Bank of Montreal

179TH ANNUAL REPORT 1996

mbanx

banking
without
boundaries

Bank of Montreal

Our world at a glance

We are a highly diversified North American financial services institution. Ranking as one of the ten largest banks in North America, the Bank of Montreal Group of Companies includes Bank of Montreal, Canada's first bank; Nesbitt Burns, Canada's premier full-service investment firm; and Chicago-based Harris Bank, a major Midwestern U.S. financial institution.

Our equity position in Grupo Financiero Bancomer, the leading Mexican retail financial institution, makes Bank of Montreal the first bank to provide customers with a full range of financial services in all three NAFTA countries.

Through our offices in key financial centres around the world, we serve North American customers doing business internationally as well as international customers trading and investing in North America.

And now, mbanx™, the new virtual banking enterprise created by the Bank of Montreal Group of Companies, will offer immediate, personal access to financial services for our customers across Canada and the United States.

"International borders are becoming much more permeable to the free movement of goods, services, capital and ideas. ▪ Falling real costs for transport and communications are dismantling the barriers imposed by distance, while electronic digital technology increasingly means that for many purposes, distance simply does not exist. ▪ The once-sharp division of the day into home and workplace, career and leisure is giving way to more complex patterns. ▪ And as vastly more information becomes more readily available to more people, the unknown no longer sets bounds to the possibilities opening before individuals and corporations alike."

banking without boundaries

For the Bank of Montreal Group of Companies, 1996 has been a year of much solid achievement and many creative new departures, but in our long history it will be remembered for one initiative above all others. 1996 is the year we launched mbanx™, an entirely new virtual banking enterprise designed to meet the needs of financially active consumers across North America at the highest standards of speed, convenience and service quality. Its concept is unique and its potential unlimited. With the founding of mbanx on October 16, we have planted an acorn from which a truly mighty oak will grow.

mbanx is the central thrust of our response to the steady growth of a world without boundaries. International borders are becoming much more permeable to the free movement of goods, services, capital and ideas. Falling real costs for transport and communications are dismantling the barriers imposed by distance, while electronic digital technology increasingly means that for many purposes, distance simply does not exist. The once-sharp division of the day into home and workplace, career and leisure is giving way to more complex patterns. And as vastly more information becomes more readily available to more people, the unknown no longer sets bounds to the possibilities opening before individuals and corporations alike.

It is the Bank of Montreal Group of Companies' decisive response to those possibilities that makes our shares an investment to buy and to keep. Elsewhere in this Report, you can read about the seven consecutive years of record profits

which show how effectively our Bank has been managing the drivers of change in the 1990s. This message gives an account of how change is bringing higher expectations of our performance in every field, while the accompanying stories give examples of the groundbreaking initiatives that form our response. And as you read, I hope you will see how banking without boundaries means a brighter future for all our stakeholders — our customers, communities, employees, and especially our shareholders, who stand to benefit the most as we welcome the challenge of expanding horizons.

The evolving needs of our customers are the principal force for change in financial services today. In personal banking, demographic trends are bringing us mature customers who are experienced and knowledgeable, with wider perspectives and more complex needs. At the same time, electronic technology has given us the means to offer the standards of choice, convenience and service quality that have traditionally been the preserve of the privileged.

Our response is twofold. We are continuing to strive for the highest quality of transaction processing, delivered through the widest possible range of distribution channels. And we are committing more and more electronic and human resources to building relationships tailored to our individual customers — relationships whose core is first-class professional financial advice. mbanx, with its easy, low-cost access to all our electronic distribution channels and its individual portfolio managers for every client, embodies both these strategies.

To achieve these things we use proven, reliable, state-of-the-art and cost-effective technology. We understand that in the midst of a technological mbanx™

http://www.mbanx.com

the new frontier

Until recently, Anywhere, Anytime and Anyhow banking remained an elusive goal in the financial services industry. No more. This year, Bank of Montreal and Harris Bank created mbanx – the first North American virtual banking enterprise.

To provide our clients with quality service and unparalleled flexibility, mbanx is supported by our newly created Electronic Financial Services Group. By consolidating all our technology-intensive lines of business across each of our customer segments and markets, the EFS group allows us to deliver leading-edge electronic banking solutions to customers across North America.

Designed to meet our customers' individual needs – on their own terms and on their own turf – mbanx represents the true democratization of banking, making a complete range of banking products and services available to millions of customers by toll-free phone or fax or by personal computer through the Internet, as well as through automated banking machines (ABMs), by courier and by mail. mbanx clients also have access to individual portfolio managers 24 hours a day, seven days a week, and can receive cash rewards by consolidating their business with mbanx.

As information and capital flow around the globe at ever-increasing speeds, we recognize fully that our customers' expectations about service and access have been radically altered. That is why mbanx is a true breakthrough: it reinvents client relationships by offering unprecedented levels of access and service. Imagine banking from a phone booth in Rio in the late afternoon. Or on a red-eye flight to Europe or the Far East. Or on a personal computer anywhere in Canada, any time of the day or night. With mbanx, all these scenarios, and many more, are now possible.

Supported by extensive security systems, mbanx delivers fully integrated electronic banking products and services to our customers in Canada and the United States – with plans to do so for our customers in Mexico as well.

revolution it is critically important to choose the technology that best serves our customers' needs, as they define them. That is why we are working to understand our personal customers far better than ever before through the use of advanced research and segmentation techniques. It is also why we seek the creative blending of people and technology — of which mbanx is the prime example. Together, technological power and excellence in execution can give us banking free from the boundaries traditionally imposed by space and time.

A world with fewer boundaries also means that more and more of our clients expect us to serve them wherever they require financial services. This is especially true in North America, where Canada does almost 80% of its trade and where NAFTA is making political boundaries across markets less and less relevant. Our response has been decisive. In March 1996 we reallocated our exposure to Mexico without increasing it, exchanging our sovereign risk involvement for a 16% equity stake (20% voting interest) in Grupo Financiero Bancomer, Mexico's finest financial services organization.

Together with our capabilities in Canada and the United States, the strategic alliance with Bancomer makes us the first NAFTA bank. The Bank of Montreal Group of Companies is now uniquely positioned to take part in the rapid growth of trade and investment among all three NAFTA partners. For United States clients doing business in Mexico, or Mexican clients exploring new opportunities in Canada, we are increasingly the bank of choice. Integrating all the components of lines of business run most effectively on a North American scale will be a high priority for our new Electronic Financial Services Group. And as mbanx realizes its full potential in the United States and Mexico, continent-wide cross-border banking will be a reality readily available to all our customers.

Sensitivity to our customers' needs is paralleled by our response to the high and rising standards that communities are setting for corporations everywhere. We acknowledge and welcome the responsibilities that come with a franchise to do business. The first and most fundamental of them is simply to run a profitable enterprise. By providing high-quality, cost-efficient financial services for our clients we help them to prosper in their endeavours, while earning a steady, competitive return for our shareholders, creating a major market for our suppliers, and investing in the skills and experience of our employees. We also pay taxes and levies to all levels of government, which in 1996 once again exceeded the total earnings available to our shareholders. And by doing all these things we add significantly to the wealth, productive capacity and policy options of society as a whole.

We also fulfil our responsibilities by contributing time, money and ideas to the common cause. This is one of the oldest traditions of the Bank, but it has never been more relevant than today. Needs are growing steadily as governments strive to put their financial houses in order. While it is not realistic to expect that any one company — or even the whole corporate sector — can completely fill the gap, last year the Bank of Montreal Group of Companies gave nearly $17 million in donations and sponsorships, and the time and effort freely offered by our employees were at least equally significant. In the final analysis, we believe that corporate responsibility and corporate profitability are not alternatives, but interdependent and mutually reinforcing factors in business success. Each is ultimately made possible by the other.

Change is all-pervasive, but it is perhaps in the workplace that its effects are first brought home for most people. Rising customer expectations, together with sweeping technological, demographic and attitudinal changes, have made the ability to manage value-adding relationships the essential qualification for more and more employees.

The consequences for the traditional banking model of security and hierarchy are profound. Many employees in financial services are learning for the first time that their jobs will not always be there. The steady decline in full-time transaction-processing positions will continue, even as the demand for new

the first NAFTA bank

Globalization has become impossible to ignore. As countless businesses come to view North America as a single marketplace, a coherent cross-border strategy is increasingly essential for a financial services company.

This year, Bank of Montreal made an important advance in our North American strategy by entering into a partnership with Grupo Financiero Bancomer. Bancomer, Mexico's leading retail financial institution, has over 1,000 branches, 2,000 automatic banking machines, and more than 27,000 employees – all serving more than four million customers. Bancomer will provide the Bank of Montreal Group of Companies' customers with a full range of services, including commercial, corporate and private banking; brokerage, leasing and factoring services; and foreign exchange trading and warehousing.

Mexico

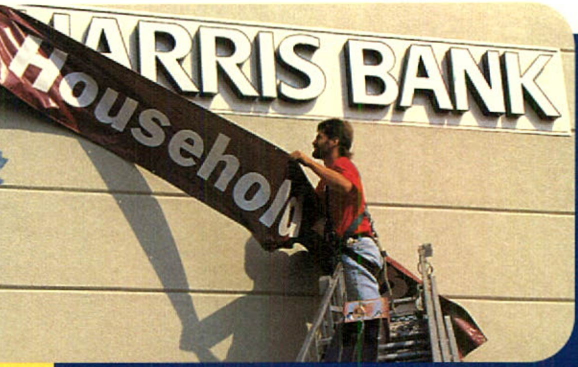
This strategic alliance puts Bank of Montreal in the unique position of being the only financial institution in North America with significant retail and commercial banking capabilities in all three NAFTA countries.

Our increased capabilities couldn't come at a better time. Since Mexico joined NAFTA in 1994, trilateral trade has risen more than 30% – and is expected to increase another 100% by the year 2000. As well, business executives in North America are decidedly bullish about the region's trade prospects.

In a survey commissioned by Bank of Montreal in February, the 250 senior executives polled said that NAFTA is contributing successfully to the expansion of markets, the elimination of trade barriers and the reduction of government intervention. In fact, 59% said NAFTA makes North American trade easier than before – and almost 93% believed the treaty benefits some or all industries. In this positive business environment, our alliance with Bancomer allows us to identify new, cutting-edge opportunities in a North American context.

skills increases in occupations, such as the portfolio managers of mbanx, which did not exist a few years ago. Over time, only those who consistently contribute to the well-being of our customers and, as a result, the profitability of the enterprise will prosper in the new century. They will have understood what is happening, and responded by preparing themselves for a new kind of banking.

Our response as a bank is to prepare a new contract with our employees, one that defines us as a learning organization. The paternalism of the past is being replaced by a professional relationship between the Bank and employees who are essentially independent entrepreneurs, with their skills as their capital. For those who welcome continuously expanding career horizons, and are prepared to take responsibility for their own futures by investing in themselves,



Harris: right on track

Harris Bank, Bank of Montreal's wholly-owned subsidiary in the U.S. Midwest, met its branch expansion goal a full six years ahead of schedule by acquiring all 54 branches and 250,000 customers of Household Bank in the greater Chicago area. With the acquisition, Harris now serves 750,000 customers and has 142 locations, creating one of the largest retail banking networks in the region.

Since 1993, Harris Bank has tripled its retail and small business customer base, significantly increased the number of its relationships with mid-market companies throughout the Midwest and expanded its corporate trust and cash management services nationwide in support of Bank of Montreal U.S. corporate banking. The overall expansion is part of an aggressive campaign for market share: Harris Bank is aiming to serve one million individual and small business customers by the year 2002.

Chicagoland

we are providing unprecedented opportunities for learning in every line of business. Over time, our reward will be to have the highest quality of human capital, which today is the only lasting competitive advantage in banking.

All these drivers of change have encouraged our shareholders to expect a steady and competitive return on their investment, complemented by high and rising levels of service, accountability and social responsibility.

Once again our response has been twofold. As already remarked, 1996 was the seventh consecutive year in which the Bank of Montreal Group of Companies reported record earnings. Equally notable, results have been consistently satisfactory whether measured in terms of earnings per share, dividend yield, return on equity or return on investment. As called for by our financial philosophy of stability and predictability, earnings growth has followed a steadily rising trend,

first among equals

number one

Nesbitt Burns Inc. is Canada's leading investment bank, with number one rankings in research and in market share for institutional sales and private client investments. It also has number-one ranked teams in both corporate finance and mergers and acquisitions.

Furthermore, Nesbitt Burns continues to make strong headway in the U.S. market. Indeed, Nesbitt Burns Securities Inc., as it is known in the United States, already ranks first among institutional dealers in trading Canadian equities – and NBSI's private placement activities have consistently ranked among the top ten in North America. In July, Texaco USA announced that it had named Bank of Montreal and NBSI jointly as its outstanding external supplier of the previous year.

Nesbitt Burns also significantly expanded its U.S. operations by hiring a team of more than 30 Chicago-based investment professionals. This acquisition boosted the NBSI staff by almost 50% – a full two years ahead of its U.S. expansion schedule.

Nesbitt Burns' global strategy and strengths were clearly evident last year when the firm acted as joint global co-ordinator and Canadian bookrunner for the initial public offering of CN Rail. At $2.3 billion, this was the largest equity offering in Canadian history – reaching 25 cities around the world in as many days, and resulting in a highly oversubscribed offering.

without sharp peaks and valleys. At the same time, our financial position continues to be strong by all major measures.

Both earnings growth and financial strength in turn owe much to our wide diversification by lines of business, geographic markets, currencies and distribution channels, combined with our highly effective risk management techniques — a diversification which mbanx will steadily increase. And we have been growing as well as earning — having added more than $90 billion in assets in seven years — and investing heavily, both in the technology and in our NAFTA strategy which together have made mbanx possible.

Our results are not simply good, however; they are also known. We are strongly committed to measuring everything we do, comparing our performance to that of our competitors, and reporting the results in full. The ground-breaking disclosure standards set by this Report have won major awards on several

partnerships

competition and co-operation

Strategic alliances that benefit customers and reduce costs are often the key to a company's long-term success. In today's rapidly changing financial services world, such alliances may even include traditional competitors – especially if they make eminent business sense and improve efficiency and common standards for the benefit of all customers.

In Kingston, Ontario, Bank of Montreal, working with The Toronto Dominion Bank and Canada Trust, started piloting Exact™, a "smart card" with reloadable electronic cash.

In another project, Bank of Montreal, along with The Toronto Dominion Bank and Royal Bank of Canada, announced a document processing enterprise that will serve the needs of all three institutions. The new company, which has its own management, will process cheques and credit card transactions more efficiently, allowing for a made-in-Canada co-sourcing solution.

Finally, Bank of Montreal and Canada Post Corporation joined forces to deliver cost-effective basic banking services in remote northern areas. This effort, which uses existing Canada Post facilities and employees, will be piloted early in 1997 in the community of Nain in Labrador, Newfoundland.

occasions. Increased disclosure also goes naturally with effective corporate governance. We have reshaped our Board of Directors, making it smaller in numbers but stronger in experience, resources and authority, able to act on behalf not only of our investors, but of the wider community we serve. It is an important guarantee that our shareholders can not only profit from their company, but be proud to own a part of it. Yet we remember that we are first and foremost a commercial enterprise, with an overriding responsibility to create wealth for our shareholders. We have a stakeholder strategy, because we believe it is the most effective shareholder strategy.

All these responses to change are significant in themselves. Together, they equal the reinvention of the Bank, of which our new mbanx brand is the symbol. Yet as always, amidst all the changes there will be a powerful element of continuity. The values of integrity, accountability and respect for human beings that

investing in growth

new avenues

In 1996 Bank of Montreal continued reaching out to more customers through two new and innovative subsidiaries.

The first was Bank of Montreal Capital Corporation, an independent venture capital arm that is providing small- and medium-sized businesses with a total of $200 million in funding through three separate programs. Among the corporation's key investments so far: INETCO Systems Limited, based in Burnaby, B.C., which designs financial software, and Ositech Communications Inc., which manufactures PC cards, in Guelph, Ontario.

Then, in April, the Bank launched Cebra™ Inc., designed to help our customers with electronic commerce as well as with the exchange of business documents and information. Electronic commerce in North America is currently a nearly $700 million industry that is expected to grow to $2.9 billion by 2002. As a result, several major Cebra projects have already been launched – including an open, non-proprietary electronic network for insurance companies, brokers and third parties nationwide to exchange information freely. Cebra has also developed a leading-edge digital imaging system, recently introduced in Ontario, which is designed to prevent auto insurance fraud.

learning to thrive

Over the past seven years, Bank of Montreal has built a significant culture of learning that continues to provide superior educational opportunities for our employees – and helps to distinguish us as the employer of choice in the North American financial services landscape.

Our commitment is best embodied in the Institute for Learning, the Bank's advanced educational facility on the outskirts of Toronto. The Institute's on-site and outreach programs have contributed to unprecedented levels of training – 5.7 days per employee in 1996, compared to the national average of 2.5. Indeed, Bank of Montreal invested more than $60 million in more than 1.4 million person-hours of training – an investment in human capital that will continue to grow.

Our commitment is also manifested in a host of unique programs. Last year, the Bank's Career Possibilities Partnership enabled 500 post-secondary students to intern at our branches and offices across Canada. An employee MBA program in conjunction with Dalhousie University offers improved career opportunities, as does an Advanced Executive Program in partnership with the University of Western Ontario and Northwestern University in Illinois.

We are also projecting our culture of learning outward by providing educational programs for our communities and members of our industry. For example, the Institute for Small Business, operated from the Institute for Learning, is dedicated to research and other projects of importance to entrepreneurs, such as the landmark *Myths & Realities* report on women-led firms in Canada. This year the Bank was also proud to sponsor International Bankworks 1996 – a two-week-long forum for banking professionals from around the world which focused on developing strategies necessary to compete creatively in the North American financial services market.

permeate all our strategies will not change. They will be the foundations of a bank where all the factors of production work in harmony to shape an enterprise that continuously builds on its own success for the benefit of all stakeholders. Steady, sustainable growth, for example, will help us attract and retain the best employees, who as they come to know their long-term customers will learn how to add more value, reduce costs and improve service quality. Higher productivity will release resources to invest in extraordinary levels of training and development, reinforcing employee productivity, compensation growth and loyalty. These in turn will produce a cost advantage difficult to match, while yielding the steady profits that appeal to long-term, value investors and lowering the cost of capital for further investment in the creation of wealth.

Such a bank is an immensely valuable partner for the communities in which it does business. To work in it is always challenging, but also rewarding and enjoyable. It is a bank in which the interests of all stakeholders are in harmony, and which contributes to the creation of wealth for shareholders and for society at large. In the year of mbanx, with the future a reality for all of us, I believe that such a bank is best fitted for success in a world without boundaries.

M. W. Barrett

Matthew W. Barrett
Chairman and
Chief Executive Officer

achieving our goals, reinventing our future

The defining event of 1996 for Bank of Montreal was, of course, the introduction of our new virtual bank, mbanx, and with it the arrival of banking without boundaries. But it was not the *whole* story. We can also look back on 1996 as the year in which we brought the whole operation — our organizational structure, our management systems and our people — more closely in line with the expectations of all our stakeholders. It was the year, in other words, in which we began to reinvent ourselves in earnest.

Financial Performance

We achieved our seventh consecutive year of record profits and consistent earnings growth in 1996, providing $1.2 billion in earnings to our shareholders *after* paying out a slightly higher amount in taxes and special levies. And with a return on equity of 17%, we reached our ROE target for the year 2000 four years ahead of schedule.

Return on shareholder investment increased to 42.4% in 1996, bringing the five-year return to 22.2%, and dividends were raised for the fourth consecutive year. Meanwhile, our share price was up 36.3% and the total market value of our common shares increased $2.7 billion to $10.5 billion. Our financial position continued to be strong by all major measures — including our credit ratings, which were unchanged again in 1996.

We also put in place breakthrough strategies which reinforce our confidence that we will achieve our goal of reducing our expense-to-revenue ratio, our measure of productivity, to the low to mid-50s by the year 2000. We achieved

$145 million in cost savings in 1996 which, when offset by essential investments in new technology, new business and people development, produced an improved productivity ratio of 63.4%.

Reinventing Our Organization

While maintaining annual results at record levels and keeping a firm focus on productivity, we also made significant progress in creating a new, line-of-business management model.

The launch in October of mbanx marked the creation of a new Electronic Financial Services Group, which consolidates all the technology-intensive lines of business and delivery systems previously dispersed among our banking groups into one North American electronic banking group. At the same time, numerous executive reporting relationships were realigned to facilitate a line-of-business approach to lending, treasury and other "on-balance-sheet" risk-taking, and relationships with our corporate customers.

This reshaping of our entire management framework will continue throughout the months ahead. In contrast to the divisional organizational model that has served us very well in the past but in recent years has been fragmenting our resources and slowing innovation, this new, line-of-business model will enable us to fully leverage our leadership, technological investments, expertise and creative spirit throughout all our banking groups.

Let me cite an example. By aligning ourselves in cross-enterprise, cross-functional teams with a line-of-business focus, our people re-engineered more than 200 business processes in just a few months in preparation for the launch of mbanx — and succeeded in creating a new virtual banking enterprise in a breathtakingly short period of time.

Reinventing Our People

While reinventing our organization, we continued to work aggressively to provide employees with a wide range of opportunities to acquire the more advanced skills now required to compete effectively in an increasingly complex marketplace. We invested $62 million in over 1.4 million person-hours of training — an average of 5.7 days per employee, or more than double the national average of 2.5.

Our focus was on identifying the specific skill enhancements required for each line of business and then offering customized, highest-quality training. To cite just two examples, our Institute for Learning launched a residential MBA program specializing in financial services, in collaboration with Dalhousie University and the Institute for Canadian Bankers; and also launched a certification program in project management, in partnership with Boston University.

While maintaining our fundamental commitment to fairness, respect for the individual and equal opportunity to develop and advance professionally, we are rapidly adapting *all* our human resource systems and strategies, including compensation, to promote the transformation of our work force into the marketing-oriented, sales-driven, cost-conscious, customer-focused organization that our customers — and our shareholders — are demanding.

For in the uncharted territory of banking without boundaries, this much is already very clear: our only sustainable competitive advantage — the real creator of shareholder value — was, is and will be our people.

F. Anthony Comper
President and
Chief Operating Officer

Management Analysis of Operations

This section of the Annual Report provides management's discussion and analysis of the financial condition of Bank of Montreal and its financial performance for the years ended October 31, 1996 and 1995. The analysis focuses on the Bank's financial strategies 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 which are presented later in this Annual Report beginning on page 67. 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 quartile) 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.

Road Map of the Management Analysis of Operations

Performance at a Glance

Section title – sections organized by primary financial measure

Highlights of results

Performance

Where to find more information

Results

Financial Strategy

Measure – identification and definition of key measures of financial results

Results of primary measure and supporting measure or data

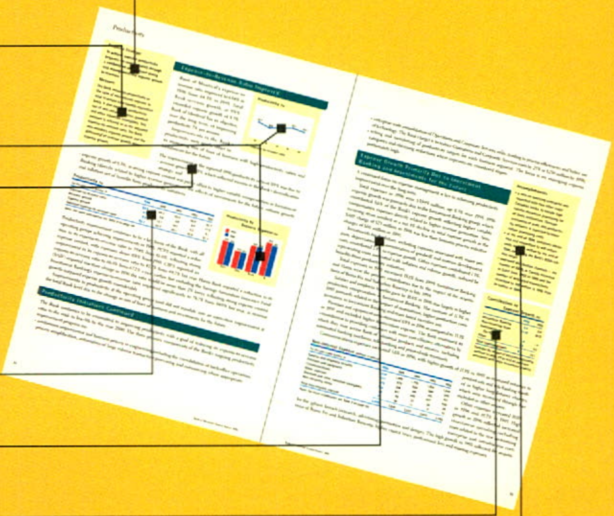
Discussion of results

Summary financial data – supplemental data supporting each measure is available at the end of the Management Analysis of Operations on page 48

Significant items and additional discussion

Supporting information or data

Significant initiatives and accomplishments



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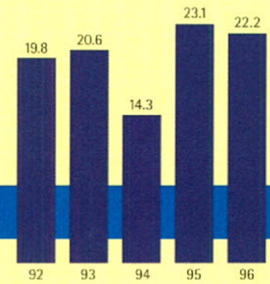
Bank of Montreal Performance at a Glance...

Shareholder Value

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

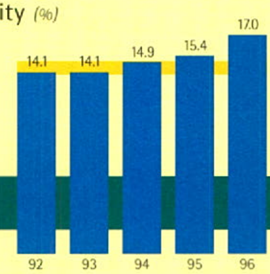


More information can be found on page 20

- five-year annualized ROI reached 22.2%
- annual ROI was 42.4% in 1996 compared to 24.1% in 1995
- share price increased 36.3% in 1996, compared to 18.4% in 1995
- dividends paid per share increased $0.12 in 1996 and $0.11 in 1995

Profitability

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

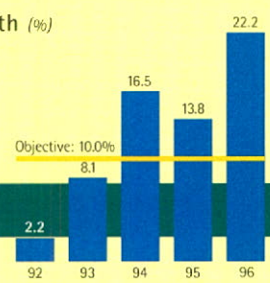


More information can be found on page 21

- consistent return on equity – seventh consecutive year ROE objective of 14 –15% met or exceeded
- ROE consistently above the Bank's economic performance threshold
- net income growth 18.4% in 1996, compared to 19.5% in 1995
- seventh consecutive year of record net income

Earnings Growth

■ Fully diluted earnings per share growth *(%)*

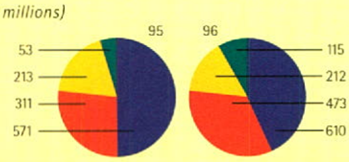


More information can be found on page 22

- seventh 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 business volume growth and higher Investment Banking contribution

Operating Group Review*

Net income by operating group *($ millions)*
■ PCFS
■ CIFS
■ Harris
■ IB

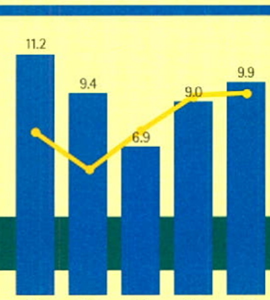


More information can be found on page 24

- consistent earnings growth achieved through diversification and differentiation
- PCFS: higher business volumes and strong expense control
- CIFS: improved asset quality, higher Treasury revenues and Bancomer alliance
- Harris: commercial loan growth and strong expense control
- Investment Banking: higher capital market revenues drove record earnings

Revenue Growth

■ Revenue growth *(%)*
– Five-year average revenue growth

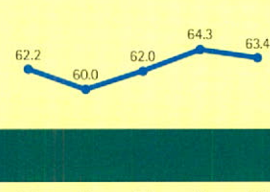


More information can be found on page 29

- strong revenue growth of 9.9% reflected success in the Bank's diversification strategy
- diversified business volume growth was the primary driver
- strong Investment Banking and Treasury revenues also contributed to revenue growth
- lower spreads resulted from changes in interest rates and in mix

Productivity

– Expense-to-revenue ratio *(%)*



More information can be found on page 34

- productivity improved by 0.9% from prior year
- revenue growth at 9.9% reflected success in the Bank's diversification strategy
- expense growth of 8.3%, as strong expense control and benefits from productivity initiatives were partly offset by variable compensation in Investment Banking (directly related to higher revenue generation) and the effects of investments for the future

- strong risk management culture in the Bank drives a prudent and professional approach to risk-taking
- the Bank manages risk with a view to balancing the risk/reward relationship

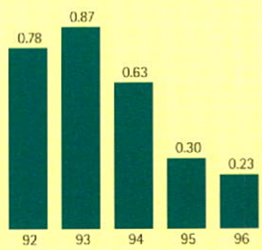
- credit risk
- interest rate risk
- foreign currency risk
- derivatives related risk
- liquidity risk
- operational risk

Risk Management*

More information can be found on page 36

- asset quality continued to improve
- provision for credit losses reduced to $225 million from $275 million in 1995
- general allowance level increased by $150 million to $475 million

Performance



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

- impaired loans continued to decline
- loan portfolio is well-diversified
- exposure to real estate 6.2% of commercial loans and acceptances versus 8.0% in 1995

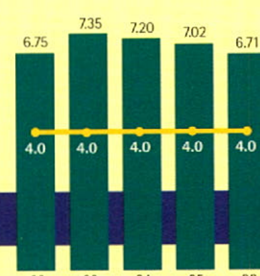
Condition

— Gross impaired loans and acceptances as a % of equity and allowance for credit losses

Asset Quality

More information can be found on page 40

- well-capitalized
- in 1996 5.0 million shares bought back, following buybacks of 3.5 million shares in 1995

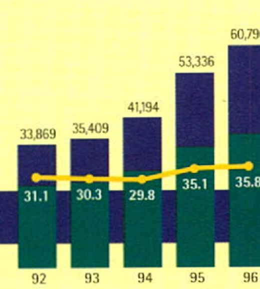


■ Tier 1 ratio *(%)*
— Tier 1 regulatory requirement *(%)*

Capital Adequacy

More information can be found on page 44

- liquidity ratio increased from last year
- deposits are well-diversified by customer, type, currency and geography



■ Cash resources *($ millions)*
■ Securities
— Cash and securities-to-total assets *(%)*

Liquidity

More information can be found on page 45

- credit rating composite remained stable

AA-

Credit Rating

Economic Outlook and Management Objectives on page 46. Supplementary Information beginning on page 48.
**Not part of the Bank's ten primary measures of financial performance and condition.*

Financial Strategy:

To generate increased shareholder value, measured by return on investment and driven by consistently superior performance of:

- earnings (growth in earnings per share through growth in net income and return on common shareholders' equity);
- sustainable future growth of core earnings; and
- dividends (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. The Bank 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.

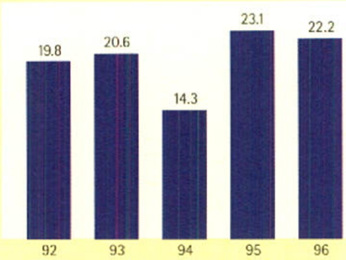
Five-Year Annualized Return on Common Shareholders' Investment 22.2%

The Bank's annual return on investment in 1996 was 42.4%, reflecting a substantial increase in the common stock price of 36.3%, and higher dividends. Bank of Montreal's annualized five-year return on investment was 22.2% in 1996.

Dividends paid to shareholders in 1996 were increased by $0.12 to $1.41 per share, resulting in a dividend yield of 4.7%.

The market value of the Bank's common shares reached a new record of $10.5 billion at the end of 1996, up $2.7 billion or 34.4% from 1995.

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	1996	1995	1994	1993	1992
Closing market price per common share *($) (a)*	40.55	29.75	25.13	26.88	23.56
Dividend yield *(%) (b)*	4.7	5.1	4.4	4.7	5.7
ROI *(%)*	42.4	24.1	(2.3)	19.4	32.4
Five-year ROI *(%)*	22.2	23.1	14.3	20.6	19.8

(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 on page 48.

Bank of Montreal Has Been a Good Investment

Bank of Montreal has proven to be a good investment in 1996, reflecting:

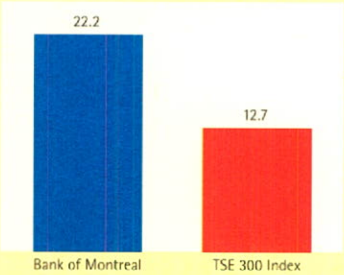
Shareholder value results

- achieved annual return on investment in 1996 of 42.4% compared to 28.3% for the Toronto Stock Exchange 300 Index
- achieved five-year ROI of 22.2% compared to 12.7% for the TSE 300 Index

Consistent earnings

- strong return on common shareholders' equity (ROE) of over 14% for seven consecutive years
- record high ROE in 1996 of 17.0%

Five-Year Return on Investment *(%)*



Improved marketplace assessment of shareholder value

- market to book ratio of common shares at 1.57 for 1996 compared to 1.27 in 1995
- price/earnings ratio has increased to 9.6 for 1996 from 8.6 for 1995

Financial Strategy:

To improve earnings performance (while maintaining strategic investment) by focusing on improved strategic risk management, productivity, and well defined growth strategies.

