# SECOND
# QUARTER
# 2004

**QUARTERLY REPORT FOR THE PERIOD ENDED APRIL 30, 2004**

LAURENTIAN BANK OF CANADA

## Report to shareholders

### Laurentian Bank of Canada reports net income of $13.3 million for the second quarter of 2004

SUMMARY RESULT

Laurentian Bank of Canada reported net income of $13.3 million or $0.42 diluted per common share for the second quarter ended April 30, 2004, compared to $11.0 million or $0.32 diluted per common share for the same period in 2003. Return on common shareholders' equity was 5.9% for the quarter, compared to 4.9% for the same period in 2003.

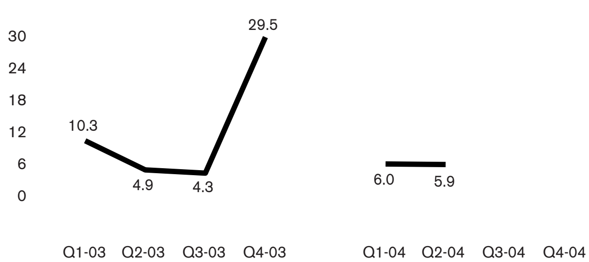
The second quarter 2004 results were similar to the first quarter results, which stood at $13.6 million or $0.43 diluted per common share. Return on common shareholders' equity was 6.0% for that period.

For the first six months of 2004, net income totaled $27.0 million or $0.85 diluted per common share, compared to net income of $30.9 million or $1.02 diluted per common share in 2003. Return on common shareholders' equity was 6.0% for the six-month period ended April 30, 2004, compared to 7.7% for the same period in 2003.

“After the first six months of 2004, we are on target compared to our objectives. We are now focusing on delivering on all aspects of our three-year business plan, particularly with regards to growing our businesses and generating revenue growth. However, it takes time until these measures translate into results and I want to thank all stakeholders, especially clients, employees and shareholders for their continued support,” said Raymond McManus, President and Chief Executive Officer. “Furthermore, a number of initiatives were undertaken during the quarter to increase efficiency and reduce the Bank’s cost structure. The privatization of B2B Trust will help to streamline processes and promote teamwork, while the changes initiated this quarter in our capital structure to take advantage of lower interest rates will have an immediate positive impact on our results.”

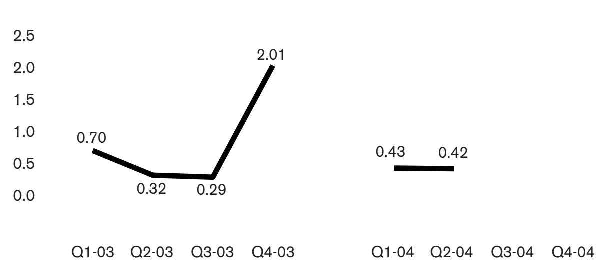
**Return on common shareholders’ equity**

As a percentage




**Diluted net income per common share**

In dollars



# Management discussion and analysis of results of operations and financial condition

## PERFORMANCE AND FINANCIAL OBJECTIVES

Laurentian Bank publishes its Financial Objectives at the beginning of each financial year and then reports actual results quarterly. The Bank's practice is not to provide interim guidance.

Strictly for information purposes, the following table presents the performance compared to objectives that have been set by Management for 2004:

**Performance for 2004**

| | 2004 Objectives | Six-month period ended April 30, 2004 Actual |
|---|---|---|
| Return on common shareholders' equity | 5% | 6% |
| Diluted earnings per share | $1.44 (annual) | $0.85 |
| Total revenue | $503 million (annual) | $244 million |
| Efficiency ratio | 77% | 76.6% |
| Capital ratios | | |
| Tier 1 capital ratio | Minimum of 9.5% | 11.1% |
| Total capital ratio | Minimum of 13.0% | 17.4% |
| Credit quality (loan loss ratio) | 0.22% | 0.25% |

## HIGHLIGHTS

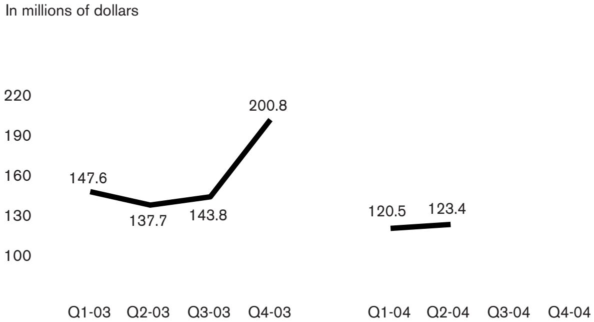
This section presents highlights regarding activities of the second quarter ended April 30, 2004 and details significant items affecting results, when compared to the first quarter of 2004 and the second quarter of 2003.

**Significant items affecting results**

- Total revenue increased to $123.4 million in the second quarter of 2004 compared to $120.5 million in the first quarter of 2004, an increase of $2.9 million. Other income increased by $6.1 million from $50.5 million in the first quarter to $56.6 million in the second quarter, principally due to the pre-tax gain of $4.4 million resulting from the sale of the Ontario and Western Canada Visa loan portfolio in February 2004. Net interest income declined to $66.8 million or 1.66% of average assets in the second quarter of 2004, compared to $70.0 million or 1.69% for the first quarter.
- Non-interest expenses increased slightly by 1.5% to $94.2 million in the second quarter of 2004 from $92.8 million in the first quarter, due to an increase in other expenses.
- The efficiency ratio (expenses divided by total revenue) improved marginally to 76.3% for the second quarter of 2004 compared to 77.0% in the first quarter, as a result of the increase in total revenue.
- The provision for credit losses was $10.5 million in the second quarter of 2004 compared to $9.8 million in the first quarter.
- Income tax expense increased to $4.7 million in the second quarter of 2004 from $3.4 million in the first quarter.
- The variation in results, when compared to the second quarter of 2003, are mainly explained by the significant changes in operations resulting from the sale of the Ontario and Western Canada branches and the implementation of the cost reduction program in the second half of 2003. Also, the reduction in net interest income impacted results negatively. However, this was more than offset by lower credit losses in 2004, since the second quarter 2003 results included

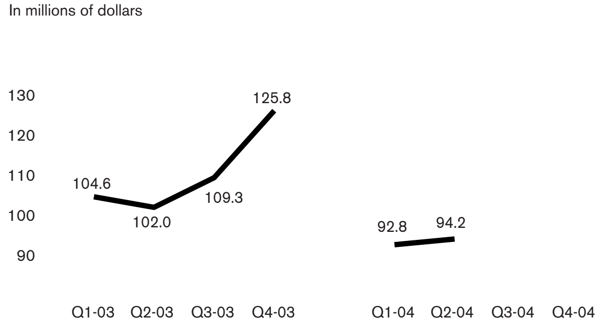
**Total revenue**

In millions of dollars




**Non-interest expenses**

In millions of dollars



a $5 million ($0.13 diluted per common share) charge related to an Air Canada exposure, as well as by a lower effective income tax rate in 2004 of 25.2% compared to 2003, where it stood at 39.5%.

**Other significant events**

– On May 21, 2004, following the proposal by the Bank to take private its 77.3%-owned subsidiary, B2B Trust, the shareholders of B2B Trust approved its privatization. Pursuant to the transaction, all of the outstanding common shares of B2B Trust not owned by the Bank will be acquired for a total consideration of approximately $60 million in cash. This transaction is expected to be completed on June 8, 2004 and will reduce the Bank's Tier I and total capital ratio by approximately 0.6%.
– On April 15, 2004, the Bank completed a public offering of 4.4 million 5.25% Non-Cumulative Class A Preferred Shares Series 10 for an aggregate amount of $110 million. The proceeds of the issue were added to the Bank's general funds and will be used for general business purposes and to fund the redemption of the outstanding 7.75% Non-Cumulative Class A Preferred Shares Series 7 and 8 in the total amount of $102 million in June 2004. The redemption price will include a premium of $0.50 per preferred share for a total of $2 million, which will negatively affect third quarter diluted earnings per share by $0.09. However, the Bank will subsequently benefit from a lower dividend rate on $100 million of preferred shares.
– Furthermore, Laurentian Bank of Canada has announced its intention to redeem its 5.75% Debentures, Series 7, for an aggregate amount of $100 million on June 1, 2004. At this time, the Bank has no plans to reissue this capital.

DETAILED FINANCIAL REVIEW

**Total revenue** was $123.4 million in the second quarter of 2004 compared to $120.5 million in the first quarter of 2004, an increase of $2.9 million. The Bank's net interest income decreased by $3.2 million from $70.0 million in the first quarter of 2004 to $66.8 million in the second quarter of 2004. Other income was $56.6 million in the second quarter of 2004, an increase of $6.1 million compared to the first quarter.

The $3.2 million reduction in net interest income from the first quarter of 2004 to the second quarter was the result of the lower average volume of assets, the compression of the net interest margin from 1.69% to 1.66% and the impact of the shorter quarter (2 days less). The shorter quarter translated into an approximately $1.4 million decrease in revenues. The Bank benefited from improved margins on its fixed rate loan and deposit portfolios resulting from a decrease in rates on recently issued deposit certificates. However, this improvement was offset by lower margins on liquidities.

