Annual Report

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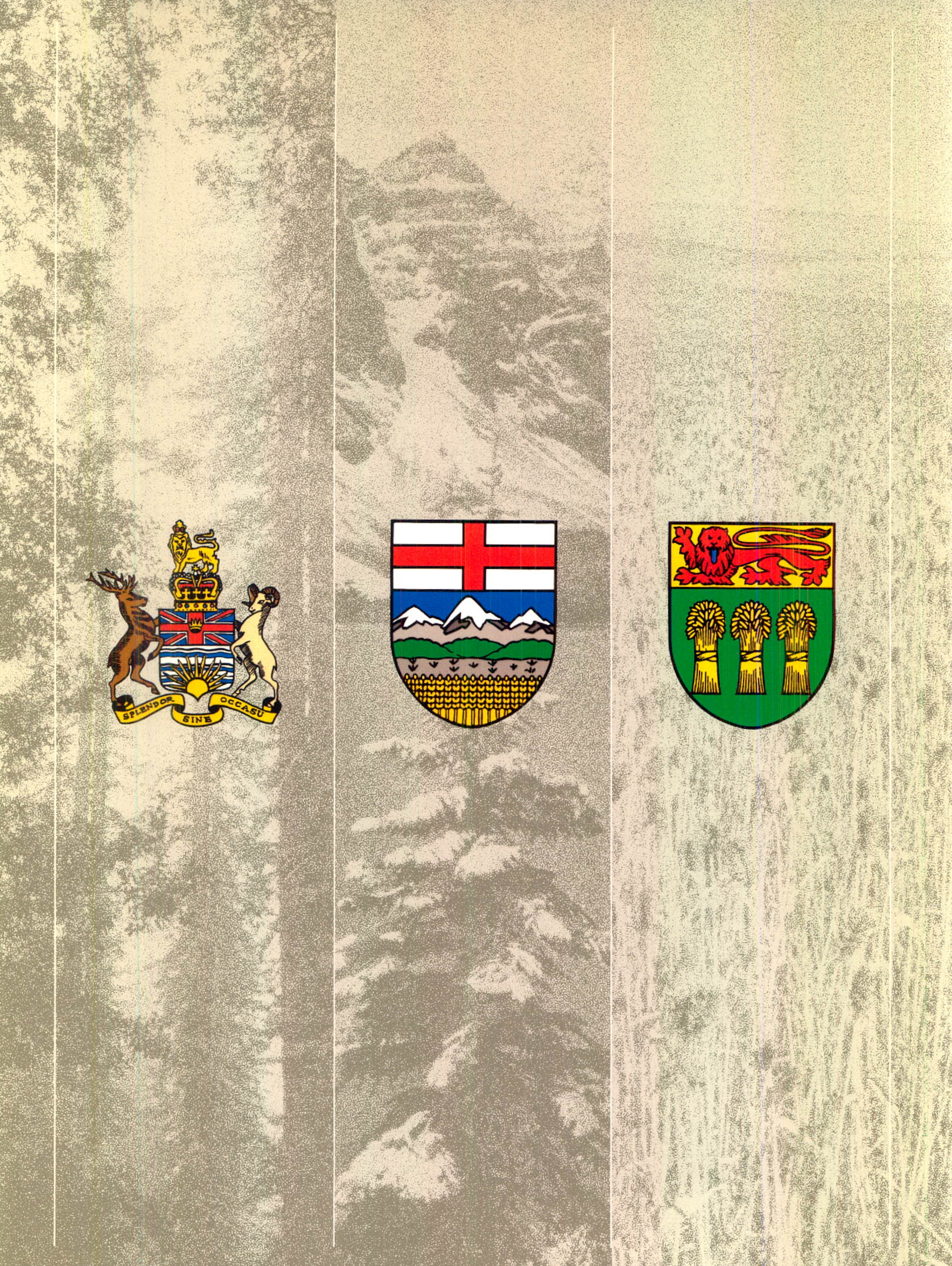
1981

Montreal Trust


SPLENDOR SINE OCCASU

Montreal Trust, a full service trust company, is proud to provide services to corporations and individuals at our branches in the major cities from coast to coast. Illustrated here and on the backcover against representative photographs are the Provincial Coats-of-Arms.

Annual Meeting:
Thursday, April 1, 1982
12:00 Noon
Le Château Champlain
Place du Canada
Montreal, Quebec

Montreal Trust
1 Place Ville Marie
Montreal, Quebec H3B 4A8

Member of the Trust Companies Association of Canada

Si vous préférez recevoir ce rapport en français, veuillez vous adresser au secrétaire, Montréal Trust.

Contents

Highlights

	1981	1980
Revenue	**$ 252,329,000**	$ 212,254,000
Net operating income Per share	**5,515,000** **2.13**	8,614,000 3.33
Net income Per share	**6,812,000** **2.63**	10,045,000 3.88
Dividends	**1.25**	1.10
Total assets	**1,375,483,000**	1,302,287,000
Shareholders' equity	**67,754,000**	64,136,000

Ten Year Summary

Year	Guaranteed and Company Assets	Revenue	Expense	Taxes on Income	Net Operating Income	Net Operating Income (Per Share)	*Dividends (Per Share)
1981	**$1,375,483,000**	**$252,329,000**	**$247,690,000**	**$(876,000)**	**$5,515,000**	**$2.13**	**$1.25**
1980	1,302,287,000	212,254,000	200,342,000	3,298,000	8,614,000	3.33	1.10
1979	1,205,796,000	171,725,000	164,660,000	1,074,000	5,991,000	2.32	1.00
1978	1,026,718,000	144,881,000	134,746,000	3,096,000	7,039,000	2.73	1.00
1977	957,217,000	129,322,000	120,572,000	3,041,000	5,709,000	2.22	.86
1976	859,270,000	116,241,000	108,167,000	3,107,000	4,967,000	1.93	.80
1975	767,717,000	98,866,000	91,426,000	3,183,000	4,257,000	1.65	.70
1974	696,286,000	91,217,000	86,987,000	1,766,000	2,464,000	.96	.80
1973	627,441,000	75,181,000	67,462,000	3,519,000	4,200,000	1.64	.80
1972	593,222,000	63,481,000	55,047,000	3,860,000	4,574,000	1.82	.80

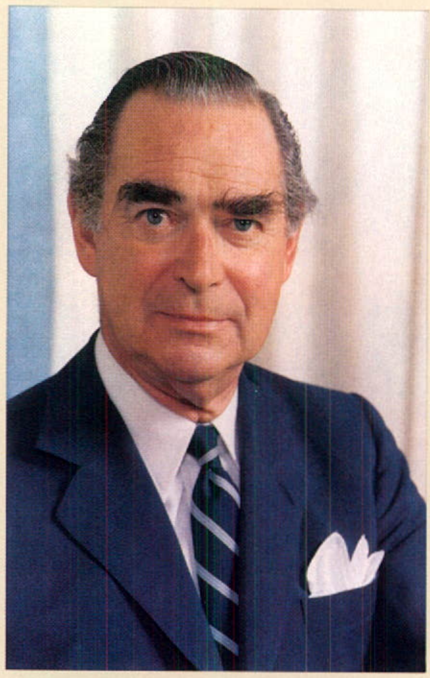
*Declared with respect to the year's earnings.

Directors' Report to Shareholders

The Board of Directors is pleased to submit the Company's 92nd Annual Report together with the Consolidated Financial Statements for 1981.

