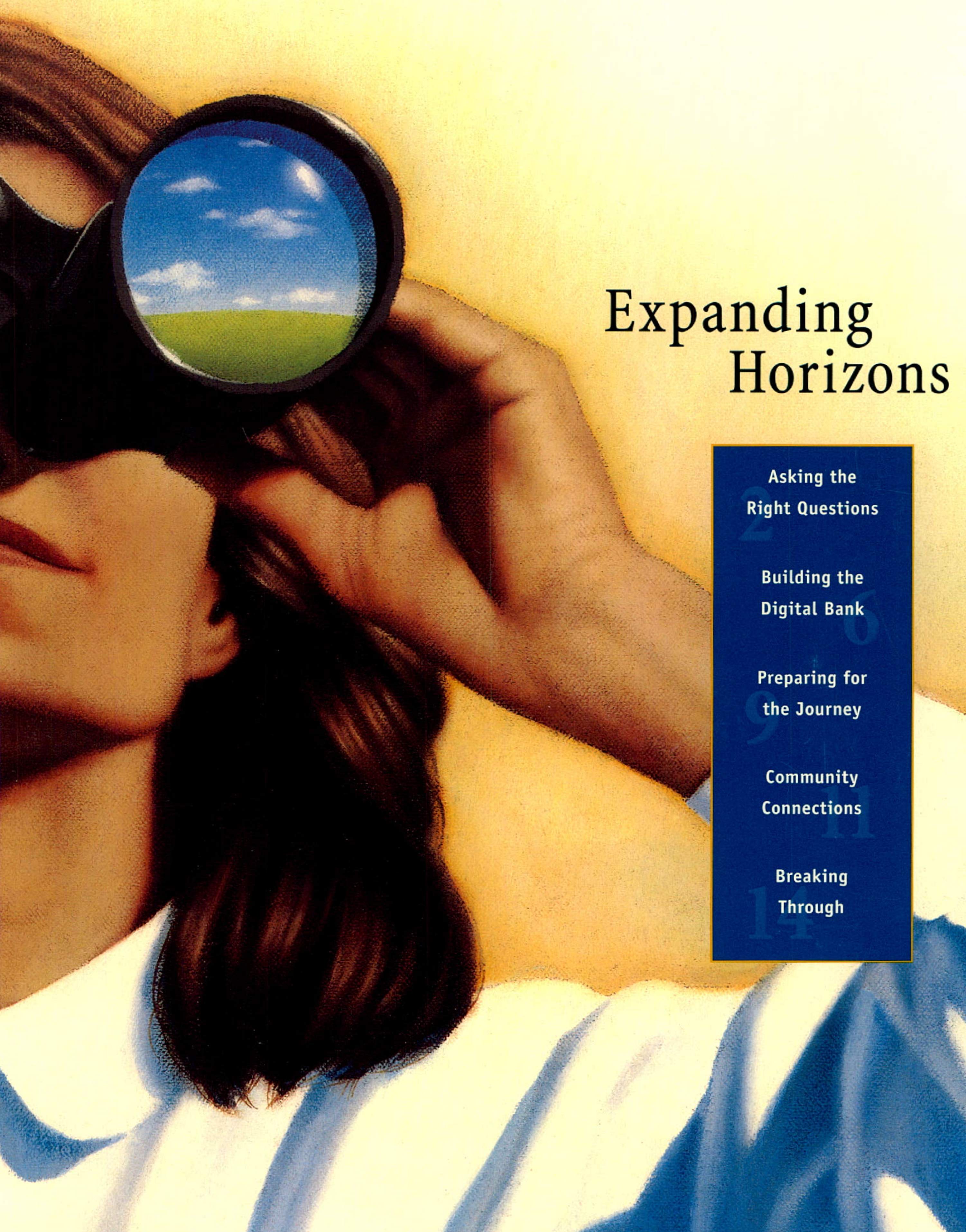
178th Annual Report 1995

# Bank of Montreal



## Expanding Horizons

# Highlights of 1995

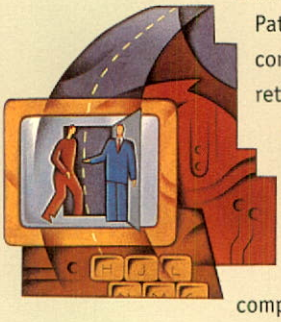
**Merchant Banking**

Bank of Montreal and Nesbitt Burns moved to establish a new merchant bank which, pending regulatory approval, will invest in the long-term success of mid-market companies. The merchant bank will provide expansion as well as acquisition financing for North American companies with proven track records and demonstrated competitive advantages.

**Traders Make Their Move**

Bank of Montreal and Nesbitt Burns built Canada's largest privately owned trading floor in Toronto. By integrating trading operations, the Bank and Nesbitt offer customers state-of-the-art facilities and service. The 25,000-square-foot trading floor comes with 335 fully equipped trading stations.

*Trade, capital flows and new information technologies are redrawing dramatically the international financial landscape. The result? A new global village for financial services.* *See page 14.*



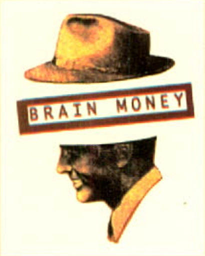
**All on the Same Path**

Bank of Montreal unveiled Pathway, a breakthrough computer platform for retail branches. Its aim: to enhance relationship banking with customers and as a result improve productivity. Using networked personal computers equipped with Pathway software, Customer Service Representatives now have at their fingertips a wealth of integrated information about the Bank's products and services.

**Branch Redesigns**

Bank of Montreal launched the ASSIST program, which sets new standards for branch redesign. The program is altering more than the faces of Bank branches across the country. It is also helping improve customer service — and is a fundamental part of Bank of Montreal's ongoing transition from a transaction-based bank to a relationship bank.

*Technology is revolutionizing the financial services industry, transforming banking and changing how the Bank does business with valued customers.* *See page 6.*




**Brain Money**

The Bank designated $500 million for its new Student Line of Credit — a key component of its Brain Money™ campaign. Designed to meet the financial needs of post-secondary students, Brain Money includes its own Internet site (http://www.bmo.com), where customers can access data on the Bank's financial products and services, and download application forms for the Student Line of Credit.

*At a time of rapid change, the very definition of community seems to be shifting. As old allegiances give way to new ones, this shift is redefining the way the Bank responds to its various communities.* *See page 11.*

**The Best Solution Far and Away**

Bank of Montreal opened three mini-branches for rural communities, the first being Bredenbury, near Yorkton, Saskatchewan. These compact branches, conveniently located in post offices and town halls, offer Bank customers personal service for all their standard banking needs.

™Trade mark of Bank of Montreal

## Trading Up

Taking another step toward building the first bank with a truly North American base, Bank of Montreal and Harris Bank established one of the largest foreign exchange operations on the continent (and the largest in the U.S. Midwest) by merging their existing foreign exchange operations. Based in Chicago, the unit combines the strengths of the two organizations to better serve their North American clients — and complements the Bank's existing foreign exchange operations around the world.

## Global Thinking

Bank of Montreal increased significantly its international financing capabilities for North American customers doing business abroad. The Bank committed an additional $3 billion for trade, term and project finance in key world markets for North American exporters. In addition, Bank Chairman Matthew Barrett met with senior Chinese officials to discuss the Bank's ventures there, including the opening of a branch in Guangzhou — another sign of senior management's continuing commitment to exploring international markets for future growth.


## Tailor-Made Banking

Bank of Montreal opened a whole new frontier in Canadian banking with eight Private Client Services Centres. From Vancouver to Halifax, clients can now have all their financial management needs looked after — all under one roof. The new Centres combine banking, investment and trust services, leveraging different parts of the Bank as never before.

## The Freeze on Interest Thaws Out

Bank of Montreal invited Canadians to "move out of near-zero conditions" — a reference to the amount of interest paid on savings accounts at most other major financial institutions. The Bank offered unrivalled rates on FirstBank® Savings Account balances under $5,000.

*The effects of changing demographics are being felt throughout society – including the world of financial services.* *See page 9.*

## A Promise is a Promise

Bank of Montreal announced a new service commitment for small- and medium-sized businesses. Called, simply, A Promise is a Promise, the initiative puts a premium on customer relations, pledging a new code of conduct. Included in the plan: the FirstBank Mediation Process, an innovative, three-step system for resolving disputes. For even greater accountability, the Bank appointed a new ombudsman for independent businesses.

## New Traditions

The Bank added five full-service branches to its five already existing ones in Aboriginal communities: Six Nations of the Grand River, Ontario; Iqaluit, Northwest Territories; Cowessess First Nation, Saskatchewan; Westbank First Nation, British Columbia; and Tsuu T'ina First Nation, Alberta. The new branches, which provide career opportunities as well as a wide range of financial services, are part of the Bank's continuing efforts to serve Canada's Aboriginal communities better.

## CEO of the Year

Bank Chairman Matthew Barrett was named the 1995 Outstanding CEO of the Year. He was cited for his innovative leadership and outstanding contribution to global competitiveness.

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"The tension between the maintenance of order — critical to the care of other people's money — and creative innovation must be skillfully managed if success is to be sustained in a financial services institution."

# Asking the Right Questions

In 1995 Bank of Montreal reported net income of $986 million for our sixth consecutive year of record earnings. Naturally, we are encouraged by this achievement. But we are particularly gratified that 1995 is also the sixth consecutive year in which we earned a return on equity of over 14%; in fact, our annual ROE was the Bank's highest in six years. We are one of only two North American banks in our peer group to achieve these results — proof that we are an effective competitor in our North American league. For me, however, the real meaning of our 1995 results is that we are fulfilling our commitment to give our shareholders a solid and, above all, a *consistent* return on their investment. We made that commitment when we adopted our Corporate Strategic Plan in 1990, just as the business cycle began to turn down. We kept it through the worst days of the recession, and we are keeping it in today's more prosperous times. We will do everything we can to maintain our record, because earning a consistent return is fundamental to our whole business strategy.

**Q.** *Does the rapid spread of digital technology mean your customers in future will always deal with machines, not with people?*

**A.** Technology is a means, not an end — and for us the end is to provide our customers with the highest standards of fast, accurate and convenient service, as judged by them. If technology helps us do that, we will use it. If skilled professionals are needed, they will be available. What I see emerging is technology and professionalism working together, building tailor-made solutions for each customer's individual needs. If we can achieve that, our customers will not only be dealing with people, but with people who can help them more effectively than ever before.

We know, however, that doing this will be neither simple nor straightforward. It is a commonplace to say that constant and accelerating change is the air we breathe today, but that does not make it easier to play a game that sometimes seems to have new rules every morning. In the six years we have earned these returns, virtually all the goalposts and finish lines have been moved. The ideological divisions of the world. The rules of international trade and investment. The regulation of the financial services industry, in North America and worldwide — and the look of the North American industry as it undergoes an unprecedented wave of consolidation. The capabilities of technology, especially the communications and information technology so critically important to the financial services industry. Our concepts of community and of the proper role of government. And the outlook is for more and yet more rapid transformation, with many individuals and businesses prospering, but with others too often left by the wayside as change undermines their lives. We sometimes seem to live in a world of infinite contingency, where even the familiar bank branch on the corner faces an uncertain future.

In this flux we have two fixed points. The first is the vision and values we adopted in the Bank's 1990 Strategic Plan. Although we review and renew our Plan, keeping it attuned to new times, I cannot imagine circumstances which would lead us to abandon or seriously modify our commitment to our four stakeholders — our shareholders, customers, employees and the communities in which we do business. The needs of these constituencies are the driving force shaping and informing our approach to the business of banking. We must of course continually find fresh ways to put our values into practice, but the values themselves are inherent in the very nature of what we do.

The second fixed point is our determination to take nothing for granted. We are endlessly curious about our environment — in business, technology and the community — about our own performance in relation to it, and about our preparedness with the right blend of competencies and capabilities. We are also acutely aware that somewhere someone, perhaps the proverbial inventor in a garage, has an idea that could transform the

**Q.** *How can you argue that the future is unforeseeable, and at the same time make a commitment to earning a consistent return for the Bank's shareholders?*

**A.** We can't predict the future in detail, but we can be sure that other things being equal, the banks which maintain the best productivity ratios over time will also be those which consistently report solid earnings. That's why we are determined to achieve top-tier productivity status among our North American peer group. We can also be sure that banks which foster a culture of learning, where innovation is encouraged and employees are given all possible opportunities for self-improvement, will be best prepared to cope with whatever the future may bring. That's why we built the Institute for Learning — because skilled, professional, motivated employees are the true working capital of the Bank today.

> We are endlessly curious about our environment, about our own performance in relation to it, and about our preparedness with the right blend of competencies and capabilities.

way we do business. We cannot know what that idea is, but we can shorten our response times and look continually and critically at the structures and received ideas we have inherited from the past. We seek continually to redefine our business systems and our workplaces. And we are also rethinking and re-imagining the relationships between the Bank and its customers, the Bank and its employees, and the Bank and the communities in which we work and live.

Again, this is not easy. Banking is an inherently conservative business. Our depositors and our shareholders rightly prize stability, and we have put it at the core of our values. But the central paradox we face is that as the twentieth century ends, stability and sustained returns can only come from an open and inquiring mind. The tension between the maintenance of order — critical to the care of other people's money — and creative innovation must be skillfully managed if success is to be sustained in a financial services institution. In the articles that follow, we attempt to give you an inside view of some of the questions and ideas that influence our approach to strategy and execution. You will learn about some of the major changes underway in the world around us that, we believe, have profound implications for the Bank. You will also learn how we are responding to them. I hope you will read the articles, reflect on them and share with us the questions that occur to you. Knowing the right questions is vital, as we seek not to predict the future but to be ready for it.

**Q.** *Many people think banks are all alike and offer customers no real choice. Would you agree?*

**A.** I certainly wouldn't agree our customers have no choice. Re-regulation and information technology have produced a host of new products and delivery systems, and made the whole financial services sector far more competitive than it has ever been before. That's a profound change. I think it may be true that banks never used to see themselves as selling organizations, still less as marketing organizations. But today, marketing is everybody's job at our Bank. And as in any services company, marketing means first and foremost working with your customers to meet their needs as they define them.

M. W. Barrett

Matthew W. Barrett

Chairman and Chief Executive Officer

# Building the digital Bank

## Meeting our Customers' Changing Needs

Banks are using technology to introduce wholly new products and, even more, to adapt each product to the needs of individual customers. This kind of customizing is crucial, as branches become places where customers can plan their financial futures with skilled financial managers.

Imagine your local bank branch a few years from now. If the only image that comes to mind is the solid brick building at the corner, perhaps you should think again. Prophecy is, of course, an inexact science, but most trends suggest you'll do much of your banking on your PC or "smart" phone from your home office. Need to pay your hydro bill? Well, you'll likely boot up your desktop, click on the BMO icon and start taking care of business. Even the money passing through your hands won't be the same. Gone, in many instances, will be the folding stuff with the familiar stern-faced portraits. When you actually need "cash," you'll head down to an interactive banking kiosk, load up your "smart" card with electronic money — and head for the malls.

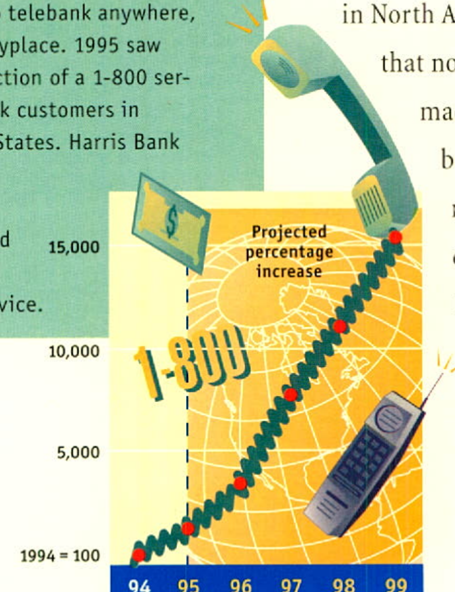
Quite simply, the financial industry is undergoing revolutionary change — and in 1995 the beat quickened as never before. The financial institutions which prosper in this new environment will be those that best harness new information technologies to meet client needs. But making the necessary changes won't necessarily be easy. Because change is never easy. But what's the alternative? Doing nothing has historically proved to be a risky business strategy. That can be attested by anyone who has been sidelined by profound economic and technological change. The blacksmith at the dawn of the Automobile Age. The train porter at the beginning of mass air travel.

Banks will not walk down that road to oblivion. Look around your local branch. As automated banking machines (ABMs) perform more and more routine bank functions, the branch is becoming a place where customers plan their financial futures with skilled financial managers — not where they cash cheques. Just contemplate how quickly new electronic distribution systems have been accepted by the public. The first ABM in Canada was installed just 26 years ago; today, more than nine billion ABM transactions are executed every year in North America, in a system that now includes over 112,000 machines. And the number of functions these machines perform is expanding exponentially. Initially, they were primarily used to deposit and withdraw cash; soon, they may be used to negotiate loans and arrange mortgages.

**When Opportunity *Rings*:**

[*the* Telebanking Phenomenon]

You can literally bank on the run. From a phone booth. Or from home. Bank of Montreal's 1-800 numbers allow you to telebank anywhere, anytime, anyplace. 1995 saw the introduction of a 1-800 service for Bank customers in the United States. Harris Bank has Harris Tele-BANK, a customized telephone banking service.

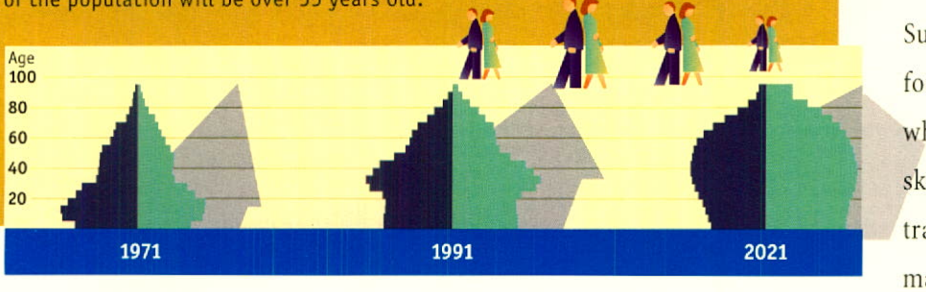


Debit cards already allow customers to access their accounts from tens of thousands of retail outlets across the country, while telephone banking allows them to do it almost anywhere. In the not too distant future, customers can expect multimedia kiosks at local bank branches and even in supermarkets, providing instant access to bank experts on car loans, mortgages and mutual funds. A little further down the road, customers may be able to video-conference with their financial advisors from their desktops at work or at home. Even more significant is the potential of on-line banking from the home or office. Until recently, such cyber-banking was constrained by concerns about security on open networks like the Internet. But advancing encryption technology is beginning to solve these problems, and what is now a trickle of electronic transactions may quickly become a deluge, with many near-bank and non-bank players rushing to stake claims and develop niche markets on a global basis. Not long ago, one of the world's largest software companies announced its interest in providing banking services in cyberspace — and taking a piece of the action on every transaction.



## Pyramids **and *Columns***

Between 1971 and 1991, the graphic profile of Canada's population changed from the traditional pyramid shape to a wide column (see below), with many fewer young people and dramatically more people in their thirties and forties. By 2021, there will be far more people over the age of thirty than under and the column will be decidedly top-heavy. Similarly, in the United States, by 2025 more than 30% of the population will be over 55 years old.




begin to outnumber the savers by the year 2010 as the Baby Boom generation goes into retirement.

For banks and other financial institutions, the central lesson of this changing world is fairly clear and uncontentious: shift emphasis from products to services; become advisors as much as suppliers; develop a highly flexible process capability. Deciding *how* to do this is a very different matter, because in our world volatile and unpredictable change co-exists with evolutionary change and often seems to be outpacing it. In North America today, the financial services needs of almost everyone are being transformed by changes in career patterns, family structures, the workplace and the social and economic role of governments.

In this environment, few things are more dangerous than thinking you have all the answers, cut and dried and waiting on the shelf. Banks and other financial institutions instead need to develop both a strategy for managing evolutionary change, and the fast-response capability to deal successfully with discontinuous change. That is why Bank of Montreal is approaching the new world by equipping employees for all contingencies. Investing in people — giving them not simply knowledge, but the ability to apply it productively and to continue acquiring it throughout life — has been one of the central themes of the Bank's corporate strategy for the past five years. We see learning, people and software coming together to form the cerebral infrastructure of the Bank.

Last year, that infrastructure acquired a symbol and a focus with the opening of our Institute for Learning. But our investment in learning and technology goes far beyond the IFL. Personal and Commercial Financial Services will continue to invest in strategic technology, including the Bank's Pathway project. Using state-of-the-art software developed in Canada, Pathway is transforming the traditional role of front-line personnel by putting complete customer information profiles on-line on every desktop. Still more significant for the future is our Learning For Success program, now entering its fourth year. It is the crucial means whereby we are enhancing the skills of our workforce, as routine transactions shift increasingly to machines and the demand for more complex and customized services grows steadily. In every part of the Bank our people are becoming full professionals rather than transaction processors, and thereby ensuring that technological change does not disenfranchise our customers, but instead allows us to offer them a level of service and a range of choice once available only to the very wealthy.

This historic change is a direct result of the great demographic shifts that will continue to transform our society, as social and technological advances interact to create new patterns of customer demand. Equally, the enhancement of traditional workplace roles is part of the investment in our people that will allow us to manage a future we cannot foresee in detail. Bank of Montreal will be prepared for the journey ahead, because our culture of learning gives us the capacity to respond to both evolutionary and discontinuous changes in the world around us.

# Community Connections

## Building Bridges in a World of Multiple Allegiances

Equality of opportunity. Universal suffrage. Marriage for love. Freedom of expression. These ideas define our society to such a degree that it's shocking to realize they are so newly minted. Just 100 years ago, these now-entrenched values were still intensely controversial.

It follows that many of the disturbing issues demanding attention today will colour the social fabric we weave in the years ahead. New concepts of family, childhood and parenthood. New perspectives on gender. The ethics of genetic engineering. The true purpose of education. Redefining the workplace — and work itself. Finding room for many nations on a shrinking planet — with 26 new members of the United Nations in just the past five years. The free movement of peoples — and their forced movement. Rethinking our relationships with the species with whom we share the Earth.

But given the accelerating pace of social and technological innovation, it seems unlikely these issues will take another whole century to mature. The waves of change are already breaking on the shores of society. For many, perhaps most people today, this is profoundly unsettling. Amidst this swirl of societal change, people more than ever need an anchor, a refuge, a place where they belong.

"Community" is fulfilling that need, as it always has, but not in the traditional manner. No longer is a common geographic location, a common religion or a common history the only gateway to a community's sense of identity and stability. Other distinct communities are proliferating, offering a plethora of choice. Rather than allegiance to a single group, individuals now form commitments to a wide variety of communities with membership based on shared experience and values. Family. Profession. Neighbourhood. Age. Hobby. Education. Ethnic background. Race. Gender. Talent. Language. Modern women and men live in many communities at once, some large, some tiny, some worldwide, some contained within others, some overlapping. Few command unconditional loyalty. All offer the sense of recognition and self-worth that every human being requires.

Historically the price of social identity has been social distance. The oldest of all social dividing lines falls between "us" and "them." Many human communities have defined themselves simply as "the human beings," carrying the uniqueness of "us" to its logical limit. Today, "us" is still a defining word that can signal community. But we can no longer afford to identify others as "them" — those who are different from us, the others who can split allegiances and threaten "our" existence. We must love one another or die, as W.H. Auden wrote at the start of the Second World War; at the very least, we must learn to see each other's common humanity through the infinite cultural variety left to us by history.

Bank of Montreal operates within and as part of many communities, defined most obviously by locality, region or nationality but also by any one of a hundred other criteria. The Bank is itself a community defined by a common purpose and set of values, and is in turn made up of many

## Commitment to *Flexibility and Choice*

In addition to providing lower-cost services and new products such as Gold FirstBank Plan®, which offers seniors increased flexibility and choice, we also provide services tailored to make banking easier for individuals with disabilities, as part of our overall commitment to providing our customers with options.

## Working with *our People* for our Communities

In 1995 the Bank of Montreal group gave over $10 million in support of cultural, civic, educational and health and welfare initiatives. Our Matching Gift Program matches, dollar for dollar, each employee's donation to colleges and universities, while our Volunteer Grants Program provides funds to charitable groups where employees are involved actively; the grants assist in the purchase of equipment, uniforms or other materials. In the same way our flexible work arrangement policy, Balancing Work, Life, Community and Education, encourages and supports employee participation in activities that benefit their community.

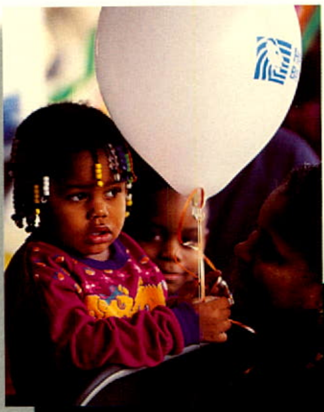
communities large and small defined by the common experience of each workplace. In such a world the ability to build bridges is an essential skill for business and personal success, yet there is no single, tested formula for doing it. Rather there is a different answer for every community.

That is one reason why the Bank is moving steadily to redefine relationships between the Bank and the external communities and between the Bank and its employees. Essentially, we respond to the varied communities in which we operate by empowering our people to deal with them. Empowerment is at the core of our successful system of community banking, placing the authority to make decisions close to those affected by them. Our Matching Gift and Volunteer Grants programs put the Bank behind our people in their work for their communities. And empowerment is also coming to the workplace, as more Bank of Montrealers become financial service professionals, qualified to take decisions adapted to many unique situations.

Bridge-building is slow, demanding, unspectacular work. It takes time to explore separate values and discover common goals. It takes the commitment to learn how to work together to create better opportunities. And it takes the openness of mind to honour differences and welcome new ideas. But in our search for community, whether individually or collectively, we are continually re-weaving the richly coloured fabric of our society. It simply takes an open mind, the ingenuity to imagine a better future — and the faith that every river can be spanned.

### *The Art of* Building Futures

Bank of Montreal has introduced an exclusive series of cheques featuring the art of four Aboriginal artists, in support of the Foundation for the Advancement of Aboriginal Youth. During 1995, the works were exhibited at selected Bank of Montreal branches nationwide. The pieces were then auctioned off with the proceeds going to the Foundation. The entire effort is expected to raise $500,000.



### Time to *Reach Out*

In Chicago, Harris Bank has undertaken a five-year commitment to extend $305 million (U.S.) in credit for community revitalization efforts. Bank of Montreal provides courses to teach financial and basic banking skills and offers educational scholarships to promising young students among Canada's Aboriginal peoples. Through our sponsorship of the Canadian Women's Foundation, we provide seed money each year to women starting small businesses. The Bank's Mentoring Program, where young people from visible minorities are teamed with Bank executives and senior managers, is designed to encourage these students to stay in school.

### *Learning with our* Business Customers

Bank of Montreal's Institute for Small Business, based within the Bank's Institute for Learning, is a pioneering venture in constructive co-operation and mutual learning among independent businesses, governments, trade organizations and the Bank. It supports and works closely with similar initiatives for independent business such as a new Bank of Montreal centre for entrepreneurial leadership at the University of New Brunswick.

# Breaking through

Re-regulating the New Global Financial Marketplace

The future of world economies and financial markets is decidedly globalization. The move toward a single world financial market has been concurrent with the liberalization and growth of international trade flows which have propelled the world's economies to their current level of prosperity. Executed by electronic technology and driven by derivative mathematics, the international flow of funds is always looking for a higher-yielding, more tax-efficient or more secure home, and now transcends any individual world market.

The result has been a new global village for financial services. A bull or bear market in any financial asset class can now be passed simultaneously through each time zone, resulting in synchronized market moves around the clock, around the globe. Witness the earthquake in the global equity market in October 1987, the bursting of the Japanese stock market and property bubbles, the emerging markets euphoria of the early 1990s, or the Mexican peso crisis in late 1994. Even the benchmark of international liquidity, the U.S. dollar, has become a commodity for global currency traders, while the yen and the Deutschemark have emerged as reserve currencies side by side with the dollar.

Today, leading international banks find themselves positioned firmly in the middle of this globalized financial marketplace. Major banks are already the dominant players in the international derivatives market. But control over the financial information superhighway is fragmented by a myriad of daily transactions. In addition, international banks, like the nation states they serve, have been obliged to embrace globalization as the most direct route to a more efficient and competitive financial services sector. The alternative would be to disregard those forces that are promoting sustained growth, liberalized trade and strengthened democracy around the world today.

## Growth on a *Global Scale*

An index of globalization is **international liquidity.** Daily turnover in the world's major foreign exchange markets is estimated to exceed $1 trillion, greater than the GDP of all but the five richest nations.

Another clear manifestation of globalization is the growing use of **international index funds,** or so-called passive management techniques, by global money managers. Arguably, today the major world stock markets are no longer New York, London or Tokyo; they are the S&P 500, the FT-SE 100 or the Nikkei 225 indexes. Financial instruments which were once brands have in effect become commodities.

Today **financial derivatives** are critically important instruments of **risk management.** Their phenomenal growth is a powerful force for the globalization of markets. By unbundling and pricing risk, derivatives have become the chief actuary of the global capital marketplace, a market whose notional value is estimated to exceed $40 trillion. Bank of Montreal is aggressively committed to offering state-of-the-art derivative products as part of focused financial solutions for our customers.

# The New Regulatory *Reality*

Public policy questions arise. Does today's high-tech, derivatives-oriented new frontier in financial services require increasing levels of regulation, or will self-regulation adequately address the demands that globalization has placed on the industry worldwide? The pragmatic response is that it is not just financial institutions that are in favour of a devolution of regulatory authority — the global marketplace itself is demanding this.

The reality today is that globalization has made effective regulation by a single nation difficult, if not impossible. Even if effective regulation were possible, it would always lag new trends in the marketplace. For example, counterparty risk — the risk that the other party in a repurchase or exchange agreement may default — is in the process of supplanting credit risk as a prime concern for many financial institutions. In addition, new forms of financial risk are constantly emerging: yesterday's ridiculed aberration quickly becomes today's self-evident truth.

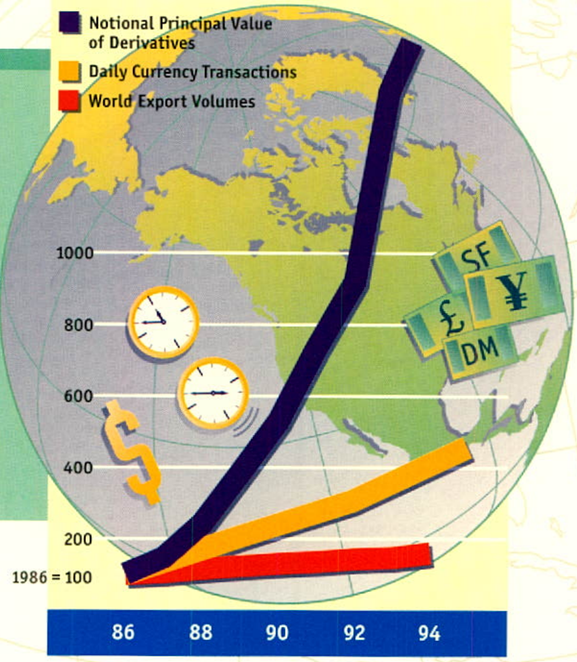
In a world of such unpredictable flux, it is reassuring that the appropriate response has been forthcoming from global regulators: the emerging concept of re-regulation. Re-regulation recognizes that the international marketplace represents a greater force for constructive self-governance than any national regulatory body, and in conjunction with the framework provided by international market-watchers such as the Group of 30, seeks to ensure that the discipline of an efficient marketplace is the discipline that regulates best.

Consequently, national regulators have been enhancing their individual markets by developing standards that promote transparency, consistency and fairness — the proverbial level playing field. The debate over repeal of the Glass-Steagall Act in the United States, which currently blocks the development of universal banking, and in Canada the slowly emerging shape of reform attending the 1997 revisions to the *Bank Act* and related legislation are pointing the way. At the same time, financial institutions and their regulators in North America, Asia-Pacific and Europe have come together to promote co-operation, liberalization and regional integration as the best way to secure an acceptable level of growth in a highly competitive international environment. All these developments pose important public policy questions for both Canada and the United States, if they wish to preserve and promote their financial services industries in a competitive international context.

At Bank of Montreal, we take the rise of re-regulation as an opportunity to serve our customers better through an evolving mix of new products and services distributed increasingly beyond our traditional channels. In addition, the power implicit in the combination of new electronic networks, the growing global integration of trade such as has been experienced by Canada and the United States since 1988, and the fast pace of innovation evidenced in the international financial services industry, can only mean a more competitive and customer-focused sector than ever before. Managing risk will be as critically important as ever, and we will have a far wider choice of tools to achieve it. Our challenge is to combine the best practices of risk management with timely responses to subtle yet rapid shifts in our customers' expectations, and to achieve both by constantly redefining our workplace and our systems. Like re-regulation itself, we will be responsive to the global marketplace that is creating a single financial services industry around the world.

## Trends of ***our Time***

The significant growth in export trade volumes clearly illustrates the process of globalization among the major world economies. Strong increases in derivatives and currency transactions demonstrate the dramatic growth in importance of new financial technology and the enormity of international daily cash flows in the new global village for financial services.




Sources: World Trade Organization; Bank for International Settlements; Bank of Montreal Economics Department

This section introduces the financial component of the Annual Report. The President's Message summarizes the Bank's achievements during 1995 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 and Measures supplement to this Annual Report.

# Management Review

# Sustaining Performance


Six years ago, in 1990, we introduced our Corporate Strategic Plan, a Plan that focuses on meeting the needs of our four stakeholders — our Shareholders, our Customers, our Employees and the Community we service. In 1995, we furthered our progress in meeting the expectations of these stakeholders.

**Increasing Shareholder Value**

We are committed to providing our shareholders with an attractive long-term return on their investment and to building shareholder value. In 1995, our five-year return on investment increased to 23.1%, second among the six major Canadian banks. Dividends were raised for the third consecutive year while our share price increased 18.4%. The total market value of our common shares increased $1.1 billion to $7.8 billion during 1995.

Earnings reached a record $986 million and we achieved our sixth consecutive year of record profits. Strong earnings contributed to a return on shareholders' equity of 15.4%, and 1995 was our sixth consecutive year of return on equity above 14%. Continued business volume growth, benefits from acquisitions, and improvements in asset quality were the main drivers of our earnings growth this year. Market shares in all our key priority areas have continued to increase. We have successfully integrated our acquisitions of Burns Fry Ltd. and Suburban Bancorp, Inc. Our non-performing loans have declined for the third consecutive year and our provision for credit losses was reduced to $275 million this year from $510 million in 1994. This included an increase in our general provision of $125 million to $325 million.

Since 1990, we have been committed to improving productivity. We have set a goal of reducing our expense-to-revenue ratio to the low 50s by the year 2000. The expense-to-revenue ratio, our measure of productivity, was 64.3% this year, an improvement from its peak of 67.2% in 1990, but higher than 62.0% in 1994. The increase in the ratio this year was due largely to the impact of weaker capital markets on our investment and securities services income and to lower revenue from lesser developed countries due to the receipt of $56 million in Brazilian Conversion Fund dividends in 1994.

Our ongoing productivity initiatives are designed to free up additional capacity by enhancing alternative channels of distribution; to develop the cross-selling and relationship selling skills of our workforce; and to use technology to provide tools to enhance performance. We are also continuing to reduce costs by consolidating our operations and staff support areas with an expected reduction of $250 million by 1998.

We are maintaining strong financial condition. The reduction in non-performing loans resulted in our primary measure of the condition of our loan portfolio, the ratio of gross non-performing loans as a percentage of equity and allowance for credit losses, improving to 20.5% compared to 29.9% last year. Our Tier 1 capital ratio was 7.02% in 1995, well above the Canadian regulatory requirements of 4%. Our liquidity ratio was strong, at 35.1% compared to 29.8% at the end of fiscal 1994. Our consistent financial performance and strong financial condition are also exhibited in our strong credit ratings which were unchanged in 1995.

**Focusing on the Customer**

The North American banking industry is changing, and so are the expectations of our customers. They are demanding more complex financial services and multiple-access convenience. And of course, different customers have different needs and preferences.

Nesbitt Burns, Canada's largest investment dealer, provides a competitive range of investment banking services, and is now embarking on a significant U.S. expansion.

In the Canadian retail market, our homeowner Mortgage Rate Shelter™ mortgage allows customers to take advantage of falling interest rates with protection from increasing rates, while our Below Prime Mortgage offers a floating rate at least one-quarter percentage point below prime. Our Family Care™ and Take a Break™ options help our customers cope with unexpected financial emergencies by allowing them to defer payments when their finances are tight.

We are meeting the trade and export financing requirements of our clients as they expand their global reach. We recently committed an additional $3 billion of financing capacity dedicated to a total of 29 countries.

We expanded our student services with our new Student Line of Credit as a flexible and relatively inexpensive way for families to finance a student's post-secondary education.

We have found new ways of providing financial services to growing markets. Private Client Service centres in eight geographic divisions provide trust and financial advisory services to individuals with complex financial needs. We opened five new branches in aboriginal communities. We are providing easier access to investment banking services by expanding Nesbitt Burns into our retail distribution network. Investment in state-of-the-art information technology allows us to access, analyze and organize more information, faster, to deliver comprehensive, timely solutions to clients.

We strengthened our service to small and medium-sized businesses with the introduction of an alternative

*™ Trade mark of Bank of Montreal*

dispute resolution process called FirstBank Mediation Process. Our relationships with our small business customers are important to us and we support our commitment with a code of conduct known as "A Promise is a Promise". The Harris Trust and Savings Bank was named a Preferred Lender by the U.S. Small Business Administration, and Harris Bank's mid-market corporate banking business throughout the U.S. Midwest added a record number of new relationships.

Our efforts have been rewarded with increased market share and increased business volumes.

**Strengthening our Workforce**

Since we believe that a primary source of sustainable competitive advantage is our people, we continued to invest heavily in our greatest resource throughout 1995, spending $63 million on employee learning. We achieved a Bank-wide average of 5.4 training days per employee — surpassing our commitment of 5 days of training per employee two years ahead of schedule. On a weekly basis, more than 250 employees from across the country and around the world attended the Institute for Learning in 1995, while 70% of the learning took place at a distance through a variety of computer-based, satellite and in-branch programs. By far our most ambitious in-branch learning initiative in 1995 is Learning For Success, the skills upgrading and accreditation process that is at the centre of our efforts to transform our workforce into a relationship-building salesforce.

For their part, employees continued to respond enthusiastically to our programs to help them balance their work and personal commitments, take charge of their own careers, and expand their career prospects. In 1995, more than 4,500 employees Bank-wide accomplished their work through a flexible work arrangement, more than 1,500 employees sought assistance through our elder care and day care referral programs, a daily average of about 2,000 employees accessed our on-line Career Information Network, and more than 1,500 mentoring relationships were facilitated through our Executive Advisor Program.

We have made steady progress in creating an equitable workplace. Representation of women in our executive ranks has risen from 6% when the Task Force on the Advancement of Women in the Bank began its investigations in 1990 to more than 19% in 1995, when more than 51% of hires into all our management positions were women. Our Task Force on the Advancement of Visible Minorities also issued its findings and recommendations in 1995.

Our workplace equality efforts earned us further recognition as an employer of choice. Bank of Montreal was named the Canadian leader in Human Resources in the magazine, *Report on Business*, and was showcased as one of the top 10 companies to work for in the book, Canada's Best Employers for Women, while Harris Bank was named one of the top 100 employers for working mothers in the United States. As well, we became the first bank to earn the Merit Award from the Canadian Government in recognition of our "special efforts and outstanding achievements in workplace equality."

