177TH ANNUAL REPORT 1994

On Course: Building on Success

BANK *of* MONTREAL

Building *on* Success

Bank of Montreal

Bank of Montreal, Canada's first chartered bank, opened for business on November 3, 1817. It provided Canada's first reliable currency and has played a major and continuing role in the development of the country, including the financing of the first transcontinental railway in the 1880s. The Bank took part in the creation of Canadian Confederation in 1867 and served as Canada's central bank until 1935. The first Canadian bank to open branches abroad, it has long been active in markets in Europe, Latin America and East Asia as well as in the United States. Today, it continues as one of Canada's pre-eminent financial institutions and a significant presence in United States and world markets.

Nesbitt Burns Inc.

Nesbitt Burns was created by the merger of two investment firms with long and distinguished histories. Nesbitt Thomson traced its origins to 1912; Burns Fry through two predecessor companies to 1925. After the arrival of new management in 1977, Nesbitt Thomson launched an ambitious program of growth and acquisitions. After its creation by merger in 1976, Burns Fry established itself as one of Canada's most respected independent houses and the leading firm for international equity trading and mergers and acquisitions. Its 1994 merger with Nesbitt Thomson, which had been acquired by Bank of Montreal in 1987 following changes to the Canadian Bank Act, created Canada's pre-eminent investment firm, with strength in every major field of activity.

Harris Bankcorp, Inc.

Established by Norman Harris in 1882 to underwrite and sell corporate and utility bonds, Harris Bank was a key player in the dramatic growth of the American Midwest at the turn of the century.

After almost a century of steady growth, in 1960 Harris acquired Chicago National Bank and in 1980 responded to the changes in Illinois banking laws by launching a major program of expansion. Harris is now the fourth largest bank in the Chicago area, employing 6,300 people. Supported since 1984 by the corporate strength of Bank of Montreal, Harris plans to triple its share of the personal and commercial market in Greater Chicago by 2002. The addition of 30 locations with the 1994 acquisition of Suburban Bancorp brought Harris significantly closer to that goal.

1994

A Year of Success

Making History

Bank of Montreal became the first Canadian bank to be listed on the New York Stock Exchange. Our listing is richly symbolic of our steady growth in the United States

and our commitment to becoming a full-fledged participant in United States financial markets.

Learning from Each Other

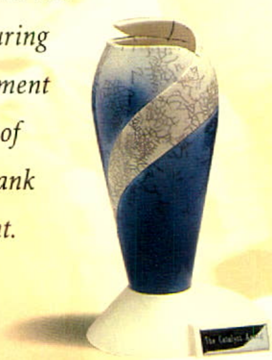
Prime Minister Jean Chrétien officially opened Bank of Montreal's Institute for Learning in May. Unique in the Canadian banking industry, this custom-built facility is the nerve centre of the Bank's commitment to continuous learning for its employees. The Institute will host over 15,000 students each year. They will include not only Bank of Montrealers but also representatives of our customers and correspondents, for whom places are reserved.

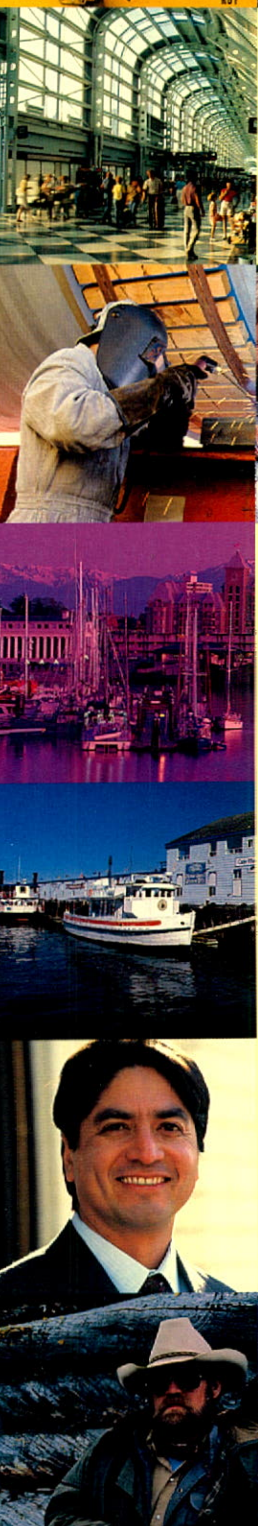
Investing in the Future

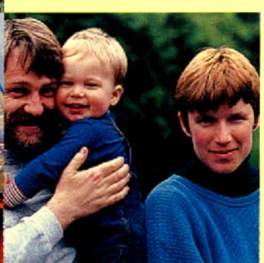
Nesbitt Thomson joined forces with Burns Fry Limited to become Nesbitt Burns, Canada's leading investment bank. The new firm combines a powerful domestic base with strength in selected United States and international markets. It offers professionalism, scale and distribution that are second to none, as well as research that sets the standard for Canadian securities worldwide.

A Catalyst for Positive Change

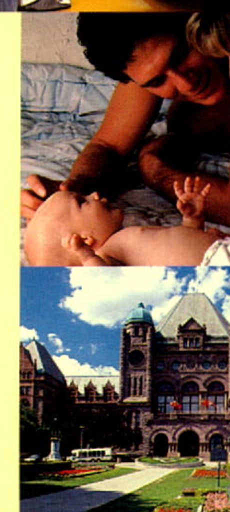
Bank of Montreal became the first non-U.S.-based company, as well as the first bank, to win the coveted Catalyst Award, honouring innovative efforts for the advancement of women. In 1993, women's share of the executive promotions in the Bank rose from 29 per cent to 54 per cent.



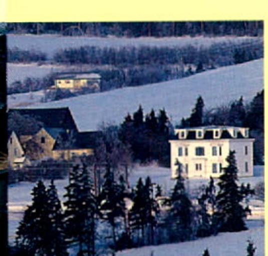


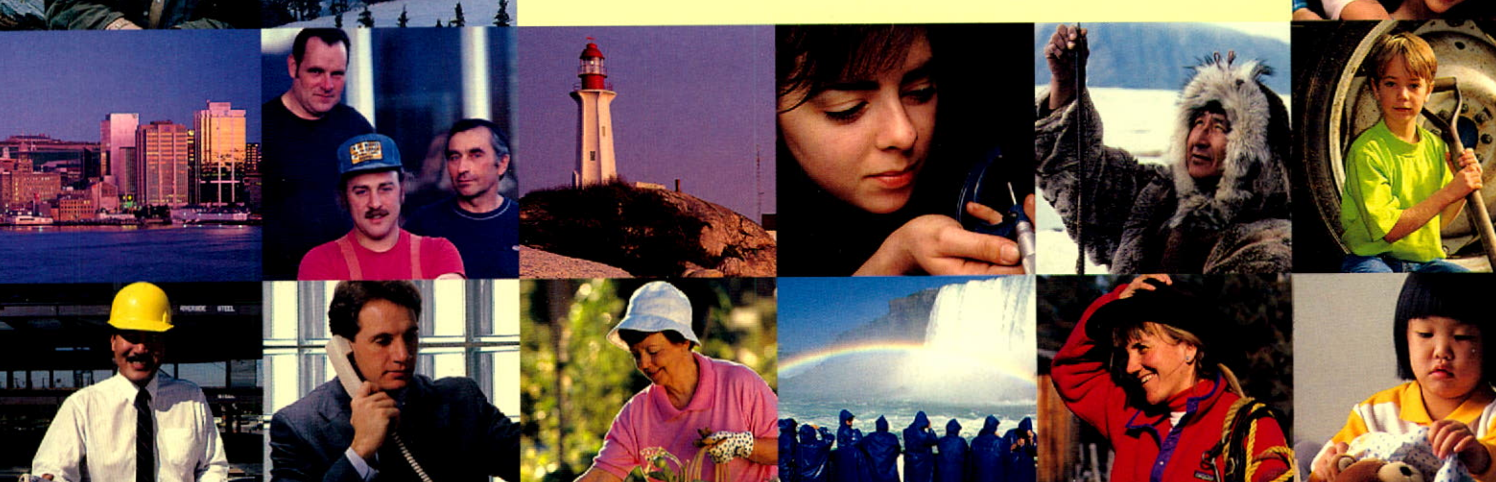


affirmed its commitment to Chicago's communities through Harris' merger under the Harris name with Suburban Bancorp. With 30 locations in dynamic, fast growing communities in the Chicago area, Suburban perfectly supports Harris' strategy of becoming the community banker of choice for the region. Over the next few years, the number of Harris locations will continue to grow, reaching more than 100 branches through the decade. And we are focusing our efforts on those areas now under-served by our competitors. These are the communities of individuals and businesses on the lookout for better and more convenient service from their local bank.



We are recognized for our distinctive competence in adapting the culture of the Bank to the communities we serve, many of them vastly different from each other. Yet our message is everywhere the same. We see no contradiction between being a major financial institution and a full member of hundreds of local communities. It is the customers in the communities who have made us a major institution in the first place. To keep their loyalty we must deserve it. And we can do that only by combining the highest standards of personal attention and community commitment with the experience, the economies of scale and the product range that come with being a major player in financial services.





Curios is the Seed o Kno

Based in the Institute for Learning, Bank of Montreal's Institute for Small Business will bring together Bank employees, academics, experts, governments and entrepreneurs.

A Bank *for* Learning, A Place *to* Learn

Learning is absolutely fundamental to our growth, not a spare-time activity. It is a crucial element in our strategy to become a leading provider of high-quality financial services in Canada and selected markets worldwide. It is by transforming ourselves into a learning organization that we are giving ourselves the capacity to create our own future.

Learning, first of all, about our customers. Our new Institute for Small Business is a good example. Through the Institute, Bank of Montreal is helping independent entrepreneurs understand the critical factors in business success. But as we discuss the issues, we also learn much more about how our customers see their needs and how they see us. And we discover ways to work with them we never knew existed.

We also need to learn about ourselves and from each other. Through Bank of Montreal's Continuous Improvement initiative, we are harnessing the creativity of our greatest resource – our employees – and using their ideas to the best possible advantage. Process Improvement Teams from across the organization are looking at ways to make our procedures and processes more efficient. So far, the results have been impressive. We've achieved a higher level of service quality for our customers, at a significantly reduced cost.

The centre of our culture of learning is our new Institute for Learning. The IFL is both a symbol of the Bank's commitment to learning and the most important means of fulfilling it. The building is a striking work of architecture, full of space, light and a sense of opportunities waiting to be seized. Bank employees from across North America will have the opportunity of attending to enhance their professional skills and personal growth. Thousands have already found it to be a place not just to study but also to learn.

Remarkable though it is, the Institute for Learning is only the centre of a much broader program. From Nesbitt Burns' rigorous 18-month training of its investment advisors, to the multi-year Associate Development Program for Corporate Bankers and the on-the-job learning practiced by everyone in the Bank, learning is our daily fare. Quite simply, we see it as the key to our becoming, and remaining, the best in the business – for our shareholders, our customers, our employees and the communities we serve.

Bank of Montreal does business in accordance with clearly defined values that are embraced by our employees in North America and around the world. They are the daily working realities that shape everything we do.

We define our core values in relation to our four principal stakeholders. Our customers come first. We are committed to providing them with consistently good value, while demonstrating the highest standards of integrity and professionalism in our dealings. Our shareholders can expect the Bank to manage their investment prudently, while achieving a competitive rate of return. Our employees will find us a fair and equitable employer, providing opportunities for personal growth and career advancement. And as members of the communities we serve, we support local endeavours and encourage our employees to do likewise.

At the Bank, translating these values into action begins with good corporate governance. Since 1991 our Board of Directors has become smaller, more effective and better informed. Directors have been recruited with specialized expertise in major North American industries. The Board has been actively integrated into an ongoing strategy review, and vested with the task of developing extensive written evaluations of the performance of senior executives. All in the belief that a strong board enhances both our performance and the value of our shares.

As an equitable employer, we have tackled the barriers to the recruitment and promotion of the best possible people. Drawn from the widest possible pool of talent in the communities where we live and work, their diversity makes a contribution to the Bank that grows in value every day. And this diversity is a significant competitive advantage for us.

And last, we go to extraordinary lengths to measure the impact of our values on our performance and to report the results to our stakeholders. Sometimes the results are encouraging. Other times they show a need for improvement. But always, the principle is the same. Our stakeholders know how we are doing. Our accountability is their guarantee that we will stand by the values we profess. And this level of commitment to measuring our progress is what separates us from our competitors in today's competitive, rapidly changing world.

Management Review

This section introduces the financial component of the Annual Report. The President's Report summarizes the Bank's achievements during 1994 and highlights our strategic accomplishments towards achieving future earnings growth. The Management Analysis of Operations and Financial Statements follow.

Our performance in comparison to our competition is provided in the Financial Goals & Measures supplement to this Annual Report.

	1994	1993	1992	1991	1990
Condensed Income Statement *(millions of dollars)*					
For the year ended October 31					
Net interest income	**3,380**	3,212	3,010	2,708	2,535
Taxable equivalent basis (TEB)* adjustment	**67**	68	67	68	71
Other income	**1,749**	1,581	1,365	1,219	1,047
Total revenues (TEB)*	**5,196**	4,861	4,442	3,995	3,653
Provision for credit losses	**510**	675	550	337	169
Non-interest expense	**3,223**	2,916	2,765	2,605	2,453
Income before provision for income taxes and non-controlling interest in subsidiary	**1,463**	1,270	1,127	1,053	1,031
Income taxes (TEB)* and non-controlling interest	**638**	561	487	458	509
Net Income	**825**	709	640	595	522
Per Common Share *($)*					
Net income • basic	**3.01**	2.59	2.38	2.31	2.10
• fully diluted	**2.97**	2.55	2.36	2.31	2.10
Dividends declared	**1.20**	1.12	1.06	1.06	1.06
Condensed Balance Sheet *(millions of dollars)*					
As at October 31					
Assets	**138,175**	116,869	109,035	98,725	87,370
Loans and acceptances	**92,064**	77,583	71,129	63,884	58,614
Deposits	**98,241**	87,859	86,601	77,769	70,170
Capital funds	**8,756**	8,049	6,830	6,120	5,399
Common equity	**5,678**	4,834	4,332	3,832	3,451
Primary Financial Measures *(%)*					
For the year ended October 31					
Return on common shareholders' investment	**(2.3)**	19.4	32.4	47.4	(14.4)
Return on common shareholders' equity	**14.9**	14.1	14.1	15.0	14.6
Net income growth	**16.4**	10.9	7.5	13.9	NM
Expense-to-revenue ratio	**62.0**	60.0	62.2	65.2	67.2
Provision for credit losses as a % of average loans and acceptances	**0.63**	0.87	0.78	0.53	0.29
As at October 31					
Tier 1 ratio	**7.20**	7.35	6.75	6.25	5.51
Cash and securities-to-total assets	**29.8**	30.3	31.1	31.9	28.3
Credit rating**	**AA-**	AA-	AA-	AA-	AA-

*The taxable equivalent (TEB) adjustment increases interest income on tax-exempt assets to the amount that would result if the income were taxable (and increases the tax provision by the same amount). This adjustment results in a better reflection of the pre-tax economic yield of these assets.

**Composite of senior debt ratings.

NM – Not meaningful.

Note: Certain comparative figures and ratios have been reclassified to conform with 1994 presentation.

1994 President's Report

F. Anthony Comper

President *and*

Chief Operating Officer

1994 was an eventful year, one in which we extended to five years our track record of strong earnings growth and consistently superior returns on common shareholders' equity. Highlights of our performance included the following:

- We took major steps toward our program for expansion in the United States with the acquisition of Suburban Bancorp Inc. in the Chicago market and the listing of the Bank's common shares on the New York Stock Exchange.
- Through the acquisition of Burns Fry Ltd. and its merger with Nesbitt Thomson, Nesbitt Burns Inc. became Canada's premier investment bank.
- Business volumes and market share in core businesses and priority market segments grew strongly again this year, continuing the trend of previous years.
- Spearheaded by our Bankwide continuous improvement program, we contained costs and continued our focus on productivity.
- Our asset quality, exemplary in the industry through the recession, showed continued and dramatic improvement.
- Growing levels of employee commitment enabled us to maintain industry-leading measures of customer satisfaction in key business segments.

Let me expand on the Bank's accomplishments in 1994.

For our shareholders we...

...achieved strong financial performance...

Earnings of $825 million were up 16.4% from 1993, and return on common shareholders' equity was 14.9%, once again in the 14–15% range achieved over the past five years. Over the five year period, the Bank's common shares have provided a 14.3% annual compounded return on investment, second among the six major Canadian banks and well above the Toronto Stock Exchange average.

We responded to customers' changing needs by continually offering new products and services and have been rewarded by a sustained growth in business volumes. In our Canadian retail and commercial business, volumes grew in targeted priority areas. Our corporate lending business performed well, with strong growth in fee income throughout North America but especially in the United States. It was a year of record profits for Investment Banking, with Nesbitt Burns benefitting from buoyant conditions in both debt and equity markets. Expense growth — excluding a one-time Harris charge related to securities lending and also excluding special factors such as goodwill amortization, brokerage commissions, government levies, and foreign currency effects — was contained to 4.4%. Better economic conditions contributed to improvements in the Bank's loan portfolios, particularly in commercial real estate, which resulted in a reduction in our loan loss provision.

Over the five year period, the Bank's common shares have provided a 14.3% annual compounded return on investment...

...continued to build on existing strengths...

We have been aggressively pursuing growth strategies across the Bank that build on existing strengths. The result is a stronger foundation in the Canadian market and an extension of our reach into the United States and international markets.

Our Canadian franchise growth strategy is based on leveraging our existing personal and commercial market. We have identified and targeted three areas in particular: residential mortgages, personal deposits, and the small to mid-sized business market.

We are pursuing an investment banking strategy that is leading to a fully integrated investment bank capable of meeting the investment banking needs of customers in North American and world markets.

We are integrating our Canadian and American corporate and institutional operations to serve the North American market more effectively. Our corporate and institutional business is capable of providing a full line of financial services — including financing, operating services, and treasury — to customers on both sides of the border.

We are expanding Harris' presence in the Midwest — the goal being to triple both its distribution and customer base in the Chicago retail and small business market and its annual earnings by the turn of the century.

We are extending our international reach as more of our customers conduct their business on a global front. By adding our investment banking strength to our traditional expertise in trade finance and treasury, we are customers can obtain account balance information and pay their bills to over 100 companies across Canada.

We also made the international debit card service available to our FirstBank card customers, allowing them to debit their savings or chequing accounts during point of sale purchases in 44 countries around the world.

...and by responding to a diverse customer base.

We have a diverse customer base with unique banking needs. This year I visited several Aboriginal communities to find out what kinds of banking services were in demand. To date we have opened five branches in different Aboriginal communities, and we will be opening one in Iqaluit next spring. And to accommodate our Asian customers, we have 60 Asian service branches which we have staffed with bankers who are fluent in Asian languages. At Bank of Montreal, the unique needs of each community are paramount in determining how we do business.

For our employees we...

...remained committed to giving the best...

At Bank of Montreal, our view is that success depends on our ability not only to meet, but to exceed our customers' expectations. And it is well-qualified and self-motivated employees that we count on to give our customers the very best. We believe that life-long learning and equal opportunity for advancement are keys to a work force that will give us a competitive edge.

...by our dedication to life-long learning...

Early in the year the Prime Minister of Canada opened our Bank of Montreal Institute for Learning to serve as the vehicle for developing and delivering personal and professional development programs. Because learning goes beyond the walls of the traditional classroom, most of the Institute's work is done in our branches and departments. This year over 12,000 attended programs at the Institute and its remote sites in Calgary and Montreal. One of the programs we offered was our new Learning for Success program, which is geared towards helping our branch staff improve their customer service and relationship building skills.

...and providing equal opportunities for all.

We continued to make progress with our workplace equality initiatives. And this year our efforts received external recognition. In Canada the Bank was awarded the Metro Toronto YWCA Women of Distinction Award for excellence in support of women and their families. In the United States we became the first non-U.S.-based company, and the first bank, to win the coveted Catalyst Award.

This focused investment in employees has paid off in a more motivated, competent, and cost effective work force to serve our customers. As a result customers have rewarded us with more business, leading to an increase in our market share.

1994 was a year of strong financial performance. It was a year in which we built on existing strengths to build an even firmer foundation in Canada, and expand our operations in the United States and international markets. In the years to come, we will continue to make investments that are right for us, for we want to give our shareholders, customers, and employees the best.

F. Anthony Comper
President and
Chief Operating Officer

positioning ourselves to take advantage of increasing opportunities in Mexico and Asia.

...and continued our productivity initiatives.

Improving productivity by reducing our ratio of costs to revenue continues to be a major priority. Since 1990, we have been committed to a comprehensive productivity strategy, geared to reducing our cost structure.

Productivity gains, which in past years came from numerous consolidations of back office operations, will come from the integration of Operations and Corporate Services across the Bank to create a common infrastructure to support our business operations in both Canada and the United States. At the same time, we are improving and re-designing our business processes across the Bank. Our productivity initiatives not only reduce our costs, but contribute to improved service quality and ultimately to revenue growth.

For our customers we...

...listened and responded...

At Bank of Montreal, the products and services we provide depend on what our customers tell us they need and want. The "It *is* Possible" program has been our most direct response to a growing need for more than just products. The Possibility Network assists Canadians in realizing their financial goals by providing them with the blueprints for success followed by other Canadians.

...by offering choices...

Our customers have told us that when they shop for financial products and services they want

At Bank of Montreal, our view is that success depends on our ability not only to meet, but to exceed our customers' expectations.

choices. Over the past several years, in response to customers' needs for more fair and reasonable service charges, we introduced the most comprehensive range of all-in-one bank service plans in the industry. The response has been overwhelming. To date two million customers have chosen plans to maximize the service they receive while optimizing their costs.

...by offering creative solutions...

Our customers demand banking services and creative solutions that enable them to compete successfully in a global marketplace. Through teams of experts and product specialists we develop creative solutions to meet unique requirements. For example, we are offering full Electronic Data Interchange capabilities to clients throughout North America from our base in Chicago.

And we are providing financial assistance and advice to knowledge-based companies through our Transforming Economy Lending program. This program is delivered through ten Innovation and Technology centres across the country, where account managers work closely with customers to understand the distinct requirements of their businesses. Response to this program has far exceeded our expectations, and to date we have assisted 42 companies, providing $41 million in credit.

...by improving access...

Our customers have said that they want better access to our services, with convenience a priority. In 1994 we enhanced our FirstBank Telephone Banking service. By calling a 1-800 number from anywhere in North America, 24 hours a day, our FirstBank

TABLE 7

NET INTEREST INCOME

For the year ended October 31 *(millions of dollars except as noted)*	1994	1993	1992	1991	1990	Five-year average
Net interest income as reported	**3,380**	3,212	3,010	2,708	2,535	
Taxable equivalent adjustment (TEB)	**67**	68	67	68	71	
NET INTEREST INCOME (TEB)	**3,447**	3,280	3,077	2,776	2,606	
YEAR-OVER-YEAR GROWTH *(%)*	**5.1**	6.6	10.8	6.5	0.2	5.9
TOTAL AVERAGE ASSETS*	**122,234**	113,387	104,591	94,118	81,971	
AVERAGE NET INTEREST SPREAD *(%)*	**2.82**	2.89	2.94	2.95	3.18	2.96
NET INTEREST INCOME (TEB)	**3,447**	3,280	3,077	2,776	2,606	
Less: LDC interest revenue	**141**	156	107	206	221	
Net gain/loss on sale of investment securities	**37**	40	23	18	19	
Non-recurring items**	**0**	0	6	14	285	
OPERATING NET INTEREST INCOME (TEB)	**3,269**	3,084	2,941	2,538	2,081	
YEAR-OVER-YEAR GROWTH *(%)*	**6.0**	4.8	15.9	22.0	(9.5)	7.8
AVERAGE OPERATING NET INTEREST SPREAD *(%)*	**2.68**	2.72	2.81	2.70	2.54	2.69

*Daily average.

**Sale of Banque Transatlantique in 1990 ($19 million), sale of C-ADP in 1992 ($6 million) and changes in accounting policy from consolidation to equity accounting for Banco de Montreal S.A. ($266 million in 1990 and $14 million in 1991).

HIGHER BUSINESS VOLUMES LEAD TO OPERATING NET INTEREST INCOME GROWTH

Total average assets were $122.2 billion in 1994, up 7.8% over 1993 as shown in Table 7. In 1993, total average assets increased 8.4% to $113.4 billion. Volume growth was primarily in Canadian dollar loans as well as total securities and deposits with other banks.

FIVE YEARS OF ASSET GROWTH

Volume growth in the Bank's priority markets of residential mortgages, personal deposits and small to mid-sized business loans in Canada contributed the majority of the increase in net interest income.

- Average residential mortgages increased 10.2% over 1994 following an increase of 15.7% over 1993. The Bank's mortgage portfolio grew faster than the total mortgage market in Canada in 1994 and 1993. This was achieved by providing more authority to our branch and community managers to better serve customers and by taking advantage of opportunities in the marketplace with home builders, realtors and in particular with first-time home buyers. The Bank made home ownership easier by promoting its pre-arranged mortgage program.
- Average total personal deposits grew by 2.3% in 1994 and 4.6% in 1993 with the majority of the growth experienced in longer term investment certificates, which helped fund the growth in mortgages. Personal deposit growth was enhanced by sales of the Bank's RateRiser® GIC†, which provides customers with increased rates over the term.
- Average total commercial loans grew by 5.2% in 1994 and 11.1% in 1993. The Bank continued its commitment to small to mid-sized businesses by introducing several products and services centered around the needs of these business clients. In 1994, account managers began testing the Transforming Economy Lending model for providing financing to emerging high-tech and knowledge-based companies based on an in-depth understanding of the risk and success factors for these businesses. The Bank's Institute for Small Business was established to provide a forum for small business owners, bank employees, government representatives, academics and other experts to exchange ideas and information. Lending initiatives also included the extension of Bank of Montreal's Small Business Lending Rate and Capital Support Program. Since its inception in 1991, over 33,000 customers have benefitted from the Bank's Small Business Lending Rate.

Bank of Montreal's measure of revenue growth is the percentage change in total revenue year-over-year. Total revenue consists of net interest income and other income.

REVENUE GROWTH CONTINUED

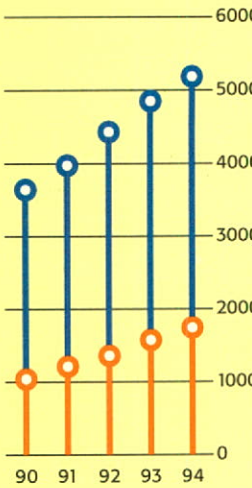
Total revenue, on a taxable equivalent basis, was a record $5,196 million, an increase of 6.9% over 1993. In 1993, total revenue was $4,861 million, an increase of 9.4% over 1992.

The Bank has achieved five consecutive years of growth in total revenue with an average revenue growth of 7.8% over this five-year period, as shown in Table 6. Both net interest income and other income increased annually in each of the five previous years and are shown in Chart 6. Other income has grown faster than net interest income as the Bank focused on growth in fee-based services.

CHART 6

TOTAL REVENUE

For the year ended October 31
(millions of dollars)



FIVE YEARS OF REVENUE GROWTH

TABLE 6

TOTAL REVENUE

For the year ended October 31 *(millions of dollars except as noted)*	1994	1993	1992	1991	1990	Five-year average
Net interest income (TEB)*	**3,447**	3,280	3,077	2,776	2,606	
Other income	**1,749**	1,581	1,365	1,219	1,047	
TOTAL REVENUE (TEB)*	**5,196**	4,861	4,442	3,995	3,653	
YEAR-OVER-YEAR GROWTH *(%)*	**6.9**	9.4	11.2	9.4	1.9	7.8
OTHER INCOME AS A % OF TOTAL REVENUE	**33.7**	32.5	30.7	30.5	28.7	31.2

*The taxable equivalent (TEB) adjustment increases interest income on tax-exempt assets to the amount that would result if the income were taxable (and increases the tax provision by the same amount). This adjustment results in a better reflection of the pre-tax economic yield of these assets.

NET INTEREST INCOME INCREASED

Net interest income is interest revenue earned on total assets less interest expense paid on total liabilities. Bank of Montreal analyzes net interest income by segregating the effect of interest revenue from designated lesser developed countries (LDC), net gains and losses on the sale of investment securities, and non-recurring items such as proceeds from the sale of wholly- or partially-owned businesses and changes in accounting policies. Net interest income excluding these items is referred to as operating net interest income.

Net interest income, on a taxable equivalent basis, in 1994 was $3,447 million, an increase of $167 million or 5.1% over 1993. Operating net interest income increased $185 million or 6.0% as shown in Table 7.

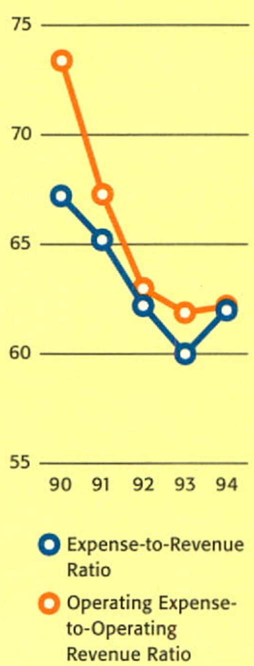
In 1993 net interest income was $3,280 million, an increase of $203 million or 6.6% over 1992, while operating net interest income increased 4.8%.

Operating net interest income growth is a function of two factors:

- business volume growth; and
- average net interest spread, defined as the difference between the interest rate earned on total assets and the interest rate paid on total liabilities.

The effects of these factors are discussed in the following two sections.

CHART 4
PRODUCTIVITY
For the year ended October 31
(%)



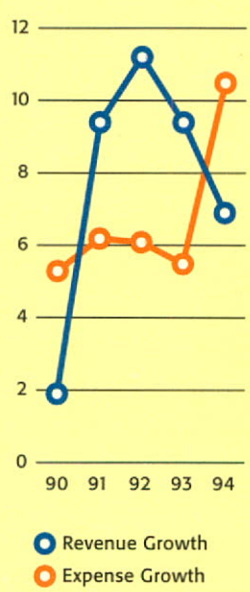
Bank of Montreal's primary measure of productivity is the expense-to-revenue ratio, calculated as non-interest expense to total revenue on a taxable equivalent basis. This ratio represents the cost to generate one dollar of revenue. A lower ratio indicates better productivity.

The Bank's primary focus for achieving productivity improvement is managing expense growth. The Bank's objective is to be a low-cost provider of high-quality financial services.

The three primary components of the Bank's productivity improvement program are as follows.

- Continuous improvement and business process re-engineering: continuous improvement encourages employees to challenge and improve all processes, allowing the Bank to be more responsive to customers. Business process re-engineering looks at all aspects of the Bank's processes to improve efficiency and customer service including consolidation of back-office operations, process simplification and automation of large volume transaction processing.
- Operations and Corporate services consolidation: a program to consolidate the Bank's Operations and Corporate services on an enterprise-wide basis. Total operations and support costs represent a material portion of the Bank's total non-interest expense and, as such, represent a significant opportunity for productivity improvement. Consolidation will reduce fixed costs through process improvement, use of technology and outsourcing, where appropriate.
- Multi-year productivity targets: targets are set for each operating group, with each group's progress monitored. The Bank also focuses on managing individual expense categories and obtaining reductions where the Bank has a disproportionately high share of the total for the six major Canadian banks.

CHART 5
REVENUE AND EXPENSE GROWTH
For the year ended October 31
(%)



Specific expense growth and expense management initiatives are discussed in the Expense Growth section, beginning on page 41.

The expense-to-revenue ratio in 1994 was 62.0% compared to 60.0% in 1993. The ratio increased in 1994 as a result of expense growth exceeding revenue growth. Expense growth included a special charge related to losses incurred by the Securities Lending Unit of Harris in the amount of $71 million before tax ($46 million after tax). Business volume growth exceeded operating expense growth as a result of productivity improvements; however, lower money market spreads in 1994 slowed total revenue growth, resulting in a slight deterioration in the operating expense-to-operating revenue ratio.

The expense-to-revenue ratio in 1993 improved to 60.0% from 62.2% in 1992 as revenue growth exceeded expense growth.

TABLE 5
PRODUCTIVITY
For the year ended October 31

(%)	**1994**	1993	1992	1991	1990
REVENUE GROWTH	**6.9**	9.4	11.2	9.4	1.9
EXPENSE GROWTH	**10.5**	5.5	6.1	6.2	5.3
EXPENSE-TO-REVENUE RATIO	**62.0**	60.0	62.2	65.2	67.2
OPERATING EXPENSE*-TO-OPERATING REVENUE** RATIO	**62.2**	61.9	63.0	67.3	73.4

*Expenses excluding goodwill and other valuation intangibles and non-recurring items.

**Revenues excluding interest revenue from Designated Lesser Developed Countries, gains and losses on the sale of investment securities and non-recurring items.

Investment Banking Builds Broad Foundation in Canada

Investment Banking offers a full range of mutual fund, trust, discount and full-service brokerage as well as financial planning and financial advisory services to its corporate, government, institutional and private clients. The earnings growth strategy for investment banking is to build a solid base in the Canadian marketplace and to selectively expand in the U.S. and international investment banking markets by capitalizing on the resources available at Harris and within the Bank.

The acquisition of Burns Fry in 1994 to form Nesbitt Burns created an investment banking firm that in Canada has:

- the largest network of investment advisors for private clients;
- an institutional equity and debt operation that offers strength and depth of personnel;
- Canada's leading research team as evidenced by independent surveys;
- experience as the leading distributor of Canadian equities worldwide and the largest market maker in Canadian equities on both Canadian and U.S. exchanges;
- the leading position in Canada in debt securitization; and
- proven strength in mergers and acquisitions as well as other financial advisory activities.

