The First Canadian Bank
Bank of Montreal

Annual Report 1973

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Cover: The year of Master Charge.
In the year under review, the Bank of Montreal introduced Master Charge, "the world's most welcome credit card", to Canada. The cover photographs depict the range of uses for the card in consumer purchasing, business and pleasure from coast to coast.

Legal deposit, 4th quarter (1973)
Bibliothèque nationale du Québec

(On peut obtenir sur demande
un exemplaire français)

The First Canadian Bank
Bank of Montreal

Annual Report

Financial Highlights	1973	1972
Total assets	**$14,409,287,596**	$11,323,388,746
Securities	**1,967,764,349**	1,928,487,534
Loans	**8,701,829,281**	6,981,553,474
Deposits	**13,290,934,906**	10,356,738,884
Debentures	**140,000,000**	90,000,000
Balance of revenue for the year	**131,568,882**	118,657,437
Balance of revenue per share	**$3.85**	$3.47
Balance of profits for the year	**56,942,672**	53,157,437
Balance of profits for the year per share	**$1.67**	$1.56
Dividends	**30,754,688**	28,704,375
Dividends per share	**90¢**	84¢
Total provision for income taxes	**57,229,876**	55,368,483
Total provision for income taxes per share	**$1.67**	$1.62
Shareholders' equity	**390,667,192**	364,479,208
Number of shares issued	**34,171,875**	34,171,875

156th Annual General Meeting
Head Office Montreal
December 10 1973

For the information of shareholders, the valuation day value of the Bank's capital stock for capital gains tax purposes as published by the Department of National Revenue, Taxation, is $18.50.

Board of Directors

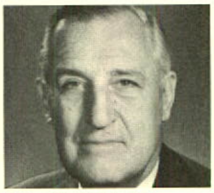
G. Arnold Hart
Chairman and Chief
Executive Officer

Fred H. McNeil
President and
Chief Operating Officer

Vice-Chairmen

A. John Ellis
Vice-Chairman
Resident in Vancouver

David Kinnear
Vice-Chairman
Resident in Toronto



R. D. Mulholland
Vice-Chairman
Resident in Montreal

Vice-Presidents

W. A. Arbuckle, *Montreal*
Chairman of the Canadian
Board, The Standard Life
Assurance Company

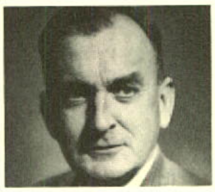
A. Searle Leach,
Winnipeg
Chairman,
Federal Industries Ltd.

Bernard M. Lechartier
Montreal
Chairman of the Board,
Crédit Foncier Franco-
Canadien

Roger Létourneau, Q.C.
Quebec
Partner, Messrs. Létourneau,
Stein, Marseille, Delisle &
LaRue

The Hon. Hartland deM. Molson, O.B.E., *Montreal*
Chairman,
Board of Directors, The
Molson Companies Limited

Budd H. Rieger, *Toronto*
Vice-President, Canadian
Corporate Management
Co. Ltd.



The Hon. James Sinclair, P.C., *Vancouver*
Chairman,
Lafarge Canada Ltd.

George N. Scott
Senior Executive
Vice-President and Chief
General Manager

As at December 10, 1973

Directors

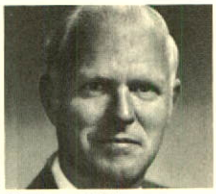
Sir Peter Allen, *London, England*
Industrialist

W. M. Vacy Ash, *Toronto*
Company Director

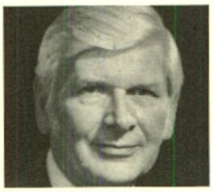
S. Robert Blair, *Calgary*
President and Chief
Executive Officer,
The Alberta Gas Trunk Line
Company Limited

Andrew C. Crosbie
St. John's, Newfoundland
President,
Crosbie Services Ltd.

Nathanael V. Davis
Montreal
Chairman and Chief
Executive Officer,
Alcan Aluminium Limited



Graham R. Dawson
Vancouver
President, Dawson
Construction Ltd.



Leonard Hynes, *Picton*
Chairman of the Board,
Canadian Industries
Limited

R. M. Ivey, Q.C.
London, Ont.
Partner,
Messrs. Ivey & Dowler

J. H. Mowbray Jones
Montreal
Industrialist

William D. Mulholland
Montreal
President and Chief
Executive Officer,
Brinco Limited

Robert D. Musgjerd
Chicago
President, Overseas,
Division, International
Harvester Company

David L. Nicolson
London, England
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British Airways Board

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Sobeys Stores Ltd.

George C. Solomon
Regina
President,
Western Tractor Limited

James C. Thackray
Toronto
Executive Vice-President,
Bell Canada

Charles R. Bronfman
Montreal
President,
The House of Seagram Ltd.

The Hon. Sidney L. Buckwold, *Saskatoon*
Vice-President and General Manager,
Buckwold's Limited

F. S. Burbidge, *Montreal*
President,
Canadian Pacific Limited

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Toronto, President and Chief Executive Officer,
Hambro Canada (1972) Limited

Pierre Côté, *Quebec*
President,
Laiterie Laval Limitée

H. Roy Crabtree,
Montreal
Chairman and President,
Wabasso Limited

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Edmonton, Alberta
Partner, McCuaig, McCuaig, Desrochers, Beckingham & McDonald

John H. Devlin, *Toronto*
Chairman, Rothmans of Pall Mall Canada Limited

Thomas M. Galt,
Montreal
President,
Sun Life Assurance Company of Canada

J. P. Gordon, *Toronto*
President and Chief Executive Officer, The Steel Company of Canada, Limited

L. Edward Grubb,
Toronto, President and Chief Officer, The International Nickel Company of Canada, Limited

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Calgary
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Petrofina Canada Ltd.

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Saint John, N.B.
President, Jos. A. Likely, Limited

J. Blair MacAulay
Winnipeg
Partner, Messrs. Aikins, MacAulay & Thorvaldson

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Toronto
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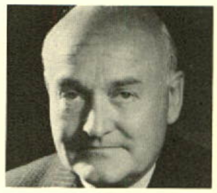
Fry Mills Spence Limited

Donald A. McIntosh, Q.C.
Toronto
Partner,
Messrs. Fraser & Beatty

D. R. McMaster, Q.C.
Montreal, Partner, Messrs. McMaster, Meighen, Minnion, Patch & Cordeau, Hyndman & Legge



J. Bartlett Morgan
Montreal
Chairman of the Board,
The Morgan Trust Company

The Hon. Victor deB. Oland
Halifax
Chairman, Lindwood Holdings Limited

H. J. S. Pearson,
Edmonton
President,
Century Sales & Service Limited

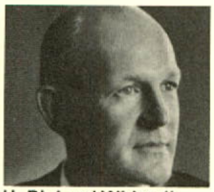
John G. Prentice
Vancouver
Chairman of the Board,
Canadian Forest Products Limited

Forrest Rogers
Vancouver
Chairman of the Board,
B.C. Sugar Refinery, Limited

Lucien G. Rolland
Montreal
President and General Manager, Rolland Paper Company, Limited

George H. Sellers
Winnipeg
Industrialist

Lorne C. Webster
Montreal
President,
Prenor Group Ltd.



H. Richard Whittall
Vancouver
Partner, Richardson Securities of Canada

Committees of the Board

Executive Committee:
G. Arnold Hart,
Chairman
W. A. Arbuckle
W. M. Vacy Ash
Nathanael V. Davis
Bernard M. Lechartier
Roger Létourneau, Q.C.
D. R. McMaster, Q.C.
Fred H. McNeil
The Hon. Hartland deM. Molson, O.B.E.
R. D. Mulholland
Budd H. Rieger
Lucien G. Rolland

Audit Committee:
W. A. Arbuckle,
Chairman
Charles R. Bronfman
Pierre Côté
G. Arnold Hart
William D. Mulholland
Lorne C. Webster

Pension Committee:
Fred H. McNeil,
Chairman
W. A. Arbuckle
Thomas M. Galt
R. D. Mulholland

Management Resources Committee:
G. Arnold Hart,
Chairman
J. P. Gordon
Bernard M. Lechartier
Fred H. McNeil
James C. Thackray

December 10th, 1973

Divisional Committees of the Board of Directors

Atlantic Provinces
The Hon. Victor deB. Oland,
Chairman
William M. Sobey,
Alternate Chairman
Andrew C. Crosbie
J. H. Mowbray Jones
Joseph A. Likely
Ex-officio, J. R. Ellis,
Vice-President
Atlantic Provinces Division.

Quebec
Lucien G. Rolland,
Chairman
W. A. Arbuckle,
Alternate Chairman
Charles R. Bronfman
F. S. Burbidge
Pierre Côté
H. Roy Crabtree
Nathanael V. Davis
Thomas M. Galt
G. Arnold Hart
Bernard M. Lechartier
Roger Létourneau, Q.C.
D. R. McMaster, Q.C.
Fred H. McNeil
The Hon. Hartland deM. Molson, O.B.E.
J. Bartlett Morgan
R. D. Mulholland
William D. Mulholland
Lorne C. Webster
Ex-officio, J. D. C. de Jocas,
Senior Vice-President,
Quebec Division.

Ontario
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Chairman
Donald A. McIntosh, Q.C.,
Alternate Chairman
W. M. Vacy Ash
E. R. Erskine Carter
John H. Devlin
J. P. Gordon
L. Edward Grubb
Leonard Hynes
R. M. Ivey, Q.C.
Charles S. MacNaughton
Robert D. Musgjerd
Budd H. Rieger
James C. Thackray
Ex-officio, J. B. Lesslie,
Senior Vice-President,
Ontario Division.

Manitoba/Saskatchewan
A. Searle Leach,
Chairman
George C. Solomon,
Alternate Chairman
The Hon. Sidney L. Buckwold
J. Blair MacAulay
George H. Sellers
Ex-officio, R. W. Mackie,
Senior Vice-President,
Man/Sask Division.

Alberta
H. J. S. Pearson,
Chairman
S. Robert Blair,
Alternate Chairman
Louis A. Desrochers, Q.C.
Donald S. Harvie
Ex-officio, R. R. Curtis,
Senior Vice-President,
Alberta Division.

British Columbia
The Hon. James Sinclair, P.C.,
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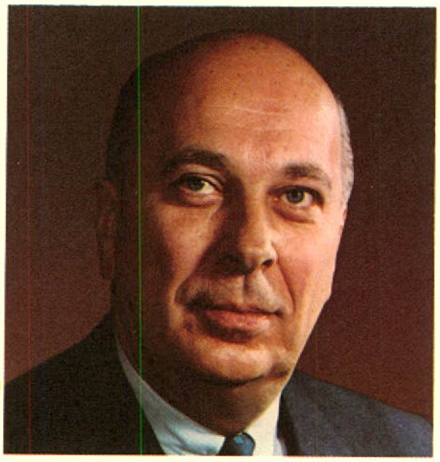
Forrest Rogers,
Alternate Chairman
Graham R. Dawson
A. John Ellis
John G. Prentice
H. Richard Whittall
Ex-officio, R. J. Kayser,
Senior Vice-President,
British Columbia Division

London, England Committee
Sir Peter Allen
David L. Nicolson

Address of the Chairman of the Board



G. Arnold Hart

In February last we suffered the loss of our esteemed President, J. Leonard Walker, whose untimely passing was keenly felt throughout your Bank, which he served diligently, faithfully and with great distinction for over forty-five years. I should like also to pay tribute to Bertie C. Gardner, M.C., who died in December 1972. He commenced his Canadian banking career in 1906 and rose through the ranks to become Chairman of the Board, from which office he retired in 1952. The late Mr. Gardner continued to serve as a Director until 1959.

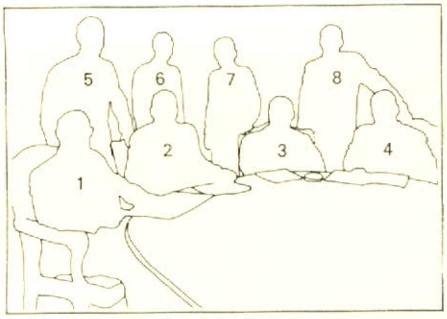
To succeed to the Presidency your Directors elected Mr. Fred H. McNeil and re-appointed him Chief Operating Officer. Mr. George N. Scott, previously Executive Vice-President, Loans and Investments, was appointed Senior Executive Vice-President and Chief General Manager. Following the Annual Meeting Mr. R.D. Mulholland, a former President of the Bank, was re-elected Vice-Chairman resident in Montreal. Subsequently Mr. David Kinnear, formerly Chairman of the Board, The T. Eaton Co. Limited, and a Director of the Bank, was elected Vice-Chairman resident in Toronto and also Chairman of the newly-formed Ontario Committee of the Board of Directors. Mr. A.J. Ellis was appointed a Director and elected Vice-Chairman resident in Vancouver, where he had previously served as Executive Vice-President. I reassumed the appointment of Chief Executive Officer while continuing to serve as Chairman of the Board.

