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U.S. Securities and Exchange Commission
Washington, D.C. 20549

Form 40-F

[Check one]

[ ] Registration statement pursuant to section 12 of the Securities Exchange Act of 1934

or

[X] Annual report pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended October 31, 2002 Commission File Number 001-133354

BANK OF MONTREAL

(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant's name into English (if applicable))

Canada
(Province or other jurisdiction of incorporation or organization)

6029
(Primary Standard Industrial Classification Code Number (if applicable))

Not Applicable
(I.R.S. Employer Identification Number (if applicable))

100 King Street West, 1 First Canadian Place, Toronto, Ontario, Canada M5X 1A1
(Address and telephone number of Registrant's principal executive offices)

Paul V. Reagan, Bank of Montreal, 111 West Monroe Street, P.O. Box 755, Chicago, Illinois 60690 (312-461-3167)
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Shares	New York Stock Exchange

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Securities registered or to be registered pursuant to Section 12(g) of the Act.

Not Applicable
(Title of Class)

_____

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Not Applicable
(Title of Class)

For annual reports, indicate by check mark the information filed with this Form:

[X] Annual information form [X] Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Common Shares	492,504,878
Class B Preferred Shares Series 3	16,000,000
Class B Preferred Shares Series 4	8,000,000
Class B Preferred Shares Series 5	8,000,000
Class B Preferred Shares Series 6	10,000,000
Class B Preferred Shares Series 10	12,000,000

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the filing number assigned to the Registrant in connection with such Rule.

Yes [ ] 82-_____ No [X]

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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UNDERTAKING

Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

CONTROLS AND PROCEDURES

a. **Evaluation of disclosure controls and procedures**.

Based on their evaluation as of a date within 90 days of the filing date of this report, Bank of Montreal's Chief Executive Officer and Chief Financial Officer have concluded that the Bank's disclosure controls and procedures [as defined in Rule 13a-14(c)] under the Securities Exchange Act of 1934 (the Exchange Act) are effective to ensure that information required to be disclosed by the Bank in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

b. **Changes in internal controls**.

There were no significant changes in the Bank's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation including any corrective actions with regard to significant deficiencies and material weaknesses.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this registration statement [annual report] to be signed on its behalf by the undersigned, thereto duly authorized.

Registrant: Bank of Montreal

By: /s/ Tony Comper

Tony Comper
Chairman and Chief Executive Officer

Date: January 24, 2003

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CERTIFICATIONS

I, F. Anthony Comper, Chief Executive Officer, Bank of Montreal, certify that:

1. I have reviewed this annual report on Form 40-F of Bank of Montreal;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-14) for the registrant and have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (and persons performing the equivalent function):

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in the internal controls; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 24, 2003

/s/ Tony Comper

Tony Comper
Chief Executive Officer

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I, Karen Maidment, Chief Financial Officer, Bank of Montreal, certify that:

1. I have reviewed this annual report on Form 40-F of Bank of Montreal;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-14) for the registrant and have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (and persons performing the equivalent function):

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in the internal controls; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 24, 2003

/s/ Karen Maidment

Karen Maidment
Chief Financial Officer

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99.4	Consent of Independent Chartered Accountants dated November 26, 2002
99.5	Comments by Auditors for U.S. Readers on a Canada — U.S. Reporting Difference dated November 26, 2002
99.6	Certificates pursuant to section 906 of Sarbanes-Oxley Act of 2002

BANK OF MONTREAL

ANNUAL INFORMATION FORM

January 24, 2003

Copies of the Annual Information Form, as well as copies of Bank of Montreal 2002 Annual Report and Proxy Circular as of December 31, 2002 (all or part of which are incorporated therein by reference) may be obtained from:

Bank of Montreal
Corporate Secretary's Department
100 King Street West
1 First Canadian Place, 21st Floor
Toronto, Ontario
Canada M5X 1A1

BANK OF MONTREAL
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(1) **Reference:**

All or parts of the following documents are incorporated by reference into this Annual Information Form:

(i) Bank of Montreal 2002 Annual Report.

(ii) Bank of Montreal Proxy Circular dated as of December 31, 2002.

BANK OF MONTREAL

CORPORATE STRUCTURE

Name and Place of Incorporation

Bank of Montreal commenced business in Montreal in 1817 and was incorporated in 1821 by an Act of Lower Canada as the first Canadian chartered bank. Since 1871, the Bank has been a chartered bank under the Bank Act (Canada) (the "*Bank Act*"), and is named in Schedule I of the *Bank Act*. The *Bank Act* is the charter of the organization and governs its operations.

The Bank's head office is located at 129 rue Saint Jacques, Montreal, Quebec, H2Y 1L6, and the executive offices are located at 100 King Street West, 1 First Canadian Place, Toronto, Ontario, M5X 1A1.

In June 2002, Bank of Montreal announced a new unified branding approach that links the organization's member companies. This approach refers to Bank of Montreal as BMO Financial Group. As such, in this document and the documents incorporated by reference, the name BMO Financial Group, or BMO®, means Bank of Montreal.

DESCRIPTION OF BUSINESS

Business

BMO offers a broad range of credit and non-credit products and services directly and through special-purpose Canadian and non-Canadian subsidiaries, offices and branches. As at October 31, 2002, BMO had 33,912 full-time equivalent employees, maintained 968 bank branches in Canada and operated internationally in major financial markets and trading areas in 12 other countries, including the United States. The Harris Bank group (Harris Bankcorp, Inc.), wholly-owned by Bank of Montreal, operates its own banking business in the United States, based in Chicago, providing retail banking and private client and personal trust services, as well as corporate and investment banking. BMO also provides a full range of investment dealer services through the BMO Nesbitt Burns group of companies, which include BMO Nesbitt Burns Inc., a major fully-integrated Canadian investment dealer in which Bank of Montreal owns 100 percent of the voting shares, and BMO Nesbitt Burns Corp., Bank of Montreal's wholly-owned registered securities dealer in the United States.

BMO comprises three operating groups: Personal and Commercial Client Group provides financial services to personal and commercial customers in Canada and the United States through its branches as well as directly through bmo.com, harrisbank.com and a network of automated banking machines (ABM); Private Client Group provides wealth management services to individuals through BMO Bank of Montreal, BMO Nesbitt Burns, BMO InvestorLine®, and BMO Harris Private Banking in Canada, and through Harris*direct*, Harris Private Bank and Harris Bank in the United States; Investment Banking Group is responsible for relationship management for large corporate, institutional and government customers, the delivery of treasury products and corporate and investment banking in Canada and the United States. Corporate Support, including Technology and Solutions provides risk management, technology and other corporate services to the three operating groups.

Three Year History

In 1999, a new leadership team led by Chairman, Tony Comper, undertook to review the institution's business operations and to reposition BMO Financial Group for improved business growth and performance. The objective was to exit less profitable or low-potential businesses and branches and re-deploy the capital and other resources to higher-potential businesses, thereby shifting the business mix toward high-return businesses.

Since 1999, BMO has divested its Mexican investment in Bancomer, exited the low-potential global custody business, the corporate trust business and Partners First, a credit card business, and sold or closed 167 slower-growth branches in Canada. And since 1999, risk-weighted assets of the Investment Banking Group have been reduced by approximately $29 billion, including reductions related to exiting non-relationship corporate lending positions.

This re-deployment of resources supports BMO's focused growth strategy to be a leading transnational financial services provider by continuing to invest in our core Canadian franchise while expanding selectively and substantially in the United States and building on our longstanding capabilities.

BMO continues to target three overlapping client markets across Canada and in high-opportunity areas of the United States:

- Personal and commercial banking clients across Canada and in the greater Chicago area of the United States (served by the Personal and Commercial Client Group)
- Corporate and institutional clients across Canada and in the United States Midwest (served by the Investment Banking Group)
- Individual investing clients across Canada and in selected high-growth locations across the United States (served by the Private Client Group)

BMO continues to work to achieve or enhance its leadership positions in select businesses and capabilities as evidenced by its strategic milestones:

- Achieve top-tier customer loyalty
- Achieve the #1 market share in small business banking in Canada
- Maintain leading investment banking positions in Canada and further build out our mid-market capabilities in the United States
- Build out franchises in the prime wealth markets in the United States
- Become the dominant full-service bank in the Chicagoland area
- Maintain market leading risk management capabilities
- Enhance leading position in talent management, performance alignment, diversity and employee engagement

BMO continues to strive to deliver top-tier shareholder returns through a focus on improved operating efficiency and business growth. Growth will continue to be driven through a combination of organic and acquisition activity. To this end, the Bank has made five acquisitions in the past two fiscal years: Guardian Group of Funds, First National Bank of Joliet, CSFB*direct*, the accounts of Morgan Stanley Individual Investor Group and Northwestern Trust and Investors Advisory Company, and acquired selected assets of myCFO on November 1, 2002.

Supervision and Regulation in Canada

Bank of Montreal's activities in Canada are governed by the *Bank Act*, which is one of four main federal statutes governing the financial services industry in Canada. The other three statutes cover trust and loan companies, insurance companies and cooperative credit associations.

In accordance with the *Bank Act*, the organization may engage in and carry on the business of banking and such business generally as appertains to the business of banking. The *Bank Act* grants Canadian chartered banks broad powers of investment in the securities of other corporations and entities, but imposes limits upon substantial investments. Under the *Bank Act*, generally a bank has a substantial investment in a body corporate when (1) the voting shares beneficially owned by the bank and by entities controlled by the bank exceed 10% of the outstanding voting shares of the body corporate or (2) the total of the shares of the body corporate that are beneficially owned by the bank and entities controlled by the bank represent more than 25% of the total shareholders' equity of the body corporate. A Canadian chartered bank is permitted to have a substantial investment in entities whose activities are consistent with those of certain prescribed permitted substantial investments. In general, a bank will be permitted to invest in an entity that carries on any financial service activity whether that entity is regulated or not. Further, a bank may invest in entities that carry on commercial activities that are related to the promotion, sale, delivery or distribution of a financial product or service, or that relate to certain information services. A bank may also invest in entities that invest in real property, act as mutual funds or mutual fund distributors or that service financial institutions and the bank may have downstream holding companies to hold these investments. In certain cases, the approval of the Minister of Finance or the Superintendent of Financial Institutions Canada is required prior to making the investment and/or the bank is required to control the entity. Chartered banks may offer insurance products only through their subsidiaries and not through their branch systems. Banks may offer insurance products through their credit card systems but are prohibited from target-marketing these products to selected cardholders. Automobile leasing continues to be prohibited to all federally incorporated financial institutions.

Without Minister of Finance approval no person or group of associated persons may own more than 10% of any class of shares of the Bank. With Minister of Finance approval a person or group of associated persons may own up to 20% of any class of voting shares and up to 30% of any class of non voting shares of the Bank. Ownership of the Bank's shares by Canadian or foreign governments is prohibited under the *Bank Act*.

The Superintendent of Financial Institutions Canada (the "Superintendent") is responsible to the Minister of Finance for the administration of the *Bank Act*. The Superintendent provides guidelines for disclosure of a bank's financial information. The Superintendent is also required to make an annual examination of each bank to ensure compliance with the *Bank Act* and to ensure that each bank is in sound financial condition. The report of the Superintendent's examination is submitted to the Minister of Finance. In addition to the *Bank Act*, outside Canada each of Bank of Montreal's branches, agencies and subsidiaries is also subject to the regulatory requirements of the country in which it conducts its business.

Supervision and Regulation in United States

The activities of Bank of Montreal and its subsidiaries in the United States are subject to federal and state supervision, regulation and examination by bank regulatory and other governmental agencies. As a foreign bank, Bank of Montreal is subject to the International Banking Act of 1987 and Regulation K. The Board of Governors of the Federal Reserve System (the *"Board"*) and state banking regulators oversee the operation of our branches and offices in the United States.

Being "well capitalized" and "well managed" under applicable Board standards, Bank of Montreal and its bank holding companies in the United States became financial holding companies on April 10, 2000. This status allows a broader range of financial, non-banking and merchant banking activities to be undertaken. Bank of Montreal and its subsidiaries own 27 insured depository institutions in the United States that are engaged in commercial and retail banking and subject to various laws and regulation and examination by various state and federal regulators. Board approval is generally required for acquiring voting shares (in excess of 5%), control or all or substantially all of the assets of a bank holding company, bank or savings associations.

Bank of Montreal is engaged in a number of financial activities and businesses in the United States, many of which are subject to regulation by the Board and other applicable federal and state agencies. The Securities and Exchange Commission and state securities regulators regulate a broker-dealer subsidiary. Insurance agency businesses are regulated by state insurance regulators. Provisions of the Federal Reserve Act place certain limitations and restrictions on the transactions between Bank of Montreal-owned insured depository institutions and Bank of Montreal and its affiliates.

Competition

The Canadian banking system is dominated by six major Canadian banks, each of which maintains an extensive branch network, augmented with ABM, telephone and Internet banking facilities. Competing against these major banks are smaller Canadian banks, Canadian subsidiaries and branches of foreign banks, trust and insurance companies, credit unions and a variety of monoline competitors offering specialized financial products and services.

The competitive landscape in the United States is significantly more complex given the overall size and activity level of the market and the presence of regional rather than national competitor groupings for many businesses, such as personal and commercial banking.

Bank of Montreal was the fifth largest chartered bank in Canada in terms of total assets, and the fourth largest in terms of market capitalization, as of October 31, 2002. It ranks among the largest banks in North America: thirteenth by total assets and nineteenth by market capitalization. The North American peer group includes: BMO Financial Group; Canadian Imperial Bank of Commerce; Royal Bank Financial Group; Scotiabank; TD Bank Financial Group; Bank of America Corporation; Bank One Corporation; Citigroup, Inc.; FleetBoston Financial Corporation; J.P. Morgan Chase & Co.; KeyCorp; National City Corporation; The PNC Financial Services Group, Inc.; SunTrust Banks, Inc.; U.S. Bancorp; Wachovia Corporation and Wells Fargo & Company.

Competition is reflected not only in the suite of products and services offered and the different pricing and service models adopted, but in the use of leading edge technology to gain strategic advantage, as well as the partnerships and alliances entered into by the various institutions to better serve their customers. Increased competition is also evident in the drive for scale and other operating efficiencies, and the greater willingness by all participants to divest low-return businesses.

Driven by the ongoing integration of the Canadian and American economies, consolidation is now underway in the financial services industry in

Canada and the United States. It is anticipated that this consolidation could significantly reconfigure the North American financial services landscape in the future by widening the distinctions between various tiers of players.

Environmental Matters

BMO maintains a policy setting out its commitment to both protection of the environment and the principle of sustainable development. This policy is applied to BMO's internal operations and its relationships with employees, customers, governments, external partners and the communities in which it operates. Reasonable efforts are made to ensure that BMO lends only to borrowers that employ responsible environmental management programs and who comply with the applicable environmental laws and regulations. Management is responsible for ensuring that dealings with external suppliers, development of products and services and their employees' work environment all comply with this corporate policy.

DIRECTORS AND OFFICERS

Executive Officers of the Bank

At October 31, 2002, the following were executive officers of Bank of Montreal:

Name	Principal Occupation	Municipality of Residence
F. Anthony Comper	Chairman and Chief Executive Officer, BMO Financial Group	Toronto, Ontario
Yvan J.P. Bourdeau	President and Chief Operating Officer, BMO Nesbitt Burns	Toronto, Ontario
Lloyd F. Darlington	President and Chief Executive Officer, Technology and Solutions, and Head, E-Business	Toronto, Ontario
William A. Downe	Deputy Chair, BMO Financial Group and Chief Executive Officer, BMO Nesbitt Burns and Head of Investment Banking Group	Winnetka, Illinois
Karen E. Maidment	Executive Vice-President and Chief Financial Officer, BMO Financial Group	Cambridge, Ontario
Michel G. Maila	Executive Vice-President and Head of Risk Management Group, BMO Financial Group	Toronto, Ontario
Gilles G. Ouellette	President and Chief Executive Officer, Private Client Group, BMO Financial Group and Deputy Chair, BMO Nesbitt Burns	Toronto, Ontario
Rose M. Patten	Executive Vice-President, Human Resources and Head Office of Strategic Management, BMO Financial Group	Toronto, Ontario
Robert W. Pearce	President and Chief Executive Officer, Personal & Commercial Client Group, BMO Bank of Montreal	Oakville, Ontario
Ronald G. Rogers	Deputy Chair, Enterprise Risk and Portfolio Management, BMO Financial Group	Toronto, Ontario
Frank J. Techar	President and Chief Executive Officer, Harris Bank	Kenilworth, Illinois

All of the above named executive officers have held their present positions or other senior positions with Bank of Montreal or its subsidiaries during the past five years, except for Karen E. Maidment who, prior to 2000, was Executive Vice-President and Chief Financial Officer, Clarica Life Insurance Company.

Shareholdings of Directors and Executive Officers

The directors and executive officers of Bank of Montreal, as a group, beneficially own, directly or indirectly, or exercise control or direction over less than 1% of Bank of Montreal's voting shares.

Additional Disclosure for Directors and Executive Officers

To the best of our knowledge, having made inquiry, Bank of Montreal confirms that:

a) no director or executive officer of Bank of Montreal is or has been in the last ten years, a director or executive officer of another issuer that, while that person was acting in that capacity, (i) was the subject of a cease trade or similar order under Canadian securities legislation for a period of more than 30 consecutive days or (ii) became bankrupt or made a bankruptcy related proposal or was subject to or instituted proceedings, arrangements or compromises with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, except for the following: Mr. J. L. Rotman was a director of Livent Inc. when in November 1998, Livent filed for protection under the Companies Creditors Arrangement Act in the Ontario Court, Canada. On August 28, 1998, the Ontario Securities Commission issued a cease trading order against Livent which was rescinded on November 20, 1998. Mr. J.L. Rotman resigned as a director of Livent Inc. on September 29, 1999. Mr. J. L. Rotman was a director of Paragon Entertainment Corporation when it made a filing under the Companies Creditors Arrangement Act in April 1998. In June 1998, Mr. J.L. Rotman resigned as a director of Paragon Entertainment Corporation and the company was subsequently placed in receivership. Mr. D. A. Galloway was a director of ITI Education Corporation, when, on August 14, 2001, it voluntarily agreed to the appointment of a receiver. Mr. F. McKenna was a director of AlphaNet Telecom Inc., when, on February 8, 1999, it was assigned into bankruptcy. Mr. S.E. Bachand was a director of Krystal Bond Inc. when, on April 12, 2002, it was cease traded for failure to file financial statements and it has since ceased to operate as a going concern;

b) no director or executive officer of Bank of Montreal has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority. No director or executive officer has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision;

c) no director or executive officer of Bank of Montreal nor any personal holding company controlled by such person has, within the last ten years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangements or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold assets of the director or executive officer; and

d) no director or executive officer has any direct or indirect material conflict of interest in respect of any matter that has materially affected or will

materially affect Bank of Montreal or any of its subsidiaries.

ADDITIONAL INFORMATION

Bank of Montreal will provide to any person, upon request to the Corporate Secretary's Department, Bank of Montreal, 100 King Street West, 1 First Canadian Place, 21st Floor, Toronto, Ontario, M5X 1A1, the following additional information:

a) when securities of Bank of Montreal are in the course of a distribution under a preliminary short form prospectus or a short form prospectus:

   (i) one copy of the Bank of Montreal's Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form;

   (ii) one copy of the comparative consolidated financial statements of Bank of Montreal for its most recently completed financial year for which consolidated financial statements have been filed together with the accompanying report of the shareholders' auditors and one copy of the most recent interim consolidated financial statements (quarterly shareholders' reports) that have been filed, if any, for any period after the end of Bank of Montreal's most recently completed financial year;

   (iii) one copy of Bank of Montreal's Proxy Circular in respect of its most recent annual meeting of shareholders that involved the election of directors; and

   (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under clauses (i), (ii) or (iii) above; or

b) at any other time, one copy of any documents referred to in clauses a) (i), (ii) and (iii) above, provided that Bank of Montreal may require the payment of a reasonable charge if the request is made by a person or company who is not a holder of its securities.

Additional information, including directors' and officers' remuneration and indebtedness and principal holders of the Bank of Montreal's securities, is contained in Bank of Montreal's Proxy Circular dated as of December 31, 2002 in connection with its Annual Meeting of Shareholders scheduled for February 25, 2003.

Additional financial information is provided in Bank of Montreal's consolidated financial statements for its fiscal year ended October 31, 2002.

®Registered trade marks of Bank of Montreal

TO OUR FELLOW SHAREHOLDERS

Trust is the essence of our business. We earn trust by delivering strong returns for our shareholders. We earn trust by providing our customers with excellent service and financial solutions tailored to meet their individual needs. We earn trust, too, by treating our employees and communities responsibly and with respect and dignity. As importantly, we inspire trust by conducting our business according to the principles of honesty, transparency and accountability. In practice, this means doing as we say we will, listening — and responding — to criticism and, always, behaving ethically and fairly. At BMO Financial Group, trust is the foundation of our success — and our promise for the future.

YOUR BMO FINANCIAL GROUP MANAGEMENT TEAM

	/s/ F. Anthony Comper	/s/ Karen E. Maidment	
	F. ANTHONY COMPER	KAREN E. MAIDMENT	
/s/ Yvan J.P. Bourdeau	/s/ Lloyd F. Darlington	/s/ William A. Downe	/s/ Gilles G. Ouellette
YVAN J.P. BOURDEAU	LLOYD F. DARLINGTON	WILLIAM A. DOWNE	GILLES G. OUELLETTE
/s/ Rose M. Patten	/s/ Robert W. Pearce	/s/ Ronald G. Rogers	/s/ Frank J. Techar
ROSE M. PATTEN	ROBERT W. PEARCE	RONALD G. ROGERS	FRANK J. TECHAR

BMO Financial Group

® Registered trade-mark of Bank of Montreal.

FINANCIAL HIGHLIGHTS

For the year ended October 31	2002	2001	2000	1999	1998
Income Statement Highlights (Canadian $ in millions)					
Total revenue (teb) (a)	**8,859**	8,863	8,664	7,928	7,270
Provision for credit losses	**820**	980	358	320	130
Non-interest expense	**6,030**	5,671	5,258	5,288	4,785
Net income	**1,417**	1,471	1,857	1,382	1,350
Common Share Data ($)					
Diluted earnings per share	**2.68**	2.66	3.25	2.34	2.29
Excluding non-recurring items	**2.76**	2.48	2.91	2.51	2.29
Diluted cash earnings per share	**2.83**	2.86	3.39	2.46	2.42
Excluding non-recurring items	**2.91**	2.68	3.05	2.64	2.42
Primary Financial Measures (%) (b) (c)					
Five-year average annual total shareholder return	**7.9**	14.3	22.9	22.0	23.3
Diluted cash earnings per share growth	**(1.0)**	(15.6)	37.8	1.7	—
Excluding non-recurring items	**8.6**	(12.1)	15.5	9.1	(3.2)
Cash return on equity	**14.2**	14.8	18.8	14.8	16.1
Excluding non-recurring items	**14.6**	13.9	16.9	15.9	16.1
Revenue growth	**—**	2.3	9.3	9.0	1.4
Excluding non-recurring items	**1.7**	3.2	6.1	9.4	1.4
Provision for credit losses as a % of average net loans and acceptances	**0.56**	0.66	0.25	0.22	0.09
Excluding non-recurring items	**0.56**	0.60	0.28	0.22	0.09
Tier 1 Capital Ratio	**8.80**	8.15	8.83	7.72	7.26

All ratios in this report are based on unrounded numbers.

(a) Reported on a taxable equivalent basis (teb). See the glossary on page 96.
(b) For the period ended or as at October 31, as appropriate.
(c) Adjustments to results determined using generally accepted accounting principles to derive cash results and results excluding non-recurring items are outlined on page 18, along with comments on the use of these measures.

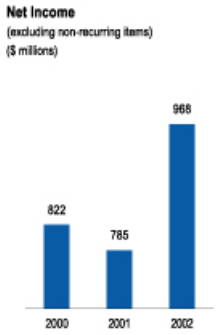
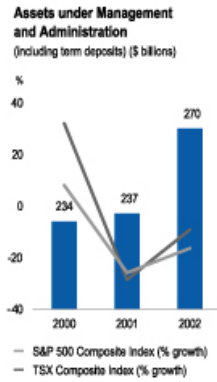
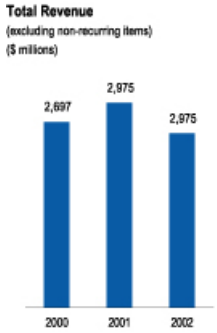
BMO FINANCIAL GROUP AT A GLANCE

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BMO FINANCIAL GROUP AT A GLANCE

Founded in 1817 as Bank of Montreal, Canada's first bank, BMO ® Financial Group is a diversified financial services provider serving customers throughout North America.

Operating Group	Business Profile	Financial Highlights
Personal and Commercial Client Group	The Personal and Commercial Client Group (P&C) is committed to providing more than eight million customers across Canada and the United States with a fully integrated approach to managing all aspects of their financial affairs. We offer a full range of products and services through our highly skilled financial service providers in more than 1,100 BMO Bank of Montreal® and Harris Bank branches, as well as through direct banking channels such as bmo.com, harrisbank.com and a network of more than 2,200 automated banking machines.	
Private Client Group	The Private Client Group (PCG) is dedicated to helping clients accumulate, protect and grow their financial assets. Operating as The Harris in the United States and BMO Private Client Group in Canada, PCG, with more than 5,400 employees, offers a full suite of wealth management products and services. We have total assets under management and administration, including term deposits, of $270 billion.	
Investment Banking Group	Operating under the BMO Nesbitt Burns and Harris Nesbitt®[1] brands, the Investment Banking Group (IBG) offers corporate, institutional and government clients complete financial services, including advisory, capital-raising, investment and operating services. Supported by top-ranked research, BMO Nesbitt Burns is a leader in mergers and acquisitions advisory, debt and equity underwriting, institutional equity, securitization and trade finance.	

With more than 33,000 employees, we offer our clients a broad range of retail banking, wealth management and investment banking products and solutions.

2002 Key Initiatives	**Focus for 2003**
• Introduced Pathway Connect™, our sales and service technology platform, to most of our branches across Canada. Implementation for the remaining branches and call centres is expected in early 2003. • Developed customer knowledge and decision support software that enables us to offer customers relevant solutions at the right time and through the right channel. • Focused and integrated our marketing efforts through our *Help Provided* initiative, which links important customer issues to highly relevant solutions. • Experienced strong balance sheet and market share growth by addressing our retail customers' deposit, investment and borrowing needs. • Solidified our number two position in the small business banking market by being the leader in market share growth. • Increased Chicagoland Banking's retail and small business loans by US$1.7 billion or 26%. The acquisition of First National Bank of Joliet accounted for US$500 million of this increase.	• Drive revenue growth by improving customer retention and loyalty, expanding our business with existing customers and acquiring new customers. • Continue to drive improvements in productivity. • Continue to improve our customer loyalty scores and close the shortfall against our competitors for personal and small business clients. • Leverage our position in Commercial and Small Business Banking to further build momentum in balance sheet and market share growth. • Extend the services offered through our online banking channel. • Grow market share in Chicagoland by expanding our distribution network.
• Increased our U.S. presence with the acquisition of CSFB*direct*™2, Northwestern Trust and Investors Advisory Company and the online accounts of Morgan Stanley Individual Investor Group. On September 27, 2002, we announced our intention to acquire certain assets of California-based myCFO™3. • Successfully integrated CSFB*direct* and the online accounts of Morgan Stanley Individual Investor Group with Harris InvestorLine to create Harris*direct*. • Expanded our North American distribution network to more than 2,310 investment sales professionals. • Added 115 investment sales professionals in Canadian Bank branches, bringing the total to more than 815. • Earned recognition for our leading product and service offerings: BMO InvestorLine® was ranked best direct investing firm in Canada by GomezCanada and *The Globe and Mail*'s Online Brokerage Report; Harris *direct*'s web site was named "Best of the Web" by Forbes.com; and Harris Insight Funds™1 family was ranked eighth out of 87 qualifying fund families in *Barron's* annual ranking.	• Enhance our offering to retail and affluent clients through sales force growth and development, improving our technology and integrating product and marketing initiatives. • Further leverage relationships within the group and with our BMO partners by better integrating our sales approach and product offering. • Expand our U.S. wealth management businesses through both selective acquisitions and organic growth while building on The Harris' strong reputation as we expand into targeted new markets. • Continue to refine our businesses to enhance productivity, while aligning our business units to ensure consistently successful results regardless of the business environment.
• Ranked first in market share of Canadian equity block trading for the eighth straight year. • Ranked Top Overall Research Team in the Brendan Wood International Survey for the 22nd consecutive year. • Our Canadian Securitization unit was ranked first in market share for asset-backed commercial paper conduit outstandings, and term market issuance. It also ranked first in mortgage-backed and asset-backed securities trading for the seventh consecutive year. • Ranked first for Overall Quality of Sales Service and Overall Quality of Trader Service in the Brendan Wood International Survey. • Ranked first in market share of Canadian export letters of credit.	• Maintain leadership in the Canadian high-return fee businesses of equity, debt, securitization, and mergers and acquisitions. • Continue to build on the success of the Harris Nesbitt mid-market franchise. • Selectively expand into new products and trading strategies that relate to our areas of existing expertise. • Build further on our strengths in targeted high-growth sectors and markets. • Maintain our disciplined approach to cost and capital management.

In June 2002, Bank of Montreal announced a new unified branding approach that links all of our organization's member companies. Bank of Montreal, together with its subsidiaries, is now known as BMO Financial Group. As a result, in this report, the names BMO and BMO Financial Group mean Bank of Montreal.

Message to Fellow Shareholders
from the Chairman and
Chief Executive Officer,
Tony Comper

STRENGTH IN A TIME OF ADVERSITY

We passed two milestones as 2002 drew to a close, a dynamic intersection of our past and our future. Looking into our proud history, we celebrated our 185th anniversary and our track record as the longest-running dividend-paying company in Canada. Casting forward, we unified our diverse businesses under the umbrella of BMO Financial Group, our new name for a new century and a reminder that "bank," in its past sense, describes only one part of the enterprise we are building in the service of our customers.

A Year of Accomplishments

Leading the list of accomplishments for the year were solid financial results. Despite challenging market conditions, cash earnings per share were $2.91 excluding non-recurring items — an 8.6% increase from the previous year. We met our annual profit targets, achieved top-tier performance in loan loss provisions, and continued to contain costs.

After persevering over the past few years in making the changes necessary to boost performance, our relative financial performance showed significant improvement as, for example, BMO moved from sixth to second among Canada's major banks in earnings per share growth. This organization's trademark prudence, focus and discipline have enabled us to demonstrate strength to shareholders in a time of adversity for our industry.

Also high on the list of accomplishments in 2002 was the early success of our transnational growth strategy, which is to continue investing in our core Canadian operations while expanding selectively and substantially in the United States. BMO Financial Group has established its credentials as the original Canada-U.S. bank, doing successful business across a truly North American economic space.

Key Points of BMO's Transnational Growth Strategy

- Invest in our core Canadian franchise.
- Expand selectively and substantially in the United States.

23% Rise in Net Income
A 23% rise in net income (excluding non-recurring items) to $968 million demonstrates our strength in personal and business banking. At the same time we increased market share, total revenue rose 7% and the productivity ratio improved to 60% in this group.

Solid Group Performance
The most significant contribution to performance came from our Canadian and U.S. personal and business banking operations, where earnings increased 23%, with strong volume growth and an improved productivity ratio of 60%.

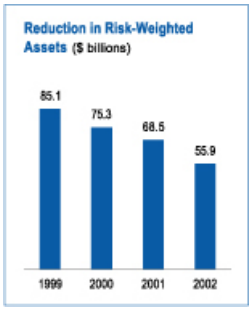
Under Frank Techar's leadership as the new President and CEO of Harris Bank in the United States, we are proceeding apace to become the number-one retail bank in the high-potential Chicago area. Plans are in motion to increase our 145 branches in greater Chicago to about 200 — and we are focusing as never before on serving a wider range of customers' needs.

This is also a priority in Canada, where Rob Pearce has taken charge of retail banking as President and CEO of the Personal and Commercial Client Group. The rollout in 2002 of a new state-of-the-art technology platform, which revolutionizes our ability to provide and sell a full range of quality products and services, will help us increase sales to existing customers, as will major investments over the past few years to introduce specialized sales staff into branches and to create a stronger sales-and-service culture.

In our Private Client Group, net income rose 12% excluding nonrecurring items, while assets under management and administration increased 14%. The highlight of the year for this group was continued expansion of The Harris' wealth management platform with the announcement of four U.S. acquisitions totalling US$676 million. Having made excellent progress in integrating acquisitions, this group is poised for growth throughout its North American operations when market conditions improve.

In our Investment Banking Group, where revenues fell substantially more than expenses due to net securities losses and weaker trading-related activity, earnings improved due to a much lower provision for credit losses. The really encouraging story for this group was its success in reducing risk-weighted assets by $29 billion over the past four years. With the plans now in place, risk-weighted assets will remain relatively stable over the coming years while our ability to increase returns will improve.

Challenges for the Future
In 2003, as we continue to implement our growth strategy with enthusiasm and energy, everyone all across this enterprise will be focused on our number-one priority: productivity improvement. While protecting customer-related expenses that are essential to increase sales, and protecting strategic initiatives designed to promote future growth, we will continue to streamline functions to achieve greater operational efficiencies.



We face this challenge from a position of real, sustainable strength. In a year that featured a succession of high-profile corporate debacles in the United States, withering the investments and trust of many Canadians and Americans and keeping the markets bouncing down and up, BMO Financial Group once again cleanly emerged as a North American leader in corporate governance. We were cited many times last year as one of the first and few companies to expense stock options, for example — and as a *world* leader in accountability and honest, transparent disclosure.