The latest fiscal year was characterized by interest rate levels never before experienced in Canada. At the beginning of the period the entry rate was higher than that experienced at any time in 1980, and after a brief dip early in the second quarter, rates continued to rise to record levels which were sustained until the final two months of the year. As the profitability of our services is quickly and materially eroded in such circumstances, earnings in the year as a whole demonstrated a substantial decline; net operating income fell to $5,515,000 or $2.13 per share, compared with $8,614,000 or $3.33 per share in 1980. Net income was $6,812,000 (1980: $10,045,000) and on a per share basis was $2.63 (1980: $3.88).

After a relatively good first quarter our earnings from interest sensitive activities, such as real estate sales, mortgage lending and other financial intermediary services, deteriorated in direct correlation with the rise in interest rates. At the same time, profits from our substantial fiduciary operations once again stood us in good stead throughout the year.



Paul Britton Paine, Q.C.

Revenue and Expense

Fee and commission income rose by 11%. Fees earned by the Stock Transfer section of Corporate Services increased by 15.9% and Pension Services by 15.5%. Both activities have received special attention in recent years and possess advanced systems enabling us to offer superior services.

The record high mortgage interest rates in the second half of the year severely curtailed the real estate and the mortgage operations. Real estate income rose by 11.6%; expenses including real estate commissions rose by a greater amount, resulting in a loss operation.

Interest and dividends earned increased by $32,533,000 or 22.8%, but interest paid increased by $36,249,000 or 30.4%, producing a reduction of $3,716,000 in net investment income. Over the years we have improved matching of investments and deposits related to term of issue. This improvement was not sufficient to withstand the extreme interest rates reached by the end of the third quarter. We have but a limited portion of our investments subject to immediate change in interest rates in the manner customary in bank commercial loans. A limited risk is accepted in the matching as to term in many situations and this normally causes a small increase or decrease in profitability for a short period when interest rates change. The rapidity and size of the increase in deposit rates produced negative spreads on a temporary basis. The long-term loans and investments placed in the early 1960's with interest rates in the 7% range continue to reduce but with the cost of funds experienced in the last half of the year the financial carry on these investments was particularly burdensome.

Salaries increased by 13% due to higher salary scales and a small increase in staff numbers. Expansion of data processing and stock transfer facilities as well as internal restructuring of real estate offices increased premises and equipment expense by 17%. Other expenses increased by 10%.

The elimination of untaxed dividend income and other adjustments resulted in a net tax credit of $876,000.

Profit on sale of investments was $1,297,000, an increase of $62,000 over 1980. A main contributor was the sale of the McGregor Place town house project by a subsidiary. The sale of certain holdings in our securities portfolio occasioned by take-over offers also provided profits.

Balance Sheet

Assets at year-end were $1,375,483,000, an increase of $73,196,000. Cash, loans and securities totalled $342,375,000, an increase of $8,396,000. Variable rate bonds and debentures increased by $18,433,000 and a substantial growth in this category of asset is planned for the current year.

Mortgages for our own account grew by $64,909,000, all of which was achieved in the first half of the year. The net increase is substantially in loans for a term of one year or less.

Guaranteed Trust Account growth of $68,341,000 is disappointing. Competition for funds was intense and deposits were lost to the Canada Savings Bonds issue carrying a record high interest rate.

Shareholders' equity at year-end was $26.14 compared with $24.77 at the end of the prior year.

Directors

In July, Pierre LaRue, Q.C., a senior partner of Létourneau & Stein, Advocates, of Quebec City, was appointed to the Board.

The Directors were deeply saddened by the death on September 27, 1981 of Albert E. Shepherd, Q.C., of London, Ont. A Director of the company for 12 years, Mr. Shepherd also served on the Audit and Executive Committees and was an outstanding citizen, jurist and public servant of Ontario and Canada. His presence and contribution to the company will be sorely missed.

In December, Robert Gratton of Montreal was appointed a Director and a Member of the Executive Committee. Mr. Gratton was formerly President and Chief Executive Officer of a major Montreal-based financial institution. He will be joining the company in February 1982, and, following the April 1 Annual Meeting, will be proposed for appointment as the company's Chairman, President and Chief Executive Officer, succeeding Paul Britton Paine, Q.C. who will be retiring from these positions in accordance with the company's retirement policy.

Advisory Boards

In August, Donald P. Wenger was appointed to the British Columbia Interior Board and in October Norval E. Blair was appointed a member of the Newfoundland Advisory Board replacing D.C. Hunt, Q.C., whose resignation was accepted in February after 13 years' service.

In accordance with company retirement policy, T.A. Lindsay and H.H. Gunter, Q.C., will not be standing for re-election to the Brockville and Saint John's Boards respectively. Mr. Lindsay was a member for 12 years while Mr. Gunter's association began in 1959. The Directors thank these three gentlemen for the contributions they have made over such a long period to the success of their respective branches.

Dividends

Shareholders received four regular quarterly dividends of 25¢ each during the year. In December, the Directors declared an extra dividend of 25¢ payable on December 29. Total dividends paid per share amounted to $1.25 compared with $1.10 in the previous year.

Outlook

Canada is now in a recession, the second in two years. In those two years all previous interest rate peaks have been exceeded twice. Whereas the high interest rate regime of 1980 caused general public discomfort, that of 1981 proved painful, and for many individuals and small businesses, ruinous. Hence it is curious that two issues which are normally separated by time are the primary issues of discussion today. First is the attempt to take some measure of the probable length and depth of the present recession. The second is the seeking of some perspective on interest rate trends through 1982 in the light of the thinking shared by several responsible forecasters. These predict that yet new highs will be established later this year on the onset of economic recovery accompanied by rising credit requirements in the private sector in competition with heavy capital market demands by government.

We expect the process dubbed "stagflation" will characterize the economic background in 1982 as it has in the past several years. We estimate that real economic growth of approximately 2.5% was achieved in Canada in 1981, that being attributable to the surge in the first half of the year following a year of no growth in 1980. We believe that Canada will again experience a year of zero growth in 1982 with the possibility that negative growth could result should this present recession extend beyond the first quarter of the year. That remains a distinct possibility which could emerge from an extension of the recessionary trend being experienced on a parallel basis in the United States.

We see no pockets of potential strength in Canada which might improve the outlook in the domestic economy early in the year, and at this point the argument for strong recovery in the second half must be considered tenuous. This situation, which applies broadly through the consumer, government and business sectors of the economy, is exacerbated by inventory levels which could prompt still further delays in production planning. Neither is the outlook for external trade encouraging. Canada's trade figures deteriorated badly in 1981 and signs point to but marginal improvement this year unless those forecasts of a strong recovery in the United States beginning before mid-year prove accurate.

Canadian price data is nothing short of alarming. Consumer inflation approximated 12% in 1981 and it is expected that a major increase in the unemployment rate to 8½% on average through the year will occur. We see little likelihood of these statistics improving in 1982. In fact, the labour situation in its entirety is the source of our greatest concern as we scan the horizon for some optimistic signs. Numerous wage contract negotiations will take place in 1982, many of them in sensitive and traditionally hostile sectors of business and government. While real personal disposable incomes in 1981 did increase narrowly, the gains were insufficient to offset declines experienced previously. Thus, even in the shadow of a serious business interruption and expectations of employment difficulties, there are early signals that labour will approach the table in a militant mood.

