BMO highlights

BMO had a strong fiscal year ending October 31, 2012, and overall net income saw an increase of 35%, with net interest income increasing by 18% and non-interest revenue increasing by 13% from 2011. Adjusted ROE was 15.5%, compared to 16% in 2011, and following the third quarter, quarterly dividends declared were increased to CA$0.72 per common share. A significant portion of the growth experienced can be attributed to the inclusion of eight additional months of financial results and decrease in provision for credit losses (PCL) of the 2011 acquired business, Marshall and Ilsley Corporation (M&I). There were a number of non-recurring costs relating to the M&I acquisition, including CA$402 million for the integration costs such as system conversion, restructuring and other employee charges, consulting fees and marketing costs, CA$173 million of restructuring costs related to overall improvement in productivity and CA$264 million related to run-off of structured credit activities.

The personal and commercial (P&C) banking operating group is the largest at BMO. The P&C group is composed of two retail and business banking operations, P&C Canada and P&C US. P&C Canada generated net income of CA$1,784 million, which is an increase of 0.6% from 2011. Revenue increased by 0.3%, driven by growth in the loan portfolio and fees; this was however offset by lower net interest margins due to the low interest rate environment in Canada and increases in expenses. Net interest margin decreased by 0.15% resulting from deposit spread compression, competitive pricing and changes in product mix, with loan growth exceeding deposit growth. Non-interest expense grew by 1.6% as a result of increased spending on special initiatives.

P&C US generated adjusted net income of CA$579 million (excluding amortization of acquisition related intangible assets), which is an increase of 48% from 2011. Revenue increased by 50%; 94% of this growth was due to M&I, with the remainder of the increase due to newly originated mortgages and commercial lending fees. Net interest margin decreased 0.1% due to deposit spread compression, decrease in loan spreads and competitive pricing. Adjusted non-interest expense grew by 50% and was largely due to increases in regulatory, support and litigation costs and M&I acquisition. BMO's presence in the US is concentrated in the Midwest region. Economic growth in the region was driven by enhanced automobile production and heavy business investment, offset by the effects of restrictive fiscal policies and severe drought. The acquisition of M&I increased BMO's footprint in the US, contributing CA$318 million to reported net income, and is expected to yield annual cost savings from the integration of at least US$400 million. The overall strong performance was favourably impacted by recoveries on M&I credit impaired loans.

The private client group (PCG), BMO's wealth management division, generated adjusted net income of CA$546 million (excluding amortization of acquisition related intangible assets), which is a 12% increase from 2011. Revenue increased by 12% as a result of acquisition related financial results, earnings from strategic investments and overall business growth. Assets under management and administration grew by CA$40 billion compared to 2011, driven by market appreciation and new client assets. Insurance revenue declined and was impacted by unfavourable movements in long-term interest rates. Adjusted non-interest expense increased by 13% due to increased spending on strategic initiatives.

On June 11, 2012, BMO completed its acquisition of CTC Consulting, which is expected to expand and enhance advisory capabilities and investment offerings to ultra high net worth clientele and increase overall expansion in the US. Additionally, as of August 2, 2012, BMO acquired an ownership interest in COFCO Trust Co. which BMO anticipates will increase access to high net worth and institutional clients in China.