

BANK OF MONTREAL

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165th Annual Report 1982



Bank of Montreal, founded in 1817, is the oldest bank in Canada. It has participated in many projects furthering Canadian development, including the first canals, railway and telegraph, construction of the trans-continental Canadian Pacific Railway, major hydroelectric projects and the development of the energy and mining industries. The first foreign correspondent agencies, in London and New York, were established in 1818. The Bank's continuing role in promoting Canadian trade abroad and in securing foreign sources of investment for development projects has contributed to Canada's economic growth.

Today, Bank of Montreal is one of the largest banks in North America with assets in excess of \$60 billion. The Bank carries on business around the world.



Meeting Notice

The 165th general meeting of the Bank of Montreal's shareholders will be held on Monday, January 17, 1983, at 10:30 a.m. at the Bank of Montreal, First Canadian Centre, Calgary, Alberta. All shareholders of the Bank of Montreal are invited to attend the meeting.

Shareholders who are unable to attend in person are requested to complete and return to The Royal Trust Company, Montreal, the proxy form which has been mailed to them.

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(See listing at the back of this report)



Main Branch at King and Bay Streets, the centre of Toronto's financial district, was opened in 1979. It adjoins the 72-storey FirstBank Tower, which houses offices of the Bank. The first office of the Bank in Toronto (then called York) was established in 1818. The Bank first opened a branch on this site in 1842.

The directory table in front of the building lists offices found in First Canadian Place, where the branch is located.

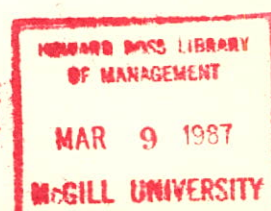
The Year's Highlights

(\$ in thousands except per common share amounts)

	1981	1982
For the Year Ended October 31		
Net income	\$ 352,864	\$ 257,046
Dividends		
Common shares	100,803	121,338
Preferred shares	9,397	33,106
At Year End		
Assets	\$62,373,843	\$62,026,965
Loans	43,758,676	44,082,067
Deposits	55,774,220	53,874,626
Capital and reserves	2,029,241	2,315,852
Per Common Share		
Net income	\$ 6.16	\$ 3.70
Dividends	1.80	1.96
Book value	30.86	30.29
Other Statistics At Year End		
Number of common shares	56,299,166	62,552,739
Number of common shareholders	58,455	68,102
Number of branches	1,322	1,259
Number of employees	30,488	29,866

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Regular readers of these reports will, no doubt, have observed certain recurring themes. During a period of change such as the Bank has been experiencing, it is useful to recall that our fundamental policies remain unchanged. The Bank, while committed to conservative financial principles, is equally committed to the long-term goal of enhancing the quality of each area of its operations.

To ensure continuing financial strength, close attention is given to capital, liquidity and reserves for possible losses. Over the years, considerable progress has been made in bringing the Bank's capital ratio from one of the lowest to one of the highest in the industry. Currently, it is at its highest level in nearly a decade. This may represent a short-term cost but it also carries benefits of a longer-term strategic nature, such as the capacity to support loan growth as the economy improves. During periods of disagreeable economic conditions, such as we are currently experiencing, the benefits of a strong capital base are obvious.

The significance of liquidity management is perhaps less widely appreciated than that of capital adequacy. But the widely publicized liquidity problems of businesses and nations should confirm the importance of this aspect of bank operations. For several years, the Bank has been operating a closely-monitored, disciplined system of liquidity management in both its domestic and foreign operations. Essentially, the Bank's policy is to carry supplemental, or "excess", liquidity in major currencies, over and above statutory and working requirements. Supplemental liquidity is drawn from a combination of documented bank-lines and immediately encashable assets, funded by longer term deposit instruments. As a matter of policy, the Bank does not rely upon liability management for either its working or its supplemental liquidity. Like maintaining a strong capital base, this can involve additional costs, though not necessarily at all times. Recently, weak loan demand has resulted in liquidity in excess of the Bank's policy requirements.

Chairman William D. Mulholland (centre) in Calgary with (left) Simon Kouwenhoven, Senior Vice-President, Alberta Division, and Stanley M. Davison, Vice-Chairman. In the background, under construction, is the tower of First Canadian Centre, which will house the Bank's western executive offices.



The provision of reserves for possible losses, the third major element in financial management, is a subject about which it is more difficult to be definitive. It is an area which is not only an important element in overall bank performance, net income in particular, but which also reflects in a major way management judgements both in respect of the loan portfolio and the economic environment. At a time when provisions are at their highest level since the Depression of the 1930's, this is the subject of a good deal of both internal and external attention. In this institution, management has tended for some time to take a less sanguine view of economic prospects than the more generally accepted forecasts—and has come in for some inevitable chiding as a consequence. This view, naturally, is reflected in the level of the Bank's provisions for losses. There is no doubt, however, that the economic situation is serious, that the financial condition of business generally has become seriously weakened, and that losses will accrue to owners and lenders, the severity of which will be determined in part by the duration of the recession. Unfortunately, events have demonstrated that our view of the economy has been, if anything, somewhat optimistic, rather than pessimistic. If future economic performance should turn out to be stronger than we expect, little harm will have been done.

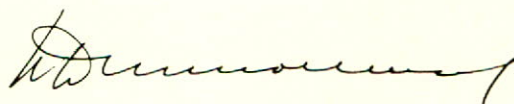
Loss experience, as an indicator of Bank performance, is extremely difficult to quantify, particularly in the short term. Obviously, however, if we were entirely satisfied with the quality of Bank performance in our various markets, it is hardly plausible that we would be devoting so much effort to improving it. This effort reflects both our conviction that there is room for improvement and our judgement of the measures which are required to place the Bank in a strong competitive position in the years ahead.

Among the more visible changes at the Bank are those in its organizational structure, which have been occurring gradually over a period of time. Clearly, an advantage is to be gained from bringing a sharper focus to the major markets which the Bank serves. Of even greater significance, however, is the potential benefit to the Bank in the area of human resources made possible by a structure which emphasizes homogeneity of skills and consistency of career paths. In order to achieve the desired strengthening of the human resource base of the Bank, which is essential to any lasting improvement in the quality of Bank operations and service to customers, more than organizational change is necessary. It must be supported by appropriate recruiting, training, job grading, promotion and compensation policies. In each of these areas, major changes have been designed, broadly speaking, to attract high potential people to the Bank, to raise professional standards, to reinforce the merit system and to encourage employees to invest time and effort in self-development. This is not a process which lends itself to a quick pay-back, but it is what is required if we are to build solidly for the future.

The relationship between organization structure and human resources policies is usually clear enough but the relationship of these to technology is much less so. Nevertheless, from an operational and structural standpoint, technology is rapidly rendering irrelevant the premises upon which many past organizational practices have been based. Four years ago, the Bank decided that it would be feasible to move toward a worldwide, logically-integrated data processing system, and, since that time, it has been doing so. In the systems area, the first external evidence of this evolution will become visible during the coming year. Interestingly enough, it became visible in the organization structure of the Bank somewhat earlier because technology was one of the important factors in the decision to structure the Corporate and Government Banking Group on a worldwide, rather than on a national or a regional, basis. This decision, in addition, reflects both our sense of the economies of scale required to support a high quality function, and our belief in its beneficial implications for the professional development of commercial banking personnel. More recently, the implementation of the Domestic Development Program is another example of the inter-relationship between human resources policies, organization and technology.

The high degree of inter-relationships and the long lead times associated not only with technological but also with human resource and organizational developments place a considerable premium upon a well thought-out game plan. These very same factors make balance in implementation equally important and, if anything, even more difficult to achieve. In short, this is not a process which lends itself to short-term improvisation.

The immediate future may look a little bleak, with public discussion currently preoccupied with fears of the collapse of the international monetary system and, even, with the possibility of another Great Depression. Neither of these eventualities is considered likely to occur and, while it may be tempting, in this difficult economic environment, to cut back on technological development and on investment in human resources, this could turn out to be one of the costliest decisions of all. Although some sacrifices of less essential activities will doubtless be necessary and probably even desirable, it is important that these not be at the expense of the future position of the Bank. The years ahead, will, we believe, see vast changes and the challenge which the Bank will face will be to adapt successfully to these changes. Long-term, consistent emphasis upon the development of the technological and human resources of the Bank, within a flexible organization, are essential elements in our response to this challenge.



William D. Mulholland,
Chairman and Chief Executive Officer

The Year in Review: The Economy

It became apparent during 1982 that recovery from the worldwide recession will be slow, and that the international economy is undergoing profound readjustments. Most western industrialized countries experienced a volume decline in economic activity; third-world and centrally-planned economies faced slowed or negative growth partly as a result of recession in the industrialized world but also due to basic problems of economic organization.

Inflation and unemployment rates varied from country to country, but they were virtually all at levels previously thought unacceptable to post-war public opinion. Election results continued to demonstrate voter dissatisfaction with economic policies of ruling parties, no matter what their political stripe. Because of strong inflationary pressures and the strength of the U.S. dollar, governments were obliged—sometimes contrary to declared political principle—to follow policies of high real interest rates. There was also a growing recognition of limits to government expenditures, even among those governments pledged to socialist platforms.

As in past recessions, the world's largest economy, that of the United States, provided both an index of the depth of the crisis and indications of recovery ahead. A drop-off in GNP of more than 1% in the past year indicated the gravity of the situation; a drop in the inflation rate to under 5% annually, accompanied by a steep decline in interest rates and a concomitant resurgence of stock market activity, provided grounds to hope for a more stable environment for investment and economic growth. But with an unemployment rate of more than 10% last autumn, a figure unsurpassed in four decades, and hesitant consumer buying, it was clear that consumer confidence, the motor of an eventual economic recovery, had not yet been re-established.

In Canada, the recession was deeper than in the U.S. and recovery appears more distant. When all figures are tallied, the drop-off in GNP could be even larger than 5%, the biggest decline since the 1930's. Unemployment rose above 12%, also a post-Depression record. Retail prices rose by 11% on average for the year, only a modest improvement from the record 1981 level.

A key factor in Canada's inflation performance was adjustment to higher oil prices. While other countries had absorbed the OPEC price hikes gradually over the past decade, Canadian consumers had been shielded artificially by low prices on Canadian oil and subsidized import prices. The Federal-Alberta government agreement in the fall of 1981, subsequent to the National Energy Program, caused domestic prices to jump to reflect world oil prices.

The difference in inflation performance between Canada and the U.S. exacerbated pressure on the Canadian dollar, which in June fell to an all-time low of 76.3 U.S. cents. The plunge was quickly halted as the Bank of Canada engineered a wide short-term interest rate differential between Canadian and U.S. dollars. The resulting capital inflow pushed the Canadian dollar back up to the 80 to 81-cent level. As U.S. interest rates came down, Canadian rates followed suit, but with a fairly wide margin of safety.

In the latter part of the year, the Federal Government launched a program to hold increases in public sector wages and publicly administered prices to 6% in 1982 and 5% in 1983. Provincial governments announced similar spending restraints. Although generally welcomed by the public, the restraints were deplored by labour unions which threatened disruptions of public services.

The government's ability to maneuver on the economic scene was severely hampered by an extraordinary deficit, which this year is expected to exceed \$24 billion and reach about 7% of GNP. A job-creation program and changes to tax policies affecting business were announced in the fall, but stimulative programs which would further deepen the deficit were rendered improbable by the risk of further eroding confidence in the economy.

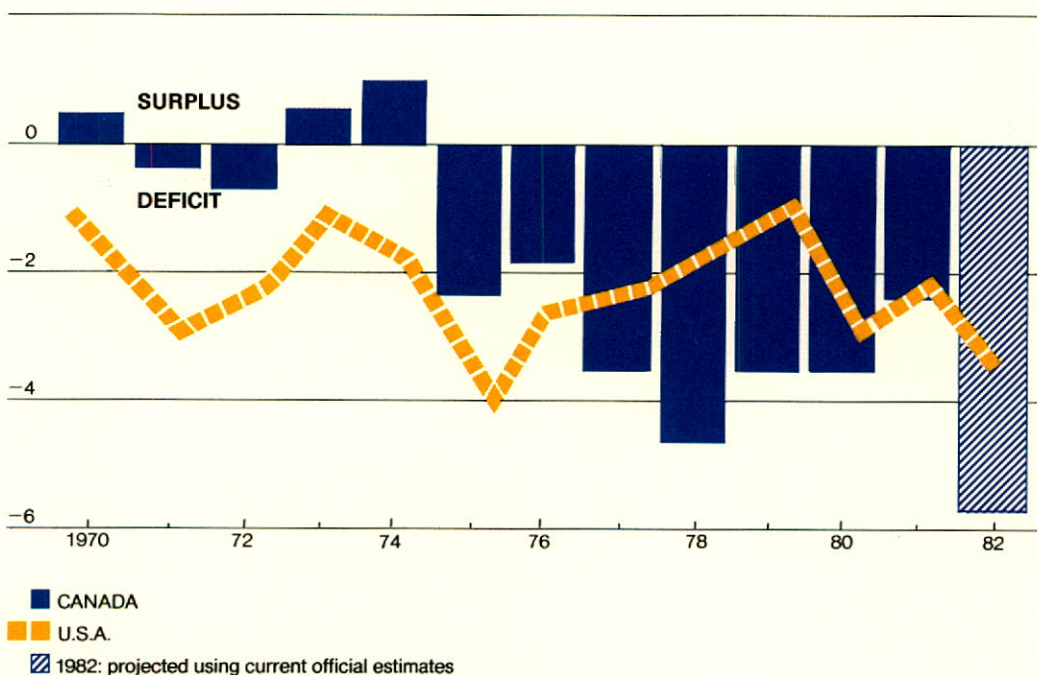
A bright spot was Canada's merchandise trade surplus, which will probably reach \$17 billion at the end of the year, or double the record surplus of 1980. This was due both to a drop-off in imports caused by the weak economy and a relatively strong export performance, given the weak condition of Canada's trading partners. The merchandise trade figures might result in a current account surplus (essentially trade in goods and services), a feat rarely achieved in view of Canada's traditionally large service deficits.

As in many other countries, the recession has prompted the Canadian government to review the effects of some of its policies. The negative impact of the National Energy Program and the Foreign Investment Review Agency, both perceived abroad as deterrents to foreign investment in Canada, has been moderated somewhat by recent measures to reassure foreign investors. It is increasingly recognized that foreign confidence and investment in the Canadian economy is important to recovery.

Worldwide, it is unlikely that the next year will bring any startling turn-around. Continuing caution concerning inflation will keep U.S. interest rates relatively high, while elsewhere governments will have to decide whether to follow this lead, or to devalue their currencies to spur economic growth. Unemployment will continue to be a serious drain on resources, as the industrial structure of virtually all countries undergoes profound readjustment toward greater efficiency.

Eventual recovery will be led by the United States, as lowered interest rates encourage consumer investment in durable goods such as automobiles and appliances, and homes. This will in turn spur industrial recovery. Yet the public is wary about the economic future and the upturn in the U.S. will depend, paradoxically, on the government's success in convincing the public that an upturn is in sight.

Federal Government Surplus or Deficit
as % of GNP



The Year in Review: The Bank

Unfortunately, banking is not recession-proof. In times such as these, such fundamental Bank policies as maintaining a strong capital and liquidity position and providing adequately for loan losses prove their worth. Measures to restrain the growth of non-essential non-interest expenses take on added importance, and these are being pursued vigorously and with considerable success. These measures, as well as the prevailing economic environment, are reflected in the year's financial results.

Net income for 1982 was \$257 million, a decline of 27.2% from the year before. Net income per common share was \$3.70, compared with \$6.16 for 1981. Because of sharply reduced demands for new credit, the need to retain earnings for capital funding purposes was less pressing than usual, allowing the Bank to increase dividends to \$1.96 per common share, compared with \$1.80 in 1981.

The increase in loan loss provisions, from \$196 million in 1981 to \$319 million in 1982, was one of the major reasons for the decline in profits. Another reason was narrower domestic spreads, as loan rates fell more rapidly than deposit rates, the same "lag effect" that contributed to the higher profits in 1981, when interest rates were rising.

The Bank's efforts to improve profitability by controlling costs began to show appreciable results towards the end of the year. For the year as a whole, operating expenses rose 15.7%. By the fourth quarter of 1982, growth had been reduced to an annualized rate of 4.4%. This is not, however, sustainable and a somewhat greater rate of escalation should be expected in 1983, as a number of priority programs considered to bear importantly upon the Bank's future competitive position will be maintained.

Domestic operations contributed \$138.7 million to net income for the year, a decrease of \$96.6 million from 1981. International earnings, on the other hand, increased marginally to \$118.3 million, or 46% of net income—up from 33% in 1981.

Total assets at the end of the fiscal year were \$62.0 billion, \$347 million less than the year before. The decline in assets, the first in many years, was due not only to the slowdown in economic activity but also to the constraining effect in the current environment of country limit and portfolio diversification policies. Another significant influence was changes in foreign exchange rates, as the Canadian dollar strengthened significantly against all major currencies, thus reducing the nominal value of foreign loans outstanding. Foreign currency assets decreased \$1.1 billion during the year, while Canadian assets rose by \$800 million.