1981 was an eventful year in Canadian politics at both the federal and provincial levels during which a few problems were resolved, a greater number left unresolved, and some new ones created. While federal-provincial energy agreements did emerge, they did not, according to oil industry protests, provide sufficient incentives to expedite energy self-sufficiency over the near term, previously seen as the number one government priority. Resolution of the Constitution debate, despite the masterful political compromises entailed in it, has left many problems and uncertainties in its wake. It appears a virtual certainty that this, together with unstable provincial economies and a highly volatile labour element will combine to produce unpleasant news items during 1982.

The federal budget of November 1981, in its seeming preoccupation with eliminating numerous legitimate tax and business incentives, failed to address the economic and financial issues inherent in this attempt to bring about tax reforms, thus raising grave doubt concerning the sensitivity and insight of planners within the Finance Department. The rapid change in macroeconomic conditions will have to be dealt with early in 1982 through some form of supplementary budget or economic statement more in tune with present needs.

Monetary policy as exercised by the Bank of Canada received much criticism as well in 1981. The Central Bank in pursuing its anti-inflation objectives has continued to assert firm control over monetary expansion in the face of a disapproving public and consumer group outcry. We expect very little relaxation in the Bank's policies in 1982 and our business plan for the current year is conditioned to a pattern of again rising interest rates beginning in the second quarter of the year. We do not, however, anticipate a return to 1981 peak levels. An examination of the segmented profit breakdown which appears elsewhere in this report will disclose that Montreal Trust was in no way the beneficiary of high interest rates during 1981 in its intermediary services. We anticipate that the interest rate environment in 1982 will permit a return but part way to acceptable profitability from these activities. While the 1982 outlook for real estate is not encouraging owing to many of the influences referred to earlier, we are optimistic that revenues from our fiduciary services combined with ongoing tight control over costs of operation will produce an improved earnings performance.

Once again in 1981 the company's staff throughout Canada continued to provide quality services to our customers with courtesy and sensitivity, this being the essence of Montreal Trust since its beginnings ninety-two years ago. We express thanks to our staff for their fine efforts in the year.

All shareholders are encouraged to attend the company's Annual Meeting which will be held on April 1, 1982, at the Château Champlain Hotel, Montreal.

On behalf of the Board:

Paul Britton Paine

Paul Britton Paine, Q.C.
Chairman of the Board and President

Montreal, February 1, 1982

Board of Directors

Claire B. Beaudoin
Director
Les Placements Bombardier Limitée
Montreal

Robert A. Belanger
Senior Vice-President
Bank of America
New York

□ **Douglas A. Berlis,** Q.C.
Messrs. Aird & Berlis
Toronto

△ **Robert W. Bonner,** Q.C.
Chairman
British Columbia Hydro and Power Authority
Vancouver

□ **James W. Burns**
President
Power Corporation of Canada
Montreal

□ **Peter D. Curry**
Deputy Chairman
Power Corporation of Canada
Montreal

Louis-Philippe de Grandpré, C.C., Q.C.
Messrs. Lafleur, Brown, de Grandpré
Montreal

Paul Desmarais, Jr.
Vice-President
Power Corporation of Canada
Montreal

□ △ **Melvyn A. Dobrin**
Chairman of the Board and Chief Executive Officer
Steinberg Inc.
Montreal

Jacques Genest, C.C., M.D.
Scientific Director
Clinical Research Institute of Montreal
Montreal

Hon. John M. Godfrey, Q.C.
Messrs. Campbell, Godfrey & Lewtas
Toronto

□ **Robert Gratton**
Corporate Director
Montreal

□ **Matthew S. Hannon,** Q.C.
Messrs. Ogilvy, Renault
Montreal

Robert H. Jones
Chairman and Chief Executive Officer
The Investors Group
Winnipeg

△ **J. Taylor Kennedy**
Director
Canada Cement Lafarge Ltd.
Montreal

Pierre LaRue, Q.C.
Messrs. Létourneau & Stein
Quebec

□ **MacKenzie McMurray**
Corporate Director
Montreal

△ **Arthur V. Mauro,** Q.C.
President
The Investors Group
Winnipeg

J. William E. Mingo, Q.C.
Messrs. Stewart, MacKeen & Covert
Halifax

□ **Paul Britton Paine,** Q.C.
Chairman and President
Montreal Trust Company
Montreal

△ **Douglas J. Peacher**
Corporate Director
La Jolla, California

Hershell A. Smith, D.S.O., M.C.
President
Sooke Forest Products Ltd.
Victoria

□ Executive Committee Members
△ Audit Committee Members

Officers

Paul Britton Paine, Q.C.
Chairman of the Board
and President

Matthew S. Hannon, Q.C.
Chairman of the
Executive Committee

Harold T. Martin
Executive Vice-President
and General Manager

Head Office

Douglas T. Waite
Senior Vice-President

W. Kenneth Proctor
Vice-President, Branch Operations

J. Gordon Telfer, C.A.
Vice-President, Finance

Anthony G. Best
Vice-President
Client Services and Marketing

Norman Cunningham
Vice-President, Investments

J. Frank Luce
Vice-President, Personnel

J. Grant Paterson
Vice-President, Mortgages

Louis Thibault
Vice-President, Real Estate

J. Kevin Reynolds
Secretary

Colin R.G. Haddock, C.A.
Comptroller and Treasurer

James Allison
Assistant Vice-President
Stock and Bond Transfer Services

Roary A. Butler
Assistant Vice-President
Information Systems

John J. Davidson
Assistant Vice-President
Premises and Security

William J. Henderson
Assistant Vice-President
Pension Services

Robert J. Labelle
Assistant Vice-President
Mortgages

James P. Moore
Assistant Vice-President
Mortgage Administration

Brian H. Skuffham
Assistant Vice-President
Pension Investment Services

Norman W. Stefnitz
Assistant Vice-President
Investments

Jack H. Whiteley
Assistant Vice-President
Corporate Trust Services

Robert Chagnon
Director, Fund Services

Samuel W. Ficych, R.I.A.
Director, Deposit Services

James G. Fullerton
Director, Executive and
Estate Planning

David W. Ireson
Director, Marketing Services

Frederick J. Turnbull
Director, Personal Trust Services

John T. Wilson
Director, Trust Accounting
Systems

Philip A. Eylott, C.A.
Chief Internal Auditor

Regional

E. Wallace Campbell
Vice-President — B.C. Region
Vancouver

Frank L. Austin
Vice-President — Mid-West
Region
Winnipeg

Ronald Bond
Vice-President — Ontario Region
Toronto

Jean Luc Dutil
Vice-President — Quebec Region
Quebec

R. Ross Pritchard
Vice-President — Atlantic Region
Halifax

Gordon C. McDonell
Vice-President — Toronto Branch

Kenneth J. McGregor
Assistant Vice-President —
Calgary Branch

Advisory Boards

British Columbia Interior

□ T.L. Callahan
J.C. Doak
D.B. Harder
C.H. Larson
F. Milan
D.P. Wenger
F. Williams

Halifax, N.S.

□ J.W.E. Mingo, Q.C.
K.W.J. Butler
D.A. Mercer
W.O. Morrow
J.W. Ritchie
G.D. Stanfield
F.B. Wickwire, Q.C.

Winnipeg, Man.

□ C.E. Atchison
H. Buchwald, Q.C.
R.M. Chipman
R.A. Fabro
L.O. Pollard
C.S. Riley
A. Sweatman, Q.C.

Truro, N.S.

