to the right of the Bank to redeem the shares for cash or to find substitute purchasers.

The Class A Preferred Shares, Series 9, are entitled to a non-cumulative quarterly dividend of $0.375 per share. On or after December 15, 2006, the Bank will be able to redeem these shares at a price of $25 each plus, if the redemption takes place before December 15, 2010, a premium of $1 which will decrease to zero depending on the date of redemption. Moreover, the Bank will be able, on or after December 15, 2006, to convert all or a portion of the Preferred Shares, Series 9, into a round number of common shares determined by dividing the redemption price then applicable by the greater of $2.50 or 95% of the weighted average prevailing market price of the common shares at that date.

Redemption of preferred shares

On June 30, 2003, the Bank redeemed all of its Cumulative Class A Preferred Shares, Series 2 at a price of $100 per share, for a consideration of $400,000. The preferred shares so called for redemption ceased to be entitled to dividends from the redemption date.

On November 26, 2001, the Bank redeemed all of its Non-Cumulative Class A Preferred Shares, Series 6 at a price of $25 per share, for an aggregate consideration of $60,000,000. The preferred shares so called for redemption ceased to be entitled to dividends from the redemption date.

Issuance of preferred shares

On November 7, 2001, the Bank issued 4,000,000 Preferred Shares Series 9 at a price of $25 per share, representing total proceeds of $100,000,000. The net proceeds to the Bank amounted to $97,885,000.

Common shares

Issuance of common shares

During the year, 26,982 common shares (540,663 shares in 2002) were issued under the employee share purchase option plan for key employees of the Bank for a cash consideration of $583,000 ($11,990,000 in 2002).

Shareholder Rights Plan

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

13. STOCK-BASED COMPENSATION

Share purchase options

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

The right to exercise the options is acquired gradually over a maximum period of five years and the options can be exercised at all times up to ten years after they have been granted.

As at October 31, 2003, the Bank had reserved 1,600,000 common shares (1,600,000 shares in 2002) for the potential exercise of share purchase options, of which 68,893 (66,843 in 2002) were still available.

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

		2003		2002
	Number of options	**Weighted average exercice price per option**	Number of options	Weighted average exercice price per option
Outstanding, beginning of year	**624,554**	**$26.54**	1,074,353	$24.15
Granted	**–**	**$ –**	100,000	$28.22
Exercised	**(26,982)**	**$21.62**	(540,663)	$22.18
Cancelled	**(2,050)**	**$27.03**	(9,136)	$22.38
Outstanding, end of year	**595,522**	**$26.76**	624,554	$26.54
Exercisable, end of year	**476,848**	**$26.60**	370,891	$26.63

The following table summarizes information relating to share purchase options outstanding and exercisable at October 31, 2003.

			Options outstanding		**Options exercisable**
Range of exercise prices	**Number of options outstanding**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price per option**	**Number of options exercisable**	**Weighted average exercise price per option**
$15.85 – $19.94	**74,234**	**4.90**	**$18.71**	**56,135**	**$18.48**
$21.35 – $25.14	**92,482**	**5.48**	**$22.23**	**89,107**	**$22.15**
$27.08 – $31.80	**428,806**	**5.81**	**$29.13**	**331,606**	**$29.17**
	595,522			**476,848**	

Fair value method

On November 1, 2002, the Bank adopted, on a prospective basis, the CICA's recommendations regarding the recognition of an expense in income for share purchase option awards using the fair value method of accounting. Since the Bank did not award any options in 2003, no expense was recognized.

Other stock-based compensation plans

The Bank offers a stock appreciation rights ("SAR") plan to members of senior management of the Bank and its subsidiaries. These SARs may be settled in consideration of a cash amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs are acquired over a maximum period of five years and can be exercised over a maximum period of ten years. During the year, an expense of $31,000 ($139,000 in 2002) was recorded relating to this plan. As at October 31, 2003, 438,031 SARs (471,663 in 2002) were outstanding at a weighted average exercise price of $25.25 ($25.01 in 2002), of which 286,441 (220,285 in 2002) were exercisable at the end of the year. As at October 31, 2003, the weighted average remaining life of SARs was 5.57 years (6.59 years in 2002).