Early in the year Mr. L. Edward Grubb, President and Chief Officer of The International Nickel Company of Canada, Limited, was appointed a Director and we have welcomed him to the deliberations of your Board.

Just two weeks ago we suffered the loss of Mr. Raymond Crépault, Q.C., whose untimely death is deeply mourned. The late Mr. Crépault took a keen interest in the affairs of the Bank and his wise counsel was of great value to us.

During the year your Directors regretfully accepted the resignation of Mr. Alan M. Murray, for health reasons, and, to succeed him, appointed Mr. H. Richard Whittall, Partner, Richardson Securities of Canada, resident in Vancouver, whom we have welcomed to our deliberations. In keeping with the policy of your Directors with respect to retirement age, Mr. Ralph B. Brenan, Vice-President and member of the Executive Committee and Chairman of the Atlantic Provinces Committee of the Board of Directors, and Mr. H.C.F. Mockridge, Q.C., are not standing for re-election today. In addition, The Hon. Eric Cook, Q.C., has asked not to be included in the slate of Directors to be submitted for your approval inasmuch as pressure of other duties has made it difficult for him to attend meetings, particularly in the Atlantic Provinces. We will miss our close contacts with these gentlemen, but are assured of their continuing interest and support. On your behalf I should like to extend sincere appreciation for their services as Directors, coupled with best wishes for the future.

The names of four new Directors will be proposed to you today. They are Mr. Charles S. MacNaughton, Chairman of the Board, Fry Mills Spence Limited, Toronto; Mr. Louis A. Desrochers, Q.C., Partner, McCuaig, McCuaig, Desrochers, Beckingham & McDonald, Edmonton; Mr. Joseph A. Likely, President, Jos. A. Likely, Limited, Saint John, N.B.; Mr. Andrew C. Crosbie, President, Crosbie Services Ltd., St. John's, Nfld., each of whom, we know,



1. Maurice A. Massé
Executive Vice-President

2. G. Arnold Hart
Chairman and Chief Executive Officer

3. George N. Scott
Senior Executive Vice-President and Chief General Manager

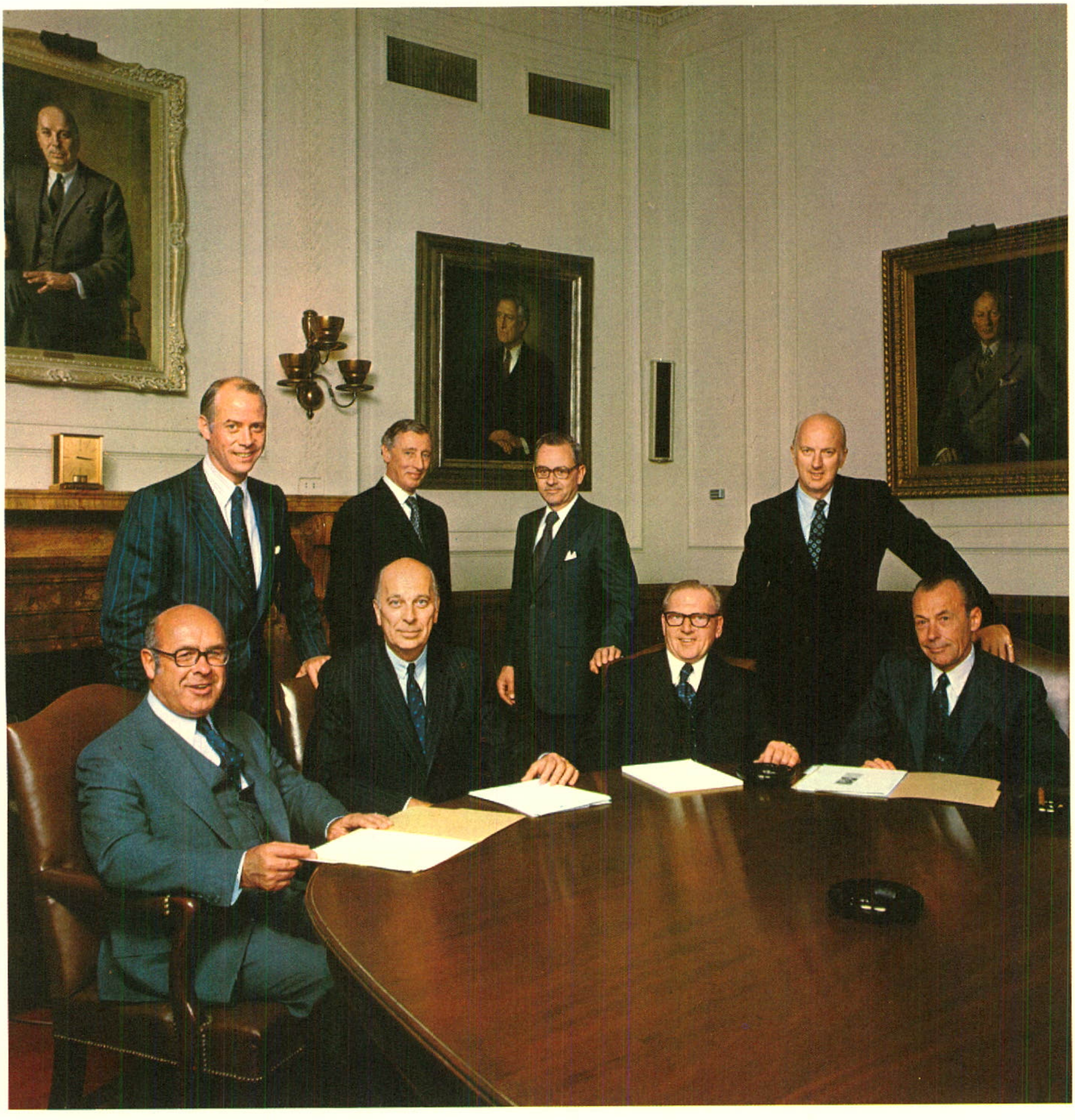
4. Fred H. McNeil
President and Chief Operating Officer

5. Hartland M. MacDougall
Executive Vice-President

6. J. D. van Oenen
Executive Vice-President and General Manager, International Banking

7. John A. Whitney
Executive Vice-President, Credit and Investments

8. Stanley M. Davison
Executive Vice-President and General Manager, Domestic Banking



will make a valuable contribution to the affairs of your Bank.

In keeping with the desire to decentralize as much as possible and to bring the decision-making process closer to local levels, your Directors decided, earlier this year, to establish across Canada six divisional committees of the Board serving the Atlantic Provinces, Quebec, Ontario, Manitoba-Saskatchewan, Alberta and British Columbia. Each committee elects its own chairman from among its members. This new system, which gives local Directors greater autonomy in dealing with the requirements of customers and in providing improved service, has been well received both by the public and by personnel in the Bank. This innovation has enabled your Directors to become involved in the affairs of your Bank to an even greater degree than heretofore. You will have noted in my letter to shareholders, under date of October 17th last, that the number of meetings held was substantial. Your Directors are thus called upon to devote more of their time to our deliberations, which they have done and continue to do willingly and enthusiastically. We in management welcome their increased participation, which augurs well for the continued progress of your institution.

The rapid advance in total output of the Canadian economy that was in full swing at this time last year has continued in the interval, albeit at a somewhat more restrained pace in recent months. It now seems likely that real growth for the year as a whole will be the highest for quite a long time. Unfortunately, the rise in prices has been even more dramatic and it is to this subject that I address my remarks today.

Inflation serious . . .

In doing so, I recognize that there are other topical matters of wide public concern, such as the energy situation with all its ramifications. Without minimizing the gravity of this crisis, or the importance of its effects on the economy, I still consider inflation to be one of the most serious, and certainly one of the most difficult, of the underlying problems we have yet to solve.

Most of the recent discussion of inflation has had to do with such concepts as controlling it, containing it, countering it, coexisting with it, coping with it and attempting to deal with the consequences of it. For the most part it has had very little to do with curing it, which presupposes some knowledge and recognition of the causes of it.

On a similar occasion in this room four years ago I suggested that the modern industrial economy had developed an inflationary bias as a result of a variety of factors, including changes in the age structure of our population, changes in social values, changes in economic expectations and so on. Undoubtedly this inflationary bias still exists and the need for policies to counteract it becomes more urgent with the passage of time.

. . . but we are all at fault.

But the search for appropriate policies will not be helped in the least by attempting to place the blame on any particular group in the community. We are all at fault in one way or another as a result of society as a whole attempting to wring more out of the economy than it is capable of producing. We do this in various mindless ways, often with the very best of intentions towards our neighbours, but with no real appreciation of the total consequences of our acts. One of the most illuminating examples of the results of this human failing may be found in the implementation of enlightened social policies which, separately, most of us endorse in principle but which, taken together, may be self-defeating.

This is one of the most important of the messages contained in the recently published Review of the Economic Council of Canada. The Council, having examined the rapid escalation that is taking place in expenditures on social programmes at all levels of government, comes to the conclusion that a limitation must be put on the annual rate of growth of these transfer payments. This recommendation is not without its critics, but I urge them to examine carefully the reasoning behind it.

In essence, the Council is saying that, unless there is a sharp cutback in expenditures for other desirable purposes, continued growth of transfer payments at the rate currently envisaged will necessitate a very substantial increase in taxes. This, in turn, will cause further distortions in the economy and stimulate inflation. Thus, a situation could arise where transfer payments would reach a level at which they would no longer serve the interests of those they are intended to help.

First Bank Tower in Vancouver's Bentall Centre, to be the home of the Bank's regional operations in British Columbia. Scheduled to be opened this spring, the Tower will house the Bank's B. C. Division Headquarters, the Master Charge Regional Centre, and International Banking-British Columbia. The complex also will contain a personal banking service pavilion on the ground level. The tower is one of the several new real estate developments in major cities in which the Bank has joined in recent years.

We give with one hand . . .

Perhaps I can throw some light on this rather complex idea by referring to the more easily understood proposition that increased demand for any commodity or service not matched by an increase in supply is potentially inflationary. Imbalances of this sort arise from many causes. However, there is surely no more clear-cut example of a situation where they can arise on the demand side than in the case of a unilateral transfer of funds from the state to the individual to enable him to make purchases that he would otherwise not be able to make. Transfers of this sort are commonly made under such widely supported programmes as old age pensions, family allowances, unemployment insurance and social assistance in one form or another.

Does this mean that all the beneficiaries, including the orphans, the widows on welfare, the maimed, the halt and the blind, contribute to inflation? Other things being equal, of course they do, as do all worthy causes that give rise to a transfer of income from a producing to a non-producing sector of society unless one, or both, of two other conditions are fulfilled. If inflation is not to be the result there must be either a compensating increase in output in the producing sector of the economy or an effective means of ensuring that the increase in demand in the non-producing sector is offset by a decrease in demand elsewhere.

Under ordinary circumstances, in a growing economy where output is not pressing against the limits of capacity, the former condition—increased supply—can easily be met in such a way that the latter condition—a compensating decrease in demand—may not be required in any overt sense. However, when the rate of increase of transfers is too rapid, or when the economy is already stretched to the limit, it becomes clear that most of the burden of achieving the required transfer of resources has to be borne by restraint on the growth of demand by others.

It is a matter of simple arithmetic that, if society, acting through its government, decrees that the proportion of total income transferred to non-producing sectors is to be increased, the proportion left for the producers must decline if social policies are to be validated. In this context I find it rather difficult to comprehend the reasoning of those who argue that action is needed to protect the position of what is undoubtedly the largest producing group in society—wage and salary earners—in the face of what is described as a declining share of total income. The contention, presumably based on National Accounts statistics for the second quarter of this year, is that wages and salaries now represent a lower share of national income "than at any time in the past five years", whereas corporation profits have been taking a share of national income "to a degree not exceeded in 17 years".