Reporting is Not Just About Complying

The *Annual Report on Annual Reports*, published by a Europe-based global tracking company, named BMO's 2001 annual report simply *the* best in the world. One of the stated reasons was that we are "one of those rare companies for which reporting is not just about complying and following the crowd or the way of the world. But also about adding value, giving insights, reviewing and highlighting and describing and explaining."

As steward of this indeed rare company, I pledge more of the same. And I can say this with confidence because I know I speak for my fellow directors and all my colleagues across the organization who personally champion the openness and accountability that have made us worthy of recognition and trust.

This is another example of what helped this organization navigate through an especially unpleasant and frustrating year for our industry: In addition to the proven soundness of our North American strategy, and the demonstration of proven strengths from credit risk management to corporate governance, in 2002 we also had thousands of really fine people rising to the occasion. There is not, nor can there be, any substitute for that.

Finally, let me point out that this year, for the first time, I've passed on the job of providing more strategic details to the leaders who oversaw and created these details; their perspectives begin on the following page. And what they will affirm, above all else, is that BMO Financial Group now has a leadership team for its time, not merely skilfully guiding our ship, but giving it fresh momentum and purpose.

/s/ Tony Comper

TONY COMPER
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

INSIGHTS FROM YOUR MANAGEMENT BOARD EXECUTIVE COMMITTEE

The BMO Financial Group Management Board Executive Committee (MBEC) comprises 10 members — our Chairman and Chief Executive Officer, Tony Comper and nine senior executives from across our organization. Together, the members of MBEC are responsible for the leadership of BMO Financial Group.

KAREN E. MAIDMENT
Executive Vice-President and Chief Financial Officer,
BMO Financial Group

BMO Financial Group is absolutely committed to financial leadership. And we are delivering on that commitment.

Financial leadership is about achieving top-tier performance for our shareholders. It means following the best practices possible in applying accounting standards. And it means making a commitment to providing full disclosure of all business activities. Finally, financial leadership means being open and honest in explaining results — both positive and negative.

YVAN J.P. BOURDEAU
President and Chief Operating Officer,
BMO Nesbitt Burns

There is no question that this period of weak capital markets has created special challenges for market-sensitive businesses such as ours. That said, we are looking forward with confidence — and going forward from a position of strength.

Our 10-year track record shows that we are better managers of credit risk than any of our competitors. Since 2000, we have reduced our risk-weighted assets to $56 billion from $85 billion through a stringent asset portfolio discipline.

Just as important, through the development of robust capabilities and product offerings in Canada and the United States, we have begun to actively execute our growth strategy of building an integrated, full-service, mid-market North American investment bank, capitalizing on industry specialties and distinctive capabilities.

LLOYD F. DARLINGTON
President and Chief Executive Officer,
Technology and Solutions, and Head, E-Business

Our strong history of effectively delivering highly competitive technology support and processing solutions was reinforced again this year with several implementations that support BMO Financial Group's financial and business strategies.

The rollout of Pathway Connect, a state-of-the-art retail platform, is but one example of how technology is being leveraged to support our customer satisfaction and productivity strategies and goals. We also successfully integrated a number of acquisitions this year including Joliet and CSFB*direct*.

With an enterprise-wide technology mandate, we are able to focus on the highest value-creating technology investment opportunities across the company, leveraging scale possibilities and maximizing value. Our human resource practices, our staffing and our commitment to training and development, and our IT strategy and process disciplines give us today an organization and cadre of professionals well positioned to support the company going forward.

In 2002, we were able to decrease our expenses by 5% from the previous year while providing enhanced capabilities and handling a significant increase in customer transaction processing.

WILLIAM A. DOWNE
Deputy Chair, BMO Financial Group
and Chief Executive Officer, BMO Nesbitt Burns

In recent years, we have created an organization that is differentiated as much by the synergies that exist between its complementary businesses as by the uniqueness of its parts.

That greater alignment has enabled us to leverage our reputation as a trusted advisor. We have in place the breadth of offering and the organizational infrastructure to provide our clients with products and services that are tailored to their objectives. We can meet people's financial needs whether they want to build a business, develop a retirement plan or put their kids through school. We have the desire — and the ability — to serve people exceedingly well. That's always been the secret behind companies that have succeeded in creating great value over a long period of time.

GILLES G. OUELLETTE
President and Chief Executive Officer,
Private Client Group, BMO Financial Group
and Deputy Chair, BMO Nesbitt Burns

Despite the uncertain markets of recent years, the outlook for the wealth management business is very favourable. Our long-standing experience and our recent expansion position us to benefit from the substantial growth we expect.

The largest ever demographic group, the baby boom generation, is shifting from consumption to savings, providing significant opportunities for growth in financial services over the next two decades. More than a century of experience in full-service investing and private banking, as well as our leading position in direct investing, give us a solid foundation in the wealth management business.

Our strategy of expanding selectively and strategically is working, allowing us to build upon our existing strengths. Expansion in recent years gives us a presence in many of the affluent, fast-growing markets in the United States and complements our national distribution in Canada. Our focus now is on executing our strategy, leveraging our acquisitions to meet our financial performance objectives and delivering results that reach our financial targets.

ROSE M. PATTEN
Executive Vice-President, Human Resources
and Head, Office of Strategic Management

We have clear strategies in each of our businesses, and we are dedicated to the successful execution of those strategies. To achieve our objectives, the vital role of people must be fully considered in all our strategic decision-making and implementation plans.

With that in mind, we have focused our people strategies on three objectives. We want to make sure that we have top talent in our key roles and throughout our organization. We want to create a high-performance culture, one whose effectiveness we can measure. And we want to foster an engaged and motivated workforce.

ROBERT W. PEARCE
President and Chief Executive Officer,
Personal & Commercial Client Group

BMO Bank of Montreal has long been recognized as the heart — and the everyday face — of BMO Financial Group. It is therefore not surprising that our response to recent economic storms has been to continue to invest significantly in our Personal & Commercial business.

In 2002, we continued to develop our workforce and implement a more effective managerial structure across our branch network. We also introduced Pathway Connect, a state-of-the-art technology platform that enhances our ability to identify and meet the individual needs of our customers. We remain committed to providing our customers with high-quality, consistent, multi-channel service.

Judging by the results, our strategy is spot on. In 2002, we sold more products, improved our service levels, gained market share and experienced the highest market share growth among small business banks in Canada. Our goal is to provide financial solutions "for the world you live in."TM

RONALD G. ROGERS
Deputy Chair, Enterprise Risk and
Portfolio Management, BMO Financial Group

Our goal is to maintain our leadership position in risk and portfolio management, and to continue to serve our shareholders and our customers by delivering high-quality risk management — regardless of market conditions.

Achieving our objective means continuing to understand credit, market and operational risks before we make decisions. It means putting together a portfolio of assets that has a diversity of risk. And it means maintaining a consistent risk appetite. Sophisticated tools enhance our ability to mitigate risk. But tools are aids, not a replacement for management's disciplined, enterprise-wide approach to the application of our risk philosophy.

Superior risk management also means helping our customers understand risk. We want our customers — individual, small business and corporate clients — to be comfortable that when they deal with us, we will evaluate risk in a consistent fashion and be there to deliver financial solutions — whether in good times or bad.

FRANK J. TECHAR
President and
Chief Executive Officer, Harris Bank

Harris Bank is the cornerstone of our U.S. presence. With outstanding capabilities and brand awareness, we have an advantaged position that differentiates BMO Financial Group from our competitors and provides a firm foundation for future growth in Chicago and beyond.

In 2002, Harris achieved strong double-digit earnings growth despite poor economic conditions in the United States. Our Chicagoland base is rich in opportunity for accelerated growth, with eight million people and a gross domestic product that is 40 percent of Canada's. Our goal is nothing less than to be the best and biggest bank in the region. To achieve this, we will build distribution, maintain a sharp focus on marketing and customer satisfaction, and leverage our business model of a "local" community banking network combined with world-class centralized support.

CORPORATE GOVERNANCE AND BOARD OF DIRECTORS

In a year marred by unprecedented corporate scandal and malfeasance, corporate governance has become an area of heightened concern for investors. BMO Financial Group has always taken the lead in corporate governance and continues to do so.

Providing high-quality financial disclosure is not a new practice for our organization. Indeed, BMO Financial Group possesses a strong and well-established reputation for consistent leadership in disclosure practices — and in corporate governance generally. Our achievements were recognized again this year when *The Globe and Mail*'s survey of corporate governance practices ranked BMO Financial Group first among the country's banks.

We became one of the first companies on the continent to announce our intention to expense stock options. As well, Chairman and CEO Tony Comper and Chief Financial Officer Karen Maidment signed a statement as part of BMO's third-quarter results affirming their accountability for BMO's financial information. In addition, Tony Comper and Karen Maidment signed a certification of BMO Financial Group's annual results under the new United States Sarbanes-Oxley Act.

Our Board of Directors bears the main responsibility for maintaining our continued high standards and encouraging the evolution of our corporate governance program. In practice, this means that the Board must operate in an effective and independent manner and ensure that BMO is accountable to all the stakeholders of the company.

The Board of Directors is also responsible for continuously reviewing trends and evolving best practices, as well as pending legislative or regulatory changes such as Sarbanes-Oxley, and for adjusting our governance practices to ensure they remain at the forefront. BMO's standards of corporate governance are consistent with the objectives of the governance guidelines of the Toronto Stock Exchange and the proposed amendments published in April 2002. In certain instances, such as in the recommended number of "unrelated" directors on the Board and "financial experts" on the Audit Committee, our standards exceed these guidelines.

Equally important, the Board of Directors serves as an example to our entire organization. By establishing the tone — affirming that corporate governance means not just abiding by the rules but also embracing the spirit of those rules — the Board helps to make the tenets of sound corporate governance, transparency, disclosure and honesty, a reality throughout our organization.

Charter of Expectations for Directors

The *Charter of Expectations for Directors*, along with the *Approval/Oversight Guidelines*, represents the backbone of our governance program. These provide both directors and management with a clear road map of each other's expectations and commitments to good governance.

As well as stipulating the roles of individual directors, the *Charter of Expectations for Directors* sets out the responsibilities to be discharged by BMO's governing members. These responsibilities include:

BOARD OF DIRECTORS

STEPHEN E. BACHAND
Ponte Vedra Beach, Florida
Corporate Director and former
President and Chief Executive Officer
Canadian Tire Corporation, Limited

DAVID R. BEATTY, O.B.E.
Toronto, Ontario
Chairman and Chief Executive Officer
Beatinvest Limited

ROBERT CHEVRIER, F.C.A.
Montreal, Quebec
President, Roche Management Co. Inc.

F. ANTHONY COMPER
Toronto, Ontario
Chairman and Chief Executive Officer
BMO Financial Group

DAVID A. GALLOWAY
Toronto, Ontario
Corporate Director and former
President and Chief Executive Officer
Torstar Corporation

Stewardship

The Board of Directors, either directly or through Board committees, is responsible for supervising the management of the business and affairs of BMO Financial Group. Among its many specific duties, the Board approves strategic plans and objectives, provides advice and counsel to the CEO, oversees the ethical, legal and social conduct of the organization, and reviews BMO's financial performance and condition. It also selects, evaluates, sets the compensation for and, if necessary, replaces the CEO.

The Board fulfills its stewardship responsibilities through various initiatives. For instance, it sponsors an annual all-day strategy session, which enables directors to gain a fuller appreciation of planning priorities and provides them with the opportunity to give constructive feedback to management. The Board also ensures we have a prudent and professional risk management framework, and confirms the integrity of the organization's internal control and management information system. Additionally, the Board oversees succession planning for senior management, including the CEO. Ensuring fair treatment of shareholders, irrespective of the size of their individual holdings, is also a principal concern for the Board.

Independence

The Board of Directors is responsible for making sure that appropriate structures and procedures are in place so that it can function independently of management.

All members of the Board are "unaffiliated", with the exception of the Chairman and CEO, pursuant to the relationship rules set forth in the Bank Act. The current 15-person Board is a very workable size for effective decision-making and committee work.

At the same time, the Board ensures that all of its committees are composed of outside directors, except the Executive Committee, which includes the Chairman and CEO as a member. (Full details of the committee mandates are set out in the Proxy Circular.)

Additionally, the Board mandates the Chair of the Governance Committee to serve as the lead director and chair in camera sessions held during every Board meeting at which only non-management directors are present. It is also the responsibility of the Board to assess the appropriate-ness of any shareholder proposals for inclusion in our Proxy Circular and to formulate responses to those proposals.

Independent governance is further ensured by our Board *Approval/Oversight Guidelines*, which clearly distinguish matters requiring Board approval from those within the purview of management, which are reported to the Board after the fact.

Effectiveness

The Board is responsible for ensuring its effectiveness. To that end, it monitors membership in order to maintain the necessary breadth and diversity of experience as well as the appropriate size. In addition, the Board oversees orientation and education programs for directors. As part of the orientation program, new directors meet one-on-one with the heads of each of the principal business groups to discuss the business functions and activities of the organization. On a regular basis, presentations are provided to directors on the various aspects of BMO's operations.

BOARD OF DIRECTORS CONTINUED

EVA LEE KWOK
Vancouver, British Columbia
Chair and Chief Executive Officer
Amara International Investment Corp.

J. BLAIR MacAULAY
Oakville, Ontario
Counsel, Fraser Milner Casgrain LLP
Toronto

THE HONOURABLE
FRANK McKENNA, P.C., Q.C.
Cap Pelé, New Brunswick
Counsel, McInnes Cooper
Moncton

BRUCE H. MITCHELL
Toronto, Ontario
Chairman and Chief Executive Officer
Permian Industries Limited

PHILIP S. ORSINO, F.C.A.
Caledon, Ontario
President and Chief Executive Officer
Masonite International Corporation
Mississauga

With both independence and effectiveness in mind, the Board also authorizes individual directors to engage outside advisors at the expense of BMO in appropriate circumstances. Board committees, under the direction of the committee chairs, are also able to engage independent consultants as needed.

Accountability

The Board of Directors is responsible for ensuring the accountability of the Board as a whole and the committees of the Board. To fulfill this responsibility, the Board assesses the contributions of each director and the adequacy and form of compensation paid to directors. Together with the CEO, the Board also develops position descriptions for the Chairman and CEO as well as annual corporate objectives that the CEO is responsible for meeting.

To further ensure accountability, the Board sponsors an annual review of Board effectiveness in corporate governance. Conducted by outside consultants, the survey assesses areas ranging from the operational effectiveness of the Board and its committees to the Chairman's role and succession planning.

As well, the Board oversees an annual director peer feedback performance review. The survey, which is compiled by an outside consultant to ensure confidentiality, requires each director to assess the contribution of each of his or her peers on a wide variety of measures including ethics, strategic insight, financial literacy, business judgment, participation and communication. Both the Board and peer assessments enable the Board to examine its effectiveness and establish goals for constant improvement.

The Board, through the Governance Committee, also assesses the performance of the Chairman and CEO in his role as Chairman, while the Human Resources and Management Compensation Committee evaluates his performance as CEO.

The Board additionally benchmarks directors' compensation annually against BMO's peer group in order to ensure their compensation reflects the responsibilities and risks involved in serving as a director. To further align directors' interests with those of shareholders, at least 50% of a director's annual retainer must be paid in Bank stock or in deferred share units, with an option to receive 100% of both the retainer and any fees in this manner. In addition, directors are required to hold either common shares or deferred share units with a value of not less than six times their annual retainer.

At the same time, the Board abides by a set of policies, which include an attendance requirement stipulating that directors must attend 75% of meetings, as well as mandatory retirement at age 70 and resignation (for acceptance or rejection by the Board) upon a change in principal occupation.

At BMO Financial Group, we are committed to maintaining and building upon our reputation as a leader in corporate governance. Like the independent experts who commend our actions, we believe that effective corporate governance benefits our shareholders, employees, communities — and our business.

For a more detailed report on our corporate governance program, please refer to our Proxy Circular.

J. ROBERT S. PRICHARD, O.C., O.Ont.
Toronto, Ontario
President and Chief Executive Officer,
Torstar Corporation

JEREMY H. REITMAN
Montreal, Quebec
President, Reitmans (Canada) Limited

JOSEPH L. ROTMAN, O.C., LL.D.
Toronto, Ontario
Chairman and Chief Executive Officer
Roy-L Capital Corporation

GUYLAINE SAUCIER, C.M., F.C.A.
Montreal, Quebec
Corporate Director

NANCY C. SOUTHERN
Calgary, Alberta
Co-Chairman and Chief Executive Officer
ATCO Ltd. and Canadian Utilities Limited

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Overview of the Structure of the MD&A

Management's Discussion and Analysis of Operations and Financial Condition (MD&A) comments on BMO Financial Group (BMO) operations for the years ended October 31, 2002 and 2001. The MD&A is presented in ten sections:

Objectives, Measures and Targets (page 11) provides an overview of the relationship between the most important measures used by management to assess financial performance and condition, our targets for 2002 and 2003, and our objectives.

Financial Performance and Condition at a Glance (pages 12 to 14) provides high-level commentary and graphs related to our seven primary financial performance and four primary financial condition measures. The section also provides commentary on those measures relative to the results of our Canadian and North American peer groups. More detailed discussion of the measures is provided in other sections of the MD&A, as indicated below.

Value Measures (pages 15 to 17) reviews financial performance in terms of four of our primary financial performance measures: five-year total shareholder return, diluted earnings per share growth, return on common shareholders' equity and net economic profit growth.

Financial Statement Analysis (pages 18 to 25) provides an analysis of our financial performance by focusing on the statement of income and the balance sheet that are included within the consolidated financial statements, which are presented starting on page 67 of this report. The section includes an analysis of our performance on another two of our primary financial performance measures: revenue growth and the expense-to-revenue ratio. It also includes a discussion of our more significant accounting policies, which is intended to enhance investors' understanding regarding the sensitivity of reported financial results to the methods, assumptions and estimates that underlie the preparation of financial statements in accordance with generally accepted accounting principles (GAAP).

Enterprise-Wide Strategic Management (page 26) provides an overview of our enterprise strategy, strategic milestones and strategic management function.

Enterprise-Wide Risk Management (pages 27 to 34) provides an overview of risk management in the organization and a discussion of our objectives and approach to managing credit, market, liquidity and funding, and operational risks. It includes analysis of another of our primary financial performance measures, provision for credit losses as a percentage of average loans and acceptances, and two of our primary financial condition measures: the ratio of gross impaired loans and acceptances to equity and allowances for credit losses, and the ratio of cash and securities-to-total assets.

Enterprise-Wide Capital Management (page 35) provides an overview of our approach to managing capital. It also includes an analysis of changes in the Tier 1 Capital Ratio, another of our primary financial condition measures.

Review of Operating Groups Performance (pages 36 to 50) provides an overview of BMO's operating groups. The section describes each group, its objectives and accomplishments for 2002 and its objectives for 2003. It also provides an analysis of financial results by group and insight into the operations of the lines of business within each group. A separate analysis of Harris Bank is also provided. Its financial results are included within each of the four operating groups.

Economic and Financial Services Developments (page 51) reviews Canadian and U.S. economic and financial services developments in 2002 and comments on 2003.

Supplemental Information (pages 52 to 66) aggregates many useful financial tables that are referred to in sections of the MD&A and can be reviewed separately.

Caution Regarding Forward-Looking Statements

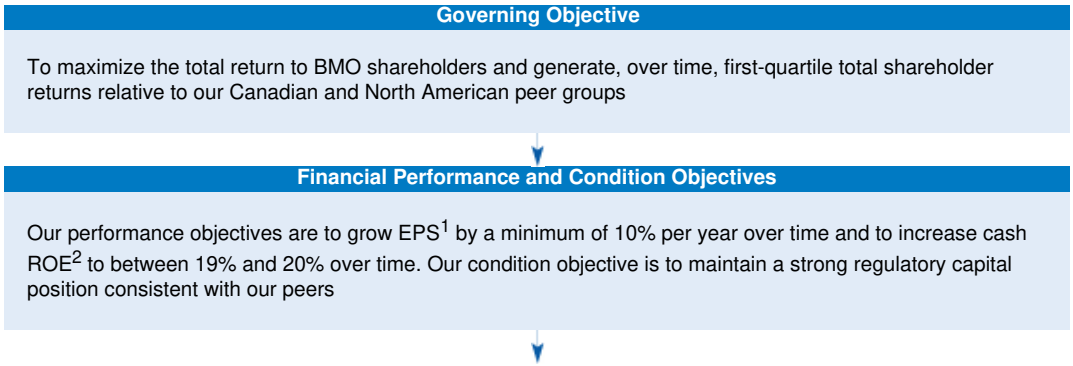
Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this Annual Report, and may be included in filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, press releases or other communications. All such statements are made pursuant to the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives for 2003 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price, the results of or outlook for our operations or for the Canadian and U.S. economies.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this report not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: global capital market activities; interest rate and currency value fluctuations; industry and worldwide economic and political conditions; regulatory and statutory developments; the effects of competition in the geographic and business areas in which we operate; management actions; and technological changes. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Bank of Montreal does not undertake to update any forward-looking statement, whether written or oral, that may be made, from time to time, by the organization or on its behalf.

OBJECTIVES, MEASURES AND TARGETS

The following diagram illustrates the relationship between objectives, measures and targets at BMO Financial Group.



All targets exclude the effects of non-recurring items. [2]

2002 Financial Performance Targets	2002 Financial Performance
• To achieve 8% to 12% cash EPS [2] growth • To increase cash ROE to between 14% and 15% • Provision for credit losses in the range of 40 to 50 basis points	• Cash EPS growth of 8.6% • Cash ROE of 14.6% • Provision for credit losses of $820 million or 56 basis points, consistent with our updated estimate of April 2002
2002 Financial Condition Targets	**2002 Financial Condition**
• To maintain a Tier 1 Capital Ratio of at least 8.0%	• Tier 1 Capital Ratio of 8.80%

2003 targets are based on the economic outlook discussed below.

2003 Financial Performance Targets	2003 Financial Condition Target
• To achieve 10% to 15% EPS growth (10% to 15% cash EPS growth) • To increase ROE to between 14% and 15% (cash ROE to between 15% and 16%) • To maintain a provision for credit losses at or below the 2002 level ($820 million)	• To maintain a Tier 1 Capital Ratio of at least 8.0%

1 All EPS figures in this MD&A refer to diluted EPS, unless indicated otherwise.
2 Adjustments to GAAP results to derive cash results and results excluding non-recurring items are outlined on page 18, along with comments on the use of these measures.

Financial Performance Measures, Objectives and Targets
The most significant of our financial performance measures are referred to as “primary measures”, while the less significant, which tend to influence the primary measures, are referred to as “secondary measures”. The most fundamental primary measure is the five-year total shareholder return. When compared to peer group performance, it assesses our success in achieving our governing objective.

We establish annual targets for certain of the performance and condition measures. We also establish financial performance objectives, which represent longer-term average annual minimum levels of achievement. Our success in achieving our governing objective of first-quartile total shareholder returns will depend on our degree of success in surpassing our minimum financial performance objectives and the performance of our peer group.

Because financial targets represent annual checkpoints in the achievement of financial objectives, they reflect variable economic conditions and may be higher or lower than the financial objectives in any particular year.

Our operating philosophy is to increase revenues at a rate higher than general economic growth rates and limit expense growth to equal to or less than revenue growth, over time. We strive for efficiencies in expense management and a balance between current profitability and the need to invest for future growth. When possible, expense efficiencies partially or totally fund the costs of investing for the future. However, the relationship between revenues and expenses in any year is affected by economic conditions.

Much of the analysis of performance in the MD&A is framed in the context of the primary and secondary measures discussed above, which are used by management in assessing performance. The measures are considered most relevant when they exclude the effects of non-recurring items, as further discussed and detailed on page 18. Financial performance targets outlined above are stated on that basis. Cash earnings measures are also provided at times because they can be informative, as explained on page 16.

Our targets for 2003 are established in the context of our expectations for the economy in the year ahead, as detailed on page 51. We anticipate that the economic factors that influence our businesses will be similar in Canada and the United States. GDP growth of 3.8% is expected in Canada, with growth of approximately 3.2% in the United States. The jobless rate is expected to trend lower and interest rates are expected to rise steadily later in the year. Consumer and business credit are expected to pickup. Mortgage growth should remain high in Canada but may moderate somewhat from record highs in the United States. We remain cautious about the near-term prospects for capital and credit markets.

Prior Year Targets

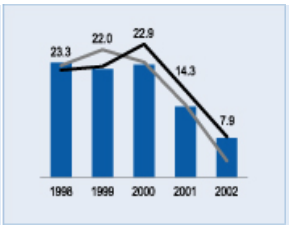
In 2001, BMO achieved three of its nine financial targets, as expense growth outstripped revenue growth and provisions for credit losses increased significantly. In 2000, we achieved all three of our financial targets.

FINANCIAL PERFORMANCE AND CONDITION AT A GLANCE

Our Performance*
Total Shareholder Return (TSR)

- BMO's average five-year TSR of 7.9% was better than the comparable indices. The average return fell from a year ago due to the removal of the 55% return in 1997.
- BMO's 16.2% one-year TSR was better than the comparable indices and BMO's negative 1.2% return in 2001.

Further details are provided on page 15.



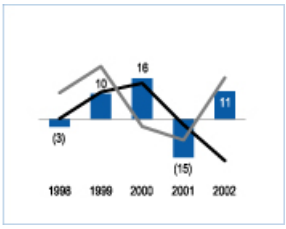
Peer Group Comparison*
Five-Year Total Shareholder Return (TSR)(%)

- BMO's average five-year TSR of 7.9% was just below the Canadian peer group average of 8.2% but well above the North American peer group average of 3.3%
- BMO's annual TSR in 2002 was the third best of both the Canadian and North American peer groups.

Earnings per Share (EPS) Growth

- EPS rose 11% to $2.76 versus a decline of 15% a year ago. Improved Personal and Commercial Client Group performance, a lower loss provision, discontinued goodwill amortization and favourable tax rates and benefits drove the increase.
- Cash EPS growth of 8.6% met our target.

Further details are provided on page 16.



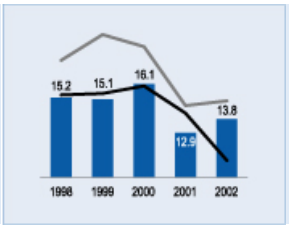
Earnings per Share (EPS) Growth (%)

- BMO's EPS growth of 11.3% in 2002 was above the Canadian peer group average of negative 16.1% but below the North American peer group average of 16.4%.

Return on Equity (ROE)

- ROE was 13.8%, up from 12.9% in 2001.
- Cash ROE was 14.6%, within our target range of 14.0% to 15.0%.
- On a GAAP basis, BMO's ROE has exceeded 13% for each of the last 13 years. No other major North American bank has matched this record of consistency.

Further details are provided on page 17.



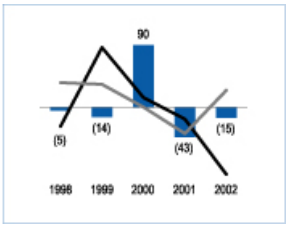
Return on Equity (ROE) (%)

- ROE of 13.8% in 2002 was above the Canadian peer group average of 11.1% but below the North American peer group average of 15.0%.

Net Economic Profit (NEP) Growth

- NEP declined 15% to $368 million and was reflective of reduced net income in 2002. NEP includes non-recurring items and the prior year benefited from these, particularly the gain on sale of investments in Bancomer.
- Personal and Commercial Client Group was the only group to generate economic profit in 2002.

Further details are provided on page 17.



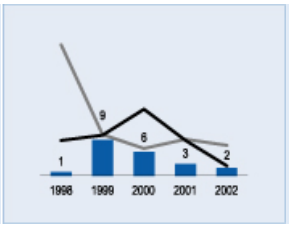
Net Economic Profit (NEP) Growth (%)

- Our NEP fell 15.2% in 2002 but performance was better than the Canadian peer group average reduction of 97.0%. NEP of the North American peer group rose 24.5%.

Revenue Growth

- Revenue increased 2%, compared with 3% growth in 2001.
- Revenue declined 1% after adjusting for the additive effect of acquired businesses
- Solid growth in Personal and Commercial Client Group was offset by lower Investment Banking Group revenue.

Further details are provided on page 19.



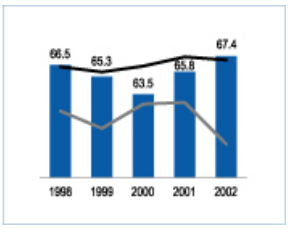
Revenue Growth (%)

- BMO's revenue growth of 1.7% in 2002 was below the Canadian and North American peer group averages of 2.5% and 7.6%, respectively.

Expense-to-Revenue Ratio

- The efficiency ratio was 67.4%, compared with 65.1% [(a)] in 2001.
- Expense growth was largely attributable to business acquisitions.
- Excluding acquired businesses and severance costs, expenses were unchanged from a year ago.

Further details are provided on page 22.



Expense-to-Revenue Ratio (%)

- BMO's expense-to-revenue ratio of 67.4%(a) was just above the Canadian peer group average of 67.0% and well above the North American peer group average of 58.4%.
- Improving productivity is BMO's top priority for 2003.

* Adjustments to GAAP results to derive cash results and results excluding non-recurring items are outlined on page 18, along with comments on the use of these measures.

Unless indicated otherwise, all amounts and ratios exclude non-recurring items.

(a) For consistency with our peer groups, the non-interest expense-to-revenue ratio for BMO and the peer groups reflected in the graphs for 1998 to 2001 includes goodwill amortization.

BMO Financial Group
Canadian Peer Group Average
North American Peer Group Average

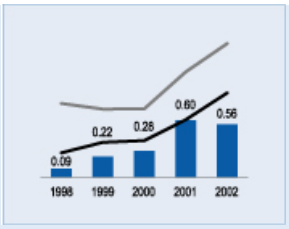
See page 14 for further comments on peer group comparisons.

Our Performance*

Credit Risk

- The provision for credit losses was $820 million or 56 basis points of average net loans and acceptances, down from $880 million or 60 basis points in 2001. The
- provision was above our 2002 target of 40 to 50 basis points but matched our updated guidance of April 25, 2002.
- Our 2003 target is to maintain the provision at the 2002 level.

Further details are provided on pages 22 and 29.



Peer Group Comparison*

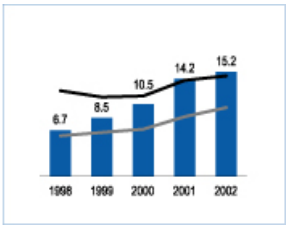
Provision for Credit Losses as a % of Average Loans and Acceptances

- BMO's provision for credit losses was 0.56% of average net loans and acceptances. Our performance compares very favourably to the Canadian peer group average of 0.89% and the North American peer group average of 1.41%.

Impaired Loans

- Gross impaired loans were 15.2% of equity and allowances for credit losses, compared with 14.2% a year ago. The increase in impaired loans was largely attributable to problems in the telecommunications sector.
- The level of impaired loans remains within acceptable parameters given the economic conditions

Further details are provided on page 29.



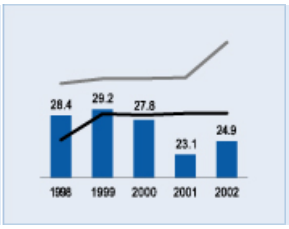
Gross Impaired Loans and Acceptances as a % of Equity and Allowances for Credit Losses

- Our gross impaired loans and acceptances were 15.2% of equity and allowances for credit losses, just above the Canadian peer group average of 14.6% and above the North American peer group average of 10.0%.

Cash and Securities-to-Total Assets

- Liquidity remains strong, supported by broad diversification of deposits. The liquidity ratio rose to 24.9% from 23.1% a year ago.
- The ratio of core deposits-to-total deposits was stable at 59.6%, compared with 60.0% a year ago.

Further details are provided on page 33.



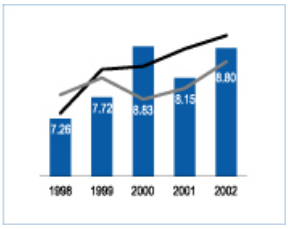
Cash and Securities-to-Total Assets (%)

- Our liquidity ratio of 24.9% was below the Canadian average of 28.7% and the North American average of 38.2%.
- BMO's ratio of individual deposits-to-total deposits, an indicator of lower liquidity risk, is the highest of both the Canadian and North American peer groups.

Capital Adequacy

- The Tier 1 Capital Ratio was 8.80%, up from 8.15% last year. The Total Capital Ratio was 12.23%, up from
- 12.12% in 2001.
  The Tier 1 Capital Ratio remains above our minimum target level of 8.0%.

Further details are provided on page 35.



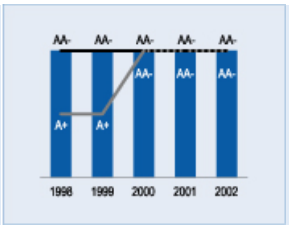
Tier 1 Capital Ratio (%)

- Our Tier 1 Capital Ratio of 8.80% was below the Canadian peer group average of 9.07% but well above our target of 8%.
- On a U.S. basis, our Tier 1 Capital Ratio of 8.32% was below the North American peer group average of 8.50%.

Credit Rating

- The credit rating represents a composite of Moody's® and Standard & Poor's® (S&P) debt ratings.
- The composite credit rating remained unchanged at AA-, but with S&P and Moody's maintaining a negative outlook

Further details are provided on page 35.



Credit Rating

- Our credit rating was comparable with both the Canadian and North American peer group averages.
- Only two banks among our North American peer group have higher ratings than BMO.

* Adjustments to GAAP results to derive cash results and results excluding non-recurring items are outlined on page 18, along with comments on the use of these measures.

Unless indicated otherwise, all amounts and ratios exclude non-recurring items.

BMO Financial Group
Canadian Peer Group Average
North American Peer Group Average

See page 14 for further comments on peer group comparisons.