Harris Expands its Distribution Network

Harris is a full-service regional bank offering a broad range of services to its corporate and small business clients in the U.S. Midwest and to its individual clients within Chicago and its surrounding communities (Chicagoland). Its products and services include:

- corporate banking and financial advisory services;
- operating services such as cash management and corporate and institutional trust;
- investment management as well as foreign exchange and treasury services for its corporate and institutional clients; and
- community banking, private banking, personal trust, investment management and credit card services for individuals and small businesses.

Harris' earnings growth strategy is to build upon its strengths by expanding its retail and small business banking services throughout Chicagoland, by continuing to increase corporate banking business volumes across the U.S. Midwest, and by improving productivity through redeployment of resources from staff and operations support functions to customer service areas.

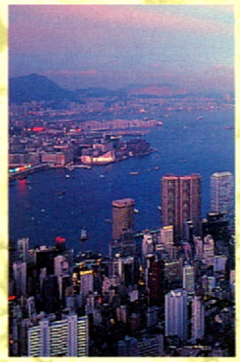
In 1994, Harris expanded its distribution network in the Chicagoland marketplace with the acquisition of Suburban by the Bank, and announced its intention to open approximately 25 branches through 1996. The combined operations of Harris and Suburban under the Harris name now form the third largest community banking network in the Chicagoland marketplace with a distribution network of 76 locations at the end of 1994.

Serving as One

Corporate and Institutional Financial Services division conceived, developed and deployed the CenterPoint™ Relationship Banking System. This innovative client/server-based software combines over 40 different internal and external databases on one object-oriented PC desktop. With the new technology, group relationship managers can develop creative solutions for their clients, while significantly reducing turnaround time on credit applications.

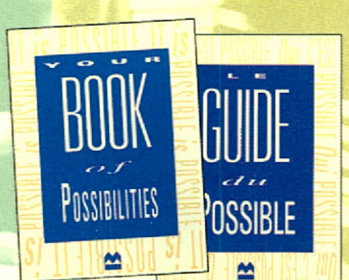
The Ties That Bind

CHAIRMAN MATTHEW BARRETT JOURNEYED TO CHINA WITH A POSITIVE MESSAGE ON THE FUTURE OF CANADA-CHINA TRADE AND INVESTMENT. BANK OF MONTREAL WAS THE LEAD CORPORATE SPONSOR OF AN IMPORTANT CONFERENCE, WHICH BROUGHT TOGETHER GOVERNMENT AND BUSINESS LEADERS FROM CANADA, CHINA AND HONG KONG.



A New Addition to the Family

Bank of Montreal acquired Suburban Bancorp, a prestigious Chicago-area community bank, and merged it with Harris Bankcorp under the Harris name. The merger significantly increases the Harris' customer base in the personal and commercial market segments, and by adding 30 locations to its existing base, for a total of 75, advances Harris' goal of tripling its network through the decade.

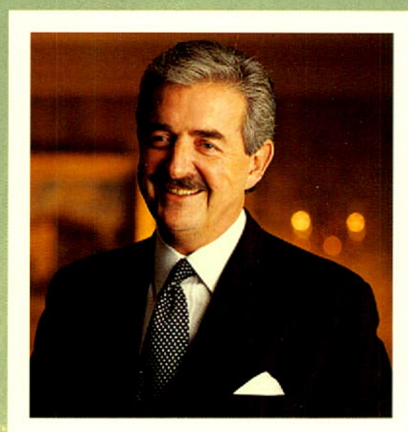


A Book of Hope for Canadians

"YOUR BOOK OF POSSIBILITIES™" WAS LAUNCHED BY BANK OF MONTREAL AS PART OF THE POSSIBILITY NETWORK™, AN INNOVATIVE CAMPAIGN TO HELP CANADIANS ACHIEVE THEIR FINANCIAL GOALS. THE BOOK HARNESSES THE PRACTICAL EXPERIENCES OF CANADIANS TO HELP OTHERS WITH SIMILAR PROFILES MANAGE THEIR FINANCIAL AFFAIRS SUCCESSFULLY. BY MAKING THE TOOLS FOR BASIC FINANCIAL PLANNING ACCESSIBLE TO ALL CANADIANS, THE POSSIBILITY NETWORK IS ANOTHER IMPORTANT FIRST FOR BANK OF MONTREAL.

1994

Chairman's Message



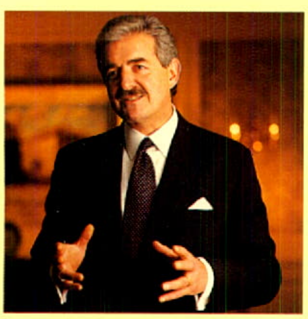
Matthew W. Barrett

Chairman *and*

Chief Executive Officer

"In 1994, we continued to deliver on our goal of producing strong financial results each year, while making substantial and strategic investments in the future of the Bank. And the strength and consistency of our performance has been achieved by staying the course on the strategy we adopted for the Bank five years ago ~ together with effective and enthusiastic execution by our employees throughout the Bank's family of companies."

We reported our fifth consecutive year of record earnings, while sustaining our solid and consistent return on equity. Overall, our financial track record for the nineties places us firmly among the top-performing major banks in Canada and the United States. You will find a detailed account of our 1994 results in the Management Review and Analysis pages of this Report, and a comparison with those of our 24 peers in North America in the Corporate Scorecard. For me, however, the message that emerges from the figures is the proven worth of two key concepts in our strategy — values and balance.



Values shape what we do every day; balance determines our strategic timing.

We define our values in relation to our four stakeholder groups. Our shareholders are entitled to a competitive rate of return and the prudent management of their investment. We owe our customers the highest standard of service, professionalism and added value. We are an active and responsible member of every community where we do business. And to our employees we offer equitable conditions of work, with excellent opportunities for personal and professional growth.

Values shape what we do every day; balance determines our strategic timing. We give equal weight to continuing performance and long-term planning and investment. We do that, in part, because we take our values seriously, and do not ask our stakeholders to accept sacrifices today in the hope that tomorrow will be brighter. We also know that consistent returns are the best possible introduction to new markets, new customers and new investors, and that this year's profits are next year's strategic investments. Solid, sustained performance and long-range strategic growth are, in fact, not opposites but essential to each other's success.

Let me review briefly some key achievements of this strategy in the last five years and in 1994 in particular. We have customized Personal and Commercial Financial Services to meet the unique needs of 234 communities across Canada. We did that to bring the full strength and reach of a major bank into communities where real decision-taking authority lies with people who live and work in the community they serve. Our customers have rewarded us with substantial growth in market share, especially in the independent business sector where we are now the highest-rated bank in Canada. In 1994, we moved to build on that achievement by creating the Institute for Small Business, which will allow our independent business customers to learn from us while we learn from them.

In the same five years, we have consolidated our position as the only financial group to offer a full range of services across Canada and in our chosen markets in the United States. In 1994 we strengthened that position by acquiring Suburban Bancorp Inc. of Chicago and merging it with Harris, our United States bank, under the Harris name, bringing us much closer to our goal of a 120-branch network in Greater Chicago. And we became the first Canadian bank ever to be listed on the New York Stock Exchange — a clear signal of our lasting commitment to the North American market.

Our North American base and our responsiveness to the communities in which we do business have stood us in good stead as our international reach has grown in the nineties. Our

Our cross-border capabilities in North America have made us uniquely well-placed to serve international clients who see this continent as a single market.

cross-border capabilities in North America have made us uniquely well-placed to serve international clients who see this continent as a single market. In 1994 we continued to position ourselves to serve our Canadian and United States customers well in some of the most dynamic markets of the world, such as China, Mexico and Southeast Asia. And by acquiring Burns Fry Limited and merging it with Nesbitt Thomson in September 1994 as Nesbitt Burns Inc., we not only forged the pre-eminent Canadian investment firm but also created a powerful base for our planned expansion into selected markets in the United States and overseas.

In five years, we have established a reputation as a bank that leads change, one that practices effective corporate governance, uses technical innovation intelligently, and is sensitive to the evolving needs of our customers and employees. 1994 brought two excellent examples. Our It *is* Possible™ marketing campaign made the tools of basic financial planning available to all Canadians for the first time. Our development and launching of the CenterPoint Relationship Banking System, an integrated desktop platform pulling together over 40 sources of information, made it possible for us to design fast, tailor-made solutions for our corporate and institutional clients.

We have come a long way in five years and, as you can see, 1994 especially has been a year to remember in the long history of our Bank. It will probably be remembered longest, however, for the opening in May of our Institute for Learning in Scarborough, Ontario. The first purpose-built corporate facility of its kind in Canada, the Institute will receive over 15,000 students a year, coming from all the companies in the Bank's family. But despite its scope, the IFL is only the latest stage of the commitment we made five years ago to give our employees the finest opportunities for learning in the financial services industry. They have rewarded us with five years of growth, leadership, innovation and record financial results. Nothing would have been possible without them, and this message is above all one of thanks to them for everything they have achieved. Their results today are our opportunities for tomorrow.

M. W. Barrett

MATTHEW W. BARRETT

CHAIRMAN AND

CHIEF EXECUTIVE OFFICER

We have come a long way in five years and, as you can see, 1994 especially has been a year to remember in the long history of our Bank.

A Canadian Bank *with a* North American Future

Bank of Montreal is responding creatively to the growing integration of the North American economies and the emergence in the United States of a new generation of national and regional banks with powerful economies of scale and new levels of customer service. We see clearly that we must meet the needs of our Canadian, United States, and international clients on both sides of the border, with the highest international standards of quality.

We start with our strong Canadian base in financial services for four and a half million individual customers and independent businesses, delivered through 1,160 branches and over 1,700 automated banking machines, grouped in 234 communities that cover every part of Canada. South of the border, the linchpin of our strategy is Harris Bankcorp, Inc. of Chicago. Over time we intend to support Harris and our Personal, Corporate and Investment Banking groups with a common cross-border operations infrastructure. This year, we significantly expanded Harris' presence in the Greater Chicago personal and commercial market by merging our community banking operations with Suburban Bancorp Inc. under the Harris name, as well as by expanding Harris' own branch network.

In the large corporate sector, Bank of Montreal's innovative approach to relationship management provides customers throughout North America with creative financial solutions for their businesses. Our commitment to advanced risk management and loan portfolio management techniques enables us to price risk accurately. Our recognized expertise in industries such as energy, agribusiness, telecommunications and mining, together with the combined resources of Harris, Nesbitt Burns and the Bank, allows us to offer our clients an extensive array of competitive treasury, cash management, stock transfer, trust and securities underwriting, and trade finance products and services on both sides of the Canada-United States border.

The merger of Nesbitt Thomson with Burns Fry has greatly strengthened our investment banking capabilities in the United States. Nesbitt Burns is also the principal market-maker for securities that are interlisted on exchanges in Canada and the United States, as well as being the recognized leader in cross-border mergers and acquisitions. Together with our ownership of Harris Nesbitt Thomson Securities Inc., the only Canadian-controlled primary dealer in United States government paper, these strengths give us an increasing presence in the United States capital markets, and help us provide financial services to United States industries that are of special interest to Canadian customers.

Traditional strengths. New synergies. They add up to an expanded United States market presence. In 1994 our North American strategy passed a symbolic milestone when we became the first Canadian bank to list its common shares on the New York Stock Exchange — one more sign that Bank of Montreal is a Canadian bank with a North American future.

Listing Bank of Montreal shares on the New York Stock Exchange gives the Bank an added presence in United States financial markets.

The oil and gas sector is an area of strength for Bank of Montreal. We provide specialized financial services to industries throughout North America.

When it comes to competing in global markets offshore, Bank of Montreal's North American capabilities give us a vital edge over our competitors. Within the expanded North American trade zone created by NAFTA, our combination of Canadian and United States operational capacity brings exciting business opportunities not only in Mexico but also in selected markets worldwide.

East Asian economies, for example, are the most dynamic in the world, and the United States happens to be the region's largest trading partner. Thus, we are vigorously expanding our presence in China, a major focus of the Bank's Asian strategy, in order to provide our Canadian and United States clients with the commercial and investment banking services they need to trade in the region. As China builds a fully modern economy, there will be increased investment inflows, and a heavy demand for investment capital to finance infrastructure development. With its long history of infrastructure development financing here in Canada, the Bank is well suited to provide a broad range of infrastructure financing services — among them, project finance, term lending, trade finance, and a host of treasury and investment banking services.

The Bank is also broadening its strategic thrust to build enduring long-term customer relationships both in North America and in Asia. In Asian communities across Canada, Bank of Montreal

Competing *in*

already has a strong business franchise, with a network of branches offering full banking services in Chinese. In Hong Kong, greater emphasis will be given to immigration banking, treasury operations, project finance and term lending, as well as to Nesbitt Burns' activities in fixed income and capital markets.

The Bank's long-standing presence in European financial markets has also been powerfully reinforced by the creation of Nesbitt Burns. We are the leading dealer in Canadian equities, with a solid base of institutional investor clients and a reputation for top-quality research. We are also increasingly active in the Eurodollar markets, both Canadian and United States. And our ownership of a primary dealer in both Canadian and United States government securities makes us a serious player in the distribution of fixed-income products in Europe.

We carry on our global business both through our own offices in eleven countries and through our active two-way co-operation with our 120 correspondent banks. And in every market we enter our point of differentiation is the same. Bank of Montreal is unique in being able to offer full banking service in both Canada and the United States. Our powerful Canadian base makes us an attractive partner for offshore clients doing business in Canada, while our cross-border capabilities place us ideally to service corporate and institutional clients whose businesses span North America. And at the same time our strengths in our selected markets abroad make the Bank of Montreal group the bank of choice for Canadian and United States companies that see their business in global terms.

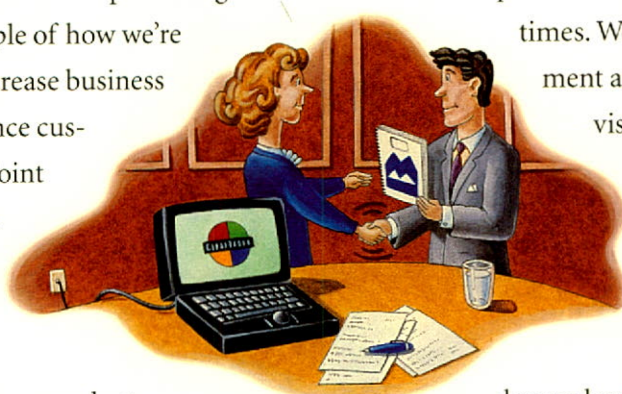
World Markets

Leadership *by* New Ideas

The Bank of Montreal family of companies is strongly committed to leading change and to leveraging it as a competitive advantage. We believe that today more than ever, the ability to see trends early and incorporate them into our corporate culture and strategy is a precondition for success.

Today change means above all the technological revolution going on around us. New and imaginatively applied techniques constantly redefine the way companies do business. Advances in technology have already revolutionized Canada's banking industry. They will change it still more radically in the decades ahead. That means it is absolutely critical for Bank of Montreal to harness technology and apply it creatively, productively and cost-effectively — to use it, in other words, to add value to the products and services we offer our customers.

The CenterPoint Relationship Banking System is a good example of how we're using innovation to increase business productivity and enhance customer service. CenterPoint is a computer platform linking over 40 internal and external databases on a single PC desktop. It enables our product and relationship teams to share information electronically and to engineer more creative, timely solutions for their large corporate customers. Another good illustration of how we use technology to enhance customer convenience is FirstBank® Telephone Service. Introduced in April 1994, it allows customers to access their accounts by dialing a 1-800 number from anywhere in North America, 24 hours a day. And our Electronic Data Interchange (EDI) service, offered from our platform in Chicago, gives our clients comprehensive, fully customized data services through their own computer networks anywhere in North America.

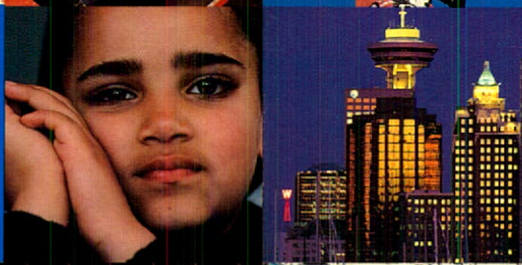


Technology has created not just new products but also a whole new economy where knowledge and ideas are the drivers of growth. Bank of Montreal is a leader in meeting the financing requirements of independent business customers in the high-tech and knowledge-based industries. In a pilot program launched in Ontario's Kitchener/Waterloo/Cambridge area, account managers successfully tested a new lending model designed for local knowledge-based firms. The program was so well-received that it has been expanded to nine other high-tech business locations across Canada.

The impact of technological change on business is paralleled by the impact of social change on the workplace. Bank of Montreal has moved decisively to adapt our human resource strategy to the times. We have advanced the recruitment and employment of women, visible minorities, the disabled and Aboriginal peoples in the Bank. We have pioneered job-sharing, flex-time and eldercare to help our people balance the demands of work, family and community. And like many other corporations we are moving toward a flattened, decentralized organization, encouraging initiative and rewarding employees with responsibilities and challenges. We believe these are the right things to do in the social context of our time. But we also believe that they will give the Bank more productive, more capable employees — and that can only mean superior value for our customers and a key competitive edge for us.

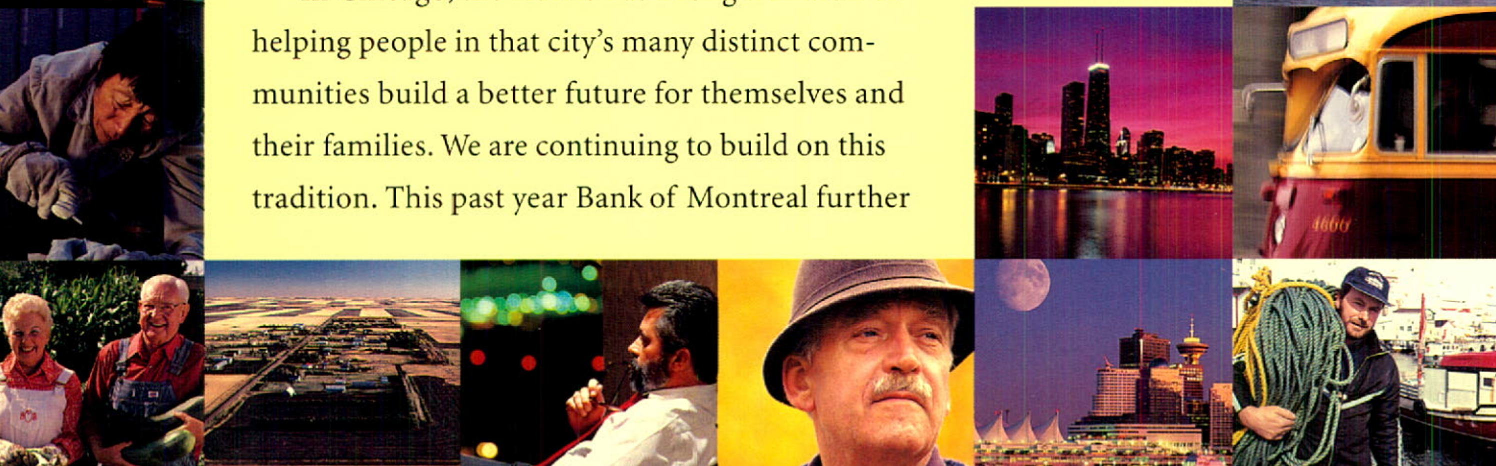
Breaking new ground in commercial finance. Breaking the glass ceilings and artificial barriers that have limited the pool of talent available to us. Harnessing technology for effective customer solutions. Bank of Montreal's innovative approach ensures our continuing place as a provider of the best in customer service in North America.

Power *for* the People We Serve



The communities we serve. As Canada's first bank and a national institution, Bank of Montreal is committed to bringing all the strengths and advantages of a major bank with an international reach into the heart of every community where we do business. We have a network of over 1,160 branches in communities across Canada and 75 more in the metropolitan Chicago area. But we see these branches neither as stand-alone entities nor as interchangeable parts in a centralized bureaucracy. Rather we see them as part of communities, each headed by a manager with substantial authority to take decisions on the spot. Decisions are thus made in the communities they affect, by people who live in them. Everywhere we do business, we have become a vital part of the local scene, a local business that understands and meets the needs of the local people. And we strongly encourage our people everywhere to take an active part in the life of their communities, both to contribute to them and to understand their outlook and their needs.

In Chicago, the Harris has a long tradition of helping people in that city's many distinct communities build a better future for themselves and their families. We are continuing to build on this tradition. This past year Bank of Montreal further



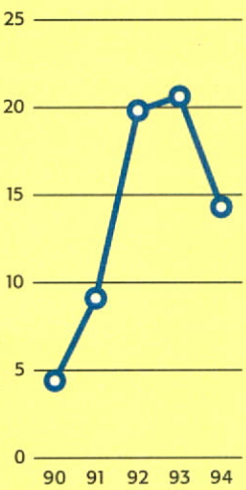
Management Analysis *of* Operations

This section of the Annual Report provides management's discussion and analysis of the financial condition of Bank of Montreal and its financial performance for the years ended October 31, 1994 and 1993. The analysis focuses on the Bank's objectives, strategies and performance as they relate to the eight primary measures used by the Bank to monitor its overall financial performance and condition.

The analysis is based on the consolidated financial statements of the Bank as presented later in this Annual Report beginning on page 69. All dollar amounts are in Canadian dollars unless otherwise stated.

This analysis of operations includes a discussion of how the Bank manages its credit, interest rate, foreign currency, derivative and liquidity risk. A comparison of the Bank's performance with that of other major Canadian and North American banks is provided in the Financial Goals and Measures supplement to this Annual Report.

CHART 1
FIVE-YEAR RETURN ON COMMON SHAREHOLDERS' INVESTMENT
For the year ended October 31 (%)



Bank of Montreal measures return on common shareholders' investment (ROI) as the total return earned on an investment made at the beginning of the fiscal year in Bank of Montreal common shares. The total return includes the effect of the change in share price, dividends received and the assumed reinvestment of dividends in additional Bank of Montreal common shares. The Bank also measures a five-year return on common shareholders' investment (five-year ROI) calculated as the annualized total return earned on an investment made at the beginning of a five-year period in Bank of Montreal common shares.

ROI is predominately influenced by changes in share price which, in turn, are influenced by the effect of external factors on the stock markets and by the Bank's financial results. Management's strategy to increase ROI is to focus on financial results by achieving strong financial performance, sound financial condition and a competitive dividend policy.

The ROI for 1994 was negative 2.3%, as shown in Table 1. Bank of Montreal common stock closed at $25.13, which was 6.5% below the 1993 closing price of $26.88. Volatile equity and bond markets contributed to an overall decline in bank stocks in 1994. The Bank's declared common dividend per share was increased in 1994 by eight cents to $1.20 annually.

The Bank's shareholders experienced a ROI of 19.4% in 1993, reflecting a common stock price increase of 14.1% and an increase in dividends declared per share of six cents.

The Bank's five-year ROI was 14.3% in 1994, and is depicted in Chart 1.

TABLE 1
RETURN ON COMMON SHAREHOLDERS' INVESTMENT

For the year ended October 31	**1994**	1993	1992	1991	1990
MARKET PRICE PER COMMON SHARE* *($)*					
Open	**26.88**	23.56	18.69	13.50	17.00
Close	**25.13**	26.88	23.56	18.69	13.50
High	**30.75**	27.38	24.13	19.19	17.19
Low	**22.00**	21.31	18.56	13.25	12.25
COMMON DIVIDENDS					
Dividends paid* *($)*	**1.18**	1.11	1.06	1.06	1.06
Dividend payout ratio *(%)*	**40.3**	43.3	44.7	46.0	50.7
Dividend yield *(%)*	**4.4**	4.7	5.7	7.9	6.2
RETURN ON COMMON SHAREHOLDERS' INVESTMENT *(%)*	**(2.3)**	19.4	32.4	47.4	(14.4)
FIVE-YEAR RETURN ON COMMON SHAREHOLDERS' INVESTMENT *(%)*	**14.3**	20.6	19.8	9.1	4.4
VALUATION MEASURES					
Total market value of common shares *(billions of dollars)*	**6.7**	6.7	5.8	4.5	3.1
Price-to-earnings ratio *(times)*	**8.3**	10.4	9.9	8.1	6.4
Market-to-book value *(times)*	**1.2**	1.4	1.3	1.2	0.9

*Restated to reflect the effect of the two-for-one effective stock split completed in March 1993.

Bank of Montreal's primary measure of profitability is the return on common shareholders' equity (ROE). ROE is calculated as the percentage of net income less preferred dividends to average common shareholders' equity. Common shareholders' equity is comprised of common share capital and retained earnings.

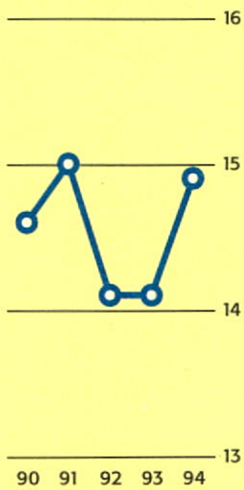
The Bank's objective is to achieve, consistently, a ROE that is superior to its competitive peer group through a focus on earnings growth and capital management that is consistent with the needs of the business. In addition, the Bank currently monitors its ROE against a minimum target which is the after-tax rate of return available for a long-term "risk-free" investment plus an appropriate return for risk. The Bank calculates this minimum target as the average yield on 10-year Government of Canada bonds, multiplied by 0.75 to adjust for the tax differential between bond and equity investments, plus 5% for the risk of investing in Bank of Montreal common shares.

CONSISTENT RETURN ON EQUITY

Bank of Montreal's ROE was 14.9% in 1994 and 14.1% in 1993, and was above the minimum target as shown in Table 2.

The Bank has consistently earned a ROE in the 14% to 15% range in each of the five previous years as shown in Chart 2.

CHART 2
RETURN ON COMMON SHAREHOLDERS' EQUITY
For the year ended October 31
(%)



FIFTH CONSECUTIVE YEAR WITHIN THE 14–15% RANGE.

TABLE 2
RETURN ON COMMON SHAREHOLDERS' EQUITY
For the year ended October 31
(millions of dollars except as noted)

	1994	1993	1992	1991	1990	Five-year average
Net income	**825**	709	640	595	522	
Preferred dividends	**69**	68	64	51	48	
Net income available to common shareholders	**756**	641	576	544	474	
Average common shareholders' equity	**5,088**	4,564	4,072	3,623	3,259	
RETURN ON COMMON SHAREHOLDERS' EQUITY *(%)*	**14.9**	14.1	14.1	15.0	14.6	14.5
MINIMUM TARGET *(%)*	**11.0**	10.6	11.2	12.3	13.0	
EARNINGS PER SHARE* *($)*						
Basic	**3.01**	2.59	2.38	2.31	2.10	2.48
Fully diluted	**2.97**	2.55	2.36	2.31	2.10	2.46

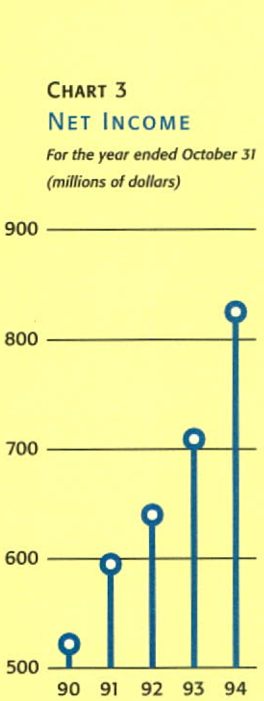
*Restated to reflect the effect of the two-for-one effective stock split completed in March 1993.

Under United States generally accepted accounting principles, the acquisition in 1994 of Suburban Bancorp, Inc. (Suburban) would be reported using the pooling-of-interest method, as set out in Notes 2 and 20 to the consolidated financial statements. The application of this method would not materially change the financial results or financial position of the Bank as reported under Canadian generally accepted accounting principles. ROE would be 14.8% in 1994 and unchanged in 1993.

CHART 3

NET INCOME

For the year ended October 31
(millions of dollars)



FIVE YEARS OF EARNINGS GROWTH

Bank of Montreal's primary measure of earnings growth is defined as the percentage change in net income year-over-year.

The Bank's objective is to achieve consistently strong earnings growth through: a focus on increasing revenue primarily through business volume growth; improving productivity; risk management; and strategic investment in the future. Productivity is discussed beginning on page 32 while revenue growth and expense growth, key drivers of productivity improvements, are discussed beginning on pages 33 and 41 respectively. The provision for credit losses is reviewed in the Asset Quality section, beginning on page 43.

NET INCOME – ANOTHER RECORD YEAR

Net income for 1994 was $825 million, an increase of $116 million or 16.4% as shown in Table 3. Earnings growth was attributable primarily to:

- Canadian retail and commercial business volume growth in targeted priority areas;
- strong growth in corporate lending fee income throughout North America;
- record investment banking profits, with Nesbitt Burns benefitting from buoyant conditions in both debt and equity markets;
- expense growth excluding a one-time special charge, goodwill amortization and special factors such as brokerage commissions, government levies and foreign currency effects was contained at 4.4%; and
- a reduction in the provision for loan losses, particularly in commercial real estate.

These benefits were partially offset by:

- the impact of a $46 million (U.S.$33 million) after-tax special charge related to losses incurred by the Securities Lending Unit of Harris Bankcorp, Inc. (Harris); and
- lower money market earnings primarily in response to rising U.S. interest rates during the second and third quarters.

Net income in 1993 was $709 million, an increase of 10.9% or $69 million over 1992 due primarily to higher business volumes and improved productivity partially offset by a higher provision for credit losses. The Bank has now achieved five consecutive years of earnings growth. Annual net income is presented in Chart 3. The Bank's average annual growth in earnings for the four years 1991 through 1994 was 12.2%.

TABLE 3

EARNINGS GROWTH

For the year ended October 31 (millions of dollars except as noted)	**1994**	1993	1992	1991	1990	Four-year average
Net interest income (TEB)*	**3,447**	3,280	3,077	2,776	2,606	
Other income	**1,749**	1,581	1,365	1,219	1,047	
Total revenues (TEB)*	**5,196**	4,861	4,442	3,995	3,653	
Provision for credit losses	**510**	675	550	337	169	
Non-interest expense	**3,223**	2,916	2,765	2,605	2,453	
Income before provision for income taxes and non-controlling interest in subsidiary	**1,463**	1,270	1,127	1,053	1,031	
Income taxes (TEB)* and non-controlling interest	**638**	561	487	458	509	
NET INCOME	**825**	709	640	595	522	
YEAR-OVER-YEAR GROWTH *(%)*	**16.4**	10.9	7.5	13.9	NM	12.2
FULLY DILUTED EARNINGS PER SHARE** *($)*	**2.97**	2.55	2.36	2.31	2.10	
YEAR-OVER-YEAR GROWTH *(%)*	**16.5**	8.1	2.2	10.0	NM	9.2

*The taxable equivalent (TEB) adjustment increases interest income on tax-exempt assets to the amount that would result if the income were taxable (and increases the tax provision by the same amount). This adjustment results in a better reflection of the pre-tax economic yield of these assets.

**Restated to reflect the effect of the two-for-one effective stock split completed in March 1993.

NM – Not meaningful due to negative net income in 1989.

Net income for Harris was U.S.$86.8 million in 1994 and included the results of Suburban on a combined basis effective October 1, 1994. Net income for Nesbitt Burns Corporation Limited combined with Harris Nesbitt Thomson Securities, Inc. (collectively Nesbitt Burns) was $72.5 million in 1994, up $23.0 million or 46.5% from 1993, and included the results of the former Burns Fry group of companies (Burns Fry) effective September 1, 1994.

Harris' net income in 1993 was U.S.$123.4 million, up 11.9% over 1992. Net income for Nesbitt Burns (previously Nesbitt Thomson) was $49.5 million in 1993, an increase of $29.9 million or 152.6% from 1992.

Strategies for Earnings Growth

Bank of Montreal's overall earnings growth strategy is to build a solid base in the Canadian marketplace, expand its presence in the United States, and selectively grow in international markets based on the specific needs of its international clients and potential trade opportunities.

STRATEGY: BUILD REVENUES AND IMPROVE PRODUCTIVITY

The Bank is organized into four complementary operating groups, each with its own distinct market, product and geographic mandate. Two support groups, Operations and Corporate Services, provide technology, operations processing and professional services to the operating groups.

Each operating group's earnings growth strategies support the Bank's overall objective: to increase revenues by building upon its strengths in priority markets and by continuing to build upon relationships with its existing customers; and to improve productivity; all within a framework of prudent risk management.

The size and geographic distribution of the operating groups as indicated by assets under management and administration are shown in Table 4.

Each operating group's strategies are discussed below. Their impact on revenue is analyzed further in the discussion of Revenue Growth, beginning on page 33.

Table 4

Assets under Management and Administration by Operating Group and Geographic Location*

As at October 31 (millions of dollars)	Personal & Commercial Canada	Corporate & Institutional	Harris	Investment Banking	Total
1994					
Balance Sheet					
Canada	52,455	17,856	0	15,403	**85,714**
United States	0	9,356	23,647	9,808	**42,811**
Other	0	9,650	0	0	**9,650**
Total	52,455	36,862	23,647	25,211	**138,175**
Assets under Administration**	0	0	216,528	151,740	**368,268**
1993					
Balance Sheet					
Canada	50,169	15,883	0	8,913	**74,965**
United States	0	8,688	17,628	6,552	**32,868**
Other	0	9,036	0	0	**9,036**
Total	50,169	33,607	17,628	15,465	**116,869**
Assets under Administration**	0	0	217,155	117,900	**335,055**

*Geographic location is based on the ultimate risk of the underlying assets.