This may be so, but the interesting fact is that the same statistics show rather conclusively that wages and salaries have on balance represented an increasing share of the national income for many years. For example, they rose from about 64% in the mid-50's to 68% in the mid-60's and to 72% last year, with a slight decline to just under 71% in the first half of this year. Profits as a proportion of national income, on the other hand, have been on a declining trend. This is evident in the fact that, notwithstanding a good recovery in the past couple of years, they still represent a somewhat smaller share than they did 17 years ago, and a much smaller share than at earlier times at a comparable stage of the business cycle.

. . . and take away with the other.

Be that as it may, changes in the relative returns of different producing groups —important as they are—are not central to my argument today. My only reason for commenting on the issue of the alleged loss of share of wages and salaries in the total is to illustrate the fact that if the factors of production, such as labour and capital, attempt to capture a larger share of the total income produced by society, while society itself—wearing another hat—attempts to improve the position of non-producing members of the community, something clearly has to give. The most likely result is inflation, and relative movements of prices and money incomes will thus give rise to a shift in command over real resources away from the intended beneficiaries.

This is what has happened in the case of pensioners, for example, where the real purchasing power of the monetary allocations being made to them by government on behalf of the people of Canada has been substantially eroded by persistent and generalized inflation. As a means of at least partial amelioration, the money allocation has been increased, on a formula that is tied to past increases in the consumer price index.

In the year under review, the Bank took a further step towards making its decision-making process more responsive to the distinctive economic needs of Canada's regions. It established formal committees composed of all the Bank's directors in each of its six divisions across Canada. The divisional committees deal with virtually all major loans in their areas in consultation with senior divisional staff. Shown above is a meeting of the Manitoba-Saskatchewan Divisional Committee with its staff advisers. Left to right: Keith E. Palmer, Divisional Credit Manager; J. Blair MacAulay, Director; R. W. Mackie, Senior Vice-President, Manitoba-Saskatchewan Division; A. Searle Leach, Director and Committee Chairman; George C. Solomon, Director and Alternate Chairman; Hon. Sidney Buckwold, Member and Director, and M. B. Anderson, Divisional Administration Manager. Absent when the photograph was taken was George H. Sellers, Director and Member of the Committee.

Indexing no solution . . .

However necessary such a move may be in current circumstances to deal with an urgent human problem, we should be under no illusion that this is a satisfactory solution. Indeed, it is really no solution at all in the longer run, since the very process tends to perpetuate and even to intensify the problem by adding to demand in money terms without there necessarily being any compensating reduction elsewhere in the economy. The same can be said of any other indexing arrangement the objective of which, on the valid ground of equity, is to compensate the victims of inflation. The only satisfactory answer lies in dealing with the phenomenon of inflation itself.

But by dealing with it I certainly do not mean attempting to control its symptoms by a prices and incomes freeze, mandatory controls or the like. In present circumstances nothing, in my view, could be more perverse in its effects on our long-term prospects, while providing so little relief in the short run. What we are faced with today is a mix of inflationary influences an important component of which is a serious supply problem in relation to demand on a worldwide basis and over a wide range of commodities. In such circumstances there is surely no place for measures that would stand in the way of the inducement to increased supplies that is provided by prices left free to respond to market forces.

. . . nor are controls.

No, the answer to our current problem can certainly not be found in the rigidities and distortions that are inherent in a comprehensive programme of price and income controls, any more than the answer can be found in any of the other measures that are advocated for offsetting the effects of inflation. On examination, they all lead essentially to the same conclusion that nothing will work as long as the underlying conditions that give rise to inflation are not changed. What is needed, clearly, while we are working our way out of the current inflationary woods, is a set of policies, backed by informed public attitudes, that fully recognize the realities of economic life. One of these realities is that the current outburst of inflation on top of the long-term trend arises from developments flowing out of past policies.

Plainly, some of these developments have external origins and are thus beyond the reach of Canadian policies to influence directly. Among these, I should think that the most important event in the relatively recent past was the new economic policy instituted in the United States in 1971, almost every element of which was potentially inflationary: the surcharge on imports (which thankfully was shortlived); the devaluation of the U.S. dollar (which, of course, subsequently went a great deal further than anyone expected at the time); the implied subsidies to exports through such devices as the DISC; and a wide range of other measures designed to stimulate the domestic economy. All of these inflationary influences were to be offset by a prices and incomes freeze, followed by the various stages of the control programme with which we have become familiar.

Whatever the intention, the sad fact is that the result has been the worst inflation we have known in over a generation. However, we live in the world as we find it and Canada certainly cannot escape completely the consequences of economic developments in the countries with which we do business.

The Bank of Montreal has acquired a 23 per cent interest in Canadian-Dominion Leasing Corporation Limited with an option to increase its participation to approximately 50 per cent. The move allows the Bank to offer customers leasing services for a wide range of machinery and equipment on a financial scale from more than $1 million to less than $3,000. Above, production of a film to familiarize Bank personnel with the leasing business. Left to right: J. A. Whitney, Executive Vice-President, Credit and Investments, S. M. Davison, Executive Vice-President and General Manager, Domestic Banking and F. A. Droppo, Manager, Sun Life Building Branch, Montreal.

We must not give up.

Does this mean that we are helpless to do anything about our own inflationary problems? Of course not because, even though there are close interrelationships between Canadian and foreign prices across a broad front, the fact remains that a large part of our inflation is home-made. In this regard I do not subscribe to the Economic Council's view that Canadian price increases cannot be made to differ very much from those in other leading industrial countries. We can do worse or we can do better, and I think it would be courting disaster to abdicate our responsibility for trying to do better. If we give up in this way the result is almost certain to be that we will do worse. But we must do better in the long run because our success, relative to the success that others may have, in bringing inflation under control will have a great deal to do with our total economic performance in the future and our ability to continue to secure improvements in the material well-being of our people.

Furthermore, I seriously question the Council's proposal that Canadian performance objectives in the price area be limited to keeping domestic prices in line with foreign prices. This seems to imply that the only thing that matters is relative price movements, whereas all evidence suggests that inflation in itself is bad.

The basic choices . . .

But we should not delude ourselves that the objective of better price performance can be achieved if monetary and fiscal policies are viewed merely as tools for stabilization of the economy during the course of the business cycle. The most appropriate mix of such policies that man is capable of devising will be of limited effectiveness in promoting sound non-inflationary growth in the longer run if official policies do not adequately reflect the need to deal resolutely with the problem of inflation at its source. This, as I have said on earlier occasions, and in many different ways, is to be found essentially in our failure as a community to establish a coherent and rational order of priorities or to strike a reasonable balance between the desire to meet social needs and the ability of the economy to satisfy them. But the issues here transcend the interests of any individual sector of society, and neither labour nor business nor any other interest group, however organized, has either the capacity or the mandate to take the required global view. Only government has both.

In the circumstances, government has the primary responsibility not only for ensuring that total demands on the economy do not become excessive but also for making the electorate aware that there is no completely painless way of achieving income transfers or other socially oriented policies.

Until government—and by government I do not mean simply the government of the day but rather the whole governmental apparatus, including both the opposition parties in the House and the members of provincial legislatures—accepts this dual responsibility and discharges it properly we will not be able to find a cure for the inflationary disease that afflicts us.

. . . need full debate.

In the more limited area of social policies I have been talking about today the argument is fairly straightforward. Canadians generally have decided that they wish all members of society to share in the improvements in the material standard of living and in the quality of life that have been made possible by economic progress in this great country of ours. That part of it is good. At the same time, we have, as a people, progressively and for better or for worse, chosen government as the instrumentality for effecting the implied transfer of resources to the less fortunate or relatively less productive members of our society. But we do not yet appear to have come to the collective realization that, even if government acts as the go-between, the giver still has to give up something.

Government cannot discharge its mandate effectively if the givers—the producing members of society—collectively frustrate their own wishes by attempting to recapture in the market place the share of the collective output of the economy that they have already agreed to give up by endorsing socially oriented policies. The only conceivable outcomes of this anomalous behaviour pattern are inflation, economic stagnation or even, at times, the worst of both worlds.

Human nature being what it is, are we forced to accept this rather pessimistic conclusion? I think not, because surely the Canadian people will rise to a challenge of this sort if the issues are placed squarely before them. My own remarks this morning have not attempted to offer a specific solution, but only to present one man's opinion on a question that is crying out for public exposure from all points of view. There really are some basic choices to be made. Is it not time for these issues to be debated fully by our elected representatives?

Address of the President

Fred H. McNeil

During the past year of rapid growth in economic activity, the demand for banking services, particularly loans, increased at a record pace. The monetary authorities, concerned about inflation, kept the expansion of the money supply below the level of loan growth. Liquidity in the banking system fell steadily throughout the year, and interest rates on both deposits and loans rose sharply. In the international financial world both interest and exchange rates were extremely volatile, and banking services were in heavy demand. Costs mounted rapidly in all business activities, including our own. These are the major trends that are reflected in your Bank's 156th annual statement which I am honoured to present to you today.

Total revenue rose by $253 million, nearly five times the increase recorded in 1972, but total expenses grew by almost as much, $240 million. Major increases in interest revenue and deposit costs were the main factors in each case. However, a substantial increase also took place in salary expenses, resulting not only from higher compensation levels, but also from the employment of additional people to handle the larger volume of business and the implementation of special projects, particularly the Master Charge and mechanization programmes.

The gain in balance of revenue was just short of $13 million, an increase of 11 per cent over 1972. After providing for income taxes and a transfer to the Accumulated Appropriations Account, balance of profits amounted to nearly $57 million, up some $4 million, or 7 per cent, from last year. Of this amount, $30 million was paid out in dividends, equal to 90 cents per share compared with 84 cents in 1972. Finally, with a view to maintaining an adequate capital base, $26 million was transferred to Rest Account.

The growth in assets since last October exceeded $3 billion, which is not only a record, but means that more assets were added in one year than the Bank actually had on its books as recently as 1957.

Lending Activity

The $1.7 billion increase in Bank of Montreal loans reflected in the annual statement resulted partly from the upsurge in economic activity throughout the world, and partly from the Bank's efforts to diversify its loan portfolio.

In the domestic area, these efforts included maintaining continuity in the provision of residential mortgage funds, and accommodating the borrowing needs of farmers, fishermen and small businesses.

The Bank's approach to the residential mortgage field proved most successful, providing for the generation of a record volume of new mortgages during the year. In the face of major competing demands for its funds, the Bank increased its own residential mortgage portfolio by some $300 million, while over $100 million was sold to third-party investors, including the Bank's associated companies, First Canadian Investments Limited and BM-RT Realty Investments. The latter is a joint venture between the Bank and The Royal Trust Company, and has assets of $140,000,000. Launched early in 1973, it has already become the largest institution of its kind in Canada. There is no doubt that financial developments of this nature are helping to stabilize the normally cyclical flow of funds to the residential mortgage market. In addition to the provision of mortgages, the Bank actively assisted Canadians desiring to own homes through special personal loan programmes such as our Mobile and Vacation Home Plans.

In order to improve our service to the agricultural community, the Bank developed a new Agri-Credit Plan, which provides for extended borrowing terms of up to ten years and augments our existing package of farm loans. We have also increased the number of special Agricultural Representatives in the field and now have four, located in Calgary, Regina, Winnipeg and Toronto.

In the area of small business lending, a special term loan plan was implemented early in the year to assist this sector in financing purchases of machinery and equipment, and for the renovation of business premises. In addition, the Bank of Montreal introduced to Canada the concept of a Small Business Base Rate in an attempt to cushion smaller borrowers from the interest rate increases generated in major capital markets. Our initiative in this field was followed by other chartered banks.

As the Chairman mentioned, another Bank of Montreal first in relation to credit was the creation of regional committees of the Board of Directors to deal with major loans in their own areas. This, coupled with a further decentralizing of internal credit authority, has brought the decision-making process still closer to the customer and his local environment. As a result, only about one in every 2,000 domestic loans requires authorization from head office.

The Bank has also taken the first steps towards entering the leasing field. As a means of establishing a base for such operations, a 23 per cent interest was acquired in Canadian-Dominion Leasing Corporation Limited, one of Canada's largest equipment leasing companies, with an option to increase participation to just under 50 per cent. As a result, a fully competitive equipment leasing operation is now available to the Bank's customers.

Liability Management

The strong demand for domestic loans put considerable emphasis on liability management. Early in the year, $50 million was added to the Bank's funds through a debenture issue.