CANADIAN AND NORTH AMERICAN PEER GROUP COMPARISONS

	2002					2001					Five-Year Average				
	BMO perf.	**Rank of six**	**Cdn. bank avg.**	**Q'tile**	**N.A. bank avg.**	BMO perf.	Rank of six	Cdn. bank avg.	Q'tile	N.A. bank avg.	**BMO perf.**	**Rank of six**	**Cdn. bank avg.**	**Q'tile**	**N.A. bank avg.**
Financial Performance Measures (%)															
Five-year total shareholder return (TSR)	**7.9**	**4**	**8.2**	**1**	**3.3**	14.3	6	17.7	3	14.7	**7.9**	**4**	**8.2**	**1**	**3.3**
Diluted earnings per share (EPS) growth	**11.3**	**3**	**(16.1)**	**3**	**16.4**	(14.8)	6	(2.0)	4	(8.4)	**3.8**	**4**	**1.4**	**3**	**6.9**
Return on common shareholders' equity (ROE)	**13.8**	**4**	**11.1**	**3**	**15.0**	12.9	5	14.2	3	14.7	**14.6**	**3**	**14.5**	**4**	**16.9**
Net economic profit (NEP) growth	**(15.2)**	**2**	**(97.0)**	**3**	**24.5**	(43.3)	6	(17.1)	3	(38.0)	**2.6**	**3**	**(8.2)**	**3**	**9.9**
Revenue growth	**1.7**	**4**	**2.5**	**3**	**7.6**	3.2	5	8.8	3	9.1	**4.4**	**6**	**9.3**	**4**	**10.7**
Expense-to-revenue ratio	**67.4**	**4**	**67.0**	**4**	**58.4**	65.8	3	67.3	3	62.9	**65.7**	**4**	**66.5**	**4**	**60.9**
Provision for credit losses as a % of average net loans and acceptances	**0.56**	**2**	**0.89**	**1**	**1.41**	0.60	3	0.61	2	1.11	**0.35**	**1**	**0.48**	**1**	**0.94**
Financial Condition Measures (%)															
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	**15.2**	**4**	**14.6**	**4**	**10.0**	14.2	4	14.0	4	8.7	**11.0**	**2**	**12.8**	**4**	**7.7**
Cash and securities-to-total assets	**24.9**	**6**	**28.7**	**4**	**38.2**	23.1	6	28.7	4	33.5	**26.7**	**4**	**27.9**	**2**	**35.1**
Tier 1 Capital Ratio	**8.80**	**4**	**9.07**	**2**	**8.50**	8.15	6	8.78	2	7.92	**8.15**	**6**	**8.39**	**2**	**7.96**
Credit rating	**AA-**	**2**	**AA-**	**1**	**AA-**	AA-	2	AA-	1	AA-	**AA-**	**2**	**AA-**	**1**	**AA-**

The Canadian bank peer group average is based on the performance of Canada's six largest banks: BMO Financial Group, Canadian Imperial Bank of Commerce, National Bank of Canada, RBC Financial Group, Scotiabank and TD Bank Financial Group. The North American bank peer group average is based on the performance of North America's 17 largest banks, consisting of all banks in North America having shareholders' equity that is at least 75% as large as BMO's. It includes the Canadian peer group, except National Bank of Canada, as well as Bank of America Corporation, Bank One Corporation, Citigroup, FleetBoston Financial Corporation, J.P. Morgan Chase & Co., KeyCorp, National City Corporation, The PNC Financial Services Group Inc., SunTrust Banks Inc., U.S. Bancorp, Wachovia Corporation, and Wells Fargo & Company.

Results are as at or for the years ended October 31 for Canadian banks and as at or for the years ended September 30 for U.S. banks, as appropriate.
Non-recurring items are excluded for all financial performance measures except five-year TSR and NEP growth.
For consistency with our peer groups, the non-interest expense-to-revenue ratio includes amortization of goodwill for all banks for years prior to 2002.

2002 Performance

Canadian Peer Group

BMO's relative performance in 2002 was much improved from 2001. Our rankings among the six-bank Canadian peer group rose on six of the seven financial performance measures and were as good as or better than rankings in 2001 on all four financial condition measures. Results in 2002 exceeded the average of the peer group on four of the seven financial performance measures. Our performance relative to the peer group average improved on six of the seven financial performance measures and on three of the four financial condition measures.

North American Peer Group

BMO's relative performance in 2002 improved from 2001, although the improvement was not as pronounced as in Canada. Our rankings by quartile among the North American peer group rose on three of the seven financial performance measures and our performance in 2002 was better than the North American peer group average on two of the seven measures. Our performance relative to the peer group average improved on four of the seven measures and was unchanged on another.

Comments on Performance for 2002

The five-year TSR, the most important of our financial performance and condition measures, improved as BMO ranked fourth in Canada and is now ranked first quartile in North America. Our one-year TSR was third best in Canada and third best among the 17-bank North American peer group.

EPS growth and ROE are also particularly important performance measures. EPS growth of 11.3% was the third best of the Canadian banks and considerably stronger than a year ago. ROE of 13.8% also rose strongly from 2001 and both measures were well above the Canadian peer group averages.

Our performance on the expense-to-revenue ratio deteriorated relative to the peer groups in 2002 due to the effects of acquired businesses. Improving productivity is BMO's top priority for 2003.

BMO's ratio of gross impaired loans and acceptances to equity and allowances for credit losses was fourth best of the Canadian peer group and fourth quartile relative to the North American peer group. These rankings were unchanged from 2001. However, BMO's provision for credit losses as a percentage of average net loans and acceptances improved in 2002 to second best among the Canadian peer group and first quartile relative to the North American peer group. In addition, BMO's five-year average was the best of the Canadian peer group and first quartile in North America.

BMO's cash and securities-to-total assets ratio was the lowest of the Canadian peer group and ranked fourth quartile among the North American peer group. However, BMO's liquidity is considered sound. A high ratio of individual deposits-to-total deposits is indicative of lower liquidity risk, and BMO had the highest such ratio of both the Canadian and North American peer groups in 2002.

All of the foregoing comparatives were determined excluding non-recurring items, as appropriate. When comparisons are based on GAAP earnings measures, BMO's ranking among its Canadian peer group improves on three of the seven performance measures, relative to its ranking excluding non-recurring items, and is unchanged on the other four measures. On a GAAP basis, BMO's EPS growth and ROE were the second best and revenue growth was the third best of the Canadian peer group.

Five-Year Average Performance

BMO's relative performance on the five-year average measures improved from 2001. Our ranking among the six-bank Canadian peer group improved on five of the seven performance measures and was unchanged on the other two measures. In North America, BMO's quartile ranking improved on two of the performance measures and was unchanged on the other five measures.

VALUE MEASURES

Highlights

- BMO investors earned an average annual return of 7.9% over the past five years and 16.2% in 2002.
- BMO met its earnings targets in 2002.
- EPS increased modestly from a year ago, but was up 11% excluding non-recurring items.
- BMO is the only major bank in North America to earn an ROE of more than 13% for 13 consecutive years.
- Cash ROE of 14.6% rose from 13.9% in 2001, excluding non-recurring items.

Total Shareholder Return

BMO's governing objective is to maximize the total return to shareholders and generate, over time, first-quartile total shareholder returns (TSR) relative to our Canadian and North American peer groups.

The five-year average annual TSR is a primary measure of shareholder value and the most important of our 11 financial performance and condition measures. Over the past five years, shareholders have earned an average annual return of 7.9% on their investment in BMO's common stock. This compares favourably with an average annual return for the TSX Composite Total Return Index of negative 0.3% over the same period. Appreciation in BMO's stock price and dividends paid over the period are outlined in the table below. An investment of $1,000 in Bank of Montreal common shares at the beginning of fiscal 1998 would have been worth $1,462 at October 31, 2002, assuming reinvestment of dividends, for a total return of 46%.

The average annual return of 7.9% for the most recent five-year period was down from the 14.3% average annual return for the five years ended October 31, 2001. The averages are affected by the yearly TSRs included in the calculations. The decline reflected the removal of the 55.0% yearly return earned in 1997 from the averaging calculation and its replacement with the 16.2% return earned in fiscal 2002.

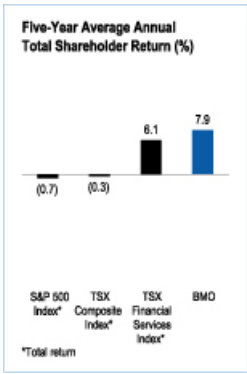
The 16.2% TSR earned in fiscal 2002 compared favourably with the negative 7.7% return of the TSX Composite Total Return Index. Returns in the fourth quarter of the year were particularly strong.

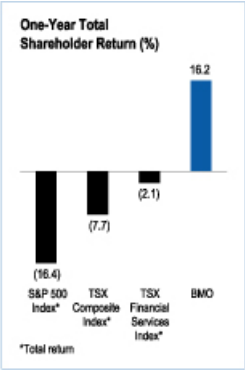
Pages 12 and 14 provide further comment on shareholder return and include peer group comparisons.

The **five-year average annual total shareholder return (TSR)** represents the average annual total return earned on an investment in BMO common shares made at the beginning of a five-year period. The return includes the change in share price and assumes that dividends received were reinvested in additional common shares.

2001 Compared with 2000

For the five years ended October 31, 2001, BMO shareholders earned an average annual return of 14.3% on their common shares, substantially above the average annual TSX Composite Index return of 5.8%. The average annual return declined from 22.9% in the five years ended October 31, 2000, as the 42.4% total return earned in 1996 was no longer included in the average. The total return in 2001 was negative 1.2%, which compared favourably with the TSX Composite return of negative 27.5%.





Total Shareholder Return

For the year ended October 31	**2002**	2001	2000	1999	1998	1997
Closing market price per common share ($)	**38.10**	33.86	35.25	28.33	31.55	30.43
Dividends paid ($ per share)	**1.18**	1.09	0.99	0.93	0.88	0.80
Dividends paid (%)	**3.5**	3.1	3.5	2.9	2.9	3.9
Increase (decrease) in share price (%)	**12.5**	(3.9)	24.4	(10.2)	3.7	50.0
Total annual shareholder return (%)	**16.2**	(1.2)	29.0	(7.4)	6.4	55.0

Total annual shareholder return assumes reinvestment of quarterly dividends and therefore does not equal the sum of dividend and share price returns in the table.

Earnings per Share Growth

The year-over-year percentage change in earnings per share (EPS) is our primary measure for analyzing earnings growth. All references to EPS are to diluted EPS.

Reported EPS was $2.68 for the year, compared with $2.66 in 2001. Excluding non-recurring items, EPS rose 11% to $2.76 from $2.48 in the prior year. Cash EPS, excluding non-recurring items, was $2.91, an increase of 8.6% from 2001. The increase was within our target range of 8% to 12% growth, despite the difficult capital markets and credit environment.

Net income was $1,417 million, a reduction of $54 million or 4% from the previous year. Non-recurring items, which are detailed on page 18 and in Table 26 on page 65, favourably affected net income in 2001 but reduced earnings in 2002. Excluding the effect of these non-recurring items, net income rose $78 million or 6% to $1,456 million from $1,378 million in 2001. Table 2 on page 52 contains various net income and EPS measures for the past 10 years.

Revenue declined $4 million from $8,863 million in 2001. Excluding non-recurring items, revenue grew $151 million or 2%. Strong growth in retail and business banking and from acquired wealth management businesses and higher Corporate Support securitization revenue more than offset a sharp reduction in wholesale banking and market-related revenues in Private Client Group. Revenue growth is discussed on page 19.

Non-interest expenses increased $359 million or 6% from $5,671 million last year. Excluding non-recurring items in fiscal 2002, non-interest expenses rose $297 million or 5% year-over-year to $5,968 million, as costs of acquired businesses, continued strategic initiatives spending and other increases were only partially offset by cost containment efforts. Expenses are discussed on page 22.

Excluding non-recurring items, the provision for credit losses fell $60 million to $820 million in 2002. The provision for credit losses is discussed on page 22 and also in the discussion of credit risk on page 29.

A lower provision for credit losses, the discontinuance of goodwill amortization and more favourable income tax rates and benefits were significant contributors to improved net income, excluding non-recurring items.

Pages 12 and 14 provide further comment on EPS growth and include peer group comparisons.

2001 Compared with 2000

EPS decreased $0.59 or 18% to $2.66 in fiscal 2001. Excluding non-recurring items, EPS decreased $0.43 or 15% to $2.48, as a $480 million increase in the provision for credit losses and higher costs outstripped revenue growth in the weak economic environment of the latter half of fiscal 2001.

Earnings per share (EPS) is calculated by dividing net income, after deduction of preferred dividends, by the average number of common shares outstanding. Diluted EPS, which is our basis for measuring performance, adjusts for possible conversions of financial instruments into common shares if those conversions would lower EPS, and is more fully explained in Note 19 on page 85 of the financial statements.

Cash Earnings Measures

Cash earnings measures are often used by BMO and certain investors when assessing performance. Cash measures adjust net income to add back the amortization of goodwill and intangible assets. Although GAAP no longer requires goodwill to be amortized, it still requires amortization of intangible assets with definite lives. Cash earnings measures are particularly useful in comparing results between periods when there has been an acquisition, because the purchase decision may not consider the non-cash amortization of intangible assets to be a relevant expense.

Changes in Accounting Policies
Goodwill Amortization

As explained in Note 9 on page 78, in 2002 we adopted new accounting standards under which goodwill and intangibles with indefinite lives are no longer amortized. In 2001, goodwill amortization was $62 million ($56 million after tax) and there were no intangibles with indefinite lives.

Off-Balance Sheet Special Purpose Entities

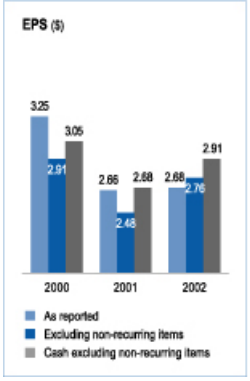
As explained in Note 7 on page 77, we are reviewing a new draft guideline on the consolidation of special purpose entities (SPEs) to determine whether it will require us to consolidate any of our off-balance sheet SPEs in 2003.

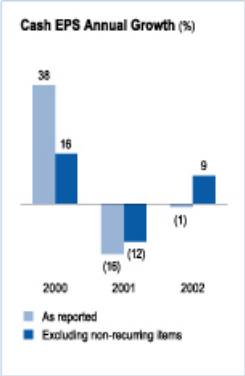
Stock Options

As explained in Note 16 on page 81, on November 1, 2002 we will commence expensing, over the vesting period, the fair value of stock options issued on or after that date.

Derivatives

As explained in Note 23 on page 86, new accounting requirements for derivatives will be adopted in 2003 that require that all derivative positions be marked to market unless they meet certain hedging criteria. Our current policies substantially comply with these requirements.





Return on Equity

Return on equity (ROE) is another of our primary performance measures.

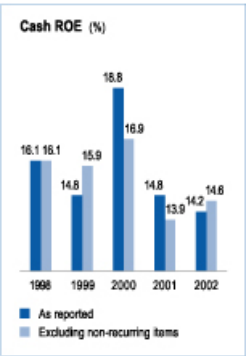
We achieved an ROE of 13.4%, compared with 13.8% in 2001. BMO is the only major North American bank that has generated an ROE of more than 13% in each of the last 13 years. Excluding non-recurring items, ROE was 13.8%, up 0.9% from a year ago. Cash ROE, excluding non-recurring items, was 14.6% in 2002, within our target range of 14% to 15% and up from 13.9% in 2001.

Table 3 on page 53 contains ROE statistics for the past 10 years.

Pages 12 and 14 provide further comment on ROE and include peer group comparisons.

2001 Compared with 2000

ROE was 13.8% in 2001, compared with 18.0% in 2000. Excluding non-recurring items, ROE was 12.9%, down from 16.1% in the prior year. Notwithstanding the decline, performance benefited from common share repurchases in 2001.



Return on common shareholders' equity (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.

Cash return on common shareholders' equity is calculated as above but adjusts net income by adding back the amortization of both goodwill, if any, and intangible assets.

Net Economic Profit Growth

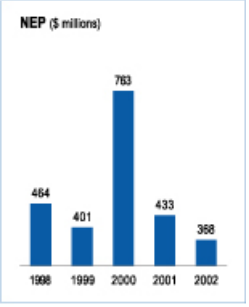
The last of our four primary value measures is net economic profit (NEP) growth.

NEP declined 15% to $368 million, because cash net income was lower in 2002 than in the previous year as a result of favourable non-recurring items in 2001. Personal and Commercial Client Group was the only group to generate economic profit in 2002, as the other client groups generated cash returns on equity that were slightly below their cost of capital.

Pages 12 and 14 provide further comment on NEP growth and include peer group comparisons.

2001 Compared with 2000

NEP declined $330 million or 43% to $433 million in 2001, driven by a reduction in cash net income and higher average shareholders' equity, partially offset by the lower cost of capital associated with lower medium-term interest rates.



Net economic profit (NEP) growth is the percentage change year-over-year in total NEP, where NEP represents cash net income

available to common shareholders, less a charge for capital. NEP is an effective measure of economic value added.

Net Economic Profit ($ millions, except as noted)

For the year ended October 31	**2002**	2001	2000	1999	1998
Net income available to common shareholders	**1,338**	1,391	1,756	1,265	1,238
After-tax impact of non-cash goodwill and other valuation intangibles amortization	**75**	101	74	67	69
Cash net income available to common shareholders	**1,413**	1,492	1,830	1,332	1,307
Less: Charge for capital*	**1,045**	1,059	1,067	931	843
Net economic profit	**368**	433	763	401	464
Net economic profit growth (%)	**(15)**	(43)	90	(14)	(5)
*Charge for capital					
Average common shareholders' equity	**9,973**	10,100	9,745	8,976	8,128
Cost of capital (%)	**10.5**	10.5	11.0	10.4	10.4
Charge for capital	**1,045**	1,059	1,067	931	843

FINANCIAL STATEMENT ANALYSIS

This section provides an analysis of our financial performance for 2002 and 2001 that focuses on the statement of income and the balance sheet included in our consolidated financial statements, which begin on page 67.

Highlights

- Excluding non-recurring items, revenue increased $151 million or 2% in 2002, compared with growth of 3% in 2001.
- Solid growth in Personal and Commercial Client Group was offset by lower Investment Banking Group revenue in the difficult market environment
- Excluding non-recurring items, the non-interest expense-to-revenue ratio was 67.4% in 2002, compared with 65.1% in 2001.
- Excluding non-recurring items, the effect of acquired businesses and severance costs incurred in the fourth quarter, expenses were unchanged from a year ago.

Non-GAAP Measures

Operating results periodically include non-recurring items. When management designates items as non-recurring for reporting purposes, they are generally infrequent, material and quantifiable, and are not expected to recur in the near future. Management considers the exclusion of such items appropriate in assessing the ongoing operations of BMO and when analyzing trends.

The accompanying table outlines BMO's non-recurring items and their effect on BMO's GAAP-based summary income statement. It also outlines the adjustments used in deriving cash net income, which some analysts consider an important earnings measure. For 2002, acquisition-related costs have been categorized as non-recurring because they were material to Private Client Group's results and may distort trend analysis.

In 2001 and 2000, gains on sales, the increase in the general provision for credit losses and the reduction in the value of future tax assets were classified as non-recurring because they were considered irregular and material occurrences, and in some cases were dependent on actions taken by management that had the potential to significantly affect results. The write-down of the investment in collateralized bond obligations (CBOs) was designated as non-recurring because of its unusual nature and its significance in the affected quarter. The reversals of the loss provision on sale of securities of lesser-developed countries (LDCs) and of restructuring costs were treated as non-recurring because they relate to charges that had previously been designated as non-recurring.

Management's designation of an item as non-recurring occurs in the quarter in which the item affects results and is based on available facts and expectations at that time. To date, BMO has not retroactively adjusted the non-recurring designation of any items on the basis of events in subsequent periods. Although such adjustments are possible and could be appropriate, maintaining an item's designation as non-recurring promotes neutrality. Designations which favourably or unfavourably affect analysis in the period of designation will have the opposite effect when results of subsequent periods are compared to those of the period in which the non-recurring item arose.

Management and certain of BMO's stakeholders believe performance analysis is enhanced by focusing on cash results and results excluding non-recurring items. However, securities regulators require corporations to caution readers that earnings as adjusted for such items do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies.

Effects of Non-Recurring Items ($ millions)

	2002	2001	2000
Reported			
Revenues (teb)	**8,859**	8,863	8,664
Provision for credit losses	**820**	980	358
Non-interest expenses	**6,030**	5,671	5,258
Income before the following	**2,009**	2,212	3,048
Provision for income taxes (teb)	**530**	643	1,123
Other	**62**	98	68
Net income	**1,417**	1,471	1,857
Amortization of goodwill and intangible assets, net of income taxes	**75**	101	74
Cash net income	**1,492**	1,572	1,931
Non-recurring items			
Gain on sale of Partners First	**—**	—	112
Gain on sale of U.S. Corporate Trust	**—**	—	74
Gain on sales of branches	**—**	12	40
Gain on sale of Bancomer	**—**	321	—
Write-down of equity investments in CBOs	**—**	(178)	—
Revenues	**—**	155	226
Reversal of loss provision on sale of LDC securities	**—**	—	(42)

Increase of general allowance	**—**	100	—
Provision for credit losses	**—**	100	(42)
Reversal of restructuring charge	**—**	—	(43)
Acquisition-related costs	**62**	—	—
Non-interest expenses	**62**	—	(43)
Pre-tax impact of non-recurring items	**(62)**	55	311
Income taxes thereon	**(23)**	(63)	126
Adjustment of future tax assets	**—**	25	—
Effect on net income	**(39)**	93	185
Excluding non-recurring items			
Revenues (teb)	**8,859**	8,708	8,438
Provision for credit losses	**820**	880	400
Non-interest expenses	**5,968**	5,671	5,301
Income before the following	**2,071**	2,157	2,737
Provision for income taxes (teb)	**553**	681	997
Other	**62**	98	68
Net income	**1,456**	1,378	1,672
Amortization of goodwill and intangible assets, net of income taxes	**75**	101	74
Cash net income	**1,531**	1,479	1,746

Acquired Businesses

BMO Financial Group has selectively acquired a number of businesses over the past two years in advancing its transnational growth strategy. These acquisitions have had minimal net effect on net income to date, largely due to non-cash amortization expenses and the difficult market environment for wealth management businesses. The acquisitions have increased revenues and expenses. The accompanying table outlines the acquisitions and their additive effect on revenue, expense and net income by operating group for 2002 to assist in analyzing results.

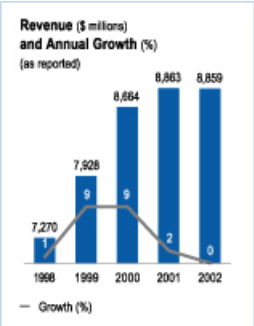
Business Acquisitions ($ millions)

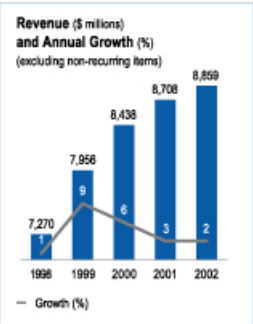
	Additive effect on fiscal 2002 results		
Business acquired	Revenue	Expense	Net income
Personal and Commercial Client Group			
First National Bank of Joliet (Joliet)			
Acquired July 2001 for $337 million	55	43	7
Private Client Group			
Morgan Stanley Individual Investor Group online accounts			
Acquired May 2002 for $153 million			
Northwestern Trust and Investment Advisory Company			
Acquired April 2002 for $19 million			
CSFB*direct*			
Acquired February 2002 for $854 million			
Guardian Group of Funds Ltd.			
Acquired July 2001 for $187 million			
Total Private Client Group			
Purchases of $1,213 million	199	207	(6)
BMO Financial Group			
Purchases of $1,550 million	254	250	1

Above amounts exclude $62 million ($39 million after tax) of non-recurring acquisition-related costs of Private Client Group.

Revenue Growth

Total revenue declined $4 million in 2002 to $8,859 million. Excluding non-recurring items that had the effect of increasing the previous year's results, revenue rose $151 million or 2%. After adjusting 2002 revenue for the additive effect of revenues of businesses acquired in 2001 and 2002, revenue declined $102 million or 1%. Solid revenue growth in Personal and Commercial Client Group was more than offset by reductions in Investment Banking Group. Private Client Group revenue, which rose 13% overall, was relatively unchanged after adjusting for acquired businesses, in a very challenging environment. Corporate Support revenue rose, excluding non-recurring items, due to higher securitization revenue.



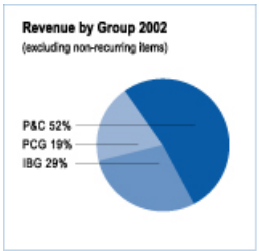


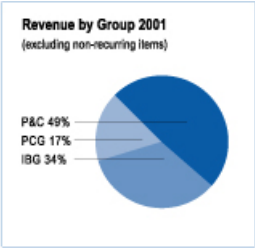
Taxable Equivalent Basis (teb)
Revenues reflected in our MD&A are presented on a taxable equivalent basis (teb). The teb basis increases revenues from certain tax-exempt securities to the equivalent amount of revenue that would attract tax, to facilitate comparisons. The effect is disclosed in Table 6 on page 54.

Revenue (excluding non-recurring items) ($ millions)

For the year ended October 31	**2002**	2001	2000	1999	1998

Net interest income (teb)	**4,935**	4,641	4,338	4,417	4,152
Year-over-year growth (%)	**6**	7	(2)	6	(1)
Non-interest revenue	**3,924**	4,067	4,100	3,539	3,118
Year-over-year growth (%)	**(4)**	(1)	16	14	5
Total revenue	**8,859**	8,708	8,438	7,956	7,270
Year-over-year growth (%)	**2**	3	6	9	1





Change in Net Interest Income, Average Assets and Average Net Interest Margin

	Net interest income (teb) ($ millions)		Change		Average assets ($ millions)			Net interest margin (in basis points)		
For the year ended October 31	**2002**	2001	$	%	**2002**	2001	% change	**2002**	2001	Change
P&C Canada	**2,526**	2,431	95	4	**87,093**	81,289	7	**290**	299	(9)
P&C Harris	**783**	623	160	26	**18,713**	14,856	26	**418**	419	(1)
Personal and Commercial Client Group (P&C)	**3,309**	3,054	255	8	**105,806**	96,145	10	**313**	318	(5)
Private Client Group (PCG)	**565**	540	25	5	**5,509**	5,340	3	**1,026**	1,012	14
Investment Banking Group (IBG)	**1,466**	1,497	(31)	(2)	**140,760**	145,092	(3)	**104**	103	1
Corporate Support, including Technology and Solutions (Corp)	**(405)**	(450)	45	10	**(4,085)**	(3,329)	nm	**nm**	nm	nm
Total	**4,935**	4,641	294	6	**247,990**	243,248	2	**199**	191	8

nm — not meaningful

Net Interest Income

Net interest income for the year was $4,935 million, an increase of $294 million or 6% from 2001. The increase was driven by volume growth in personal and commercial banking.

Net interest margins averaged 1.99% and were up 8 basis points from a year earlier. The increase was attributable to changes in asset mix, as relatively higher-yielding retail banking assets rose strongly, while relatively lower-yielding wholesale banking assets were reduced.

Average assets rose $4.8 billion but increased $9.7 billion in Personal and Commercial Client Group, reflecting solid growth in Canada, particularly in residential mortgages. Canadian retail and commercial deposits also experienced solid growth. U.S. retail and business banking grew very strongly, partly due to the acquisition of Joliet in July 2001. Margins declined in Canada, reflecting a low interest rate environment and a highly competitive lending market.

Net interest income growth in Private Client Group was largely attributable to businesses acquired in the United States. The Group's net interest margins on assets are relatively high because its personal term deposits balances exceed its loans balances.

Investment Banking Group average assets fell $4.3 billion due to the weak corporate lending environment and strategic reductions in non-relationship loans. The interest margin was largely unchanged. The effects of higher spreads in capital markets businesses were only partially offset by lower spreads in cash management businesses and lower loans balances.

Non-Interest Revenue

Non-interest revenue, which comprises all revenues other than net interest income, declined $298 million to $3,924 million from $4,222 million in 2001. Non-recurring items in 2001 totalled $155 million. This included $321 million of gains on sales of our investment in Bancomer and $12 million of gains on sales of branches, partially offset by $178 million of write-downs on our investments in CBOs. There were no non-recurring items in 2002. Excluding non-recurring items in 2001, non-interest revenue for 2002 declined $143 million or 4% from 2001. The additive effect of acquired businesses increased non-interest revenue by $152 million. The remainder of the non-interest revenue section is presented excluding non-recurring items.

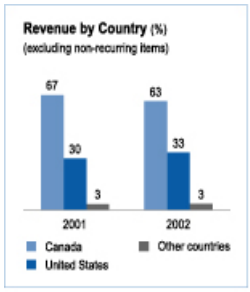
Securities commissions and fees rose $71 million. These fees largely consist of full-service and self-directed retail brokerage commissions within Private Client Group and institutional equity trading commissions within Investment Banking Group.

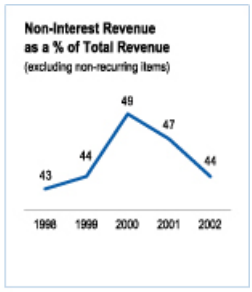
Net interest income is comprised of earnings on assets, such as loans and securities, including interest and dividend income and BMO's share of income from investments accounted for using the equity method of accounting, less interest expense paid on liabilities, such as deposits.

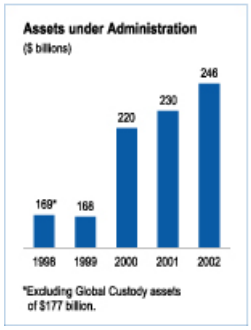
Net interest margin is the ratio of net interest income to average assets.

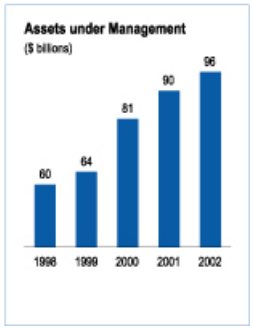
Institutional revenues rose, but most of the increase related to direct investing acquisitions, as client-trading volumes declined. Deposit and payment service charges, which represent income earned on both retail and commercial deposit accounts, rose $62 million while card fees increased $56 million. Both increases were due to robust volume growth and service initiatives.

Lending fees decreased $46 million due to lower corporate lending activities in Investment Banking Group as demand weakened. Investment management and custodial fees decreased $22 million, partly due to lower equity market values.


Revenue by Country (%)
(excluding non-recurring items)
67
30
3
63
33
3
2001
2002
Canada
United States
Other countries


Non-Interest Revenue
as a % of Total Revenue
(excluding non-recurring items)
43
44
49
47
44
1998
1999
2000
2001
2002


Assets under Administration
($ billions)
169*
188
220
230
248
1998
1999
2000
2001
2002
*Excluding Global Custody assets
of $177 billion.


Assets under Management
($ billions)
60
64
81
90
96
1998
1999
2000
2001
2002

Non-Interest Revenue
(excluding non-recurring items) ($ millions)

For the year ended October 31	**2002**	2001	2000	1999	1998
Securities commissions and fees	**813**	742	859	666	657
Deposit and payment service charges	**732**	670	646	616	558
Trading revenues	**209**	490	388	295	40
Lending fees	**306**	352	322	329	290
Card fees	**260**	204	216	205	196
Investment management and custodial fees	**314**	336	373	419	407
Mutual funds	**309**	251	232	207	199
Securitization	**329**	331	343	296	158
Underwriting and advisory fees	**228**	234	210	175	212
Investment securities gains (losses)	**(146)**	(20)	71	(30)	97
Foreign exchange, other than trading	**151**	127	146	133	103
Insurance	**105**	125	96	73	62
Other revenues	**314**	225	198	155	139
Total	**3,924**	4,067	4,100	3,539	3,118

Contribution to Non-Interest Revenue Growth
(excluding non-recurring items) (%)

For the year ended October 31	**2002**	2001	2000
Business volumes and other	**5.3**	3.0	4.8
Trading revenues	**(6.9)**	2.5	2.6
Securitizations	**—**	(0.3)	1.3
Securities commissions and fees	**1.7**	(2.9)	5.5
Securities gains (losses)	**(3.1)**	(2.2)	2.9
Investment management fees	**(0.5)**	(0.9)	(1.3)
Total non-interest revenue growth	**(3.5)**	(0.8)	15.8

Mutual funds revenues rose $58 million, primarily due to the Guardian Group of Funds and CSFB *direct* acquisitions.

Securitization revenues were largely unchanged. As detailed in Note 6 on page 76 of the financial statements, gains on sales of loans as a component of securitization revenues were up sharply from 2001. These increases were largely offset by lower other securitization revenue. The offsets largely relate to changes in GAAP in 2001 whereby revenues of securitized revolving credit card loans and mortgages are now accounted for as gains on sale rather than in other securitization revenue on a cash basis as received.

Underwriting and advisory fees declined $6 million to $228 million. Restructuring advisory activities were strong, while revenues from equity origination rose sharply, largely due to very active income trust activity. Structuring fees of the securitization unit were solid while mergers and acquisitions fees were down in a soft market. Investment securities losses were $146 million, compared with $20 million in 2001. Net losses in both years reflect significant write-downs in Investment Banking Group's own CBOs and in certain merchant banking positions. Losses also reflect the weak credit environment and weakness in certain industries, including telecommunications. Equity investments in CBOs were completely written off during 2002.

Foreign exchange revenue growth was largely offset by lower insurance revenues. Other revenues increased $89 million due to higher real estate and other income, including sales-related commissions.

Trading Revenues

> **Trading revenues** include net interest income and non-interest revenue earned from on- and off-balance sheet positions undertaken for trading purposes. The management of these positions typically includes marking them to market on a daily basis. Trading revenues include income (expense) and gains (losses) from both on-balance sheet instruments and off-balance sheet interest rate, foreign exchange (including spot positions), equity, commodity and credit contracts.