□ R.L. MacDougall, Q.C.
J.C. Leefe, Q.C.
E.F. Lorraine
R.J. MacLennan
F.T. Stanfield

Newfoundland

□ F.J. Ryan, Q.C.
D.R. Baird, C.A.
N.R. Blair
L.M. Brown
T.S.A. Freeman
J.J. Greene, Q.C.
G.R. Parsons, C.A.
C.C. Pratt

Brockville, Ont.

□ T.C. Cossitt, M.P.
T. Fournier
C.R. Hughes
J.W.C. Langmuir
T.A. Lindsay
J.L. Olsen

Saint John, N.B.

□ J.H. Turnbull, O.M.M.
A.D. Case
A.L. Goldsmith
H.H. Gunter, Q.C.
M.H. Lockhart
J.A. MacMurray
G.R. Spencer

□ Chairman

Consolidated Statement of Income

For the year ended December 31, 1981

	1981	1980
Revenue		
Fees and commissions		
Personal trust	**$ 13,124,000**	$ 11,538,000
Corporate services	**15,059,000**	13,271,000
Pension trust	**8,664,000**	7,502,000
Mortgage services	**4,419,000**	4,413,000
Real estate	**32,296,000**	28,927,000
Other	**3,411,000**	3,780,000
	76,973,000	69,431,000
Interest from mortgages	**118,456,000**	95,411,000
Other interest	**50,338,000**	41,937,000
Dividends	**6,562,000**	5,475,000
	252,329,000	212,254,000
Expense		
Interest	**155,376,000**	119,127,000
Salaries	**34,385,000**	30,395,000
Real estate commissions	**21,605,000**	18,845,000
Staff benefits	**3,984,000**	3,338,000
Premises and equipment (Notes 2 and 6)	**14,041,000**	11,999,000
Other	**18,299,000**	16,638,000
	247,690,000	200,342,000
Income before income taxes	**4,639,000**	11,912,000
Taxes on income (recoverable)		
Current	**35,000**	124,000
Deferred (Note 5)	**(911,000)**	3,174,000
	(876,000)	3,298,000
Net operating income	**5,515,000**	8,614,000
Other additions		
Profit on sale of investments $1,611,000 (1980 — $1,363,000) less income taxes of $314,000 (1980 — $128,000)	**1,297,000**	1,235,000
Gain on retirement of long-term debt (1980 — $208,000 less income taxes of $12,000)	**—**	196,000
Net income	**$ 6,812,000**	$ 10,045,000
Earnings per share		
Net operating income	**$2.13**	$3.33
Net income	**$2.63**	$3.88

Consolidated Statement of Retained Earnings

For the year ended December 31, 1981

	1981	1980
Balance at beginning of year	**$ 55,556,000**	$ 48,355,000
Net income	**6,812,000**	10,045,000
	62,368,000	58,400,000
Dividends	**3,238,000**	2,844,000
Balance at end of year	**$ 59,130,000**	$ 55,556,000

Auditors' Report

To the Shareholders,
Montreal Trust Company.

We have examined the consolidated balance sheet of Montreal Trust Company as at December 31, 1981 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended, and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Company as at December 31, 1981 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.
Chartered Accountants
Montreal, Quebec,
February 1, 1982.

Consolidated Balance Sheet

December 31, 1981

Assets	**1981**	1980
Investments (Note 3)		
Cash, bank deposit receipts and treasury bills	**$ 142,593,000**	$ 154,348,000
Secured loans	**25,872,000**	10,928,000
	168,465,000	165,276,000
Securities		
Marketable (Note 4)	**144,817,000**	139,849,000
Not readily marketable	**24,302,000**	24,808,000
Associated companies	**4,791,000**	4,046,000
	173,910,000	168,703,000
Mortgages	**994,472,000**	929,563,000
Mortgages for sale under agreement	**3,385,000**	6,697,000
Real estate held for investment	**—**	1,313,000
	997,857,000	937,573,000
Other		
Accounts receivable and advances to clients	**9,229,000**	8,939,000
Premises and equipment (Notes 2 and 6)	**18,298,000**	17,122,000
Other assets	**7,724,000**	4,674,000
	$1,375,483,000	$1,302,287,000

Approved on behalf of the Board
February 1, 1982

Paul Britton Paine, Q.C., Director
Matthew S. Hannon, Q.C., Director

Liabilities	1981	1980
Guaranteed Trust Accounts (Note 3)		
Deposits	**$ 428,462,000**	$ 393,124,000
Investment certificates	**852,584,000**	819,581,000
	1,281,046,000	1,212,705,000
Accounts payable and prepaid fees	**6,300,000**	4,600,000
Deferred income taxes (Note 5)	**13,908,000**	14,371,000
Long-term debt (Note 6)	**6,475,000**	6,475,000
	26,683,000	25,446,000

Shareholders' Equity		
Capital stock (Note 9)		
Authorized		
5,000,000 shares of $1 par value		
Issued		
2,592,250 shares	**2,592,000**	2,589,000
Contributed surplus	**6,032,000**	5,991,000
Retained earnings	**59,130,000**	55,556,000
	67,754,000	64,136,000
	$1,375,483,000	$1,302,287,000

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1981

	1981	1980
Funds derived from		
Operations		
Net income	**$ 6,812,000**	$ 10,045,000
Add non-cash items charged (credited) against net income		
Depreciation and amortization (Note 2)	**2,132,000**	1,618,000
Deferred income taxes (Note 5)	**(463,000)**	3,174,000
	8,481,000	14,837,000
Increase in Guaranteed Trust Accounts		
Deposits	**35,338,000**	79,133,000
Investment certificates	**33,003,000**	5,513,000
Other		
Increase in accounts payable and prepaid fees	**1,700,000**	1,899,000
Issue of capital stock (Note 9)	**44,000**	121,000
	$ 78,566,000	$101,503,000
Funds applied to		
Increase (decrease) in investments		
Cash, bank deposit receipts, treasury bills and secured loans	**3,189,000**	(36,000)
Securities	**5,207,000**	(6,706,000)
Mortgages and real estate held for investment	**60,284,000**	100,695,000
Increase in assets, other	**6,648,000**	4,156,000
Retirement of long-term debt (Note 6)	**—**	550,000
Dividends paid	**3,238,000**	2,844,000
	$ 78,566,000	$101,503,000

Notes to Consolidated Financial Statements

December 31, 1981

1. Summary of significant accounting policies

a) Consolidation

The financial statements of the Company include the accounts of the Company and its subsidiaries, all of which are wholly-owned. The principal subsidiaries are Montreal Trust Company of Canada, Montreal Trust Mortgage Inc., Montrustco Corporation, Montrustco (Cayman) Limited, Riveredge Village Inc., The Acadia Trust Company, Treal Properties Limited, Treaver Properties Limited and Montmor Investments Limited.

b) Associated companies

The investments in associated companies are stated at cost and their earnings are taken into income only to the extent of dividends received. These and the Company's interest therein at December 31, 1981 were: RoyNat Inc. (13.5%), Montrad Inc. (50.0%), Montreal Trust (Bermuda) Limited (40.0%) and Arawak Trust Company (Cayman) Limited (25.0%).

c) Revenue and expense

All revenue and expense is recorded on an accrual basis except for fees subject to awards by courts or negotiation, which are recorded on a cash received basis. Income from aircraft and vessel leases is taken up over the term of the leases pro-rata to the declining balance of the investments not yet recovered. Gains or losses on sale of securities, based on average cost, are reflected in net income.

d) Asset valuation

Debt securities and mortgages are valued at amortized cost; other securities are valued at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization.

e) Deferred income taxes

The Company follows the tax allocation basis of accounting whereby income taxes are deferred to future years as a result of the deduction of amounts allowable in computing income for tax purposes which are in excess of the amounts provided for in the accounts, with respect to investment reserve, depreciation and other items.

f) Assets under administration

Assets held under administration and assets held for Guaranteed Trust Accounts are kept separate from the Company's own assets and are so earmarked on the books of the Company as to show the account to which they belong. Assets under administration are not reflected on the balance sheet.