A deferred share unit plan is also offered to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his remuneration in the form of deferred share units settled in cash. The deferred share units are converted when the holder steps down from the Board of Directors. As at October 31, 2003, there were 13,168 units outstanding with a total value of $365,000 ($380,000 in 2002). The compensation expense recorded during the year, in respect of this plan, was $114,000 ($181,000 in 2002).

13. STOCK-BASED COMPENSATION (CONTINUED)

B2B Trust share purchase option plan

Under a share purchase option plan, B2B Trust grants options to its directors, officers and key employees, as well as to the directors and officers of Laurentian Bank, for the purchase of common shares at prices not less than the market price of such shares immediately prior to the grant date. The right to exercise the options is acquired gradually over a maximum period of four years, and the options can be exercised at all times over a maximum period of ten years after they have been granted. As at October 31, 2003, there were 849,000 options (902,500 in 2002) outstanding at a weighted average exercise price of $8.92 ($8.98 in 2002), of which 252,975 (nil in 2002) could be exercised at year-end. As at October 31, 2003, the weighted average remaining life of the options was 7.7 years (8.6 years in 2002).

During the year, B2B Trust awarded 45,000 options for which an expense of $43,000 was recognized in consolidated income under the CICA's new recommendations.

14. EMPLOYEE FUTURE BENEFITS

The following table provides information about the Bank's employee future benefit plans, including the amounts recorded in the consolidated balance sheet and the components of the net plan expense.

	2003		2002	
	Pension plans	**Other plans**	Pension plans	Other plans
Change in accrued benefit obligation				
Accrued benefit obligation at beginning of year	**$231,628**	**$ 16,403**	$210,109	$ 16,216
Service cost	**6,530**	**127**	6,551	119
Cost of past service	**–**	**–**	5,816	–
Interest cost	**16,502**	**1,055**	15,293	1,043
Benefits paid	**(10,999)**	**(1,040)**	(10,428)	(975)
Plan participant contributions	**3,082**	**–**	3,019	–
Actuarial loss (gain)	**3,217**	**5,925**	(633)	–
Other	**1,635**	**–**	1,901	–
Accrued benefit obligation at end of year	**$251,595**	**$ 22,470**	$231,628	$ 16,403
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	**$184,014**	**$ –**	$198,262	$ –
Actual return on plan assets	**13,097**	**–**	(14,397)	–
Bank's contributions	**6,002**	**–**	7,115	–
Plan participant contributions	**3,082**	**–**	3,019	–
Benefits paid	**(10,334)**	**–**	(9,985)	–
Fair value of plan assets at end of year	**$195,861**	**$ –**	$184,014	$ –
Funded status				
Overfunded (underfunded) status at end of year	**$ (55,734)**	**$(22,470)**	$ (47,614)	$(16,403)
Unrecognized transition obligation	**1,111**	**13,476**	1,375	14,297
Unrecognized cost of past services	**4,710**	**–**	5,362	–
Unrecognized net actuarial loss	**75,932**	**5,925**	70,280	–
Accrued benefit asset (liability) at end of year	**$ 26,019**	**$ (3,069)**	$ 29,403	$ (2,106)
Accrued benefit assets at end of year	**$ 36,244**	**$ –**	$ 38,272	$ –
Accrued benefit liabilities at end of year	**$ 10,225**	**$ 3,069**	$ 8,869	$ 2,106
Weighted average assumptions				
Discount rate	**6.75%**	**6.75%**	7.00%	7.00%
Assumed long-term rate of return on plan assets	**7.75%**	**–**	7.75%	–
Rate of return used to determine plan expense	**7.75%**	**–**	8.00%	–
Rate of increase in future compensation	**3.50%**	**3.50%**	3.50%	3.50%

For valuation purposes of the other plans, the hypothetical average annual growth rate of healthcare costs covered for each participant was set at 10% for medical care and 3.5% for dental care. Based on the assumption adopted, the rate for medical care would be gradually reduced to 5% over a 10-year period.

As at October 31, 2002 and 2003, none of the defined benefit pension plans were fully funded.