Revenues from trading-related activities totalled $391 million, compared with $605 million a year ago. Trading revenues are primarily dependent on the volume of activities undertaken for clients, who enter transactions with BMO to mitigate their risks or to invest. BMO earns a spread or profit on the net sum of its client positions by profitably neutralizing, within prescribed limits, the overall risk of the net positions. BMO also assumes proprietary positions with the goal of earning trading profits. While proprietary positions may expose the organization to loss or profit, the positions and their risks are closely managed and profit or loss from these activities is generally not the most significant factor affecting the level of trading-related revenues.

The $214 million reduction in year-over-year results was partly attributable to very strong trading revenue in 2001, as 2002 results were lower

in most product areas. Lower market volatility in 2002, which also limits trading opportunities, was an important factor in lower demand and the resulting reduction in client-related activities. A shift to a steeper interest rate yield curve, the credit environment, the closing of our U.S. primary dealer in 2001 and exiting certain businesses in 2002 also contributed to the decline in revenue. The market risk section on page 31 provides further information on trading revenues.

Interest and Non-Interest Trading Revenues ($ millions)

For the year ended October 31	**2002**	2001	2000	1999	1998
Interest rates	**180**	241	178	154	85
Foreign exchange	**69**	126	112	118	114
Equities	**56**	118	165	50	(70)
Other	**86**	120	(2)	90	4
Total	**391**	605	453	412	133
Reported as:					
Net interest income	**182**	115	65	117	93
Non-interest revenue - trading revenues	**209**	490	388	295	40
Total	**391**	605	453	412	133

2001 Compared with 2000

In 2001, total revenues increased $199 million or 2% to $8,863 million. This increase consisted of a $303 million or 7% increase in net interest income and a $104 million or 2% decline in non-interest revenue. Excluding non-recurring items, total revenues increased $270 million or 3% to $8,708 million.

In 2001, BMO discontinued recording its share of Grupo Financiero Bancomer's earnings in results due to a reduction in BMO's ownership interest. Equity earnings on the investment were $54 million lower than in 2000. Net interest income rose

due to volume growth in the Personal and Commercial Client Group and acquired businesses in Private Client Group while Investment Banking Group benefited from the declining interest rate environment, higher levels of dividend income on merchant banking securities and improved spreads.

Non-interest revenue, excluding non-recurring items, declined 1% from fiscal 2000.

Provision for Credit Losses

The provision for credit losses was $820 million. The provision totalled $880 million in 2001, excluding a $100 million general provision that was categorized as non-recurring for reporting purposes. BMO's target for 2003 is to maintain provisions for credit losses at the same level as 2002. The provision for credit losses is discussed on page 29 in the credit risk section.

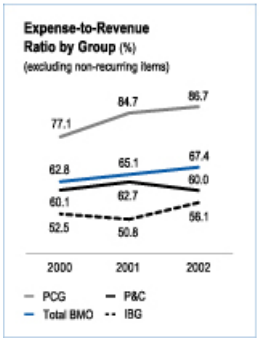
Expense-to-Revenue Ratio

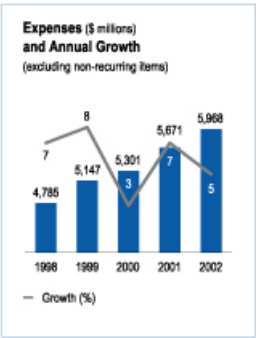
The expense-to-revenue ratio was 68.1% in 2002, up 4.1 percentage points from a year ago. Excluding non-recurring items, the ratio was 67.4%, compared with 65.1% in 2001. BMO's overall expense ratio in any year is affected by the relative strength of the revenues of each of the operating groups. The expense-to-revenue ratio of each group is typically quite different because of the different nature of their businesses. Personal and Commercial Client Group is BMO's largest group and its efficiency ratio improved by 252 basis points. Excluding non-recurring gains on branch sales in 2001, the ratio improved by 269 basis points to 60.0%.

The efficiency ratios of the other operating groups were less favourable than a year ago. In fee-based businesses, particularly businesses driven by equity markets, the efficiency ratio is more volatile. Excluding non-recurring items, Private Client Group's expense-to-revenue ratio rose due to higher amortization of intangible assets related to acquisitions. If acquired businesses were excluded, the expense-to-revenue ratio of Private Client Group would have improved modestly from a year ago. In spite of a $91 million reduction in year-over-year expenses, the Investment Banking Group expense-to-revenue ratio rose because of declining revenues in the difficult market environment.

Expenses were up 6% year-over-year, or 5% excluding non-recurring items. Expenses included $250 million related to the additive effect of acquired businesses and $50 million of severance costs in the fourth quarter. These costs relate to reducing staffing by approximately 500 positions, about 55% of which relate to activities in Corporate Support, including Technology and Solutions.

Excluding non-recurring items, severance costs and acquired businesses, expenses were flat year-over-year. Expenses for 2002 were influenced by a $68 million increase in pension costs and the effects of a stronger U.S. dollar. These increases were partially offset by lower performance-based compensation costs and the effects of continued cost containment measures. Performance-based compensation costs were down appreciably in Investment Banking Group but were largely offset by higher costs in Personal and Commercial Client Group. The accompanying table indicates increased expenses in most categories, reflecting the factors discussed above.





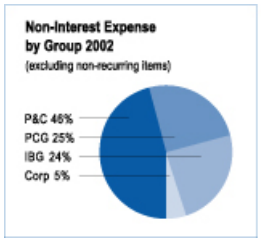
The **expense-to-revenue ratio** is our primary measure of productivity. It is calculated as non-interest expense divided by total revenues. The ratio is calculated on a taxable equivalent basis. It is often referred to as the efficiency ratio or productivity ratio.

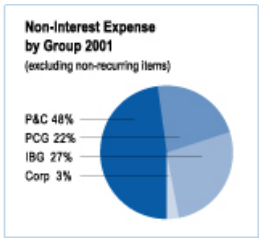
Non-Interest Expense (excluding non-recurring items) ($ millions)

For the year ended October 31	**2002**	2001	2000	1999	1998
Employee compensation	**3,397**	3,212	3,065	2,820	2,574
Premises and equipment	**1,259**	1,153	1,071	1,123	972
Communications	**171**	194	259	268	266
Other expenses	**1,054**	1,069	883	915	949
Amortization of intangible assets	**87**	43	23	21	24
Total	**5,968**	5,671	5,301	5,147	4,785

Contribution to Non-Interest Expense Growth
(excluding non-recurring items) (%)

For the year ended October 31	2002	2001	2000
Performance-based compensation	**(0.3)**	(0.2)	4.4
Currency translation effect	**0.6**	1.1	(0.5)
Acquired businesses	**4.4**	1.2	0.6
Pension expense	**1.2**	0.8	(0.7)
Disposed businesses	**(0.1)**	(0.8)	(0.9)
BMO Nesbitt Burns additional month	**—**	—	(1.4)
Other expenses	**(0.6)**	4.9	1.5
Total non-interest expense growth	**5.2**	7.0	3.0





BMO continues to focus on its expense management program, which is intended to reduce expense growth. The program's guidelines are intended to protect customer-related expenses that are essential to increased sales, to protect strategic initiatives designed to promote future growth and to reduce other discretionary costs. BMO also continued to invest in strategic initiatives, which included the expansion of our North American distribution network and U.S. wealth management capabilities, as well as the costs of implementing Pathway Connect, the new personal and commercial banking technology platform.

Effective for fiscal 2002, GAAP no longer requires amortization of goodwill, but instead requires that goodwill be subject to a periodic impairment review to ensure its fair value is equal to or greater than its book value. The change in accounting increased net income by $56 million in fiscal 2002 relative to 2001.

In 2003, BMO will begin recognizing compensation expense for new stock options granted after October 31, 2002. Stock option expense is expected to be in the range of $10 million to $20 million in fiscal 2003. If BMO had recorded compensation expense related to all outstanding stock options this year, reported net income would have been $47 million lower.

In 2003, pension expense is expected to increase by approximately $70 million. This is due to lower than expected returns on pension assets in 2002 and a reduction in our expected long-term rate of return on pension assets to 7.0% from 7.5%, offset in part by a planned contribution to our pension plan.

2001 Compared with 2000

The 2001 expense-to-revenue ratio of 64.0% was 329 basis points higher than in 2000. Excluding non-recurring items, the expense-to-revenue ratio was 65.1%, compared with 62.8% in 2000. Expense growth from normal operations was 7%, while revenue growth was 3%. The adoption of a new accounting standard for pensions and other future employee benefits in 2001 increased costs by approximately $69 million. Acquired businesses and the expenses of increased front-line staffing added to costs, while performance-based compensation costs declined modestly. Premises and equipment costs rose due to business growth and project costs. Other expenses in 2001 included $155 million of items processing costs that would have been allocated across expense categories using prior year allocation methods.

Provision for Income Taxes

The provision for income taxes reflected in the consolidated statement of income is based upon transactions recorded in income regardless of when such transactions are subject to income taxes, with the exception of the repatriation of retained earnings from foreign subsidiaries. Non-recurring items and income taxes thereon are outlined on page 18.

On a taxable equivalent basis, the effective tax rate was 26.4% in 2002, compared with 29.1% in 2001. Excluding non-recurring items, the effective rate for the year was 26.7%, an improvement from 31.6% in 2001. The year-over-year improvements related to a reduction of 2 percentage points in statutory tax rates and incremental tax benefits. The tax benefits are generally reflected in Corporate Support in the year they arise. The components of variances between the effective and Canadian statutory tax rates are outlined in Note 18 on page 84 of the financial statements.

The sustainable income tax rate for 2003 is estimated to be 31%. We anticipate that the actual tax rate will approximate 28% to 29% due to realization of tax benefits in 2003 that are not expected to be sustainable.

Balance Sheet

Total assets increased $13.5 billion or 6% from last year to $252.9 billion at October 31, 2002. The increase was primarily due to a $6.0 billion increase in securities and a $4.8 billion increase in net loans and acceptances.

Summary Balance Sheet ($ millions)

As at October 31	**2002**	2001	2000	1999	1998
Assets					
Cash resources	**19,305**	17,656	18,508	24,036	19,730
Securities	**43,715**	37,676	46,463	43,273	43,465
Net loans and acceptances	**149,596**	144,765	142,447	144,754	136,635
Other assets	**40,248**	39,312	25,978	18,552	22,760
Total	**252,864**	239,409	233,396	230,615	222,590
Liabilities and Shareholders' Equity					
Deposits	**161,838**	154,290	156,697	156,874	143,983
Other liabilities	**75,338**	69,763	59,847	58,048	63,208
Subordinated debt	**3,794**	4,674	4,911	4,712	4,791
Share capital					
Preferred	**1,517**	1,050	1,681	1,668	1,958
Common	**3,459**	3,375	3,173	3,190	3,095
Retained earnings	**6,918**	6,257	7,087	6,123	5,555
Total	**252,864**	239,409	233,396	230,615	222,590

Securities

Trading securities rose $6.2 billion to $22.4 billion due to higher holdings of equities and corporate and Government of Canada bonds. The fixed income increase is a result of asset mix changes that reflect opportunities and trading strategies at the time. Higher levels of equities are attributable to new product offerings.

Investment securities at $21.3 billion were down slightly from 2001. The fair value of BMO's investment portfolio exceeded book value by $321 million at October 31, 2002, compared with an excess of $244 million in 2001.

Note 3 on page 72 of the financial statements provides further details on securities.

Securities ($ millions)

As at October 31	**2002**	2001	2000	1999	1998
Investment securities	**21,271**	21,470	24,469	26,027	24,313
Trading securities	**22,427**	16,200	21,994	17,246	18,791
Loan substitute securities	**17**	6	—	—	361
Total	**43,715**	37,676	46,463	43,273	43,465

Net Loans and Acceptances

Net loans and acceptances increased $4.8 billion to $149.6 billion. Loans to businesses and governments declined $3.3 billion, reflecting credit concerns and lower demand due to reduced corporate capital spending. Residential mortgages rose $5.6 billion due to robust housing sales. Credit cards and consumer instalment and other personal loans also increased strongly. The portfolio remains well diversified, with a higher proportion of Canadian loans due to the growth in residential mortgages in Canada in 2002.

Table 10 on page 58 provides a comparative summary of loans by geographic location and product. Table 12 on page 59 provides a comparative summary of net loans by province and industry. The portfolio reflects only minimal change in the geographic breakdown from last year-end, as loan growth was concentrated in the relatively strong Ontario region. Loan quality is discussed in the credit risk section on page 29 and further details on loans are provided in Notes 4, 5 and 6 to the financial statements, starting on page 74.

Net Loans and Acceptances ($ millions)

As at October 31	**2002**	2001	2000	1999	1998
Residential mortgages	**47,569**	41,941	39,485	38,189	35,847
Consumer instalment and other personal	**21,168**	19,107	18,038	16,912	16,095
Credit cards	**2,280**	1,527	1,407	1,160	797
Businesses and governments*	**57,963**	61,249	60,176	58,027	51,001
Acceptances	**6,901**	7,936	8,630	6,753	6,944
Securities purchased under resale agreements	**15,664**	14,954	16,308	25,090	27,520
Gross loans and acceptances	**151,545**	146,714	144,044	146,131	138,204
Allowance for credit losses	**(1,949)**	(1,949)	(1,597)	(1,348)	(1,166)
Net loans and acceptances	**149,596**	144,765	142,447	144,783	137,038

*Includes loan substitute securities classified as securities in 1998 and 1999.

Deposits

Deposits increased $7.5 billion from a year ago to $161.8 billion. Deposits from businesses and governments, which account for 44% of total deposits, increased $5.3 billion. Deposits by banks, which tend to be somewhat variable, decreased $5.3 billion. Deposits from individuals, which account for 46% of total deposits, tend to be more stable and increased $7.5 billion. Further details on the composition of deposits are provided in Note 12 on page 79 of the financial statements and in the liquidity and funding risk section on page 33.

Deposits ($ millions)

As at October 31	**2002**	2001	2000	1999	1998
Banks	**15,273**	20,539	23,385	30,398	26,256
Businesses and governments	**71,411**	66,132	69,454	65,459	58,064
Individuals	**75,154**	67,619	63,858	61,017	59,663
Total	**161,838**	154,290	156,697	156,874	143,983

Other Liabilities

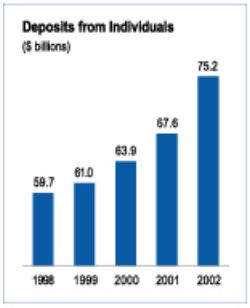
Other liabilities increased $5.6 billion to $75.3 billion. The growth was attributable to an increase in securities sold under repurchase agreements, which are a major funding source for trading positions.

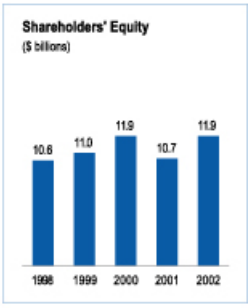
Subordinated Debt

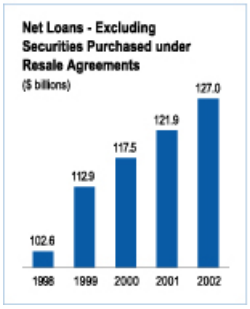
Subordinated debt decreased $0.9 billion to $3.8 billion. The decline reflected the redemption of debentures and medium term notes as a result of the high yield relative to prevailing market rates. Note 14 on page 80 of the financial statements provides details on the attributes of the debt, issues and retirements, and future maturities by year.

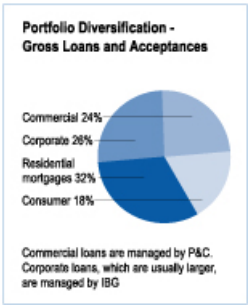
Shareholders' Equity

Shareholders' equity increased $1.2 billion or 11% to $11.9 billion, from $10.7 billion in 2001. BMO's Consolidated Statement of Changes in Shareholders' Equity on page 70 provides an easy-to-read summary of items that increase or reduce shareholders' equity, while Note 15 on page 80 provides details on the components of and changes in share capital. The change in shareholders' equity was largely related to higher retained earnings, due to earnings retained in the business, and preferred share issues. Details of our Enterprise-Wide Capital Management processes and strategies can be found on page 35.


Deposits from Individuals
($ billions)
59.7
61.0
63.9
67.6
75.2
1998
1999
2000
2001
2002


Shareholders' Equity
($ billions)
10.6
11.0
11.9
10.7
11.9
1998
1999
2000
2001
2002


Net Loans - Excluding Securities Purchased under Resale Agreements
($ billions)
102.6
112.9
117.5
121.9
127.0
1998
1999
2000
2001
2002


Portfolio Diversification - Gross Loans and Acceptances
Commercial 24%
Corporate 26%
Residential mortgages 32%
Consumer 18%
Commercial loans are managed by P&C. Corporate loans, which are usually larger, are managed by IBG

Critical Accounting Policies

The Notes to Bank of Montreal's October 31, 2002 consolidated financial statements outline BMO's significant accounting policies. The policies discussed below are considered particularly important, as they require management to make significant judgments, some of which may relate to matters that are inherently uncertain.

Allowance for Credit Losses

The allowance for credit losses adjusts the value of loan assets to reflect existing credit losses. In assessing existing credit losses, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These matters include economic factors, developments affecting companies in particular industries and specific issues with respect to single borrowers. Changes in circumstances may cause future assessments of credit risk to be materially different than current assessments and may require an increase or decrease in the allowance for credit losses. Additional information on the process and methodology for determining the allowance for credit losses can be found in the discussion of credit risk on page 29 as well as in Note 4 on page 74 of the consolidated financial statements.

Financial Instruments Measured at Fair Value

BMO records trading securities and customer trading derivatives at fair value. We adjust the carrying value of investment securities to fair value when we identify a decline in value that is other than temporary. Fair value represents our estimate of the amounts for which instruments could be exchanged in a current transaction between willing parties. The fair value of most financial instruments is determined using quoted market prices. In situations where listed prices or quotes are not available, fair values are determined using valuation models or prices of similar securities with appropriate adjustments for any differences. Valuation models include discounted cash flow and option pricing models. Management must apply judgment in the selection of the appropriate approach to determining fair value and the assumptions that are inputs into the valuation models. These judgments may affect the fair value and resulting gain or loss reported. Additional information about BMO's method of determining fair value is included in Note 3 on page 72 and Note 24 on page 90 of the consolidated financial statements.

Accounting for Securitizations

Securitization involves selling loans to off-balance sheet special-purpose entities or trusts (securitization entities), which then issue interest bearing investor certificates in order to fund the purchase of the loans. When these loans are securitized, they are removed from the balance sheet and we record a gain (loss) on sale. In determining the gain (loss), management must estimate future cash flows by relying on estimates of the amount of interest and fees to be collected from borrowers, the yield to be paid to investors, the rate at which the loans may be repaid before their scheduled maturity, expected credit losses, the fair value cost of servicing, and the rate at which to discount these expected future cash flows. Actual cash flows may differ significantly from those estimated by management. As well, if Management's estimate of future cash flows had been different, our gains on securitization would also have been different. Additional information about accounting for securitizations, including sensitivity analysis for key assumptions, can be found in Note 6 on page 76 of the consolidated financial statements.

Pensions and Other Future Employee Benefits

Our pensions and other future employee benefits expense is calculated by our actuaries based on assumptions determined by management. These assumptions include the long-term rate of return on pension assets, the rate of future compensation increases, discount rates for pension and other future employee benefits obligations and the overall health care cost trend rate. If actual experience differs from the assumptions made by management, our pension and other future employee benefits expense could increase or decrease in future years as a result. Additional information regarding our accounting for pensions and other future employee benefits, including sensitivity analysis for key assumptions, is contained in Note 16 on page 81 of the consolidated financial statements.

Other Than Temporary Impairment

Investment securities that are carried at cost or amortized cost or accounted for using the equity method are reviewed at each quarter-end reporting period to determine whether the fair value is below the current recorded value. When the fair value of any of our investment securities has declined below its current recorded value, management is required to assess whether the decline is other than temporary. In making this assessment, we consider such factors as the type of investment, the length of time and extent to which the fair value has been less than the current recorded value, the financial condition and near-term prospects of the issuer, and our intent and ability to hold the investment for a sufficient period of time to allow for any anticipated recovery. The decision to record a write-down, its amount and the period in which it is recorded would change if Management's assessment of the above factors was different. Additional information regarding our accounting for investment securities is included in Note 3 on page 72 of the consolidated financial statements.

Income Taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in our consolidated statements of income or shareholders' equity. In determining both the current and future components of our provision for income taxes, we interpret tax legislation in a variety of jurisdictions as well as make assumptions about the expected timing of the reversal of future tax assets and liabilities. If our interpretations differ from those of tax authorities or if the timing of reversals is not as anticipated, our provision for income taxes could increase or decrease in future periods.

ENTERPRISE-WIDE STRATEGIC MANAGEMENT

Strategic Objective
Our strategic objective is to be a leading transnational financial services provider by continuing to invest in our core Canadian franchise, expanding selectively and substantially in the United States and building on our long-standing capabilities. As a leading transnational financial services provider, in five years BMO envisions being: • recognized as a key player in selected regions or business niches in North America; • significantly larger in size, with most of the growth in the United States; • a demonstrated leader in selected businesses such as small business and commercial banking, mid-market investment banking, full-service investing, personal banking and private banking, including trust and discretionary asset management; and • recognized for delivering top-tier shareholder returns through a focus on improving operating efficiency and business growth.

Strategic Milestones	Progress in 2002
• Achieve top-tier customer loyalty among personal and commercial customers in Canada.	• Shortfall relative to the average has narrowed.
• Achieve the number one market share in small business banking in Canada.	• Leader in growth in market share, up to 19.48% from 19.04%.
• Maintain leading investment banking positions in Canada and further build out our mid-market capabilities in the United States.	• Number one in equity research for 22 years, number one in equity block trading; launched the U.S. equity derivatives business.
• Build out franchises in the prime wealth markets in the United States.	• Entered majority of targeted wealth markets through four acquisitions.
• Become the dominant full-service bank in the Chicago area.	• Deposit growth of 8.3%, well above the target of 5%.
• Maintain market-leading risk management capabilities.	• Five-year average loan losses of 35 bps versus 48 bps for peers.
• Enhance leading positions in talent management, performance alignment, diversity and employee engagement.	• Named a “Top 100 Employer”, placed in the “North American Top 25 in Training” and awarded the “Gold Standard for Employee Assistance Program”.

Enterprise-Wide Strategic Management

Developing a specialized competency in strategic management has been an important priority for BMO. This competency is embedded across the organization, providing BMO with a comparative advantage in the marketplace. Strategies are developed at the line of business level, and in turn support operating group and enterprise level strategies. The results of this effort are presented in the Review of Operating Groups Performance section of this MD&A, demonstrating that BMO’s enterprise strategy clearly reflects the group and line of business strategies, which are well-grounded in proven strengths and capabilities.

Strategic management includes coordinating standards and activities related to establishing corporate targets and line of business financial and strategic commitments, developing and updating strategies, optimally employing resources, tracking and managing performance against commitments and linking compensation to performance.

Operating in accordance with these strategic management standards promotes dialogue about the highest-value strategic issues, ensures comparability in assessing investment opportunities, and enables effective business mix and resource allocation decisions.

Strategic Management Standards and Processes

- BMO’s Office of Strategic Management (OSM) is responsible for guiding the development and implementation of strategies. Through the OSM, processes are designed, developed and implemented to support effective strategic management decision-making throughout the enterprise.
- Clear and concise strategic management standards and measures are documented and are communicated through formal and informal training and coaching.
- Strategies are developed for each line of business using a rigorous set of standards. These standards include a risk assessment, completed in conjunction with Risk Management Group, and an analysis of alternatives to ensure that the highest-value strategy is selected.
- These line of business strategies provide the foundation for the development of the financial plan.

- Financial and strategic performance commitments are tracked and managed to monitor the implementation of strategies and to measure performance against milestones.

- Line of business and group strategies are regularly updated. The frequency of update is influenced by performance tracking, with reviews prompted by significant variances from committed financial or strategic performance targets.

- Value creation opportunities are identified through the strategy development process and resources are directed toward value-creating businesses.

Strategic Governance

- Each line of business is responsible for developing and executing strategies and for ongoing monitoring.

- The OSM, which reports directly to the Chief Executive Officer, oversees strategic activities and ensures adherence to standards.

- Strategies are approved by BMO's Management Board Executive Committee.

- Group strategies, significant line of business strategies and significant change management initiatives are approved by the Board of Directors.

- A Board Strategy Session is held annually in which all group strategies are reviewed and discussed by the Board and BMO's Management Board Executive Committee.

ENTERPRISE – WIDE RISK MANAGEMENT

BMO Financial Group has developed an enterprise-wide ability to recognize, understand, measure, assess and manage the risks taken across the organization.

Our enterprise-wide and risk-wide framework guides our risk-taking activities and ensures that they are aligned with our clients' needs and our shareholders' expectations. This framework is applied across all of our risk management activities. It includes the management of risks on an integrated basis as well as direct management of credit, market, liquidity and funding, and operational risks. The framework is built on the following elements: comprehensive risk governance, effective processes and models and qualified risk professionals.



Comprehensive Risk Governance

The risk governance structure is designed to ensure BMO has a strong and well-informed risk culture geared toward making sound business decisions that balance risk and reward and drive the maximization of total return to shareholders. Risk governance involves ensuring that revenue-generating activities are consistent with our risk appetite and standards.

Our governance structure for risk-taking is based on the following:

- The Risk Review Committee of the Board of Directors exercises oversight over all risk-taking activities by approving risk management policy, delegating risk-taking authority and limits, reviewing position and limit reporting and reviewing management's assessment of risk in the major risk-taking activities.
- The Chief Executive Officer is directly accountable to the Board for all of BMO's risk-taking activities. The management committee structure, which supports the CEO, includes:
  - the Risk Management Committee (and its sub-committees dealing specifically with market risk, liquidity and funding risk and operational risk issues); and
  - the Counterparty Risk Council, which deals principally with credit risk issues.
- The Head of Risk Management Group provides the Board with comprehensive risk reporting and regular assessments of the organization's risks.
- Risk management units dedicated to each of BMO's operating groups ensure that risk governance is applied effectively through all levels of the organization.
- Risk management policies, standards and procedures are continually reviewed to ensure that they provide adequate and effective governance and oversight of our risk-taking activities.

Effective Processes and Models

Rigorous processes are used throughout BMO to ensure the consistent and effective management of risk through a control framework. Processes are periodically reviewed by Corporate Audit. The specific risk sections that follow outline risk management processes in more detail.

The models used at BMO range from the very simple to those that value complex transactions or involve sophisticated portfolio and capital management methodologies. These models are used to guide strategic decisions and to assist in making daily lending, trading, underwriting, investment and operational decisions.

Effective models have also been developed for the measurement of risk. BMO employs these models to measure exposure to risk (credit, market, liquidity and funding, and operational) and we measure the total risk on an integrated basis using the Capital at Risk measure.

The Risk Management Group independently validates the models used by the lines of business, their underlying assumptions and their effectiveness in daily practice. Models are reviewed according to a schedule that considers their complexity and potential financial impact.

Qualified Risk Professionals

Sound Enterprise-Wide Risk Management relies upon the competence and experience of our risk professionals to:

- promote a strong culture that places high value on disciplined and effective risk management processes and controls;
- adhere to established risk management standards for the evaluation and acceptance of risk; and
- apply sound business judgment, using effective business models in our decision-making.

Integrated Risk Management

The management of risk is integrated with our management of capital and strategy. This ensures that risks incurred in pursuit of BMO's strategic objectives are consistent with shareholders' desired total returns, BMO's desired credit rating and desired risk levels, or risk appetite.



Two frameworks govern the integrated management of risk:

- The change management framework outlines processes to ensure that changes to the organization's risk profile associated with new business initiatives are correctly identified, are consistent with BMO's strategic objective and receive appropriate approvals before implementation; and
- The capital management framework ensures that risks arising from business activities are captured in the economic capital process (Capital at Risk) and are consistent with BMO's strategic objective.

Capital at Risk (CaR) provides a single measure of risk that can be compared across business activities and risk types. It is the foundation for risk-based capital management and permits the cost of capital to be charged to the lines of business.

Strategic risk is the risk that volumes will decrease or margins shrink with no opportunity being available to offset the revenue declines with a reduction in costs.

Management of risks on an integrated basis allows us to assess the relative magnitude of risks taken and the distribution of those risks across the organization's activities. Integrated risk management activities are supported by the use of Capital at Risk, scenario analysis and stress testing.





Capital at Risk (CaR) is the foundation for risk-based capital management and permits the cost of capital to be charged to the lines of business. CaR indicates, in terms of capital, the magnitude of losses that could occur if adverse situations arise and allows returns to be adjusted for risks.

Strategic risk is directly managed by the lines of business through business strategies and initiatives based on their contribution to shareholder value. Further enhancements to strategic risk measurement are under development.

Integrated risk management is supported by the ongoing development of enterprise-wide scenario analysis and stress testing. These tools assist in the testing of extreme, but plausible, political, economic, market and operational events in order to ascertain their potential impacts on our operations.

New Basel Capital Accord

In 1988, the Basel Committee on Banking Supervision introduced the original Basel Capital Accord which, together with the 1998 Basel Capital Accord, forms the basis for determining minimum regulatory capital requirements for banks around the world. The committee is now developing a new accord (referred to as Basel II within the industry), which will:

- be more risk-sensitive than the original accord;
- provide a menu of approaches with incentives for better risk management;
- give greater emphasis to banks' own internal methodologies; and
- provide for increased regulatory supervision and more transparent disclosure of a bank's risk profile and mitigation strategies.

BMO is supportive of this regulatory development and is working closely with regulators and industry groups to assist in finalizing the quantitative and qualitative aspects of Basel II. This regulatory initiative aligns well with both BMO's commitment to leadership in risk management and its strategy of continual improvement in risk management and capital management processes.

To ensure readiness for Basel II, BMO has established an integrated enterprise-wide program with executive sponsorship within the Risk Management Group. Leadership and oversight are provided by an enterprise steering committee comprising senior executives from all stakeholder groups. The program leverages existing enterprise structures for change management and business process improvement as well as established technology strategies for data warehousing and knowledge management. The program objectives are to:

- identify the approach for regulatory capital calculation that is most beneficial to shareholders;
- meet regulatory requirements in a way that is fully integrated with BMO's risk and capital management framework; and
- implement the necessary changes with the minimum disruption to BMO's revenue-generating areas.

The program is on track and synchronized with the timeline outlined by Basel II and our regulators.

BMO Financial Group views Basel II as an important step in the alignment of regulatory and economic capital requirements. Furthermore, it should facilitate the ongoing evolution and adoption of best practices for risk management throughout the industry.

Credit Risk

BMO incurs credit risk primarily in its lending activities. As part of our enterprise-wide risk management framework, we employ comprehensive governance and management processes surrounding credit risk activities. These include:

- prudent credit granting and credit management through corporate policies governing the philosophy, principles and conduct of credit granting activities;
- a well-developed limit-setting and monitoring process;
- oversight by senior governance committees, including the Risk Review Committee of the Board of Directors, and the Counterparty Risk Council; and
- an independent credit risk oversight function within the Risk Management Group.

Credit risk is the risk of loss due to the failure of a borrower, endorser, guarantor or counterparty to repay a loan or honour another predetermined financial obligation.

The credit granting process is well established and effective, as evidenced by BMO's historic loan loss experience, which compares favourably to the Canadian peer group average. The process involves the use of skilled and qualified professional lenders, clear delegation of decision-making authority, personal accountability and individual borrower limits, as well as individual account monitoring and dynamic portfolio management. Credit decisions are made on a case-by-case basis at a management level appropriate to the size and risk level of the transaction and are based on the client's creditworthiness, the available collateral and the transaction's consistency with BMO's strategic objective.

Operating practices include regular monitoring of credit risk exposures, regular review on an account and portfolio basis, and reporting to the Counterparty Risk Council and to the Risk Review Committee of the Board of Directors. Corporate Audit regularly reviews management processes to ensure that established credit policies are followed. The Credit Review Unit of the Risk Management Group undertakes reviews of significant and higher-risk lending transactions.

BMO's provisioning approach embodies disciplined loan loss management and evaluation. The prompt identification of problem loans is a key risk management objective, and all material cases are transferred to a group of professionals experienced in managing these accounts. All problem accounts are subject to quarterly or more frequent reviews.

Measurement

BMO employs two primary credit risk measures:

- Gross impaired loans and acceptances as a percentage of equity and allowances for credit losses is used to measure the financial condition of the portfolio by comparing the level of impaired loans to the level of capital and reserves available to absorb loan losses; and

- Provision for credit losses as a percentage of average net loans and acceptances (including securities purchased under resale agreements) represents the level of provisions that were necessary to cover losses in the lending portfolios. It is a measure of credit quality experience.

The provision for credit losses for 2002 was $820 million or 0.56% of average net loans and acceptances, compared with $880 million or 0.60% in 2001 (excluding non-recurring items). Our disciplined approach to portfolio diversification continues to ensure there are no undue sector or industry concentrations. BMO's regular, comprehensive quarterly review of lending portfolios ensures consistency and adequacy in our provisioning despite volatile economic conditions.

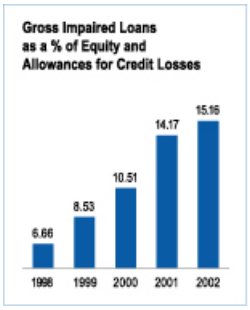
Table 17 on page 61 details specific provisions for credit losses by product and industry sector. Provisions for losses in the troubled communications sector rose $270 million to $399 million. More than half of the increase related to Teleglobe Inc.'s parent discontinuing financial support. Despite problems in the telecom sector, loss provisions on commercial loans declined $114 million from a year ago. BMO is targeting to maintain its 2003 provision for credit losses at or below the level of its 2002 provision.