**Community Banking**

Success in our communities means building a workforce that reflects the diversity of the communities we serve. We made significant progress in ensuring that equitable workforce planning is an integral part of our annual customer research, marketing and other business success planning. At Bank of Montreal, we are driven by the inescapable business reality that the greater our success in creating an equitable workplace, and the greater our success in developing a workforce that matches the diversity and dynamism of our communities, the greater will be our capacity to attract and retain the best employees, the most loyal customers, and the most satisfied shareholders.

F. Anthony Comper
President and Chief Operating Officer

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, 1995 and 1994. The analysis focuses on the Bank's financial strategies, objectives and performance as they relate to the ten 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.

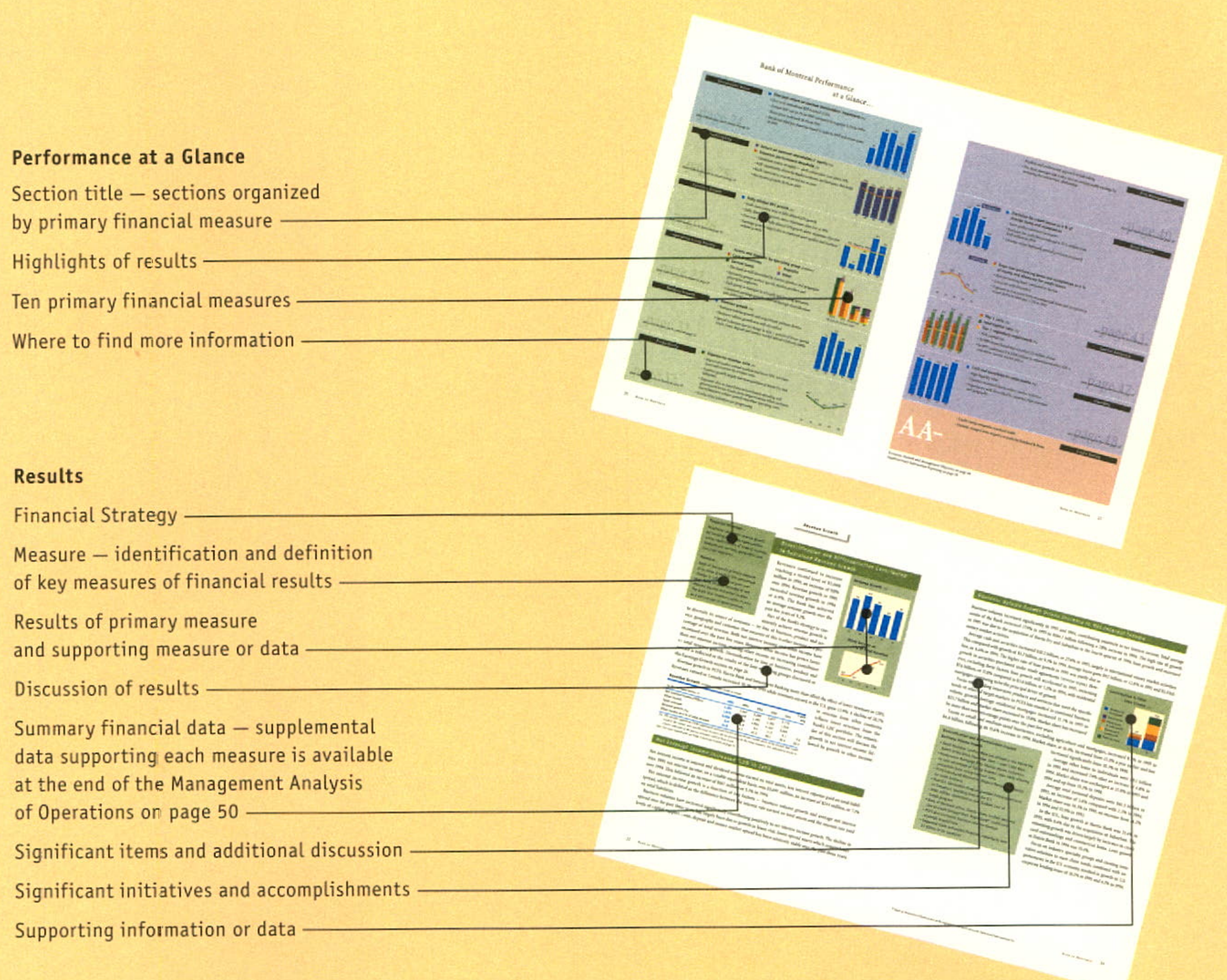
Bank of Montreal measures its performance relative to its Canadian and North American peer groups. The Bank's goal is to achieve consistently superior (above average) performance relative to its peer groups thereby achieving top tier (in the top quarter) return for its shareholders over the long term. A comparison of the Bank's performance with that of its Canadian and North American peer groups is provided in the Financial Goals and Measures supplement to this Annual Report.

## The New Management Analysis of Operations

The 1995 Management Analysis of Operations (MAO) is structured around the Bank's primary measures of financial performance and condition. At the beginning of the MAO is a two-page "Bank of Montreal — Performance at a Glance" section and table of contents which highlights the Bank's results by measure. The subsequent sections contain a brief description of the Bank's financial strategy with regards to each measure, a description and analysis of the results of each measure as well as supporting graphs and information. Where applicable, the Bank's performance objectives and achievement of its objectives are also included.

An economic outlook for 1995 and 1996 is included on page 49 along with expectations for 1996 for the Bank of Montreal.

Supplemental information and data is available beginning on page 50.

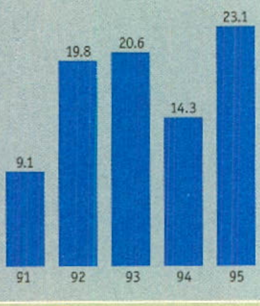


# Bank of Montreal Performance at a Glance...

## Shareholder Value

■ **Five-year return on common shareholders' investment** *(%)*

- Five-year annualized ROI reached 23.1%
- Annual ROI was 24.1% in 1995 compared to negative 2.3% in 1994
- Share price increased 18.4% in 1995
- Dividends paid per share increased 11 cents in 1995 and seven cents in 1994



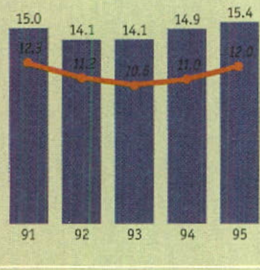

*More information can be found on page 24*

## Profitability

■ **Return on common shareholders' equity** *(%)*

■ **Economic performance threshold** *(%)*

- Consistent return on equity — sixth consecutive year above 14%
- ROE consistently above the Bank's economic performance threshold
- Sixth consecutive year of record net income
- Net income growth 19.5% in 1995

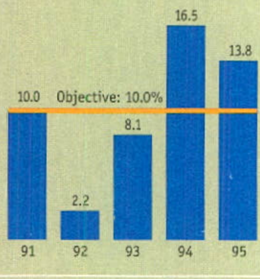



*More information can be found on page 25*

## Earnings Growth

■ **Fully diluted EPS growth** *(%)*

- Sixth consecutive year of fully diluted EPS growth
- Fully diluted EPS growth above minimum objective of 10%
- Five-year average fully diluted EPS growth above minimum objective
- Earnings growth largely due to improved asset quality and business volume growth




*More information can be found on page 26*

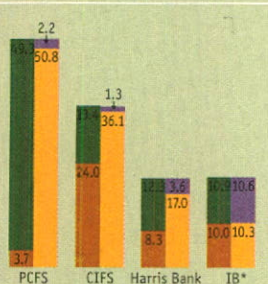
## Operating Group Review

**Assets and deposits by operating group** *($ billions)*

■ **Cash & securities** ■ **Deposits**

■ **Current loans** ■ **Other**

- The Bank is well-diversified by market, product and geography
- Operating groups service specific market, product and geographic segments
- Each group is managed as a largely self-funding operation
- Consistent earnings growth achieved through diversification and differentiation



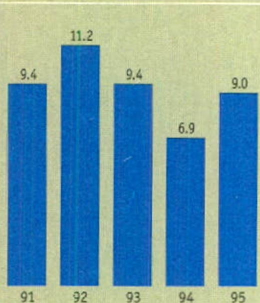

**IB deposits include repos*

*More information can be found on page 27*

## Revenue Growth

■ **Revenue growth** *(%)*

- Business volume growth and acquisitions primary drivers
- Business volume growth was well-diversified
- Spread reduction due to change in mix — growth of lower-spread assets. Loan, deposit and money market spread relatively stable

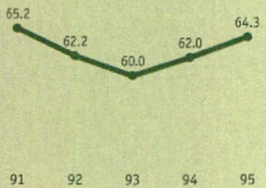



*More information can be found on page 32*

## Productivity

■ **Expense-to-revenue ratio** *(%)*

- Impact of weaker capital markets and lower LDC revenues increased expense-to-revenue ratio
- Expense growth largely due to acquisition of Burns Fry and Suburban
- Expenses also increased due to investment spending and government levies. Productivity improvements offset increases due to business volume growth and other operating costs
- Productivity initiatives are progressing




*More information can be found on page 37*

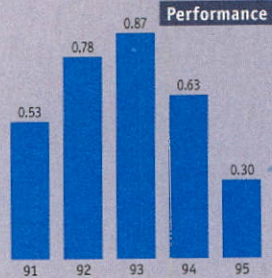
## Risk Management

- Prudent and professional approach to risk-taking
- The Bank manages risk with a view to creating stable earnings by managing the risk/reward relationship

page 40
More information can be found on page 40

## Asset Quality

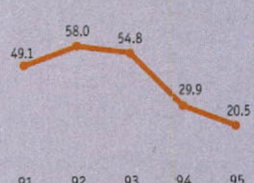
**Performance**




**Provision for credit losses as a % of average loans and acceptances**

- Asset quality continued to improve
- Provision for credit losses reduced to $275 million from $510 million in 1994
- Coverage ratios improved, general provision increased

**Condition**

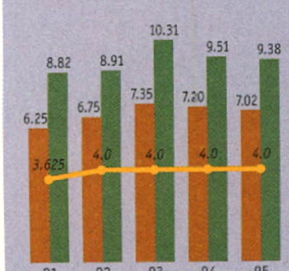



**Gross non-performing loans and acceptances as a % of equity and allowance for credit losses**

- Non-performing loans continued to decline
- Loans are well-diversified
- Exposure to real estate 8.0% of commercial loans and acceptances versus 10.9% in 1994 and 17.1% in 1992

page 43
More information can be found on page 43

## Capital Adequacy

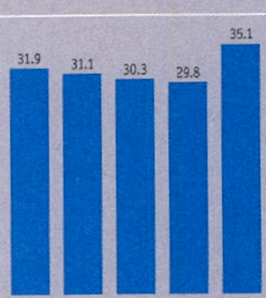



**Tier 1 ratio** *(%)*
**Total capital ratio** *(%)*
**Tier 1 regulatory requirement** *(%)*

- Well-capitalized
- In 1995, repurchased and cancelled 3.5 million shares
- In 1995, redeemed U.S. $200 million in subordinated notes with a cost above current market prices

page 47
More information can be found on page 47

## Liquidity




**Cash and securities-to-total assets** *(%)*

- High liquidity ratio
- Liquidity increased due to money market activities
- Deposits are well-diversified by customer, type, currency and geography

page 48
More information can be found on page 48

## Credit Rating

AA-

- Credit rating composite remained stable
- Outlook changed from negative to stable by Standard & Poors

*Economic Outlook and Management Objectives on page 49.*
*Supplementary Information beginning on page 50.*

**Financial Strategy:**

Bank of Montreal's overall financial strategy is to improve earnings, achieve growth and maintain strategic investment all at the same time. Our objective is to build long-term shareholder value by achieving consistently superior performance of:

- return on equity; and
- sustainable growth in earnings per share;
- while maintaining an appropriate dividend yield.

**Measure:**

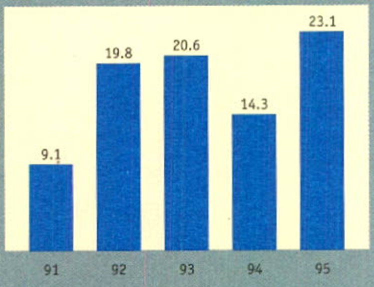
Bank of Montreal measures its five-year return on common shareholders' investment (five-year ROI) calculated as the annualized total return earned on an investment made at the beginning of a five-year period in Bank of Montreal common shares. The total return includes the effect of the change in share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

## Five-Year Annualized Return on Investment 23.1%

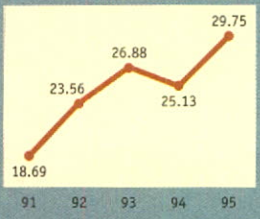
Bank of Montreal's annualized five-year return on investment was 23.1% in 1995. Its annual return on investment in 1995 was 24.1%, reflecting an increase in the common stock price of 18.4% and higher dividends. Dividends paid to shareholders in 1995 were increased by $0.11 per share to $1.29 annually, resulting in a dividend yield of 5.1% compared to 4.4% in 1994.

In 1994, ROI was a negative 2.3%. Volatile equity and bond markets contributed to an overall decline in Canadian bank stocks in 1994. Bank of Montreal common stock closed 6.5% below the 1993 closing price. The Bank increased dividends paid by seven cents per share in 1994.

**Five-Year Return on Common Shareholders' Investment** *(%)*




**Closing Price per Common Share*** *($)*




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

### Return on Common Shareholders' Investment

| *For the year ended October 31* | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|---|---|---|---|---|
| Closing market price per common share *($) (a)* | 29.75 | 25.13 | 26.88 | 23.56 | 18.69 |
| Dividend yield *(%) (b)* | 5.1 | 4.4 | 4.7 | 5.7 | 7.9 |
| ROI *(%)* | 24.1 | (2.3) | 19.4 | 32.4 | 47.4 |
| Five-year ROI *(%)* | 23.1 | 14.3 | 20.6 | 19.8 | 9.1 |

*(a) Restated to reflect the effect of the two-for-one stock distribution completed in March 1993.*
*(b) Dividends paid in the year divided by the opening stock price.*
*Note: For more information see Table 1, Shareholder Value, on page 50.*

**Financial Strategy:**

To achieve superior profitability (return on equity) through consistently superior earnings growth while maintaining an appropriate level of capital.

**Measure:**

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

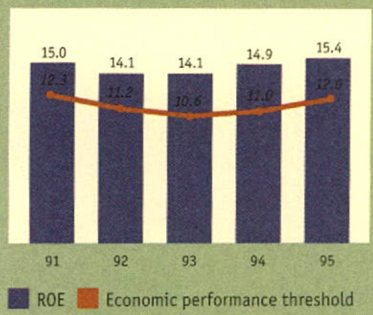
## Return on Equity Consistently Above 14%

Bank of Montreal achieved a return on equity of 15.4% in 1995, above the level of 14.9% achieved in 1994.

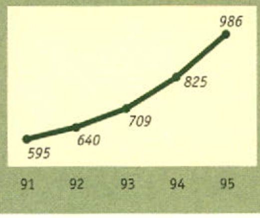
The Bank has achieved a ROE above 14% for the sixth consecutive year and its five-year average ROE was 14.7%. 1995 was also the sixth consecutive year of record net income.

The Bank also monitors its ROE against an economic performance threshold rate which is based on the after-tax rate of return available for a long-term "risk-free" investment, plus an appropriate return for risk. The Bank calculates this threshold rate 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. In 1995, the Bank's Board of Directors set the threshold rate at 12.0%. The Bank's ROE has exceeded its economic performance threshold each year for the past six years.

**Return on Common Shareholders' Equity** *(%)*




**Net Income** *($ millions)*




### Return on Common Shareholders' Equity

| *For the year ended October 31* | **1995** | 1994 | 1993 | 1992 | 1991 | 5-year avg |
|---|---|---|---|---|---|---|
| Return on common shareholders' equity *(%)* | **15.4** | 14.9 | 14.1 | 14.1 | 15.0 | 14.7 |
| Economic performance threshold *(%)* | **12.0** | 11.0 | 10.6 | 11.2 | 12.3 | 11.4 |
| Net income *($ millions)* | **986** | 825 | 709 | 640 | 595 | |

*Note: For more information see Table 2, Profitability, on page 50.*

## Business Acquisitions Structured to Use Pooling Method Would Result in Higher Earnings and ROE

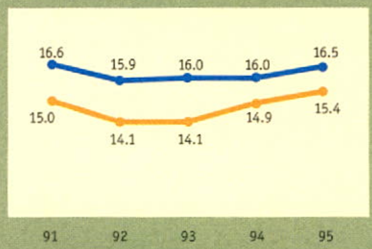
Accounting principles which underpin the reporting of financial condition and financial performance are similar in Canada and the United States. However, there is one difference which is important from a business perspective. In the United States business acquisitions can be structured to be accounted for using the "pooling" method, whereas in Canada the purchase method is generally required. In most cases, the pooling method results in higher earnings than would be reported using the purchase method.

Specifically, the purchase method requires that the assets and liabilities acquired be accounted for at their fair value. The difference between the fair value of the net assets acquired and the purchase price is recorded as goodwill and expensed on an annual basis over its estimated life. The pooling method requires that the assets and liabilities be accounted for at their book value. Subsequent years' earnings are not reduced by goodwill amortization.

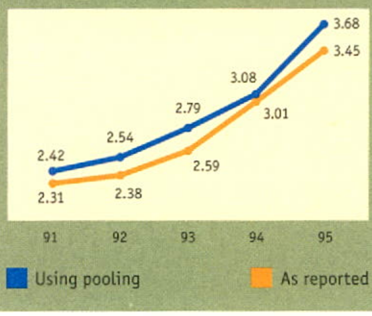
Had the Bank been able to account for its acquisitions of Harris, Suburban, Nesbitt Thomson and Burns Fry using the pooling method, basic earnings per share would have been $3.68 for 1995 and $3.08 for 1994 and return on equity would have been 16.5% for 1995 and 16.0% for 1994.

**Bank of Montreal Financial Results Using Pooling Method**

ROE *(%)*




Basic EPS *($)*



**Financial Strategy:**

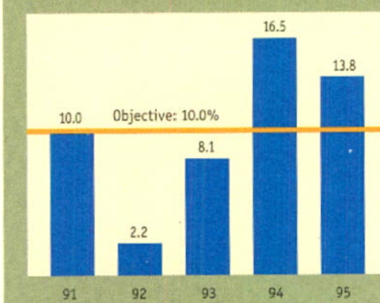
To achieve consistently superior earnings growth through diversification by line of business and by geographic and customer segment. Consistently superior earnings growth is achieved by focusing on increasing revenue, primarily through business volume growth, improving productivity while maintaining strategic investment for future growth and managing risk.

**Measure:**

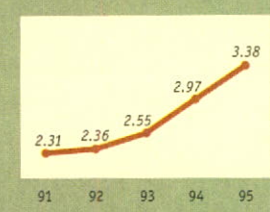
Bank of Montreal's primary measure of earnings growth is defined as the year-over-year percentage change in fully diluted earnings per share. Fully diluted earnings per share is calculated using the daily average number of common shares that would have been outstanding assuming conversion as at the beginning of the year or at the date of issuance, if later, of all securities that are convertible or redeemable at the option of the holder.

## Sixth Consecutive Year of Earnings Growth

**Fully Diluted EPS Growth** *(%)*




**Fully Diluted EPS*** *($)*




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

Fully diluted earnings per share, at $3.38, increased 13.8%, following growth of 16.5% achieved in 1994. Fully diluted earnings per share have increased in each of the past six years.

The Bank's objective is to achieve consistent earnings growth, with a minimum of 10% growth in fully diluted earnings per share. Fully diluted earnings per share growth in 1995 was above the Bank's minimum objective. The Bank's five-year average growth was 10.1%, also exceeding its 10% objective.

Fully diluted earnings per share growth is affected by the change in the number of common shares outstanding as well as growth in earnings. The total number of average fully diluted common shares outstanding in 1995 increased 17.4 million due largely to shares issued or issuable for the acquisitions of Burns Fry and Suburban in the fourth quarter of 1994. In 1995, the Bank repurchased and cancelled a total of 3.5 million common shares (see Capital Adequacy section on page 47). The average number of shares increased 3.9 million in 1994 largely due to the above acquisitions.

## Improved Asset Quality and Business Volume Growth Increased Earnings in 1995

Earnings growth in 1995 was attributable primarily to:

- improvements in asset quality that resulted in a reduction in the provision for credit losses to $275 million from $510 million a year earlier;
- continued business volume growth and market share improvements in targeted priority markets in Canada and in the United States; and
- benefits from the acquisitions of Burns Fry and Suburban.

**Earnings Growth** *(millions of dollars except as noted)*

| *For the year ended October 31* | **1995** | 1994 | 1993 | 1992 | 1991 | 5-year avg |
|---|---|---|---|---|---|---|
| Net income | **986** | 825 | 709 | 640 | 595 | |
| Year-over-year growth *(%)* | **19.5** | 16.4 | 10.9 | 7.5 | 13.9 | 13.6 |
| Fully diluted earnings per share *($) (a)* | **3.38** | 2.97 | 2.55 | 2.36 | 2.31 | |
| Year-over-year growth *(%)* | **13.8** | 16.5 | 8.1 | 2.2 | 10.0 | 10.1 |

*(a) Restated to reflect the effect of the two-for-one stock distribution completed in March 1993.*
*Note: For more information see Table 3, Earnings Growth, on page 50.*

These were partially offset by:

- the impact of weaker capital market activities in 1995 on income from investment and securities services;
- lower revenues from the lesser developed countries (LDC) portfolio in 1995; and
- a $34 million after-tax charge related to the implementation of specific business process improvement initiatives.

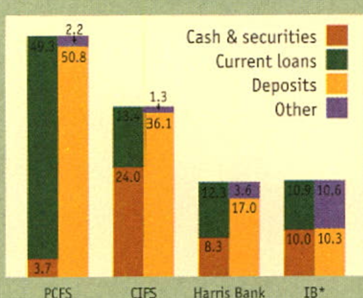
Net income in 1994 increased 16.4% to $825 million, while fully diluted earnings per share rose to $2.97, an increase of 16.5%. Growth in 1994 was due largely to business volume growth, record Investment Banking profits, strong growth in corporate lending fee income throughout North America and a reduction in the provision for credit losses. 1994 earnings also reflected a $46 million after-tax special charge at Harris Bank.

## Diversification of Operations

Bank of Montreal aims to be a broadly diversified, yet selective financial institution. The business lines and market segments the Bank chooses to participate in are those that will add value for both its customers and its shareholders. Within each segment the Bank strives to achieve differentiation from its competitors.

### Operating Groups are Self-Funding

**1995 Assets and Deposits** *($ billions)*

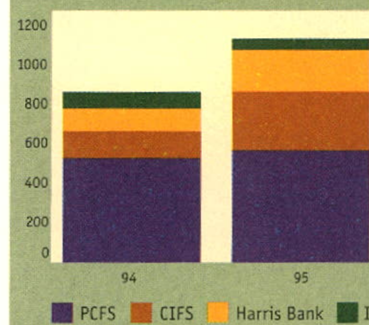


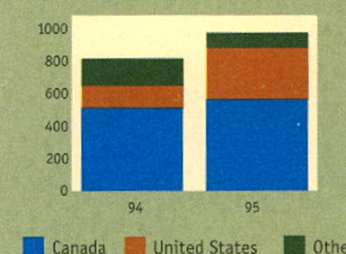

**IB deposits include repos*

Each group's assets are largely internally funded through deposits and wholesale funds raised by the group.

The Bank manages its operations through four operating groups, each with its own distinct market, product and geographic mandate. Each operating group has its own unique set of objectives and targets, which are consistent with the Bank's overall strategic direction. Two support groups, Operations and Corporate Services, provide technology, transaction processing and professional services to the operating groups.

**Net Income** *($ millions)*




Diversification contributed to the Bank's consistent financial performance by, among other things, offsetting cyclical trends in individual lines of business. Improvements in PCFS, CIFS and at Harris Bank more than offset lower Investment Banking income in 1995. Also, on a geographic basis, growth in net income from Canada and the United States more than offset the impact of lower income from the Bank's LDC portfolio.

**Net Income and Average Assets by Operating Group** *(millions of dollars)*

| | PCFS*(a)* | | CIFS*(b)* | | Harris Bank*(c)* | | Investment Banking*(d)* | | Other*(e)* | | Total Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *For the year ended October 31* | **1995** | 1994 | **1995** | 1994 | **1995** | 1994 | **1995** | 1994 | **1995** | 1994 | **1995** | 1994 |
| **Net Income** | | | | | | | | | | | | |
| Canada | **571** | 531 | **141** | (2) | **0** | 0 | **54** | 81 | **(198)** | (95) | **568** | 515 |
| United States | **0** | 0 | **88** | 25 | **213** | 117 | **1** | 1 | **18** | (5) | **320** | 138 |
| Mexico | **0** | 0 | **19** | 27 | **0** | 0 | **0** | 0 | **0** | 0 | **19** | 27 |
| Other countries | **0** | 0 | **53** | 88 | **0** | 0 | **0** | 0 | **26** | 57 | **79** | 145 |
| Total | **571** | 531 | **301** | 138 | **213** | 117 | **55** | 82 | **(154)** | (43) | **986** | 825 |
| **Average Assets** | | | | | | | | | | | | |
| Canada | **54,493** | 50,850 | **18,505** | 15,859 | **0** | 0 | **14,826** | 9,560 | **1,923** | 1,812 | **89,747** | 78,081 |
| United States | **0** | 0 | **11,216** | 9,016 | **22,229** | 18,362 | **7,242** | 5,973 | **714** | 1,411 | **41,401** | 34,762 |
| Mexico | **0** | 0 | **1,278** | 1,053 | **0** | 0 | **0** | 0 | **0** | 0 | **1,278** | 1,053 |
| Other countries | **0** | 0 | **11,515** | 8,146 | **0** | 0 | **0** | 0 | **174** | 192 | **11,689** | 8,338 |
| Total | **54,493** | 50,850 | **42,514** | 34,074 | **22,229** | 18,362 | **22,068** | 15,533 | **2,811** | 3,415 | **144,115** | 122,234 |

*(a) Personal and Commercial Financial Services in Canada.*

*(b) Corporate and Institutional Financial Services.*

*(c) Harris Bank in Canadian dollars based on Canadian GAAP including Harris Bankcorp, Inc. and the results of Harris Bankmont, Inc. (formerly Suburban Bancorp, Inc.) from October 1, 1994.*

*(d) Investment Banking (IB), including the results of The Nesbitt Burns Corporation Limited and Nesbitt Burns Securities Inc. (collectively Nesbitt Burns) and asset management services. Burns Fry results are included from September 1, 1994.*

*(e) Other includes general provisions for credit losses and any residual revenues and expenses representing the difference between actual amounts incurred and the amounts allocated to operating groups.*

***Basis of presentation of results of operating groups:*** *Expenses are matched against the revenues to which they relate. Indirect expenses, such as overhead expenses and any revenue that may be associated thereto, are allocated to the operating groups using appropriate allocation formulas applied on a consistent basis. For each currency, funds are transferred from any group with a surplus to any group with a shortfall at market rates for the currency and appropriate term. Such funds transfers are included in the chart showing assets and deposits. Segmentation of assets by geographic region 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, revenues and expenses.*

## Personal and Commercial Financial Services

**Key Business Strategies:**

- differentiated marketing
- workforce transformation
- focus on cross-selling opportunities
- innovative branch strategies
- improving distribution channels

## PCFS Focused on Selected Target Markets

The Personal and Commercial Financial Services (PCFS) group provides financial services to individuals and commercial businesses in the Canadian market through a network of 1,157 branches grouped in 235 communities across Canada; 1,763 automated banking machines; and five tele-banking centres. PCFS is expanding its customer base by focusing on the unique needs of well-defined target markets within these segments, including small and medium-sized businesses, the Asian and aboriginal markets as well as Private Client Services. PCFS is also focusing on students, who represent future revenue potential.

Achievement of PCFS' growth objectives involves a three-pronged strategy to transform its workforce, its branches and its other distribution channels — while at the same time reducing costs.

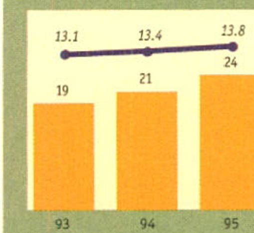
The transformation of branches includes new community-based Private Client Service centres. Soon after the end of the 1995 fiscal year, Sunday opening was introduced in 56 branches in regional shopping centres for customers wanting information or service on home ownership.

Branches are being redesigned to facilitate a transition to relationship banking, increase accessibility and improve customer service. Relationship sales tools include the automation of the Bank's loan decision-making process and new client-server technology to improve sales effectiveness and service efficiency. Performance-focused management tools enhance performance at the community level.

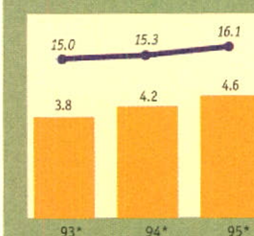
**Accomplishments**

- Private Client Service centres in each of our eight geographic divisions
- opened five new branches in aboriginal communities
- $500 million credit facility earmarked for new Student Line of Credit program
- FirstBank Alternative Dispute Resolution Process introduced for small and medium-sized businesses
- innovative products included homeowner Mortgage Rate Shelter and Below Prime Mortgage
- Your U.S. Connection™ program meets the needs of customers who travel frequently to the U.S.

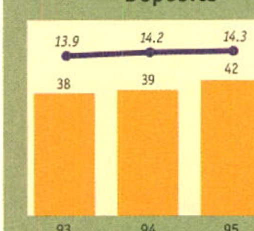
**Residential Mortgages**




**Small and Medium-sized Business Loans**




**Total Personal Deposits**




Market Share *(%)*
Volumes *(billions $)*

**Excluding agriculture and mortgage loans.*
*Market share for 1993 and 1994 is as at December 31; and 1995 is as at June 30.*

Customers are increasingly requesting multiple-access convenience. PCFS increased its ABM network by 55 in 1995 and by 170 in 1994, and its point-of-sale terminals to 33,700 in 1995 from 24,100 in 1994.

By following these strategies, PCFS aims to increase market share and business volumes in its major lines of business — personal loans, personal deposits, residential mortgages, commercial lending and credit cards.

Net income of PCFS in 1995 increased 7.5% and gained 17.7% in 1994. Growth reflected business volume growth with average current loans increasing 9.5% in 1995 and 7.1% in 1994. 1995 expenses included a charge related to ongoing implementation of specific business process improvement initiatives. The group's expense-to-revenue ratio, excluding non-recurring items, improved for the second consecutive year.

**Personal and Commercial Financial Services in Canada** *(millions of dollars except as noted)*

| *As at or for the year ended October 31* | **1995** | 1994 | 1993 |
|---|---|---|---|
| Net interest income | **2,238** | 2,141 | 1,980 |
| Other income | **608** | 581 | 563 |
| Provision for credit losses | **88** | 108 | 139 |
| Non-interest expense | **1,756** | 1,665 | 1,612 |
| Income before taxes | **1,002** | 949 | 792 |
| Income taxes | **431** | 418 | 341 |
| Net income | **571** | 531 | 451 |
| Average current loans | **49,296** | 45,008 | 42,013 |
| Average deposits | **50,795** | 47,918 | 46,432 |
| Full-time equivalent staff *(a)* | **16,360** | 17,235 | 17,162 |
| Expense-to-revenue ratio *(%)* | **61.7** | 61.2 | 63.4 |
| Expense-to-revenue ratio excluding non-recurring items *(%)* | **60.6** | 61.2 | 63.4 |

*(a) As at October 31.*

™ *Trade mark of Bank of Montreal.*

**Corporate and Institutional Financial Services**

**Key Business Strategies:**

- diversification of risk
- relationship building
- selected international expansion

## CIFS Focused on Diversification of Risk

Corporate and Institutional Financial Services (CIFS) provides financing, treasury and operating services to large corporate and institutional customers throughout North America and selectively abroad. CIFS' overall business strategy is to be broadly diversified yet selective. Its primary tactic is to deepen its relationship with clients by providing comprehensive solutions that integrate bank-wide expertise with banking technology to serve clients' needs creatively as well as productively. In corporate banking, CIFS' objective is to be a North American bank with global reach — offering expertise in specific industries like natural resources, communications and financial institutions by broadening and deepening its client base while diversifying risks as it grows.

**Accomplishments**

- expanded trade and export financing facilities by over $3 billion in 29 countries
- enhanced Global Distribution group
- Guangzhou branch opened in The People's Republic of China to support North American clients' international needs

CIFS' international strategy is to focus on meeting the domestic and international needs of its North American clients. It has increased its country limits in support of the trade and export finance needs of clients bank-wide. An enhanced Global Distribution group allows CIFS to manage the risk of its expanded commitment to trade and project finance. It also puts the Bank in a position to win more lead and co-lead positions in major bank financings in North America and achieve improvements in front-end fee revenue from syndicated lending and loan sales and trading.

**Corporate and Institutional Financial Services** *(millions of dollars except as noted)*

| *As at or for the year ended October 31* | 1995 | 1994 | 1993 |
|---|---|---|---|
| Net interest income | 575 | 603 | 651 |
| Other income | 333 | 308 | 292 |
| Provision for credit losses | (21) | 283 | 452 |
| Non-interest expense | 404 | 380 | 377 |
| Income before taxes | 525 | 248 | 114 |
| Income taxes | 224 | 110 | 49 |
| Net income | 301 | 138 | 65 |
| Average assets | 42,514 | 34,074 | 31,618 |
| Average current loans | 13,425 | 11,994 | 12,412 |
| Average deposits | 36,095 | 28,900 | 25,659 |
| Full-time equivalent staff *(a)* | 1,045 | 1,138 | 1,035 |
| Expense-to-revenue ratio *(%)* | 44.5 | 41.7 | 40.0 |
| Expense-to-revenue ratio excluding non-recurring items *(%)* | 43.5 | 41.7 | 40.0 |

*(a) As at October 31.*

CIFS is also selectively expanding its commitment to Latin and South America, with emphasis on Mexico, and Asia, with an emphasis on The People's Republic of China. In these areas, CIFS is diversifying its corporate client base by focusing on those clients with trade or investment linkages to its North American client base. Formation of alliances like the Bank's cash management alliance with Bancomer in Mexico also enhances the global financial services available to CIFS' North American clients.

Diversification of risk also applies to management of the Bank's loan portfolio. Application of a risk-adjusted return on capital approach to the pricing and management of risk on a transaction by transaction basis helps CIFS to better manage risk by selecting only those assets that meet its risk acceptance criteria and to better price a transaction at a level appropriate for the risk involved.

CIFS is also focusing on improving productivity through the use of state-of-the-art information technology and the consolidation of operations. Office automation tools allow it to access, analyze and organize information, to deliver timely solutions to clients and to reduce administration work. In 1995, the Bank consolidated the CIFS and Harris Bank foreign exchange operations in Chicago and its back-office foreign exchange and money market processing in Montreal.

Net income of CIFS more than doubled in 1995 to $301 million due largely to improvements in asset quality. The provision for credit losses by CIFS was negative in 1995 as reversals of previous years' reservations exceeded new provisions. Net interest income was lower in 1995 due to a decline in dividends and bond sales associated with CIFS' lesser developed countries portfolio. Excluding a non-recurring charge for business process improvement initiatives, expense growth was well controlled. The increase in CIFS' expense-to-revenue ratio, excluding non-recurring items, reflects lower LDC revenues. The 1994 increase in net income was due largely to improvements in asset quality, resulting in a lower provision for loan losses.

**Harris Bank**

**Key Business Strategies:**

- build upon retail bank franchise
- expand corporate banking volumes
- improve productivity

## Harris Bank Sustained Growth and Momentum

Harris Bank provides banking, trust and investment services to individuals, small and mid-market businesses and not-for-profit and governmental entities within Chicago and its surrounding communities (Chicagoland), and is a leading provider of corporate banking services, primarily in the Midwest, and trust, cash management, investment management, private banking and credit card services throughout the United States.

During the year, Harris Bank made significant progress toward its ten-year goal of tripling its earnings, and its distribution network and market share within Chicagoland by the year 2002. To accomplish this, Harris Bank is focusing on building its retail and small business banking services in Chicagoland, continued expansion of its other core businesses and improved productivity.

Harris Bank is expanding its retail and small business banking services through a judicious balance of de novo branch expansion and selective acquisitions. The acquisition of Suburban in 1994 was a major part of this expansion, increasing the number of locations in Chicagoland from 42 at the end of 1993 to 76 at the end of 1994. Harris Bank has announced an additional ten locations in 1995.

To improve productivity, Harris Bank is integrating its operations and support functions with those of the rest of Bank of Montreal. Harris Bank's foreign exchange transaction processing support was consolidated in Canada in 1995, and Harris Bank's lockbox and EDI platforms serve customers on a North American basis. In addition, Harris Bank has successfully integrated the retail operations of Harris and Suburban.

Net income of Harris Bank was $213 million in 1995, an increase of $96 million from 1994, reflecting business volume growth (average loans increased 21.4% in 1995, with 8.4% due to the acquisition of Suburban) and improvement in productivity. The 1994 results included a $46 million after-tax special charge related to losses incurred by Harris Bank's Securities Lending unit. Excluding this special charge, Harris Bank's net income increased by $50 million, or 29.9% in 1995 and its expense-to-revenue ratio, excluding non-recurring items and goodwill, improved in 1995 to 65.6% compared with 69.2% in 1994.

**Accomplishments**

- strong earnings growth
- successful merger of Suburban
- 21.4% loan growth
- announced ten additional locations in 1995
- combined Bank of Montreal and Harris Bank trading room in Chicago created the largest foreign-exchange operation in the U.S. Midwest and one of the top five in the U.S.
- consolidation of foreign exchange transaction processing in Montreal
- Harris Trust and Savings Bank named a Preferred Lender by the U.S. Small Business Administration

**Harris Bank** *(millions of dollars except as noted)*

| *As at or for the year ended October 31* | 1995 | 1994 | 1993 |
|---|---|---|---|
| Net interest income | 773 | 607 | 579 |
| Other income | 460 | 460 | 452 |
| Provision for credit losses | 62 | 70 | 84 |
| Non-interest expense | 828 | 823 | 708 |
| Income before taxes | 343 | 174 | 239 |
| Income taxes | 130 | 57 | 80 |
| Net income | 213 | 117 | 159 |
| Net income, U.S. dollars, U.S. GAAP *(a)* | 161 | 99 | 138 |
| Average assets | 22,229 | 18,362 | 16,347 |
| Average current loans | 12,277 | 10,109 | 8,759 |
| Average deposits | 16,951 | 14,507 | 13,156 |
| Assets under management and administration | 286,381 | 216,528 | 217,155 |
| Full-time equivalent staff *(b)* | 6,160 | 6,167 | 5,561 |
| Expense-to-revenue ratio *(%)* | 67.2 | 77.1 | 68.8 |
| Expense-to-revenue ratio excluding non-recurring items and goodwill *(%)* | 65.6 | 69.2 | 67.5 |

*(a) All current and prior periods for U.S. GAAP purposes reflect the combined results of Harris Bankcorp, Inc. and Harris Bankmont, Inc. (formerly Suburban Bancorp, Inc.)*
*(b) As at October 31.*

## Investment Banking

**Key Business Strategies:**

- build on Canadian base
- expand U.S. investment banking operations
- selectively expand international markets

## Investment Banking Expanding U.S. Presence

Investment Banking includes Nesbitt Burns, Canada's largest investment dealer. Nesbitt Burns conducts the majority of Bank of Montreal's investment banking in Canada, the U.S. as well as in other locations with global capital markets and together with other subsidiaries, Investment Banking offers full-service brokerage, a full range of mutual funds, investment management and discount brokerage as well as financial planning and financial advisory services to its corporate, government, institutional and private clients. Its objective is to diversify its market profile by building a prominent North American investment bank with strong global capabilities. To accomplish this objective, it is building upon its leading position in Canada, and continues aggressively pursuing a U.S. investment banking capability by focusing on its North American and then global strengths in a number of specific industries. It is strengthening its relationships with its clients by offering innovative financial solutions to meet customers' needs.