In the deposit area, the Bank was active in the term market, although the rate structure forced us, as it did all banks, to rely more heavily on the longer end of this market than we have in the past. The combination of rapidly expanding personal incomes and the high rates offered to savers also resulted in a large addition to personal savings deposits.

In the past several years most of the increase in personal deposits has come through the Bank's newer branches, and in 1973 the policy of concentrating branching efforts in fast growth areas of the country was continued. With a net addition of 35 new branches to the system, the Bank had, at its fiscal year end, a total of 1,186 branches in Canada.

International Banking

A substantial portion of the Bank's growth this year took place in the area of foreign currency operations. These now represent 30 per cent of the Bank's total business, compared with just 15 per cent six years ago.

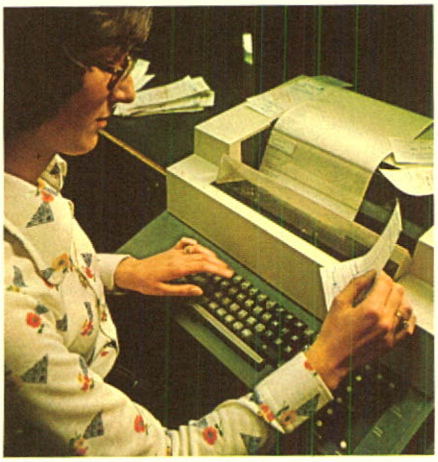
The Bank's international expansion in the past year has been primarily in the inter-bank market where margins are relatively narrow. However, special emphasis is being placed on the needs of Canadian exporters, and our export finance programme has continued to develop in both the size and complexity of the financial packages it has assembled for major export projects.

Furthermore, the Bank has taken steps to improve its ability to develop more corporate business abroad. London has been established as a regional office with responsibility for operations in Europe, Africa and the Middle East. New representative offices have been opened in Jakarta, Rio de Janeiro and Singapore, bringing the total number of the Bank's offices outside Canada to 36.

On-Line Banking

More than four years ago, when the Bank embarked on its mechanization programme, some major assumptions were made. These were, first, that the volume of paper handled, of account entries, and of calculations, would grow enormously; second, that the cost of doing these things manually, or semi-manually, would accelerate rapidly, while the unit cost of doing them by computer would decline; and third, that, as educational standards rose, our people would be less inclined to find job satisfaction in doing what they considered dull, repetitive work that could be done much faster and more accurately by modern technology.

It was not an easy decision at that time for the management of the Bank, or for your directors, to undertake a programme that would not begin to pay off for more than five years from its inception, and that would, in the interim, require the assembling and commitment of a large group of highly skilled people, to say nothing of very substantial sums of money.



The Bank's five-year program to develop the world's most modern computerized on-line branch banking system has moved into its final testing stage with the installation of computerized equipment at 24 branches selected to provide the widest possible variety of operations. Above: an on-line computer terminal in the Sherbrooke and Cote des Neiges Branch in Montreal.

Not only have the original assumptions proved valid, but the projections of the growth of transactions and the cost of handling them manually have already been exceeded by a considerable margin.

We are, therefore, more than ever convinced of the soundness of the course adopted.

Our system is naturally very complex, both technically and because of the immense variety of banking transactions which must be programmed. This has necessitated, from the start, adopting the most rigorous testing and evaluation procedures. Myriads of programmes have had to be written, programmes delineating a multitude of individual transactions, each of which had to be inter-related. These, in turn, have had to be co-ordinated and supervised within the computer by intricate management programmes to produce an integrated system allowing us to balance every branch, every working day, generating numerous reports as a by-product.

We are now in the final phase of testing and "debugging" the system in 24 branches across Canada selected to provide the widest possible variety of operations.

The programme is still within the financial projections of four years ago and, give or take a month or two, the majority of the Bank's Canadian branches are expected to be on-line, as initially planned, around the beginning of 1975.

When installation has been completed, this system will be the most modern and efficient of its kind in the world. It will also enable the Bank to offer more and better services to the public.

Master Charge

At the last annual meeting, it was announced that the Bank planned to add a charge card to its services. As you are aware, Master Charge has since been launched.

The task involved hiring and training more than 350 people, building a nationwide computer-based authorization and processing system, which, in turn, had to be linked with an international network, developing a major advertising and promotion programme, and enrolling tens of thousands of merchants and hundreds of thousands of cardholders.

We were advised, by those who had launched Bank charge cards before, that we should expect to take a minimum of 18 months to accomplish this task. We felt that with good planning and vigorous efforts, and by learning from the experience of others, it could be done in less than a year. We signed the final contract in February, and we completed our first nationwide distribution of charge cards nine months later.

No significant difficulties have been encountered thus far, only normal "shakedown" problems related to the learning curve of people involved in the operation. We have substantially exceeded our targets to date, both in number of merchants signed and in cardholders. First year costs were well within original estimates, and considerably below the costs that would have been incurred if the Bank had joined Chargex.

Personnel

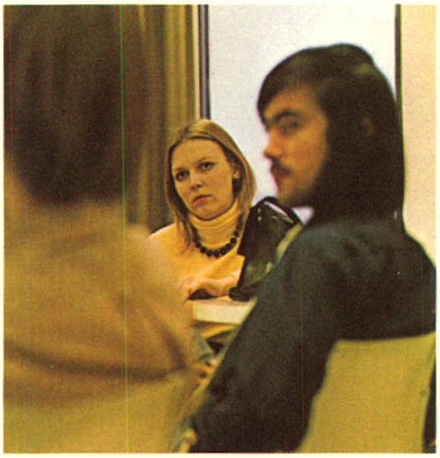
The Bank of Montreal has long considered people to be its greatest resource and, over recent years, has invested heavily in development of personnel. Regardless of the cost-reducing efficiencies of programmes such as mechanization, and the competitive advantages of marketing innovations, it is the calibre of people who manage and operate that leads to success in business. As the Bank continues to expand and develop along more sophisticated lines, the human element becomes more critical to the achievement of our goals.

The importance of this human resource philosophy became even more evident in 1973 by the manner in which Bank personnel responded to the heavy demands occasioned by the mechanization programme, the introduction of Master Charge, the leasing programme, the realty investment affiliate, the various new marketing and credit programmes, and the record increase in volume of business.

We are proud of this effort, and of our people who contributed to it. Clearly, it is an indication of the high level of competence which typifies those who work for the Bank of Montreal.

Another sign of the quality of the Bank's personnel is the interest taken by employees in their efforts towards self-improvement. In 1973, for example, some 5,000 individuals participated in the Bank's management, marketing and credit seminars. In addition, 2,100 enrolled, on their own initiative, in university extension courses covered by the Bank's Tuition Refund Plan.

At the same time, we have endeavoured to maximize the effective use of the talents already possessed by our personnel. Some years ago, the Bank embarked on a programme to provide enlarged management opportunities for women who were interested in long term careers with the Bank. This is proving successful. More than 14 per cent of management positions in the Bank are now held by women.



Since the Bank began its program of remedial education and on-the-job training for disadvantaged youth in September, 1970, 265 youths have taken the course, and 75 per cent of them have completed it. First launched in Montreal, the Youth Project was extended to Halifax in January, 1972. Since then, 43 Halifax-area participants have completed the course and 20 are now taking it. A class at the Halifax centre is shown above. The Bank's success in this imaginative effort to prepare disadvantaged young people for steady employment has prompted it to plan to extend the program to the Winnipeg area.

Youth Project

Another area where we have met with success in developing talent is among disadvantaged youth. Last year, I noted that a high percentage of those who had participated in the Bank's programme of remedial education and on-the-job training had become gainfully employed. The programme was expanded to include Halifax in 1972, and continued good results have prompted us to plan its extension to Winnipeg.

The Year Ahead

There are many uncertainties in the year ahead, both internationally and nationally.

Domestically, we expect capital spending to be buoyant and loan demand reasonably strong. On the other hand, the outlook for inflation is not heartening and this will probably cause monetary authorities to restrain expansion of the money supply. With the liquidity of the banking system already at historic lows, there will be limited capability to meet high loan demand.

Our non-interest expenses will continue to be heavy this year. Mechanization expenditures will peak, with payback not expected to begin until 1975. Similarly, the expenses of the Master Charge operation in the coming year will significantly exceed its revenue potential. At the same time, I think 1974 will be a turning point for the Bank of Montreal. Thereafter, the results of the major investments in people and programmes undertaken in the past few years should begin to make themselves felt.

Other Business of the Meeting

Directors' Report

The directors take pleasure in submitting to the shareholders the 156th Annual Report on the result of the Bank's operations for the year ended October 31st, 1973 (See page 26 for Statement of Revenue, Expenses and Undivided Profits).

Your directors record with deep regret the death in February last of Mr. J. Leonard Walker, at the time of his demise our highly esteemed President and Chief Executive Officer. Mr. Fred H. McNeil was appointed to the Board, succeeding Mr. Walker as President, and being re-appointed Chief Operating Officer, at which time your directors thought it appropriate that I should re-assume the duties of Chief Executive Officer. Mr. David Kinnear was elected Vice-Chairman, resident in Toronto. At that time Mr. A. John Ellis, who was serving as Executive Vice-President, was appointed a director and elected Vice-Chairman, resident in Vancouver. In February Mr. L. Edward Grubb of Toronto was appointed a director, and later in the year Mr. H. Richard Whittall of Vancouver was appointed to succeed Mr. Alan M. Murray, who withdrew as a director, for health reasons. It is with profound sorrow we record the death of your director, Mr. Raymond Crépault, Q.C., in November.

In June last, six divisional committees of the Board of Directors were established across Canada in the Atlantic Provinces, Quebec, Ontario, Manitoba-Saskatchewan, Alberta and British Columbia.

In the financial year, 40 offices were opened in Canada and five were closed. As at October 31st, 1973 there were 1,222 offices of the Bank in operation of which 36 were offices of subsidiaries and representatives abroad.

During the year a branch of the Bank was opened in Grand Cayman Island in the Caribbean. Representatives' offices were established in Rio de Janeiro, Singapore and Jakarta.

Your directors deemed it advisable to undertake a further debenture issue of $50,000,000 in February, making total debentures issued and outstanding of $140,000,000.

From the year's operations transfers were made to Accumulated Appropriations for Losses including $12,300,000 to General Account which is deductible in the determination of taxable income. The provision for income taxes for this year is covered in Note 4 of "Notes to Financial Statements" in the Annual Statement. Out of Accumulated Appropriations for Losses amounts not otherwise provided have been drawn down for the diminution in the value of loans and investments which, in the opinion of management, is required after a careful evaluation of the assets of the Bank. The sum of $26,000,000 has been transferred from Undivided Profits to Rest Account.

The directors acknowledge with commendation the contribution made by personnel at every level and express their thanks for the competent manner in which all have discharged their many and varied duties throughout the year.

Resolutions

It was moved by the Chairman, seconded by Mr. Donald A. McIntosh, Q.C.,

"That the Report of the Directors, as read, the Statement of Assets and

Liabilities as at October 31st, the Statement of Revenue, Expenses and Undivided Profits and the Statement of Accumulated Appropriations for Losses, both for the financial year ended in October, be approved and adopted."

It was moved by Mr. R.D. Mulholland, seconded by Mr. George C. Solomon,

"That Messrs. Lionel P. Kent, C.A. and John W. Beech, F.C.A. be appointed auditors of the Bank for the ensuing year."

It was moved by The Hon. Hartland deM. Molson, O.B.E., seconded by Mr. Graham R. Dawson,

"That G. Arnold Hart, F.H. McNeil and G.N. Scott, and each of them acting alone, be and he is hereby appointed the true and lawful attorney of Bank of Montreal, with power of substitution, for and in the name of the said Bank of Montreal to attend, act and vote at any or all meetings of the shareholders of Bankmont Realty Company Limited, Bank of Montreal Trust Company, Bank of Montreal (Bahamas & Caribbean) Limited, Bank of Montreal Jamaica Limited, Hochelaga Holdings B.V., and of any other corporation controlled by the Bank.

"That 'We, the shareholders of the Bank of Montreal, do hereby appoint Mr. Nathaniel Paschall, or failing him, Mr. Frederick Harold McNeil, or failing him, Mr. Matthew P. Murphy, to act as proxy for this Bank, to act and vote at any and all meetings of shareholders of Bank of Montreal (California), and at any and all adjournments thereof and that the Chairman, or the President, or an Executive Vice-President, or a Vice-President located at Head Office, together with the Secretary or an Assistant Secretary of the Bank be and they are hereby authorized from time to time to execute such proxy and affix the seal of the Bank thereon, and that this resolution remain in effect until the next Annual General Meeting of the Bank of Montreal'."