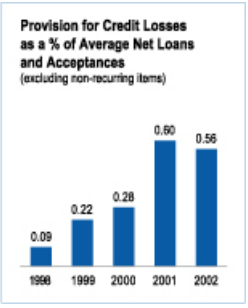
Table 14 on page 59 details the changes in gross impaired loans and in allowances for credit losses. Gross impaired loans totalled $2,337 million at the end of the year, up from $2,014 million a year ago. Gross impaired loans as a percentage of equity and allowances for credit losses rose marginally this year to 15.16% from 14.17% a year ago. New impaired loan formations totalled $1,945 million in the current year, down from $2,041 million in 2001 and in line with expectations at this stage of the economic cycle. Formations in 2002 included $312 million of loans to operating companies of the Adelphia Group and $211 million of loans to U.K. and U.S. entities in the power and power generation sector. BMO sold $397 million of troubled loans for proceeds of $265 million during the year, while write-offs totalled $884 million, up from $698 million in 2001. Specific allowances for credit losses were unchanged at $769 million, as write-offs equalled provisions. The general allowance for credit losses totalled $1,180 million and was unchanged from the prior year. It represents 90 basis points of risk-weighted assets, up from 87 basis points a year ago.

Impaired loans, after eduction of specific allowances for credit losses, totalled $1,568 million, compared with $1,245 million at the end of last year. Impaired loans, after deduction of specific allowances and the general allowance for credit losses, totalled $388 million, compared with $65 million at the end of last year. The increase was largely attributable to communications sector loans, including the Adelphia Group loans that are considered adequately secured, and loans to the manufacturing sector.

The net loans exposure to cable and telecom companies was approximately $2.0 billion or 1.4% of total net loans and acceptances at the end of the year. We have recorded specific allowances for credit losses of $116 million on the $545 million of communications industry loans classified as impaired. The net loans exposure to power and power generation companies was approximately $1.1 billion or 0.8% of total net loans and acceptances at the end of the year. We have recorded specific allowances for credit losses of $86 million on the $211 million of power and power generation industry loans classified as impaired. Exposures to the more economically troubled regions of the world remain limited. Outstanding loan exposures to borrowers in Argentina totalled $33 million at the end of 2002, down from $159 million a year ago.

BMO maintains its general allowance for credit losses in order to cover any impairment in the existing portfolio that cannot yet be associated with specific loans. At all times throughout the economic cycle, the sum of specific and general allowances must be sufficient to reduce the book value of loans to their reasonably estimated realizable values.


Gross Impaired Loans
as a % of Equity and
Allowances for Credit Losses
6.66
8.53
10.51
14.17
15.16
1998
1999
2000
2001
2002


Provision for Credit Losses
as a % of Average Net Loans
and Acceptances
(excluding non-recurring items)
0.09
0.22
0.28
0.60
0.56
1998
1999
2000
2001
2002

A number of factors are considered when determining the general allowance. A statistical analysis of past performance is undertaken to derive the mean (Expected Loss) and volatility (Unexpected Loss) of loss experience. This analysis calculates historical average losses for each homogeneous portfolio segment (e.g. mortgages), while other models estimate loss for portfolios of corporate loans and investments that can be referenced to market data. Management's professional judgments regarding portfolio quality, business mix and economic as well as credit market conditions are also considered.

Our approach to establishing and maintaining the general allowance is also based on Guideline C-5 "General Allowance for Credit Risk" issued by the Office of the Superintendent of Financial Institutions Canada, which came into effect this year.

Note 4 on page 74 of the financial statements and Tables 10 to 18 on pages 58 to 61 provide details of BMO's loan portfolio, impaired loans and provisions and allowances for credit losses.

To advance BMO's strategic objectives, we have a well-diversified portfolio, focused mainly in North America, which comprises lending relationships with millions of clients, the majority of whom are consumers and small to medium-sized businesses. All accounts are reviewed on a regular basis, with individual commercial accounts reviewed annually, or more frequently if required.

Limits

BMO's credit risk governance policies ensure that an acceptable level of credit risk diversification is maintained on an ongoing basis. The level of portfolio diversification is reflected in the graph found on page 24. Limits have been established for country exposure, industry and product exposure, single name exposure and transaction-specific exposure. These limits are approved at least annually by the Risk Review Committee of the Board of Directors. BMO's credit risk governance structure helps to ensure that limits are observed and that any exceptions are identified promptly, reported appropriately, and resolved by management in a timely manner.

Processes and Models

BMO utilizes processes and models to assess the correlation of risks before authorizing new exposures on large corporate credit transactions. Expected loss (EL) and unexpected loss (UL) are calculated for large individual transactions and for the portfolio as a whole. Estimates of EL and UL are used to forecast loan loss provisions and in establishing an appropriate level of general allowance for credit losses. Measures and assumptions underlying EL and UL calculations are supported by portfolio monitoring, historical experience, market data, and modelling of economic and business-specific events. The estimates of EL and UL rely upon:

- management's judgment;
- the probabilities of default;
- the amounts of outstanding exposures at the time of default;
- the differences between the book value and the market value or realizable value of loans, if default occurred; and
- the effects of economic and industry cycles on asset quality and loan values.

EL, UL and historical credit risk information are inputs that determine the Capital at Risk for each of the relevant lines of business. Credit CaR measures, like all CaR measures, are based on a confidence level of 99.95% and a holding period of one year.

Market Risk

BMO incurs market risk in its trading and under writing activities, as a result of investments it makes and in connection with the management of its assets and liabilities (structural market risk).

As part of our enterprise-wide risk management framework, we apply comprehensive governance and management processes to market risk-taking activities. These include:

- oversight by senior governance committees, including the Market Risk Committee and Risk Management Committee through to the Risk Review Committee of the Board of Directors;
- an independent market risk oversight function within the Risk Management Group;
- effective processes to measure market risks and link them to the allocation of economic capital;
- a well-developed limit-setting and monitoring process;
- effective controls over processes and models used; and
- a framework of scenario and stress tests for worst-case events.

In addition, we monitor developments in industry practices relating to the management of market risk and incorporate improvements where appropriate.

Overall, for regulatory capital purposes, as required by BMO's regulator, the Office of the Superintendent of Financial

Market risk is the risk of a negative impact on the balance sheet and income statement resulting from adverse changes in the value of financial instruments as a result of changes in certain market variables. These include: interest rates, foreign exchange rates, equity or commodity prices and their implied volatilities, as well as credit spreads, credit migration and default.

Market Value Exposure (MVE) is a measure of the adverse impact of potential changes in market variables on the market value of BMO's assets and liabilities, measured at a 99% confidence level over an appropriate holding period. The holding period considers current market conditions and composition of the portfolios to determine how long it would take to liquidate the portfolios without adversely affecting market prices.

Earnings Volatility (EV) is a measure of the adverse impact of potential changes in market variables on projected 12-month after-tax net income, measured at a specific confidence level.

Value at Risk (VaR) is measured for specific classes of risk: interest rate, currency, equity and commodity prices and implied volatilities. VaR is usually measured at a 99% confidence level and is a measure of the adverse impact of potential changes in market variables on the market value of a portfolio, over an appropriate holding period.

Institutions Canada (OSFI), and consistent with the rules established by the 1998 Basel Capital Accord (1998 Accord), BMO maintained a "minimum capital requirement for market risk" for trading mark-to-market portfolios of $189 million as at October 31, 2002, down from $471 million at the end of 2001. This reduction in our regulatory capital is largely due to the introduction of our equity VaR model, and the implementation of correlation adjustments for interest rate and foreign exchange positions.

Measurement

The most important risk measures are Market Value Exposure (MVE) and 12-month Earnings Volatility (EV). BMO's aggregate MVE and EV exposure at October 31, 2002 are summarized in the following table.

Aggregate MVE and EV Exposure for Trading and Underwriting and Structural Positions

As at October 31 (After-tax Canadian equivalent) ($ millions)*	Market value exposure		12-month earnings volatility	
	2002	2001	2002	2001
Trading and underwriting	**13.4**	13.9	**18.7**	17.5
Structural	**290.0**	233.2	**42.4**	79.6
Total	**303.4**	247.1	**61.1**	97.1

*Measured at a 99% confidence level

BMO's trading and underwriting activities include portfolios that are marked to market daily, as well as some portfolios (such as money market) that are subject to accrual accounting rules under generally accepted accounting principles. For these activities, VaR, an MVE measure, calculates the magnitude of BMO's market risk. This measure calculates the maximum likely loss from portfolios for a holding period of one day at a 99% confidence level, that is, 99 days out of 100.

The VaR models determine economic market risk capital for each of the lines of business, and are also used to determine regulatory capital requirements under the standards of the 1998 Accord.

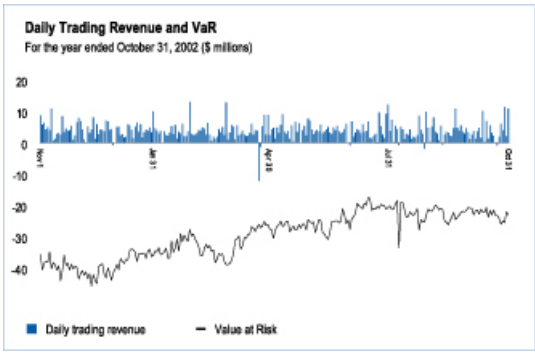
Market risk exposures arising from trading and underwriting activities are summarized in the following table.

Trading and Underwriting VaR Summary

For the year ended October 31, 2002 (Pre-tax Canadian equivalent) ($ millions)*	Year-end	Average	High	Low
Interest rate	**16.9**	**23.3**	**36.8**	**13.4**
Foreign exchange	**3.8**	**3.5**	**6.8**	**1.5**
Commodity	**1.1**	**1.8**	**4.2**	**0.8**
Equity	**6.6**	**5.0**	**16.8**	**1.6**
Correlation effect	**(5.2)**	**(3.9)**	**na**	**na**
Total	**23.2**	**29.6**	**45.8**	**17.6**

*One-day measure using 99% confidence level. na — not applicable

In determining VaR, we take only partial account of the correlations and offsets that may exist between certain portfolios and classes of risk, such as equity prices and interest rates. A more conservative measure of market risk is therefore calculated than would otherwise be the case. BMO has not experienced a loss this year that exceeded the overall VaR measure in the trading and underwriting portfolios, as can be seen in the following diagram.



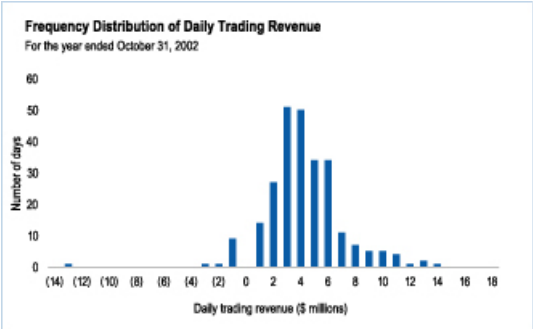
We also measure exposure to concentrations of market risk, such as changes in particular interest rates, foreign exchange rates, equity or commodity prices, and their related implied volatilities. Models used to determine EV exposures are the same as or similar to those used to

determine VaR exposures.

For capital calculation purposes, longer holding periods and/or higher confidence levels are used than are employed for day-today risk management.

Effective controls over the revaluation of trading and underwriting portfolios and the determination of daily revenue from these activities enable us to monitor the revenue generated by each of the lines of business in relation to their business strategies and their level of market risk. The average daily revenue from trading and underwriting activities for 2002 was $3.8 million. The distribution of daily trading revenue is provided in the diagram below.

Trading revenues include amounts from all trading and underwriting activities whether accounted for on a mark-to-market basis or an accrual basis, and also include certain fees and commissions directly related to those activities.



For investments and investment portfolios, we have established MVE and EV risk measures using 10-day holding periods, as well as holding periods that best reflect estimates of the time necessary to liquidate positions. In addition, where appropriate, specific measures are used for the credit-related risk and other concentrations of risk embedded in those positions.

Structural market risk arises primarily from retail and commercial asset and liability interest rate mismatches and embedded options, and from foreign currency transaction risk that affects net income. BMO manages its structural market risk to support the stability of its earnings. This involves managing asset-liability mismatches to a target profile and maintaining option and foreign currency transaction risks at low levels.

Structural MVE and EV risk measures reflect a three-month holding period for Canadian dollar balance sheet items and a two-month holding period for U.S. dollar balance sheet items. In addition to structural MVE and EV risk measures, we also use interest rate gap analysis (see Table 19 on page 62), simulation modelling and sensitivity analysis to measure structural interest rate risk. Sensitivity analysis to an interest rate increase or decrease of 100 basis points is disclosed in the table below. This sensitivity analysis is performed and disclosed by many financial institutions and facilitates comparisons with our peers.

Structural Interest Rate Sensitivity

(After-tax Canadian equivalent) ($ millions)*	As at October 31, 2002		As at October 31, 2001	
	100 basis point increase	100 basis point decrease	100 basis point increase	100 basis point decrease
Earnings sensitivity over the next 12 months	**$ 1.1**	**$ (0.1)**	$ 9.4	$ (20.5)
Economic value sensitivity	**$ (152.7)**	**$ 123.8**	$ (147.0)	$ 64.2

*Exposures are in brackets and benefits are represented by positive amounts.

Limits

The Risk Review Committee of the Board of Directors approves limits for MVE and EV within which market risk activities are conducted. Comprehensive market risk limits have been established for all units engaged in market risk activities, and for BMO as a whole. The limits govern both the magnitude of risk (expressed in MVE and EV terms) and specific concentrations of risk. In addition, there are loss limits that provide senior management with early warning signals to effectively address potential loss situations. These limits are set in relation to the particular strategies of each line of business, the extent of its customer-driven business and its revenue prospects. The market risk governance structure helps ensure that limits are observed and that any breach of these limits is promptly and effectively addressed.

Limits are reviewed by the Risk Review Committee of the Board of Directors at least annually, and anticipate a wide range of market environments at a 99% confidence level. This review takes into consideration BMO's risk appetite and risk exposure. The market risk limits approved by the Risk Review Committee of the Board of Directors were not exceeded during the year.

Processes and Models

Processes and models are used to measure and value our portfolio exposures and to calculate the related market risk exposure. For trading and underwriting activities, the determination of daily net trading revenue also relies on these models and processes. We have strong controls over the development, implementation and application of these processes and models.

Models are subject to a periodic independent model risk vetting process and, where appropriate, additional testing and analysis. Such testing seeks to determine those inputs or assumptions to which a model is most sensitive and those that are the most likely to vary or create unusual changes in the model's output. This provides an understanding of the range of possible outputs that can be derived from the model.

We monitor the application of models to ensure that they are appropriate to the particular portfolio to which they are applied, and we take corrective action, including making adjustments to the determination of daily net trading revenue, when model limitations are identified.

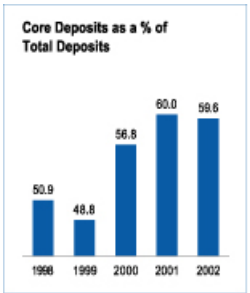
The models used to measure market risks are effective at measuring such risks under normal market conditions. In addition, we perform scenario analysis and stress testing to determine the impact of unusual and/or unexpected market changes on our portfolios. We use a comprehensive set of scenarios and stress tests, and the results are reported to senior management on a regular basis. Exposures in trading and underwriting portfolios must be managed within pre-set stress limits.

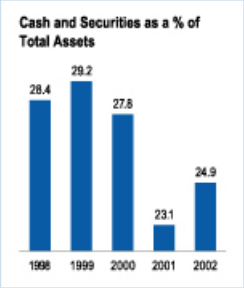
Backtesting is an integral tool in the processes used to validate BMO's market risk models. We use a variety of methods to ensure the integrity of these models, including the application of backtesting against hypothetical losses. For all trading and underwriting portfolios, this process assumes there is no change in the previous day's closing portfolio positions. The process then isolates the effects of each day's price movements against these closing positions. Models are considered to be validated by such testing if, on average, calculated hypothetical losses exceed the VaR measure only one time out of 100. Results of this testing confirm the validity of our models.

Liquidity and Funding Risk

Managing liquidity and funding risk is a key component of our enterprise-wide risk management framework, and is essential to maintaining both depositor confidence and stability in earnings. We manage liquidity and funding risk by ensuring that sufficient liquid assets and funding capacity are available to meet financial

Liquidity and funding risk is the risk of being unable to meet financial commitments in a timely manner at reasonable prices as they fall due. Financial commitments include liabilities to depositors and suppliers, and lending and investment commitments.





commitments, even in times of stress. Our liquidity and funding management framework includes:

- oversight by senior governance committees, including the Liquidity and Funding Management Committee and Risk Management Committee through to the Risk Review Committee of the Board of Directors;
- an independent liquidity and funding risk oversight group within Corporate Treasury;
- a Board-approved limit structure to support active liquidity and funding risk management;
- effective processes and models to monitor and manage liquidity and funding risk;
- strong controls over processes and models and their uses;
- a framework of scenario tests for stressed operating conditions; and
- contingency plans to facilitate managing through a liquidity and funding disruption.

In addition, we monitor developments in industry practices relating to the management of liquidity and funding risk and incorporate improvements where appropriate.

Liquidity and funding data provided in this section reflect BMO's consolidated position. BMO subsidiaries include regulated and foreign entities. Movement of funds between companies in the group are necessarily subject to the liquidity, funding and capital adequacy considerations of the subsidiaries and to tax considerations. Such considerations do not materially affect BMO's liquidity and funding.

BMO's liquidity and funding position remains sound and there are no trends, demands, commitments, events or uncertainties that are reasonably likely to materially impact the position.

Measurement

We use two key measures to manage liquidity and funding risk. The first key measure is the cash and securities-to-total assets ratio. This measure provides an assessment of the extent to which assets can be readily converted into cash or cash substitutes to meet financial commitments, as cash resources and securities are more liquid than loans. The ratio represents the sum of deposits with other banks, other cash resources and securities as a percentage of total assets.

Cash and securities totalled $63.0 billion at the end of the year, up from $55.3 billion in 2001, while total assets increased $13.5 billion to $252.9 billion. BMO's cash and securities-to-total assets ratio at October 31, 2002 was 24.9%, up from 23.1% at October 31, 2001. The increase in the ratio was primarily attributable to growth in Canadian dollar trading securities.

In the ordinary course of business, a portion of cash resources and securities is pledged as collateral to support trading activities and participation in clearing and payment systems, in Canada and abroad. At October 31, 2002, $18.9 billion of cash and securities had been pledged, up from $16.1 billion pledged a year earlier. This change resulted from increased trading activity. In addition, BMO is a party to certain agreements that could require incremental collateral under certain circumstances. These potential incremental collateral requirements are not material. Additional information on cash and securities can be found in Table 5 on page 53 and in Notes 2 and 3 on page 72 of the financial statements.

The second key measure is the core deposits-to-total deposits ratio. Core deposits are more stable than other deposit sources as they are comprised of individual customer operating and savings deposits and smaller fixed-date deposits. The ratio represents total deposits less fixed-date deposits greater than 100,000 units of any currency, as a percentage of total deposits.

Core deposits totalled $96.5 billion at the end of the year, up from $92.5 billion in 2001, while total deposits increased $7.5 billion to $161.8 billion. BMO's core deposits-to-total deposits ratio at October 31, 2002 was 59.6%, down from 60.0% at October 31, 2001. The ratio remained stable as core deposits grew at the same pace as total deposits.

Our large base of core deposits, along with our strong capital base, reduces reliance on less stable wholesale funding. Wholesale funding is largely short-term in nature and primarily supports trading and underwriting assets and investment securities. Wholesale funding activities are performed by professional teams accessing major financial markets worldwide.

Additional contractual information on deposits can be found in Table 24 on page 64.

Limits

We continuously monitor liquidity and funding risk and actively manage the balance sheet to minimize this risk. Management establishes minimum liquid asset holding requirements, together with limits for liability diversification, credit commitments, asset pledging and cash flow mismatches. Liabilities are diversified by customer, type, market, maturity term, currency and geography. These limits encompass both on- and off-balance sheet arrangements and are approved by the Risk Review Committee of the Board of Directors annually.

Off-Balance Sheet Arrangements

There are two primary types of off-balance sheet arrangements that could potentially affect liquidity and funding — off-balance sheet special purpose entities (SPEs) and customer credit commitments. SPEs are used to securitize our assets in support of capital or funding management. Information on the securitization of BMO assets can be found in Note 6 on page 76 of the financial statements. We also have ongoing relationships with off-balance sheet SPEs that customers use to securitize their assets, and we conduct asset management activity through SPEs that provide investors with customized, diversified debt portfolios in a variety of asset and rating classes. Information on

off-balance sheet SPEs can be found in Note 7 on page 77 of the financial statements. We provide liquidity support to these SPEs by extending credit through standby funding. These credit commitments are included in our total customer credit commitments. Customer credit commitments are an integral part of our credit-granting practices and create liquidity and funding exposure through our obligation to fund customer drawdowns. Information on credit commitments can be found in Note 5 on page 75 of the financial statements.

Processes and Models

Processes are in place to: develop policies for approval by senior governance committees; monitor policy compliance; maintain contingency plans; continuously track variables for changing risk conditions; and provide timely reports to senior governance committees. Models are used to project liquid asset holding requirements, funding capacity and financial commitments based on expected and stressed economic, market, political and enterprise-specific operating conditions.

Operational Risk

Operational risk is inherent in all business activities and the management of this risk is important to the achievement of BMO's strategic objective. While operational risk can never be eliminated, it can be managed and mitigated, and in some cases insured against, to preserve and enhance shareholder value.

To achieve this goal, we have developed an Integrated Operational Risk Framework, which includes: risk identification; risk measurement; risk analysis and monitoring; capital at risk allocation; and risk management.

BMO manages operational risk through a comprehensive governance framework and effective controls. These include business contingency plans, event management processes, change management policies and procedures and an enterprise mergers and acquisition framework.

BMO's operational risk governance structure includes the Operational Risk Committee, a sub-committee of the Risk Management Committee. This committee provides:

- a decision-making mechanism for material operational risk issues;
- a forum to discuss cross-group impacts of significant risks;
- review of new policies and changes to existing policies; and
- review and approval of risk and control self-assessments, operational risk measurements and associated capital allocations.

Each line of business is responsible for managing its operational risk within the guidelines established by policy measurements. The Risk Management Group develops policy and guidelines for the management of operational risk. In addition, the Risk Management Group monitors and reports on significant enterprise issues and operational events to the Chief Executive Officer and the Risk Review Committee of the Board of Directors. Where appropriate and cost-effective, Risk Management Group buys corporate insurance to transfer components of operational risk to creditworthy insurance underwriters and thus hedge against components of operational risk.

Corporate Audit also provides regular reports on the effectiveness of operational risk internal controls and management processes to the Chief Executive Officer and the Audit Committee of the Board of Directors.

Measurement

Operational risk is measured using an actuarial methodology, which combines the likelihood of an operational risk event occurring with the probable loss if it does occur, to arrive at the loss distribution. The expected and unexpected loss associated with particular operational risk events can be determined from the loss distribution. The unexpected loss is used to determine the Capital at Risk for each line of business and for each operational risk type. Historical loss data is used, where available, for calculating frequency and severity of events. Where loss data is not available or is limited, loss scenarios are developed in conjunction with line of business management. To ensure that all operational risks to which a line of business is exposed are adequately captured and appropriately quantified, specialized functions such as Finance, Taxation, Legal, Compliance, Human Resources, and Technology and Solutions are also involved in the measurement process as appropriate.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, system or human error, or external events.

Operational risk is composed of:

- Operations risks, which are controlled through regular daily functions and are managed through internal procedures and monitoring mechanisms. These risks include physical and logical security, transaction processing, operations control, technology and outsourcing risks.

- Business and event risks, which include underlying, structural and external risks that can have a material impact on BMO. These risks include strategic, image and reputation, taxation, accounting and financial management, legal, regulatory requirements and human resources risks, as well as risks resulting from the use of complex pricing or valuation models.

Processes and Models

A tailored process and model are used to determine the operational risk for each line of business. For capital calculation purposes, confidence levels and holding periods used are consistent with the approaches used for credit and market risk.

BMO's goal is to make operational risk, like all other risks, transparent throughout the enterprise. This entails regularly reporting on: exposures to the types of operational risk and where they occur; their financial impact (expected loss, unexpected loss, and stress loss); changes to the operational risk profile as a result of changes in the business and operating environment; and a comparison to external benchmarks. Each component of our operational risk framework is at a different stage of development, and our approach is to continuously improve each component in a way that is useful to business and risk management while also meeting the forthcoming Basel II regulatory requirements.

ENTERPRISE-WIDE CAPITAL MANAGEMENT

Highlights

- Our Tier 1 Capital Ratio of 8.80% was up from 8.15% last year and remained above our minimum target of 8%.
- Our risk-weighted assets decreased by $4.7 billion during the year, a result of disciplined balance sheet management.
- For 2003, our target is to maintain a Tier 1 Capital Ratio of at least 8.0%, with ongoing controlled growth in risk-weighted assets and redeployment of capital to retail and wealth management businesses.

Strategy and Approach

Our Capital Management Framework is designed to maintain an optimum level of capital in a cost-effective structure that: meets our target regulatory ratios; supports our internal assessments of economic capital; results in appropriate credit ratings; funds our selected operating group business strategies; and builds long-term shareholder value.

Our approach includes the establishment of limits, goals and performance measures for management of balance sheet, risk and minimum capital levels, as well as the issuance and redemption of capital instruments to achieve the most cost-effective capital structure possible. These are approved on an annual basis by the Board of Directors as part of our capital management policy and capital plan. At the consolidated enterprise level, our capital supports our risk appetite, subject to regulatory and legal requirements. At the line of business level, capital is allocated based on the assessment and measurement of Capital at Risk, which is included in line of business performance measures. This ensures that we maintain a well-capitalized position to protect our stakeholders from the risks inherent in our various businesses, while still deploying balance sheet resources in high-return or strategic growth activities to meet or exceed established enterprise targets.

Dividends are generally increased in line with long-term trends in earnings per share growth, while sufficient profits are retained to support anticipated business growth, fund strategic investments and provide continued support for depositors. BMO's policy is to maintain a dividend payout ratio of 30% to 40%, over time.

Performance Review

Tables 20 and 21 on page 63 outline the components of capital and the measures we use for monitoring BMO's capital requirements, which are in accordance with guidelines issued by OSFI. Tier 1 capital, representing more permanent forms of capital, increased during the year, as net income and the issuance of Series 10 Preferred Shares more than offset increased goodwill arising on acquisitions and common and preferred share dividend payments. Risk-weighted assets decreased during the year, as strong mortgage and personal loan growth in Personal and Commercial Client Group was more than offset by decreases in Investment Banking Group in the challenging business environment. Our strategy of redeploying capital to retail and wealth management businesses aligns with reductions in Investment Banking Group's non-relationship loan portfolio.

The quarterly dividend on common shares of $0.30 declared in 2002, up from $0.28 in 2001, resulted in a payout ratio of 44%, slightly higher than our long-term goal.

BMO's credit rating, as measured by a composite of Moody's and Standard & Poor's (S&P) senior debt ratings, remained unchanged at AA–. On December 19, 2001, S&P removed BMO's ratings from "CreditWatch" and affirmed its ratings, but maintained its negative outlook. On July 18, 2002, Moody's affirmed BMO's credit rating but changed its outlook to negative from stable. This change in outlook is not expected to have a significant impact on liquidity and funding costs.

The **Tier 1 Capital Ratio** is our primary measure of capital adequacy. It is defined as Tier 1 capital divided by risk-weighted assets.

2001 Compared with 2000

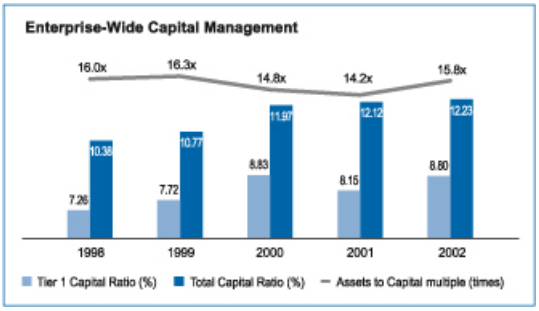
In 2001, our Tier 1 Capital Ratio decreased to 8.15% from 8.83% in 2000, due primarily to the completion of a $2 billion share repurchase program and modest risk-weighted asset growth.

Tier 1 Capital

($ millions)	2002	2001
Beginning of year	**11,066**	11,864
Net income	**1,417**	1,471
Dividends	**(668)**	(648)
Goodwill and excess intangible assets	**(749)**	(351)
Issuance of common shares	**84**	556
Repurchase of common shares	**—**	(2,031)
Other issues and redemptions	**460**	169
Translation and other	**(81)**	36
End of year	**11,529**	11,066

Risk-Weighted Assets

($ millions)	2002	2001
Beginning of year	**135,768**	134,360
Increases (decreases)		
Personal and Commercial Client Group	**5,504**	3,397
Private Client Group	**764**	(435)
Investment Banking Group	**(12,612)**	(6,771)
Corporate Support	**1,654**	5,217
End of year	**131,078**	135,768



REVIEW OF OPERATING GROUPS PERFORMANCE

This section includes an analysis of our operating groups financial results and descriptions of their businesses, and their objectives, accomplishments, challenges and outlooks. A separate analysis of Harris Bank is also provided. Its financial results are incorporated within each of the operating groups.

Personal and Commercial Client Group (pages 37 to 40)

Net income was $968 million in 2002, an increase of $174 million from 2001. Excluding non-recurring items that increased net income $9 million in 2001, net income rose $183 million or 23%.

Private Client Group (pages 41 to 43)

Net income was $96 million in 2002, a decline of $25 million from 2001. Excluding non-recurring expense that reduced net income $39 million in 2002, net income of $135 million rose 12%.

Investment Banking Group (pages 44 to 47)

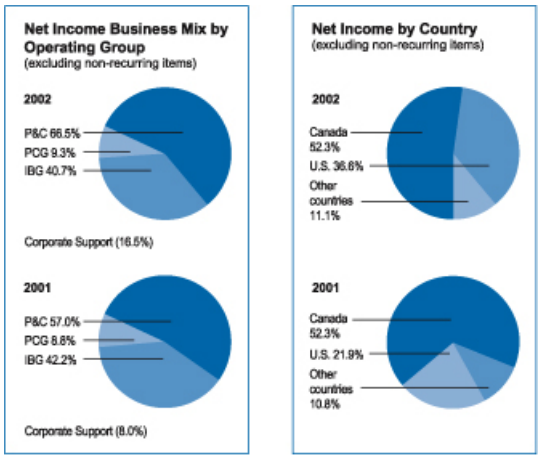
Net income was $592 million in 2002, an increase of $115 million from 2001. Excluding non-recurring items that reduced net income $105 million in 2001, net income increased $10 million.

Corporate Support, including Technology and Solutions (pages 47 to 49)

Net loss was $239 million in 2002, compared with net income of $79 million in 2001. Excluding non-recurring items that increased net income $189 million in 2001, net income declined $129 million.

Harris Bank (pages 49 to 50)

On a U.S. dollar/U.S. GAAP basis, Harris Bank net income was $278 million in 2002, an improvement of $77 million from 2001. Excluding gains on the sales of businesses and a fourth quarter increase in the loan loss provision in recognition of a more uncertain economy in 2001, net income increased $33 million.



Net Income Business Mix and Average Assets by Operating Group ($ millions, except as noted)

For the year ended October 31	Personal and Commercial Client Group			Private Client Group			Investment Banking Group		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
Net income									
Canada	**725**	639	773	**124**	106	166	**137**	139	291
United States	**188**	96	85	**(26)**	10	29	**353**	255	322
Other countries	**55**	59	55	**(2)**	5	—	**102**	83	71
Total	**968**	794	913	**96**	121	195	**592**	477	684
Business mix (%)	**68.3**	54.0	49.2	**6.8**	8.2	10.5	**41.8**	32.4	36.8
Excluding non-recurring items	**968**	785	822	**135**	121	195	**592**	582	684
Business mix (%)	**66.5**	57.0	49.2	**9.3**	8.8	11.7	**40.7**	42.2	40.9
Total revenue									

Canada	**3,675**	3,545	3,605	**1,171**	1,127	1,251	**919**	1,092	1,306
United States	**863**	689	631	**528**	367	309	**1,395**	1,510	1,196
Other countries	**70**	76	69	**(2)**	12	12	**220**	195	195
Total	**4,608**	4,310	4,305	**1,697**	1,506	1,572	**2,534**	2,797	2,697
Business mix (%)	**52.0**	48.6	49.7	**19.2**	17.0	18.1	**28.6**	31.6	31.1
Excluding non-recurring items	**4,608**	4,298	4,153	**1,697**	1,506	1,572	**2,534**	2,975	2,697
Business mix (%)	**52.0**	49.4	49.2	**19.2**	17.3	18.6	**28.6**	34.2	32.0
Average assets									
Canada	**86,826**	81,035	79,138	**1,797**	2,140	1,836	**72,057**	61,825	55,165
United States	**18,745**	14,874	12,541	**3,630**	3,149	2,373	**51,556**	62,847	62,368
Other countries	**235**	236	234	**82**	51	80	**17,147**	20,420	25,726
Total	**105,806**	96,145	91,913	**5,509**	5,340	4,289	**140,760**	145,092	143,259

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Corporate Support, including Technology and Solutions			**Total Consolidated**		
For the year ended October 31	**2002**	**2001**	**2000**	**2002**	**2001**	**2000**
Net income						
Canada	**(224)**	(78)	(86)	**762**	806	1,144
United States	**(21)**	(117)	58	**494**	244	494
Other countries	**6**	274	93	**161**	421	219
Total	**(239)**	79	65	**1,417**	1,471	1,857
Business mix (%)	**(16.9)**	5.4	3.5	**100.0**	100.0	100.0
Excluding non- recurring items	**(239)**	(110)	(29)	**1,456**	1,378	1,672
Business mix (%)	**(16.5)**	(8.0)	(1.8)	**100.0**	100.0	100.0
Total revenue						
Canada	**(166)**	(107)	(138)	**5,599**	5,657	6,024
United States	**172**	26	141	**2,958**	2,592	2,277
Other countries	**14**	331	87	**302**	614	363
Total	**20**	250	90	**8,859**	8,863	8,664
Business mix (%)	**0.2**	2.8	1.1	**100.0**	100.0	100.0
Excluding non- recurring items	**20**	(71)	16	**8,859**	8,708	8,438
Business mix (%)	**0.2**	(0.9)	0.2	**100.0**	100.0	100.0
Average assets						
Canada	**(5,294)**	(5,071)	(5,433)	**155,386**	139,929	130,706
United States	**1,040**	1,266	(30)	**74,971**	82,136	77,252
Other countries	**169**	476	946	**17,633**	21,183	26,986
Total	**(4,085)**	(3,329)	(4,517)	**247,990**	243,248	234,944

Basis of presentation of operating results — Expenses are matched against the revenues to which they relate. Indirect expenses, such as overhead expenses and any revenue that may be associated thereto, are allocated to the operating groups using appropriate allocation formulas applied on a consistent basis. For each currency, the net income effect of funds transferred from any group with a surplus to any group with a shortfall is at market rates for the currency and appropriate term. Segmentation of assets by geographic region is based upon the geographic location of the unit responsible for managing the related assets, liabilities, revenues and expenses. Provisions for credit losses allocated to the operating groups are based on expected losses over an economic cycle. Differences between expected loss provisions and required provisions under GAAP are allocated to the Corporate Support Group. Periodically, certain lines of business and units within them are transferred between operating groups to more closely align BMO's organizational structure and its strategic priorities. All comparative figures are restated to give effect to the transfers. During the year, the Cash Management Services business was transferred from Technology and Solutions to Investment Banking Group.