**Assets under administration include mutual funds, trust funds and other assets held in custody.

Canadian Personal and Commercial Financial Services Group Focuses on Priority Markets and Customer Needs

The Canadian Personal and Commercial Financial Services (PCFS) group serves individuals and small to medium-sized businesses in the Canadian market. Earnings growth strategies for the PCFS group are to:

- Increase business volumes particularly in three key areas: residential mortgages, personal deposits and small to mid-sized businesses;
- Focus on community banking by providing local managers with the tools and authority to apply the Bank's broad range of products and services to meeting the unique and specific characteristics of individual communities;
- Develop and introduce innovative products and services which are designed to give customers more flexibility in managing both their investment requirements and their financial obligations. PCFS is paying particular attention to specific segments of its customer base — the Asian and Aboriginal markets. It acknowledges the evolving investment requirements of some segments for a wider array of services and is making available to them more expertise and personalized attention to help them achieve their financial objectives; and
- Provide interest rate breaks and new programs for the small business segment, taking into consideration its changing needs. The benefits of technology have been expanded to this segment by providing small businesses with access to ABMs and point of sale terminals.

Corporate and Institutional Financial Services Focuses on Loan Portfolio Management and New Revenue Sources

Corporate and Institutional Financial Services (CIFS) provides financing, treasury and operating services to large corporate and institutional customers throughout North America and selectively abroad. Its earnings growth strategies are to:

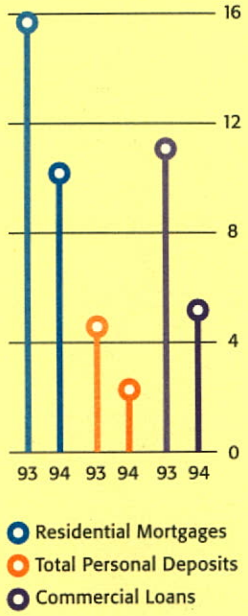
- Improve its ability to assess risk and appropriately price credit commensurate with risk. The group has augmented its risk management practices by adopting a Risk Adjusted Return on Capital (RAROC) concept to pricing, monitoring, and managing on- and off-balance sheet risk;
- Provide a full range of money market, derivative and other treasury products;
- Increase fee-based services by applying technology to enhance customer service. Electronic banking services available to corporate and institutional clients were enhanced by providing clients with direct access to technology in their offices through Electronic Data Interchange; and
- Improve productivity through consolidation of back-office operations. For example, the Bank initiated the consolidation of its U.S. foreign exchange, derivatives and futures trading services in Chicago to capitalize on the joint expertise within the Bank and at Harris.

These initiatives contributed to continued volume growth in all of the Bank's priority markets in Canada, as indicated in Chart 7, and market share gains as shown in Chart 8.

CIFS developed the CenterPoint™ Relationship Banking System to organize and analyze information on a client basis. Relationship managers draw on all elements of the Bank, including its financing, treasury and investment banking services to provide customized solutions for clients' requirements and to improve penetration while managing customer and product profitability.

Intensive marketing in an improving economic environment also contributed to a 9.6% growth in loans in U.S. dollars at Harris in 1994.

CHART 7
GROWTH IN PRIORITY AREAS IN CANADA
For the year ended October 31
(%)



AVERAGE NET INTEREST SPREAD DECLINED

Average net interest spread is the difference between the interest rate earned on total assets and the interest rate paid on total liabilities, and includes revenues and expenses on off-balance sheet interest related activities. Bank of Montreal analyzes both average net interest spread and operating net interest spread. Operating net interest spread is calculated as operating net interest income divided by total average assets.

The primary interdependent factors that explain operating net interest spread are:

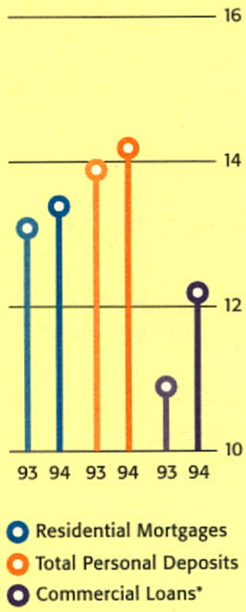
- changes in customer interest rates on loans and deposits;
- changes as interest rates vary, due to interest rate sensitivity positions, which reflect customers' changing term preferences;
- changes in the mix of the Bank's assets and liabilities due to differing rates of volume growth for various products; and
- changes in net interest income from non-performing loans excluding LDC.

Average net interest spread in 1994 declined 7 basis points (eash basis point equals 1/100th of a percent). Lower LDC income and lower gains on sale of investment securities accounted for the majority of the decline. Operating net interest spread declined only 4 basis points as shown in Table 8.

TABLE 8
NET INTEREST SPREAD
For the year ended October 31

(%)	1994	1993	1992	1991	1990
AVERAGE NET INTEREST SPREAD	**2.82**	2.89	2.94	2.95	3.18
AVERAGE OPERATING NET INTEREST SPREAD	**2.68**	2.72	2.81	2.70	2.54
AVERAGE CANADIAN DOLLAR NET INTEREST SPREAD	**3.59**	3.50	3.75	3.50	3.29
AVERAGE U.S. DOLLAR AND OTHER CURRENCIES NET INTEREST SPREAD	**1.68**	2.01	1.78	2.11	3.00
AVERAGE CANADIAN PRIME RATE	**6.42**	6.44	7.49	10.74	14.11
AVERAGE U.S. PRIME RATE	**6.69**	6.04	6.59	9.02	10.25

CHART 8
MARKET SHARE IN PRIORITY AREAS IN CANADA
As at October 31
(%)



*As at second quarter

Operating net interest spreads were positively affected by the following:

- timing of prime rates movements in 1994 resulted in increased net interest spread as liabilities which repriced in 1994 exceeded assets that repriced;
- spreads were widened between prime-based assets and prime-based liabilities as interest rates increased during the second and third quarters of 1994; and
- net interest income received on non-performing loans excluding LDC increased in 1994 and 1993.

CHART 9
NET INTEREST INCOME (TEB)
For the year ended October 31 (millions of dollars)

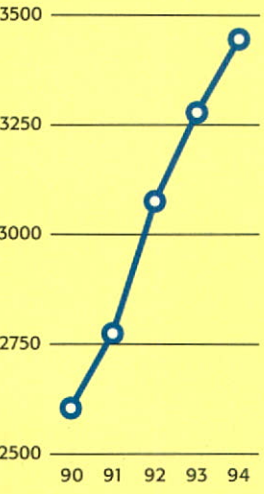
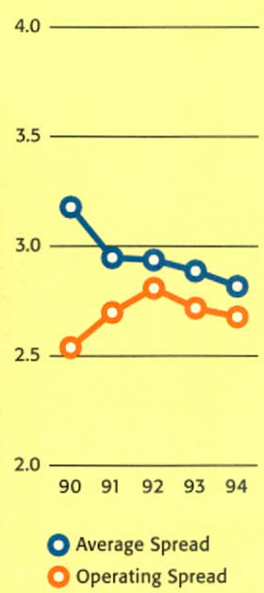


CHART 10
NET INTEREST SPREAD
For the year ended October 31 (%)



These benefits were offset by the effect of:

- rapid increases in interest rates during the second and third quarters of 1994, which resulted in a significant reduction in money market spreads in 1994 versus 1993. This was the primary contributor to declines in spread in 1994; and
- growth in loans and deposits, which contributed positively to net interest income; however, growth in mortgages and higher-cost longer-term deposits resulted in a downward pressure on average spreads as the net spread on these products is lower than the Bank's average operating spread.

Net interest spread in 1993 was 2.89% as compared to 2.94% in 1992, while operating spread was 2.72% as compared to 2.81%. The decline was due primarily to growth in lower spread products partially offset by increased interest on non-performing loans.

The Bank also analyzes spread by currency. Canadian dollar spreads increased 9 basis points to 3.59% in 1994 following a decline of 25 basis points to 3.50% in 1993. Canadian dollar spreads were primarily impacted by changes in average interest rates and by widening spreads between prime-based assets and prime-based liabilities. U.S. and other currency spreads declined 33 basis points in 1994 after an increase of 23 basis points in 1993. In 1994, U.S. dollar spreads fell primarily due to the reduction in average money market spreads, which had benefitted from a period of falling interest rates in 1993 and 1992.

INTEREST RATE RISK

Interest rate risk is the risk that the Bank's net interest income will decrease as a result of an adverse movement in interest rates. The measure of interest rate risk is the interest rate sensitivity position or "gap" of the Bank. Gap is the difference in the amount of assets and liabilities that reprice during any given time period.

If liabilities repricing in a given time period exceed assets that reprice, the gap is referred to as negative or liability sensitive. Conversely, if more assets than liabilities reprice in a given time period, then the Bank has a positive gap or is asset sensitive. If the Bank is liability sensitive, when interest rates fall, net interest income will increase; when interest rates increase, net interest income will decrease. The reverse is true if the Bank is asset sensitive.

Management of the Bank's interest rate risk is based on the risk management framework outlined in the Risk Management section on page 44. The Bank proactively manages its interest rate sensitivity position based on anticipated and actual interest rate movements.

The Bank's interest rate sensitivity gap as at October 31, 1994 with comparisons to 1993 and 1992 are provided in Table 9. The positions include the effect of off-balance sheet transactions, such as interest rate swaps, futures and forward rate agreements, undertaken as part of the Bank's management of interest rate risk. The Bank had a Canadian dollar liability sensitive gap within one year of $2.3 billion as compared to $1.7 billion in 1993. The U.S. dollar and other currency one-year gap was liability sensitive by $1.8 billion in 1994 as compared to a virtually fully matched position in 1993. Money market positions are included in the above, but are generally taken over short time periods, with relatively small mismatches being taken over one year.

Table 9

Interest Rate Sensitivity Position (Gap)

As at October 31 *(millions of dollars)*	0 to 3 months	3 to 6 months	6 to 12 months	Total within 1 year	1 to 5 years	Over 5 years	Non-interest sensitive	**Total**
Canadian Dollars								
Assets								
Cash resources	2,781	168	25	2,974	0	0	467	**3,441**
Securities	11,602	2,507	764	14,873	1,548	494	0	**16,915**
Loans	28,951	3,969	4,223	37,143	15,926	1,116	2,079	**56,264**
Other	1,215	(352)	(257)	606	189	150	4,824	**5,769**
Total Assets	44,549	6,292	4,755	55,596	17,663	1,760	7,370	**82,389**
Liabilities								
Deposits	32,962	3,436	6,932	43,330	7,515	138	5,019	**56,002**
Subordinated debt	0	0	0	0	210	790	0	**1,000**
Other liabilities	15,335	1	1	15,337	0	0	3,850	**19,187**
Shareholders' equity	0	0	0	0	72	250	5,878	**6,200**
Total Liabilities and Shareholders' Equity	48,297	3,437	6,933	58,667	7,797	1,178	14,747	**82,389**
On-balance sheet sensitivity position	(3,748)	2,855	(2,178)	(3,071)	9,866	582	(7,377)	**0**
Off-balance sheet sensitivity position	794	(130)	75	739	(1,064)	325	0	**0**
Total Gap 1994	(2,954)	2,725	(2,103)	(2,332)	8,802	907	(7,377)	**0**
Total Gap 1993	(5,586)	3,548	325	(1,713)	7,111	664	(6,062)	**0**
Total Gap 1992	(9,124)	2,047	2,588	(4,489)	9,591	520	(5,622)	**0**
U.S. Dollar and Other Currencies								
Assets								
Cash resources	7,100	3,088	895	11,083	1	0	134	**11,218**
Securities	4,601	869	585	6,055	3,190	356	19	**9,620**
Loans	26,648	1,665	707	29,020	1,891	884	575	**32,370**
Other	(2,115)	343	251	(1,521)	0	0	4,099	**2,578**
Total Assets	36,234	5,965	2,438	44,637	5,082	1,240	4,827	**55,786**
Liabilities								
Deposits	33,355	673	612	34,640	671	60	6,868	**42,239**
Subordinated debt	812	0	0	812	0	406	0	**1,218**
Other liabilities	11,230	72	0	11,302	0	135	554	**11,991**
Shareholders' equity	0	0	0	0	0	338	0	**338**
Total Liabilities and Shareholders' Equity	45,397	745	612	46,754	671	939	7,422	**55,786**
On-balance sheet sensitivity position	(9,163)	5,220	1,826	(2,117)	4,411	301	(2,595)	**0**
Off-balance sheet sensitivity position	8,811	(8,159)	(336)	316	(302)	(14)	0	**0**
Total Gap 1994	(352)	(2,939)	1,490	(1,801)	4,109	287	(2,595)	**0**
Total Gap 1993	(7,971)	3,272	4,838	139	2,313	25	(2,477)	**0**
Total Gap 1992	(8,861)	4,423	3,087	(1,351)	2,844	265	(1,758)	**0**

Canadian Dollar Balance Sheet Assumptions

Residential Mortgages: A constant annual prepayment rate is applied to the portfolio based on experience. The bulk of these prepayments are subject to penalties or compensation.

Consumer Loans: Constant annual prepayment rates are applied to these loans depending on their type.

Term Deposit Receipts: Term deposit receipts from individuals with original terms of greater than one year are assigned constant annual prepayment rates depending on their type. These redemptions are subject to penalties.

Short-Term Investment Certificates: This term deposit product is issued for terms of less than one year. Those issued under a Registered Savings Plan are redeemable without penalty. Annual redemption rates are varied depending on forecasted rate levels.

Investment Certificates: No exercise of early renewal options is assumed, that is investment certificates will be held to maturity.

Non-Maturity Accounts: Core saving and chequing account balances with zero or fixed interest rates are placed in the non-interest sensitive gap.

Credit Cards: Card balances are divided into interest rate sensitive and non-interest rate sensitive gaps. The current split is two-thirds interest rate sensitive 0 to 3 month gap, and one-third non-interest rate sensitive.

U.S. Dollar and Other Currencies Balance Sheet Assumptions

No significant prepayment or redemption privileges exist in the balance sheet.

Other Income – Higher Volumes Contributed to Sustained Growth

Other income consists of income from various fee-based services and foreign exchange income.

Growth in other income is becoming an increasingly important generator of total revenue growth. Bank of Montreal is increasing other income by expanding the range of services offered to customers and by building customer relationships. Other income increased as a percentage of total revenue for the fifth consecutive year as shown in Table 6 on page 33.

Other income was $1,749 million in 1994 and increased 10.6% over 1993 as shown in Table 10. Other income was $1,581 million in 1993, an increase of 15.8% over 1992.

Table 10
Other Income

For the year ended October 31
(millions of dollars except as noted)

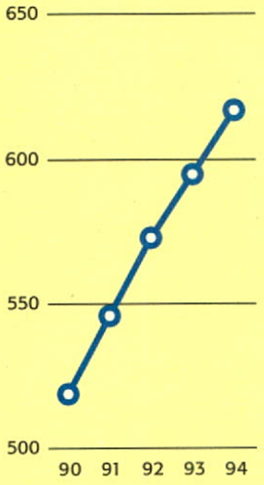
	1994	1993*	1992*	1991*	1990*	Five-year average
Operating services	**422**	415	390	357	334	
Lending fees	**178**	147	118	110	97	
Card services	**211**	208	193	190	174	
Investment and securities services	**424**	312	241	194	167	
Trust income	**197**	183	165	146	140	
Foreign exchange	**149**	170	161	136	139	
Other fees and commissions	**168**	146	97	116	107	
Foreign currency translation adjustment**	**0**	0	0	(30)	(111)	
Total Other Income	**1,749**	1,581	1,365	1,219	1,047	
Year-over-Year Growth (%)	**10.6**	15.8	12.0	16.4	6.2	12.2
Total Other Income	**1,749**	1,581	1,365	1,219	1,047	
Less: Foreign currency translation adjustment**	**0**	0	0	(30)	(111)	
Banco de Montreal S.A. fee income**	**0**	0	0	8	17	
Operating Other Income	**1,749**	1,581	1,365	1,241	1,141	
Year-over-Year Growth (%)	**10.6**	15.8	10.0	8.7	7.1	10.4

*Reclassified to conform with 1994 presentation

**Change in accounting policy from consolidation to equity for Banco de Montreal S.A.

Chart 11
Number of FirstBank Plans

As at October 31
(thousands)



Operating services income increased 1.7% in 1994 and 6.7% in 1993 as a result of increased business volumes. Fee income from the Bank's FirstBank Plan® fees, for both individual and business accounts, increased as volumes grew as shown in Chart 11. The Bank maintained its commitment to providing low-cost banking services by offering several competitive package options to customers. In 1994, the Bank announced its intention to extend its four-year-old freeze on FirstBank Plan fees for one more year. The Bank also announced its restructuring of per-item service charges effective January 1, 1995 whereby customers will be encouraged, through innovative pricing, to utilize more cost-effective electronic banking services. Electronic banking fees also contributed to the increase in operating services income.

Lending fees increased 21.3% in 1994 following a 23.3% increase in 1993. Loan growth, loan renewals and syndication fees from large corporate credit transactions were the primary sources.

Card services income grew by 1.4% in 1994 after an 8.1% increase in 1993 as a result of increased volumes generated by new programs offered in 1993, including a joint AIR MILES™* program between Bank of Montreal and various partners.

Income from investment and securities services includes brokerage commission income, underwriting fees, mutual fund fees and revenue from off-balance sheet interest rate swaps and options. A full discussion on derivatives is presented on page 40. Income from investment and securities services increased 35.7% in 1994 following a 29.7% increase in 1993. Growth was experienced in all areas with the majority of the increase in investment banking activities. Active equity markets in the first two quarters of the year resulted in significant growth in retail and institutional equity commissions. In the 12 months to September 30, 1994, Nesbitt Burns participated in transactions totalling 61% of the capital raised by corporate issuers in Canada. In response to customers' preferences for international investment options, the Bank introduced six new mutual funds in 1994, including five new international funds, bringing the total number of fund options to 18.

RECORD YEAR FOR NESBITT BURNS

Trust income includes revenue from The Trust Company of Bank of Montreal in Canada, and Harris' trust operations in the United States. Trust income increased 7.5% in 1994 and 10.8% in 1993 primarily as a result of increased trust services income at Harris. Assets under administration at Harris decreased 0.4% to $216.5 billion in 1994. Excluding Harris, assets under administration increased 28.7% to $151.7 billion in 1994.

Foreign exchange income includes revenue from foreign exchange transactions and forward contracts including swaps and options. Foreign exchange income declined 12.4% in 1994. Volumes remained relatively unchanged while revenues declined as a result of unfavourable market conditions. In contrast, stable market conditions and high volumes resulted in increased foreign exchange income of 5.4% in 1993.

Foreign Currency Risk

Bank of Montreal manages foreign currency exposure in accordance with the risk management framework outlined in the Risk Management section on page 44.

Foreign currency positions generated as a result of both customer transactions and trading activities are managed on a consolidated basis. Foreign currency assets, including investments in foreign operations, are generally match funded in source currency. Foreign currency forward contracts are used to match open positions. Foreign currency which is derived from the net of revenues and expenses is sold or purchased, as required, for Canadian dollars monthly on the spot market. The Bank does not hedge foreign currency risk associated with future revenues or expenses.

Other fees and commissions increased 15.5% in 1994 due to increased insurance related revenues and increased corporate finance activities by Nesbitt Burns. Other fees and commissions increased 50.3% in 1993 due to higher business volumes and growth in corporate finance fees.

Derivative Risk

Derivative products include such traditional off-balance sheet products as forward and futures contracts, in addition to more sophisticated products such as interest rate and cross currency swaps and options. Revenue from trading, interest rate and cross currency swaps and options, including the effects of financial instruments used to manage derivative trading exposures, was $52 million in 1994 and $29 million in 1993. The remainder of this section focuses on the activities and risk management procedures associated with the more sophisticated products.

The notional amount outstanding for interest rate and cross currency swaps and options was $209 billion as at October 31, 1994 as compared to $144 billion in 1993. Financial and risk management disclosure with respect to derivatives is found in Note 16 to the Consolidated Financial Statements.

The Bank manages derivative risks as part of its overall risk management framework outlined in the Risk Management section on page 44. Additional risk management policies and procedures related to controlling derivative risk includes notifying senior management and executives in Treasury throughout the day about all global risk positions and actual profit and loss, on a mark-to-market basis, by both product and trading office.

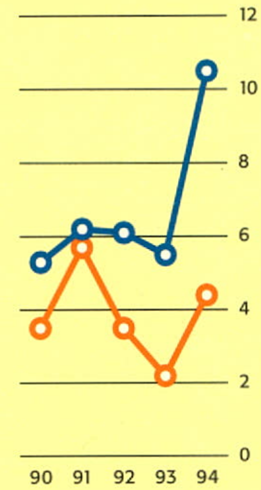
Bank of Montreal measures expense growth as the percentage change in non-interest expenses year-over-year. The Bank also measures expense growth excluding goodwill, brokerage commissions (which are based on brokerage commission revenue), government levies, the effect of a changing Canadian dollar relative to other currencies and non-recurring items.

Total expenses in 1994 were $3,223 million, up 10.5% as shown in Table 11. Excluding the Harris special charge and goodwill, operating expenses increased 8.1% in 1994 reflecting business volume growth offset by productivity improvements. Higher brokerage commissions, a weaker Canadian dollar and government levies contributed significantly to the increase. Operating expenses excluding these special factors increased 4.4%.

Total expenses in 1993 were $2,916 million, an increase of 5.5%. In 1993, operating expenses excluding special factors increased 2.2%.

The Bank has shown a proven capability over the past five years to manage its expenses as shown in Chart 12. Since the initiation of its productivity improvement program in 1991, the average annual operating expense growth excluding the effect of brokerage commissions, government levies and foreign currency, was 3.8%.

CHART 12
EXPENSE GROWTH
For the year ended October 31
(%)



Expense Growth
Operating Expense Growth Excluding Special Factors

Special factors consist of brokerage commissions, government levies and foreign currency effect.

TABLE 11
NON-INTEREST EXPENSE GROWTH

For the year ended October 31 *(millions of dollars except as noted)*	**1994**	1993*	1992*	1991*	1990*	Five-year average
TOTAL NON-INTEREST EXPENSE	**3,223**	2,916	2,765	2,605	2,453	
YEAR-OVER-YEAR GROWTH *(%)*	**10.5**	5.5	6.1	6.2	5.3	6.7
TOTAL NON-INTEREST EXPENSE	**3,223**	2,916	2,765	2,605	2,453	
Less: Goodwill and other valuation intangibles	**31**	30	36	36	26	
Non-recurring items**	**71**	0	18	24	63	
OPERATING NON-INTEREST EXPENSE	**3,121**	2,886	2,711	2,545	2,364	
YEAR-OVER-YEAR GROWTH *(%)*	**8.1**	6.5	6.5	7.7	4.7	6.7
OPERATING NON-INTEREST EXPENSE	**3,121**	2,886	2,711	2,545	2,364	
Less: Brokerage commissions	**177**	123	78	62	46	
Government levies****	**311**	288	268	229	190	
Foreign currency effect****	**50**	57	34	5	5	
OPERATING EXCLUDING SPECIAL FACTORS	**2,583**	2,418	2,331	2,249	2,123	
YEAR-OVER-YEAR GROWTH *(%)*	**4.4**	2.2	3.5	5.7	3.5	3.8

*Reclassified to conform with 1994 presentation.
**The non-recurring item in 1994 is the Harris special charge.
***Consists of payroll levies, property taxes, business and capital taxes, goods and services tax and deposit insurance premiums.
****Versus prior year. Added to base year to calculate growth in operating expenses excluding special factors.

An analysis of non-interest expense by component — salaries and employee benefits, premises and equipment, communication and other expenses — is provided in Table 12.

Salaries and employee benefits grew by 7.9% in 1994 and 7.5% in 1993 primarily due to higher brokerage commissions, which vary directly with brokerage revenues. Excluding brokerage commissions, salaries and employee benefits increased 5.0% in 1994 and 4.8% in 1993.

Premises and equipment costs increased 3.4% in 1994 as compared to 4.4% in 1993. The Bank continued its investment in out-of-branch facilities such as automated banking machines, point-of-sale terminals and tele-banking to handle routine transactions in a cost effective manner. Increased use of these facilities improves customer service by providing more time for staff in branches to respond to more complex transactions. The Bank increased its automated banking machine network by 170 in 1994 to 1,708.

Communication expenses increased 9.1% in 1994 as compared to a decline of 1.1% in 1993. Increased point-of-sale volumes have resulted in increases in long-distance charges which are recovered through transaction fees included in other income.

Other expenses increased 14.4% in 1994 as compared to 4.1% in 1993. Other expenses include incremental expenditures related to the Bank's investment in its Institute for Learning, opened in 1994.

The special charge in 1994 related to losses incurred by the Securities Lending Unit of Harris as a result of its decision to absorb the impact of higher interest rates on mortgage-backed securities held in certain customer accounts.

TABLE 12

NON-INTEREST EXPENSE

For the year ended October 31
(millions of dollars except as noted)

	1994	1993*	1992*	1991*	1990*
SALARIES AND EMPLOYEE BENEFITS	**1,795**	1,664	1,549	1,444	1,393
PREMISES AND EQUIPMENT					
Rental of real estate	**125**	123	114	101	91
Premises, furniture and fixtures	**188**	177	170	179	166
Property taxes	**39**	40	37	40	35
Computers and equipment	**248**	240	234	215	196
TOTAL PREMISES AND EQUIPMENT	**600**	580	555	535	488
COMMUNICATIONS	**180**	165	167	174	170
OTHER EXPENSES					
Business and capital taxes	**95**	92	82	64	68
Professional fees	**112**	64	63	55	52
Travel and business development	**144**	122	112	156	147
Deposit insurance premiums	**76**	62	55	48	39
Other	**119**	137	146	93	70
TOTAL OTHER EXPENSES	**546**	477	458	416	376
	3,121	2,886	2,729	2,569	2,427
Goodwill and other valuation intangibles	**31**	30	36	36	26
Special charge	**71**	0	0	0	0
TOTAL NON-INTEREST EXPENSE	**3,223**	2,916	2,765	2,605	2,453
EXPENSE-TO-REVENUE RATIO *(%)*	**62.0**	60.0	62.2	65.2	67.2

*Reclassified to conform with 1994 presentation.

Bank of Montreal's primary measure of asset quality focuses on the impact of the Bank's loans and acceptances portfolio on earnings, that is the financial performance, of the Bank. This measure, referred to as the provisioning ratio, is calculated as the annual provision for credit losses (PCL) as a percentage of average loans and acceptances. Lower ratios indicate better asset quality. Over the long term, the provisioning ratio is the most accurate indicator of underlying asset quality.

The Bank also monitors the financial condition of its portfolio by measuring two ratios which indicate the impact of the level of non-performing loans and acceptances on the financial condition of the Bank. The first ratio is gross non-performing loans and acceptances (GNPL) as a percentage of equity and allowance for credit losses (ACL). The second condition ratio is net non-performing loans and acceptances (NNPL) as a percentage of loans and acceptances (which are net of the allowance for credit losses).

The Bank also measures the adequacy of its allowance for credit losses, known as the coverage ratio, by measuring the allowance as a percentage of gross non-performing loans and acceptances.

ASSET QUALITY SIGNIFICANTLY IMPROVED

Improving economic conditions combined with the Bank's prudent asset management policies resulted in significant improvement in asset quality in 1994. The improvement in asset quality resulted in a reduction in the provision for credit losses across the Bank's entire portfolio of corporate, personal and commercial loans. Indicators of the improvement in asset quality include these statistics:

- gross and net non-performing loans and acceptances declined substantially from 1993;
- gross non-performing loans and acceptances as a percentage of equity and allowance for credit losses continued to improve;
- the Bank's coverage ratio improved to 61.1%;
- exposure to commercial real estate declined significantly; and
- the excess of market value over book value of securities and LDC loans remained high.

ALL ASSET QUALITY MEASURES IMPROVE

The Bank's measures of asset quality, which reflect these improvements, are shown in Table 13.

TABLE 13

ASSET QUALITY

(millions of dollars except as noted)	**1994**	1993	1992	1991	1990
For the year ended October 31					
ASSET QUALITY PERFORMANCE					
Provision for Credit Losses (PCL)	**510**	675	550	337	169
PCL as a % of Average Loans and Acceptances*	**0.63**	0.87	0.78	0.53	0.29
As at October 31					
ASSET QUALITY CONDITION					
Gross Non-Peforming Loans and Acceptances	**2,447**	4,249	4,232	3,302	3,262
Net Non-Performing Loans and Acceptances	**1,376**	2,263	2,173	1,264	923
Gross Non-Performing Loans as a % of Equity and Allowance for Credit Losses	**29.86**	54.84	58.01	49.05	51.73
Net Non-Performing Loans as a % of Loans and Acceptances*	**1.49**	2.91	3.04	1.94	1.53
ASSET QUALITY COVERAGE					
Allowance for Credit Losses (ACL)	**1,496**	1,999	2,070	2,149	2,339
ACL as a % of Gross Non-Performing Loans and Acceptances	**61.1**	46.7	48.7	64.8	71.7

*Reclassified to conform with 1994 presentation.

Risk Management

Bank of Montreal has a prudent and professional approach to risk-taking. The principles and activities that support its risk management framework are detailed below:

Credit Risk

- clear communication of credit standards through policies, procedures and training;
  - rigorous standards and process of accreditation for all lending and credit officers with discretionary lending authority commensurate with competencies and experience;
  - clear definition of authorities and accountability at every stage of the lending process;
- disciplined decision-making, consisting of a dual track approach to risk assessment whereby most business loans are reviewed by account managers and, separately, by independent credit officers;
- regular review by a committee of senior executive officers of all large credits recommended by line groups and a formal quarterly review of all problem accounts;
- effective management of the Bank's overall loan portfolio to ensure broad diversification of credit risk and to limit concentration in single sectors or accounts;
- continuous review of credit and credit management processes by an independent audit group; and
- application of analytical tools and systems to capture risk, monitor positions, and price commensurate with risk, including the Bank's RAROC methodology.

Position Risk

- centralized management of the Bank's position risks within Treasury. Authorities and accountabilities for managing and monitoring this risk are clearly defined within Treasury;
- established prudent position risk policies which constitute the framework for managing the level of interest rate and foreign exchange risk within control limits;
- both positions and control limits are monitored regularly by a committee of senior executive officers; and
- application of analytical tools such as gap analysis, income and market value sensitivity and simulation analysis.

These principles are applied on a consistent basis across all risks whatever their underlying designation. Such designations include assets and loans, together with on- and off-balance sheet exposures including foreign currency and interest rate risks.

All of these principles are further reinforced by a strong and effective internal audit function. Corporate oversight of risk management is the responsibility of the Risk Review Committee of the Board of Directors.

Management of asset quality within the Bank is based on this overall risk management framework. The Bank is conservative in its lending policies which require prompt recognition of problem accounts and their transfer to a group of specialists skilled in managing such accounts.

A management information system which provides timely and accurate information on both credit and position risk is an essential component of the Bank's risk management process. The Bank is fully committed to continual upgrading of these systems.

Collateral is also required on certain loan transactions. Collateral type and amount varies by type of loan and may include cash, securities, real property, accounts receivable, guarantees, inventory or other capital assets.

The Bank has conservative accounting policies in classifying loans and acceptances as non-performing and establishing provisions against them. The Bank has a rigorous credit process which resulted in the classification of a number of loans and acceptances as non-performing for prudential reasons due to doubt regarding collectibility of interest or principal notwithstanding that interest was being paid on a current basis.

Performance: Improvement Reflected in Lower Provision for Loan Losses

As a result of the significant improvement in asset quality, the provision for credit losses was reduced to $510 million from $675 million in 1993 with improvements experienced across all areas of the Bank's loan portfolio as shown in Table 14. Specific provisions were reduced significantly from their peak in 1992. The Bank's primary measure of asset quality, provision for credit losses as a percentage of average loans and acceptances, fell to 0.63% from 0.87% in 1993 as shown on Chart 13.

The provisioning ratio for individual loans steadily improved reflecting a reduction in specific provisions particularly for credit card and personal loans. Growth in lower-risk residential mortgages also contributed to the reduction in the ratio. The provisioning ratio for diversified commercial and commercial real estate improved significantly to 0.83% in 1994 from 1.28% in 1993 and 1.49% in 1992.

Chart 13
Provision for Credit Losses as a % of Average Loans & Acceptances
For the year ended October 31
(%)

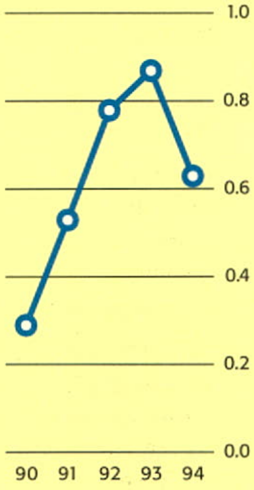


Table 14
Provision for Credit Losses

For the year ended October 31 *(millions of dollars except as noted)*	1994	1993	1992	1991	1990	Five-year average
Specific Provisions by Market						
Individuals	**89**	113	152	142	71	
Commercial, Corporate and Institutional						
Diversified Commercial	**61**	186	331	155	78	
Commercial Real Estate	**311**	377	261	104	18	
Designated Lesser Developed Countries	**(1)**	(1)	0	6	3	
Total Specific Provisions	**460**	675	744	407	170	
Application of prior-year general provision	**(100)**	(100)	(50)	(60)	0	
Application of excess country risk provision	**0**	0	(244)	(60)	(21)	
Net charge to earnings for specific provision	**360**	575	450	287	149	
Charge to earnings for establishment of general provision	**150**	100	100	50	20	
Total Provision for Credit Losses	**510**	675	550	337	169	
Location*						
Canada	**276**	417	500	318	259	
United States	**238**	259	294	79	(69)	
Other Countries						
Designated Lesser Developed Countries	**(1)**	(1)	(244)	(60)	(21)	
Other	**(3)**	0	0	0	0	
Total Provision for Credit Losses	**510**	675	550	337	169	
Performance Ratios *(%)*						
PCL as a % of average loans and acceptances**	**0.63**	0.87	0.78	0.53	0.29	0.62
PCL as a % of average loans and acceptances***						
Individuals	**0.25**	0.35	0.52	0.54	0.30	0.39
Diversified Commercial and Commercial Real Estate	**0.83**	1.28	1.49	0.74	0.30	0.93

*Geographic location is based on the ultimate risk of the underlying asset.
**Reclassified to conform with 1994 presentation.
***Segment PCL as a percentage of segment average loans and acceptances.