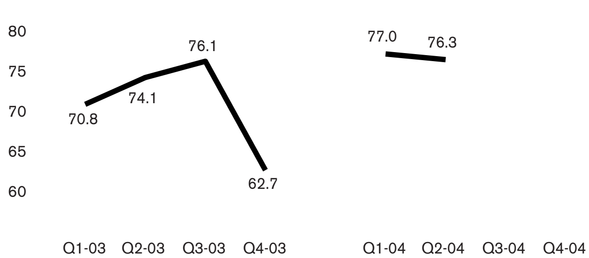
The $6.1 million increase in Other income is principally attributable to the $4.4 million gain on the sale of the Ontario and Western Canada Visa loan portfolio. At $11.4 million, Treasury and financial markets operations were strong, despite the fact that the group recorded losses of approximately $2.4 million related to certain investment account securities. These results also benefited from the increase in securitization revenues following the securitization of $53 million residential mortgage loans during the quarter, which were however partially offset by a decrease in insurance revenues.

Revenues for the second quarter of 2003 stood at $137.7 million. The year-over-year decrease is mainly attributable to the lost revenue stream from the Ontario and Western Canada branches and to a lesser extent by reduced spreads on liquidities which both have caused net interest margins to decline to 1.66% in the second quarter of 2004 from 1.86% in the same quarter of 2003.

The **provision for credit losses** was $10.5 million or 0.26% of average assets in the second quarter of 2004, compared to $9.8 million or 0.24% of average assets during the first quarter of 2004. The relatively stable level of provision reflects the improvement in the quality of the loan portfolio over the last 24 months, as problems with certain commercial loan exposures have been resolved.

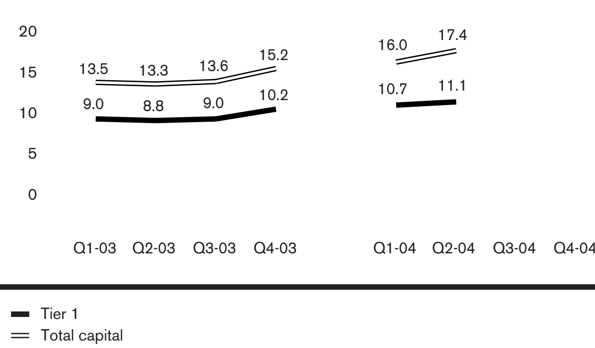
**Efficiency ratio**

Non-interest expenses as a percentage of total revenue




**BIS Capital Ratio**

As a percentage



The provision for credit losses for the second quarter of 2003 stood at $16.0 million and included a $5.0 million provision ($0.13 diluted per common share) related to the Bank's Air Canada exposure.

Net impaired loans decreased during the quarter to $1.6 million (0.0% of total loans, bankers' acceptances and assets purchased under reverse repurchase agreements) from $10.5 million (0.1%) at January 31, 2004 and $22.0 million (0.2%) at October 31, 2003. Net impaired commercial loans decreased by $6.3 million over the last three months and $27.8 million since October 31, 2003 as the Bank focused on the final resolution of certain accounts. Net impaired loans related to the personal loan portfolio increased by $1.1 million during the quarter mainly as a result of the growth in volumes. Gross impaired loans also decreased significantly to $138.4 million at April 30, 2004, compared to $185.2 million at October 31, 2003. The Bank's general provision remained unchanged at $77.3 million at April 30, 2004 compared to January 31, 2004 and year-end 2003. See Note 2 to the Interim Consolidated Financial Statements for more details.

**Non-interest expenses** increased by 1.5% to $94.2 million for the second quarter of 2004, compared to $92.8 million for the first quarter of 2004. The increase mainly results from higher fees incurred in relation with the RRSP campaign and various other items. When compared to the second quarter of 2003, non-interest expenses decreased by $7.8 million from $102.0 million, reflecting the sale of the Ontario and Western Canada branches, the Bank's cost reduction program and other efficiency initiatives.

The efficiency ratio (expenses divided by total revenue) was 76.3% in the second quarter of 2004, compared to 77.0% in the first quarter of 2004. The improvement is mainly derived from revenue growth, since expenses also increased slightly during the quarter. The negative variation in the efficiency ratio of 2.2%, when compared to the second quarter of 2003, where it stood at 74.1%, reflects the impact of the sale of the Ontario and Western Canada branches. The number of employees (full time equivalent basis) decreased slightly to 3,167 at April 30, 2004 compared to 3,182 at January 31, 2004, while it stood at 3,738 a year ago.

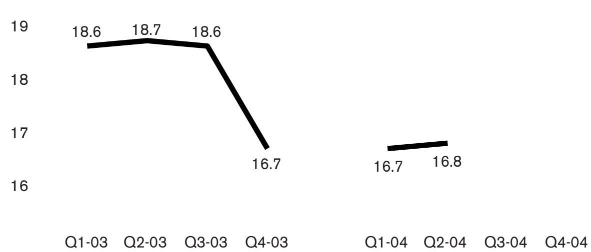
**Income tax expense** was $4.7 million (25.2% effective tax rate) in the second quarter of 2004 compared to $3.4 million (18.7% effective tax rate) in the first quarter of 2004. Lower income taxes on the gain on sale of the Visa loan portfolio improved the Bank's effective taxation rate by 3.7% in the second quarter. The lower effective rate in the first quarter of 2004 reflects the impact of the one-time gain of $1.7 million in future tax assets resulting from the increase in Ontario income tax rates. Excluding these favorable items, the effective tax rate would have been 28.1% and 28.9% in the first and second quarters of 2004 respectively. The effective tax rate in the second quarter of 2003 was 39.5%, reflecting among other things the higher tax rates applied to revenues earned by the Ontario and Western Canada branches.

**Balance sheet assets** stood at $16.8 billion at April 30, 2004, compared to $16.7 billion at October 31, 2003. Liquidities, including assets purchased under reverse repurchase agreements and securities were stable at $4.8 billion or 29% of total assets at April 30, 2004, the same level as at year-end 2003, providing the Bank with flexibility to support its growth initiatives.

The portfolio of loans and bankers' acceptances remained stable at $11.3 billion at April 30, 2004, compared to $11.4 billion at October 31, 2003. Residential mortgages, which stood at $5.3 billion, increased by $45 million compared to year-end 2003 or $98 million, before the securitization of $53 million of mortgage loans. Commercial loans have declined by $70 million and commercial mortgages by $67 million since October 2003, as a result of the persisting lower demand for commercial credit. The decrease in personal loans of $53 million since year-end 2003 resulted from the reduction of point-of-sale loans as a result of the modification in pricing and commissioning strategies and the sale of the Ontario and Western Canada Visa loan portfolio in the amount of $28 million.

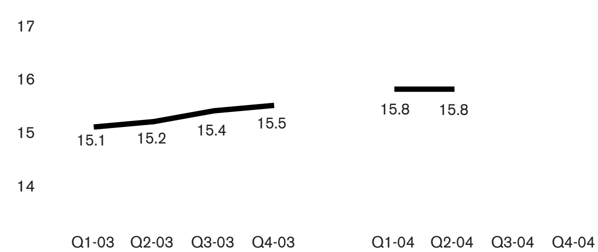
**Balance sheet assets**

In billions of dollars




**Assets under administration**

In billions of dollars



Since January 2004, total loans, excluding the impact of the sale of the Visa loan portfolio and the securitization of mortgage loans, have increased by $125 million, which points to the early success of recent strategic initiatives.

Total personal deposits decreased slightly since year-end 2003 to $10.4 billion at April 30, 2004 from $10.5 billion at October 31, 2003. The decrease resulted essentially from a decline in fixed term deposits sourced through brokers, where the Bank's cost of funds is significantly higher. At the same time, demand and notice deposits grew by $69 million. A key element of the Bank's 3-year plan is to modify its portfolio mix to decrease its reliance on fixed term deposits and to increase its client base. Personal deposits increased to 84% of total deposits of $12.4 billion at April 30, 2004 compared to 79% at October 31, 2003. The increase results from lower levels of business and other deposits, as the Bank accessed other sources of funding for its short-term treasury needs.

**Total capital** of the Bank, comprised of common shareholders' equity, preferred shares, non-controlling interest and debentures, reached $1,431 million at April 30, 2004, compared to $1,315 million at October 31, 2003, an increase of $116 million over the period. The variation results mainly from the public offering of 4.4 million 5.25% Non-Cumulative Class A Preferred Shares Series 10 in the aggregate amount of $110 million. Since the Bank expects to redeem, during the third quarter, the 7.75% Non-Cumulative Class A Preferred Shares Series 7 and 8 in the amount of $102 million, including a $2 million redemption premium, the level of Tier 1 capital will return to year-end 2003 levels. The Bank also announced its intention to redeem the 5.75% Debentures, Series 7, in the amount of $100 million in June 2004. The Bank does not plan to reissue new capital at this time since its management believes that its strong capital position, after giving effect to these transactions, is sufficient to support its 3-year plan.

Common shareholders' equity increased to $678 million at April 30, 2004 from $673 million at October 31, 2003. There were 23,482,013 common shares outstanding as at April 30, 2004 and the Bank's book value per common share increased to $28.89 from $28.73 at year-end 2003.