The Bank's capital-to-asset ratio rose substantially during the year, and now stands at its highest level in nearly a decade. With capital now at \$2.3 billion, Bank of Montreal is one of the more strongly capitalized banks. Shareholders will be interested to note that over the past year shares issued in conjunction with the Share Purchase Plan, Dividend Reinvestment Plan and Stock Dividend Plan increased equity by \$55.5 million.

Grant L. Reuber, Deputy Chairman, conferring with William E. Bradford, President and Hartland M. MacDougall, Vice-Chairman, in one of the historic conference rooms of the Montreal office of the Bank.





Corporate and Government Banking

The Corporate and Government Banking Group manages nearly 50% of the Bank's total portfolio of loans and mortgages. Originally formed in Toronto at the end of 1976 with one vice-president and two account managers, the Group has gradually expanded its management of large corporate and government accounts, first in Canada, then North America, and finally worldwide. Today the activities of the Group are managed by 73 executive officers, with account managers based in 20 countries.

In the course of its six-year evolution, the Group has also expanded its capabilities in such technical areas as petroleum and mining engineering, in international loan syndication, in cash management and other non-credit services, and in special financing areas such as project finance, trade finance and corporate finance. While the structure has now been put in place, there remain some shortages of personnel as well as skills which will, of course, be overcome in time.

The corporate banking environment is a demanding one in terms of both the breadth of personal knowledge and skill needed and the degree of teamwork required for the effective management of complex customer relationships. On the other hand, it also offers the greatest scope for the professional development of well-rounded commercial bankers, equipping them to work effectively with either domestic or foreign customers.

Corporate banking involves much more than simply making loans. Skill, ideas and service are also required to meet the needs of corporate and government customers. Account managers regularly call upon the skills of our Treasury dealers, Operations officers, Cash Management specialists and Merchant Banking officers for support in meeting the financial requirements of customers. The growing spectrum of corporate financial services is not only an important element in customer relationships but is also becoming increasingly important in generating fee income for the Bank, without necessarily involving a commitment of funds.

To succeed in an increasingly competitive and interdependent world, the Bank must be able to offer to Canadian industry and governments, service and skill equal to the best obtainable. However, like many other industries, Canadian banking too must achieve economies of scale in its various markets in order to be able to afford the cost of delivering a competitive product. This is not always feasible in an exclusively domestic context. For these reasons, the Bank chose to develop the Group with a global orientation.

The ability to provide high quality service to a sophisticated and demanding market is increasingly dependent upon technology. The requirements for efficient operations and information support are enormous compared with those of earlier years. Without such support, it is impossible to provide, at an acceptable cost, banking services which meet the high standards required by today's competitive markets. As noted elsewhere in this report, plans to expand systems capabilities are already well into the implementation stage.

The Corporate and Government Banking Group manages a loan portfolio of about \$22 billion, comprising loans to both residents and non-residents. During the past year, loan demand in the markets served by the Group, while well below the buoyant levels of previous years, was reasonably firm, given the circumstances. Overall, balances were up about 10%. In Canada, loan demand was generally weak, aggravated somewhat by a shift to money market borrowings. Bank policies respecting portfolio diversification and country risk have had a constraining effect upon the rate of international loan growth.

The Bank is agent for the \$450 million project financing provided by 16 international banks to the Blair Athol Coal project in Queensland, Australia. Shipments from this mine, sponsored by CRA Limited and others, will be made under the first major contract for importation of thermal coal by the Japanese electric utility industry.

More generally, the absence of an international consensus in support of official policies aimed at the creation of a stable international economic environment has tended to inhibit international lending by the banking community. While the deleterious effects of a slowdown in such lending are well understood, so too is the futility of attempting to finance indefinitely payments imbalances sustained by continuing instability.

Merchant Banking

In the competition for business, the Merchant Banking unit plays a vital role in supporting our corporate and government account managers. The unit includes specialists in loan syndication, project finance, trade finance and corporate finance.

In the past year, the Bank has reinforced its position as a leader in project finance and loan syndication. Fiscal 1982 was one of the most active years in Bank history for project financings, both in terms of the volume of transactions processed and of fees earned. The Bank has led or is currently leading ten major project transactions, all of which involve syndication to the international banking community. These transactions reflect years of effort to build professional expertise and depth in these demanding areas. More recently, the Bank has been successful in blending the skills from these two areas of high expertise into an effective international project financing capability equal to the most demanding requirements.

The majority of project financings involve the development of natural resources, including energy resources. The Bank has earned a solid reputation for its careful assessment of project quality involving the judicious balancing of the needs of sponsors and those of the lending banks, and a policy of basing its advice upon conservative assumptions. Procedures include the thorough technical analysis of projects both by in-house technical specialists and, where appropriate, by outside consultants and the use of

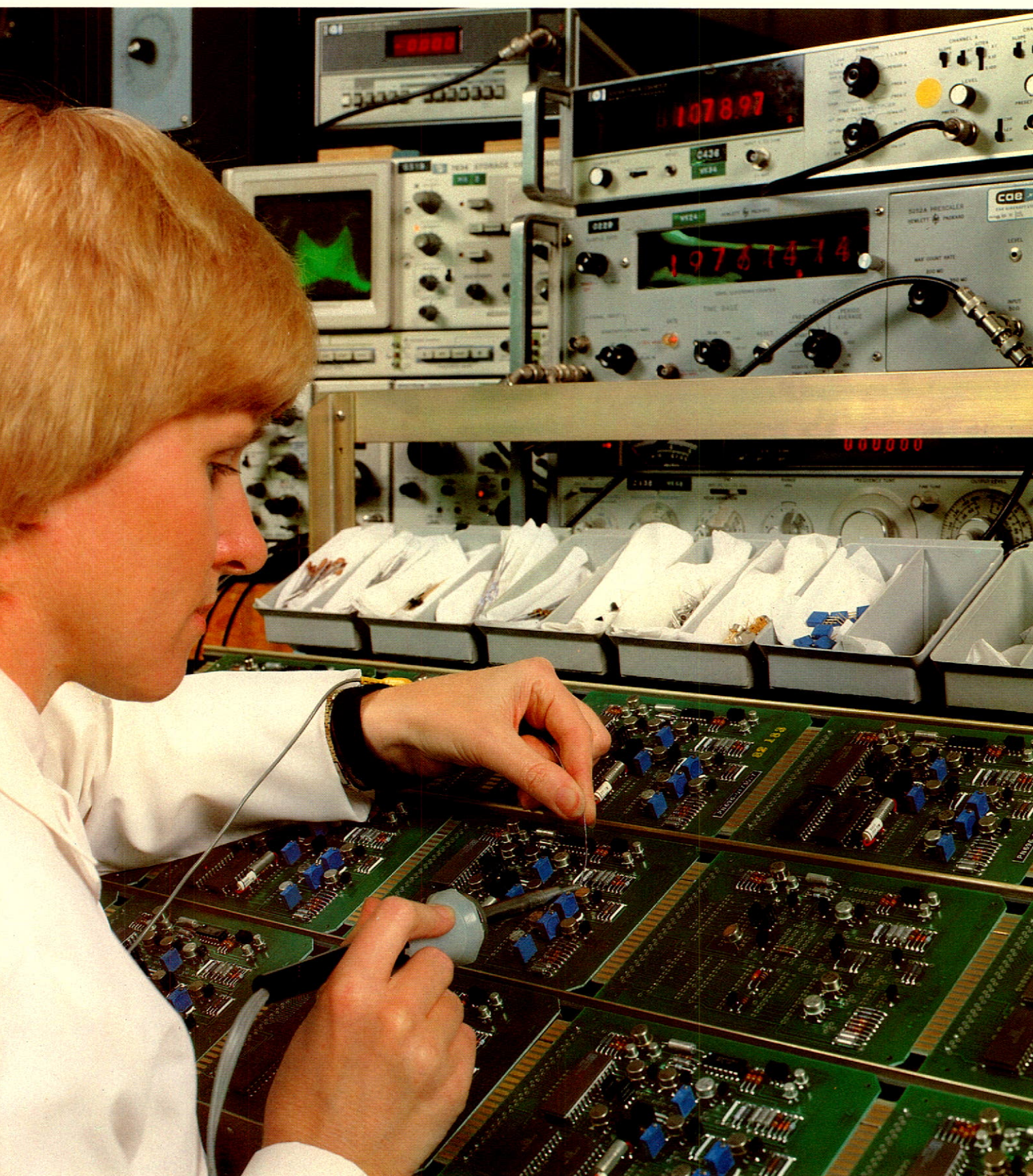
computer-based simulation techniques. The economic development of Canada will require skills and expertise such as those represented in the Bank's Merchant Banking units.

The Bank is also expanding its capabilities in the area of trade finance beyond the historic emphasis on capital goods and natural resources. The Bank has entered into export financing agreements in respect of Canada and 16 other countries permitting it to offer to its customers trade financing on attractive terms. Most trade financing transactions generate short-term, self-liquidating credit, important to the maintenance of a well-balanced international loan portfolio. It is also a service which is important in the Bank's relationships with domestic customers whose business is export-oriented. Since nearly 30% of Canada's GNP is accounted for by exports, trade finance plays a pivotal role in sustaining and enhancing Canada's overall economic performance.

Treasury

The Bank's funding, trading, investment, securities and corporate trust activities are centered in the Treasury Group. Dealing through offices located around the world, Treasury currently manages approximately \$34 billion of liabilities and \$15 billion of assets, including reserve and liquidity pool assets, money market assets, and the securities and mortgage portfolios. Other units of the Bank which manage liabilities receive Treasury guidance on rates and term.

A technician at Bristol Aerospace Limited of Winnipeg assembles a printed circuit board for a data collection platform used, among other applications, to relay information from meteorological stations and satellites. Bristol Aerospace, a Bank client, is a high-technology company whose products are sold throughout North America and Europe.



Treasury co-ordinates the Bank's global asset and liability positions, ensuring that assets are funded from diversified sources, in the appropriate currencies, and for the required term, at the lowest possible cost. During the past year, Treasury activity in the capital markets slackened, as a consequence of the depressed economy and slow asset growth. An investor relations program provides information to existing and prospective investors.

Transactions averaging about \$6 billion a day pass over Treasury trading desks worldwide. These figures have doubled in the past three years and growth is expected to continue.

The centre of these worldwide operations is the trading room at the Group's headquarters in Toronto, among the most advanced in the world. Through this facility, Treasury provides money market, foreign exchange and bond trading services to customers; handles the Bank's own funding and investment activities; and co-ordinates the activities of Treasury offices across Canada and abroad.

In recent years, facilities outside Canada, which now account for a substantial share of total dealing activity, have been significantly upgraded. A global communications link-up permits the Bank to monitor its worldwide positions virtually around the clock regardless of time zone differences. Service will be enhanced by major programs to automate the Bank's foreign branches, to interconnect them with the domestic on-line system, to automate the international funds transfer network and to provide automated support for U.S. dollar deposit accounts through the Canadian on-line banking system.

Domestic and international money market desks not only meet Bank funding requirements in world markets but also serve customers seeking to place surplus funds in short-term, interest-bearing instruments both in Canadian and in foreign currencies. For customers utilizing the domestic money market as a source of funds, the Bank offers a comprehensive family of services designed to facilitate this access efficiently, economically and securely. Steps taken by the Bank to counter the erosion, from non-bank

competition, of a traditional banking market—the provision of short term credits to commerce and industry—have had satisfactory results.

On average, transactions totalling about \$3.5 billion daily pass over the Bank's foreign exchange desks, largely reflecting services to corporate and institutional customers. Foreign exchange dealing, an important source of revenue to the Bank, is a high volume, low margin business requiring a relatively modest commitment of capital but a heavy investment in operations and information support facilities. The Bank, historically strong in the Canadian commercial market, is improving its competitive position in foreign money centres.

The domestic bond department, with desks located across Canada, makes trading markets in both government and corporate securities; it also provides bond underwriting services to Canadian governments. Development of the department's personnel and facilities and consistent expansion of its account coverage have given the Bank substantial placing capability and an intimate knowledge of these markets.

With the exception of foreign exchange revenue, which was off somewhat, results for the past year showed good improvement over last year's. Treasury services are integral to the Bank's own operations and vital, in a complementary sense, to effective marketing of other services, as well as a substantial and growing source of Bank earnings.

The ore carrier William J. De Lancey, the longest vessel on the Great Lakes at 313.78 meters, approaches a lock near Windsor, Ontario. The Bank provided construction financing for the vessel. Despite the De Lancey's great length, it is still able to negotiate the Great Lakes locks while carrying up to 60,500 long tons of iron ore.

The De Lancey is owned by Moore McCormack Resources, Inc. of Stamford, Connecticut and is operated by its subsidiary, Pickands Mather & Co. of Cleveland, Ohio.





Operations

The Bank's computer and telecommunications systems are among the most sophisticated and advanced in the financial services industry. A comprehensive program is in progress to extend, both geographically and functionally, the scope of the service and to improve its quality and cost-effectiveness. In Canada, these systems support direct customer access, instantaneous funds transfer and fully automated bookkeeping across a full range of products.

A distinctive feature of the Bank's Canadian data processing network is that it operates in real time. Transactions—be they loan or deposit, commercial or personal—can be processed and recorded within seconds by a central computerized data base from any "on-line" terminal. This network now includes all Canadian branches, all of the new automated teller machines and commercial cash management terminals. In effect, our customers may conduct their banking affairs, in either official language, across the country's six time zones.

The Bank is moving rapidly towards automated global delivery of banking service by extending its systems to transcend national frontiers and currencies. A multi-currency data processing system developed for installation initially in London, England, is also being installed in 1983 in Canada, the United States and Asia; the system supports money market and foreign exchange dealing, loan and demand deposit transactions, as well as the associated financial records. Payments processing between Canadian and other international financial centres will be

fully automated by a new funds transfer network connected to the computerized clearing house in New York and to other interbank payment networks. In 1984, the offshore offices will be linked to the central systems in Canada to complete our global delivery system. DirectLine and other Cash Management services for corporate customers will be available through all our international offices.

When this system is in place, our customers will be able to conduct banking business virtually anywhere in the world, day or night. A Canadian multinational corporation would be able to consolidate funds from bank accounts in, for example, five countries in a matter of seconds. Using worldwide Cash Management services, the same corporation might invest surplus funds with assistance from our Treasury dealers or decide to draw upon an established Bank line of credit to cover a temporary shortfall.

Internally, accounting and financial reporting in Bank offices around the world is being fully automated and will be linked to produce a daily consolidated balance sheet. Continuous worldwide monitoring of the loan portfolio, and of money market and foreign exchange positions will then also become feasible.

Such rapid innovation is possible because of past investments in the centralized data base, located in Scarborough and Willowdale computer centres. These facilities have the electronic memory and processing capacity to keep comfortably ahead of the increasing transaction loads resulting from global delivery. Since the initial, and quite substantial, investment in the basic computer system has already been largely amortized, expansion through worldwide telecommunications links can be achieved cost-effectively. Nevertheless, the development and implementation costs of the current programs will be substantial. The fact that development expenditures

This IBM 3890 cheque processor at the Montreal Regional Data Centre is capable of processing up to 100,000 cheques an hour. A nationwide system of such machines, the fastest commercially available, permits the Bank to process 82 percent of all cheques within 24 hours. Over 580 million cheques are processed per year.

are being increased in 1983, notwithstanding the economic environment, is an indication of their importance to the future competitive position of the Bank.

The Bank is well-positioned to capitalize upon more than a decade of Canadian research and development not only to enhance and expand the international services offered to its Canadian customers but also to strengthen its competitive position in world financial markets.

Personal Banking

Canadian banking has undergone far-reaching changes in recent years. Technology is increasing the scope and variety of banking services; burgeoning transaction volumes call for constantly improved levels of productivity; and more complex economic and legislative developments require a high level of staff professionalism. New organizational and management strategies are required to meet this challenge.

A task force headed by three senior Bank officers studied these issues, held discussions with Bank people from coast to coast, and recommended a comprehensive plan for the future development of domestic banking.

On November 1st, the Bank launched the Domestic Development Program by establishing a new banking group—Canadian Commercial Banking—and re-defining the mandate of the Domestic Banking Group. The aims are to provide better service to our customers, to provide greater opportunities and a more satisfying job environment for our employees and to improve the quality of Bank operations.

Domestic Banking, through its 1238-branch nationwide system, will continue to provide all personal banking service, including deposit, funds transfer and consumer credit, as well as operational support for other units of the Bank.

Personal banking, an important component of the Bank's business, has lacked an organizational identity of its own. Now, a key element in the Bank's overall business strategy, it will benefit from having its own dedicated management and staff and from the improved focus which will be imparted to training and career development. The new structure is expected to strengthen personal credit operations, supported by advances in automation now being reflected in the Bank's processing and information systems. Although many branches will continue to house commercial lending activity, officers engaged in this function will report through the new Canadian Commercial Banking Group.

Management of the Group will be in the hands of a general manager assisted by three regional executives. The change will reduce the number of administrative headquarters while increasing field supervision of line functions.