It was moved by Mr. D.R. McMaster, Q.C., seconded by Mr. John G. Prentice,

"That clauses (a) and (c) of By-law No. IV of the By-laws enacted by the shareholders be amended by striking therefrom the figure '53' wherever it appears in those clauses and substituting therefor the figure '54'."

It was moved by Mr. T.C. Camp, Q.C., seconded by Mr. R.C.T. Harris, Q.C.,

"That By-law No. VIII of the By-laws of the Bank enacted by the shareholders be and it is hereby amended

(a) by striking from the first sentence thereof the words 'two hundred and seventy-five thousand dollars' and substituting therefor the words 'three hundred and fifty thousand dollars'; and

(b) by striking from the second sentence thereof the words 'five thousand dollars' and substituting therefor the words 'six thousand five hundred dollars'."

Mr. Conrad F. Harrington nominated the respective persons whose names had been read by the Secretary for election as directors of the Bank for the ensuing year.

A Vote of Thanks

It was moved by Mr. W.D. Mulholland, seconded by Mr. Pierre Côté:

There was a net addition of 35 new branches to the Bank's domestic system during the fiscal year, bringing the total to 1,186 branches. Typical of the neat, modern Bank buildings being constructed in smaller centres is the new branch at Alvinston, Ont., shown above.

"That the thanks of the Meeting are hereby tendered to the Executive Vice-Presidents, the Senior Vice-Presidents, the Vice-Presidents and all other officers and employees for their services during the past year."

Speaking to the motion Mr. Mulholland said:

"Unfortunately, this is the only occasion during the year when the shareholders have an opportunity to express to the officers and staff our appreciation of their efforts throughout the year. Accordingly, neither the infrequency of these occasions nor the brevity of my remarks in speaking to this motion are true measures of the strength of the sentiments expressed today.

"I have always wondered how banking came to be regularly characterized as a staid and conservative profession. Perhaps because of the coolness and poise with which bankers pursue their daily business. Certainly not because it is a business lacking in excitement, challenge, innovation, growth or surprises.

"During the year just ended our bankers have managed an increase in the Bank's assets of 3.1 billion dollars — from 11.3 billion to 14.4 billion dollars. Those of us with only moderately good memories recall when the total assets of the Bank were 3.3 billion dollars; that was in 1958.

"Last year our bankers opened 44 new offices, some of them in Canada's frontier areas, others overseas. Meanwhile, their colleagues were busy on other frontiers.

"Installation of the on-line computer system proceeded briskly and on schedule, bringing closer the day when this tremendous advance in banking service capability will be a reality.

"Others among our bankers were responsible for the successful introduction, in record time, of the Master Charge credit card system in Canada — a service which I believe we will find unsurpassed in convenience.

"As if this were not enough, somehow time was found to launch one of Canada's most exciting urban building projects, to offer a new leasing service, to enter the real estate investment trust field, and closer to home, to move ahead with plans for a new "campus" for the ongoing education and training of our 22,500 First Canadian Bankers.

"The very gratifying financial results for the year just ended suggest that these efforts have not been in vain.

"Mr. Chairman, I have noted upon a number of occasions evidence of the bond among members of the Bank family — the bond of shared experiences and of a common loyalty to the Bank and to one another. I have no doubt that this is one of the vital ingredients in the formula for success, the benefits of which have manifested themselves in such abundance during the past year.

"It will be no surprise to you, Mr. Chairman, if I observe that these same ties are shared by the wives (and husbands) of those in the service of the Bank. As they have shared in the hardships of remote posts and the disappointments that attend the mastering of any career, so also should they share in the recognition and the satisfactions which attend successful endeavours.

"To these ladies and gentlemen, also members of the Bank family, as well as to the officers and staff, I address my concluding remarks, Mr. Chairman: 'well done and thank you, all'."

Mr. Côté said:

"Les artisans d'un succès aussi remarquable que celui que nous apprécions aujourd'hui, sont sûrement les officiers et les employés de la Banque qui ont su, grâce à leur initiative et leur travail, maintenir l'efficacité de la Banque à son sommet, et lui permettre de remporter les résultats dont nous sommes si fiers.

"C'est donc avec plaisir que je seconde cette motion de remerciements de monsieur Mulholland."

Mr. George N. Scott responded:

"It is my very pleasant role to express on behalf of all members of the Bank family, sincere thanks to Mr. Mulholland and Mr. Côté for their kind remarks on behalf of our Directors and to the shareholders present for their endorsement of the motion.

"The Bank family is a wide ranging one and it includes those members of our staff with whom you are most familiar, the tellers, counter personnel, lending officers and Managers, but it also extends to those less visible but no less necessary working behind the scenes in our branches, Division offices here and abroad and our Head Office. These include the people who come, often at awkward hours, to ensure day after day that our offices will be clean and attractive, our couriers, drivers of our cars and trucks, the record-keeping staff, switchboard operators, typists and secretaries, those assembling and analyzing information, custodians of your securities and all the many, many personnel activities which make up an organization such as ours.

"They have worked very hard during the past year while the Bank has been expanding so rapidly and entering into new fields, such as Master Charge, to which you have referred and your recognition of their dedication is very much appreciated. Without all of them it would not have been possible. They know there is another heavy year ahead. They are excited and enthusiastic about the prospects, and I can assure you we shall work earnestly to maintain the high standards which our predecessors created as a tradition in the Bank of Montreal."

Inside Master Charge

To the consumer who began to use the Bank of Montreal's new credit card in the fall of 1973, Master Charge means a simplified way of making purchases, paying bills, and getting emergency cash advances. Master Charge also makes life a little easier for merchants by relieving them of much of the complicated routine of extending their own credit, of billing and of keeping highly-itemized books. But behind every smooth transaction and every neat summary of a family's spending over the month, a complex, nationwide system is in motion. The system combines the marvellous memory of the Bank's computer facilities with an indispensable element of human judgment to ensure that the card is as convenient as can be.

How does it work? How does the Master Charge organization see to it that your purchases are made with a minimum of trouble? In most cases, it's as simple as handing your card across the counter and waiting a minute while the clerk fills in the sales slip, slides an imprinting device over it, and gives it back to you to sign. You walk away with your copy of the sales slip, knowing that the purchase, and any others you make with Master Charge, will be recorded in regular detailed statements. This straightforward procedure applies to the great majority of sales made with Master Charge—sales that neither exceed the floor limit assigned to the merchant outlet nor result in the buyer exceeding the credit limit assigned to his card.

To illustrate the system fully in action, it's necessary to pose a slightly more difficult set of circumstances—the sort of thing that may never happen to you, but is always possible. Let's say you live in Toronto and have been visiting Calgary. When the time comes to leave, you decide to pay your hotel bill

with your Master Charge card.

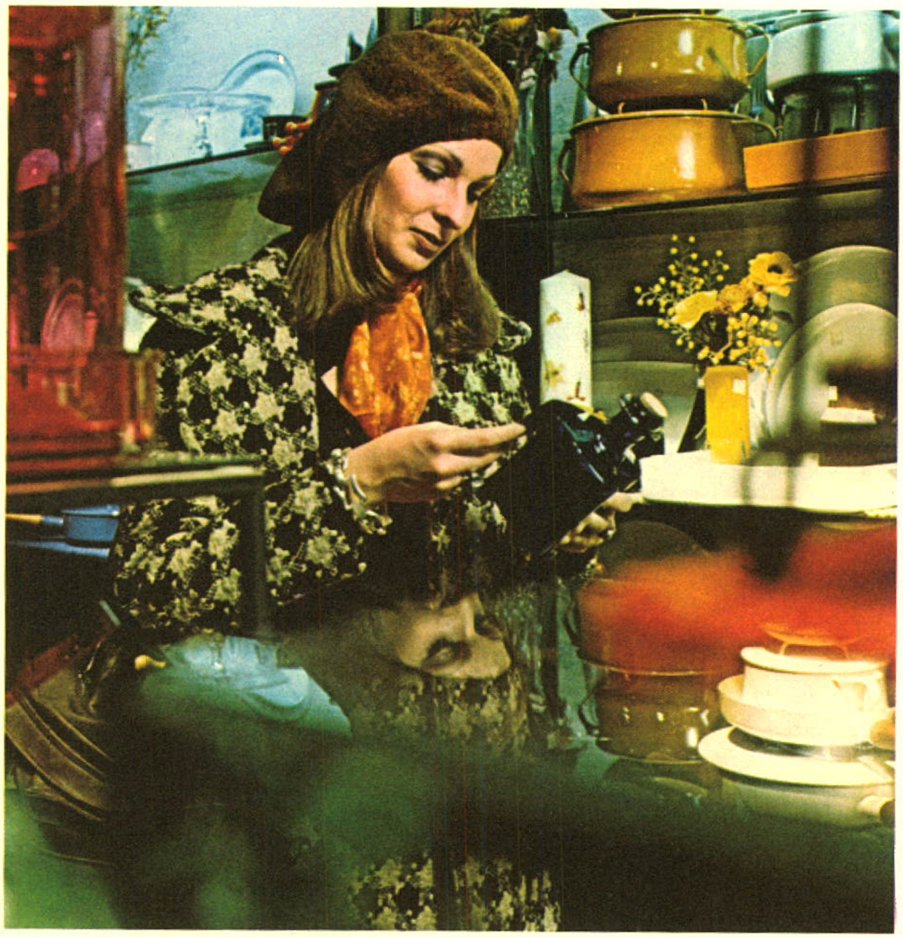
Now, it happens that when you applied for your card last fall, you availed yourself of the offer to get a second card for your spouse to be billed to your account. Unknown to you, your wife has made some purchases with her card while you've been away.

Also, your bill is higher than you planned because you had entertained some friends at dinner in the hotel dining room. The total is beyond the floor limit, meaning that the hotel cannot automatically accept your card. Every Master Charge merchant outlet has such a limit, based on the dollar amount of the transactions it can normally be expected to handle. If a transaction exceeds the limit, it must be authorized by Master Charge.

A limit is also placed on the amount that can be charged with each card. It happens that the limit assigned to your particular card has been passed because of your wife's shopping while you were away.

Unaware of this, you hand your card to the hotel cashier, who glances at the weekly Master Charge bulletin to check that the card's number is not recorded there. This is a precaution—as much for your protection as for the hotel's or the Bank's—against the possibility that it might be stolen or is being used fraudulently. Of course it isn't. But since your purchase is over the floor limit, the cashier must nonetheless get an authorization for the sale.

On the cradle of the hotel's telephone is a sticker with a number printed on it. That number puts the cashier through, toll-free, to the Master Charge Regional Authorization Centre in Vancouver, which covers the Canadian West. The call is answered by an operator sitting in front of a video display terminal consol with a keyboard on it—much the same sort of device that is used



Master Charge in action. An all-purpose credit card, Master Charge can be used to purchase consumer goods, transportation and accommodation across Canada.

by some airlines for making reservations automatically.

The operator asks the cashier for the hotel's merchant account number, your card account number, the expiration date printed on your card and the amount of the transaction—tax included—to the nearest dollar. This information is noted, and the operator repeats it back to the cashier for a double check.

The information is then entered into the authorization system through the operator's keyboard. To double-check *that*, the figures flash up on the video display. At the same instant, the information is being received via "dataline" by the Bank's main computer system in Toronto—a vast electronic "mind" capable of storing billions of facts, including all the relevant information on your account.

As the computer takes in the details of the sale, it goes through a series of split-second motions to answer a variety of questions: no, the card has not been listed as lost or stolen; no, it has not expired; yes, the hotel is a bona fide Master Charge outlet; no, there is no reason to ask you to update the information on your file—you have not, for instance, changed your address and forgotten to notify Master Charge. The computer also confirms that the transaction will exceed your designated credit limit. In a flash, all this information has covered the 2,120 miles from Toronto to Vancouver and is displayed on the operator's screen.

But because you are over your limit, there will be a short delay—as short as possible. The call is automatically transferred to the Credit Department of the Master Charge Regional Centre; a rundown on your payment record and information on your account immediately flashes on the screen. The credit officer looks at it and sees no reason not to authorize the sale. The operator then tells the

cashier that the transaction is in order, quoting an authorization number which the cashier repeats back to her. The cashier writes it on the sales slip, runs it through the imprinter, and you sign it. You are given a copy of the sales slip for your records, and your card is returned to you.