The BIS Tier 1 and Total capital ratios increased to 11.1% and 17.4%, respectively, from 10.2% and 15.2% at October 31, 2003, mainly as a result of the issuance of the preferred shares as discussed above. On a pro forma basis, the BIS Tier 1 and Total capital ratios would have been 10.3% and 14.3% respectively, considering the redemptions of the preferred shares, the debentures and the privatization of B2B Trust. These ratios compare favourably with other Canadian banks. Tangible common equity (common equity less goodwill and other intangibles) to risk-weighted assets ratio improved to 8.3% from 7.8% at October 31, 2003.

At its meeting on May 27, 2004, considering the satisfactory results as well as the sound financial condition of the Bank as evidenced by its capital ratios, the Board of Directors declared regular dividends on the various series of preferred shares to shareholders of record on June 10, 2004, as well as a dividend of $0.29 per common share, payable on August 1, 2004 to shareholders of record on July 2, 2004.

**Assets under administration** stood at $15.8 billion at April 30, 2004 compared to $15.5 billion at October 31, 2003 and $15.2 billion at April 30, 2003. The variation mainly results from the increase in market value of assets.

## SEGMENTED INFORMATION

In the second quarter of 2004, the Retail Financial Services line of business, which accounted for 49% of net income, sustained its level of profitability, compared to the first quarter of 2004 and the same period last year. The other lines of business also contributed positively to results, helping the Bank maintain its overall profitability.

**Net income contributions**

| In millions of dollars | Retail Financial Services | Commercial Financial Services | B2B Trust | Wealth Management and Brokerage | Other | Total (1) |
|---|---|---|---|---|---|---|
| **Q2-2004** | | | | | | |
| Net income | 7.6 | 4.7 | 2.3 | 1.0 | (2.3) | 13.3 |
| | 49% | 30% | 15% | 6% | n/a | 100% |
| **Q1-2004** | | | | | | |
| Net income | 7.5 | 6.7 | 3.3 | 1.2 | (5.1) | 13.6 |
| | 40% | 35% | 18% | 7% | n/a | 100% |
| **Q2-2003** | | | | | | |
| Net income | 5.6 | 4.4 | 2.7 | 0.3 | (2.0) | 11.0 |
| | 43% | 34% | 21% | 2% | n/a | 100% |

(1) Percentage net income contribution from the four lines of business, not including the Other sector.

### Retail Financial Services

The Retail Financial Services business line contribution for the first two quarters of 2004 were very similar. Net income rose slightly from $7.5 million to $7.6 million in the second quarter of 2004, while the efficiency ratio slipped 0.9% to 81.0% in the second quarter of 2004 from 80.1% in the first quarter of 2004. Results for the second quarter of 2004 include a $2.4 million portion of the gain on sale of the Ontario and Western Canada Visa loan portfolio.

At $49 million, residential mortgage loan growth was encouraging for the quarter. It also reflected the strong employee commitment, the focused work by our retail network, the positive effects of the Entrepreneurship model and the Bank's new marketing campaign. This growth momentum positions the Bank well for the upcoming summer mortgage season.

The quarter was also marked by the excellent results of the Bank's RRSP campaign, which exceeded last year's results by 20%. Retail deposits raised during this period are an important source of funding for the Bank.

A year ago, the Retail Financial Services business line contributed $5.6 million to net income, which included the results from the Ontario and Western Canada branches sold in the fourth quarter of 2003. In 2004, this line of business improved its contribution mainly as a result of the gain on the sale of the Ontario and Western Canada Visa loan portfolio, as well as reductions in loan losses and income taxes.

The Retail Financial Services group is focused on revenue growth. During the quarter, a number of initiatives were undertaken to rejuvenate the branch network and enhance client relationships. These measures were developed to ensure sustainable and profitable operations and are based on the strategies presented in the three-year plan:

- *The Deployment of the Entrepreneurship project*
- *The New Laurentian Bank Signature*
- *The Optimization of branch network*
- *The Retailer approach*

- With the deployment of the *Entrepreneurship* project, the Bank has clearly manifested its intention to stand out, particularly by getting closer to its clientele. It is truly as part of this quest to enhance its branch network that the Bank is implementing the Espresso pilot project: an entirely new concept that will be tested beginning in July in a branch located in the Outremont borough of Montreal. The idea of operating a branch in conjunction with a café-bistro specialist is an innovative concept that stands out from all other approaches currently used in the banking sector. By teaming up with a Quebec leader in café-bistros – Café bistro Van Houtte – the Bank is aiming to get closer to its clientele, attract new customers and stand out dynamically as an avant-garde player.
- Based on in-depth market studies and the analysis of demographic and geographical data, the decision to open three new branches bearing the new Laurentian Bank Signature was reached during the quarter. These branches will be located in Gatineau, as well as in Blainville and Mascouche, growing suburbs located just north of Montreal. Other branches will be opened in the near future based on site identification results.
- In March 2004, the Bank and IBM Canada have announced a $14 million agreement to expand and improve the Bank's automated banking machine (ABM) network to support its plans to grow and optimize its branch network. Under the agreement, 200 state-of-the-art ABMs from Wincor Nixdorf will be installed throughout Quebec. Using the latest technologies, these bank machines will enable the Bank to instantly offer new banking services to its personal and commercial customers on an on demand basis. These machines respond faster to customer prompts for services as well as providing information updates about the Bank's promotions and services instantly on their screens.

– In April 2004, the Bank teamed up with the TVA network, part of Quebecor Media, as the principal sponsor of a new reality T.V. show « Pour le meilleur et pour le pire », *"For better or worse"*. The show is focused on 4 couples that are planning to get married, competing in various challenging situations. The show, which will air in September 2004, will enhance the Bank's profile in its markets.

**Commercial Financial Services**

Net income was $4.7 million in the second quarter of 2004, compared to $6.7 million for the first quarter of 2004. Revenues decreased slightly to $22.7 million, as a result of lower net interest revenues resulting from lower loan volumes. Loan losses increased by $1.7 million to $6.1 million during the quarter, reflecting the resolution of certain commercial loans. This however has contributed to reduce certain exposures, as reflected by the reduction in net impaired loans.

Net income amounted to $4.4 million a year ago, including the impact of the $5.0 million ($3.3 million net of income taxes) loan loss on the Bank's Air Canada exposure. The decrease in profitability, excluding the impact of the Air Canada loan loss, results from the decline in revenues related to the lower loan volumes.

During the quarter, the Bank initiated an in-depth strategic review of the Commercial Financial Services activities. The Bank is committed to significantly increase the volume of quality commercial loans in Quebec and Ontario and real estate loans throughout Canada. Last year, the Bank completed its strategic review of the Retail Financial Services line of business.

Also, the Commercial Financial Services line of business launched its new ad campaign, targeted to both the mid-market and agricultural clients. This initiative will be followed by others later this year, upon the completion of the strategic review.

**B2B Trust**

As previously mentioned, the Bank announced its decision to take B2B Trust private. This decision does not modify the strategy of B2B Trust and its commitment to its non-bank financial partners and customers. B2B Trust will continue its efforts to develop its consumer loan business, while growing its investment loan offering. In this regard, B2B Trust unveiled a new product in April, the *100% Accelerator Loan*, which offers investors and their financial advisors a streamlined process whereby loan applications, underwriting and processing are simplified, and funds are made available usually within 24 hours. By keeping abreast of clients' needs and market developments, B2B Trust is maintaining its position as a market leader in investment lending.

The B2B Trust line of business reported a slight decrease in earnings in the second quarter of 2004 with net income of $2.3 million, compared to $2.7 million for the same period in 2003. Results for the first quarter of 2004 were $3.3 million and included a one-time favorable adjustment of $1.0 million in future income tax assets resulting from the increase in Ontario income tax rate.

Revenues were relatively stable at $14.7 million, compared to $15.0 million in the first quarter and $15.4 million a year ago. Compression in net interest margins was responsible for the slight decrease, as fee-based other revenues increased to $4.3 million for the second quarter of 2004 from $4.2 million for the first quarter and $3.9 million for the second quarter of 2003. Expenses were also stable over the periods. The efficiency ratio stood at 65.2% for the second quarter of 2004, compared to 62.5% for the first quarter of 2004 and 60.4% in the second quarter of 2003.

The increase in the provision for credit losses to $0.6 million in the first and second quarter of 2004, compared to $0.4 million in the second quarter of 2003, is attributable to the 45% growth in the line of credit business being developed, as credit quality of the investment loan portfolio remained sound. B2B Trust is closely monitoring the evolution of its personal line of credit portfolio to ensure profitable growth.

**Wealth Management and Brokerage**

The Wealth Management and Brokerage line of business reported net income of $1.0 million in the second quarter of 2004, compared to $1.2 million in the first quarter of 2004 and $0.3 million for the second quarter of 2003.

Laurentian Bank Securities (LBS) has substantially improved its contribution to results in 2004. For the second straight quarter, net income reached the $1.0 million threshold, which is a significant improvement over the contribution for the same period last year. Total revenues amounted to $5.5 million in the second quarter, compared to $5.9 million in the first quarter of 2004 and $4.0 million in the second quarter of 2003. LBS operates in two lines of business: it has a leading fixed income division and retail brokerage activities. Both divisions are now contributing positively to results.