The role of the branch system in securing a competitive share of Canadian deposits will continue to receive strong emphasis. It is the deposits of millions of individual Canadians in branches across the country that provide a diversified source of funding for the Bank's loans and other assets in Canada. Domestic Banking will develop and market savings products that meet the need of the public and are cost competitive. In 1982 the Bank continued to improve its market share of personal savings and chequing accounts, which reached the highest level in several years.

In the consumer lending field, a general decline in demand for credit was experienced during the past year, reflecting the soft economy. Loan losses in this category, while within industry norms, were high in historical terms. Mortgage

Personal banking facilities increasingly offer both automated teller machines for routine banking transactions and teller service. This personal banking outlet on the concourse level at First Canadian Place, Toronto, provides teller services during regular banking hours, as well as Instabank service from 7 a.m. to 11 p.m. seven days a week. Using Multi-Branch Banking or Mastercard cards, Instabank customers can access their accounts anywhere in Canada.



Bank of Montreal

**Instabank
Centre**

Bank of Montreal

**Instabank
Centre**

Instabank Centre
Information Technology & Services

Bank of M

demand was also slow, reflecting economic conditions. It is worth noting that mortgage defaults continue at a very low level.

Multi-Branch Banking, introduced in 1979, provides individuals with access to their accounts from anywhere in the country. More than 4,500,000 transactions per month or 33% of all personal transactions, are now done at locations other than the customer's home branch using the MBB card.

Customers have also benefited from expansion of the Automated Teller Machine system, or Instabank. More than 220 of the new Instabanks installed in seven cities have been integrated into the on-line system. The system's success is evident from customer response: 1,000,000 transactions per month.

The Card Services Division, encompassing MasterCard, the American Express Gold Card and private label services to retailers, continued to expand its operations. But the growth rate was slower than in previous years, reflecting the pressures being experienced in the retail, travel and entertainment industries. The Bank maintained its share of market in this field.

Vital to improved service is the reduction of waiting time in branches. The Bank is expanding to more branches services such as the Quick Cash Teller, Quick Deposit Units and Mini-Cheque Desks, which permit customers to handle routine banking business faster and more conveniently.

Service hours have been further extended and one branch in five is now open on Saturday, with the number growing in response to consumer demand.

Commercial Banking

The Canadian Commercial Banking Group, organized at the end of 1982 after two years of study, is designed to serve both medium-sized and smaller independent businesses with the same high level of banking services which large corporations enjoy.

These businesses are crucial to the growth of the Canadian economy and account for roughly one-half of total business sales. The country's 23,000 medium-sized businesses, with annual sales ranging from \$2 million to \$100 million, employ 20% of the private sector workforce. They form a broad, varied market sector that includes firms in such fields as high technology precision manufacturing, mining, chemicals and retail distribution, to name a few.

Canada's approximately 700,000 small businesses employ 40% of the private sector workforce and account for 25% of total business sales in Canada. This is a dynamic sector of the economy.

These two broad market groupings include a number of industries, such as agriculture and real estate, which require special knowledge on the part of commercial bankers. Specialist support is available to lending officers and, where appropriate, officers with specialized training and experience are assigned to such accounts.

The Commercial Banking Group is similar in concept to the Corporate and Government

Dr. Donald F. Peer (right) of Nipawin, Saskatchewan, owns a 1,300-colony bee operation which produces top-quality "clear grade" honey, much of it exported to the United States and Europe. Dr. Peer, shown here with Nipawin branch manager Ken Bettesworth, is a Bank shareholder and member of the Bank's Manitoba Saskatchewan Agricultural Advisory Committee. During summer months, when bees are intensely occupied making honey from yellow rapeseed (shown here), protective beekeeper clothing is unnecessary.



Banking Group and will draw upon the specialized expertise and products of the older organization and from the interchange of personnel. The anticipated benefits are threefold: first, an improvement in the quality of domestic commercial banking operations and service; second, an increase in the Bank's share of these markets, which has declined in recent years; and third, enhanced support for professional development of career commercial bankers.

Relieved of the administrative responsibilities associated with management of the branch system, the management of the Commercial Banking Group will be free to concentrate on enhancing the quality of commercial banking services offered to smaller and middle-sized commercial customers.

The Group's organizational base is a Canada-wide network of Commercial Banking units, administratively separate from branch management and reporting through the management structure of Commercial Banking. Lending, credit and commercial service officers will be based in larger commercial branches, where the bulk of commercial lending is already concentrated. The change will, in most cases, be more visible internally than externally. In some units, such as those in agricultural areas, commercial bankers will also be deployed in the field. The first units have already been established in Ontario and, by 1984, there will be about 100 in operation across the country.

Business conditions and results in the markets served by Commercial Banking were poor last year. Loan volume was down and loss experience was up. Although accounting for slightly more than one-fifth of the Bank's total portfolio of loans and mortgages, these markets accounted for a significantly greater proportion both of total loss experience and of non-current loans. The new structure, supported by appropriate policies in the human resources area, is expected to contribute to an improvement in the Bank's overall performance in these markets. Clearly, they represent one of the areas of greatest opportunity open to the Bank.

The Bank enjoys a strong share of the agribusiness market, one of the largest and most efficient industries in Canada. Last year, farmers continued to make selective use of credit in response to lower prices for most commodities and general economic uncertainty. Agricultural Advisory Committees, made up of professional farm operators, advise on regional conditions and the needs of agriculture. Problem-solving teams, comprised of senior agricultural lenders, agrologists and other experts, recommend means of assisting customers experiencing difficulties.

In principal agricultural regions, senior Bank officers conducted six Farm Profit Outlook Conferences which were well attended and will be repeated in 1983.

The Bank offers its commercial customers access to flexible financing arrangements, credit under government programs and such special services as comprehensive business insurance. To assist small business, the Bank has a wide range of counselling services, sponsors seminars stressing financial management techniques and distributes its Small Business Problem Solver booklets to a large readership. Review committees in all divisions examine alternatives in situations where liquidation or realization of security may have been proposed and no such action may be initiated without such a review. Customers who believe inadequate consideration has been given to their particular circumstances may, of course, bring this to the attention of the review committee in their area. They need only contact the senior vice-president in their division.

The Bank of Montreal Institute in Toronto provides training facilities for Bank employees across Canada, and at all levels of experience. Here, interns from the Management Development Program work on an accounting case study in a small seminar.

58M
63M
Net Profit
60M
2M (12M)
2M (12M)
36M 36M

NEEDLE TRADE		
	BROADWEAVE FABRIC INC	INDUSTRY AVERAGE
	17	20
	8	37
	27	20
	9	8
		30
		24
		17





International Banking

The International Banking Group manages the Bank's worldwide network of branches, offices, affiliates and wholly-owned subsidiaries. Its organization was refined in 1982 to permit greater concentration upon business opportunities in local banking markets outside Canada.

International Banking's facilities are being upgraded with a comprehensive automation program designed to meet the demands of domestic and international clients for sophisticated products and service. This program is well underway and will enable the Bank to match internationally the same standards of automation already attained in its Canadian operations.

Technological innovation will reinforce the position of Bank offices in the world's key financial centres, including New York, London, Hong Kong, Singapore and Frankfurt.

Tokyo branch marked its first anniversary last August and ranked thirty-fifth of 71 foreign banks in Japan by asset size on March 31st, 1982, only eight months after opening. The Bank's Seoul branch, which has achieved a leading position in the Korean market since its opening in November, 1978, continued to perform well in 1982, its fourth year of profitable operations.

In Hong Kong, despite the impact of a recession, the Bank's branch generated significant new business. Both the branch and the Bank's wholly-owned subsidiary, First Canadian Financial Corporation, continued to be profitable, although earnings were down somewhat from 1981.

Enlarged dealing facilities in Hong Kong will support the expected growth in money market and foreign exchange activities in the world's third largest financial centre.

The Singapore-based subsidiary, Bank of Montreal Asia Limited (BOMAL), serves as the Bank's main vehicle for loan syndications in Asia; it remained profitable in 1982, despite difficult market conditions and its volume of business expanded substantially. Singapore branch maintained its position as a major participant in the Asia dollar market.

The Bank's subsidiary in Brazil, Banco de Montreal Investimento S.A. MontrealBank, performed well during the past year, its assets increasing by 20% and its net income by 25% from 1981. MontrealBank is one of the leading institutions in its field in Brazil.

In the Bahamas, a computer system was installed to automate money market, foreign exchange, commercial loans and fixed term deposit operations for our banking group. During the year, the Bank opened a branch in Nassau to diversify further its services to international clients. Its subsidiaries, Bank of Montreal International and Bank of Montreal (Bahamas and Caribbean) Limited, reported consolidated earnings 6% above 1981 levels.

In the United States, a major program has been initiated to upgrade the operations of New York branch to support a greater volume of business. In 1983, a fully automated system for processing loan and demand deposit transactions, money market and foreign exchange dealing and the related financial records will be installed in the branch. Bank of Montreal (California) which supports the Bank's operations in the western United States, maintained a profitable performance.

London branch, which is now fully automated, was reorganized to improve its capacity to supply a wide range of services to clients in the United Kingdom and worldwide. In early December, the branch moved to new quarters at 9 Queen Victoria Street in the City of London. The London-based units of the Corporate and Government Banking and Treasury Groups as well as the Loan Syndication unit are also located in the same building.

The Bank's Frankfurt branch had a successful year despite difficult market conditions, and was able to expand its business with a number of major German corporations.

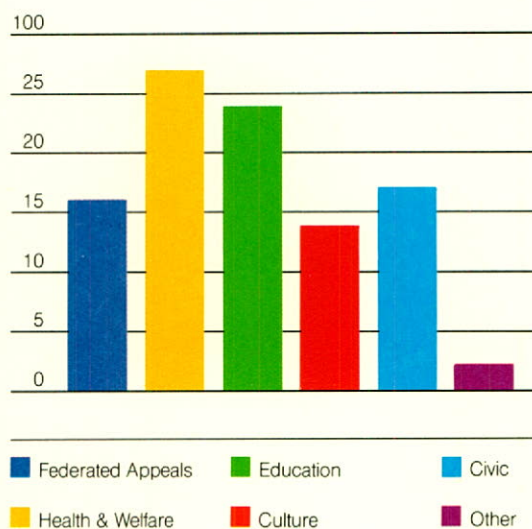
The New York branch at 2 Wall Street includes facilities for the Treasury trading room, which overlooks a famed landmark, Trinity Church. The Bank first opened an agency in New York in 1818, and moved to Wall Street in 1869. Offices of Corporate and Government Banking are located in the Bank of Montreal Building at 430 Park Avenue.

The Bank and the Community

Over the years, the Bank has developed a tradition of community participation and service. This is demonstrated not only by a nationwide donations program, but also in Bank policies which promote social responsibility and encourage Bank employees to take part in civic life.

The donations program is administered through Head Office and regional headquarters across Canada, with the goal of distributing funds equitably across the country where they result in significant community benefit. During the past year, the Bank disbursed a total of \$2,642,253 in the following categories:

Distribution of Bank Donations Funds
(percentage)



Each year the Bank undertakes a limited number of special projects in the area of community and public affairs, some examples of which follow:

□ During the year, the Bank made a major donation to the University of British Columbia to establish a Chair in International Finance. Professor Maurice Levi was subsequently named Bank of Montreal Professor of International Finance by the University and delivered his inaugural lecture in December.

□ The Bank's collection of Plains Indian portraits by the late Alberta artist Nicholas de Grandmaison was the subject of a major book published by Douglas & McIntyre Ltd. of Vancouver. Coincident with publication, an exhibition of the de Grandmaison portraits opened in October at the Glenbow Institute, Calgary.

□ As part of its public education program, the Bank produced a four-part video series on banking and money management, to be used in high school economics courses.

□ Other educational projects include a series of teaching aids for economics courses; co-sponsorship, with Shell Canada, of the Junior Achievement program, Project Business; and the Speakers' Bureau, through which Bank officers talk to community groups about financial matters.

□ During the year, senior Bank officers again conducted the highly successful Economic Outlook and Farm Profit Outlook conferences in several cities across Canada. The Economic Outlook program, now in its twelfth year, attracted 6000 participants in ten cities. Unique in its audio-visual presentation, the series has acquired a national reputation for authoritative economic analysis.

Agricultural Advisory Committees are active across Canada to facilitate the exchange of information between farmers and Bank officers. Here, J.A. Ernest Morel, Senior Vice-President, Canadian Commercial Banking Group (left), examines a soybean field near Melbourne, Ontario with some members of the Western Ontario committee, from left, George F. Martindale, James A. Cooke and John H. Hart.



Human Resources

Employee skills and motivation are fundamental factors in the Bank's performance. Advances in technology have not changed the fact that banking relies heavily on personal contact, and on the judgement and ability of employees.

The vast majority of the Bank's 28,000 employees work in Canada, while others staff offices abroad. The jobs they fill range from tellers to loan syndication specialists to petroleum engineers. Recruitment and training of people to fill these varied posts is the responsibility of the Human Resources Division.

During the past year, Human Resources filled more than 3,000 positions, exclusive of trainees; of these, about 10% were recruited from outside the Bank. This relatively high level of staffing activity reflects an increasing emphasis on professionalism, job performance and career development. Overall, however, a reduction in staffing activity may be expected to occur as modifications in job structure and compensation policies enlarge the scope for personal advancement without the necessity of a job transfer. Recruiting and training activity, on the other hand, should increase, reflecting the emphasis upon rebuilding of the human resource base.

Through programs developed at the Bank of Montreal Institute, over 4,500 employees participate each year in courses ranging from introduction to banking procedures for personnel joining the Bank, to advanced seminars for senior management.

The Bank also encourages its employees to pursue opportunities for self-development. During the year, approximately 2,100 employees were registered in educational programs conducted by the Institute of Canadian Bankers or were engaged in other approved university level courses of study, the cost of which was paid by the Bank.

Career programs, such as the Management Development Program, offer a comprehensive grounding in basic banking disciplines, culminating in a specific orientation toward one of several basic career paths in the Bank. The program, which combines formal training and on-the-job experience, was established in 1978.

The first "graduates", who began their three-years' training in 1979, this year took their places in the management ranks of the Bank. To date more than 300 young men and women have either successfully completed or are currently enrolled in the program. Their average age upon entrance is 27 and they have had an average of three years of work experience before joining the program. More than one-fourth are women; 87% were recruited from outside the Bank; 97% have university degrees and 85% have either advanced degrees or professional accreditation. Notwithstanding the current recession, recruiting for this program during 1983 will be maintained at 1982 levels.

In 1983, the Bank will inaugurate a new three-year program designed specifically to prepare candidates for careers as commercial banking officers. This program is structured for candidates with somewhat less experience but the same high potential and motivation as participants in the Management Development Program.

No area is more difficult to manage equitably in the current economic climate than employee compensation and benefits. These must remain competitive, or the Bank risks losing the services of valuable employees. However, both the Federal Government's program of wage restraint and the Bank's ability to absorb additional expenses in a poor economic environment must also be considered. The Bank is accordingly emphasizing "pay for performance", whereby individual merit is recognized through promotion and increased salaries. Productivity is encouraged within the framework of the Bank's commitment to support the objectives of the national government.

The Bank's trading room in First Canadian Place, Toronto, part of which is shown here, is among the most advanced in present-day banking. Within this room, 20 miles of telephone and data cables support 170 direct phone lines, 140 regular phone lines, and 200 video monitors on the dealers' desks.

Through trading rooms in key cities internationally, the Treasury Group has access to world financial centres around the clock.