PROVISIONING RATIO SIGNIFICANTLY IMPROVED

While specific provisions continue to be concentrated in commercial real estate, declines were experienced in 1994, reflecting stabilization of property values. Improvements also occurred in most other industry sectors, as indicated in Table 15.

With respect to 1993, the Bank's provision for credit losses was $675 million, an increase of $125 million over 1992. Specific provisions declined $69 million due to improvements in diversified commercial partially offset by continued weakness in commercial real estate realization values.

TABLE 15

PROVISIONS BY PRODUCT, INDUSTRY AND PROPERTY TYPE

For the year ended October 31

(millions of dollars)	**1994**	1993	1992
SPECIFIC PROVISIONS			
Individuals by Product			
Residential mortgages	**5**	5	2
Cards	**61**	73	90
Personal loans	**23**	35	60
Total Individuals	**89**	113	152
Commercial, Corporate and Institutional by Industry			
Financial institutions			
Securities purchased under resale agreements	**0**	0	0
Other	**7**	7	3
Commercial mortgages	**12**	4	4
Construction (non-real estate)	**16**	8	55
Manufacturing	**(22)**	106	2
Mining/Energy	**(10)**	(11)	178
Service industries	**15**	7	14
Retail trade	**(3)**	41	45
Wholesale trade	**30**	6	10
Agriculture	**(3)**	6	0
Transportation/Communications/Utilities	**(1)**	(4)	6
Other	**20**	16	14
Total Diversified Commercial	**61**	186	331
Commercial Real Estate	**311**	377	261
Total Commercial, Corporate and Institutional	**372**	563	592
Designated Lesser Developed Countries	**(1)**	(1)	0
TOTAL SPECIFIC PROVISIONS	**460**	675	744
Net Charge to Earnings for General Provision	**50**	0	50
Country Risk Provision			
Designated Lesser Developed Countries	**0**	0	(244)
TOTAL PROVISION FOR CREDIT LOSSES	**510**	675	550
SPECIFIC PROVISIONS BY PROPERTY TYPE			
Office	**166**	290	133
Residential	**5**	30	35
Shopping centres	**72**	4	40
Land banking/development	**50**	26	33
Industrial buildings	**15**	6	7
Hotel/Motel	**(3)**	5	4
Other	**6**	16	9
TOTAL REAL ESTATE FINANCING	**311**	377	261

SPECIFIC PROVISIONS DECLINE FROM PEAK IN 1992

Condition: Gross and Net Non-Performing Loans and Acceptances Declined

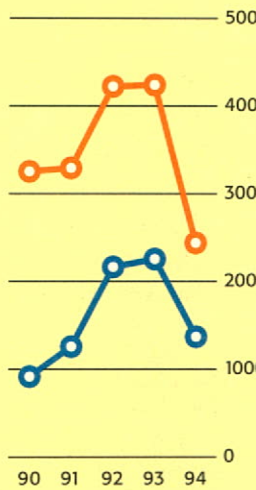
Gross non-performing loans and acceptances as at October 31, 1994 declined 42.4% to $2,447 million while net non-performing loans and acceptances declined 39.2% to $1,376 million as shown in Table 16. The migration analysis in Tables 16 and 17 underline the decline in both gross and net additions to gross non-performing loans and acceptances over the last two years which reflect the significant improvement in the quality of the portfolio since 1992. In 1994, the Bank reclassified $641 million in gross LDC loans as performing, contributing significantly to the net reduction in gross non-performing loans and acceptances.

Write-offs increased to $1,147 million in 1994 from $823 million in 1993 and $548 million in 1992 due primarily to the write-off of a number of real estate accounts which were recognized as impaired.

In 1993, gross non-performing loans and acceptances increased less than 1% to $4,249 million while net non-performing loans and acceptances increased 4.1% to $2,263 million. The increase was down significantly from 1992 levels due primarily to a sharp reduction in net additions to non-performing real estate loans.

Net non-performing real estate loans and acceptances declined 33.7% to $898 million in 1994 and represented 20.9% of the real estate portfolio as compared to 23.4% in 1993. This improvement reflected a stabilization in commercial real estate values which provided the framework to make significant progress in working out a number of commercial real estate exposures through a combination of restructurings and sales.

Chart 14
Non-Performing Loans and Acceptances
As at October 31
(millions of dollars)



Gross Non-Performing Loans and Acceptances
Net Non-Performing Loans and Acceptances

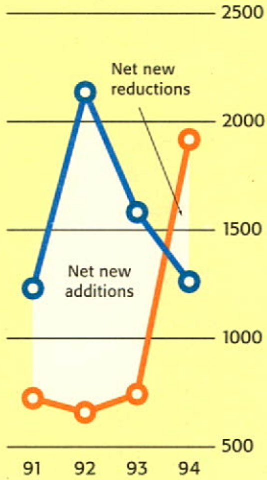
Table 16
Changes in Non-Performing Loans and Acceptances
For the year ended October 31
(millions of dollars)

	1994	1993	1992	1991	1990
GNPL, Beginning of Year	**4,249**	4,232	3,302	3,262	3,267
Additions to non-performing loans and acceptances	**1,267**	1,587	2,141	1,236	NA
Reductions in non-performing loans and acceptances*	**(1,922)**	(747)	(663)	(728)	NA
Net new additions (reductions)	**(655)**	840	1,478	508	1,101
Write-offs	**(1,147)**	(823)	(548)	(468)	(1,106)
Total increase (decrease)	**(1,802)**	17	930	40	(5)
GNPL, End of Year	**2,447**	4,249	4,232	3,302	3,262
ACL**, Beginning of Year *(Table 22)*	**1,986**	2,059	2,038	2,339	2,482
Total increase (decrease)	**(915)**	(73)	21	(301)	(143)
ACL**, End of Year *(Table 22)*	**1,071**	1,986	2,059	2,038	2,339
NNPL, Beginning of Year	**2,263**	2,173	1,264	923	785
Change in gross non-performing loans	**(1,802)**	17	930	40	(5)
Change in allowance for credit losses	**915**	73	(21)	301	143
NNPL, End of Year	**1,376**	2,263	2,173	1,264	923
Interest income on non-performing loans (excluding LDC)	**35**	40	3	30	40

*Loans and acceptances returning to performing status, sales and repayments.
**Excludes ACL for off-balance sheet exposure, and LDC reservations in excess of non-performing loans (1994 – $425 million, 1991 – $101 million).
NA – not available.

NET NEW REDUCTIONS TO GNPL

Chart 15
Changes to Non-Performing Loans and Acceptances
For the year ended October 31
(millions of dollars)



Additions
Reductions

Table 17

Changes in Real Estate Non-Performing Loans and Acceptances

For the year ended October 31
(millions of dollars)

	1994	1993	1992	1991
Gross Non-Performing Loans and Acceptances, Beginning of Year	**1,952**	1,707	751	509
Additions to non-performing loans and acceptances	**584**	816	1,200	437
Reductions in non-performing loans and acceptances*	**(700)**	(382)	(167)	(160)
Net new additions (reductions)	**(116)**	434	1,033	277
Write-offs	**(548)**	(189)	(77)	(35)
Gross Non-Performing Loans and Acceptances, End of Year	**1,288**	1,952	1,707	751
Allowance for Credit Losses, Beginning of Year *(Table 22)*	**598**	370	118	49
Increases – specific provision	**340**	417	329	104
Write-offs	**(548)**	(189)	(77)	(35)
Allowance for Credit Losses, End of Year *(Table 22)*	**390**	598	370	118
Net Non-Performing Loans and Acceptances, Beginning of Year	**1,354**	1,337	633	460
Total net increase (decrease)	**(456)**	17	704	173
Net Non-Performing Loans and Acceptances, End of Year	**898**	1,354	1,337	633

*Loans and acceptances returning to performing status, sales and repayments.

Table 18

Net Non-Performing Loans and Acceptances by Market and Location*

As at October 31
(millions of dollars except as noted)

	1994	Mix (%)	1993	1992	1991	1990
Market						
Individuals	**84**	**6.1**	91	107	111	81
Commercial, Corporate and Institutional						
Diversified Commercial	**594**	**43.1**	694	649	570	407
Commercial Real Estate	**898**	**65.3**	1,354	1,337	633	460
Designated Lesser Developed Countries	**0**	**0.0**	224	180	0	35
General Non Country	**(200)**	**(14.5)**	(100)	(100)	(50)	(60)
Net Non-Performing Loans and Acceptances	**1,376**	**100.0**	2,263	2,173	1,264	923
Location						
Canada	**487**	**35.4**	899	911	1,145	716
United States	**889**	**64.6**	1,132	1,080	116	164
Other Countries						
Designated Lesser Developed Countries	**0**	**0.0**	224	180	0	35
Other	**0**	**0.0**	8	2	3	8
Net Non-Performing Loans and Acceptances	**1,376**	**100.0**	2,263	2,173	1,264	923
Condition Ratios *(%)*						
GNPL as a % of Equity and Allowance for Credit Losses	**29.86**		54.84	58.01	49.05	51.73
NNPL as a % of Loans and Acceptances**	**1.49**		2.91	3.04	1.94	1.53
NNPL as a % of Net Loans and Acceptances***						
Individuals	**0.23**		0.28	0.35	0.41	0.34
Diversified Commercial	**1.16**		1.76	1.88	1.79	1.37
Commercial Real Estate	**20.87**		23.43	21.48	11.21	9.06
Designated Lesser Developed Countries	**0.00**		71.34	33.46	0.00	1.81

*Geographic location is based on the ultimate risk of the underlying asset.
**Reclassified to conform with 1994 presentation.
***Segment NNPL as a percentage of segment net loans and acceptances.

CONDITION RATIOS IMPROVE FROM PEAK IN 1992

Improvements in economic activity across most market and geographic segments were reflected in a significant reduction in non-performing loans and acceptances as shown in Table 18. Non-performing loans and acceptances to individuals declined 7.7% while diversified commercial declined 14.4%. Diversified commercial net non-performing loans and acceptances are concentrated in a few industry sectors specifically in mining and energy, manufacturing and retail as shown in Table 19.

The reduction in non-performing loans and acceptances is reflected in the significant improvement in the Bank's asset quality measures for financial condition.

TABLE 19

NET NON-PERFORMING LOANS AND ACCEPTANCES BY PRODUCT AND INDUSTRY

As at October 31 *(millions of dollars)*	1994	As a % of loans*	1993	1992
INDIVIDUALS BY PRODUCT				
Residential mortgages	45	0.2	49	58
Cards	11	0.3	3	4
Personal loans	28	0.3	39	45
TOTAL INDIVIDUALS	84	0.2	91	107
COMMERCIAL, CORPORATE AND INSTITUTIONAL BY INDUSTRY				
Financial institutions				
Securities purchased under resale agreements	0	0.0	0	0
Other	5	0.1	31	10
Commercial mortgages	51	1.4	37	55
Construction (non-real estate)	76	9.2	75	56
Manufacturing	104	1.8	56	32
Mining/Energy	143	6.9	145	159
Service industries	52	1.1	54	73
Retail trade	100	3.8	134	148
Wholesale trade	8	0.4	73	3
Agriculture	28	1.6	36	38
Transportation/Communications/Utilities	25	0.6	51	74
Other	2	0.1	2	1
Total Diversified Commercial	594	1.2	694	649
Commercial Real Estate	898	20.9	1,354	1,337
TOTAL COMMERCIAL, CORPORATE AND INSTITUTIONAL	1,492	2.7	2,048	1,986
Designated Lesser Developed Countries	0	0.0	224	180
General Non Country	(200)		(100)	(100)
NET NON-PERFORMING LOANS AND ACCEPTANCES	1,376	1.5	2,263	2,173

*Ratio is segment NNPL as a percentage of segment loans and acceptances.

Over the last three years, the Bank's financial condition ratios were significantly affected by the commercial real estate portfolio, particularly in the United States, as presented in Table 20. Non-performing real estate loans and acceptances include the prudential classification as non-performing of a number of real estate loans which were paying interest on a current basis in 1994. A number of the income property loans are covering interest from operating cash flow but have been classified as non-performing and in certain instances have been charged with a specific provision due to concerns about the renewal of existing lease contracts. These classifications contributed to the relatively high level of commercial real estate non-performing loans.

Table 20

Commercial Real Estate Net Non-Performing Loans by Property Type and Location

(Excludes Off-Balance Sheet Financing)

As at October 31 *(millions of dollars)*	**1994**	**As a % of loans***	1993	1992
Property Type				
Office	**456**	**38.1**	831	655
Residential	**84**	**7.9**	65	102
Shopping centres	**135**	**14.2**	255	398
Land banking/development	**123**	**42.7**	130	111
Industrial buildings	**31**	**6.7**	32	5
Hotel/Motel	**55**	**74.3**	29	42
Other	**14**	**5.4**	12	24
Commercial Real Estate	**898**	**20.9**	1,354	1,337
Location**				
Canada				
Atlantic Provinces	**5**	**8.2**	1	0
Quebec	**70**	**25.7**	41	58
Ontario	**125**	**11.8**	352	353
Prairies	**42**	**18.3**	168	182
British Columbia and Territories	**21**	**3.2**	0	5
Total Canada	**263**	**11.6**	562	598
United States				
Illinois	**76**	**11.3**	117	27
New York	**139**	**71.3**	196	322
California	**108**	**45.2**	145	118
Texas	**53**	**89.8**	77	2
New Jersey	**54**	**100.0**	73	8
Other***	**205**	**27.5**	184	262
Total United States	**635**	**32.4**	792	739
United Kingdom	**0**		0	0
Commercial Real Estate	**898**	**20.9**	1,354	1,337

*Ratio is segment NNPL as a percentage of segment loans and acceptances.

**Geographic location is based on the location of the property.

***Includes 13 states with net non-performing loan balances not exceeding $50 million per state.

Coverage: Ratios Improve

The allowance for credit losses declined $503 million to $1,496 million in 1994 as shown in Tables 21 and 22. In 1993, the allowance for credit losses decreased $71 million to $1,999 million. The decreases related primarily to write-offs exceeding provisions — by $637 million in 1994 as compared to $213 million in 1993. The increase in write-offs in 1994 related primarily to a number of non-performing real estate loans and acceptances which were provided for in earlier years. Write-offs in previous years were more heavily concentrated in LDC.

Table 21

Changes in Allowance for Credit Losses

For the year ended October 31 (millions of dollars)	**1994**	1993	1992	1991	1990
Allowance for Credit Losses, Beginning of Year	**1,999**	2,070	2,149	2,339	3,249
Provision for credit losses	**510**	675	550	337	169
Write-offs*	**(1,147)**	(888)	(862)	(468)	(1,106)
Recoveries	**75**	59	79	28	31
Other, including foreign exchange rates	**59**	83	154	(87)	(4)
Total increase (decrease)	**(503)**	(71)	(79)	(190)	(910)
Allowance for Credit Losses, End of Year	**1,496**	1,999	2,070	2,149	2,339
Allocation of Write-offs by Market					
Individuals	**(119)**	(149)	(174)	(162)	(86)
Commercial, Corporate and Institutional					
Diversified Commercial	**(277)**	(235)	(159)	(118)	(114)
Commercial Real Estate	**(548)**	(189)	(77)	(35)	(13)
Designated Lesser Developed Countries	**(203)**	(315)	(452)	(153)	(893)
Total	**(1,147)**	(888)	(862)	(468)	(1,106)
Allocation of Write-offs by Location**					
Canada	**(488)**	(260)	(203)	(179)	(101)
United States	**(456)**	(313)	(207)	(136)	(112)
Other Countries					
Designated Lesser Developed Countries	**(203)**	(315)	(452)	(153)	(893)
Total	**(1,147)**	(888)	(862)	(468)	(1,106)
Allocation of Recoveries by Market					
Individuals	**36**	36	30	22	15
Commercial, Corporate and Institutional					
Diversified Commercial	**4**	6	28	6	16
Commercial Real Estate	**34**	16	2	0	0
Designated Lesser Developed Countries	**1**	1	19	0	0
Total	**75**	59	79	28	31
Allocation of Recoveries by Location**					
Canada	**18**	27	22	16	12
United States	**56**	31	38	12	19
Other Countries					
Designated Lesser Developed Countries	**1**	1	19	0	0
Total	**75**	59	79	28	31

*Write-offs on designated lesser developed countries include losses on sales of performing assets that were charged directly against the allowance (1993 – $65 million, 1992 – $314 million).

**Geographic location is based on the ultimate risk of the underlying asset.

Table 22

Allocation of Allowance for Credit Losses

As at October 31

(millions of dollars except as noted)	**1994**	1993	1992	1991	1990
Specific Allowance					
Individuals by Product					
Residential mortgages	**6**	5	2	0	0
Cards	**0**	0	0	0	0
Personal loans	**18**	25	37	49	48
Total Individuals	**24**	30	39	49	48
Commercial, Corporate and Institutional by Industry					
Financial institutions					
Securities purchased under resale agreements	**0**	0	0	0	0
Other	**29**	32	24	57	56
Commercial mortgages	**20**	14	9	15	14
Construction (non-real estate)	**27**	21	30	19	5
Manufacturing	**75**	162	67	68	71
Mining/Energy	**84**	156	247	70	73
Service industries	**34**	22	37	25	33
Retail trade	**69**	120	115	66	44
Wholesale trade	**24**	17	21	18	19
Agriculture	**13**	18	7	12	17
Transportation/Communications/Utilities	**19**	24	48	35	30
Other	**4**	8	11	36	38
Total Diversified Commercial	**398**	594	616	421	400
Commercial Real Estate	**390**	598	370	118	49
Off-Balance Sheet	**0**	13	11	10	0
Designated Lesser Developed Countries	**0**	0	2	2	6
Total Specific Allowance	**812**	1,235	1,038	600	503
General Provisions	**200**	100	100	50	60
Country Risk Provision					
Designated Lesser Developed Countries	**484**	664	932	1,499	1,776
Allowance for Credit Losses (ACL)	**1,496**	1,999	2,070	2,149	2,339
Location*					
Canada	**653**	843	651	327	321
United States	**359**	483	476	313	228
Other Countries					
Designated Lesser Developed Countries	**484**	664	934	1,501	1,782
Other	**0**	9	9	8	8
Allowance for Credit Losses	**1,496**	1,999	2,070	2,149	2,339
Coverage Ratios *(%)*					
ACL as a % of Gross Non-Performing Loans and Acceptances	**61.1**	46.7	48.7	64.8	71.7
ACL as a % of Gross Non-Performing Loans and Acceptances**					
Individual	**22.0**	24.8	26.7	31.1	37.2
Diversified Commercial	**40.2**	46.1	48.7	42.4	49.6
Commercial Real Estate	**30.3**	30.6	21.7	15.7	9.6
Designated Lesser Developed Countries***	**100.0**	74.8	83.8	100.0	98.1

*Geographic location is based on the ultimate risk of the underlying asset.

**Segment ACL as a percentage of segment GNPL.

***Excludes LDC reservations in excess of non-performing loans (1994 – $425 million, 1991 – $101 million).

Coverage Ratios Improve

The Bank maintains a prudent allowance for credit losses. General provisions in 1994 were increased to $200 million from $100 million as a result of a net charge to earnings of $50 million and $50 million transferred from the allowance for credit losses related to Harris commercial loans. The Bank's coverage ratio, as shown in Table 22, improved to 61.1% as compared to 46.7% in 1993 and 48.7% in 1992. The coverage ratio for commercial real estate was stable at 30.3% in 1994. While this coverage ratio remains lower than the Bank's total coverage ratio, non-performing real estate loans and acceptances remain prudently reserved as supported by cash flow valuation analysis, current appraisals and external confirmation of the Bank's conservative provisioning practices based on recent experience of loan and asset sales exceeding net book value in a number of instances. The country risk provision fully exceeded LDC non-performing loans in 1994.

Excess of Market Value over Book Value

For the Bank's portfolio of securities and LDC loans, excess of market value over book value was $262 million in 1994 compared to $538 million in 1993 as shown in Table 23. This excess declined from 1993 due primarily to the impact of increasing interest rates on market values and the effect of asset sales. The Bank's excess in 1993 increased $202 million from 1992.

Table 23

Summary of Excess of Estimated Market Value over Book Value of Securities and Lesser Developed Countries Loans

As at October 31 *(millions of dollars)*	**1994**	1993	1992	1991	1990
Securities					
Designated lesser developed countries*	**247**	35	70	371	0
Other securities	**(74)**	369	273	135	48
Loans to designated lesser developed countries	**(12)**	134	(7)	(116)	(20)
Fair value of past-due interest bonds	**101**	0	0	0	0
Total	**262**	538	336	390	28

*Mexico was a designated LDC country prior to second quarter 1992.

The Bank is owed $56 million of past-due interest by some designated lesser developed countries as shown in Table 24. None of this has been recorded either as an asset or as income, nor is it included in Table 23.

Table 24

Overdue/Unaccrued Interest on Designated Lesser Developed Countries Exposure

As at October 31 *(millions of dollars)*	**1994**	1993	1992	1991	1990
Argentina	**0**	55	49	57	79
Bolivia	**0**	0	35	28	26
Brazil	**5**	84	176	144	123
Ecuador	**51**	45	38	32	26
Nicaragua	**0**	0	0	0	8
Peru	**0**	0	0	0	5
Poland	**0**	36	29	18	11
Venezuela	**0**	0	0	0	9
Total Overdue/Unaccrued Interest on Designated LDC Exposure	**56**	220	327	279	287

Diversification of Loans and Acceptances

As indicated earlier, Bank of Montreal is committed to maintaining a well diversified portfolio as an integral element in effectively managing credit risk. The Bank's loans and acceptances portfolio is well diversified throughout individual and commercial, corporate and institutional markets, as well as geographically, as indicated in Table 25. The Bank's loan portfolio is also well diversified by product, size and geography for individual loans, and by customer, industry and geography for commercial loans as shown in Table 26.

Increasing its share of lower-risk personal loans and mortgages to individuals is a high priority for the Bank. Loan loss experience in these key markets is relatively low as shown in Table 15 on page 46. The Bank is also committed to increasing its exposure to credit card loans. While losses are higher than for other individual loans, the portfolio is well diversified and losses are predictable. As at October 31, 1994, loans to individuals were $37.0 billion — a 14.6% increase over the prior year — and accounted for 39.9% of the Bank's total loans and acceptances. Loans to individuals at October 31, 1993 were $32.3 billion, up 6.7% over 1992.

Table 25

Diversification of Loans and Acceptances by Market and Geographic Location*

(Net of Allowance for Credit Losses)

As at October 31

(millions of dollars except as noted)	1994	Mix (%)	1993**	1992**
Market				
Individuals	36,962	39.9	32,259	30,238
Commercial, Corporate and Institutional				
Diversified Commercial	51,209	55.3	39,518	34,477
Commercial Real Estate	4,302	4.6	5,780	6,225
Designated Lesser Developed Countries	370	0.4	314	538
General Provision	(200)	(0.2)	(100)	(100)
Total Loans and Acceptances	92,643	100.0	77,771	71,378
Geographic Location				
Canada				
Atlantic Provinces	3,175	3.4	2,693	2,583
Quebec	9,523	10.3	9,022	8,645
Ontario	31,106	33.6	26,013	23,286
Prairies	8,091	8.7	7,457	7,070
British Columbia and Territories	9,949	10.7	8,413	7,808
Total Canada	61,844	66.7	53,598	49,392
United States	29,186	31.5	22,665	20,179
Other Countries				
Designated Lesser Developed Countries	370	0.4	314	538
Other	1,443	1.6	1,294	1,369
General Provision	(200)	(0.2)	(100)	(100)
Total Loans and Acceptances	92,643	100.0	77,771	71,378

*Geographic location is based on the ultimate risk of the underlying asset.
**Reclassified to conform with 1994 presentation.

The Bank's commercial, corporate and institutional loan portfolio is also well diversified. Loans to financial institutions, which are lower-risk loans, represent the highest concentration of loan exposure for the commercial, corporate and institutional markets. Increases in securities purchased under resale agreements reflect growth in the Bank's primary U.S. dealership activities. The remaining portfolio is well diversified by industry, geographically and by client relationship. The next largest industry concentrations are in manufacturing, service industries and commercial mortgages. The loan portfolio within these industries is well diversified. Diversified commercial loans and acceptances excluding securities purchased under resale agreements were $36.6 billion at year-end, an increase of 15.0% following a 2.7% increase in 1993.

TABLE 26

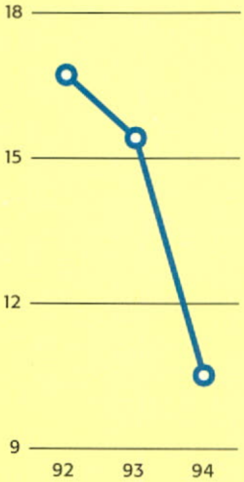
DIVERSIFICATION OF LOANS BY PRODUCT AND INDUSTRY (NET OF ALLOWANCE FOR CREDIT LOSSES)

As at October 31 *(millions of dollars)*	1994	Mix (%)	1993	1992
INDIVIDUALS				
Residential mortgages*	22,706	24.5	19,988	18,410
Cards	3,261	3.5	2,896	2,694
Personal loans	10,995	11.9	9,375	9,134
TOTAL LOANS TO INDIVIDUALS	36,962	39.9	32,259	30,238
COMMERCIAL, CORPORATE AND INSTITUTIONAL				
Financial institutions				
Securities purchased under resale agreements	14,572	15.7	7,658	3,449
Other	7,446	8.0	4,315	4,304
Commercial mortgages	3,570	3.9	3,142	2,806
Construction (non-real estate)	827	0.9	648	693
Manufacturing	5,697	6.1	5,345	5,987
Mining/Energy	2,079	2.2	1,896	2,177
Service industries	4,611	5.0	3,545	3,399
Retail trade	2,637	2.8	2,593	2,446
Wholesale trade	2,220	2.4	2,316	2,008
Agriculture	1,731	1.9	1,582	1,436
Transportation/Communications/Utilities	4,030	4.4	3,310	3,099
Other	1,789	2.0	3,168	2,673
Diversified Commercial, net of specifics	51,209	55.3	39,518	34,477
Commercial Real Estate	4,302	4.6	5,780	6,225
TOTAL COMMERCIAL, CORPORATE AND INSTITUTIONAL	55,511	59.9	45,298	40,702
Designated Lesser Developed Countries	370	0.4	314	538
General Provision	(200)	(0.2)	(100)	(100)
TOTAL LOANS AND ACCEPTANCES	92,643	100.0	77,771	71,378

*Excludes $1.5 billion (1993 – $1.3 billion, 1992 – $1.0 billion) in residential mortgages classified as commercial corporate loans.

LOAN PORTFOLIO WELL DIVERSIFIED

Chart 16
Real Estate Loans & Acceptances as a % of Commercial Loans & Acceptances*
As at October 31
(%)



*Corporate, commercial, and institutional loans and acceptances excluding securities purchased under resale agreements.

Diversification of Commercial Real Estate Financing

The Bank's total exposure to real estate declined to 10.5% of commercial loans and acceptances excluding securities purchased under resale agreements from 15.4% in 1993.

The Bank's real estate exposure in large income producing properties, particularly offices, is being reduced to improve diversification characteristics in this portfolio. The mix of office properties, the most severely hit by the recession, was 25.9% of total real estate financing as compared to 33.3% as at October 31, 1993. Canada continued to represent over 50% of the Bank's total real estate exposure with Ontario and British Columbia making up the majority of the Canadian real estate loan portfolio. Total real estate exposure in the United States declined 23.3% in 1994.

Table 27
Commercial Real Estate Financing by Property Type and Location
(Net of Allowance for Credit Losses, Includes Off-Balance Sheet Financing)

As at October 31 *(millions of dollars except as noted)*	1994	Mix (%)	1993*	1992*
Property Type				
Office	1,227	25.9	2,084	2,408
Residential	1,241	26.2	1,351	1,409
Shopping centres	1,030	21.8	1,486	1,553
Land banking/development	313	6.6	330	421
Industrial buildings	479	10.1	547	542
Hotel/Motel	76	1.6	145	155
Other	367	7.8	317	246
Commercial Real Estate Financing	4,733	100.0	6,260	6,734
Location				
Canada				
Atlantic Provinces	62	1.3	103	73
Quebec	299	6.3	356	367
Ontario	1,276	27.0	1,849	2,064
Prairies	235	5.0	351	388
British Columbia and Territories	711	15.0	766	716
Total Canada	2,583	54.6	3,425	3,608
United States				
Illinois	773	16.3	891	814
New York	195	4.1	223	344
California	239	5.0	421	495
Texas	59	1.2	136	241
New Jersey	65	1.4	91	100
Other**	751	16.0	952	974
Total United States	2,082	44.0	2,714	2,968
United Kingdom	68	1.4	121	158
Commercial Real Estate Financing	4,733	100.0	6,260	6,734
Off-balance sheet financing	(431)		(480)	(509)
Commercial Real Estate Loans and Acceptances	4,302	100.0	5,780	6,225
Diversification Ratios *(%)*				
Commercial Real Estate Loans and Acceptances as a % of Commercial Loans and Acceptances***	10.5		15.4	16.7
Office Loans and Acceptances as a % of Commercial Loans and Acceptances***	2.9		5.2	6.2

*Reclassified to conform with 1994 presentation.
**Includes 17 states with net non-performing loan balances not exceeding $50 million per state.
***Corporate, commercial and institutional loans and acceptances excluding securities purchased under resale agreements.

EXPOSURE CONTINUES TO DECLINE

Bank of Montreal's measure of capital is the ratio of capital to risk-weighted assets including both on-balance sheet and off-balance sheet items. The Bank's primary measure of capital adequacy is its Tier 1 capital as a percentage of risk-weighted assets.

Capital consists of common shareholders' equity including retained earnings, preferred shares and subordinated debt. The Office of the Superintendent of Financial Institutions (OSFI) requires that Canadian banks maintain a specified minimum ratio of capital to risk-weighted assets. The Bank's capital base provides depositors with protection against possible losses resulting from banking activities, and supports business growth.

The capital adequacy guideline of OSFI defines two tiers of capital. Tier 1 capital consists of common shareholders' equity; non-cumulative, perpetual preferred shares; and non-controlling interest in subsidiaries, less goodwill. This is considered to be more-permanent capital. Tier 2 capital consists of term or cumulative preferred shares and qualifying subordinated debt. Total capital is the sum of the two tiers, less investments in non-consolidated subsidiaries. Tier 1 capital is required to be at least 50% of the total required capital.

Capital Ratio Strong and Well in Excess of Statutory Requirements

The Bank's objective for capital is to maintain a risk-weighted capital ratio that consistently exceeds the minimum regulatory requirement and is in line with market expectations. This is especially true with respect to the Tier 1 ratio which encompasses more-permanent capital.

During 1994, the Bank's Tier 1 capital ratio declined to 7.20% from 7.35% in 1993 after an increase from 6.75% in 1992 as shown in Table 28. At 7.20%, the Bank's Tier 1 capital ratio was well above the minimum statutory requirement of 4%. The total risk-weighted capital ratio declined to 9.51% in 1994 from 10.31% in 1993 and 8.91% in 1992 and exceeded the minimum statutory requirement of 8%. The Bank's capital ratios improved from 1990 to 1993 as a result of new capital issues and retained earnings growth as shown in Chart 17. In 1994, the Bank's capital strength was applied to absorb strong asset growth and acquisitions, shown in Table 29 as a 13.8% increase in risk-weighted assets. This, combined with an increase in goodwill, resulted in the slight decline in the capital ratios.

Using the United States' guidelines, the Bank's Tier 1 capital ratio was 6.91% versus 7.13% in 1993.