2. Premises and equipment

Premises and equipment expense is stated net of rental income and includes depreciation and amortization of $2,132,000 (1980 — $1,618,000) and interest on the long-term debt of a subsidiary of $356,000 (1980 — $374,000). Rent paid in 1981, net of rental income, amounted to $5,286,000 (1980 — $3,949,000).

The Company has contracted obligations in respect of leased premises and equipment, net of rental income, as follows:

	Total sum payable
1982	$ 4,292,000
1983	3,393,000
1984	2,723,000
1985	1,645,000
1986	1,555,000
Thereafter	21,113,000
	$34,721,000

3. Assets held for Guaranteed Trust Accounts

Included in the consolidated balance sheet are assets of the Guaranteed Trust Accounts of the Company and Montreal Trust Company of Canada as follows:

	1981	1980
Cash, bank deposit receipts, treasury bills and secured loans	**$ 140,957,000**	$ 134,759,000
Securities	**149,722,000**	146,033,000
Mortgages	**990,367,000**	931,913,000
	$1,281,046,000	$1,212,705,000

4. Marketable securities (in thousands)	1981 Cost	1981 Market	1980 Cost	1980 Market
Government of Canada				
(including guaranteed by)				
Fixed interest rate	**$ 11,270**	**$ 11,175**	$ 3,347	$ 3,347
Variable interest rate	**3,040**	**3,040**	3,040	3,040
Provinces of Canada				
(including guaranteed by)				
Fixed interest rate	**2,513**	**1,773**	14,165	13,500
Variable interest rate	**10,259**	**10,259**	5,146	5,146
Canadian municipalities				
Fixed interest rate	**1,398**	**1,259**	1,417	1,400
Corporate obligations				
issued for a term of less than one year				
Fixed interest rate	**4,986**	**4,986**	17,432	17,407
Corporate bonds, debentures				
and obligations				
Fixed interest rate	**20,520**	**19,940**	15,978	15,524
Variable interest rate	**13,445**	**13,445**	—	—
Aircraft and vessel				
certificates	**12,234**	**12,234**	13,111	13,111
Preferred stocks				
Fixed dividend rate	**24,058**	**20,144**	26,166	25,372
Variable dividend rate	**29,375**	**29,375**	29,500	29,500
Common stocks	**11,719**	**17,782**	10,547	18,814
	$144,817	**$145,412**	$139,849	$146,161

Aircraft certificates represent part ownership of two aircraft leased to Air Canada net of a liability of $2,069,000 (1980 — $2,188,000) which is secured by a mortgage on an aircraft and the related lease payments. The vessel certificates represent part ownership of two vessels; one leased to the Province of British Columbia and the other to Upper Lakes Shipping. Ltd.

5. Deferred income taxes

The $463,000 decrease in deferred income taxes comprises a reduction of $911,000 arising from a tax loss from operations less $212,000 of taxes on profits on sales of investments and $236,000 of prior year tax provisions now reclassified as deferred.

6. Long-term debt

Treal Properties Limited, a subsidiary company, has oustanding 5½% first mortgage sinking fund bonds due April 1, 1991. Office buildings in Toronto and Ottawa owned by the subsidiary and occupied by the Company, with a net book value of $7,581,000, are pledged as security for the bonds. Sinking fund payments, ranging from $225,000 to $250,000, are due in 1982 to 1990 and the balance of $5,000,000 is due April 1, 1991. During 1981, the Company elected to have the $225,000 sinking fund payment due in 1981 apply against bonds purchased and cancelled in previous years, and $675,000 of cancelled bonds remain available to meet future sinking fund requirements. The buildings are being depreciated by annual amounts equal to the sinking fund payments which, by April 1, 1990, will amount to 56% of the original cost.

7. Mortgage commitments

Outstanding commitments for future advances on mortgages were $49,353,000 at December 31, 1981 (1980 — $68,699,000).

8. Related party transactions

Related parties comprise the parent company, The Investors Group, and through it Power Corporation of Canada, The Great-West Life Assurance Company, The C.S.L. Group Inc. and Consolidated-Bathurst Inc. as well as an associated company, Montrad Inc. The C.S.L. Group Inc. ceased to be related on July 31, 1981.

The Company provides services as stock transfer agent, mortgage correspondent and bond and pension plan trustee to related companies at competitive prices and is provided with health insurance by a related company at competitive rates and terms. These transactions are not significant.

The Company has certain receivables from and securities of related companies totalling $32,780,000 at December 31, 1981 (1980 — $34,091,000) and recorded interest income thereon of $2,358,000 (1980 — $2,458,000). The interest rates and terms were competitive at the time the receivables originated.

9. Capital stock

Options have been granted to certain employees to purchase shares of the Company. In 1981, no new options were granted and options on 3,200 shares were exercised. At December 31, 1981 there were 3,800 shares under option at a price of $18.00 per share. The premium on the shares issued has been credited to contributed surplus.

10. Segmented Information

The Company's principal services are:

FIDUCIARY services comprising the earnings from acting as executor, trustee, agent, manager and/or custodian for persons, corporations and institutions other than as set out in the following sections;

REAL ESTATE comprising the earnings from acting as agent in the sale, leasing and/or management of real estate and from the appraisal of properties and;

FINANCIAL intermediary comprising the earnings from the investment of deposits received under guarantee and the investment of the shareholders' equity.

In arriving at the results for each segment, it was necessary for management to exercise judgment in the allocation of a material amount of expense which was common to all services. A statement of segmented assets would not be meaningful and is omitted.

(in thousands)	Fiduciary	Real estate	Financial	Total
1981				
Revenue	**$ 57,432**	**$ 33,916**	**$160,981**	**$252,329**
Income (loss) before income taxes	**$ 13,246**	**$ (2,342)**	**$ (6,265)**	**$ 4,639**
Net operating income (loss)	**$ 6,353**	**$ (1,159)**	**$ 321**	**$ 5,515**
1980				
Revenue	$ 48,479	$ 30,346	$ 133,429	$ 212,254
Income (loss) before income taxes	$ 9,074	$ (819)	$ 3,657	$ 11,912
Net operating income (loss)	$ 4,306	$ (399)	$ 4,707	$ 8,614

Report on Operations

Historically high interest rates severely affected profit spreads in our financial intermediary operations in 1981. However, a strong performance by our trust functions helped to offset the negative impact of these narrow margins.

Our Stock Transfer operations were particularly active during the year. As the acknowledged industry leader in this field in Canada, Montreal Trust was involved in significant new business associated with capital reorganizations and corporate takeovers.

Growth in Pension Services and Personal Trust was also strong in 1981. As a result, a major project is underway to develop an advanced Trust Accounting System. This system which will take several years to implement fully will complement our existing systems to handle the increased business volumes more efficiently while maintaining our customary high standard of service to clients. Another program under development is an Integrated Funds System, which provides investment clients, both individuals and groups, with additional flexibility, increased administrative efficiency and improved reporting capabilities. Montreal Trust continues to provide competitive services and improved data support systems that enable us to maintain top performance in the financial service industry.