Bank of Montreal and Subsidiaries

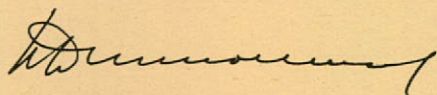
Annual Statement
and Management Analysis



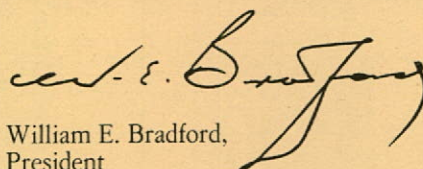
Bank of Montreal and Subsidiaries
Consolidated Statement of Assets and Liabilities
As at October 31
(\$ in thousands)

Assets	1981	1982
Cash Resources		
Cash and deposits with Bank of Canada	\$ 1,283,241	\$ 1,122,450
Deposits with other banks	7,910,557	6,416,168
Cheques and other items in transit, net	766,695	—
	<u>9,960,493</u>	<u>7,538,618</u>
Securities Issued or Guaranteed by (Note 1)		
Government of Canada	2,195,114	2,147,922
Provinces and municipal or school corporations	124,872	161,293
Other	2,879,229	3,111,178
	<u>5,199,215</u>	<u>5,420,393</u>
Loans Net of Reservations for Losses		
Day, call and short loans to investment dealers and brokers, secured	481,840	460,721
Banks	1,832,607	1,702,101
Mortgages	5,085,725	5,223,505
Other	36,358,504	36,695,740
	<u>43,758,676</u>	<u>44,082,067</u>
Other		
Customers' liability under acceptances	1,628,692	3,050,219
Land, buildings and equipment (Note 2)	479,168	618,617
Other assets	1,347,599	1,317,051
	<u>3,455,459</u>	<u>4,985,887</u>
Total Assets	\$62,373,843	\$62,026,965

Liabilities and Shareholders' Equity	1981	1982
Deposits (Note 3)		
Payable on demand	\$ 5,272,102	\$ 4,443,339
Payable after notice	13,587,903	13,949,771
Payable on a fixed date	36,914,215	35,481,516
	<u>55,774,220</u>	<u>53,874,626</u>
Other		
Cheques and other items in transit, net	—	9,030
Acceptances (Note 4)	1,628,692	3,050,219
Liabilities of subsidiaries, other than deposits (Note 5)	741,392	733,216
Other liabilities	1,491,545	1,262,942
Minority interest in subsidiary	55,300	55,477
	<u>3,916,929</u>	<u>5,110,884</u>
Subordinated Debt		
Bank debentures (Note 6)	653,453	725,603
Capital and Reserves		
Appropriations for contingencies	202,680	215,566
Shareholders' equity		
Capital stock (Note 7)		
Class A Preferred shares	200,100	375,086
Common shares	112,598	125,105
Contributed surplus	476,446	619,785
Retained earnings	1,037,417	980,310
	<u>2,029,241</u>	<u>2,315,852</u>
Total Capital and Reserves		
	2,029,241	2,315,852
Total Liabilities and Shareholders' Equity	<u>\$62,373,843</u>	<u>\$62,026,965</u>



William D. Mulholland,
Chairman and
Chief Executive Officer



William E. Bradford,
President

Bank of Montreal and Subsidiaries
Consolidated Statement of Income

For the Year Ended October 31

(\$ in thousands except per share amounts)

	1981	1982
Interest, Dividend and Fee Income		
Loans	\$ 7,028,306	\$ 7,307,819
Lease financing	38,116	45,501
Securities	601,761	635,312
Deposits with banks	823,202	935,477
Total interest, dividend and fee income	8,491,385	8,924,109
Interest Expense		
Deposits	7,005,699	7,360,976
Bank debentures	68,329	113,012
Liabilities other than deposits	59,436	80,059
Total interest expense	7,133,464	7,554,047
Net Interest Income	1,357,921	1,370,062
Provision for loan losses	196,320	318,673
Net Interest Income After Provision for Loan Losses	1,161,601	1,051,389
Other operating income	293,083	350,535
Net Interest and Other Income	1,454,684	1,401,924
Non-Interest Expense		
Salaries	540,247	631,559
Pension and other staff benefits	62,303	62,901
Premises and equipment	184,678	220,724
Other expenses	218,125	247,774
Total non-interest expense	1,005,353	1,162,958
Income Before Provision for Income Taxes	449,331	238,966
Provision (credit) for income taxes (Note 9)	92,147	(22,400)
Income Before Minority Interest in Earnings of Subsidiary	357,184	261,366
Minority interest in earnings of subsidiary	4,320	4,320
Net Income	\$ 352,864	\$ 257,046
Net income per common share (Note 8)	\$6.16	\$3.70

Bank of Montreal and Subsidiaries

Consolidated Statement of Appropriations for Contingencies

For the Year Ended October 31

(\$ in thousands)

	1981	1982
Beginning of Year		
Tax allowable	\$ 153,829	\$ 180,680
Tax paid	21,400	22,000
Total	175,229	202,680
Changes During Year		
Loan loss experience for the year	(268,084)	(550,187)
Provision for losses on loans based on five-year average loss experience	196,320	318,673
Transfer from retained earnings	99,215	244,400
Net Change During Year	27,451	12,886
End of Year		
Tax allowable	180,680	92,889
Tax paid	22,000	122,677
Total	\$ 202,680	\$ 215,566

Bank of Montreal and Subsidiaries

Consolidated Statement of Changes in Shareholders' Equity

For the Year Ended October 31

(\$ in thousands)

	Convertible Series 1 \$2.85	Series 2 \$2.50	Total
Class A Preferred Shares (Note 7)			
Proceeds of the sale of 5,800,000 shares on April 30, 1981	\$200,100		\$200,100
Balance, October 31, 1981	200,100		200,100
Proceeds of the sale of 7,000,000 shares on December 15, 1981		\$175,000	175,000
Conversion of 400 shares to common shares during the year	(14)		(14)
Balance October 31, 1982	\$200,086	\$175,000	\$375,086
Common Shares and Contributed Surplus (Note 7)			
	Number of Shares	Common Shares	Contributed Surplus
Balance October 31, 1980	54,750,555	\$111,159	\$459,555
Final proceeds from partially paid shares relating to 1980 rights offering	1,040,260	423	4,541
Shareholder dividend reinvestment program and share purchase plan	418,344	836	10,218
Stock dividend plan	90,007	180	2,132
Balance October 31, 1981	56,299,166	112,598	476,446
Shareholder dividend reinvestment program and share purchase plan	2,144,447	4,288	43,974
Stock dividend plan	356,265	713	6,540
Conversion of Series 1 Preferred Shares	400	1	13
Conversion of Series 1 and Series 2 Debentures	3,749,106	7,498	92,708
Conversion of Bank of Montreal Mortgage Corporation debentures	3,355	7	104
Balance October 31, 1982	62,552,739	\$125,105	\$619,785
Retained Earnings		1981	1982
Balance at beginning of year		\$ 848,780	\$1,037,417
Net income for the year		352,864	257,046
Dividends—Common		(100,803)	(121,338)
—Preferred		(9,397)	(33,106)
Direct costs of share issue net of related tax		(3,511)	(3,525)
Prior period adjustment (Note 10)		—	16,361
Transfer to appropriations for contingencies		(99,215)	(244,400)
Income taxes related to the above transfer (Note 9)		48,699	71,855
Balance at end of year		\$1,037,417	\$ 980,310

Financial statements of banks in Canada are prepared in accordance with accounting policies prescribed by the Bank Act of 1980 and regulations issued thereunder by the Minister of Finance. The significant policies are outlined below.

Basis of Consolidation

The assets and liabilities and results of operations of the Bank and subsidiaries are reported in the financial statements on a consolidated basis. The investment in 20% to 50% owned affiliates is reported in Other Securities in the Consolidated Statement of Assets and Liabilities. The Bank's interest in the results of operations of these affiliates is recorded using the equity method of accounting. The subsidiaries and affiliates of the Bank of Montreal are listed in Note 14.

The Bank accounts for the acquisition of subsidiaries on the purchase method of accounting. Under this method the difference between the cost of the investment and the value of net assets acquired is added to or deducted from other assets and amortized over a period not exceeding 40 years or charged to income when value no longer exists.

Securities

Securities held for investment purposes, of entities in which the Bank has less than 20% ownership, are carried at cost while securities issued or guaranteed by Canada and the Provinces are carried at cost adjusted for the amortization of premiums and the accretion of discounts. Any permanent impairment in the value of investment securities is recognized through a charge to income.

Gains and losses resulting from disposals of fixed maturity debt securities held in the investment account are deferred and reflected in the statement of income over five years on a straight line basis. Gains and losses resulting from disposals of equity securities held in the investment account are recorded as realized.

Trading account securities are recorded at market value. Gains and losses resulting from disposals and valuations to market are recorded in income in the year incurred.

The effect of the amortization of premiums and the accretion of discounts, the gains and losses realized on the disposal of securities and the adjustments to the valuations of both investment and trading account securities are recorded in Income from Securities in the Consolidated Statement of Income.

Loans

Loans are stated at their principal amount after deducting therefrom reservations for losses and unearned discount, where applicable.

Interest income is recorded on the accrual basis. Accrued but uncollected interest is reversed whenever a loan is classified as non-current. Thereafter interest on non-current loans is recorded as received.

All loans are reviewed at least quarterly and are classified as non-current if interest is 90 days or more past due, providing there is significant doubt as to the collectibility of principal or interest. In any event, loans are presumed to be non-current when payment of principal or interest is 180 days or more past the scheduled due date.

Reservations for Losses on Loans

The Bank provides for potential loan losses through the establishment of reservations, which are reported as a deduction from loans on the balance sheet. Loans are written-off against the reservations.

The reservations are established through charges to the Appropriations for Contingencies. The provision for losses on loans reported in the Consolidated Statement of Income is credited to the Appropriations for Contingencies. The amount of the charge to income is determined by calculating the ratio of the most recent five years, including the current year, of the net new reservations established less recoveries of loans previously written off (loan loss experience) to the most recent five years eligible loans and applying the ratio to the outstanding eligible loans at the end of the current year.

Appropriations for Contingencies

The Bank also establishes an Appropriations for Contingencies with respect to possible unspecified future losses on loans through transfers from Retained Earnings. The maximum amount of such transfers which can be made on a tax deductible basis is prescribed by regulations issued by the Minister of Finance. In addition, the Bank also makes tax paid transfers from Retained Earnings to Appropriations for Contingencies as deemed appropriate.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost less allowances for depreciation and amortization. Depreciation and amortization are calculated using varying rates so as to depreciate and amortize these assets over their estimated useful lives.

Translation of Foreign Currencies

Assets and liabilities in foreign currencies are translated into Canadian dollars at exchange rates prevailing at year-end. Revenue and expenses are translated at the average exchange rates prevailing throughout the year. Realized and unrealized gains and losses on foreign currency positions are considered current items and are recorded in Other Income on a quarterly basis.

Direct Finance Leases

Lease contracts under which total non-cancellable rentals exceed the cost of leased equipment plus anticipated financing costs are accounted for as financing leases and the gross lease receivable, the estimated residual value of the leased equipment and the unearned lease income are recorded at the time such a lease transaction is executed. A portion of the unearned lease income, which approximates the initial direct costs incurred in consummating the lease, is recognized as revenue at the time the lease is executed and the remainder is deferred and taken into income over the lease term to produce a constant rate of return on the net investment in the lease.

Restatement Under the Bank Act of 1980

Effective December 1, 1980, the Bank Act of 1980 became the primary legislation governing the Canadian banking industry. The new act substantially revised many of the accounting and reporting provisions applicable to chartered banks for fiscal year 1982. The figures presented for fiscal year 1981 have been restated to conform with the new presentation for purposes of comparison. The following summary of significant changes is provided to assist the reader in reviewing the impact of the changes.

All subsidiaries are consolidated whereas previously only wholly-owned banking entities were consolidated. The effect of this change is to increase the reported assets of the Bank. Similarly, the earnings and losses of the formerly non-consolidated subsidiaries are consolidated and increase or decrease reported earnings of the Bank to the extent that they exceed or fall below dividends paid to the Bank during the period.

The Bank's equity in the earnings of 20% to 50% owned affiliates is recorded in the net income of the Bank in the year earned, in contrast to the former practice of recording dividends received as income.

The contingent liability of the Bank under letters of credit and guarantees no longer is shown on the Balance Sheet as a liability offset by an equal contingent asset. The effect of removing these items from the Balance Sheet is to reduce total assets.

The new accounting rules require that several types of transactions previously recorded in the Accumulated Appropriations for Losses be reflected in the Statement of Income. The principal items are the gains or losses on sale of mortgages and investment securities. In addition, specific provisions to reduce the carrying value of investment securities to the lower of cost or market value are eliminated.

Notes to Financial Statements

1

Securities (\$ in millions)	1981		1982				
			Maturity				
	Total	Total	Within 1 year	Over 1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years
Investment Securities							
Issued or Guaranteed by:							
Government of Canada	\$2,173.9	\$2,114.9	\$2,068.9	\$ 46.0	\$ —	\$ —	\$ —
Provincial Governments	100.4	119.4	99.9	18.0	—	—	1.5
Municipalities and School Corporations	23.7	13.8	7.2	5.2	—	—	1.4
Debt of Canadian Issuers							
Floating Rate Income Debentures	747.6	766.8	90.3	231.7	129.7	315.1	—
Fixed Rate Income Debentures	104.2	87.0	—	—	—	87.0	—
Floating Rate Small Business Development Bonds	154.4	388.0	—	19.4	368.6	—	—
Other	278.8	32.3	20.0	6.3	6.0	—	—
Debt of Foreign Issuers	191.5	509.2	406.9	32.7	61.3	7.1	1.2
Total Debt Securities	3,774.5	4,031.4	\$2,693.2	\$359.3	\$565.6	\$409.2	\$4.1
Equity of Canadian Issuers							
Floating Rate Preferred Shares (1)	1,176.8	1,103.8					
Other	159.6	171.1					
Equity of Foreign Issuers	58.7	52.7					
Total Investment Securities	5,169.6	5,359.0					
Trading Securities	29.6	61.4					
Total Securities	\$5,199.2	\$5,420.4					

(1) Of which \$638.2 million (1981 — \$815.3 million) is guaranteed by third parties.
The quoted value of Total Securities is \$5,410.1 million (1981 — \$5,055.8 million)

2	Land, Buildings and Equipment (\$ in thousands)	1981	1982		
		Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	Land	\$ 97,735	\$108,075	\$ —	\$108,075
	Buildings	187,976	276,252	18,440	257,812
	Equipment	86,790	304,155	177,595	126,560
	Leasehold interests and improvements	106,667	—	—	126,170
		<u>\$479,168</u>			<u>\$618,617</u>

3	Deposits (\$ in millions)	1981	1982
	Deposits by Canada	\$ 752.3	\$ 568.5
	Deposits by Provinces	110.2	113.8
	Deposits by banks	14,746.2	14,784.6
	Deposits by individuals	20,523.5	22,025.4
	Other deposits	19,642.0	16,382.3
		<u>\$55,774.2</u>	<u>\$53,874.6</u>

4	Acceptances, Guarantees and Letters of Credit The contingent liability of the Bank under acceptances is reported as a liability in the Consolidated Statement of Assets and Liabilities. An offsetting asset is reported to reflect the Bank's recourse to a customer in the event of a call under any of these commitments.	The Bank also issues letters of credit and guarantees the payment of liabilities on behalf of customers. These amounts are not reported in the Consolidated Statement of Assets and Liabilities and are as follows:	
		1981	1982
	(\$ in thousands)		
	Guarantees	\$1,040,446	\$1,154,099
	Letters of credit	923,135	938,290
		<u>\$1,963,581</u>	<u>\$2,092,389</u>

Provision for Income Taxes

The Provision (Credit) for Income Taxes recorded in the Consolidated Statement of Income represents the taxes applicable to the income reported therein. The Provision for Income Taxes recorded in Retained Earnings represents the income tax effect

related to the transfers from Retained Earnings to Appropriations for Contingencies and expenses related to the issuance and sale of equity securities of the Bank that are charged directly to Retained Earnings.

(\$ in thousands)	1981	1982
Consolidated Statement of Income		
Current	\$ 94,881	\$ 77,076
Deferred	(2,734)	(99,476)
	<u>92,147</u>	<u>(22,400)</u>
Retained Earnings		
Current	(3,632)	(3,492)
Deferred	(48,699)	(71,855)
	<u>(52,331)</u>	<u>(75,347)</u>
Total provision (credit) for income taxes	\$ 39,816	\$(97,747)

The Bank's provision for income taxes differs from the marginal tax rate applied to earnings before tax because certain sources of income are

exempt from tax or are taxed at less than the marginal rate.

(\$ in thousands)	1981		1982	
Income before provision for income taxes	\$449,331	100.0%	\$238,966	100.0 %
Provision for taxes thereon at Canadian marginal income tax rates	228,260	50.8	119,005	49.8
Marginal tax rate applied to:				
Income from taxable Canadian Corporations	(67,501)	(15.0)	(65,372)	(27.4)
Interest on income debentures and small business development bonds	(47,906)	(10.7)	(48,560)	(20.3)
Income from foreign subsidiaries	(41,921)	(9.3)	(41,334)	(17.3)
Other—net	(2,280)	(0.5)	(10,068)	(4.2)
Non Canadian taxes payable by foreign subsidiaries	23,495	5.2	23,929	10.0
Tax provision	\$ 92,147	20.5%	\$ (22,400)	(9.4)%

10

Prior Period Adjustment

Regulations issued by the Minister of Finance during fiscal 1982 require the Bank to revalue as at April 30, 1982 its foreign currency investments in subsidiaries and affiliates at current exchange

rates. The effect of this change resulted in an adjustment of \$16.4 million, which is reported as a prior period adjustment in the Consolidated Statement of Retained Earnings for 1982.

11

Lease Commitments

The Bank and its subsidiaries lease buildings and equipment under operating lease agreements. Annual contractual rental commitments of more than \$25,000 are as follows:

(\$ in thousands)	Total
1983	\$64,532
1984	60,863
1985	53,819
1986	49,539
1987	44,148

Thereafter the long-term lease commitments amount to approximately \$621 million of which \$334 million is attributable to First Canadian Place, Toronto.

12

Legal Proceedings

In May of 1981, legal proceedings were initiated against the Bank in Alberta and British Columbia alleging that, in May 1979, the Bank, as a creditor, acted improperly in its appointment of the original receiver manager under debentures from Abacus Cities Ltd. ("Abacus") held by it. The action in Alberta was commenced by the trustee, in bankruptcy, of Abacus against the Bank and the original receiver manager claiming \$300 million. The Alberta action is now in abeyance. The British Columbia action was taken by three shareholders and former officers of Abacus who are claiming from the Bank and others, damages of approximately \$1.4 billion, alleged to be recoverable by them independent of the damages claimed by Abacus in the Alberta action. On September 22, 1982, the Supreme Court of British Columbia declined jurisdiction in the action and ordered, subject to certain terms, that the action be stayed. The plaintiffs have filed a Notice of Appeal from this decision.