The BLC-Edmond de Rothschild Asset Management (BLC-EdR) joint venture reported break-even results again in the second quarter. Management fees increased by 45% from $2.0 million ($1.0 million – 50% participation) in the second quarter of 2003 to $2.9 million ($1.5 million – 50% participation) in the second quarter of 2004. Mutual funds under management increased significantly primarily as a result of a 14% increase in net sales since year-end 2003, while the industry showed a 3% increase. This positive sales performance, combined with strong equity markets helped BLC-EdR increase its level of assets under management by 9% since October 31, 2003 to $1.7 billion. BLC-EdR manages portfolios for its retail mutual funds and its private and institutional money management divisions.

**Other sector**
The improved performance from the Other sector mainly results from the $2.0 million portion of the gain on sale of the Visa loan portfolio and securitization activities which generated revenues of $1.7 million.

## CORPORATE GOVERNANCE

The Board of Directors and the Audit Committee of Laurentian Bank reviewed this report prior to its publication. The disclosure controls and procedures of Laurentian Bank support the ability of the President and Chief Executive Officer and the Senior Executive Vice-President and Chief Financial Officer of Laurentian Bank to assure that Laurentian Bank's Interim Consolidated Financial Statements are fairly presented.

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

**Raymond McManus**
President and
Chief Executive Officer

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

**This report and related communications may contain forward-looking statements, including statements regarding the business and anticipated financial performance of Laurentian Bank. These statements are subject to a number of risks and uncertainties. Actual results may differ from results contemplated by the forward-looking statements. Such differences may be caused by factors which include, among others, global capital market activity, changes in government monetary and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, competition and technological change. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and should not place undue reliance on such forward-looking statements. The Laurentian Bank does not undertake to update any forward-looking statements, oral or written, made by itself or on its behalf.**

# Financial highlights

| In millions of dollars, except per share amounts (unaudited) | Q2-04 | Q2-03 | Percentage variation Q2-04/Q2-03 | For the six-month periods ended April 30 2004 | April 30 2003 | Percentage variation 2004/2003 |
|---|---|---|---|---|---|---|
| **Earnings** | | | | | | |
| Net income | **$13.3** | $11.0 | 20.9 % | **$ 27.0** | $ 30.9 | (12.6)% |
| Net income available to common shareholders | **$ 9.9** | $ 7.6 | 30.3 % | **$ 20.0** | $ 23.9 | (16.3)% |
| Return on common shareholders' equity | **5.9 %** | 4.9 % | | **6.0 %** | 7.7 % | |
| **Per common share** | | | | | | |
| Net income | | | | | | |
| Basic | **$0.42** | $0.32 | 31.3 % | **$ 0.85** | $ 1.02 | (16.7)% |
| Diluted | **$0.42** | $0.32 | 31.3 % | **$ 0.85** | $ 1.02 | (16.7)% |
| Dividends | **$0.29** | $0.29 | – % | **$ 0.58** | $ 0.58 | – % |
| Book value | | | | **$ 28.89** | $ 27.01 | 7.0 % |
| Share price – close | | | | **$ 27.67** | $ 27.00 | 2.5 % |
| **Financial position** | | | | | | |
| Balance sheet assets | | | | **$16,757** | $18,677 | (10.3)% |
| Assets under administration | | | | **$15,781** | $15,176 | 4.0 % |
| Loans, bankers' acceptances and assets purchased under reverse repurchase agreements, net | | | | **$12,160** | $14,050 | (13.5)% |
| Personal deposits | | | | **$10,378** | $12,159 | (14.6)% |
| Shareholders' equity, non-controlling interest in a subsidiary and debentures | | | | **$ 1,431** | $ 1,281 | 11.7 % |
| Number of common shares (in thousands) | | | | **23,482** | 23,412 | 0.3 % |
| Net impaired loans (as a % of loans, bankers' acceptances and assets purchased under reverse repurchase agreements) | | | | **– %** | 0.1 % | |
| Risk-weighted assets | | | | **$ 8,093** | $ 9,432 | (14.2)% |
| **Capital ratios** | | | | | | |
| Tier I BIS | | | | **11.1 %** | 8.8 % | |
| Total BIS capital | | | | **17.4 %** | 13.3 % | |
| Balance sheet assets to BIS capital ratio | | | | **11.9 x** | 15.0 x | |
| Tangible common equity as a percentage of risk-weighted assets | | | | **8.3 %** | 6.7 % | |
| **FINANCIAL RATIOS** | | | | | | |
| **Per common share** | | | | | | |
| Price/earnings ratio (trailing four quarters) | | | | **8.8 x** | 11.6 x | |
| Market to book value | | | | **96 %** | 100 % | |
| Dividend yield | **4.19 %** | 4.30 % | | **4.19 %** | 4.30 % | |
| Dividend payout ratio | **68.7 %** | 89.8 % | | **68.0 %** | 56.8 % | |
| **As a percentage of average assets** | | | | | | |
| Net interest income | **1.66 %** | 1.86 % | | **1.67 %** | 1.87 % | |
| Provision for credit losses | **0.26 %** | 0.35 % | | **0.25 %** | 0.29 % | |
| Net income | **0.33 %** | 0.24 % | | **0.33 %** | 0.34 % | |
| Net income available to common shareholders | **0.25 %** | 0.17 % | | **0.24 %** | 0.26 % | |
| **Profitability** | | | | | | |
| Other income (as a % of total revenue) | **45.9 %** | 38.6 % | | **43.9 %** | 39.6 % | |
| Efficiency ratio (non-interest expenses as a % of total revenue) | **76.3 %** | 74.1 % | | **76.6 %** | 72.4 % | |
| **OTHER INFORMATION** | | | | | | |
| Number of full-time equivalent employees | | | | 3,167 | 3,738 | |
| Number of branches | | | | 154 | 213 | |
| Number of automated banking machines | | | | 281 | 348 | |

# Consolidated statement of income

| In thousands of dollars, except per share amounts (unaudited) | For the three-month periods ended April 30 2004 | January 31 2004 | April 30 2003 | For the six-month periods ended April 30 2004 | April 30 2003 |
|---|---|---|---|---|---|
| **Interest income** | | | | | |
| Loans | **$171,224** | $180,329 | $211,675 | **$351,553** | $430,338 |
| Securities | **11,271** | 19,370 | 21,589 | **30,641** | 41,064 |
| Deposits with other financial institutions | **2,601** | 2,651 | 2,489 | **5,252** | 4,432 |
| | **185,096** | 202,350 | 235,753 | **387,446** | 475,834 |
| **Interest expense** | | | | | |
| Deposits and other liabilities | **111,523** | 125,384 | 144,372 | **236,907** | 289,849 |
| Subordinated debentures | **6,814** | 6,987 | 6,765 | **13,801** | 13,757 |
| | **118,337** | 132,371 | 151,137 | **250,708** | 303,606 |
| **Net interest income** | **66,759** | 69,979 | 84,616 | **136,738** | 172,228 |
| **Provision for credit losses** (note 2) | **10,500** | 9,750 | 16,000 | **20,250** | 27,000 |
| | **56,259** | 60,229 | 68,616 | **116,488** | 145,228 |
| **Other income** | | | | | |
| Fees and commissions on loans and deposits | **22,830** | 22,214 | 26,204 | **45,044** | 51,311 |
| Revenues from treasury and financial market operations | **11,391** | 12,706 | 11,865 | **24,097** | 24,681 |
| Commissions from brokerage operations | **5,128** | 5,456 | 3,583 | **10,584** | 8,454 |
| Revenues from registered self-directed plans | **3,326** | 3,051 | 3,242 | **6,377** | 6,342 |
| Revenues from sale and management of mutual funds | **3,582** | 2,982 | 2,555 | **6,564** | 5,280 |
| Insurance revenues | **1,591** | 1,825 | 1,946 | **3,416** | 3,645 |
| Securitization revenues | **1,713** | 267 | 607 | **1,980** | 1,632 |
| Other | **7,082** | 2,001 | 3,087 | **9,083** | 11,754 |
| | **56,643** | 50,502 | 53,089 | **107,145** | 113,099 |
| | **112,902** | 110,731 | 121,705 | **223,633** | 258,327 |
| **Non-interest expenses** | | | | | |
| Salaries and employee benefits | **45,844** | 46,138 | 47,883 | **91,982** | 99,115 |
| Premises and technology | **26,998** | 26,334 | 31,759 | **53,332** | 63,151 |
| Other | **21,324** | 20,294 | 22,381 | **41,618** | 44,333 |
| | **94,166** | 92,766 | 102,023 | **186,932** | 206,599 |
| **Income before income taxes and non-controlling interest in net income of a subsidiary** | **18,736** | 17,965 | 19,682 | **36,701** | 51,728 |
| Income taxes | **4,719** | 3,354 | 7,781 | **8,073** | 18,845 |
| **Income before non-controlling interest in net income of a subsidiary** | **14,017** | 14,611 | 11,901 | **28,628** | 32,883 |
| Non-controlling interest in net income of a subsidiary | **677** | 979 | 920 | **1,656** | 1,996 |
| **Net income** | **$ 13,340** | $ 13,632 | $ 10,981 | **$ 26,972** | $ 30,887 |
| | | | | | |
| Preferred share dividends, including applicable income taxes | **3,431** | 3,527 | 3,422 | **6,958** | 6,980 |
| Net income available to common shareholders | **$ 9,909** | $ 10,105 | $ 7,559 | **$ 20,014** | $ 23,907 |
| | | | | | |
| Average number of common shares (in thousands) | **23,481** | 23,457 | 23,412 | **23,469** | 23,411 |
| Average number of common shares after dilution (in thousands) | **23,519** | 23,501 | 23,453 | **23,510** | 23,456 |
| Net income per common share | | | | | |
| Basic | **$ 0.42** | $ 0.43 | $ 0.32 | **$ 0.85** | $ 1.02 |
| Diluted | **$ 0.42** | $ 0.43 | $ 0.32 | **$ 0.85** | $ 1.02 |