Our largest single operating expense is Salaries and Benefits. To maintain the high level of performance necessary for a people-oriented service company in meeting the needs and demands of our clients, a capable, motivated staff is one of our most important resources.

By year-end special Acts of the provincial legislatures had been passed in all but one province to continue the process of centralizing non-Quebec based business in the federally incorporated Montreal Trust Company of Canada. We anticipate passage of the statute in the remaining province soon and should have a substantial portion of non-Quebec based business conducted by the federal company by the end of 1982.

We have implemented a francization program for all our operations and employees in Quebec in conformity with the requirements of Bill 101.

Harold T. Martin

Corporate Services

Gross income from Stock Transfer services increased by 15.9% over 1980 to more than $12 million in 1981. Services provided for corporate reorganizations, take-overs and rights issues continued the trend set in 1980 and coupled with increased market activity, contributed substantially to our growth. Our Dividend Reinvestment Service has experienced a dramatic expansion and is now used by an increasing number of our corporate clients.

Since 1978 when our online Automated Corporate Transfer System was introduced, the number of individual shareholder accounts serviced has doubled from 700,000 to well over 1,500,000 and is rapidly expanding, a tribute to our experienced and knowledgeable staff in this area.

Total outstanding debt issues of Canadian Corporations under administration as Trustee now exceed $14 billion.

In spite of many negative factors, Corporate Trust income reached an all time high and looking ahead we anticipate the continuance of the growth pattern we have experienced over recent years.

While the Company has maintained its important share of Canadian corporate appointments, a reduced volume of domestic financing was underwritten in 1981. This was mainly due to escalating interest rates prevailing in Canada for most of the year. A down-trend in interest rates in the latter part of the year activated the debt market mostly in Eurodollar borrowings. Corporate financial planners are likely to face some difficult decisions in the months ahead.

Pension Services

With over 100 new appointments, generating more than $400,000 in annualized new fee income, 1981 has proven to be one of the Company's major growth periods for Pension and Benefit Fund services. Despite severe market pressures in the latter part of the year total assets under administration increased to over $5.5 billion and produced fee income in excess of $8.6 million during the year.

We have concentrated on the development of flexible administrative services for master trusts and sponsored pools. Our success in this specialized market has resulted in the administration of 50 master trust arrangements with total assets of over $700 million in 80 separate investment portfolios for 270 participating funds.

Fees for services provided to employee benefit funds increased by over 28% to $1.4 million annually. Income from self-directed retirement savings plans grew by 30.5% during the year.

Personal Trust

Consistent growth in our Estate, Trust and Agency services was maintained during 1981. Fee income of $13.1 million exceeded 1980 by 14% and assets under administration increased substantially. All regions shared in this improvement and the results in some of our smaller operations were especially encouraging.

Although escalating operating costs continued to threaten erosion of net income, they were well controlled and a satisfactory operating ratio was maintained.

The Common Trust Fund, created to improve efficiency in the administration of smaller trusts, completed its first full year on a Canada-wide basis and now exceeds $14 million. The potential exists for accelerated growth of the Fund in 1982.

During the year improvements were made in data communications within our branch network and in the scope of local printing of client statements in our major centres of operation.

While new Will and Agency production improved in 1981, increased competition both within and outside the trust industry will require intensive marketing efforts during the coming year.

The federal budget proposed in late 1981, if it remains in its present form, could seriously affect Charitable Foundations, an important part of our personal trust service. We were instrumental in the preparation of a brief to the Minister of Finance made by the Trust Companies Association of Canada pointing out inequities in the proposed tax changes for Charitable Foundations.

Deposit Services

Montreal Trust offers Statement and Passbook Chequing Accounts, Passbook Savings Accounts and Guaranteed Investment Certificates with terms ranging from 30 days to 5 years with a variety of interest payment options. Currently, over 55,000 individuals take advantage of our chequing and savings accounts and over 75,000 invest in Guaranteed Investment Certificates.

Growth in the portfolio was modest during 1981. Poor economic conditions coupled with an unusually high interest rate on the Canada Savings Bond issue lowered balances at the end of the year. Montreal Trust continues to be one of the very few financial institutions still offering a no charge chequing account and is the only one which offers a single account (Plus Savings) which combines daily interest with minimum monthly interest and credits the depositor with the larger amount.

Fund Services

Our largest public fund, the Montreal Trust Retirement Savings Plan experienced a 14% growth reaching $340 million in 1981. Deposits continued to be directed to the guaranteed options of the plan as a result of the uncertain outlook for bond and stock markets and the attractiveness of the high interest rates paid on deposits.

The Mortgage Fund despite the adverse effect of high interest, produced a real return in excess of 14% for 1981. However, this performance was not good enough to attract new deposits to offset the redemptions made during the year and as a result, the Fund lost 13% of its value. On December 31, 1981 the Mortgage Fund became an independent section of the Investment Fund. This change introduces efficiencies that will benefit both the clients and the Company.

Investment Fund assets decreased slightly to $20.6 million during the year, primarily as a result of market value fluctuations. Registered Home Ownership Savings Plans experienced a modest 8% growth. This type of savings has reached saturation and will decline unless the $1,000 ceiling on contributions is raised.

Deferred Profit Sharing Plans experienced a 25% decline to $16 million as a result of the November 1981 Federal budget putting an end to the participation of significant shareholders of a company in this type of plan. Income Averaging Contracts were another victim of the budget. Strong sales in 1981 brought our total deposits to $16 million, 39% above the 1980 level. These deposits will diminish over the next 14 years as the contracts expire.

Mortgages

During the first five months of 1981 our lending activity was at a record level. Accelerating interest rates from June through October resulted in a sharp decline in real estate demand adversely affecting mortgage lending in the last half of the year. Loan volume for the year exceeded $211 million, which although 33% lower than in 1980, is not surprising given the prevailing market conditions.

In September 1981, Group Life Mortgage Insurance was introduced to provide low cost protection of up to $100,000 to our residential mortgage clients. This plan is being offered to all new borrowers and to existing borrowers at the time of mortgage renewal. The response to date has been very favourable.

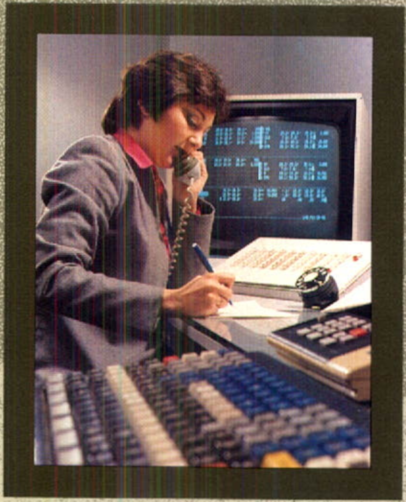
We are active lenders in all provinces and presently administer a portfolio of $2.2 billion consisting of over 46,000 individual mortgage loans.