The Bank's British Columbia counsel has advised, based upon their present knowledge of the facts, that if a successful appeal were brought by the plaintiffs and the action were permitted to proceed, there are reasonable defences against both the imposition of liability and the quantum of damages claimed. Counsel advises that the damages claimed appear to substantially duplicate those claimed in the Alberta action and the individual plaintiffs have no right to recover for damages alleged to have been suffered by Abacus. Counsel advises, for these reasons, the remaining damages claimed in the British Columbia action by the individual plaintiffs are substantially overstated.

The Bank's Alberta counsel has advised that based upon their present knowledge of the facts, there is a reasonable defence against the imposition of any liability in the Alberta legal action and that no substantial damages ought to be awarded against the Bank in the event that the Alberta court found that the Bank's debenture security was not enforceable.

13

Pension Fund

An actuarial valuation of the pension fund is performed every three years in accordance with statutory requirements. As at December 31, 1980, the date of the latest valuation, the pension fund

was fully funded. The amount charged to expense for employer's contributions for 1982 was \$31.4 million (1981 — \$26.0 million).

14

Subsidiary and Affiliated Corporations

The following is a list of corporations in which the Bank directly owns more than 10% of the issued and outstanding voting shares.

	Head Office	Percent of Issued and Outstanding Voting Shares Owned by the Bank	Book Value of Voting Shares Owned by the Bank (\$ Cdn. 000's)
CANADIAN			
Bank of Montreal Leasing Corporation	Toronto	100.0%	\$ 2,401
Bank of Montreal Mortgage Corporation	Calgary	100.0	103,353
Bank of Montreal Realty Finance Ltd.	Montreal	100.0	4,695
Bank of Montreal Realty Inc.	Montreal	100.0	5,005
Doreal Investments Limited	Montreal	30.0	206
FOREIGN			
Allgemeine Deutsche Credit-Anstalt	Frankfurt, F.R.G	25.5	29,428
Bank of Montreal Asia Limited	Republic of Singapore	100.0	16,782
Bank of Montreal (California)	San Francisco, U.S.A.	100.0	12,255
Bank of Montreal International Ltd.	Nassau, Bahamas	100.0	18,382
Bank of Montreal Trust Company	New York, U.S.A.	100.0	2,451
Bank of Montreal Trust Corporation Cayman Ltd.	Nassau, Bahamas	100.0	858
Empresa Técnica de Organização e Participações S.A.	Rio de Janeiro, Brazil	100.0	58,669
First Canadian Assessoria e Servicos Limitada	Sao Paulo, Brazil	100.0	15,964
First Canadian Financial Corporation B.V.	Amsterdam, Netherlands	100.0	12,376
First Canadian Financial Services (U.K.) Limited	London, England	100.0	10,279

Impact of Restatement Under Bank Act of 1980

The changes to capital and reserves from that originally reported as at October 31, 1981, resulting

Capital and Reserves

(\$ in thousands)

Originally reported:	
Accumulated appropriations for losses	\$ 356,596
Capital stock	312,698
Rest account	1,305,517
Undivided profits	196
	<u>\$1,975,007</u>
Restated:	
Appropriations for contingencies	\$ 202,680
Capital stock	312,698
Contributed surplus	476,446
Retained earnings	1,037,417
	<u>\$2,029,241</u>
Change	\$ 54,234

from the Bank Act of 1980, are summarized as follows:

Summary of changes:	
Unamortized portion of loss on sale of fixed maturity securities	\$ 7,958
Unamortized portion of loss on sale of mortgages to 3rd parties	61
Unamortized discount on sale of mortgages to subsidiary	7,310
Reversal of specific provision reducing securities to market	26,639
Unrealized foreign currency losses	4,422
Consolidation of non-banking subsidiaries	4,680
Equity in affiliates	2,769
Other	395
	<u>\$54,234</u>

Auditors' Report

To the Shareholders of the Bank of Montreal

We have examined the consolidated statement of assets and liabilities of the Bank of Montreal and subsidiaries as at October 31, 1982 and the consolidated statements of income, appropriations for contingencies and changes in shareholders' equity for the year then ended. 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.

Montreal, November 30, 1982

In our opinion, these consolidated financial statements present fairly the financial position of the Bank of Montreal and subsidiaries as at October 31, 1982 and the results of its operations for the year then ended in accordance with prescribed accounting principles applied, after giving effect retroactively to the changes required by the Bank Act of 1980, on a basis consistent with that of the preceding year.

Touche Ross & Co.
Coopers & Lybrand
Chartered Accountants

Touche Ross & Co.
Coopers & Lybrand

The Pension Fund Society of the Bank of Montreal

Balance Sheet

As at December 31, 1981
(\$ in thousands)

	1980	1981
Assets		
Cash and short term investments	\$ 28,875	\$ 25,995
Accounts receivable and accrued interest	6,921	10,948
	35,796	36,943
Investments (Note 2)	343,297	342,095
Total Assets	\$379,093	\$379,038
Liabilities		
Accounts payable	\$ 3,376	\$ 37
Capital		
Accumulated capital, being funds accumulated for the payment of pensions in future years	379,667	429,883
Unrealized loss on investments	(3,950)	(50,882)
Total Capital	375,717	379,001
Total Liabilities and Capital	\$379,093	\$379,038

Statement of Accumulated Capital

For the Year Ended December 31, 1981
(\$ in thousands)

	1980	1981
Income		
Interest	\$ 27,925	\$ 33,312
Dividends and rentals	3,792	5,306
Oil and gas properties	1,402	1,392
Gain on sale of investments	9,645	9,286
Gain (loss) on foreign exchange	139	(70)
	42,903	49,226
Contributions		
Bank	9,773	14,318
Members, net of refunds	1,032	1,195
	10,805	15,513
Total income and contributions	53,708	64,739
Pensions and annuities paid	14,056	14,523
Increase in capital	39,652	50,216
Accumulated capital at beginning of year	340,015	379,667
Accumulated capital at end of year	\$379,667	\$429,883

Statement of Unrealized Loss on Investments

For the Year Ended December 31, 1981
(\$ in thousands)

	1980	1981
Balance at beginning of year	\$ 8,086	\$ 3,950
Increase (decrease) during the year	(4,136)	46,932
Balance at end of year	\$ 3,950	\$ 50,882

Notes to Financial Statements

Year Ended December 31, 1981

1

Summary of Significant Accounting Policies

(a) Investments other than oil and gas properties and leasebacks are stated at market value with the unrealized gains (losses) included in capital.

(b) Oil and gas properties and leasebacks are stated at cost less accumulated amortization.

(c) Discounts and premiums on mortgages, bonds and debentures are being amortized over their remaining terms to maturity.

2

Investments

(\$ in thousands)

	1980		1981	
	Market value	Book value	Market value	Book value
Common stocks				
Canadian	\$ 85,863	\$ 57,672	\$ 79,142	\$ 70,113
Foreign	32,251	22,318	28,702	26,522
Bonds and debentures				
Government of Canada	46,421	54,914	53,291	67,830
Provincial governments	23,719	29,598	20,197	29,760
Municipalities and schools	1,600	2,277	2,233	3,178
Corporate	72,593	91,373	70,065	97,604
Mortgages	52,641	59,061	54,317	62,652
Fund units	11,505	13,621	11,544	13,621
Real estate trust units	5,499	5,208	11,573	10,666
Leasebacks	1,302*	1,302	1,273*	1,273
Oil and gas properties	9,903*	9,903	9,758*	9,758
	<u>\$343,297</u>	<u>\$347,247</u>	<u>\$342,095</u>	<u>\$392,977</u>

*at cost less accumulated amortization—market value not available

3

Actuarial Valuation

An actuarial valuation of the pension fund is performed every three years in accordance with statutory requirements. As at December 31,

1980, the date of the latest interim valuation, the pension fund was fully funded.

Auditors' Report

To the Directors of the Pension Fund Society of the Bank of Montreal

We have examined the balance sheet of The Pension Fund Society of the Bank of Montreal as at December 31, 1981 and the statements of accumulated capital and unrealized loss on investments for the year then ended. 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, these financial statements present fairly the financial position of the Society as at December 31, 1981 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, February 24, 1982.

THORNE RIDDELL
Chartered Accountants

Management Analysis of Operations

The economic conditions that prevailed throughout 1982 are reflected in the financial performance for the year. The rapid growth in assets that the Bank had experienced during 1981 was curtailed, and at the end of 1982 the total was slightly below that of the previous year end.

Net income for the year was significantly below 1981. Strong competition for the limited credit requirements of quality borrowers and declining interest rates combined to depress interest spreads during 1982. The amount of net interest earnings was maintained by a higher average volume of business resulting from growth in assets that took place for the most part in the second half of fiscal 1981.

Corporate and personal bankruptcies have reached unprecedented levels and have taken their toll on the 1982 earnings of the banking system.

During 1982, the Bank's capital was increased by issues of additional common shares, preferred shares and debentures.

The following commentaries concentrate on the details of our operations during the past year with analysis on the domestic and international components.

The assets and income of the Bank presented in these tables have been classified as 'domestic' and 'international' on the basis of residency of the customers. Earnings attributed to equity capital and Head Office expenses have been allocated to the two components in proportion to average assets employed.

Total Assets

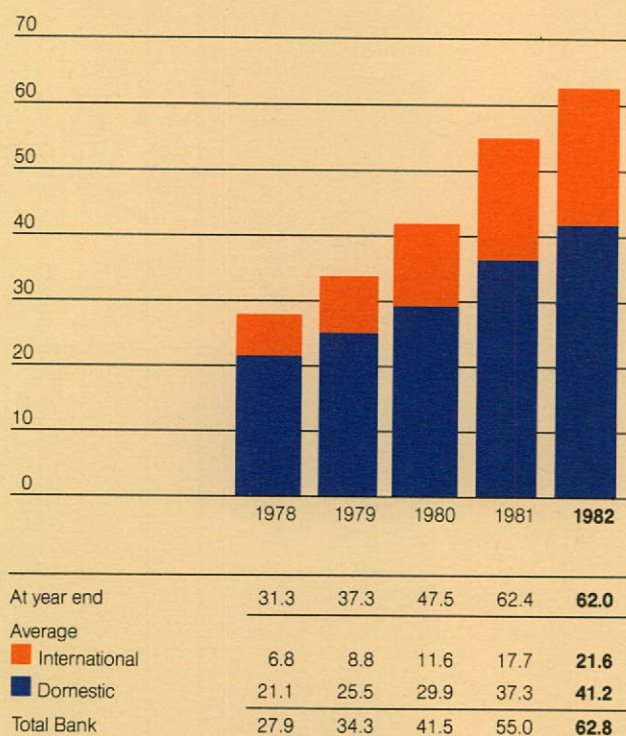
At October 31, 1982 total assets of \$62.0 billion were \$347 million lower than at the previous year end. Extensions of credit to customers nonetheless increased by approximately \$1.7 billion with most of the increase coming in the FirstBank Acceptances category, which were more attractive to borrowers than direct loans at various times during the year.

Over the last five years, total assets have grown at a compound annual rate of 19%. With the effects of inflation removed, this represented a real growth in the range of 7.5%.

Average assets increased \$7.8 billion or 14% to \$62.8 billion in 1982. Domestic average assets were 10% ahead of 1981, while international assets grew 22% to \$21.6 billion. At October 31, 1982 average international assets accounted for 34.4% of total assets, compared with 32.1% at the preceding year end.

The Bank's international lending policy is directed to a diversified geographic and political risk profile in addition to consideration of the credit worthiness of borrowers. As shown on the chart on page 58, the distribution of foreign currency assets continued to shift in favour of countries with relatively stable economies and lower risk exposures.

Total Assets
(\$ in billions)



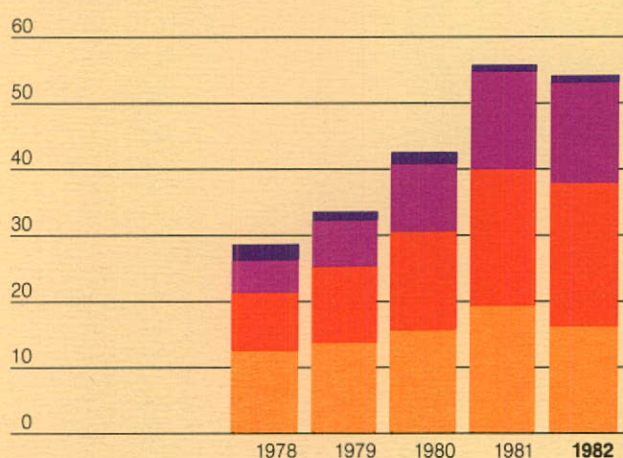
Total Deposits

At October 31st, 1982 the Bank held \$53.9 billion in deposits, which provided funding for 87% of the Bank's assets. The \$1.5 billion growth in personal deposits was largely attributable to our success in the Daily Interest Savings category. With a competitive rate of interest paid monthly, the Bank's DIS accounts held a large share of the major Canadian banks market at the end of October 1982.

Access by customers to their personal accounts from any one of the Bank's 1,238 domestic branches on 216 Instabank centres is a key element towards attracting deposits. At the end of the year, one third of all personal financial transactions used our Multi-Branch Banking facilities.

The \$3.2 billion reduction in other deposits was due primarily to a lower level of foreign currency deposits as reduced funding requirements were met through growth in personal deposits and increases in capital funds.

Total Deposits
(\$ in billions)



by Governments	1.4	0.9	1.2	0.9	0.7
by Banks	5.5	6.9	10.2	14.8	14.8
by Individuals	9.7	12.2	15.3	20.5	22.0
by Others	12.4	14.0	15.9	19.6	16.4
Total Bank	29.0	34.0	42.6	55.8	53.9

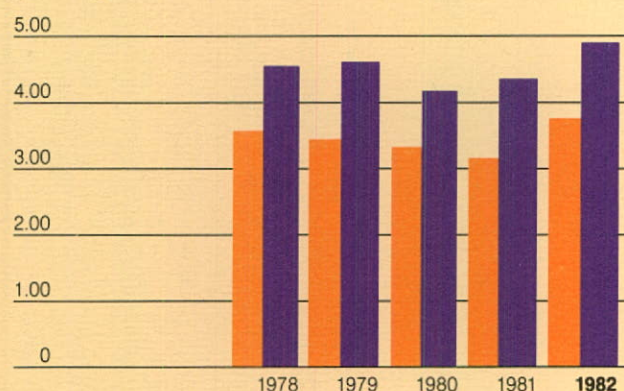
Capital to Assets Ratio

The October 31, 1982 ratio of capital and reserves to assets is 3.73% and when debentures are included the capital funds ratio is 4.90%. This is the strongest capital position for the Bank in nearly ten years.

The improvement in these ratios reflects the fact that total assets were essentially unchanged while capital funds were increased. The conversion of \$100 million of Series 1 and Series 2 debentures to common shares and the share purchase plan, dividend reinvestment plan and the stock dividend plan added \$155.5 million of additional common equity capital.

The Bank also issued \$175 million of Series 2 preferred shares and U.S.\$180 million of Series 7 and Series 8 debentures.

Capital to Assets Ratio at October 31
(percentage)



(\$ in millions)					
Capital and reserves	1,123.2	1,264.8	1,594.7	2,029.2	2,315.9
Bank debentures	282.8	433.8	383.6	653.5	725.6
Total capital and reserves and debentures	1,406.0	1,698.6	1,978.3	2,682.7	3,041.5
Ratio of capital and reserves to assets (%)	3.59	3.39	3.35	3.25	3.73
Ratio of capital and reserves and debentures to assets (%)	4.49	4.55	4.16	4.30	4.90

Net Income

Net income for 1982 of \$257.0 million was \$95.9 million or 27% below the previous year. Despite a 14% increase in average assets, net interest income increased less than 1% over 1981 levels due to pressure on interest spreads. On the other hand, loan loss provisions rose 62% and operating costs increased 16%. In 1982, income from non-taxable securities exceeded income from other sources, creating a tax recovery position which will be offset against taxes payable in future years.

Domestic earnings of \$138.7 million represented 54% of total net income and were \$96.6 million or 41% below 1981. The generally declining interest rate market of 1982 resulted in severe pressure on domestic funding spreads, as declines in deposit costs lagged behind that of prime rate based advances.

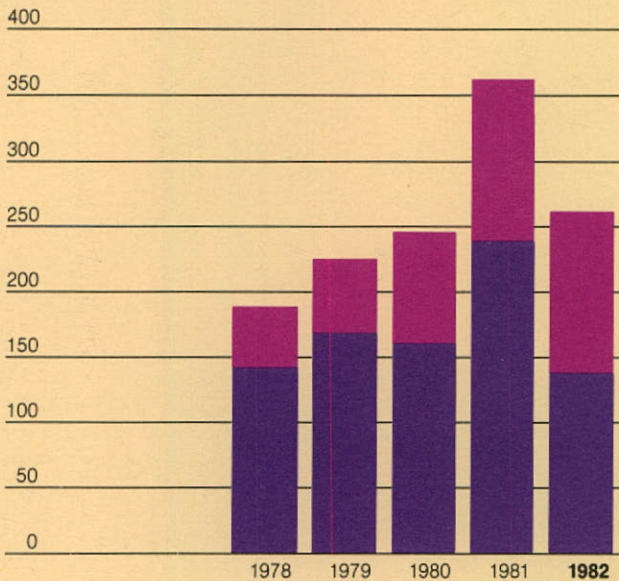
International earnings were \$118.3 million, slightly ahead of 1981. A strong performance in international money markets was largely offset by higher loan reservations placed on international loan business.