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

# Consolidated balance sheet

| In thousands of dollars (unaudited) | April 30 2004 | October 31 2003 | April 30 2003 |
|---|---|---|---|
| **ASSETS** | | | |
| **Cash resources** | | | |
| Cash and due from other financial institutions without interest | **$ 47,479** | $ 100,001 | $ 79,173 |
| Interest-bearing deposits with other financial institutions | **534,589** | 622,923 | 433,285 |
| Cheques and other items in transit, net | **106,849** | 111,809 | 35,913 |
| | **688,917** | 834,733 | 548,371 |
| **Securities** | | | |
| Investment account | **2,218,059** | 2,064,301 | 2,397,407 |
| Trading account | **913,167** | 1,006,575 | 925,455 |
| | **3,131,226** | 3,070,876 | 3,322,862 |
| **Assets purchased under reverse repurchase agreements** | **1,010,062** | 882,036 | 623,294 |
| **Loans** (notes 2 and 3) | | | |
| Personal | **3,592,635** | 3,646,070 | 3,963,897 |
| Residential mortgages | **5,319,501** | 5,274,128 | 6,658,372 |
| Commercial mortgages | **638,299** | 705,101 | 875,933 |
| Commercial and other | **1,534,266** | 1,571,491 | 1,837,577 |
| | **11,084,701** | 11,196,790 | 13,335,779 |
| Allowance for loan losses | **(136,795)** | (163,177) | (210,424) |
| | **10,947,906** | 11,033,613 | 13,125,355 |
| **Other** | | | |
| Customers' liability under acceptances | **202,415** | 235,286 | 300,879 |
| Capital assets | **103,508** | 114,479 | 143,238 |
| Goodwill | **54,029** | 54,029 | 54,029 |
| Other assets | **618,886** | 512,716 | 559,218 |
| | **978,838** | 916,510 | 1,057,364 |
| | **$16,756,949** | $16,737,768 | $18,677,246 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Deposits** | | | |
| Personal | **$10,378,196** | $10,508,592 | $12,159,192 |
| Business and other | **2,030,771** | 2,784,357 | 2,548,518 |
| | **12,408,967** | 13,292,949 | 14,707,710 |
| **Other** | | | |
| Obligations related to assets sold short | **1,182,465** | 969,663 | 1,003,149 |
| Obligations related to assets sold under repurchase agreements | **684,276** | 173,246 | 636,677 |
| Acceptances | **202,415** | 235,286 | 300,879 |
| Other liabilities | **847,604** | 751,484 | 747,833 |
| | **2,916,760** | 2,129,679 | 2,688,538 |
| **Subordinated debentures** | **400,000** | 400,000 | 400,000 |
| **Non-controlling interest in a subsidiary** | **42,745** | 41,827 | 48,226 |
| **Shareholders' equity** | | | |
| Capital stock (note 4) | | | |
| Preferred shares | **310,000** | 200,000 | 200,400 |
| Common shares | **247,845** | 246,813 | 246,305 |
| Retained earnings | **430,632** | 426,500 | 386,067 |
| | **988,477** | 873,313 | 832,772 |
| | **$16,756,949** | $16,737,768 | $18,677,246 |

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

# Consolidated statement of changes in shareholders' equity

| In thousands of dollars (unaudited) | For the six-month periods ended April 30 2004 | April 30 2003 |
|---|---|---|
| **CAPITAL STOCK** (note 4) | | |
| **Preferred shares** | | |
| Balance at beginning of period | **$200,000** | $200,400 |
| Issued during the period | **110,000** | – |
| Balance at end of period | **310,000** | 200,400 |
| **Common shares** | | |
| Balance at beginning of period | **246,813** | 246,230 |
| Issued during the period | **1,032** | 75 |
| Balance at end of period | **247,845** | 246,305 |
| **RETAINED EARNINGS** | | |
| Balance at beginning of period | **426,500** | 375,740 |
| Net income | **26,972** | 30,887 |
| Dividends | | |
| Preferred shares, including applicable income taxes | **(6,958)** | (6,980) |
| Common shares | **(13,618)** | (13,580) |
| Preferred share issue costs, net of income taxes | **(2,264)** | – |
| Balance at end of period | **430,632** | 386,067 |
| **TOTAL SHAREHOLDERS' EQUITY** | **$988,477** | $832,772 |

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

# Consolidated statement of cash flows

| In thousands of dollars (unaudited) | April 30 2004 | For the three-month periods ended January 31 2004 | April 30 2003 | For the six-month periods ended April 30 2004 | April 30 2003 |
|---|---|---|---|---|---|
| **Cash flows relating to operating activities** | | | | | |
| Net income | **$ 13,340** | $ 13,632 | $ 10,981 | **$ 26,972** | $ 30,887 |
| Adjustments to determine net cash flows relating to operating activities: | | | | | |
| Provision for credit losses | **10,500** | 9,750 | 16,000 | **20,250** | 27,000 |
| Gains on securitization operations | **(1,270)** | – | – | **(1,270)** | (1,859) |
| Net loss (gain) on disposal of capital assets | **520** | (280) | 46 | **240** | 2,491 |
| Gain on sale of a loan portfolio (note 2) | **(4,435)** | – | – | **(4,435)** | – |
| Net gains on sale of securities held for investment | **(5,823)** | (7,048) | (1,724) | **(12,871)** | (11,877) |
| Future income tax expense (recovery) | **(100)** | (1,222) | 2,906 | **(1,322)** | 6,997 |
| Depreciation and amortization | **9,534** | 9,599 | 10,813 | **19,133** | 20,823 |
| Net change in trading securities | **108,469** | (15,061) | (170,983) | **93,408** | 40,017 |
| Change in accrued interest receivable | **880** | 5,732 | (16,043) | **6,612** | (5,910) |
| Decrease (increase) in unrealized gains and amounts receivable on derivative financial instruments | **39,560** | (155,740) | (11,720) | **(116,180)** | (24,463) |
| Change in accrued interest payable | **(49,613)** | 51,418 | (17,989) | **1,805** | 13,413 |
| Decrease (increase) in unrealized losses and amounts payable on derivative financial instruments | **(29,877)** | 129,520 | 17,969 | **99,643** | 21,379 |
| Other, net | **3,683** | (364) | 15,095 | **3,319** | 16,242 |
| | **95,368** | 39,936 | (144,649) | **135,304** | 135,140 |
| **Cash flows relating to financing activities** | | | | | |
| Net change in deposits | **(85,486)** | (798,496) | (411,500) | **(883,982)** | (260,564) |
| Net change in obligations related to assets sold short | **(507,419)** | 720,221 | 202,820 | **212,802** | 142,129 |
| Net change in obligations related to assets sold under repurchase agreements | **611,490** | (100,460) | 291,190 | **511,030** | 188,815 |
| Issuance of preferred shares, net of issue costs (note 4) | **106,682** | – | – | **106,682** | – |
| Issuance of common shares, net of issue costs (note 4) | **56** | 976 | – | **1,032** | 75 |
| Dividends, including applicable income taxes | **(10,621)** | (10,715) | (10,659) | **(21,336)** | (21,455) |
| | **114,702** | (188,474) | 71,851 | **(73,772)** | 49,000 |
| **Cash flows relating to investing activities** | | | | | |
| Net proceeds from the sale of a loan portfolio (note 2) | **32,216** | – | – | **32,216** | – |
| Net cash flows related to an acquisition of net assets | **–** | – | – | **–** | (28,427) |
| Net change in interest-bearing deposits with other financial institutions | **(149,473)** | 237,807 | (320,914) | **88,334** | (168,313) |
| Acquisitions of securities held for investment | **(8,574,119)** | (5,376,982) | (6,329,560) | **(13,951,101)** | (15,427,717) |
| Maturities of securities held for investment | **2,774** | 24,298 | 18,002 | **27,072** | 18,002 |
| Proceeds from sales of securities held for investment | **8,111,773** | 5,671,369 | 6,551,030 | **13,783,142** | 15,108,770 |
| Net change in loans | **(182,701)** | 167,377 | (141,821) | **(15,324)** | (41,781) |
| Net change in assets purchased under reverse repurchase agreements | **325,062** | (453,088) | 138,390 | **(128,026)** | 246,536 |
| Proceeds from mortgage loan securitizations (note 3) | **52,634** | – | – | **52,634** | 39,836 |
| Acquisitions of capital assets | **(8,557)** | (2,254) | (11,623) | **(10,811)** | (12,317) |
| Proceeds from disposal of capital assets | **30** | 2,820 | 728 | **2,850** | 7,658 |
| | **(390,361)** | 271,347 | (95,768) | **(119,014)** | (257,753) |
| Net change in cash and cash equivalents | **(180,291)** | 122,809 | (168,566) | **(57,482)** | (73,613) |
| Cash and cash equivalents at beginning of period | **334,619** | 211,810 | 283,652 | **211,810** | 188,699 |
| **Cash and cash equivalents at end of period** | **$154,328** | $334,619 | $115,086 | **$154,328** | $115,086 |
| Cash and cash equivalents are detailed as follows: | | | | | |
| Cash and due from other financial institutions without interest | **$ 47,479** | $ 89,185 | $ 79,173 | **$ 47,479** | $ 79,173 |
| Cheques and other items in transit, net | **106,849** | 245,434 | 35,913 | **106,849** | 35,913 |
| | **$154,328** | $334,619 | $115,086 | **$154,328** | $115,086 |
| **Supplemental disclosure relating to cash flows:** | | | | | |
| Interest paid during the period | **$164,198** | $ 82,035 | $171,018 | **$246,233** | $296,379 |
| Income taxes paid during the period | **$ 5,561** | $ 10,915 | $ 11,012 | **$ 16,476** | $ 14,425 |