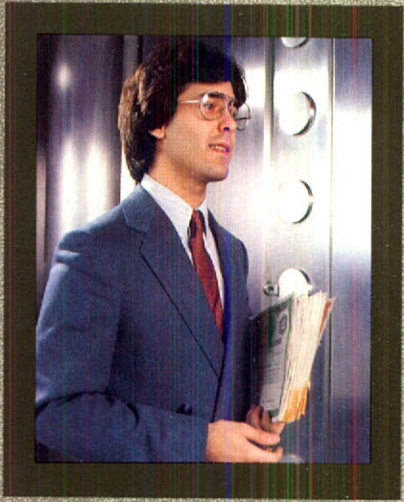
The outlook for 1982 is one of continuing high

"Growth in Pension Services... was also strong in 1981 as a result of the development of flexible administrative services for master trusts..."

"Our Stock Transfer operations were particularly active during the year. As the acknowledged industry leader in this field in Canada, Montreal Trust was involved in significant new business..."

"Consistent growth in our Estate, Trust and Agency services was maintained during 1981... assets under administration increased substantially."





levels of interest rates, decreasing single family housing starts and comparatively slow real estate market conditions. Mortgage lending in 1982 is therefore not expected to exceed 1981 levels.

Real Estate

Despite record high and volatile interest rates and a soft real estate market across Canada in the second half of the year, gross income for Real Estate operations increased 11.6% over 1980 to $32.3 million.

Consolidation of our real estate offices continued with the closing of several offices located in remote real estate markets and replacing these with new offices in key market areas of Canada.

Expansion of residential real estate offices was concentrated in Toronto where, with the addition of two offices, our volume increased by 140% over last year. We also opened three Industrial, Commercial and Investment real estate offices in 1981. The contribution of these offices and those already in existence has increased our gross income in this area by 67% over the previous year.

We continue to attract experienced, high calibre real estate salespeople. This service now has over 1100 agents and employees and 54 real estate offices serving clients across Canada.

Sluggish economic conditions and high mortgage rates will continue to adversely affect our real estate sales at least through the opening months of 1982.

Personnel Services

During 1981 Personnel Services continued to develop and implement policies and programs to provide career opportunities and working conditions commensurate with the aspirations, abilities and performance of our employees.

The participation by and success rate of our staff in the Management and Technical Development courses of the Trust Companies Institute of Canada improved considerably in 1981. These courses were supplemented by other internal and external training programs to upgrade the knowledge and skills of our employees.

Improvements to our employee compensation program were introduced in late 1981, including a Dental Plan.

Head Office and branch management appointments made in 1981 include: W.K. Proctor, Vice-President, Branch Operations; C.R.G. Haddock, Comptroller and Treasurer; L. Thibault, Vice-President, Real Estate; R. Bond, Vice-President, Ontario Region; G.C. McDonell, Vice-President, Toronto; F.L. Austin, Vice-President, Mid-West Region; A.E. Hetherington, Branch Manager, Hamilton; E.K. Urwin, Branch Manager, Kingston; J.M. Bérubé, Deputy Manager, Montreal and C.A. Sabirsh, Deputy Manager, Toronto.

1981 has been a year of difficult operating conditions, unexpected pressures and a great many challenges. The results achieved represent the vital contribution of the women and men who work for Montreal Trust across Canada. We sincerely appreciate their dedication and support throughout the year.

Harold T. Martin
Executive Vice-President
and General Manager

Montreal, February 1, 1982

Offices

Head Office

1 Place Ville Marie
Montreal, Quebec

Atlantic Region

Halifax, N.S.
R. Ross Pritchard, Regional Vice-President and Branch Manager
Paul J. Dyer, Deputy Manager
Hollis and Prince Streets
Dale R. Lohnes, Manager, Mortgage and Savings
Bayer's Road Shopping Centre

Charlottetown, P.E.I.
Eldon I. Sentner, Manager
129 Queen Street

Saint John N.B.
Andrew B. Barteaux, Manager
61 King Street

St. John's, Nfld.
Maurice J. Fleet, Manager
331 Water Street

Truro, N.S.
Edgar G. Goss, Manager
798 Prince Street

Quebec Region

Quebec City
Jean Luc Dutil
Regional Vice-President
Jean-Paul Labbé, Manager
475 St. Amable Street

Montreal
Andrew Scipio del Campo, Manager
Jean-Marie Bérubé
Deputy Manager
1 Place Ville Marie
Noella Coleman, Manager
Fairview Shopping Centre

Ontario Region

Toronto
Ronald Bond, Regional Vice-President
Gordon C. McDonell, Vice-President and Branch Manager
Clifford A. Sabirsh
Deputy Manager
15 King Street West

Brockville
W. Peter Lewis, Manager
4 Court House Avenue

Hamilton
Albert E. Hetherington, Manager
31 Main Street West

Kingston
E. Keith Urwin, Manager
165 Wellington Street

Kitchener
Douglas A. Young, Manager
101 Frederick Street

London
W. Frank O'Connor, Manager
171 Queens Avenue

Ottawa
Hugh R. Williams, Manager
96 Sparks Street

Sudbury
Gregory S. Yashan, Manager
11 Durham Street South

Windsor
Peter K. Eggett, Manager
810 Ouellette Avenue

Mid-West Region

Winnipeg, Man.
Frank L. Austin
Regional Vice-President and Branch Manager
Portage at Notre Dame Avenue

Regina, Sask.
Morris E.L. Sims, Manager
1908-11th Avenue

Saskatoon, Sask.
R. Eugene B. Griffith, Manager
234-21st Street East

Western Region

Vancouver, B.C.
E. Wallace Campbell, Vice-President, B.C. and Branch Manager
William N. Brittain
Deputy Manager
466 Howe Street
Leonard E. Pitt, Manager
Oakridge Shopping Centre

Kelowna, B.C.
Rodney W. Scheuerman, Manager
313 Bernard Avenue

Nanaimo, B.C.
Lorne D. Pollock Mortgage Officer
65 Front Street

Victoria, B.C.
D.C. Michael Field, Manager
100-747 Fort Street

Calgary, Alta.
Douglas T. Waite
Senior Vice-President
Kenneth J. McGregor, Assistant Vice-President and Branch Manager
Edgar N. Ellis, Deputy Manager
411-8th Avenue South West

Edmonton, Alta.
Norman C. Raymond, Manager
10020-101A Avenue
Kevin R. Armitage, Manager
Southgate Shopping Centre

Overseas

George Town Cayman Islands, B.W.I.
Montrustco (Cayman) Limited

Hamilton, Bermuda
Montreal Trust (Bermuda) Limited

Real Estate Offices

Atlantic Region

Halifax, N.S.
Barry W. Braun, Halifax Area Manager
Bayer's Road Shopping Centre

Dartmouth, N.S.
Larry Robarts, Manager
Penhorn Mall

Truro, N.S.
Peter Maxwell, Manager
798 Prince Street

Saint John, N.B.
John Horton, Manager
61 King Street

St. John's, Nfld.
Tom Osborne, Manager
94 Elizabeth Avenue

Charlottetown, P.E.I.
Garth McKearney, Manager
Confederation Plaza

Quebec Region

Montreal
Bernard Thibault
Regional Manager, Quebec
Robert Vivian, Manager
Industrial, Commercial and Investment Division
Ian Ross, Manager
Commercial Leasing
1 Place Ville Marie
Clément Dépelteau, Manager
Place Versailles Shopping Centre
Mark Moore, Manager
6616 Sherbrooke Street West
Vivo Loubaton, Manager,
Industrial, Commercial and Investment
2140 Sherbrooke Street East

Beaconsfield
Shep Abbey, Manager
186 Sutton Place

Beloeil
Huguette Sylvestre, Manager
Montenach Mall

Brossard
Bernard Savard, Manager
Place Portobello Shopping Centre

Charlesbourg
André Caron, Manager
Atrium

Dollard Des Ormeaux
Bill McCarthy, Manager
3635 Sources Blvd.