**Accomplishments**

- successful merger of Nesbitt Thomson and Burns Fry
- #1 ranking in Canada in retail sales and institutional equity sales
- built Canada's largest privately-owned trading room in Toronto
- consolidation of U.S. investment banking personnel in Nesbitt Burns Securities Inc.

Investment Banking has 91 professionals in its U.S. securities dealer subsidiary, consolidating the expertise in financial advisory services to corporate and government clients. Nesbitt Burns Securities Inc. (NBSI) was created in the past year with the merger of Harris Nesbitt Thomson Securities Inc. and Burns Fry Inc., forming the vehicle through which Investment Banking manages its U.S. strategy. This growth strategy involves building upon its top-ranked research department in Canada and expanding its U.S. institutional equity sales and research. Specific emphasis is placed on its current expertise in natural resources — oil and gas, metals and minerals and forest products — as well as communications and the agra business sectors, where the Bank has developed an excellent reputation through Harris Bank and its corporate banking activities.

**Investment Banking** *(millions of dollars except as noted)*

| *As at or for the year ended October 31* | 1995 | 1994 | 1993 |
|---|---|---|---|
| Net interest income | 131 | 140 | 89 |
| Other income | 575 | 381 | 274 |
| Total expenses | 598 | 377 | 272 |
| Income before taxes | 108 | 144 | 91 |
| Income taxes | 53 | 62 | 33 |
| Net income | 55 | 82 | 58 |
| Average assets | 22,068 | 15,533 | 13,781 |
| Average current loans | 10,879 | 8,269 | 8,406 |
| Average deposits | 1,010 | 661 | 432 |
| Assets under management and administration | 164,789 | 151,740 | 117,900 |
| Full-time equivalent staff *(a)* | 3,717 | 3,964 | 1,827 |
| Expense-to-revenue ratio *(%)* | 84.7 | 72.3 | 75.0 |
| Expense-to-revenue ratio excluding non-recurring items and goodwill *(%)* | 82.6 | 72.1 | 74.9 |

*(a) As at October 31.*

The Bank's expanded Private Client Services area combines the investment advisor network of investment banking with the retail branch network of PCFS. Investment Banking's growth strategy with regards to mutual funds is to focus on fund performance and to enhance existing distribution through the PCFS retail network and through Nesbitt Burns, Investorline® service, financial planners and mutual fund dealers.

Net income of Investment Banking in 1995 was $55 million, a decline of $27 million, reflecting higher goodwill expense of $14 million, the impact of weaker capital market activities and in particular, fewer new equity issues, partly offset by increased business volumes as a result of the acquisition of Burns Fry in 1994. By contrast, active equity markets in the first two quarters of 1994 resulted in growth in net income in 1994 of 41.3%. Investment Banking's expense growth reflected the acquisition of Burns Fry. Total expenses for Investment Banking were below the combined 1994 expenses of the two firms due to lower production compensation and lower fixed expenses from synergies resulting from the merger with Burns Fry. Revenue growth generated from the acquisition was slowed by the effect of weaker capital markets in 1995 compared with 1994. This resulted in Investment Banking's expense-to-revenue ratio, excluding non-recurring items and goodwill, increasing to 82.6% compared with 72.1% in 1994.

*®Registered trade mark of Bank of Montreal.*

**Financial Strategy:**

To achieve consistent revenue growth by focusing on growth opportunities across combinations of lines of business, products and services, geographic and customer segments.

**Measure:**

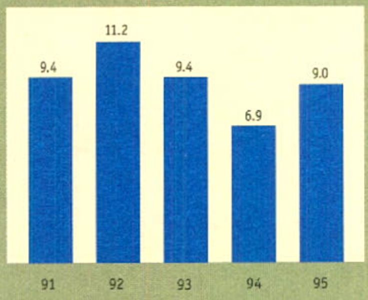
Bank of Montreal's primary measure of revenue growth is the percentage change in total revenue year-over-year. Total revenue consists of net interest income and other income. The Bank also monitors other income as a percentage of total revenue.

## Diversification and Differentiation Contributed to Sustained Revenue Growth

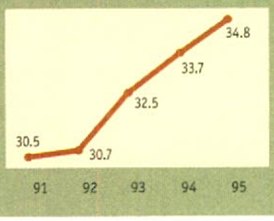
Revenues continued to increase reaching a record level of $5,666 million in 1995, an increase of 9.0% over 1994. Revenue growth in 1995 exceeded revenue growth in 1994 of 6.9%. The Bank has achieved an average revenue growth over the past five years of 9.2%.

Part of the Bank's strategy to consistently achieve revenue growth is to diversify its source of revenues — by line of business, product and service, geography and customer. One measure of this is other income as a percentage of total revenue. Both net interest income and other income have increased over the past five years. However, other income has grown faster than net interest income, making other income an increasing contributor to total revenue growth. Diversification by line of business, product and service is reflected in the results of the four operating groups discussed in the Earnings Growth section on page 26.

**Revenue Growth** *(%)*




**Other Income as a % of Total Revenue**




Revenue growth in PCFS, Harris Bank and Investment Banking more than offset the effect of lower revenues in CIFS. Revenues earned in Canada increased 10.3% in 1995 while revenues earned in the U.S. grew 13.9%. A decline of 28.7% in revenue from other countries reflects lower revenues from the Bank's LDC portfolio. The remainder of this section will discuss the growth in net interest income followed by growth in other income.

**Revenue Growth** *(millions of dollars except as noted)*

| *For the year ended October 31* | 1995 | 1994 | 1993 | 1992 | 1991 | 5-year avg |
|---|---|---|---|---|---|---|
| Net interest income (TEB)*(a)* | 3,691 | 3,447 | 3,280 | 3,077 | 2,776 | |
| Other income | 1,975 | 1,749 | 1,581 | 1,365 | 1,219 | |
| Total revenue | 5,666 | 5,196 | 4,861 | 4,442 | 3,995 | |
| Revenue growth *(%)* | 9.0 | 6.9 | 9.4 | 11.2 | 9.4 | 9.2 |
| Other income as a % of total revenue | 34.8 | 33.7 | 32.5 | 30.7 | 30.5 | 32.5 |

*(a) 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.*

*Note: For more information see Table 4, Revenue Growth, on page 51.*

## Net Interest Income Increased 7.1% in 1995

Net interest income is interest and dividend revenue earned on total assets, less interest expense paid on total liabilities. 1995 net interest income, on a taxable equivalent basis, was $3,691 million, an increase of $244 million, or 7.1% over 1994. This followed an increase of $167 million or 5.1% in 1994.

Net interest income growth is a function of two factors — business volume growth and average net interest spread, which is defined as the difference between the interest rate earned on total assets and the interest rate paid on total liabilities.

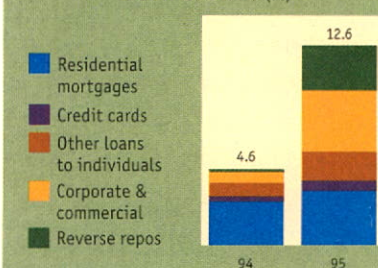
Business volumes have increased significantly contributing positively to net interest income growth. The decline in spread over the past three years has largely been due to growth in lower-risk, lower-spread assets which require lower levels of capital support. Loan, deposit and money market spread has been relatively stable over the past three years.

## Business Volume Growth Drives Increase in Net Interest Income

Business volumes increased significantly in 1995 and 1994, contributing positively to net interest income. Total average assets of the Bank increased 17.9% in 1995 to $144.1 billion following a 7.8% increase in 1994. The high rate of growth in 1995 was due to the acquisition of Burns Fry and Suburban in the fourth quarter of 1994, loan growth and increased money market activities.

Average cash and securities increased $10.2 billion, or 27.4% in 1995, largely in international money market activities. This compared with growth of $3.2 billion, or 9.3% in 1994. Average loans grew $9.7 billion, or 12.6% in 1995 and $3.4 billion, or 4.6% in 1994. The higher rate of loan growth in 1995 was partly due to growth in securities purchased under resale agreements (reverse repos). However, excluding these factors, loan growth still accelerated in 1995, increasing $7.6 billion, or 11.0% compared to $3.4 billion, or 5.3% in 1994, with residential mortgages continuing to be the principal driver of growth.

**Contribution to Total Loan Growth** *(%)*




Focus on providing innovative products and services that meet the specific needs of selected target markets in PCFS has resulted in continued business volume growth. Average residential mortgages increased 11.3% in 1995 to $23.7 billion and market share increased to 13.8%. Market share has increased by more than two percentage points over the past five years.

Loans to small and medium-sized businesses, excluding agriculture and mortgages, increased 8.7% in 1995 to $4.6 billion, following an 11.6% increase in 1994. Market share, at 16.1%, increased from 15.3% a year earlier and has increased significantly from 10.3% in 1990.

**Diversification and Differentiation Created Business Volume Growth**

- Small Business Lending Rate has offered a rate below the Bank's prime since December 1991 — over 1,400 days
- Homeowner Mortgage Rate Shelter allows customers to take advantage of falling interest rates while offering protection from rising interest rates
- PCFS introduced Alternative Dispute Resolution Process for small business
- Your U.S. Connection Program provides financial services to Canadians spending time in the U.S.
- $500 million committed to new Student Line of Credit program
- Bank of Montreal offers clients access to their personal line of credit through their MasterCard[R*] credit card
- PCFS also increased business volumes through strategic acquisitions
- Expanded trade and export financing capacity by over $3 billion in 29 countries

Average other loans to individuals were $9.2 billion in 1995 and increased 7.4% after an increase of 4.8% in 1994. Market share was unchanged at 15.8% in 1995 and 1994 and up from 13.2% in 1990.

Average total personal deposits were $41.5 billion in 1995, an increase of 5.4% compared with 2.3% in 1994. Market share was 14.3% in 1995, an increase from 14.2% in 1994 and 13.9% in 1993.

In the U.S., loan growth at Harris Bank was 21.4% in 1995, with 8.4% due to the acquisition of Suburban. The remaining growth was driven largely by increases in credit card outstandings and commercial loans. Loan growth at Harris Bank in 1994 was 15.4%.

Focus on industry specialty groups and creating innovative solutions to meet client needs, combined with improvements in the U.S. economy, resulted in growth in U.S. corporate lending loans of 18.2% in 1995 and 4.1% in 1994.

[R*] *Bank of Montreal is a licensed user of the registered trade mark owned by MasterCard International Inc.*

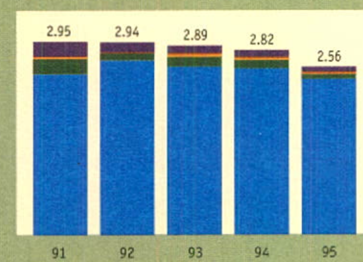
## Rising Interest Rates and Change in Balance Sheet Mix Put Pressure on Spreads

Average net interest spread is the ratio of net interest income divided by average assets. Average net interest spread in 1995 was 2.56% compared to 2.82% in 1994 and 2.89% in 1993. The decline in spread in 1995 and 1994 was due largely to three major trends outlined below.

More volatile or cyclical revenues lowered spread by 10 basis points in 1995 and four basis points in 1994. These factors lowered net interest income by $83 million in 1995 and $22 million in 1994. Lower LDC revenues were the largest contributor to the decline in 1995.

- Trading net interest income declined in 1995 and 1994 causing a decline in net interest spread of three basis points and one basis point, respectively. Trading-related revenue is discussed on page 36.
- Gains on investment securities increased slightly in 1995 (up $9 million). These revenues had no change to net interest spread in either 1995 or 1994.
- LDC revenues declined in 1995 due to $56 million in Brazil Conversion Fund dividends received in 1994. Lower LDC revenues resulted in a six basis point decline in net interest spread in 1995. This compared to a two basis point decline in 1994.
- Interest revenues recognized on non-performing loans declined as asset quality improvements reduced the Bank's overall non-performing loan portfolio. Interest earned on loans returning to performing status increased and is reflected in loan, deposit and money market spread.

**Total Bank Spread on Average Assets — Components** *(%)*




*Note: For more information see Table 4, Revenue Growth on page 51.*

| | 91 | 92 | 93 | 94 | 95 |
|---|---|---|---|---|---|
| Trading NII | 0.21 | 0.14 | 0.10 | 0.09 | 0.06 |
| Securities G/L | 0.02 | 0.02 | 0.03 | 0.03 | 0.03 |
| Interest on NPL (ex LDC) | 0.03 | 0.00 | 0.04 | 0.03 | 0.02 |
| LDC revenues | 0.22 | 0.10 | 0.14 | 0.12 | 0.06 |
| Non-recurring items | 0.01 | 0.01 | 0.00 | 0.00 | 0.00 |
| Subtotal | 0.49 | 0.27 | 0.31 | 0.27 | 0.17 |
| Loan, deposit and money market spread | 2.46 | 2.67 | 2.58 | 2.55 | 2.39 |
| Total lower-spread assets as a % of total assets* | 38.5 | 39.4 | 40.2 | 40.0 | 42.9 |

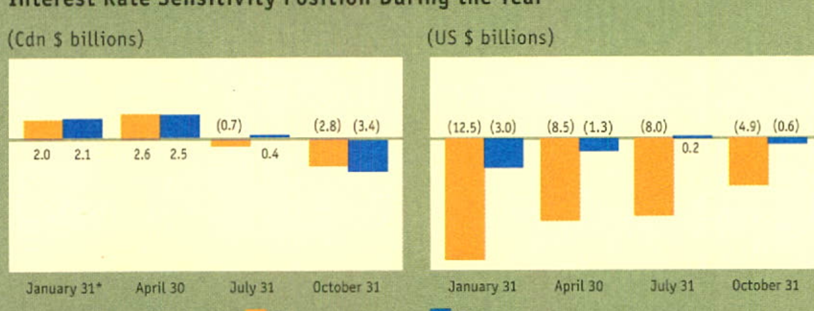
*Note: For more information see Table 5, Average Balances, on page 52.*
**Cash, securities, reverse repos and acceptances.*

The second major trend impacting spread was growth in lower-spread assets (cash, securities, reverse repos and acceptances). Lower-spread assets increased to 42.9% of total assets in 1995 compared to 40.0% in 1994 and reduced average spread by about 14 basis points in 1995 and six basis points in 1994. Similarly, growth in mortgages, which are funded largely by growth in higher-cost longer-term deposits, reduced spread by about two basis points in 1995 and in 1994. Although these mix changes reduced average net interest spread, growth in these products positively contributed to revenue.

The third major trend impacting spread was changes in loan, deposit and money market spread, which excludes the mix impact mentioned above. This element of spread has been relatively stable over the past three years as items affecting loan, deposit and money market spread have tended to offset each other over this period and included:

- 1995 spread benefitted from higher spreads on non-trading money market assets due largely to improvements in the international portfolio including benefits from the Bank's U.S. dollar liability sensitive position. Money market spreads were lower in 1994, negatively affecting total Bank spread.
- Spreads widened on prime-related products as interest rates rose in the first half of 1995 and in the second and third quarters of 1994. The Bank also benefitted during that period from rising interest rates on its Canadian dollar asset sensitive position. This was partially reversed in the second half of 1995 as interest rates declined.

**Interest Rate Sensitivity Position During the Year**



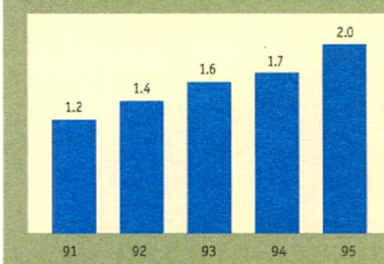

**Adjusted for deposit accounts classified as interest sensitive prior to April 30 which, at actual interest rates, were not completely correlated with market interest rates.*
*Note: For more information see Table 7, Interest Rate Sensitivity Position, on page 55.*

- During 1995, strong volume growth in term deposits, combined with the shift in customer preference to longer-term higher-cost deposits, resulted in an increase in the mix of higher-cost longer-term deposits to total personal deposits, thus increasing the Bank's average cost of personal deposits.
- Spreads between residential mortgages and term deposits (largely GICs and RRSPs) narrowed in 1995 and 1994 due to the effect of rising interest rates, competitive price discounting and, in 1995, a flatter yield curve between long term mortgage rates and shorter-term deposit rates.

## Other Income Increased from Acquisitions and Business Volume Growth

Other income was $1,975 million in 1995 and increased 12.9% over 1994 following an increase of 10.6% over 1993. Growth in other income occurred largely in investment and securities services and foreign exchange trading revenues.

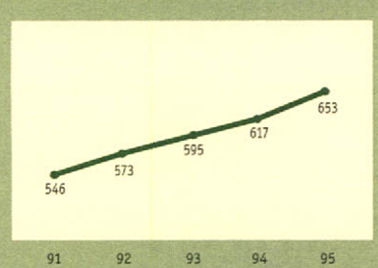
**Other Income** *($ billions)*




*Note: For more information see Table 4, Revenue Growth, on page 51.*

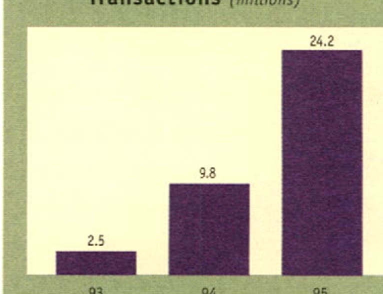
Operating services income increased 2.8% in 1995 and 1.7% in 1994. Growth in operating service fees was due to an increase in the number of FirstBank Plan fee programs used by customers to manage their service charge costs. The number of accounts utilizing FirstBank plans has increased steadily since first introduced in 1988.

**Number of FirstBank Plans** *(thousands)*




Lending fees increased 0.8% in 1995 following a 21.3% increase in 1994. Growth in fee revenue from higher letter of credit, acceptance and loan commitment volumes was partially offset by lower syndication fees and mortgage fees. Syndication activities in 1994 were higher due to a reduction in interest rates that encouraged many companies to refinance. To improve customer service and reduce costs, the Bank has automated the renewal process for six-month mortgages, reducing administrative costs which have been passed on to customers in the form of fewer renewal fees. A higher proportion of six-month renewals in 1995, combined with competitive pricing pressures related to volume growth, resulted in a decline in mortgage fees in 1995.

**Debit Card Transactions** *(millions)*




*Fourth quarter volumes*

Card services revenue increased 9.0% in 1995 and 1.4% in 1994. The higher rate of growth in 1995 was due largely to a significant increase in debit card point of sale volumes in Canada, the success of our AIR MILES™* credit card program and growth in credit card volumes at Harris Bank. Debit card transactions at PCFS have more than doubled from 10 million per quarter at the end of 1994 to 24 million per quarter by the end of 1995. Volume growth at Harris Bank reflects initiatives at Harris Bank to broaden its credit card customer base.

Income from investment and securities services includes brokerage commission income, underwriting and advisory fees, mutual fund fees and income from off-balance sheet interest rate contracts. The increase in income from investment and securities services resulted primarily from higher Investment Banking revenues related to the purchase in late 1994 of Burns Fry. Income from investment and securities services was negatively affected by weaker capital markets in the first half of 1995. In 1995, Nesbitt Burns participated in transactions totalling 80% of the capital raised by corporate issuers in Canada compared to 61% in 1994 with the increase resulting from the acquisition of Burns Fry. Mutual fund revenues declined in 1995 as net redemptions were experienced in the second half of 1994 and in the first half of 1995, reflecting increasing interest rates and poorer fund performance. This resulted in many customers switching to more traditional investments and is partially reflected in growth in the Bank's longer-term deposits. Mutual fund sales have exceeded redemptions since June 1995 and fund performance has improved.

*™*AIR MILES International Holdings N.V., used under license by Loyalty Management Group Canada Inc. and Bank of Montreal.*

Income from off-balance sheet interest rate contracts declined in 1995 after increasing in 1994 and is discussed under Trading-Related Revenues below.

Trust income includes revenue from The Trust Company of Bank of Montreal in Canada and Harris Bank's trust operations in the United States. The Trust Company of Bank of Montreal has experienced significant growth in its estate and trust portfolio management services areas. Trust income at Harris Bank increased 4.1% compared to a gain of 6.9% in 1994. Assets under management and administration at Harris Bank were $286.4 billion in 1995 compared to $216.5 billion in 1994.

Foreign exchange income includes revenue from foreign exchange transactions, including spot transactions, and trading revenues. Trading revenues from foreign currency contracts are discussed under Trading-Related Revenues below.

Other fees and commissions declined 12.9% in 1995 and reflects lower insurance-related net revenues (net of claims and reserves) and increased losses on fixed assets including the write-off of computer equipment replaced with new technology and disposals. Other fees and commissions increased 15.5% in 1994 as a result of increased insurance-related net revenues.

## Trading-Related Revenue Improved

Trading-related revenue includes net interest and other income derived from on- or off-balance sheet positions considered by management to be undertaken for trading purposes. All trading portfolios are marked to market daily. The table below provides a summary of trading-related revenues included in the income statement lines discussed above. Trading-related revenue from off-balance sheet interest rate contracts and revenues from financial instruments used to hedge derivative positions, is recorded in other income — investment and securities services. Income from foreign exchange contracts is reported in other income — foreign exchange. Income from trading-related on-balance sheet assets, net of funding costs, is recorded in net interest income.

**Trading-Related Revenue** *(millions of dollars)*

| *For the year ended October 31* | **1995** | 1994 | 1993 | 1992 | 1991 |
|---|---|---|---|---|---|
| Net interest income | **98** | 115 | 114 | 146 | 197 |
| Other income | | | | | |
| Investment and securities services income | **50** | 52 | 29 | 12 | 13 |
| Foreign exchange | **138** | 114 | 126 | 120 | 94 |
| Total trading revenue | **286** | 281 | 269 | 278 | 304 |

*Note: For more information see Table 4, Revenue Growth, on page 51.*

Total revenue from trading-related activities increased slightly in 1995, reflecting higher foreign exchange revenues and higher volumes offset by lower margins. Total trading-related revenues improved in 1994 as income from interest rate products offset a reduction in foreign exchange trading revenue.

**Financial Strategy:**

To achieve superior productivity (expense-to-revenue ratio) through a combination of superior cost management and growth of sustainable revenues. As the cost of providing services differs among Bank of Montreal's various business segments, each business segment will achieve superior productivity consistent with its particular business.

**Measure:**

The Bank measures productivity as the ratio of non-interest expense to total revenues on a taxable equivalent basis. It also measures productivity net of non-recurring items, goodwill and other valuation intangibles. This measure is referred to as the adjusted expense-to-revenue ratio. The Bank also monitors the differential of revenue growth minus expense growth.

## Expense-to-Revenue Ratio Increased

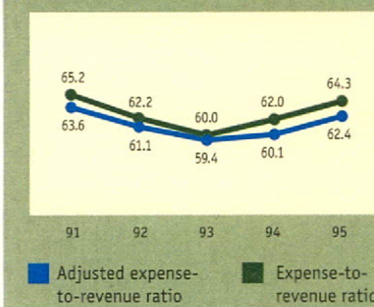
Bank of Montreal's expense-to-revenue ratio increased to 64.3% in 1995 from 62.0% in 1994. Total Bank revenue growth, at 9.0%, was below expense growth of 13.1%. Bank of Montreal has an objective, over the long term, of improving productivity 2% per annum. This is translated within the Bank into an objective of having a positive differential between revenue growth and expense growth of 3%. The revenue-to-expense growth differential, at a negative 4.1%, was below the Bank's annual objective of positive 3.0%.

Higher goodwill expenses in 1995 related to the acquisitions of Burns Fry and Suburban, and special charges in 1995 and 1994 have increased the Bank's expense-to-revenue ratio in these years. The adjusted expense-to-revenue ratio, which excludes non-recurring items and goodwill, increased to 62.4% in 1995 from 60.1% in 1994. The ratio was higher in 1995 due largely to:

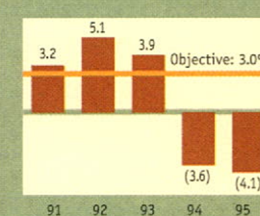
- the impact of weaker capital markets on investment and securities services income;
- lower LDC revenues;
- higher government levies; and
- higher depreciation expense due to investment spending.

Productivity improvements offset expense increases due to business volume growth and other increases in operating costs. Productivity programs continue to be a focus of the Bank. Harris Bank reported a significant reduction in its adjusted expense-to-revenue ratio to 65.6% from 69.2% a year earlier and PCFS reported a reduction in its adjusted expense-to-revenue ratio to 60.6% from 61.2%.

**Productivity** *(%)*




**Revenue and Expense Growth Differential** *(%)*

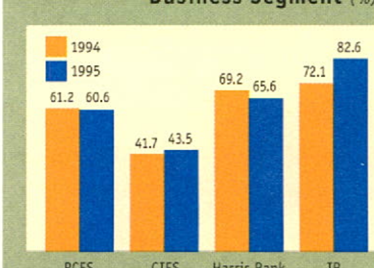



**Productivity** *(%)*

| For the year ended October 31 | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|---|---|---|---|---|
| Expense-to-revenue ratio | 64.3 | 62.0 | 60.0 | 62.2 | 65.2 |
| Revenue growth | 9.0 | 6.9 | 9.4 | 11.2 | 9.4 |
| Expense growth | 13.1 | 10.5 | 5.5 | 6.1 | 6.2 |
| Adjusted expense-to-revenue ratio | 62.4 | 60.1 | 59.4 | 61.1 | 63.6 |

*Note: For more information see Table 8 on page 56.*

**Productivity* by Business Segment** *(%)*




**Excluding non-recurring items and goodwill.*

## Productivity Initiatives Continue

The Bank continues to be committed to improving productivity with a goal of improving its expense-to-revenue ratio to 50–53% by the year 2000. The three primary components of the Bank's ongoing productivity improvement program are:

- Continuous improvement and business process re-engineering including the consolidation of back-office operations, process simplification and automation of large volume transaction processing;
- Enterprise-wide consolidation of Operations and Corporate Services areas through process improvement, use of technology and outsourcing, where appropriate. The Bank's target is to reduce Operations and Corporate Services costs by 25%, or $250 million by 1998; and
- Setting and monitoring of productivity targets for each business segment. The focus is on managing expense categories and obtaining reductions where they are considered disproportionately high.

During the year, several productivity initiatives designed to increase service capacity through the use of ABMs, tele-banking and other distribution channels, as well as consolidation of some operations, were sufficiently progressed to identify $60 million in costs to implement these initiatives. Other accomplishments are outlined in the side box at the right.

**Accomplishments**

- Improved distribution channels – the number of ABMs in Canada increased to 1,763 from 1,708 in 1994 and the number of point-of-sale transactions per quarter increased to 24 million at the end of 1995 from ten million at the end of 1994
- Combined Operations and Corporate Services into one reporting unit enterprise-wide
- Consolidation of foreign exchange operations

## Expense Growth Primarily Due to Acquisitions

The Bank's primary focus for achieving productivity improvement over the long term is managing expense growth. Total expenses in 1995 were $3,646 million, up 13.1%. During 1995, the Bank recorded a $60 million charge related to the implementation of specific business process improvement initiatives. The effect of this charge on expense growth was more than offset by a $71 million charge in 1994 related to losses incurred by Harris Bank's Securities Lending unit. Excluding non-recurring items and goodwill, all other expenses contributed 12.9% of 1995 expense growth. Investment Banking and Harris were the primary contributors due to the impact of the acquisitions of Burns Fry and Suburban in late 1994. Expense growth also reflected higher depreciation expense as a result of increased investment spending, an increase in government levies due to both higher business volumes and higher rates, as well as a new team-based incentive pay program introduced for branch employees in 1995.

Total expenses in 1994 were $3,223 million, up 10.5%. Excluding the Harris Bank special charge and goodwill, all other expenses

**Contribution to Expense Growth** *(%)*

| | 1995 | 1994 |
|---|---|---|
| Goodwill and non-recurring items | 0.2 | 2.5 |
| Other expenses | | |
| Investment Banking | 6.4 | 3.6 |
| Harris Bank | 2.2 | 1.5 |
| PCFS | 1.9 | 1.8 |
| CIFS | 0.5 | 0.1 |
| Other | 1.9 | 1.0 |
| Total expense growth | 13.1 | 10.5 |

**Non-Interest Expense** *(millions of dollars)*

| *For the year ended October 31* | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|---|---|---|---|---|
| Salaries and employee benefits | 1,999 | 1,795 | 1,664 | 1,549 | 1,444 |
| Premises and equipment | 679 | 600 | 580 | 555 | 535 |
| Communications | 208 | 180 | 165 | 167 | 174 |
| Other expenses | 651 | 546 | 477 | 458 | 416 |
| Goodwill and other valuation intangibles | 49 | 31 | 30 | 36 | 36 |
| Special charge | 0 | 71 | 0 | 0 | 0 |
| Business process improvement initiative charge | 60 | 0 | 0 | 0 | 0 |
| Total non-interest expense | 3,646 | 3,223 | 2,916 | 2,765 | 2,605 |

*Note: For more information see Table 8 on page 56.*

contributed 8.0% of total expense growth in 1994, reflecting business volume growth offset by productivity improvements. Higher production compensation in Investment Banking, government levies and a weaker Canadian dollar contributed significantly to the increase.

Salaries and employee benefits grew by 11.3% in 1995 due largely to the impact of acquisitions, higher production compensation in Investment Banking and team-based incentive pay. The increase of 7.9% in 1994 was primarily due to higher production compensation.

Premises and equipment costs increased 13.3% in 1995 as compared to 3.4% in 1994 and includes higher depreciation expense. The Bank continued its commitment to providing customers with more cost-effective alternatives by which they may access Bank of Montreal products and services, including automated banking machines, tele-banking and point-of-sale terminals.

Communications expenses increased 15.5% in 1995 and 9.1% in 1994. The increased usage of point-of-sale technology and tele-banking has resulted in increases in long-distance charges, which are recovered through transaction fees included in other income.

Other expenses increased 19.2% in 1995 and 14.4% in 1994 due to the acquisitions of Burns Fry and Suburban, higher capital taxes, professional fees, training expenses and increased operational losses. The increase in 1994 relates largely to the Bank's investment in the Institute for Learning.

The Bank's innovative program in 1995 of paying customers to make deposits at automated banking machines saved processing time and freed up Customer Service Representatives for more complex transactions. The number of transactions which have been processed through ABMs, as a percentage of those which could be, improved to 60% from 46% over the past two years.

FirstBank Telephone Service® and North American Bill Payment™ Service both give our customers toll-free access 24 hours a day from anywhere in Canada or the United States to perform routine banking transactions such as bill payments and transfers between accounts.

## Government Levies and Taxes Higher than Net Income

The income tax provision in 1995 was $662 million compared with $560 million in 1994 and increased as earnings increased. The provision for income taxes as a percentage of pre-tax income was 39.8% versus 40.1% in 1994. The decrease was attributed to increased earnings at Harris Bank whose tax rate is below the Bank's average tax rate. The effective tax rate of 39.8% was below the Canadian combined statutory tax rate of 41.9% due largely to the Bank's investment in Harris Bank, whose earnings were taxed at an effective tax rate of 30.6%.

**Government Levies and Taxes** *(millions of dollars except as noted)*

| *For the year ended October 31* | **1995** | 1994 | 1993 | 1992 | 1991 |
|---|---|---|---|---|---|
| Government levies other than income taxes | **353** | 311 | 288 | 268 | 229 |
| Total income taxes | **671** | 537 | 441 | 346 | 421 |
| Total government levies and taxes | **1,024** | 848 | 729 | 614 | 650 |
| Net income | **986** | 825 | 709 | 640 | 595 |
| Government levies and taxes as a % of net income | **103.8** | 102.8 | 102.9 | 96.0 | 109.1 |

*Note: For more information see Table 8 on page 56.*

In addition to income taxes, the Bank pays other government levies. Deposit insurance premiums increased 9.8% in 1995 and 23.9% in 1994. This is a result of higher rates and a higher deposit base in Canada, mitigated by a U.S. $5 million reduction in U.S. deposit insurance premiums at Harris Bank in 1995. Payroll taxes and provincial capital taxes increased 14.1% in 1995 as a result of higher tax bases and the 1995 Quebec budget.

Total direct and indirect taxes in 1995 of $1,024 million ($848 million in 1994) exceeded the Bank's worldwide net income of $986 million ($825 million in 1994).

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*™ Trade mark of Bank of Montreal.*

**Financial Strategy:**

To create stability of earnings by managing the risk/reward relationship within each of the Bank's major risk-based lines of business.

**Measure:**

The Bank's measures of risk management are based on the specific risk involved and are described further below.

## Prudent and Professional Approach to Risk-taking

### Overall Risk Management Principles

The Bank has established a prudent and professional approach to risk-taking with underlying principles that support its risk management framework:

- The Bank actively promotes an overall culture that accords high value to disciplined and effective risk management;
- The use of professionally qualified people with appropriate risk management skills;
- Disciplined processes for evaluation and acceptance of risk within appropriate limits in individual transactions, products and the management of loan and securities portfolios;
- A management information system that provides timely and accurate information on risks to the relevant management group. The Bank is committed to continuously upgrading these systems and to applying the most up-to-date analytical tools and systems to properly capture and price risk, monitor positions and determine the impact of potential management actions; and
- An internal audit function to ensure ongoing adherence to and integrity of risk management processes. Corporate oversight of risk management is the responsibility of the Risk Review Committee of the Board of Directors.

Inherent in the banking process are several financial risks which the Bank actively manages: credit risk, position risk, liquidity risk and operational risk. The following sections describe the nature of these risks and how they are managed. Included in measurement boxes are definitions of how the Bank measures risk and the results of this measurement.

### Credit Risk

Credit risk is the risk that the Bank will incur a loss due to the failure of a counterparty to meet its obligation to the Bank and includes loan loss risk, settlement risk and replacement risk. Financial instruments that create credit risk include loans and commitments to extend credit, securities and derivatives.

The principles that are applied in the management of credit risk include:

- Clear communication of credit risk management requirements through policies, procedures and training. This includes the use of standards, and a process of accreditation for all lending and credit officers with discretionary authority limits consistent with competencies and experiences. Policies include a 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 and rating classification whereby most 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;
- Prompt recognition of problem accounts and their transfer to a group of specialists skilled in managing such accounts;
- 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, incorporating the Bank's Risk Adjusted Return on Capital methodology.

**Measurement:**

The measures of credit risk focus primarily on the Bank's loan portfolio and are defined in the Asset Quality section on page 43. The results of the Bank's management of credit risk are discussed in this section.

Replacement risk, representing counterparty risk under derivatives contracts, is measured by reference to the deemed risk content of the specific contract. The deemed risk content is determined utilizing one of two methods, either:

i) normalized results of historic revaluation loss potential, over the life of such a contract, allowing a prudent margin of error, or

ii) combining actual mark-to-market revaluation plus an estimate of the potential adverse impact of future volatility.

Replacement risk is subject to the same credit process as that used for other forms of direct exposure when adjudicating acceptability of overall credit exposure with the counterparty.

## Position Risk

Position risk is the uncertainty as to the impact on future earnings arising from volatility in interest rates, foreign exchange and other market prices.

Risk management principles that are applied in the management of position risk include:

- Centralization of position risk activity within one area of the Bank, namely Treasury. Authorities and accountabilities for managing and monitoring this risk are clearly defined within Treasury;
- Established position risk policies form the framework for managing the level of interest rate and foreign exchange risk within control limits;
- Both control limits and positions 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.

Position risk, including interest rate risk and foreign exchange risk, is controlled by actively managing asset and liability mix, either directly through the balance sheet or with off-balance sheet derivatives, such as swaps, futures and forward agreements. Product features may be used to manage known or expected balance sheet mix changes. For instance, in 1995, the Bank introduced several mortgage products which, by offering customers attractive rate features, encouraged customers to extend their mortgage terms into the traditional deposit renewal period — that is the fall and spring. This allowed the Bank to reduce its risk to seasonal volatility in interest rates by reducing the gap between deposit renewals and mortgage renewals in these periods.

**Measurement: Interest Rate Risk**

Interest rate risk is the risk that net interest income and/or shareholder value will decrease because of an adverse movement in interest rates. The Bank measures this risk primarily by the use of gap, simulation and duration analysis techniques.

"Gap" is the difference in the amounts of assets and liabilities that reprice during a given period. "Earnings at risk" is calculated by assuming an immediate adverse 100 basis points shift in rates occurs, which is sustained for a specific period. "Mark-to-market risk" is calculated using the same rate assumptions, but measures the immediate potential impact on shareholder value by revaluation of the balance sheet. The Bank uses various alternative assumptions in its measurement; the inserted table shows figures using a one-year period.

These measurements are calculated without reference to management action taken or available to mitigate and manage the risk.

**One-Year Interest Rate Sensitivity Position** *($ billions)*

| As at October 31 | 1995 | | 1994 | |
|---|---|---|---|---|
| | Cdn. $ | U.S. $ | Cdn. $ | U.S. $ |
| Gap | (3.4) | (0.6) | (2.3) | (1.8) |
| Earnings at risk *(a)* | (6.6) | (10.7) | (5.1) | (6.2) |
| Mark-to-market risk *(a)* | (189.4) | (69.9) | (148.4) | NA |

*(a) After tax, in millions.*
*NA — Not available.*
*Note: For more information see Table 7, Interest Rate Sensitivity Position, on page 55.*

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 that 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.

**Measurement: Foreign Currency Risk**

Foreign currency risk is measured by reference to open positions in each currency, and a net overall currency position. End-of-day foreign exchange positions are well within the Bank's net overall currency position cap, and the exposure to open positions is on average, and at year end, not material. The impact of market changes on earnings is discussed in the Revenue Growth section on page 32.

Derivative financial instruments are financial contracts which derive their value from underlying assets or market rates. Derivative products include such traditional off-balance sheet products as forward and futures contracts, in addition to more sophisticated interest rate and cross-currency swaps and options. Derivative transactions include those designed to allow customers to manage their risk exposures and proprietary trading undertaken by the Bank to profit from expected future market movements or to manage interest rate and foreign currency risk.

Derivatives are managed within the Bank's overall risk management framework, enhanced by specific procedures. This includes notifying senior management and executives in Treasury daily about all global risk positions and actual profit and loss, on a mark-to-market basis, by both product and trading office.

**Measurement: Derivatives**

Revenue from trading, including derivatives, is discussed under Trading-Related Revenues on page 36. The two primary risks arising from derivative products are counterparty failure and market volatility impacts on the Bank's book of derivative exposures. The former is measured as discussed under credit risk above including calculation of the credit risk equivalent. Market volatility risks are measured using sensitivity analysis and scenario-testing.

Credit risk equivalent for interest rate and foreign exchange contracts includes the cost of replacing, at current market rates, all contracts which have a positive fair value, plus the potential for future changes based upon a formula using parameters prescribed by the Superintendent of Financial Institutions Canada which are less restrictive than the Bank's internal formulae. The credit risk equivalent as at October 31, 1995 was $12.2 billion as compared to $10.5 billion in 1994. The Bank's total credit exposure is mitigated further by legal contracts which permit the offsetting of loss positions with the same counterparty and, where applicable, by the availability of collateral and other security. Additional disclosure with regards to derivatives is found in Note 15 to the Consolidated Financial Statements.

## Liquidity Risk

Liquidity risk is the risk of being unable to raise funds at a reasonable price to meet commitments as they come due. The Bank maintains access to liquidity in the form of balance sheet positions and access to markets such that, even under adverse conditions, it does not need to raise deposits at unreasonable rates or sell assets on a forced basis. The Bank's management of liquidity risk is consistent with its overall risk management framework and includes establishing minimum liquid asset requirements and limits with regards to the acceptance of short-term wholesale deposits to protect against short-term liquidity demands. Liquidity risk is managed through frequent verification of market conditions and pro-active balance sheet management.

**Measurement:**

The Bank measures liquidity as discussed in the Liquidity section on page 48. The results of the Bank's management of liquidity risk are discussed in this section.