Chart 17
Capital Risk-Weighted Ratio
As at October 31
(%)

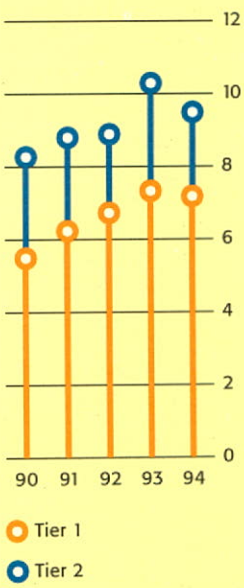


Table 28

Capital Funds

As at October 31

(millions of dollars except as noted)

	1994	1993	1992	1991	1990
Canadian					
Tier 1					
Common shareholders' equity	**5,678**	4,834	4,332	3,832	3,451
Non-cumulative preferred shares	**860**	852	832	450	200
Non-controlling interest in subsidiary	**144**	66	72	42	41
Goodwill	**(450)**	(159)	(176)	(105)	(61)
Total Tier 1 Capital	**6,232**	5,593	5,060	4,219	3,631
Tier 2					
Cumulative preferred shares	**0**	0	0	268	275
Subordinated debt	**1,999**	2,248	1,650	1,493	1,565
Total Tier 2 Capital	**1,999**	2,248	1,650	1,761	1,840
Investment in non-consolidated subsidiary	**0**	0	(28)	(28)	0
Total Capital	**8,231**	7,841	6,682	5,952	5,471
Risk-Weighted Assets	**86,589**	76,074	74,964	67,490	65,959
Risk-Weighted Capital Ratios *(%)*					
Tier 1	**7.20**	7.35	6.75	6.25	5.51
Total	**9.51**	10.31	8.91	8.82	8.29
Required Regulatory Capital Ratios *(%)*					
Tier 1	**4.0**	4.0	4.0	3.625	3.625
Total	**8.0**	8.0	8.0	7.25	7.25
Balance Sheet Leverage Ratio *(%)*					
Equity-to-assets	**4.8**	4.9	4.8	4.7	4.5
U.S. Basis					
Tier 1	**6,125**	5,591	5,045	4,578	3,967
Tier 2	**2,804**	3,144	2,719	2,622	2,570
Total Capital	**8,929**	8,735	7,764	7,200	6,537
Risk-Weighted Assets	**88,640**	78,422	76,703	68,625	67,026
Risk-Weighted Capital Ratios *(%)*					
Tier 1	**6.91**	7.13	6.58	6.67	5.92
Total	**10.07**	11.14	10.12	10.49	9.75

Table 29

Risk-Weighted Assets

As at October 31
(millions of dollars)

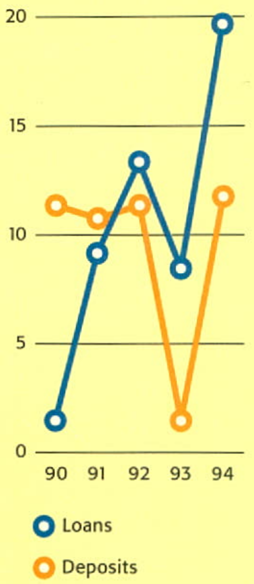
				1994	1993*
	Balance	Credit risk equivalent	Risk weighting %	Risk-weighted balance	Risk-weighted balance
Balance Sheet Items					
Cash resources	14,659		0–20	2,683	2,129
Securities	26,535		0–100	3,853	2,936
Mortgages	26,276		0–100	11,843	10,820
Other loans and acceptances	65,788		0–100	46,583	43,136
Other assets	4,917		0–100	4,467	3,718
	138,175			69,429	62,739
Off-Balance Sheet Items					
Letters of credit and guarantees	7,565	5,807	20–100	5,246	4,192
Commitments	51,159	9,865	0–100	9,396	7,163
Foreign exchange rate contracts	335,710	8,538	0–50	1,952	1,258
Interest rate contracts	208,716	1,991	0–50	472	674
Other	242	121	0–100	94	48
	603,392			17,160	13,335
Total Risk-Weighted Assets				86,589	76,074
Total Risk-Weighted Assets – U.S. Basis				88,640	78,422

*Reclassified to conform with 1994 presentation.

Total Capital Increased

The 1994 capital ratios reflected growth of $390 million or 5.0% in total capital including retained earnings of $2,676 million. As a result of the Bank's acquisitions of Suburban and Burns Fry in 1994, the Bank issued new capital amounting to $370 million. The remainder of the capital growth was due primarily to shares issued under the Bank's Shareholder Dividend Reinvestment and Share Purchase Plan. 1993 capital growth of $1,159 million was primarily as a result of retention of earnings and new subordinated debt issues.

CHART 18
LOAN AND DEPOSIT GROWTH
For the year ended October 31
(%)



Bank of Montreal's primary measure of liquidity is the proportion of liquid assets to total assets. Liquid assets comprise deposits with major domestic and international banks, other cash resources, and securities, including Government Bonds and Treasury Bills.

Liquidity management is essential to sound financial control of the Bank. Liquidity makes it possible to have funds available for lending or investment and to honour deposit and other liabilities as they mature. It is the Bank's objective to ensure that there is sufficient cash flow not only to meet all its commitments, but also to provide the flexibility to expand customer relationships when opportunities arise.

At October 31, 1994 liquid assets were $41,194 million or 29.8% of total assets, compared to 30.3% in 1993 and 31.1% in 1992 as shown in Table 30. The lower proportion of liquid assets to total assets was due to loan growth exceeding deposit growth in both 1994 and 1993 as shown in Chart 18.

TABLE 30
LIQUIDITY
As at October 31

(millions of dollars except as noted)	1994	Mix (%)	1993*	1992*	1991*	1990*
CANADIAN DOLLAR LIQUID ASSETS						
Deposits with other banks	**2,790**	**6.8**	1,762	1,394	1,762	3,126
Other cash resources	**651**	**1.5**	734	967	1,494	849
Securities	**16,915**	**41.1**	16,436	15,251	11,725	6,278
Total	**20,356**	**49.4**	18,932	17,612	14,981	10,253
U.S. DOLLAR AND OTHER CURRENCY LIQUID ASSETS						
Deposits with other banks	**11,029**	**26.8**	8,476	8,120	9,327	7,688
Other cash resources	**189**	**0.5**	1,109	807	1,024	839
Securities	**9,620**	**23.3**	6,892	7,330	6,137	5,960
Total	**20,838**	**50.6**	16,477	16,257	16,488	14,487
TOTAL LIQUID ASSETS	**41,194**	**100.0**	35,409	33,869	31,469	24,740
CASH AND SECURITIES-TO-TOTAL ASSETS	**29.8**		30.3	31.1	31.9	28.3

*Reclassified to conform with 1994 presentation.

Diversified Funding Sources

Part of the Bank's prudent liquidity management policies are its well-diversified funding sources. Diversification is a source of strength as it ensures a secure and continuous availability of deposits. Deposits from individuals are both stable and cost-effective and provided the majority of the Bank's Canadian dollar funding in 1994. Deposits in U.S. dollars and other currencies are raised either through Harris or in the form of wholesale funds from central banks, fiduciary funds, other large banks and corporations. These deposits are well diversified by institution.

Canadian dollar deposits form 57.0% of the Bank's deposit base as shown in Table 31. These deposits are gathered primarily through the Bank's large branch network. Individual Canadian dollar deposits grew $1,387 million or 3.5% over 1994 versus 4.6% in 1993. Growth in personal deposits was enhanced by such innovative products as the Bank's RateRiser GIC which provides customers with rising rates over the term.

Table 31

Deposits

As at October 31 *(millions of dollars except as noted)*	1994	Mix (%)	1993*	1992*	1991*	1990*
Canadian Dollar Deposits						
Banks	**3,074**	**3.1**	3,117	2,303	2,127	1,462
Businesses and governments	**12,311**	**12.5**	10,109	12,090	9,342	7,939
Individuals	**40,617**	**41.4**	39,230	37,503	35,488	33,066
Total	**56,002**	**57.0**	52,456	51,896	46,957	42,467
U.S. Dollar and Other Currency Deposits						
Banks	**19,227**	**19.6**	17,690	16,519	12,200	12,126
Businesses and governments	**16,430**	**16.7**	12,566	13,285	13,789	10,802
Individuals	**6,582**	**6.7**	5,147	4,901	4,823	4,775
Total	**42,239**	**43.0**	35,403	34,705	30,812	27,703
Total Deposits	**98,241**	**100.0**	87,859	86,601	77,769	70,170
Core Deposits** as a % of Total Deposits	**48.0**		50.5	49.0	51.8	53.9

*Reclassified to conform with 1994 presentation.

**Deposits from individuals.

Average Balances and Average Interest Rates of Assets and Liabilities

For the year ended October 31	1994				1993*				1992*			
(millions of dollars)	Average balances	Average interest rate (%)	Mix (%)	Net interest income/ expense	Average balances	Average interest rate (%)	Mix (%)	Net interest income/ expense	Average balances	Average interest rate (%)	Mix (%)	Net interest income/ expense
Assets												
Canadian Dollars												
Deposits with other banks	2,083	5.03	1.7	105	1,803	5.38	1.6	97	1,760	6.53	1.7	115
Securities	16,807	5.09	13.7	856	14,274	5.60	12.6	800	12,940	7.03	12.4	909
Loans												
Residential mortgages	21,374	8.19	17.5	1,749	19,407	8.91	17.1	1,729	16,832	10.16	16.1	1,711
Non-residential mortgages	1,588	10.54	1.3	167	1,714	10.39	1.5	178	1,532	10.79	1.5	165
Consumer instalment and other personal loans	8,889	8.43	7.3	749	8,397	8.83	7.4	741	8,215	10.00	7.9	821
Credit card loans	2,100	11.20	1.7	235	2,048	11.71	1.8	240	1,910	13.21	1.8	252
Loans to businesses and governments**	16,391	6.11	13.4	1,001	14,831	6.90	13.1	1,023	13,433	8.32	12.8	1,118
Total Loans	50,342	7.75	41.2	3,901	46,397	8.43	40.9	3,911	41,922	9.70	40.1	4,067
Other non-interest-bearing assets	3,913		3.2		4,800		4.2		5,041		4.8	
Total Canadian Dollar Assets and Interest Income	73,145	6.65	59.8	4,862	67,274	7.15	59.3	4,808	61,663	8.26	59.0	5,091
U.S. Dollar and Other Currencies												
Deposits with other banks	9,689	3.88	7.9	376	8,173	3.95	7.2	323	7,733	5.50	7.4	425
Securities	7,127	6.55	5.9	467	6,503	7.12	5.7	463	7,058	6.70	6.7	473
Loans												
Residential mortgages	1,000	7.51	0.8	75	868	8.25	0.8	72	740	9.29	0.7	69
Non-residential mortgages	176	5.94	0.1	11	141	8.42	0.1	12	131	9.59	0.1	13
Consumer instalment and other personal loans	985	7.01	0.8	69	840	7.64	0.7	64	767	8.51	0.8	65
Credit card loans	937	13.47	0.8	126	776	15.26	0.7	118	758	17.20	0.7	131
Loans to businesses and governments**	23,852	6.04	19.5	1,440	24,896	5.35	22.0	1,333	22,151	5.79	21.2	1,282
Total Loans	26,950	6.38	22.0	1,721	27,521	5.81	24.3	1,599	24,547	6.35	23.5	1,560
Other non-interest-bearing assets	5,323		4.4		3,916		3.5		3,590		3.4	
Total U.S. Dollar and Other Currencies Assets and Interest Income	49,089	5.22	40.2	2,564	46,113	5.17	40.7	2,385	42,928	5.73	41.0	2,458
Total Assets and Interest Income	122,234	6.08	100.0	7,426	113,387	6.34	100.0	7,193	104,591	7.22	100.0	7,549

The above table presents daily average balances and average yield and cost on assets and liabilities on a TEB basis. The taxable equivalent (TEB) adjustment increases interest income on tax-exempt assets to the amount that would result if the income were taxable (and increases the tax provision by the same amount). This adjustment results in a better reflection of the pre-tax economic yield of these assets.

*Certain average balances were reclassified to conform with 1994 presentation.

**Includes securities purchased under resale agreements.

Average Balances and Average Interest Rates of Assets and Liabilities

For the year ended October 31 *(millions of dollars)*	1994 Average balances	1994 Average interest rate (%)	1994 Mix (%)	1994 Net interest income/ expense	1993* Average balances	1993* Average interest rate (%)	1993* Mix (%)	1993* Net interest income/ expense	1992* Average balances	1992* Average interest rate (%)	1992* Mix (%)	1992* Net interest income/ expense
Liabilities												
Canadian Dollars												
Deposits												
Banks	3,045	3.50	2.4	107	2,802	4.00	2.5	112	2,585	5.18	2.5	133
Businesses and governments	11,007	4.01	9.0	441	10,786	4.34	9.5	468	9,564	5.17	9.1	495
Individuals	39,453	3.82	32.3	1,505	38,360	4.48	33.8	1,718	36,617	5.48	35.0	2,005
Total Deposits	53,505	3.84	43.7	2,053	51,948	4.42	45.8	2,298	48,766	5.40	46.6	2,633
Subordinated debt and other interest-bearing liabilities	9,388	1.98	7.7	186	5,992	2.60	5.3	156	4,032	3.62	3.9	146
Other non-interest-bearing liabilities	4,642		3.8		4,250		3.7		4,206		4.0	
Total Canadian Dollar Liabilities and Interest Expense	67,535	3.31	55.2	2,239	62,190	3.95	54.8	2,454	57,004	4.88	54.5	2,779
U.S. Dollar and Other Currencies												
Deposits												
Banks	19,150	4.06	15.6	777	16,097	3.74	14.2	602	13,739	4.68	13.1	643
Businesses and governments	14,039	2.64	11.5	371	12,889	2.01	11.4	259	13,191	3.20	12.6	423
Individuals	5,365	3.09	4.4	166	5,034	3.12	4.4	157	4,899	4.09	4.7	200
Total Deposits	38,554	3.41	31.5	1,314	34,020	2.99	30.0	1,018	31,829	3.98	30.4	1,266
Subordinated debt and other interest-bearing liabilities	8,923	4.78	7.3	426	10,529	4.19	9.3	441	9,686	4.40	9.3	427
Other non-interest-bearing liabilities	1,272		1.1		1,242		1.1		1,231		1.2	
Total U.S. Dollar and Other Currencies Liabilities and Interest Expense	48,749	3.57	39.9	1,740	45,791	3.19	40.4	1,459	42,746	3.96	40.9	1,693
Total Liabilities and Interest Expense	116,284	3.42	95.1	3,979	107,981	3.62	95.2	3,913	99,750	4.48	95.4	4,472
Shareholders' equity	5,950		4.9		5,406		4.8		4,841		4.6	
Total Liabilities and Shareholders' Equity and Interest Expense	122,234	3.26	100.0	3,979	113,387	3.45	100.0	3,913	104,591	4.28	100.0	4,472
Net Interest Spread on Average Assets and Net Interest Income		2.82		3,447		2.89		3,280		2.94		3,077

The above table presents daily average balances and average yield and cost on assets and liabilities on a TEB basis. The taxable equivalent (TEB) adjustment increases interest income on tax-exempt assets to the amount that would result if the income were taxable (and increases the tax provision by the same amount). This adjustment results in a better reflection of the pre-tax economic yield of these assets.

*Certain average balances were reclassified to conform with 1994 presentation.

**Includes securities purchased under resale agreements.

Volume/Rate Analysis of Changes in Net Interest Income

For the year ended October 31	1994/1993*			1993*/1992*		
	Increase (decrease) due to change in:			Increase (decrease) due to change in:		
(millions of dollars)	Average balance	Average rate	Total	Average balance	Average rate	Total
Assets						
Canadian Dollars						
Deposits with other banks	15	(7)	8	3	(21)	(18)
Securities	141	(85)	56	94	(203)	(109)
Loans						
Residential mortgages	176	(156)	20	261	(243)	18
Non-residential mortgages	(13)	2	(11)	20	(7)	13
Consumer instalment and other personal loans	44	(36)	8	18	(98)	(80)
Credit card loans	6	(11)	(5)	19	(31)	(12)
Loans to businesses and governments**	108	(130)	(22)	115	(210)	(95)
Total Loans	321	(331)	(10)	433	(589)	(156)
Change in Canadian Dollar Interest Income	477	(423)	54	530	(813)	(283)
U.S. Dollar and Other Currencies						
Deposits with other banks	60	(7)	53	24	(126)	(102)
Securities	45	(41)	4	(37)	27	(10)
Loans						
Residential mortgages	10	(7)	3	12	(9)	3
Non-residential mortgages	3	(4)	(1)	1	(2)	(1)
Consumer instalment and other personal loans	11	(6)	5	6	(7)	(1)
Credit card loans	25	(17)	8	2	(15)	(13)
Loans to businesses and governments**	(56)	163	107	160	(109)	51
Total Loans	(7)	129	122	181	(142)	39
Change in U.S. Dollar and Other Currencies Interest Income	98	81	179	168	(241)	(73)
Total Change in Interest Income	575	(342)	233	698	(1,054)	(356)
Liabilities						
Canadian Dollars						
Deposits						
Banks	10	(15)	(5)	12	(33)	(21)
Businesses and governments	9	(36)	(27)	63	(90)	(27)
Individuals	49	(262)	(213)	95	(382)	(287)
Total Deposits	68	(313)	(245)	170	(505)	(335)
Subordinated debt and other interest-bearing liabilities	88	(58)	30	71	(61)	10
Change in Canadian Dollar Interest Expense	156	(371)	(215)	241	(566)	(325)
U.S. Dollar and Other Currencies						
Deposits						
Banks	114	61	175	111	(152)	(41)
Businesses and governments	23	89	112	(10)	(154)	(164)
Individuals	11	(2)	9	6	(49)	(43)
Total Deposits	148	148	296	107	(355)	(248)
Subordinated debt and other interest-bearing liabilities	(67)	52	(15)	36	(22)	14
Change in U.S. Dollar and Other Currencies Interest Expense	81	200	281	143	(377)	(234)
Change in Interest Expense	237	(171)	66	384	(943)	(559)
Total Change in Net Interest Income	338	(171)	167	314	(111)	203

The above table shows changes in net interest income, on a taxable equivalent basis, due to changes in either average daily balances, that is volume, or average rates. The taxable equivalent (TEB) adjustment increases interest income on tax-exempt assets to the amount that would result if the income were taxable (and increases the tax provision by the same amount). This adjustment results in a better reflection of the pre-tax economic yield of these assets.

*Certain average balances were reclassified to conform with 1994 presentation.

**Includes securities purchased under resale agreements.

Quarterly Statistics

In the opinion of Bank of Montreal management, information that is derived from unaudited financial information, including information as at and for the interim periods, contains all adjustments necessary for a fair presentation of such information. All such adjustments are of a normal and recurring nature. Financial ratios for interim periods are stated on an annualized basis where appropriate, and such ratios, as well as interim operating results, are not necessarily indicative of actual results for the full fiscal year.

For the three months ended or as at: (millions of dollars except as noted)	Oct. 31 1994	July 31 1994	April 30 1994	Jan. 31 1994	Oct. 31 1993	July 31 1993	April 30 1993	Jan. 31 1993
Balance Sheet Data								
Total assets	138,175	127,330	124,805	116,177	116,869	110,921	109,013	106,170
Cash resources	14,659	14,334	13,500	10,304	12,081	12,316	10,370	10,844
Securities	26,535	23,377	24,737	25,173	23,328	20,308	21,177	20,415
Loans	88,634	81,417	79,366	73,481	74,028	70,864	70,034	68,965
Acceptances	3,430	3,653	3,269	3,485	3,555	3,521	3,347	2,002
Other assets	4,917	4,549	3,933	3,734	3,877	3,912	4,085	3,944
Deposits	98,241	94,934	92,735	88,497	87,859	85,191	84,058	85,555
Total capital funds	8,756	8,308	8,220	8,182	8,049	7,474	7,356	6,977
Common equity	5,678	5,191	5,097	4,955	4,834	4,689	4,576	4,450
Average assets	129,375	124,435	117,898	117,086	113,627	112,496	113,939	113,505
Interest, Dividend and Fee Income								
Loans	1,562	1,480	1,294	1,282	1,325	1,373	1,382	1,425
Securities	367	285	268	340	272	308	298	322
Deposits with banks	160	145	84	92	107	93	102	118
Total interest income	2,089	1,910	1,646	1,714	1,704	1,774	1,782	1,865
Interest Expense								
Deposits	988	917	721	741	773	770	810	963
Subordinated debt	47	46	47	49	46	43	42	38
Other liabilities	136	113	85	89	73	125	130	100
Total interest expense	1,171	1,076	853	879	892	938	982	1,101
Net interest income	918	834	793	835	812	836	800	764
Provision for credit losses	99	98	157	156	175	175	163	162
Net interest income after provision for credit losses	819	736	636	679	637	661	637	602
Other income	457	408	454	430	421	392	392	376
Non-interest expense	813	856	779	775	722	746	736	712
Income before provision for income taxes	463	288	311	334	336	307	293	266
Provision for income taxes	191	114	120	135	133	125	119	110
Income before non-controlling interest in subsidiary	272	174	191	199	203	182	174	156
Non-controlling interest in subsidiary	4	2	3	2	2	2	1	1
Net Income	268	172	188	197	201	180	173	155
Taxable equivalent adjustment *(a)*	17	18	16	16	18	16	18	16
Total revenue (TEB)	1,392	1,260	1,263	1,281	1,251	1,244	1,210	1,156
Common Share Information *($) (b)*								
Dividends declared per common share	0.30	0.30	0.30	0.30	0.28	0.28	0.28	0.28
Net income per common share								
– Basic	0.99	0.61	0.69	0.72	0.74	0.66	0.63	0.56
– Fully diluted	0.97	0.61	0.68	0.71	0.72	0.66	0.62	0.55
Book value	21.4	20.7	20.4	19.9	19.4	18.9	18.4	18.1
Market price per common share								
– High	25.750	26.250	30.750	30.625	27.375	27.250	25.250	23.938
– Low	23.375	22.000	25.000	25.000	24.500	24.500	21.313	21.438
– Close	25.125	23.750	25.625	30.375	26.875	27.125	25.125	22.063
Average number of common shares outstanding *(in thousands)*	255,806	250,248	249,795	249,330	248,931	248,491	247,634	245,849
Price-to-earnings ratio	8.3	8.6	9.1	11.0	10.4	11.1	10.4	9.5
Market-to-book value ratio	1.2	1.15	1.26	1.53	1.39	1.44	1.36	1.22
Number of shareholders	58,879	58,950	59,200	60,991	62,342	63,137	64,023	64,621
Primary Financial Measures *(%)*								
Return on common shareholders' investment *(c)*	(2.3)	(7.6)	(0.6)	17.9	19.4	20.6	12.2	(1.8)
Return on average common shareholders' equity *(d)*	18.7	12.0	14.0	14.6	15.4	14.1	14.2	12.5
Net income growth *(e)*	33.6	(5.1)	9.4	26.8	25.9	4.6	20.1	(5.2)
Expense-to-revenue ratio *(f)*	58.4	67.9	61.7	60.5	57.7	59.9	60.9	61.6
PCL as a % of average loans and acceptances *(g)*	0.60	0.62	0.79	0.81	0.90	0.87	0.82	0.84
Tier 1 ratio *(h)*	7.20	7.13	7.40	7.53	7.35	7.14	7.07	7.02
Cash and securities-to-total assets *(i)*	29.8	29.6	30.6	30.5	30.3	29.4	28.9	29.4
Credit rating *(j)*	AA-	AA-	AA-	AA-	AA-	AA-	AA-	AA-
Other Financial Ratios *(%)*								
Return on average total equity *(k)*	17.2	11.4	13.2	13.6	14.2	13.1	13.3	11.8
Return on average assets	0.82	0.55	0.66	0.67	0.70	0.64	0.62	0.54
Return on average assets – after preferreds	0.77	0.49	0.60	0.61	0.64	0.58	0.56	0.48
Revenue growth	11.3	1.1	4.5	10.8	11.0	7.0	13.3	6.6
Expense growth	12.6	14.6	5.9	8.8	4.3	5.0	6.5	6.2
Gross non-performing loan ratio *(l)*	29.86	45.21	49.92	54.08	54.84	56.89	56.03	59.40
Net non-performing loans as % of net loans and acceptances	1.49	2.20	2.41	2.91	2.91	3.05	2.86	3.23
Total capital ratio	9.51	9.60	10.09	10.49	10.31	9.59	9.59	9.24
Equity to assets ratio	4.8	4.8	4.8	5.1	4.9	5.1	5.0	5.0

(a) The taxable equivalent adjustment increases interest income on the exempt instruments to the amount that would result if the income were taxable.
(b) Restated to reflect 2-for-1 effective stock split completed in March 1993.
(c) Annual compounded return for one bank common share invested at the beginning of the period, including dividend reinvestment.
(d) Net income less preferred dividends divided by average common shareholders' equity (which includes common share capital plus retained earnings).
(e) Percentage change in net income for the quarter over the corresponding quarter of the previous year.
(f) Non-interest expense divided by total revenue (TEB).
(g) Annual provision for credit losses divided by average net loans, acceptances and loan substitutes.
(h) Tier 1 capital divided by risk-weighted assets as defined by the OSFI.
(i) Cash and securities divided by total assets.
(j) Composite of senior debt ratings.
(k) Net income divided by average total equity.
(l) Gross non-performing loans divided by total equity and allowance for credit losses.

For the year ended or as at October 31: (millions of dollars)	**1994**	1993*(a)*	1992*(a)*	1991*(a)*	1990*(a)*	1989*(a)*	1988*(a)*	1987*(a)*	1986*(a)*	1985*(a)*
BALANCE SHEET DATA										
Assets										
Cash resources	**14,659**	12,081	11,288	13,607	12,502	8,581	10,170	13,540	14,514	12,736
Securities	**26,535**	23,328	22,581	17,862	12,238	9,761	9,946	11,049	10,525	10,525
Loans	**88,634**	74,028	68,251	60,172	55,106	54,303	51,986	52,595	54,471	51,966
Acceptances	**3,430**	3,555	2,878	3,712	3,508	2,778	3,584	3,287	4,633	4,228
Other assets	**4,917**	3,877	4,037	3,372	4,016	3,498	3,223	3,757	3,037	2,965
Total Assets	**138,175**	116,869	109,035	98,725	87,370	78,921	78,909	84,228	87,180	82,420
LIABILITIES AND SHAREHOLDERS' EQUITY										
Deposits	**98,241**	87,859	86,601	77,769	70,170	62,985	64,362	70,919	74,712	70,898
Other liabilities	**31,178**	20,961	15,604	14,836	11,801	10,860	9,456	8,587	7,360	6,970
Subordinated debt	**2,218**	2,363	1,666	1,570	1,473	1,329	1,307	1,259	1,463	1,100
Share capital										
– Preferred	**860**	852	832	718	475	650	450	450	650	650
– Common	**3,002**	2,632	2,539	2,416	2,276	2,162	2,048	1,931	1,253	1,130
Retained earnings	**2,676**	2,202	1,793	1,416	1,175	935	1,286	1,082	1,742	1,672
Total liabilities and shareholders' equity	**138,175**	116,869	109,035	98,725	87,370	78,921	78,909	84,228	87,180	82,420
AVERAGE BALANCES										
Loans	**77,292**	73,918	66,469	58,227	53,793	53,110	52,538	53,396	54,769	50,022
Assets	**122,234**	113,387	104,591	94,118	81,971	78,878	79,312	84,584	86,761	79,464
INCOME STATEMENT DATA										
Net interest income (TEB) *(b)*	**3,447**	3,280	3,077	2,776	2,606	2,600	2,611	2,256	2,274	2,140
Other income	**1,749**	1,581	1,365	1,219	1,047	986	1,042	853	818	684
Total revenue (TEB) *(b)*	**5,196**	4,861	4,442	3,995	3,653	3,586	3,653	3,109	3,092	2,824
Provision for credit losses	**510**	675	550	337	169	1,181	390	75	605	330
Non-interest expense	**3,223**	2,916	2,765	2,605	2,453	2,330	2,297	2,055	1,935	1,788
Provision for income taxes (TEB) *(b)*	**627**	555	483	452	506	109	460	452	238	309
Non-controlling interest in subsidiary	**11**	6	4	6	3	5	6	4	4	4
Net income (loss) before special provision	**825**	709	640	595	522	(39)	500	523	310	393
Special provision net of income taxes	**0**	0	0	0	0	0	0	765	0	0
NET INCOME (LOSS)	**825**	709	640	595	522	(39)	500	(242)	310	393
SHARE CAPITAL										
Balance at beginning of year	**3,484**	3,371	3,134	2,751	2,812	2,498	2,381	1,903	1,780	1,599(c)
Increase (decrease) in preferred shares	**8**	20	114	243	(175)	200	0	(200)	0	0
Common share issues	**370**	93	123	140	114	114	117	678	123	181
Balance at end of year	**3,862**	3,484	3,371	3,134	2,751	2,812	2,498	2,381	1,903	1,780
RETAINED EARNINGS										
Balance at beginning of year	**2,202**	1,793	1,416	1,175	935	1,286	1,082	1,742	1,672	1,347
Net income (loss)	**825**	709	640	595	522	(39)	500	(242)	310	393
Dividends	**(374)**	(346)	(321)	(301)	(288)	(279)	(252)	(229)	(215)	(206)
Other changes	**23**	46	58	(53)	6	(33)	(44)	(189)	(25)	138
Balance at end of year	**2,676**	2,202	1,793	1,416	1,175	935	1,286	1,082	1,742	1,672

(a) Certain figures have been reclassified to conform with the 1994 presentation.
(b) Reported on a taxable equivalent basis (TEB).
(c) Includes balances for contributed surplus transferred to common shares in 1985.

For the year ended or as at October 31:	**1994**	1993*(a)*	1992*(a)*	1991*(a)*	1990*(a)*	1989*(a)*	1988*(a)*	1987*(a)*	1986*(a)*	1985*(a)*
INFORMATION PER COMMON SHARE *($)(d)*										
Net income										
– Basic	**3.01**	2.59	2.38	2.31	2.10	(0.39)	2.19	(1.60)	1.58	2.23
– Fully diluted	**2.97**	2.55	2.36	2.31	2.10	NM	2.16	NM	1.56	2.13
Book value	**21.39**	19.40	17.69	16.05	15.00	13.98	15.61	14.75	18.43	18.10
Dividends declared	**1.20**	1.12	1.06	1.06	1.06	1.06	1.00	1.00	0.98	0.98
Market price										
– High	**30.750**	27.375	24.125	19.188	17.188	17.625	14.875	19.625	17.625	15.750
– Low	**22.000**	21.313	18.563	13.250	12.250	13.313	12.313	12.750	13.625	11.625
– Close	**25.125**	26.875	23.563	18.688	13.500	17.000	14.250	13.313	17.063	15.375
COMMON SHARE INFORMATION										
Common shares outstanding *(in thousands) (d)*	**265,457**	249,094	244,819	238,770	229,989	221,520	213,524	204,182	162,529	154,852
Price to earnings ratio	**8.3**	10.4	9.9	8.1	6.4	NM	6.5	NM	10.8	6.9
Market-to-book value ratio	**1.17**	1.39	1.33	1.16	0.90	1.22	0.91	0.90	0.93	0.85
Number of shareholders	**58,879**	62,342	65,723	72,887	78,789	82,855	90,479	90,506	91,225	99,065
PRIMARY FINANCIAL MEASURES *(%)*										
Return on common shareholders' investment *(e)*	**(2.3)**	19.4	32.4	47.4	(14.4)	27.9	15.6	(17.1)	18.1	39.8
Return on average common shareholders' equity *(f)*	**14.9**	14.1	14.1	15.0	14.6	(2.5)	14.7	(9.3)	8.5	13.2
Net income growth *(g)*	**16.4**	10.9	7.5	13.9	NM	(107.7)	NM	(178.1)	(21.1)	34.0
Expense-to-revenue ratio *(h)*	**62.0**	60.0	62.2	65.2	67.2	65.0	62.9	66.1	62.6	63.3
PCL as a % of average loans and acceptances *(i)*	**0.63**	0.87	0.78	0.53	0.29	2.09	0.69	0.13	1.00	0.60
Tier 1 ratio *(j)*	**7.20**	7.35	6.75	6.25	5.51	5.29	5.16	NA	NA	NA
Cash and securities-to-total assets *(k)*	**29.8**	30.3	31.1	31.9	28.3	23.3	25.5	29.2	28.7	28.2
Credit rating *(l)*	**AA-**	AA-	AA-	AA-	AA-	AA-	AA-	AA-	AA	AA
OTHER FINANCIAL RATIOS *(%)*										
Return on average total equity *(m)*	**13.9**	13.1	13.2	14.2	13.9	(1.0)	13.9	(6.7)	8.5	12.3
Return on average assets	**0.68**	0.63	0.61	0.63	0.64	(0.05)	0.63	(0.29)	0.36	0.49
Return on average assets – after preferreds	**0.62**	0.57	0.55	0.58	0.58	(0.11)	0.58	(0.34)	0.29	0.42
Revenue growth	**6.9**	9.4	11.2	9.4	1.9	(1.8)	17.5	0.5	9.5	25.1
Expense growth	**10.5**	5.5	6.1	6.2	5.3	1.4	11.8	6.2	8.2	29.2
Gross non-performing loan ratio *(n)*	**29.86**	54.84	58.01	49.05	51.73	46.41	51.89	65.55	67.99	54.87
Net non-performing loans as % of net loans and acceptances	**1.49**	2.91	3.04	1.94	1.53	1.37	2.07	2.48	3.31	2.31
Total capital ratio	**9.51**	10.31	8.91	8.82	8.29	7.99	7.58	NA	NA	NA
Equity-to-assets ratio	**4.8**	4.9	4.8	4.7	4.5	4.8	4.8	4.2	4.2	4.3
CANADIAN/U.S. DOLLAR EXCHANGE RATES *(o)*										
High	**1.29**	1.24	1.12	1.12	1.13	1.17	1.20	1.30	1.36	1.31
Low	**1.40**	1.34	1.26	1.17	1.21	1.24	1.33	1.39	1.44	1.40
Average	**1.36**	1.29	1.19	1.15	1.17	1.19	1.25	1.34	1.39	1.36
End of period	**1.35**	1.32	1.24	1.12	1.17	1.17	1.22	1.32	1.39	1.37
OTHER										
Number of employees	**34,769**	32,067	32,126	32,130	33,580	33,666	34,115	34,482	32,988	33,281
Number of bank branches	**1,248**	1,214	1,231	1,239	1,242	1,230	1,226	1,220	1,220	1,220
Number of automated banking machines (Canada)	**1,708**	1,538	1,293	1,221	1,163	937	753	689	655	556

(d) Restated to reflect 2-for-1 effective stock split completed in March 1993.
(e) Annual compounded return for one bank common share invested at the beginning of the period, including dividend reinvestment.
(f) Net income less preferred dividends divided by average common shareholders' equity (which includes common share capital plus retained earnings).
(g) Percentage change in net income year over year.
(h) Non-interest expense to total revenue (TEB).
(i) Annual provision for credit losses divided by average net loans, acceptances and loan substitutes.
(j) Tier 1 capital divided by risk-weighted assets as defined by the OSFI.
(k) Cash and securities divided by total assets.
(l) Composite of senior debt ratings.
(m) Net income divided by average total equity.
(n) Gross non-performing loans divided by total equity and allowance for credit losses.
(o) Rates are expressed in Canadian dollars. Rates are the noon buying rates in New York for cable transfer in U.S. dollars as certified for customs purposes by the Federal Reserve Bank of New York, i.e., 'the Noon Buying Rate'.
NM – Not meaningful.
NA – Not available.