Kirkland
Eric Keiller, Manager
Kirkland Shopping Centre

Laval
Robert Picard, Manager
Duvernay Shopping Centre
Jacques Labelle, Manager
St. Martin Shopping Centre

Lévis
Jacqueline Robitaille, Manager
91 St. Georges Street

Longueuil
François Thibault, Manager
Jacques Cartier Shopping Centre
Michel Caron, Manager
460 St. Charles West
Abdou Boughanmi, Manager,
Industrial, Commercial and Investment
644 Curé-Poirier West

Pointe Claire
Jim Parsons, Manager
Fairview Shopping Centre

St. Bruno
Lynne Gannon, Manager
63 Rabastalière Street West

Ste-Foy
Rodrigue Major, Manager
1195 de Lavigerie

St. Hubert
Serge Lacaille, Manager
Cousineau Shopping Centre

St. Romuald
Jacqueline Robitaille, Manager
49 Principale Street

Sherbrooke
Jacques Filteau, Manager
2524 King Street West

Town of Mount Royal
Renée Bourbonnière, Manager
3201 Graham Blvd.

Westmount
Rod Quesnel, Manager
4150 St. Catherine Street West

Ontario Region

Toronto
Bryan De Cunha
Regional Manager, Ontario and
Commercial Division Manager
15 King Street West
Ted Stein, Manager
1992 Yonge Street

Agincourt
Bob Ede, Manager
3321 Sheppard Avenue East

Brampton
Bryn Lloyd, Manager
4 Hansen Road North

Burlington
Graham Bezer, Manager
600 Brant Street

Hamilton
Pat O'Donnell, Hamilton Area Manager
31 Main Street West
Ralph Schmidt, Manager
550 Fennel Avenue East
Bernard Gordon, Manager
140 Centennial Parkway

Mississauga
John Paterson, Manager
2500 Hurontario Street
Joseph Giglio, Manager
Central Parkway Mall
Bill Croft, Manager
2155 Leanne Boulevard

Oakville
George Field, Manager
461 Trafalgar Road

Weston
Frank Ianni, Manager
222 Dixon Road

Mid-West Region

Saskatoon, Sask.
Victor Boechler, Manager
Commercial Division
306-5th Avenue North
Darlene Brentnell, Manager
1145-8th Street East

Winnipeg, Manitoba
Thom Morand, Manager
221 Portage Avenue

Western Region

Vancouver, B.C.
Gary L. Brady
Regional Manager, B.C. and
Commercial Division Manager
466 Howe Street
Ralph Kennedy, Manager
2146 West Broadway

Coquitlam, B.C.
John Jilling, Manager
1108 Austin Avenue

Kelowna, B.C.
Brian McCormick, Manager
1629 Pandosy Street

North Shore
Joseph Blackman, Manager
756 Marine Drive, West Vancouver

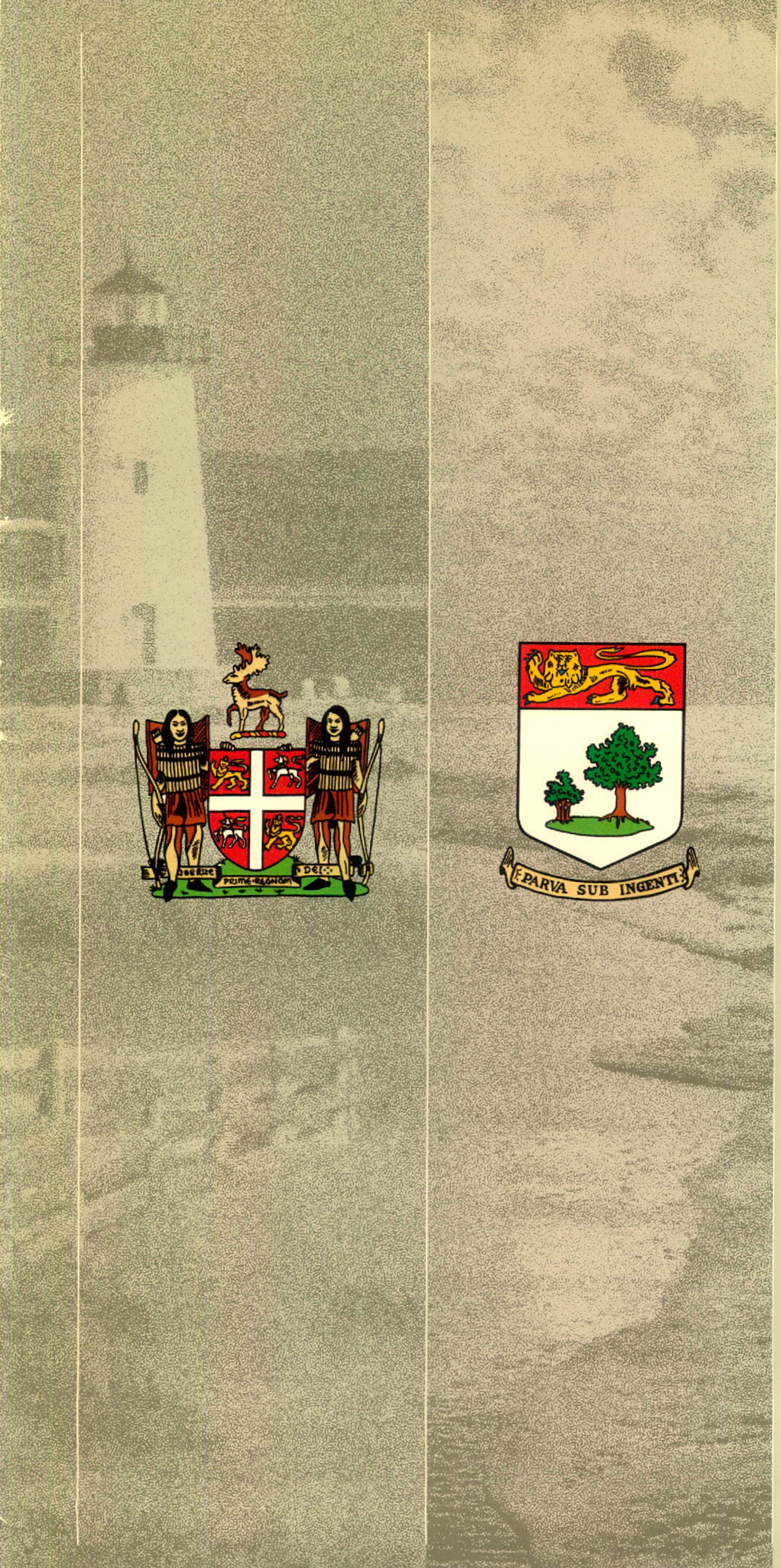
Richmond, B.C.
Roberta Tilbe, Manager
10791 No. 3 Road

Sidney, B.C.
Wells Hooker, Manager
2419 Beacon Avenue

Victoria, B.C.
Ron Macdonald, Manager
1086 Fort Street

Edmonton, Alberta
Terry Johnston, Sales Representative,
Industrial, Commercial and Investment
10020-101A Avenue


JE ME SOUVIENS



Incorporated in 1889, the Head Office of Montreal Trust is located in Montreal. There are five regional headquarters located in the provinces of Nova Scotia, Quebec, Ontario, Manitoba and British Columbia.

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