That may sound as if you might be kept waiting for some time; actually, the system functions at such lightning-like speed that you probably have hardly noticed it. It is just another straightforward, simple Master Charge transaction. As far as you are concerned, the matter is closed as soon as you have signed the sales slip. Until you receive your statement, that is.

But in the meantime, your transaction must be recorded, and the hotel must get its money for the sale. That happens when the hotel's accountant places all of its Master Charge sales slips (yours included) in a deposit envelope, totals the amount they represent on a simple form, and deposits them at a Bank of Montreal branch. The hotel—like any other Master Charge merchant—receives 100% credit to its account as soon as the sales slips are deposited. A merchant discount—which

Anatomy of a transaction. Photos from left to right show:

Cardholder making payment of hotel bill

Vancouver's Regional Authorization Centre

Part of the Bank's computer system

Master Charge Credit Officer checking account

Depositing Master Charge sales slips at Bank of Montreal branch.

diminishes on a sliding scale as volume or average transaction value, or both, rise — is charged monthly. The sales slips are sent to a Bank of Montreal Regional Processing Centre where they are checked to see if the total balances. From there, they are fed into the computer system. It adjusts both the cardholder's and merchant's accounts accordingly and records the data for future use.

When your billing date comes along, the system is ready to give you a complete summary of all the Master Charge dealings on your account for the past 30 days, with details of the amount of the purchases, and when and where they were made. It adds up the total; unless you have taken out a cash advance, no interest is charged if you settle the account within 25 days. If your payment is later than that, you are asked to pay 5% of the outstanding balance, with a minimum payment of $10.

As soon as you make a payment, whether by cheque or at a Bank of Montreal branch, your account is immediately adjusted to reflect it and your payment is recorded in the computer. At the appropriate time, the computer also will alert the Master Charge staff to send you a renewal card before your card expires. If you lose your card, the system is geared to stop future transactions with it and to issue a replacement. The maximum liability to a cardholder when a card is lost is $50, but, if the loss is reported promptly, the question of liability usually does not arise.

Obviously, no credit card system of the scale of Master Charge could operate without computer facilities. The regional authorization centres in Montreal (for Quebec and the Atlantic Provinces), Toronto (Central Canada), and Vancouver (Western Canada) have numerous video display terminals, like the one described above, which exchange information with the central computer system around the clock. The system is prepared to handle not only transactions made by Canadian cardholders in Canada, but those made internationally. Operating as it does virtually around the world, the Interbank Card Association, of which the Bank of Montreal is a part, must be able to grant quick authorization to transactions wherever they happen to be made.

Thus if you were a Bank of Montreal Master Charge cardholder in, say, Copenhagen, the authorization call would be processed

through Interbank's International Interchange system. It takes a little longer for a normal intercontinental authorization than for one completed within Canada—but only a few minutes longer. Still, within a matter of minutes, a purchase could be concluded an ocean away.

Such feats of speed are made possible by the Bank's own advanced and extensive computer system—part of a far-reaching mechanization program which we began to develop four years ago. The Bank's entry into the credit card field was planned in conjunction with the mechanization program so that we would be equipped to offer the most efficient and flexible credit card system Canada has yet known.

The system was designed in recognition of the fact that a new payments system is evolving in Canada. Along with the Bank's Bancardcheck—which combines all the features of travellers' cheques with pre-guaranteed payment—Master Charge is a replacement for cash. With their national and international acceptability, payment devices such as these offer many advantages over cash in terms of security and convenience. The completely integrated on-line computerized banking system for all our Canadian branches which will result from the mechanization project will be another important step towards a payments system in which cash plays a lesser role.

As we have said, a highly sophisticated computer system is required to achieve maximum public convenience in the use of a card such as Master Charge. Still, the smooth running of Master Charge is far more than a matter of cybernetics: it is through human effort and judgment that the system is made to work. In little more than a year, the people of the Bank have planned and put into place one of the world's most advanced credit card operations. You have them to thank if you find—as we know you will—that your Master Charge card is a very handy thing to have.

Master Charge can be used as a substitute for cash at more than 1.4 million merchant outlets around the world—some 50,000 of them in Canada. Each month, Master Charge provides the cardholder with an itemized monthly statement, simplifying the routine of doing household accounts.

Statement of Revenue Expenses and Undivided Profits

For the year ended October 31	1973	1972
Revenue		
Income from loans	**$789,845,123**	$557,464,832
Income from securities	**117,183,568**	106,490,716
Other operating revenue	**80,729,469**	70,990,989
Total revenue	**987,758,160**	734,946,537
Expenses		
Interest on deposits and bank debentures	**549,429,246**	366,673,705
Salaries, pension contributions and other staff benefits	**175,895,977**	146,497,798
Property expenses, including depreciation	**52,121,112**	40,562,125
Other operating expenses, including provision for losses on loans based on five-year average loss experience	**78,742,943**	62,555,472
Total expenses	**856,189,278**	616,289,100
Balance of revenue	**131,568,882**	118,657,437
Provision for income taxes relating thereto (Note 4)	**63,067,210**	55,132,256
Balance of revenue after provision for income taxes	**68,501,672**	63,525,181
Appropriation for losses net of applicable taxes (Note 4)	**11,559,000**	10,367,744
Balance of profits for the year	**56,942,672**	53,157,437
Dividends at 90¢ (1973) and 84¢ (1972) per share	**30,754,688**	28,704,375
Undivided Profits		
Amount carried forward	**26,187,984**	24,453,062
Undivided profits at beginning of year	**135,458**	182,396
Transfer from accumulated appropriations for losses	—	25,000,000
	26,323,442	49,635,458
Transferred to rest account	**26,000,000**	49,500,000
Undivided profits at end of year	**$ 323,442**	$ 135,458

Statement of Accumulated Appropriations for Losses

For the year ended October 31	1973	1972
Accumulated appropriations at beginning of year		
General	**$ 85,363,911**	$ 86,728,863
Tax-paid	**17,982,021**	33,205,547
Total	**103,345,932**	119,934,410
Additions (deductions) during year:		
Appropriation from current year's operations (Note 4)	**11,559,000**	10,367,744
Loss experience on loans for the year, less provision for losses on loans based on five-year average loss experience included in other operating expenses	**1,134,822**	(1,367,365)
Profits and losses on securities, including provisions to reduce securities other than those of Canada and provinces to values not exceeding market	**(5,825,497)**	904,176
Other profits, losses and non-recurring items, net	**981,036**	(1,256,806)
Provision for income taxes, including credit of $5,886,000 relating to appropriation from current year's operations (Note 4)	**5,837,334**	(236,227)
Transferred to undivided profits	**—**	(25,000,000)
Accumulated appropriations at end of year	**$117,032,627**	$103,345,932
Accumulated appropriations at end of year		
General	**93,367,418**	85,363,911
Tax-paid	**23,665,209**	17,982,021
Total	**$117,032,627**	$103,345,932

Statement of Rest Account

For the year ended October 31	1973	1972
Balance at beginning of year	**$296,000,000**	$246,500,000
Transferred from undivided profits	**26,000,000**	49,500,000
Balance at end of year	**$322,000,000**	$296,000,000

Statement of Assets and Liabilities

October 31, 1973

Assets	1973	1972
Cash Resources		
Cash and due from banks (Note 2)	$ 3,025,542,446	$ 1,899,403,632
Cheques and other items in transit, net	143,663,634	19,744,509
	3,169,206,080	1,919,148,141
Securities		
Securities issued or guaranteed by Canada, at amortized value	1,478,972,976	1,437,032,261
Securities issued or guaranteed by provinces, at amortized value	101,080,182	102,155,495
Other securities, not exceeding market value	387,711,191	389,299,778
	1,967,764,349	1,928,487,534
Loans		
Day, call and short loans to investment dealers and brokers, secured	266,943,021	361,433,124
Other loans including mortgages, less provision for losses	8,434,886,260	6,620,120,350
	8,701,829,281	6,981,553,474
Sundry Assets		
Bank premises at cost, less amounts written off	112,571,707	99,570,593
Securities of and loans to corporations controlled by the bank (Note 6)	8,439,551	8,439,551
Customers' liability under acceptances, guarantees and letters of credit, as per contra	434,062,855	373,278,441
Other assets	15,413,773	12,911,012
	570,487,886	494,199,597
	$14,409,287,596	$11,323,388,746

G. Arnold Hart,
Chairman and Chief Executive Officer

Fred H. McNeil,
President and Chief Operating Officer

Liabilities	1973	1972
Deposits		
By Canada	$ 355,204,732	$ 121,752,557
By provinces	190,252,193	227,707,410
By banks	2,564,466,967	1,643,542,884
Personal savings payable after notice, in Canada, in Canadian currency	4,828,629,190	4,199,177,233
Other	5,352,381,824	4,164,558,800
	13,290,934,906	10,356,738,884
Sundry Liabilities		
Acceptances, guarantees and letters of credit	434,062,855	373,278,441
Other liabilities	36,590,016	35,546,281
	470,652,871	408,824,722
Accumulated appropriations for losses	117,032,627	103,345,932
Debentures issued and outstanding (Note 3)	140,000,000	90,000,000
Shareholders' Equity		
Capital stock—		
Authorized—		
50,000,000 shares of $2 each		
Issued and fully paid—		
34,171,875 shares	68,343,750	68,343,750
Rest account	322,000,000	296,000,000
Undivided profits	323,442	135,458
	390,667,192	364,479,208
	$14,409,287,596	$11,323,388,746

Auditors' Report to the Shareholders of the Bank of Montreal

We have examined the Statement of Assets and Liabilities of the Bank of Montreal as at October 31, 1973 and the Statement of Revenue, Expenses and Undivided Profits and the Statement of Accumulated Appropriations for Losses for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Bank as at October 31, 1973 and its revenue, expenses and undivided profits and accumulated appropriations for losses for the year then ended.

Warren Chippindale, C.A.,
of the firm of Coopers & Lybrand

Lionel P. Kent, C.A.,
of the firm of Riddell, Stead & Co.

Auditors

Montreal, November 26, 1973.

Controlled Corporations

Bank of Montreal Trust Company (Incorporated under the laws of the State of New York)

Statement of Assets and Liabilities (U.S. Currency)	**Sept. 30 1973**	Sept. 30 1972
Assets		
Due from banks	**$4,175,597**	$3,769,354
United States government securities (Note 5)	**1,695,563**	1,447,281
Other securities (Note 5)	**910,875**	1,107,937
Loans and advances	**1,041,431**	406,793
Other assets	**185,434**	136,757
	$8,008,900	$6,868,122
Liabilities		
Demand deposits	**$5,088,539**	$4,054,228
Income taxes	**16,833**	365
Other liabilities	**26,518**	22,648
	5,131,890	4,077,241
Shareholders' Equity		
Capital stock—		
Authorized, issued and fully paid—10,000 shares of $100 each	**1,000,000**	1,000,000
Surplus	**1,000,000**	1,000,000
Undivided profits	**877,010**	790,881
	2,877,010	2,790,881
	$8,008,900	$6,868,122

Bankmont Realty Company Limited (Incorporated under the laws of Canada)
And its wholly-owned subsidiary company

Condensed Consolidated Statement of Assets and Liabilities	**Oct. 31 1973**	Oct. 31 1972
Assets		
Cash	**$1,110,184**	$ 902,813
Accounts receivable	**23,444**	6,384
Other assets	**148,038**	151,164
Real estate and buildings—at cost less accumulated depreciation	**7,511,555**	7,729,821
	$8,793,221	$8,790,182
Liabilities		
Accounts payable	**$ 58,210**	$ 39,845
Mortgage payable	**1,765,460**	1,790,097
	1,823,670	1,829,942
Shareholders' Equity		
Capital stock—		
Authorized—30,000 5% non-cumulative preferred shares of the par value of $100 each (redeemable at par) 100,000 common shares without nominal or par value		
Issued and fully paid—19,500 preferred shares	**1,950,000**	1,950,000
100,000 common shares	**5,000,000**	5,000,000
	6,950,000	6,950,000
Retained earnings	**19,551**	10,240
	6,969,551	6,960,240
	$8,793,221	$8,790,182

Auditors' Report to the Shareholders of the Bank of Montreal
We have examined the statements of assets and liabilities of the controlled corporations as at the dates indicated. Our examinations included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying statements of assets and liabilities present fairly the financial position of the corporations as at the dates indicated.