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

# Notes to consolidated financial statements
(unaudited)

## 1. ACCOUNTING POLICIES

The unaudited interim consolidated financial statements of Laurentian Bank of Canada have been prepared by management, which is responsible for the integrity and fairness of the financial information presented. These interim consolidated financial statements 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 interim consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP) for interim financial statements. Accordingly, they do not reflect all of the information and disclosures required by GAAP for complete financial statements. The significant accounting policies used in the preparation of these interim consolidated financial statements, including the accounting requirements of the Superintendent, are the same as those in the Bank's annual consolidated audited financial statements as at October 31, 2003, except as described below. These accounting policies conform, in all material respects, to GAAP. These interim consolidated financial statements should be read in conjunction with those annual consolidated audited financial statements. These interim consolidated financial statements reflect amounts, which must, of necessity, be based on the best estimates and judgement of management with appropriate consideration as to materiality. Actual results may differ from these estimates. Certain comparative figures have been reclassified to conform to the current year presentation.

### DERIVATIVE FINANCIAL INSTRUMENTS

On November 1, 2003, the Bank adopted the Canadian Institute of Chartered Accountants' (CICA) Accounting Guideline no. 13 "Hedging Relationships" (AcG-13) and Emerging Issues Committee Abstract no. 128 "Accounting for trading, speculative or non-hedging derivative financial instruments" (EIC-128). This guideline establishes certain qualifying conditions for the use of hedge accounting, which are more stringent and formalized than previous standards.

Derivatives are primarily used to manage the Bank's exposure to interest rate and currency risks. Derivatives are also used in trading activities or to serve the needs of customers.

Derivatives used to manage interest rate risks are accounted for using the accrual method. Under this method, interest income or expense on these derivative instruments is accrued and included in interest income or expense in the consolidated statements of income and reported in other assets or other liabilities on the consolidated balance sheet.

When derivatives are used to manage its own exposure, the Bank determines for each derivative whether hedge accounting can be applied. If hedge accounting can be applied, a hedge relationship is designated as a fair value hedge or a cash flow hedge. The hedge is documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the specific asset or liability being hedged, the risk that is being hedged, the type of derivative used and the method of measuring its effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge.

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

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

Non-trading derivatives that do not qualify for hedge accounting are carried at fair value in other assets or liabilities, on a gross basis, with changes in fair value recorded in other income. These non-trading derivatives are still eligible for designation in future hedging relationships. Upon a designation, any previously recorded fair value on the Consolidated balance sheet is amortized to other income over the remaining life of the derivative.

When used in trading activities or to serve the needs of customers, the realized and unrealized gains and losses on derivatives are recognized in other income. Unrealized gains and losses are reported on a gross basis in other assets or liabilities.

Market values are determined using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors.

Margin requirements are also included in other assets.

As a result of applying this guidance, as at November 1, 2003, other assets and deferred gains were increased by $108,810,000, of which $19,087,000 relates to derivative financial instruments still qualifying for hedge accounting. In addition, other liabilities and deferred losses were increased by $102,553,000, of which $4,434,000 relates to derivative financial instruments still qualifying for hedge accounting. Under the new guidance transition rules, the net deferred losses related to the derivative financial instruments no longer qualifying for hedge accounting as at November 1, 2003 amounted to $8,396,000. These deferred losses are recognized in earnings over the remaining term of the hedging items.

## GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

In July 2003, the CICA issued Handbook section 1100, “Generally Accepted Accounting Principles”. This section establishes standards for financial reporting in accordance with GAAP, and provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures when a matter is not dealt with explicitly in the primary sources of GAAP. The initial adoption of the new section, on a prospective basis, on November 1, 2003 did not have any significant impact on the Bank’s consolidated financial statements. However, the Bank is presently pursuing its analysis of the impact of the new section and, upon the completion of the analysis, certain balance sheet items, which have historically been presented on a net basis according to the Canadian banking industry practice, may be reclassified and presented on a gross basis.

## FUTURE CHANGES TO ACCOUNTING POLICIES

### Liabilities and equity presentation

In November 2003, the Accounting Standards Board approved a modification to the CICA Section 3860 “Financial Instruments – Disclosure and Presentation”, to require that obligations that can be settled at the issuer’s option, by a variable number of the issuer’s own equity instruments be presented as liabilities. The implication of the proposed revision is that securities issued by the Bank that give the unrestricted right to settle the principal amount in cash or in the equivalent value of its own equity instruments will no longer be presented as equity. The recommendations will be applied retroactively for all years beginning on or after November 1, 2004. The application of this modification is not expected to have a material impact on the Bank’s consolidated financial statements.

# 2. LOANS

## (A) LOANS AND IMPAIRED LOANS

**As at April 30, 2004**

| In thousands of dollars | **Gross amount of loans** | **Gross amount of impaired loans** | **Specific allowances** | **General allowances** | **Total allowances** |
|---|---|---|---|---|---|
| Personal loans | **$ 3,592,635** | **$ 21,115** | **$ 7,440** | **$19,449** | **$ 26,889** |
| Residential mortgages | **5,319,501** | **11,936** | **3,356** | **5,048** | **8,404** |
| Commercial mortgages | **638,299** | **11,773** | **4,378** | **5,043** | **9,421** |
| Commercial loans and other | **1,534,266** | **93,612** | **44,371** | **25,486** | **69,857** |
| Unallocated general allowance | **–** | **–** | **–** | **22,224** | **22,224** |
| | **$11,084,701** | **$138,436** | **$ 59,545** | **$77,250** | **$136,795** |

As at October 31, 2003

| In thousands of dollars | 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 |

As at April 30, 2003

| In thousands of dollars | Gross amount of loans | Gross amount of impaired loans | Specific allowances | General allowances | Total allowances |
|---|---|---|---|---|---|
| Personal loans | $ 3,963,897 | $ 25,579 | $ 9,047 | $21,161 | $ 30,208 |
| Residential mortgages | 6,658,372 | 10,966 | 4,357 | 6,911 | 11,268 |
| Commercial mortgages | 875,933 | 16,560 | 9,690 | 9,292 | 18,982 |
| Commercial loans and other | 1,837,577 | 174,633 | 101,580 | 24,755 | 126,335 |
| Unallocated general allowance | – | – | – | 23,631 | 23,631 |
| | $13,335,779 | $227,738 | $124,674 | $85,750 | $210,424 |

## (B) SPECIFIC ALLOWANCES FOR LOAN LOSSES

For the six-month periods ended April 30

| | | | | | **2004** | 2003 |
|---|---|---|---|---|---|---|
| In thousands of dollars | **Personal loans** | **Residential mortgages** | **Commercial mortgages** | **Commercial loans and other** | **Total specific allowances** | Total specific allowances |
| Balance at beginning of period | **$9,311** | **$3,741** | **$6,048** | **$66,827** | **$85,927** | $132,381 |
| Provision for credit losses recorded in the consolidated statement of income | **8,997** | **689** | **674** | **9,890** | **20,250** | 27,000 |
| Write-offs | **(12,646)** | **(1,241)** | **(2,358)** | **(32,725)** | **(48,970)** | (36,636) |
| Recoveries | **1,778** | **167** | **14** | **379** | **2,338** | 1,929 |
| Balance at end of period | **$7,440** | **$3,356** | **$4,378** | **$44,371** | **$59,545** | $124,674 |

### (C) GENERAL ALLOWANCES FOR LOAN LOSSES

For the six-month periods ended April 30

| In thousands of dollars | Personal loans | Residential mortgages | Commercial mortgages | Commercial loans and other | Unallocated general allowance | 2004 Total general allowances | 2003 Total general allowances |
|---|---|---|---|---|---|---|---|
| Balance at beginning of period | **$19,715** | **$5,611** | **$7,561** | **$20,167** | **$24,196** | **$77,250** | $85,500 |
| Change during the period | **(266)** | **(563)** | **(2,518)** | **5,319** | **(1,972)** | **–** | – |
| Allowance for loan losses resulting from an acquisition | **–** | **–** | **–** | **–** | **–** | **–** | 250 |
| Balance at end of period | **$19,449** | **$5,048** | **$5,043** | **$25,486** | **$22,224** | **$77,250** | $85,750 |

### (D) DISPOSAL OF A CREDIT CARD LOAN PORTFOLIO

On February 2, 2004, the Bank sold its $27,891,000 Ontario and Western Canada credit card loan portfolio and related contract rights. The sale price, paid in cash on February 2, 2004, amounted to approximately $32,216,000, for a gain of $4,435,000, net of related closing and conversion fees.