Economic Developments in 1994

- The Canadian economy grew at an annual rate of 4.7% in the first half of 1994. This growth reflected a surge in export growth, continuing high levels of business investment and a pick-up in consumer spending.
- Export growth, although supported by the fall in value of the Canadian dollar, largely reflected Canada's high degree of integration with the U.S. economy, particularly in transportation equipment. So far this year, the Canadian economy has benefited from rising demand by U.S. consumers for Canada's automotive products.
- The unemployment rate remained at a high level of 10.8% in the first half of 1994, although this rate is expected to trend lower through the end of 1994 as the economy expands.
- The consumer price index was virtually unchanged in the second quarter of 1994 compared to the previous year. However, it was biased downwards by sizeable cuts in tobacco tax rates that reduced its growth rate by about 1.3 percentage points.
- Despite efforts by the Bank of Canada to ease monetary policy, interest rates increased sharply and remained volatile through the first three quarters of the year in response to a more restrictive U.S. monetary policy stance, a sharp depreciation of the Canadian dollar, and concerns about growing public indebtedness.
- In the U.S., consumer spending and business investment fuelled economic growth of 4.1% and 3.4% (annualized) in the second and third quarters, respectively, of 1994. CPI inflation remains modest at slightly under 3.0% (year-over-year) in the third quarter of 1994.

Current Economic Expectations for 1995

- Canada's economic growth will ease to 3.5% as a result of slowing U.S. demand, the effects of higher interest rates in 1994, and expected fiscal expenditure cuts. The unemployment rate will remain historically high at close to 10%. The still sizeable amount of slack in the economy should contain inflationary pressures, thus the annual inflation rate will average 0.3% in 1994 and 1.6% in 1995.
- Although underpinned by positive fundamentals, the Canadian dollar will average between U.S. 73¢ to U.S. 74¢ through most of 1995 in response to narrowing Canada/U.S. interest rate spreads and continuing concerns about public deficits and Quebec separation.
- Interest rates will continue to fluctuate widely, with the three-month treasury bill yield trading within a range of 5.0% to 6.0% through most of 1995.
- The U.S. economy will slow to 2.7% growth in 1995 from a forecasted 3.7% this year. CPI inflation is expected to remain just under 3.0% through 1995. The yield on 30-year Treasuries is projected to decline to 6.8% by the end of 1995, and the yield on three-month T-bills should remain steady at 5%.

Expectations for Bank of Montreal in 1995

The implications of the current economic expectations for the Bank for 1995 are as follows:

- Economic growth implies that total business volumes should continue to increase and should also result in continued improvements in asset quality;
- Fluctuating interest rates will affect interest revenue and interest expense, and may impact business volumes; and
- Continued low inflation should permit a continued moderate rate of expense increase.

The Bank expects to continue with its earnings growth strategies outlined on pages 29 to 31 and its productivity improvement program discussed on page 32.

ONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

As at October 31 (Canadian $ in millions)

	1994	1993
Assets		
Cash Resources		
Cash and deposits with Bank of Canada	$ 840	$ 1,158
Deposits with other banks		
Interest-bearing	12,873	9,190
Non interest-bearing	946	1,048
Cheques and other items in transit, net	-	685
	14,659	12,081
Securities *(notes 3 & 5)*		
Investment (Market value $15,906 in 1994 and $15,003 in 1993)	15,733	14,599
Trading	10,481	8,560
Loan substitute	321	169
	26,535	23,328
Loans *(notes 4, 5 & 8)*		
Residential mortgages	24,215	21,261
Non-residential mortgages	2,086	1,888
Consumer instalment and other personal loans	11,013	9,399
Credit card loans	3,261	2,896
Loans to businesses and governments	34,515	32,842
Securities purchased under resale agreements	14,572	7,658
	89,662	75,944
Allowance for credit losses	(1,028)	(1,916)
	88,634	74,028
Other		
Customers' liability under acceptances	3,430	3,555
Premises and equipment *(note 6)*	1,575	1,458
Other assets *(note 7)*	3,342	2,419
	8,347	7,432
Total Assets	$138,175	$116,869

	1994	1993
Liabilities and Shareholders' Equity		
Deposits *(note 9)*		
Banks	$ 22,301	$ 20,807
Businesses and governments	28,741	22,675
Individuals	47,199	44,377
	98,241	87,859
Other		
Acceptances	3,430	3,555
Securities sold but not yet purchased	8,145	6,442
Securities sold under repurchase agreements	13,524	6,452
Other liabilities *(note 10)*	6,079	4,512
	31,178	20,961
Subordinated Debt *(note 11)*	2,218	2,363
Shareholders' Equity		
Share capital *(note 12)*		
Preferred shares	860	852
Common shares	3,002	2,632
Retained earnings	2,676	2,202
	6,538	5,686
Total Liabilities and Shareholders' Equity	$138,175	$116,869

The accompanying notes to consolidated financial statements are an integral part of this statement.

Matthew W. Barrett
Chairman and
Chief Executive Officer

F. Anthony Comper
President and
Chief Operating Officer

Consolidated Statement of Income

For the Year Ended October 31 (Canadian $ in millions except per share amounts)

	1994	1993	1992
Interest, Dividend and Fee Income			
Loans	**$5,618**	$5,505	$5,620
Securities	**1,260**	1,200	1,322
Deposits with banks	**481**	420	540
	7,359	7,125	7,482
Interest Expense			
Deposits	**3,367**	3,316	3,900
Subordinated debt	**189**	169	148
Other liabilities	**423**	428	424
	3,979	3,913	4,472
Net Interest Income	**3,380**	3,212	3,010
Provision for credit losses	**510**	675	550
Net Interest Income After Provision for Credit Losses	**2,870**	2,537	2,460
Other Income			
Operating services	**422**	415	390
Lending fees	**178**	147	118
Card services	**211**	208	193
Investment and securities services	**424**	312	241
Trust income	**197**	183	165
Foreign exchange	**149**	170	161
Other fees and commissions	**168**	146	97
	1,749	1,581	1,365
Net Interest and Other Income	**4,619**	4,118	3,825
Non-Interest Expense			
Salaries and employee benefits	**1,795**	1,664	1,549
Premises and equipment	**600**	580	555
Communications	**180**	165	167
Other expenses	**546**	477	458
	3,121	2,886	2,729
Goodwill and other valuation intangibles	**31**	30	36
Special charge	**71**	–	–
Total non-interest expense	**3,223**	2,916	2,765
Income Before Provision for Income Taxes	**1,396**	1,202	1,060
Provision for income taxes *(note 13)*	**560**	487	416
Income Before Non-Controlling Interest in Subsidiary	**836**	715	644
Non-controlling interest	**11**	6	4
Net Income	**$ 825**	$ 709	$ 640
Preferred dividends	**$ 69**	$ 68	$ 64
Net income available to common shareholders	**$ 756**	$ 641	$ 576
Average common shares outstanding *(in thousands)*	**251,307**	247,727	242,079
Net Income Per Common Share *(note 14)*			
– basic	**$ 3.01**	$ 2.59	$ 2.38
– fully diluted	**2.97**	2.55	2.36

The accompanying notes to consolidated financial statements are an integral part of this statement.

Consolidated Statement of Changes in Shareholders' Equity

For the Year Ended October 31 (Canadian $ in millions)

	1994	1993	1992
Preferred Shares *(note 12)*			
Balance at beginning of year	$ 852	$ 832	$ 718
Proceeds from the issue of preferred shares	–	–	369
Translation adjustment on shares issued in a foreign currency	8	20	13
Preferred shares retired	–	–	(268)
Balance at End of Year	860	852	832
Common Shares *(note 12)*			
Balance at beginning of year	2,632	2,539	2,416
Proceeds from the issue of common shares and on the exchange of shares of Bank of Montreal Securities Canada Limited	72	93	123
Common shares issued on acquisition of a subsidiary *(note 2)*	298	–	–
Balance at End of Year	3,002	2,632	2,539
Retained Earnings			
Balance at beginning of year	2,202	1,793	1,416
Net income	825	709	640
Dividends – Preferred shares	(69)	(68)	(64)
– Common shares	(305)	(278)	(257)
Unrealized gain on translation of net investment in foreign operations, net of hedging activities and applicable income tax	24	47	68
Share issue expense, net of applicable income tax	(1)	(1)	(5)
Premium paid on retirement of preferred shares	–	–	(5)
Balance at End of Year	2,676	2,202	1,793
Total Shareholders' Equity	$6,538	$5,686	$5,164

The accompanying notes to consolidated financial statements are an integral part of this statement.

Consolidated Statement of Changes in Financial Position

For the Year Ended October 31 (Canadian $ in millions)

	1994	1993	1992
Cash Flows From Operating Activities			
Net income	$ 825	$ 709	$ 640
Adjustments to determine net cash flows			
Provision for credit losses	510	675	550
Depreciation and amortization	187	177	163
Amortization of goodwill and intangibles	37	38	36
Deferred income taxes	(30)	18	(11)
Net (gain) on sale of investment securities	(37)	(40)	(23)
Change in accrued interest			
– decrease (increase) in interest receivable	(199)	116	(6)
– increase (decrease) in interest payable	22	(18)	(36)
Net change in deferred loan fees	(7)	8	27
Net change in trading securities	(1,222)	(1,845)	(1,378)
Net increase (decrease) in current income taxes payable	(183)	156	(50)
Changes in other items and accruals, net	129	116	(109)
Net Cash Provided By Operating Activities	32	110	(197)
Cash Flows From Financing Activities			
Net increase in deposits	8,311	1,258	8,832
Net increase in securities sold but not yet purchased	1,199	1,631	1,715
Net increase (decrease) in securities sold under repurchase agreements	7,039	2,306	(874)
Net increase in debt of subsidiaries	986	646	330
Proceeds from issuance of subordinated debt	–	644	300
Repayment of subordinated debt	(183)	(10)	(307)
Increase in subordinated debt	38	63	103
Proceeds from issuance of preferred shares	–	–	369
Retirement of preferred shares	–	–	(268)
Increase in preferred shares	8	20	13
Proceeds from issuance of common shares	72	93	123
Common shares issued on acquisition of a subsidiary	298	–	–
Dividends paid on – preferred shares	(69)	(68)	(64)
– common shares	(305)	(278)	(257)
Net Cash Provided By Financing Activities	17,394	6,305	10,015
Cash Flows Used In Investing Activities			
Non-operating balances on deposit with other banks	3,658	374	(1,914)
Net purchases (sales) of investment securities	383	(1,135)	3,340
Net increase in loans	6,801	2,239	8,495
Net increase in securities purchased under resale agreements	6,884	4,210	112
Premises and equipment – net purchases	246	308	190
Acquisition of subsidiaries	704	–	–
Net Cash Used In Investing Activities	18,676	5,996	10,223
Net Increase (Decrease) in Cash and Cash Equivalents	(1,250)	419	(405)
Cash and Cash Equivalents, Beginning of Year	2,851	2,432	2,837
Subsidiaries' cash and cash equivalents at date of acquisition	94	–	–
Cash and Cash Equivalents, End of Year	$ 1,695	$ 2,851	$ 2,432
Represented By:			
Cash and deposits with Bank of Canada	$ 840	$ 1,158	$ 1,379
Operating balances on deposit with other banks	889	1,008	658
Cheques and other items in transit, net	(34)	685	395
	$ 1,695	$ 2,851	$ 2,432
Supplemental Disclosure Of Cash Flow Information			
Amount of interest paid in the year	$ 3,957	$ 3,931	$ 4,508
Amount of income taxes paid in the year	750	241	354

The accompanying notes to consolidated financial statements are an integral part of this statement.

Notes to Consolidated Financial Statements

(Canadian $ in millions, unless otherwise stated)

Note 1. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

These consolidated financial statements include the disclosure requirements of United States generally accepted accounting principles and the effects of the application thereof as described in note 20. As a result, the Consolidated Statement of Income, Consolidated Statement of Changes in Shareholders' Equity, Consolidated Statement of Changes in Financial Position and notes disclosing income related amounts are presented for the three years ended October 31, 1994, 1993 and 1992 and the Consolidated Balance Sheet and related notes are presented as at October 31, 1994 and 1993.

Basis of Consolidation

The consolidated financial statements include the Bank and all of its subsidiaries, net of intercompany transactions and balances. Subsidiaries are defined as corporations whose operations are controlled by the Bank, generally corporations in which the Bank owns more than 50 per cent of the voting shares. The purchase method is used to account for all acquisitions. The difference between the cost of the investment and the fair value of the net assets acquired is deferred and amortized to income over the estimated periods of benefit not exceeding 25 years. The unamortized balance is recorded in other assets as goodwill and other valuation intangibles. Goodwill and other valuation intangibles are written down to fair value when declines in value are considered to be other than temporary based upon expected cash flows of the respective subsidiary.

Translation of Foreign Currencies

Assets and liabilities and shareholders' equity denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date. Income and expenses are translated at the average exchange rates prevailing during the year.

Realized and unrealized gains and losses on foreign currency assets and liabilities and shareholders' equity, other than those relating to net investments in foreign operations, are recorded in other income.

Unrealized foreign currency translation gains and losses on investments in foreign branches, subsidiaries, and associated corporations are recorded in retained earnings, net of the after-tax effect of any offsetting gains and losses on instruments designated as hedges. Such gains and losses are recorded in income only when realized.

Deposits with Banks

Deposits with banks, which include purchased acceptances of other banks, are recorded at cost. Interest income is recorded on an accrual basis.

Cheques and Other Items in Transit, Net

Cheques and other items in transit, representing uncleared settlements with other banks, are recorded at cost.

Securities

Securities comprise investment, trading and loan substitute securities.

Investment securities are securities where the Bank's original intention is to hold to maturity or until market conditions render alternative investments more attractive. Equity securities are carried at cost and debt securities at amortized cost. Securities are written down to fair value when declines in value are other than temporary. Write-downs and gains and losses on disposal of investment securities are recorded as a credit or charge to interest, dividend and fee income from securities in the year in which they occur. Gains and losses on disposal are calculated based on the average cost of the securities sold. Investment securities of designated countries are accorded the accounting treatment applicable to loans.

Trading securities are securities purchased for resale over a short period of time. Such securities are carried at market value. Adjustments to market value and gains and losses on sale of trading securities are recorded in interest, dividend and fee income from securities in the year in which they occur unless designated as a hedge of derivative financial instruments in which case the adjustments are reported in other income.

Loan substitute securities are customer financings structured as after-tax investments to provide the borrower with an interest rate advantage over what would otherwise be applicable on a conventional loan. Such securities are accorded the accounting treatment applicable to loans.

Loans

Loans are stated net of any unearned interest, unamortized discounts and allowance for credit losses. Interest income is recorded on an accrual basis except on loans classified as non-accrual.

Non-performing loans include loans classified as non-accrual and renegotiated reduced rate loans. Renegotiated reduced rate loans are loans where the interest rate has been reduced due to the weakened condition of the borrower but which do not meet the non-accrual loan criteria.

Restructured loans are non-personal and sovereign risk loans, where more than one bank is at risk, and where, because of the weakened financial condition of the borrower, the terms of the contract have been modified. Restructured loans are classified as accrual unless they meet the criteria for classification as non-accrual.

Property or other assets received in satisfaction of loans are classified with non-accrual loans. Such assets are reported as loan realization assets and are carried at the lower of net realizable value and the carrying value of the loan.

Loan Fees

Loan syndication fees are recorded in other income upon completion of the syndication arrangement. Loan origination, restructuring and renegotiation fees are recognized in interest income over the expected term of the loan. Commitment fees are accorded the same treatment if it is considered likely that the commitment will be exercised. Otherwise such fees are recognized in other income over the term of the commitment period. Deferred loan fees are recorded in other liabilities.

The accounting treatment for non-accrual loans is as follows:

Consumer Instalment and Credit Card Loans	Sovereign Risk Loans	Residential and Non-Residential Mortgages, Other Personal Loans, Loans to Businesses and Governments and Securities Purchased under Resale Agreements
ACCOUNTING FOR NON-ACCRUAL LOANS		
CLASSIFICATION AS NON-ACCRUAL		
Consumer instalment loans are classified as non-accrual when payments of interest or principal are contractually past due 90 days. Credit card loans are classified as non-accrual and written off when payments of interest or principal are contractually past due 180 days.	Loans are classified as non-accrual when: 1. in the opinion of management there is reasonable doubt as to the ultimate collectibility of principal or interest, or 2. payment of interest or principal is contractually past due 90 days unless in the opinion of management there is no significant doubt as to the ultimate collectibility of interest and principal, or 3. payment of interest or principal is contractually past due 180 days, or 4. in the opinion of management it is considered prudent or desirable to cease accruing interest, irrespective of the status of interest or principal payments.	Loans are classified as non-accrual when: 1. in the opinion of management there is reasonable doubt as to the ultimate collectibility of principal or interest, or 2. payment of interest or principal is contractually past due 90 days unless the loan is both well secured and in the process of collection, or 3. payment of interest or principal is contractually past due 180 days, or 4. in the opinion of management it is considered prudent or desirable to cease accruing interest, irrespective of the status of interest or principal payments.
INTEREST		
When a loan is classified as non-accrual, all accrued and unpaid interest is reversed and charged against interest income in the period in which the loan is classified as non-accrual. Interest is not capitalized if a loan is non-accrual nor is it capitalized to prevent classification of a loan as non-accrual.		
APPLICATION OF SUBSEQUENT PAYMENTS		
Subsequent payments are applied first to interest, then to principal, unless directed otherwise by the borrower.	Subsequent payments are applied first to interest, then to principal, unless directed otherwise by the borrower.	Subsequent payments are recorded in interest income after any prior write-off has been recovered and if management has determined that a specific provision is not required, otherwise they are recorded as a reduction of principal.
REINSTATEMENT OF ACCRUAL STATUS		
Non-accrual loans may revert to performing status when all payments become fully current and management has determined that there is no reasonable doubt as to the ultimate collectibility of principal or interest.		
ACCOUNTING FOR PRINCIPAL AMOUNTS OF NON-ACCRUAL LOANS		
ESTABLISHING PROVISION FOR CREDIT LOSSES ON LOANS AND WRITING OFF LOANS		
Consumer instalment loans have full specific provisions established and they are written off when payments of interest or principal are contractually past due one year. Credit card loans have full specific provisions established and they are written off at the same time as they are classified as non-accrual.	A specific provision is established to reduce the book value of the loan to its estimated realizable value if there is significant doubt as to the ultimate collectibility of principal on a particular loan. A country risk provision is established based on management's assessment of the political and economic conditions in particular countries, subject to a minimum level of aggregate provisions prescribed by the Superintendent of Financial Institutions Canada.	A specific provision is established to reduce the book value of the loan to its estimated realizable value if there is significant doubt as to the ultimate collectibility of principal on a particular loan. A general provision is established for prudential management reasons in respect of loans for which individual specific provisions cannot yet be determined.
	Loans are written off after all reasonable restructuring/collection activities have taken place and the possibility of further recovery is considered to be remote.	

Securities Purchased under Resale Agreements

Securities purchased under resale agreements, being securities which the Bank has purchased and has simultaneously committed to resell at a specified price on a specified date, are considered to be secured loans and are accorded the accounting treatment applicable to loans.

Allowance for Credit Losses

The Bank's allowance for credit losses, which is maintained at a level considered adequate to absorb credit losses existing in the Bank's portfolio of on and off-balance sheet items, consists of:

- Specific provisions
- General provision
- Country risk provision

The specific, general and country risk provisions are deducted from the related asset category, except for provisions relating to acceptances and off-balance sheet items, which are recorded in other liabilities.

The allowance is increased by provisions charged to income and is reduced by write-offs, net of recoveries.

Trust Assets under Administration

Trust assets under administration are maintained separately from the Bank's assets and are not included in the Consolidated Balance Sheet.

Acceptances

The Bank's potential liability under acceptances is reported as a liability in the Consolidated Balance Sheet. The Bank has an offsetting claim against its customers when the instrument matures which is recorded as an asset of the same amount. Acceptances are classified as non-performing when:

1. in the opinion of management there is reasonable doubt as to the ultimate collectibility of the face amount of the acceptance, or
2. in the opinion of management it is considered prudent or desirable.

Premises and Equipment

Land is stated at cost. Buildings, computer and other equipment, and leasehold improvements are stated at cost less an allowance for depreciation and amortization. Depreciation and amortization are calculated using the straight line method over the estimated useful life of the asset. The maximum life limits for the various classes are as follows:

- Buildings to 40 years
- Computer and other equipment to 10 years
- Leasehold improvements to 15 years

Securities Sold but not yet Purchased

Securities sold but not yet purchased, which represent the Bank's obligation to deliver securities sold which were not owned at the time of sale, are recorded at market value.

Securities Sold under Repurchase Agreements

Securities sold under repurchase agreements, being securities which the Bank has sold and simultaneously committed to repurchase at a specified price on a specified date, are recorded at cost. Interest expense is recorded on an accrual basis.

Income Taxes

Total income taxes include the provision for income taxes in the Consolidated Statement of Income and income taxes in respect of items recorded directly in retained earnings. The Bank follows the tax allocation method of accounting, whereby income taxes are based on transactions recorded in the financial statements regardless of when they are recognized for tax purposes. Deferred income taxes are recorded when there are timing differences in the recognition of transactions for financial statement and income tax purposes. Accumulated deferred income taxes are included in other assets or other liabilities as appropriate.

Derivative Financial Instruments

The Bank enters into interest rate and foreign exchange forwards, futures, options and swaps to enable customers to manage risk, and for proprietary trading and asset/liability management purposes.

Trading derivatives are those derivatives which the Bank enters into in order to assist customers in managing their interest rate or foreign exchange exposures and to generate income from proprietary trading positions. Trading derivatives are marked to market. Realized and unrealized gains and losses on foreign exchange and interest rate contracts are recorded in other income. A portion of the income derived from marking derivatives to market in respect of credit risk premiums and administrative costs is deferred and amortized to income over the life of the contracts. Net unrealized gains and losses on trading derivatives are recorded in other assets.

Asset/liability management derivatives are those derivatives used to manage the interest rate and foreign currency exposures arising from the Bank's on balance sheet positions. Such derivatives include contracts which are designated and effective as hedges as well as contracts which alter the Bank's overall interest rate or foreign currency risk profile. Swaps and forwards which are used for such purposes are accounted for on the accrual basis. Futures and options are marked to market and the unrealized gains and losses are deferred and amortized to income over the life of the related position. Net accrued interest receivable/payable and deferred gains/losses are recorded in other assets or other liabilities, as appropriate. Interest income/expense and amortized gains/losses are recorded in interest income and interest expense, as appropriate. Realized gains/losses on terminated contracts are deferred and amortized over the remaining life of the related position.

Pension and Other Retirement Benefits

The Bank's principal pension plan in Canada is The Pension Fund Society of the Bank of Montreal. A number of other plans provide similar benefits to employees in Canada, the United States and other parts of the world. The plans provide pensions to retired employees based on years of service and average earnings at retirement. These plans are generally non-contributory, with the Bank responsible for adequately funding the plans.

A valuation is performed each year to determine the actuarial present value of the accrued pension benefits based on management's best estimate of various assumptions such as projected employee compensation levels upon retirement. Pension plan assets are carried at market values.

Pension expense is recorded in the Consolidated Statement of Income as salaries and employee benefits and includes:

- the cost of pension benefits earned by employees for current year's service;
- the net of assumed investment earnings on plan assets and accretion of pension obligations;
- the amortization of the following items on a straight line basis over the expected average remaining service life of employees:
  - experience gains and losses,
  - amounts arising as a result of changes in assumptions, and
  - amounts arising from plan amendments.

The cumulative difference between pension expense and funding contributions is recorded in other assets or other liabilities, as appropriate.

The Bank also provides certain health care and life insurance benefits for retired employees. The cost of these benefits is recorded in salaries and employee benefits expense as incurred.

Net Income Per Common Share

Basic earnings per common share is based upon net income after deducting total preferred share dividends and the daily average number of fully paid common shares outstanding.

Fully diluted earnings per common share gives effect to potential dilution of earnings per share that would occur on conversion of securities issued by a subsidiary which are exchangeable for common shares of the Bank.

Comparative Figures

Certain comparative figures have been reclassified to conform with the 1994 presentation.

Note 2. Acquisition of Subsidiaries

On September 1, 1994 the Bank acquired all of the outstanding common shares of Burns Fry Limited, a Canadian investment dealer, in exchange for cash of $268 and 5,960,738 shares of Bank of Montreal Securities Canada Limited, exchangeable on a one for one basis for Bank of Montreal common stock, for a total price of $404, including acquisition costs. The acquisition was accounted for as a purchase and the results of operations of the acquired business are included in the Consolidated Statement of Income since that date. At the date of acquisition Burns Fry had assets and liabilities of:

Assets Acquired	
Cash resources	$ 15
Securities	699
Loans	581
Other assets	298
	1,593
Liabilities Assumed	
Deposits	331
Other liabilities	1,079
	1,410
Net assets acquired	183
Purchase price	404
Goodwill	$ 221

Goodwill arising from the transaction is amortized to non-interest expense over a period of 15 years.

On October 1, 1994 the acquired business was amalgamated with the Canadian operating subsidiary of The Nesbitt Burns Corporation Limited.

On October 1, 1994 the Bank acquired all of the outstanding common shares of Suburban Bancorp, Inc., a U.S. bank, in exchange for 13,261,303 shares of Bank of Montreal common stock, for a purchase price of $300 (U.S.$224), including acquisition costs. The acquisition was accounted for as a purchase and the results of operations of the acquired business are included in the Consolidated Statement of Income since that date. At the date of acquisition Suburban had assets and liabilities of:

Assets Acquired	
Cash resources	$ 121
Securities	872
Loans	844
Other assets	82
	1,919
Liabilities Assumed	
Deposits	1,740
Other liabilities	55
	1,795
Net assets acquired	124
Purchase price	300
Excess of purchase price	$ 176
Excess of purchase price is allocated to:	
Goodwill	$ 89
Valuation intangibles	87
	$ 176

Goodwill and other valuation intangibles arising from the transaction are amortized to non-interest expense and interest expense, respectively, over a period of 15 years.

Subsequent to its acquisition Suburban was amalgamated with Harris Bankmont, Inc., a wholly-owned subsidiary of Bankmont Financial Corp., and continued business operations as Harris Bankmont, Inc.

NOTE 3. SECURITIES

	Term to maturity										1994		1993
	Within 1 year	Yield %	1 to 3 years	Yield %	3 to 5 years	Yield %	5 to 10 years	Yield %	Over 10 years	Yield %	Total book value	Yield %	Total book value
INVESTMENT SECURITIES													
Issued or guaranteed by:													
Canada	$ 5,150	5.63	$ 211	7.56	$ 958	8.35	$ 22	8.67	$ 13	9.01	$ 6,354	6.12	$ 8,303
Provinces	31	5.25	–	–	12	8.42	302	9.32	5	9.44	350	8.93	355
Municipalities	–	–	–	–	6	8.81	–	–	–	–	6	8.81	3
U.S. federal government	703	4.84	1,775	6.25	740	5.88	20	6.82	31	7.08	3,269	5.88	2,057
U.S. states, municipalities and agencies	909	3.97	389	7.24	282	10.08	265	10.92	1,920	6.05	3,765	6.32	2,165
Designated countries	–	–	–	–	–	–	31	16.12	227	15.49	258	15.57	19
Other governments	5	3.06	3	5.58	–	–	5	6.75	686	7.12	699	7.09	796
Corporate debt	59	4.07	43	8.68	52	6.01	32	8.05	173	6.25	359	6.31	355
Corporate equity	–	–	–	–	–	–	–	–	673	7.02	673	7.02	546
Total investment securities	6,857	5.31	2,421	6.57	2,050	7.64	677	10.08	3,728	7.03	15,733	6.42	14,599
TRADING SECURITIES													
Issued or guaranteed by:													
Canada	3,415		951		531		917		486		6,300		5,710
Provinces	314		277		86		325		356		1,358		694
Municipalities	3		5		2		15		3		28		15
U.S. federal government	321		248		158		100		130		957		1,081
U.S. states, municipalities and agencies	30		4		3		63		49		149		318
All other	487		173		97		289		643		1,689		742
Total trading securities	4,570		1,658		877		1,709		1,667		10,481		8,560
LOAN SUBSTITUTE SECURITIES	5		–		66		–		250		321		169
TOTAL SECURITIES	$11,432		$4,079		$2,993		$2,386		$5,645		$26,535		$23,328

Yields are based upon book values at the end of the year and are derived by dividing interest income (or stated dividends on equity investments), adjusted for premiums and discounts, by book value.

Loan substitute securities, including term preferred shares and small business bonds, are net of an allowance for credit losses, as at October 31, 1994 and 1993, totalling $3 and $16, respectively.

Securities of designated countries includes securities received as a result of debt restructuring in countries designated by the Superintendent of Financial Institutions Canada, net of the country risk provision (note 5) allocated to these securities.

For the years ended October 31, 1994, 1993 and 1992, net realized gains on sales of investment securities totalled $37, $40 and $23, respectively.

UNREALIZED GAINS AND LOSSES

	1994				1993			
	Book value	Gross unrealized gains	Gross unrealized losses	Market value	Book value	Gross unrealized gains	Gross unrealized losses	Market value
INVESTMENT SECURITIES								
Issued or guaranteed by:								
Canada	$ 6,354	$ 10	$ 94	$ 6,270	$ 8,303	$ 16	$2	$ 8,317
Provinces	350	18	6	362	355	57	–	412
Municipalities	6	–	–	6	3	1	–	4
U.S. federal government	3,269	8	46	3,231	2,057	78	–	2,135
U.S. states, municipalities and agencies	3,765	34	81	3,718	2,165	73	1	2,237
Designated countries	258	247	–	505	19	35	–	54
Other governments	699	78	–	777	796	114	–	910
Corporate debt	359	4	6	357	355	9	2	362
Corporate equity	673	18	11	680	546	28	2	572
Total investment securities	$15,733	$417	$244	$15,906	$14,599	$411	$7	$15,003

Market value of securities is based upon the quoted market price, which may not necessarily be realized on sale. Where a quoted price is not readily available, other valuation techniques may be used to estimate market value.

Note 4. Non-Performing Loans and Acceptances

The following table sets out balances for non-performing loans and acceptances on an ultimate risk basis:

	Canada		U.S.A.		Other countries		Total	
	1994	1993	**1994**	1993	**1994**	1993	**1994**	1993
Residential mortgages	**$ 52**	$ 60	**$ –**	$ –	**$ –**	$ –	**$ 52**	$ 60
Non-residential mortgages	**70**	46	**–**	–	**–**	–	**70**	46
Consumer instalment and other personal loans	**17**	23	**8**	17	**–**	–	**25**	40
Credit card loans	**11**	3	**–**	–	**–**	–	**11**	3
Loans to businesses and governments	**825**	1,331	**1,240**	1,587	**59**	905	**2,124**	3,823
Securities purchased under resale agreements	**–**	–	**–**	–	**–**	–	**–**	–
Securities of designated countries	**–**	–	**–**	–	**–**	–	**–**	–
Loan substitutes	**68**	180	**–**	–	**–**	–	**68**	180
Acceptances	**97**	97	**–**	–	**–**	–	**97**	97
Total non-performing loans and acceptances	**1,140**	1,740	**1,248**	1,604	**59**	905	**2,447**	4,249
Allowance for credit losses	**(653)**	(841)	**(359)**	(472)	**(59)**	(673)	**(1,071)**	(1,986)
Total net non-performing loans and acceptances	**$ 487**	$ 899	**$ 889**	$1,132	**$ –**	$232	**$1,376**	$2,263
Average net non-performing loans and acceptances	**$ 741**	$ 932	**$1,088**	$1,193	**$148**	$113	**$1,977**	$2,238

	Canada			U.S.A.			Other countries			Total		
	1994	1993	1992	**1994**	1993	1992	**1994**	1993	1992	**1994**	1993	1992
Gross interest income received on total non-performing loans and acceptances	**$35**	$43	$31	**$23**	$13	$ 6	**$123**	$134	$45	**$181**	$190	$82
Interest income on total non-performing loans and acceptances, net of interest reversals	**$22**	$30	$ 9	**$19**	$ 8	$(2)	**$123**	$134	$44	**$164**	$172	$51

As at October 31, 1994 and 1993 non-performing loans include $245 and $257, respectively, of other real estate owned arising from loan realization activities.

Designated countries are countries identified by the Superintendent of Financial Institutions Canada as having difficulty in servicing all or part of their external debt to commercial banks. As at October 31, 1994 and 1993, the total net non-performing loans to designated countries amounted to $ nil and $224, respectively. As at October 31, 1994 and 1993, approximately 7% and 92%, respectively, of gross exposure to designated countries was classified as non-performing.

The allowance for credit losses as at October 31, 1994 and 1993 is net of $425 and $ nil, respectively, of country risk provision that is in excess of gross non-performing loans to designated countries.

Other past due loans, which are loans where payment of principal or interest is contractually past due 90 days but which have not yet been included in non-performing loans, as at October 31, 1994 and 1993, amounted to $11 and $22, respectively.

During the years ended October 31, 1994 and 1993, loans in the amount of $641 and $139, respectively, were restructured and classified as performing. This related to restructurings of loans to Argentina, Brazil and Poland in 1994 and to restructurings of loans to Argentina in 1993.