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.

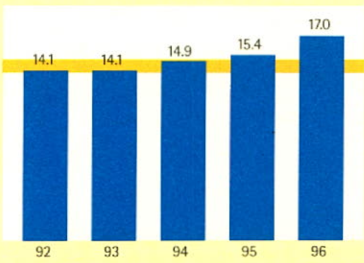
Seventh Consecutive Year of Return on Common Shareholders' Equity over 14%

Bank of Montreal achieved a return on equity of 17.0% in 1996, well above the level of 15.4% achieved in 1995.

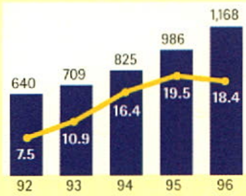
The Bank has met or exceeded its ROE objective of 14–15% for the seventh consecutive year.

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 risk premium. 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. The Bank's ROE has exceeded its economic performance threshold each year for the past seven years.

Return on Common Shareholders' Equity (%)



Net Income Growth



Return on Common Shareholders' Equity

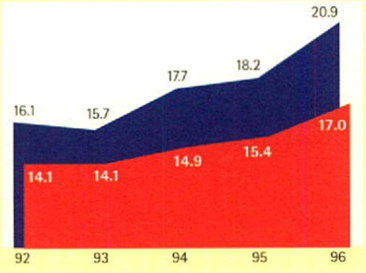
For the year ended October 31	1996	1995	1994	1993	1992	5-year avg
Return on common shareholders' equity *(%)*	17.0	15.4	14.9	14.1	14.1	15.1
Economic performance threshold *(%)*	12.0	12.0	11.0	10.6	11.2	11.3
Net income *($ millions)*	1,168	986	825	709	640	
Net income growth *(%)*	18.4	19.5	16.4	10.9	7.5	14.5

Note: For more information see Table 2 on page 48.

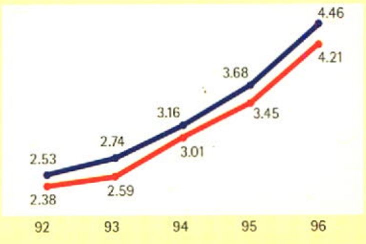
Using Cash Basis Reporting Would Result in Higher Earnings and ROE

Bank of Montreal Financial Results Using Cash Basis

ROE *(%)*



Basic earnings per share *($)*



Accounting principles which underpin the reporting of financial condition and financial performance are similar in Canada and the United States. One important difference however, is that 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, with the purchase method, assets and liabilities acquired are 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 their estimated life. With the pooling method, assets and liabilities are accounted for at their book value. Subsequent years' earnings are not reduced by goodwill amortization. Under the purchase accounting method, cash earnings per share (EPS) and cash return on equity are important for shareholders, as they provide a more consistent comparison to the Bank's North American peer group. Using the cash basis method, basic earnings per share would have been $4.46 for 1996 and ROE would have been 20.9% compared to the reported basis of $4.21 and 17.0%, respectively.

**Cash EPS is EPS as reported adjusted for the impact of non-cash goodwill and other valuation intangibles. Cash ROE is earnings and common shareholders' equity adjusted for the impact of non-cash goodwill and other valuation intangibles.*

Earnings Growth

Financial Strategy:

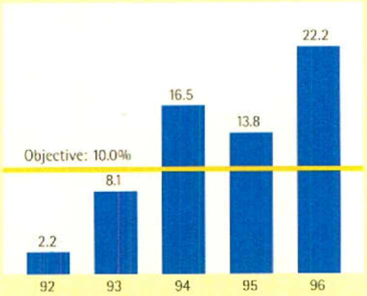
To achieve consistently superior earnings growth through diversification by line of business and by geographic and customer segment. Consistently superior earnings growth is achieved by focusing on increasing revenue, primarily through business volume growth, and improving productivity while maintaining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

Measure:

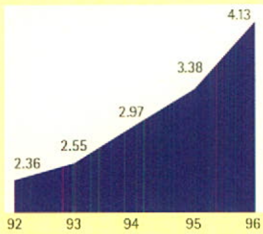
Bank of Montreal's primary measure of earnings growth is defined as the year-over-year percentage change in fully diluted earnings per share (EPS). Fully diluted EPS is calculated using the daily average number of common shares that would have been outstanding assuming conversion as at the beginning 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.

Earnings Growth Exceeded Objectives

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 \$4.13, increased 22.2%, following growth of 13.8% achieved in 1995. Fully diluted EPS have increased in each of the past seven years.

Fully diluted EPS growth in 1996 was well above the Bank's minimum objective of 10%. The Bank's five-year average growth of 12.5% also exceeded objectives.

Fully diluted EPS growth is affected by the change in the number of common shares outstanding as well as by growth in earnings.

The trend of declining interest rates in 1996 has shifted marketplace investments. Investors, seeking improved returns, have moved their funds from traditional bank deposits to the capital markets. Consequently, capital markets were strong in 1996.

The Bank's goal is to achieve superior profitability and earnings growth while investing for the future at the same time. To accomplish this goal, the Bank's financial strategy is to diversify, to ensure growth in earnings regardless of the underlying changes in the economy.

Net income in 1996 reached a record level of \$1,168 million, up 18.4% over 1995. Earnings growth from outside Canada contributed 11.4% of this growth. Strong earnings growth in 1996 reflects the success of the Bank's diversification strategy. Growth was primarily due to diversified business volume growth and higher Investment Banking and Treasury revenues, partly offset by lower spreads. Net income in 1996 also included \$32 million in incremental earnings from Bancomer. Bancomer results affected the Bank's financial performance in two additional ways. Firstly, the statement of changes in shareholders' equity included an unrealized foreign exchange translation loss of \$29 million, and secondly, the unrecorded excess of market value over book value included \$132 million at the end of 1996, for the Bank's investment in Bancomer. Net income in 1995 increased 19.5%, largely due to a reduction in the provision for credit losses, business volume growth and benefits from the acquisitions of Burns Fry in Canada and Suburban Bancorp in the United States. 1995 earnings also reflected lower revenues from the lesser developed countries (LDC) portfolio, and a \$34 million after-tax charge related to the implementation of specific business process improvement initiatives.

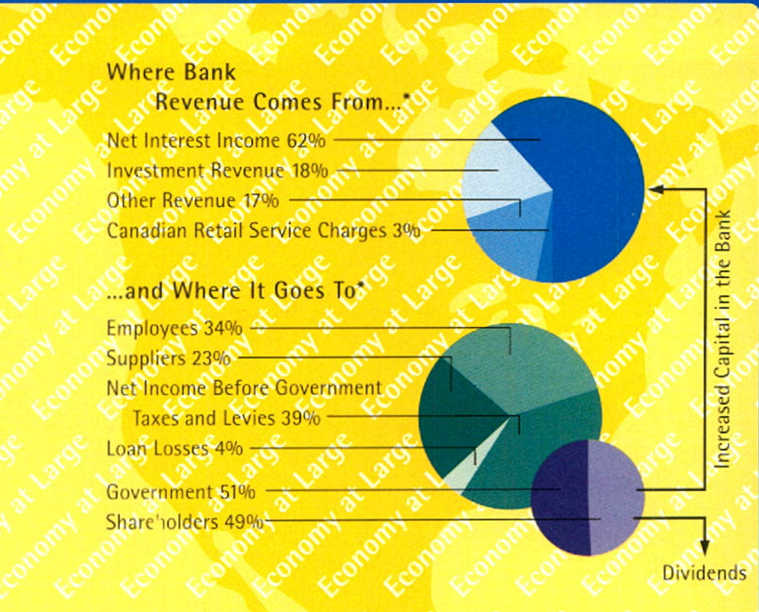
Earnings Growth *(millions of dollars except as noted)*

For the year ended October 31	1996	1995	1994	1993	1992	5-year avg
Net income	1,168	986	825	709	640	
Year-over-year growth *(%)*	18.4	19.5	16.4	10.9	7.5	14.5
Fully diluted earnings per share *($) (a)*	4.13	3.38	2.97	2.55	2.36	
Year-over-year growth *(%)*	22.2	13.8	16.5	8.1	2.2	12.5

(a) Restated to reflect the effect of the two-for-one stock distribution completed in March 1993.
Note: For more information see Table 3 on page 48.

The total number of average fully diluted common shares outstanding in 1996 decreased by 5.6 million, largely due to share buybacks. In 1996, the Bank repurchased and cancelled a total of five million common shares (see Capital Adequacy section on page 44). The average number of shares increased by 17.4 million in 1995, largely due to shares issued or issuable for the acquisition of Burns Fry and Suburban Bancorp in the fourth quarter of 1994.

Where Bank Revenue Comes From... and Where It Goes To



Note: Investment Revenue represents capital market fees, investment management and custodial fees and mutual fund revenues; Canadian Retail Service Charges represent deposit and payment service charges; Employees segment represents employee salaries and benefits expenses; Suppliers segment represents total expenses less employee expenses and government related expenses; Government segment represents income taxes and other government levies; Shareholders segment represents net income and minority interest; Increased capital in the Bank segment represents net income less dividends.

Close to two-thirds of the Bank's revenue is generated from net interest income with a small proportion from service charges.

Within the context of the economy at large, the Bank acts as a financial intermediary or conduit, with revenues from customers flowing to employees, suppliers, and to the government and shareholders, with a portion of the shareholder share retained by the Bank to fuel future growth and investment.

Over Half the Bank's Net Income Before Government Levies and Taxes Went to the Government

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

For the year ended October 31	1996	1995*	1994*	1993*	1992*
Government levies other than income taxes	460	429	375	346	318
Total income taxes	767	671	537	441	346
Total government levies and taxes	1,227	1,100	912	787	664
Net income	1,168	986	825	709	640
Government levies and taxes as a % of net income before government levies and taxes	51.4	53.0	51.8	51.1	48.3

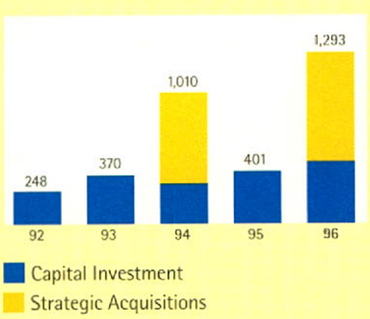
**Restated to conform with current year's presentation.*
Note: For more information see Table 8 on page 54.

Total government levies and taxes of $1,227 million were up 11.4% from last year, representing over half of the Bank's net income before taxes and government levies.

Total income taxes in 1996 of $767 million increased by $96 million from 1995 reflecting increased earnings. The provision for income taxes as a percentage of pre-tax income was 38.9% versus 39.8% in 1995. The effective tax rate of 38.9% was below the Canadian combined statutory tax rate of 42.0% due largely to the Bank's investment in foreign subsidiaries, whose earnings were taxed at lower rates.

In addition to income taxes, the Bank pays other government levies. Deposit insurance premiums increased 12.1% in 1996 and 9.8% in 1995. The increase in 1996 reflected a $23 million charge resulting from recent legislation to assess premiums on deposits insured by the Savings Association Insurance Fund, as a result of Harris Bank's June 1996 purchase of Household Bank's retail banking business. This increase was partly offset by lower regular deposit insurance expenses in the United States. Payroll taxes and provincial capital taxes increased 4.1% in 1996 as a result of higher tax bases and higher rates.

Investment Spending *($ millions)*



Note: Capital Investment represents capital assets acquired or internally developed. Strategic Acquisitions represent investment spending in respect of an equity position or assets of another institution acquired for strategic purposes.

The Bank Has Invested More Than $3 Billion for the Future over the Past Five Years

Investment spending increased sharply in 1996, reflecting the acquisition of Household Bank's retail banking business in the United States and the acquisition of a 16% equity stake in Grupo Financiero Bancomer in Mexico. The high level of investment spending in 1994 was driven by the acquisition of Suburban Bancorp in the United States and Burns Fry in Canada.

Financial Strategy:

To allocate resources and to make strategic investments on a line of business basis with a view to improving shareholder value.

Measure:

The Bank's strategies are translated into specific strategies for each of the Bank's lines of business. Each line of business manages its performance to exceed minimum performance standards and achieve long-term objectives uniquely defined for it.

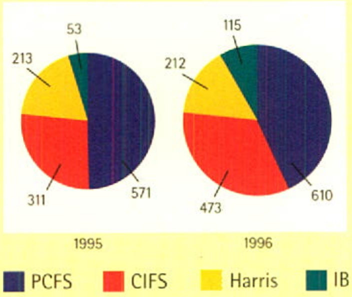
Strength and Flexibility through Diversification

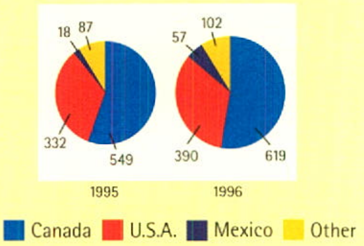
The Bank continues to focus on being a broadly diversified, yet selective financial institution.

The Bank manages its operations through four operating groups, each with its own distinct market, product and geographic mandate.

In 1996 Personal and Commercial Financial Services (PCFS) earnings growth of 6.8% was mainly due to business volume growth and strong expense control. Corporate and Institutional Financial Services (CIFS) earnings growth of 52.2% was mainly due to improved asset quality, higher Treasury revenues and an alliance with Grupo Financiero Bancomer in Mexico. Harris earnings growth excluding special charges, of 6.2% was driven by commercial loan growth and strong expense control. Investment Banking earnings growth of 114.5% was driven by higher capital market fees reflecting stronger capital markets and increased new equity issues. In 1996, excluding special charges, all four operating groups achieved improved earnings. Diversification by operating group helps offset any cyclical trends in individual lines of business. Two support groups, Operations and Corporate Services, provide technology, transaction processing and professional services support to the four operating groups.

Net Income *($ millions)*





With the newly created Electronic Financial Services (EFS) group, operations will be managed through five operating groups next year. Electronic Banking and alternative channels lines of business from PCFS, Cebra Inc., the Corporate Electronic Banking Services and Trade Finance lines of business from CIFS, and the Cash Management and Credit Card lines of business from Harris will be part of the new EFS group. The Bancomer alliance will also be managed through EFS.

On a geographic basis, earnings increased in all key geographic areas, with the mix of earnings from outside Canada increasing to 47.0% in 1996 from 44.3% last year.

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	1996	1995*	1996	1995*	1996	1995	1996	1995*	1996	1995*	1996	1995*
Net Income												
Canada	610	571	183	137	0	0	103	52	(277)	(211)	619	549
United States	0	0	150	98	212	213	12	1	16	20	390	332
Mexico	0	0	57	18	0	0	0	0	0	0	57	18
Other countries	0	0	83	58	0	0	0	0	19	29	102	87
Total	610	571	473	311	212	213	115	53	(242)	(162)	1,168	986
Average Assets												
Canada	57,870	54,539	14,061	12,685	0	0	16,207	14,823	1,410	1,926	89,548	83,973
United States	0	0	18,012	16,990	24,839	22,229	9,668	7,242	708	714	53,227	47,175
Mexico	0	0	1,427	1,278	0	0	0	0	0	0	1,427	1,278
Other countries	0	0	14,094	11,515	0	0	0	0	20	174	14,114	11,689
Total	57,870	54,539	47,594	42,468	24,839	22,229	25,875	22,065	2,138	2,814	158,316	144,115

**Restated to give effect to the current year's organization structure.*

(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., Harris Bankmont, Inc. (formerly Suburban Bancorp, Inc.), and the results of branches purchased from Household Bank since the June 28, 1996 acquisition date.

(d) Investment Banking (IB), including the results of The Nesbitt Burns Corporation Limited and Nesbitt Burns Securities Inc. (collectively Nesbitt Burns), BMO Nesbitt Burns Equity Partners Inc. and Asset Management Services.

(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 therewith, 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:

PCFS Transforming Itself

- workforce transformation
- distribution network transformation
- differentiated marketing
- relationship building

PCFS Earnings Growth Driven by Business Volume Growth and Strong Expense Control

The Personal and Commercial Financial Services group provides financial services to about six million households and commercial businesses in the Canadian market.

Earnings growth in 1996 of 6.8% was driven by business volume growth and strong expense control, partly offset by lower spreads. Overall revenue growth of 2.8% coupled with an expense decline of 0.9%, enabled PCFS to improve its expense-to-revenue ratio by 2.2% from 1995.

PCFS is expanding its network of distribution points and strengthening its position as a Bank that provides options through distinct value propositions by offering basic banking alternatives for all customers.

Telephone Banking has expanded rapidly, and the network of automated banking machines and point-of-sale terminals was increased. A test is underway whereby customers can pay for purchases using EXACT™ service, an electronic card on which cash can be loaded. The Bank also teamed up with Canada Post Corporation to bring financial services to remote communities across Canada's North.

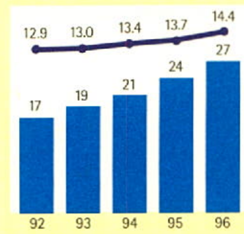
Pathway, a state-of-the-art client/server technology which helps employees improve their sales effectiveness and service efficiency, was implemented in 286 branches by the end of 1996. Pathway was recognized by the Smithsonian Institute's National Museum of American History.

A number of initiatives were undertaken during the year to make banking more affordable for customers. A new Instabanking Plan was introduced for individuals and small business, which allows customers to conduct their basic banking for a fixed fee. A Telephone Banking option was also offered to provide customers with 24-hour banking convenience. PCFS also introduced a new low-rate MasterCard® and Canada's first telephone calling credit card. The repositioning of credit card products provides customers with a wide array of credit card options to suit their individual needs.

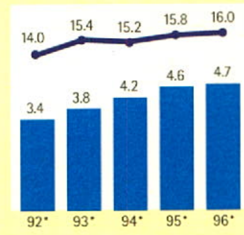
Accomplishments

- over 9,000 employees enrolled in "Learning for Success", the Bank's most ambitious skills upgrading and accreditation learning initiative
- the network of automated banking machines increased by 254 to 2,017, while point-of-sale terminals grew by 6,600 to 40,300. Telephone banking business volumes doubled from last year
- Bank of Montreal Capital Corporation created to offer equity financing to small business
- opened five on-reserve branches, bringing the total to 14 branches servicing the Aboriginal community
- in 1996, the position of Financial Services Manager was introduced to provide personalized service through relationship management

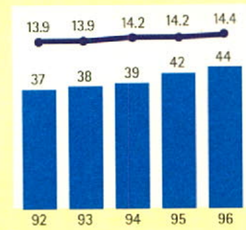
Residential Mortgages



Small Business Loans



Total Personal Deposits



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

**Market share for 1992 to 1995 is as at September 30; and 1996 is as at June 30.*

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

As at or for the year ended October 31	1996	1995*	1994*	1993*	1992*
Net interest income	2,281	2,234	2,139	1,914	1,881
Other income	640	608	581	578	529
Provision for credit losses	123	88	108	140	144
Non-interest expense	1,736	1,752	1,666	1,552	1,534
Income before taxes	1,062	1,002	946	800	732
Income taxes	452	431	416	344	308
Net income	610	571	530	456	424
Average assets	57,870	54,539	50,892	49,277	46,412
Average current loans	52,764	49,380	45,050	42,770	39,231
Average deposits	53,159	50,723	47,893	46,492	44,040
Full-time equivalent staff *(a)*	15,782	16,363	17,233	17,162	17,165
Expense-to-revenue ratio *(%)*	59.4	61.6	61.2	62.3	63.7

**Restated to give effect to the current year's organization structure.*
(a) As at October 31.

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Corporate and Institutional Financial Services

Key Business Strategies:

CIFS – Differentiating through Risk Management and Technology
- diversification of risk
- technology to help achieve differentiation
- selected international expansion
- relationship building and client solutions

CIFS – Record Earnings Driven by Improved Asset Quality, Higher Treasury Revenues and Bancomer Alliance

Corporate and Institutional Financial Services provides financing, treasury and operating solutions to over 4,500 large corporate and institutional clients.

Net income for CIFS increased by 52.2% in 1996, primarily due to lower loan losses, higher Treasury revenues and the Bancomer alliance. Revenue growth at 17.0% was strong, reflecting Treasury revenues up 24.0% and good performance in other lines of business. Provision for credit losses was negative $172 million compared with negative $22 million in 1995, with reversals of previous reservations (including lesser developed countries) exceeding new provisions. Non-interest expenses increased by 13.2%, reflecting investments in new growth areas such as Global Distribution, Cebra Inc. and cash management technologies. Overall, the CIFS expense-to-revenue ratio improved by 1.5% from 1995.

The North American marketplace is CIFS' first priority. In 1996 a 16% equity stake in Grupo Financiero Bancomer in Mexico was acquired, making Bank of Montreal the only North American financial institution with significant retail and commercial capabilities in all three NAFTA countries.

Offshore, CIFS' strategy has two objectives. First, to service the international needs of our North American clients and, second, to build relationships with local clients whose trade or investment activities are linked to our North American client base.

Risk diversification is the main element of CIFS' risk management strategy, which has resulted in improved asset quality. Best-in-class loan portfolio management methodologies permit profitable business expansion. An expanded Global Distribution group provides additional market coverage. More emphasis is being placed on primary deal origination. Stronger loan trading capabilities complement our underwriting team and facilitate management of risk.

Treasury operations in North America were further streamlined. Canadian dollar trading was centralized in Toronto and foreign currency trading centralized in Chicago. The product development and delivery capabilities of the derivatives unit have also been enhanced.

Accomplishments

- enhanced Global Distribution capabilities
- created an electronic commerce subsidiary (Cebra Inc.)
- launched Directline® service for Windows®
- streamlined Treasury
- acquired 16% stake in Grupo Financiero Bancomer
- increased international earnings
- strengthened capabilities in derivatives products
- created Global Project Finance Group

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

As at or for the year ended October 31	1996	1995*	1994*	1993*	1992*
Net interest income	707	591	605	655	531
Other income	384	341	314	297	250
Provision for credit losses	(172)	(22)	283	452	283
Non-interest expense	466	412	387	380	361
Income before taxes	797	542	249	120	137
Income taxes	324	231	110	51	59
Net income	473	311	139	69	78
Average assets	47,594	42,468	34,032	30,852	29,569
Average current loans	14,573	13,342	11,953	11,813	11,686
Average deposits	39,773	36,106	28,901	25,792	23,861
Assets under management and administration	149,287	130,012	119,445	98,909	NA
Full-time equivalent staff *(a)*	1,154	1,097	1,034	1,035	1,141
Expense-to-revenue ratio *(%)*	42.7	44.2	42.1	39.9	46.2

**Restated to give effect to the current year's organization structure.*
(a) As at October 31.
NA – Not available.

CIFS uses technology to help achieve differentiation. Cebra Inc., a wholly-owned subsidiary of Bank of Montreal, was launched this year with the goal of becoming a one-stop, full service digital commerce provider and integrator. Cebra exploits the most recent developments in technology including multimedia and public networks such as the Internet to provide clients with electronic business solutions. The Bank is the first Canadian bank to offer corporate clients on-site access to their deposit and borrowing accounts through a Windows-based service (Directline service for Windows). The LS2 system will improve productivity in loans processing. LS2 supports loan origination, distribution, trading, servicing and portfolio management.

®Directline is a registered trade mark of Bank of Montreal
®Windows is a registered trade mark of Microsoft Corporation

Harris Bank

Key Business Strategies:

- continue to build upon retail bank franchise
- improve productivity
- expand commercial banking volumes

Harris Bank Expansion Continued

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). Harris Bank 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.

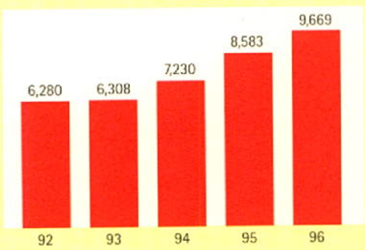
Net income of Harris Bank was $212 million in 1996, a decrease of $1 million from 1995. The 1996 results included a one-time $14 million after-tax charge resulting from recent legislation to assess premiums on deposits insured by the Savings Association Insurance Fund. This assessment results from Harris Bank's June 1996 purchase of Household Bank's retail banking business. Excluding this charge, net income would have increased by $13 million or 6.2% in 1996 and Harris' expense-to-revenue ratio would have improved to 64.7% from 67.2% in 1995. The earnings improvement was driven by business volume growth (average commercial loans increased 12.7% in 1996) and continued cost control partly offset by lower spreads.

During the year, Harris made several significant steps toward its goal of tripling its earnings, market share and distribution network in Chicagoland by the year 2002. Harris acquired 54 Household Bank branches in the Chicago metropolitan area, adding 250,000 new customers and $2.9 billion in deposits. With a total of 775,000 customers and more than 140 locations, Harris now has one of the largest community bank networks in Chicagoland.

Accomplishments

- acquired Household Bank's 54 Chicagoland branches and achieved ten-year goal of tripling distribution network well ahead of time
- launched Full-Service Direct Banking across the Midwest
- productivity improved by 0.8% from last year
- 12.7% average commercial loan growth

Average Commercial Loans *($ millions)*



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

As at or for the year ended October 31	1996	1995	1994	1993	1992
Net interest income	820	773	607	579	544
Other income	452	460	460	452	391
Provision for credit losses	78	62	70	84	74
Non-interest expense	845	828	823	708	659
Income before taxes	349	343	174	239	202
Income taxes	137	130	57	80	70
Net income	212	213	117	159	132
Net income, U.S. dollars, U.S. GAAP *(a)*	161	161	99	138	122
Average assets	24,839	22,229	18,362	16,347	15,671
Average current loans	14,100	12,277	10,109	8,759	8,507
Average commercial loans	9,669	8,583	7,230	6,308	6,280
Average deposits	18,709	16,951	14,507	13,156	12,306
Assets under management and administration *(b)*	82,802	286,381	216,528	217,155	NA
Full-time equivalent staff *(c)*	6,480	6,160	6,167	5,561	5,482
Expense-to-revenue ratio *(%)*	66.4	67.2	77.1	68.8	70.5

(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) The decrease in assets under management and administration at October 31, 1996 reflects the sale of Harris Bank's securities custody and related trustee services business for large institutions in January 1996.

(c) As at October 31.

NA – Not available.

To enhance its ability to serve institutional, corporate and individual customers across the United States, Harris expanded its trust offices in Arizona, California, Florida and New York.

Harris continued to make considerable investments in technology during the year by developing PC-based customer access to its telephone banking systems.

Investment Banking

Key Business Strategies:

Building a North American Investment Bank

- Canada – solidify leading market share
- United States – continue to build key lines of business in a focused, disciplined way
- international – continue to build a global distribution network to support the North American strategy
- focus on performance of First Canadian mutual funds

Investment Banking Achieved Record Earnings

The Investment Banking division includes the Nesbitt Burns group of companies and Asset Management Services group. Nesbitt Burns is Canada's pre-eminent investment bank, and is responsible for Bank of Montreal's investment banking activities in Canada, the United States and other major financial markets. Nesbitt Burns offers full-service brokerage and financial advisory services to its corporate, government, institutional and private clients. Asset Management Services offers a full range of mutual funds, discount brokerage (InvestorLine® service), trust products and investment management services to private and institutional clients.

Investment Banking achieved record earnings in 1996 with net income of $115 million, an increase of $62 million, mainly due to the impact of stronger capital markets and in particular, more new equity issues and increased secondary trading volumes. Investment Banking's expense growth reflected primarily higher production compensation as a result of higher revenue. Investment Banking's expense-to-revenue ratio improved to 78.7% from 84.9% in 1995.

Nesbitt Burns' objective is to build a prominent North American investment bank with strong global capabilities. To accomplish this objective, it is solidifying its leading position in Canada while continuing to expand its U.S. investment banking capabilities. It is strengthening its relationships with its clients by offering innovative financial solutions to meet customers' needs.

Nesbitt Burns Securities Inc. (NBSI) is 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. research and institutional equity sales and trading. Specific emphasis is placed on its current expertise in natural resources – metals and minerals, oil and gas, and forest products – as well as in the high tech, communications and the agra business sectors, where the Bank has developed an excellent reputation through Harris Bank and its corporate banking activities.

Asset Management Services' strategy is focused on enhancing fund performance, increasing assets under administration and improving the distribution of its products through the PCFS retail network, Nesbitt Burns, InvestorLine, financial planners and mutual fund dealers.

Accomplishments

- Investment Banking achieved record earnings
- number one market share in retail, corporate financings, mergers and acquisitions and institutional equity sales and trading
- independent study confirmed Nesbitt Burns research as the top ranked in 1996 (continuing a 16-year run)
- built a new team of U.S. equity research, sales and trading personnel in NBSI
- performance of 13 of 18 First Canadian® Funds was first or second quartile for the year
- launched Matchmaker™ strategic asset allocation program
- increased mutual fund assets by 50%

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

As at or for the year ended October 31	1996	1995*	1994*	1993*	1992*
Net interest income	164	130	140	89	55
Other income	850	569	375	268	200
Non-interest expense	798	593	373	270	213
Income before taxes	216	106	142	87	42
Income taxes	101	53	61	31	20
Net income	115	53	81	56	22
Average assets	25,875	22,065	15,531	13,781	9,965
Average current loans	12,594	10,879	8,269	8,406	5,496
Securities purchased under resale agreements	11,431	9,894	7,842	8,136	5,304
Average deposits	1,446	1,009	660	432	366
Assets under management and administration	44,773	34,777	32,295	18,991	13,808
Full-time equivalent staff *(a)*	3,897	3,663	3,966	1,827	1,693
Expense-to-revenue ratio *(%)*	78.7	84.9	72.4	75.4	83.9

**Restated to give effect to the current year's organization structure.*
(a) As at October 31.

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Financial Strategy:

To grow in lines of business in which the Bank can provide value to customers and either currently achieves an acceptable return on equity (risk adjusted return on capital) or can demonstrate potential to do so in the short term.

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.

Strong Revenue Growth

Strong revenue growth of 9.9% was achieved in 1996, driven by:

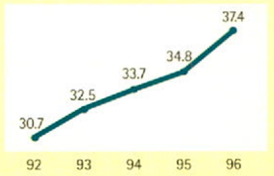
- diversified business volume growth; and
- higher Investment Banking and Treasury revenues;
- partly offset by lower spreads.

The Bank's diversification strategy by line of business, customer and geographical region helped drive revenues up 9.9% in 1996 to a record level of $6,227 million. Revenue growth in Canada was fueled by diversified business volume growth and higher capital market fees, partly offset by lower spreads. Revenue growth in the United States was driven by commercial loan growth in Harris, partly offset by lower spreads. Revenue growth in Mexico reflects the effect of the Bancomer alliance. The Bank has achieved an average revenue growth over the past five years of 9.3%.

The Bank's proportion of other income to total revenue grew to 37.4% from 34.8% last year, reflecting an increased mix of Bank revenue from Investment Banking operations. Diversification by line of business, product, service and geographical region is reflected in the results of the four operating groups discussed in the Operating Group review section on pages 24–28.

Revenue Growth *(%)*

Other Income as a % of Total Revenue



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

For the year ended October 31	1996	1995	1994	1993	1992
Net interest income (TEB) *(a)*	3,898	3,691	3,447	3,280	3,077
Other income	2,329	1,975	1,749	1,581	1,365
Total revenue	6,227	5,666	5,196	4,861	4,442
Revenue growth *(%)*	9.9	9.0	6.9	9.4	11.2
Five-year average revenue growth	9.3	9.2	7.7	6.0	7.6
Other income as a % of total revenue	37.4	34.8	33.7	32.5	30.7

(a) The taxable equivalent (TEB) adjustment increases interest income on tax efficient assets to the amount that would result if the income were fully 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 on page 49.

mbanx Launched

A key initiative in 1996 was the launch of mbanx service, which has implications for future revenue growth. mbanx combines the latest technology and channels of distribution in an entirely new virtual banking enterprise. While it provides clients with the same complete menu of banking options available in branches, it also carries its own distinct set of products and services. mbanx is designed to meet the needs of time-pressed, financially active consumers. It effectively removes all of the constraints and limitations associated with time, space and geography. Key differentiating factors for clients are single accounts for all of their needs at flat monthly rates, rewards for increasing their business, and portfolio managers assigned to each client. mbanx operations in Canada and the United States will in time extend to Mexico.