## 3. LOAN SECURITIZATION

During the quarter, the Bank securitized residential mortgages insured by the Canadian Mortgage and Housing Corporation (CMHC) in the amount of $52,890,000 through the creation of mortgage-backed securities. The Bank subsequently sold such mortgage-backed securities. As part of this transaction, the Bank received total proceeds of $52,634,000 and recognized a gain on sale net of transaction costs, of $1,270,000 in other income. The Bank also retained rights to excess interest earned on these securitized mortgage loans, for an estimated $3,179,000.

The total principal amount of securitized loans totalled $784,448,000 as at April 30, 2004 ($940,513,000 as at October 31, 2003).

## 4. CAPITAL STOCK

**Issuance of preferred shares**

On April 15, 2004, the Bank issued 4,400,000 Preferred Shares Series 10 at a price of $25 per share, for an aggregate amount of $110,000,000, entitling the holders to a non-cumulative preferential quarterly dividend of $0.328 per share. On or after June 15, 2009, the Bank will be able to redeem these shares at a price of $25 each plus, if the redemption takes place before June 15, 2013, a premium of $1 which will decrease to zero depending on the date of redemption. Moreover, the Bank will be able, on or after June 15, 2009, to convert all or a portion of the Preferred Shares, Series 10, 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. Net proceeds totalling $106,682,000 (net of issue costs) were added to the Bank's general funds in order to be used for general purposes as well as to pay for the planned redemption of the outstanding Class A Preferred Shares, Series 7 and 8 in the amount of $102,000,000 (see note 7).

**4. CAPITAL STOCK (CONTINUED)**

**Issuance of common shares**

During the second quarter of 2004, 2,618 common shares were issued under the management share purchase option plan for a total cash consideration of $56,000.

During the first quarter of 2004, 43,810 common shares were issued under the management share purchase option plan for a total cash consideration of $976,000.

| **Issued and outstanding** | **As at April 30, 2004** | | As at October 31, 2003 | |
|---|---|---|---|---|
| In thousands of dollars, except number of shares | **Number of shares** | **Amount** | Number of shares | Amount |
| Class A Preferred Shares (1) | | | | |
| 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 |
| Series 10 | **4,400,000** | **110,000** | – | – |
| Total preferred shares | **12,400,000** | **310,000** | 8,000,000 | 200,000 |
| Common Shares | **23,482,013** | **247,845** | 23,435,585 | 246,813 |
| Total capital stock | | **$557,845** | | $446,813 |

(1) The preferred shares are convertible into common shares. However, the number of shares issuable on conversion is not determinable until the date of conversion.

| | **As at April 30, 2004** | As at October 31, 2003 |
|---|---|---|
| | **Number** | Number |
| Share purchase options | | |
| Outstanding, end of period | **549,036** | 595,522 |
| Exercisable, end of period | **449,711** | 476,848 |

## 5. RESTRUCTURING COSTS

The following table shows the changes in restructuring costs during the three-month periods ended April 30, 2004 and January 31, 2004. The restructuring costs balance is included in other liabilities in the consolidated balance sheet.

**2003 program**

| In thousands of dollars | **Write-off of computer equipment and software and lease terminations** | **Human resources expenses** | **Total restructuring costs** |
|---|---|---|---|
| Balance as at October 31, 2003 | **$5,944** | **$3,163** | **$9,107** |
| Amount utilized during the three-month period ended January 31, 2004 | | | |
| Retail Financial Services | **1,830** | **642** | **2,472** |
| Commercial Financial Services | **134** | **387** | **521** |
| Other segments | **638** | **498** | **1,136** |
| Balance as at January 31, 2004 | **$3,342** | **$1,636** | **$4,978** |
| Amount utilized during the three-month period ended April 30, 2004 | | | |
| Retail Financial Services | **–** | **355** | **355** |
| Commercial Financial Services | **121** | **26** | **147** |
| Other segments | **191** | **132** | **323** |
| Balance as at April 30, 2004 | **$3,030** | **$1,123** | **$4,153** |

# 6. COSTS RELATED TO THE TRANSFER OF ACTIVITIES AND OTHER COSTS

As at October 31, 2003, there was a provision of $11,783,000, at the time of the sale of branches, related to the transfer of activities and other costs due to the sale of the Ontario and Western Canada branches, of which $1,839,000 was utilized at that time. During the six-month period ended April 30, 2004, the amount utilized totalled $2,929,000 ($2,045,000 during the three-month period ended April 30, 2004). The balance will be incurred upon the completion of the transfer of the activities.

# 7. SUBSEQUENT EVENTS

**B2B Trust going-private transaction**

On May 21, 2004, B2B Trust shareholders approved the amalgamation between a wholly owned subsidiary of Laurentian Bank and B2B Trust at a special meeting of shareholders. As part of this amalgamation, the Bank will acquire all of the outstanding common shares of B2B Trust not owned by Laurentian Bank at a price of $9.50 per common share in cash, representing a total consideration of approximately $60,366,000. Before the amalgamation, which is expected to close on June 8, 2004, the Bank will own 74.8% of B2B Trust common shares taking into account the exercised options issued in accordance with B2B Trust's stock option plan.

B2B Trust's board of directors established a committee comprised of all its independent directors to consider the proposed transaction. The independent committee determined that the transaction is fair and in the best interest of the minority shareholders of B2B Trust.

The purchase method of accounting will be used to account for the acquisition of the B2B Trust non-controlling interest.

**Redemption of preferred shares**

On April 27, 2004, the Bank announced that it will redeem on June 16, 2004 all of its Non-Cumulative Class A Preferred Shares, Series 7 and 8. Such preferred shares will be redeemed at a redemption price of $25.50 per share, for a total consideration of $102,000,000, including a redemption premium, together with declared and unpaid dividends to the redemption date. These preferred shares called for redemption shall, from and after the redemption date, cease to be entitled to dividends.

**Redemption of debentures**

On April 27, 2004, the Bank announced that it will exercise its right to redeem on June 1, 2004 all of its 5.75% Debentures, Series 7, due 2009, of an aggregate principal amount of $100,000,000. The redemption price of the Series 7 Debentures shall be equal to the principal amount thereof, together with accrued and unpaid interest to but excluding the date of redemption. The interest on Series 7 Debentures shall cease to accrue from and after the redemption date. The series 7 Debentures redeemed will be cancelled forthwith.

# 8. SEGMENTED INFORMATION

For the three-month period ended
**April 30, 2004**

| In thousands of dollars | RFS | CFS | B2B | WMB | Other | Total |
|---|---|---|---|---|---|---|
| Net interest income (1) | $ 58,144 | $ 14,293 | $ 10,420 | $ 333 | $ (16,431) | $ 66,759 |
| Other income | 23,536 | 8,454 | 4,251 | 6,617 | 13,785 | 56,643 |
| Total revenue | 81,680 | 22,747 | 14,671 | 6,950 | (2,646) | 123,402 |
| Provision for credit losses | 3,793 | 6,077 | 630 | – | – | 10,500 |
| Non-interest expenses | 66,125 | 9,352 | 9,560 | 5,439 | 3,690 | 94,166 |
| Income (loss) before income taxes and non-controlling interest in net income of a subsidiary | 11,762 | 7,318 | 4,481 | 1,511 | (6,336) | 18,736 |
| Income taxes (recovery) | 4,074 | 2,619 | 1,507 | 519 | (4,000) | 4,719 |
| Non-controlling interest in net income of a subsidiary | – | – | 677 | – | – | 677 |
| Net income (loss) | $ 7,688 | $ 4,699 | $ 2,297 | $ 992 | $ (2,336) | $ 13,340 |
| Average assets (2) | $8,261,976 | $2,372,764 | $2,588,525 | $1,533,702 | $ 1,622,870 | $16,379,837 |
| Average loans (2) | $8,075,479 | $1,918,150 | $1,919,507 | $ 9 | $(1,337,839) | $10,575,306 |
| Average deposits (2) | $9,152,820 | $ 81,657 | $2,289,302 | $ 187 | $ 1,183,180 | $12,707,146 |
| Efficiency ratio (3) | 81.0% | 41.1% | 65.2% | 78.3% | n/a | 76.3% |