There were no renegotiated reduced rate loans outstanding as at October 31, 1994 and 1993.

Note 5. Allowance for Credit Losses

The following table sets out the allocation of the allowance for credit losses:

	Specific provisions			General provision			Country risk provision			Total		
	1994	1993	1992	**1994**	1993	1992	**1994**	1993	1992	**1994**	1993	1992
Securities of designated countries	**$ –**	$ –	$ –	**$ –**	$ –	$ –	**$465**	$ 54	$244	**$ 465**	$ 54	$ 244
Loans, loan substitutes and acceptances	**812**	1,222	1,025	**200**	100	100	**19**	610	690	**1,031**	1,932	1,815
	812	1,222	1,025	**200**	100	100	**484**	664	934	**1,496**	1,986	2,059
Off-balance sheet items	**–**	13	11	**–**	–	–	**–**	–	–	**–**	13	11
Total	**$ 812**	$1,235	$1,036	**$200**	$100	$100	**$484**	$664	$934	**$1,496**	$1,999	$2,070

Changes in the allowance for credit losses are as follows:

	Specific provisions			General provision			Country risk provision			Total		
	1994	1993	1992	**1994**	1993	1992	**1994**	1993	1992	**1994**	1993	1992
Balance at beginning of year	**$1,235**	$1,036	$ 598	**$100**	$100	$ 50	**$664**	$934	$1,501	**$1,999**	$2,070	$2,149
Provision for credit losses	**461**	676	519	**50**	–	50	**(1)**	(1)	(19)	**510**	675	550
Transfer of allowance	**(50)**	–	225	**50**	–	–	**–**	–	(225)	**–**	–	–
Recoveries	**74**	58	60	**–**	–	–	**1**	1	19	**75**	59	79
Write-offs	**(944)**	(573)	(410)	**–**	–	–	**(203)**	(315)	(452)	**(1,147)**	(888)	(862)
Other, including foreign exchange rate changes	**36**	38	44	**–**	–	–	**23**	45	110	**59**	83	154
Balance at end of year	**$ 812**	$1,235	$1,036	**$200**	$100	$100	**$484**	$664	$ 934	**$1,496**	$1,999	$2,070

During the year ended October 31, 1994, the amount of $50, relating to the allowance for credit losses of a subsidiary, was reclassified from specific provisions to general provision on consolidation.

The allowance for credit losses, which is maintained at a level considered adequate to absorb credit losses, is established as follows:

Specific Provisions

Loans and acceptances, other than consumer instalment and credit card loans, are reviewed quarterly to assess classification as non-performing and, where appropriate, required provision or write-off. The review consists of a dual approach whereby ultimate collectibility and estimated recoveries are determined and recommended by account management and concurred by independent credit officers. Significant specific provisions and the aggregate allowance for credit losses are reviewed for appropriateness by the Risk Management Policy Unit, a Head Office corporate unit. Continual reviews are also undertaken by an independent corporate audit group which encompass a review of accounts on a sample basis to assess the need for specific provisions.

The value of collateral, which may vary by type of loan and which may include cash, securities, real property, accounts receivable, guarantees, inventory or other capital assets, is considered in establishing provisions.

General Provision

The provision is established at a level which reflects management's estimate of the provision required for exposure to real estate and diversified commercial accounts.

Country Risk Provision

Loans to and securities of designated countries are reviewed quarterly by account management, credit personnel and the Risk Management Policy Unit to assess the classification as non-performing and the adequacy of the provision based upon the political and economic conditions in the respective countries.

Note 6. Premises and Equipment

Bank premises and equipment, stated at cost less accumulated depreciation and amortization, consist of the following:

	1994	1993
Land	**$ 248**	$ 228
Buildings	**1,086**	1,030
Computer and other equipment	**1,005**	927
Leasehold improvements	**256**	244
	2,595	2,429
Accumulated depreciation and amortization	**(1,020)**	(971)
Total	**$1,575**	$1,458

For the years ended October 31, 1994, 1993 and 1992 depreciation and amortization expense amounted to $187, $177 and $163, respectively. Land and buildings include amounts in respect of 558 bank owned branches, as well as other properties, located in Canada, the United States and other countries.

Note 7. Other Assets

	1994	1993
Accounts receivable, prepaid expenses and other items	**$1,039**	$1,079
Accrued interest receivable	**642**	440
Due from clients, dealers and other financial institutions	**739**	373
Deferred income taxes recoverable	**308**	278
Goodwill and other valuation intangibles	**614**	249
Total	**$3,342**	$2,419
The components of goodwill and other valuation intangibles for each major subsidiary are as follows:		
Goodwill		
The Nesbitt Burns Corporation Limited and subsidiaries	**$ 334**	$ 129
Harris Bankcorp, Inc. and subsidiaries	**27**	29
Harris Bankmont, Inc. and subsidiaries	**89**	–
	450	158
Other Valuation Intangibles		
Harris Bankcorp, Inc. and subsidiaries	**76**	91
Harris Bankmont, Inc. and subsidiaries	**88**	–
	164	91
Total	**$ 614**	$ 249

Amortization of goodwill and other valuation intangibles is reported in the Consolidated Statement of Income as follows:

	1994	1993	1992
Non-interest expense	**$31**	$30	$36
Interest expense	**6**	8	–
Total	**$37**	$38	$36

Note 8. Geographic Segmentation

The following table sets out balances for total assets and for loans and acceptances by geographic location:

	Canada			U.S.A.			Other countries			Total		
	1994	1993	1992	1994	1993	1992	1994	1993	1992	1994	1993	1992
Total Assets	**$85,714**	$74,965	$72,412	**$42,811**	$32,868	$28,752	**$9,650**	$9,036	$7,871	**$138,175**	$116,869	$109,035
Loans and Acceptances												
Residential mortgages	**$23,224**	$20,311	$18,641	**$ 991**	$ 950	$ 788	**$ –**	$ –	$ –	**$ 24,215**	$ 21,261	$ 19,429
Non-residential mortgages	**1,573**	1,748	1,657	**513**	140	140	**–**	–	–	**2,086**	1,888	1,797
Consumer instalment and other personal loans	**9,773**	8,472	8,318	**1,236**	923	812	**4**	4	4	**11,013**	9,399	9,134
Credit card loans	**2,133**	2,061	1,943	**1,128**	835	751	**–**	–	–	**3,261**	2,896	2,694
Loans to businesses and governments	**17,160**	16,266	16,832	**16,077**	14,658	14,523	**1,278**	1,918	2,196	**34,515**	32,842	33,551
Securities purchased under resale agreements	**5,265**	2,245	74	**9,307**	5,413	3,375	**–**	–	–	**14,572**	7,658	3,449
Total loans	**59,128**	51,103	47,465	**29,252**	22,919	20,389	**1,282**	1,922	2,200	**89,662**	75,944	70,054
Allowance for credit losses	**(650)**	(825)	(639)	**(359)**	(472)	(465)	**(19)**	(619)	(699)	**(1,028)**	(1,916)	(1,803)
Total net loans	**58,478**	50,278	46,826	**28,893**	22,447	19,924	**1,263**	1,303	1,501	**88,634**	74,028	68,251
Securities of designated countries	**–**	–	–	**–**	–	–	**258**	19	114	**258**	19	114
Loan substitutes	**321**	169	135	**–**	–	–	**–**	–	–	**321**	169	135
Acceptances	**2,895**	3,051	2,331	**243**	218	255	**292**	286	292	**3,430**	3,555	2,878
Total net loans and acceptances	**$61,694**	$53,498	$49,292	**$29,136**	$22,665	$20,179	**$1,813**	$1,608	$1,907	**$ 92,643**	$ 77,771	$ 71,378

Net Income	Canada 1994	Canada 1993	Canada 1992	U.S.A. 1994	U.S.A. 1993	U.S.A. 1992	Other countries 1994	Other countries 1993	Other countries 1992	Total 1994	Total 1993	Total 1992
Net interest income	**$2,336**	$2,173	$2,177	**$ 824**	$ 771	$693	**$220**	$268	$140	**$3,380**	$3,212	$3,010
Provision for credit losses	**276**	417	501	**238**	259	275	**(4)**	(1)	(226)	**510**	675	550
Other income	**1,131**	1,026	887	**550**	508	432	**68**	47	46	**1,749**	1,581	1,365
Net interest and other income	**3,191**	2,782	2,563	**1,136**	1,020	850	**292**	316	412	**4,619**	4,118	3,825
Non-interest expense	**2,248**	2,088	1,997	**943**	806	730	**32**	22	38	**3,223**	2,916	2,765
Income before provision for income taxes	**943**	694	566	**193**	214	120	**260**	294	374	**1,396**	1,202	1,060
Provision for income taxes	**420**	333	258	**47**	45	11	**93**	109	147	**560**	487	416
Non-controlling interest in subsidiary	**11**	6	4	**–**	–	–	**–**	–	–	**11**	6	4
Net income	**$ 512**	$ 355	$ 304	**$ 146**	$ 169	$109	**$167**	$185	$227	**$ 825**	$ 709	$ 640

Segmentation of assets is based upon the ultimate risk of the underlying assets. Segmentation of net income is based upon the geographic location of the unit responsible for managing the related assets, liabilities, revenue and expenses.

Note 9. Deposits

	Demand deposits: Interest bearing 1994	Demand deposits: Interest bearing 1993	Demand deposits: Non-interest bearing 1994	Demand deposits: Non-interest bearing 1993	Payable after notice 1994	Payable after notice 1993	Payable on a fixed date 1994	Payable on a fixed date 1993	Total 1994	Total 1993
Deposits by:										
Banks	**$ 204**	$ 135	**$ 778**	$ 518	**$ 215**	$ 307	**$21,104**	$19,847	**$22,301**	$20,807
Businesses and governments	**2,780**	2,388	**6,108**	5,365	**5,723**	5,202	**14,130**	9,720	**28,741**	22,675
Individuals	**498**	530	**1,169**	1,103	**21,182**	21,404	**24,350**	21,340	**47,199**	44,377
Total	**$3,482**	$3,053	**$8,055**	$6,986	**$27,120**	$26,913	**$59,584**	$50,907	**$98,241**	$87,859
Booked in:										
Canada	**$1,965**	$1,902	**$4,233**	$3,775	**$23,079**	$23,549	**$34,120**	$27,710	**$63,397**	$56,936
U.S.A.	**1,057**	837	**3,759**	3,136	**3,755**	3,009	**12,606**	11,167	**21,177**	18,149
Other countries	**460**	314	**63**	75	**286**	355	**12,858**	12,030	**13,667**	12,774
Total	**$3,482**	$3,053	**$8,055**	$6,986	**$27,120**	$26,913	**$59,584**	$50,907	**$98,241**	$87,859

Demand deposits are interest bearing and non-interest bearing deposits, generally chequing accounts, where the Bank does not have the right to require notice of withdrawal.

Deposits payable after notice are interest bearing deposits, generally savings accounts, where the Bank can legally require notice prior to withdrawal.

Deposits payable on a fixed date are interest bearing deposits, typically term deposits, guaranteed investment certificates and similar instruments with terms generally ranging from one day to seven years, which mature on a specified date.

Federal Funds purchased, being overnight borrowings of other banks' excess reserve funds at a United States Federal Reserve Bank, are classified as deposits by banks. As at October 31, 1994 and 1993 the balance of Federal Funds purchased amounted to $787 and $1,276, respectively.

Note 10. Other Liabilities

	1994	1993
Accounts payable, accrued expenses and other items	**$2,126**	$1,755
Liabilities of subsidiaries, other than deposits	**2,776**	1,713
Accrued interest payable	**899**	877
Deferred fees	**84**	91
Non-controlling interest in subsidiary	**160**	76
Cheques and other items in transit, net	**34**	–
Total	**$6,079**	$4,512

As at October 31, 1994 the aggregate sinking fund requirements and maturities for all liabilities of subsidiaries, other than deposits are as follows: 1995 – $2,641; 1996 to 1999 – $ nil; 2000 and thereafter – $135.

Note 11. Subordinated Debt

	Interest rate %	Maturity date	Redeemable at the option of the Bank beginning	Denominated in U.S. $	1994	1993
Series 8 Debentures	15.25	July, 1994	–	–	$ –	$ 10
Series 10 Debentures	5.36	July, 1998	July, 1991	250	338	330
Series 11 Debentures	10.60	December, 1998	–	–	10	150
Series 12 Debentures	10.85	December, 2008	December, 1998	–	140	–
Series 13 Debentures	5.99	August, 2089	August, 2000	–	150	150
Series 14 Debentures	10.25	May, 2002	–	–	150	150
Series 15 Debentures	8.50	June, 2002	June, 1997	–	200	200
Series 16 Debentures	10.00	February, 2017	February, 2012	–	100	100
Series 17 Debentures	8.85	June, 2003	June, 1998	–	250	250
Subordinated Notes	10.00	September, 1998	–	150	203	198
Subordinated Notes	10.30	March, 1999	March, 1994	125	–	165
Subordinated Notes	9.80	November, 2000	October, 1995	200	271	264
Subordinated Notes	6.10	September, 2005	–	300	406	396
Total					$2,218	$2,363

All subordinated debt represents direct unsecured obligations of the Bank and is subordinate in right of payment to the claims of depositors and certain other creditors.

The Series 10 Debentures bear interest at a rate of 0.05% above the London Eurodollar deposit rate, as defined. The stated rate is as at October 31, 1994.

The Series 13 Debentures bear interest at a rate equal to the Canadian "90 day Bankers' Acceptance Rate" plus 0.40%, as defined. The stated rate is as at October 31, 1994. They are redeemable from August 8, 2000, at the Bank's option and with the approval of the Superintendent of Financial Institutions Canada, for cash at par plus accrued interest. They are also convertible from August 8, 2000, at the holder's option, but subject to the Bank's pre-emptive right of redemption, for common shares of the Bank. The common share conversion price is 95% of the average trading price (as defined) of the Bank's common shares.

The Series 15 Debentures bear interest at a fixed rate of 8.50% until June 10, 1997. Thereafter, interest will be payable at a rate equal to the Canadian "90 day Bankers' Acceptance Rate" plus 1.00%, as defined.

On December 20, 1993, Series 11 Debentures, in the amount of $140, were exchanged for an equal amount of Series 12 Debentures.

In March, 1994, the 10.30% Subordinated Notes were redeemed, at par, at the option of the Bank.

The aggregate retirement provisions and maturities as at October 31, 1994 are as follows: 1995 to 1997 – $ nil; 1998 – $541; 1999 – $10; 2000 and thereafter $1,667.

Note 12. Share Capital

Authorized

Preferred Shares: An unlimited number of Class A Preferred Shares without par value, issuable in series. The aggregate consideration for all Class A Preferred Shares shall not exceed $2.5 billion.

An unlimited number of Class B Preferred Shares without par value, issuable in series. The aggregate consideration for all Class B Preferred Shares shall not exceed $2.5 billion.

These shares may be issued in foreign currencies.

Common Shares: An unlimited number of common shares without par value. The aggregate consideration for all common shares shall not exceed $5.5 billion.

Outstanding		1994		1993		1992	
(Canadian $ in millions, except per share amounts)		Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Preferred Shares							
Class A	– Series 4	8,000,000	$ 200	8,000,000	$ 200	8,000,000	$ 200
	– Series 5	288	72	288	72	288	72
Class B	– Series 1	10,000,000	250	10,000,000	250	10,000,000	250
	– Series 2	10,000,000	338	10,000,000	330	10,000,000	310
			860		852		832
Common Shares		265,456,651	3,002	249,093,914	2,632	244,819,338	2,539
Total Outstanding Share Capital			$3,862		$3,484		$3,371

Redemptions of all preferred share issues are subject to the prior approval of the Superintendent of Financial Institutions Canada.

The **Class A Preferred Shares Series 4** have a quarterly non-cumulative dividend equal to the greater of $0.5625 per share or 113.2% of the cash dividend paid on common shares of the Bank. These shares are redeemable from September 20, 1999, at the Bank's option, for either (a) cash at $25.00 per share or (b) common shares of the Bank. By terms of the issue, the exchange ratio is set at the relationship of the stated value per share of $25.00 to 95% of the average trading price (as defined) of the Bank's common shares.

The **Class A Preferred Shares Series 5** have a quarterly non-cumulative dividend of 7.62% per annum. These shares are redeemable, at the Bank's option, from (a) December 5, 1998 for cash at $250,000.00 per share or (b) from November 25, 1998 for common shares of the Bank. By terms of the issue, the exchange ratio is set at the relationship of the stated value per share of $250,000.00 to 95% of the average trading price (as defined) of the Bank's common shares.

The **Class B Preferred Shares Series 1** have a quarterly non-cumulative dividend of $0.5625 per share. These shares are redeemable from February 25, 2001, at the Bank's option, for either (a) cash at $25.00 per share or (b) common shares of the Bank. By terms of the issue, the exchange ratio is set at the relationship of the stated value per share of $25.00 to the greater of $2.50 or 95% of the average trading price (as defined) of the Bank's common shares.

The **Class B Preferred Shares Series 2** have a quarterly non-cumulative dividend of 6.75% per annum. These shares are redeemable from August 25, 2001, at the Bank's option, for either (a) cash at U.S. $25.00 per share or (b) common shares of the Bank. By terms of the issue, the exchange ratio is set at the relationship of the stated value per share of U.S. $25.00 to the greater of U.S. $2.50 and the U.S. dollar equivalent of 95% of the average trading price (as defined) of the Bank's common shares.

Common shares: During the years ended October 31, 1994 and 1993, 3,101,434 and 4,274,576 common shares, respectively, were issued under the Shareholder Dividend Reinvestment and Share Purchase Plan and on the exchange of shares of Bank of Montreal Securities Canada Limited for a total value of $72 and $93, respectively. On October 1, 1994, 13,261,303 common shares were issued, for a total value of $298, on acquisition of Suburban Bancorp, Inc.

As at October 31, 1994, there were reserved for possible issuance 7,358,361 common shares in respect of the Shareholder Dividend Reinvestment and Share Purchase Plan, 10,839,211 common shares in respect of the exchange of Class B, C, E and F shares of Bank of Montreal Securities Canada Limited, and 1,000,000 common shares in respect of the D shares of The Nesbitt Burns Corporation Limited.

Common share dividends disclosed below were declared quarterly.

Dividend restrictions: The Bank is prohibited by the Bank Act from declaring any dividend on its preferred or common shares when the Bank is, or would be placed by such dividend, in contravention of the capital adequacy and liquidity regulations or any regulatory directives issued under the Act. In addition, the ability to pay common share dividends is restricted by the terms of the outstanding preferred shares whereby the Bank may not pay dividends on its common shares at any time unless all dividends to which preferred shareholders are then entitled have been declared and paid or set apart for payment.

Dividends per Share as Declared

	1994	1993	1992
Common	**$1.20**	$1.12	$1.06
Class A Preferred			
Series 3	**–**	–	0.53
Series 4	**2.25**	2.25	2.25
Series 5	**19,062.50**	19,062.50	18,213.83
Class B Preferred			
Series 1	**2.25**	2.25	2.25
Series 2	**U.S. 1.69**	U.S. 1.69	U.S. 1.12

Dividends on the Bank's common shares reflect the effects of the two-for-one stock distribution in March, 1993. The 1992 dividends on Preferred Shares Class A Series 3 and Series 5 and Class B Series 2 are for a partial year.

Note 13. Income Taxes

The following tables set out components of income taxes:

Provision for Income Taxes

	1994	1993	1992
Provision for income taxes reported in the Consolidated Statement of Income	**$560**	$487	$416
Income tax (benefit) related to foreign currency translation reported in shareholders' equity	**(23)**	(46)	(70)
Total Income Taxes	**$537**	$441	$346
Components of Total Income Taxes			
Canada			
Current: Federal	**$388**	$260	$209
Provincial	**124**	90	74
	512	350	283
Deferred: Federal	**(11)**	25	1
Provincial	**(4)**	9	1
	(15)	34	2
Total Canadian	**497**	384	285
Foreign: Current	**55**	73	74
Deferred	**(15)**	(16)	(13)
Total Income Taxes	**$537**	$441	$346

The Bank is subject to Canadian taxation on income of foreign branches and earnings of foreign subsidiaries when repatriated to Canada. In addition, certain of the Bank's Canadian income is subject to foreign income tax where the payor is a non-resident of Canada.

The net deferred tax asset which is reported in other assets comprises both assets and liabilities arising from differences in the periods in which transactions are recognized for financial statement and income tax reporting purposes.

COMPONENTS OF DEFERRED TAX BALANCES

	1994	1993
DEFERRED TAX ASSETS		
Allowance for credit losses	$307	$298
Deferred items	118	101
Other	56	41
DEFERRED TAX ASSETS BEFORE VALUATION ALLOWANCE	481	440
Valuation allowance	(12)	(11)
DEFERRED TAX ASSETS NET OF VALUATION ALLOWANCE	469	429
DEFERRED TAX LIABILITY		
Premises and equipment	(41)	(48)
Deferred pension	(86)	(64)
Purchase accounting adjustments	(23)	(25)
Other	(11)	(14)
DEFERRED TAX LIABILITY	(161)	(151)
NET DEFERRED TAX ASSET	$308	$278

Deferred tax assets are reviewed quarterly for realizability and the valuation allowance adjusted as necessary. Management expects the amounts to be realized in the normal course of business operations.

The following table sets out a reconciliation of the statutory tax rates and income tax that would otherwise be payable at such rates to the provision for income taxes as reported in the Consolidated Statement of Income and the effective income tax rates:

	1994		1993		1992	
Combined Canadian federal and provincial tax and statutory tax rate	$587	42.0%	$512	42.6%	$446	42.1%
Increase (decrease) resulting from:						
Tax-exempt interest income	(17)	(1.2)	(16)	(1.3)	(13)	(1.2)
Foreign operations	(57)	(4.1)	(44)	(3.7)	(49)	(4.6)
Goodwill and other valuation intangibles	16	1.1	16	1.3	15	1.4
Other	31	2.3	19	1.6	17	1.5
PROVISION FOR INCOME TAXES AND EFFECTIVE TAX RATE	$560	40.1%	$487	40.5%	$416	39.2%

NOTE 14. NET INCOME PER COMMON SHARE

Basic earnings per common share is calculated using the daily average number of common shares outstanding. This average for 1994, 1993 and 1992 was 251,307,312 shares, 247,726,891 shares and 242,078,692 shares, respectively. Net income applicable to common shares for the years 1994, 1993 and 1992 amounted to $756, $641 and $576, respectively, reflecting the deduction of preferred share dividends from net income for the year.

Fully diluted earnings per common share is calculated using the daily average number of common shares which would have been outstanding for the years 1994, 1993 and 1992 of 256,496,148 shares, 252,633,713 shares and 245,130,702 shares, respectively, assuming conversion as at the beginning of the year or at the date of issuance, if later, of all securities which are convertible or redeemable at the option of the holder.

Note 15. Credit Commitments and Contingent Liabilities

(a) Credit Instruments

In the normal course of business, the Bank enters into commitments which are designed to meet the credit requirements of its customers. Such commitments include:

- Guarantees and standby letters of credit which represent an irrevocable obligation to make payments to a third party in the event that the customer is unable to meet its financial or performance contractual obligations;
- Documentary and commercial letters of credit which represent an agreement to honour drafts presented by a third party upon completion of specific activities;
- Commitments to extend credit which represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities, subject to certain conditions;
- Note issuance and revolving underwriting facilities which represent arrangements to acquire short-term notes for a predetermined price in the event that the customer is unable to sell the notes to third parties.

These instruments expose the Bank to credit risk, being the risk that a loss may occur due to the failure of a counterparty to fulfill its obligations. Management of credit risk is based primarily on a strong credit culture that promotes a prudent and professional approach to risk-taking, including:

- Communication of credit standards through policies, procedures and training;
  - Standards and a process of accreditation for all lending and credit officers with discretionary lending authority commensurate with competencies and experience;
  - Definition of authorities and accountability at every stage of the lending process;
- Disciplined decision-making, consisting of a dual track approach to risk assessment whereby most credits are reviewed by account managers and, separately, by independent credit officers;
- Regular review by a committee of senior executive officers of all large credits recommended by line groups and a formal quarterly review of all problem accounts;
- Management of the overall portfolio of on and off-balance sheet items to ensure broad diversification of credit risk and limit concentration in single sectors or accounts;
- Continuous review of credit and credit management processes by an independent audit group;
- Management information systems providing information on credit risk;
- Application of analytical tools and systems to capture risk, monitor positions, and price commensurate with risk.

In addition, collateral may be obtained where considered appropriate, in the form of cash, securities, real property, accounts receivable, guarantees, inventory or other capital assets.

The following table summarizes the contract amount and risk-weighted equivalent value, which is based on the rules of capital adequacy as prescribed by the Superintendent of Financial Institutions Canada:

	1994		1993	
	Contract amount	**Risk-weighted equivalent**	Contract amount	Risk-weighted equivalent
Credit Instruments				
Guarantees and standby letters of credit	**$ 6,081**	**$ 4,977**	$ 4,723	$ 4,041
Documentary and commercial letters of credit	**1,484**	**269**	832	151
Commitments to extend credit:				
Original maturity of one year and under	**31,429**	**–**	30,220	–
Original maturity of over one year	**19,730**	**9,396**	15,040	7,163
Note issuance and revolving underwriting facilities	**242**	**94**	169	48
Total	**$58,966**	**$14,736**	$50,984	$11,403

Commitments to extend credit in respect of consumer instalment and credit card loans are excluded as the lines are revocable at the Bank's discretion.

(b) Lease Commitments

The Bank and its subsidiaries have entered into a number of non-cancelable leases for premises and equipment. Annual contractual rental commitments for the next five years and thereafter, for an aggregate of $1,004, are: $119 for 1995, $109 for 1996, $97 for 1997, $89 for 1998, $80 for 1999, and $510 for 2000 and thereafter. Included in the above are amounts for the Bank's 690 leased bank branch locations as at October 31, 1994.

(c) Legal Proceedings

Management considers that the aggregate liability which may result from various legal proceedings outstanding against the Bank and its subsidiaries will not be material.

(d) Pledged Assets

In the normal course of business, the Bank and certain subsidiaries of the Bank pledge their assets as security for liabilities incurred. Securities and other assets are pledged in respect of secured call loans, $2,641; securities sold but not yet purchased, $8,145; securities sold under repurchase agreements, $13,524; and other secured liabilities, $1,175.

Note 16. Derivative Financial Instruments

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets or interest or exchange rates. The Bank enters into such contracts for trading and for asset/liability management purposes.

Trading related activities relate primarily to derivatives contracts designed to enable customers to manage their risk exposures and proprietary trading undertaken by the Bank to profit from expected future market movements.

Asset/liability management derivatives are those derivatives entered into by the Bank to manage the interest rate and foreign currency exposures arising from on balance sheet positions in order to ensure a consistent stream of earnings.

Derivatives transactions, which are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets, include:

Swaps, which are contractual agreements between two parties to exchange interest payments based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For cross-currency swaps, fixed interest payments and notional amounts are exchanged in different currencies. For cross-currency interest rate swaps, notional amounts and fixed and floating interest payments are exchanged in different currencies.

Forwards and futures, which are contractual agreements to either buy or sell a specified currency or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

Options, which are contractual agreements that convey the right but not the obligation to either buy or sell a specific amount of a financial instrument at a fixed price either at a fixed future date or at any time within a fixed future period. For options written by the Bank, the Bank receives a premium from the purchaser for accepting unlimited position risk. For options purchased by the Bank, a premium is paid for the right to exercise the option, but the Bank sustains credit risk due to the uncertainty as to the writer's ability to fulfill the conditions of the contract. Also included in options are caps, collars and floors which are contractual agreements where the writer agrees to pay the purchaser based on a specified notional amount, the agreed upon difference between the market rate and the prescribed rate of the cap, collar or floor. The writer receives a premium for selling this instrument.

Revenue from trading in foreign exchange contracts including spot transactions is reported in the Consolidated Statement of Income as Other Income – Foreign Exchange. Revenue from trading interest rate contracts, excluding funding expense and including the effects of financial instruments used to manage exposures, was for the years ended October 31, 1994 and 1993, $52 and $29, respectively. The amounts are reported in the Consolidated Statement of Income as Other Income – Investment and Securities Services. Losses incurred on defaults of counterparties charged to the allowance for credit losses in 1994 and 1993 were not material.

The effect of asset/liability derivatives on net interest income and the amount of deferred gains/losses on such contracts for the years ended October 31, 1994 and 1993 were not material.

In entering into derivative contracts the Bank incurs credit and/or position risk. Credit risk, which is incurred for swaps, forwards and purchased options, is managed in the same manner as described in note 15 for credit instruments. Position risk, being the risk that the fair value of financial instruments will fluctuate due to changes in interest and foreign exchange rates, is incurred for swaps, forwards, futures and options. Management of position risk is based upon a culture that promotes prudent and professional risk-taking including:

- Centralized management of the Bank's position risks within Treasury. Authorities and accountabilities for managing and monitoring this risk are defined within Treasury;
- Established prudent position risk policies which manage the level of interest rate and foreign exchange risk within control limits;
- Regular monitoring of both positions and control limits by the Risk Management Committee consisting of senior executive officers;
- Management information systems providing information on position risk;
- Application of analytical tools such as gap analysis, income and market value sensitivity and simulation analysis.

The following table summarizes the Bank's derivative portfolio and related credit exposure:

Notional amount: represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

Replacement cost: represents the cost of replacing, at current market rates, all contracts which have a positive fair value. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be obtained.

Future credit exposure: represents the potential for future changes in value based upon a formula prescribed by the Superintendent of Financial Institutions Canada.

Credit risk equivalent: represents the total of replacement cost and future credit exposure.

Risk-weighted balance: represents the credit risk equivalent weighted according to the creditworthiness of the counterparty as prescribed by the Superintendent of Financial Institutions Canada.

	1994					1993				
	Notional amount	Replacement cost	Future credit exposure	Credit risk equivalent	Risk-weighted balance	Notional amount	Replacement cost	Future credit exposure	Credit risk equivalent	Risk-weighted balance
Interest Rate Contracts										
Interest rate swaps	$ 67,707	$ 824	$ 404	$ 1,228	$ 282	$ 49,647	$1,474	$ 177	$1,651	$ 530
Cross-currency interest rate swaps	7,446	266	338	604	146	6,104	202	288	490	126
Forward rate agreements	69,808	53	7	60	19	61,073	35	3	38	8
Futures	50,789	1	–	1	–	18,861	–	–	–	–
Purchased options	6,741	79	18	97	25	5,140	20	10	30	10
Written options	6,225	1	–	1	–	3,650	–	–	–	–
	208,716	1,224	767	1,991	472	144,475	1,731	478	2,209	674
Foreign Exchange Contracts										
Cross-currency swaps	755	92	22	114	10	883	57	15	72	6
Forward foreign exchange contracts ≤ 14 days	67,993	245	–	245	–	42,906	288	–	288	–
> 14 days	259,110	5,200	2,865	8,065	1,903	221,562	2,173	2,374	4,547	1,214
Futures	162	–	–	–	–	279	1	–	1	–
Purchased options	4,038	53	61	114	39	5,573	92	49	141	38
Written options	3,652	–	–	–	–	5,168	–	–	–	–
	335,710	5,590	2,948	8,538	1,952	276,371	2,611	2,438	5,049	1,258
Total	$544,426	$6,814	$3,715	$10,529	$2,424	$420,846	$4,342	$2,916	$7,258	$1,932

As at October 31, 1994 and 1993, trading transactions accounted for 93% and asset/liability management transactions accounted for 7% of total notional amounts.

Transactions are conducted with counterparties in varying geographic locations and industries. The geographic segmentation of notional amounts based upon ultimate risk as at October 31, 1994 is:

Canada	$223,242	41%
U.S.A.	118,451	22
Other countries	202,733	37
Total	$544,426	100%

As at October 31, 1994, industry exposure based upon notional amount is:

	Interest rate contracts		Foreign currency contracts	
Financial institutions	$182,300	87%	$325,198	97%
Other	26,416	13	10,512	3
Total	$208,716	100%	$335,710	100%

The following table summarizes maturities and weighted average interest rates paid and received on interest rate contracts:

	Term to maturity										1994	1993
	Within 1 year		1 to 3 years		3 to 5 years		5 to 10 years		Over 10 years		Total notional amount (CDE)	Total notional amount (CDE)
Interest Rate Contracts		Rate		Rate		Rate		Rate		Rate		
Fixed/Floating Swaps		%		%		%		%		%		
Canadian $ pay fixed – CAD	$ 7,058	6.75	$ 5,649	8.02	$ 2,927	7.68	$2,042	8.49	$ –	–	$ 17,676	$ 12,355
Canadian $ receive fixed – CAD	6,423	6.76	6,690	7.92	2,630	7.80	2,531	8.56	–	–	18,274	12,156
U.S. $ pay fixed – CDE	6,734	5.32	5,875	6.41	2,905	6.74	1,715	7.06	51	8.21	17,280	14,529
U.S. $ receive fixed – CDE	6,693	5.53	4,347	6.26	3,515	6.60	1,815	7.31	101	7.96	16,471	14,318
Basis swaps – CDE	1,660	NA	1,430	NA	973	NA	702	NA	45	NA	4,810	2,214
Other swaps – CDE	–	–	–	–	431	NA	211	NA	–	–	642	179
Interest rate and cross-currency interest rate swaps – CDE	28,568	NA	23,991	NA	13,381	NA	9,016	NA	197	NA	75,153	55,751
Forward rate agreements, futures and options – CDE	118,486	NA	14,259	NA	666	NA	152	NA	–	–	133,563	88,724
Total Interest Rate Contracts – CDE	$147,054	NA	$38,250	NA	$14,047	NA	$9,168	NA	$197	NA	$208,716	$144,475

CAD *represents amounts denominated in $ Canadian.*
CDE *represents amounts transacted in source currency translated to $ Canadian at the October 31 spot rate.*
NA – *not applicable as weighted average rates are not meaningful.*

Rates represent the weighted average interest rates which the Bank is contractually committed to pay/receive until the swap matures. The floating side of substantially all CAD swaps is based on the one or three month Canadian Bankers' Acceptance Rate. For U.S. $ swaps the floating side is generally based on the one, three or six month London Interbank Offered Rate.