	2003		2002	
	Pension plans	**Other plans**	Pension plans	Other plans
Transition obligation				
Transition obligation at beginning of year	**$1,375**	**$14,297**	$1,639	$15,118
Amortization	**(264)**	**(821)**	(264)	(821)
Transition obligation at end of year	**$1,111**	**$13,476**	$1,375	$14,297

Net plan expense components as at October 31:

	2003		2002	
	Pension plans	**Other plans**	Pension plans	Other plans
Service cost	**$ 6,530**	**$ 127**	$ 6,551	$ 119
Interest cost	**16,502**	**1,055**	15,293	1,043
Expected return on plan assets	**(16,786)**	**–**	(17,430)	–
Amortization of transition obligation	**264**	**821**	264	821
Amortization of cost of past service	**652**	**–**	454	–
Defined contribution provision	**2,361**	**–**	2,276	–
Amortization of actuarial loss (gain)	**1,330**	**–**	(12)	–
Other	**1,635**	**–**	401	–
Net plan expense	**$ 12,488**	**$2,003**	$ 7,797	$1,983

Sale of branches to TD Bank

Under the agreement regarding the sale of branches to TD Bank (see note 2), the pension plan of employees affected by the sale were not transferred. The participants are no longer accumulating new benefits, but the accumulated entitlements on the date of sale remain in the plans of the Bank until employment with TD Bank is terminated. At the time of the sale of the branches, the Bank revised its estimates related to the indexation of benefits for these employees, which generated an additional expense of $1,500,000, which was charged against the gain on disposal.

15. RESTRUCTURING COSTS

2003 program

Consolidated income for 2003 includes restructuring costs totalling $21,569,000 ($14,020,000 after taxes). This expense, which is associated with an expense reduction program, includes termination benefits, as well as the write-off of certain computer equipment and software and lease terminations. Certain information system development projects were written off subsequent to the decision to discontinue the project of transforming the Bank into a holding company and to the sale of branches in Ontario and Western Canada. The expenses incurred during the year include the write-off of certain computer equipment and software and lease terminations relating to the following business lines: $8,134,000 ($4,775,000 used as at October 31, 2003) are related to Retail Financial Services; $1,203,000 ($25,000 used as at October 31, 2003) are related to Commercial Financial Services; and $5,962,000 ($4,555,000 used as at October 31, 2003) are related to other segments. The expenses incurred during the year also include human resources expenses relating to the following business lines: $2,593,000 ($1,291,000 used as at October 31, 2003) are related to Retail Financial Services; $906,000 ($187,000 used as at October 31, 2003) are related to Commercial Financial Services; $364,000 ($354,000 used as at October 31, 2003) are related to Wealth Management and Brokerage; and $2,407,000 ($1,275,000 used as at October 31, 2003) are related to other segments. With regard to segmented information, all of these costs were charged to Other (see note 23).

	Costs incurred during the year	Amount used	Balance as at October 31, 2003
Write-off of computer equipment and software and lease terminations	**$15,299**	**$ 9,355**	**$5,944**
Human resources expenses	**6,270**	**3,107**	**3,163**
Total restructuring costs	**$21,569**	**$12,462**	**$9,107**

15. RESTRUCTURING COSTS (CONTINUED)

2001 program

The consolidated statement of income for 2001 included restructuring costs of $17,540,000 ($11,401,000 net of income taxes). These costs included the write-off of certain assets and lease terminations, severance payments and other costs. The reversal during 2003 was in respect of branches in Ontario and Western Canada, for which the Bank had expected to incur restructuring costs. As a result of the selling project initiated in early 2003, the costs were not incurred.