## Operational Risk

Operational risk is the risk that a loss will be incurred as a result of incorrect processing of transactions and information due to fraud, error, systems failure or adverse changes in cost or volumes. Operational risk is managed by a system of internal controls that requires segregation of duties, recording of transaction details and notification, where appropriate, of parties to transactions for verification purposes, insurance coverage, training programs, back-up systems and a recovery plan regarding systems failure or catastrophic events, pre-testing and parallel implementations of new systems and internal audit reviews.

**Measurement:**

The financial measure of operational risk is actual losses incurred. No material losses have occurred in 1995 and 1994.

**Financial Strategy:**

To manage the Bank's credit asset portfolio with the objective of ensuring that it is well-diversified as an integral element of effectively managing risk and that it earns a return appropriate to the level of risk assumed.

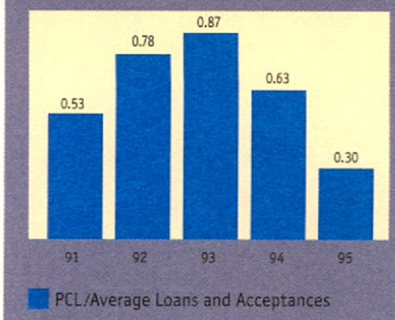
**Measure:**

Bank of Montreal has two primary measures of asset quality. The first, referred to as the provisioning ratio, is calculated as the annual provision for credit losses (PCL) as a percentage of average loans and acceptances (collectively referred to as loans). Over the long term, the provisioning ratio is the most accurate indicator of underlying asset quality. The second primary measure monitors the financial condition of the Bank's portfolio by measuring the impact of non-performing loans and acceptances (collectively referred to as non-performing loans) on the balance sheet. This ratio is gross non-performing loans and acceptances (GNPL) as a percentage of equity and allowance for credit losses (ACL).

The Bank also monitors net non-performing loans and acceptances (NNPL) as a percentage of loans and acceptances (net of the ACL). The adequacy of the allowance for credit losses is measured by the coverage ratio: ACL as a percentage of GNPL.

## Improvement in Asset Quality Reflected in Lower Provision for Credit Losses

**Asset Quality — Performance** *(%)*




Continued improvements in the quality of Bank of Montreal's loan portfolio allowed the Bank to reduce its provision for credit losses to $275 million in 1995 from $510 million in 1994. The provision for credit losses in 1995 included $125 million added to the Bank's general provision to bring it to $325 million. Prudent asset management policies, combined with improving economic conditions, contributed to the overall improvement in the condition of the loan portfolio. The provisioning ratio fell for the second consecutive year to 0.30% from 0.63% in 1994 and from 0.87% in 1993.

**Asset Quality Performance** *(millions of dollars except as noted)*

| *For the year ended or as at October 31* | 1995 | 1994* | 1993* | 1992* | 1991* | 5-year avg |
|---|---|---|---|---|---|---|
| Total specific provisions | 150 | 460 | 675 | 744 | 407 | |
| Net increase in general provision | 125 | 50 | 0 | 50 | (10) | |
| Application of excess country risk provision | 0 | 0 | 0 | (244) | (60) | |
| Provision for credit losses | 275 | 510 | 675 | 550 | 337 | |
| **Allocation of Specific Provision** | | | | | | |
| Individuals | 96 | 89 | 113 | 152 | 142 | |
| Diversified commercial | | | | | | |
| Real estate | 17 | 320 | 375 | 261 | 104 | |
| Other | 37 | 52 | 188 | 331 | 155 | |
| Designated lesser developed countries | 0 | (1) | (1) | 0 | 6 | |
| Total specific provisions | 150 | 460 | 675 | 744 | 407 | |
| Total general non-country provision | 325 | 200 | 100 | 100 | 50 | |
| PCL as a % of average loans and acceptances | 0.30 | 0.63 | 0.87 | 0.78 | 0.53 | 0.62 |
| PCL as a % of average loans and acceptances *(a)* | | | | | | |
| Individuals | 0.24 | 0.25 | 0.35 | 0.52 | 0.54 | |
| Commercial, corporate and institutional | 0.11 | 0.83 | 1.28 | 1.49 | 0.74 | |
| Canada *(b)* | 0.27 | 0.51 | 0.83 | 1.08 | 0.76 | |
| United States | 0.38 | 0.98 | 1.03 | 1.36 | 0.44 | |
| Other countries | 0.00 | (0.20) | (0.05) | (8.24) | (1.56) | |

**Reclassified to conform with 1995 presentation.*

*(a) Segment PCL as a percentage of segment average loans and acceptances. The ratio for commercial, corporate and institutional excludes the general provision.*

*(b) The ratio for Canada includes the general provision booked in Canada. This provision may be applied against specific loans in Canada, U.S. or other countries.*

*Note: For more information see Table 9, Provision for Credit Losses, on page 57.*

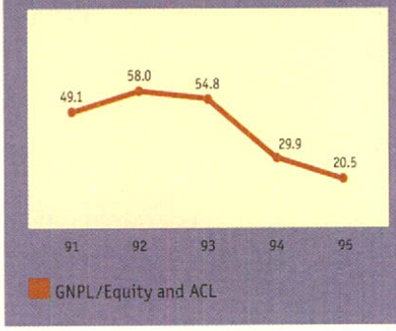
The provisioning ratio in 1995 for loans to individuals was stable at 0.24% after falling from 0.35% in 1993. Strong growth in low-risk residential mortgages in 1994 contributed to the reduction in the individual provisioning ratio. The specific provisioning ratio for diversified commercial loans improved for the third consecutive year largely due to a reduction in the specific provision for real estate loans.

## Non-performing Loans Continued to Decline

The improvement in asset quality is evidenced by the continued reduction in non-performing loans. Gross non-performing loans declined 29.3% to $1.7 billion in 1995 following a 42.4% decline in 1994. As shown in the migration analysis presented in the table below, the Bank has experienced a net reduction in gross non-performing loans for the second consecutive year. The majority of the reduction in 1994 related to a reclassification of $641 million in gross LDC loans as performing. In 1995, over one-half of the net reductions were in the category of real estate loans, in part resulting from asset sales.

Net non-performing loans declined 39.3% to $835 million, net of specific allowance and general provisions, following a decline of 39.2% in 1994.

**Asset Quality — Condition** *(%)*




Diversified commercial non-performing loans declined significantly, largely due to continued stability in most industry segments. The Bank's financial condition ratios have been significantly affected by the commercial real estate portfolio, particularly in the U.S. The Bank continues to be conservative in the classification of real estate loans as non-performing as evidenced by the realization values achieved from sales of both loans and assets. Net non-performing real estate loans declined to $846 million from slightly over $1 billion in 1994 and $1.4 billion in 1993. Additions to non-performing real estate loans declined for the third consecutive year to $339 million from their peak of $1,276 million in 1992.

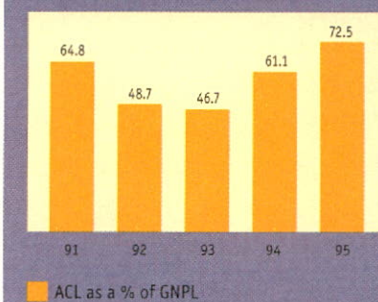
### Asset Quality Condition *(millions of dollars except as noted)*

| *For the year ended or as at October 31* | 1995 | 1994* | 1993* | 1992* | 1991* | 5-year avg |
|---|---|---|---|---|---|---|
| Gross non-performing loans | 1,730 | 2,447 | 4,249 | 4,232 | 3,302 | |
| Net non-performing loans | 835 | 1,376 | 2,263 | 2,173 | 1,264 | |
| GNPL as a % of equity & ACL | 20.48 | 29.86 | 54.84 | 58.01 | 49.05 | 42.45 |
| NNPL as a % of total net loans and acceptances | 0.89 | 1.49 | 2.91 | 3.04 | 1.94 | 2.05 |
| **Migration Analysis – GNPL** | | | | | | |
| Additions | 806 | 1,267 | 1,587 | 2,141 | 1,236 | |
| Reductions *(a)* | (1,073) | (1,922) | (747) | (663) | (728) | |
| Net additions (reductions) | (267) | (655) | 840 | 1,478 | 508 | |
| **Migration Analysis – GNPL – Real Estate** | | | | | | |
| Additions | 339 | 613 | 838 | 1,276 | 437 | |
| Reductions *(a)* | (489) | (690) | (400) | (167) | (160) | |
| Net additions (reductions) | (150) | (77) | 438 | 1,109 | 277 | |
| **Segmentation of NNPL** | | | | | | |
| Individuals | 98 | 84 | 91 | 107 | 111 | |
| Diversified commercial | | | | | | |
| Real estate | 846 | 1,003 | 1,432 | 1,413 | 633 | |
| Other | 216 | 489 | 616 | 573 | 570 | |
| General provision | (325) | (200) | (100) | (100) | (50) | |
| Designated lesser developed countries | 0 | 0 | 224 | 180 | 0 | |
| Total NNPL | 835 | 1,376 | 2,263 | 2,173 | 1,264 | |
| **NNPL as a % of Net Loans and Acceptances** *(b)* | | | | | | |
| Individuals | 0.24 | 0.23 | 0.28 | 0.35 | 0.41 | |
| Diversified commercial | 2.50 | 3.64 | 5.44 | 5.33 | 3.21 | |
| Designated lesser developed countries | 0.00 | 0.00 | 71.34 | 33.46 | 0.00 | |
| Canada | 0.26 | 0.79 | 1.68 | 1.85 | NA | |
| United States | 2.47 | 3.05 | 4.99 | 5.35 | NA | |
| Other | 0.00 | 0.00 | 14.43 | 9.54 | NA | |

**Reclassified to conform with 1995 presentation.*
*(a) Loans and acceptances returning to performing status, sales and repayments.*
*(b) Segment NNPL as a percentage of segment net loans and acceptances.*
*NA — Not available.*
*Note: For more information see Tables 12, 13 and 14 on pages 60 and 61.*

## General Provision Increased, Coverage Ratios Improved

Asset Quality — Coverage




The allowance for credit losses declined $241 million to $1,255 million in 1995. Write-offs, at $565 million, were significantly below 1994 write-offs, which peaked at $1,147 million. The high proportion of write-offs in 1994 related to a number of non-performing real estate loans and acceptances against which provisions were made in 1994 and earlier years. Real estate write-offs accounted for 22.3% of total write-offs in 1995 compared to 48.7% in 1994. The remainder of write-offs was not concentrated in any particular segment or industry.

General provisions in 1995 were increased to $325 million from $200 million in 1994. The coverage ratio improved for the second consecutive year to 72.5% from 61.1% in 1994 and was up significantly from 46.7% in 1993. The coverage ratio is currently at the highest level in the past five years. The coverage ratios for both the individual and diversified commercial loan segments were relatively stable in 1995 with the increase in the general provision contributing to the improvement in the Bank's overall coverage ratio. The country risk provision continued to exceed LDC gross non-performing loans in 1995.

**Asset Quality Coverage** *(millions of dollars except as noted)*

| *For the year ended or as at October 31* | **1995** | 1994 | 1993 | 1992 | 1991 | 5-year avg |
|---|---|---|---|---|---|---|
| Allowance for credit losses, beginning of year | **1,496** | 1,999 | 2,070 | 2,149 | 2,339 | |
| Provision for credit losses | **275** | 510 | 675 | 550 | 337 | |
| Write-offs *(a)* | **(565)** | (1,147) | (888) | (862) | (468) | |
| Recoveries | **52** | 75 | 59 | 79 | 28 | |
| Other – including foreign exchange rates | **(3)** | 59 | 83 | 154 | (87) | |
| Total increase (decrease) | **(241)** | (503) | (71) | (79) | (190) | |
| Allowance for credit losses, end of year | **1,255** | 1,496 | 1,999 | 2,070 | 2,149 | |
| ACL as a % of GNPL *(b)* | **72.5** | 61.1 | 46.7 | 48.7 | 64.8 | 58.8 |
| Individuals | **19.0** | 22.0 | 24.8 | 26.7 | 31.1 | |
| Diversified commercial | **33.7** | 34.6 | 36.8 | 33.2 | 30.9 | |
| Designated lesser developed countries | **100.0** | 100.0 | 74.8 | 83.8 | 100.0 | |
| Net write-offs as a % of average loans and acceptances | **0.6** | 1.3 | 1.1 | 1.1 | 0.7 | |

*(a) Write-offs on designated lesser developed countries include losses on sales of performing assets that were charged directly against the allowance (1995 — $115 million, 1993 — $65 million, 1992 — $314 million).*

*(b) Segment ACL as a percentage of segment GNPL.*

*Note: For more information see Tables 16 and 17 on pages 62 and 63.*

## Excess of Market Value over Book Value of Securities and LDC Loans

The market value of the Bank's portfolio of securities and LDC loans exceeded the book value of these assets by $455 million compared to $262 million a year earlier. Market values for LDC assets declined in 1995 which was more than offset by a recovery in the value of securities. Additional information is available on Table 20 on page 64.

## Loans and Acceptances Well-Diversified

The Bank's financial strategy incorporates a continued commitment to maintaining a well-diversified portfolio as an integral element in effectively managing risk. The Bank's loan portfolio is well-diversified throughout individual and commercial, corporate and institutional markets, geographically and by size and risk category.

Loans to individuals result from the operation of a highly disciplined lending process and the portfolio is well-diversified in loan size, type of borrower and geography. As a result, loan loss performance is more predictable and tends to follow economic cycles. Mortgages continue to be the predominant lending product in this sector.

Within the commercial, corporate and institutional loan portfolio, securities purchased under resale agreements (reverse repos) and loans to financial institutions represented the highest concentration of the portfolio, but are low-risk exposure. The remaining commercial, corporate and institutional portfolio is broadly diversified geographically, by industry and by client relationship and industry sub-sector. Manufacturing and service industries are by their nature diversified among many industry sub-sectors. The Bank's exposure to commercial real estate continued to decline, to 6.4% of total net commercial, corporate and institutional loans compared to 8.1% in 1994. This was primarily due to the Bank's success in managing down its portfolio of distressed assets and loans.

### Diversification of Net (a) Loans and Acceptances (%)

| *As at October 31* | 1995 | 1994 |
|---|---|---|
| **By Market** | | |
| Individuals | 43.4 | 39.9 |
| Commercial, corporate & institutional | 56.4 | 59.7 |
| Designated LDC | 0.2 | 0.4 |
| | 100.0 | 100.0 |
| **By Geography** *(b)* | | |
| Canada | 68.8 | 66.6 |
| United States | 29.1 | 31.4 |
| Other countries | 2.1 | 2.0 |
| | 100.0 | 100.0 |
| **Individuals by Product** | | |
| Residential mortgages | 61.5 | 61.4 |
| Cards | 9.5 | 8.8 |
| Other personal | 29.0 | 29.8 |
| | 100.0 | 100.0 |
| **Commercial, Corporate and Institutional by Industry** | | |
| Securities purchased under resale agreements | 19.8 | 26.3 |
| Financial institutions | 13.6 | 13.4 |
| Commercial mortgages | 6.4 | 6.4 |
| Construction (non-real estate) | 1.7 | 1.4 |
| Real estate | 6.4 | 8.1 |
| Manufacturing | 13.3 | 10.3 |
| Mining and energy | 4.6 | 3.7 |
| Service industries | 10.2 | 8.1 |
| Retail trade | 4.9 | 4.8 |
| Wholesale trade | 4.8 | 4.0 |
| Agriculture | 3.6 | 3.1 |
| Transportation/Utilities | 3.8 | 4.3 |
| Communications | 3.8 | 2.9 |
| Other | 3.1 | 3.2 |
| | 100.0 | 100.0 |

*(a) Net of allowance for credit losses.*
*(b) Geographic location is based on the ultimate risk of the underlying asset.*
*Note: For more information see Table 10, Net Loans and Acceptances, on page 58.*

**Financial Strategy:**

To ensure that Bank of Montreal is well capitalized and that capital planning does not cause significant dilution to earnings per share and return on equity over the long term. Strong capitalization means that the Bank will consistently exceed the minimum regulatory capital ratio requirements and be in line with market expectations.

**Measure:**

The Office of the Superintendent of Financial Institutions (OSFI) sets minimum capital requirements for Canadian banks. Capital adequacy is measured as the ratio of capital to risk-weighted assets including both on-balance sheet and off-balance sheet items. Risk weightings are based on the deemed credit risk of various assets.

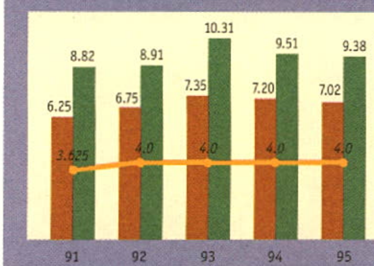
OSFI defines two tiers of capital. Tier 1 capital consists of common shareholders' equity; non-cumulative, perpetual preferred shares; and non-controlling interest in subsidiaries, less goodwill. This is considered more-permanent capital. Tier 2 capital consists of term or cumulative preferred shares 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 total capital. The Bank's primary measure of capital adequacy is Tier 1 capital as a percentage of risk-weighted assets. It also monitors its equity leverage ratio, defined as equity-to-assets, and total capital as a percentage of risk-weighted assets.

## Well Capitalized

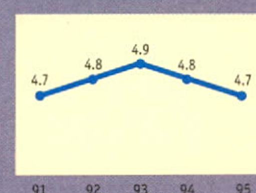
As at October 31, 1995, the Bank's Tier 1 ratio was 7.02% compared to 7.20% in 1994 and was well above the minimum regulatory requirement of 4.0%.

Tier 1 capital increased from retained earnings growth as a result of net income in the year, less dividends. The Bank declared a 10% increase in quarterly dividends, the third increase in three years. Growth in Tier 1 capital was reduced in 1995 as a result of the cancellation of 3.5 million shares under the Bank's share repurchase program. This program was implemented to minimize the potential dilutive effects of shares issued or issuable from the acquisitions of Nesbitt Thomson and Burns Fry as well as the Bank's Stock Option Plan. The 3.5 million shares were repurchased at an average cost of $29.32 per share. The Bank also amended its Shareholder Dividend Reinvestment and Share Purchase Plan so that, commencing May 1995, shares provided to participants under the Plan are purchased in the open market rather than issued directly by the Bank.

**Tier 1 and Total Capital Ratios** *(%)*




**Equity-to-Assets Ratio** *(%)*




**Capital Adequacy** *(millions of dollars except as noted)*

| *As at October 31* | **1995** | 1994 | 1993 | 1992 | 1991 |
|---|---|---|---|---|---|
| **Canadian Basis** | | | | | |
| Tier 1 capital | **6,742** | 6,232 | 5,593 | 5,060 | 4,219 |
| Tier 2 capital | **2,268** | 1,999 | 2,248 | 1,650 | 1,761 |
| Less: investment in non-consolidated subsidiary | **0** | 0 | 0 | 28 | 28 |
| Total capital | **9,010** | 8,231 | 7,841 | 6,682 | 5,952 |
| Risk-weighted assets | **96,075** | 86,589 | 76,074 | 74,964 | 67,490 |
| Tier 1 capital ratio *(%)* | **7.02** | 7.20 | 7.35 | 6.75 | 6.25 |
| Regulatory requirement *(%)* | **4.0** | 4.0 | 4.0 | 4.0 | 3.625 |
| Total capital ratio *(%)* | **9.38** | 9.51 | 10.31 | 8.91 | 8.82 |
| Regulatory requirement *(%)* | **8.0** | 8.0 | 8.0 | 8.0 | 7.25 |
| Equity-to-assets ratio *(%)* | **4.7** | 4.8 | 4.9 | 4.8 | 4.7 |
| **U.S. Basis** | | | | | |
| Tier 1 capital ratio *(%)* | **6.82** | 6.91 | 7.13 | 6.58 | 6.67 |
| Total capital ratio *(%)* | **9.97** | 10.07 | 11.14 | 10.12 | 10.49 |

*Note: For more information see Table 21, Capital Adequacy, on page 65.*

The Bank's Total risk-weighted capital ratio decreased to 9.38% from 9.51% in 1994 and exceeded the minimum statutory requirement of 8%. During the year, the Bank issued U.S. $300 million and Cdn. $250 million in subordinated debt which increased Tier 2 capital. The Bank also redeemed U.S. $200 million in subordinated notes as these notes carried a coupon cost higher than current market yields.

Calculated on a U.S. basis, the Tier 1 capital ratio was 6.82% compared to 6.91% in 1994.

**Financial Strategy:**

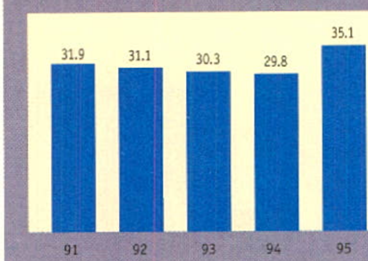
To ensure that Bank of Montreal maintains sufficient liquidity or access to liquidity at reasonable prices for funding requirements as they arise. Funding requirements may be for lending or investment and to honour deposit and other liabilities.

**Measure:**

The Bank's primary measure of liquidity is the proportion of liquid assets to total assets. Liquid assets are cash, securities, and deposits with major domestic and international banks.

## High Liquidity Ratio

**Cash and Securities-to-Total Assets** *(%)*




As at October 31, 1995, liquid assets, as a percentage of total assets, was 35.1% compared to 29.8% in 1994. Average deposit growth in 1995 and 1994 exceeded growth in loans, resulting in an increase in liquidity during both those years. Most of this increase was in securities. Growth in average securities in 1995 increased to 30.7% compared to 15.2% in 1994 due to increased money market activities.

**Liquidity** *(millions of dollars except as noted)*

| *As at October 31* | **1995** | 1994 | 1993 | 1992 | 1991 |
|---|---|---|---|---|---|
| Cash resources | **20,317** | 14,659 | 12,081 | 11,288 | 13,607 |
| Securities | **33,019** | 26,535 | 23,328 | 22,581 | 17,862 |
| Total liquid assets | **53,336** | 41,194 | 35,409 | 33,869 | 31,469 |
| Cash and securities-to-total assets *(%)* | **35.1** | 29.8 | 30.3 | 31.1 | 31.9 |
| Total deposits | **109,605** | 98,241 | 87,859 | 86,601 | 77,769 |

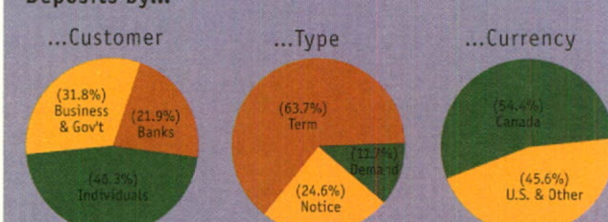
*Note: For more information see Table 23, Liquid Assets, on page 66.*

## Deposits Well-Diversified

Part of the Bank's liquidity management policy is to ensure that it has well-diversified funding sources to ensure a secure and continuous availability of deposits. Its deposits are broadly diversified by customer, type, currency and geography. Deposits from individuals are a relatively stable source of funds (46.3% in 1995 compared to 48.0% in 1994). Term products, typically higher-cost deposits, have increased as a proportion of total deposits (63.7% in 1995 versus 60.7% in 1994). The increase was due to:

- individual customers shifting from lower-cost notice deposits to term products as interest rates increased in the first half of 1995;
- significant growth in term deposits as customers switched from mutual funds and similar products to traditional investments as rates increased;
- growth in deposits from wholesale funding acquired largely to fund growth in securities balances. These deposits are of a shorter duration, typically less than one year.

**Deposits by...**




*As at October 31*
*Note: For more information see Table 23 and Table 24 on page 66.*

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. U.S. dollar and other currency deposits increased in 1995 (45.6% of total deposits versus 43.0% in 1994) due to growth at Harris Bank and in U.S. wholesale funding, related to money market activities, and growth in U.S. corporate banking.

## 1995 Economic Developments

The Canadian economy grew by an annualized 0.9% in the first quarter of 1995 and declined 1.0% in the second quarter. This represented a marked slowing from gross domestic product (GDP) growth in 1994 of 5.4%, measured on a fourth quarter-over-fourth quarter basis. The Bank is expecting the economy to benefit from a rebound in activity in the U.S. and return to positive growth over the second half of 1995. However, for the year as a whole, it is only expecting overall GDP output to rise 1.0% on a fourth quarter-over-fourth quarter basis. The slowing in Canadian economic growth mirrors a similar pattern in the U.S. where GDP growth is expected to slow to 2.5% in 1995 compared to 4.1% in 1994. This slowing in U.S. economic performance reflects the impact of tightening U.S. monetary policy through 1994.

## Current Economic Expectations for 1996

An expected rebound in U.S. economic activity next year should contribute to a turnaround in Canadian export growth. Moreover, as the political uncertainty subsides in Canada now that the Quebec referendum vote has occurred, interest rates are expected to start to trend lower. This should enable the interest-rate sensitive areas such as investment and consumer spending, to make more of a contribution to growth. GDP growth is expected to accelerate to 3.5% in 1996. A modest easing in Canadian monetary policy, along with inflation remaining well within the Bank of Canada's target range, should allow interest rates at both the long and the short end of the market to move lower. The rate on 3-month T-bills is expected to drop to 5.45% by the fourth quarter of 1996 compared to year-earlier forecast rates of 6.10%. The yield on 10-year Government of Canada bonds is expected to drop to 7.20% from 7.60% over the same period. The U.S. economy is expected to show more moderate growth next year relative to the Canadian economy, with GDP only expected to rise 2.5%. This combined with moderate inflation of 2.9%, is expected to lead to a further 25-basis point cut in the fed funds rate to 5.50% early in 1996. This should contribute to a modest downward trend in market interest rates of 10 to 20 basis points at both the long and the short end. The passage of an aggressive deficit reduction package by the U.S. Government, later this year or early in 1996, offers the potential for even further interest rate reductions next year.

## Expectations for 1996 for Bank of Montreal

In 1995, the Bank reported record earnings of $986 million driven by asset quality improvements, volume growth and the successful mergers of Burns Fry and Suburban offset by lower revenues from the more volatile or cyclical areas and in particular lower LDC revenues.

Business volumes are continuing to increase. Harris Bank business volumes are being driven largely by loan growth. Declining interest rates are expected to lead to a modest improvement in the more volatile or cyclical areas such as Treasury and Investment Banking. Capital markets are showing a recovery resulting in improvements in earnings for Investment Banking. Although market prices for the Bank's LDC portfolio have improved, all prices have not recovered sufficiently to exceed threshold levels at which the Bank would be willing to sell.

Asset quality has improved and the Bank is committed to maintaining its broadly diversified loan portfolio as an integral element of effectively managing credit risk.

The Bank is committed to managing expenses so as not to exceed the rate of inflation plus 1% to 2% for investments (exclusive of any special charges). The Bank's tax rate is largely unchanged but is dependent upon budgetary changes.

## Objectives for the Future

The Bank's primary objectives are to achieve minimum growth in fully diluted earnings per share of 10% and a return on equity that is competitive and above its economic performance threshold (12% in 1995). The Bank is also committed to improving productivity by 2% per year.

## Table 1 — Shareholder Value

| For the year ended October 31 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 | 1987 | 1986 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Market Price per Common Share** *($) (a)* | | | | | | | | | | |
| Open | 25.125 | 26.875 | 23.563 | 18.688 | 13.500 | 17.000 | 14.250 | 13.313 | 17.063 | 15.375 |
| Close | 29.750 | 25.125 | 26.875 | 23.563 | 18.688 | 13.500 | 17.000 | 14.250 | 13.313 | 17.063 |
| High | 31.000 | 30.750 | 27.375 | 24.125 | 19.188 | 17.188 | 17.625 | 14.875 | 19.625 | 17.625 |
| Low | 24.125 | 22.000 | 21.313 | 18.563 | 13.250 | 12.250 | 13.313 | 12.313 | 12.750 | 13.625 |
| **Common Dividends** | | | | | | | | | | |
| Dividends declared *($) (a)* | 1.32 | 1.20 | 1.12 | 1.06 | 1.06 | 1.06 | 1.06 | 1.00 | 1.00 | 0.98 |
| Dividends paid *($) (a)* | 1.29 | 1.18 | 1.11 | 1.06 | 1.06 | 1.06 | 1.05 | 1.00 | 1.00 | 0.98 |
| Dividend payout ratio *(%)* | 38.2 | 40.3 | 43.3 | 44.7 | 46.0 | 50.7 | NM | 45.9 | NM | 62.4 |
| Dividend yield *(%)* | 5.1 | 4.4 | 4.7 | 5.7 | 7.9 | 6.2 | 7.3 | 7.5 | 5.9 | 6.4 |
| **Return on Investment** (ROI) | | | | | | | | | | |
| ROI *(%)* | 24.1 | (2.3) | 19.4 | 32.4 | 47.4 | (14.4) | 27.9 | 15.6 | (17.1) | 18.1 |
| Five-year ROI *(%)* | 23.1 | 14.3 | 20.6 | 19.8 | 9.1 | 4.4 | 15.1 | 8.3 | 9.3 | 14.7 |
| **Common Share Information** *(b)* | | | | | | | | | | |
| Common shares outstanding *(in thousands) (a)* | 263,685 | 265,457 | 249,094 | 244,819 | 238,770 | 229,989 | 221,520 | 213,524 | 204,182 | 162,529 |
| Number of shareholder accounts | 57,187 | 58,879 | 62,342 | 65,723 | 72,887 | 78,789 | 82,855 | 90,479 | 90,506 | 91,225 |
| Total book value per common share *($) (a)* | 23.41 | 21.39 | 19.40 | 17.69 | 16.05 | 15.00 | 13.98 | 15.61 | 14.75 | 18.43 |
| Total market value of common shares *($ billions)* | 7.8 | 6.7 | 6.7 | 5.8 | 4.5 | 3.1 | 3.8 | 3.0 | 2.7 | 2.8 |
| Price-to-earnings ratio *(times)* | 8.6 | 8.3 | 10.4 | 9.9 | 8.1 | 6.4 | NM | 6.5 | NM | 10.8 |
| Market-to-book value *(times)* | 1.27 | 1.17 | 1.39 | 1.33 | 1.16 | 0.90 | 1.22 | 0.91 | 0.90 | 0.93 |

## Table 2 — Profitability *(millions of dollars except as noted)*

| For the year ended October 31 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 | 1987 | 1986 |
|---|---|---|---|---|---|---|---|---|---|---|
| Net income (loss) | 986 | 825 | 709 | 640 | 595 | 522 | (39) | 500 | (242) | 310 |
| Preferred dividends | 69 | 69 | 68 | 64 | 51 | 48 | 47 | 41 | 45 | 57 |
| Net income available to common shareholders | 917 | 756 | 641 | 576 | 544 | 474 | (86) | 459 | (287) | 253 |
| Average common shareholders' equity | 5,937 | 5,088 | 4,564 | 4,072 | 3,623 | 3,259 | 3,434 | 3,141 | 3,090 | 2,983 |
| Return on common shareholders' equity *(%)* | 15.4 | 14.9 | 14.1 | 14.1 | 15.0 | 14.6 | (2.5) | 14.7 | (9.3) | 8.5 |
| Economic performance threshold *(%)* | 12.0 | 11.0 | 10.6 | 11.2 | 12.3 | 13.0 | 12.4 | 12.4 | 12.0 | 12.0 |
| Return on average total equity *(%)* | 14.5 | 13.9 | 13.1 | 13.2 | 14.2 | 13.9 | (1.0) | 13.9 | (6.7) | 8.5 |
| Return on average assets *(%)* | 0.68 | 0.68 | 0.63 | 0.61 | 0.63 | 0.64 | (0.05) | 0.63 | (0.29) | 0.36 |
| Return on average assets — after preferreds *(%)* | 0.64 | 0.62 | 0.57 | 0.55 | 0.58 | 0.58 | (0.11) | 0.58 | (0.34) | 0.29 |

## Table 3 — Earnings Growth *(millions of dollars except as noted)*

| For the year ended October 31 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 | 1987 | 1986 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Income Statement** | | | | | | | | | | |
| Net interest income (TEB) *(c)* | 3,691 | 3,447 | 3,280 | 3,077 | 2,776 | 2,606 | 2,600 | 2,611 | 2,256 | 2,274 |
| Other income | 1,975 | 1,749 | 1,581 | 1,365 | 1,219 | 1,047 | 986 | 1,042 | 853 | 818 |
| Total revenues (TEB) *(c)* | 5,666 | 5,196 | 4,861 | 4,442 | 3,995 | 3,653 | 3,586 | 3,653 | 3,109 | 3,092 |
| Provision for credit losses | 275 | 510 | 675 | 550 | 337 | 169 | 1,181 | 390 | 75 | 605 |
| Non-interest expense | 3,646 | 3,223 | 2,916 | 2,765 | 2,605 | 2,453 | 2,330 | 2,297 | 2,055 | 1,935 |
| Income before provision for income taxes and non-controlling interest in subsidiaries | 1,745 | 1,463 | 1,270 | 1,127 | 1,053 | 1,031 | 75 | 966 | 979 | 552 |
| Provision for income taxes (TEB) *(c)* | 746 | 627 | 555 | 483 | 452 | 506 | 109 | 460 | 452 | 238 |
| Non-controlling interest in subsidiaries | 13 | 11 | 6 | 4 | 6 | 3 | 5 | 6 | 4 | 4 |
| Net income (loss) before special provision | 986 | 825 | 709 | 640 | 595 | 522 | (39) | 500 | 523 | 310 |
| Special provision net of income taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 765 | 0 |
| Net income | 986 | 825 | 709 | 640 | 595 | 522 | (39) | 500 | (242) | 310 |
| Year-over-year growth *(%)* | 19.5 | 16.4 | 10.9 | 7.5 | 13.9 | NM | (107.7) | NM | (178.1) | (21.1) |
| **Earnings per Share** *($) (a)* | | | | | | | | | | |
| Basic | 3.45 | 3.01 | 2.59 | 2.38 | 2.31 | 2.10 | (0.39) | 2.19 | (1.60) | 1.58 |
| Fully diluted | 3.38 | 2.97 | 2.55 | 2.36 | 2.31 | 2.10 | NM | 2.16 | NM | 1.56 |
| Year-over-year growth *(%)* | 13.8 | 16.5 | 8.1 | 2.2 | 10.0 | NM | NM | NM | NM | (26.8) |

*(a) Restated to reflect the effect of the two-for-one stock distribution completed in March 1993.*

*(b) As at October 31.*

*(c) 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.*

*NM — Not meaningful.*

## Table 4 — Revenue Growth *(millions of dollars except as noted)*

| *For the year ended October 31* | 1995 | 1994* | 1993* | 1992* | 1991* | 1990* | 1989* | 1988* | 1987* | 1986* |
|---|---|---|---|---|---|---|---|---|---|---|
| Total revenue (TEB) *(a)* | 5,666 | 5,196 | 4,861 | 4,442 | 3,995 | 3,653 | 3,586 | 3,653 | 3,109 | 3,092 |
| Year-over-year growth *(%)* | 9.0 | 6.9 | 9.4 | 11.2 | 9.4 | 1.9 | (1.8) | 17.5 | 0.5 | 9.5 |
| **Net Interest Income** | | | | | | | | | | |
| Net interest income as reported | 3,607 | 3,380 | 3,212 | 3,010 | 2,708 | 2,535 | 2,527 | 2,525 | 2,117 | 2,081 |
| Taxable equivalent adjustment (TEB) *(a)* | 84 | 67 | 68 | 67 | 68 | 71 | 73 | 86 | 139 | 193 |
| Net interest income (TEB) *(a)* | 3,691 | 3,447 | 3,280 | 3,077 | 2,776 | 2,606 | 2,600 | 2,611 | 2,256 | 2,274 |
| Year-over-year growth *(%)* | 7.1 | 5.1 | 6.6 | 10.8 | 6.5 | 0.2 | (0.4) | 15.8 | (0.8) | 6.2 |
| Net interest income (TEB) *(a)* | 3,691 | 3,447 | 3,280 | 3,077 | 2,776 | | | | | |
| Less: Non-operating items | | | | | | | | | | |
| Lesser developed countries (LDC) interest income | 79 | 141 | 156 | 107 | 206 | | | | | |
| Net gain (loss) on sale of investment securities | 46 | 37 | 40 | 23 | 18 | | | | | |
| Trading interest income | 98 | 115 | 114 | 146 | 197 | | | | | |
| Non-recurring items *(b)* | 0 | 0 | 0 | 6 | 14 | | | | | |
| Interest income on non-performing loans (excluding LDC) | 22 | 35 | 40 | 3 | 30 | | | | | |
| Operating net interest income (TEB) *(a)* | 3,446 | 3,119 | 2,930 | 2,792 | 2,311 | | | | | |
| Year-over-year growth *(%)* | 10.4 | 6.6 | 4.9 | 20.8 | 20.2 | | | | | |
| **Spread** | | | | | | | | | | |
| Total average assets *(c)* | 144,115 | 122,234 | 113,387 | 104,591 | 94,118 | 81,971 | 78,878 | 79,312 | 84,584 | 86,761 |
| Average net interest spread *(%)* | 2.56 | 2.82 | 2.89 | 2.94 | 2.95 | 3.18 | 3.30 | 3.29 | 2.67 | 2.62 |
| Average operating net interest spread *(%)* | 2.39 | 2.55 | 2.58 | 2.67 | 2.46 | | | | | |
| Average Canadian dollar spread *(%)* | 3.47 | 3.59 | 3.50 | 3.75 | 3.50 | 3.29 | 3.61 | 3.97 | 3.60 | 3.64 |
| Average U.S. dollar and other currencies spread *(%)* | 1.32 | 1.68 | 2.01 | 1.78 | 2.11 | 3.00 | 2.86 | 2.50 | 1.76 | 1.73 |
| **Other Income** | | | | | | | | | | |
| Operating services | 434 | 422 | 415 | 390 | 357 | | | | | |
| Lending fees | 180 | 178 | 147 | 118 | 110 | | | | | |
| Card services | 230 | 211 | 208 | 193 | 190 | | | | | |
| Investment and securities services | 593 | 424 | 312 | 241 | 194 | | | | | |
| Trust income | 216 | 197 | 183 | 165 | 146 | | | | | |
| Foreign exchange | 176 | 149 | 170 | 161 | 136 | | | | | |
| Other fees and commissions | 146 | 168 | 146 | 97 | 116 | | | | | |
| Foreign currency translation adjustment *(d)* | 0 | 0 | 0 | 0 | (30) | | | | | |
| Total other income | 1,975 | 1,749 | 1,581 | 1,365 | 1,219 | 1,047 | 986 | 1,042 | 853 | 818 |
| Year-over-year growth *(%)* | 12.9 | 10.6 | 15.8 | 12.0 | 16.4 | 6.2 | (5.2) | 22.0 | 4.3 | 19.7 |
| Other income as a % of total revenue | 34.8 | 33.7 | 32.5 | 30.7 | 30.5 | 28.7 | 27.5 | 28.5 | 27.5 | 26.5 |
| Total other income | 1,975 | 1,749 | 1,581 | 1,365 | 1,219 | | | | | |
| Less: Non-operating items | | | | | | | | | | |
| Trading — interest rate products | 50 | 52 | 29 | 12 | 13 | | | | | |
| Trading — foreign exchange products | 138 | 114 | 126 | 120 | 94 | | | | | |
| Foreign currency translation adjustment *(d)* | 0 | 0 | 0 | 0 | (30) | | | | | |
| Banco de Montreal S.A. fee income *(d)* | 0 | 0 | 0 | 0 | 8 | | | | | |
| Operating other income | 1,787 | 1,583 | 1,426 | 1,233 | 1,134 | | | | | |
| Year-over-year growth *(%)* | 12.8 | 10.9 | 15.8 | 8.8 | 6.7 | | | | | |
| **Other Information** *(units)* | | | | | | | | | | |
| Number of employees *(e)* | 33,341 | 34,769 | 32,067 | 32,126 | 32,130 | 33,580 | 33,666 | 34,115 | 34,482 | 32,988 |
| Number of bank branches | 1,245 | 1,248 | 1,214 | 1,231 | 1,239 | 1,242 | 1,230 | 1,226 | 1,220 | 1,220 |
| Number of automated banking machines (Canada) | 1,763 | 1,708 | 1,538 | 1,293 | 1,221 | 1,163 | 937 | 753 | 689 | 655 |
| **Rates** | | | | | | | | | | |
| Average Canadian prime *(%)* | 8.58 | 6.42 | 6.44 | 7.49 | 10.74 | 14.11 | 13.01 | 10.35 | 9.56 | 10.61 |
| Average U.S. prime *(%)* | 8.89 | 6.69 | 6.04 | 6.59 | 9.02 | 10.25 | 10.99 | 9.06 | 7.99 | 8.65 |
| Canadian/U.S. dollar exchange rates *($) (f)* | | | | | | | | | | |
| High | 1.33 | 1.29 | 1.24 | 1.12 | 1.12 | 1.13 | 1.17 | 1.20 | 1.30 | 1.36 |
| Low | 1.42 | 1.40 | 1.34 | 1.26 | 1.17 | 1.21 | 1.24 | 1.33 | 1.39 | 1.44 |
| Average | 1.38 | 1.36 | 1.29 | 1.19 | 1.15 | 1.17 | 1.19 | 1.25 | 1.34 | 1.39 |
| End of period | 1.34 | 1.35 | 1.32 | 1.24 | 1.12 | 1.17 | 1.17 | 1.22 | 1.32 | 1.39 |