PERSONAL AND COMMERCIAL CLIENT GROUP

Group Description and Strategy

Personal and Commercial Client Group (P&C) is committed to providing more than eight million customers across Canada and the United States with a fully integrated approach to managing all aspects of their financial affairs. We offer a full range of products and services through our highly skilled financial service providers in more than 1,100 BMO Bank of Montreal and Harris Bank branches, as well as through direct banking channels such as bmo.com, harrisbank.com and a network of more than 2,200 automated banking machines (ABMs).

Our goal is to be the only financial services provider our customers ever need. We will earn this right by treating our customers as individuals and by providing personal attention and customized solutions consistently through all our channels.

2002 Group Objectives and Achievements

In Canada:

Increase our market share of full-service personal banking.

- Total personal banking market share rose 40 basis points (bps) to 13.69%. Total personal banking includes personal loans (excluding credit cards), residential mortgages (including third-party mortgages), retail operating deposits, mutual funds and term investments.

Increase our share of the full-service banking market for small business and commercial lending.

- Continued to rank second in small business loans of up to $5 million and increased our market share 61 bps over 12 months to 19.48%, based on the latest available data.
- In a low-demand market we were able to achieve significant growth in commercial lending.

Increase our customer loyalty scores in both the personal and small business banking segments.

- Personal banking loyalty scores, as measured independently by a third party, increased to 27.6%. We closed the shortfall relative to the competition by 340 bps to 370 bps.
- Small business banking loyalty scores improved to 29.0%, an increase of 100 bps. However, the average loyalty score of the competition increased by 170 bps to 33%.

Continue replacement of our sales and marketing technology platform.

- More than 85% of our branches have been converted to Pathway Connect, our new sales and service technology platform.

Achieve asset growth while maintaining existing high asset quality standards through continuing development of technology, state-of-the-art risk management techniques and strict internal discipline.

- Loans and acceptances increased $6 billion or 8%, after adding back the effects of securitizations.Our provisions were consistent with our expectations and we continued to refine and improve our processes and internal controls related to lending decisions.

In the United States:

Continue to target a US$1 billion annual increase in retail and small business loans for the next several years, and assess strategic merger and acquisition opportunities.

- Chicagoland Banking's retail and small business loans increased US$1.7 billion or 26%. The acquisition of Joliet accounted for US$500 million or seven percentage points of the increase.

In addition to the above achievements, we improved our group productivity ratio by 269 bps to 60.0%.

2003 Group Objectives

- Drive revenue growth by improving customer retention and loyalty, expanding existing customer relationships and acquiring new customers. These objectives will be supported by sustaining continued improvements in our distribution capabilities.
- Continue to drive improvements in productivity.
- Continue to improve our customer loyalty scores and close the shortfall relative to the competition, in both the personal and small business banking segments.
- Leverage our position in Commercial and Small Business Banking to continue to build momentum in balance sheet and market share growth.
- Extend the services offered through our online banking channel.
- Continue to target a US$1 billion increase in retail and small business loans in the United States.

- Grow market share in Chicagoland by expanding our distribution network through a combination of new branch openings and acquisitions.

Business Environment and Outlook

During the last quarter of 2001 and in 2002, the economic outlook brightened as the United States emerged from its short recession of 2001. Economic growth in 2002 was moderate in the United States and relatively strong in Canada because of stronger consumer demand and stronger production and employment growth. Both countries pursued stimulative monetary policies, and the United States pursued highly expansionary fiscal policies. Low interest rates produced significant spread compression in retail deposits, but fuelled record home sales and high consumer demand for mortgages.

Economic uncertainty and weak stock markets prompted safety-seeking investors to shift funds from mutual fund portfolios to interest-bearing deposit accounts, notwithstanding the low interest rates available.

Heading into 2003, GDP growth is expected to remain strong in Canada and to pick up in the United States. The sustained recovery should lead central banks in both countries to increase interest rates in 2003. In the Canadian retail segment, growth in consumer loans and deposits is expected to be a moderate 5%. Demand for retail mortgages is expected to remain relatively strong with growth approximating 6%. Business investment is expected to improve in 2003, producing modest commercial loan growth in the range of 2% to 3%.

Financial Results

Personal and Commercial Client Group net income rose 22% to $968 million. Branch sales generated non-recurring revenue of $12 million ($9 million after tax) in 2001. The commentary that follows excludes those non-recurring items.

Revenue increased $310 million or 7%, driven by significant volume growth in both Canadian and U.S. operations. Strong volume growth in Canada continued the trend from the latter half of 2001, as the expanded front-line sales staff was assimilated over that period. Volume growth was also spurred by the low interest rate environment and high demand for residential mortgages and personal loans. Personal deposits also rose, driven by depositors' ready acceptance of our premium rate savings product, as well as economic uncertainty and weak equity markets. The favourable effects of the volume growth were partially offset by lower net interest margins, which reflected continuation of the trend from the summer of 2001 of spread compression in the low interest rate environment, and the effect of the highly competitive lending conditions. In the United States, revenue rose 26%, driven by strong loan and deposit growth and by the acquisition of Joliet at the end of the third quarter of 2001. Average net interest margins in the United States were virtually unchanged. Chicagoland Banking represented slightly less than 20% of Personal and Commercial Client Group's operations in 2002.

Non-interest expenses rose $70 million or 3%. In Canada, they were virtually unchanged due to particularly successful expense management. Expenses rose in the United States due to system conversion and integration costs for Joliet, robust business volume growth, expansion initiatives and currency translation. The group's expense-to-revenue ratio improved by 269 basis points, as both Canada and the United States enjoyed productivity gains.

A more favourable tax rate and the discontinuance of goodwill amortization also contributed to higher earnings.

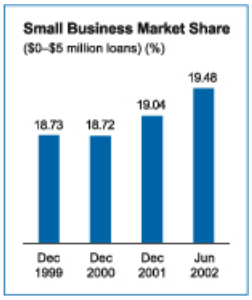
2001 Compared with 2000

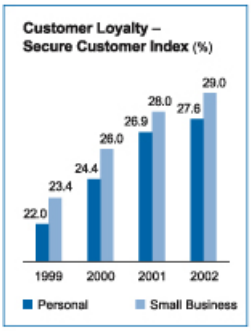
Net income decreased $119 million to $794 million in 2001. Excluding non-recurring after-tax gains on sales of branches in 2001 and gains on the sales of Partners First and branches in fiscal 2000, net income decreased $37 million to $785 million. Excluding non-recurring items, revenue increased $145 million or 4%, driven by volume growth and higher gains on securitizations, partially offset by lower gains on sales of securities. Volumes improved in the second half of the year as the expanded sales force was assimilated, but the favourable impact was offset by spread compression in the declining interest rate environment. Expenses were $196 million higher due to strategic initiative spending and investment in front-line staffing.

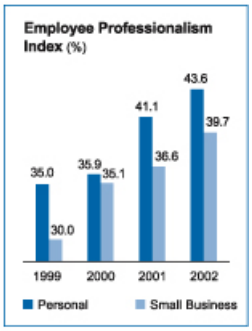
Personal and Commercial Client Group ($ millions, except as noted)

Reported (As at or for the year ended October 31)	2002	2001	2000
Net interest income (teb)	**3,309**	3,054	2,928
Non-interest revenue	**1,299**	1,256	1,377
Total revenues (teb)	**4,608**	4,310	4,305
Provision for credit losses	**281**	267	235
Non-interest expense	**2,763**	2,693	2,497
Income before provision for income taxes, non-controlling interest in subsidiaries and goodwill amortization	**1,564**	1,350	1,573
Income taxes (teb)	**594**	533	643
Non-controlling interest	**2**	—	(1)
Amortization of goodwill, net of applicable income taxes	**—**	23	18
Net income	**968**	794	913
Net economic profit	**566**	476	582
Cash return on equity (%)	**25.5**	25.8	30.8
Average net interest margin (%)	**3.13**	3.18	3.19
Non-interest expense-to-revenue ratio (%)	**60.0**	62.5	58.0
Average common equity	**3,785**	3,100	2,929
Average assets	**105,806**	96,145	91,913
Total risk-weighted assets	**67,322**	61,818	58,421
Average current loans	**95,906**	87,407	84,053
Average deposits	**54,160**	45,521	42,451
Assets under administration	**14,452**	15,504	13,423
Assets under management	**371**	486	–
Full-time equivalent staff	**18,043**	17,446	18,057
Excluding non-recurring items			
Total revenues (teb)	**4,608**	4,298	4,153
Net income	**968**	785	822
Cash return on equity (%)	**25.5**	25.5	27.7
Non-interest expense-to-revenue ratio (%)	**60.0**	62.7	60.1









Note: Graphs reflect Canada only.

Business Segments

Personal and Commercial Distribution – Canada

Description and Strategy

Personal and Commercial Distribution comprises the more than 17,000 sales, service and support personnel who address customers' needs through branches, instore branches and ABMs, and through telephone, online and business-to-business channels. Our strategy is to sustain continued improvements in our distribution capabilities. This will facilitate our goal of being the only financial services provider our customers will ever need, by offering them an integrated multi-channel approach to managing all aspects of their financial affairs.

Overview of Performance

We installed Pathway Connect, our completely new sales and service technology platform, in 835 branches across Canada in 2002, with installation at the remaining branches and call centres to be completed early in 2003. This platform increases efficiency and effectiveness by allowing staff to address customer needs through simplified, paperless processes and fast access to relevant customer information. To complement this new platform, we have developed customer knowledge and decision support software that enables us to focus our marketing efforts and to offer clients relevant solutions at the right time, consistently across all channels.

We have substantially completed the streamlining of our sales management processes and refined accountabilities in the branch network. Working in partnership with Private Client Group, we have increased the number of Investment Fund Specialists and Resident Investment Advisors to more than 800.

2003 Focus

We will continue to focus on the basics of improving our people, processes and technology.

- Continue to align our sales and service resources with our customers' needs, values and potential by addressing sales and service roles, accountabilities, behaviours, performance measurement, rewards and recognition.
- Continue to improve our customer loyalty scores and close the shortfall relative to the competition, in both the personal and small business banking segments.
- Partner with Private Client Group to continue to increase referrals and increase our share of our customers' business.
- Fully implement and utilize the capabilities of our customer knowledge and decision support software, beginning with the small business and direct banking businesses.
- Continue to automate and refine processes to improve our customers' sales experience.
- Extend the services offered through our online banking channel.

Personal Banking

Description and Strategy

Personal Banking addresses the everyday banking, borrowing, savings and insurance needs of retail customers in Canada. Our success will be achieved by supporting an effective sales force with cross-channel integration and superior marketing and sales capabilities.

Overview of Performance

We increased our share of our customers' business for personal banking products through significant growth in our Premium Rate Savings account and mortgage balances. However, in 2002 the benefits of this growth to revenue were largely offset by continued pressure on spreads. We were more focused in our marketing efforts through initiatives such as *Help Provided*, and we expanded our product offerings with the development and launch of term life and universal life insurance products.

2003 Focus

- Continue to build momentum in our balance sheet growth.
- Improve customer loyalty scores and close the shortfall relative to the competition.
- Continue to shift our sales and marketing focus from a product-centred to a customer-centred approach.
- Continue to improve the efficiency of our processes.

Cardholder Services

Description and Strategy

Cardholder Services provides Canadian retail consumers and affiliate partners with MasterCard [®4] products and services. We also provide

MasterCard commercial products to commercial and small business clients in Canada and Chicagoland, and e-business solutions to corporate clients across North America.

Overview of Performance

We recently introduced Mosaik® MasterCard. This new card allows retail customers to select the rewards, special features and rate options that suit their specific needs and provides them the flexibility to amend any aspect of their credit card as their requirements change. Within retail, our net sales continued to grow at market rates, while credit card loans grew at a more modest pace. The corporate business grew a robust 50% over the prior year.

2003 Focus

- Retail Card – Through our Mosaik MasterCard, continue to differentiate ourselves as a leading credit card issuer and enhance our profitability.
- Corporate Card – Continue to enhance e-business and commercial products through customized solutions.

Small Business Banking

Description and Strategy

Small Business Banking provides a full range of banking services to more than 440,000 customers who can access products and services, including cash management and loans and deposits, through various channels. Small Business Banking's goal is to become Canada's number one bank for small business with leading market share growth and customer loyalty.

Overview of Performance

We continued to rank second in small business lending and increased our market share by 61 bps over 12 months to 19.5%. Through independent third party research, we found customers' assessment of our employee professionalism increased over the prior year, which widened our lead over the average score for our competition. These results reflect our ability to utilize our new customer knowledge analytical environment, which assists us in developing proactive customer solutions and enables us to reach more customers, more often, with the right solution.

2003 Focus

- Continue to build BMO Bank of Montreal's reputation as the bank for small business.
- Continue our focus on customer retention, improve our customer loyalty scores and close the shortfall relative to the competition.
- Improve the alignment of our branch and direct banking sales and service resources to better meet the needs of our customers.

Commercial Banking

Description and Strategy

Commercial Banking provides mid-market clients with a suite of advisory services and products that includes senior debt, asset-based lending, mezzanine and private equity financing, cash management, treasury, mergers and acquisitions, and cross-border financing. Our highly experienced professional bankers provide clients with the advice and solutions they need to be successful in their business.

Overview of Performance

During 2002, the implementation of strategies to accelerate growth helped solidify our competitive advantage. We also launched our mergers and acquisitions advisory services, expanded our subordinated-debt offering, and added staff to better support our corporate finance relationship group and our cash management specialist sales force.

2003 Focus

- Expand the sales force in selected business segments in which growth opportunities have been identified.
- Pursue incremental growth through selective acquisitions of small commercial portfolios.

Chicagoland Banking

Description and Strategy

Chicagoland Banking serves individuals, small businesses and lower middle-market commercial clients through a retail bank network of 145 branches. Our goal is to be the best and the biggest retail and small business bank in Chicagoland. We have a strong branch distribution network, a well-developed business model and an integrated multi-channel platform providing operating leverage for our U.S. retail growth strategy.

Overview of Performance

Our key financial performance measures continue to improve. By expanding our distribution, providing high-quality service, expanding our sales force and increasing its effectiveness, we have achieved strong organic loan, deposit and earnings growth and enhanced our customer experience. We now serve one house-hold in five in Chicagoland and more than a million customers.

2003 Focus

- Grow our market share by expanding our distribution network through a combination of new branch openings and acquisitions.
- Continue to target a US$1 billion increase in retail and small business loans.
- Increase marketing to improve frequency and reach of brand and product promotional campaigns.
- Migrate to a single deposit platform to simplify customer transaction processing.
- Enhance and fill in our product and service capabilities to ensure a fully competitive lineup.

PRIVATE CLIENT GROUP

Group Description and Strategy

Private Client Group (PCG) brings together all of BMO Financial Group's wealth management businesses. We offer clients a broad range of wealth management products and services, including retail investment products, direct and full-service investing, private banking and institutional asset management. Operating as BMO Private Client Group in Canada and The Harris in the United States, we provide North American investors with the tools they need to accumulate, protect and grow their financial assets. We serve four key North American market segments: the mainstream, affluent, high net worth and institutional market segments. These segments are served through BMO Bank of Montreal, BMO Nesbitt Burns, BMO InvestorLine and BMO Harris Private Banking in Canada, and through Harris Private Bank, Harris*direct* and Harris Bank in the United States. Our goal is to build a fully integrated North American wealth management business by delivering an integrated and flexible choice of advice-driven or guided offerings. The group has total assets under management and administration, including term deposits, of $270 billion.

2002 Group Objectives and Achievements

Expand the distribution network on both sides of the border by continuing to expand our total number of investment sales professionals.

- Managed the pace of growth given current challenging market conditions.
- Added more than 70 representatives to expand the North American investment sales professional team to more than 2,310 representatives.
- Opened 11 new U.S. distribution points.

Leverage relationships with BMO's North American client base by placing more trained investment professionals in bank branches.

- Added 115 representatives, increasing our BMO Bank of Montreal branch presence by 17% to more than 815.
- Developed a team-based sales model in the United States that focuses on cross-selling.
- Strengthened our partnership with P&C by aligning the organization of our retail bank sales forces and introducing joint marketing initiatives.

Continue to expand U.S. wealth management businesses through both acquisitions and organic growth by leveraging Harris' long-standing reputation in major U.S. markets while expanding into selective new markets across the country.

- Completed the acquisition of CSFB *direct* and acquired the online accounts of Morgan Stanley Individual Investor Group. We also successfully integrated operations with Harris InvestorLine to create Harris*direct*. These acquisitions added $29 billion of assets under administration, increasing our U.S. assets under administration and management to more than 50% of the group total.
- Acquired Northwestern Trust and Investors Advisory Company on April 1, 2002, which expanded our service offerings in the Pacific Northwest and added $4 billion of assets under administration.
- Announced the acquisition in September 2002 of selected assets of myCFO, a California-based investment advisory team servicing high net worth clients, which will expand the distribution network and investment capabilities of Harris Private Bank and adds a further $6 billion of assets under administration. The $47 million acquisition closed on November 1, 2002, subsequent to our year-end.

Increase the breadth and depth of our product and service offering.

- Award-winning and recognized leadership in many of our businesses:
  - BMO InvestorLine was ranked best direct investing firm in Canada by both GomezCanada and *The Globe and Mail*.
  - Harris*direct*'s online site was ranked "Best of the Web" by Forbes.com, and Harris *direct* was ranked second-best online broker by *Barron's*®5.
  - Harris Insight Fund family placed eighth out of 87 fund families ranked by *Barron's*. This annual evaluation of high-quality fund families looks at the performance of each firm's entire product line.

2003 Group Objectives

- Enhance our offering to retail and affluent clients through sales force growth and development, technology enhancement and integrated product and marketing initiatives.
- Further leverage relationships within our group and with BMO partners by providing an integrated sales approach and product offering to clients.

- Expand U.S. wealth management businesses through both selective acquisitions and organic growth while building on The Harris' strong reputation as we expand into targeted new markets.
- Continue to refine our businesses to enhance productivity and align our business units to ensure consistently successful results regardless of the business environment.
- Capitalize on our acquisitions to create synergies with existing businesses in order to accelerate our future growth.

Business Environment and Outlook

Private Client Group operated in a very challenging environment in 2002. Our business was adversely affected by low client trading volumes, weak equity markets and low interest rates. Management took this opportunity to re-assess the cost structure of our business while continuing to invest in key initiatives that support our long-term strategy. We expect that the difficult business climate will continue into fiscal 2003 and, in response, we will continue to balance cost management with strategic investment.

Long-term demographic trends are attractive, indicating continued strong demand for wealth management services well into the future. Affluent investors are increasingly seeking advice from trusted financial service providers like PCG, who can best meet their asset protection and growth needs. We are well positioned to capitalize on these trends through a service offering that more than meets affluent investors' needs. Revenue will be enhanced in 2003 and beyond by the acquisitions of the past year, and we will continue to explore selective wealth management acquisition opportunities that meet our strategic and financial objectives.

Financial Results

Net income declined $25 million to $96 million, but increased $14 million excluding non-recurring items. As indicated on the previous page, Private Client Group completed three acquisitions in fiscal 2002 as we expanded our U.S. wealth management operations into selective new markets. This expansion followed the 2001 acquisition of Guardian Group of Funds, which added to our product lines and provided expanded access to mutual fund distribution in Canada. Note 10 on page 78 of the financial statements provides acquisition details. Comparisons of revenue, expense and net income for fiscal 2002 relative to 2001 are significantly affected by the inclusion of the operating results of these businesses. In addition, results for 2002 include $62 million ($39 million after tax) of acquisition-related costs that are categorized as non-recurring for reporting purposes. These costs substantially relate to re-branding, vacating leased premises, contract termination expenses and other costs of integrating operations. To facilitate comparisons, the remainder of this section analyzes results excluding these costs. On this basis, as indicated above, Private Client Group net income increased $14 million or 12% to $135 million. After further adjusting results of 2002 to remove the additive effect of businesses acquired in 2001 and 2002, net income on a comparable basis rose $21 million.

Improved earnings were attributable to increased revenues from our expanded sales force and acquired businesses, focused cost management balanced against continued investment in strategic initiatives, and the discontinuance of goodwill amortization due to a change in generally accepted accounting principles.

Revenues increased $191 million or 13%, driven by acquired businesses and the benefits of strategic initiatives. Excluding acquisitions, revenues on a comparable basis were down $8 million from 2001. This reduction was modest and was achieved despite weaker equity markets and lower client trading volumes that primarily affected our full-service and direct investing businesses. Our success in sustaining revenues was attributable to our expanded sales force, more effective cross-business referrals, award-winning investment tools and our strengthened fee-based business.

Non-interest expenses increased $197 million or 15% due to acquisitions. Excluding acquired businesses, non-interest expenses on a comparable basis were reduced $10 million from 2001 due to the success of cost management initiatives. The reduction is reflective of the group's efforts to refine its businesses to achieve profitability in all market conditions.

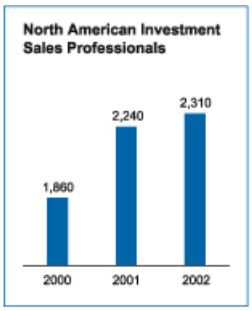
2001 Compared with 2000

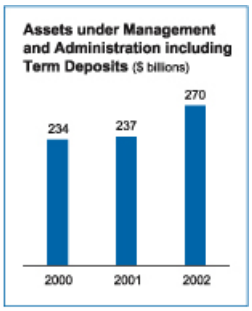
Net income of $121 million in 2001 declined $74 million or 38% due to weaker market conditions in both Canada and the United States that resulted in lower trading volumes and related equity valuations. These conditions most affected our full-service and direct investing businesses as revenues declined $66 million or 4%, despite increased revenues from acquired businesses. Expenses rose $63 million or 5%, driven by incremental expenses from acquired businesses and increased investment spending, partially offset by lower performance-based compensation. The acquisition of Guardian Group of Funds in the third quarter of 2001 added $2 billion of assets under management in Canada.

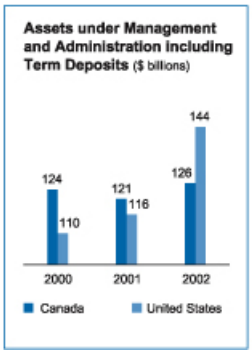
Private Client Group ($ millions, except as noted)

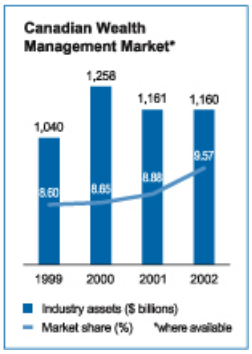
Reported (As at or for the year ended October 31)	2002	2001	2000
Net interest income (teb)	**565**	540	513
Non-interest revenue	**1,132**	966	1,059
Total revenues (teb)	**1,697**	1,506	1,572
Provision for credit losses	**1**	2	1
Non-interest expense	**1,534**	1,275	1,212
Income before provision for income taxes, non-controlling interest in subsidiaries and goodwill amortization	**162**	229	359
Income taxes (teb)	**66**	98	156
Amortization of goodwill, net of applicable income taxes	**—**	10	8
Net income	**96**	121	195
Net economic profit	**(7)**	59	142
Cash return on equity (%)	**10.0**	17.7	35.8
Average net interest margin (%)	**10.26**	10.12	11.95
Non-interest expense-to-revenue ratio (%)	**90.4**	84.7	77.1
Average common equity	**1,322**	821	572
Average assets	**5,509**	5,340	4,289
Total risk-weighted assets	**5,184**	4,420	4,855
Average current loans	**3,060**	3,477	2,938
Average deposits	**39,720**	39,869	38,331
Assets under administration	**160,210**	130,548	130,937
Assets under management	**74,981**	72,980	69,353
Full-time equivalent staff	**5,420**	5,127	4,735
Excluding non-recurring items			
Net income	**135**	121	195
Non-interest expense	**1,472**	1,275	1,212

Cash return on equity (%)	**12.9**	17.7	35.8
Non-interest expense-to-revenue ratio (%)	**86.7**	84.7	77.1









Lines of Business

Investment Products

Description and Strategy

Retail Investment Products include BMO's family of mutual funds (Harris Insight Funds and BMO Mutual Funds), Guardian Group of Funds and term investment products. We assist retail and commercial clients with investment and retirement planning by providing them with top-performing investment products and packaged investment solutions through multiple distribution channels. Institutional Asset Management provides traditional money management services for external and internal clients, including our affiliated mutual funds in Canada and the United States.

Overview of Line Performance

Assets under management and term investments increased in 2002, leading to an increased market share of Canadian retail investments. The above-average performance of our mutual fund families and additions to our sales team supported this growth.

2003 Focus

- Expand our investment business with the organization's Canadian and U.S. clients by leveraging the strengths of our internal partners.
- Provide superior investment performance and client service to promote growth.
- Continue to build and enhance the capabilities of the sales force, as advisory capabilities become increasingly important to investors.

Full-Service Investing

Description and Strategy

Full-Service Investing is comprised of BMO Nesbitt Burns in Canada and Harris AdvantEdge Investing in the United States. Our strategy is to build and manage our clients' wealth by providing customized wealth management solutions.

Overview of Line Performance

Full-Service Investing increased its Canadian market share despite challenging equity markets and low client trading volumes. In early 2002, we took advantage of the consolidation of the Canadian industry to recruit additional high-quality financial professionals. We also focused our cost management efforts and strengthened our fee-based business.

2003 Focus

- Increase our share of assets through financial planning, insurance, managed asset and fee-based programs, and online services.
- Increase sales force productivity through improved training, professional development and performance management.
- Enhance cross-marketing and cross-selling activities across BMO Financial Group.

Global Direct Investing

Description and Strategy

Direct Investing, which includes BMO InvestorLine and Harris *direct*, provides a guided investment experience for the informed, long-term investor. We work with our partners in BMO Financial Group to enhance the overall client relationship.

Overview of Line Performance

Harris InvestorLine, combined with the newly acquired CSFB *direct* and the online client accounts of Morgan Stanley Individual Investor Group formed Harris*direct*, now the sixth-largest direct investing firm in North America based on assets under administration.

2003 Focus

- Continue to control costs while building an exceptional investment experience for guided and self-directed investors. This will be achieved primarily by providing investment and planning tools that enhance our clients' ability to manage their investments.
- Leverage relationships across BMO Financial Group to enhance cross-marketing opportunities.

Global Private Banking

Description and Strategy

Global Private Banking offers integrated banking, trust and investment management services to high and ultra-high net worth clients in Canada and the United States. We leverage a client-driven model to deliver a complete range of financial products through an advisory approach.

Overview of Line Performance

Despite challenging capital markets, Global Private Banking had a record year. We achieved this by maintaining existing client relationships and capitalizing on productivity enhancements.

2003 Focus

- Integrate the acquired assets and the team of professional wealth advisors of myCFO, which complement Harris Private Bank's offerings to ultra-high net worth clients.
- Continue to focus on revenue enhancement opportunities, client retention and improved efficiency.
- Make investments in the business while managing operational costs.
- Deepen existing relationships with affluent households and provide clients with integrated wealth management services.

INVESTMENT BANKING GROUP

Group Description and Strategy

Investment Banking Group (IBG) combines all of the businesses serving corporate, institutional and government clients across a broad range of industry sectors in Canada, with a North America-wide focus on the media and communications and the energy sectors. In the U.S. Midwest, the group serves mid-market clients under the Harris Nesbitt brand, and we specialize in the food and agribusiness sectors across the United States. IBG also serves institutional and government clients in the United Kingdom, Europe and Asia.

We offer clients complete financial solutions across the entire balance sheet, including treasury services, foreign exchange, trade finance, cash management, corporate lending, securitization, and public and private debt and equity underwriting. The group also offers leading financial advisory services in mergers and acquisitions and restructurings, while providing our investing clients with industry-leading research, sales and trading services.

Our growth strategy is to build an integrated full-service, mid-market North American investment bank, capitalizing on industry specialties and distinctive capabilities.

2002 Group Objectives and Achievements

Maintain Canadian leadership in the high-return fee businesses of equity, debt, securitization, and mergers and acquisitions.

- Participated in 312 Canadian corporate debt and equity transactions, raising $50 billion.
- Advised on more Canadian mergers and acquisitions than any other investment bank, a total value of $14.2 billion.
- Ranked Top Overall Research Team in the Brendan Wood International Survey of institutional investors for the 22nd consecutive year. We also ranked first, in the same survey, for Overall Quality of Sales Service and Overall Quality of Trader Service.
- Ranked first in market share of Canadian equity block trading for the eighth straight year.
- Canadian Securitization unit ranked first in market share for asset-backed commercial paper conduit outstandings and term market issuance. It also ranked first in mortgage-backed and asset-backed securities trading for the seventh consecutive year.

Grow existing Harris Nesbitt franchise into a leading investment banking franchise in the U.S. Midwest mid-market.

- Established a nationally recognized food sector specialization in both corporate and investment banking.
- Aligned strong cash management capabilities well suited to mid-market clients.
- Continued to leverage existing brand with full product offering.

Continue to expand coverage of the media and communications and the energy sectors.

- Effectively integrated investment/corporate/merchant banking to offer total balance sheet solutions for growth capital in media and communications.
- Energy group continued to provide an integrated offering with North American scope.

Leverage our merchant banking capabilities and expand our private equity investments.

- Hired five new professionals.
- Completed initial work to launch BMO Equity Partners Fund II.

Continue to develop the Credit Investment Management (CIM) business by increasing assets under management to US$15 billion, with a focus on high-grade asset structures.

- Assets under management increased US$3 billion to US$13 billion, somewhat below our objective because of the challenging credit environment.

2003 Group Objectives

- Maintain Canadian leadership in the high-return fee businesses of equity, debt, securitization, and mergers and acquisitions.
- Continue to build on the success of the Harris Nesbitt mid-market franchise.
- Selectively expand into new products and trading strategies that relate to our areas of existing expertise.
- Build further on our strengths in targeted high-growth sectors and markets.
- Maintain a disciplined approach to cost and capital management.

Business Environment and Outlook

Investment Banking Group operates in a rapidly consolidating and competitive financial services industry. Opportunities are less restrained by national borders, and success depends on the ability to provide transnational and integrated financial solutions. Difficult economic and credit conditions, partly attributable to concerns about corporate misconduct, created an extremely challenging business environment in 2002. Despite these challenges, our group executed well across its core business activities.

We remain cautious about the near-term environment as the current weakness in financial markets, depressed origination markets and a tentative credit environment are expected to persist into 2003. Notwithstanding these challenges, the group remains well positioned for growth in North America and stands to benefit from any improvements in the market environment. The group expects Canadian economic growth of 3 3/4% in 2003, up from 3 1/4% in 2002.

Financial Results

Investment Banking Group net income rose $115 million or 24%. Excluding a write-down of $178 million ($105 million after tax) in the group's equity investment in its own CBOs in 2001, which was categorized as a non-recurring item for reporting purposes, net income for fiscal 2002 improved by $10 million to $592 million. There were no non-recurring items in 2002. Difficult capital markets and credit conditions created a much more challenging environment in 2002. The improvement in this year's net income was reflective of a significantly lower provision for credit losses, which was primarily due to a change in BMO's loan loss allocation methodology, as discussed below.

Revenue declined $263 million to $2,534 million. Excluding non-recurring items, revenue declined $441 million or 15%. Weak North American economic and credit environments contributed to a general downturn in investment banking fees and downward pressure on corporate lending volumes. Trading-related revenue declined $204 million to $383 million, having been particularly robust in 2001. Net investment securities losses totalled $142 million in 2002, including final CBO write-downs of $103 million, compared with net losses of $195 million in 2001. Notwithstanding the challenging business and market environments, revenue benefited from strong restructuring activity and income trust origination in Investment and Corporate Banking, from increased spreads in our interest-rate-sensitive businesses in Capital Markets and from strong fee-based revenue growth in Securitization and Credit Investment Management.

Provisions for credit losses declined $318 million to $227 million in 2002. In 2002, the provision for credit losses was based on expected losses over an economic cycle. Corporate Support is charged for differences between expected loss provisions charged to the client groups and provisions required under GAAP. As explained more fully on page 48, in 2001 there were some differences in how loan loss provisions were charged to client groups and to Corporate Support. Accordingly, the provision for credit losses should be considered in conjunction with provisions charged to Corporate Support for comparative purposes.