Net Interest Income Increased 5.6% in 1996

Net interest income is interest and dividend revenue earned on total assets, less interest expense paid on total liabilities. 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.

1996 net interest income, on a taxable equivalent basis, was $3,898 million, an increase of $207 million or 5.6% over 1995, following growth of 7.1% in 1995. The growth in 1996 reflected diversified business volume growth and the effect of the Bancomer alliance, partly offset by narrower spreads.

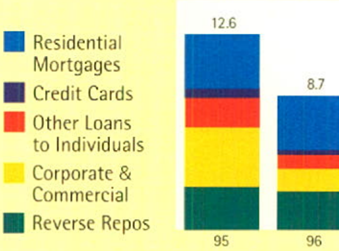
Diversified Business Volume Growth Drives Increase in Net Interest Income

Business volumes increased significantly in 1996 and 1995, contributing positively to net interest income. Total Bank average assets increased 9.9% in 1996 to $158.3 billion following a 17.9% increase in 1995.

1996 business growth was achieved on a diversified basis, with growth in all four operating groups, in all major product segments and across all key geographic regions. In line with the current economic environment however, the greatest volume growth has been in the Investment Banking and Treasury areas. The high rate of growth in 1995 was due to the acquisition of Burns Fry and Suburban Bancorp in the fourth quarter of 1994, loan growth, and increased money market activities.

On an operating group basis, growth in 1996 was driven by higher residential mortgages in PCFS, higher money market assets in CIFS, strong commercial loan growth in Harris and higher trading volumes in Investment Banking:

Contribution to Total Loan Growth *(%)*



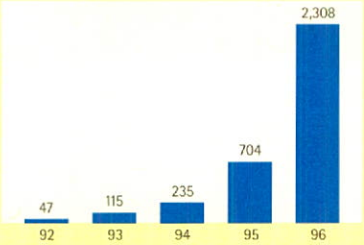
For information on balance sheet trends see Table 19 on page 62.

- average cash and securities increased $5.9 billion or 12.5% in 1996, largely in international money market activities. This compared with growth of $10.2 billion or 27.4% in 1995. Average loans grew $7.6 billion or 8.7% in 1996 and $9.7 billion or 12.6% in 1995;
- average residential mortgages in PCFS increased 11.2% in 1996 to $26.5 billion. Market share has increased by more than two percentage points over the past five years;
- loans to small businesses in PCFS with authorizations under $1 million, excluding agriculture and mortgages, increased 2.5% in 1996 to $4.7 billion, following an 8.7% increase in 1995. Market share, at 16.0%, increased from 15.8% a year earlier and has increased significantly by 3.6% over the past five years;
- average other loans to individuals in PCFS were $9.5 billion in 1996 and increased 3.4% after an increase of 7.5% in 1995;
- average total personal deposits in PCFS were $43.8 billion in 1996, an increase of 5.5% compared with 5.4% in 1995. Market share was 14.4% in 1996, an increase from 14.2% in 1995. Significant growth was achieved in the Bank's FirstBank Savings product;
- in the United States, loan growth at Harris Bank was 14.8% in 1996, reflecting increases in commercial loans of $1,086 million or 12.7%. Loan growth at Harris Bank in 1995 was 21.4%, primarily driven by the Suburban Bancorp acquisition and credit card and commercial loan growth.

New Initiatives Created Business Volume Growth

- Harris Bank acquired 54 branches of Household Bank, resulting in a 50% increase in the number of customers in the greater Chicago area, and additional deposits of U.S. $2.9 billion
- mortgage growth in Canada was boosted by the acquisition by PCFS of a mortgage portfolio from Household Trust in Canada
- the Bank introduced a low-rate MasterCard product and the first telephone calling credit card in Canada in a joint venture with Stentor – an alliance of Canadian telephone companies
- Bank of Montreal Capital Corporation was launched to provide equity investments to small- and medium-sized enterprises
- the Bank transacted its first corporate lending deals in the Mexican marketplace in more than 14 years
- a new Merchant Banking operation was launched in 1996 to pursue investment opportunities

FirstBank® Savings Account Volumes *($ millions)*



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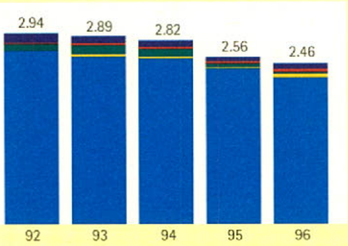
Lower Spreads Resulted from Changes in Interest Rates and in Mix

Average net interest spread is the ratio of net interest income divided by average assets. Average net interest spread in 1996 was 2.46% compared to 2.56% in 1995 and 2.82% in 1994.

More volatile or cyclical revenues increased spread by three basis points in 1996 but lowered spread by ten basis points in 1995. These factors increased net interest income by $75 million in 1996 compared to a decline of $83 million in 1995; lower lesser developed countries (LDC) revenues were the largest contributor to the decline in 1995:

- trading net interest income increased significantly in 1996 by $35 million, causing an increase in net interest spread of two basis points, compared to a decline of $17 million or three basis points in 1995. Trading-related revenue is discussed on page 33;
- net gains on sales of investment securities increased by $12 million in 1996 and $9 million in 1995. These revenues did not materially affect the net interest spread in either 1996 or 1995;
- LDC revenues increased by $7 million in 1996, but declined in 1995 due to $56 million in Brazil Conversion Fund dividends received in 1994. Higher LDC revenues did not materially affect the net interest spread in 1996, compared to a decline of six basis points in 1995;
- interest revenues recognized on impaired loans increased by $21 million, compared to a decline of $13 million in 1995.

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



	92	93	94	95	96
Trading net interest income	0.14	0.10	0.09	0.06	0.08
Securities gains	0.02	0.03	0.03	0.03	0.04
LDC revenues	0.10	0.14	0.12	0.06	0.05
Interest on net impaired loans (ex LDC)	0.00	0.04	0.03	0.02	0.03
Subtotal	0.26	0.31	0.27	0.17	0.20
Loan, deposit and money market spread	2.68	2.58	2.55	2.39	2.26
Total lower-spread assets* as a % of total assets	39.4	40.2	40.0	42.9	44.4

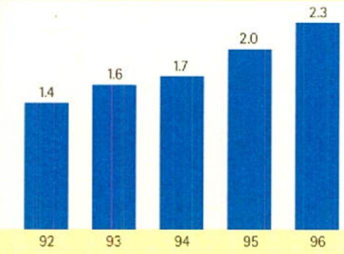
**Cash, securities, reverse repos and acceptances.*
Note: For more information see Table 5 on page 50, and Table 6 on page 52.

Excluding the more volatile or cyclical revenues, the Bank's loan, deposit and money market spread in 1996 of 2.26% was down 13 basis points from 1995. Spreads from the Investment Banking and Treasury areas are generally lower than retail spreads, hence an increased mix of these lines of business contributed to lower spreads:

- as interest rates declined in 1996, the rates earned on loans were lowered, however the costs on several deposit products did not fall to the same extent due to the existence of pricing floors. This situation resulted in a narrowing or compression of spreads;
- during 1996 average growth in relatively higher-cost term deposits outpaced the growth in relatively lower-cost demand and notice deposits, resulting in a higher mix of term to total deposits of 65.2% in 1996 compared to 64.2% in 1995;
- relatively high growth in lower-yield assets (cash, securities, reverse repos and acceptances) increased the low yield asset mix to 44.4% of total assets in 1996 compared to 42.9% in 1995, contributing to lower spreads. Although these mix changes reduced average net interest spread, growth of these products in Treasury and Investment Banking contributed positively to revenue.

Other Income Growth Due to Strong Capital Markets

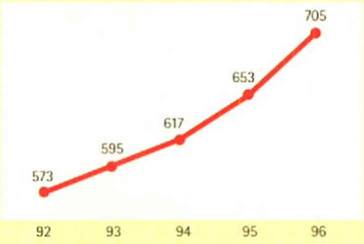
Other income of $2,329 million in 1996 increased 18.0%, following an increase of 12.9% in 1995. Growth in other income was mainly due to higher capital market fees in the Investment Banking group.



Note: For more information see Table 4 on page 49.

Income from capital market fees includes commission revenue, underwriting and advisory fees. The increase in revenue from capital market fees of 53.5% in 1996 resulted primarily from stronger equity markets, increased new issue activity and increased secondary trading volumes. Revenues in 1995 were also up sharply by 58.0% reflecting the effect of the Burns Fry acquisition at the end of 1994, partly offset by weak capital markets in the first half of 1995. In 1996, Nesbitt Burns participated in transactions totalling 75% of the capital raised by corporate issuers in Canada compared to 80% in 1995.

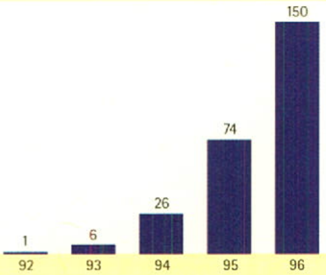
Investment management and custodial revenues decreased by 3.2% in 1996 due to the sale by Harris of its securities custody and related trustee service business for large institutions. The primary component of this revenue item is trust revenue, which includes revenue from The Trust Company of Bank of Montreal in Canada and Harris Bank's trust operations in the United States. The Trust Company of Bank of Montreal has experienced growth in its estate and trust portfolio management services areas. Trust income at Harris Bank decreased 11.6% in 1996 due to the sale of its securities custody and related trustee service business for large institutions in early 1996. This sale was a strategic decision to divest from a line of business where Harris did not have the appropriate scale to compete effectively and profitably.



Mutual fund revenues increased by 64.8% in 1996 compared to a decline in 1995. In 1995, many customers switched to more traditional investments. However, in 1996, mutual fund sales have exceeded redemptions and revenues have improved.

Revenue from interest rate and foreign exchange contracts includes revenue from spot transactions and trading revenues. Trading revenues are discussed under the Trading-Related Revenue section on page 33.

All other revenue increased by 3.9% in 1996 compared to a slight decline in 1995. The growth in 1996 reflected a volume driven 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. Card services revenue growth in 1996 reflected a significant increase in debit card point-of-sale volumes in Canada, and the success of the AIR MILES®* credit card program. Debit card transactions at PCFS increased sharply from 74 million in 1995 to 150 million in 1996. In Canada, card services revenue is being targeted more aggressively with the introduction by the Bank of a suite of credit card products that offer Canadian consumers a wide array of options, including a low-rate MasterCard and a telephone calling credit card. Card services revenue at Harris Bank reflects increased merchant processing volumes and emphasis on fee-based cardholder services. The decline in all other revenue in 1995 reflected 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.



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Trading-Related Revenue

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 revenue included in the statement of income.

Total revenue from trading-related activities increased by 16.2% in 1996. Total trading-related revenue improved by 2.3% in 1995 reflecting higher foreign exchange revenues and higher volumes offset by lower margins.

Trading-Related Revenue *(millions of dollars)*

For the year ended October 31	1996	1995*	1994*	1993*	1992*
Net interest income	133	98	115	114	146
Other income					
Interest rate contracts	70	22	29	18	90
Foreign exchange contracts	130	166	137	137	42
Total trading revenue	333	286	281	269	278

**Reclassified to conform with the current year's presentation.*
Note: For more information see Table 4 on page 49.

Financial Strategy:

To achieve superior productivity (expense-to-revenue ratio) through a combination of continued strong cost management and superior growth in revenues.

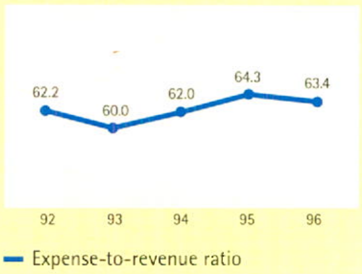
Measure:

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 expense growth and the differential of revenue growth minus expense growth.

Expense-to-Revenue Ratio Improved

Bank of Montreal's expense-to-revenue ratio improved to 63.4% in 1996 from 64.3% in 1995. Total Bank revenue growth, at 9.9%, exceeded expense growth of 8.3%. Bank of Montreal has an objective, over the long term, of improving productivity 2% per annum.

Productivity *(%)*



Improvements in the Bank's productivity were partly offset by an increasing mix of lines of business with high productivity ratios and investments for the future.

The improvement in the reported 1996 productivity ratio of 0.9% was due to:

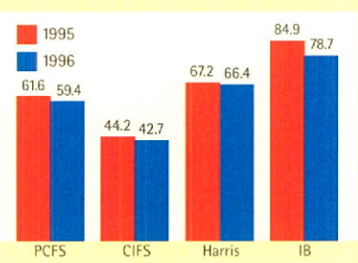
- revenue growth at 9.9%, which reflected success in the Bank's diversification strategy; and
- expense growth of 8.3%, as strong expense control was partly offset by higher variable compensation in Investment Banking (directly related to higher revenue generation), the effects of investments for the future, volume growth and inflation net of benefits from productivity initiatives.

Productivity *(%)*

For the year ended October 31	1996	1995	1994	1993	1992
Expense-to-revenue ratio	63.4	64.3	62.0	60.0	62.2
Revenue growth	9.9	9.0	6.9	9.4	11.2
Expense growth	8.3	13.1	10.5	5.5	6.1
Adjusted expense-to-revenue ratio	62.2	62.4	60.1	59.4	61.1

Note: For more information see Table 8 on page 54.

Productivity by Business Segment *(%)*



Productivity improvement continues to be a key focus of the Bank, with all operating groups achieving improvements in 1996. PCFS reported a reduction in its expense-to-revenue ratio to 59.4% from 61.6%, reflecting strong expense control, with expenses down 0.9% from 1995. CIFS reported an improvement in its expense-to-revenue ratio to 42.7% from 44.2% last year. Harris Bank reported a reduction in its expense-to-revenue ratio to 66.4% from 67.2% a year earlier, but excluding the Savings Association Insurance Fund (SAIF) required one-time charge in 1996 the ratio would be more than 2% lower, reflecting strong expense control. Investment Banking's expense-to-revenue ratio improved significantly to 78.7% from 84.9% last year, as revenue growth outpaced expense growth considerably.

Improvements in productivity at the operating group level did not translate into an equivalent improvement at the total Bank level due to the change in mix of lines of business and investments for the future.

Productivity Initiatives Continued

The Bank continues to be committed to improving productivity with a goal of reducing its expense-to-revenue ratio to the mid- to low-50s 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, automation of large volume transaction processing and outsourcing where appropriate;

- enterprise-wide consolidation of Operations and Corporate Services units, leading to process efficiencies and better use of technology. The Bank's target is to reduce Operations and Corporate Services costs by 25% or $250 million by 1998;
- setting and monitoring of productivity targets for each business segment. The focus is on managing expense categories and obtaining reductions where expenses are considered disproportionately high.

Expense Growth Primarily Due to Investment Banking and Investments for the Future

A continued focus on expense management is key to achieving productivity improvement over the long term.

Total expenses in 1996 were $3,949 million, up 8.3% over 1995. 1996 expense growth was primarily due to the Investment Banking group, which contributed 5.6% of the Bank's expense growth reflecting higher variable compensation expenses directly related to higher revenue generation. Non-recurring items resulted in a net 1% decline in total expense growth as the SAIF charge of $23 million in 1996 was less than business process initiative charges of $60 million in 1995.

Investments for the future, including expenses associated with major projects, depreciation, the amortization of goodwill and systems development costs, contributed 2.4% in expense growth. Other expenses contributed 1.3%, representing costs associated with inflation and volume growth, reduced by benefits from productivity initiatives.

Total expenses in 1995 increased 13.1% from 1994. Investment Banking and Harris were the primary contributors due to the impact of the acquisitions of Burns Fry and Suburban Bancorp in late 1994.

Salaries and employee benefits grew by 10.6% in 1996 due largely to higher production compensation in Investment Banking. The increase of 11.3% in 1995 primarily related to the impact of acquisitions, higher production compensation in Investment Banking and team based incentive pay.

Premises and equipment costs increased 6.9% in 1996 as compared to 13.3% in 1995 and included 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 5.6% in 1996, with higher growth of 15.5% in 1995 as increased volumes in point-of-sale and tele-banking resulted in higher long-distance charges, which were recovered through fees included in other income.

Other expenses increased 10.0% in 1996 and 19.2% in 1995. High growth in 1996 reflected increased investment spending including costs related to the new co-sourcing enterprise and introduction costs for the mbanx launch (research, advertising, promotion and design). The high growth in 1995 reflected the acquisitions of Burns Fry and Suburban Bancorp, higher capital taxes, professional fees and training expenses.

Accomplishments

- a new co-sourcing enterprise was launched with two other major Canadian banks, to handle high volume document processing for all three institutions. Through economies of scale, this productivity initiative is expected to lower future processing costs
- at the end of 1996, initiatives identified and committed to will reduce costs by $269 million by the end of 1998, exceeding the Bank's $250 million target
- improved distribution channels – the number of ABMs in Canada increased to 2,017 from 1,763 in 1995 and the number of debit card transactions increased to 150 million in 1996 from 74 million in 1995

Contribution to Expense Growth *(%)*

	1996	1995
Investment Banking	5.6	6.8
Non-recurring items	(1.0)	(0.3)
Investments for the future*	2.4	1.4
Other	1.3	5.2
Total expense growth	8.3	13.1

**Includes the impact of investment spending outlined on page 23 as well as expenses associated with major investment projects.*

Non-Interest Expense *(millions of dollars)*

For the year ended October 31	1996	1995	1994	1993	1992
Salaries and employee benefits	2,210	1,999	1,795	1,664	1,549
Premises and equipment	727	679	600	580	555
Communications	219	208	180	165	167
Other expenses	716	651	546	477	440
Goodwill and other valuation intangibles	54	49	31	30	36
Non-recurring items	23	60	71	0	18
Total non-interest expense	3,949	3,646	3,223	2,916	2,765

Note: For more information see Table 8 on page 54.

Financial Strategy:

To maintain a strong risk management culture, and manage the risk/reward relationship within and across each of the Bank's major risk-based lines of business.

Measure:

The Bank continuously reviews its risk management policies and practices to ensure that the Bank is not subject to large asset valuation volatility and earnings volatility.

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

Prudent and Professional Approach to Risk-Taking

Overall Risk Management Principles

The Risk Review Committee of the Board of Directors oversees the risk management processes of the Bank and receives regular reports on material risk activities. The head of Risk Management Policy coordinates policy setting on risk management issues, assesses the consolidated risk exposures of the Bank, and reviews the effectiveness of internal control and transactional processes, in liaison with Corporate Audit. The Bank's framework of risk management incorporates a prudent and professional approach to risk-taking, ensuring risks are properly identified and documented, accurately measured and aggregated, effectively mitigated and constrained as required, and reported in a timely manner. Underlying principles that support this risk management framework include:

- active promotion of a strong risk management culture that accords high value to disciplined and effective risk management;
- use of professionally qualified people with appropriate risk management skills;
- adherence to disciplined processes for evaluation and acceptance of risk within appropriate limits (for individual transactions, product types and specific portfolios);
- commitment to technological excellence by using leading-edge analytical tools and technologies to properly capture and price risk, monitor positions and determine the impact of potential management actions; and
- continuous adherence to risk management processes, verified through regular internal audits.

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. Highlighted sections show 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. Credit risk arises in traditional lending activity (loan loss risk), in settling payments between financial institutions (settlement risk), and in providing products which create replacement risk. Replacement risk arises when a client's commitments to the Bank are determined by reference to changing values of contractual obligations, for instance in the case of derivatives and other Treasury products.

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

- clear communication of credit risk management standards and other requirements through policies, directives, operating procedures and training;
- predetermined competency requirements for all officers whose responsibilities include evaluation of credit risk, and delegation of decision-making authority consistent with demonstrated ability. All delegation of authority is clearly defined and documented, and policies establish personal accountability at every stage of the credit granting process;
- disciplined decision-making, including for most commercial loans use of a dual-track approach to risk assessment and risk rating classification. Credit transactions are thus evaluated first by customer relationship managers and, separately, by independent credit officers. Additionally, in the case of all large credits a committee of senior executive officers assesses the transactions;
- application of analytical tools and systems to capture risk, monitor performance, and price commensurate with risk. Risk Adjusted Return on Capital (RAROC) methodologies are used, which draw on external market data inputs;
- prompt recognition of problem accounts and their transfer to a group of specialists skilled in managing such accounts; all problem accounts are subject to formal review quarterly;
- management of the Bank's overall loan portfolio to ensure broad diversification of credit risk and to limit concentrations of correlated risks (e.g. country exposures, industry risks);
- continuous review of credit and credit management processes by an independent audit group.

Measurement: Credit Risk

The measures of credit risk focus primarily on the Bank's loan portfolio and are defined in the Asset Quality section on page 40. The results of the Bank's management of credit risk are discussed in this section.

Replacement risk, representing counterparty risk arising out of Treasury activities and under derivatives contracts, is measured by reference to the deemed risk content of the specific contract.

The deemed risk content is determined primarily by 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, or shareholders' equity, arising from volatility in underlying factors, i.e. 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;
- application of analytical tools such as gap analysis, income and market value sensitivity and simulation analysis.

Position 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.

Interest rate risk is the risk that net interest income and/or shareholders' equity will decrease because of an adverse movement in interest rates.

Monitoring and measurement techniques focus on both financial performance (income) and financial condition (value). Earnings sensitivities to changes in market rates or prices are utilized to measure financial performance. Mark-to-market sensitivities to changing interest rates are utilized to measure financial condition. Both the earnings and mark-to-market sensitivities measure the impact of changing market rates or prices on the balance sheet. The earnings sensitivities monitor the impact over specific time frames, while the mark-to-market sensitivity measures the same impact over the term to maturity for the various asset and liability portfolios.

Mismatch gap positions are monitored to provide a complementary control to earnings and mark-to-market sensitivities, ensuring balance sheet positions are not unduly concentrated in any one particular period, and to recognize the reduction in market liquidity and increase in market risk as maturity terms increase.

Sensitivity and stress testing is also undertaken. Sensitivity testing is designed to identify potential risks, while stress testing is applied to non-normal market conditions. Should an unduly large risk exist under certain stress conditions, mitigation plans can be developed on a contingency basis.

Bank of Montreal is committed to ensuring the most modern and sophisticated techniques are utilized in the management of interest rate risk. A key factor in this process is the accuracy and timeliness of information. In keeping with the Bank's commitment to technological excellence, a project was launched to replace the existing information pipeline with a leading-edge, centralized automated system, designed to enhance the asset/liability management process.

Measurement: Interest Rate Risk

The Bank uses a variety of techniques to measure interest rate risk including option adjusted gap, simulation and duration analysis.

"Gap" is the mismatch between the amount of assets and liabilities that reprice in given time periods, adjusted for the effects of derivatives entered into to manage interest rate risk exposures. In the accompanying table "gap" is presented for one year.

"Earnings at risk" represents the impact over the next year on net income from an immediate 100 basis point adverse change in interest rate applied to mismatches currently outstanding. The impact of the change is measured from the date of repricing to the end of the year.

"Mark-to-market risk" reflects the change in value of the portfolio of assets and liabilities arising from an immediate 100 basis point adverse change in interest rates.

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

As at October 31	1996		1995	
	Cdn. $	U.S. $	Cdn. $	U.S. $
Gap	(3.4)	(2.4)	(3.4)	(0.6)
Earnings at risk *(a)*	(19.1)	(37.3)	(6.6)	(10.7)
Mark-to-market risk *(a)*	(214.3)	(76.4)	(189.4)	(69.9)

(a) After tax, in millions.
Note: For more information see Table 7 on page 53.

Risk measurements exclude the impact on trading assets, the effect of management's actions to mitigate risk and potential changes in product, term or option selection by customers in response to changing rates.

Foreign exchange risk is the potential for losses resulting from adverse currency rate movements in relation to the Bank's open foreign exchange positions. The amount of foreign exchange risk which emanates from both customer initiated transactions and proprietary trading activities is not a material part of the Bank's overall position risk. Structural (non-trading) foreign exchange positions in the balance sheet are for the most part match funded, with the exception of the Bank's investment in Bancomer.

Measurement: Foreign Currency Risk

Foreign currency risk is measured on a 24-hour basis, within a set of modest position risk limits. Limits apply to individual currencies and net overall currency positions, as well as the amount of mismatch permitted in forward foreign exchange positions. These limits are formally delegated and independently monitored, with daily reporting to senior management.

The two primary risks arising from derivative products are counterparty failure and market volatility impacts on the Bank's book of derivative exposures. Financial derivatives are contracts which derive their value from underlying interest rates, foreign exchange rates or prices. The contracts can be either exchange traded (such as futures and some types of options) or over-the-counter transactions (including interest rate and cross currency swaps, forward rate agreements, caps and floors, as well as other types of options). The Bank uses these instruments for either trading or hedging purposes and offers many of them to customers for their own risk management and investment purposes.

Derivative risk management objectives are:
- to protect the Bank's capital through appropriate pricing methodology and through measurement, monitoring and proactive management of risks;
- to quantify and implement an appropriate level of risk tolerance to ensure proper balance between risk/reward is achieved on an aggregate basis across product lines;
- to enhance risk/reward recognition through the use of quantitative research which identifies correlation in risk; and
- to provide a flexible, quantitatively based platform on which the Bank can build greater capabilities in newer sophisticated products and bring them to market quickly, all within a disciplined approach.

Position risk associated with derivatives activities is reported daily to senior management and is subject to independent monitoring against approved risk limits. Methodologies for measuring and monitoring both position risk and credit risk for financial derivatives are developed and approved under rigorous processes which ensure all material aspects of risk are captured and reported.

The Bank's derivative portfolios are marked-to-market, and senior management is notified daily or intra-day regarding global risk positions and actual profit and loss, by instrument type and trading location.

Measurement: Derivatives

Counterparty failure risk 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, 1996 was $11.2 billion as compared to $12.2 billion in 1995. 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 18 to the Consolidated Financial Statements.

Liquidity Risk

Liquidity risk is the risk of being unable to meet commitments, under all adverse circumstances, without having to raise deposits at unreasonable prices or sell assets on a forced basis.

The Bank maintains access to liquidity in the form of balance sheet positions and access to markets. The Bank's large base of deposits by individuals provides a strong and secure source of funding in both the Canadian and U.S. dollar markets. These deposits, along with the Bank's strong capital base, reduce the reliance on other more volatile sources of funds.

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 regard 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: Liquidity Risk

The Bank measures liquidity as discussed in the Liquidity section on page 45.

Operational Risk

Operational risk is the potential for loss (including the costs of damage to the Bank's reputation) as a result of a breakdown in communication, information or transaction processing, or legal compliance systems due to systems or procedural failures, error, natural disasters or criminal activity.

Operational risk is managed by a system of internal controls that requires segregation of duties, clearly established authorities within a disciplined process, appropriately verified recording of transaction processing, risk monitoring, financial and managerial reporting, and insurance coverage. The Bank emphasizes ongoing training to constantly improve the skills of its work force to implement the controls in place.

In addition, the Bank maintains contingency plans for systems failure or catastrophic events which include back-up systems, pre-testing and parallel implementation of new systems and internal audit reviews.

Measurement: Operational Risk

The financial measure of operational risk is actual losses incurred. No material losses have occurred in 1996 and 1995.

Asset Quality

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). A base level of provisions is effectively a cost of doing business, since the risk of loss is inherent in lending portfolios (and a degree of risk must be accepted by management and adequately compensated in the pricing of credit). The timing of actual losses incurred varies with external factors. However, 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 comparing the volume of impaired loans to available resources. This ratio is gross impaired loans expressed as a percentage of equity plus the allowance for credit losses ("the allowance").

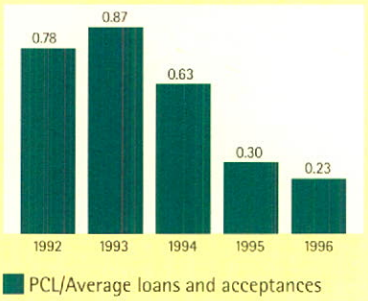
The Bank also monitors net impaired loans as a percentage of net loans (that is, net of the allowance in both cases), which provides a further portfolio measure of the impact of already sustained impairment of asset quality. To test the adequacy of the allowance, this is measured by the respective coverage ratio, namely the allowance as a percentage of gross impaired loans.

Lowest Provisioning Ratio Since 1987

Declining interest rates and generally favourable economic conditions in the Bank's major markets, coupled with continuing success in recovering past write-offs, allowed the Bank to reduce its provision for credit losses to $225 million in 1996 from $275 million in 1995. This resulted in the lowest provisioning ratio in ten years of 0.23%, down from 0.30% in 1995. Additionally, during the year $150 million of excess country risk allowance was transferred to the general allowance, prudentially set aside for loans for which individual specific provisions cannot yet be determined. As a result, the general allowance stands at an all-time high of $475 million. These strong results and protective initiatives are evidence of the Bank's continuing commitment to prudent asset management policies.

The provisioning ratio in 1996 for loans to individuals moved slightly higher to 0.28% after falling to 0.24% in 1995. Strain on household finances in both Canada and the United States, evidenced by very high levels of consumer bankruptcies, have resulted in increased provisions for card and personal loans. Nevertheless, the portfolios have performed satisfactorily. Some residential mortgage loan pools acquired during the year had a known higher-risk content, but have generated acceptable returns notwithstanding their anticipated higher loan loss performance. Strong growth in overall low-risk residential mortgages continued in 1996.

Asset Quality – Performance *(%)*



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

For the year ended or as at October 31	1996	1995	1994	1993	1992	5-year avg
Specific provision	225	150	460	675	744	
General provision	0	125	50	0	50	
Application of excess country risk provision	0	0	0	0	(244)	
Provision for credit losses	225	275	510	675	550	
Allocation of Specific Provision						
Individuals	125	96	89	113	152	
Diversified commercial						
Real estate	(61)	17	320	375	261	
Other	161	37	52	188	331	
Designated lesser developed countries	0	0	(1)	(1)	0	
Specific provision	225	150	460	675	744	
Total general allowance	475	325	200	100	100	
PCL as a % of average loans and acceptances	0.23	0.30	0.63	0.87	0.78	0.56
PCL as a % of average loans and acceptances *(a)*						
Individuals	0.28	0.24	0.25	0.35	0.52	
Commercial, corporate and institutional	0.18	0.11	0.83	1.28	1.49	
Canada *(b)*	0.23	0.27	0.51	0.83	1.08	
United States	0.22	0.38	0.98	1.03	1.36	
Mexico	0.00	0.00	0.00	(1.08)	0.00	
Other countries*	0.00	0.00	(0.22)	0.00	(8.35)	

**Reclassified to conform with the current year's 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., Mexico or other countries including those of an associated corporation.

Note: For more information see Table 9 on page 55.

The provisioning ratio for diversified commercial loans improved for the third consecutive year, largely due to significant recoveries of past years' write-offs in respect to troubled commercial real estate loans. No new problem industry sector has emerged, and the Bank's risk diversification policies have resulted in commercial loan losses being well spread across the portfolios. An increase in provisions in the financial institutions sector primarily reflected an isolated loss resulting from fraudulent activity by a borrower in the leasing sector, rather than evidencing a deteriorating trend in this industry segment's credit quality.