**Reclassified to conform with 1995 presentation.*

*(a) 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.*

*(b) Sale of C-ADP in 1992 ($6 million) and changes in accounting policy from consolidation to equity accounting for Banco de Montreal S.A. in 1991 ($14 million).*

*(c) Daily average for 1990 to 1995.*

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

*(e) This number constitutes full-time equivalent number of employees, comprising full time, part-time and over-time employees.*

*(f) 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'.*

## Table 5 — Average Balances and Average Interest Rates of Assets and Liabilities *(millions of dollars except as noted)*

| | 1995 | | | | 1994 | | | | 1993 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *For the year ended October 31* | Average balances | Average interest yield (%) | Average interest mix (%) | Interest income | Average balances | Average interest yield (%) | Average interest mix (%) | Interest income | Average balances | Average interest yield (%) | Average interest mix (%) | Interest income |
| **Assets** | | | | | | | | | | | | |
| **Canadian Dollars** | | | | | | | | | | | | |
| Deposits with other banks | 1,977 | 6.45 | 1.4 | 128 | 2,083 | 5.03 | 1.7 | 105 | 1,803 | 5.38 | 1.6 | 97 |
| Securities | 21,231 | 5.58 | 14.7 | 1,184 | 16,807 | 5.09 | 13.7 | 856 | 14,274 | 5.60 | 12.6 | 800 |
| Loans | | | | | | | | | | | | |
| Residential mortgages | 23,906 | 8.37 | 16.6 | 2,001 | 21,374 | 8.19 | 17.5 | 1,749 | 19,407 | 8.91 | 17.1 | 1,729 |
| Non-residential mortgages | 1,508 | 9.71 | 1.0 | 146 | 1,588 | 10.54 | 1.3 | 167 | 1,714 | 10.39 | 1.5 | 178 |
| Consumer instalment and other personal loans | 10,018 | 9.45 | 7.0 | 946 | 8,889 | 8.43 | 7.3 | 749 | 8,397 | 8.83 | 7.4 | 741 |
| Credit card loans | 2,250 | 12.72 | 1.6 | 286 | 2,100 | 11.20 | 1.7 | 235 | 2,048 | 11.71 | 1.8 | 240 |
| Loans to businesses and governments *(a)* | 18,517 | 7.97 | 12.8 | 1,476 | 16,391 | 6.11 | 13.4 | 1,001 | 14,831 | 6.90 | 13.1 | 1,023 |
| Total loans | 56,199 | 8.64 | 39.0 | 4,855 | 50,342 | 7.75 | 41.2 | 3,901 | 46,397 | 8.43 | 40.9 | 3,911 |
| Other non-interest-bearing assets | 3,723 | | 2.6 | | 3,913 | | 3.2 | | 4,800 | | 4.2 | |
| Total Canadian dollar assets and interest income | 83,130 | 7.42 | 57.7 | 6,167 | 73,145 | 6.65 | 59.8 | 4,862 | 67,274 | 7.15 | 59.3 | 4,808 |
| **U.S. Dollar and Other Currencies** | | | | | | | | | | | | |
| Deposits with other banks | 12,799 | 5.70 | 8.8 | 729 | 9,689 | 3.88 | 7.9 | 376 | 8,173 | 3.95 | 7.2 | 323 |
| Securities | 10,047 | 7.82 | 7.0 | 786 | 7,127 | 6.55 | 5.9 | 467 | 6,503 | 7.12 | 5.7 | 463 |
| Loans | | | | | | | | | | | | |
| Residential mortgages | 1,177 | 8.01 | 0.8 | 94 | 1,000 | 7.51 | 0.8 | 75 | 868 | 8.25 | 0.8 | 72 |
| Non-residential mortgages | 489 | 7.97 | 0.3 | 39 | 176 | 5.94 | 0.1 | 11 | 141 | 8.42 | 0.1 | 12 |
| Consumer instalment and other personal loans | 1,317 | 8.28 | 0.9 | 109 | 985 | 7.01 | 0.8 | 69 | 840 | 7.64 | 0.7 | 64 |
| Credit card loans | 1,254 | 13.39 | 0.9 | 168 | 937 | 13.47 | 0.8 | 126 | 776 | 15.26 | 0.7 | 118 |
| Loans to businesses and governments *(a)* | 26,592 | 7.91 | 18.5 | 2,103 | 23,852 | 6.04 | 19.5 | 1,440 | 24,896 | 5.35 | 22.0 | 1,333 |
| Total loans | 30,829 | 8.15 | 21.4 | 2,513 | 26,950 | 6.38 | 22.0 | 1,721 | 27,521 | 5.81 | 24.3 | 1,599 |
| Other non-interest-bearing assets | 7,310 | | 5.1 | | 5,323 | | 4.4 | | 3,916 | | 3.5 | |
| Total U.S. dollar and other currencies assets and interest income | 60,985 | 6.60 | 42.3 | 4,028 | 49,089 | 5.22 | 40.2 | 2,564 | 46,113 | 5.17 | 40.7 | 2,385 |
| **Total All Currencies** | | | | | | | | | | | | |
| Total assets and interest income | 144,115 | 7.07 | 100.0 | 10,195 | 122,234 | 6.08 | 100.0 | 7,426 | 113,387 | 6.34 | 100.0 | 7,193 |

| For the year ended October 31 | 1995 Average balances | 1995 Average interest cost (%) | 1995 Average interest mix (%) | 1995 Interest expense | 1994 Average balances | 1994 Average interest cost (%) | 1994 Average interest mix (%) | 1994 Interest expense | 1993 Average balances | 1993 Average interest cost (%) | 1993 Average interest mix (%) | 1993 Interest expense |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | | | | | |
| **Canadian Dollars** | | | | | | | | | | | | |
| Deposits | | | | | | | | | | | | |
| Banks | 2,757 | 6.13 | 1.9 | 169 | 3,045 | 3.50 | 2.4 | 107 | 2,802 | 4.00 | 2.5 | 112 |
| Businesses and governments | 12,159 | 5.10 | 8.4 | 620 | 11,007 | 4.01 | 9.0 | 441 | 10,786 | 4.34 | 9.5 | 468 |
| Individuals | 41,928 | 5.04 | 29.1 | 2,114 | 39,453 | 3.82 | 32.3 | 1,505 | 38,360 | 4.48 | 33.8 | 1,718 |
| Total deposits | 56,844 | 5.11 | 39.4 | 2,903 | 53,505 | 3.84 | 43.7 | 2,053 | 51,948 | 4.42 | 45.8 | 2,298 |
| Subordinated debt and other interest-bearing liabilities | 14,094 | 2.67 | 9.8 | 377 | 9,388 | 1.98 | 7.7 | 186 | 5,992 | 2.60 | 5.3 | 156 |
| Other non-interest-bearing liabilities | 5,733 | | 4.0 | | 4,642 | | 3.8 | | 4,250 | | 3.7 | |
| Total Canadian dollar liabilities and interest expense | 76,671 | 4.28 | 53.2 | 3,280 | 67,535 | 3.31 | 55.2 | 2,239 | 62,190 | 3.95 | 54.8 | 2,454 |
| **U.S. Dollar and Other Currencies** | | | | | | | | | | | | |
| Deposits | | | | | | | | | | | | |
| Banks | 22,163 | 5.68 | 15.4 | 1,259 | 19,150 | 4.06 | 15.6 | 777 | 16,097 | 3.74 | 14.2 | 602 |
| Businesses and governments | 18,865 | 4.91 | 13.1 | 926 | 14,039 | 2.64 | 11.5 | 371 | 12,889 | 2.01 | 11.4 | 259 |
| Individuals | 7,025 | 4.40 | 4.8 | 309 | 5,365 | 3.09 | 4.4 | 166 | 5,034 | 3.12 | 4.4 | 157 |
| Total deposits | 48,053 | 5.19 | 33.3 | 2,494 | 38,554 | 3.41 | 31.5 | 1,314 | 34,020 | 2.99 | 30.0 | 1,018 |
| Subordinated debt and other interest-bearing liabilities | 11,148 | 6.55 | 7.8 | 730 | 8,923 | 4.78 | 7.3 | 426 | 10,529 | 4.19 | 9.3 | 441 |
| Other non-interest-bearing liabilities | 1,441 | | 1.0 | | 1,272 | | 1.1 | | 1,242 | | 1.1 | |
| Total U.S. dollar and other currencies liabilities and interest expense | 60,642 | 5.32 | 42.1 | 3,224 | 48,749 | 3.57 | 39.9 | 1,740 | 45,791 | 3.19 | 40.4 | 1,459 |
| **Total All Currencies** | | | | | | | | | | | | |
| Total liabilities and interest expense | 137,313 | 4.74 | 95.3 | 6,504 | 116,284 | 3.42 | 95.1 | 3,979 | 107,981 | 3.62 | 95.2 | 3,913 |
| Shareholders' equity | 6,802 | | 4.7 | | 5,950 | | 4.9 | | 5,406 | | 4.8 | |
| Total liabilities and shareholders' equity and interest expense | 144,115 | 4.51 | 100.0 | 6,504 | 122,234 | 3.26 | 100.0 | 3,979 | 113,387 | 3.45 | 100.0 | 3,913 |
| Net interest spread on average assets and net interest income | | 2.56 | | 3,691 | | 2.82 | | 3,447 | | 2.89 | | 3,280 |

*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.*

*(a) Includes securities purchased under resale agreements.*

## Table 6 — Volume/Rate Analysis of Changes in Net Interest Income *(millions of dollars)*

| For the year ended October 31 | 1995/1994 Increase (decrease) due to change in: Average balance | Average rate | Total | 1994/1993 Increase (decrease) due to change in: Average balance | Average rate | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Canadian Dollars** | | | | | | |
| Deposits with other banks | (5) | 28 | 23 | 15 | (7) | 8 |
| Securities | 225 | 103 | 328 | 141 | (85) | 56 |
| Loans | | | | | | |
| Residential mortgages | 207 | 45 | 252 | 176 | (156) | 20 |
| Non-residential mortgages | (9) | (12) | (21) | (13) | 2 | (11) |
| Consumer instalment and other personal loans | 95 | 102 | 197 | 44 | (36) | 8 |
| Credit card loans | 17 | 34 | 51 | 6 | (11) | (5) |
| Loans to businesses and governments *(a)* | 130 | 345 | 475 | 108 | (130) | (22) |
| Total loans | 440 | 514 | 954 | 321 | (331) | (10) |
| Change in Canadian dollar interest income | 660 | 645 | 1,305 | 477 | (423) | 54 |
| **U.S. Dollar and Other Currencies** | | | | | | |
| Deposits with other banks | 121 | 232 | 353 | 60 | (7) | 53 |
| Securities | 192 | 127 | 319 | 45 | (41) | 4 |
| Loans | | | | | | |
| Residential mortgages | 13 | 6 | 19 | 10 | (7) | 3 |
| Non-residential mortgages | 18 | 10 | 28 | 3 | (4) | (1) |
| Consumer instalment and other personal loans | 23 | 17 | 40 | 11 | (6) | 5 |
| Credit card loans | 43 | (1) | 42 | 25 | (17) | 8 |
| Loans to businesses and governments *(a)* | 165 | 498 | 663 | (56) | 163 | 107 |
| Total loans | 262 | 530 | 792 | (7) | 129 | 122 |
| Change in U.S. dollar and other currencies interest income | 575 | 889 | 1,464 | 98 | 81 | 179 |
| **Total All Currencies** | | | | | | |
| Change in total interest income | 1,235 | 1,534 | 2,769 | 575 | (342) | 233 |
| **Liabilities** | | | | | | |
| **Canadian Dollars** | | | | | | |
| Deposits | | | | | | |
| Banks | (11) | 73 | 62 | 10 | (15) | (5) |
| Businesses and governments | 46 | 133 | 179 | 9 | (36) | (27) |
| Individuals | 95 | 514 | 609 | 49 | (262) | (213) |
| Total deposits | 130 | 720 | 850 | 68 | (313) | (245) |
| Subordinated debt and other interest-bearing liabilities | 94 | 97 | 191 | 88 | (58) | 30 |
| Change in Canadian dollar interest expense | 224 | 817 | 1,041 | 156 | (371) | (215) |
| **U.S. Dollar and Other Currencies** | | | | | | |
| Deposits | | | | | | |
| Banks | 123 | 359 | 482 | 114 | 61 | 175 |
| Businesses and governments | 128 | 427 | 555 | 23 | 89 | 112 |
| Individuals | 51 | 92 | 143 | 11 | (2) | 9 |
| Total deposits | 302 | 878 | 1,180 | 148 | 148 | 296 |
| Subordinated debt and other interest-bearing liabilities | 106 | 198 | 304 | (67) | 52 | (15) |
| Change in U.S. dollar and other currencies interest expense | 408 | 1,076 | 1,484 | 81 | 200 | 281 |
| **Total All Currencies** | | | | | | |
| Change in total interest expense | 632 | 1,893 | 2,525 | 237 | (171) | 66 |
| Change in total net interest income | 603 | (359) | 244 | 338 | (171) | 167 |

*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.*

*(a) Includes securities purchased under resale agreements.*

## Table 7 — Interest Rate Sensitivity Position *(millions of dollars)*

| *As at October 31* | 0 to 3 months | 3 to 6 months | 6 to 12 months | Total within 1 year | 1 – 5 years | Over 5 years | Non-interest sensitive | Total |
|---|---|---|---|---|---|---|---|---|
| **Canadian Dollars** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash resources | 2,397 | 90 | 65 | 2,552 | 0 | 0 | 467 | 3,019 |
| Securities | 12,400 | 3,304 | 2,706 | 18,410 | 2,246 | 589 | 0 | 21,245 |
| Loans | 28,459 | 3,713 | 5,396 | 37,568 | 17,899 | 878 | 1,962 | 58,307 |
| Other | 1,461 | (1,889) | (1,253) | (1,681) | 290 | 310 | 5,826 | 4,745 |
| Total assets | 44,717 | 5,218 | 6,914 | 56,849 | 20,435 | 1,777 | 8,255 | 87,316 |
| **Liabilities** | | | | | | | | |
| Deposits | 30,881 | 3,945 | 7,892 | 42,718 | 9,087 | 420 | 7,445 | 59,670 |
| Subordinated debt | 0 | 0 | 0 | 0 | 360 | 890 | 0 | 1,250 |
| Other liabilities | 14,843 | 0 | 0 | 14,843 | 0 | 0 | 4,857 | 19,700 |
| Shareholders' equity | 0 | 0 | 0 | 0 | 73 | 250 | 6,373 | 6,696 |
| Total liabilities and shareholders' equity | 45,724 | 3,945 | 7,892 | 57,561 | 9,520 | 1,560 | 18,675 | 87,316 |
| On-balance sheet sensitivity position *(a)* | (1,007) | 1,273 | (978) | (712) | 10,915 | 217 | (10,420) | 0 |
| Off-balance sheet sensitivity position *(a)* | (1,800) | (405) | (468) | (2,673) | 2,033 | 640 | 0 | 0 |
| Total interest rate sensitivity position 1995 *(a)* | (2,807) | 868 | (1,446) | (3,385) | 12,948 | 857 | (10,420) | 0 |
| Total interest rate sensitivity position 1994 *(a)* | (2,954) | 2,725 | (2,103) | (2,332) | 8,802 | 907 | (7,377) | 0 |
| Total interest rate sensitivity position 1993 *(a)* | (5,586) | 3,548 | 325 | (1,713) | 7,111 | 664 | (6,062) | 0 |
| Total interest rate sensitivity position 1992 *(a)* | (9,124) | 2,047 | 2,588 | (4,489) | 9,591 | 520 | (5,622) | 0 |
| **U.S. Dollar and Other Currencies** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash resources | 12,513 | 2,321 | 385 | 15,219 | 71 | 0 | 2,008 | 17,298 |
| Securities | 5,900 | 881 | 1,112 | 7,893 | 2,842 | 1,020 | 19 | 11,774 |
| Loans | 24,600 | 1,637 | 601 | 26,838 | 1,780 | 1,072 | 445 | 30,135 |
| Other | (688) | 1,663 | 1,068 | 2,043 | (50) | (248) | 3,566 | 5,311 |
| Total assets | 42,325 | 6,502 | 3,166 | 51,993 | 4,643 | 1,844 | 6,038 | 64,518 |
| **Liabilities** | | | | | | | | |
| Deposits | 38,333 | 1,779 | 1,122 | 41,234 | 1,347 | 25 | 7,329 | 49,935 |
| Subordinated debt | 538 | 0 | 0 | 538 | 0 | 807 | 0 | 1,345 |
| Other liabilities | 10,606 | 68 | 471 | 11,145 | 0 | 135 | 1,622 | 12,902 |
| Shareholders' equity | 0 | 0 | 0 | 0 | 0 | 336 | 0 | 336 |
| Total liabilities and shareholders' equity | 49,477 | 1,847 | 1,593 | 52,917 | 1,347 | 1,303 | 8,951 | 64,518 |
| On-balance sheet sensitivity position *(a)* | (7,152) | 4,655 | 1,573 | (924) | 3,296 | 541 | (2,913) | 0 |
| Off-balance sheet sensitivity position *(a)* | 2,242 | (1,089) | (781) | 372 | (233) | (139) | 0 | 0 |
| Total interest rate sensitivity position 1995 *(a)* | (4,910) | 3,566 | 792 | (552) | 3,063 | 402 | (2,913) | 0 |
| Total interest rate sensitivity position 1994 *(a)* | (352) | (2,939) | 1,490 | (1,801) | 4,109 | 287 | (2,595) | 0 |
| Total interest rate sensitivity position 1993 *(a)* | (7,971) | 3,272 | 4,838 | 139 | 2,313 | 25 | (2,477) | 0 |
| Total interest rate sensitivity position 1992 *(a)* | (8,861) | 4,423 | 3,087 | (1,351) | 2,844 | 265 | (1,758) | 0 |

***Canadian Dollar Balance Sheet Assumptions***

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

***Consumer Loans:*** *Payment rates are applied to these loans depending on their type.*

***Term Deposit Receipts:*** *Term deposit receipts from individuals are assigned redemption 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 interest rate levels.*

***Investment Certificates:*** *No exercise of early renewal options is assumed, that is investment certificates are assumed to 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. The position as at October 31, 1995 includes the reclassification for gap measurement purposes as non-interest sensitive of approximately $3 billion in deposits that no longer demonstrate correlation with market interest rate movements. The position as at October 31, 1995 also includes $4 billion in deposits that have been treated as interest sensitive, however, these deposits may not be correlated with further downward interest rate movements.*

***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***

*(a) 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.*

*Note: Positions include the effect of off-balance sheet transactions undertaken as part of the Bank's management of interest rate risk.*

## Table 8 — Non-Interest Expenses and Expense-to-Revenue Ratios *(millions of dollars except as noted)*

| *For the year ended October 31* | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 | 1987 | 1986 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Non-Interest Expense Summary** | | | | | | | | | | |
| Total non-interest expense | 3,646 | 3,223 | 2,916 | 2,765 | 2,605 | 2,453 | 2,330 | 2,297 | 2,055 | 1,935 |
| Year-over-year growth *(%)* | 13.1 | 10.5 | 5.5 | 6.1 | 6.2 | 5.3 | 1.4 | 11.8 | 6.2 | 8.2 |
| Total non-interest expense | 3,646 | 3,223 | 2,916 | 2,765 | 2,605 | | | | | |
| Less: Goodwill and other valuation intangibles | 49 | 31 | 30 | 36 | 36 | | | | | |
| Non-recurring items *(a)* | 60 | 71 | 0 | 18 | 24 | | | | | |
| Operating non-interest expense | 3,537 | 3,121 | 2,886 | 2,711 | 2,545 | | | | | |
| Year-over-year growth *(%)* | 13.3 | 8.1 | 6.5 | 6.5 | 7.7 | | | | | |
| **Non-Interest Expense Detail** | | | | | | | | | | |
| Salaries | 1,758 | 1,567 | 1,455 | 1,348 | 1,277 | | | | | |
| Employee benefits | 241 | 228 | 209 | 201 | 167 | | | | | |
| Total salaries and employee benefits | 1,999 | 1,795 | 1,664 | 1,549 | 1,444 | | | | | |
| Premises and equipment | | | | | | | | | | |
| Rental of real estate | 136 | 125 | 123 | 114 | 101 | | | | | |
| Premises, furniture and fixtures | 206 | 188 | 177 | 170 | 179 | | | | | |
| Property taxes | 41 | 39 | 40 | 37 | 40 | | | | | |
| Computers and equipment | 296 | 248 | 240 | 234 | 215 | | | | | |
| Total premises and equipment | 679 | 600 | 580 | 555 | 535 | | | | | |
| Communications | 208 | 180 | 165 | 167 | 174 | | | | | |
| Other expenses | | | | | | | | | | |
| Business and capital taxes | 110 | 95 | 92 | 82 | 64 | | | | | |
| Professional fees | 141 | 112 | 64 | 63 | 55 | | | | | |
| Travel and business development | 161 | 144 | 122 | 112 | 156 | | | | | |
| Deposit insurance premiums | 84 | 76 | 62 | 55 | 48 | | | | | |
| Other | 155 | 119 | 137 | 146 | 93 | | | | | |
| Total other expenses | 651 | 546 | 477 | 458 | 416 | | | | | |
| Goodwill and other valuation intangibles | 49 | 31 | 30 | 36 | 36 | | | | | |
| Special charge | 0 | 71 | 0 | 0 | 0 | | | | | |
| Business process improvement initiative charge | 60 | 0 | 0 | 0 | 0 | | | | | |
| Total non-interest expense | 3,646 | 3,223 | 2,916 | 2,765 | 2,605 | 2,453 | 2,330 | 2,297 | 2,055 | 1,935 |
| **Government Levies and Taxes** *(b)* | | | | | | | | | | |
| Government levies other than income taxes | | | | | | | | | | |
| Payroll levies | 80 | 72 | 66 | 64 | 55 | | | | | |
| Property taxes | 41 | 39 | 40 | 37 | 40 | | | | | |
| Provincial capital taxes | 84 | 71 | 71 | 59 | 42 | | | | | |
| Business taxes | 26 | 24 | 21 | 23 | 22 | | | | | |
| Goods and services tax | 38 | 29 | 28 | 30 | 22 | | | | | |
| Deposit insurance | 84 | 76 | 62 | 55 | 48 | | | | | |
| Total government levies other than income taxes | 353 | 311 | 288 | 268 | 229 | | | | | |
| Provision for income taxes reported in | | | | | | | | | | |
| Statement of income | 662 | 560 | 487 | 416 | 384 | | | | | |
| Statement of retained earnings | 9 | (23) | (46) | (70) | 37 | | | | | |
| Total income taxes | 671 | 537 | 441 | 346 | 421 | | | | | |
| Total government levies and taxes | 1,024 | 848 | 729 | 614 | 650 | | | | | |
| Total government levies and taxes as a % of net income | 103.8 | 102.8 | 102.9 | 96.0 | 109.1 | | | | | |
| **Productivity Ratios** | | | | | | | | | | |
| Expense-to-revenue ratio *(%)* | 64.3 | 62.0 | 60.0 | 62.2 | 65.2 | 67.2 | 65.0 | 62.9 | 66.1 | 62.6 |
| Non-recurring revenue | 0 | 0 | 0 | 6 | (8) | | | | | |
| Expense-to-revenue ratio excluding non-recurring items, goodwill and other valuation intangibles *(%)* | 62.4 | 60.1 | 59.4 | 61.1 | 63.6 | | | | | |

*(a) The non-recurring item in 1995 is the business process improvement initiative charge and in 1994 is the Harris special charge.*

*(b) Government levies are included in various non-interest expense categories. Taxes are income taxes.*

## Table 9 — Provision for Credit Losses — Segmented Information *(millions of dollars except as noted)*

| *For the year ended October 31* | 1995 | 1994* | 1993* | 1992* | 1991* |
|---|---|---|---|---|---|
| Individuals | | | | | |
| Residential mortgages | 3 | 5 | 5 | 2 | |
| Cards | 67 | 61 | 73 | 90 | |
| Personal loans | 26 | 23 | 35 | 60 | |
| Total loans to individuals | 96 | 89 | 113 | 152 | 142 |
| Commercial, corporate and institutional | | | | | |
| Financial institutions *(a)* | 2 | 7 | 7 | 3 | |
| Commercial mortgages | 2 | 12 | 4 | 4 | |
| Construction (non-real estate) | 2 | 16 | 8 | 55 | |
| Commercial real estate | 17 | 320 | 375 | 261 | 104 |
| Manufacturing | (2) | (22) | 106 | 2 | |
| Mining/Energy | 17 | (10) | (11) | 178 | |
| Service industries | 13 | 6 | 9 | 14 | |
| Retail trade | (10) | (3) | 41 | 45 | |
| Wholesale trade | 1 | 30 | 6 | 10 | |
| Agriculture | 0 | (3) | 6 | 0 | |
| Transportation/Utilities | (4) | 1 | 0 | 6 | |
| Communications | (2) | (2) | (4) | 0 | |
| Other | 18 | 20 | 16 | 14 | |
| Total diversified commercial *(a)* | 54 | 372 | 563 | 592 | 259 |
| Securities purchased under resale agreements | 0 | 0 | 0 | 0 | |
| Net charge to earnings for general provision | 125 | 50 | 0 | 50 | (10) |
| Total commercial, corporate and institutional loans | 179 | 422 | 563 | 642 | 249 |
| Designated lesser developed countries | 0 | (1) | (1) | 0 | 6 |
| Application of excess country risk provision | 0 | 0 | 0 | (244) | (60) |
| Total provision for credit losses (PCL) | 275 | 510 | 675 | 550 | 337 |
| **Provision for Credit Losses by Location** *(b)* | | | | | |
| Canada *(c)* | 171 | 276 | 417 | 500 | 318 |
| United States | 104 | 238 | 259 | 294 | 79 |
| Other countries | | | | | |
| Designated lesser developed countries | 0 | (1) | (1) | (244) | (60) |
| Other | 0 | (3) | 0 | 0 | 0 |
| Total provision for credit losses | 275 | 510 | 675 | 550 | 337 |
| **Specific Provision by Property Type** | | | | | |
| Office | (18) | 166 | 290 | 133 | |
| Residential | 38 | 5 | 30 | 35 | |
| Shopping centres | (4) | 72 | 4 | 40 | |
| Land banking/development | (2) | 50 | 26 | 33 | |
| Industrial buildings | 4 | 15 | 6 | 7 | |
| Hotel/Motel | 8 | 6 | 3 | 4 | |
| Other | (9) | 6 | 16 | 9 | |
| Total real estate financing | 17 | 320 | 375 | 261 | |
| **Performance Ratios** | | | | | |
| PCL as a % of average loans and acceptances | 0.30 | 0.63 | 0.87 | 0.78 | 0.53 |
| PCL as a % of average loans and acceptances *(d)* | | | | | |
| Individuals | 0.24 | 0.25 | 0.35 | 0.52 | 0.54 |
| Commercial, corporate and institutional | 0.11 | 0.83 | 1.28 | 1.49 | 0.74 |
| Canada *(c)* | 0.27 | 0.51 | 0.83 | 1.08 | 0.76 |
| United States | 0.38 | 0.98 | 1.03 | 1.36 | 0.44 |
| Other countries | 0.00 | (0.20) | (0.05) | (8.24) | (1.56) |

**Reclassified to conform with 1995 presentation.*

*(a) Excluding securities purchased under resale agreements.*

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

*(c) Includes the general provision booked in Canada. This provision may be applied against specific loans in Canada, U.S. or other countries.*

*(d) Segment PCL as a percentage of segment average loans and acceptances. The ratio for commercial, corporate and institutional excludes the general provision.*

## Table 10 — Net Loans and Acceptances — Segmented Information *(millions of dollars)*

| | Canada (a) | | | | United States (a) | | | | Other Countries (a) | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *As at October 31* | **1995** | 1994* | 1993* | 1992* | **1995** | 1994* | 1993* | 1992* | **1995** | 1994* | 1993* | 1992* | **1995** | 1994* | 1993* | 1992* |
| Individuals | | | | | | | | | | | | | | | | |
| Residential mortgages (b) | **23,412** | 21,588 | 19,073 | 17,706 | **1,490** | 1,118 | 915 | 704 | **0** | 0 | 0 | 0 | **24,902** | 22,706 | 19,988 | 18,410 |
| Cards | **2,357** | 2,133 | 2,061 | 1,943 | **1,482** | 1,128 | 835 | 751 | **0** | 0 | 0 | 0 | **3,839** | 3,261 | 2,896 | 2,694 |
| Personal Loans | **10,365** | 9,763 | 8,461 | 8,318 | **1,388** | 1,228 | 910 | 812 | **3** | 4 | 4 | 4 | **11,756** | 10,995 | 9,375 | 9,134 |
| Total loans to individuals | **36,134** | 33,484 | 29,595 | 27,967 | **4,360** | 3,474 | 2,660 | 2,267 | **3** | 4 | 4 | 4 | **40,497** | 36,962 | 32,259 | 30,238 |
| Commercial, corporate and institutional | | | | | | | | | | | | | | | | |
| Diversified commercial (c) | **23,657** | 23,095 | 21,758 | 21,351 | **17,132** | 16,405 | 14,592 | 14,537 | **1,702** | 1,439 | 1,290 | 1,365 | **42,491** | 40,939 | 37,640 | 37,253 |
| Securities purchased under resale agreements | **4,772** | 5,265 | 2,245 | 74 | **5,733** | 9,307 | 5,413 | 3,375 | **0** | 0 | 0 | 0 | **10,505** | 14,572 | 7,658 | 3,449 |
| General provision | **(275)** | (150) | (100) | (100) | **(50)** | (50) | 0 | 0 | **0** | 0 | 0 | 0 | **(325)** | (200) | (100) | (100) |
| Total commercial, corporate and institutional | **28,154** | 28,210 | 23,903 | 21,325 | **22,815** | 25,662 | 20,005 | 17,912 | **1,702** | 1,439 | 1,290 | 1,365 | **52,671** | 55,311 | 45,198 | 40,602 |
| Designated lesser developed countries | **0** | 0 | 0 | 0 | **0** | 0 | 0 | 0 | **230** | 370 | 314 | 538 | **230** | 370 | 314 | 538 |
| Total loans and acceptances | **64,288** | 61,694 | 53,498 | 49,292 | **27,175** | 29,136 | 22,665 | 20,179 | **1,935** | 1,813 | 1,608 | 1,907 | **93,398** | 92,643 | 77,771 | 71,378 |

| *As at October 31* | **1995** | 1994* | 1993* | 1992* |
|---|---|---|---|---|
| **Net Loans and Acceptances in Canada by Province** (a) | | | | |
| Atlantic Provinces | **3,304** | 3,175 | 2,693 | 2,583 |
| Quebec | **10,610** | 9,523 | 9,022 | 8,645 |
| Ontario | **30,971** | 31,106 | 26,013 | 23,286 |
| Prairie Provinces | **9,628** | 8,091 | 7,457 | 7,070 |
| British Columbia and Territories | **10,050** | 9,949 | 8,413 | 7,808 |
| Total loans and acceptances in Canada (d) | **64,563** | 61,844 | 53,598 | 49,392 |
| **Diversified Commercial by Industry** | | | | |
| Financial institutions (c) | **7,217** | 7,446 | 4,315 | 4,304 |
| Commercial mortgages | **3,378** | 3,570 | 3,142 | 2,806 |
| Construction (non-real estate) | **886** | 754 | 591 | 645 |
| Real estate | **3,404** | 4,474 | 5,912 | 6,356 |
| Manufacturing | **7,064** | 5,697 | 5,345 | 5,987 |
| Mining/Energy | **2,431** | 2,079 | 1,896 | 2,177 |
| Service industries | **5,401** | 4,512 | 3,470 | 3,316 |
| Retail trade | **2,574** | 2,637 | 2,572 | 2,426 |
| Wholesale trade | **2,565** | 2,220 | 2,316 | 2,008 |
| Agriculture | **1,910** | 1,731 | 1,582 | 1,436 |
| Transportation/Utilities | **2,031** | 2,404 | 2,114 | 1,943 |
| Communications | **2,013** | 1,626 | 1,217 | 1,176 |
| Other | **1,617** | 1,789 | 3,168 | 2,673 |
| Total diversified commercial (c) | **42,491** | 40,939 | 37,640 | 37,253 |

*Reclassified to conform with 1995 presentation.*

(a) *Geographic location is based on the ultimate risk of the underlying asset. Provincial location is based on the booking location and/or customer residency.*

(b) *Excludes residential mortgages classified as commercial corporate loans (1995 — $1.5 billion, 1994 — $1.5 billion, 1993 — $1.3 billion, 1992 — $1.0 billion).*

(c) *Excluding securities purchased under resale agreements.*

(d) *Excludes the general provision.*

## Table 11 — Commercial Real Estate Financing — Segmented Information *(millions of dollars except as noted)*

| *(Net of Allowance for Credit Losses, Includes Off-Balance Sheet Financing)* As at October 31 | 1995 | 1994* | 1993* | 1992* |
|---|---|---|---|---|
| **Property Type** | | | | |
| Office | **699** | 1,227 | 2,084 | 2,408 |
| Residential | **1,231** | 1,241 | 1,351 | 1,409 |
| Shopping centres | **732** | 1,030 | 1,486 | 1,553 |
| Land banking/development | **206** | 313 | 330 | 421 |
| Industrial buildings | **404** | 479 | 547 | 542 |
| Hotel/Motel | **155** | 175 | 220 | 238 |
| Other | **383** | 440 | 374 | 294 |
| Commercial real estate financing | **3,810** | 4,905 | 6,392 | 6,865 |
| **Geographic Location** *(a)* | | | | |
| Canada | | | | |
| Atlantic Provinces | **61** | 62 | 103 | 73 |
| Quebec | **232** | 308 | 367 | 378 |
| Ontario | **1,149** | 1,337 | 1,913 | 2,136 |
| Prairie Provinces | **170** | 235 | 351 | 388 |
| British Columbia and Territories | **652** | 725 | 766 | 716 |
| Total Canada | **2,264** | 2,667 | 3,500 | 3,691 |
| United States | | | | |
| Illinois | **712** | 846 | 948 | 862 |
| New York | **168** | 195 | 223 | 344 |
| California | **144** | 254 | 421 | 495 |
| Texas | **86** | 59 | 136 | 241 |
| New Jersey | **56** | 65 | 91 | 100 |
| Other *(b)* | **363** | 751 | 952 | 974 |
| Total United States | **1,529** | 2,170 | 2,771 | 3,016 |
| United Kingdom | **17** | 68 | 121 | 158 |
| Total commercial real estate financing | **3,810** | 4,905 | 6,392 | 6,865 |
| Off-balance sheet financing | **(406)** | (431) | (480) | (509) |
| Total commercial real estate loans and acceptances | **3,404** | 4,474 | 5,912 | 6,356 |
| **Diversification Ratios** | | | | |
| Commercial real estate loans *(c)* and acceptances as a % of commercial loans and acceptances *(d)* | **8.0** | 10.9 | 15.7 | 17.1 |
| Office loans *(c)* and acceptances as a % of commercial loans and acceptances *(d)* | **1.4** | 2.9 | 5.2 | 6.2 |

**Reclassified to conform with 1995 presentation.*

*(a) Geographic location is based on property location.*

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

*(c) Excludes off-balance sheet financing.*

*(d) Commercial, corporate and institutional loans and acceptances excluding securities purchased under resale agreements.*

## Table 12 — Non-Performing Loans and Acceptances by Accounting Classification *(millions of dollars)*

| *As at or for the year ended October 31* | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|---|---|---|---|---|
| Gross non-performing loans and acceptances, beginning of year | 2,447 | 4,249 | 4,232 | 3,302 | 3,262 |
| Additions to non-performing loans and acceptances | 806 | 1,267 | 1,587 | 2,141 | 1,236 |
| Reductions in non-performing loans and acceptances *(a)* | (1,073) | (1,922) | (747) | (663) | (728) |
| Net new additions (reductions) | (267) | (655) | 840 | 1,478 | 508 |
| Write-offs | (450) | (1,147) | (823) | (548) | (468) |
| Gross non-performing loans and acceptances, end of year | 1,730 | 2,447 | 4,249 | 4,232 | 3,302 |
| Allowance for credit losses *(c)*, beginning of year | 1,071 | 1,986 | 2,059 | 2,038 | 2,339 |
| Increases — specific provision | 389 | 232 | 815 | 883 | 167 |
| Write-offs *(b)* | (565) | (1,147) | (888) | (862) | (468) |
| Allowance for credit losses *(c)*, end of year | 895 | 1,071 | 1,986 | 2,059 | 2,038 |
| Net non-performing loans and acceptances, beginning of year | 1,376 | 2,263 | 2,173 | 1,264 | 923 |
| Change in gross non-performing loans | (717) | (1,802) | 17 | 930 | 40 |
| Change in allowance for credit losses | 176 | 915 | 73 | (21) | 301 |
| Net non-performing loans and acceptances, end of year | 835 | 1,376 | 2,263 | 2,173 | 1,264 |

## Table 13 — Commercial Real Estate Non-Performing Loans and Acceptances by Accounting Classification *(millions of dollars)*

| *As at or for the year ended October 31* | 1995 | 1994* | 1993* | 1992* | 1991* |
|---|---|---|---|---|---|
| Gross non-performing loans and acceptances, beginning of year | 1,396 | 2,032 | 1,783 | 751 | 509 |
| Additions to non-performing loans and acceptances | 339 | 613 | 838 | 1,276 | 437 |
| Reductions in non-performing loans and acceptances *(a)* | (489) | (690) | (400) | (167) | (160) |
| Net new additions (reductions) | (150) | (77) | 438 | 1,109 | 277 |
| Write-offs | (126) | (559) | (189) | (77) | (35) |
| Gross non-performing loans and acceptances, end of year | 1,120 | 1,396 | 2,032 | 1,783 | 751 |
| Allowance for credit losses, beginning of year | 393 | 600 | 370 | 118 | 49 |
| Increases — specific provision | 7 | 352 | 419 | 329 | 104 |
| Write-offs | (126) | (559) | (189) | (77) | (35) |
| Allowance for credit losses, end of year | 274 | 393 | 600 | 370 | 118 |
| Net non-performing loans and acceptances, beginning of year | 1,003 | 1,432 | 1,413 | 633 | 460 |
| Change in gross non-performing loans | (276) | (636) | 249 | 1,032 | 242 |
| Change in allowance for credit losses | 119 | 207 | (230) | (252) | (69) |
| Net non-performing loans and acceptances, end of year | 846 | 1,003 | 1,432 | 1,413 | 633 |