Basis swaps are floating interest rate swaps in which amounts paid and received are based on different indices or pricing periods.

Other swaps are contracts where the fixed side is denominated in a source currency other than CAD or U.S. $.

The following table provides the fair value of the Bank's derivative portfolio as at October 31, 1994 and 1993 as represented by the sum of net unrealized gains and losses, accrued interest receivable or payable, and premiums paid or received:

	1994			1993		
	Customer/ proprietary trading	Asset/ liability management	Total	Customer/ proprietary trading	Asset/ liability management	Total
Interest Rate Contracts						
Interest rate swaps	$ 62	$ 4	$ 66	$181	$(38)	$143
Cross-currency interest rate swaps	156	(102)	54	12	(38)	(26)
Forward rate agreements	(3)	1	(2)	3	3	6
Futures	–	–	–	–	–	–
Purchased options	78	–	78	19	–	19
Written options	(70)	–	(70)	(18)	–	(18)
Foreign Currency Contracts						
Cross-currency swaps	(26)	77	51	(5)	52	47
Forward foreign exchange contracts	84	(7)	77	(20)	(1)	(21)
Futures	–	–	–	–	–	–
Purchased options	89	–	89	89	–	89
Written options	(91)	–	(91)	(84)	–	(84)
Total Fair Value	$279	$(27)	$252	$177	$(22)	$155
Total Book Value	$279	$(70)	$209	$177	$(39)	$138

Fair values reported above are based on the following assumptions:

- *Instruments are marked to market using quoted market rates and/or zero coupon valuation techniques.*
- *Zero coupon curves are created using generally accepted mathematical processes from underlying instruments such as cash, bonds, futures and off-balance sheet prices observable in the market.*
- *Options volatilities are either obtained directly from market sources or implied from market prices utilizing a modified Black Scholes Option Pricing algorithm.*
- *All prices and rates used are independently validated to ensure consistency and accuracy.*

Note 17. Pension Funds

The Bank has a number of pension funds, of which The Pension Fund Society of the Bank of Montreal is the principal plan in Canada and the Employees' Retirement Plan of Bank of Montreal/ Harris is the pension plan for most of the employees of Harris Bankcorp, Inc. and U.S.-based Bank of Montreal offices.

The plans are generally non-contributory in nature. However, certain employees are required or may elect to make contributions. Retirement benefits are based upon length of service and the employee's highest five years of compensation. The Bank's funding policy is to contribute amounts required by legislation and to ensure that benefit obligations are adequately funded. In recent years, contributions have generally exceeded minimum legislative requirements.

The following table provides summaries of their estimated financial positions:

	1994	1993	1992
Accumulated benefit obligation, including vested benefits of $1,141 in 1994, $1,109 in 1993 and $980 in 1992	**$1,169**	$1,134	$1,000
Projected benefit obligation for service rendered to date	**$1,500**	$1,438	$1,274
Plan assets at fair value	**1,657**	1,645	1,370
Excess of plan assets over projected benefit obligation	**157**	207	96
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in actuarial assumptions	**49**	(25)	23
Unrecognized prior service costs	**66**	69	71
Unrecognized transition amount	**(30)**	(40)	(50)
Prepaid pension cost	**$ 242**	$ 211	$ 140
As at October 31, 1994, the plan assets consisted of equities (47.9%), fixed income investments (48.4%) and real estate and other investments (3.7%).			
Annual Pension Cost:			
Net pension costs includes the following components:			
Service cost-benefits earned	**$ 58**	$ 50	$ 47
Interest cost in projected benefit obligation	**119**	111	104
Actual return on plan assets	**21**	(254)	(105)
Net amortization and deferral	**(151)**	133	(2)
Annual pension cost	**47**	40	44
Canada and Quebec pension plan contribution	**17**	17	16
Total annual pension cost	**$ 64**	$ 57	$ 60
Actuarial Assumptions:			
Weighted average discount rate for projected benefit obligation	**8.3%**	8.0%	8.4%
Weighted average rate of compensation increase	**5.5**	5.7	5.7
Weighted average expected long-term rate of return on plan assets	**8.4**	8.1	8.4

Note 18. Fair Value of Financial Instruments

The amounts set out below represent the fair values of on and off-balance sheet financial instruments of the Bank at a point in time, where it is practical to do so. Such amounts do not include the fair value of underlying lines of business or legal entities.

While fair value amounts are designed to represent estimates of the amounts at which instruments could be exchanged in a current transaction between willing parties, many of the Bank's financial instruments lack an available trading market. Therefore, instruments have been valued on a going concern basis taking into account changes in interest rates that have occurred since origination.

The fair values as at October 31 are:

	1994			1993		
	Book value	**Fair value**	**Fair value over (under) book value**	Book value	Fair value	Fair value over (under) book value
Balance Sheet						
Assets						
Cash resources	**$14,659**	**$14,659**	**$ -**	$12,081	$12,081	$ -
Securities *(note 3)*	**26,535**	**26,708**	**173**	23,328	23,732	404
Loans	**88,634**	**88,110**	**(524)**	74,028	74,662	634
Customers' liability under acceptances	**3,430**	**3,430**	**-**	3,555	3,555	-
Other assets	**3,342**	**3,342**	**-**	2,419	2,419	-
Liabilities						
Deposits	**98,241**	**98,232**	**(9)**	87,859	88,329	470
Acceptances	**3,430**	**3,430**	**-**	3,555	3,555	-
Securities sold but not yet purchased	**8,145**	**8,145**	**-**	6,442	6,442	-
Securities sold under repurchase agreements	**13,524**	**13,524**	**-**	6,452	6,452	-
Other liabilities	**6,079**	**6,088**	**9**	4,512	4,537	25
Subordinated debt	**2,218**	**2,180**	**(38)**	2,363	2,529	166
Off-Balance Sheet						
Derivative financial instruments *(note 16)*	**209**	**252**	**43**	138	155	17

The estimated fair value of the following assets and liabilities is equal to book value as the items are short term in nature:

- *Cash resources*
- *Customers' liability under acceptances*
- *Other assets*
- *Acceptances*
- *Securities sold but not yet purchased*
- *Securities sold under repurchase agreements*
- *Other liabilities, excluding liabilities of subsidiaries, other than deposits.*

It is the Bank's intention to hold loans to maturity. As a result, fair value for loans is based upon:

- *Book value, which is net of an allowance for credit losses (general and specific) established to reduce book value to its estimated realizable value, except for loans to designated countries.*
- *Discount rate reflecting the effects of interest rate changes.*
- *Quoted market price in the case of loans to and past due interest bonds of designated countries.*

The fair value of deposits is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms and credit risks.

The fair value of subordinated debt and liabilities of subsidiaries, other than deposits included in other liabilities is determined by reference to current market prices for the same or similar debt.

The fair value of premises and equipment, having book values as at October 31, 1994 and 1993 of $1,575 and $1,458, respectively, have not been estimated as these assets are not financial instruments.

Note 19. Related Party Transactions

In the ordinary course of business, the Bank provides banking services to its subsidiary companies on terms similar to those offered to non-related parties.

The Bank makes loans to its current and former directors, officers and employees at various rates and terms. The amounts outstanding under loan agreements are as follows:

	1994	1993
Mortgage loans	**$ 927**	$ 821
Personal loans	**309**	247
Total	**$1,236**	$1,068

Note 20. Reconciliation of Canadian and United States Generally Accepted Accounting Principles

The consolidated financial statements of the Bank are prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

As required by the United States Securities and Exchange Commission, material differences between Canadian and United States accounting principles are described below.

Consolidated Balance Sheet

There is no material difference between assets and liabilities as reported in the Consolidated Balance Sheet prepared under Canadian generally accepted accounting principles for the years ended October 31, 1994 and 1993 and assets and liabilities which would be reported by applying United States generally accepted accounting principles.

Classification of items in the Consolidated Balance Sheet for Canadian reporting purposes generally corresponds to United States reporting practices, except that for United States reporting securities are classified on acquisition based upon intent as follows:

Investment: when the intent is to hold securities to maturity, such securities are carried at amortized cost.

Available for Sale: when the intent is to hold the securities indefinitely or until realized for asset/liability management or other purposes, such securities are carried at the lower of aggregate cost or market.

Trading: when the intent is to sell the securities, such securities are carried at market value.

Canadian generally accepted accounting principles require that securities be classified on acquisition as investment or trading as described in note 1. While classification may differ there is no difference in the total carrying value of securities which would be reported under United States generally accepted accounting principles.

Consolidated Statement of Income

There is no material difference between the consolidated net income as reported under Canadian generally accepted accounting principles for the years ended October 31, 1994 and 1993 and consolidated net income which would be reported by applying United States generally accepted accounting principles.

Classification of items in the Consolidated Statement of Income for Canadian reporting purposes generally corresponds to United States reporting practices except that gains and losses on investment and trading securities and write-downs on investment securities are reported as other income in the United States.

Consolidated Statement of Changes in Shareholders' Equity

There is no material difference between consolidated shareholders' equity as reported under Canadian generally accepted accounting principles for the years ended October 31, 1994 and 1993 and consolidated shareholders' equity which would be reported by applying United States generally accepted accounting principles.

Consolidated Statement of Changes in Financial Position

There is no material difference between the Consolidated Statement of Changes in Financial Position as reported under Canadian generally accepted accounting principles for the years ended October 31, 1994 and 1993 and a consolidated statement of changes in financial position which would be prepared under United States generally accepted accounting principles.

Additional Disclosure

Basis of Consolidation

United States generally accepted accounting principles require, in certain circumstances, the use of the pooling-of-interest method to account for business combinations completed through the exchange of voting shares. Under this method, assets and liabilities of the combined entity are reported at the value received by the combined entities and the results of operations for the period of the combination and the previous periods are reflected on a combined basis.

Under United States generally accepted accounting principles, the acquisition of Suburban Bancorp, Inc., as set out in note 2, would be reported using the pooling-of-interest method. The application of this method would not materially change the financial results or financial position of the Bank as reported under Canadian generally accepted accounting principles. The effect is:

	Increase (Decrease)	
	1994	1993
Assets	**$ (168)**	$1,704
Shareholders' Equity	**(167)**	130
Net Income	**13**	19

Accounting Standards Recently Issued in the United States

In future years, the Bank will be required to adopt the following accounting standards for United States reporting purposes:

- Statement of Financial Accounting Standards No. 106, "Employers Accounting for Postretirement Benefits Other Than Pensions", which must be adopted in fiscal 1996 for United States reporting purposes. Under this new standard, employers must recognize the cost of certain post retirement benefits during the periods in which employees render service. The Bank currently recognizes these costs when paid in accordance with industry practice. The potential impact of the new standard on annual net income for United States reporting purposes has not been determined.
- Statement of Financial Accounting Standards No. 112, "Employers Accounting for Post Employment Benefits", which must be adopted for United States reporting in fiscal 1995. Under the new standard employers must recognize the cost of benefits provided to former or inactive, but not retired, employees when an event occurs indicating that payment of benefits is probable. The Bank currently recognizes such amounts when paid in accordance with industry practice. The potential impact of the new standard on annual net income for United States reporting purposes has not been determined.
- Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan", which must be adopted for United States reporting purposes in fiscal 1996. Under this new standard, impaired loans must be measured at either:
  - Present value of expected future cashflow
  - Observable market price of the loan
  - Fair value of the collateral

  Impaired loans are currently measured at their estimated realizable value in accordance with industry practice.

  Similar requirements have been enacted by the Canadian Institute of Chartered Accountants for implementation for Canadian reporting purposes in fiscal 1996. The potential impact of the new standard has not been determined.
- Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities", which must be adopted for United States reporting purposes in fiscal 1995. Under this new standard, investments in debt and equity securities must be classified on acquisition into one of three categories: held to maturity, available for sale or trading. Securities held to maturity will be recorded at amortized cost. Securities available for sale and trading securities will be recorded at market value. Unrealized gains and losses on securities available for sale will be recorded as a separate component of shareholders' equity. Unrealized gains and losses on trading securities will be recorded in income. The Bank currently identifies securities acquired as either for investment or trading purposes. Investment securities are carried at amortized cost and trading securities are carried at market value in accordance with industry practice. The potential impact of this new standard is contingent upon future securities positions and market movements and therefore cannot be currently estimated.
- Financial Accounting Standards Board Interpretation No. 39, "Offsetting of Amounts Relating to Certain Contracts", which must be adopted for United States reporting purposes in fiscal 1995. This new standard relates to the reporting on the balance sheet of unrealized gains and losses on foreign exchange and interest rate contracts. The standard will require the reporting of gross unrealized gains and losses, permitting netting of amounts by counterparties when master netting agreements have been executed. The Bank currently reports unrealized gains and losses on a net portfolio basis in accordance with industry practice. The potential impact of the new standard for United States reporting purposes has not been determined.

Statement of Management's Responsibility for Financial Information

The presentation and preparation of the annual consolidated financial statements of Bank of Montreal and all other information in the Annual Report is the responsibility of the Bank's management. The information provided therein has been prepared in accordance with the provisions of the Bank Act and related regulations, and corresponds to Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada. The information provided also includes the disclosure requirements of United States generally accepted accounting principles and the effect of the application thereof. The consolidated financial statements necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal control and audit including organizational and procedural controls and internal accounting controls. The Bank's system of internal control includes written communication of Bank policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and sound and conservative accounting policies which are regularly updated. This structure ensures appropriate internal control over transactions, assets and records. The Bank's audit of internal controls consists of a continuous program of extensive internal audits covering all aspects of the Bank's operations. The Shareholders' Auditors review the system of internal control and audit to the extent that they consider appropriate in order to report on the Bank's consolidated financial statements. These controls and audit are designed to provide reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and the Bank is in compliance with all regulatory requirements.

The Board of Directors is responsible for reviewing and approving the financial information contained in the Annual Report, and overseeing management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls and assessment of significant and related party transactions. The Board delegates these responsibilities to its Audit and Conduct Review Committees. These committees are composed solely of directors who are not officers or employees of the Bank.

The Shareholders' Auditors and the Bank's Chief Auditor have full and free access to the Board of Directors and its committees to discuss audit, financial reporting and related matters.

M. W. Barrett

Matthew W. Barrett
Chairman and
Chief Executive Officer

F. Anthony Comper
President and
Chief Operating Officer

Robert B. Wells
Executive Vice-President and
Chief Financial Officer

Shareholders' Auditors' Report

To the Shareholders of Bank of Montreal

We have audited the consolidated balance sheets of Bank of Montreal as at October 31, 1994 and 1993 and the consolidated statements of income, changes in shareholders' equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

The consolidated financial statements for the year ended October 31, 1992 were audited by Deloitte & Touche and KPMG Peat Marwick Thorne, who expressed an opinion thereon without reservation in their report dated November 24, 1992.

Coopers & Lybrand

KPMG Peat Marwick Thorne

Coopers & Lybrand
Chartered Accountants

KPMG Peat Marwick Thorne
Chartered Accountants

Canada
November 22, 1994

Corporations in which the Bank owns more than 50% of the issued and outstanding voting shares	Head office	Percent of voting shares owned by the Bank	Book value of common and preferred shares owned by the Bank *(Cdn. $ in millions)*
Canada			
Bank of Montreal Investment Counsel Limited	Toronto	100.0	1
Bank of Montreal Investment Management Limited	Toronto	100.0	12
Bank of Montreal Investor Services Limited	Toronto	100.0	4
Bank of Montreal Mortgage Corporation	Calgary	100.0	763
BMRI Realty Investments	Toronto	100.0	
Bank of Montreal Securities Canada Limited	Toronto	100.0	558
The Nesbitt Burns Corporation Limited and subsidiaries	Montreal	100.0	
The Trust Company of Bank of Montreal	Toronto	100.0	13
United States			
Bankmont Financial Corp.	Wilmington, U.S.A.	100.0	2,334
BMO Financial, Inc.	Wilmington, U.S.A.	100.0	
Harris Bankcorp, Inc. and subsidiaries	Chicago, U.S.A.	100.0	
Harris Bankmont, Inc. and subsidiaries	Chicago, U.S.A.	100.0	
Harris Futures, Inc.	Wilmington, U.S.A.	100.0	
Harris Nesbitt Thomson Securities Inc.	Chicago, U.S.A.	100.0	
HGC Bank	Chicago, U.S.A.	100.0	
Other Countries			
Bank of Montreal Asia Limited	Singapore, Republic of Singapore	100.0	31
Bank of Montreal Capital Markets (Holdings) Limited	London, England	100.0	15
Bank of Montreal Europe Limited	London, England	100.0	11
Concordia Financial Corporation	Bridgetown, Barbados	100.0	299
Concordia Insurance Corporation	Bridgetown, Barbados	100.0	26
Concordia Life Assurance Corporation	Bridgetown, Barbados	100.0	48
First Canadian Assessoria e Serviços Ltda.	Rio de Janeiro, Brazil	100.0	–

The above is a list of all the Bank's directly held corporations, as well as their directly held corporations, and thereby includes all of the Bank's major operating companies. The book values of the corporations shown represent the total common and preferred equity value of the holdings of the Bank.

Except for Bank of Montreal Securities Canada Limited ("BMSCL") the Bank owns 100% of the outstanding non-voting shares of its subsidiaries. As at October 31, 1994 the Bank owned 22.27% of BMSCL's outstanding non-voting shares.

Corporate Directory

~ Corporate Governance ~

A Competitive Advantage

For today's shareholder, the quality of a corporation's board, along with its composition, policies, and corporate governance practice, is a good indicator of the quality of the entire organization. That is a key reason why, in recent years, Bank of Montreal has achieved leading-edge status in the introduction of contemporary corporate governance practice.

Our Board knows our business. Directors are given a thorough orientation and are then rotated through different committees. New guidelines specify what information they need and ensure that they get it. Board prerogatives are spelled out so that the boundaries to discretionary action by management are prescribed. More work is delegated to board committees, while the Board as a whole plays a critical role in developing corporate strategy and guiding its implementation.

The Board is strongly independent, with inside directors restricted to two members out of a present total of thirty-one. The Nominating Committee of the Board is responsible for monitoring the effectiveness of our corporate governance. Directors assess their own performance — and how to improve it — during the annual Corporate Governance Survey. The Chief Executive Officer and Chief Operating Officer undergo formal reviews, resulting in written reports. Not the least value of this process is to provide useful direction for further reforms of corporate governance.

Since governance requirements change along with corporate circumstances, flexibility is one of the greatest virtues a board can possess. It comes from having directors who are experienced, perceptive and adaptable. Bank of Montreal's Board represents a wide range of interests and cultural backgrounds, which makes it a valuable link to the wider society we serve. Equally important is the blend of specialized experience and competence the Board brings from virtually every key segment of society and the economy, in Canada, the United States and internationally. That expertise equips the Board to exercise proper oversight and due diligence regarding the Bank's operations and strategy.

Including all these desirable qualities becomes especially challenging as the Board contracts to a more efficient size. The present total of thirty-one directors is well down from a high of fifty-two in 1981. As the Board continues to shrink, each director's responsibility and involvement will grow.

We are firmly committed to continue introducing best practices in this critical area. We know that our strong, active Board stimulates optimal performance by management. By so doing, it gives Bank of Montreal a significant competitive advantage, one we intend to maintain.

Directors and Officers of Bank of Montreal

~ as at October 31, 1994 ~

Directors

Matthew W. Barrett *(a)*
Chairman of the Board and Chief Executive Officer

F. Anthony Comper *(a, f)*
President and Chief Operating Officer

Ralph M. Barford *(a, d, e, f)*
Toronto
President
Valleydene Corporation Limited

David R. Beatty, O.B.E. *(a)*
Toronto
Chairman and Chief Executive Officer
Old Canada Investment Corporation Limited

Peter J.G. Bentley, O.C., LL.D. *(b, c, e)*
Vancouver
Chairman and Chief Executive Officer
Canfor Corporation

Pierre Côté, C.M. *(a, b, c, d, e)*
Quebec City
Chairman of the Board
Celanese Canada Inc.

C. William Daniel, O.C., LL.D. *(a, d, f)*
Toronto
Retired President and Chief Executive Officer
Shell Canada Limited

Graham R. Dawson
Vancouver
President
G.R. Dawson Holdings Limited

Louis A. Desrochers, C.M., Q.C. *(a, d)*
Edmonton
Senior Partner
McCuaig Desrochers

John F. Fraser, O.C., LL.D. *(a, d)*
Winnipeg
Chairman
Federal Industries Ltd.

Wilbur H. Gantz
Wilmette, Illinois
President and Chief Executive Officer
PathoGenesis Corporation

James J. Glasser
Lake Forest, Illinois
Chairman, President and Chief Executive Officer
GATX Corporation

John H. Hale
London, England
Retired Managing Director
Pearson plc

Donald S. Harvie, O.C.
Calgary
Chairman
Devonian Foundation

Robert E. Kadlec *(f)*
Vancouver
President and Chief Executive Officer
BC Gas Inc.

Betty Kennedy, O.C., LL.D. *(a, d)*
Toronto
Broadcast Journalist and Public Affairs Editor

Geraldine A. Kenney-Wallace, Ph.D., D.Sc., LL.D.
Toronto
President and Vice-Chancellor
McMaster University, Hamilton

Stanley Kwok *(b, c)*
Vancouver
Chairman
Amara International Investment Corp.

J. Blair MacAulay *(a, e)*
Oakville
Partner
Fraser & Beatty, Toronto

Ronald N. Mannix *(f)*
Calgary
Chairman and Chief Executive Officer
Loram Corporation

Robert H. McKercher, Q.C. *(b, c)*
Saskatoon
Senior Partner
McKercher McKercher Laing & Whitmore

Eric H. Molson *(f)*
Montreal
Chairman of the Board
The Molson Companies Limited

Jean C. Monty *(b, c)*
Toronto
President and Chief Executive Officer
Northern Telecom Limited

William D. Mulholland, LL.D.
Georgetown, Ontario
Farmer, and former Chairman of the Board, Bank of Montreal

Jerry E.A. Nickerson
North Sydney, Nova Scotia
Chairman
H.B. Nickerson & Sons Ltd.

Jeremy H. Reitman *(a, b, c)*
Montreal
President
Reitmans (Canada) Limited

Guylaine Saucier, C.M., F.C.A.
Montreal
Corporate Director and former President
Le Groupe Gérard Saucier Ltée

William W. Stinson *(b, c, e)*
Montreal
Chairman and Chief Executive Officer
Canadian Pacific Limited

Mary Alice Stuart, C.M., O.Ont., LL.D.
Toronto
Chairman and Chief Executive Officer
CJRT-FM INC.

James C. Thackray
Toronto
Retired Chairman and Chief Executive Officer
Bell Canada

Lorne C. Webster *(a, d)*
Montreal
Chairman and Chief Executive Officer
Prenor Group Ltd.

Member of:
(a) Executive Committee
(b) Audit Committee
(c) Conduct Review Committee
(d) Human Resources and Management Compensation Committee
(e) Nominating Committee
(f) Risk Review Committee

Honorary Directors

Charles F. Baird
Bethesda, Maryland, United States

Claire P. Bertrand
Montreal, Quebec

The Honourable Sidney L. Buckwold
Saskatoon, Saskatchewan

Fred S. Burbidge, O.C.
Frelighsburg, Quebec

Nathanael V. Davis
Osterville, Massachusetts, United States

John H. Devlin
Toronto, Ontario

A. John Ellis, O.C., LL.D., O.R.S.
Vancouver, British Columbia

Thomas M. Galt
Toronto, Ontario

J. Peter Gordon, O.C.
Mississauga, Ontario

G. Arnold Hart, M.B.E., C.M.
Mountain, Ontario

Richard M. Ivey, C.M., Q.C.
London, Ontario

David Kinnear
Toronto, Ontario

Donald A. McIntosh, Q.C.
Toronto, Ontario

Fred H. McNeil
Granum, Alberta

The Honourable Hartland de M. Molson, O.B.E.
Montreal, Quebec

Lucien G. Rolland, O.C.
Montreal, Quebec

Officers

Matthew W. Barrett
Chairman of the Board and Chief Executive Officer

F. Anthony Comper
President and Chief Operating Officer

Jeffrey S. Chisholm
Vice-Chairman
Corporate and Institutional Financial Services

Keith O. Dorricott
Vice-Chairman
Corporate Services

Alan G. McNally
Vice-Chairman and Chief Executive Officer
Harris Bankcorp, Inc.

Brian J. Steck
Vice-Chairman
Investment Banking and Chairman and Chief Executive Officer
Nesbitt Burns Corporation Limited

Ronald G. Rogers
Senior Executive Vice-President
Personal and Commercial Financial Services

Lloyd F. Darlington
Executive Vice-President
Operations

Robert B. Wells
Executive Vice-President and Chief Financial Officer

International Advisory Council

The role of the International Advisory Council is to provide the Bank and its Senior Executive advice on political, economic and social trends which impact the Bank's current or future operations. Council meets approximately once every nine months. On request of the Bank's Chairman and Chief Executive Officer, International Advisory Council members provide advice, either collectively or individually, with respect to particular developments outside Canada which may have significance for the Bank. The Council does not participate in the management, operation or administration of the Bank or its subsidiaries and affiliates.

Sylvia Ostry, C.C., F.R.S.C.
(Council Chairman) Canada
Chairman, Centre for International Studies, University of Toronto; Chancellor, University of Waterloo; Chairman, The National Council of the Canadian Institute of International Affairs; Western Co-Chairman, The Blue Ribbon Commission for Hungary's Economic Recovery; and former Ambassador of Canada for Multilateral Trade Negotiations and Personal Representative of the Prime Minister to the Economic Summit.

Matthew W. Barrett
(ex-officio) Canada
Chairman of the Board and Chief Executive Officer, Bank of Montreal.

***Sir Peter B. Baxendell, C.B.E., F.ENG., FIC.**
United Kingdom
Director, The "Shell" Transport and Trading Company, p.l.c. (Chairman 1979–85) and Director, Inchcape Plc and Sun Life Assurance Company of Canada.

Ambassador Richard R. Burt
United States
Chairman, International Equity Partners; former Partner, McKinsey & Company; Senior Advisor to the Center for Strategic and International Studies; former Chief Negotiator on Strategic Arms Reduction Talks and United States Ambassador to Germany.

*Retired by rotation.
Members acknowledge with appreciation their contribution to Council.

Sir Michael Butler
United Kingdom
Director, Hambros Bank Limited; and the British Government's Permanent Representative in the European Community in Brussels (1979–85).

F. Anthony Comper
(ex-officio) Canada
President and Chief Operating Officer, Bank of Montreal.

Viscount Étienne Davignon
Belgium
Chairman of the Société Générale de Belgique; former Vice-President of the Commission of the European Communities; and former President of the International Energy Agency.

Juan Gallardo
Mexico
Chairman, Grupo GEUSA; and Chairman of COECE (Coordinación Empresarial para el Acuerdo de Libre Comercio).

Philippe Giscard d'Estaing
France
Chairman of Thomson International Advisory Board, International Advisor to the Chairman of Thomson SA; and Vice-Chairman of CNPF International (Conseil national du patronat français).

Allan E. Gotlieb, C.C.
Canada
Chairman, Burson-Marsteller, Canada and Executive Consultants Limited; and former Ambassador of Canada to the United States and Chairman of the Canada Council.

Dr. Kihwan Kim
Republic of Korea
Senior Advisor, Kim & Chang; and Chairman of the Korean National Committee for the Pacific Economic Cooperation Council (KOPEC).

Makoto Kuroda
Japan
Senior Managing Director of Mitsubishi Corporation; and former Vice-Minister of International Affairs of MITI (Ministry of International Trade and Industry).

***Hun Jo Lee**
Republic of Korea
Vice-Chairman and Chief Executive Officer, Goldstar Co., Ltd.; Director of the Korea Institute for Industrial Economics and Technology; Vice-Chairman of Korea Industrial Research Institutes; and Chairman of Audio and Video R&D Association of Korea.

Dr. the Honourable David K.P. Li, O.B.E., HON.LL.D. (CANTAB), J.P.
Hong Kong
Director and Chief Executive, The Bank of East Asia, Limited; and Member of the Legislative Council of Hong Kong.

Dr. Charles L. Schultze
United States
Senior Fellow, Economic Studies, The Brookings Institution.

Dr. h.c. Horst Teltschik
Federal Republic of Germany
Member of the Managing Board of Directors of BMW AG Munich; former Head of the Department for Foreign and Inter-German Relations, Development Policy, External Security; and Deputy Chief of Staff of the Federal Chancellery.

The Honorable James R. Thompson
United States
Partner, Chairman and Chairman of the Executive Committee, Winston & Strawn; and Governor of Illinois (1977–91).

Dividends Declared during Fiscal Year

Dividends were declared and paid quarterly. The following table sets forth the dividends declared during the past five completed financial years.

($ per share)	**1994**	1993	1992	1991	1990
Common *(a)*	**$1.20**	$1.12	$1.06	$1.06	$1.06
Class A Preferred					
Series 2 *(b)*	–	–	–	–	0.15
Series 3 *(c)*	–	–	0.53	2.20	2.64
Series 4	**2.25**	2.25	2.25	2.25	2.25
Series 5 *(d)*	**19,062.50**	19,062.50	18,213.83	–	–
Class B Preferred					
Series 1 *(e)*	**2.25**	2.25	2.25	0.93	–
Series 2 *(f) ($U.S.)*	**1.69**	1.69	1.12	–	–

(a) Common dividends have been restated to reflect the two-for-one effective stock split in March 1993.

(b) All outstanding Series 2 Preferred Shares were redeemed by the Bank during fiscal 1990. Dividends declared in fiscal 1990 were for a partial year.

(c) All outstanding Series 3 Preferred Shares were repurchased or redeemed by the Bank during fiscal 1992. Dividends declared in fiscal 1992 were for a partial year.

(d) The Class A Series 5 Preferred Shares were issued in December 1991. Dividends declared in fiscal 1992 were for a partial year.

(e) The Class B Series 1 Preferred Shares were issued in June 1991. Dividends declared in fiscal 1991 were for a partial year.

(f) The Class B Series 2 Preferred Shares were issued in March 1992. Dividends declared in fiscal 1992 were for a partial year.

The Bank Act prohibits a bank from paying or declaring a dividend if it is in contravention of capital adequacy regulations. Currently this limitation does not restrict the payment of dividends on the Bank's common or preferred shares.

Common Stock Prices Toronto Stock Exchange

Year ended October 31	**1994**	1993
High	**$30.750**	$27.375
Low	**$22.000**	$21.313
Close	**$25.125**	$26.875
Volume (TSE)	**174,008,917**	97,212,058

Transfer Agents and Registrars

The Trust Company of Bank of Montreal, with transfer facilities in the cities of Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver, serves as transfer agent and registrar for common and preferred shares. In addition, The Trust Company of Bank of Montreal and Bank of Montreal Trust Company serve as transfer agents and registrars for common shares in London, England and New York, respectively.

Restraints on Bank Shares under the Bank Act

The Bank Act limits ownership of any class of shares of the Bank by all non-residents to a maximum of 25%. Under this limitation, a resident of the United States or other NAFTA country resident is not classified as a non-resident. In addition, no person or group of associated persons may own more than 10% of any class of shares and ownership of the Bank's shares by Canadian or foreign governments is prohibited.

Distribution of Common Shareholders

At October 31, 1994	
Canada	97.2%
United States	1.6%
Other	1.2%
	100.0%

The above distribution summarizes the registered shareholders by geographic region. Accounts held in nominee name are included in the country in which the account is maintained.

Market for Securities of the Bank

The common shares of the Bank are listed on the Toronto, Montreal, Winnipeg, Alberta, Vancouver and New York stock exchanges and The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited, London, England ("London Stock Exchange"). The preferred shares of the Bank, with the exception of Class A Preferred Shares Series 5, are listed on the Toronto, Montreal, Winnipeg, Alberta and Vancouver stock exchanges. In addition, the following debt securities are listed on the London Stock Exchange: U.S.$250 million Floating Rate Debentures, Series 10, due July 1998; and Cdn. $100 million 10⅜ per cent Notes due October 1996.

Shareholder Dividend Reinvestment and Share Purchase Plan

The Shareholder Dividend Reinvestment and Share Purchase Plan provides a means for holders of record of common and preferred shares resident in Canada to reinvest cash dividends in new common shares of the Bank without the payment of any commissions or service charges. Shareholders may also purchase additional common shares of the Bank by making optional cash payments of up to $40,000 per fiscal year. Full details of the plan are available from Shareholder Services.

Electronic Funds Transfer Service

Shareholders may choose to have dividends deposited directly to an account in any financial institution in Canada which provides electronic funds transfer facilities.

For copies of the Annual Report, please write to the Public Affairs Department of the Bank, P.O. Box 6002, Postal Station Place d'Armes, Montreal, Quebec H2Y 3S8, or P.O. Box 1, 1 First Canadian Place, Toronto, Ontario M5X 1A1.

For other shareholder information, please write to the Secretary's Department, P.O. Box 6002, Postal Station Place d'Armes, Montreal, Quebec H2Y 3S8. (On peut obtenir sur demande un exemplaire en français.)

Supplemental financial data is available from Investor Relations, P.O. Box 1, 1 First Canadian Place, Toronto, Ontario M5X 1A1.

† Issued by Bank of Montreal Mortgage Corporation and unconditionally guaranteed by Bank of Montreal.

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Bank of Montreal