Net Interest Income

The level of net interest income rose only marginally in 1982 despite a 14% growth in average assets. Narrower overall spreads and higher levels of non-current loans depressed margins. Domestic net interest income at \$1,174 million was \$91 million or 7% below 1981 levels. On the other hand, international net interest income improved \$101 million or 32% to \$416 million. International money market performance and a more stable lending spread on a higher average asset base contributed to the improvement.

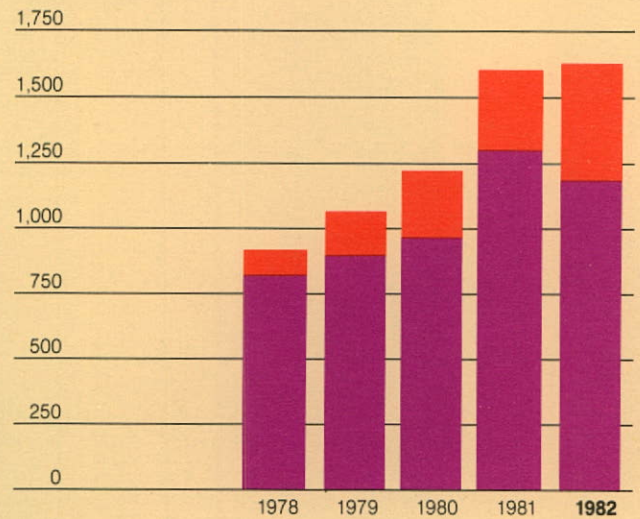
Certain revenues which the Bank receives, such as dividends from taxable Canadian corporations, have already been taxed and therefore are tax exempt to the Bank. Accordingly, the taxable equivalent net income adjusts for the value of the tax benefit to provide better comparability of results.

Net Income
(\$ in millions)



International	42.9	52.4	89.3	117.6	118.3
Domestic	143.7	169.7	157.8	235.3	138.7
Total Bank	186.6	222.1	247.1	352.9	257.0

Net Interest Income
(\$ in millions)



As reported	838	899	1,030	1,358	1,370
Taxable equivalent					
International	115	154	236	315	416
Domestic	797	887	981	1,265	1,174
Total Bank	912	1,041	1,217	1,580	1,590

Taxable Equivalent Spread

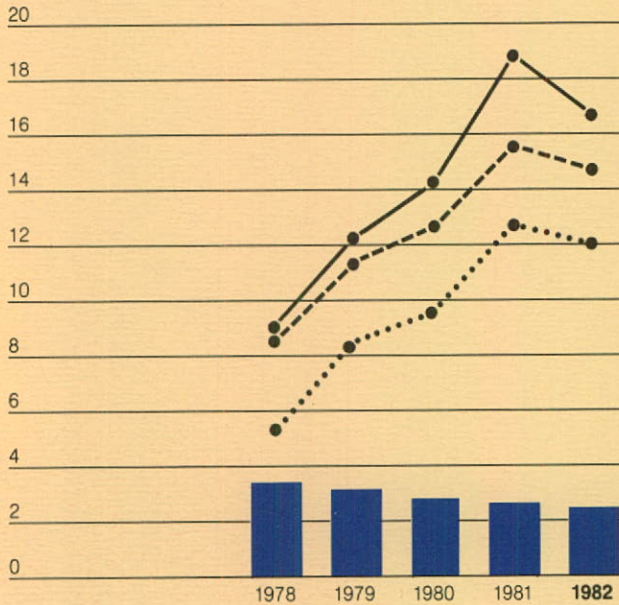
The 1982 taxable equivalent spread of 2.53% was the lowest in the past five years. Declines in prime rates generally reduce lending rates immediately, but deposit rates follow only as the deposit instruments mature.

Another factor affecting interest rate spread is the level of non-current loans which increased from \$336.6 million at October 31, 1981 to \$1,119.4 million at the end of fiscal 1982. Accrued and uncollected interest is reversed at the time a loan is classified as non-current and thereafter, interest is recorded only as received.

Domestic taxable equivalent spread at 2.85% was 54 basis points lower than the preceding year. International spread was up 15 basis points over 1981 to 1.93%.

Interest Rate Spread—Taxable Equivalent

(percentage)



Average prime rate	9.07	12.17	14.29	18.91	16.79
Interest, dividend and fee income as a percentage of average assets (taxable equivalent basis)	8.94	11.08	12.79	15.85	14.55
Interest expense as a percentage of average assets	5.68	8.05	9.89	12.97	12.02
Taxable equivalent spread	3.26	3.03	2.90	2.88	2.53
International	1.69	1.75	2.04	1.78	1.93
Domestic	3.76	3.47	3.25	3.39	2.85

Loan Loss Experience

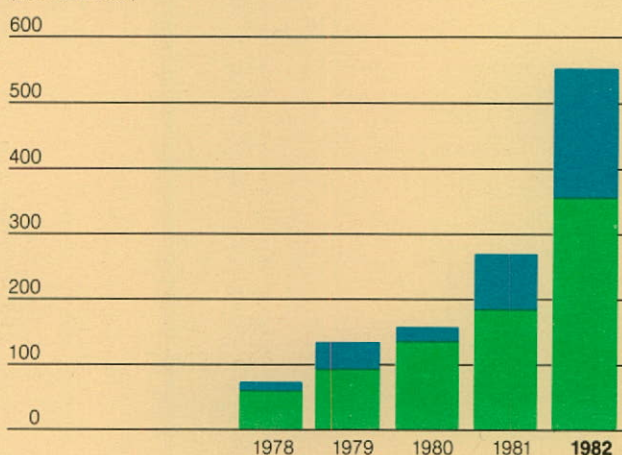
The loan loss experience of the Bank is the amount of net new reservations for loan losses, less principal recoveries on loans previously written off. The amount of net new reservations is determined through a quarterly management review of individual loans where there is doubt as to their collectibility of principal or interest.

Loan loss experience rose from \$268.1 million in 1981 to \$550.2 million, an increase of \$282.1 million. Major increases occurred in all segments of the portfolio reflecting unfavourable worldwide economic conditions. It was not just the lower rated or lesser quality borrowers that experienced difficulty. Many long-established customers have not been able to meet their loan commitments as scheduled.

Domestic reservations of \$360.0 million represented 65% of the year's actual loan loss experience. Large commercial advances, those with reservations over \$250,000, accounted for 62% of the domestic losses in 1982, as compared to 49% in 1981.

International loan loss experience rose 118% to \$190.2 million in 1982, as a result of reservations placed upon several large corporate and sovereign risk loans.

Loan Loss Experience
(\$ in millions)



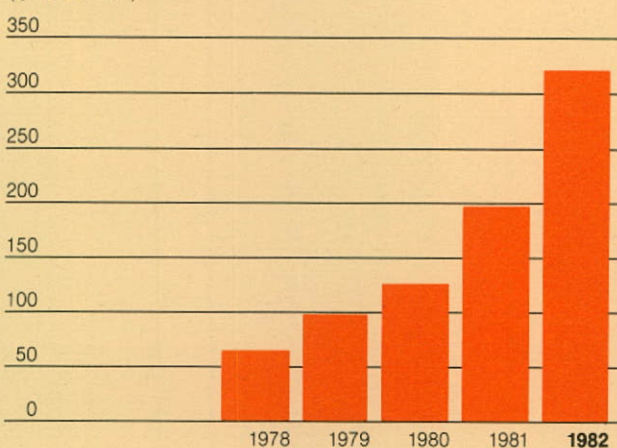
Eligible loans	21,282	26,378	32,980	43,731	48,609
Loan loss experience					
International	16.0	33.1	26.8	87.4	190.2
Domestic	54.0	94.4	127.4	180.7	360.0
Total Bank	70.0	127.5	154.2	268.1	550.2
Percentage of eligible loans					
International	0.28	0.48	0.27	0.64	1.13
Domestic	0.35	0.49	0.55	0.60	1.13
Total Bank	0.33	0.48	0.47	0.61	1.13

Provision for Loan Losses

The provision for loan losses is based on the ratio of the loan loss experience for the most recent five years to the eligible loans for the same period. The charge to income for 1982 was \$318.7 million compared with \$196.3 million in 1981. The provision, as a percentage of average assets, was 0.51% for 1982, up from 0.36% in the preceding year.

The substantial increase in the loan loss experience for 1982 together with increases in the several preceding years are the reason for the substantial increase in the 1982 provision. The five year averaging formula that is used to determine the amount of the provision tends to moderate the year-to-year change and will tend to maintain it at relatively high levels even after the actual loan loss experience begins to decline.

Provision for Loan Losses
(\$ in millions)



Provision for loan losses	62.4	94.1	123.7	196.3	318.7
As a percentage of average assets	0.22	0.27	0.30	0.36	0.51

Other Operating Income

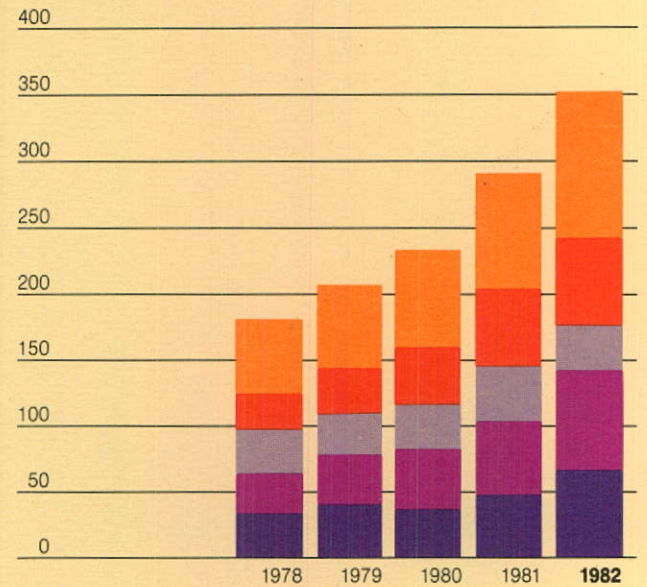
Other operating income includes all sources of income except interest and loan fees that actually increase the yield on a loan. There was a \$57.4 million or 20% growth in this category of income as compared with the \$293.1 million of 1981.

A concerted effort has been made during the past several years to increase the proportion of the Bank's income that is derived from non-interest sources. Revenue from service charges rose \$21.4 million or 24%, due largely to price increases to cover the rising costs of providing many bank services. While there was a slight decrease in the volume of MasterCard transactions, rate increases charged to merchants increased

total fees by \$6.7 million. Fees on loans, guarantees and letters of credit rose 31% or \$18.1 million. At certain times in 1982 corporate customers relied heavily on FirstBank Acceptances to meet their financing needs; the higher volume and associated stamping fees generated a \$9.5 million increase in revenues. The improvement in the Other caption came largely from revenues associated with the Canada Savings Bond campaign.

Domestic sources continued to account for the bulk of the other operating income, increasing \$62.3 million over 1981 to \$289.6 million. Internationally, these revenues fell \$4.9 million or 8% to \$60.9 million, due to lower foreign exchange revenues.

Other Operating Income
(\$ in millions)



Service charges	54.1	61.0	72.5	87.4	108.8
MasterCard fees	27.2	34.9	44.4	57.7	64.4
Foreign exchange	33.4	33.3	34.0	42.5	34.8
Fees on loans, guarantees, and letters of credit	30.8	36.6	47.4	58.9	77.0
Other	32.5	40.2	38.5	46.6	65.5
Total Bank	178.0	206.0	236.8	293.1	350.5
International	39.6	39.5	47.3	65.8	60.9
Domestic	138.4	166.5	189.5	227.3	289.6

Non-Interest Expense

Operating expenses increased 16% during 1982 over the previous year to \$1,163.0 million. Employee costs were \$92.0 million or 15% above 1981 due to merit increases and a higher average complement. Occupancy costs at \$220.7 million were \$36.0 million higher than a year ago, due principally to expansion of our computer capacity, which under statutory reporting requirements is reported within this category. Other expenses were 14% higher at \$247.8 million, largely due to price increases in communications and business taxes as well as higher professional fees associated with our lending portfolios.

The branch rationalization program, increased mechanization and a profit improvement program contributed to improved operating efficiency during 1982. The ratio of non-interest expense to total average assets increased by only 0.02% during 1982 to 1.85% despite substantial inflationary increases in wages, goods

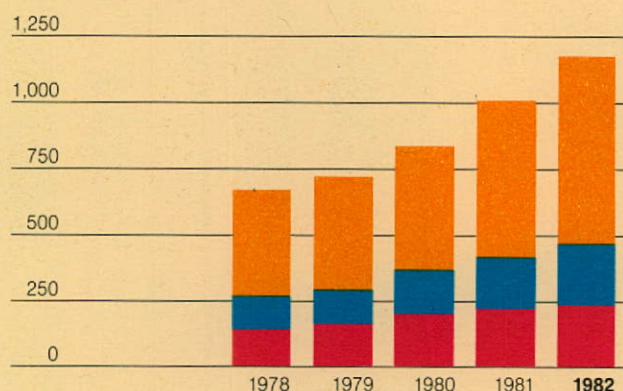
and services purchased combined with limited growth in assets. Over the period from 1978 to 1982 this ratio declined from 2.37% of average assets to 1.85% reflecting substantial and continued improvement in operating efficiency.

The expense control programs put in place during 1982 reduced the annualized rate of increase in operating expenses substantially during the second half of the year. It is anticipated that these programs will continue to have a beneficial effect during 1983.

Domestic operating costs which consist primarily of the Canadian branch network, rose 11% to \$990.3 million in 1982. A branch rationalization program resulted in 64 fewer branches at the end of fiscal 1982 than as at the previous year end.

International operating costs were \$59.3 million or 52% higher than last year which is a reflection of the strengthening of our international market presence.

Non-Interest Expense
(\$ in millions)



Employee	402.7	444.5	502.7	602.5	694.5
Occupancy	127.8	135.3	159.1	184.7	220.7
Other	130.3	150.9	183.7	218.1	247.8
Total Bank	660.8	730.7	845.5	1,005.3	1,163.0
International	59.8	65.6	89.7	113.4	172.7
Domestic	601.0	665.1	755.8	891.9	990.3

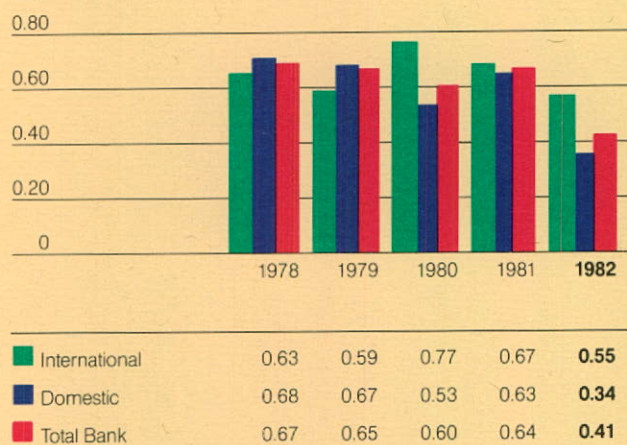
Return on Average Assets

The return on average assets declined from 0.64% in 1981 to 0.41% in 1982, the lowest level in the last five years. Severely contracted domestic interest spreads were a major factor, while the higher loan loss provision had a net negative effect of 0.07%.

The return on domestic assets declined 0.29% from 1981. Spreads during 1982 were compressed as the decline in deposit costs trailed behind the drop in revenues from prime-based loans, while 1981 spreads benefitted from the opposite situation.

The return on international assets in 1982 at 0.55% was 12 basis points below the previous year, largely due to higher loan loss provisions. Since many international credits are priced against cost of funds, there is generally less sensitivity to interest rate movements.

Return on Average Assets
(percentage)

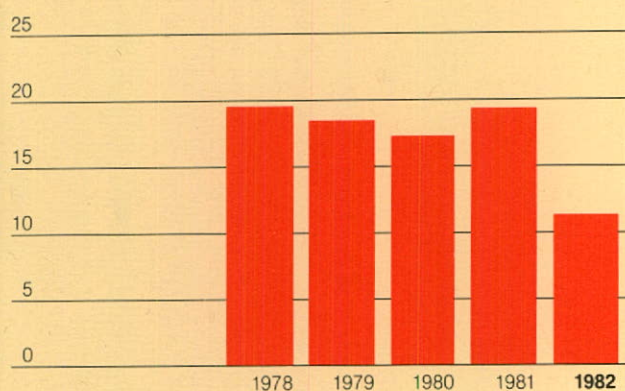


Return on Capital and Reserves

Average capital and reserves grew by 27% as compared with 1981, reaching \$2.3 billion at October 31, 1982. The proceeds from the Series 2 convertible preferred share issue, the conversion of Series 1 and Series 2 debentures, the common shares issued under the dividend re-investment plan and additions to retained earnings were responsible for the growth in capital and reserves. Capital funds were further supplemented by the Series 7 and Series 8 debenture issues.