Warren Chippindale, C.A.,
of the firm of Coopers & Lybrand

Lionel P. Kent, C.A.,
of the firm of Riddell, Stead & Co.

Montreal, November 26, 1973.

Auditors

Notes to Financial Statements

Bank of Montreal

1. Wholly-owned Consolidated Subsidiaries

The financial statements of the Bank include the assets and liabilities and results of operations of the Bank of Montreal (California), Bank of Montreal (Bahamas & Caribbean) Limited, Bank of Montreal Jamaica Ltd., Bank of Montreal Trust Corporation Cayman Limited, Hochelaga Holdings B.V. and First Canadian Assessoria e Serviços Limitada, wholly-owned subsidiaries.

2. Cash and Due from Banks	1973	1972
Included in Cash and Due from Banks are term deposits at interest	**$2,279,122,605**	$1,140,860,573

3. Debentures		
7% Series A redeemable in 1978, at holder's option, 7½% thereafter, maturing in 1992	**$ 50,000,000**	$ 50,000,000
7½% Series B redeemable in 1977, at holder's option, 7¾% thereafter, maturing in 1982	**40,000,000**	40,000,000
7¼% Series C redeemable in 1979, at holder's option, maturing in 1987	**50,000,000**	—
	$ 140,000,000	$ 90,000,000

4. Provision for Income Taxes

The provision for income taxes in the Statement of Revenue, Expenses and Undivided Profits is computed by reference to the balance of revenue before taking into consideration the income tax reduction of $5,886,000 in the current year arising from $12,300,000 of appropriation for losses being deductible in the determination of taxable income. This reduction in income taxes is recorded in the Statement of Accumulated Appropriations for Losses. Comparative figures for the previous year have been restated to conform with presentation in the current year, the effect of which is that the previously reported appropriation for losses of $20,800,000 has been reduced by income taxes of $10,432,256 with a corresponding increase in the provision for income taxes relating to the 1972 balance of revenue. The total provision for income tax for the year amounts to $57,229,876 (1972—$55,368,483).

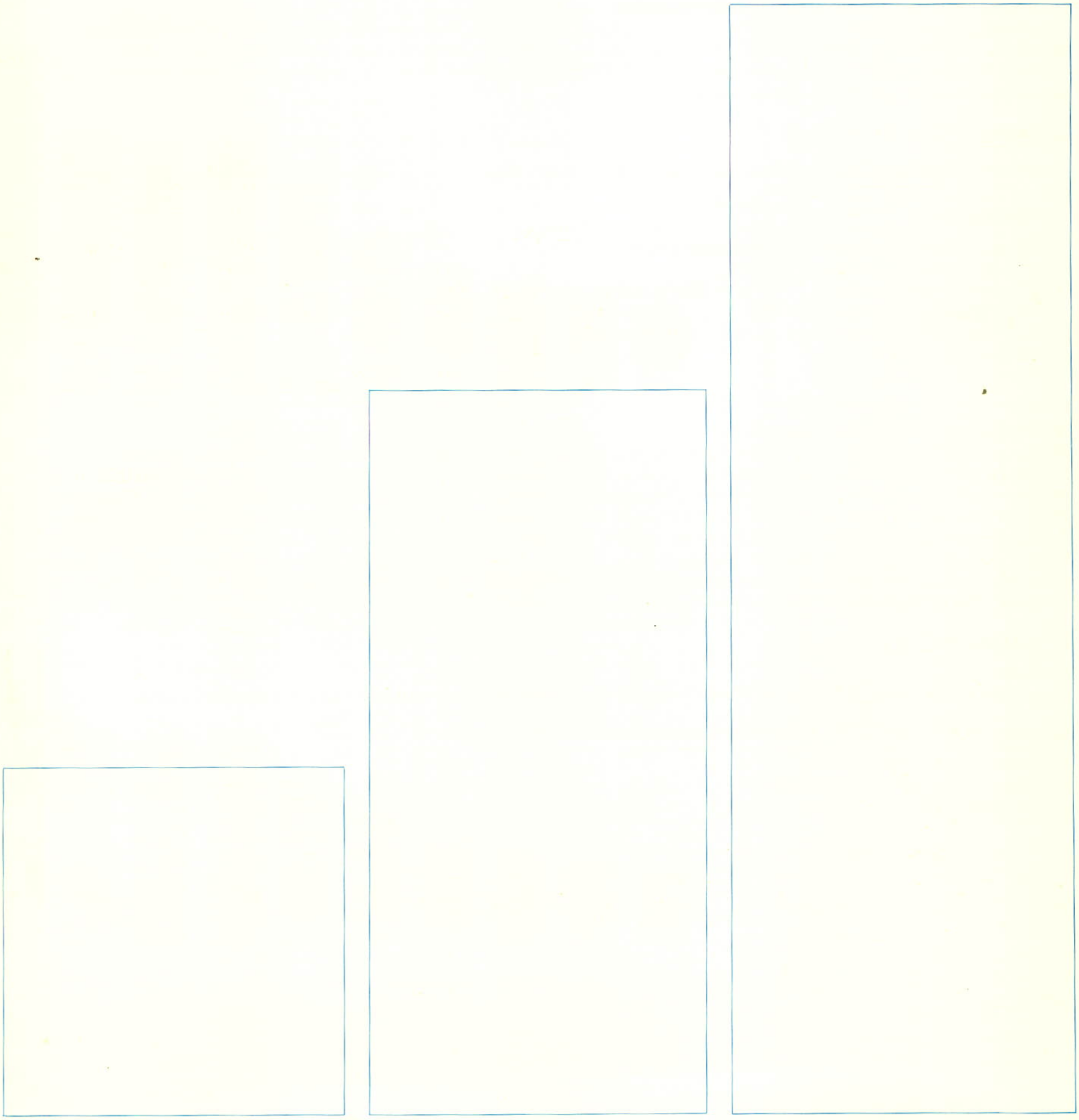
Controlled Corporations

5. Securities

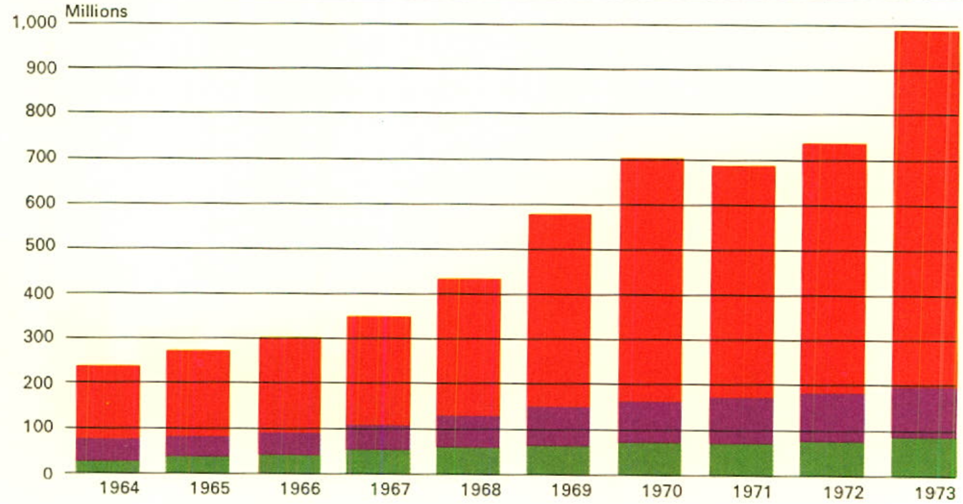
Securities of the Bank of Montreal Trust Company are carried at cost which approximates market value.

6. Interest of Bank of Montreal in Controlled Corporations		
Investment in shares—at cost		
Bank of Montreal Trust Company	**$ 1,489,551**	$ 1,489,551
Bankmont Realty Company Limited	**6,950,000**	6,950,000
	$ 8,439,551	$ 8,439,551

Ten Years of Growth

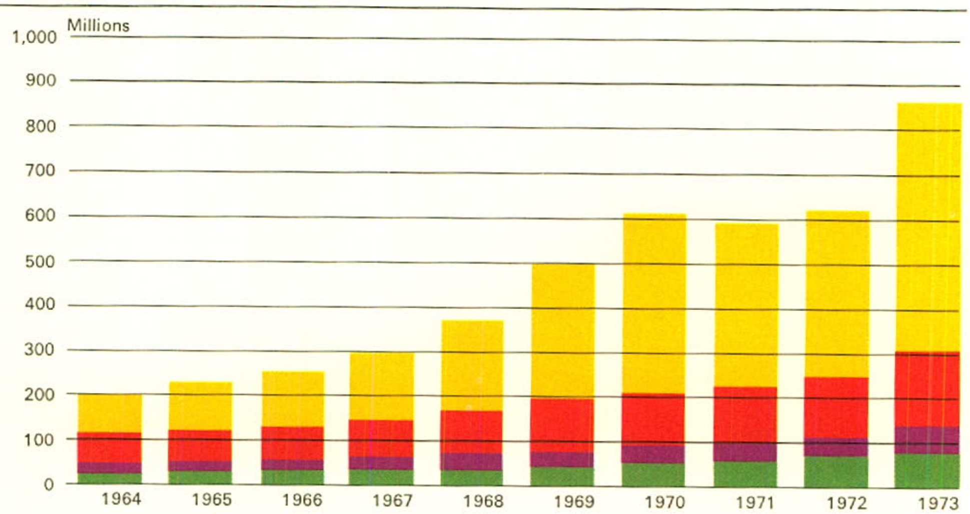


Total Revenue



	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Income from Loans	$161.0	$187.4	$215.1	$238.1	$305.8	$433.4	$543.7	$516.9	$557.4	$789.9
Income from Securities	45.6	46.9	49.5	55.9	71.7	84.0	93.7	101.3	106.5	117.2
Other Operating Revenue	29.9	31.4	35.6	48.1	53.5	60.3	64.7	63.9	71.0	80.7
Total Revenue	$236.5	$265.7	$300.2	$342.1	$431.0	$577.7	$702.1	$682.1	$734.9	$987.8

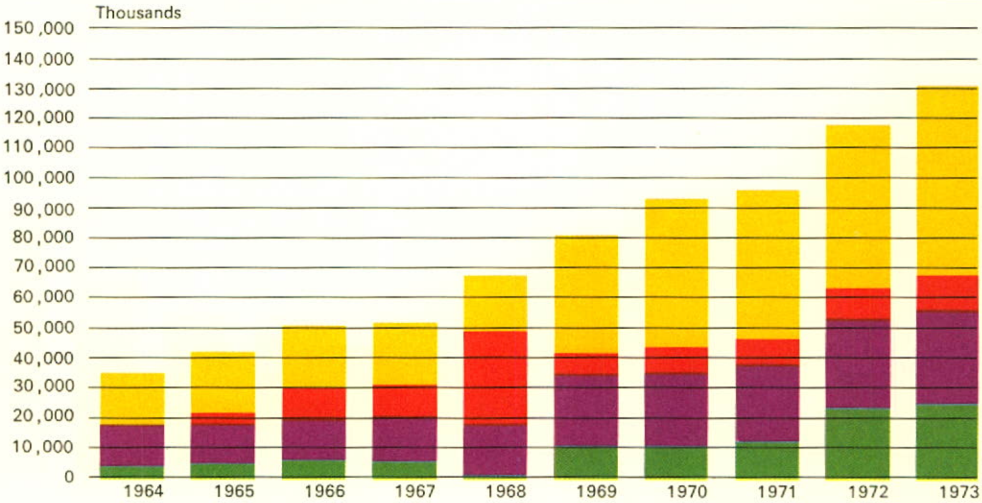
Total Expenses



	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Interest on Deposits and Debentures	$ 91.6	$108.0	$123.9	$148.3	$199.4	$300.0	$401.7	$361.7	$366.7	$549.4
Salaries and Other Staff Benefits	65.7	68.8	75.4	86.7	100.8	127.2	125.1	133.7	146.5	175.9
Property Expenses	17.6	19.0	20.9	23.4	26.3	29.0	35.8	39.4	40.6	52.1
Other Operating Expenses	26.2	27.6	28.7	31.7	36.8	40.4	46.2	51.3	62.5	78.8
Total Expenses	$201.1	$223.4	$248.9	$290.1	$363.3	$496.6	$608.8	$586.1	$616.3	$856.2

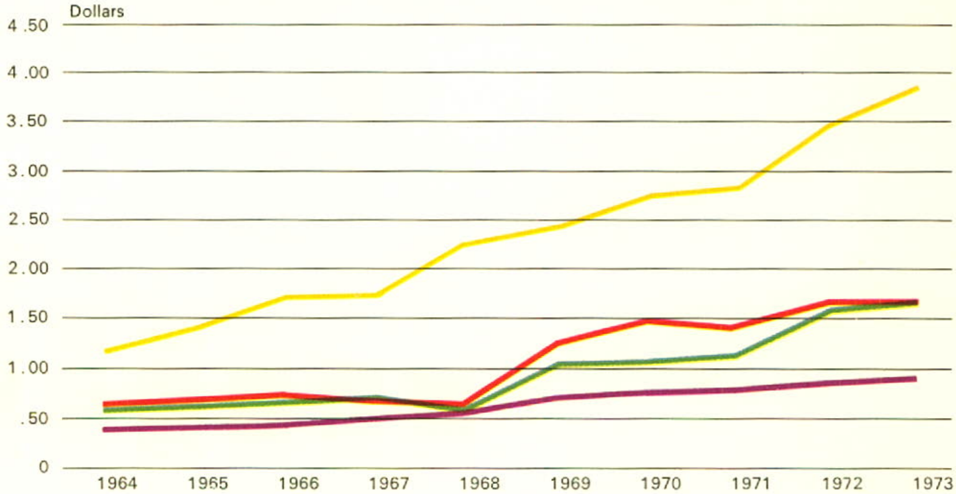
Distribution of Balance of Revenue

*Note: The purpose of transfers to the Accumulated Appropriation for Losses account is to build up a reserve to serve as a cushion for possible future losses. Therefore amounts transferred in any one year do not reflect losses incurred in that year.