Net Impaired Loans at Historically Low Levels

The improvement in asset quality is further demonstrated by the continued reduction in impaired loans. Generally favourable economic conditions resulted in cyclically low levels of new impaired loans in both 1996 and 1995. Gross impaired loans (GIL) declined, for the third consecutive year, by 19.3% to $1,397 million in 1996 following a 29.3% decline in 1995. The majority of the reduction in 1995 was generated by asset sales of real estate loans. In 1996 this feature contributed a significant but reducing proportion of the overall reduction in net impaired loans. The Bank pursued a general approach of conservatively provisioning and working out troubled real estate assets, selling loans (individually or in pools) usually only if in its view retaining the asset(s) would not materially improve recovery potential.

Asset Quality – Condition *(%)*

Net impaired loans (NIL) declined 56.4% to $364 million, net of the allowance, following a decline of 39.3% in 1995. Part of the reason for this very low ratio is the build up of the general allowance and the surplus allowance in Harris. In accordance with U.S. practice, Harris has continued to build its allowance for credit losses over and above the level of its gross impaired loans. At year end, the surplus amounted to $164 million, $50 million of which has been consolidated into the general allowance. In addition, as noted above the Bank transferred $150 million of the excess country risk allowance to the general allowance during 1996. Thus, the very low net impaired loans reflects lower gross impaired loans and substantial prudential provisions.

Diversified commercial impaired loans declined further in 1996, largely due to continued stability in most industry segments. Net impaired real estate loans, although significantly lower than their peak of $1,432 million in 1993, continue to be the major portion of net impaired loans, amounting to $463 million at year end, down from $846 million in 1995.

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

For the year ended or as at October 31	1996	1995	1994	1993	1992	5-year avg
Gross impaired loans	1,397	1,730	2,447	4,249	4,232	
Net impaired loans	364	835	1,376	2,263	2,173	
GIL as a % of equity & ACL	15.71	20.48	29.86	54.84	58.01	35.78
NIL as a % of total net loans and acceptances	0.35	0.89	1.49	2.91	3.04	1.74
Migration Analysis – GIL						
Additions	959	806	1,267	1,587	2,141	
Reductions *(a)*	(948)	(1,073)	(1,922)	(747)	(663)	
Net additions (reductions)	11	(267)	(655)	840	1,478	
Migration Analysis – GIL – Real Estate						
Additions	127	339	613	838	1,276	
Reductions *(a)*	(526)	(489)	(690)	(400)	(167)	
Net additions (reductions)	(399)	(150)	(77)	438	1,109	
Segmentation of NIL						
Individuals	149	98	84	91	107	
Diversified commercial						
Real estate	463	846	1,003	1,432	1,413	
Other	227	216	489	616	573	
General provision	(475)	(325)	(200)	(100)	(100)	
Designated lesser developed countries	0	0	0	224	180	
Total NIL	364	835	1,376	2,263	2,173	
NIL as a % of Net Loans and Acceptances *(b)*						
Individuals	0.33	0.24	0.23	0.28	0.35	
Diversified commercial	1.56	2.50	3.64	5.44	5.33	
Designated lesser developed countries	0.00	0.00	0.00	71.34	33.46	
Canada	0.09	0.26	0.79	1.68	1.85	
United States	0.95	2.47	3.05	4.99	5.35	
Mexico	0.00	0.00	0.00	0.00	0.00	
Other countries	0.00	0.00	0.00	14.43	9.54	

(a) Loans and acceptances returning to performing status, sales and repayments.
(b) Segment NIL as a percentage of segment net loans and acceptances.
Note: For more information see Tables 12, 14, 15 and 17 on pages 58 to 60.

Strong Coverage Ratios

The coverage ratio, that is the allowance for credit losses as a percentage of gross impaired loans, is at the highest level in the past five years. This reflects the decision of management to build provisions, as above, recognizing that risks present in the portfolio will likely emerge again more visibly in future economic downturns.

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

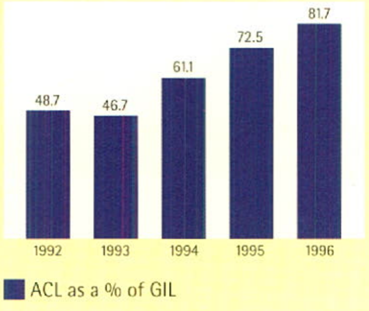
For the year ended or as at October 31	1996	1995	1994	1993	1992	5-year avg
Allowance for credit losses, beginning of year	1,255	1,496	1,999	2,070	2,149	
Provision for credit losses	225	275	510	675	550	
Recoveries	103	52	75	59	79	
Write-offs *(a)*	(449)	(565)	(1,147)	(888)	(862)	
Other – including foreign exchange rates	9	(3)	59	83	154	
Total increase (decrease)	(112)	(241)	(503)	(71)	(79)	
Allowance for credit losses, end of year	1,143	1,255	1,496	1,999	2,070	
ACL as a % of GIL *(b)*	81.7	72.5	61.1	46.7	48.7	62.1
Individuals	13.9	19.0	22.0	24.8	26.7	
Diversified commercial	43.2	33.7	34.6	36.8	33.2	
Designated lesser developed countries	100.0	100.0	100.0	74.8	83.8	
Net write-offs as a % of average loans and acceptances	0.3	0.6	1.3	1.1	1.1	

(a) Write-offs on designated lesser developed countries include losses on sales of performing assets that were charged directly against the allowance (1996 = $109 million, 1995 = $115 million, 1993 = $65 million, 1992 = $314 million).

(b) Segment ACL as a percentage of segment GIL.

Note: For more information see Tables 11 and 16 on pages 56 and 60.

Asset Quality – Coverage



The allowance for credit losses decreased by $112 million to $1,143 million in 1996. Write-offs, at $449 million, were somewhat below 1995 ($565 million). Real estate write-offs accounted for 24.5% of total write-offs in 1996 compared to 22.3% in 1995. The remainder of write-offs was not concentrated in any particular segment or industry.

Unrealized Gains on Securities and Reserves Increased

The market value of the Bank's securities portfolio and reserves increased by $170 million to $950 million in 1996. This primarily reflects appreciation in the value of the Bank's investment in Grupo Financiero Bancomer. Additional information is available on Table 20 on page 62.

A Well-Diversified Portfolio

The Bank's financial strategy incorporates a continued commitment to avoiding undue concentrations of risks within its loan and investment portfolios 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.

As in other areas of risk management, the Bank seeks to employ the best available technologies and methods. It has supplemented traditional controls on risk concentrations with quantitative tools that help to measure risk correlations of assets, mainly those in the corporate and institutional portfolio. Within the overall commercial loan portfolio, securities purchased under resale agreements (reverse repos) and loans to financial institutions represented the highest concentrations, but are low-risk exposure. The remaining commercial, corporate and institutional portfolio is broadly diversified geographically, by industry, industry sub-sector and by client relationship. 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 4.7% of total net commercial, corporate and institutional loans compared to 6.4% in 1995. This was primarily due to the Bank's success in managing down its portfolio of distressed assets and loans.

Mortgages continue to be the predominant lending product in the loans to individuals portfolio, which is typified by good diversification by loan purpose, type, size and geographical location of risk. This credit portfolio results from the operation of an efficient, highly disciplined lending process which combined with the risk diversification aspects results in loan loss performance that is quite predictable and has tended to follow economic cycles.

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

As at October 31	1996	1995
By Market		
Individuals	43.7	43.4
Commercial, corporate & institutional	56.1	56.4
Designated LDC	0.2	0.2
	100.0	100.0
By Geography *(b)*		
Canada	67.5	68.8
United States	30.4	29.1
Mexico	0.5	0.5
Other countries	1.6	1.6
	100.0	100.0
Individuals by Product		
Residential mortgages	63.1	61.5
Cards	8.5	9.5
Other personal	28.4	29.0
	100.0	100.0
Commercial, Corporate and Institutional by Industry		
Securities purchased under resale agreements	24.1	19.8
Financial institutions	14.7	13.6
Commercial mortgages	6.1	6.4
Construction (non-real estate)	1.6	1.7
Real estate	4.7	6.4
Manufacturing	12.3	13.3
Mining and energy	5.1	4.6
Service industries	9.7	10.2
Retail trade	4.0	4.9
Wholesale trade	4.7	4.8
Agriculture	2.9	3.6
Transportation/Utilities	4.0	3.8
Communications	4.1	3.8
Other	2.0	3.1
	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 Tables 10 and 13 on pages 56 to 58.

Capital Adequacy

Financial Strategy:

To ensure that Bank of Montreal is well capitalized. This means that the Bank will consistently exceed the minimum regulatory capital ratio requirements and be in line with market expectations.

Measure:

The Bank's primary measure of capital adequacy is the Tier 1 Capital Ratio. This measure is defined by the Office of the Superintendent of Financial Institutions (OSFI) as Tier 1 capital as a percentage of risk-weighted assets. The Bank also monitors the Total Capital Ratio, defined by OSFI as the ratio of total capital to risk-weighted assets.

OSFI has set minimum capital requirements for Canadian banks of 4% and 8% on the Tier 1 Capital Ratio and Total Capital Ratio, respectively.

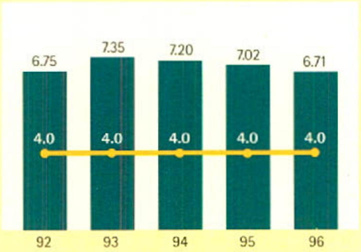
Capital Ratios Well Above Regulatory Requirements

The Bank's Tier 1 Capital Ratio decreased to 6.71% from 7.02% in 1995, but was well above the minimum regulatory requirement of 4.0%. The reduction in the ratio compared to last year resulted primarily from the impact of $192 million in goodwill assumed with the purchase of Household Bank's Illinois branch network during the year.

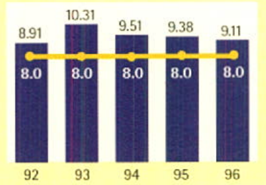
The Bank bought back five million common shares under the Bank's 1996 Share Repurchase Program. The five million cancelled shares, approximately 1.9% of outstanding shares, were purchased at an average cost of $32.41 per share.

The Bank's Total Capital Ratio as at October 31, 1996 was 9.11%, after giving effect to the issue of $300 million in subordinated debentures which settled on November 1, 1996. This was down from 9.38% at the end of 1995, due principally to the decline in the Tier 1 ratio mentioned above. Including the above, the Bank issued just over $1 billion in new subordinated debentures, which were required to offset the impact of the Bank's investment in Bancomer and to support growth in risk-weighted assets.

Tier 1 Capital Ratio and Regulatory Requirement* *(%)*



Total Capital Ratio and Regulatory Requirement* *(%)*



**As at October 31.*

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

As at October 31	1996*	1995	1994	1993	1992
Canadian Basis					
Tier 1 capital	7,130	6,742	6,232	5,593	5,060
Tier 2 capital	3,179	2,268	1,999	2,248	1,650
Less: investment in non-consolidated subsidiary	625	0	0	0	28
Total capital	9,684	9,010	8,231	7,841	6,682
Risk-weighted assets	106,267	96,075	86,589	76,074	74,964
Tier 1 capital ratio *(%)*	6.71	7.02	7.20	7.35	6.75
Regulatory requirement *(%)*	4.0	4.0	4.0	4.0	4.0
Total capital ratio *(%)*	9.11	9.38	9.51	10.31	8.91
Regulatory requirement *(%)*	8.0	8.0	8.0	8.0	8.0
Equity-to-assets ratio *(%)*	4.6	4.7	4.8	4.9	4.8
U.S. Basis					
Tier 1 capital ratio *(%)*	6.26	6.82	6.91	7.13	6.58
Total capital ratio *(%)*	9.81	9.97	10.07	11.14	10.12

**The October 31, 1996 total capital ratio and Tier 2 capital reflects the inclusion of the $300 million in subordinated debentures issued on November 1, 1996. Excluding this issue, the total capital ratio would be 8.83%, or 9.53% on a U.S. basis.*

Note: For more information see Table 21 on page 63 and Table 22 on page 64.

Financial Strategy:

To maintain sufficient liquidity for customer requirements and Bank needs as they arise.

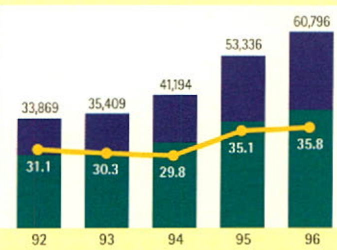
Measure:

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

Liquidity Ratio at 35.8%

Total liquid assets as at October 31, 1996, increased by $7.5 billion or 14.0% from 1995. Liquid assets, as a percentage of total assets, increased to 35.8% from 35.1% in 1995. Average deposit growth in 1996 and 1995 exceeded growth in loans, resulting in an increase in liquidity during both these years. Most of this increase was in securities. Average securities in 1996 increased by 6.5% compared to 30.7% growth in 1995 due to increased money market activities.

Liquid Assets-to-Total Assets* *($ millions)*



*As at October 31.

Liquidity *(millions of dollars except as noted)*

As at October 31	1996	1995	1994	1993	1992
Cash resources	24,187	20,317	14,659	12,081	11,288
Securities	36,609	33,019	26,535	23,328	22,581
Total liquid assets	60,796	53,336	41,194	35,409	33,869
Cash and securities-to-total assets *(%)*	35.8	35.1	29.8	30.3	31.1
Total deposits	119,262	109,605	98,241	87,859	86,601

Note: For more information see Table 23 and Table 24 on page 64.

Deposits Well-Diversified

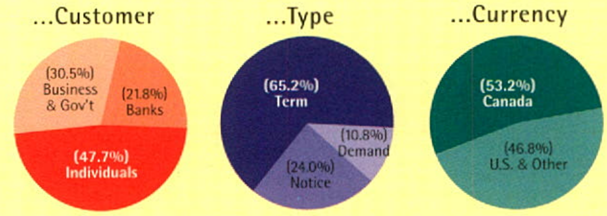
The Bank ensures that it has well-diversified funding sources. Its deposits are broadly diversified by customer, type, currency and geography.

The Bank's large base of deposits by individuals provides a strong and secure source of funding in both the Canadian and U.S. dollar markets. These deposits, along with the Bank's strong capital base, reduce the reliance on other more volatile sources of funds. As such, the acquisition of the Household Bank branch network, in addition to adding to Harris' critical mass in the key Chicagoland market, reduced Harris' dependency on wholesale funds.

The Bank's wholesale funding activities are undertaken by a professional team situated in key financial markets worldwide, and are subject to stringent liability diversification policies, the objectives of which are:

- to avoid excessive dependency on any one depositor or group of depositors;
- to maintain a funding capability in all major markets;
- to ensure that the long-term funding and stability needs of the Bank are not over-shadowed by short-term profit opportunities; and
- to satisfy shareholders' and regulators' requirements for prudent financial management.

Deposits by...



Average balances for 1996.

As a complement to the day-to-day wholesale funding activities, capital markets are accessed for medium to long-term sources of funds. These generally have maturities of one to five years, so they provide substantially more liquidity than money market deposits. To facilitate access to these markets, a new medium-term note program was introduced in 1996.

Deposits in U.S. dollars and other currencies are raised in the form of wholesale funds from central banks, fiduciary funds, other large banks and corporations, and by Harris for its own funding purposes. U.S. dollar and other currency deposits increased in 1996 (46.8% of average total deposits versus 45.8% in 1995) due to growth at Harris Bank and in the Bank's U.S. wholesale funding, related to money market activities, and growth in U.S. corporate banking.

Economic Developments in 1996

The Canadian economy grew slowly over the first half of calendar 1996, rising less than 1% relative to levels a year earlier. A much stronger rate of increase was recorded by exports, though it was moderated by weak domestic spending and a drop in inventories. However, declining interest rates since the beginning of 1995 are expected to have a more stimulative effect on domestic spending in the second half of this year. This is expected to raise gross domestic product (GDP) growth to 2.4% by the fourth quarter of this year. Strength in exports will benefit from an expected expansion in the U.S. economy this year of 2.9%.

In Mexico an expected rise in GDP of 4% this year marks the start of a recovery from the deep recession of 1995. However, while year-over-year inflation rates have declined dramatically over the year, average inflation is expected to be around 35% for the year.

Current Economic Expectations for 1997

The Canadian economic expansion is expected to be better balanced in 1997 relative to the first half of this year. The earlier interest rate reductions are expected to have an ongoing stimulative effect on the domestic side of the economy through 1997. Exports will continue to rise, benefiting from recent success in Canada in lowering costs and improving competitiveness globally. This will help offset an expected slowing in U.S. growth to 2.1%. With both exports and domestic spending expected to continue to support growth for the full year, GDP is expected to rise 3.4%. However, there will remain considerable unused capacity in the economy. Though the unemployment rate will trend lower next year, we are forecasting a still high rate of under 9% by the fourth quarter. This slack will keep inflation close to 1%. Given our expectation of strengthening activity and dormant inflation, we are projecting relatively steady monetary policy. The rate on 3-month treasury bills is expected to remain low, finishing 1997 close to 3%. These factors will contribute to 10-year Government of Canada bond yields averaging under 6.00% by the fourth quarter of 1997. Strong economic fundamentals and continuing progress in lowering public sector deficits will contribute to the Canadian dollar remaining strong at U.S. $0.75 in 1997. The projected moderate growth in the United States next year will similarly keep U.S. monetary policy steady and the fed funds rate unchanged at 5.25% through 1997. Attendant steady inflation and further progress in keeping the deficit on a downward track will contribute to 10-year U.S. government bond yields dropping over the course of 1997 to a fourth quarter level of 6.20%.

In Mexico, the economy is expected to continue to recover, with GDP rising by just over 4% in 1997. Inflation is expected to continue to decline, but at a more gradual pace, and should average just over 20% for the year. The Mexican peso is expected to depreciate in line with inflation differentials with the U.S., and should average just under 9.0/U.S.$ in the fourth quarter of 1997.

1997 Expectations for Bank of Montreal

1997 will reflect full year results for initiatives launched in 1996, including the Bancomer alliance, and the launch of mbanx.

Business volume growth is expected to continue on a diversified basis, however, continuing low interest rates and changes in business mix will continue to exert pressure on spreads.

Asset quality improved in 1996, with the provisioning ratio declining for the third consecutive year. However, the level of recoveries of past write-offs in 1996 is not expected to be sustainable.

The Bank is committed to a prudent and professional approach to risk-taking, within the framework of a strong risk management culture.

Productivity will continue to be an area of focus.

Objectives for the Future

The Bank's primary objective is to continue to achieve fully diluted earnings per share growth in the 10–12% range, with a view to increasing return on equity to the 17–18% range in the year 2000.

Supplemental Information

Table 1 Shareholder Value

For the year ended October 31	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Market Price per Common Share *($) (a)*										
Open	29.750	25.125	26.875	23.563	18.688	13.500	17.000	14.250	13.313	17.063
Close	40.550	29.750	25.125	26.875	23.563	18.688	13.500	17.000	14.250	13.313
High	41.650	31.000	30.750	27.375	24.125	19.188	17.188	17.625	14.875	19.625
Low	29.375	24.125	22.000	21.313	18.563	13.250	12.250	13.313	12.313	12.750
Common Dividends										
Dividends declared *($) (a)*	1.48	1.32	1.20	1.12	1.06	1.06	1.06	1.06	1.00	1.00
Dividends paid *($) (a)*	1.41	1.29	1.18	1.11	1.06	1.06	1.06	1.05	1.00	1.00
Dividend payout ratio *(%)*	35.1	38.2	40.3	43.3	44.7	46.0	50.7	nm	45.9	nm
Dividend yield *(%)*	4.7	5.1	4.4	4.7	5.7	7.9	6.2	7.3	7.5	5.9
Return on Investment (ROI)										
ROI *(%)*	42.4	24.1	(2.3)	19.4	32.4	47.4	(14.4)	27.9	15.6	(17.1)
Five-year ROI *(%)*	22.2	23.1	14.3	20.6	19.8	9.1	4.4	15.1	8.3	9.3
Common Share Information *(b)*										
Number of common shares outstanding *(in thousands) (a)*:										
As at	259,937	263,685	265,457	249,094	244,819	238,770	229,989	221,520	213,524	204,182
Average – basic	261,233	265,632	251,307	247,727	242,079	235,085	226,022	218,023	209,803	179,822
– fully diluted	268,362	273,919	256,496	252,634	245,131	235,085	226,022	218,023	223,803	226,932
Number of shareholder accounts	55,571	57,187	58,879	62,342	65,723	72,887	78,789	82,855	90,479	90,506
Total book value per common share *($) (a)*	25.89	23.41	21.39	19.40	17.69	16.05	15.00	13.98	15.61	14.75
Total market value of common shares *($ billions)*	10.5	7.8	6.7	6.7	5.8	4.5	3.1	3.8	3.0	2.7
Price-to-earnings ratio *(times)*	9.6	8.6	8.3	10.4	9.9	8.1	6.4	nm	6.5	nm
Market-to-book value *(times)*	1.57	1.27	1.17	1.39	1.33	1.16	0.90	1.22	0.91	0.90

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

For the year ended October 31	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Net income (loss)	1,168	986	825	709	640	595	522	(39)	500	(242)
Preferred dividends	69	69	69	68	64	51	48	47	41	45
Net income available to common shareholders	1,099	917	756	641	576	544	474	(86)	459	(287)
Average common shareholders' equity	6,457	5,937	5,088	4,564	4,072	3,623	3,259	3,434	3,141	3,090
Return on common shareholders' equity *(%)*	17.0	15.4	14.9	14.1	14.1	15.0	14.6	(2.5)	14.7	(9.3)
Economic performance threshold *(%)*	12.0	12.0	11.0	10.6	11.2	12.3	13.0	12.4	12.4	12.0
Return on average total equity *(%)*	16.0	14.5	13.9	13.1	13.2	14.2	13.9	(1.0)	13.9	(6.7)
Return on average assets *(%)*	0.74	0.68	0.68	0.63	0.61	0.63	0.64	(0.05)	0.63	(0.29)
Return on average assets available to common shareholders *(%)*	0.69	0.64	0.62	0.57	0.55	0.58	0.58	(0.11)	0.58	(0.34)

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

For the year ended October 31	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Income Statement										
Net interest income (TEB) *(c)*	3,898	3,691	3,447	3,280	3,077	2,776	2,606	2,600	2,611	2,256
Other income	2,329	1,975	1,749	1,581	1,365	1,219	1,047	986	1,042	853
Total revenues (TEB) *(c)*	6,227	5,666	5,196	4,861	4,442	3,995	3,653	3,586	3,653	3,109
Provision for credit losses	225	275	510	675	550	337	169	1,181	390	75
Non-interest expense	3,949	3,646	3,223	2,916	2,765	2,605	2,453	2,330	2,297	2,055
Income before provision for income taxes and non-controlling interest in subsidiary	2,053	1,745	1,463	1,270	1,127	1,053	1,031	75	966	979
Provision for income taxes (TEB) *(c)*	865	746	627	555	483	452	506	109	460	452
Non-controlling interest in subsidiary	20	13	11	6	4	6	3	5	6	4
Net income (loss) before special provision	1,168	986	825	709	640	595	522	(39)	500	523
Special provision net of income taxes	0	0	0	0	0	0	0	0	0	765
Net income	1,168	986	825	709	640	595	522	(39)	500	(242)
Year-over-year growth *(%)*	18.4	19.5	16.4	10.9	7.5	13.9	nm	(107.7)	nm	(178.1)
Earnings per Share *($) (a)*										
Basic	4.21	3.45	3.01	2.59	2.38	2.31	2.10	(0.39)	2.19	(1.60)
Fully diluted	4.13	3.38	2.97	2.55	2.36	2.31	2.10	nm	2.16	nm
Year-over-year growth *(%)*	22.2	13.8	16.5	8.1	2.2	10.0	nm	nm	nm	nm

(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-efficient assets to the amount that would result if the income were fully 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 Total Revenue Detail *(millions of dollars except as noted)*

For the year ended October 31	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Total revenue (TEB) *(a)*	6,227	5,666	5,196	4,861	4,442	3,995	3,653	3,586	3,653	3,109
Year-over-year growth *(%)*	9.9	9.0	6.9	9.4	11.2	9.4	1.9	(1.8)	17.5	0.5
Net Interest Income										
Net interest income as reported	3,790	3,607	3,380	3,212	3,010	2,708	2,535	2,527	2,525	2,117
Taxable equivalent adjustment (TEB) *(a)*	108	84	67	68	67	68	71	73	86	139
Net interest income (TEB) *(a)*	3,898	3,691	3,447	3,280	3,077	2,776	2,606	2,600	2,611	2,256
Year-over-year growth *(%)*	5.6	7.1	5.1	6.6	10.8	6.5	0.2	(0.4)	15.8	(0.8)
Net interest income (TEB) *(a)*	3,898	3,691	3,447	3,280	3,077	2,776				
Less: Non-operating items										
Lesser developed countries (LDC) interest income	86	79	141	156	107	206				
Net gain (loss) on sale of investment securities	58	46	37	40	23	18				
Trading interest income	133	98	115	114	146	197				
Non-recurring items *(b)*	0	0	0	0	6	14				
Interest income on impaired loans (excluding LDC)	43	22	35	40	3	30				
Operating net interest income (TEB) *(a)*	3,578	3,446	3,119	2,930	2,792	2,311				
Year-over-year growth *(%)*	3.8	10.4	6.6	4.9	20.8	20.2				
Spread										
Total average assets *(c)*	158,316	144,115	122,234	113,387	104,591	94,118	81,971	78,878	79,312	84,584
Average net interest spread *(%)*	2.46	2.56	2.82	2.89	2.94	2.95	3.18	3.30	3.29	2.67
Average operating net interest spread *(%)*	2.26	2.39	2.55	2.58	2.67	2.46				
Average Canadian dollar spread *(%)*	3.11	3.47	3.59	3.50	3.75	3.50	3.29	3.61	3.97	3.60
Average U.S. dollar and other currencies spread *(%)*	1.63	1.32	1.68	2.01	1.78	2.11	3.00	2.86	2.50	1.76
Other Income*										
Deposit and payment service charges	473	451	437	430	403	344				
Lending fees	194	186	180	145	117	105				
Capital market fees	760	495	313	238	196	160				
Card services	234	230	211	208	193	194				
Investment management and custodial fees	245	254	223	208	187	171				
Mutual fund revenues	87	53	56	30	23	9				
Revenue from interest rate and foreign exchange contracts	257	229	204	203	177	153				
Other fees and commissions	79	77	125	119	69	113				
Foreign currency translation adjustment *(d)*	0	0	0	0	0	(30)				
Total other income	2,329	1,975	1,749	1,581	1,365	1,219	1,047	986	1,042	853
Year-over-year growth *(%)*	18.0	12.9	10.6	15.8	12.0	16.4	6.2	(5.2)	22.0	4.3
Other income as a % of total revenue	37.4	34.8	33.7	32.5	30.7	30.5	28.7	27.5	28.5	27.5
Total other income	2,329	1,975	1,749	1,581	1,365	1,219				
Less: Non-operating items										
Trading – interest rate contracts	70	22	29	18	90	(37)				
Trading – foreign exchange contracts	130	166	137	137	42	144				
Foreign currency translation adjustment *(d)*	0	0	0	0	0	(30)				
Banco de Montreal S.A. fee income *(d)*	0	0	0	0	0	8				
Operating other income	2,129	1,787	1,583	1,426	1,233	1,134				
Year-over-year growth *(%)*	19.2	12.8	10.9	15.8	8.8	6.7				
Other Information *(units – as at October 31)*										
Number of employees *(e)*	33,468	33,341	34,769	32,067	32,126	32,130	33,580	33,666	34,115	34,482
Number of bank branches	1,296	1,245	1,248	1,214	1,231	1,239	1,242	1,230	1,226	1,220
Number of automated banking machines (Canada)	2,017	1,763	1,708	1,538	1,293	1,221	1,163	937	753	689
Rates										
Average Canadian prime rate *(%)*	6.67	8.58	6.42	6.44	7.49	10.74	14.11	13.01	10.35	9.56
Average U.S. prime rate *(%)*	8.49	8.89	6.69	6.04	6.59	9.02	10.25	10.99	9.06	7.99
Canadian/U.S. dollar exchange rates *($) (f)*										
High	1.34	1.33	1.29	1.24	1.12	1.12	1.13	1.17	1.20	1.30
Low	1.38	1.42	1.40	1.34	1.26	1.17	1.21	1.24	1.33	1.39
Average	1.37	1.38	1.36	1.29	1.19	1.15	1.17	1.19	1.25	1.34
End of period	1.34	1.34	1.35	1.32	1.24	1.12	1.17	1.17	1.22	1.32

**Reclassified to conform with the current year's presentation.*

(a) The taxable equivalent (TEB) adjustment increases interest income on tax-efficient assets to the amount that would result if the income were fully 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. ($14 million in 1991).

(c) Daily average for 1990 to 1996.