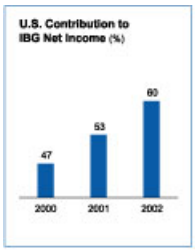
Non-interest expenses were reduced $91 million or 6%, largely due to a reduction in performance-based compensation and a disciplined approach to cost management. These improvements were partly offset by severance costs in 2002.

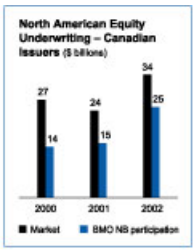
2001 Compared with 2000

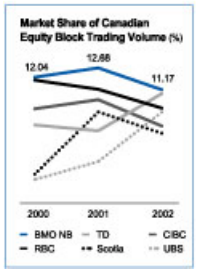
Net income in 2001 was $477 million, a decrease of $207 million. Excluding the write-down of equity investments in our own CBOs, net income was $582 million, or $102 million below 2000. Revenue increased 4% but excluding non-recurring items, revenue rose $278 million or 10%, driven by significantly improved results in Capital Markets, which benefited from interest rate reductions and improved client-driven trading activity. Strong dividend income, securitization fees and increased loan spreads also contributed to the increase. Merger and acquisition activities, new issue activities and equity market volumes all declined in the weaker business environment. The provision for credit losses increased $389 million due to the effect of deteriorating economic conditions in North America on our U.S. mid-market corporate and Canadian portfolios. Expenses increased $96 million or 7% due to higher performance-based compensation and increased employee costs.

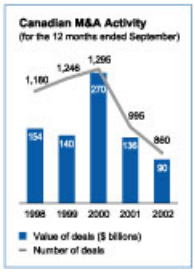
Investment Banking Group ($ millions, except as noted)

Reported (As at or for the year ended October 31)	**2002**	**2001**	**2000**
Net interest income (teb)	**1,466**	1,497	1,320
Non-interest revenue	**1,068**	1,300	1,377
Total revenues (teb)	**2,534**	2,797	2,697
Provision for credit losses	**227**	545	156
Non-interest expense	**1,421**	1,512	1,416
Income before provision for income taxes, non-controlling interest in subsidiaries and goodwill amortization	**886**	740	1,125
Income taxes (teb)	**294**	256	434
Amortization of goodwill, net of applicable income taxes	**–**	7	7
Net income	**592**	477	684
Net economic profit	**(3)**	(50)	160
Cash return on equity (%)	**10.4**	9.4	14.8
Average net interest margin (%)	**1.04**	1.03	0.92
Non-interest expense-to-revenue ratio (%)	**56.1**	54.1	52.5
Average common equity	**5,112**	4,509	4,216
Average assets	**140,760**	145,092	143,259
Total risk-weighted assets	**55,933**	68,545	75,316
Average current loans	**49,810**	58,318	60,052
Average deposits	**58,798**	64,950	73,810
Assets under administration	**71,833**	84,317	75,644
Assets under management	**20,283**	16,485	11,404
Full-time equivalent staff	**2,140**	2,158	2,136
Excluding non-recurring items			
Total revenues (teb)	**2,534**	2,975	2,697
Net income	**592**	582	684
Cash return on equity (%)	**10.4**	11.7	14.8
Non-interest expense-to-revenue ratio (%)	**56.1**	50.8	52.5


U.S. Contribution to IBG Net Income (%)
47
53
60
2000
2001
2002


North American Equity Underwriting – Canadian Issuers ($ billions)
27
14
24
15
34
25
2000
2001
2002
Market
BMO NB participation


Market Share of Canadian Equity Block Trading Volume (%)
12.04
12.66
11.17
2000
2001
2002
BMO NB
TD
CIBC
RBC
Scotia
UBS


Canadian M&A Activity
(for the 12 months ended September)
1,180
1,246
1,296
270
995
880
154
140
136
90
1998
1999
2000
2001
2002
Value of deals ($ billions)
Number of deals

Lines of Business

Investment and Corporate Banking

Description and Strategy

Investment and Corporate Banking (I&CB) provides a full suite of financial services to clients throughout North America and Europe. Services include advising on mergers and acquisitions, restructurings and recapitalizations, as well as providing valuation and fairness opinions. I&CB also provides capital raising services through debt and equity underwriting and a full range of lending products, balance sheet management solutions and cash management services. Our strategy is to reinforce our leadership position in Canada while growing in the U.S. Midwest mid-market through Harris Nesbitt and expanding our coverage of the media and communications and the energy sectors in North America.

Overview of Line Performance

A weak economic and credit environment contributed to a general downturn in investment banking fees and downward pressure on lending volumes. Strong restructuring activity and income trust origination were among the bright spots in an otherwise soft new issues market in 2002.

2003 Focus

- Enhance and expand our Canadian franchise while growing a more fully integrated investment and corporate bank in key industry sectors and markets in the United States.
- Deepen relationships with targeted clients by providing them with superior client service and integrated financial solutions.
- Further diversify our U.S. business mix by increasing fee-based revenues.

Capital Markets

Description and Strategy

The Capital Markets line of business provides integrated debt, currency, interest rate and commodity solutions to targeted wholesale, commercial and retail clients. The unit also provides efficient funding and liquidity management to BMO and its clients.

Overview of Line Performance

Capital Markets used its business diversity effectively to generate strong net income despite difficult market conditions. Overall, reduced client activity was offset by increased spreads in our interest-rate sensitive businesses. In 2002, we significantly enhanced the U.S. debt origination and credit derivatives franchises.

2003 Focus

- Deepen and expand client penetration while broadening the product offering in growth areas such as interest rate, commodity and credit derivatives.
- Continue to implement integrated client coverage initiatives with the Equity Division.
- Continue investing in technology and process improvements.

Equity Division

Description and Strategy

The Equity Division offers a comprehensive suite of Canadian equity products globally. These products are complemented by high-quality sales, trading and research capabilities, and an intense client focus. We continue to maintain and enhance our leadership position in Canada, while selectively growing in the United States.

Overview of Line Performance

In an extraordinarily difficult market environment, the Equity Division produced solid performance. The Brendan Wood International Survey of institutional investors ranked BMO Nesbitt Burns Top Overall Research Team for the 22nd consecutive year. The same survey also ranked the firm first in Sales and Trader services. We also maintained top market share of block trading dollar value on the Toronto Stock Exchange, with 12.86%.

2003 Focus

- Expand our U.S. proprietary derivatives trading and our research coverage of U.S. stocks.
- Continue to implement integrated client coverage initiatives with the Capital Markets unit.

Securitization and Credit Investment Management

Description and Strategy

The Securitization and Credit Investment Management (CIM) line of business offers both issuers and investors products and services that use credit as a tool for asset management and funding alternatives. Our strategy is to utilize existing capabilities to create a highly profitable, market-leading structured credit business.

Overview of Line Performance

Results were affected by write-downs of equity investments in CBOs. Otherwise, performance was solid, led by a 27% increase in fee revenue.

Securitization maintained its dominant market position in Canada, reflecting consistent performance and innovation, with specialized capabilities and a profitable niche focus in the United States. In the United Kingdom, CIM's portfolio management skills continued to provide a competitive advantage as we increased our investor base and assets under management to US$10 billion and delivered consistent performance. CIM North America continues to deliver top-quartile returns to our investors on assets of US$3 billion. Both groups experienced slower than expected asset growth due to difficult credit market conditions.

2003 Focus

Securitization

- Maintain leadership position in Canada and remain a recognized niche player in the United States by focusing on innovative structuring solutions in new and existing market segments.
- Continue to increase fee-based revenue.

CIM

- Grow assets under management by US$3.6 billion with a focus on high-grade asset structures and fiduciary high-yield assets.

International

Description and Strategy

The International line of business provides financial institutions and select multinational corporations with best-in-class client service and innovative financial and operational solutions. These services include trade finance, correspondent banking, financing and other bank services, which are enhanced through the use of technology. We continue to pursue a strategy of prudently supporting our North American clients in the key international markets where they do business.

Overview of Line Performance

The year 2002 proved a challenging one as slowing and uncertain economic conditions reduced export and import transactions, resulting in lower trade finance volumes and fees and moderate results in the international banking sector. We have made solid progress on our strategy to provide fully integrated solutions to clients. This has resulted in enhanced service for our clients and improved fees across Investment Banking Group.

2003 Focus

- Maintain our leadership in trade finance and grow our business in those markets where we have distinctive product and risk assessment capabilities.
- Continue to promote our unique Canadian and U.S. correspondent banking capabilities internationally.

Merchant Banking

Description and Strategy

The Merchant Banking line of business operates through BMO Equity Partners and BMO Halyard Partners. It sources, structures and finances private equity investments, primarily in North America. Our strategy is to capitalize on proprietary information flows to build and manage a portfolio of private equity investments in mid-market companies that produce superior returns over time.

Overview of Line Performance

Weakening economic conditions created a climate of uncertainty in financial markets and affected overall commitment levels and performance. Despite this, we strengthened our merchant banking business by continuing to successfully align our institutional priorities with the other IBG lines of business.

2003 Focus

- Continue to selectively pursue investments that will achieve superior returns, as demand for private equity investing increases.

Corporate Support

Group Description

Corporate Support includes the corporate units that provide expertise and governance support for BMO Financial Group in areas such as strategic planning, law, finance, internal audit, risk management, corporate communications, human resources and learning. It also includes revenues and expenses associated with certain securitization activities, the hedging of foreign source revenues, the debenture and former equity investments in Bancomer, and activities related to the management of certain balance sheet positions and BMO's overall asset/liability structure.

The operating results of Technology and Solutions (T&S) are included with Corporate Support for reporting purposes. Costs of T&S services are transferred to the client groups (P&C, PCG and IBG) and only relatively minor variance amounts are retained in T&S results. As such, results in this section are largely reflective of Corporate Support activities, not T&S activities.

Financial Results

Corporate Support, including T&S incurred a net loss of $239 million in 2002, a deterioration of $318 million from 2001. Results of a year ago included a $321 million gain on sale of the investment in Bancomer, a $100 million general provision for credit losses and an adjustment of future tax assets, which were classified as non-recurring items for reporting purposes. Excluding non-recurring items, net income declined $129 million from 2001. Results for 2002 reflect a significantly higher provision for credit losses. However, provisions charged to Corporate Support in 2002 are not comparable to provisions charged in 2001 because of differences in allocation methodology, as discussed below. Revenue growth of $91 million, excluding non-recurring items, benefited from recognition of revenue from BMO's corporate loan securitization and other corporate revenues. Expense growth of $121 million was reflective of higher pension and corporate costs, including Corporate Support's share of severance costs.

Provisions for credit losses totalled $311 million for the year. In 2001, excluding non-recurring items, provisions totalled $66 million. In 2002, the provision for credit losses charged to each of the client groups was based on its expected credit losses over an economic cycle. Corporate Support is charged for differences between the periodic provisions charged to the client groups and BMO's provision required under GAAP. In 2001, the provision for credit losses charged to IBG was based on this expected loss methodology for most operations, but included the required GAAP provisions for some operations, including Harris Bank. Accordingly, provisions charged to Corporate Support should be considered in conjunction with provisions charged to IBG for comparative purposes.

Corporate Support, including Technology and Solutions
($ millions, except as noted)

Reported (As at or for the year ended October 31)	**2002**	**2001**	**2000**
Net interest income (teb)	**(405)**	(450)	(423)
Non-interest revenue	**425**	700	513
Total revenues (teb)	**20**	250	90
Provision for credit losses	**311**	166	(34)
Non-interest expense	**312**	191	133
Income before provision for income taxes, non-controlling interest in subsidiaries and goodwill amortization	**(603)**	(107)	(9)
Income taxes (teb)	**(424)**	(244)	(110)
Non-controlling interest	**60**	42	20
Amortization of goodwill, net of applicable income taxes	**–**	16	16
Net income	**(239)**	79	65
Full-time equivalent staff	**8,309**	9,111	8,272
Excluding non-recurring items			
Total revenues (teb)	**20**	(71)	16
Provision for credit losses	**311**	66	8
Non-interest expense	**312**	191	176
Net income	**(239)**	(110)	(29)

2001 Compared with 2000

Net income for 2001 was $79 million, up $14 million from fiscal 2000. Excluding non-recurring items, the net loss was $110 million, which was $81 million higher than in fiscal 2000. The deterioration was attributable to a $54 million reduction in earnings recognized on BMO's investment in Bancomer because of a change to cost accounting, and to higher provisions for credit losses. Results in 2001 benefited from tax initiatives and the resolution of issues with taxation authorities.

Technology and Solutions

Group Description and Strategy

Technology and Solutions (T&S) (formerly known as Emfisys®) provides information technology planning, strategy and development services, together with transaction processing, sourcing and real estate services for BMO Financial Group. In addition, T&S is responsible for the creation, development and support of BMO's e-business services. Our group's strategy is to operate as a market-competitive organization, providing quality service and solutions that make us the supplier of choice for our clients.

2002 Group Objectives and Achievements

Complete nation-wide rollout of the majority of Pathway Connect.

- The rollout of this state-of-the-art Windows 2000 platform will be completed early in fiscal 2003. The platform, to be in all branches and direct banking centres across Canada, provides employees with electronic tools that help deepen relationships with clients and improve client service.

Focus on our clients by creating an environment that supports a "market of one" approach to sales, service and relationships.

- Significantly enhanced bmo.com and integrated all BMO Internet sites to make it easier for each of our clients to access online accounts, tools, resources, products and services that meet their individual needs.

Continue to create alliances and partnerships that deliver world-class financial solutions and outstanding quality to our clients.

- Launched dealerAccess™4, a multi-lender Internet portal for auto dealers. It allows clients to apply for automotive financing online.

Increase penetration in high-growth, high-value markets by leveraging industry-leading technology capabilities in wealth management and investment banking.

- BMO's wealth management acquisitions have built a nation-wide U.S. platform for the distribution of a full suite of products and services, which include private banking, full-service investing, direct investing, mutual funds and institutional money management.
- Successfully integrated Harris *direct* (CSFB*direct* and Harris InvestorLine) within a single, industry-leading technology platform.
- Completed the acquisition of the Morgan Stanley®6 Individual Investor Group online client accounts, which expanded Harris *direct*'s high-end client base and provided opportunity to further leverage Harris*direct*'s scale and leading edge technology.

2002 Group Focus

- Improve profitability by applying the most efficient, effective and economical technology and processes to generate ongoing savings and increased revenues.

HARRIS BANK

Description and Strategy

Harris Bank, with US$30 billion in assets, is one of the largest community bank networks in Illinois. We are a nationally recognized provider of private client and personal trust services, and a premier U.S. Midwest mid-market corporate and investment bank. We provide individual, small and medium-sized business and corporate clients throughout the Chicagoland area and beyond with high-quality service, advice and product choices. This wide array of quality services creates the foundation for strong customer relationships, which we believe are central to our business.

Harris is a key component of BMO Financial Group's strategy of expanding selectively and substantially in the United States. We plan to maintain our momentum in retail and business banking through significant branch expansion and acquisitions, and by moving beyond our Chicagoland base. Another priority is to sustain our premier position among U.S. Midwest mid-market corporate and investment bank service providers. We plan to do this by building on BMO Nesbitt Burns' North American strengths. We are also focused on further expanding our national wealth management platform by deepening and broadening client relationships through our integrated service offerings.

2003 Reporting

In fiscal 2003, BMO Financial Group's reporting will evolve. BMO plans to provide more detailed disclosure on U.S. results, including U.S. results by operating group. This change is consistent with the development of BMO's transnational growth strategy and will promote a better understanding of BMO's U.S. operations, which extend beyond the Harris Bank legal entity.

In conjunction with these changes, we expect to discontinue separate disclosure of Harris Bank's results. Subsequent to BMO's year end, Harris filed to voluntarily forgo its status as an SEC registrant. Therefore, no objectives are outlined for 2003, apart from those provided within the operating group sections.

2002 Objectives and Achievements

Sustain strong retail and small business lending growth, with the target of increasing loans outstanding by more than US$1 billion per year for the next several years.

- Chicagoland Banking's retail and small business loans increased US$1.7 billion or 26%. The acquisition of Joliet accounted for US$500 million or seven percentage points of this increase.

Continue strong organic growth and selective acquisitions toward our objective of building the dominant full-service bank in Chicagoland.

- Chicagoland Banking attained 6% organic deposit growth and grew 13% overall, including our 2001 Joliet acquisition.
- Deposits and loan growth combined with strong cost controls resulted in accelerating revenue and earnings momentum.

Continue to expand U.S. wealth management business through both acquisition and organic growth and by leveraging Harris' long-standing reputation in major U.S. markets.

- Opened new full-service wealth management offices in Bellevue, Washington and Minneapolis, Minnesota. These offices offer clients full-service investing, direct investing, private banking and investment management services.

Accelerate the development of top-tier, multi-product, lead-client relationships and continue our double-digit growth in investment banking revenues at Harris Nesbitt.

- Ended the year with an improved market profile and significant business achievements despite the difficult environment for financing-related and advisory products.
- Transaction volumes for lead financings, advisory services and cash management increased, with a good mix of new clients and expanded business with existing clients.
- Loan utilization rates were affected by general weakness in the economy.

Financial Results

On a U.S. dollar/U.S. GAAP basis, Harris Bank's net income was $278 million, up $77 million from a year ago. In the fourth quarter of 2001, Harris increased its provision for credit losses by $125 million ($80 million after tax) because of continued economic uncertainty. Earlier in 2001, Harris recognized a $60 million ($36 million after tax) gain on the sale of the Harris Bank merchant card business to a unit of BMO Financial Group in connection with the establishment of the Moneris™ Solutions joint venture. The gain was not included in BMO's consolidated results because it was between related companies. Excluding the gain on sale and the aforementioned increase in the provision for credit losses, net income increased $33 million or 14%. The increase was driven by continued strong retail and small business growth, higher gains on sales of investment securities and the Joliet acquisition, partially offset by higher provisions for credit losses. The acquisition of Joliet in the third quarter of 2001 increased revenue, expenses and net income, and affects comparisons between years.

Revenue increased $77 million from the prior year. Excluding the gain on sale of the merchant card business in 2001, revenue rose $137 million or 11%. The acquisition of Joliet accounted for three percentage points of the improvement. Continued growth in consumer, mortgage and small business loans, higher net interest margins and a $30 million increase in gains on sales of investment securities also contributed to the improvement. Net interest margins improved by 39 basis points to 3.38% due to the declining interest rate environment in 2001 and a higher mix of retail loans and deposits in 2002.

Non-interest expenses increased 9% to $817 million. Excluding the impact of the Joliet acquisition, expenses increased 5%, reflective of cost containment efforts. Expense growth related to the integration of Joliet, system conversions, expansion initiatives and robust volume growth in Chicagoland Banking.

Harris Bank (U.S. GAAP/US$ millions, except as noted)

Reported (As at or for the year ended October 31)	**2002**	**2001**	**2000**
Net interest income (teb)	**836**	760	694
Non-interest revenue	**505**	504	489
Total revenues	**1,341**	1,264	1,183
Provision for credit losses	**99**	208	27
Non-interest expense	**817**	747	736
Income before provision for income taxes and goodwill amortization	**425**	309	420
Income taxes (teb)	**146**	105	149
Amortization of goodwill, net of applicable income tax	**1**	3	3
Net income	**278**	201	268

Net income by group: P&C	**120**	73	64
PCG	**26**	23	22
IBG	**158**	87	148
Corp	**(26)**	18	34
Net economic profit	**101**	28	124
Cash return on equity (U.S. basis) (%)	**17.5**	12.9	21.1
Average net interest margin (U.S. basis) (%)	**3.38**	2.99	2.83
Cash non-interest expense-to-revenue ratio (%)	**58.7**	57.2	60.3
Average common equity	**1,944**	1,798	1,509
Average assets	**27,802**	28,677	27,705
Total risk-weighted assets	**22,909**	22,732	23,287
Full-time equivalent staff	**5,826**	5,756	6,260

2001 Compared with 2000

On a U.S. dollar/U.S. GAAP basis, net income was $201 million, a decline of $67 million or 25% from 2000. Excluding gains on and earnings of divested businesses and the $80 million after-tax provision increase, net income increased $15 million or 6% from 2000. The increase was attributable to strong business growth and a favourable interest rate environment, partially offset by the higher loan loss provision associated with the impact of the slowing economy and by expenses related to business growth and expansion.

ECONOMICAL AND FINANCIAL SERVICES DEVELOPMENTS

Highlights

- Interest rates in 2002 were at their lowest level in four decades
- The Canadian and U.S. economies are expected to strengthen in 2003
- Interest rates are forecast to rise in 2003.
- Business spending should rise in 2003.

Canadian and U.S. Economic and Financial Services Developments in 2002

After slowing last year, the Canadian economy has grown strongly so far in 2002. Real GDP rose at an annual rate of 4 1/2%, on average, in the first three quarters of the year. Activity was led by demand for interest-sensitive goods, with consumers taking advantage of the lowest short-term interest rates in four decades to purchase automobiles and homes. Lofty demand and low supplies of resale homes in some areas lifted housing starts to 12-year highs. In this supportive environment, demand for residential mortgages accelerated and consumer loans continued to grow. However, business lending continued to decline in the first half of the year amid lingering softness in capital spending.

Canadian job growth accelerated this year, with a net 459,000 positions created in the first ten months of 2002. The strong economy encouraged the Bank of Canada to raise overnight lending rates moderately in the spring and summer. However, in light of the uncertain outlook for the global economy, the central bank remained on the sidelines in the fall. With short-term interest rates still low, demand deposits have grown faster than term deposits in the past year.

Following last year's recession, the U.S. economy has expanded at an annual rate of 3 1/2%, on average, in the first three quarters of 2002, led by record sales of automobiles and new homes. Accordingly, residential mortgages and personal loans grew briskly this year. However, business spending and hiring have remained soft and business credit has declined. Because of the uneven nature of the expansion, the Federal Reserve has kept overnight rates at 40-year lows. Capital markets activity remained sluggish amid lower equity prices.

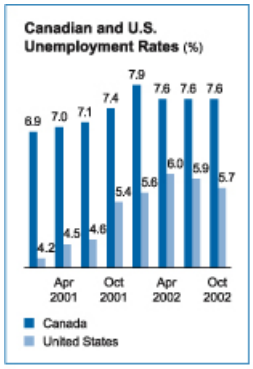
Economic and Financial Services Outlook for 2003

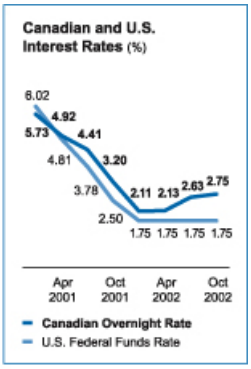
The Canadian economy is expected to grow at a respectable pace in 2003. Housing activity and personal spending will continue to benefit from low (albeit rising) interest rates. A weak currency and an anticipated recovery in the U.S. economy should support exports. The jobless rate is expected to decline during the year. Inflation will likely remain low in the absence of excess demand pressures. Interest rates are anticipated to rise gradually in 2003 as the Bank of Canada unwinds the substantial amount of monetary stimulus in the system. The Canadian dollar is projected to strengthen against the U.S. dollar amid favourable interest-rate spreads and large trade surpluses. The economic environment should support mortgage and personal loan growth and spur a pickup in business credit in the year ahead.

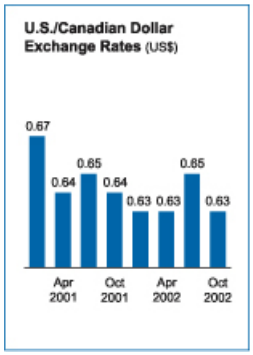
Stimulative monetary and fiscal policies will sustain the expansion of the U.S. economy in 2003. Consumer spending is expected to remain healthy, though sales of automobiles and homes will likely moderate from recent highs. Business investment is projected to recover as capacity use increases. The jobless rate is forecast to trend lower. Interest rates should remain low in the near term, though the Federal Reserve will likely shift to a tightening posture in the summer of 2003. Business credit is expected to improve as capital investment picks up. Although mortgage growth will likely moderate from record highs, consumer credit growth should remain firm amid rising employment.

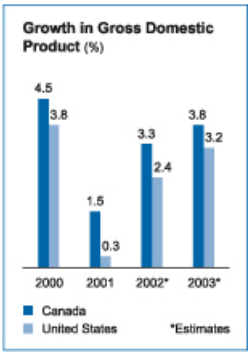
Canadian Financial Services Legislation

In the regulatory arena, focus has been on implementing Bill C-8, the Canadian government's financial services reform bill. This has involved the drafting, discussion and passage of numerous regulations necessary to give effect to the legislation. The process is now drawing to a close as essential elements of the consumer-based Access to Basic Banking Services regulations are finalized. Another focus has been on the implementation of the federal anti-money laundering, proceeds of crime and terrorist activities legislation, of which various provisions became effective in June 2002.


Canadian and U.S. Unemployment Rates (%)
6.9
7.0
7.1
7.4
7.9
7.6
7.6
7.6
4.2
4.5
4.6
5.4
5.8
6.0
5.9
5.7
Apr 2001
Oct 2001
Apr 2002
Oct 2002
Canada
United States


Canadian and U.S. Interest Rates (%)
6.02
5.73
4.92
4.81
4.41
3.78
3.20
2.50
2.11
2.13
2.63
2.75
1.75
1.75
1.75
1.75
Apr 2001
Oct 2001
Apr 2002
Oct 2002
Canadian Overnight Rate
U.S. Federal Funds Rate


U.S./Canadian Dollar Exchange Rates (US$)
0.67
0.64
0.65
0.64
0.63
0.63
0.65
0.63
Apr 2001
Oct 2001
Apr 2002
Oct 2002


Growth in Gross Domestic Product (%)
4.5
3.8
1.5
0.3
3.3
2.4
3.8
3.2
2000
2001
2002*
2003*
Canada
United States
*Estimates

SUPPLEMENTAL INFORMATION

TABLE 1 Shareholder Value

As at or for the year ended October 31	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Market Price per Common Share ($)										
High	**40.65**	44.40	35.80	34.80	43.50	30.80	20.83	15.50	15.38	13.69
Low	**31.00**	32.75	21.00	24.68	25.88	19.53	14.69	12.06	11.00	10.66
Close	**38.10**	33.86	35.25	28.33	31.55	30.43	20.28	14.88	12.56	13.44
Common Dividends										
Dividends declared per share ($)	**1.20**	1.12	1.00	0.94	0.88	0.82	0.74	0.66	0.60	0.56
Dividends paid per share ($)	**1.18**	1.09	0.99	0.93	0.88	0.80	0.71	0.65	0.59	0.56
Dividend payout ratio (%)	**44.0**	40.8	30.2	39.6	37.4	35.0	35.1	38.2	40.3	43.3
Excluding non-recurring items (%)	**42.8**	43.8	33.7	36.8	37.4	33.8	34.7	36.8	37.9	43.3
Dividend yield (%)	**3.1**	3.3	2.8	3.3	2.8	2.9	3.9	4.4	4.8	4.2
Total Shareholder Return (%)										
Five-year annual average	**7.9**	14.3	22.9	22.0	23.3	26.1	22.2	23.1	14.3	20.6
One-year return	**16.2**	(1.2)	29.0	(7.4)	6.4	55.0	42.4	24.1	(2.3)	19.4
Common Share Information										
Number outstanding (in thousands)										
End of period	**492,505**	489,085	522,584	534,064	528,866	522,873	519,874	527,369	530,913	498,188
Average basic	**490,816**	511,286	531,318	531,723	525,021	520,819	522,465	531,264	502,615	495,454
Average diluted	**499,464**	523,561	540,815	542,920	542,181	538,469	538,271	548,267	512,992	505,267
Number of shareholder accounts	**44,072**	45,190	46,663	49,369	51,387	53,651	55,571	57,187	58,879	62,342
Book value per share ($)	**21.07**	19.69	19.63	17.44	16.36	14.59	12.94	11.71	10.69	9.70
Total market value of shares ($ billions)	**18.8**	16.6	18.4	15.1	16.7	15.9	10.5	7.8	6.7	6.7
Price-to-earnings multiple	**14.0**	12.4	10.7	11.9	13.4	12.9	9.7	8.6	8.3	10.4
Excluding non-recurring items	**13.6**	13.3	11.9	11.1	13.4	12.5	9.5	8.3	7.9	10.4
Price-to-cash earnings multiple	**13.2**	11.6	10.2	11.3	12.7	12.3	9.1	8.1	8.0	9.8
Excluding non-recurring items	**12.9**	12.4	11.4	10.5	12.7	11.9	9.0	7.8	7.5	9.9
Market-to-book value multiple	**1.81**	1.72	1.80	1.62	1.93	2.09	1.57	1.27	1.17	1.39

TABLE 2 Summary Income Statement and Growth Statistics ($ millions, except as noted)

For the year ended October 31	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Income Statement										
Net interest income (teb)	**4,935**	4,641	4,338	4,417	4,152	4,186	3,711	3,564	3,325	3,207
Non-interest revenue	**3,924**	4,222	4,326	3,511	3,118	2,981	2,516	2,102	1,871	1,654
Total revenue (teb)	**8,859**	8,863	8,664	7,928	7,270	7,167	6,227	5,666	5,196	4,861
Provision for credit losses	**820**	980	358	320	130	275	225	275	510	675
Non-interest expense	**6,030**	5,671	5,258	5,288	4,785	4,567	3,913	3,612	3,208	2,897
Income before provision for income taxes, non-controlling interest in subsidiaries and goodwill	**2,009**	2,212	3,048	2,320	2,355	2,325	2,089	1,779	1,478	1,289
Income taxes (teb)	**530**	643	1,123	874	938	954	866	746	627	555
Non-controlling interest in subsidiaries	**62**	42	19	21	25	25	20	13	11	6
Net income before goodwill	**1,417**	1,527	1,906	1,425	1,392	1,346	1,203	1,020	840	728
Amortization of goodwill, net of applicable income tax	**—**	56	49	43	42	41	35	34	15	19
Net income	**1,417**	1,471	1,857	1,382	1,350	1,305	1,168	986	825	709
Year-over-year growth (%)	**(3.7)**	(20.8)	34.4	2.4	3.5	11.7	18.4	19.5	16.4	10.9
Net income excluding non-recurring items	**1,456**	1,378	1,672	1,477	1,350	1,348	1,182	1,020	871	709

Year-over-year growth (%)	**5.7**	(17.6)	13.1	9.5	0.2	14.1	15.8	17.1	22.9	9.5
Earnings per Share before Goodwill ($)										
Basic	**2.73**	2.83	3.40	2.46	2.44	2.43	2.17	1.79	1.53	1.33
Diluted	**2.68**	2.77	3.34	2.41	2.37	2.36	2.12	1.75	1.51	1.31
Year-over-year growth (%)	**(3.2)**	(17.1)	38.6	1.7	0.4	11.3	21.1	15.9	15.3	8.3
Earnings per Share ($)										
Basic	**2.73**	2.72	3.30	2.38	2.36	2.35	2.10	1.73	1.51	1.30
Diluted	**2.68**	2.66	3.25	2.34	2.29	2.28	2.06	1.69	1.49	1.28
Year-over-year growth (%)	**0.8**	(18.2)	38.9	2.2	0.4	10.7	21.9	13.4	16.4	8.5
Excluding non-recurring items	**2.76**	2.48	2.91	2.51	2.29	2.36	2.08	1.75	1.57	1.28
Year-over-year growth (%)	**11.3**	(14.8)	15.9	9.6	(3.0)	13.5	18.9	11.5	22.7	7.6
Diluted Cash Earnings per Share ($)	**2.83**	2.86	3.39	2.46	2.42	2.42	2.17	1.79	1.55	1.35
Year-over-year growth (%)	**(1.0)**	(15.6)	37.8	1.7	—	11.5	21.2	15.5	14.8	14.4
Excluding non-recurring items	**2.91**	2.68	3.05	2.64	2.42	2.50	2.19	1.86	1.64	1.34
Year-over-year growth (%)	**8.6**	(12.1)	15.5	9.1	(3.2)	14.2	17.7	13.4	22.4	12.6

TABLE 3 Profitability and Growth Statistics ($ millions, except as noted)

For the year ended October 31	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Net income	**1,417**	1,471	1,857	1,382	1,350	1,305	1,168	986	825	709
Preferred dividends	**79**	80	101	117	112	83	69	69	69	68
Net income available to common shareholders	**1,338**	1,391	1,756	1,265	1,238	1,222	1,099	917	756	641
Average common shareholders' equity	**9,973**	10,100	9,745	8,976	8,128	7,165	6,457	5,937	5,088	4,564
Return on equity (%)	**13.4**	13.8	18.0	14.1	15.2	17.1	17.0	15.4	14.9	14.1
Excluding non-recurring items (%)	**13.8**	12.9	16.1	15.1	15.2	17.7	17.2	16.0	15.8	14.1
Cash return on equity (%)	**14.2**	14.8	18.8	14.8	16.1	18.0	17.9	16.4	15.5	14.8
Excluding non-recurring items (%)	**14.6**	13.9	16.9	15.9	16.1	18.6	18.2	17.0	16.4	14.8
Return on average assets (%)	**0.57**	0.60	0.79	0.61	0.59	0.66	0.74	0.68	0.68	0.63
Excluding non-recurring items (%)	**0.59**	0.57	0.71	0.65	0.59	0.69	0.75	0.71	0.71	0.63
Return on average assets available to common shareholders (%)	**0.54**	0.57	0.75	0.56	0.54	0.62	0.69	0.64	0.62	0.57
Excluding non-recurring items (%)	**0.56**	0.53	0.67	0.60	0.54	0.64	0.70	0.66	0.66	0.57

TABLE 4 Summary Balance Sheet ($ millions)

As at October 31	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Assets										
Cash resources	**19,305**	17,656	18,508	24,036	19,730	32,245	24,187	20,317	14,659	12,081
Securities	**43,715**	37,676	46,463	43,273	43,465	41,789	36,609	33,019	26,535	23,328
Loans (net)	**142,695**	136,829	133,817	138,001	129,691	114,918	98,413	88,442	88,634	74,028
Customers' liability under acceptances	**6,901**	7,936	8,630	6,753	6,944	5,594	4,397	4,469	3,430	3,555
Other assets	**40,248**	39,312	25,978	18,552	22,760	13,292	6,226	5,587	4,917	3,877
Total assets	**252,864**	239,409	233,396	230,615	222,590	207,838	169,832	151,834	138,175	116,869
Liabilities and Shareholders' Equity										
Deposits	**161,838**	154,290	156,697	156,874	143,983	144,212	119,262	109,605	98,241	87,859
Other liabilities	**75,338**	69,763	59,847	58,048	63,208	50,892	39,670	32,602	31,178	20,961
Subordinated debt	**3,794**	4,674	4,911	4,712	4,791	3,831	3,314	2,595	2,218	2,363
Share capital										
Preferred	**1,517**	1,050	1,681	1,668	1,958	1,274	857	858	860	852
Common	**3,459**	3,375	3,173	3,190	3,095	3,019	2,989	3,002	3,002	2,632
Retained earnings	**6,918**	6,257	7,087	6,123	5,555	4,610	3,740	3,172	2,676	2,202
Total liabilities and shareholders' equity	**252,864**	239,409	233,396	230,615	222,590	207,838	169,832	151,834	138,175	116,869
Average Daily Balances										
Net loans	**139,707**	138,932	135,339	135,596	130,686	113,136	94,598	87,028	77,292	73,918
Assets	**247,990**	243,248	234,944	226,714	227,450	196,721	158,316	144,115	122,234	113,387

TABLE 5 Liquid Assets ($ millions, except as noted)

As at October 31	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Canadian Dollar Liquid Assets										
Deposits with other banks	**1,892**	1,535	1,814	843	1,080	3,110	2,839	3,002	2,790	1,762

Other cash resources	**2,178**	1,296	782	817	745	702	631	17	651	734
Securities	**23,471**	16,398	20,846	15,942	17,216	22,442	22,651	21,245	16,915	16,436
Total Canadian dollar liquid assets	**27,541**	19,229	23,442	17,602	19,041	26,254	26,121	24,264	20,356	18,932
U.S. Dollar and Other Currencies Liquid Assets										
Deposits with other banks	**14,445**	13,431	15,125	21,279	16,334	26,946	18,606	16,418	11,029	8,476
Other cash resources	**790**	1,394	787	1,097	1,571	1,487	2,111	880	189	1,109
Securities	**20,244**	21,278	25,617	27,331	26,249	19,347	13,958	11,774	9,620	6,892
Total U.S. dollar and other currencies liquid assets	**35,479**	36,103	41,529	49,707	44,154	47,780	34,675	29,072	20,838	16,477
Total liquid assets (a)	**63,020**	55,332	64,971	67,309	63,195	74,034	60,796	53,336	41,194	35,409
Total liquid assets-to-total assets (%)	**24.9**	23.1	27.8	29.2	28.4	35.6	35.8	35.1	29.8	30.3
Pledged assets included in total liquid assets (a) (b)	**18,858**	16,106	17,553	15,518	NA	NA	NA	NA	NA	NA

(a) Includes liquid assets pledged as collateral for securities sold but not yet purchased, securities sold under repurchase agreements and other secured liabilities.