**8. SEGMENTED INFORMATION (CONTINUED)**

For the three-month period ended January 31, 2004

| In thousands of dollars | RFS | CFS | B2B | WMB | Other | Total |
|---|---|---|---|---|---|---|
| Net interest income [1] | $ 60,415 | $ 14,736 | $ 10,755 | $ 341 | $ (16,268) | $ 69,979 |
| Other income | 21,173 | 8,331 | 4,232 | 6,792 | 9,974 | 50,502 |
| Total revenue | 81,588 | 23,067 | 14,987 | 7,133 | (6,294) | 120,481 |
| Provision for credit losses | 4,720 | 4,400 | 630 | – | – | 9,750 |
| Non-interest expenses | 65,337 | 8,607 | 9,367 | 5,281 | 4,174 | 92,766 |
| Income (loss) before income taxes and non-controlling interest in net income of a subsidiary | 11,531 | 10,060 | 4,990 | 1,852 | (10,468) | 17,965 |
| Income taxes (recovery) | 4,028 | 3,417 | 683 | 627 | (5,401) | 3,354 |
| Non-controlling interest in net income of a subsidiary | – | – | 979 | – | – | 979 |
| Net income (loss) | $ 7,503 | $ 6,643 | $ 3,328 | $ 1,225 | $ (5,067) | $ 13,632 |
| Average assets [2] | $ 8,373,584 | $2,440,058 | $2,640,343 | $1,357,296 | $ 1,680,952 | $16,492,233 |
| Average loans [2] | $ 8,170,656 | $1,969,199 | $1,948,727 | $ 8 | $(1,405,119) | $10,683,471 |
| Average deposits [2] | $ 9,179,203 | $ 86,216 | $2,345,559 | $ 265 | $ 1,418,873 | $13,030,116 |
| Efficiency ratio [3] | 80.1% | 37.3% | 62.5% | 74.0% | n/a | 77.0% |

For the three-month period ended April 30, 2003

| In thousands of dollars | RFS | CFS [4] | B2B | WMB | Other | Total |
|---|---|---|---|---|---|---|
| Net interest income | $ 68,150 | $ 15,454 | $ 11,506 | $ 346 | $ (10,840) | $ 84,616 |
| Other income | 23,909 | 9,140 | 3,902 | 4,668 | 11,470 | 53,089 |
| Total revenue | 92,059 | 24,594 | 15,408 | 5,014 | 630 | 137,705 |
| Provision for credit losses | 6,975 | 8,579 | 446 | – | – | 16,000 |
| Non-interest expenses | 75,839 | 8,735 | 9,312 | 4,535 | 3,602 | 102,023 |
| Income (loss) before income taxes and non-controlling interest in net income of a subsidiary | 9,245 | 7,280 | 5,650 | 479 | (2,972) | 19,682 |
| Income taxes (recovery) | 3,624 | 2,839 | 2,077 | 166 | (925) | 7,781 |
| Non-controlling interest in net income of a subsidiary | – | – | 920 | – | – | 920 |
| Net income (loss) | $ 5,621 | $ 4,441 | $ 2,653 | $ 313 | $ (2,047) | $ 10,981 |
| Average assets [2] | $11,007,386 | $2,739,069 | $2,640,624 | $1,447,715 | $ 793,560 | $18,628,354 |
| Average loans [2] | $10,781,614 | $2,178,532 | $2,145,059 | $ 13 | $(2,304,365) | $12,800,853 |
| Average deposits [2] | $10,923,500 | $ 27,833 | $2,359,820 | $ 255 | $ 1,895,684 | $15,207,092 |
| Efficiency ratio [3] | 82.4% | 35.5% | 60.4% | 90.5% | n/a | 74.1% |

For the six-month period ended

**April 30, 2004**

| In thousands of dollars | RFS | CFS | B2B | WMB | Other | Total |
|---|---|---|---|---|---|---|
| Net interest income [1] | **$ 118,559** | **$ 29,029** | **$ 21,175** | **$ 674** | **$ (32,699)** | **$ 136,738** |
| Other income | **44,709** | **16,785** | **8,483** | **13,409** | **23,759** | **107,145** |
| Total revenue | **163,268** | **45,814** | **29,658** | **14,083** | **(8,940)** | **243,883** |
| Provision for credit losses | **8,513** | **10,477** | **1,260** | **–** | **–** | **20,250** |
| Non-interest expenses | **131,462** | **17,959** | **18,927** | **10,720** | **7,864** | **186,932** |
| Income (loss) before income taxes and non-controlling interest in net income of a subsidiary | **23,293** | **17,378** | **9,471** | **3,363** | **(16,804)** | **36,701** |
| Income taxes (recovery) | **8,102** | **6,036** | **2,190** | **1,146** | **(9,401)** | **8,073** |
| Non-controlling interest in net income of a subsidiary | **–** | **–** | **1,656** | **–** | **–** | **1,656** |
| Net income (loss) | **$ 15,191** | **$ 11,342** | **$ 5,625** | **$ 2,217** | **$ (7,403)** | **$ 26,972** |
| Average assets [2] | **$ 8,318,393** | **$2,406,781** | **$2,614,719** | **$1,444,530** | **$ 1,652,230** | **$16,436,653** |
| Average loans [2] | **$ 8,123,590** | **$1,943,955** | **$1,934,278** | **$ 8** | **$(1,371,849)** | **$10,629,982** |
| Average deposits [2] | **$ 9,166,156** | **$ 83,962** | **$2,317,740** | **$ 226** | **$ 1,302,322** | **$12,870,406** |
| Efficiency ratio [3] | **80.5%** | **39.2%** | **63.8%** | **76.1%** | **n/a** | **76.6%** |

For the six-month period ended

April 30, 2003

| In thousands of dollars | RFS | CFS [4] | B2B | WMB [5] | Other | Total |
|---|---|---|---|---|---|---|
| Net interest income | $ 139,757 | $ 32,236 | $ 23,830 | $ 644 | $ (24,239) | $ 172,228 |
| Other income | 47,318 | 15,478 | 7,801 | 19,013 | 23,489 | 113,099 |
| Total revenue | 187,075 | 47,714 | 31,631 | 19,657 | (750) | 285,327 |
| Provision for credit losses | 14,050 | 12,191 | 759 | – | – | 27,000 |
| Non-interest expenses | 151,730 | 16,882 | 18,572 | 9,687 | 9,728 | 206,599 |
| Income (loss) before income taxes and non-controlling interest in net income of a subsidiary | 21,295 | 18,641 | 12,300 | 9,970 | (10,478) | 51,728 |
| Income taxes (recovery) | 8,366 | 7,316 | 4,545 | 2,298 | (3,680) | 18,845 |
| Non-controlling interest in net income of a subsidiary | – | – | 1,996 | – | – | 1,996 |
| Net income (loss) | $ 12,929 | $ 11,325 | $ 5,759 | $ 7,672 | $ (6,798) | $ 30,887 |
| Average assets [2] | $11,071,466 | $2,783,922 | $2,645,475 | $1,458,183 | $ 578,335 | $18,537,381 |
| Average loans [2] | $10,826,842 | $2,219,978 | $2,161,143 | $ 9 | $(2,468,573) | $12,739,399 |
| Average deposits [2] | $10,910,903 | $ 29,852 | $2,362,039 | $ 254 | $ 1,928,729 | $15,231,777 |
| Efficiency ratio [3] | 81.1% | 35.4% | 58.7% | 49.3% | n/a | 72.4% |

RFS – 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.

CFS – 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.

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

WMB – 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.

Other – 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.

(1) In 2004, the Bank reviewed its internal transfer pricing assumptions and modified net interest margin allocation between segments.

(2) Assets and liabilities are disclosed on an average basis as this measure is most relevant to a financial institution.

(3) Corresponds to non-interest expenses as a percentage of total revenue.

(4) Includes the provision for loan losses of $5.0 million ($3.3 million net of taxes) related to the exposure to Air Canada.

(5) Includes the gain of $8.5 million ($6.7 million net of taxes) on the sale of shares of TSX Group Inc.

## Shareholder information

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**Investors and analysts**
Investors and analysts may contact the Investor Relations Department at Head Office by calling (514) 284-4500 ext. 5916.

**Media**
Journalists may contact the Public Affairs and Communications Department at Head Office by calling (514) 284-4500 ext. 7511.

**Change of address and inquiries**
Shareholders should notify the Transfer Agent of a change of address. Inquiries or requests may be directed to the Secretary's Office at Head Office or by calling (514) 284-4500 ext. 7545.

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### Stock symbol and dividend payment

| The common and preferred shares indicated below are listed on the Toronto Stock Exchange. | Stock Symbol Code CUSIP | Dividend Record Date* | Dividend Payment Date* |
|---|---|---|---|
| Common shares | 51925D 10 6 LB | First business day of: | First business day of: |
| | | January | February |
| | | April | May |
| | | July | August |
| | | October | November |
| Preferred shares | | | |
| Series 7 | 51925D 70 0 LB.PR.B | ** | March 15 |
| Series 8 | 51925D 80 9 LB.PR.C | ** | June 15 |
| Series 9 | 51925D 87 4 LB.PR.D | *** | September 15 |
| Series 10 | 51925D 86 6 LB.PR.E | *** | December 15 |

* Subject to the approval of the Board of Directors.
** On such day (which shall not be more than 50 days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Board of Directors of the Bank.
*** On such day (which shall not be more than 30 days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Board of Directors of the Bank.

LAURENTIAN BANK
OF CANADA