(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)*

For the year ended October 31	1996 Average balances	1996 Average interest yield (%)	1996 Average interest mix (%)	1996 Interest income	1995 Average balances	1995 Average interest yield (%)	1995 Average interest mix (%)	1995 Interest income	1994 Average balances	1994 Average interest yield (%)	1994 Average interest mix (%)	1994 Interest income
Assets												
Canadian Dollars												
Deposits with other banks	2,097	4.87	1.3	102	1,977	6.45	1.4	128	2,083	5.03	1.7	105
Securities	20,475	7.19	12.9	1,472	21,231	5.58	14.7	1,184	16,807	5.09	13.7	856
Loans												
Residential mortgages	26,625	7.83	16.8	2,084	23,906	8.37	16.6	2,001	21,374	8.19	17.5	1,749
Non-residential mortgages	1,531	8.94	1.0	137	1,508	9.71	1.0	146	1,588	10.54	1.3	167
Consumer instalment and other personal loans	10,509	8.18	6.6	859	10,018	9.45	7.0	946	8,889	8.43	7.3	749
Credit card loans	2,405	12.93	1.5	311	2,250	12.72	1.6	286	2,100	11.20	1.7	235
Loans to businesses and governments *(a)*	19,295	7.27	12.2	1,402	18,517	7.97	12.8	1,476	16,391	6.11	13.4	1,001
Total loans	60,365	7.94	38.1	4,793	56,199	8.64	39.0	4,855	50,342	7.75	41.2	3,901
Other non-interest-bearing assets	6,087		3.9		3,723		2.6		3,913		3.2	
Total Canadian dollar assets and interest income	89,024	7.15	56.2	6,367	83,130	7.42	57.7	6,167	73,145	6.65	59.8	4,862
U.S. Dollar and Other Currencies												
Deposits with other banks	16,462	5.36	10.4	882	12,799	5.70	8.8	729	9,689	3.88	7.9	376
Securities	12,842	7.35	8.1	943	10,047	7.82	7.0	786	7,127	6.55	5.9	467
Loans												
Residential mortgages	1,538	7.82	1.0	120	1,177	8.01	0.8	94	1,000	7.51	0.8	75
Non-residential mortgages	358	8.53	0.2	30	489	7.97	0.3	39	176	5.94	0.1	11
Consumer instalment and other personal loans	1,612	8.36	1.0	135	1,317	8.28	0.9	109	985	7.01	0.8	69
Credit card loans	1,356	13.34	0.9	181	1,254	13.39	0.9	168	937	13.47	0.8	126
Loans to businesses and governments *(a)*	29,369	7.22	18.5	2,121	26,592	7.91	18.5	2,103	23,852	6.04	19.5	1,440
Total loans	34,233	7.56	21.6	2,587	30,829	8.15	21.4	2,513	26,950	6.38	22.0	1,721
Other non-interest-bearing assets	5,755		3.7		7,310		5.1		5,323		4.4	
Total U.S. dollar and other currencies assets and interest income	69,292	6.37	43.8	4,412	60,985	6.60	42.3	4,028	49,089	5.22	40.2	2,564
Total All Currencies												
Total assets and interest income	158,316	6.81	100.0	10,779	144,115	7.07	100.0	10,195	122,234	6.08	100.0	7,426

For the year ended October 31	1996 Average balances	1996 Average interest cost (%)	1996 Average interest mix (%)	1996 Interest expense	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
Liabilities												
Canadian Dollars												
Deposits												
Banks	2,749	4.13	1.7	114	2,757	6.13	1.9	169	3,045	3.50	2.4	107
Businesses and governments	13,288	3.87	8.4	514	12,159	5.10	8.4	620	11,007	4.01	9.0	441
Individuals	44,156	4.50	27.9	1,985	41,928	5.04	29.1	2,114	39,453	3.82	32.3	1,505
Total deposits	60,193	4.34	38.0	2,613	56,844	5.11	39.4	2,903	53,505	3.84	43.7	2,053
Subordinated debt and other interest-bearing liabilities	15,667	6.27	9.9	982	14,094	2.67	9.8	377	9,388	1.98	7.7	186
Other non-interest-bearing liabilities	6,185		3.9		5,733		4.0		4,642		3.8	
Total Canadian dollar liabilities and interest expense	82,045	4.38	51.8	3,595	76,671	4.28	53.2	3,280	67,535	3.31	55.2	2,239
U.S. Dollar and Other Currencies												
Deposits												
Banks	21,896	5.37	13.8	1,175	22,163	5.68	15.4	1,259	19,150	4.06	15.6	777
Businesses and governments	21,249	4.43	13.4	942	18,865	4.91	13.1	926	14,039	2.64	11.5	371
Individuals	9,809	4.12	6.2	404	7,025	4.40	4.8	309	5,365	3.09	4.4	166
Total deposits	52,954	4.76	33.4	2,521	48,053	5.19	33.3	2,494	38,554	3.41	31.5	1,314
Subordinated debt and other interest-bearing liabilities	14,155	5.40	9.0	765	11,148	6.55	7.8	730	8,923	4.78	7.3	426
Other non-interest-bearing liabilities	1,842		1.2		1,441		1.0		1,272		1.1	
Total U.S. dollar and other currencies liabilities and interest expense	68,951	4.76	43.6	3,286	60,642	5.32	42.1	3,224	48,749	3.57	39.9	1,740
Total All Currencies												
Total liabilities and interest expense	150,996	4.56	95.4	6,881	137,313	4.74	95.3	6,504	116,284	3.42	95.1	3,979
Shareholders' equity	7,320		4.6		6,802		4.7		5,950		4.9	
Total liabilities and shareholders' equity and interest expense	158,316	4.35	100.0	6,881	144,115	4.51	100.0	6,504	122,234	3.26	100.0	3,979
Net interest spread on average assets and net interest income		2.46		3,898		2.56		3,691		2.82		3,447

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-efficient assets to the amount that would result if the income were fully 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	1996/1995 Increase (decrease) due to change in: Average balance	Average rate	Total	1995/1994 Increase (decrease) due to change in: Average balance	Average rate	Total
Assets						
Canadian Dollars						
Deposits with other banks	7	(33)	(26)	(5)	28	23
Securities	(42)	330	288	225	103	328
Loans						
Residential mortgages	228	(145)	83	207	45	252
Non-residential mortgages	3	(12)	(9)	(9)	(12)	(21)
Consumer instalment and other personal loans	47	(134)	(87)	95	102	197
Credit card loans	20	5	25	17	34	51
Loans to businesses and governments *(a)*	61	(135)	(74)	130	345	475
Total loans	359	(421)	(62)	440	514	954
Change in Canadian dollar interest income	324	(124)	200	660	645	1,305
U.S. Dollar and Other Currencies						
Deposits with other banks	209	(56)	153	121	232	353
Securities	218	(61)	157	192	127	319
Loans						
Residential mortgages	29	(3)	26	13	6	19
Non-residential mortgages	(11)	2	(9)	18	10	28
Consumer instalment and other personal loans	25	1	26	23	17	40
Credit card loans	14	(1)	13	43	(1)	42
Loans to businesses and governments *(a)*	219	(201)	18	165	498	663
Total loans	276	(202)	74	262	530	792
Change in U.S. dollar and other currencies interest income	703	(319)	384	575	889	1,464
Total All Currencies						
Change in total interest income	1,027	(443)	584	1,235	1,534	2,769
Liabilities						
Canadian Dollars						
Deposits						
Banks	0	(55)	(55)	(11)	73	62
Businesses and governments	58	(164)	(106)	46	133	179
Individuals	112	(241)	(129)	95	514	609
Total deposits	170	(460)	(290)	130	720	850
Subordinated debt and other interest-bearing liabilities	41	564	605	94	97	191
Change in Canadian dollar interest expense	211	104	315	224	817	1,041
U.S. Dollar and Other Currencies						
Deposits						
Banks	(15)	(69)	(84)	123	359	482
Businesses and governments	117	(101)	16	128	427	555
Individuals	122	(27)	95	51	92	143
Total deposits	224	(197)	27	302	878	1,180
Subordinated debt and other interest-bearing liabilities	198	(163)	35	106	198	304
Change in U.S. dollar and other currencies interest expense	422	(360)	62	408	1,076	1,484
Total All Currencies						
Change in total interest expense	633	(256)	377	632	1,893	2,525
Change in total net interest income	394	(187)	207	603	(359)	244

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-efficient assets to the amount that would result if the income were fully 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	4 to 6 months	7 to 12 months	Total within 1 year	Effective interest rate (%)	2–5 years	Effective interest rate (%)	Over 5 years	Effective interest rate (%)	Non-interest sensitive	Effective interest rate (%)	Total
Canadian Dollars												
Assets												
Cash resources	3,173	183	36	3,392	3.22	0	0.00	0	0.00	(248)	na	3,144
Securities	16,475	1,279	2,562	20,316	4.66	2,041	6.97	288	9.72	6	na	22,651
Loans	29,794	4,972	5,861	40,627	6.37	20,848	7.82	342	7.94	1,848	7.06	63,665
Other	1,621	(244)	(1,581)	(204)	na	0	na	0	na	7,216	na	7,012
Total assets	51,063	6,190	6,878	64,131		22,889		630		8,822		96,472
Liabilities												
Deposits	34,974	3,711	6,826	45,511	2.91	9,440	6.85	555	7.77	7,028	0.06	62,534
Subordinated debt	150	0	200	350	6.89	10	10.60	1,615	8.83	0	na	1,975
Other	17,691	518	0	18,209	4.11	0	0.00	0	0.00	6,503	na	24,712
Shareholders' equity	0	0	0	0	na	322	na	0	na	6,929	na	7,251
Total liabilities and shareholders' equity	52,815	4,229	7,026	64,070		9,772		2,170		20,460		96,472
On-balance sheet sensitivity position	(1,752)	1,961	(148)	61		13,117		(1,540)		(11,638)		0
Off-balance sheet sensitivity position	(4,024)	600	(35)	(3,459)		2,186		1,273		0		0
Total interest rate sensitivity position												
1996	(5,776)	2,561	(183)	(3,398)		15,303		(267)		(11,638)		0
1995	(2,807)	868	(1,446)	(3,385)		12,948		857		(10,420)		0
1994	(2,954)	2,725	(2,103)	(2,332)		8,802		907		(7,377)		0
1993	(5,586)	3,548	325	(1,713)		7,111		664		(6,062)		0
1992	(9,124)	2,047	2,588	(4,489)		9,591		520		(5,622)		0
U.S. Dollar and Other Currencies												
Assets												
Cash resources	7,921	4,430	5,152	17,503	5.40	636	6.45	134	7.75	2,770	na	21,043
Securities	6,966	519	658	8,143	6.18	3,163	6.61	2,221	7.06	431	na	13,958
Loans	28,341	2,143	862	31,346	6.69	2,217	7.24	683	7.90	502	1.81	34,748
Other	(1,468)	245	1,552	329	na	0	na	0	na	3,282	na	3,611
Total assets	41,760	7,337	8,224	57,321		6,016		3,038		6,985		73,360
Liabilities												
Deposits	41,122	4,613	2,340	48,075	5.04	3,272	4.20	52	6.09	5,329	0.00	56,728
Subordinated debt	334	0	0	334	5.93	201	10.00	804	6.95	0	na	1,339
Other	12,663	181	222	13,066	5.47	134	9.38	0	0.00	1,758	na	14,958
Shareholders' equity	0	0	0	0	na	335	na	0	na	0	na	335
Total liabilities and shareholders' equity	54,119	4,794	2,562	61,475		3,942		856		7,087		73,360
On-balance sheet sensitivity position	(12,359)	2,543	5,662	(4,154)		2,074		2,182		(102)		0
Off-balance sheet sensitivity position	1,175	278	262	1,715		(385)		(1,330)		0		0
Total interest rate sensitivity position												
1996	(11,184)	2,821	5,924	(2,439)		1,689		852		(102)		0
1995	(4,910)	3,566	792	(552)		3,063		402		(2,913)		0
1994	(352)	(2,939)	1,490	(1,801)		4,109		287		(2,595)		0
1993	(7,971)	3,272	4,838	139		2,313		25		(2,477)		0
1992	(8,861)	4,423	3,087	(1,351)		2,844		265		(1,758)		0

na – Not applicable.

The determination of the interest rate sensitivity or "gap" position, which is based upon the earlier of the repricing or maturity date of assets, liabilities and derivatives used to manage interest rate risk encompasses, by necessity, numerous assumptions.

The gap position presented is at October 31 of each respective year. It represents the position outstanding at the close of the business day and may change significantly in subsequent periods based upon customer preferences and the application of the Bank's asset and liability management policies.

The major assumptions incorporated in this disclosure are:

GAP Position

Deposit/Liabilities

Non-interest bearing deposits are reported as non-interest sensitive.

Interest bearing, non-maturing deposits on which the interest rate does not move in reference to a specific interest rate basis, such as prime, are reported as non-interest sensitive.

Interest bearing, non-maturing deposits on which interest rates have historically moved in reference to a specific interest rate basis, such as prime, and which are above the minimum interest committed by the Bank, are reported as interest sensitive in the 0–3 month category. Such deposits may be sensitive to declining interest rates only to the extent of the minimum interest rate committed.

Investment certificates are reported based upon the scheduled maturity without reference to early redemption or renewal options.

Term Deposits are reported based upon scheduled maturity and estimated redemption based upon historical experience.

Assets

Fixed term assets such as residential mortgages and consumer loans are reported based upon the scheduled repayment and estimated prepayments based upon historical experience.

Trading assets are reported in the 0–3 month category.

Yields

Yields are based upon the contractual interest rate in effect for the assets or liabilities on the reporting date.

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

For the year ended October 31	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Non-Interest Expense Summary										
Total non-interest expense	3,949	3,646	3,223	2,916	2,765	2,605	2,453	2,330	2,297	2,055
Less: Goodwill and other valuation intangibles	54	49	31	30	36	36				
Non-recurring items *(a)*	23	60	71	0	18	24				
Total operating non-interest expense	3,872	3,537	3,121	2,886	2,711	2,545				
Year-over-year growth *(%)*										
Total	8.3	13.1	10.5	5.5	6.1	6.2	5.3	1.4	11.8	6.2
Operating	9.5	13.3	8.1	6.5	6.5	7.7				
Non-Interest Expense Detail										
Salaries	1,972	1,758	1,567	1,455	1,348	1,277				
Employee benefits	238	241	228	209	201	167				
Total salaries and employee benefits	2,210	1,999	1,795	1,664	1,549	1,444				
Premises and equipment										
Rental of real estate	139	136	125	123	114	101				
Premises, furniture and fixtures	215	206	188	177	170	179				
Property taxes	40	41	39	40	37	40				
Computers and equipment	333	296	248	240	234	215				
Total premises and equipment	727	679	600	580	555	535				
Communications	219	208	180	165	167	174				
Other expenses										
Business and capital taxes	116	110	95	92	82	64				
Professional fees	173	141	112	64	63	55				
Travel and business development	199	161	144	122	112	156				
Deposit insurance premiums *(b)*	94	84	76	62	55	48				
Other	157	155	119	137	146	93				
Total other expenses	739	651	546	477	458	416				
Goodwill and other valuation intangibles	54	49	31	30	36	36				
Special charge	0	0	71	0	0	0				
Business process improvement initiative charge	0	60	0	0	0	0				
Total non-interest expense	3,949	3,646	3,223	2,916	2,765	2,605	2,453	2,330	2,297	2,055
Government Levies and Taxes *(c) (d)*										
Government levies other than income taxes										
Payroll levies	109	106	95	88	83	72				
Property taxes	40	41	39	40	37	40				
Provincial capital taxes	89	84	71	71	59	42				
Business taxes	27	26	24	21	23	22				
Goods and services tax and sales tax	101	88	70	64	61	49				
Deposit insurance	94	84	76	62	55	48				
Total government levies other than income taxes	460	429	375	346	318	273				
Provision for income taxes reported in										
Statement of income	757	662	560	487	416	384				
Statement of retained earnings	10	9	(23)	(46)	(70)	37				
Total income taxes	767	671	537	441	346	421				
Total government levies and taxes	1,227	1,100	912	787	664	694				
Total government levies and taxes as a % of net income before taxes and government levies	51.4	53.0	51.8	51.1	48.3	55.4				
Productivity Ratios										
Expense-to-revenue ratio *(%)*	63.4	64.3	62.0	60.0	62.2	65.2	67.2	65.0	62.9	66.1
Non-recurring revenue	0	0	0	0	6	(8)				
Expense-to-revenue ratio excluding non-recurring items, goodwill and other valuation intangibles *(%)*	62.2	62.4	60.1	59.4	61.1	63.6				

(a) The non-recurring item in 1996 is the Harris Savings Association Insurance Fund (SAIF) charge, in 1995 is the business process improvement initiative charge and in 1994 is the Harris special charge.
(b) Includes the SAIF charge.
(c) Government levies are included in various non-interest expense categories.
(d) Restated to conform with the current year's presentation.

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

For the year ended October 31	1996	1995	1994	1993	1992
Individuals					
Residential mortgages	6	3	5	5	2
Cards	96	67	61	73	90
Personal loans	23	26	23	35	60
Total individuals	125	96	89	113	152
Commercial, corporate and institutional					
Financial institutions *(a)*	62	2	7	7	3
Commercial mortgages	5	2	12	4	4
Construction (non-real estate)	3	2	16	8	55
Commercial real estate	(61)	17	320	375	261
Manufacturing	20	(2)	(22)	106	2
Mining/Energy	(18)	17	(10)	(11)	178
Service industries	43	13	6	9	14
Retail trade	9	(10)	(3)	41	45
Wholesale trade	8	1	30	6	10
Agriculture	3	0	(3)	6	0
Transportation/Utilities	16	(4)	1	0	6
Communications	0	(2)	(2)	(4)	0
Other	10	18	20	16	14
Total diversified commercial *(a)*	100	54	372	563	592
Securities purchased under resale agreements	0	0	0	0	0
Net charge to earnings for general provision	0	125	50	0	50
Total commercial, corporate and institutional	100	179	422	563	642
Designated lesser developed countries	0	0	(1)	(1)	0
Application of excess country risk provision	0	0	0	0	(244)
Total provision for credit losses (PCL)	225	275	510	675	550
Provision for Credit Losses by Location *(b)**					
Canada *(c)*	156	171	276	417	500
United States	69	104	238	259	294
Mexico	0	0	0	(1)	0
Other countries					
Designated lesser developed countries	0	0	(1)	0	(244)
Other	0	0	(3)	0	0
Total provision for credit losses	225	275	510	675	550
Specific Provision by Property Type					
Office	(57)	(18)	166	290	133
Residential	(26)	38	5	30	35
Shopping centres	14	(4)	72	4	40
Land banking/development	(10)	(2)	50	26	33
Industrial buildings	8	4	15	6	7
Hotel/Motel	4	8	6	3	4
Other	6	(9)	6	16	9
Total commercial real estate financing	(61)	17	320	375	261
Performance Ratios					
PCL as a % of average loans and acceptances	0.23	0.30	0.63	0.87	0.78
PCL as a % of average loans and acceptances *(d)*					
Individuals	0.28	0.24	0.25	0.35	0.52
Commercial, corporate and institutional	0.18	0.11	0.83	1.28	1.49
Canada *(c)*	0.23	0.27	0.51	0.83	1.08
United States	0.22	0.38	0.98	1.03	1.36
Mexico	0.00	0.00	0.00	(1.08)	0.00
Other countries*	0.00	0.00	(0.22)	0.00	(8.35)

**Reclassified to conform with current year's 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., Mexico or other countries, including those of an associated corporation.
(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)*					Mexico *(a)*				
As at October 31	1996	1995	1994	1993	1992	1996	1995	1994	1993	1992	1996	1995	1994	1993	1992
Individuals															
Residential mortgages *(b)*	26,539	23,412	21,588	19,073	17,706	1,926	1,490	1,118	915	704	0	0	0	0	0
Cards	2,528	2,357	2,133	2,061	1,943	1,314	1,482	1,128	835	751	0	0	0	0	0
Personal Loans	10,739	10,365	9,763	8,461	8,318	2,058	1,388	1,228	910	812	0	0	0	0	0
Total loans to individuals	39,806	36,134	33,484	29,595	27,967	5,298	4,360	3,474	2,660	2,267	0	0	0	0	0
Commercial, corporate and institutional															
Diversified commercial *(c)*	23,326	23,657	23,095	21,758	21,351	19,075	17,132	16,405	14,592	14,537	485	430	489	290	181
Securities purchased under resale agreements	6,960	4,772	5,265	2,245	74	7,121	5,733	9,307	5,413	3,375	0	0	0	0	0
General allowance	(425)	(275)	(150)	(100)	(100)	(50)	(50)	(50)	0	0	0	0	0	0	0
Total commercial, corporate and institutional	29,861	28,154	28,210	23,903	21,325	26,146	22,815	25,662	20,005	17,912	485	430	489	290	181
Designated lesser developed countries	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total net loans and acceptances	69,667	64,288	61,694	53,498	49,292	31,444	27,175	29,136	22,665	20,179	485	430	489	290	181

Table 11 Allowance For Credit Losses – Segmented Information *(millions of dollars except as noted)*

	Canada *(a)*					United States *(a)*					Mexico *(a)*				
As at October 31	1996	1995	1994	1993	1992	1996	1995	1994	1993	1992	1996	1995	1994	1993	1992
Allowance for credit losses (ACL), beginning of year	590	653	843	651	327	298	359	483	476	313	0	0	0	1	1
Provision for credit losses	156	171	276	417	500	69	104	238	259	294	0	0	0	(1)	0
Transfer of allowance	150	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Recoveries	15	15	18	27	22	88	37	56	31	38	0	0	0	0	0
Write-offs *(e)*	(174)	(255)	(488)	(260)	(203)	(170)	(195)	(456)	(313)	(207)	0	0	0	0	0
Other, including foreign exchange	0	6	4	8	5	5	(7)	38	30	38	0	0	0	0	0
ACL, end of year	737	590	653	843	651	290	298	359	483	476	0	0	0	0	1
Allocation of Write-offs by Market															
Individuals	(90)	(74)	(74)	(100)	(123)	(60)	(50)	(45)	(49)	(51)	0	0	0	0	0
Commercial, corporate and institutional	(84)	(181)	(414)	(160)	(80)	(110)	(145)	(411)	(264)	(156)	0	0	0	0	0
Designated lesser developed countries (LDC)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Allocation of Recoveries by Market															
Individuals	15	17	22	23	18	11	14	14	13	12	0	0	0	0	0
Commercial, corporate and institutional	0	(2)	(4)	4	4	77	23	42	18	26	0	0	0	0	0
Designated LDC	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net write-offs as a % of average loans and acceptances															

(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 (1996 – $1.6 billion, 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 allowance.
(e) Write-offs on designated lesser developed countries include losses on sales of performing assets that were charged directly against the allowance (1996 – $109 million, 1995 – $115 million, 1993 – $65 million, 1992 – $314 million).

	Other Countries *(a)*					Total				
	1996	1995	1994	1993	1992	1996	1995	1994	1993	1992
	0	0	0	0	0	28,465	24,902	22,706	19,988	18,410
	0	0	0	0	0	3,842	3,839	3,261	2,896	2,694
	0	3	4	4	4	12,797	11,756	10,995	9,375	9,134
	0	3	4	4	4	45,104	40,497	36,962	32,259	30,238
	1,453	1,272	950	1,000	1,184	44,339	42,491	40,939	37,640	37,253
	0	0	0	0	0	14,081	10,505	14,572	7,658	3,449
	0	0	0	0	0	(475)	(325)	(200)	(100)	(100)
	1,453	1,272	950	1,000	1,184	57,945	52,671	55,311	45,198	40,602
	211	230	370	314	538	211	230	370	314	538
	1,664	1,505	1,324	1,318	1,726	103,260	93,398	92,643	77,771	71,378

As at October 31	1996	1995	1994	1993	1992
Net Loans and Acceptances in Canada by Province *(a)*					
Atlantic Provinces	3,466	3,304	3,175	2,693	2,583
Quebec	10,237	10,610	9,523	9,022	8,645
Ontario	35,240	30,971	31,106	26,013	23,286
Prairie Provinces	10,174	9,628	8,091	7,457	7,070
British Columbia and Territories	10,975	10,050	9,949	8,413	7,808
Total loans and acceptances in Canada *(d)*	70,092	64,563	61,844	53,598	49,392
Diversified Commercial by Industry					
Financial institutions *(c)*	8,620	7,217	7,446	4,315	4,304
Commercial mortgages	3,542	3,378	3,570	3,142	2,806
Construction (non-real estate)	949	886	754	591	645
Commercial real estate	2,737	3,404	4,474	5,912	6,356
Manufacturing	7,163	7,064	5,697	5,345	5,987
Mining/Energy	3,003	2,431	2,079	1,896	2,177
Service industries	5,667	5,401	4,512	3,470	3,316
Retail trade	2,319	2,574	2,637	2,572	2,426
Wholesale trade	2,739	2,565	2,220	2,316	2,008
Agriculture	1,719	1,910	1,731	1,582	1,436
Transportation/Utilities	2,338	2,031	2,404	2,114	1,943
Communications	2,368	2,013	1,626	1,217	1,176
Other	1,175	1,617	1,789	3,168	2,673
Total diversified commercial *(c)*	44,339	42,491	40,939	37,640	37,253

	Other Countries *(a)*					Total				
	1996	1995	1994	1993	1992	1996	1995	1994	1993	1992
	367	484	673	942	1,508	1,255	1,496	1,999	2,070	2,149
	0	0	(4)	0	(244)	225	275	510	675	550
	(150)	0	0	0	0	0	0	0	0	0
	0	0	1	1	19	103	52	75	59	79
	(105)	(115)	(203)	(315)	(452)	(449)	(565)	(1,147)	(888)	(862)
	4	(2)	17	45	111	9	(3)	59	83	154
	116	367	484	673	942	1,143	1,255	1,496	1,999	2,070
	0	0	0	0	0	(150)	(124)	(119)	(149)	(174)
	0	0	0	0	0	(194)	(326)	(825)	(424)	(236)
	(105)	(115)	(203)	(315)	(452)	(105)	(115)	(203)	(315)	(452)
	0	0	0	0	0	26	31	36	36	30
	0	0	0	0	0	77	21	38	22	30
	0	0	1	1	19	0	0	1	1	19
						0.3	0.6	1.3	1.1	1.1

Table 12 Commercial Real Estate Impaired Loans and Acceptances by Accounting Classification *(millions of dollars)*

As at or for the year ended October 31	1996	1995	1994	1993	1992
Gross impaired loans and acceptances, beginning of year	1,120	1,396	2,032	1,783	751
Additions to impaired loans and acceptances	127	339	613	838	1,276
Reductions in impaired loans and acceptances *(a)*	(526)	(489)	(690)	(400)	(167)
Net new additions (reductions)	(399)	(150)	(77)	438	1,109
Write-offs	(110)	(126)	(559)	(189)	(77)
Gross impaired loans and acceptances, end of year	611	1,120	1,396	2,032	1,783
Allowance for credit losses, beginning of year	274	393	600	370	118
Increases – specific allowance	(16)	7	352	419	329
Write-offs	(110)	(126)	(559)	(189)	(77)
Allowance for credit losses, end of year	148	274	393	600	370
Net impaired loans and acceptances, beginning of year	846	1,003	1,432	1,413	633
Change in gross impaired loans and acceptances	(509)	(276)	(636)	249	1,032
Change in allowance for credit losses	126	119	207	(230)	(252)
Net impaired loans and acceptances, end of year	463	846	1,003	1,432	1,413

Table 13 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	1996	1995	1994	1993	1992
Property Type					
Office	428	699	1,227	2,084	2,408
Residential	1,164	1,231	1,241	1,351	1,409
Shopping centres	463	732	1,030	1,486	1,553
Land banking/development	183	206	313	330	421
Industrial buildings	360	404	479	547	542
Hotel/Motel	119	155	175	220	238
Other	389	383	440	374	294
Total commercial real estate financing	3,106	3,810	4,905	6,392	6,865
Geographic Location *(b)*					
Canada					
Atlantic Provinces	68	61	62	103	73
Quebec	217	232	308	367	378
Ontario	943	1,149	1,337	1,913	2,136
Prairie Provinces	171	170	235	351	388
British Columbia and Territories	520	652	725	766	716
Total Canada	1,919	2,264	2,667	3,500	3,691
United States					
Illinois	706	712	846	948	862
New York	107	168	195	223	344
California	98	144	254	421	495
Texas	58	86	59	136	241
New Jersey	51	56	65	91	100
Other *(c)*	150	363	751	952	974
Total United States	1,170	1,529	2,170	2,771	3,016
Mexico	0	0	0	0	0
Other countries	17	17	68	121	158
Total commercial real estate financing	3,106	3,810	4,905	6,392	6,865
Off-balance sheet financing	(369)	(406)	(431)	(480)	(509)
Total commercial real estate loans and acceptances	2,737	3,404	4,474	5,912	6,356
Diversification Ratios *(%)*					
Commercial real estate loans *(d)* and acceptances as a % of commercial loans and acceptances *(e)*	6.2	8.0	10.9	15.7	17.1
Office loans *(d)* and acceptances as a % of commercial loans and acceptances *(e)*	1.0	1.4	2.9	5.2	6.2

(a) Loans and acceptances returning to performing status, sales and repayments.
(b) Geographic location is based on property location.
(c) Includes four states with net impaired loan balances not exceeding $50 million per state.
(d) Excludes off-balance sheet financing.
(e) Commercial, corporate and institutional loans and acceptances excluding securities purchased under resale agreements.

Table 14 Impaired Loans and Acceptances by Accounting Classification *(millions of dollars)*

As at or for the year ended October 31	1996	1995	1994	1993	1992
Gross impaired loans and acceptances, beginning of year	1,730	2,447	4,249	4,232	3,302
Additions to impaired loans and acceptances	959	806	1,267	1,587	2,141
Reductions in impaired loans and acceptances *(a)*	(948)	(1,073)	(1,922)	(747)	(663)
Net new additions (reductions)	11	(267)	(655)	840	1,478
Write-offs	(344)	(450)	(1,147)	(823)	(548)
Gross impaired loans and acceptances, end of year	1,397	1,730	2,447	4,249	4,232
Allowance for credit losses (ACL) *(c)*, beginning of year	895	1,071	1,986	2,059	2,038
Increases – specific allowance*	437	264	182	815	833
Increases – general allowance*	0	125	50	0	50
Transfer of allowance	150	0	0	0	0
Write-offs *(b)*	(449)	(565)	(1,147)	(888)	(862)
Allowance for credit losses *(c)*, end of year	1,033	895	1,071	1,986	2,059
Net impaired loans and acceptances (NIL), beginning of year	835	1,376	2,263	2,173	1,264
Change in gross impaired loans and acceptances	(333)	(717)	(1,802)	17	930
Change in allowance for credit losses	(138)	176	915	73	(21)
Net impaired loans and acceptances, end of year	364	835	1,376	2,263	2,173

Table 15 Commercial Real Estate Impaired Loans – Segmented Information *(millions of dollars)*

(Net of Allowance for Credit Losses, Includes Off-Balance Sheet Financing)

As at October 31	1996	1995	1994	1993	1992
Property Type					
Office	165	349	456	831	655
Residential	45	55	84	65	102
Shopping centres	90	208	135	255	398
Land banking/development	50	86	123	130	111
Industrial buildings	24	36	31	32	5
Hotel/Motel	43	57	87	50	70
Other	46	55	87	69	72
Total commercial real estate	463	846	1,003	1,432	1,413
Geographic Location *(d)*					
Canada					
Atlantic Provinces	5	4	5	1	0
Quebec	46	66	68	41	58
Ontario	46	146	144	373	381
Prairie Provinces	32	38	42	168	182
British Columbia and Territories	0	11	21	0	5
Total Canada	129	265	280	583	626
United States					
Illinois	42	122	149	174	75
New York	106	134	139	196	322
California	38	109	123	145	118
Texas	46	51	53	77	2
New Jersey	48	53	54	73	8
Other *(e)*	54	112	205	184	262
Total United States	334	581	723	849	787
Mexico	0	0	0	0	0
Other countries*	0	0	0	0	0
Total commercial real estate	463	846	1,003	1,432	1,413

**Reclassified to conform with current year's presentation.*

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

(b) Write-offs on designated LDC include losses on sales of performing assets that were charged directly against the allowance (1996 – $109 million, 1995 – $115 million, 1993 – $65 million, 1992 – $314 million).

(c) Excludes ACL for off-balance sheet exposure. Also excludes LDC reservations in excess of impaired loans (1996 – $108 million, 1995 – $360 million, 1994 – $425 million).

(d) Geographic location is based on location of property.

(e) Includes four states with real estate loan balances not exceeding $50 million per state.

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

As at October 31	Canada (a) 1996	1995	1994	1993	1992	United States (a) 1996	1995	1994	1993	1992	Mexico (a) 1996	1995	1994	1993	1992
Individuals															
Residential mortgages	9	6	6	5	2	0	0	0	0	0	0	0	0	0	0
Cards	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Personal loans	9	8	10	12	16	6	9	8	13	21	0	0	0	0	0
Total individuals	18	14	16	17	18	6	9	8	13	21	0	0	0	0	0
Commercial, corporate and institutional															
Diversified commercial *(b)*	292	301	487	724	533	234	239	301	459	444	0	0	0	0	1
Securities purchased under resale agreements	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General allowance	425	275	150	100	100	50	50	50	0	0	0	0	0	0	0
Total commercial, corporate and institutional	717	576	637	824	633	284	289	351	459	444	0	0	0	0	1
Designated lesser developed countries (LDC)															
Specific allowance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Country risk allowance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Off-balance sheet	2	0	0	2	0	0	0	0	11	11	0	0	0	0	0
Allowance for credit losses (ACL)	737	590	653	843	651	290	298	359	483	476	0	0	0	0	1
Coverage Ratios															
ACL as a % of gross impaired loans and acceptances (GIL)	91.9	78.2	57.3	48.3	41.7	49.2	30.8	28.8	29.4	30.1	0.0	0.0	0.0	0.0	100.0
ACL as a % of GIL *(c)*															
Individuals	10.8	12.5	16.0	16.3	18.0	100.0	100.0	100.0	76.5	45.7	0.0	0.0	0.0	0.0	0.0
Diversified commercial *(b)*	46.1	46.9	46.8	44.3	36.5	40.1	24.9	24.3	28.9	29.6	0.0	0.0	0.0	0.0	100.0
Designated LDC *(d)*	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na

Table 17 Net Impaired Loans and Acceptances – Segmented Information *(millions of dollars except as noted)*

As at October 31	Canada (a) 1996	1995	1994	1993	1992	United States (a) 1996	1995	1994	1993	1992	Mexico (a) 1996	1995	1994	1993	1992
Individuals															
Residential mortgages	122	66	45	49	58	0	0	0	0	0	0	0	0	0	0
Cards	5	4	11	3	4	0	0	0	0	0	0	0	0	0	0
Personal loans	22	28	28	35	20	0	0	0	4	25	0	0	0	0	0
Total individuals	149	98	84	87	82	0	0	0	4	25	0	0	0	0	0
Commercial, corporate and institutional															
Diversified commercial *(b)*	341	341	553	912	929	349	721	939	1,128	1,055	0	0	0	0	0
Securities purchased under resale agreements	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General allowance	(425)	(275)	(150)	(100)	(100)	(50)	(50)	(50)	0	0	0	0	0	0	0
Total commercial, corporate and institutional	(84)	66	403	812	829	299	671	889	1,128	1,055	0	0	0	0	0
Designated lesser developed countries (LDC)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total net impaired loans and acceptances (NIL)	65	164	487	899	911	299	671	889	1,132	1,080	0	0	0	0	0
Condition Ratios															
Gross impaired loans and acceptances (GIL) as a % of equity and allowance for credit losses	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
NIL as a % of net loans and acceptances	0.09	0.26	0.79	1.68	1.85	0.95	2.47	3.05	4.99	5.35	0.00	0.00	0.00	0.00	0.00
NIL as a % of net loans and acceptances *(e)*															
Individuals	0.37	0.27	0.25	0.29	0.29	0.00	0.00	0.00	0.15	1.10	0.00	0.00	0.00	0.00	0.00
Diversified commercial	1.46	1.44	2.39	4.19	4.35	1.82	4.21	5.72	7.73	7.26	0.00	0.00	0.00	0.00	0.00
Designated LDC	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

(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 GIL.
(d) Excludes LDC reservations in excess of impaired loans (1996 – $108 million, 1995 – $360 million, 1994 – $425 million).
(e) Segmented NIL as a percentage of segment net loans and acceptances.
(f) Includes allowance of U.S. subsidiary in excess of impaired loans.
na – Not applicable.
NA – Not available.