	Balance as at October 31, 2001	Amount used	Net reversal	Balance as at October 31, 2002	**Amount used**	**Reversal**	**Balance as at October 31, 2003**
Write-off of assets and lease terminations	$ 6,398	$4,284	$ 805	$1,309	**$146**	**$ 869**	**$294**
Human resources costs	3,282	3,004	(928)	1,206	**378**	**828**	**–**
Other costs	3,429	2,530	752	147	**–**	**147**	**–**
Total restructuring costs	$13,109	$9,818	$ 629	$2,662	**$524**	**$1,844**	**$294**

16. INCOME TAXES

Future income tax assets

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

	2003	2002
Prospective tax loss deferrals	**$ 13,494**	$ 11,255
Capital assets	**53,266**	53,697
Allowance for loan losses	**27,724**	37,208
Recoverable minimum tax of financial institutions	**33,312**	31,850
Intangible assets	**5,489**	8,893
Deferred charges	**(18,214)**	(19,451)
Other temporary differences	**(5,341)**	(2,252)
Future income tax assets, net	**$109,730**	$121,200

Income tax expense

Significant components of the provision for income taxes are as follows:

	2003	2002
Consolidated statement of income		
Current income tax expense	**$23,168**	$21,575
Future income tax expense		
Tax rate changes	**–**	3,716
Creation and reversal of temporary differences	**15,491**	7,133
	15,491	10,849
	$38,659	$32,424
Consolidated statement of changes in shareholders' equity		
Income taxes on preferred dividends and other		
Current income tax expense	**$ 4,195**	$ 5,635
Future income tax benefit	**(4,021)**	(5,690)
	$ 174	$ (55)

Reconciliation with the statutory rate

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

	2003		2002	
	Amount	**Percent**	Amount	Percent
Income taxes at statutory rate	**$ 46,730**	**34.8%**	$30,901	37.6%
Change resulting from:				
Non-taxable portion of gain on disposal of assets	**(12,269)**	**(9.1)**	–	–
Tax on income from foreign operations	**(1,771)**	**(1.3)**	(1,285)	(1.6)
Large corporations tax	**2,703**	**2.0**	3,139	3.8
Tax rate changes	**–**	**–**	3,716	4.5
Tax benefits previously not recorded	**–**	**–**	(2,000)	(2.4)
Other, net	**3,266**	**2.4**	(2,047)	(2.4)
Income taxes reported in income and effective tax rate	**$ 38,659**	**28.8%**	$32,424	39.5%

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

17. NON-CONTROLLING INTEREST IN A SUBSIDIARY

On June 3, 2003, B2B Trust initiated a normal course issuer bid. The notice provides that B2B Trust intends to purchase up to 1,240,000 of its common shares representing approximately 5% of its 24,844,355 issued and outstanding common shares as at April 30, 2003. The Bank announced that it will not tender any common shares under the bid. Since the beginning of the redemption period, B2B Trust has redeemed 964,500 common shares for a consideration of $6,637,000 and as a result, the Bank has increased its participation in its subsidiary from 74.3% to 77.3%.

18. NET INCOME PER COMMON SHARE

Average number of common shares outstanding is as follows:

	2003	2002
Average number of common shares outstanding	**23,416**	23,095
Stock options	**41**	193
Average number of common shares outstanding after dilution	**23,457**	23,288

The Preferred Shares of Series 6, 7, 8 and 9 are convertible into common shares. These conversions were not taken into account in the calculation of diluted net income per common share because the Bank may settle such conversions in cash rather than common shares and, based on past experience, the Bank opts for a cash settlement.

An average of 404,220 (85,011 in 2002) share purchase options were not taken into account in the calculation of diluted net income per common share since the average exercise price of these options exceeded the average market value of the Bank's shares during the year.

19. RELATED PARTY TRANSACTIONS

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

	2003	2002
Mortgage loans	**$1,131**	$2,740
Other loans	**347**	1,561
	$1,478	$4,301

20. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

The Bank also conducts equity derivative transactions in order to hedge its index-linked deposits.