The return on capital and reserves of 11.1% is the lowest in five years due to the significant decline in net income as compared with the preceding year combined with the highest capital ratio for the period.

Return on Capital and Reserves
(percentage)



Average capital and reserves (\$ in millions)	955	1,198	1,425	1,823	2,314
Net Income as a percentage of average capital and reserves	19.5	18.5	17.2	19.4	11.1

**Distribution of Assets
by Location of Ultimate Risk**
As at September 30
(\$ in millions)

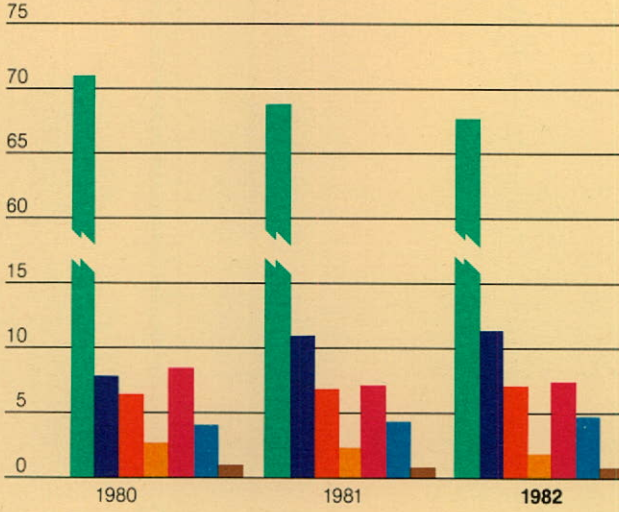
Geographic Classification	1980		1981		1982	
Canada	\$33,375	71.0%	\$42,439	68.7%	\$42,524	67.4%
United States	3,569	7.6	6,758	10.9	7,109	11.3
Europe						
European Economic Community	2,868	6.1	4,121	6.7	4,346	6.9
Other European Countries	1,237	2.6	1,278	2.1	1,228	1.9
Latin America and Caribbean	3,865	8.2	4,268	6.9	4,529	7.2
Asia, Oceania, Australasia	1,721	3.7	2,605	4.2	3,058	4.8
Africa and Middle East	371	0.8	334	0.5	287	0.5
Total Assets	\$47,006	100.0%	\$61,803	100.0%	\$63,081	100.0%

Economic Classification	1980		1981		1982	
I. Industrialized Countries						
A. Major	\$39,598	84.3%	\$53,108	86.0%	\$54,426	86.3%
B. Other	1,322	2.8	1,546	2.5	1,792	2.8
II. Developing Countries						
A. Major Oil Exporters	626	1.3	817	1.3	838	1.3
B. Non-Oil						
i. Other Exporters	1,411	3.0	1,502	2.4	1,605	2.6
ii. Major Exporters of Manufactured Goods (Medium Income)	2,685	5.7	3,294	5.3	3,099	4.9
iii. Low Income	102	0.2	125	0.2	57	0.1
iv. Other Net Oil Importers (Medium Income)	855	1.8	1,052	1.7	1,022	1.6
III. Centrally Planned Economies	407	0.9	359	0.6	242	0.4
Total Assets	\$47,006	100.0%	\$61,803	100.0%	\$63,081	100.0%

The 1982 assets only are presented in accordance with the Bank Act of 1980.

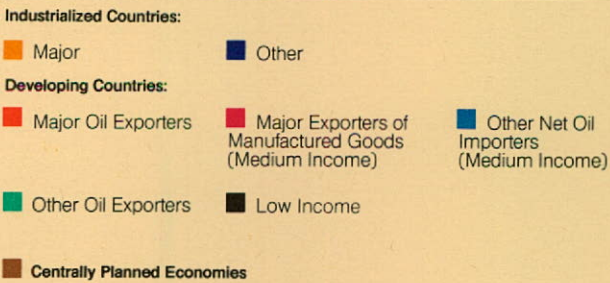
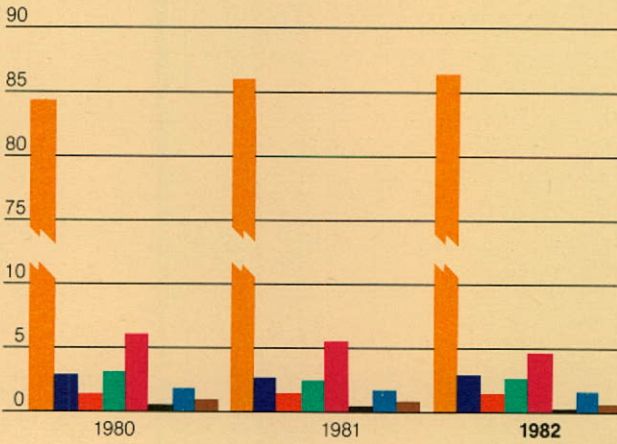
Geographic Classification

% of Total Assets



Economic Classification

% of Total Assets



Quarterly Financial Data

(\$ in thousands except per share amounts)

	1981 Quarter Ended			
	January 31	April 30	July 31	October 31
Interest, dividend and fee income	1,688,995	1,942,782	2,299,235	2,560,373
Interest expense	1,355,566	1,614,560	1,947,139	2,216,199
Net interest income	333,429	328,222	352,096	344,174
Provision for loan losses	44,284	50,480	55,590	45,966
Net interest income after provision for loan losses	289,145	277,742	296,506	298,208
Other operating income	67,069	68,096	78,227	79,691
Net interest and other income	356,214	345,838	374,733	377,899
Non-interest expense	233,837	244,233	254,685	272,598
Income before provision for income taxes	122,377	101,605	120,048	105,301
Provision (credit) for income taxes	32,814	15,475	26,433	17,425
Income before minority interest	89,563	86,130	93,615	87,876
Minority interest	1,080	1,080	1,080	1,080
Net income	88,483	85,050	92,535	86,796
Return on average assets (%)	0.71	0.66	0.65	0.57
Per common share:				
Net income—basic	\$1.59	\$1.52	\$1.58	\$1.47
— fully diluted	—	—	\$1.50	\$1.39
Dividends	\$0.42	\$0.44	\$0.46	\$0.48
Average number of common shares outstanding (000's)	55,698	55,790	55,946	56,159
Dividends declared—common shares	23,432	24,568	25,779	27,024
— preferred shares	—	—	5,265	4,132

Comparative results for 1981 have been restated to conform with the provisions of the Bank Act of 1980.

1982 Quarter Ended			
January 31	April 30	July 31	October 31
2,362,994	2,190,795	2,286,595	2,083,725
2,028,432	1,857,757	1,940,780	1,727,078
334,562	333,038	345,815	356,647
64,754	65,200	87,100	101,619
269,808	267,838	258,715	255,028
79,685	86,264	96,322	88,264
349,493	354,102	355,037	343,292
280,966	298,669	290,072	293,251
68,527	55,433	64,965	50,041
(2,800)	(6,000)	(6,200)	(7,400)
71,327	61,433	71,165	57,441
1,080	1,080	1,080	1,080
70,247	60,353	70,085	56,361

0.45	0.39	0.44	0.36
\$1.10	\$0.84	\$0.99	\$0.77
\$1.05	\$0.82	\$0.95	\$0.75
\$0.49	\$0.49	\$0.49	\$0.49
57,895	61,488	61,932	62,328
30,064	30,218	30,406	30,560
7,584	8,507	8,508	8,507

Bank of Montreal
Segmented Information
International/Domestic Components
Taxable Equivalent Basis

The assets and income of the Bank presented in this table have been classified as 'domestic' and 'international' on the basis of residency of the customers. Earnings

attributed to equity capital and Head Office expenses have been allocated to the two components in proportion to average assets employed.

INTERNATIONAL (\$ in millions)	1978	1979
Average total assets	6,812	8,838
Net income	42.9	52.4
Statement of Income Per \$100 of Average Assets		
Net interest income (taxable equivalent basis)	1.69	1.75
Provision for loan losses	0.24	0.34
Net interest income after provision for loan losses	1.45	1.41
Other operating income	0.58	0.45
Net interest and other income	2.03	1.86
Non-interest expense	0.88	0.75
Income before provision for income taxes	1.15	1.11
Provision for income taxes (including taxable equivalent adjustment)	0.52	0.52
Minority interest	—	—
Net income	0.63	0.59

DOMESTIC (\$ in millions)	1978	1979
Average total assets	21,115	25,482
Net income	143.7	169.7
Statement of Income Per \$100 of Average Assets		
Net interest income (taxable equivalent basis)	3.76	3.47
Provision for loan losses	0.22	0.25
Net interest income after provision for loan losses	3.54	3.22
Other operating income	0.66	0.65
Net interest and other income	4.20	3.87
Non-interest expense	2.85	2.61
Income before provision for income taxes	1.35	1.26
Provision for income taxes (including taxable equivalent adjustment)	0.67	0.59
Minority interest	—	—
Net income	0.68	0.67

1980	1981	1982
11,593	17,652	21,616
89.3	117.6	118.3
2.04 0.27	1.78 0.33	1.93 0.50
1.77 0.41	1.45 0.37	1.43 0.29
2.18 0.77	1.82 0.64	1.72 0.80
1.41	1.18	0.92
0.64 —	0.51 —	0.37 —
0.77	0.67	0.55

1980	1981	1982
29,895	37,328	41,225
157.8	235.3	138.7
3.25 0.31	3.39 0.37	\$2.85 0.51
2.94 0.63	3.02 0.61	2.34 0.70
3.57 2.53	3.63 2.39	3.04 2.40
1.04	1.24	0.64
0.51 —	0.60 0.01	0.29 0.01
0.53	0.63	0.34

Bank of Montreal
Segmented Information
International/Domestic Components
Taxable Equivalent Basis

The assets and income of the Bank presented in this table have been classified as 'domestic' and 'international' on the basis of residency of the customers. Earnings

attributed to equity capital and Head Office expenses have been allocated to the two components in proportion to average assets employed.

(\$ in thousands)		1981 Quarter Ended			
INTERNATIONAL	January 31	April 30	July 31	October 31	
Interest income	617,806	702,504	811,273	893,048	
Interest expense	549,839	627,116	727,017	805,657	
Net interest income	67,967	75,388	84,256	87,391	
Provision for loan losses	13,673	14,410	16,300	14,776	
Net interest income after provision for loan losses	54,294	60,978	67,956	72,615	
Other operating income	14,379	14,902	19,438	17,102	
Net interest and other income	68,673	75,880	87,394	89,717	
Non-interest expense	27,153	24,455	28,530	33,234	
Income before provision for income taxes	41,520	51,425	58,864	56,483	
Provision for income taxes	16,815	22,282	24,037	27,604	
Income before minority interest	24,705	29,143	34,827	28,879	
Minority interest	—	—	—	—	
Net income	24,705	29,143	34,827	28,879	
Average total assets (\$ in millions)	15,779	16,969	18,015	19,846	

(\$ in thousands)		1981 Quarter Ended			
DOMESTIC	January 31	April 30	July 31	October 31	
Interest income	1,121,756	1,289,948	1,546,904	1,730,432	
Interest expense	805,727	987,444	1,220,122	1,410,542	
Net interest income	316,029	302,504	326,782	319,890	
Provision for loan losses	30,611	36,070	39,290	31,190	
Net interest income after provision for loan losses	285,418	266,434	287,492	288,700	
Other operating income	52,690	53,194	58,789	62,589	
Net interest and other income	338,108	319,628	346,281	351,289	
Non-interest expense	206,684	219,778	226,155	239,364	
Income before provision for income taxes	131,424	99,850	120,126	111,925	
Provision for income taxes	66,566	42,863	61,338	52,928	
Income before minority interest	64,858	56,987	58,788	58,997	
Minority interest	1,080	1,080	1,080	1,080	
Net income	63,778	55,907	57,708	57,917	
Average total assets (\$ in millions)	33,753	36,188	38,707	40,665	

1982 Quarter Ended			
January 31	April 30	July 31	October 31
882,464	826,348	891,346	792,677
759,017	733,934	790,351	693,129
123,447	92,414	100,995	99,548
21,324	21,324	34,376	28,973
102,123	71,090	66,619	70,575
9,562	14,728	20,198	16,387
111,685	85,818	86,817	86,962
37,751	42,173	45,616	47,195
73,934	43,645	41,201	39,767
30,864	17,197	15,313	16,884
43,070	26,448	25,888	22,883
—	—	—	—
43,070	26,448	25,888	22,883
21,115	21,324	22,416	21,608

1982 Quarter Ended			
January 31	April 30	July 31	October 31
1,537,695	1,416,986	1,452,063	1,344,502
1,269,415	1,123,823	1,150,429	1,033,949
268,280	293,163	301,634	310,553
43,430	43,876	52,724	72,646
224,850	249,287	248,910	237,907
70,123	71,536	76,124	71,877
294,973	320,823	325,034	309,784
243,215	256,496	244,456	246,056
51,758	64,327	80,578	63,728
23,501	29,342	35,301	29,170
28,257	34,985	45,277	34,558
1,080	1,080	1,080	1,080
27,177	33,905	44,197	33,478
41,196	41,678	41,070	41,206

Six Year Financial Highlights

(\$ in thousands except per share comments)

	1977	1978
For the Year Ended October 31		
Net interest income	686,631	837,954
Provision for loan losses	45,569	62,409
Net interest income after provision for loan losses	641,062	775,545
Other operating income	161,009	177,960
Net interest and other income	802,071	953,505
Non-interest expense	587,624	660,782
Income before provision for income taxes	214,447	292,723
Provision (credit) for income taxes	92,389	106,133
Income before minority interest	122,058	186,590
Minority interest	—	—
Net income	122,058	186,590
As at October 31		
Assets	24,547,255	31,307,723
Loans	17,888,354	22,598,320
Deposits	23,035,019	28,993,885
Debentures	203,870	282,789
Appropriations for contingencies	122,057	149,626
Total capital and reserves	871,056	1,123,182
Per Common Share		
Net income—basic	3.18	4.32
—fully diluted	—	—
Dividends	1.03	1.09
Book value at year end	19.18	22.02
Share price during calendar year—high	18.125	26.125
—low	13.625	17.375
Other Statistics		
Number of common shares outstanding at year end (000's)	42,430	47,698
Average number of common shares outstanding (000's)	38,339	43,211
Number of common shareholders at year end	55,969	57,259
Profitability		
Return on average total assets	0.56	0.67
Capital Adequacy		
Capital and reserves to total assets	3.55	3.59
Total capital, reserves and debentures to total assets	4.38	4.49
Number of employees at year end	28,765	28,366
Number of branches at year end	1,234	1,239

1979	1980	1981	1982
899,257	1,030,046	1,357,921	1,370,062
94,108	123,686	196,320	318,673
805,149	906,360	1,161,601	1,051,389
206,016	236,842	293,083	350,535
1,011,165	1,143,202	1,454,684	1,401,924
730,743	845,512	1,005,353	1,162,958
280,422	297,690	449,331	238,966
58,307	48,757	92,147	(22,400)
222,115	248,933	357,184	261,366
—	1,800	4,320	4,320
222,115	247,133	352,864	257,046
37,331,380	47,546,974	62,373,843	62,026,965
27,010,768	33,753,659	43,758,676	44,082,067
33,967,599	42,621,102	55,774,220	53,874,626
433,792	383,574	653,453	725,603
134,568	175,229	202,680	215,566
1,264,854	1,594,723	2,029,241	2,315,852
4.58	4.75	6.16	3.70
—	—	6.00	3.57
1.32	1.54	1.80	1.96
24.72	27.29	30.86	30.29
27.500	34.750	33.375	24.500*
21.375	22.500	23.500	17.000*
48,817	54,751	56,299	62,553
48,480	51,993	55,898	60,911
54,582	55,515	58,455	68,102
0.65	0.60	0.64	0.41
3.39	3.35	3.25	3.73
4.55	4.16	4.30	4.90
28,310	28,897	30,488	29,866
1,257	1,296	1,322	1,259

The valuation day (December 22, 1971) value of the Bank's capital stock for capital gains tax purposes as published by the Department of National Revenue, Taxation, is \$18.50.

*January 1st to October 31st

Investor Information

Capital Stock

At October 31, 1982, the Bank had three types of shares outstanding: Convertible Class A Preferred Shares Series 1, Class A Preferred Shares Series 2, and common shares. The Class A Preferred Shares Series 1 pay cumulative preferred dividends at an annual rate of \$2.85 per share and are convertible at the option of the holder at any time prior to May 26, 1991 on a one-for-one basis (subject to adjustment for certain events). The Class A Preferred Shares Series 2 pay cumulative preferred dividends at an annual rate of \$2.50 per share and entitle holders of record on June 14, 1985 to receive one common share purchase warrant entitling them to purchase one common share at \$33.00 from June 17, 1985 to December 15, 1988.