**Reclassified to conform with 1995 presentation.*

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

*(b) Write-offs on designated lesser developed countries include losses on sales of performing assets that were charged directly against the allowance (1995 — $115 million, 1993 — $65 million, 1992 — $314 million).*

*(c) Excludes allowance for credit losses for off-balance sheet exposure. Also excludes LDC reservations in excess of non-performing loans (1995 — $360 million, 1994 — $425 million, 1991 — $101 million).*

## Table 14 — Net Non-Performing Loans and Acceptances — Segmented Information *(millions of dollars except as noted)*

| As at October 31 | Canada (a) | | | | United States (a) | | | | Other Countries (a) | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **1995** | 1994* | 1993* | 1992* | **1995** | 1994* | 1993* | 1992* | **1995** | 1994* | 1993* | 1992* | **1995** | 1994* | 1993* | 1992* |
| Individuals | | | | | | | | | | | | | | | | |
| Residential mortgages | **66** | 45 | 49 | 58 | **0** | 0 | 0 | 0 | **0** | 0 | 0 | 0 | **66** | 45 | 49 | 58 |
| Cards | **4** | 11 | 3 | 4 | **0** | 0 | 0 | 0 | **0** | 0 | 0 | 0 | **4** | 11 | 3 | 4 |
| Personal loans | **28** | 28 | 35 | 20 | **0** | 0 | 4 | 25 | **0** | 0 | 0 | 0 | **28** | 28 | 39 | 45 |
| Total to individuals | **98** | 84 | 87 | 82 | **0** | 0 | 4 | 25 | **0** | 0 | 0 | 0 | **98** | 84 | 91 | 107 |
| Commercial, corporate and institutional | | | | | | | | | | | | | | | | |
| Diversified commercial (b) | **341** | 553 | 912 | 929 | **721** | 939 | 1,128 | 1,055 | **0** | 0 | 8 | 2 | **1,062** | 1,492 | 2,048 | 1,986 |
| Securities purchased under resale agreements | **0** | 0 | 0 | 0 | **0** | 0 | 0 | 0 | **0** | 0 | 0 | 0 | **0** | 0 | 0 | 0 |
| General provision | **(275)** | (150) | (100) | (100) | **(50)** | (50) | 0 | 0 | **0** | 0 | 0 | 0 | **(325)** | (200) | (100) | (100) |
| Total commercial, corporate and institutional | **66** | 403 | 812 | 829 | **671** | 889 | 1,128 | 1,055 | **0** | 0 | 8 | 2 | **737** | 1,292 | 1,948 | 1,886 |
| Designated lesser developed countries (LDC) | **0** | 0 | 0 | 0 | **0** | 0 | 0 | 0 | **0** | 0 | 224 | 180 | **0** | 0 | 224 | 180 |
| Total net non-performing loans and acceptances (NNPL) | **164** | 487 | 899 | 911 | **671** | 889 | 1,132 | 1,080 | **0** | 0 | 232 | 182 | **835** | 1,376 | 2,263 | 2,173 |
| **Condition Ratios** | | | | | | | | | | | | | | | | |
| Gross non-performing loans as a % of equity and allowance for credit losses | **NA** | NA | NA | NA | **NA** | NA | NA | NA | **NA** | NA | NA | NA | **20.48** | 29.86 | 54.84 | 58.01 |
| NNPL as a % of loans and acceptances | **0.26** | 0.79 | 1.68 | 1.85 | **2.47** | 3.05 | 4.99 | 5.35 | **0.00** | 0.00 | 14.43 | 9.54 | **0.89** | 1.49 | 2.91 | 3.04 |
| NNPL as a % of net loans and acceptances (c) | | | | | | | | | | | | | | | | |
| Individuals | **0.27** | 0.25 | 0.29 | 0.29 | **0.00** | 0.00 | 0.15 | 1.10 | **0.00** | 0.00 | 0.00 | 0.00 | **0.24** | 0.23 | 0.28 | 0.35 |
| Diversified commercial | **1.44** | 2.39 | 4.19 | 4.35 | **4.21** | 5.72 | 7.73 | 7.26 | **0.00** | 0.00 | 0.62 | 0.15 | **2.50** | 3.64 | 5.44 | 5.33 |
| Designated LDC | **0.00** | 0.00 | 0.00 | 0.00 | **0.00** | 0.00 | 0.00 | 0.00 | **0.00** | 0.00 | 71.34 | 33.46 | **0.00** | 0.00 | 71.34 | 33.46 |

| As at October 31 | **1995** | 1994* | 1993* | 1992* |
|---|---|---|---|---|
| **Diversified Commercial NNPL by Industry** | | | | |
| Financial institutions (b) | **1** | 5 | 31 | 10 |
| Commercial mortgages | **50** | 51 | 37 | 55 |
| Construction (non-real estate) | **2** | 3 | 18 | 8 |
| Real estate | **846** | 1,003 | 1,432 | 1,413 |
| Manufacturing | **27** | 104 | 56 | 32 |
| Mining/Energy | **67** | 143 | 145 | 159 |
| Service industries | **33** | 20 | 33 | 45 |
| Retail trade | **17** | 100 | 113 | 128 |
| Wholesale trade | **22** | 8 | 73 | 3 |
| Agriculture | **23** | 28 | 36 | 38 |
| Transportation/Utilities | **23** | 25 | 56 | 59 |
| Communications | **0** | 0 | 16 | 35 |
| Other (d) | **(49)** | 2 | 2 | 1 |
| Total diversified commercial (b) | **1,062** | 1,492 | 2,048 | 1,986 |

**Reclassified to conform with 1995 presentation.*

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

*(b) Excluding securities purchased under resale agreement.*

*(c) Segmented NNPL as a percentage of segment net loans and acceptances.*

*(d) Includes provision of U.S. subsidiary in excess of non-performing loans.*

*NA — Not available.*

## Table 15 — Commercial Real Estate Net Non-Performing Loans — Segmented Information *(millions of dollars)*

| *(Net of Allowance for Credit Losses, Includes Off-Balance Sheet Financing)* As at October 31 | 1995 | 1994* | 1993* | 1992* |
|---|---|---|---|---|
| **Property Type** | | | | |
| Office | 349 | 456 | 831 | 655 |
| Residential | 55 | 84 | 65 | 102 |
| Shopping centres | 208 | 135 | 255 | 398 |
| Land banking/development | 86 | 123 | 130 | 111 |
| Industrial buildings | 36 | 31 | 32 | 5 |
| Hotel/Motel | 57 | 87 | 50 | 70 |
| Other | 55 | 87 | 69 | 72 |
| Commercial real estate | 846 | 1,003 | 1,432 | 1,413 |
| **Geographic Location** *(a)* | | | | |
| Canada | | | | |
| Atlantic Provinces | 4 | 5 | 1 | 0 |
| Quebec | 66 | 68 | 41 | 58 |
| Ontario | 146 | 144 | 373 | 381 |
| Prairie Provinces | 38 | 42 | 168 | 182 |
| British Columbia and Territories | 11 | 21 | 0 | 5 |
| Total Canada | 265 | 280 | 583 | 626 |
| United States | | | | |
| Illinois | 122 | 149 | 174 | 75 |
| New York | 134 | 139 | 196 | 322 |
| California | 109 | 123 | 145 | 118 |
| Texas | 51 | 53 | 77 | 2 |
| New Jersey | 53 | 54 | 73 | 8 |
| Other *(b)* | 112 | 205 | 184 | 262 |
| Total United States | 581 | 723 | 849 | 787 |
| United Kingdom | 0 | 0 | 0 | 0 |
| Commercial real estate | 846 | 1,003 | 1,432 | 1,413 |

## Table 16 — Allowance for Credit Losses — Segmented Information *(millions of dollars except as noted)*

| *As at or for the year ended October 31* | Canada *(c)* | | | | United States *(c)* | | | | Other Countries *(c)* | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1995 | 1994 | 1993 | 1992 | 1995 | 1994 | 1993 | 1992 | 1995 | 1994 | 1993 | 1992 | 1995 | 1994 | 1993 | 1992 |
| Allowance for credit losses, beginning of year | 653 | 843 | 651 | 327 | 359 | 483 | 476 | 313 | 484 | 673 | 943 | 1,509 | 1,496 | 1,999 | 2,070 | 2,149 |
| Provision for credit losses | 171 | 276 | 417 | 500 | 104 | 238 | 259 | 294 | 0 | (4) | (1) | (244) | 275 | 510 | 675 | 550 |
| Write-offs *(d)* | (255) | (488) | (260) | (203) | (195) | (456) | (313) | (207) | (115) | (203) | (315) | (452) | (565) | (1,147) | (888) | (862) |
| Recoveries | 15 | 18 | 27 | 22 | 37 | 56 | 31 | 38 | 0 | 1 | 1 | 19 | 52 | 75 | 59 | 79 |
| Other, including foreign exchange rates | 6 | 4 | 8 | 5 | (7) | 38 | 30 | 38 | (2) | 17 | 45 | 111 | (3) | 59 | 83 | 154 |
| Allowance for credit losses, end of year | 590 | 653 | 843 | 651 | 298 | 359 | 483 | 476 | 367 | 484 | 673 | 943 | 1,255 | 1,496 | 1,999 | 2,070 |
| **Allocation of Write-offs by Market** | | | | | | | | | | | | | | | | |
| Individuals | (74) | (74) | (100) | (123) | (50) | (45) | (49) | (51) | 0 | 0 | 0 | 0 | (124) | (119) | (149) | (174) |
| Commercial, corporate and institutional | (181) | (414) | (160) | (80) | (145) | (411) | (264) | (156) | 0 | 0 | 0 | 0 | (326) | (825) | (424) | (236) |
| Designated lesser developed countries | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (115) | (203) | (315) | (452) | (115) | (203) | (315) | (452) |
| **Allocation of Recoveries by Market** | | | | | | | | | | | | | | | | |
| Individuals | 17 | 22 | 23 | 18 | 14 | 14 | 13 | 12 | 0 | 0 | 0 | 0 | 31 | 36 | 36 | 30 |
| Commercial, corporate and institutional | (2) | (4) | 4 | 4 | 23 | 42 | 18 | 26 | 0 | 0 | 0 | 0 | 21 | 38 | 22 | 30 |
| Designated lesser developed countries | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 19 | 0 | 1 | 1 | 19 |
| Net write-offs as a % of average loans and acceptances | | | | | | | | | | | | | 0.6 | 1.3 | 1.1 | 1.1 |

**Reclassified to conform with 1995 presentation.*

*(a) Geographic location is based on location of property.*

*(b) Includes 13 states with real estate loan balances not exceeding $50 million per state.*

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

*(d) Write-offs on designated lesser developed countries include losses on sales of performing assets that were charged directly against the allowance (1995 — $115 million, 1993 — $65 million, 1992 — $314 million).*

## Table 17 — Allocation of Allowance for Credit Losses — Segmented Information *(millions of dollars except as noted)*

| As at October 31 | Canada (a) 1995 | 1994* | 1993* | 1992* | United States (a) 1995 | 1994* | 1993* | 1992* | Other Countries (a) 1995 | 1994* | 1993* | 1992* | Total 1995 | 1994* | 1993* | 1992* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Individuals | | | | | | | | | | | | | | | | |
| Residential mortgages | **6** | 6 | 5 | 2 | **0** | 0 | 0 | 0 | **0** | 0 | 0 | 0 | **6** | 6 | 5 | 2 |
| Cards | **0** | 0 | 0 | 0 | **0** | 0 | 0 | 0 | **0** | 0 | 0 | 0 | **0** | 0 | 0 | 0 |
| Personal loans | **8** | 10 | 12 | 16 | **9** | 8 | 13 | 21 | **0** | 0 | 0 | 0 | **17** | 18 | 25 | 37 |
| Total individuals | **14** | 16 | 17 | 18 | **9** | 8 | 13 | 21 | **0** | 0 | 0 | 0 | **23** | 24 | 30 | 39 |
| Commercial, corporate and institutional | | | | | | | | | | | | | | | | |
| Diversified commercial (b) | **301** | 487 | 724 | 533 | **239** | 301 | 459 | 444 | **0** | 0 | 9 | 9 | **540** | 788 | 1,192 | 986 |
| Securities purchased under resale agreements | **0** | 0 | 0 | 0 | **0** | 0 | 0 | 0 | **0** | 0 | 0 | 0 | **0** | 0 | 0 | 0 |
| General provisions | **275** | 150 | 100 | 100 | **50** | 50 | 0 | 0 | **0** | 0 | 0 | 0 | **325** | 200 | 100 | 100 |
| Total commercial, corporate and institutional | **576** | 637 | 824 | 633 | **289** | 351 | 459 | 444 | **0** | 0 | 9 | 9 | **865** | 988 | 1,292 | 1,086 |
| Designated lesser developed countries (LDC) | | | | | | | | | | | | | | | | |
| Specific | **0** | 0 | 0 | 0 | **0** | 0 | 0 | 0 | **0** | 0 | 0 | 2 | **0** | 0 | 0 | 2 |
| Country risk provision | **0** | 0 | 0 | 0 | **0** | 0 | 0 | 0 | **367** | 484 | 664 | 932 | **367** | 484 | 664 | 932 |
| Off-balance sheet | **0** | 0 | 2 | 0 | **0** | 0 | 11 | 11 | **0** | 0 | 0 | 0 | **0** | 0 | 13 | 11 |
| Allowance for credit losses (ACL) | **590** | 653 | 843 | 651 | **298** | 359 | 483 | 476 | **367** | 484 | 673 | 943 | **1,255** | 1,496 | 1,999 | 2,070 |
| **Coverage Ratios** | | | | | | | | | | | | | | | | |
| ACL as a % of gross non-performing loans and acceptances | **78.2** | 57.3 | 48.3 | 41.7 | **30.8** | 28.8 | 29.4 | 30.1 | **100.0** | 100.0 | 74.4 | 83.8 | **72.5** | 61.1 | 46.7 | 48.7 |
| ACL as a % of gross non-performing loans and acceptances (c) | | | | | | | | | | | | | | | | |
| Individuals | **12.5** | 16.0 | 16.3 | 18.0 | **100.0** | 100.0 | 76.5 | 45.7 | **NA** | NA | NA | NA | **19.0** | 22.0 | 24.8 | 26.7 |
| Diversified commercial (b) | **46.9** | 46.8 | 44.3 | 36.5 | **24.9** | 24.3 | 28.9 | 29.6 | **NA** | NA | 52.9 | 81.8 | **33.7** | 34.6 | 36.8 | 33.2 |
| Designated LDC (d) | **NA** | NA | NA | NA | **NA** | NA | NA | NA | **100.0** | 100.0 | 74.8 | 83.8 | **100.0** | 100.0 | 74.8 | 83.8 |

| As at October 31 | 1995 | 1994* | 1993* | 1992* |
|---|---|---|---|---|
| **Diversified Commercial Specific Allowance by Industry** | | | | |
| Financial institutions (b) | **24** | 29 | 32 | 24 |
| Commercial mortgages | **17** | 20 | 14 | 9 |
| Construction (non-real estate) | **11** | 27 | 21 | 30 |
| Real estate | **274** | 393 | 600 | 370 |
| Manufacturing | **19** | 75 | 162 | 67 |
| Mining/Energy | **45** | 84 | 156 | 247 |
| Service industries | **45** | 31 | 20 | 37 |
| Retail trade | **23** | 69 | 120 | 115 |
| Wholesale trade | **7** | 24 | 17 | 21 |
| Agriculture | **2** | 13 | 18 | 7 |
| Transportation/Utilities | **7** | 19 | 22 | 42 |
| Communications | **0** | 0 | 2 | 6 |
| Other | **66** | 4 | 8 | 11 |
| Total diversified commercial specific allowance (b) | **540** | 788 | 1,192 | 986 |

**Reclassified to conform with 1995 presentation.*

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

*(b) Excluding securities purchased under resale agreements.*

*(c) Segment ACL as a percentage of segment GNPL.*

*(d) Excludes LDC reservations in excess of non-performing loans (1995 — $360 million, 1994 — $425 million, 1991 — $101 million).*

*NA — Not applicable.*

## Table 18 — Asset Quality Summary *(millions of dollars except as noted)*

| *As at or for the year ended October 31* | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 | 1987 | 1986 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Asset Quality Performance** | | | | | | | | | | |
| Provisions for credit losses (PCL) | 275 | 510 | 675 | 550 | 337 | 169 | 1,181 | 390 | 75 | 605 |
| PCL as a % of average loans and acceptances | 0.30 | 0.63 | 0.87 | 0.78 | 0.53 | 0.29 | 2.09 | 0.69 | 0.13 | 1.00 |
| **Asset Quality Condition** | | | | | | | | | | |
| Gross non-performing loans (GNPL) | 1,730 | 2,447 | 4,249 | 4,232 | 3,302 | 3,262 | 3,266 | 3,360 | 4,096 | 3,622 |
| Net non-performing loans (NNPL) | 835 | 1,376 | 2,263 | 2,173 | 1,264 | 923 | 785 | 1,161 | 1,404 | 1,996 |
| GNPL as a % of equity and allowance for credit losses | 20.48 | 29.86 | 54.84 | 58.01 | 49.05 | 51.73 | 46.41 | 51.89 | 65.55 | 67.99 |
| NNPL as a % of total net loans and acceptances | 0.89 | 1.49 | 2.91 | 3.04 | 1.94 | 1.53 | 1.37 | 2.07 | 2.48 | 3.31 |
| **Asset Quality Coverage** | | | | | | | | | | |
| Allowance for credit losses (ACL) | 1,255 | 1,496 | 1,999 | 2,070 | 2,149 | 2,339 | 3,249 | 2,652 | 2,692 | 1,626 |
| ACL as a % of total GNPL | 72.5 | 61.1 | 46.7 | 48.7 | 64.8 | 71.7 | 99.5 | 78.8 | 65.7 | 44.9 |
| **Diversification Ratio** | | | | | | | | | | |
| Commercial real estate loans *(a)* and acceptances as a % of commercial loans and acceptances *(b)* | 8.0 | 10.9 | 15.7 | 17.1 | NA | | | | | |
| Office loans *(a)* and acceptances as a % of commercial loans and acceptances *(b)* | 1.4 | 2.9 | 5.2 | 6.2 | NA | | | | | |

## Table 19 — Balance Sheet Summary *(millions of dollars except as noted)*

| *As at October 31* | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 | 1987 | 1986 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| Cash resources | 20,317 | 14,659 | 12,081 | 11,288 | 13,607 | 12,502 | 8,581 | 10,170 | 13,540 | 14,514 |
| Securities | 33,019 | 26,535 | 23,328 | 22,581 | 17,862 | 12,238 | 9,761 | 9,946 | 11,049 | 10,525 |
| Loans (net) | 88,442 | 88,634 | 74,028 | 68,251 | 60,172 | 55,106 | 54,303 | 51,986 | 52,595 | 54,471 |
| Acceptances | 4,469 | 3,430 | 3,555 | 2,878 | 3,712 | 3,508 | 2,778 | 3,584 | 3,287 | 4,633 |
| Other assets | 5,587 | 4,917 | 3,877 | 4,037 | 3,372 | 4,016 | 3,498 | 3,223 | 3,757 | 3,037 |
| Total assets | 151,834 | 138,175 | 116,869 | 109,035 | 98,725 | 87,370 | 78,921 | 78,909 | 84,228 | 87,180 |
| **Liabilities and Shareholders' Equity** | | | | | | | | | | |
| Deposits | 109,605 | 98,241 | 87,859 | 86,601 | 77,769 | 70,170 | 62,985 | 64,362 | 70,919 | 74,712 |
| Other liabilities | 32,602 | 31,178 | 20,961 | 15,604 | 14,836 | 11,801 | 10,860 | 9,456 | 8,587 | 7,360 |
| Subordinated debt | 2,595 | 2,218 | 2,363 | 1,666 | 1,570 | 1,473 | 1,329 | 1,307 | 1,259 | 1,463 |
| Share capital | | | | | | | | | | |
| — Preferred | 858 | 860 | 852 | 832 | 718 | 475 | 650 | 450 | 450 | 650 |
| — Common | 3,002 | 3,002 | 2,632 | 2,539 | 2,416 | 2,276 | 2,162 | 2,048 | 1,931 | 1,253 |
| Retained earnings | 3,172 | 2,676 | 2,202 | 1,793 | 1,416 | 1,175 | 935 | 1,286 | 1,082 | 1,742 |
| Total liabilities and shareholders' equity | 151,834 | 138,175 | 116,869 | 109,035 | 98,725 | 87,370 | 78,921 | 78,909 | 84,228 | 87,180 |
| **Average Balances** | | | | | | | | | | |
| Loans *(c)* | 87,028 | 77,292 | 73,918 | 66,469 | 58,227 | 53,793 | 53,110 | 52,538 | 53,396 | 54,769 |
| Assets *(c)* | 144,115 | 122,234 | 113,387 | 104,591 | 94,118 | 81,971 | 78,878 | 79,312 | 84,584 | 86,761 |

## Table 20 — Summary of Excess of Estimated Market Value over Book Value *(d) (millions of dollars)*

| *As at October 31* | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|---|---|---|---|---|
| Securities | | | | | |
| Designated LDC *(e)* | 200 | 247 | 35 | 70 | 371 |
| Other securities | 156 | (74) | 369 | 273 | 135 |
| Loans to designated LDC | 4 | (12) | 134 | (7) | (116) |
| Fair value of past due interest bonds | 95 | 101 | — | — | — |
| Total | 455 | 262 | 538 | 336 | 390 |

*(a) Excludes off-balance sheet financing.*

*(b) Corporate, commercial and institutional loans and acceptances excluding securities purchased under resale agreements. Reclassified to conform with 1995 presentation.*

*(c) Daily averages for 1990 to 1995.*

*(d) Securities and LDC loans.*

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

*NA — Not available.*

## Table 21 — Capital Adequacy *(millions of dollars except as noted)*

| *As at October 31* | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 | 1987 | 1986 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Share Capital** | | | | | | | | | | |
| Balance at beginning of year | 3,862 | 3,484 | 3,371 | 3,134 | 2,751 | 2,812 | 2,498 | 2,381 | 1,903 | 1,780 |
| Increase (decrease) in preferred shares | (2) | 8 | 20 | 114 | 243 | (175) | 200 | 0 | (200) | 0 |
| Common share issues *(a)* | 0 | 370 | 93 | 123 | 140 | 114 | 114 | 117 | 678 | 123 |
| Balance at end of year | 3,860 | 3,862 | 3,484 | 3,371 | 3,134 | 2,751 | 2,812 | 2,498 | 2,381 | 1,903 |
| **Retained Earnings** | | | | | | | | | | |
| Balance at beginning of year | 2,676 | 2,202 | 1,793 | 1,416 | 1,175 | 935 | 1,286 | 1,082 | 1,742 | 1,672 |
| Net income (loss) | 986 | 825 | 709 | 640 | 595 | 522 | (39) | 500 | (242) | 310 |
| Dividends | (419) | (374) | (346) | (321) | (301) | (288) | (279) | (252) | (229) | (215) |
| Other changes | (71) | 23 | 46 | 58 | (53) | 6 | (33) | (44) | (189) | (25) |
| Balance at end of year | 3,172 | 2,676 | 2,202 | 1,793 | 1,416 | 1,175 | 935 | 1,286 | 1,082 | 1,742 |
| **Canadian Basis** | | | | | | | | | | |
| Tier 1 | | | | | | | | | | |
| Common shareholders' equity | 6,174 | 5,678 | 4,834 | 4,332 | 3,832 | 3,451 | 3,097 | 3,334 | 3,013 | 2,995 |
| Non-cumulative preferred shares | 858 | 860 | 852 | 832 | 450 | 200 | 200 | 0 | | |
| Non-controlling interest in subsidiaries | 121 | 144 | 66 | 72 | 42 | 41 | 43 | 40 | | |
| Goodwill | (411) | (450) | (159) | (176) | (105) | (61) | 0 | 0 | | |
| Total tier 1 capital | 6,742 | 6,232 | 5,593 | 5,060 | 4,219 | 3,631 | 3,340 | 3,374 | | |
| Tier 2 | | | | | | | | | | |
| Cumulative preferred shares | 0 | 0 | 0 | 0 | 268 | 275 | 275 | 450 | | |
| Subordinated debt | 2,268 | 1,999 | 2,248 | 1,650 | 1,493 | 1,565 | 1,429 | 1,129 | | |
| Total tier 2 capital | 2,268 | 1,999 | 2,248 | 1,650 | 1,761 | 1,840 | 1,704 | 1,579 | | |
| Less: Investment in non-consolidated subsidiaries | 0 | 0 | 0 | 28 | 28 | 0 | 0 | 0 | | |
| Total capital | 9,010 | 8,231 | 7,841 | 6,682 | 5,952 | 5,471 | 5,044 | 4,953 | | |
| Risk-weighted assets | 96,075 | 86,589 | 76,074 | 74,964 | 67,490 | 65,959 | 63,105 | 65,357 | | |
| Risk-weighted capital ratios *(%)* | | | | | | | | | | |
| Tier 1 | 7.02 | 7.20 | 7.35 | 6.75 | 6.25 | 5.51 | 5.29 | 5.16 | | |
| Total | 9.38 | 9.51 | 10.31 | 8.91 | 8.82 | 8.29 | 7.99 | 7.58 | | |
| Required regulatory capital ratios *(%)* | | | | | | | | | | |
| Tier 1 | 4.0 | 4.0 | 4.0 | 4.0 | 3.625 | 3.625 | NA | NA | | |
| Total | 8.0 | 8.0 | 8.0 | 8.0 | 7.25 | 7.25 | NA | NA | | |
| Equity to assets *(%)* | 4.7 | 4.8 | 4.9 | 4.8 | 4.7 | 4.5 | 4.8 | 4.8 | 4.2 | 4.2 |
| Credit rating *(b)* | AA- | AA- | AA- | AA- | AA- | AA- | AA- | AA- | AA- | AA |
| **U.S. Basis** | | | | | | | | | | |
| Tier 1 | 6,641 | 6,125 | 5,591 | 5,045 | 4,578 | 3,967 | | | | |
| Tier 2 | 3,076 | 2,804 | 3,144 | 2,719 | 2,622 | 2,570 | | | | |
| Total capital | 9,717 | 8,929 | 8,735 | 7,764 | 7,200 | 6,537 | | | | |
| Risk-weighted assets | 97,442 | 88,640 | 78,422 | 76,703 | 68,625 | 67,026 | | | | |
| Risk-weighted capital ratios *(%)* | | | | | | | | | | |
| Tier 1 | 6.82 | 6.91 | 7.13 | 6.58 | 6.67 | 5.92 | | | | |
| Total | 9.97 | 10.07 | 11.14 | 10.12 | 10.49 | 9.75 | | | | |

*(a) Common share issuance net of repurchases. In 1995 Bank of Montreal repurchased 3.5 million shares.*

*(b) Composite of Moody and Standard & Poors senior debt ratings.*

## Table 22 — Risk-Weighted Assets *(millions of dollars)*

| *As at October 31* | Balance | Credit risk equivalent | Risk weighting % | 1995 Risk-weighted balance | 1994* Risk-weighted balance |
|---|---|---|---|---|---|
| Balance sheet items | | | | | |
| Cash resources | 20,317 | | 0–20 | 3,804 | 2,683 |
| Securities | 33,019 | | 0–100 | 4,968 | 3,853 |
| Mortgages | 28,280 | | 0–100 | 12,169 | 11,843 |
| Other loans and acceptances | 64,631 | | 0–100 | 48,753 | 46,583 |
| Other assets | 5,587 | | 0–100 | 5,175 | 4,467 |
| Total balance sheet items | 151,834 | | | 74,869 | 69,429 |
| Off-balance sheet items | | | | | |
| Letters of credit and guarantees | 6,916 | 5,447 | 20–100 | 5,069 | 5,007 |
| Securities lending | 16,228 | 3,560 | 0–100 | 1,330 | 239 |
| Commitments | 56,116 | 12,351 | 0–100 | 11,885 | 9,396 |
| Foreign exchange rate contracts | 410,210 | 10,029 | 0–50 | 2,370 | 1,952 |
| Interest rate contracts | 256,519 | 2,212 | 0–50 | 539 | 472 |
| Other | 79 | 39 | 0–100 | 13 | 94 |
| Total off-balance sheet items | 746,068 | | | 21,206 | 17,160 |
| Total risk-weighted assets | | | | 96,075 | 86,589 |
| Total risk-weighted assets — U.S. basis | | | | 97,442 | 88,640 |

## Table 23 — Liquid Assets *(millions of dollars except as noted)*

| *As at October 31* | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 | 1987 | 1986 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Canadian Dollar Liquid Assets** | | | | | | | | | | |
| Deposits with other banks | 3,002 | 2,790 | 1,762 | 1,394 | 1,762 | 3,126 | 2,259 | 1,364 | 2,103 | 1,368 |
| Other cash resources | 17 | 651 | 734 | 967 | 1,494 | 849 | 1,361 | 1,278 | 1,623 | 1,349 |
| Securities | 21,245 | 16,915 | 16,436 | 15,251 | 11,725 | 6,278 | 5,083 | 5,820 | 6,589 | 6,046 |
| Total Canadian dollar liquid assets | 24,264 | 20,356 | 18,932 | 17,612 | 14,981 | 10,253 | 8,703 | 8,462 | 10,315 | 8,763 |
| **U.S. Dollar and Other Currency Liquid Assets** | | | | | | | | | | |
| Deposits with other banks | 16,418 | 11,029 | 8,476 | 8,120 | 9,327 | 7,688 | 4,327 | 6,786 | 8,895 | 10,897 |
| Other cash resources | 880 | 189 | 1,109 | 807 | 1,024 | 839 | 634 | 742 | 919 | 900 |
| Securities | 11,774 | 9,620 | 6,892 | 7,330 | 6,137 | 5,960 | 4,678 | 4,126 | 4,460 | 4,479 |
| Total U.S. dollar and other currency liquid assets | 29,072 | 20,838 | 16,477 | 16,257 | 16,488 | 14,487 | 9,639 | 11,654 | 14,274 | 16,276 |
| Total liquid assets | 53,336 | 41,194 | 35,409 | 33,869 | 31,469 | 24,740 | 18,342 | 20,116 | 24,589 | 25,039 |
| Cash and securities-to-total assets *(%)* | 35.1 | 29.8 | 30.3 | 31.1 | 31.9 | 28.3 | 23.3 | 25.5 | 29.2 | 28.7 |

## Table 24 — Deposits *(millions of dollars)*

| *As at October 31* | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 | 1987 | 1986 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Canadian Dollar Deposits** | | | | | | | | | | |
| Banks | 2,652 | 3,074 | 3,117 | 2,303 | 2,127 | 1,462 | 1,208 | 1,268 | 1,265 | 960 |
| Businesses and governments | 13,862 | 12,311 | 10,109 | 12,090 | 9,342 | 7,939 | 7,699 | 8,187 | 8,870 | 7,756 |
| Individuals | 43,156 | 40,617 | 39,230 | 37,503 | 35,488 | 33,066 | 30,500 | 27,312 | 25,762 | 24,681 |
| Total Canadian dollar deposits | 59,670 | 56,002 | 52,456 | 51,896 | 46,957 | 42,467 | 39,407 | 36,767 | 35,897 | 33,397 |
| **U.S. Dollar and Other Currency Deposits** | | | | | | | | | | |
| Banks | 21,357 | 19,227 | 17,690 | 16,519 | 12,200 | 12,126 | 9,236 | 9,125 | 14,724 | 17,409 |
| Businesses and governments | 20,964 | 16,430 | 12,566 | 13,285 | 13,789 | 10,802 | 9,974 | 14,162 | 16,019 | 19,814 |
| Individuals | 7,614 | 6,582 | 5,147 | 4,901 | 4,823 | 4,775 | 4,368 | 4,308 | 4,279 | 4,092 |
| Total U.S. dollar and other currency deposits | 49,935 | 42,239 | 35,403 | 34,705 | 30,812 | 27,703 | 23,578 | 27,595 | 35,022 | 41,315 |
| Total deposits | 109,605 | 98,241 | 87,859 | 86,601 | 77,769 | 70,170 | 62,985 | 64,362 | 70,919 | 74,712 |

*Reclassified to conform with 1995 presentation.

## Table 25 — Quarterly Financial Data *(millions of dollars except as noted)*

| *For the three months ended* | Oct. 31 1995 | July 31 1995 | April 30 1995 | Jan. 31 1995 | Oct. 31 1994 | July 31 1994 | April 30 1994 | Jan. 31 1994 |
|---|---|---|---|---|---|---|---|---|
| **Balance Sheet Summary** | | | | | | | | |
| Total assets | 151,834 | 145,579 | 148,357 | 144,256 | 138,175 | 127,330 | 124,805 | 116,177 |
| Cash resources | 20,317 | 16,107 | 17,437 | 16,951 | 14,659 | 14,334 | 13,500 | 10,304 |
| Securities | 33,019 | 30,861 | 32,568 | 31,957 | 26,535 | 23,377 | 24,737 | 25,173 |
| Loans | 88,442 | 89,426 | 88,999 | 86,441 | 88,634 | 81,417 | 79,366 | 73,481 |
| Acceptances | 4,469 | 4,092 | 3,997 | 3,627 | 3,430 | 3,653 | 3,269 | 3,485 |
| Other assets | 5,587 | 5,093 | 5,356 | 5,280 | 4,917 | 4,549 | 3,933 | 3,734 |
| Deposits | 109,605 | 106,450 | 106,402 | 104,308 | 98,241 | 94,934 | 92,735 | 88,497 |
| Total capital funds | 9,627 | 9,597 | 9,435 | 8,996 | 8,756 | 8,308 | 8,220 | 8,182 |
| Common equity | 6,174 | 6,098 | 5,947 | 5,855 | 5,678 | 5,191 | 5,097 | 4,955 |
| Average assets *(a)* | 146,086 | 145,332 | 144,975 | 140,096 | 129,375 | 124,435 | 117,898 | 117,086 |
| **Net Income Statement** | | | | | | | | |
| Interest, dividend and fee income | | | | | | | | |
| Loans | 1,912 | 1,974 | 1,801 | 1,677 | 1,562 | 1,480 | 1,294 | 1,282 |
| Securities | 504 | 523 | 467 | 396 | 367 | 285 | 268 | 340 |
| Deposits with banks | 211 | 227 | 225 | 194 | 160 | 145 | 84 | 92 |
| Total interest income | 2,627 | 2,724 | 2,493 | 2,267 | 2,089 | 1,910 | 1,646 | 1,714 |
| Interest expense | | | | | | | | |
| Deposits | 1,382 | 1,448 | 1,390 | 1,177 | 988 | 917 | 721 | 741 |
| Subordinated debt | 54 | 56 | 49 | 47 | 47 | 46 | 47 | 49 |
| Other liabilities | 254 | 268 | 198 | 181 | 136 | 113 | 85 | 89 |
| Total interest expense | 1,690 | 1,772 | 1,637 | 1,405 | 1,171 | 1,076 | 853 | 879 |
| Net interest income | 937 | 952 | 856 | 862 | 918 | 834 | 793 | 835 |
| Provision for credit losses | 50 | 50 | 87 | 88 | 99 | 98 | 157 | 156 |
| Net interest income after provision for credit losses | 887 | 902 | 769 | 774 | 819 | 736 | 636 | 679 |
| Other income | 511 | 521 | 479 | 464 | 457 | 408 | 454 | 430 |
| Non-interest expense | 931 | 979 | 871 | 865 | 813 | 856 | 779 | 775 |
| Income before provision for income taxes | 467 | 444 | 377 | 373 | 463 | 288 | 311 | 334 |
| Provision for income taxes | 193 | 177 | 149 | 143 | 191 | 114 | 120 | 135 |
| Income before non-controlling interest in subsidiaries | 274 | 267 | 228 | 230 | 272 | 174 | 191 | 199 |
| Non-controlling interest in subsidiaries | 5 | 3 | 3 | 2 | 4 | 2 | 3 | 2 |
| Net income | 269 | 264 | 225 | 228 | 268 | 172 | 188 | 197 |
| Taxable equivalent adjustment *(b)* | 19 | 21 | 22 | 22 | 17 | 18 | 16 | 16 |
| Total revenue (TEB) | 1,467 | 1,494 | 1,357 | 1,348 | 1,392 | 1,260 | 1,263 | 1,281 |

*(a) Daily averages.*

*(b) The taxable equivalent adjustment increases interest income on the exempt instruments to the amount that would result if the income were taxable.*

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.

## Table 26 — Quarterly Financial Measures

| For the three months ended | Oct. 31 1995 | July 31 1995 | April 30 1995 | Jan. 31 1995 | Oct. 31 1994 | July 31 1994 | April 30 1994 | Jan. 31 1994 |
|---|---|---|---|---|---|---|---|---|
| **Information Per Common Share** *($)(a)* | | | | | | | | |
| Dividends declared | 0.33 | 0.33 | 0.33 | 0.33 | 0.30 | 0.30 | 0.30 | 0.30 |
| Net income | | | | | | | | |
| Basic | 0.95 | 0.93 | 0.78 | 0.79 | 0.99 | 0.61 | 0.69 | 0.72 |
| Fully diluted | 0.93 | 0.91 | 0.76 | 0.78 | 0.97 | 0.61 | 0.68 | 0.71 |
| Book value | 23.41 | 22.94 | 22.33 | 22.02 | 21.39 | 20.72 | 20.39 | 19.86 |
| Market price | | | | | | | | |
| High | 31.000 | 30.000 | 28.000 | 26.875 | 25.750 | 26.250 | 30.750 | 30.625 |
| Low | 27.875 | 27.500 | 25.500 | 24.125 | 23.375 | 22.000 | 25.000 | 25.000 |
| Close | 29.750 | 28.625 | 27.750 | 25.625 | 25.125 | 23.750 | 25.625 | 30.375 |
| Common stock information | | | | | | | | |
| Average number of common shares outstanding *(in thousands)* | 264,371 | 266,306 | 266,138 | 265,730 | 255,806 | 250,248 | 249,795 | 249,330 |
| Price-to-earnings ratio *(%)* | 8.6 | 8.2 | 8.8 | 8.3 | 8.3 | 8.6 | 9.1 | 11.0 |
| Market-to-book value ratio *(%)* | 1.27 | 1.25 | 1.24 | 1.16 | 1.17 | 1.15 | 1.26 | 1.53 |
| Number of shareholders | 57,187 | 57,713 | 58,639 | 59,513 | 58,879 | 58,950 | 59,200 | 60,991 |
| **Primary Financial Measures** *(%)* | | | | | | | | |
| Financial performance measures | | | | | | | | |
| Return on common shareholders' investment *(a)* | 24.1 | 19.4 | 15.9 | 6.9 | (2.3) | (7.6) | (0.6) | 17.9 |
| Return on average common shareholders' equity *(b)* | 16.4 | 16.2 | 14.5 | 14.6 | 18.7 | 12.0 | 14.0 | 14.6 |
| Fully diluted earnings per share growth *(c)* | (4.1) | 49.2 | 11.8 | 9.9 | 34.7 | (7.6) | 9.7 | 29.1 |
| Expense-to-revenue ratio *(d)* | 63.5 | 65.5 | 64.2 | 64.2 | 58.4 | 67.9 | 61.7 | 60.5 |
| Provision for credit losses as a % of average loans and acceptances *(e)* | 0.30 | 0.30 | 0.39 | 0.39 | 0.60 | 0.62 | 0.79 | 0.81 |
| **Financial Condition Measures** *(%)* | | | | | | | | |
| Gross non-performing loan ratio *(f)* | 20.48 | 22.58 | 26.63 | 27.27 | 29.86 | 45.21 | 49.92 | 54.08 |
| Tier 1 capital ratio *(g)* | 7.02 | 7.13 | 7.02 | 7.18 | 7.20 | 7.13 | 7.40 | 7.53 |
| Cash and securities-to-total assets *(h)* | 35.1 | 32.3 | 33.7 | 33.9 | 29.8 | 29.6 | 30.6 | 30.5 |
| Credit rating *(i)* | AA– | AA– | AA– | AA– | AA– | AA– | AA– | AA– |
| **Other Financial Ratios** *(%)* | | | | | | | | |
| Return on average total equity *(j)* | 15.4 | 15.2 | 13.7 | 13.7 | 17.2 | 11.4 | 13.2 | 13.6 |
| Return on average assets | 0.73 | 0.72 | 0.64 | 0.65 | 0.82 | 0.55 | 0.66 | 0.67 |
| Return on average assets — after preferreds | 0.69 | 0.67 | 0.59 | 0.60 | 0.77 | 0.49 | 0.60 | 0.61 |
| Net income growth | 0.4 | 53.3 | 19.3 | 16.1 | 33.6 | (5.1) | 9.4 | 26.8 |
| Revenue growth | 5.3 | 18.7 | 7.5 | 5.2 | 11.3 | 1.1 | 4.5 | 10.8 |
| Expense growth | 14.4 | 14.4 | 11.9 | 11.6 | 12.6 | 14.6 | 5.9 | 8.8 |
| Net non-performing loans as a % of net loans and acceptances | 0.89 | 1.05 | 1.29 | 1.29 | 1.49 | 2.20 | 2.41 | 2.91 |
| Total capital ratio | 9.38 | 9.64 | 9.62 | 9.46 | 9.51 | 9.60 | 10.09 | 10.49 |
| Equity-to-assets ratio | 4.7 | 4.9 | 4.7 | 4.8 | 4.8 | 4.8 | 4.8 | 5.1 |

*(a) Annual compounded return for one bank common share invested at the beginning of the period, including dividend reinvestment.*

*(b) Net income less preferred dividends divided by average common shareholders' equity (which includes common share capital plus retained earnings).*

*(c) Percentage change in fully diluted earnings per share for the quarter over the corresponding quarter of the previous year.*

*(d) Non-interest expense divided by total revenue (TEB).*

*(e) Annual provision for credit losses divided by average net loans, acceptances and loan substitutes.*

*(f) Gross non-performing loans divided by total equity and allowance for credit losses.*

*(g) Tier 1 capital divided by risk-weighted assets as defined by the OSFI.*

*(h) Cash and securities divided by total assets.*

*(i) Composite of senior debt ratings.*

*(j) Annualized quarterly net income divided by average total equity.*

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.