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

A) REMAINING TERM TO MATURITY

In millions of dollars						2003		2002
	Period to maturity							
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Trading	Other than trading	Trading	Other than trading
Interest rate contracts								
OTC contracts								
Swaps	**$ 6,540**	**$8,144**	**$61**	**$14,745**	**$ –**	**$14,745**	$ –	$ 9,504
Forward rate agreements	**481**	**75**	**–**	**556**	**–**	**556**	–	1,300
Options written	**150**	**–**	**–**	**150**	**–**	**150**	–	600
Exchange-traded contracts								
Futures	**699**	**–**	**–**	**699**	**99**	**600**	302	100
Options purchased	**264**	**–**	**–**	**264**	**264**	**–**	–	–
Foreign exchange contracts								
OTC contracts								
Foreign exchange swaps	**805**	**101**	**–**	**906**	**906**	**–**	1,664	–
Cross-currency interest rate swaps	**–**	**50**	**–**	**50**	**–**	**50**	–	100
Forwards	**436**	**95**	**–**	**531**	**531**	**–**	591	–
Options purchased	**2,339**	**–**	**–**	**2,339**	**–**	**2,339**	–	963
Options written	**2,333**	**–**	**–**	**2,333**	**–**	**2,333**	–	918
Exchange-traded contracts								
Futures	**14**	**–**	**–**	**14**	**14**	**–**	32	–
Other contracts [(1)]	**51**	**145**	**–**	**196**	**–**	**196**	–	193
	$14,112	**$8,610**	**$61**	**$22,783**	**$1,814**	**$20,969**	$2,589	$13,678

(1) Includes over-the-counter equity derivatives.

B) CREDIT EXPOSURE

In millions of dollars			2003			2002
	Replacement cost [1]	Credit equivalent amount [2]	Risk-weighted amount [3]	Replacement cost	Credit equivalent amount	Risk-weighted amount
Interest rate contracts						
Swaps	**$ 92**	**$134**	**$27**	$108	$148	$30
Forward rate agreements	**–**	**–**	**–**	–	2	–
Foreign exchange contracts						
Foreign exchange swaps	**35**	**46**	**11**	8	14	3
Cross-currency interest rate swaps	**–**	**2**	**–**	3	6	1
Forwards	**8**	**16**	**8**	2	11	6
Options purchased	**6**	**28**	**9**	4	13	5
Other contracts [4]	**18**	**32**	**6**	8	23	5
	$159	**$258**	**$61**	$133	$217	$50

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

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

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

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

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

21. FINANCIAL INSTRUMENTS

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

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

21. FINANCIAL INSTRUMENTS (CONTINUED)

A) FAIR VALUE OF ASSETS AND LIABILITIES

In millions of dollars			2003			2002
	Book value	Fair value	Favorable (unfavorable) variance	Book value	Fair value	Favorable (unfavorable) variance
Assets						
Cash resources	$ 835	$ 835	$ –	$ 454	$ 454	$ –
Securities	$ 3,071	$ 3,058	$ (13)	$ 3,050	$ 3,038	$ (12)
Assets purchased under reverse repurchase agreements	$ 882	$ 882	$ –	$ 870	$ 870	$ –
Loans	$11,034	$11,198	$ 164	$13,122	$13,362	$ 240
Customers' liability under acceptances	$ 235	$ 235	$ –	$ 332	$ 332	$ –
Other assets	$ 216	$ 216	$ –	$ 192	$ 192	$ –
Liabilities						
Deposits	$13,293	$13,500	$(207)	$14,968	$15,207	$(239)
Obligations related to assets sold short	$ 970	$ 970	$ –	$ 861	$ 861	$ –
Obligations related to assets sold under repurchase agreements	$ 173	$ 173	$ –	$ 448	$ 448	$ –
Acceptances	$ 235	$ 235	$ –	$ 332	$ 332	$ –
Other liabilities	$ 732	$ 732	$ –	$ 706	$ 706	$ –
Subordinated debentures	$ 400	$ 421	$ (21)	$ 400	$ 427	$ (27)

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

The fair value of securities is based on quoted market prices or, if not available, it is estimated using quoted market prices of similar investments.