Other Countries *(a)*					Total				
1996	1995	1994	1993	1992	1996	1995	1994	1993	1992
0	0	0	0	0	9	6	6	5	2
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	15	17	18	25	37
0	0	0	0	0	24	23	24	30	39
0	0	0	9	8	526	540	788	1,192	986
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	475	325	200	100	100
0	0	0	9	8	1,001	865	988	1,292	1,086
1	0	0	0	2	1	0	0	0	2
115	367	484	664	932	115	367	484	664	932
0	0	0	0	0	2	0	0	13	11
116	367	484	673	942	1,143	1,255	1,496	1,999	2,070
100.0	100.0	100.0	74.4	83.8	81.7	72.5	61.1	46.7	48.7
0.0	0.0	0.0	0.0	0.0	13.9	19.0	22.0	24.8	26.7
0.0	0.0	0.0	52.9	80.0	43.2	33.7	34.6	36.8	33.2
100.0	100.0	100.0	74.8	83.8	100.0	100.0	100.0	74.8	83.8

As at October 31	1996	1995	1994	1993	1992
Diversified Commercial Specific Allowance by Industry					
Financial institutions *(b)*	62	24	29	32	24
Commercial mortgages	11	17	20	14	9
Construction (non-real estate)	6	11	27	21	30
Commercial real estate	148	274	393	600	370
Manufacturing	34	19	75	162	67
Mining/Energy	22	45	84	156	247
Service industries	57	45	31	20	37
Retail trade	33	23	69	120	115
Wholesale trade	10	7	24	17	21
Agriculture	5	2	13	18	7
Transportation/Utilities	18	7	19	22	42
Communications	0	0	0	2	6
Other	120	66	4	8	11
Total diversified commercial specific allowance *(b)*	526	540	788	1,192	986

Other Countries *(a)*					Total				
1996	1995	1994	1993	1992	1996	1995	1994	1993	1992
0	0	0	0	0	122	66	45	49	58
0	0	0	0	0	5	4	11	3	4
0	0	0	0	0	22	28	28	39	45
0	0	0	0	0	149	98	84	91	107
0	0	0	8	2	690	1,062	1,492	2,048	1,986
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	(475)	(325)	(200)	(100)	(100)
0	0	0	8	2	215	737	1,292	1,948	1,886
0	0	0	224	180	0	0	0	224	180
0	0	0	232	182	364	835	1,376	2,263	2,173
NA	NA	NA	NA	NA	15.71	20.48	29.86	54.84	58.01
0.00	0.00	0.00	17.60	10.54	0.35	0.89	1.49	2.91	3.04
0.00	0.00	0.00	0.00	0.00	0.33	0.24	0.23	0.28	0.35
0.00	0.00	0.00	0.80	0.17	1.56	2.50	3.64	5.44	5.33
0.00	0.00	0.00	71.34	33.46	0.00	0.00	0.00	71.34	33.46

As at October 31	1996	1995	1994	1993	1992
Diversified Commercial NIL by Industry					
Financial institutions *(b)*	59	1	5	31	10
Commercial mortgages	39	50	51	37	55
Construction (non-real estate)	3	2	3	18	8
Commercial real estate	463	846	1,003	1,432	1,413
Manufacturing	21	27	104	56	32
Mining/Energy	37	67	143	145	159
Service industries	40	33	20	33	45
Retail trade	30	17	100	113	128
Wholesale trade	38	22	8	73	3
Agriculture	18	23	28	36	38
Transportation/Utilities	35	23	25	56	59
Communications	1	0	0	16	35
Other *(d) (f)*	(94)	(49)	2	2	1
Total diversified commercial *(b)*	690	1,062	1,492	2,048	1,986

Table 18 Asset Quality Summary

(millions of dollars except as noted)

As at or for the year ended October 31	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Asset Quality Performance										
Provisions for credit losses (PCL)	225	275	510	675	550	337	169	1,181	390	75
PCL as a % of average loans and acceptances	0.23	0.30	0.63	0.87	0.78	0.53	0.29	2.09	0.69	0.13
Asset Quality Condition										
Gross impaired loans (GIL)	1,397	1,730	2,447	4,249	4,232	3,302	3,262	3,266	3,360	4,096
Net impaired loans (NIL)	364	835	1,376	2,263	2,173	1,264	923	785	1,161	1,404
GIL as a % of equity and allowance for credit losses	15.71	20.48	29.86	54.84	58.01	49.05	51.73	46.41	51.89	65.55
NIL as a % of total net loans and acceptances	0.35	0.89	1.49	2.91	3.04	1.94	1.53	1.37	2.07	2.48
Asset Quality Coverage										
Allowance for credit losses (ACL)	1,143	1,255	1,496	1,999	2,070	2,149	2,339	3,249	2,652	2,692
ACL as a % of total GIL	81.7	72.5	61.1	46.7	48.7	64.8	71.7	99.5	78.8	65.7
Diversification Ratios *(%)*										
Commercial real estate loans *(a)* and acceptances as a % of commercial loans and acceptances *(b)*	6.2	8.0	10.9	15.7	17.1					
Office loans *(a)* and acceptances as a % of commercial loans and acceptances *(b)*	1.0	1.4	2.9	5.2	6.2					

Table 19 Balance Sheet Summary

(millions of dollars except as noted)

As at October 31	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Assets										
Cash resources	24,187	20,317	14,659	12,081	11,288	13,607	12,502	8,581	10,170	13,540
Securities	36,609	33,019	26,535	23,328	22,581	17,862	12,238	9,761	9,946	11,049
Loans (net)	98,413	88,442	88,634	74,028	68,251	60,172	55,106	54,303	51,986	52,595
Acceptances	4,397	4,469	3,430	3,555	2,878	3,712	3,508	2,778	3,584	3,287
Other assets	6,226	5,587	4,917	3,877	4,037	3,372	4,016	3,498	3,223	3,757
Total assets	169,832	151,834	138,175	116,869	109,035	98,725	87,370	78,921	78,909	84,228
Liabilities and Shareholders' Equity										
Deposits	119,262	109,605	98,241	87,859	86,601	77,769	70,170	62,985	64,362	70,919
Other liabilities	39,670	32,602	31,178	20,961	15,604	14,836	11,801	10,860	9,456	8,587
Subordinated debt	3,314	2,595	2,218	2,363	1,666	1,570	1,473	1,329	1,307	1,259
Share capital										
Preferred	857	858	860	852	832	718	475	650	450	450
Common	2,989	3,002	3,002	2,632	2,539	2,416	2,276	2,162	2,048	1,931
Retained earnings	3,740	3,172	2,676	2,202	1,793	1,416	1,175	935	1,286	1,082
Total liabilities and shareholders' equity	169,832	151,834	138,175	116,869	109,035	98,725	87,370	78,921	78,909	84,228
Average Balances										
Loans *(c)*	94,598	87,028	77,292	73,918	66,469	58,227	53,793	53,110	52,538	53,396
Assets *(c)*	158,316	144,115	122,234	113,387	104,591	94,118	81,971	78,878	79,312	84,584

Table 20 Unrealized Gains on Securities and Reserves *(d)*

(millions of dollars)

As at October 31	1996	1995*	1994*	1993*	1992*
Securities					
Designated LDC	91	200	247	35	70
Other securities	148	156	(74)	369	273
Associated corporation (Grupo Financiero Bancomer)	132	na	na	na	na
	371	356	173	404	343
General allowance for credit losses	475	325	200	100	100
Fair value of past due interest bonds	100	95	101	0	0
Loans to designated LDC	4	4	(12)	134	(7)
	579	424	289	234	93
Total	950	780	462	638	436

**Restated to conform to the current year's presentation.*
(a) Excludes off-balance sheet financing.
(b) Commercial, corporate and institutional loans and acceptances excluding securities purchased under resale agreements.
(c) Daily averages for 1990 to 1996.
(d) Securities and LDC loans.
na – Not applicable.

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

As at October 31	1996*	1995	1994	1993	1992	1991	1990	1989	1988	1987
Share Capital										
Balance at beginning of year	3,860	3,862	3,484	3,371	3,134	2,751	2,812	2,498	2,381	1,903
Increase (decrease) in preferred shares	(1)	(2)	8	20	114	243	(175)	200	0	(200)
Common share issues *(a)*	(13)	0	370	93	123	140	114	114	117	678
Balance at end of year	3,846	3,860	3,862	3,484	3,371	3,134	2,751	2,812	2,498	2,381
Retained Earnings										
Balance at beginning of year	3,172	2,676	2,202	1,793	1,416	1,175	935	1,286	1,082	1,742
Net income (loss)	1,168	986	825	709	640	595	522	(39)	500	(242)
Dividends	(455)	(419)	(374)	(346)	(321)	(301)	(288)	(279)	(252)	(229)
Other changes	(145)	(71)	23	46	58	(53)	6	(33)	(44)	(189)
Balance at end of year	3,740	3,172	2,676	2,202	1,793	1,416	1,175	935	1,286	1,082
Canadian Basis										
Tier 1										
Common shareholders' equity	6,729	6,174	5,678	4,834	4,332	3,832	3,451	3,097	3,334	3,013
Non-cumulative preferred shares	857	858	860	852	832	450	200	200	0	na
Non-controlling interest in subsidiaries	101	121	144	66	72	42	41	43	40	na
Goodwill	(557)	(411)	(450)	(159)	(176)	(105)	(61)	0	0	na
Total tier 1 capital	7,130	6,742	6,232	5,593	5,060	4,219	3,631	3,340	3,374	na
Tier 2										
Cumulative preferred shares	0	0	0	0	0	268	275	275	450	na
Subordinated debt	3,179	2,268	1,999	2,248	1,650	1,493	1,565	1,429	1,129	na
Total tier 2 capital	3,179	2,268	1,999	2,248	1,650	1,761	1,840	1,704	1,579	na
Less: Investment in non-consolidated subsidiaries	625	0	0	0	28	28	0	0	0	na
Total capital	9,684	9,010	8,231	7,841	6,682	5,952	5,471	5,044	4,953	na
Risk-weighted assets	106,267	96,075	86,589	76,074	74,964	67,490	65,959	63,105	65,357	na
Risk-weighted capital ratios *(%)*										
Tier 1	6.71	7.02	7.20	7.35	6.75	6.25	5.51	5.29	5.16	na
Total	9.11	9.38	9.51	10.31	8.91	8.82	8.29	7.99	7.58	na
Required regulatory capital ratios *(%)*										
Tier 1	4.0	4.0	4.0	4.0	4.0	3.625	3.625	na	na	na
Total	8.0	8.0	8.0	8.0	8.0	7.25	7.25	na	na	na
Equity-to-assets ratio *(%)*	4.6	4.7	4.8	4.9	4.8	4.7	4.5	4.8	4.8	4.2
Credit rating *(b)*	AA-	AA-	AA-	AA-	AA-	AA-	AA-	AA-	AA-	AA-
U.S. Basis										
Tier 1	6,766	6,641	6,125	5,591	5,045	4,578	3,967	na	na	na
Tier 2	3,524	3,076	2,804	3,144	2,719	2,622	2,570	na	na	na
Total capital	10,290	9,717	8,929	8,735	7,764	7,200	6,537	na	na	na
Risk-weighted assets	107,994	97,442	88,640	78,422	76,703	68,625	67,026	na	na	na
Risk-weighted capital ratios *(%)*										
Tier 1	6.26	6.82	6.91	7.13	6.58	6.67	5.92	na	na	na
Total	9.81	9.97	10.07	11.14	10.12	10.49	9.75	na	na	na

**The October 31, 1996 total capital ratio and tier 2 capital reflects the inclusion of the $300 million in subordinated debentures issued on November 1, 1996. Excluding this issue, the total capital ratio would be 8.83%, or 9.53% on a U.S. basis.*

(a) Common share issuance net of repurchases. Bank of Montreal repurchased 5.0 million shares in 1996 and 3.5 million in 1995.

(b) Composite of Moody's and Standard & Poor's senior debt ratings.

na – Not applicable.

Table 22 Risk-Weighted Assets *(millions of dollars except as noted)*

As at October 31	Balance	Credit risk equivalent	Risk weighting %	1996 Risk-weighted balance	1995 Risk-weighted balance
Balance sheet items					
Cash resources	24,187		0–20	4,550	3,804
Securities	36,609		0–100	6,777	4,968
Mortgages	32,007		0–100	13,527	12,169
Other loans and acceptances	70,803		0–100	52,668	48,753
Other assets	6,226		0–100	5,124	5,175
Total balance sheet items	169,832			82,646	74,869
Off-balance sheet items					
Guarantees and standby letters of credit	8,303	7,593	0–100	6,713	4,875
Securities lending	16,289	3,694	0–100	1,033	1,330
Documentary and commercial letters of credit	1,116	7,223	0–100	187	194
Commitments to extend credit:					
Original maturity of one year and under	32,945	0	0	0	0
Original maturity of over one year	27,080	13,540	0–100	13,108	11,885
Foreign exchange rate contracts	335,209	8,491	0–50	1,886	2,478
Interest rate contracts	327,351	2,758	0–50	677	431
Note issuance and revolving underwriting facilities	33	17	0–50	17	13
Total off-balance sheet items	748,326			23,621	21,206
Total risk-weighted assets				106,267	96,075
Total risk-weighted assets – U.S. basis				107,994	97,442

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

As at October 31	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Canadian Dollar Liquid Assets										
Deposits with other banks	2,839	3,002	2,790	1,762	1,394	1,762	3,126	2,259	1,364	2,103
Other cash resources	631	17	651	734	967	1,494	849	1,361	1,278	1,623
Securities	22,651	21,245	16,915	16,436	15,251	11,725	6,278	5,083	5,820	6,589
Total Canadian dollar liquid assets	26,121	24,264	20,356	18,932	17,612	14,981	10,253	8,703	8,462	10,315
U.S. Dollar and Other Currency Liquid Assets										
Deposits with other banks	18,606	16,418	11,029	8,476	8,120	9,327	7,688	4,327	6,786	8,895
Other cash resources	2,111	880	189	1,109	807	1,024	839	634	742	919
Securities	13,958	11,774	9,620	6,892	7,330	6,137	5,960	4,678	4,126	4,460
Total U.S. dollar and other currency liquid assets	34,675	29,072	20,838	16,477	16,257	16,488	14,487	9,639	11,654	14,274
Total liquid assets	60,796	53,336	41,194	35,409	33,869	31,469	24,740	18,342	20,116	24,589
Cash and securities-to-total assets *(%)*	35.8	35.1	29.8	30.3	31.1	31.9	28.3	23.3	25.5	29.2

Table 24 Deposits *(millions of dollars)*

As at October 31	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Canadian Dollar Deposits										
Banks	3,566	2,652	3,074	3,117	2,303	2,127	1,462	1,208	1,268	1,265
Businesses and governments	14,607	13,862	12,311	10,109	12,090	9,342	7,939	7,699	8,187	8,870
Individuals	44,361	43,156	40,617	39,230	37,503	35,488	33,066	30,500	27,312	25,762
Total Canadian dollar deposits	62,534	59,670	56,002	52,456	51,896	46,957	42,467	39,407	36,767	35,897
U.S. Dollar and Other Currency Deposits										
Banks	21,174	21,357	19,227	17,690	16,519	12,200	12,126	9,236	9,125	14,724
Businesses and governments	22,867	20,964	16,430	12,566	13,285	13,789	10,802	9,974	14,162	16,019
Individuals	12,687	7,614	6,582	5,147	4,901	4,823	4,775	4,368	4,308	4,279
Total U.S. dollar and other currency deposits	56,728	49,935	42,239	35,403	34,705	30,812	27,703	23,578	27,595	35,022
Total deposits	119,262	109,605	98,241	87,859	86,601	77,769	70,170	62,985	64,362	70,919

Table 25 Quarterly Financial Data *(millions of dollars)*

As at or for the three months ended	Oct. 31 1996	July 31 1996	April 30 1996	Jan. 31 1996	Oct. 31 1995	July 31 1995	April 30 1995	Jan. 31 1995
Balance Sheet Data								
Total assets	169,832	162,546	155,000	150,022	151,834	145,579	148,357	144,256
Cash resources	24,187	21,252	21,387	19,813	20,317	16,107	17,437	16,951
Securities	36,609	34,547	31,351	30,779	33,019	30,861	32,568	31,957
Loans (net)	98,413	96,284	92,667	89,595	88,442	89,426	88,999	86,441
Acceptances	4,397	4,366	4,073	4,116	4,469	4,092	3,997	3,627
Other assets	6,226	6,097	5,522	5,719	5,587	5,093	5,356	5,280
Deposits	119,262	118,108	113,697	110,156	109,605	106,450	106,402	104,308
Total capital funds	10,900	10,826	10,233	10,102	9,627	9,597	9,435	8,996
Common equity	6,729	6,610	6,484	6,338	6,174	6,098	5,947	5,855
Average assets *(a)*	166,141	161,190	154,446	151,402	146,086	145,332	144,975	140,096
Net Income Statement								
Interest, dividend and fee income								
Loans	1,804	1,853	1,810	1,909	1,912	1,974	1,801	1,677
Securities	580	572	540	619	504	523	467	396
Deposits with banks	248	251	247	238	211	227	225	194
Total interest income	2,632	2,676	2,597	2,766	2,627	2,724	2,493	2,267
Interest expense								
Deposits	1,181	1,305	1,280	1,368	1,382	1,448	1,390	1,177
Subordinated debt	68	64	57	57	54	56	49	47
Other liabilities	414	374	347	366	254	268	198	181
Total interest expense	1,663	1,743	1,684	1,791	1,690	1,772	1,637	1,405
Net interest income	969	933	913	975	937	952	856	862
Provision for credit losses (PCL)	44	43	69	69	50	50	87	88
Net interest income after PCL	925	890	844	906	887	902	769	774
Other income	610	581	596	542	511	521	479	464
Non-interest expense	1,077	977	962	933	931	979	871	865
Income before provision for income taxes	458	494	478	515	467	444	377	373
Provision for income taxes	162	189	191	215	193	177	149	143
Income before non-controlling interest in subsidiary	296	305	287	300	274	267	228	230
Non-controlling interest in subsidiary	5	5	6	4	5	3	3	2
Net income	291	300	281	296	269	264	225	228
Taxable equivalent adjustment *(b)*	31	28	26	23	19	21	22	22
Total revenue (TEB)	1,610	1,542	1,535	1,540	1,467	1,494	1,357	1,348

(a) Daily averages.
(b) The taxable equivalent (TEB) adjustment increases interest income on tax-efficient assets to the amount that would result if the income were fully 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.

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

As at or for the three months ended	Oct. 31 1996	July 31 1996	April 30 1996	Jan. 31 1996	Oct. 31 1995	July 31 1995	April 30 1995	Jan. 31 1995
Information Per Common Share *($) (a)*								
Dividends declared	0.40	0.36	0.36	0.36	0.33	0.33	0.33	0.33
Earnings								
Basic	1.06	1.09	1.00	1.06	0.95	0.93	0.78	0.79
Fully diluted	1.04	1.07	0.98	1.04	0.93	0.91	0.76	0.78
Book value	25.89	25.52	24.82	24.16	23.41	22.94	22.33	22.02
Market price								
High	41.650	34.150	33.750	33.750	31.000	30.000	28.000	26.875
Low	32.750	31.950	30.375	29.375	27.875	27.500	25.500	24.125
Close	40.550	32.750	32.700	33.250	29.750	28.625	27.750	25.625
Common stock information								
Number of common shares outstanding *(thousands)*								
as at	259,937	259,020	261,189	262,373	263,685	265,864	266,312	265,903
average – basic	259,395	260,071	262,116	263,368	264,371	266,306	266,138	265,730
average – fully diluted	266,180	267,247	269,382	270,782	272,326	274,658	274,608	274,336
Price-to-earnings ratio *(%)*	9.6	8.0	8.3	8.9	8.6	8.2	8.8	8.3
Market-to-book value ratio *(%)*	1.57	1.28	1.32	1.38	1.27	1.25	1.24	1.16
Number of shareholders	55,571	55,885	56,217	56,760	57,187	57,713	58,639	59,513
Primary Financial Measures *(%)*								
Financial performance measures								
Return on common shareholders' investment *(a)*	42.4	15.0	14.9	16.6	24.1	19.4	15.9	6.9
Return on average common shareholders' equity *(b)*	16.3	17.3	16.8	17.7	16.4	16.2	14.5	14.6
Fully diluted earnings per share growth *(c)*	11.8	17.6	28.9	33.3	(4.1)	49.2	11.8	9.9
Expense-to-revenue ratio *(d)*	66.9	63.3	62.7	60.6	63.5	65.5	64.2	64.2
Provision for credit losses as a % of average loans and acceptances *(e)*	0.22	0.22	0.28	0.29	0.30	0.30	0.39	0.39
Financial Condition Measures *(%)*								
Gross non-performing loan ratio *(f)*	15.71	17.27	18.86	16.72	20.48	22.58	26.63	27.27
Tier 1 capital ratio *(g)*	6.71	6.76	7.10	7.13	7.02	7.13	7.02	7.18
Cash and securities-to-total assets *(h)*	35.8	34.3	34.0	33.7	35.1	32.3	33.7	33.9
Credit rating *(i)*	AA-	AA-	AA-	AA-	AA-	AA-	AA-	AA-
Other Financial Ratios *(%)*								
Return on average total equity *(j)*	15.3	16.2	15.8	16.5	15.4	15.2	13.7	13.7
Return on average assets	0.70	0.74	0.74	0.78	0.73	0.72	0.64	0.65
Return on average assets available to common shareholders	0.65	0.70	0.69	0.73	0.69	0.67	0.59	0.60
Net income growth	7.8	14.1	24.9	29.5	0.4	53.3	19.3	16.1
Revenue growth	9.8	3.2	13.1	14.2	5.3	18.7	7.5	5.2
Expense growth	15.8	(0.2)	10.5	7.8	14.4	14.4	11.9	11.6
Net non-performing loans as a % of net loans and acceptances	0.35	0.48	0.74	0.57	0.89	1.05	1.29	1.29
Total capital ratio*	9.11	9.00	9.34	9.77	9.38	9.64	9.62	9.46
Equity-to-assets ratio	4.6	4.7	4.8	4.9	4.7	4.9	4.7	4.8

**The October 31, 1996 total capital ratio reflects the inclusion of the $300 million in subordinated debentures issued on November 1, 1996. Excluding this issue, the total capital ratio would be 8.83%, or 9.53% on a U.S. basis. The April 30, 1996 total capital ratio reflects the inclusion of $300 million Series 21 debentures issued on May 9, 1996. Excluding this issue, the total capital ratio would be 9.04%.*

(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 Superintendent of Financial Institutions Canada.

(h) Cash and securities divided by total assets.

(i) Composite of Moody's and Standard & Poor's 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, 1996, the Statement of Management's Responsibility for Financial Information and the Shareholders' Auditors' Report.

Consolidated Financial Statements

The audited Financial Statements present the financial condition of the Bank as at October 31, 1996 and 1995 and the results of its operations for the years ended October 31, 1996, 1995 and 1994. 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 Balance Sheet

As at October 31 (Canadian $ in millions)	1996	1995
Assets		
Cash Resources		
Cash and non interest-bearing deposits with Bank of Canada and other banks	$ 1,698	$ 1,795
Interest-bearing deposits with banks	20,841	18,406
Cheques and other items in transit, net	1,648	116
	24,187	20,317
Securities *(notes 2 & 4)*		
Investment (market value $17,556 in 1996 and $19,837 in 1995)	17,185	19,481
Trading	19,044	13,250
Loan substitutes	380	288
	36,609	33,019
Loans *(notes 3 & 4)*		
Residential mortgages	30,086	26,425
Consumer instalment and other personal loans	12,812	11,773
Credit card loans	3,842	3,839
Loans to businesses and governments	38,625	36,795
Securities purchased under resale agreements	14,081	10,505
	99,446	89,337
Allowance for credit losses	(1,033)	(895)
	98,413	88,442
Other		
Customers' liability under acceptances	4,397	4,469
Premises and equipment *(note 5)*	1,867	1,700
Other assets *(note 6)*	4,359	3,887
	10,623	10,056
Total Assets	$169,832	$151,834
Liabilities and Shareholders' Equity		
Deposits *(note 8)*		
Banks	$ 24,740	$ 24,009
Businesses and governments	37,474	34,826
Individuals	57,048	50,770
	119,262	109,605
Other		
Acceptances	4,397	4,469
Securities sold but not yet purchased	13,716	9,189
Securities sold under repurchase agreements	15,523	11,471
Other liabilities *(note 9)*	6,034	7,473
	39,670	32,602
Subordinated Debt *(note 10)*	3,314	2,595
Shareholders' Equity		
Share capital *(note 11)*		
Preferred shares	857	858
Common shares	2,989	3,002
Retained earnings	3,740	3,172
	7,586	7,032
Total Liabilities and Shareholders' Equity	$169,832	$151,834

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

M.W. Barrett

Matthew W. Barrett
Chairman and
Chief Executive Officer

F.A. Comper

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)	1996	1995	1994
Interest, Dividend and Fee Income			
Loans	$ 7,376	$ 7,364	$ 5,618
Securities *(note 2)*	2,311	1,890	1,260
Deposits with banks	984	857	481
	10,671	10,111	7,359
Interest Expense			
Deposits	5,134	5,397	3,367
Subordinated debt	246	206	189
Other liabilities	1,501	901	423
	6,881	6,504	3,979
Net Interest Income	3,790	3,607	3,380
Provision for credit losses	225	275	510
Net Interest Income After Provision for Credit Losses	3,565	3,332	2,870
Other Income			
Deposit and payment service charges	473	451	437
Lending fees	194	186	180
Capital market fees	760	495	313
Card services	234	230	211
Investment management and custodial fees	245	254	223
Mutual fund revenues	87	53	56
Revenue from interest rate and foreign exchange contracts	257	229	204
Other fees and commissions	79	77	125
	2,329	1,975	1,749
Net Interest and Other Income	5,894	5,307	4,619
Non-Interest Expense			
Salaries and employee benefits	2,210	1,999	1,795
Premises and equipment	727	679	600
Communications	219	208	180
Other expenses	739	651	546
	3,895	3,537	3,121
Goodwill and other valuation intangibles	54	49	31
Special charge	–	–	71
Business process improvement initiative charge	–	60	–
Total non-interest expense	3,949 ✓	3,646	3,223
Income Before Provision for Income Taxes	1,945	1,661	1,396
Provision for income taxes *(note 12)*	757	662	560
Income Before Non-Controlling Interest in Subsidiary	1,188	999	836
Non-controlling interest	20	13	11
Net Income	$ 1,168	$ 986	$ 825
Preferred dividends	$ 69	$ 69	$ 69
Net income available to common shareholders	$ 1,099	$ 917	$ 756
Average common shares outstanding *(in thousands)*	261,233	265,632	251,307
Net Income Per Common Share *(note 13)*			
Basic	$ 4.21	$ 3.45	$ 3.01
Fully diluted	4.13	3.38	2.97
Dividends Per Common Share	1.48	1.32	1.20

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)	Number of Shares 1996	Number of Shares 1995	Number of Shares 1994	1996	1995	1994
Preferred Shares *(note 11)*						
Balance at beginning of year				$ 858	$ 860	$ 852
Translation adjustment on shares issued in a foreign currency				(1)	(2)	8
Balance at End of Year				857	858	860
Common Shares *(note 11)*						
Balance at beginning of year	263,684,556	265,456,651	249,093,914	3,002	3,002	2,632
Issued under the Shareholder Dividend Reinvestment and Share Purchase Plan	–	631,264	1,446,817	–	17	38
Issued under the Stock Option Plan	122,100	–	–	3	–	–
Issued on the exchange of shares of Bank of Montreal Securities Canada Limited	1,130,350	1,096,641	1,654,617	19	23	34
Purchased for cancellation	(5,000,000)	(3,500,000)	–	(57)	(40)	–
Issued on the acquisition of Suburban Bancorp, Inc.	–	–	13,261,303	–	–	298
Stock options granted on acquisition of an interest in an associated corporation	–	–	–	22	–	–
Balance at End of Year	259,937,006	263,684,556	265,456,651	2,989	3,002	3,002
Retained Earnings						
Balance at beginning of year				3,172	2,676	2,202
Net income				1,168	986	825
Dividends						
Preferred shares				(69)	(69)	(69)
Common shares				(386)	(350)	(305)
Common shares purchased for cancellation				(105)	(63)	–
Unrealized gain (loss) on translation of net investment in foreign operations, net of hedging activities and applicable income tax				(40)	(8)	24
Share issue expense, net of applicable income tax				–	–	(1)
Balance at End of Year				3,740	3,172	2,676
Total Shareholders' Equity				$7,586	$7,032	$6,538

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 except per share amounts)	1996	1995	1994
Cash Flows from Operating Activities			
Net income	$ 1,168	$ 986	$ 825
Adjustments to determine net cash flows			
Provision for credit losses	225	275	510
Amortization of premises and equipment	234	215	187
Amortization of goodwill and intangibles	66	61	37
Deferred income taxes	80	67	(30)
Net (gain) on sale of investment securities	(71)	(46)	(37)
Change in accrued interest			
(Increase) in interest receivable	(48)	(238)	(199)
Increase (decrease) in interest payable	(66)	394	22
Net increase (decrease) in deferred loan fees	7	(8)	(7)
Net (increase) in trading securities	(5,794)	(2,769)	(1,222)
Net increase (decrease) in current income taxes payable	(200)	233	(183)
Changes in other items and accruals, net	(405)	139	129
Net Cash Provided by Operating Activities	(4,804)	(691)	32
Cash Flows from Financing Activities			
Net increase in deposits	9,657	11,364	8,311
Net increase in securities sold but not yet purchased	4,527	1,044	1,199
Net increase (decrease) in securities sold under repurchase agreements	4,052	(2,053)	7,039
Net increase (decrease) in debt of subsidiaries	(974)	227	986
Proceeds from issuance of subordinated debt	725	670	–
Repayment of subordinated debt	–	(269)	(183)
Increase (decrease) in subordinated debt	(6)	(24)	38
Increase (decrease) in preferred shares	(1)	(2)	8
Proceeds from issuance of common shares	22	40	72
Stock options granted on acquisition of an interest in an associated corporation	22	–	–
Common shares purchased for cancellation	(162)	(103)	–
Common shares issued on acquisition of a subsidiary	–	–	298
Dividends paid	(455)	(419)	(374)
Net Cash Provided by Financing Activities	17,407	10,475	17,394
Cash Flows Used in Investing Activities			
Interest-bearing deposits with banks	2,435	5,533	3,641
Net purchases (sales) of investment securities	(2,698)	3,669	383
Net increase in loans	6,620	4,150	6,801
Net increase (decrease) in securities purchased under resale agreements	3,576	(4,067)	6,884
Premises and equipment – net purchases	401	340	246
Increase in other assets	411	–	–
Acquisition of subsidiaries	–	–	704
Acquisition of an interest in an associated corporation	423	–	–
Net Cash Used in Investing Activities	11,168	9,625	18,659
Net Increase (Decrease) in Cash and Cash Equivalents	1,435	159	(1,233)
Cash and Cash Equivalents at Beginning of Year	1,911	1,752	2,891
Subsidiaries' cash and cash equivalents at date of acquisition	–	–	94
Cash and Cash Equivalents at End of Year	$ 3,346	$ 1,911	$ 1,752
Represented by:			
Cash and non interest-bearing deposits with Bank of Canada and other banks	$ 1,698	$ 1,795	$ 1,786
Cheques and other items in transit, net	1,648	116	(34)
	$ 3,346	$ 1,911	$ 1,752
Supplemental Disclosure of Cash Flow Information			
Amount of interest paid in the year	$ 6,947	$ 6,110	$ 3,957
Amount of income taxes paid in the year	887	371	750
Cash Income Per Common Share *(note 13)*	4.46	3.68	3.16

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

Notes to Consolidated Financial Statements

(Canadian $ in millions, unless otherwise stated)

Note 1 Significant Accounting Policies

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

These consolidated financial statements comply with the disclosure requirements of United States generally accepted accounting principles. Differences in total assets and liabilities and net income arising from the application of United States generally accepted accounting principles, if any, are described in note 21.