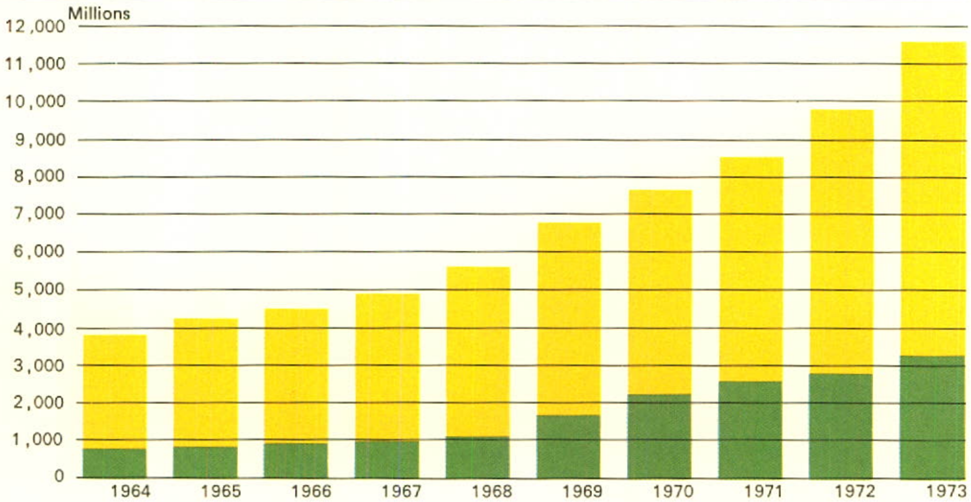
	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Balance of Revenue	$35,325	$42,364	$51,297	$51,939	$67,699	$81,133	$93,325	$96,066	$118,657	$131,569
Provision for Income Taxes relating thereto	18,211	19,410	20,989	20,459	18,131	41,548	48,763	48,420	55,132	63,067
Balance of Revenue after Provision for Income Taxes	17,114	22,954	30,308	31,480	49,568	39,585	44,562	47,646	63,525	68,502
Transfer to (from) Appropriation for Losses *	(741)	4,224	10,403	10,760	31,507	5,322	8,666	9,280	10,368	11,559
Balance of Profits for the year	17,855	18,730	19,905	20,720	18,061	34,263	35,896	38,366	53,157	56,943
Dividends	13,365	13,820	14,428	15,795	17,618	23,184	25,629	26,312	28,704	30,755
Transferred to Rest and Undivided Profits	4,490	4,910	5,477	4,925	443	11,079	10,267	12,054	24,453	26,188

Earnings, Dividends and Income Taxes per Share



	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Balance of Revenue Per Share	$1.16	$1.40	$1.69	$1.71	$2.23	$2.44	$2.73	$2.81	$3.47	$3.85
Income Tax Per Share	$ .60	$ .64	$ .69	$ .67	$ .60	$1.22	$1.49	$1.42	$1.62	$1.67
Balance of Profits Per Share	$ .59	$ .62	$ .66	$ .68	$ .59	$1.03	$1.05	$1.12	$1.56	$1.67
Dividends Per Share	$ .44	$ .455	$ .475	$ .52	$ .58	$ .70	$ .75	$ .77	$ .84	$ .90

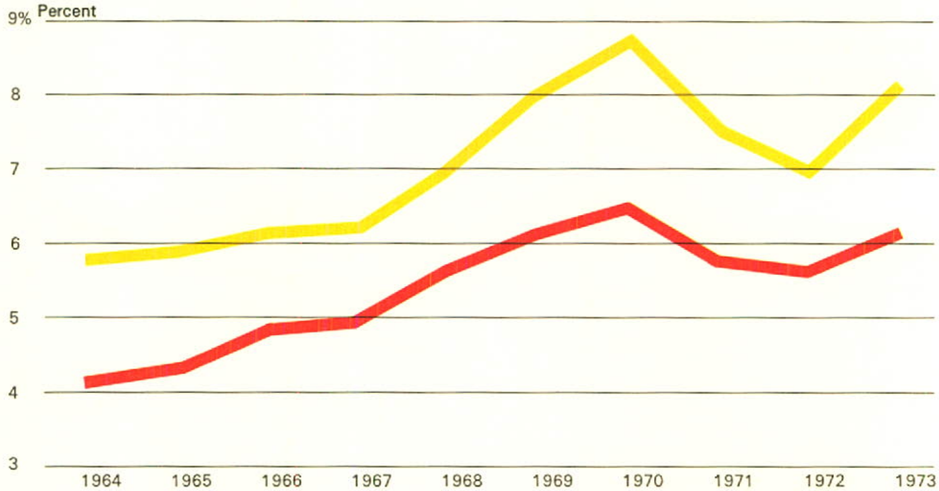
Principal Earning Assets



Fiscal years (Average of month-end figures)

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Canadian Loans*	$2,120	$2,414	$2,650	$2,937	$3,396	$3,886	$4,107	$4,384	$5,277	$ 6,457
Securities	989	966	949	1,068	1,198	1,284	1,374	1,696	1,848	1,856
Total Canadian	$3,109	$3,380	$3,599	$4,005	$4,594	$5,170	$5,481	$6,080	$7,125	$ 8,313
Foreign Loans*	$ 648	$ 752	$ 840	$ 890	$ 988	$1,534	$2,097	$2,461	$2,703	$ 3,247
Securities	106	118	68	58	69	88	71	47	39	49
Total Foreign	$ 754	$ 870	$ 908	$ 948	$1,057	$1,622	$2,168	$2,508	$2,742	$ 3,296
Total Earning Assets	$3,863	$4,250	$4,507	$4,953	$5,651	$6,792	$7,649	$8,588	$9,867	$11,609

Average Rate Earned on Earning Assets

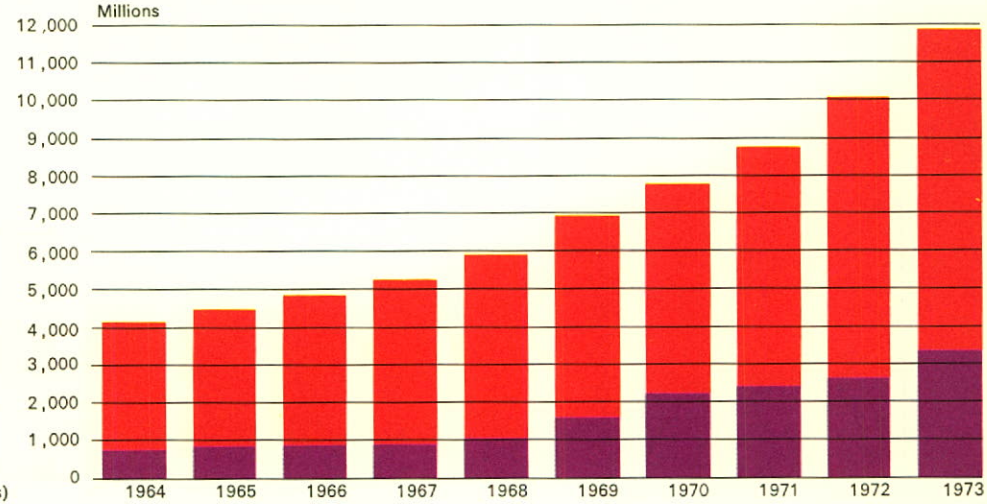


Fiscal years (Average of month-end figures)

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Canadian and Foreign Loans* ($ Millions)	$2,768	$3,166	$3,490	$3,828	$4,384	$5,421	$6,205	$6,845	$7,980	$9,704
Income from Loans ($ Millions)	161	187	215	238	306	433	544	517	558	790
Estimated Average Rate Earned	5.82%	5.92%	6.16%	6.22%	6.98%	8.00%	8.76%	7.55%	6.99%	8.14%
Canadian and Foreign Securities ($ Millions)	$1,095	$1,084	$1,017	$1,125	$1,267	$1,372	$1,445	$1,743	$1,887	$1,905
Income from Securities ($ Millions)	46	47	49	56	72	84	94	101	107	117
Estimated Average Rate Earned	4.16%	4.33%	4.87%	4.96%	5.66%	6.12%	6.48%	5.81%	5.64%	6.15%

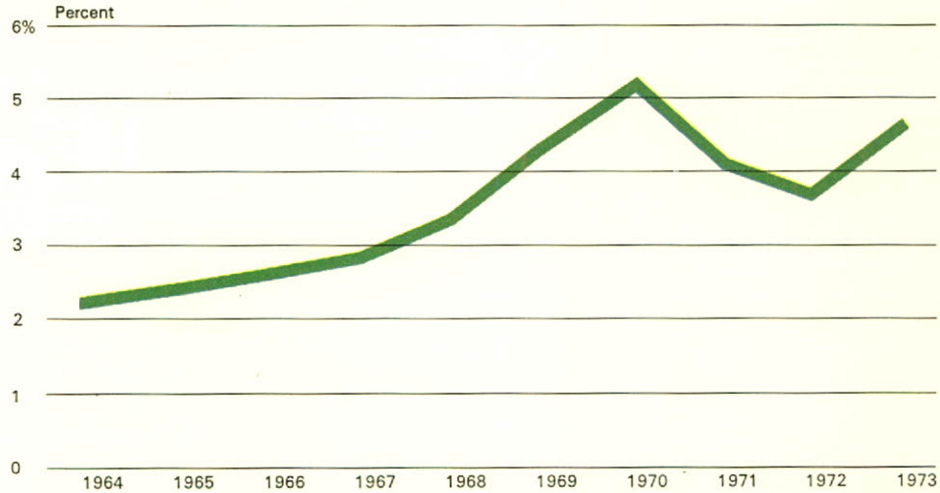
*Includes deposits with other banks.

Deposits and Debentures



Fiscal years (Average of month-end figures)	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Total Canadian Dollar Deposits and Debentures	$3,353	$3,642	$3,886	$4,365	$4,888	$5,381	$5,608	$6,356	$7,408	$ 8,521
Foreign Currency Deposits	759	855	883	888	1,004	1,563	2,168	2,351	2,595	3,360
Total Deposits and Debentures	$4,112	$4,497	$4,769	$5,253	$5,892	$6,944	$7,776	$8,707	$10,003	$11,881

Average Rate Paid on Total Deposits and Debentures



Fiscal years (Average of month-end figures)	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Total Deposits and Debentures ($ Millions)	$4,112	$4,497	$4,769	$5,253	$5,892	$6,944	$7,776	$8,707	$10,003	$11,881
Interest on Deposits and Debentures ($ Millions)	91.6	108.0	123.9	148.3	199.4	300.0	401.7	361.7	366.7	549.4
Average Rate Paid on Total Deposits and Debentures	2.23%	2.40%	2.60%	2.82%	3.38%	4.32%	5.17%	4.15%	3.67%	4.62%

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As at December 10, 1973

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