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

B) FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

In millions of dollars			2003			2002
	Favorable fair value	Unfavorable fair value	Net amount	Favorable fair value	Unfavorable fair value	Net amount
TRADING ACCOUNT						
Foreign exchange contracts						
Foreign exchange swaps	$ 35	$ (15)	$ 20	$ 8	$ (7)	$ 1
Forwards	8	(31)	(23)	2	(5)	(3)
	43	(46)	(3)	10	(12)	(2)
NON-TRADING ACCOUNT						
Interest rate contracts						
Swaps	92	(106)	(14)	108	(145)	(37)
Forward rate agreements	–	(2)	(2)	–	(3)	(3)
Options written	–	–	–	–	(1)	(1)
	92	(108)	(16)	108	(149)	(41)
Foreign exchange contracts						
Cross-currency interest rate swaps	–	(5)	(5)	3	(8)	(5)
Options purchased	6	–	6	4	–	4
Options written	–	(6)	(6)	–	(3)	(3)
	6	(11)	(5)	7	(11)	(4)
Other contracts (1)	18	–	18	8	(1)	7
	116	(119)	(3)	123	(161)	(38)
TOTAL	$159	$(165)	$ (6)	$133	$(173)	$(40)

(1) Includes over-the-counter equity derivatives.

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

C) INTEREST RATE RISK

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

In millions of dollars — **2003**

	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Non-interest sensitive	Total
Assets								
Cash resources and securities	**$1,235**	**$ 1,118**	**$ 103**	**$ 778**	**$ 414**	**$159**	**$ 99**	**$ 3,906**
Rate	**2.5%**	**2.8%**	**3.0%**	**3.1%**	**3.6%**	**5.3%**	**–**	**2.9%**
Assets purchased under reverse repurchase agreements	**882**	**–**	**–**	**–**	**–**	**–**	**–**	**882**
Rate	**2.8%**	**–**	**–**	**–**	**–**	**–**	**–**	**2.8%**
Loans	**3,494**	**727**	**1,575**	**2,508**	**2,510**	**189**	**31**	**11,034**
Rate	**6.5%**	**6.1%**	**6.2%**	**6.6%**	**6.6%**	**6.9%**	**–**	**6.4%**
Other assets	**241**	**178**	**–**	**–**	**–**	**–**	**497**	**916**
Rate	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**5,852**	**2,023**	**1,678**	**3,286**	**2,924**	**348**	**627**	**16,738**
Rate	**4.8%**	**3.7%**	**6.0%**	**5.7%**	**6.2%**	**6.2%**	**–**	**5.0%**
Liabilities and equity								
Demand and notice deposits	**496**	**74**	**222**	**624**	**624**	**–**	**399**	**2,439**
Rate	**2.8%**	**0.4%**	**0.4%**	**0.5%**	**0.5%**	**–**	**–**	**0.9%**
Term deposits	**–**	**2,106**	**3,638**	**3,356**	**1,752**	**2**	**–**	**10,854**
Rate	**–**	**2.6%**	**3.5%**	**4.9%**	**4.4%**	**3.1%**	**–**	**3.9%**
Other liabilities	**346**	**948**	**406**	**305**	**50**	**25**	**50**	**2,130**
Rate	**0.9%**	**0.1%**	**1.8%**	**3.9%**	**4.5%**	**6.6%**	**–**	**1.3%**
Debentures, non-controlling interest and equity	**–**	**38**	**163**	**300**	**100**	**–**	**714**	**1,315**
Rate	**–**	**7.7%**	**6.5%**	**7.1%**	**6.0%**	**–**	**–**	**3.1%**
Total	**842**	**3,166**	**4,429**	**4,585**	**2,526**	**27**	**1,163**	**16,738**
Rate	**2.0%**	**1.9%**	**3.3%**	**4.4%**	**3.5%**	**6.2%**	**–**	**3.1%**
Swaps, net	**–**	**(3,240)**	**1,962**	**1,085**	**223**	**(30)**	**–**	**–**
Other derivative financial instruments	**–**	**69**	**(14)**	**(24)**	**(31)**	**–**	**–**	**–**
Sensitivity gap	**$5,010**	**$ (4,314)**	**$ (803)**	**$ (238)**	**$ 590**	**$291**	**$(536)**	**$ –**
Cumulative gap	**$5,010**	**$ 696**	**$ (107)**	**$ (345)**	**$ 245**	**$536**	**$ –**	**$ –**