Basis of Consolidation

The consolidated financial statements include the Bank and all of its subsidiaries, net of intercompany transactions and balances. Subsidiaries are defined as corporations whose operations are controlled by the Bank, generally corporations in which the Bank owns more than 50 per cent of the voting shares. The purchase method is used to account for such 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.

Associated corporations are defined as those corporations over which the Bank is able to exercise significant influence, generally corporations in which the Bank owns 20 to 50 per cent of the voting shares. The equity method is used to account for such investments, whereby the income of such corporations is recognized in net interest income based on the Bank's proportionate share of the earnings adjusted for amortization of the difference in the fair value of the net assets acquired and goodwill.

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 net investments in foreign branches, subsidiaries and associated corporations are recorded in retained earnings, net of the after-tax effect of any offsetting gains and losses on instruments designated as hedges. Such gains and losses are recorded in income only when realized. Unrealized foreign currency translation gains and losses on net investments in foreign operations operating in economies exhibiting high inflation on other than a temporary basis are recorded in the Consolidated Statement of Income.

Deposits with Banks

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

Cheques and Other Items in Transit, Net

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

Securities

Securities comprise investment, trading and loan substitute securities.

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

Trading securities are securities purchased for resale over a short period of time. Such securities are carried at market value. Adjustments to market value and gains and losses on sale 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 impaired.

Restructured loans are non-personal and sovereign risk loans, where for economic or legal reasons related to the borrower's weakened financial condition, a concession is granted. Restructured loans are classified as performing and interest is accrued, unless they meet the criteria for classification as impaired.

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 as impaired loans. Such assets are carried at the lower of estimated realizable amount and the recorded investment in 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 impaired loans is as follows:

	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
Accounting for impaired loans			
Classification as impaired	Consumer instalment loans are classified as impaired when payments of interest or principal are contractually past due 90 days. Credit card loans are classified as impaired and written off, when payments of interest or principal are contractually past due 180 days.	Loans are classified as impaired when: 1. in the opinion of management there is no longer reasonable assurance of the timely collectibility of principal or interest, or 2. payment of interest or principal is contractually past due 90 days unless in the opinion of management there is reasonable assurance of the timely collectibility of interest and principal, or 3. payment of interest or principal is contractually past due 180 days, or 4. in the opinion of management it is considered prudent or desirable to cease accruing interest, irrespective of the status of interest or principal payments.	Loans are classified as impaired when: 1. in the opinion of management there is no longer reasonable assurance of the timely collectibility of principal or interest, or 2. payment of interest or principal is contractually past due 90 days unless the loan is both fully secured and in the process of collection, or 3. payment of interest or principal is contractually past due 180 days, or 4. in the opinion of management it is considered prudent or desirable to cease accruing interest, irrespective of the status of interest or principal payments.
Interest	When a loan is classified as impaired, all accrued and unpaid interest is reversed and charged against interest income in the period in which the loan is classified as impaired. Interest is not capitalized if a loan is impaired nor is it capitalized to prevent classification of a loan as impaired.		
Application of subsequent payments	Subsequent payments are applied first to interest, then to principal, unless directed otherwise by the borrower.	Subsequent payments are applied first to interest, then to principal, unless directed otherwise by the borrower.	Subsequent payments are recorded in interest income after any prior write-off has been recovered and if management has determined that a specific provision is not required, otherwise they are recorded as a reduction of principal.
Reinstatement of performing status	Impaired loans may revert to performing status when management has determined that there is reasonable assurance of the timely collectibility of principal and interest.		
Accounting for principal amounts of impaired loans			
Establishing provision for credit losses on loans and writing off loans	Consumer instalment loans have full specific provisions established and they are written off when payments of interest or principal are contractually past due one year. Credit card loans have full specific provisions established and they are written off at the same time as they are classified as impaired.	A specific provision is established to reduce the book value of the loan to its estimated realizable amount if there is no longer reasonable assurance of the timely collectibility of principal or interest on a particular loan. A country risk provision is established based on management's assessment of the political and economic conditions in particular countries, subject to a minimum level of aggregate provisions prescribed by the Superintendent of Financial Institutions Canada.	A specific provision is established to reduce the book value of the loan to its estimated realizable amount if there is no longer reasonable assurance of the timely collectibility of principal or interest on a particular loan. A general provision is established in respect of loans for which individual specific provisions cannot yet be determined and in respect of which it is management's opinion that probable losses exist. The general provision may be allocated to specific industry or geographic sectors or other groups where credit quality is considered to have deteriorated. 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 down by the amount considered beyond realistic prospect of recovery.	

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 allowances
- General allowance
- Country risk allowance.

The specific, general and country risk allowances are deducted from the related asset category, except for allowances 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 impaired when:

1. in the opinion of management there is no longer reasonable assurance of the timely 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 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 instruments to which they relate. Effectiveness is evaluated on an initial and ongoing basis by reviewing the correlation between changes in the fair value of the hedging instrument and the fair value of the underlying exposure.

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 the interest rate and foreign exchange exposures arising from the Bank's on-balance sheet positions. Such derivatives include contracts which are designated and effective as hedges. Swaps, forwards and options which are used for such purposes are accounted for on the accrual basis whereby, income and expense on the derivative instrument is accrued and there is no recognition of unrealized gains and losses on the derivative in the balance sheet. For swaps and forwards, interest income and expense from the hedging instrument is accrued and recorded as an adjustment to the income or expense related to the hedged position. Option premiums are amortized over the life of the contract to the income or expense line associated with the hedged position. Net accrued interest receivable and payable and deferred gains and losses are recorded in other assets or other liabilities, as appropriate. 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 hedging instrument.

Subsequent changes in fair value on instruments identified as hedges but which are no longer effective are reported in other income.

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.

An actuarial valuation is performed each year to determine the 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 the 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 and dental 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.

Changes in Canadian Accounting Standards

Canadian Institute of Chartered Accountants handbook section number 3025, "Impaired Loans", was 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 the estimated future cash flows, the establishment of the general provision and the disclosure of related amounts. The Bank's existing practices for impaired loans comply with the new standards. As a result, an adjustment to retained earnings on adoption of the new standard was not required.

Canadian Institute of Chartered Accountants handbook section number 3860, "Presentation and Disclosure of Financial Instruments" must be adopted in or before fiscal 1997. This new section sets standards for the presentation and disclosure of financial instruments including risk management and risk positions. The presentation standard which requires that unrealized gains and losses on interest rate and foreign exchange contracts held for trading related activities be reported on a gross rather than net basis will be adopted in fiscal 1997. The potential impact of this standard on total assets and liabilities reported in future years cannot be determined. Had the standard been applied as at October 31, 1996 and 1995, reported assets and liabilities would have increased by $6,623 and $6,954, respectively. The disclosure standards of this section have been adopted in 1996 and are included in these consolidated financial statements.

Comparative Figures

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

Note 2 Securities

	Term to maturity										1996		1995
	Within 1 year		1 to 3 years		3 to 5 years		5 to 10 years		Over 10 years		Total book value		Total book value
Investment Securities		Yield %		Yield %		Yield %		Yield %		Yield %		Yield %	
Issued or guaranteed by:													
Canadian federal government	$ 3,843	5.44	$1,304	5.82	$ 123	8.48	$ 118	8.28	$ –	–	$ 5,388	5.66	$ 8,341
Canadian provincial and municipal governments	12	5.07	16	9.96	150	10.83	33	8.61	–	–	211	10.09	454
U.S. federal government	713	6.05	651	6.44	975	6.12	654	5.86	–	–	2,993	6.12	2,918
U.S. states, municipalities and agencies	1,532	5.73	494	7.27	152	7.75	524	6.96	1,088	7.00	3,790	6.55	3,605
Designated countries	–	–	1	25.84	–	–	29	–	40	24.16	70	14.17	199
Other governments	6	2.44	–	–	5	7.94	1	6.60	125	8.49	137	8.19	693
Mortgage-backed securities and collateralized mortgage obligations	–	–	31	8.23	–	–	–	–	1,082	7.00	1,113	7.03	1,339
Corporate debt	60	7.78	210	6.73	382	6.97	1,236	7.50	352	6.39	2,240	7.17	1,072
Corporate equity													
Associated corporation	–	–	–	–	–	–	–	–	436	–	436	–	–
Other	109	7.05	160	6.21	121	6.41	107	6.95	310	2.98	807	5.21	860
Total investment securities	6,275	5.63	2,867	6.36	1,908	6.97	2,702	6.94	3,433	5.94	17,185	6.16	19,481
Trading Securities													
Issued or guaranteed by:													
Canadian federal government	6,001		2,520		448		959		1,232		11,160		7,907
Canadian provincial and municipal governments	302		226		162		588		565		1,843		1,778
U.S. federal government	1,639		584		441		591		379		3,634		626
U.S. states, municipalities and agencies	111		5		3		–		–		119		1,409
All other	1,633		202		145		222		86		2,288		1,530
Total trading securities	9,686		3,537		1,199		2,360		2,262		19,044		13,250
Loan Substitute Securities	4		250		126		–		–		380		288
Total Securities	$15,965		$6,654		$3,233		$5,062		$5,695		$36,609		$33,019

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.

During the years ended October 31, 1996 and 1995 there were no allowances for credit losses against loan substitute securities.

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 allowance (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, 1996 and 1995 there were no securities of a single non-government issuer the book value of which exceeded 10% of shareholders' equity.

Activity in the investment securities portfolio during 1996 includes: purchases – $86,356; proceeds from sales – $68,316; and maturities, prepayments and calls – $20,738. Gross realized gains and losses in 1996 were $85 and $14, respectively. Investment securities other than an interest in an associated corporation are considered to be available for sale based upon Statement of Financial Accounting Standards No. 115.

Interest income from securities is as follows:

	1996	1995	1994
Investment Securities			
Interest and dividend income	$1,162	$1,376	$ 842
Net realized gains	71	46	37
Associated corporation	55	–	–
Income from investment securities	1,288	1,422	879
Trading Securities			
Interest and dividend income	907	387	295
Net realized and unrealized gains	116	81	86
Income from trading securities	1,023	468	381
Total	$2,311	$1,890	$1,260

The above amounts exclude the related interest expense.

Unrealized Gains and Losses

	1996				1995			
	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 government	$ 5,388	$ 95	$ –	$ 5,483	$ 8,341	$ 50	$ 26	$ 8,365
Canadian provincial and municipal governments	211	30	–	241	454	35	1	488
U.S. federal government	2,993	6	41	2,958	2,918	1	13	2,906
U.S. states, municipalities and agencies	3,790	19	35	3,774	3,605	176	–	3,781
Designated countries	70	91	–	161	199	200	–	399
Other governments	137	6	–	143	693	–	95	598
Mortgage-backed securities and collateralized mortgage obligations	1,113	12	1	1,124	1,339	19	–	1,358
Corporate debt	2,240	32	7	2,265	1,072	8	12	1,068
Corporate equity								
Associated corporation	436	132	–	568	–	–	–	–
Other	807	33	1	839	860	18	4	874
Total	$17,185	$456	$85	$17,556	$19,481	$507	$151	$19,837

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 Impaired Loans and Acceptances

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

	Canada		U.S.A.		Mexico		Other countries		Total	
	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995
Residential mortgages	$131	$ 88	$ –	$ –	$ –	$ –	$ –	$ –	$ 131	$ 88
Consumer instalment and other personal loans	31	19	6	9	–	–	–	–	37	28
Credit card loans	5	4	–	–	–	–	–	–	5	4
Loans to businesses and governments	572	626	583	960	–	–	8	7	1,163	1,593
Securities purchased under resale agreements	–	–	–	–	–	–	–	–	–	–
Securities of designated countries	–	–	–	–	–	–	–	–	–	–
Loan substitute securities	3	–	–	–	–	–	–	–	3	–
Acceptances	58	17	–	–	–	–	–	–	58	17
Total impaired loans and acceptances	800	754	589	969	–	–	8	7	1,397	1,730
Allowance for credit losses	(735)	(590)	(290)	(298)	–	–	(8)	(7)	(1,033)	(895)
Total net impaired loans and acceptances	$ 65	$164	$299	$671	$ –	$ –	$ –	$ –	$ 364	$ 835
Average net impaired loans and acceptances	$184	$242	$419	$879	$ –	$ –	$ –	$ –	$ 603	$1,121

	Canada			U.S.A.			Mexico			Other countries			Total		
	1996	1995	1994	1996	1995	1994	1996	1995	1994	1996	1995	1994	1996	1995	1994
Gross interest income received on impaired loans and acceptances	$42	$32	$35	$20	$8	$23	$ –	$ –	$ –	$35	$35	$123	$97	$75	$181
Interest income received on impaired loans and acceptances, net of interest reversals	$25	$20	$22	$19	$2	$19	$ –	$ –	$ –	$35	$35	$123	$79	$57	$164

As at October 31, 1996 and 1995 impaired loans include $133 and $191, respectively, of other real estate owned and securities 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, 1996 and 1995, there were no net impaired loans outstanding to designated countries. As at October 31, 1996 and 1995, approximately 2% and 1%, respectively, of gross exposure to designated countries was classified as impaired.

The allowance for credit losses as at October 31, 1996 and 1995 is net of $108 and $360, respectively, of country risk allowance that is in excess of gross impaired loans to designated countries.

Loans which are 90 to 180 days past due, but which have not yet been included in impaired loans as at October 31, 1996 and 1995, amounted to $31 and $24, respectively.

During the year ended October 31, 1996, loans in the amount of $27 were restructured, of which $1 was classified as performing and $26 continued to be classified as impaired. During the year ended October 31, 1995, loans in the amount of $51 were restructured and classified as performing. During the years ended October 31, 1996 and 1995 there were no write-offs of restructured loans.

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 impaired as at October 31:

	1996	1995	1994
Interest income that would have been accrued at original contract rates	$128	$174	$220
Less: amount recognized as interest income	(8)	(18)	(8)
Total	$120	$156	$212

Note 4 Allowance for Credit Losses

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

	Specific allowances			General allowance			Country risk allowance			Total		
	1996	1995	1994	1996	1995	1994	1996	1995	1994	1996	1995	1994
Residential mortgages	$ 9	$ 6	$ 6	$ –	$ –	$ –	$ –	$ –	$ –	$ 9	$ 6	$ 6
Consumer instalment and other personal loans	15	17	18	–	–	–	–	–	–	15	17	18
Credit card loans	–	–	–	–	–	–	–	–	–	–	–	–
Loans to businesses and governments	526	540	786	475	325	200	8	7	19	1,009	872	1,005
Securities purchased under resale agreements	–	–	–	–	–	–	–	–	–	–	–	–
Securities of designated countries	–	–	–	–	–	–	108	360	465	108	360	465
Loan substitute securities	–	–	2	–	–	–	–	–	–	–	–	2
Acceptances	–	–	–	–	–	–	–	–	–	–	–	–
	550	563	812	475	325	200	116	367	484	1,141	1,255	1,496
Off-balance sheet items	2	–	–	–	–	–	–	–	–	2	–	–
Total	$552	$563	$812	$475	$325	$200	$116	$367	$484	$1,143	$1,255	$1,496

Changes in the allowance for credit losses are as follows:

	Specific allowances			General allowance			Country risk allowance			Total		
	1996	1995	1994	1996	1995	1994	1996	1995	1994	1996	1995	1994
Balance at beginning of year	$563	$812	$1,235	$325	$200	$100	$367	$484	$664	$1,255	$1,496	$1,999
Provision for credit losses	225	150	461	–	125	50	–	–	(1)	225	275	510
Transfer of allowance	–	–	(50)	150	–	50	(150)	–	–	–	–	–
Recoveries	103	52	74	–	–	–	–	–	1	103	52	75
Write-offs	(344)	(450)	(944)	–	–	–	(105)	(115)	(203)	(449)	(565)	(1,147)
Other, including foreign exchange rate changes	5	(1)	36	–	–	–	4	(2)	23	9	(3)	59
Balance at end of year	$552	$563	$ 812	$475	$325	$200	$116	$367	$484	$1,143	$1,255	$1,496

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

Specific Allowances

Loans and acceptances, other than consumer instalment and credit card loans, are reviewed quarterly to assess classification as impaired and, where appropriate, required allowance 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 allowance or write-off are included in their determination. Significant specific allowances 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 allowances.

The determination of the estimated realizable amount of impaired loans is based on either the discounted value of estimated future cash flows, the fair value of the underlying security discounted to expected realization, 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 allowances.

General Allowance

The general allowance is established at a level which reflects management's estimate of the allowance required in respect of loans including those of an associated corporation for which individual specific allowances cannot yet be determined. These loans total $103,451 as at October 31, 1996.

Country Risk Allowance

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 impaired and the adequacy of the allowance 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:

	1996	1995
Land	$ 265	$ 251
Buildings	1,145	1,122
Computer and other equipment	1,337	1,104
Leasehold improvements	317	291
	3,064	2,768
Accumulated amortization	(1,197)	(1,068)
Total	$1,867	$1,700

For the years ended October 31, 1996, 1995 and 1994 amortization expense amounted to $234, $215 and $187, respectively. As at October 31, 1996 land and buildings include amounts in respect of 580 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:

	1996	1995
Accounts receivable, prepaid expenses and other items	$1,793	$1,529
Accrued interest receivable	928	880
Due from clients, dealers and brokers	588	682
Deferred income taxes	161	241
Goodwill and other valuation intangibles	889	555
Total	$4,359	$3,887
The components of goodwill and other valuation intangibles for each major subsidiary are as follows:		
Goodwill		
The Nesbitt Burns Corporation Limited and subsidiaries	$ 275	$ 304
Harris Bankcorp, Inc. and subsidiaries	205	24
Harris Bankmont, Inc. and subsidiaries	77	83
	557	411
Other valuation intangibles		
Harris Bankcorp, Inc. and subsidiaries	242	62
Harris Bankmont, Inc. and subsidiaries	76	82
Bank of Montreal Mortgage Corporation	14	-
	332	144
Total	$ 889	$ 555

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

	1996	1995	1994
Non-interest expense	$54	$49	$31
Interest expense	12	12	6
Total	$66	$61	$37

Note 7 Operating and Geographic Segmentation

The Bank conducts its business through operating segments, each of which has a distinct market, product and geographic mandate. Information concerning the management of these operating segments is contained in the Management Analysis of Operations.

Net income and related components for the years ended October 31, 1996, 1995 and 1994 and average assets, loans and deposits for the years ended October 31, 1996 and 1995 for each of the operating segments are set out in the tables on pages 24 to 28.

Note 8 Deposits

	Demand deposits				Payable after notice		Payable on a fixed date		Total	
	Interest-bearing		Non interest-bearing							
	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995
Deposits by:										
Banks	$ 138	$ 346	$ 469	$ 535	$ 589	$ 384	$23,544	$22,744	$ 24,740	$ 24,009
Businesses and governments	2,053	2,898	7,690	7,126	6,159	5,810	21,572	18,992	37,474	34,826
Individuals	2,450	813	1,228	1,137	22,514	20,720	30,856	28,100	57,048	50,770
Total	$4,641	$4,057	$9,387	$8,798	$29,262	$26,914	$75,972	$69,836	$119,262	$109,605
Booked in:										
Canada	$3,035	$2,620	$4,491	$5,221	$23,567	$22,570	$39,148	$38,557	$ 70,241	$ 68,968
U.S.A.	1,529	1,043	4,855	3,521	5,105	3,696	16,064	15,130	27,553	23,390
Mexico	-	-	-	-	-	-	-	-	-	-
Other countries	77	394	41	56	590	648	20,760	16,149	21,468	17,247
Total	$4,641	$4,057	$9,387	$8,798	$29,262	$26,914	$75,972	$69,836	$119,262	$109,605

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 $1,798 and $611 as at October 31, 1996 and 1995, respectively, are classified as deposits. Deposits include commercial paper issued totalling $568 and $1,655, respectively, as at October 31, 1996 and 1995.

As at October 31, 1996 deposits greater than $100,000.00 booked in Canada and outside Canada totalled $17,544 and $32,173, respectively. Of the total deposits booked in Canada $14,302 related to deposits with maturity of six months or less. Deposits greater than $100,000.00 payable on a fixed date totalled $49,717.

Note 9 Other Liabilities

	1996	1995
Accounts payable, accrued expenses and other items	$2,530	$2,937
Liabilities of subsidiaries, other than deposits	2,029	3,003
Accrued interest payable	1,227	1,293
Deferred loan fees	83	76
Non-controlling interest in subsidiary	165	164
Total	$6,034	$7,473

As at October 31, 1996 the maturities for liabilities of subsidiaries, other than deposits are as follows: 1997 – $1,895; 1998 to 2000 – $ nil; 2001 – $134; 2002 and thereafter – $ nil.

Included in liabilities of subsidiaries, other than deposits as at October 31, 1996 and 1995 are other short-term borrowings of $1,895 and $2,868, respectively.

Note 10 Subordinated Debt

	Interest rate %	Maturity date	Redeemable at the option of the Bank beginning	Denominated in U.S. $	1996	1995
Series 10 Debentures	Variable	July, 1998	July, 1991	250	$ 335	$ 335
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	250
Series 19 Debentures	7.40	March, 2011	March, 2006	–	125	–
Series 20 Debentures	8.25	December, 2025 to 2040	–	–	150	–
Series 21 Debentures	8.15	May, 2011	May, 2006	–	300	–
Series 22 Debentures	7.92	July, 2012	July, 2007	–	150	–
Subordinated Notes	10.00	September, 1998	–	150	202	202
Subordinated Notes	6.10	September, 2005	–	300	401	404
Subordinated Notes	7.80	April, 2007	–	300	401	404
Total					$3,314	$2,595

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. Redemption of subordinated debt is subject to the prior approval of the Superintendent of Financial Institutions Canada.

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", as defined, plus 0.40%. 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 for common shares of the Bank, but subject to the Bank's pre-emptive right of redemption for cash. 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, if not redeemed by the Bank, interest will be payable at a rate equal to the Canadian "90 day Bankers' Acceptance Rate", as defined, plus 1.00%.

The Series 18 Debentures bear interest at a fixed rate of 8.80% until September 13, 2005. Thereafter, if not redeemed by the Bank, interest will be payable at a rate equal to the Canadian "90 day Bankers' Acceptance Rate", as defined, plus 1.00%.

The Series 19 Debentures bear interest at a fixed rate of 7.40% until March 14, 2006. Thereafter, if not redeemed by the Bank, interest will be payable at a rate equal to the Canadian "90 day Bankers' Acceptance Rate", as defined, plus 1.00%.

The Series 21 Debentures bear interest at a fixed rate of 8.15% until May 9, 2006. Thereafter, if not redeemed by the Bank, interest will be payable at a rate equal to the Canadian "90 day Bankers' Acceptance Rate", as defined, plus 1.00%.

The Series 22 Debentures bear interest at a fixed rate of 7.92% until July 31, 2007. Thereafter, if not redeemed by the Bank, interest will be payable at a rate equal to the Canadian "90 day Bankers' Acceptance Rate", as defined, plus 1.00%.

The aggregate retirement provisions and maturities as at October 31, 1996 are as follows: 1997 – $ nil; 1998 – $537; 1999 – $10; 2000 and 2001 – $ nil; 2002 and thereafter – $2,767.

On November 1, 1996, the Bank issued Series 23 Debentures in the amount of $300 maturing on October 16, 2006. Interest is payable at a fixed rate of 6.90% until October 16, 2001. Thereafter, if not redeemed by the Bank, interest will be payable at a rate equal to the Canadian "90 day Bankers' Acceptance Rate", as defined, plus 1.00%.

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

(Canadian $ in millions, except per share amounts)	1996 Number of shares	1996 Amount	1995 Number of shares	1995 Amount	1994 Number of shares	1994 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	335	10,000,000	336	10,000,000	338
		857		858		860
Common Shares	259,937,006	2,989	263,684,556	3,002	265,456,651	3,002
Total Outstanding Share Capital		$3,846		$3,860		$3,862

Preferred Shares

Redemptions of all preferred share issues for cash 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 at the Bank's option from September 20, 1999 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 $4,765.625 per share. 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. These shares are convertible at the shareholder's option from July 10, 1999 for common shares of the Bank. The Bank has a pre-emptive right to redeem the shares for cash at $250,000.00 per share. 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 at the Bank's option from February 25, 2001 for either (a) cash at $25.00 per share or (b) common shares of the Bank. These shares are convertible at the shareholder's option from August 25, 2001 for common shares of the Bank. The Bank has a pre-emptive right to redeem the shares for cash at $25.00 per share. 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 U.S. $0.4219 per share. These shares are redeemable at the Bank's option from August 25, 2001 for either (a) cash at U.S. $25.00 per share or (b) common shares of the Bank. These shares are convertible at the shareholder's option from February 25, 2002 for common shares of the Bank. The Bank has a pre-emptive right to redeem the shares for cash at U.S. $25.00 per share. 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

In July 1995 the Bank commenced a program to acquire common shares for cancellation. 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, Burns Fry Limited and Grupo Financiero Bancomer. During the years ended October 31, 1996 and 1995, 5.0 million and 3.5 million common shares, respectively, were purchased for cancellation. The average cost was $32.41 and $29.32, respectively.

The Bank has established a Stock Option Plan for designated officers and employees. The options are exercisable commencing after five fiscal years from November 1 of the fiscal year during which the options were granted contingent on the Bank meeting certain performance criteria. The options expire ten years from the date the options were granted.

During the year ended October 31, 1996, the Bank granted options to purchase 9,957,285 common shares of the Bank in connection with the acquisition of an interest in Grupo Financiero Bancomer (note 20). The options are exercisable commencing March 29, 2001, contingent upon Grupo Financiero Bancomer meeting certain performance criteria, and expire on March 29, 2003. The $2.22 value attributed to these options has been included in share capital.

Bank of Montreal Securities Canada Limited, a subsidiary of the Bank, has issued non-voting shares which are exchangeable into common shares of the Bank. Class B and C shares are exchangeable at the option of the holder with the number of Bank shares issuable based upon a number of factors including the holding period. Class E shares are exchangeable at the option of the holder over a four year period with 25% of the shares becoming exchangeable each year. Class F shares are exchangeable at any time at the option of the holder.

The Nesbitt Burns Corporation Limited, a subsidiary of Bank of Montreal Securities Canada Limited, has issued non-voting Class D shares which are exchangeable into common shares of the Bank subject to a pre-emptive right to redeem the shares for cash consideration at the net book value.

As at October 31, 1996, there were reserved for possible issuance 6,727,097 common shares in respect of the Shareholder Dividend Reinvestment and Share Purchase Plan, 8,612,220 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 29,835,185 common shares in respect of stock options.

Potential Share Issuances

The following sets out common shares which may be issued under certain circumstances:

	Issue date	1996 Number of shares	1996 Price per share	1995 Number of shares	1995 Price per share
Stock Option Plan	1995	2,604,200	$25.50	2,740,600	$25.50
	1996	3,042,500	31.00	–	–
		5,646,700		2,740,600	
Other options	1996	9,957,285	$36.50	–	–
		15,603,985		2,740,600	
Other convertible issuances	1992	2,954,133	$14.12	3,209,422	$14.06
	1994	3,302,055	17.93	4,251,779	17.86
		6,256,188		7,461,201	
Total		21,860,173		10,201,801	

Excludes share issues which are redeemable at the Bank's option or subject to the Bank's pre-emptive right to redeem the shares for cash.

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 Bank 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	1996	1995	1994
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	1.48	1.32	1.20

Common share dividends disclosed above were declared quarterly.

Note 12 Income Taxes

The following tables set out components of income taxes:

Provision for Income Taxes	1996	1995	1994
Provision for income taxes reported in the Consolidated Statement of Income	$757	$662	$560
Income tax expense (benefit) related to foreign currency translation reported in shareholders' equity	10	9	(23)
Total	$767	$671	$537
Components of Total Income Taxes			
Canada:			
Current			
Federal	$440	$364	$388
Provincial	144	122	124
	584	486	512
Deferred			
Federal	47	54	(11)
Provincial	15	18	(4)
	62	72	(15)
Total Canadian	646	558	497
Foreign:			
Current	103	118	55
Deferred	18	(5)	(15)
Total Foreign	121	113	40
Total	$767	$671	$537

The Bank is subject to Canadian taxation on income of foreign branches and earnings of certain 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 income 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	1996	1995
Deferred Income Tax Assets		
Allowance for credit losses	$296	$330
Deferred items	75	105
Other	58	45
	429	480
Valuation allowance	(11)	(9)
Deferred Income Tax Assets	418	471
Deferred Income Tax Liabilities		
Premises and equipment	(106)	(62)
Deferred pension	(126)	(138)
Purchase accounting adjustments	(19)	(22)
Other	(6)	(8)
Deferred Income Tax Liabilities	(257)	(230)
Net Deferred Income Tax Asset	$161	$241

Deferred income 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:

	1996		1995		1994	
Combined Canadian federal and provincial income taxes and statutory tax rate	$816	42.0%	$696	41.9%	$587	42.0%
Increase (decrease) resulting from:						
Tax-exempt income	(67)	(3.5)	(51)	(3.0)	(40)	(2.9)
Foreign operations	(59)	(3.0)	(46)	(2.8)	(34)	(2.4)
Goodwill and other valuation intangibles	21	1.1	26	1.5	16	1.1
Financial institutions temporary surcharge	9	0.4	6	0.3	–	–
Other	37	1.9	31	1.9	31	2.3
Provision for Income Taxes and Effective Tax Rate	$757	38.9%	$662	39.8%	$560	40.1%

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 number of fully paid common shares outstanding. The average number of common shares for the years ended October 31, 1996, 1995 and 1994 was 261,232,729 shares, 265,632,030 shares and 251,307,312 shares, respectively. Net income applicable to common shares for the years ended October 31, 1996, 1995 and 1994 amounted to $1,099, $917 and $756, 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. 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 ended October 31, 1996, 1995 and 1994 was 268,361,643 shares, 273,919,447 shares and 256,496,148 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.