This section of the Annual Report presents the Bank's Consolidated Financial Statements for the year ended October 31, 1995, the Statement of Management's Responsibility for Financial Information and the Shareholders' Auditors' Report.

The audited Financial Statements present the financial condition of the Bank as at October 31, 1995 and 1994 and the results of its operations for the years ended October 31, 1995, 1994 and 1993. The accompanying Notes to Consolidated Financial Statements provide further financial detail and include a summary of the significant accounting policies underlying the financial information reported.

# Consolidated Financial Statements

# Consolidated Balance Sheet

| *As at October 31 (Canadian $ in millions)* | 1995 | 1994 |
|---|---|---|
| **Assets** | | |
| **Cash Resources** | | |
| Cash and non interest-bearing deposits with Bank of Canada and other banks | $ 1,795 | $ 1,786 |
| Interest-bearing deposits with other banks | 18,406 | 12,873 |
| Cheques and other items in transit, net | 116 | – |
| | 20,317 | 14,659 |
| **Securities** *(notes 2 & 4)* | | |
| Investment (market value $19,837 in 1995 and $15,906 in 1994) | 19,481 | 15,733 |
| Trading | 13,250 | 10,481 |
| Loan substitutes | 288 | 321 |
| | 33,019 | 26,535 |
| **Loans** *(notes 3 & 4)* | | |
| Residential mortgages | 26,425 | 24,215 |
| Consumer instalment and other personal loans | 11,773 | 11,013 |
| Credit card loans | 3,839 | 3,261 |
| Loans to businesses and governments | 36,795 | 36,601 |
| Securities purchased under resale agreements | 10,505 | 14,572 |
| | 89,337 | 89,662 |
| Allowance for credit losses | (895) | (1,028) |
| | 88,442 | 88,634 |
| **Other** | | |
| Customers' liability under acceptances | 4,469 | 3,430 |
| Premises and equipment *(note 5)* | 1,700 | 1,575 |
| Other assets *(note 6)* | 3,887 | 3,342 |
| | 10,056 | 8,347 |
| **Total Assets** | $151,834 | $138,175 |
| **Liabilities and Shareholders' Equity** | | |
| **Deposits** *(note 8)* | | |
| Banks | $ 24,009 | $ 22,301 |
| Businesses and governments | 34,826 | 28,741 |
| Individuals | 50,770 | 47,199 |
| | 109,605 | 98,241 |
| **Other** | | |
| Acceptances | 4,469 | 3,430 |
| Securities sold but not yet purchased | 9,189 | 8,145 |
| Securities sold under repurchase agreements | 11,471 | 13,524 |
| Other liabilities *(note 9)* | 7,473 | 6,079 |
| | 32,602 | 31,178 |
| **Subordinated Debt** *(note 10)* | 2,595 | 2,218 |
| **Shareholders' Equity** | | |
| Share capital *(note 11)* | | |
| Preferred shares | 858 | 860 |
| Common shares | 3,002 | 3,002 |
| Retained earnings | 3,172 | 2,676 |
| | 7,032 | 6,538 |
| **Total Liabilities and Shareholders' Equity** | $151,834 | $138,175 |

*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) | 1995 | 1994 | 1993 |
|---|---|---|---|
| **Interest, Dividend and Fee Income** | | | |
| Loans | $ 7,364 | $ 5,618 | $ 5,505 |
| Securities *(note 2)* | 1,890 | 1,260 | 1,200 |
| Deposits with banks | 857 | 481 | 420 |
| | 10,111 | 7,359 | 7,125 |
| **Interest Expense** | | | |
| Deposits | 5,397 | 3,367 | 3,316 |
| Subordinated debt | 206 | 189 | 169 |
| Other liabilities | 901 | 423 | 428 |
| | 6,504 | 3,979 | 3,913 |
| **Net Interest Income** | 3,607 | 3,380 | 3,212 |
| Provision for credit losses | 275 | 510 | 675 |
| **Net Interest Income After Provision for Credit Losses** | 3,332 | 2,870 | 2,537 |
| **Other Income** | | | |
| Operating services | 434 | 422 | 415 |
| Lending fees | 180 | 178 | 147 |
| Card services | 230 | 211 | 208 |
| Investment and securities services | 593 | 424 | 312 |
| Trust income | 216 | 197 | 183 |
| Foreign exchange | 176 | 149 | 170 |
| Other fees and commissions | 146 | 168 | 146 |
| | 1,975 | 1,749 | 1,581 |
| **Net Interest and Other Income** | 5,307 | 4,619 | 4,118 |
| **Non-Interest Expense** | | | |
| Salaries and employee benefits | 1,999 | 1,795 | 1,664 |
| Premises and equipment | 679 | 600 | 580 |
| Communications | 208 | 180 | 165 |
| Other expenses | 651 | 546 | 477 |
| | 3,537 | 3,121 | 2,886 |
| Goodwill and other valuation intangibles | 49 | 31 | 30 |
| Special charge | — | 71 | — |
| Business process improvement initiative charge | 60 | — | — |
| Total non-interest expense | 3,646 | 3,223 | 2,916 |
| **Income Before Provision for Income Taxes** | 1,661 | 1,396 | 1,202 |
| Provision for income taxes *(note 12)* | 662 | 560 | 487 |
| **Income Before Non-Controlling Interest in Subsidiary** | 999 | 836 | 715 |
| Non-controlling interest | 13 | 11 | 6 |
| **Net Income** | $ 986 | $ 825 | $ 709 |
| Preferred dividends | $ 69 | $ 69 | $ 68 |
| Net income available to common shareholders | $ 917 | $ 756 | $ 641 |
| Average common shares outstanding *(in thousands)* | 265,632 | 251,307 | 247,727 |
| **Net Income Per Common Share** *(note 13)* | | | |
| — basic | $ 3.45 | $ 3.01 | $ 2.59 |
| — fully diluted | 3.38 | 2.97 | 2.55 |
| **Dividends Per Common Share** | 1.32 | 1.20 | 1.12 |

*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)* | | | | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|---|
| **Preferred Shares** *(note 11)* | | | | | | |
| Balance at beginning of year | | | | $ 860 | $ 852 | $ 832 |
| Translation adjustment on shares issued in a foreign currency | | | | (2) | 8 | 20 |
| **Balance at End of Year** | | | | 858 | 860 | 852 |
| | Number of Shares | | | | | |
| | 1995 | 1994 | 1993 | | | |
| **Common Shares** *(note 11)* | | | | | | |
| Balance at beginning of year | 265,456,651 | 249,093,914 | 244,819,338 | 3,002 | 2,632 | 2,539 |
| Issued under the Shareholder Dividend Reinvestment and Share Purchase Plan | 631,264 | 1,446,817 | 3,963,690 | 17 | 38 | 87 |
| Issued on the exchange of shares of Bank of Montreal Securities Canada Limited | 1,096,641 | 1,654,617 | 310,886 | 23 | 34 | 6 |
| Purchased for cancellation | (3,500,000) | — | — | (40) | — | — |
| Issued on the acquisition of Suburban Bancorp, Inc. | — | 13,261,303 | — | — | 298 | — |
| **Balance at End of Year** | 263,684,556 | 265,456,651 | 249,093,914 | 3,002 | 3,002 | 2,632 |
| **Retained Earnings** | | | | | | |
| Balance at beginning of year | | | | 2,676 | 2,202 | 1,793 |
| Net income | | | | 986 | 825 | 709 |
| Dividends — preferred shares | | | | (69) | (69) | (68) |
| — common shares | | | | (350) | (305) | (278) |
| Common shares purchased for cancellation | | | | (63) | — | — |
| Unrealized gain (loss) on translation of net investment in foreign operations, net of hedging activities and applicable income tax | | | | (8) | 24 | 47 |
| Share issue expense, net of applicable income tax | | | | — | (1) | (1) |
| **Balance at End of Year** | | | | 3,172 | 2,676 | 2,202 |
| **Total Shareholders' Equity** | | | | $7,032 | $6,538 | $5,686 |

*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)* | 1995 | 1994 | 1993 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Net income | $ 986 | $ 825 | $ 709 |
| Adjustments to determine net cash flows | | | |
| Provision for credit losses | 275 | 510 | 675 |
| Amortization of premises and equipment | 215 | 187 | 177 |
| Amortization of goodwill and intangibles | 61 | 37 | 38 |
| Deferred income taxes | 67 | (30) | 18 |
| Net (gain) on sale of investment securities | (46) | (37) | (40) |
| Change in accrued interest | | | |
| — decrease (increase) in interest receivable | (238) | (199) | 116 |
| — increase (decrease) in interest payable | 394 | 22 | (18) |
| Net change in deferred loan fees | (8) | (7) | 8 |
| Net change in trading securities | (2,769) | (1,222) | (1,845) |
| Net increase (decrease) in current income taxes payable | 233 | (183) | 156 |
| Changes in other items and accruals, net | 139 | 129 | 116 |
| **Net Cash Provided by Operating Activities** | (691) | 32 | 110 |
| **Cash Flows from Financing Activities** | | | |
| Net increase in deposits | 11,364 | 8,311 | 1,258 |
| Net increase in securities sold but not yet purchased | 1,044 | 1,199 | 1,631 |
| Net increase (decrease) in securities sold under repurchase agreements | (2,053) | 7,039 | 2,306 |
| Net increase in debt of subsidiaries | 227 | 986 | 646 |
| Proceeds from issuance of subordinated debt | 670 | — | 644 |
| Repayment of subordinated debt | (269) | (183) | (10) |
| Increase (decrease) in subordinated debt | (24) | 38 | 63 |
| Increase (decrease) in preferred shares | (2) | 8 | 20 |
| Proceeds from issuance of common shares | 40 | 72 | 93 |
| Common shares purchased for cancellation | (103) | — | — |
| Common shares issued on acquisition of a subsidiary | — | 298 | — |
| Dividends paid | (419) | (374) | (346) |
| **Net Cash Provided by Financing Activities** | 10,475 | 17,394 | 6,305 |
| **Cash Flows Used in Investing Activities** | | | |
| Interest-bearing deposits with other banks | 5,533 | 3,641 | 468 |
| Net purchases (sales) of investment securities | 3,669 | 383 | (1,135) |
| Net increase in loans | 4,150 | 6,801 | 2,239 |
| Net increase (decrease) in securities purchased under resale agreements | (4,067) | 6,884 | 4,210 |
| Premises and equipment — net purchases | 340 | 246 | 308 |
| Acquisition of subsidiaries | — | 704 | — |
| **Net Cash Used in Investing Activities** | 9,625 | 18,659 | 6,090 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 159 | (1,233) | 325 |
| **Cash and Cash Equivalents at Beginning of Year** | 1,752 | 2,891 | 2,566 |
| Subsidiaries' cash and cash equivalents at date of acquisition | — | 94 | — |
| **Cash and Cash Equivalents at End of Year** | $ 1,911 | $ 1,752 | $ 2,891 |
| **Represented by:** | | | |
| Cash and non interest-bearing deposits with Bank of Canada and other banks | $ 1,795 | $ 1,786 | $ 2,206 |
| Cheques and other items in transit, net | 116 | (34) | 685 |
| | $ 1,911 | $ 1,752 | $ 2,891 |
| **Supplemental Disclosure of Cash Flow Information** | | | |
| Amount of interest paid in the year | $ 6,110 | $ 3,957 | $ 3,931 |
| Amount of income taxes paid in the year | 371 | 750 | 241 |

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

*(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 19. 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 years ended October 31, 1995, 1994 and 1993 and the Consolidated Balance Sheet and related notes are presented as at October 31, 1995 and 1994.

### 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 has been 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 and subsidiaries 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 and which are generally available for sale. 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 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.

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.

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:

### Accounting for non-accrual loans

**Classification as non-accrual**

| Consumer Instalment and Credit Card Loans | Sovereign Risk Loans | Residential Mortgages, Other Personal Loans, Loans to Businesses and Governments and Securities Purchased under Resale Agreements |
|---|---|---|
| Consumer instalment loans are classified as non-accrual when payments of interest or principal are contractually past due 90 days.<br><br>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:<br>1. in the opinion of management there is reasonable doubt as to the ultimate collectibility of principal or interest, or<br>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<br>3. payment of interest or principal is contractually past due 180 days, or<br>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:<br>1. in the opinion of management there is reasonable doubt as to the ultimate collectibility of principal or interest, or<br>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<br>3. payment of interest or principal is contractually past due 180 days, or<br>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**

| Consumer Instalment and Credit Card Loans | Sovereign Risk Loans | Residential Mortgages, Other Personal Loans, Loans to Businesses and Governments and Securities Purchased under Resale Agreements |
|---|---|---|
| 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 and Credit Card Loans | Sovereign Risk Loans | Residential Mortgages, Other Personal Loans, Loans to Businesses and Governments and Securities Purchased under Resale Agreements |
|---|---|---|
| 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.<br><br>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.<br><br>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.<br><br>A general provision is established for prudential management reasons in respect of loans for which individual specific provisions cannot yet be determined.<br><br>The general provision established against groups of loans is reduced by provisions against specific loans as soon as sufficient information becomes available to determine the required provision. |
| | Loans are written off after all reasonable restructuring/collection activities have taken place and the possibility of further recovery is considered to be remote. | |

### 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 amortization. Amortization is 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. Adjustments to market value and gains and losses on sale are recorded in interest, dividend and fee income from securities.

#### 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.

#### Interest Rate and Foreign Currency Risk Management
Certain on- and off-balance sheet financial instruments are used by the Bank to manage interest rate or foreign currency exposure. Financial instruments which are designated and effective for such purposes are accounted for in the same manner as the on- or off-balance sheet instruments to which they relate.

#### 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 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 which are used to manage interest rate and foreign currency exposures. Swaps, forwards and options are accounted for on the accrual basis. Realized gains and losses from the settlement of futures and interest rate forwards, and the early termination of all types of contracts, are deferred and amortized over the remaining 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.

#### 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.

#### 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.

#### Canadian Accounting Standards Recently Issued
For future years, the Bank will be required to adopt the following accounting standards for Canadian reporting purposes:
- Canadian Institute of Chartered Accountants handbook section number 3025, "Impaired Loans", must be adopted in fiscal 1996. This new section sets standards for the identification of impaired loans, the related measurement of the carrying value of such loans based primarily on the present value of cash flows, the establishment of the general provision, and the disclosure of related amounts. The Bank's existing practices for non-performing loans comply with the new standards.
- Canadian Institute of Chartered Accountants handbook section number 3860, "Presentation and Disclosure of Financial Instruments", must be adopted in or before the fiscal year commencing November 1, 1996 (fiscal 1997). This new section sets standards for the presentation and disclosure of on- and off-balance sheet financial instruments. The potential impact of the new standards on total assets reported in future years cannot be determined. Had the standard been applied as at October 31, 1995 reported assets would have increased by $6,954.

#### Comparative Figures
Comparative figures are reclassified to conform with the current year's presentation.

## Note 2. Securities

| | Term to maturity | | | | | | | | | | 1995 | | 1994 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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: | | | | | | | | | | | | | |
| Canadian federal, provincial and municipal governments | $ 6,561 | 6.93 | $1,576 | 6.68 | $ 240 | 7.01 | $ 412 | 7.70 | $ 6 | 8.17 | $ 8,795 | 6.92 | $ 6,706 |
| U.S. federal government | 1,306 | 5.92 | 1,427 | 6.25 | 43 | 6.42 | 142 | 6.43 | — | — | 2,918 | 6.11 | 3,269 |
| U.S. states, municipalities and agencies | 1,058 | 6.86 | 734 | 7.36 | 137 | 8.56 | 601 | 6.98 | 1,075 | 7.02 | 3,605 | 7.09 | 2,176 |
| Designated countries | — | — | — | — | 1 | 22.01 | 47 | 17.88 | 151 | 20.35 | 199 | 19.77 | 258 |
| Other governments | 1 | 1.38 | 4 | 1.80 | — | — | — | — | 688 | 9.03 | 693 | 8.98 | 699 |
| Mortgage-backed securities and collateralized mortgage obligations | — | — | 31 | 7.85 | — | — | — | — | 1,308 | 7.55 | 1,339 | 7.56 | 1,594 |
| Corporate debt | 320 | 6.58 | 120 | 7.69 | 156 | 7.71 | 78 | 8.04 | 398 | 6.60 | 1,072 | 6.98 | 358 |
| Corporate equity | 220 | 7.17 | 113 | 7.10 | 181 | 6.65 | 120 | 6.78 | 226 | 11.23 | 860 | 8.06 | 673 |
| Total investment securities | 9,466 | 6.78 | 4,005 | 6.70 | 758 | 7.33 | 1,400 | 7.54 | 3,852 | 8.29 | 19,481 | 7.13 | 15,733 |
| **Trading Securities** | | | | | | | | | | | | | |
| Issued or guaranteed by: | | | | | | | | | | | | | |
| Canadian federal, provincial and municipal governments | 4,820 | | 1,377 | | 988 | | 1,237 | | 1,263 | | 9,685 | | 7,686 |
| U.S. federal government | 255 | | 53 | | 136 | | 92 | | 90 | | 626 | | 957 |
| U.S. states, municipalities and agencies | 554 | | 339 | | 215 | | 63 | | 238 | | 1,409 | | 149 |
| All other | 372 | | 36 | | 41 | | 468 | | 613 | | 1,530 | | 1,689 |
| Total trading securities | 6,001 | | 1,805 | | 1,380 | | 1,860 | | 2,204 | | 13,250 | | 10,481 |
| **Loan Substitute Securities** | 5 | | — | | 283 | | — | | — | | 288 | | 321 |
| **Total Securities** | $15,472 | | $5,810 | | $2,421 | | $3,260 | | $6,056 | | $33,019 | | $26,535 |

*Yields are based upon book values, net of country risk provisions, and contractual interest or stated dividend rates adjusted for amortization of premiums and discounts. Yields on tax-exempt securities have not been computed on a taxable equivalent basis.*

*Loan substitute securities, including term preferred shares and small business bonds, are net of an allowance for credit losses, as at October 31, 1995 and 1994, totalling $ nil and $3, 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 4) allocated to these securities.*

*Term to maturity classifications are based upon the contractual maturity of the security. Securities with no maturity date are classified in the over 10 years category.*

*As at October 31, 1995 there were no securities of a single non-governmental issuer the fair value of which exceeded 10% of shareholders' equity.*

Income from securities is as follows:

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| Investment Securities | | | |
| Interest and dividend income | $1,376 | $ 842 | $ 860 |
| Net realized gains | 46 | 37 | 40 |
| Income from investment securities | 1,422 | 879 | 900 |
| Trading Securities | | | |
| Interest and dividend income | 387 | 295 | 275 |
| Net realized and unrealized gains | 81 | 86 | 25 |
| Income from trading securities | 468 | 381 | 300 |
| Total income from securities | $1,890 | $1,260 | $1,200 |

*The above amounts exclude the related interest expense.*

### Unrealized Gains and Losses

| | 1995 | | | | 1994 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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: | | | | | | | | |
| Canadian federal, provincial and municipal governments | $ 8,795 | $ 85 | $ 27 | $ 8,853 | $ 6,706 | $ 28 | $100 | $ 6,634 |
| U.S. federal government | 2,918 | 1 | 13 | 2,906 | 3,269 | 8 | 46 | 3,231 |
| U.S. states, municipalities and agencies | 3,605 | 176 | — | 3,781 | 2,176 | 34 | 27 | 2,183 |
| Designated countries | 199 | 200 | — | 399 | 258 | 247 | — | 505 |
| Other governments | 693 | — | 95 | 598 | 699 | 78 | — | 777 |
| Mortgage-backed securities and collateralized mortgage obligations | 1,339 | 19 | — | 1,358 | 1,594 | — | 54 | 1,540 |
| Corporate debt | 1,072 | 8 | 12 | 1,068 | 358 | 4 | 6 | 356 |
| Corporate equity | 860 | 18 | 4 | 874 | 673 | 18 | 11 | 680 |
| Total investment securities | $19,481 | $507 | $151 | $19,837 | $15,733 | $417 | $244 | $15,906 |

*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 3. 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 | |
|---|---|---|---|---|---|---|---|---|
| | **1995** | 1994 | **1995** | 1994 | **1995** | 1994 | **1995** | 1994 |
| Residential mortgages | **$ 88** | $ 52 | **$ –** | $ – | **$ –** | $ – | **$ 88** | $ 52 |
| Consumer instalment and other personal loans | **19** | 17 | **9** | 8 | **–** | – | **28** | 25 |
| Credit card loans | **4** | 11 | **–** | – | **–** | – | **4** | 11 |
| Loans to businesses and governments | **626** | 895 | **960** | 1,240 | **7** | 59 | **1,593** | 2,194 |
| Securities purchased under resale agreements | **–** | – | **–** | – | **–** | – | **–** | – |
| Securities of designated countries | **–** | – | **–** | – | **–** | – | **–** | – |
| Loan substitute securities | **–** | 68 | **–** | – | **–** | – | **–** | 68 |
| Acceptances | **17** | 97 | **–** | – | **–** | – | **17** | 97 |
| Total non-performing loans and acceptances | **754** | 1,140 | **969** | 1,248 | **7** | 59 | **1,730** | 2,447 |
| Allowance for credit losses | **(590)** | (653) | **(298)** | (359) | **(7)** | (59) | **(895)** | (1,071) |
| Total net non-performing loans and acceptances | **$164** | $ 487 | **$671** | $ 889 | **$ –** | $ – | **$ 835** | $1,376 |
| Average net non-performing loans and acceptances | **$242** | $ 741 | **$879** | $1,088 | **$ –** | $148 | **$1,121** | $1,977 |

| | Canada | | | U.S.A. | | | Other countries | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **1995** | 1994 | 1993 | **1995** | 1994 | 1993 | **1995** | 1994 | 1993 | **1995** | 1994 | 1993 |
| Gross interest income received on non-performing loans and acceptances during the year | **$32** | $35 | $43 | **$8** | $23 | $13 | **$35** | $123 | $134 | **$75** | $181 | $190 |
| Interest income received on non-performing loans and acceptances, net of interest reversals | **$20** | $22 | $30 | **$2** | $19 | $ 8 | **$35** | $123 | $134 | **$57** | $164 | $172 |

*As at October 31, 1995 and 1994 non-performing loans include $174 and $245, 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, 1995 and 1994, there were no net non-performing loans outstanding to designated countries. As at October 31, 1995 and 1994, approximately 1% and 7%, respectively, of gross exposure to designated countries was classified as non-performing.*

*The allowance for credit losses as at October 31, 1995 and 1994 is net of $360 and $425, 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, 1995 and 1994, amounted to $24 and $11, respectively.

During the years ended October 31, 1995 and 1994, loans in the amount of $51 and $641, respectively, were restructured and classified as performing. This related to restructurings of loans to Ecuador in 1995 and Argentina, Brazil and Poland in 1994.

There were no renegotiated reduced rate loans outstanding as at October 31, 1995 and 1994.

The following table sets out interest income which would have been recognized if interest had been accrued during the year on loans and acceptances classified as non-performing as at October 31:

| | **1995** | 1994 | 1993 |
|---|---|---|---|
| Interest income that would have been accrued at original contract rates | **$174** | $220 | $303 |
| Less: amount recognized as interest income | **(18)** | (8) | (118) |
| Total | **$156** | $212 | $185 |

## Note 4. 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 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1995 | 1994 | 1993 | 1995 | 1994 | 1993 | 1995 | 1994 | 1993 | 1995 | 1994 | 1993 |
| Securities of designated countries | $ — | $ — | $ — | $ — | $ — | $ — | $360 | $465 | $ 54 | $ 360 | $ 465 | $ 54 |
| Loans, loan substitutes and acceptances | 563 | 812 | 1,222 | 325 | 200 | 100 | 7 | 19 | 610 | 895 | 1,031 | 1,932 |
| | 563 | 812 | 1,222 | 325 | 200 | 100 | 367 | 484 | 664 | 1,255 | 1,496 | 1,986 |
| Off-balance sheet items | — | — | 13 | — | — | — | — | — | — | — | — | 13 |
| Total | $563 | $812 | $1,235 | $325 | $200 | $100 | $367 | $484 | $664 | $1,255 | $1,496 | $1,999 |

Changes in the allowance for credit losses are as follows:

| | Specific provisions | | | General provision | | | Country risk provision | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1995 | 1994 | 1993 | 1995 | 1994 | 1993 | 1995 | 1994 | 1993 | 1995 | 1994 | 1993 |
| Balance at beginning of year | $812 | $1,235 | $1,036 | $200 | $100 | $100 | $484 | $664 | $934 | $1,496 | $1,999 | $2,070 |
| Provision for credit losses | 150 | 461 | 676 | 125 | 50 | — | — | (1) | (1) | 275 | 510 | 675 |
| Transfer of allowance | — | (50) | — | — | 50 | — | — | — | — | — | — | — |
| Recoveries | 52 | 74 | 58 | — | — | — | — | 1 | 1 | 52 | 75 | 59 |
| Write-offs | (450) | (944) | (573) | — | — | — | (115) | (203) | (315) | (565) | (1,147) | (888) |
| Other, including foreign exchange rate changes | (1) | 36 | 38 | — | — | — | (2) | 23 | 45 | (3) | 59 | 83 |
| Balance at end of year | $563 | $ 812 | $1,235 | $325 | $200 | $100 | $367 | $484 | $664 | $1,255 | $1,496 | $1,999 |

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. All events and conditions considered to impact the required provision or write-off are included in their determination. 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 which is independent of the credit function. 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 determination of the estimated recovery amount of non-performing loans is based on either discounting of estimated cash flows, the fair value of the underlying security or observable market prices, as appropriate, in accordance with management's recovery plan. 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 general provision is established at a level which reflects management's estimate of the provision required in respect of loans for which individual specific provisions cannot yet be determined.

### 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 5. Premises and Equipment

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

| | 1995 | 1994 |
|---|---|---|
| Land | $ 251 | $ 248 |
| Buildings | 1,122 | 1,086 |
| Computer and other equipment | 1,104 | 1,005 |
| Leasehold improvements | 291 | 256 |
| | 2,768 | 2,595 |
| Accumulated amortization | (1,068) | (1,020) |
| Total | $1,700 | $1,575 |

For the years ended October 31, 1995, 1994 and 1993 amortization expense amounted to $215, $187 and $177, respectively. Land and buildings include amounts in respect of 552 bank owned branches, as well as other properties, located in Canada, the United States and other countries.

## Note 6. Other Assets

The components of other assets, including goodwill and other valuation intangibles, are as follows:

| | 1995 | 1994 |
|---|---|---|
| Accounts receivable, prepaid expenses and other items | $1,529 | $1,039 |
| Accrued interest receivable | 880 | 642 |
| Due from clients, dealers and other financial institutions | 682 | 739 |
| Deferred income taxes | 241 | 308 |
| Goodwill and other valuation intangibles | 555 | 614 |
| Total | $3,887 | $3,342 |
| The components of goodwill and other valuation intangibles for each major subsidiary are as follows: | | |
| Goodwill | | |
| The Nesbitt Burns Corporation Limited and subsidiaries | $ 304 | $ 334 |
| Harris Bankcorp, Inc. and subsidiaries | 24 | 27 |
| Harris Bankmont, Inc. and subsidiaries | 83 | 89 |
| | 411 | 450 |
| Other valuation intangibles | | |
| Harris Bankcorp, Inc. and subsidiaries | 62 | 76 |
| Harris Bankmont, Inc. and subsidiaries | 82 | 88 |
| | 144 | 164 |
| Total | $ 555 | $ 614 |

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

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| Non-interest expense | $49 | $31 | $30 |
| Interest expense | 12 | 6 | 8 |
| Total | $61 | $37 | $38 |

## Note 7. Geographic Segmentation

The following table sets out total assets and net income by geographic location:

| | Canada | | | U.S.A. | | | Other countries | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1995 | 1994 | 1993 | 1995 | 1994 | 1993 | 1995 | 1994 | 1993 | 1995 | 1994 | 1993 |
| **Total Assets** | $93,800 | $85,714 | $74,965 | $42,761 | $42,811 | $32,868 | $15,273 | $9,650 | $9,036 | $151,834 | $138,175 | $116,869 |
| **Net Income** | | | | | | | | | | | | |
| Net interest income | $2,458 | $2,332 | $2,173 | $ 982 | $ 821 | $ 771 | $167 | $227 | $268 | $3,607 | $3,380 | $3,212 |
| Provision for credit losses | 171 | 276 | 417 | 104 | 238 | 259 | — | (4) | (1) | 275 | 510 | 675 |
| Other income | 1,356 | 1,130 | 1,026 | 576 | 551 | 508 | 43 | 68 | 47 | 1,975 | 1,749 | 1,581 |
| Net interest and other income | 3,643 | 3,186 | 2,782 | 1,454 | 1,134 | 1,020 | 210 | 299 | 316 | 5,307 | 4,619 | 4,118 |
| Non-interest expense | 2,598 | 2,238 | 2,088 | 986 | 956 | 806 | 62 | 29 | 22 | 3,646 | 3,223 | 2,916 |
| Income before provision for income taxes | 1,045 | 948 | 694 | 468 | 178 | 214 | 148 | 270 | 294 | 1,661 | 1,396 | 1,202 |
| Provision for income taxes | 464 | 422 | 333 | 148 | 40 | 45 | 50 | 98 | 109 | 662 | 560 | 487 |
| Non-controlling interest in subsidiary | 13 | 11 | 6 | — | — | — | — | — | — | 13 | 11 | 6 |
| Net income | $ 568 | $ 515 | $ 355 | $ 320 | $ 138 | $ 169 | $ 98 | $172 | $185 | $ 986 | $ 825 | $ 709 |

*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 8. Deposits

| | Demand deposits: Interest bearing | | Demand deposits: Non-interest bearing | | Payable after notice | | Payable on a fixed date | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1995 | 1994 | 1995 | 1994 | 1995 | 1994 | 1995 | 1994 | 1995 | 1994 |
| Deposits by: | | | | | | | | | | |
| Banks | $ 346 | $ 204 | $ 535 | $ 778 | $ 384 | $ 215 | $22,744 | $21,104 | $ 24,009 | $22,301 |
| Businesses and governments | 2,898 | 2,780 | 7,126 | 6,108 | 5,810 | 5,723 | 18,992 | 14,130 | 34,826 | 28,741 |
| Individuals | 813 | 498 | 1,137 | 1,169 | 20,720 | 21,182 | 28,100 | 24,350 | 50,770 | 47,199 |
| Total | $4,057 | $3,482 | $8,798 | $8,055 | $26,914 | $27,120 | $69,836 | $59,584 | $109,605 | $98,241 |
| Booked in: | | | | | | | | | | |
| Canada | $2,620 | $1,965 | $5,221 | $4,233 | $22,570 | $23,079 | $38,557 | $34,120 | $ 68,968 | $63,397 |
| U.S.A. | 1,043 | 1,057 | 3,521 | 3,759 | 3,696 | 3,755 | 15,130 | 12,606 | 23,390 | 21,177 |
| Other countries | 394 | 460 | 56 | 63 | 648 | 286 | 16,149 | 12,858 | 17,247 | 13,667 |
| Total | $4,057 | $3,482 | $8,798 | $8,055 | $26,914 | $27,120 | $69,836 | $59,584 | $109,605 | $98,241 |

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, totalling $611 and $787 as at October 31, 1995 and 1994, respectively, are classified as deposits. Deposits include commercial paper issued totalling $1,655 and $480, respectively, as at October 31, 1995 and 1994.

## Note 9. Other Liabilities

| | 1995 | 1994 |
|---|---|---|
| Accounts payable, accrued expenses and other items | $2,937 | $2,126 |
| Liabilities of subsidiaries, other than deposits | 3,003 | 2,776 |
| Accrued interest payable | 1,293 | 899 |
| Deferred fees | 76 | 84 |
| Non-controlling interest in subsidiary | 164 | 160 |
| Cheques and other items in transit, net | — | 34 |
| Total | $7,473 | $6,079 |

As at October 31, 1995 the maturities for liabilities of subsidiaries, other than deposits are as follows: 1996 — $2,868; 1997 to 2000 — $ nil; 2001 and thereafter — $135.

## Note 10. Subordinated Debt

| | Interest rate % | Maturity date | Redeemable at the option of the Bank beginning | Denominated in U.S. $ | 1995 | 1994 |
|---|---|---|---|---|---|---|
| Series 10 Debentures | Variable | July, 1998 | July, 1991 | 250 | $ 335 | $ 338 |
| Series 11 Debentures | 10.60 | December, 1998 | — | — | 10 | 10 |
| Series 12 Debentures | 10.85 | December, 2008 | December, 1998 | — | 140 | 140 |
| Series 13 Debentures | Variable | 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 |
| Series 18 Debentures | 8.80 | September, 2010 | September, 2005 | — | 250 | — |
| Subordinated Notes | 10.00 | September, 1998 | — | 150 | 202 | 203 |
| Subordinated Notes | 9.80 | November, 2000 | October, 1995 | 200 | — | 271 |
| Subordinated Notes | 6.10 | September, 2005 | — | 300 | 404 | 406 |
| Subordinated Notes | 7.80 | April, 2007 | April, 2000 | 300 | 404 | — |
| Total | | | | | $2,595 | $2,218 |

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 Series 13 Debentures bear interest at a rate equal to the Canadian "90 day Bankers' Acceptance Rate" plus 0.40%, as defined. 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.

The Series 18 Debentures bear interest at a fixed rate of 8.80% until September 13, 2005. Thereafter, interest will be payable at a rate equal to the Canadian "90 day Bankers' Acceptance Rate" plus 1.00%, as defined.

In October, 1995 the Bank, at its option, redeemed the 9.80% Subordinated Notes at par.

The aggregate retirement provisions and maturities as at October 31, 1995 are as follows: 1996 and 1997 — $ nil; 1998 — $537; 1999 — $10; 2000 — $ nil; 2001 and thereafter — $2,048.

## Note 11. Share Capital

### Authorized

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

| | 1995 | | 1994 | | 1993 | |
|---|---|---|---|---|---|---|
| *(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 | 336 | 10,000,000 | 338 | 10,000,000 | 330 |
| | | 858 | | 860 | | 852 |
| Common Shares | 263,684,556 | 3,002 | 265,456,651 | 3,002 | 249,093,914 | 2,632 |
| **Total Outstanding Share Capital** | | $3,860 | | $3,862 | | $3,484 |

### Preferred Shares

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**, denominated in U.S. dollars, 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 or the U.S. dollar equivalent of 95% of the average trading price (as defined) of the Bank's common shares.

### Common Shares

During the year an amendment was made to the Shareholder Dividend Reinvestment and Share Purchase Plan. Effective with the dividend payment on May 30, 1995, shares provided to the participants under the Plan are purchased on a recognized stock exchange rather than issued directly by the Bank.

In July 1995 the Bank commenced a program to acquire for cancellation up to 3.5 million common shares. The share purchase program, which is conducted through recognized stock exchanges, has been established to minimize potential dilutive effects which may arise from the common shares issued or issuable in connection with the Bank's Stock Option Plan and acquisitions of The Nesbitt Thomson Corporation Limited and Burns Fry Limited. As at October 31, 1995, 3,500,000 shares had been purchased, at an average price of $29.32.

The Bank has established a Stock Option Plan for designated officers and employees. Options on 2,760,400 shares have been granted at a price of $25.50 per share which may be exercisable on a one-for-one basis commencing on November 1, 1999 based upon meeting certain performance criteria, expiring on January 17, 2005. Activity through the year was as follows:

| | 1995 |
|---|---|
| Options granted | 2,760,400 |
| Options cancelled | (19,800) |
| Total outstanding at end of year | 2,740,600 |

As at October 31, 1995, there were reserved for possible issuance 6,727,097 common shares in respect of the Shareholder Dividend Reinvestment and Share Purchase Plan, 9,742,570 common shares in respect of the exchange of Class B, C, E and F shares of Bank of Montreal Securities Canada Limited, 1,000,000 common shares in respect of the exchange of Class D shares of The Nesbitt Burns Corporation Limited and 20,000,000 common shares in respect of the Stock Option Plan.