2002

	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Non-interest sensitive	Total
Assets	$6,001	$ 2,260	$ 2,367	$4,108	$2,744	$352	$ 764	$18,596
Rate	4.4%	3.8%	5.9%	6.1%	7.0%	6.6%	–	5.1%
Liabilities and equity	816	3,712	3,788	5,557	3,375	32	1,316	18,596
Rate	1.2%	2.5%	3.3%	4.2%	4.0%	6.6%	–	3.2%
Swaps, net	–	(1,415)	357	597	436	25	–	–
Other derivative financial instruments	–	86	(34)	(52)	–	–	–	–
Sensivity gap	$5,185	$(2,781)	$(1,098)	$ (904)	$ (195)	$345	$(552)	$ –
Cumulative gap	$5,185	$ 2,404	$ 1,306	$ 402	$ 207	$552	$ –	$ –

21. FINANCIAL INSTRUMENTS (CONTINUED)

Assets, liabilities and equity are shown at the earlier of the date of maturity or contractual re-evaluation while taking into consideration reimbursements or estimated prepayments, except for the following:

– Loans and deposits for which the interest rates are not indexed on a specific rate and which can be non-sensitive to changes in market rates are classified based on the historical evolution of their sensitivity.
– Debentures for which interest rates can be revised at a future date are classified at the re-evaluation date; those for which rates cannot be revised are classified at their maturity.
– Preferred shares are classified using the date on which they become redeemable.

D) CONCENTRATION OF CREDIT RISK

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

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

	2003	2002
Quebec	**64%**	53%
Other Canadian provinces	**36%**	47%
Total	**100%**	100%

No single industry segment accounted for more than 3% (3% in 2002) of the total loans and customers' liability under acceptances.

22. COMMITMENTS, CONTINGENCIES AND GUARANTEES

A) CREDIT-RELATED COMMITMENTS

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

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

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

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

	2003	2002
Unutilized credit balances	**$2,485,170**	$2,227,547
Documentary letters of credit	**$ 13,470**	$ 19,958

B) GUARANTEES

i) Standby letters of credit and performance guarantees

In the normal course of its operations, the Bank offers to its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that the client cannot meet its obligations to third parties. The terms of these guarantees vary according to the contracts and normally do not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. No specific provision is currently recorded with regard to these guarantees. The maximum potential amount of future payments under these guarantees totalled $65,445,000 as at October 31, 2003.

ii) Derivative financial instruments

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank uses written options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of a financial instrument at a predetermined price. The term of these options does not exceed 12 months. No specific provision is accounted for with regard to these guarantees. The maximum potential amount of future payments under these guarantees, corresponding to the notional value of outstanding contracts, totalled $862,945,000 as at October 31, 2003.

iii) Director/officer indemnification agreements

The Bank's by-laws include an agreement to indemnify its directors and officers, former directors and officers and individuals who have acted at the Bank's request as a director or officer or liquidator of an entity in which the Bank is a shareholder or creditor. This agreement aims at compensating them, to the extent permitted by law, against any and all charges, costs, expenses, or amounts paid by way of settlement of a claim or damages incurred by the directors and officers as a result of any lawsuit, or any judicial, administrative or investigative proceeding in which the directors and officers could be sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of these indemnification agreements prevents the Bank from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties, and no specific provision has been accounted for in this regard. The Bank has purchased directors' and officers' liability insurance.

iv) Other indemnification agreements

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

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

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

	Premises	Information technology service contracts	Other
2004	$20,816	$ 19,801	$2,718
2005	18,069	20,188	917
2006	15,073	13,543	917
2007	13,492	14,353	917
2008	9,435	15,326	611
Thereafter	15,616	52,439	–
Total	$92,501	$135,650	$6,080

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

22. COMMITMENTS, CONTINGENCIES AND GUARANTEES (CONTINUED)

D) LITIGATION

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

E) PLEDGED ASSETS

Assets with a book value of $260,911,000 ($333,465,000 in 2002) have been pledged as collateral in order to participate in clearing and payment systems. In addition, securities amounting to $173,246,000 ($447,862,000 in 2002) have been sold under repurchase agreements containing collateral recorded as loans.

23. SEGMENTED INFORMATION

As a result of the reorganization of its activities in 2002, the Bank offers its services through four business lines: Retail Financial Services, Commercial Financial Services, B2B Trust and Wealth Management and Brokerage.