Listing of Stock

The common shares of the Bank are listed on the Montreal, Toronto, Winnipeg, Alberta and Vancouver stock exchanges in Canada and The Stock Exchange, London, England. The shares list under the following stock symbols on Canadian exchanges: 'BMO' for the common stock, 'BMOU' for the Convertible Class A Preferred Shares Series 1, and 'BMOX' for the Class A Preferred Shares Series 2.

Stock Prices

The following table sets forth the high and low closing sale prices on the Toronto Stock Exchange of the common shares of the Bank for the periods indicated:

Year	High	Low	Volume
1977	\$18.125	\$13.625	3,756,500
1978	26.125	17.375	7,848,300
1979	27.50	21.375	6,208,000
1980	34.75	22.50	8,458,828
1981	33.375	23.50	7,198,981
1982 Jan. 1-Oct. 31	24.50	17.00	9,024,703

Transfer Agent and Registrar

The principal transfer agent for both the common and preferred shares of the Bank is The Royal Trust Company at its principal offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver. The Royal Trust Company also acts as registrar for these shares.

Dividends

Dividends declared on the common shares of the Bank over the past five years are shown in the following table:

	Year ended October 31				
	1978	1979	1980	1981	1982
Dividends per common share...	\$1.09	\$1.32	\$1.54	\$1.80	\$1.96

Dividend Options

Shareholders of Bank of Montreal may choose from several dividend options including:

Shareholder Dividend Reinvestment and Share Purchase Plan

Stock Dividend Program

Electronic Funds Transfer Service

Shareholder Dividend Reinvestment and Share Purchase Plan

The Shareholder Dividend Reinvestment and Share Purchase Plan provides a means for holders of record of common shares or Class A Preferred Shares Series 1 or Series 2, resident in Canada, to reinvest cash dividends in new common shares of the Bank at a purchase price of 95% of the average market price, without the payment of any commissions or service charges. Shareholders may also purchase additional common shares of the Bank at 100% of the average market price by making optional cash payments of up to \$5,000 per quarter, whether or not dividends on shares are being reinvested. Common shares offered under this Plan may be included in a Quebec Stock Savings Plan, which allows an individual other than a trust, who is resident in Quebec on the last day of the taxation year, to deduct, in computing taxable income for Quebec income tax purposes, the acquisition cost of the common shares under the Plan, providing certain conditions are satisfied.

Stock Dividend Program

The Stock Dividend Program provides a means for holders of record of at least 100 common shares or 100 Class A Preferred Shares Series 1 or Series 2 to acquire common shares of the Bank at 95% of the average market price by electing that dividends be paid by the issue of common shares of the Bank having a value substantially equivalent to the cash dividend otherwise payable.

Electronic Funds Transfer Service

Shareholders not wishing to participate in the Shareholder Dividend Reinvestment and Share Purchase Plan or the Stock Dividend Program may choose to have dividends deposited directly to an account in any financial institution which provides electronic funds transfer facilities.

Details of the dividend options and enrolment forms may be obtained by contacting The Royal Trust Company, Corporate Trust Division, 630 Dorchester Boulevard West, Montreal, Quebec H3B 1S6.

Restraints on Bank Shares Under the 1980 Bank Act

The Bank Act contains restrictions on the ownership of shares of the Bank. These restrictions limit ownership of shares by all non-residents to a maximum of 25% of any class of shares. These restrictions also do not allow any individual to own more than 10% of any class of shares and prohibit ownership of the Bank's shares by Canadian or foreign governments.

Distribution of Shareholders

The following table indicates the distribution of shareholders by country of residence at October 31, 1982:

	Shareholders
Canada	97.2
United States	1.1
Other	1.7
	100.00

Copies of Annual Report

Additional copies of this Annual Report may be obtained by contacting the Bank's Public Affairs Department, P.O. Box 6002, Place d'Armes, Montreal, Quebec H2Y 1L6, or any Division headquarters in Canada.

(See listing at the back of this report.)

Directors

- W.D. Mulholland, LL.D.**
Chairman of the Board
- Grant L. Reuber, Ph.D.**
Deputy Chairman
- William E. Bradford, F.C.G.A.**
President
- Stanley M. Davison**
Vice-Chairman
- Hartland M. MacDougall, C.M.**
Vice-Chairman
- Jack H. Warren, O.C.**
Vice-Chairman
- Charles F. Baird, LL.D.**
Toronto
Chairman and Chief Executive Officer
Inco Limited
- Peter J.G. Bentley**
Vancouver
President and Chief Executive Officer
Canadian Forest Products Ltd.
- Claire P. Bertrand**
Montreal
Housewife
- S. Robert Blair, O.C., LL.D.**
Calgary
President and Chief Executive Officer
NOVA, AN ALBERTA CORPORATION
- Robert A. Boyd, O.C.**
Montreal
Vice-President
Gendron Lefebvre Inc.
- Charles R. Bronfman, O.C.**
Montreal
Deputy Chairman
Chairman, Executive Committee
The Seagram Company Ltd.
- Hon. Sidney L. Buckwold, LL.D.**
Saskatoon
President
Buckwold's Ltd.
- Fred S. Burbidge**
Montreal
Chairman and Chief Executive Officer
Canadian Pacific Limited
- Pierre Côté, C.M.**
Quebec
Chairman of the Board
Celanese Canada Inc.
- H. Roy Crabtree, LL.D., D.C.L.**
Montreal
Chairman of the Board
Wabasso Inc.
- C. William Daniel, LL.D.**
Toronto
President and Chief Executive Officer
Shell Canada Limited
- Nathanael V. Davis, D.Sc.**
Osterville, Mass.
Chairman
Alcan Aluminium Limited
- Graham R. Dawson**
Vancouver
President
G.R. Dawson Holdings Limited
- Louis A. Desrochers, Q.C., LL.D., D.Sc.**
Edmonton
Partner
Messrs. McCuaig Desrochers
- John H. Devlin**
Toronto
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Rothmans of Pall Mall Canada Limited
- A. John Ellis**
Vancouver
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- J. Trevor Eyton, Q.C.**
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Brascan Limited
- Thomas M. Galt**
Toronto
Chairman and Chief Executive Officer
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- The Viscount Garnock**
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Director
Crossley Karastan Carpets Limited
- Roger Gaudry, C.C., D.Sc.**
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- Roland Giroux, C.C.**
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- J. Peter Gordon, LL.D.**
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- G. Arnold Hart, M.B.E., C.M.**
Mountain, Ont.
Former Chairman of the Board and Chief Executive Officer
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The Devonian Group of Charitable Foundations
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- Richard M. Ivey, Q.C., LL.D.**
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Toronto
Public Affairs Editor
CFRB Limited
- Walther Leisler Kiep**
Kronberg/Tanus, Hessen
Federal Republic of Germany
General Partner
Gradmann & Holler (KG)
- J. Blair MacAulay**
Toronto
Partner
Fraser & Beatty
- Donald A. McIntosh, Q.C.**
Toronto
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Rancher and Company Director
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- Jerry E.A. Nickerson**
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- Hon. Victor deB. Oland, O.C.**
Halifax
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Lindwood Holdings Limited
- Forrest Rogers**
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Chairman of the Board
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- James C. Thackray**
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- Lorne C. Webster**
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Vice-Chairman
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William E. Bradford
Hon. Sidney L. Buckwold
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C. William Daniel
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PENSION ADVISORY
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The **Board of Directors** meets monthly to exercise its overall policy and management responsibility and to review the Bank's global operations. The Directors bring to the Board diverse backgrounds and experience from Canada and abroad.

The **Executive Committee** discharges responsibilities for management and direction of the Bank as delegated by the Board.

The **Audit Committee** undertakes auditing duties specified in the Bank Act, and performs other similar functions as delegated by the Board.

The **Management Resources and Compensation Committee** reviews the manpower and compensation policies of the Bank.

The **Donations Committee** recommends to the Board appropriate donations policy and reviews the Bank's corporate contributions.

The **Pension Advisory Committee** advises the Pension Fund Society and reports to the Board on the affairs of the Society.

Members of the Board of Directors toured the new Treasury trading room in Toronto following a regular monthly meeting. In the foreground are J. Trevor Eyton, Betty Kennedy and George C. Solomon. Badges are worn by all visitors to the trading room, for security reasons.



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Deputy Chairman

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H.M. MacDougall
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*Executive Vice-President
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Domestic Banking*

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*Vice-President
and Chief Auditor*

H.A. Erian
*Vice-President
and Chief Accountant*

Robert Muir
*Vice-President
and Secretary*

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J.A. Whitney

Senior Vice-Presidents:

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Dr. P.G. Kirkham, P.A. Manson, J.W. McCool, W.K. Smith, C.A.**

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R.D. Chard, D.A. Fry, G.K. Gilmour, C.R. Kingsford, C.A., R.C. Legge,
M.B. Lowe, D.E. Kreikle, L.R. O'Hagan, G.T. Robertson, R.W. Saddington,
R.B. Wells, C.A.**

*The Country Risk Rating
Committee, under the chairmanship
of Jack H. Warren, meets regularly
to examine political and economic
risks associated with doing business
abroad.*



Worldwide
...Corporate Banking
...Government Banking
...Merchant Banking

CORPORATE AND GOVERNMENT
BANKING GROUP

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W.B. Bateman

*Senior Vice-Presidents and
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Donald Munford, C.R. Myers, N.F. Potter, M.R.P. Rayfield, J.L. Richard,
Sanjiv Tandon, P.D. Waters

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S.K. Christensen, P.C. Conradi, J.H. Darrow, E.J. Dato, R.J. Feys,
H.B. Garbe, C.E. Garin, J.C. Gorman, J.A. Graham, M.A. Graham,
Dr. P.H. Grimley, J.F.D. Haskell, I.E. Henke, E.S. Hogg, J.A.N. Jarry,
J.D. Jenikov, W.G. Jestley, D.H.D. Johnston, P.M. Jurist, B.N. Loomer,
A.L. Luce, D.A. Lunney, D.M. Luyt, N.R. Macmillan, M.J.S. MacNab,
D.F. Milner, W.H. Moise, G.D. Nash, R.J. Normand, D.A. Ottersen,
J.W. Robertson, K.D. Robson, R.G. Rogers, G.R. Rourke, M.R. Rowe,
G.W. Scalf, W.R. Seattle, Allan Taylor, F.M. Thomson, J.D. Topley,
D.W. Tutt, B.H. Walters, D.F. Willis, F.A. Whittaker, T.C. Wright,
A.S. Yankovich

Mr. C.G. Stratton, Executive Vice-President, is currently on educational leave.



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*Executive Vice-President
and Treasurer:*

G.E. Neal

Senior Vice-Presidents:

F.A. Comper, J.L. Gamarci

Vice-Presidents:

C.E. Bartliff, J.H.W. Brewer, B.R. Leader, A.G. Lodge, I.A.C. McCallum,
A.D. Mutch, A.M.S. White, C.A., P.S. Wilson, R.J. Williams

I. Michael Sweatman, Executive Vice-President, International Banking Group; George E. Neal, Executive Vice-President, Treasury Group; and Jorge L. Gamarci, Senior Vice-President, Treasury Group, meet in the trading room at First Canadian Place, Toronto. Cooperation among Treasury and International Banking groups and the Operations and Systems Division permits worldwide, around the clock Treasury activities.



(opposite)

Keith E. Palmer, Senior Vice-President; William B. Bateman, Executive Vice-President and General Manager; James J. Byrnes, Senior Vice-President; and Edward L. Mercaldo, Senior Vice-President, direct worldwide operations of the Corporate and Government Banking Group. Messrs. Palmer, Byrnes, and Mercaldo are Deputy General Managers.

Overseas Banking

INTERNATIONAL BANKING GROUP

*Executive Vice-President
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I.M. Sweatman

*Senior Vice-President and
Deputy General Manager:*

M.W. Barrett

Senior Vice-President:

P. Leitão da Cunha

Vice-Presidents:

**H.G. Ackstein, J.N. Baillie, P.A. Blonar, Yvon Bourdeau, T.J. Guiheen,
W.H. Hill, R.T. Kazuta, E.T. Little, A.G. McNally, A.W. Mendels**

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Investimento S.A. —
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Rio de Janeiro
P. Leitão da Cunha
President*

*Bank of Montreal (Bahamas
and Caribbean) Ltd.
Nassau
W.H. Hill
Managing Director*

*Bank of Montreal (California)
San Francisco
C.R. Myers
President*

*Bank of Montreal
Asia Limited
Singapore
C.K. Wong
Managing Director*

*Bank of Montreal
International Ltd.
Nassau
J.N. Baillie
Managing Director*

*First Canadian
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Hong Kong
R.T. Kazuta
Managing Director*

*First Canadian
Financial Services (U.K.) Ltd.
London
A.G. McNally
Managing Director*

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*Allgemeine Deutsche
Credit-Anstalt
Frankfurt*

*Australian International
Finance Corporation
Sydney*

*Banque Transatlantique
Paris*

*Wholly owned

Ronald H. Call, Senior Vice-President, Corporate Planning; Dale G. Parker, Executive Vice-President, Canadian Commercial Banking; and William C. Harker, Executive Vice-President, Domestic Banking, directed the Task Force which carried out the study and planning leading to the Domestic Development Program, now being implemented.

Canadian
...Commercial Banking
...Personal Banking

CANADIAN COMMERCIAL
BANKING GROUP

*Executive Vice-President
and General Manager:*

D.G. Parker

Senior Vice-Presidents:

A.E. Bates, L.F. Darlington, J.R. Ellis, R.M. Forster, R.A. Franklin,
J.A. Horton, D.J. Kavanagh, Simon Kouwenhoven, Pierre MacDonald,
D.C. McLean, J.A.E. Morel

Vice-Presidents:

W.D. Brash, M.A. Burke, R.D. Chard, W.F. Cummings, D.L. Demers,
H.F. Dooyeweerd, L.R. Fite, R.S. Gammon, F.G. Hacquoil, R.A. Holmes,
W.W. Holmes, C.J. Irwin, J.R.G. Jarry, R.G. Ketcheson, Gordon MacAskill,
L.E. McDannold, D.L. Moore, F.J. Morgan, M.R. Mourtou, H.K. Munro,
T.W. Pope, Deanna Rosenswig, J.G.J. Savard, W.J. Speers, G.W. Squibb,
Dobri Stojic, G.C. Strachan, R.J. Stranks, K.J. Summers, G.M. Thompson,
D.J. Troutman, A.R. White

DOMESTIC
BANKING GROUP

*Executive Vice-President
and General Manager:*

W.C. Harker



Directory of
Major Offices, Foreign
Branches and
Representative Offices



CANADA

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Group Headquarters

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Halifax

ATLANTIC PROVINCES DIVISION

J.R. Ellis
*Senior Vice-President
and Division Executive*

INTERNATIONAL BANKING SERVICE CENTRE

TREASURY OFFICE

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Halifax, Nova Scotia
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Atlantic Provinces Division:
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International
Banking Service Centre:
Telex: 019-23574 BKMTLFOREX
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Treasury Office:
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TREASURY OFFICE
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Toronto

CENTRAL DIVISION,
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BANKING GROUP

R.M. Forster

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CENTRAL REGION,
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Trading Department:

Eurocurrency International

Telex: 06-217774 MONTOR FX

Tel: (416) 867-4651

Foreign Exchange International

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Tel: (416) 867-5095

Domestic Money Management

Telex: 06-22791 TRESEC TOR

06-29443 TRESEC TOR

Tel: (416) 867-7830

Domestic Bond Dept.

Telex: As per Domestic

Money Mgmt.

Tel: (416) 867-5301

London, Ontario

CENTRAL DIVISION,
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R.A.E. Morel

Senior Vice-President

Winnipeg

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SASKATCHEWAN
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R.S. Gammon

Vice-President

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Division Executive

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Calgary

ALBERTA DIVISION

S. Kouwenhoven

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CORPORATE AND
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BRITISH COLUMBIA
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H.G. Ackstein

Vice-President and

Manager

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Z.G. Klodnicki

Vice-President and

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J.D. Topley

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T.C. MacMillan
Representative

Houston, Texas

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BANKING**
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W.H. Moise
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Operations Officer

San Francisco, California

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Cashier*

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D. Adcock
Manager

BAHAMAS

Nassau, Bahamas

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J.N. Baillie
*Vice-President and
Manager*

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LIMITED**

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J.N. Baillie
Managing Director

**BANK OF MONTREAL
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Harrison Building
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W.H. Hill

Managing Director

EUROPE

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889068 BOMLDN G
889069 BOMLDN G
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A.G. McNally

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Manager*

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Forex and deposit dealers
883574 BOMLDN G
883875 BOMLDN G
887095 BOMLDN G
887046 BOMLDN G
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A.G. Lodge

Vice-President

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Managing Director

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J.A. Horton

Senior Vice-President

P.C. Conradi

H.B. Garbe

J.C. Gorman

A.L. Luce, Jr.

M.R. Rowe

Vice-Presidents

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London, England
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A.S. Yankovich

Vice-President

Madrid, Spain

REPRESENTATIVE OFFICE

CORPORATE AND GOVERNMENT BANKING

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M. Simon

Representative

Milan, Italy

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A.V. Russo

Representative

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REPRESENTATIVE OFFICE

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