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 | 1995 | 1994 | 1993 |
|---|---|---|---|
| Class A Preferred | | | |
| Series 4 | $ 2.25 | $ 2.25 | $ 2.25 |
| Series 5 | 19,062.50 | 19,062.50 | 19,062.50 |
| Class B Preferred | | | |
| Series 1 | 2.25 | 2.25 | 2.25 |
| Series 2 | U.S. 1.69 | U.S. 1.69 | U.S. 1.69 |
| Common | 1.32 | 1.20 | 1.12 |

*Dividends on the Bank's common shares reflect the effects of the two-for-one stock distribution in March, 1993.*

## Note 12. Income Taxes

The following tables set out components of income taxes:

| Provision for Income Taxes | 1995 | 1994 | 1993 |
|---|---|---|---|
| Provision for income taxes reported in the Consolidated Statement of Income | $662 | $560 | $487 |
| Income tax expense (benefit) related to foreign currency translation reported in shareholders' equity | 9 | (23) | (46) |
| **Total Income Taxes** | $671 | $537 | $441 |
| **Components of Total Income Taxes** | | | |
| Canada: | | | |
| Current — Federal | $364 | $388 | $260 |
| — Provincial | 122 | 124 | 90 |
| | 486 | 512 | 350 |
| Deferred — Federal | 54 | (11) | 25 |
| — Provincial | 18 | (4) | 9 |
| | 72 | (15) | 34 |
| Total Canadian | 558 | 497 | 384 |
| Foreign: | | | |
| Current | 118 | 55 | 73 |
| Deferred | (5) | (15) | (16) |
| **Total Income Taxes** | $671 | $537 | $441 |

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 Income Tax Balances | 1995 | 1994 |
|---|---|---|
| **Deferred Income Tax Assets** | | |
| Allowance for credit losses | $330 | $307 |
| Deferred items | 105 | 118 |
| Other | 45 | 56 |
| **Deferred Income Tax Assets before Valuation Allowance** | 480 | 481 |
| Valuation allowance | (9) | (12) |
| **Deferred Income Tax Assets Net of Valuation Allowance** | 471 | 469 |
| **Deferred Income Tax Liabilities** | | |
| Premises and equipment | (62) | (41) |
| Deferred pension | (138) | (86) |
| Purchase accounting adjustments | (22) | (23) |
| Other | (8) | (11) |
| **Deferred Income Tax Liabilities** | (230) | (161) |
| **Deferred Income Tax** | $241 | $308 |

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 effective income tax rates and the provision for income taxes as reported in the Consolidated Statement of Income:

| | | 1995 | | 1994 | | 1993 |
|---|---|---|---|---|---|---|
| Combined Canadian federal and provincial tax and statutory tax rate | $696 | 41.9% | $587 | 42.0% | $512 | 42.6% |
| Increase (decrease) resulting from: | | | | | | |
| Tax-exempt interest income | (51) | (3.0) | (40) | (2.9) | (40) | (3.4) |
| Foreign operations | (46) | (2.8) | (34) | (2.4) | (20) | (1.6) |
| Goodwill and other valuation intangibles | 26 | 1.5 | 16 | 1.1 | 16 | 1.3 |
| Financial institutions temporary surcharge | 6 | 0.3 | — | — | — | — |
| Other | 31 | 1.9 | 31 | 2.3 | 19 | 1.6 |
| **Provision for Income Taxes and Effective Tax Rate** | $662 | 39.8% | $560 | 40.1% | $487 | 40.5% |

## Note 13. Net Income Per Common Share

Basic net income per common share is based upon net income after deducting total preferred share dividends and upon the daily average equivalent of fully paid common shares outstanding. The average of common shares for 1995, 1994 and 1993 was 265,632,030 shares, 251,307,312 shares and 247,726,891 shares, respectively. Net income applicable to common shares for the years 1995, 1994 and 1993 amounted to $917, $756 and $641, respectively, reflecting the deduction of preferred share dividends from net income for the year.

The calculation of fully diluted net income per common share reflects the effects on earnings per share of all potentially dilutive securities. For 1995, 1994 and 1993, dilution may occur on conversion of securities issued by a subsidiary which are exchangeable for common shares of the Bank. The daily average number of common shares which would have been outstanding for the years 1995, 1994 and 1993 was 273,919,447 shares, 256,496,148 shares and 252,633,713 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 14. 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;
- Securities lending which represents the credit exposure where the Bank lends its own or its customers' securities to third parties;
- 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 risk management requirements through policies, procedures and training. This includes the use of standards, and a process of accreditation for all lending and credit officers with discretionary authority limits consistent with competencies and experience. Policies include defined authorities and accountability at every stage of the lending process;
- Disciplined decision-making consisting of a dual-track approach to risk assessment and rating classification whereby most 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;
- Prompt recognition of problem accounts and their transfer to a group of specialists skilled in managing such accounts;
- Management of the Bank's overall 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, incorporating the Bank's Risk Adjusted Return on Capital methodology.

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:

| | 1995 | | 1994 | |
|---|---|---|---|---|
| **Credit Instruments** | Contract amount | Risk-weighted equivalent | Contract amount | Risk-weighted equivalent |
| Guarantees and standby letters of credit | $ 5,817 | $ 4,875 | $ 5,613 | $ 4,738 |
| Securities lending | 16,228 | 1,330 | 9,404 | 239 |
| Documentary and commercial letters of credit | 1,099 | 194 | 1,484 | 269 |
| Commitments to extend credit: | | | | |
| Original maturity of one year and under | 31,413 | — | 31,429 | — |
| Original maturity of over one year | 24,703 | 11,885 | 19,730 | 9,396 |
| Note issuance and revolving underwriting facilities | 79 | 13 | 242 | 94 |
| Total | $79,339 | $18,297 | $67,902 | $14,736 |

*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 $952, are: $128 for 1996, $115 for 1997, $107 for 1998, $95 for 1999, $76 for 2000, and $431 for 2001 and thereafter. Included in the above are amounts for the Bank's 693 leased bank branch locations as at October 31, 1995.

**(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 pledge their assets as security for liabilities incurred. As at October 31, 1995, certain investment and trading account securities and other assets with a total carrying value of $23,810 were pledged in respect of secured call loans, securities sold but not yet purchased, securities sold under repurchase agreements and other secured liabilities. Additionally, assets in the amount of $407 were deposited for the purposes of participation in clearing and payment systems and as security for contract settlements with derivatives exchanges or other derivative counterparties.

**(e) Cash Restrictions**
Certain of the Bank's banking subsidiaries are required to maintain reserve or minimum balances with central banks in their respective country of operation. As at October 31, 1995 and 1994 such balances included in cash resources totalled $256 and $248, respectively.

## Note 15. 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 a series of cash flows. 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, principal 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 interest rate and foreign exchange contracts, including spot positions, which is recorded in other income in the Consolidated Statement of Income, is set out below:

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| **Revenue from Trading** | | | |
| Interest rate contracts | $ 50 | $ 52 | $ 29 |
| Foreign exchange contracts | $138 | $114 | $126 |

Losses incurred on defaults of counterparties charged to the allowance for credit losses in 1995 and 1994 were not material.

The effect of asset/liability management derivatives on net interest income and the amount of deferred gains/losses on such contracts was:

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| **Asset/Liability Management Derivatives** | | | |
| Increase (decrease) in net interest income | $ (29) | $ (46) | $ 19 |
| Deferred realized gains (losses) | $ (6) | $ 1 | $ (12) |

In entering into derivative contracts the Bank incurs credit and/or position risk. Credit risk is managed in the manner described in Note 14. Position risk, being the uncertainty as to the impact on future earnings arising from volatility in interest and foreign exchange rates, is managed as follows:

- Centralization of position risk activity within one area of the Bank, namely Treasury. Authorities and accountabilities for managing and monitoring this risk are defined within Treasury;
- Established position risk policies form the framework for managing the level of interest rate and foreign exchange risk within control limits;
- Both control limits and positions 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.

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.

| | 1995 | | | | | 1994 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | $ 80,963 | $1,082 | $ 319 | $ 1,401 | $ 390 | $ 67,707 | $ 824 | $ 404 | $ 1,228 | $ 282 |
| Cross-currency interest rate swaps | 7,642 | 267 | 345 | 612 | 108 | 7,446 | 266 | 338 | 604 | 146 |
| Forward rate agreements | 93,993 | 99 | 3 | 102 | 23 | 69,808 | 53 | 7 | 60 | 19 |
| Futures | 38,837 | — | — | — | — | 50,789 | 1 | — | 1 | — |
| Purchased options | 17,041 | 76 | 21 | 97 | 18 | 6,741 | 79 | 18 | 97 | 25 |
| Written options | 18,043 | — | — | — | — | 6,225 | 1 | — | 1 | — |
| | 256,519 | 1,524 | 688 | 2,212 | 539 | 208,716 | 1,224 | 767 | 1,991 | 472 |
| **Foreign Exchange Contracts** | | | | | | | | | | |
| Cross-currency swaps | 735 | 94 | 36 | 130 | 32 | 755 | 92 | 22 | 114 | 10 |
| Forward foreign exchange contracts | | | | | | | | | | |
| ≤ 14 days (spot and forward) | 37,332 | 91 | — | 91 | — | 67,993 | 245 | — | 245 | — |
| > 14 days | 356,107 | 5,839 | 3,820 | 9,659 | 2,297 | 259,110 | 5,200 | 2,865 | 8,065 | 1,903 |
| Futures | 1,551 | — | — | — | — | 162 | — | — | — | — |
| Purchased options | 7,051 | 76 | 73 | 149 | 41 | 4,038 | 53 | 61 | 114 | 39 |
| Written options | 7,434 | — | — | — | — | 3,652 | — | — | — | — |
| | 410,210 | 6,100 | 3,929 | 10,029 | 2,370 | 335,710 | 5,590 | 2,948 | 8,538 | 1,952 |
| Total | $666,729 | $7,624 | $4,617 | $12,241 | $2,909 | $544,426 | $6,814 | $3,715 | $10,529 | $2,424 |

As at October 31, 1995 and 1994, trading transactions accounted for 94% and 93%, respectively, and asset/liability management transactions accounted for 6% and 7%, respectively, of total notional amounts.

As at October 31, 1995, 30% of the notional amount of option contracts were transacted on regulated exchanges and were subject to daily cash margining.

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 is:

| | 1995 | | 1994 | |
|---|---|---|---|---|
| Canada | $248,038 | 37% | $223,242 | 41% |
| U.S.A. | 156,121 | 23 | 118,451 | 22 |
| Other countries | 262,570 | 40 | 202,733 | 37 |
| Total | $666,729 | 100% | $544,426 | 100% |

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

| | 1995 | | | | 1994 | | | |
|---|---|---|---|---|---|---|---|---|
| | Interest rate contracts | | Foreign exchange contracts | | Interest rate contracts | | Foreign exchange contracts | |
| Financial institutions | $225,737 | 88% | $393,802 | 96% | $182,300 | 87% | $325,198 | 97% |
| Other | 30,782 | 12 | 16,408 | 4 | 26,416 | 13 | 10,512 | 3 |
| Total | $256,519 | 100% | $410,210 | 100% | $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 | | | | | | | | | | 1995 | 1994 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Within 1 year | Rate % | 1 to 3 years | Rate % | 3 to 5 years | Rate % | 5 to 10 years | Rate % | Over 10 years | Rate % | Total notional amount | Total notional amount |
| **Interest Rate Contracts** | | | | | | | | | | | | |
| Fixed/Floating Swaps | | | | | | | | | | | | |
| Canadian $ pay fixed | $ 8,923 | 7.52 | $ 3,828 | 7.48 | $ 1,948 | 8.27 | $1,559 | 8.23 | $ — | — | $ 16,258 | $ 15,057 |
| Canadian $ receive fixed | 8,388 | 7.39 | 7,824 | 7.55 | 2,596 | 8.09 | 2,754 | 8.36 | — | — | 21,562 | 17,223 |
| U.S. $ pay fixed | 8,933 | 6.31 | 7,615 | 6.55 | 3,544 | 6.77 | 1,493 | 7.27 | 32 | 8.29 | 21,617 | 17,270 |
| U.S. $ receive fixed | 7,128 | 6.15 | 7,255 | 6.42 | 2,923 | 7.03 | 1,407 | 7.41 | 32 | 8.04 | 18,745 | 16,327 |
| Basis swaps | 1,112 | na | 22 | na | 25 | na | 260 | na | — | na | 1,419 | 1,399 |
| Other swaps | 416 | na | 605 | na | 336 | na | 5 | na | — | na | 1,362 | 431 |
| Interest rate swaps | 34,900 | na | 27,149 | na | 11,372 | na | 7,478 | na | 64 | na | 80,963 | 67,707 |
| Cross-currency interest rate swaps, forward rate agreements, futures and options | 156,420 | na | 13,561 | na | 3,952 | na | 1,623 | na | — | na | 175,556 | 141,009 |
| Total Interest Rate Contracts | 191,320 | na | 40,710 | na | 15,324 | na | 9,101 | na | 64 | na | 256,519 | 208,716 |
| **Foreign Exchange Contracts** | | | | | | | | | | | | |
| Cross-currency swaps | 165 | na | 108 | na | 372 | na | 90 | na | — | na | 735 | 755 |
| Forward foreign exchange contracts, futures and options | 403,271 | na | 5,470 | na | 716 | na | 18 | na | — | na | 409,475 | 334,955 |
| Total Foreign Exchange Contracts | 403,436 | na | 5,578 | na | 1,088 | na | 108 | na | — | na | 410,210 | 335,710 |
| **Total** | $594,756 | na | $46,288 | na | $16,412 | na | $9,209 | na | $64 | na | $666,729 | $544,426 |

*na = not applicable as weighted average rates are not meaningful.*

*U.S. $ amounts are presented in Canadian $ equivalents.*

*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 Canadian $ 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 Canadian $ or U.S. $.*

The following table provides the fair value of the Bank's derivative portfolio as at October 31, 1995 and 1994 as represented by the sum of net unrealized gains and losses, accrued interest receivable or payable, and premiums paid or received:

| | | | 1995 | | | 1994 | | |
|---|---|---|---|---|---|---|---|---|
| | | | Customer/ proprietary trading | Asset/ liability management | Total | Customer/ proprietary trading | Asset/ liability management | Total |
| | Gross assets | Gross liabilities | Net | Net | Net | Net | Net | Net |
| **Interest Rate Contracts** | | | | | | | | |
| Interest rate swaps | $ 961 | $ (877) | $ 84 | $ 6 | $ 90 | $ 62 | $ 4 | $ 66 |
| Cross-currency interest rate swaps | 254 | (154) | 100 | (125) | (25) | 156 | (102) | 54 |
| Forward rate agreements | 98 | (82) | 16 | 1 | 17 | (3) | 1 | (2) |
| Futures | — | — | — | — | — | — | — | — |
| Purchased options | 73 | — | 73 | 3 | 76 | 78 | — | 78 |
| Written options | — | (70) | (70) | — | (70) | (70) | — | (70) |
| **Foreign Exchange Contracts** | | | | | | | | |
| Cross-currency swaps | 13 | (60) | (47) | 87 | 40 | (26) | 77 | 51 |
| Forward foreign exchange contracts | 5,870 | (5,635) | 235 | (171) | 64 | 84 | (7) | 77 |
| Futures | — | — | — | — | — | — | — | — |
| Purchased options | 76 | — | 76 | — | 76 | 89 | — | 89 |
| Written options | — | (76) | (76) | — | (76) | (91) | — | (91) |
| **Total Fair Value** | $7,345 | $(6,954) | $391 | $(199) | $192 | $279 | $ (27) | $252 |
| **Total Book Value** | $7,345 | $(6,954) | $391 | $(210) | $181 | $279 | $ (70) | $209 |
| **Average Fair Value** *(for the year ending October 31)* | $6,896 | $(6,542) | $354 | | | | | |

*Fair values reported above are based on the following:*

- *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 16. 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 principal pension plan for most of the employees of Bankmont Financial Corp. 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 the plans' estimated financial positions:

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| Accumulated benefit obligation, including vested benefits of $1,274 in 1995, $1,141 in 1994 and $1,109 in 1993 | $1,303 | $1,169 | $1,134 |
| Projected benefit obligation for service rendered to date | $1,634 | $1,500 | $1,438 |
| Plan assets at fair value | 1,956 | 1,657 | 1,645 |
| Excess of plan assets over projected benefit obligation | 322 | 157 | 207 |
| Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in actuarial assumptions | (23) | 49 | (25) |
| Unrecognized prior service costs | 60 | 66 | 69 |
| Unrecognized transition amount | (20) | (30) | (40) |
| Prepaid pension cost | $ 339 | $ 242 | $ 211 |

As at October 31, 1995, the plan assets consisted of equities (51%), fixed income investments (44%) and real estate and other investments (5%).

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| **Annual Pension Costs** | | | |
| Net pension costs includes the following components: | | | |
| Service cost-benefits earned | $ 57 | $ 58 | $ 50 |
| Interest cost in projected benefit obligation | 127 | 119 | 111 |
| Actual return on plan assets | (250) | 21 | (254) |
| Net amortization and deferral | 103 | (151) | 133 |
| Annual pension cost | 37 | 47 | 40 |
| Canada and Quebec pension plan contribution | 21 | 17 | 17 |
| Total annual pension cost | $ 58 | $ 64 | $ 57 |
| **Actuarial Assumptions** | | | |
| Weighted average discount rate for projected benefit obligation | 8.2% | 8.3% | 8.0% |
| Weighted average rate of compensation increase | 5.4 | 5.5 | 5.7 |
| Weighted average expected long-term rate of return on plan assets | 8.4 | 8.4 | 8.1 |

## Note 17. 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 using the valuation methods and assumptions as referred to below. The 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 market rates and portfolio credit risk that have occurred since origination.

Interest rate sensitivity is the main cause of changes in the fair value of the Bank's financial instruments. The carrying value of most of the Bank's financial instruments is not adjusted to reflect increases or decreases in fair value due to interest rate changes, as it is the Bank's intention to realize their value over time by holding them to maturity. For those financial instruments held for trading purposes, the carrying value is continually adjusted to reflect the fair value.

The fair values as at October 31 are:

| | 1995 | | | 1994 | | |
|---|---|---|---|---|---|---|
| | 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 | $ 20,317 | $20,317 | $ — | $14,659 | $14,659 | $ — |
| Securities *(note 2)* | 33,019 | 33,375 | 356 | 26,535 | 26,708 | 173 |
| Loans | 88,442 | 88,492 | 50 | 88,634 | 88,110 | (524) |
| Customers' liability under acceptances | 4,469 | 4,469 | — | 3,430 | 3,430 | — |
| Other assets | 3,887 | 3,887 | — | 3,342 | 3,342 | — |
| **Liabilities** | | | | | | |
| Deposits | 109,605 | 109,936 | 331 | 98,241 | 98,232 | (9) |
| Acceptances | 4,469 | 4,469 | — | 3,430 | 3,430 | — |
| Securities sold but not yet purchased | 9,189 | 9,189 | — | 8,145 | 8,145 | — |
| Securities sold under repurchase agreements | 11,471 | 11,471 | — | 13,524 | 13,524 | — |
| Other liabilities | 7,473 | 7,493 | 20 | 6,079 | 6,088 | 9 |
| Subordinated debt | 2,595 | 2,722 | 127 | 2,218 | 2,180 | (38) |
| **Off-Balance Sheet** | | | | | | |
| Derivative financial instruments *(note 15)* | 181 | 192 | 11 | 209 | 252 | 43 |

*Fair values are based on a range of valuation methods and assumptions which are as follows:*

*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.*

*The estimated fair value of loans reflects changes in credit risk and general interest rates which have occurred since the loans were originated. The particular valuation methods used are as follows:*

- *For loans to and past due interest bonds of designated countries, fair value is based on quoted market rates.*
- *For performing floating rate loans, fair value is equal to book value as the loans' interest rates automatically reprice to market.*
- *For all other loans, fair value is determined by discounting the loans' expected future cash flows at market rates for loans with similar credit risks.*

*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, 1995 and 1994 of $1,700 and $1,575, respectively, have not been estimated as these assets are not financial instruments.

## Note 18. 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:

| | 1995 | 1994 |
|---|---|---|
| Mortgage loans | $ 944 | $ 927 |
| Personal loans | 337 | 309 |
| Total | $1,281 | $1,236 |

## Note 19. 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

The only material difference between total assets as reported under Canadian generally accepted accounting principles and total assets which would be reported under United States generally accepted accounting principles, as at October 31, 1995 and 1994 relates to the reporting of unrealized gains and losses on interest rate and foreign exchange contracts. Financial Accounting Standards Board Interpretation No. 39 requires that unrealized gains and losses be reported on a gross basis. The practice in Canada is to report such gains and losses on a net basis. The application of the United States requirement would increase total assets as at October 31, 1995 by $6,954 to $158,788.

### 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, 1995, 1994 and 1993 and consolidated net income which would be reported by applying United States generally accepted accounting principles.

### Consolidated Statement of Changes in Shareholders' Equity

There is no material difference between the consolidated shareholders' equity as reported under Canadian generally accepted accounting principles for the years ended October 31, 1995 and 1994 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, 1995, 1994 and 1993 and a consolidated statement of changes in financial position which would be prepared under United States generally accepted accounting principles.

### 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 postretirement benefits during the periods in which employees render service. In accordance with Canadian business practice the Bank currently recognizes these costs when paid. 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 Nos. 114 and 118, "Accounting by Creditors for Impairment of a Loan", and "Accounting by Creditors for Impairment of a Loan — Income Recognition and Disclosures", respectively, which must be adopted for United States reporting purposes in fiscal 1996. A similar standard must be adopted for Canadian reporting purposes in fiscal 1996 as described in note 1. The Bank's existing practices for non-performing loans comply with the new standards.
- Financial Accounting Standards Board Interpretation No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements", a modification of Financial Accounting Standards Board Interpretation No. 39, which must be adopted for United States reporting purposes in fiscal 1996. This standard permits the offsetting of repurchase agreements and reverse repurchase agreements when specific conditions are met. The adoption of this standard for United States reporting purposes is not expected to have a material effect on the Bank's total assets or net income.
- Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", which must be adopted in fiscal 1997 for United States reporting purposes. This new standard sets out the criteria to be used to identify, measure and record an impairment loss for depreciable assets, other identifiable intangibles and goodwill. The adoption of this standard for United States reporting purposes is not expected to have a material effect on the Bank's total assets or net income.

## 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 effects 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. 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 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.

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, C.A.
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, 1995 and 1994 and the related consolidated statements of income, changes in shareholders' equity and changes in financial position for each of the years in the three-year period ended October 31, 1995. 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, 1995 and 1994 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended October 31, 1995 in accordance with generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

Coopers & Lybrand

KPMG Peat Marwick Thorne

Coopers & Lybrand
Chartered Accountants

KPMG Peat Marwick Thorne
Chartered Accountants

Canada
November 28, 1995

| 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 | 3 |
| Bank of Montreal Investment Management Limited | Toronto | 100 | 11 |
| Bank of Montreal Investor Services Limited | Toronto | 100 | 5 |
| Bank of Montreal Mortgage Corporation | Calgary | 100 | 828 |
| BMRI Realty Investments | Toronto | 100 | |
| Bank of Montreal Securities Canada Limited | Toronto | 100 | 459 |
| The Nesbitt Burns Corporation Limited and subsidiaries | Montreal | 100 | |
| The Trust Company of Bank of Montreal | Toronto | 100 | 13 |
| **United States** | | | |
| Bankmont Financial Corp. | Wilmington, U.S.A. | 100 | 2,550 |
| BMO Financial, Inc. | Wilmington, U.S.A. | 100 | |
| Harris Bankcorp, Inc. and subsidiaries | Chicago, U.S.A. | 100 | |
| Harris Bankmont, Inc. and subsidiaries | Dover, U.S.A. | 100 | |
| Harris Futures Corporation | Wilmington, U.S.A. | 100 | |
| Nesbitt Burns Securities Inc. | Chicago, U.S.A. | 100 | |
| HGC Bank | Chicago, U.S.A. | 100 | |
| **Other Countries** | | | |
| Bank of Montreal Asia Limited | Singapore, Republic of Singapore | 100 | 30 |
| Bank of Montreal (Barbados) Limited | Bridgetown, Barbados | 100 | 315 |
| Bank of Montreal Capital Markets (Holdings) Limited | London, England | 100 | 15 |
| Bank of Montreal Europe Limited | London, England | 100 | 34 |
| Concordia Insurance Corporation | Bridgetown, Barbados | 100 | 26 |
| Concordia Life Assurance Corporation | Bridgetown, Barbados | 100 | 64 |
| First Canadian Assessoria e Serviços Ltda. | Rio de Janeiro, Brazil | 100 | – |

The above is a list of 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, 1995 the Bank owned 34.29% of BMSCL's outstanding non-voting shares.

Bank of Montreal continues to be a pacesetter in establishing high standards of effective corporate governance. In the 1991 study, Shaping the Board of Directors for the Future, the Bank set out a comprehensive blueprint for corporate governance upon which its current system of governance has been structured. Given the dynamic nature of the environment in which the Bank operates, both directors and management recognize the need to constantly review, evaluate, and, as necessary, modify the governance program to ensure continuing effectiveness. The Bank believes its approach to corporate governance is substantially consistent with objectives reflected in the guidelines recently adopted by both the Toronto and Montreal stock exchanges.

# Corporate Governance

*A Report from the Board of Directors*

These guidelines deal with the composition, mandate and objectives of boards of directors and their committees; the desirability of having a majority of individuals who qualify as "unrelated" directors; the board's decision making process; the recruitment of new directors, their orientation and education; the independence of directors; performance assessments of the board, its directors, and the chief executive officer; the board's expectations of management; and shareholder feedback.

## Board/Committee Structure and Composition

Like many other banks in Canada, in the early eighties, Bank of Montreal had more than fifty directors on its board. As of January 1996, the board will be reduced in size to twenty directors of which only two will be management or inside directors. As at October 31, 1995 the Bank had twenty-seven directors, twenty of whom qualified as "unrelated" directors pursuant to the relationship rules set forth in the Bank Act. These rules are more restrictive than the criteria contained in the guidelines adopted by the Toronto and Montreal stock exchanges.

With the continued movement toward a smaller, more workable number of directors, the Bank has been able to restructure its committees and thereby enhance the involvement of individual directors, the quality of discussion at board meetings, and effective decision making. New directors are introduced to the business of banking through a comprehensive orientation and education program, and a carefully designed rotation and committee assignment system ensures that every director has meaningful opportunities to contribute to board and committee deliberations. The mandates and composition of the board's major committees are set out on page 95. These committees are encouraged to engage independent consultants in appropriate circumstances, at the expense of the Bank, to assist them in discharging their responsibilities.

## Board Role

The board's role, as prescribed in the Bank Act, is to manage or supervise the management of the business and affairs of the Bank. (Its mandate is described on page 95.) The active role the board plays in monitoring and evaluating the Bank's strategic direction and priorities is of special importance. All-day strategy sessions scheduled annually afford directors the opportunity to gain a full appreciation of the Bank's planning priorities and to provide constructive feedback. In addition, systematic updates of strategies for the Bank's various lines of business are presented as agenda items at regular board meetings.

As described in the committee mandates, the Risk Review Committee regularly reviews the major areas of risk integral to the Bank's operations with appropriate Bank officers and reports back on its findings to the full board. The responsibility for ensuring the integrity of the Bank's overall compliance function is vested principally in the board's Audit Committee, although the Conduct Review and Risk Review Committees also have specific compliance responsibilities.

In the area of communication, the Bank has sought to create an environment that confers equal and fair treatment of shareholders, irrespective of the size of their holdings. A commitment to the non-selective and timely dissemination of material information to all investors is the cornerstone of its information disclosure policy. In addition, a dedicated Bank shareholder services group responds to individual shareholder enquiries.

## Performance Monitoring

A corporate governance survey, designed to provide a comprehensive assessment of the operation of the Bank's overall governance program, is conducted annually. The survey, which is administered by outside consultants, solicits frank and critical views from directors on such subjects as board and committee administration and performance, the quality of the Bank's strategy, and the performance of management, as well as self-assessment by the directors themselves. Results of the survey are reviewed with the board and the findings are integral to planning agendas for the board and its committees in the following year.

The annual performance evaluation of the Chief Executive Officer is undertaken by the Human Resources and Management Compensation Committee. A written assessment of the Chief Executive Officer is prepared covering the Bank's financial performance and condition, marketing and customer satisfaction, human resources management, technology and infrastructure management, community service and Bank reputation, strategic positioning, and corporate governance.

## Decision Making Process and Board Independence

Given the broader responsibilities and increased accountability of directors, the Bank, as part of its 1991 study, underwent an exhaustive analysis of its lines of business and corresponding decision making practices. Based on this study, guidelines were developed for distinguishing those decisions requiring board approval versus those within management's discretion and of which the board need be advised only after the fact. Also included in the guidelines was the provision dealing with the nature and timing of disclosure to the board of additional information which should be made available to the directors to enable them to exercise informed and proper diligence and to discharge their supervisory responsibilities promptly and effectively.

At both the board and committee levels, directors meet from time to time without management present to discuss sensitive and critical issues such as the Chief Executive Officer's performance, senior executive compensation, the financial condition and performance of the Bank, and the board's relationship with management.

Given the climate of critical review and independent judgment that the Bank has sought to create within its board, the board believes that it does function independently of management.

## Conclusion

It is the board's view that the Bank's approach to corporate governance is comprehensive, progressive and consistent with the high standards subscribed to by the Toronto and Montreal stock exchanges. As it goes forward, the Bank will continue to critically assess its governance systems as part of its commitment to ensuring effective corporate governance at Bank of Montreal.

**The Board of Directors** has as its role the management or supervision of the management of the business and affairs of the Bank. Among its many specific duties, the board selects, evaluates, sets the compensation for and, if necessary, replaces the Chief Executive Officer; approves strategic plans and objectives; approves major decisions and corporate plans; provides advice and counsel to the Chief Executive Officer; nominates directors and evaluates board performance; oversees the ethical, legal and social conduct of the organization; and reviews the financial performance and condition of the Bank. These functions are discharged either directly or through board committees.

Generally the board committees are composed of outside directors, except in the case of the Executive Committee where the Chairman & Chief Executive Officer and the President & Chief Operating Officer both are members. The President & Chief Operating Officer also serves on the Risk Review Committee. The majority of directors serving on each of the committees are "unrelated" with the exception of the Risk Review Committee where there is a 50/50 "related"/"unrelated" split.

**The Audit Committee** reviews Bank financial statements before they are approved by the board. It monitors internal control procedures and the Bank's regulatory compliance program, and reviews any investments or transactions which could adversely affect the Bank. In the discharge of its duties, the committee meets regularly with the shareholders' auditors, representatives of the Office of the Superintendent of Financial Institutions, the Bank's Chief Financial Officer, Chief Internal Auditor and Vice-President, Corporate Compliance. The Bank is required by the Bank Act to have an Audit Committee consisting entirely of outside directors.
*Members: J.H. Reitman (Chair), P.J.G. Bentley, P. Côté, S. Kwok, R.H. McKercher, G. Saucier*

**The Board Governance and Administration Committee** is responsible for the development and maintenance of the Bank's corporate governance practices. Among other things, its duties include identifying and recommending to the board suitable director candidates, and establishing appropriate board committee structure, composition, mandate and membership. The committee also conducts the annual assessment of the performance of the board through the use of an outside consultant. The Chief Executive Officer, as a non-voting member of the committee, provides management information and insight to committee deliberations.
*Members: P. Côté (Chair), R.M. Barford, P.J.G. Bentley, J.F. Fraser, J.B. MacAulay, M.W. Barrett (non-voting)*

**The Conduct Review Committee** establishes procedures for the review of transactions with related parties of the Bank and on an ongoing basis reviews related party transactions in accordance with Bank Related Party Transactions Regulations under the Bank Act. It also monitors procedures to deal with conflicts of interest, disclosure of information to customers, and resolution of customer complaints. The Bank is required by the Bank Act to have a Conduct Review Committee consisting entirely of outside directors.
*Members: P.J.G. Bentley (Chair), P. Côté, S. Kwok, R.H. McKercher, J.H. Reitman, G. Saucier*

**The Executive Committee** acts for the board in managing, or supervising the management of, the Bank's business when the full board is not in session, subject to certain statutory limits on the capacity of the directors to delegate authority. In January 1996, the Executive Committee will become an ad hoc committee, meeting in future only on an as required basis. The efficiencies attained with the smaller sized board make it possible to dispense with regular Executive Committee meetings, thus facilitating more effective utilization of directors' time.
*Members: M.W. Barrett (Chair), F.A. Comper (Vice-Chair), R.M. Barford, D.R. Beatty, P. Côté, C.W. Daniel, L.A. Desrochers, J.F. Fraser, B. Kennedy, J.B. MacAulay, J.C. Monty, J.H. Reitman, L.C. Webster*

**The Human Resources and Management Compensation Committee** deals with issues related to the Bank's human resources, including the annual review of the Bank's human resources inventory, and review of compensation and benefits policy changes. The committee, in addition, reviews and approves executive compensation, benefits and bonuses; monitors management succession planning; assesses the performance of the Chief Executive Officer; and reviews the assessments of the President and Vice-Chairmen. It also reviews executive appointments and reassignments. The Chief Executive Officer serves as a non-voting member, but does not participate in discussions related to his own compensation or tenure. His presence ensures the committee is provided with appropriate information on the performance and progress of senior personnel.
*Members: R.M. Barford (Chair), P. Côté, C.W. Daniel, L.A. Desrochers, J.F. Fraser, B. Kennedy, L.C. Webster, M.W. Barrett (non-voting)*

**The Risk Review Committee** meets regularly with the appropriate Bank officers to review the major risk areas integral to the Bank's operations and the degree of risk normally assumed by the Bank. It also assesses the procedures developed to manage and control those risks in compliance with regulatory requirements.
*Members: C.W. Daniel (Chair), R.M. Barford, F.A. Comper, R.E. Kadlec, G.A. Kenney-Wallace, R. Mannix, E.H. Molson, J.C. Monty*

**The Regional Committees**, Eastern, Central and Western, each meet twice a year to review general operations, major plans and new Bank initiatives within the respective regions. Each outside director resident in Canada serves as a member of the Regional Committee in the geographic area of the director's principal residence. These meetings also provide an opportunity for directors to meet and hear from local management and Bank clients in different communities across Canada.

# Directors of Bank of Montreal

*as at October 31, 1995*

## Directors

**Matthew W. Barrett, O.C.**
Chairman of
the Board and
Chief Executive Officer

**F. Anthony Comper**
President and
Chief Operating Officer

**Ralph M. Barford**
Toronto
President
Valleydene Corporation
Limited

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

**Peter J.G. Bentley,**
**O.C., LL.D.**
Vancouver
Chairman of the Board
Canfor Corporation

**Pierre Côté, C.M.**
Quebec City
Chairman of the Board
Celanese Canada Inc.

**C. William Daniel,**
**O.C., LL.D.**
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.**
Edmonton
Senior Partner
McCuaig Desrochers

**John F. Fraser, O.C., LL.D.**
Winnipeg
Vice-Chairman
Russel Metals Inc.

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

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

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

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

**Geraldine A. Kenney-Wallace,**
**PH.D., D.SC., LL.D.**
Toronto
Past President and Vice Chancellor
McMaster University
and Senior Fellow
Rotman Centre for Management
University of Toronto

**Stanley Kwok**
Vancouver
Chairman
Amara International
Investment Corp.

**J. Blair MacAulay**
Oakville
Partner
Fraser & Beatty, Toronto

**Ronald Mannix**
Calgary
Chairman and
Chief Executive Officer
Loram Corporation

**Robert H. McKercher, Q.C.**
Saskatoon
Senior Partner
McKercher McKercher
& Whitmore

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

**Jean C. Monty, C.M.**
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**
Montreal
President
Reitmans (Canada) Limited

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

**Mary Alice Stuart,**
**C.M., O.ONT., LL.D.**
Toronto
Chairman Emeritus
CJRT-FM INC.

**Lorne C. Webster**
Montreal
Chairman and
Chief Executive Officer
Prenor Group Ltd.

## Honorary Directors

**Charles F. Baird**
Bethesda, Maryland,
United States of America

**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 of America

**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

**John H. Hale**
London, England

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

**Donald S. Harvie, O.C.**
Calgary, Alberta

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

**David Kinnear**
Toronto, Ontario

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

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

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

## 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.

**Sylvia Ostry, C.C., F.R.S.C.**
(Council Chairman) Canada
Chairman, Centre for International Studies, University of Toronto; and Chancellor, University of Waterloo

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

**Ambassador Richard R. Burt**
United States of America
Chairman, International Equity Partners; and Senior Advisor to the Center for Strategic and International Studies

**Sir Michael Butler**
United Kingdom
Director, Hambros Bank Limited

**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

**Juan Gallardo**
Mexico
Chairman, Grupo GEUSA; Chairman of COECE (Coordinadora de Organizaciones Empresariales de Comercio Exterior); and Co-Chairman of CEMAI (Consejo Empresarial Mexicano para Asuntos Internacionales)

**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 of the Canada Council; and Co-publisher of Saturday Night Magazine

**Dr. Kihwan Kim**
Republic of Korea
Senior Advisor, Kim & Chang; Chairman of the Korean Trade Promotion Corporation (KOTRA); and Chairman of the Korean National Committee for the Pacific Economic Cooperation Council (PECC)

**Makoto Kuroda**
Japan
Corporate Advisor to Mitsubishi Corporation

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

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

**Dr. h.c. Horst Teltschik**
Federal Republic of Germany
Member of the Management Board of BMW AG Munich

**The Honorable James R. Thompson**
United States of America
Partner, Chairman and Chairman of the Executive Committee, Winston & Strawn

## Officers of Bank of Montreal

**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**
Chairman and Chief Executive Officer
Harris Bankcorp, Inc.

**Ronald G. Rogers**
Vice-Chairman
Personal and Commercial Financial Services

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

**Lloyd F. Darlington**
Executive Vice-President
Operations

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

**Dereck M. Jones**
Senior Vice-President
Secretary and General Counsel

**Marnie J. Kinsley**
Senior Vice-President and Chief Auditor

**Vinay K. Sarin**
Senior Vice-President and Corporate Controller

## 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)* | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|---|---|---|---|---|
| Common *(a)* | $1.32 | $1.20 | $1.12 | $1.06 | $1.06 |
| Class A Preferred | | | | | |
| Series 3 *(b)* | – | – | – | 0.53 | 2.20 |
| Series 4 | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 |
| Series 5 *(c)* | 19,062.50 | 19,062.50 | 19,062.50 | 18,213.83 | – |
| Class B Preferred | | | | | |
| Series 1 *(d)* | 2.25 | 2.25 | 2.25 | 2.25 | 0.93 |
| Series 2 *(e) ($U.S.)* | 1.69 | 1.69 | 1.69 | 1.12 | – |

*(a) Common dividends have been restated to reflect the effects of the two-for-one stock distribution in March 1993.*

*(b) 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.*

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

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

*(e) 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* | 1995 | 1994 |
|---|---|---|
| High | $31.000 | $30.750 |
| Low | $24.125 | $22.000 |
| Close | $29.750 | $25.125 |
| Volume (TSE) | 169,635,349 | 174,008,917 |

## 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 Shares

| *At October 31, 1995* | |
|---|---|
| Canada | 89.2% |
| United States | 10.5 |
| Other countries | 0.3 |
| | 100.0% |

*Registered shareholdings by geographic region based upon the residency of registered shareholders and declarations of beneficial ownership by depository participants.*

## 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 to reinvest cash dividends in 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, Bank of Montreal Tower, 55 Bloor Street West, 4th Floor, Toronto, Ontario M4W 3N5.

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.

# Our Family *of* Companies

Since opening its doors in 1817, **Bank of Montreal**, Canada's first bank, has always played a pioneering role. Today, it is a highly diversified financial services institution, among the largest in North America. We are the only bank to offer a complete range of personal and commercial services in chosen markets on both sides of the Canada-United States border. In addition, the Bank's network extends worldwide, with more than 1,200 branches in Canada and the United States, and offices in Central and South America, Europe and East Asia. As world economies increasingly integrate, we offer a unique competitive edge — thanks to the extensive and complementary strengths of the Bank of Montreal family of companies.

**Nesbitt Burns**, Canada's largest full-service investment firm, was created through the 1994 merger of two of Canada's leading investment firms with long and distinguished histories. Nesbitt Thomson traced its origins to 1912, Burns Fry through two predecessor companies to 1925. Nesbitt Burns is recognized for its top-ranked research department as well as having the largest distribution network across Canada. With the power of knowledge, teamwork and innovation, Nesbitt Burns is dedicated to serving the investment needs of individuals, corporations, governments and institutions from an extensive network of Canadian and international offices.

Founded in 1882, **Harris Bank** has been a vital force in the economic growth of the U.S. Midwest. After a century of expansion, Harris has an aggressive strategy to triple its size over the next decade. With its full range of financial services capabilities, Harris is a leading edge provider of corporate banking services, primarily in the Midwest, as well as cash management, trust, private banking and credit card services nationwide. The Bank is currently the third largest community bank network in Greater Chicago.

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Bank of Montreal