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

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

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

Wealth Management and Brokerage consists of the activities of the subsidiary Laurentian Bank Securities Inc. and the Bank’s share of the joint venture BLC-Edmond de Rothschild Asset Management Inc.

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

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

The financial results of Agency Banking, previously included with the B2B Trust segment, are now grouped with those of Retail Financial Services. Comparative figures for 2002 were reclassified to conform to the presentation in 2003.

2003	Retail Financial Services	Commercial Financial Services	B2B Trust	Wealth Management and Brokerage [2]	Other [3]	Total
Net interest income	**$ 274,167**	**$ 62,797**	**$ 46,815**	**$ 1,256**	**$ (41,809)**	**$ 343,226**
Other income	**95,227**	**29,766**	**15,715**	**29,715**	**116,297**	**286,720**
Total revenue	**369,394**	**92,563**	**62,530**	**30,971**	**74,488**	**629,946**
Provision for credit losses	**28,834**	**27,516**	**1,650**	**–**	**(4,000)**	**54,000**
Non-interest expenses	**312,903**	**34,750**	**37,627**	**19,373**	**37,127**	**441,780**
Income before income taxes and non-controlling interest in net income of a subsidiary	**27,657**	**30,297**	**23,253**	**11,598**	**41,361**	**134,166**
Income taxes	**10,853**	**11,958**	**8,631**	**2,865**	**4,352**	**38,659**
Non-controlling interest in net income of a subsidiary	**–**	**–**	**3,640**	**–**	**–**	**3,640**
Net income	**$ 16,804**	**$ 18,339**	**$ 10,982**	**$ 8,733**	**$ 37,009**	**$ 91,867**
Average assets [1]	**$10,986,717**	**$2,693,434**	**$2,637,578**	**$1,367,399**	**$ 862,893**	**$18,548,021**
Average loans [1]	**$10,762,710**	**$2,154,194**	**$2,094,479**	**$ 9**	**$(2,196,895)**	**$12,814,497**
Average deposits [1]	**$10,975,978**	**$ 36,999**	**$2,359,322**	**$ 257**	**$ 1,845,962**	**$15,218,518**
Efficiency ratio [4]	**84.7%**	**37.5%**	**60.2%**	**62.6%**	**n/a**	**70.1%**

2002	Retail Financial Services	Commercial Financial Services	B2B Trust	Wealth Management and Brokerage	Other	Total
Net interest income	$ 295,013	$ 67,424	$ 54,943	$ 194	$ (71,598)	$ 345,976
Other income	100,349	41,496	16,850	23,064	72,684	254,443
Total revenue	395,362	108,920	71,793	23,258	1,086	600,419
Provision for credit losses	27,549	82,701	750	–	–	111,000
Non-interest expenses	298,830	37,252	36,903	21,682	12,666	407,333
Income (loss) before income taxes and non-controlling interest in net income of a subsidiary	68,983	(11,033)	34,140	1,576	(11,580)	82,086
Income taxes (recovery)	27,341	(4,462)	13,476	687	(4,618)	32,424
Non-controlling interest in net income of a subsidiary	–	–	5,318	–	–	5,318
Net income (loss)	$ 41,642	$ (6,571)	$ 15,346	$ 889	$ (6,962)	$ 44,344
Average assets [1]	$11,434,358	$2,999,455	$2,540,482	$1,313,442	$ 282,496	$18,570,233
Average loans [1]	$11,208,360	$2,490,370	$2,154,112	$ 11	$(2,728,594)	$13,124,259
Average deposits [1]	$10,635,542	$ 43,347	$2,260,088	$ 285	$ 2,027,933	$14,967,195
Efficiency ratio [4]	75.6%	34.2%	51.4%	93.2%	n/a	67.8%

(1) Assets and liabilities are disclosed on an average basis as this measure is most relevant to a financial institution.
(2) Includes the pre-tax gain of $8.5 million ($6.7 million net of taxes) on the sale of shares of TSX Group Inc.
(3) Includes the gain on sale of branches of $69.9 million ($54.9 million net of taxes) and restructuring costs of $19.7 million ($12.8 million net of taxes).
(4) Corresponds to non-interest expenses as a percentage of total revenue.