The calculation of cash income per common share is based upon net income available to common shareholders excluding amortization of goodwill and other valuation intangibles and upon the daily average equivalent number of fully paid common shares outstanding.

Note 14 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:

	1996	1995	1994
Accumulated benefit obligation, including vested benefits of $1,312 in 1996, $1,274 in 1995 and $1,141 in 1994	$1,341	$1,303	$1,169
Projected benefit obligation for service rendered to date	$1,746	$1,634	$1,500
Plan assets at fair value	2,207	1,956	1,657
Excess of plan assets over projected benefit obligation	461	322	157
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in actuarial assumptions	(174)	(23)	49
Unrecognized prior service costs	57	60	66
Unrecognized transition amount	(11)	(20)	(30)
Prepaid pension cost	$ 333	$ 339	$ 242
As at October 31, 1996, the plan assets consisted of equities (46%), fixed income investments (52%) and real estate and other investments (2%).			
Annual Pension Costs			
Net pension costs includes the following components:			
Service cost-benefits earned	$ 59	$ 57	$ 58
Interest cost in projected benefit obligation	135	127	119
Actual return on plan assets	(344)	(250)	21
Net amortization and deferral	180	103	(151)
Annual pension cost	30	37	47
Canada and Quebec pension plan contribution	22	21	17
Total annual pension cost	$ 52	$ 58	$ 64
Actuarial Assumptions			
Weighted average discount rate for projected benefit obligation	7.9%	8.2%	8.3%
Weighted average rate of compensation increase	4.3	5.4	5.5
Weighted average expected long-term rate of return on plan assets	8.4	8.4	8.4

Postretirement life insurance, health and dental care benefits incurred and reported in employee benefits expense during the years ended October 31, 1996, 1995 and 1994 were $10, $8 and $7, respectively.

Note 15 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 such loan agreements are as follows:

	1996	1995
Mortgage loans	$ 954	$ 944
Personal loans	353	337
Total	$1,307	$1,281

Note 16 Risk Management

Stability of earnings is created through active management of credit, position, liquidity and operational risks. Information concerning the nature of these risks and the basis of their management is set out in commentary on pages 36 to 39 in the Management Analysis of Operations.

In addition to information concerning specific measures of risk included in the consolidated financial statements, being the allowance for credit losses, trading revenue, derivative financial instruments and fair value of financial instruments, a summary of interest rate sensitivity and the effective interest rates on financial instruments is provided on page 53 of the Management Analysis of Operations.

Note 17 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.

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:

	1996		1995	
	Contract amount	Risk-weighted equivalent	Contract amount	Risk-weighted equivalent
Credit Instruments				
Guarantees and standby letters of credit	$ 8,303	$ 6,713	$ 5,817	$ 4,875
Securities lending	16,289	1,033	16,228	1,330
Documentary and commercial letters of credit	1,116	187	1,099	194
Commitments to extend credit:				
Original maturity of one year and under	32,945	–	31,413	–
Original maturity of over one year	27,080	13,108	24,703	11,885
Note issuance and revolving underwriting facilities	33	17	79	13
Total	$85,766	$21,058	$79,339	$18,297

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-cancellable leases for premises and equipment. Annual contractual rental commitments for the next five years and thereafter, for an aggregate of $954, are: $146 for 1997, $128 for 1998, $113 for 1999, $94 for 2000, $82 for 2001, and $391 for 2002 and thereafter. Included in the above are amounts for the Bank's 716 leased bank branch locations as at October 31, 1996. Net rent expense for premises and equipment reported in the Consolidated Statement of Income for the years ended October 31, 1996, 1995 and 1994 was $156, $151 and $130, respectively.

(c) Legal Proceedings

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

(d) Pledged Assets

In the normal course of business, the Bank and certain subsidiaries of the Bank pledge their assets as security for liabilities incurred. As at October 31, 1996 and 1995, certain investment and trading account securities and other assets with a total carrying value of $31,480 and $23,810, respectively, 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 $213 and $407 as at October 31, 1996 and 1995, respectively, 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, 1996 and 1995 such balances included in cash resources totalled $266 and $256, respectively.

Note 18 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 exchange 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 and revenues from the related on-balance sheet positions, which is recorded in other income in the Consolidated Statement of Income, is set out below:

	1996	1995	1994
Revenue from Trading			
Interest rate contracts	$ 70	$ 22	$ 29
Foreign exchange contracts	$130	$166	$137

Losses incurred on defaults of counterparties charged to the allowance for credit losses in 1996 and 1995 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:

	1996	1995	1994
Asset/Liability Management Derivatives			
Increase (decrease) in net interest income	$ 33	$(29)	$(46)
Deferred realized gains (losses)	$ (3)	$ (6)	$ 1

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.

	1996							1995						
	Notional amount							Notional amount						
	Customer/ proprietary trading	Asset/ liability management	Total	Replacement cost	Future credit exposure	Credit risk equivalent	Risk-weighted balance	Customer/ proprietary trading	Asset/ liability management	Total	Replacement cost	Future credit exposure	Credit risk equivalent	Risk-weighted balance
Interest Rate Contracts														
Over-the-counter														
Swaps	$120,734	$13,829	$134,563	$2,002	$ 438	$ 2,440	$ 604	$ 67,447	$13,516	$ 80,963	$1,082	$ 319	$ 1,401	$ 390
Forward rate agreements	100,178	793	100,971	157	11	168	34	92,559	1,434	93,993	99	3	102	23
Purchased options	11,919	247	12,166	105	45	150	39	9,073	343	9,416	76	21	97	18
Written options	14,649	245	14,894	–	–	–	–	10,957	–	10,957	–	–	–	–
	247,480	15,114	262,594	2,264	494	2,758	677	180,036	15,293	195,329	1,257	343	1,600	431
Exchange traded														
Futures	37,042	8,214	45,256	–	–	–	–	27,942	10,895	38,837	–	–	–	–
Purchased options	8,493	–	8,493	–	–	–	–	7,625	–	7,625	–	–	–	–
Written options	11,008	–	11,008	–	–	–	–	7,086	–	7,086	–	–	–	–
	56,543	8,214	64,757	–	–	–	–	42,653	10,895	53,548	–	–	–	–
Total Interest Rate Contracts	304,023	23,328	327,351	2,264	494	2,758	677	222,689	26,188	248,877	1,257	343	1,600	431
Foreign Exchange Contracts														
Over-the-counter														
Cross-currency swaps	547	–	547	89	31	120	31	264	471	735	94	36	130	32
Cross-currency interest rate swaps	6,840	1,540	8,380	284	419	703	114	6,846	796	7,642	267	345	612	108
Forward foreign exchange contracts	296,581	11,379	307,960	4,556	2,930	7,486	1,688	381,438	12,001	393,439	5,930	3,820	9,750	2,297
Purchased options	7,821	–	7,821	89	93	182	53	7,046	–	7,046	76	73	149	41
Written options	8,365	–	8,365	–	–	–	–	7,432	–	7,432	–	–	–	–
	320,154	12,919	333,073	5,018	3,473	8,491	1,886	403,026	13,268	416,294	6,367	4,274	10,641	2,478
Exchange traded														
Futures	1,850	–	1,850	–	–	–	–	1,551	–	1,551	–	–	–	–
Purchased options	260	–	260	–	–	–	–	5	–	5	–	–	–	–
Written options	26	–	26	–	–	–	–	2	–	2	–	–	–	–
	2,136	–	2,136	–	–	–	–	1,558	–	1,558	–	–	–	–
Total Foreign Exchange Contracts	322,290	12,919	335,209	5,018	3,473	8,491	1,886	404,584	13,268	417,852	6,367	4,274	10,641	2,478
Total	$626,313	$36,247	$662,560	$7,282	$3,967	$11,249	$2,563	$627,273	$39,456	$666,729	$7,624	$4,617	$12,241	$2,909

Option contracts transacted on regulated exchanges are subject to daily cash margining. Equity and commodity contracts are not material and are included with foreign exchange contracts.

Master netting agreements reduce the Bank's credit risk exposure by allowing the offsetting of amounts due to/from the same counterparties in specific circumstances. In the event of customer default, such agreements could reduce the Bank's credit exposure to the extent of the amount of financial liabilities due to the same counterparty. As at October 31, 1996, the potential impact of master netting agreements is $2,344.

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

	1996		1995	
Canada	$175,784	27%	$248,038	37%
U.S.A.	153,666	23	156,121	23
Mexico	271	–	124	–
Other countries	332,839	50	262,446	40
Total	$662,560	100%	$666,729	100%

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

	1996				1995			
	Interest rate contracts		Foreign exchange contracts		Interest rate contracts		Foreign exchange contracts	
Financial institutions	$297,420	91%	$313,535	94%	$219,012	88%	$401,138	96%
Other	29,931	9	21,674	6	29,865	12	16,714	4
Total	$327,351	100%	$335,209	100%	$248,877	100%	$417,852	100%

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

	Term to maturity										1996	1995
	Within 1 year		1 to 3 years		3 to 5 years		5 to 10 years		Over 10 years		Total notional amount	Total notional amount
Interest Rate Contracts		Rate %		Rate %		Rate %		Rate %		Rate %		
Fixed/floating swaps												
Canadian $ pay fixed	$ 12,527	5.39	$ 9,241	6.41	$ 2,875	7.10	$ 2,111	7.90	$ –	na	$ 26,754	$ 16,258
Canadian $ receive fixed	13,565	5.71	11,378	6.43	5,253	7.26	3,391	7.91	30	8.25	33,617	21,562
U.S. $ pay fixed	15,774	5.92	8,228	6.45	4,547	6.62	2,632	6.96	50	8.25	31,231	21,617
U.S. $ receive fixed	13,732	5.88	6,215	6.34	3,802	6.81	1,912	6.97	266	7.07	25,927	18,745
Basis swaps	114	na	125	na	–	na	301	na	–	na	540	1,419
Other swaps	11,488	na	4,700	na	299	na	7	na	–	na	16,494	1,362
Interest rate swaps	67,200		39,887		16,776		10,354		346		134,563	80,963
Forward rate agreements, futures and options	164,893	na	20,048	na	5,591	na	2,256	na	–	na	192,788	167,914
Total Interest Rate Contracts	232,093	na	59,935	na	22,367	na	12,610	na	346	na	327,351	248,877
Foreign Exchange Contracts												
Cross-currency swaps	–	na	2	na	421	na	124	na	–	na	547	735
Cross-currency interest rate swaps	1,818	na	3,286	na	1,572	na	1,309	na	395	na	8,380	7,642
Forward foreign exchange contracts, futures and options	321,467	na	4,314	na	501	na	–	na	–	na	326,282	409,475
Total Foreign Exchange Contracts	323,285	na	7,602	na	2,494	na	1,433	na	395	na	335,209	417,852
Total	$555,378	na	$67,537	na	$24,861	na	$14,043	na	$741	na	$662,560	$666,729

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, 1996 and 1995 as represented by the sum of net unrealized gains and losses, accrued interest receivable or payable, and premiums paid or received:

	1996							1995		
	Customer/proprietary trading			Asset/liability management			Total	Customer/ proprietary trading	Asset/ liability management	Total
	Gross assets	Gross liabilities	Net	Gross assets	Gross liabilities	Net	Net	Net	Net	Net
Interest Rate Contracts										
Swaps	$1,509	$(1,489)	$ 20	$493	$(167)	$326	$346	$ 84	$ 6	$ 90
Forward rate agreements	157	(142)	15	–	–	–	15	16	1	17
Futures	–	(1)	(1)	–	–	–	(1)	–	–	–
Purchased options	104	–	104	3	–	3	107	73	3	76
Written options	–	(129)	(129)	–	(13)	(13)	(142)	(70)	–	(70)
Foreign Exchange Contracts										
Cross-currency swaps	89	(10)	79	–	–	–	79	(47)	87	40
Cross-currency interest rate swaps	260	(271)	(11)	24	(41)	(17)	(28)	100	(125)	(25)
Forward foreign exchange contracts	4,442	(4,471)	(29)	114	(99)	15	(14)	235	(171)	64
Futures	–	–	–	–	–	–	–	–	–	–
Purchased options	110	–	110	–	–	–	110	76	–	76
Written options	–	(110)	(110)	–	–	–	(110)	(76)	–	(76)
Total Fair Value	$6,671	$(6,623)	$ 48	$634	$(320)	$314	$362	$391	$(199)	$192
Total Book Value	$6,671	$(6,623)	$ 48	$232	$(194)	$ 38	$ 86	$391	$(210)	$181
Average Fair Value	$6,078	$(5,914)	$164	$382	$(306)	$ 76	$240	$354	$(121)	$233

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 19 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 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:

			1996			1995
	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	$ 24,187	$ 24,187	$ –	$ 20,317	$ 20,317	$ –
Securities *(note 2)*	36,609	36,980	371	33,019	33,375	356
Loans	98,413	99,495	1,082	88,442	88,492	50
Customers' liability under acceptances	4,397	4,397	–	4,469	4,469	–
Other assets	4,359	4,359	–	3,887	3,887	–
	167,965	169,418	1,453	150,134	150,540	406
Liabilities						
Deposits	119,262	119,985	723	109,605	109,936	331
Acceptances	4,397	4,397	–	4,469	4,469	–
Securities sold but not yet purchased	13,716	13,716	–	9,189	9,189	–
Securities sold under repurchase agreements	15,523	15,523	–	11,471	11,471	–
Other liabilities	6,034	6,047	13	7,473	7,493	20
Subordinated debt	3,314	3,570	256	2,595	2,722	127
	162,246	163,238	992	144,802	145,280	478
			461			(72)
Off-Balance Sheet						
Derivative financial instruments *(note 18)*	86	362	276	181	192	11
Total			$ 737			$ (61)

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.*

Several valuation methods are used to estimate the fair value of loans as follows:

- *For loans to and past due interest bonds of designated countries, fair value is based on quoted market rates.*
- *For performing loans, fair value reflects changes in credit risk and general interest rates which have occurred since the loans were originated.*
- *For impaired loans, fair value is equal to book value in accordance with the valuation methods described in Notes 3 and 4.*

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.

Fair values are management's estimates and they are generally calculated based on current pricing policy, the economic and competitive environment, the characteristics of the financial instruments and other such factors. These calculations are subjective in nature, involve uncertainties and matters of significant judgement and do not include tax ramifications.

Included in the excess of fair value over book value of loans is $4 and $4 for loans to designated countries and $100 and $95 for past due interest bonds as at October 31, 1996 and 1995, respectively.

The fair value of premises and equipment, having book values as at October 31, 1996 and 1995 of $1,867 and $1,700, respectively, have not been estimated as these assets are not financial instruments.

Note 20 Acquisition of an Interest in an Associated Corporation

On March 29, 1996 the Bank acquired a 16% equity interest (20% voting interest) in Grupo Financiero Bancomer, a bank holding company resident in Mexico, in exchange for United Mexican States (UMS) discount bonds and options to purchase Bank of Montreal common shares for a combined value of $423, including acquisition costs. The investment is accounted for using the equity method and the income of the acquired business is recognized in net interest income based on the Bank's proportionate share of the earnings. Goodwill of $38 arising from the transaction is recorded as part of the investment and is amortized to net interest income over a period of 15 years. In addition, the Bank purchased subordinated debentures in the amount of U.S. $125 and 125 million Mexican pesos.

Note 21 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, if any, between Canadian and United States accounting principles are described below.

Consolidated Balance Sheet

The only significant 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, 1996 and 1995 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 and liabilities reported as at October 31, 1996 and 1995 by $4,279 and $6,954, respectively.

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, 1996, 1995 and 1994 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, 1996, 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, 1996, 1995 and 1994 and a consolidated statement of changes in financial position which would be prepared under United States generally accepted accounting principles.

Changes in United States Accounting Standards

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. 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 reported total assets or net income.
- Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", which must be adopted in fiscal 1997 for United States reporting purposes. This Statement sets out new standards for the accounting and reporting of transfers and servicing of financial assets and extinguishments of liabilities occurring after the implementation date. The adoption of this standard for United States reporting purposes is not expected to have a material effect on the Bank's reported total assets or net income.
- Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation – Translation of Operations in Highly Inflationary Economies", may require the reporting of foreign exchange gains or losses on the Bank's investment in Grupo Financiero Bancomer in net income for United States reporting purposes beginning on January 1, 1997. The standard requires that unrealized gains or losses on translation of net investments in foreign operations in highly inflationary economies, defined as economies where the cumulative inflation over a 3 year period exceeds 100%, be reported in net income rather than shareholders' equity. The potential impact of the application of this standard on net income for United States reporting purposes cannot be determined.

Statement of Management's Responsibility for Financial Information

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

In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal control and audit including organizational and procedural controls and internal accounting controls. The Bank's system of internal control includes written communication of Bank policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and sound and conservative accounting policies which are regularly updated. This structure ensures appropriate internal control over transactions, assets and records. The Bank's audit of internal controls consists of a continuous program of extensive internal audits covering all aspects of the Bank's operations. 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, 1996 and 1995 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, 1996. 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, 1996 and 1995 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, 1996 in accordance with generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

Coopers & Lybrand

KPMG

Coopers & Lybrand
Chartered Accountants

KPMG
Chartered Accountants

Canada
November 26, 1996

Bank Owned Corporations

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 Capital Corporation	Toronto, Ontario	100	24
Bank of Montreal Investment Management Limited	Toronto, Ontario	100	16
Bank of Montreal Investor Services Limited	Toronto, Ontario	100	9
Bank of Montreal Mortgage Corporation	Calgary, Alberta	100	888
BMRI Realty Investments	Toronto, Ontario	100	
Bank of Montreal Securities Canada Limited	Toronto, Ontario	100	542
The Nesbitt Burns Corporation Limited and subsidiaries	Montreal, Quebec	100	
BMO Nesbitt Burns Equity Partners Inc.	Toronto, Ontario	100	5
Cebra Inc.	Toronto, Ontario	100	–
The Trust Company of Bank of Montreal	Toronto, Ontario	100	13
United States			
Bankmont Financial Corp.	Wilmington, Delaware	100	2,774
BMO Financial, Inc.	Wilmington, Delaware	100	
BMO Leasing (U.S.), Inc.	Wilmington, Delaware	100	
Harris Bankcorp, Inc. and subsidiaries	Chicago, Illinois	100	
Harris Bankmont, Inc. and subsidiaries	Dover, Delaware	100	
Harris Futures Corporation	Wilmington, Delaware	100	
Nesbitt Burns Securities Inc. and subsidiary	Chicago, Illinois	100	
HGC Bank	Chicago, Illinois	100	
Other Countries			
Aberware plc	Dublin, Ireland	100	–
Bank of Montreal Asia Limited	Singapore, Republic of Singapore	100	32
Bank of Montreal (Barbados) Limited	Bridgetown, Barbados	100	339
Bank of Montreal Capital Markets (Holdings) Limited	London, England	100	63
Bank of Montreal Europe Limited	London, England	100	
BMO Nesbitt Burns International Ltd.	London, England	100	
BMO Ireland Finance Company	Dublin, Ireland	100	273
Concordia Insurance Corporation	Bridgetown, Barbados	100	73
First Canadian Assessoria e Serviços Ltda.	Rio de Janeiro, Brazil	100	–

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

The Bank owns 100% of the outstanding non-voting shares of subsidiaries except for Bank of Montreal Securities Canada Limited, of which the Bank owns 44.83% of the outstanding non-voting shares.

A Report from the Board of Directors

Bank of Montreal is one of Canada's most innovative leaders in corporate governance. In 1991, well before the corporate governance issue began to dominate policy discussion and analysis, the Bank set out a comprehensive blueprint for the restructuring of the Bank's corporate governance program in its study *Shaping the Board of Directors for the Future*. That program has been the subject of extensive study and analysis by governance specialists and has inspired governance reforms in a number of corporations in a range of different industries.

Corporate Governance

The Bank recognizes, however, that a sound and responsive system of corporate governance cannot be based on fixed and immutable structures and processes. In the dynamic environment in which the Bank operates, directors and management are committed to the constant review and evaluation and, when necessary, the modification of our governance arrangements to ensure their effectiveness and vitality. It is in this spirit of continuous evaluation and reform that in 1996 Bank of Montreal published an update to its 1991 study. The update, titled *Bank of Montreal: Our Corporate Governance Program*, reports on progress made in meeting the targets set out in 1991 and indicates to the Bank's stakeholders directions for further change.

Bank of Montreal: Our Corporate Governance Program represents nothing less than a core constitutional contract that the Bank has with its directors and indirectly with its stakeholders. The guidelines constitute an unprecedented arrangement that continues to distinguish the Bank's governance program in the financial industry in Canada and abroad.

The Bank believes its approach to corporate governance is substantially consistent with the philosophy and objectives reflected in the Guidelines for Improved Corporate Governance adopted by both the Toronto and Montreal stock exchanges. These guidelines deal with the composition, mandate and objectives of the board of directors and its 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.

The Corporate Governance Program of the Bank is anchored in five core principles:

- *That an effective* system of corporate governance is intimately related to long-term financial performance. Corporate governance is not an end in itself, but is designed to improve the Bank's capacity for innovative, responsive and, ultimately, profitable decision-making.

- *That an effective* system of governance is based on the development of a comprehensive and vital strategic plan that specifies the Bank's goals in measurable terms, as well as the means and the timetable for realizing them. While the adoption of the strategic plan requires the approval and insight of the Bank's directors, responsibility for the initiation of such a plan ultimately resides with management.

- *That an effective* system of governance requires the creation and maintenance of a climate of openness and reflection. The Bank's board and management are strongly committed to the view that the institution's long-term prospects are enhanced by exposing the most important strategic and compliance decisions to informed, vigorous and sometimes even critical debate and discussion. In this way, the likelihood of adopting strategies that will result in mistaken or misguided policy and business initiatives will be significantly reduced.

- *That an effective* governance system requires a commitment to accountability that totally permeates the Bank. Responsible corporate governance should not be limited to the board. It requires employees at every level of the institution to be cognizant of their responsibilities to various stakeholders and committed to the realization of these responsibilities in their day-to-day operations. Accountability to customers, investors, employees and our community is firmly rooted in the cultural values and the business ethic of the Bank.

- *That an effective* system of governance requires continuous and engaged participation by outside investors. The Bank regards its relationship with investors as long-term and cooperative. The cornerstone for constructive investor involvement is timely, meaningful and non-selective dissemination of information relating to the business and affairs of the Bank. Such information enables investors to sharpen their understanding of the Bank's strategic and compliance decisions, thereby facilitating constructive investor monitoring and feedback.

Corporate Governance

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 1997, the board will be reduced in size to eighteen directors, of whom only two will be management or inside directors. As at October 31, 1996 the Bank had twenty-one directors, eighteen 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.

The Bank is targeted to realize a revised optimal board size of fifteen directors (thirteen outside and two inside directors) by 1999.

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 94. These committees are encouraged to engage independent consultants in appropriate circumstances, at the expense of the Bank, to assist them in discharging their responsibilities.

More comprehensive and timely information is being provided by an electronic directors' network introduced in 1996. Directors have been provided with state-of-the-art notebook computers with electronic mail and other software programs on which they receive the majority of board communications.

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 94.) 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 with appropriate Bank officers the major areas of risk integral to the Bank's operations and reports 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 is committed to creating 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 the Bank's 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 Meridien 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 a 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.

Board and committee meetings are scheduled in such a way as to have committees meet immediately prior to board to provide for timely reporting and decision-making.

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, Bank of Montreal continues to critically assess its governance systems as part of its commitment to ensuring effective corporate governance.

The Board and its Committees

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."

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, General Counsel 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 became an ad hoc committee, meeting only on an as required basis. The efficiencies attained with the smaller board have made 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.J.G. Bentley, P. Côté, L.A. Desrochers, J.F. Fraser, 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.J.G. Bentley, P. Côté, L.A. Desrochers, J.F. Fraser, J.B. MacAulay, 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: J.C. Monty (Chair), R.M. Barford, D.R. Beatty, F.A. Comper, R.N. Mannix, E.H. Molson

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, 1996

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, Ont.
President
Valleydene Corporation
Limited

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

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

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

Louis A. Desrochers, M.C., c.r.
Edmonton, Alta.
Senior Partner
McCuaig Desrochers

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

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

James J. Glasser
Lake Forest, Illinois, U.S.A.
Chairman Emeritus
GATX Corporation

Stanley Kwok
Vancouver, B.C.
Chairman
Amara International
Investment Corp.

J. Blair MacAulay
Oakville, Ont.
Counsel
Fraser & Beatty, Toronto

Ronald N. Mannix
Calgary, Alta.
Chairman and
Chief Executive Officer
Loram Corporation

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

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

Jean C. Monty, C.M.
Toronto, Ont.
President and
Chief Executive Officer
Northern Telecom Limited

Jerry E.A. Nickerson
North Sydney, N.S.
Chairman
H.B. Nickerson & Sons Ltd.

Jeremy H. Reitman
Montreal, Que.
President
Reitmans (Canada) Limited

Guylaine Saucier, C.M., F.C.A.
Montreal, Que.
Chairman, Board of Directors
Canadian Broadcasting
Corporation

Nancy C. Southern
Calgary, Alta.
Deputy Chairman
ATCO Ltd. and
Canadian Utilities Limited

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

Honorary Directors

Charles F. Baird
Bethesda, Maryland, U.S.A.

Claire P. Bertrand
Montreal, Que.

**The Honourable
Sidney L. Buckwold, O.C.**
Saskatoon, Sask.

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

C. William Daniel, O.C., LL.D.
Toronto, Ont.

Nathanael V. Davis
Osterville, Massachusetts, U.S.A.

Graham R. Dawson
Vancouver, B.C.

John H. Devlin
Toronto, Ont.

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

Thomas M. Galt
Toronto, Ont.

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

John H. Hale
London, England

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

Donald S. Harvie, O.C.
Calgary, Alta.

Richard M. Ivey, O.C., Q.C.
London, Ont.

Betty Kennedy, O.C., LL.D.
Milton, Ont.

David Kinnear
Toronto, Ont.

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

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

William D. Mulholland, LL.D.
Georgetown, Ont.

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

**Mary Alice Stuart,
C.M., O.ONT., LL.D.**
Toronto, Ont.

International Advisory Council

The International Advisory Council provides the Bank and its Senior Executive advice and perspective on political, economic and social trends which may 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, O.C.
Canada
Chairman of the Board and Chief Executive Officer
Bank of Montreal

Ambassador Richard R. Burt
United States
Chairman
International Equity Partners

Sir Michael Butler
United Kingdom
Director
Hambros Bank Limited

F. Anthony Comper
Canada
President and
Chief Operating Officer
Bank of Montreal

Viscount Étienne Davignon
Belgium
Executive Chairman
Société Générale de Belgique

Sir Brian Fall, GCVO KCMG MA, LLM
United Kingdom
Principal
Lady Margaret Hall
University of Oxford

Juan Gallardo
Mexico
Chairman of the Board
Grupo GEUSA

Allan E. Gotlieb, C.C.
Canada
Senior Consultant
Stikeman, Elliott

Dr. Kihwan Kim
Republic of Korea
Senior Advisor, Kim & Chang

Makoto Kuroda
Japan
Executive Vice President
Tokyo Small and Medium Business Investment and Consultation Company

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, Legislative Council of Hong Kong

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

Dr. h.c. Horst Teltschik
Germany
Member
Management Board of BMW AG Munich

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

Officers of Bank of Montreal

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

F. Anthony Comper
President and
Chief Operating Officer

Jeffrey S. Chisholm
Vice-Chairman, Electronic Financial Services and
President, mbanx

Keith O. Dorricott
Vice-Chairman
Corporate Services

Alan G. McNally
Chairman of the Board and
Chief Executive Officer
Harris Bankcorp, Inc.

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

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

Lloyd F. Darlington
Chief Technology Officer and
General Manager
Operations

Yvan J.P. Bourdeau
Executive Vice-President and
Treasurer

William A. Downe
Executive Vice-President
North American Corporate Banking

Barry K. Gilmour
Executive Vice-President
Systems

George W. Hopkins
Executive Vice-President
Corporate Staff

Terry A. Jackson
Executive Vice-President
Asset Management Services and President
The Trust Company of Bank of Montreal

Harri E. Jansson
Executive Vice-President
Central Ontario Division
Personal and Commercial Financial Services

Neil R. Macmillan
Executive Vice-President
Risk Management Policy

Michel G. Maila
Executive Vice-President
Mexico and Latin America

Timothy J. O'Neill
Executive Vice-President and
Chief Economist

Michael R.P. Rayfield
Executive Vice-President
Corporate Banking

Deanna Rosenswig
Executive Vice-President
Corporate Electronic Banking Services

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

Andrew R. White
Executive Vice-President and
Chief Operating Officer
mbanx

Dereck M. Jones
Senior Vice-President and
General Counsel

Marnie J. Kinsley
Senior Vice-President and
Chief Auditor

Penelope F. Somerville
Senior Vice-President and
Corporate Controller

Christopher B. Begy
Vice-President and
Chief Accountant

Velma J. Jones
Vice-President and
Secretary

Investor Information

Common Stock Trading Information during 1996

Ticker	Primary Stock Exchanges	Year-end Price Oct. 31, 1996	High	Low	Volume of Shares Traded
BMO CN	Toronto/Montreal	$40.550	$41.650	$29.375	206.2 million
BMO US	New York	US$30.375	US$30.875	US$21.375	2.4 million

Dividends per Share Declared during Fiscal Year

Issue/Class	Shares Outstanding at Oct. 31, 1996	1996	1995	1994	1993	1992
Common (a)	259,937,006	$1.48	$1.32	$1.20	$1.12	$1.06
Preferred Class A						
Series 3 (b)	–	–	–	–	–	$0.53
Series 4	8,000,000	$2.25	$2.25	$2.25	$2.25	$2.25
Series 5 (c)	288	$19,062.50	$19,062.50	$19,062.50	$19,062.50	$18,213.83
Preferred Class B						
Series 1	10,000,000	$2.25	$2.25	$2.25	$2.25	$2.25
Series 2 (d)	10,000,000	US$1.69	US$1.69	US$1.69	US$1.69	US$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 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.

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 Series 5, are listed on the Toronto, Montreal, Winnipeg, Alberta and Vancouver stock exchanges. In addition, the Floating Rate Debentures Series 10, due July 1998 are listed on the London Stock Exchange.

Distribution of Common Shares

At October 31, 1996

Canada	90.4%
United States	9.3%
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.

Investment Analysis and Research

For information about Bank of Montreal or to obtain supplemental financial data, please contact Investor Relations, P.O. Box 1, 1 First Canadian Place, Toronto, Ontario M5X 1A1.

Bank of Montreal is covered by the equity research departments of major Canadian and U.S. brokerages.

Restraints on Ownership of Shares under the Bank Act

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.

Shareholder Administration

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.

For dividend information, change in share registration or address, or to advise of duplicate mailings, please call the Bank's Transfer Agent and Registrar collect at 514 877-2500, or write to: The Trust Company of Bank of Montreal, 105 Saint-Jacques St., 3rd Floor, Montreal, Quebec H2Y 1L6.

For copies of the Annual Report, please write to the Public Affairs Department, Bank of Montreal Tower, 55 Bloor Street West, 4th Floor, Toronto, Ontario M4W 3N5. (On peut obtenir sur demande un exemplaire en français.)

For all other shareholder inquiries, please contact Shareholder Services at the Corporate Secretary's Department, P.O. Box 6002, Postal Station Place d'Armes, Montreal, Quebec H2Y 3S8.

Annual Meeting

The Annual Meeting of Shareholders will be held on Tuesday, January 21st, 1997 at 9:30 am (St. John's time) at the Hotel Newfoundland, St. John's, Newfoundland, Canada.

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 of the Bank 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.

Direct Dividend Deposit

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

General Information

For general inquiries about company news and initiatives, please contact the Public Affairs Department, Bank of Montreal Tower, 55 Bloor Street West, 4th Floor, Toronto, Ontario M4W 3N5.

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