(b) Prior year comparatives have been restated. Amounts previously disclosed represented total pledged assets.

NA — not available

SUPPLEMENTAL INFORMATION

TABLE 6 Revenue ($ millions, except as noted)

For the year ended October 31	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Total Revenue										
Total revenue (teb)	**8,859**	8,863	8,664	7,928	7,270	7,167	6,227	5,666	5,196	4,861
Year-over-year growth (%)	**—**	2.3	9.3	9.0	1.4	15.1	9.9	9.0	6.9	9.4
Non-recurring items	**—**	155	226	(28)	—	—	—	—	—	—
Total revenue (teb) excluding non-recurring items	**8,859**	8,708	8,438	7,956	7,270	7,167	6,227	5,666	5,196	4,861
Year-over-year growth (%)	**1.7**	3.2	6.1	9.4	1.4	15.1	9.9	9.0	6.9	9.6
Net Interest Income										
Net interest income as reported	**4,829**	4,499	4,204	4,279	4,024	4,077	3,603	3,480	3,258	3,139
Taxable equivalent adjustment (teb)	**106**	142	134	138	128	109	108	84	67	68
Net interest income (teb)	**4,935**	4,641	4,338	4,417	4,152	4,186	3,711	3,564	3,325	3,207
Year-over-year growth (%)	**6.3**	7.0	(1.8)	6.4	(0.8)	12.8	4.1	7.2	3.7	5.6
Net interest income (teb) excluding non-recurring items	**4,935**	4,641	4,338	4,417	4,152	4,186	3,711	3,564	3,325	3,207
Year-over-year growth (%)	**6.3**	7.0	(1.8)	6.4	(0.8)	12.8	4.1	7.2	3.7	5.8
Margin										
Total average assets	**247,990**	243,248	234,944	226,714	227,450	196,721	158,316	144,115	122,234	113,387
Net interest margin (%)	**1.99**	1.91	1.85	1.95	1.83	2.13	2.34	2.47	2.72	2.83
Canadian dollar net interest margin (%)	**2.58**	2.78	2.70	2.82	2.52	2.70	2.94	3.39	3.48	3.44
U.S. dollar and other currencies net interest margin (%)	**1.37**	1.15	1.01	1.19	1.17	1.48	1.58	1.22	1.59	1.94
Non-Interest Revenue										
Securities commissions and fees (a)	**813**	742	859	666	657	742	614	414	313	238
Deposit and payment service charges	**732**	670	646	616	558	508	473	451	437	430
Trading revenues	**209**	490	388	295	40	276	277	225	226	202
Lending fees	**306**	352	322	329	290	240	194	186	180	145
Card fees	**260**	204	216	205	196	251	234	230	211	208
Investment management and custodial fees	**314**	336	373	419	407	299	221	240	197	194
Mutual fund revenues	**309**	251	232	207	199	155	87	53	56	30
Securitization revenues	**329**	331	343	296	158	32	—	—	—	—
Underwriting and advisory fees (a)	**228**	234	210	175	212	177	146	81	NA	NA
Investment securities gains (losses) (b)	**(146)**	123	183	(85)	97	52	71	46	37	40
Foreign exchange, other than trading	**151**	127	146	133	103	126	120	99	89	48
Insurance income	**105**	125	96	73	62	62	44	36	51	18
Other revenues (c)	**314**	237	312	182	139	61	35	41	74	101
Total non-interest revenue	**3,924**	4,222	4,326	3,511	3,118	2,981	2,516	2,102	1,871	1,654
Year-over-year growth (%)	**(7.1)**	(2.4)	23.2	12.6	4.6	18.5	19.7	12.3	13.1	17.8
Other income as a % of total revenue	**44.3**	47.6	49.9	44.3	42.9	41.6	40.4	37.1	36.0	34.0
Non-recurring items (b)(c)	**—**	155	226	(28)	—	—	—	—	—	—

Total non-interest revenue excluding non-recurring items	**3,924**	4,067	4,100	3,539	3,118	2,981	2,516	2,102	1,871	1,654
Year-over-year growth (%)	**(3.5)**	(0.8)	15.8	13.5	4.6	18.5	19.7	12.3	13.1	17.8
Total non-interest revenue as a % of total revenue	**44.3**	46.7	48.6	44.5	42.9	41.6	40.4	37.1	36.0	34.0

(a) In 1993 and 1994, underwriting and advisory fees are included in securities commissions and fees.

(b) Non-recurring items include: a $321 million gain on the sale of Bancomer and a $178 million write-down of equity investments in CBOs in 2001; a $112 million gain on the sale of Partners First in 2000; and a $55 million write-down in the distressed investment portfolio in 1999.

(c) Non-recurring items include: a $12 million gain on the sale of branches in 2001; a $40 million gain on the sale of branches and a $74 million gain on the sale of Corporate Trust in 2000; and a $27 million gain on the sale of Global Custody in 1999.

NA — not available

TABLE 7 Non-Interest Expense and Expense-to-Revenue Ratios ($ millions, except as noted)

For the year ended October 31	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Non-Interest Expense										
Employee compensation										
Salaries	**2,962**	2,857	2,800	2,532	2,370	2,284	1,972	1,758	1,567	1,455
Employee benefits	**441**	355	265	288	204	251	238	241	228	209
Total employee compensation	**3,403**	3,212	3,065	2,820	2,574	2,535	2,210	1,999	1,795	1,664
Premises and equipment										
Rental of real estate	**179**	134	130	145	147	149	139	136	125	123
Premises, furniture and fixtures	**286**	289	272	275	256	234	215	206	188	177
Property taxes	**52**	52	47	52	51	40	40	41	39	40
Computers and equipment	**763**	678	622	651	518	493	333	296	248	240
Total premises and equipment	**1,280**	1,153	1,071	1,123	972	916	727	679	600	580
Communications	**173**	194	259	268	266	246	219	208	180	165
Other expenses										
Business and capital taxes	**77**	103	110	129	134	128	116	110	95	92
Professional fees	**291**	288	335	343	320	250	173	141	112	64
Travel and business development	**261**	248	236	227	234	238	199	161	144	122
Other (a)	**458**	430	202	216	261	226	251	239	195	199
Total other expenses	**1,087**	1,069	883	915	949	842	739	651	546	477
Amortization of intangible assets	**87**	43	23	21	24	28	18	15	16	11
Special charge	**—**	—	—	—	—	—	—	—	71	—
Business process improvement initiative charge	**—**	—	—	—	—	—	—	60	—	—
Restructuring charge	**—**	—	(43)	141	—	—	—	—	—	—
Total non-interest expense	**6,030**	5,671	5,258	5,288	4,785	4,567	3,913	3,612	3,208	2,897
Year-over-year growth (%)	**6.3**	7.8	(0.6)	10.5	4.8	16.7	8.4	12.6	10.7	5.4
Non-recurring items	**62**	—	(43)	141	—	75	23	60	71	—
Total non-interest expense excluding non-recurring items	**5,968**	5,671	5,301	5,147	4,785	4,492	3,890	3,552	3,137	2,897
Year-over-year growth (%)	**5.2**	7.0	3.0	7.6	6.5	15.5	9.5	13.2	8.3	6.1
Government Levies and Taxes (b)										
Government levies other than income taxes										
Payroll levies	**150**	148	133	127	128	123	109	106	95	88
Property taxes	**52**	52	47	52	51	40	40	41	39	40
Provincial capital taxes	**69**	93	100	121	120	104	89	84	71	71
Business taxes	**8**	10	10	8	14	24	27	26	24	21
Goods and services tax and sales tax	**142**	126	125	118	125	114	101	88	70	64
Total government levies other than income taxes	**421**	429	415	426	438	405	366	345	299	284
Provision for (recovery of) income taxes reported in:										
Statement of income										
Provision	**424**	501	989	736	810	845	758	662	560	487
Amortization of goodwill	**—**	(6)	(5)	(6)	(6)	(5)	(1)	—	—	—
Statement of retained earnings (c)	**77**	(350)	(153)	158	(237)	(92)	10	9	(23)	(46)
Total income taxes (c)	**501**	145	831	888	567	748	767	671	537	441

Total government levies and taxes (c)	**922**	574	1,246	1,314	1,005	1,153	1,133	1,016	836	725
Total government levies and taxes as a % of net income before taxes and government levies	**40.8**	24.0	38.3	51.8	38.8	45.2	49.4	51.0	49.6	49.0
Effective tax rate (teb)	**26.4**	29.1	36.9	37.6	39.8	41.0	41.5	41.9	42.4	43.0
Productivity Analysis										
Non-interest expense-to-revenue ratio (%)	**68.1**	64.0	60.7	66.7	65.8	63.7	62.8	63.7	61.7	59.6
Excluding non-recurring items (%)	**67.4**	65.1	62.8	64.7	65.8	62.7	62.5	62.7	60.4	59.6

(a) Effective 2001, processing fees paid to Symcor are included in other expenses.

(b) Government levies are included in various non-interest expense categories.

(c) 2001 comparatives have been restated to correct the amount previously disclosed as the recovery of income taxes reported in the statement of retained earnings.

TABLE 8 Average Assets, Liabilities and Interest Rates (teb) ($ millions, except as noted)

For the year ended October 31	2002 Average balances	2002 Average interest rate (%)	2002 Interest income/ expense	2001 Average balances	2001 Average interest rate (%)	2001 Interest income/ expense	2000 Average balances	2000 Average interest rate (%)	2000 Interest income/ expense
Assets									
Canadian Dollars									
Deposits with other banks	**2,377**	**2.81**	**68**	2,165	4.74	104	2,272	5.50	125
Securities	**23,441**	**3.49**	**817**	20,308	5.41	1,098	19,972	5.98	1,194
Loans									
Residential mortgages	**39,710**	**5.60**	**2,222**	35,512	6.50	2,307	35,247	6.48	2,283
Non-residential mortgages	**2,272**	**6.69**	**151**	2,167	7.18	155	2,142	7.22	155
Consumer instalment and other personal	**14,582**	**5.91**	**861**	14,159	8.01	1,134	14,061	8.42	1,184
Credit card	**1,635**	**10.42**	**170**	1,443	10.03	145	1,251	9.98	125
Businesses and governments (a)	**27,509**	**4.52**	**1,244**	27,908	6.58	1,836	26,270	6.92	1,817
Total loans	**85,708**	**5.42**	**4,648**	81,189	6.87	5,577	78,971	7.05	5,564
Other non-interest bearing assets	**15,789**			9,595			14,477		
Total Canadian dollars	**127,315**	**4.35**	**5,533**	113,257	5.99	6,779	115,692	5.95	6,883
U.S. Dollar and Other Currencies									
Deposits with other banks	**13,244**	**3.29**	**436**	15,583	5.07	790	17,792	5.17	920
Securities	**19,902**	**4.54**	**903**	23,826	6.13	1,460	26,722	6.71	1,793
Loans									
Residential mortgages	**5,307**	**6.12**	**325**	4,709	6.70	316	3,726	6.71	251
Non-residential mortgages	**1,977**	**6.82**	**135**	1,675	8.00	134	1,391	8.11	113
Consumer instalment and other personal	**5,507**	**6.19**	**341**	4,231	8.13	344	3,352	8.45	283
Credit card	**55**	**3.49**	**2**	35	4.75	2	28	4.65	1
Businesses and governments (a)	**41,153**	**3.81**	**1,565**	47,093	7.04	3,317	47,871	8.76	4,193
Total loans	**53,999**	**4.39**	**2,368**	57,743	7.12	4,113	56,368	8.59	4,841
Other non-interest bearing assets	**33,530**			32,839			18,370		
Total U.S. dollar and other currencies	**120,675**	**3.07**	**3,707**	129,991	4.89	6,363	119,252	6.33	7,554
Total All Currencies									
Total assets and interest income	**247,990**	**3.73**	**9,240**	243,248	5.40	13,142	234,944	6.15	14,437
Liabilities									
Canadian Dollars									
Deposits									
Banks	**1,455**	**1.18**	**17**	1,809	3.88	72	2,364	4.09	96
Businesses and governments	**34,955**	**0.77**	**268**	31,483	3.84	1,210	31,432	4.02	1,264
Individuals	**50,180**	**2.62**	**1,317**	46,439	3.49	1,620	45,697	3.62	1,652
Total deposits	**86,590**	**1.85**	**1,602**	79,731	3.64	2,902	79,493	3.79	3,012
Subordinated debt and other interest bearing liabilities	**15,665**	**4.10**	**643**	14,242	5.14	733	12,470	5.95	743
Other non-interest bearing liabilities	**14,038**			8,050			12,682		

Total Canadian dollars	**116,293**	**1.93**	**2,245**	102,023	3.56	3,635	104,645	3.59	3,755
U.S. Dollar and Other Currencies									
Deposits									
Banks	**15,583**	**2.17**	**338**	21,448	4.90	1,051	26,679	5.66	1,511
Businesses and governments	**33,752**	**2.20**	**742**	35,663	4.27	1,522	36,863	5.96	2,197
Individuals	**20,464**	**2.20**	**451**	18,442	3.84	708	16,409	4.30	706
Total deposits	**69,799**	**2.19**	**1,531**	75,553	4.34	3,281	79,951	5.52	4,414
Subordinated debt and other interest bearing liabilities	**21,782**	**2.43**	**529**	25,843	6.13	1,585	26,360	7.32	1,930
Other non-interest bearing liabilities	**28,686**			28,285			12,574		
Total U.S. dollar and other currencies	**120,267**	**1.71**	**2,060**	129,681	3.75	4,866	118,885	5.34	6,344
Total All Currencies									
Total liabilities and interest expense	**236,560**	**1.82**	**4,305**	231,704	3.67	8,501	223,530	4.52	10,099
Shareholders' equity	**11,430**			11,544			11,414		
Total liabilities, interest expense and shareholders' equity	**247,990**	**1.74**	**4,305**	243,248	3.49	8,501	234,944	4.30	10,099
Net interest margin and net interest income		**1.99**	**4,935**		1.91	4,641		1.85	4,338

(a) Includes securities purchased under resale agreements.

TABLE 9 Volume/Rate Analysis of Changes in Net Interest Income (teb) ($ millions)

For the year ended October 31	2002/2001 Increase (decrease) due to change in: Average balance	Average rate	Total	2001/2000 Increase (decrease) due to change in: Average balance	Average rate	Total
Assets						
Canadian Dollars						
Deposits with other banks	**11**	**(47)**	**(36)**	(5)	(16)	(21)
Securities	**169**	**(450)**	**(281)**	19	(115)	(96)
Loans						
Residential mortgages	**273**	**(358)**	**(85)**	18	6	24
Non-residential mortgages	**7**	**(11)**	**(4)**	1	(1)	—
Consumer instalment and other personal	**34**	**(307)**	**(273)**	8	(58)	(50)
Credit card	**19**	**6**	**25**	19	1	20
Businesses and governments	**(27)**	**(565)**	**(592)**	114	(95)	19
Total loans	**306**	**(1,235)**	**(929)**	160	(147)	13
Other non-interest bearing assets	**—**			—		
Change in Canadian dollar interest income	**486**	**(1,732)**	**(1,246)**	174	(278)	(104)
U.S. Dollar and Other Currencies						
Deposits with other banks	**(118)**	**(236)**	**(354)**	(114)	(16)	(130)
Securities	**(241)**	**(316)**	**(557)**	(195)	(138)	(333)
Loans						
Residential mortgages	**40**	**(31)**	**9**	66	(1)	65
Non-residential mortgages	**24**	**(23)**	**1**	23	(2)	21
Consumer instalment and other personal	**104**	**(107)**	**(3)**	75	(14)	61
Credit card	**1**	**(1)**	**—**	1	—	1
Businesses and governments	**(419)**	**(1,333)**	**(1,752)**	(68)	(808)	(876)
Total loans	**(250)**	**(1,495)**	**(1,745)**	97	(825)	(728)
Other non-interest bearing assets	**—**			—		
Change in U.S. dollar and other currencies interest income	**(609)**	**(2,047)**	**(2,656)**	(212)	(979)	(1,191)
Total All Currencies						
Change in total interest income	**(123)**	**(3,779)**	**(3,902)**	(38)	(1,257)	(1,295)
Liabilities						
Canadian Dollars						
Deposits						
Banks	**(16)**	**(39)**	**(55)**	(20)	(4)	(24)
Businesses and governments	**133**	**(1,075)**	**(942)**	2	(56)	(54)
Individuals	**130**	**(433)**	**(303)**	28	(60)	(32)
Total deposits	**247**	**(1,547)**	**(1,300)**	10	(120)	(110)
Subordinated debt and other interest bearing liabilities	**73**	**(163)**	**(90)**	105	(115)	(10)
Other non-interest bearing liabilities	**—**			—		
Change in Canadian dollar interest expense	**320**	**(1,710)**	**(1,390)**	115	(235)	(120)
U.S. Dollar and Other Currencies						
Deposits						
Banks	**(287)**	**(426)**	**(713)**	(296)	(164)	(460)
Businesses and governments	**(82)**	**(698)**	**(780)**	(72)	(603)	(675)
Individuals	**77**	**(334)**	**(257)**	88	(86)	2
Total deposits	**(292)**	**(1,458)**	**(1,750)**	(280)	(853)	(1,133)
Subordinated debt and other interest bearing liabilities	**(249)**	**(807)**	**(1,056)**	(37)	(308)	(345)
Other non-interest bearing liabilities	**—**			—		
Change in U.S. dollar and other currencies interest expense	**(541)**	**(2,265)**	**(2,806)**	(317)	(1,161)	(1,478)

Total All Currencies						
Change in total interest expense	**(221)**	**(3,975)**	**(4,196)**	(202)	(1,396)	(1,598)
Change in total net interest income	**98**	**196**	**294**	164	139	303

SUPPLEMENTAL INFORMATION

TABLE 10 Net Loans and Acceptances — Segmented Information ($ millions)

	Canada					United States				
As at October 31	2002	2001	2000	1999	1998	2002	2001	2000	1999	1998
Individuals										
Residential mortgages (a)	**38,865**	33,741	32,342	31,858	29,823	**5,469**	5,000	4,211	3,512	3,502
Cards	**2,275**	1,521	1,382	1,144	783	**5**	6	25	16	14
Personal loans	**14,950**	14,258	14,395	13,900	12,988	**6,214**	4,841	3,638	3,004	3,098
Total loans to individuals	**56,090**	49,520	48,119	46,902	43,594	**11,688**	9,847	7,874	6,532	6,614
Commercial, corporate and institutional										
Diversified commercial	**34,537**	35,847	35,886	25,083	27,097	**30,415**	33,881	31,818	38,507	28,683
Securities purchased under resale agreements	**8,138**	8,397	6,693	8,523	6,350	**7,173**	6,557	9,615	11,202	13,715
Total commercial, corporate and institutional	**42,675**	44,244	42,579	33,606	33,447	**37,588**	40,438	41,433	49,709	42,398
Lesser-developed countries (LDCs)	**—**	—	—	—	—	**—**	—	—	—	—
Total loans and acceptances, net of specific allowances for credit losses	**98,765**	93,764	90,698	80,508	77,041	**49,276**	50,285	49,307	56,241	49,012
General allowance	**(800)**	(855)	(930)	(820)	(735)	**(380)**	(325)	(150)	(150)	(150)
Total net loans and acceptances	**97,965**	92,909	89,768	79,688	76,306	**48,896**	49,960	49,157	56,091	48,862

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Other countries					Total				
As at October 31	2002	2001	2000	1999	1998	2002	2001	2000	1999	1998
Individuals										
Residential mortgages (a)	**—**	—	—	—	—	**44,334**	38,741	36,553	35,370	33,325
Cards	**—**	—	—	—	—	**2,280**	1,527	1,407	1,160	797
Personal loans	**—**	—	—	—	—	**21,164**	19,099	18,033	16,904	16,086
Total loans to individuals	**—**	—	—	—	—	**67,778**	59,367	55,993	53,434	50,208
Commercial, corporate and institutional										
Diversified commercial	**2,054**	1,559	3,300	3,434	4,127	**67,006**	71,287	71,004	67,024	59,907
Securities purchased under resale agreements	**353**	—	—	5,365	7,455	**15,664**	14,954	16,308	25,090	27,520
Total commercial, corporate and institutional	**2,407**	1,559	3,300	8,799	11,582	**82,670**	86,241	87,312	92,114	87,427
Lesser-developed countries (LDCs)	**328**	337	222	205	288	**328**	337	222	205	288
Total loans and acceptances, net of specific allowances for credit losses	**2,735**	1,896	3,522	9,004	11,870	**150,776**	145,945	143,527	145,753	137,923
General allowance	**—**	—	—	—	—	**(1,180)**	(1,180)	(1,080)	(970)	(885)
Total net loans and acceptances	**2,735**	1,896	3,522	9,004	11,870	**149,596**	144,765	142,447	144,783	137,038

TABLE 11 Net Impaired Loans and Acceptances — Segmented Information ($ millions, except as noted)

As at October 31	Canada					United States				
	2002	2001	2000	1999	1998	2002	2001	2000	1999	1998
Individuals										
Residential mortgages	**119**	126	138	129	105	**—**	—	—	—	—
Consumer instalment and other personal loans	**39**	54	48	48	34	**10**	2	—	—	—
Total loans to individuals	**158**	180	186	177	139	**10**	2	—	—	—
Diversified commercial (b)	**473**	354	335	344	236	**858**	692	432	135	108
Lesser-developed countries	**—**	—	—	—	—	**—**	—	—	—	—
Total impaired loans and acceptances, net of specific allowances for credit losses	**631**	534	521	521	375	**868**	694	432	135	108
General allowance	**(800)**	(855)	(930)	(820)	(735)	**(380)**	(325)	(150)	(150)	(150)
Total net impaired loans and acceptances (NIL)	**(169)**	(321)	(409)	(299)	(360)	**488**	369	282	(15)	(42)
Condition Ratios										
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	**NA**	NA	NA	NA	NA	**NA**	NA	NA	NA	NA
NIL as a % of net loans and acceptances (c)	**(0.17)**	(0.35)	(0.46)	(0.38)	(0.47)	**1.00**	0.74	0.57	(0.03)	(0.09)
To individuals	**0.28**	0.36	0.39	0.38	0.32	**0.09**	0.02	—	—	—
To diversified commercial	**1.37**	0.99	0.93	1.37	0.87	**2.82**	2.04	1.36	0.35	0.38

[Additional columns below]

[Continued from above table, first column(s) repeated]

As at October 31	Other countries					Total				
	2002	2001	2000	1999	1998	2002	2001	2000	1999	1998
Individuals										
Residential mortgages	**—**	—	—	—	—	**119**	126	138	129	105
Consumer instalment and other personal loans	**—**	—	—	—	—	**49**	56	48	48	34
Total loans to individuals	**—**	—	—	—	—	**168**	182	186	177	139
Diversified commercial (b)	**69**	17	31	58	60	**1,400**	1,063	798	537	404
Lesser-developed countries	**—**	—	—	—	—	**—**	—	—	—	—
Total impaired loans and acceptances, net of specific allowances for credit losses	**69**	17	31	58	60	**1,568**	1,245	984	714	543
General allowance	**—**	—	—	—	—	**(1,180)**	(1,180)	(1,080)	(970)	(885)
Total net impaired loans and acceptances (NIL)	**69**	17	31	58	60	**388**	65	(96)	(256)	(342)
Condition Ratios										
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	**NA**	NA	NA	NA	NA	**15.16**	14.17	10.51	8.53	6.66
NIL as a % of net loans and acceptances (c)	**2.52**	0.90	0.88	0.64	0.51	**0.26**	0.05	(0.07)	(0.18)	(0.25)
To individuals	**—**	—	—	—	—	**0.25**	0.31	0.33	0.33	0.28
To diversified commercial	**3.36**	1.09	0.94	1.69	1.45	**2.09**	1.49	1.12	0.80	0.67

(a) Excludes residential mortgages classified as commercial corporate loans (2002 — $3.2 billion, 2001 — $3.2 billion, 2000 — $2.9 billion, 1999 — $2.8 billion, 1998 — $2.5 billion).

(b) There are no impaired securities purchased under resale agreements and no related allowances.

(c) Net loans and acceptances and net impaired loans are net of specific and general allowances, except for loans to individuals and diversified commercial, which are net of specific allowances only.

(d) Prior years have been reclassified to conform with the current year presentation.

(e) Excludes LDC reservations in excess of impaired loans of $79 million in 1999 and $98 million in 1998.

(f) Includes allowance of U.S. subsidiary in excess of impaired loans.

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

(h) Write-offs on designated LDCs include losses of $45 million on sales of performing assets that were charged directly against the allowance in 2000.

(i) Excludes ACL for off-balance sheet exposure, as well as LDC reservations in excess of impaired loans of $79 million in 1999 and $98 million in 1998.

NA — not available

TABLE 12 Net Loans and Acceptances — Segmented Information ($ millions)

As at October 31	2002	2001	2000	1999	1998
Net Loans and Acceptances by Province					
Atlantic provinces	**5,787**	4,644	4,460	4,137	4,250
Quebec	**14,376**	13,685	14,602	12,304	11,714
Ontario	**51,115**	49,554	43,794	37,317	34,421
Prairie provinces	**12,779**	13,365	14,722	13,941	13,741
British Columbia and Territories	**14,708**	12,516	13,120	12,809	12,915
Total net loans and acceptances in Canada	**98,765**	93,764	90,698	80,508	77,041
Net Diversified Commercial Loans by Industry (d)					
Commercial mortgages	**7,591**	7,352	6,616	6,254	5,626
Commercial real estate	**3,592**	3,816	3,100	3,632	3,601
Construction (non-real estate)	**722**	931	1,156	1,782	1,056
Retail trade	**3,039**	3,181	3,092	3,217	2,556
Wholesale trade	**2,884**	2,912	2,976	3,984	3,912
Agriculture	**2,693**	2,659	2,475	2,772	2,471
Communications	**2,724**	3,261	3,079	1,994	2,200
Manufacturing	**8,461**	10,994	11,290	10,922	10,301
Mining	**495**	628	794	873	1,068
Oil and gas	**3,611**	4,023	4,566	5,090	5,149
Transportation	**1,303**	1,523	1,717	1,121	1,172
Utilities	**1,418**	1,590	1,624	1,279	1,319
Forest products	**981**	1,177	1,378	1,391	1,223
Service industries	**6,680**	6,658	6,871	6,944	6,600
Financial institutions	**16,836**	15,992	14,730	13,598	9,468
Other	**3,976**	4,590	5,540	2,171	2,185
Total net diversified commercial loans	**67,006**	71,287	71,004	67,024	59,907

TABLE 13 Net Impaired Loans and Acceptances — Segmented Information ($ millions)

As at October 31	2002	2001	2000	1999	1998
Net Impaired Diversified Commercial Loans (d)					
Commercial mortgages	**25**	39	38	19	15
Commercial real estate	**16**	18	26	54	122
Construction (non-real estate)	**3**	47	6	3	4
Retail trade	**51**	120	48	21	17
Wholesale trade	**77**	47	12	7	9
Agriculture	**24**	10	18	18	15
Communications	**429**	78	19	25	23
Manufacturing	**273**	126	81	48	41
Mining	**9**	6	—	1	1
Oil and gas	**71**	77	102	145	37
Transportation	**130**	167	153	61	49
Utilities	**162**	154	1	—	—
Forest products	**23**	48	55	5	20
Service industries	**63**	102	115	127	47
Financial institutions	**14**	25	113	23	8
Other (e)(f)	**30**	(1)	11	(20)	(4)
Total net impaired diversified commercial loans (b)	**1,400**	1,063	798	537	404

TABLE 14 Changes in Impaired Loans and Allowances ($ millions)

As at or for the year ended October 31	2002	2001	2000	1999	1998
Gross impaired loans and acceptances, beginning of year	**2,014**	1,501	1,092	824	787
Additions to impaired loans and acceptances	**1,945**	2,041	1,106	1,084	621
Reductions in impaired loans and acceptances (g)	**(738)**	(830)	(446)	(623)	(389)
Net new additions	**1,207**	1,211	660	461	232

Write-offs	**(884)**	(698)	(251)	(193)	(195)
Gross impaired loans and acceptances, end of year	**2,337**	2,014	1,501	1,092	824
Allowance for credit losses (ACL), beginning of year	**1,949**	1,597	1,348	1,166	1,145
Increases — specific allowance	**884**	950	390	290	106
Increases — general allowance	**—**	100	110	85	110
Write-offs (h)	**(884)**	(698)	(251)	(193)	(195)
Allowance for credit losses (i), end of year	**1,949**	1,949	1,597	1,348	1,166

SUPPLEMENTAL INFORMATION

TABLE 15 Changes in Allowance for Credit Losses — Segmented Information ($ millions, except as noted)

	Canada					United States				
As at October 31	**2002**	**2001**	**2000**	**1999**	**1998**	**2002**	**2001**	**2000**	**1999**	**1998**
Allowance for credit losses, beginning of year	**1,266**	1,170	963	868	895	**646**	382	335	268	246
Provision for credit losses	**561**	402	271	210	77	**255**	570	120	98	38
Transfer of allowance	**(231)**	26	68	—	(17)	**225**	(15)	(59)	—	—
Recoveries	**28**	25	30	22	29	**39**	15	14	25	35
Write-offs (a)	**(419)**	(361)	(164)	(131)	(116)	**(465)**	(331)	(42)	(47)	(76)
Other, including foreign exchange	**(5)**	4	2	(6)	—	**—**	25	14	(9)	25
Allowance for credit losses, end of year	**1,200**	1,266	1,170	963	868	**700**	646	382	335	268
Allocation of Write-offs by Market										
Individuals	**(153)**	(144)	(129)	(92)	(60)	**(23)**	(13)	(10)	(12)	(33)
Commercial, corporate and institutional	**(266)**	(217)	(35)	(39)	(56)	**(442)**	(318)	(32)	(35)	(43)
Lesser-developed countries	**—**	—	—	—	—	**—**	—	—	—	—
Allocation of Recoveries by Market										
Individuals	**22**	19	18	17	16	**8**	6	5	5	7
Commercial, corporate and institutional	**6**	6	12	5	13	**31**	9	9	20	28
Net write-offs as a % of average loans and acceptances	**NA**	NA	NA	NA	NA	**NA**	NA	NA	NA	NA

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Other countries					Total				
As at October 31	**2002**	**2001**	**2000**	**1999**	**1998**	**2002**	**2001**	**2000**	**1999**	**1998**
Allowance for credit losses, beginning of year	**37**	45	129	136	98	**1,949**	1,597	1,427	1,272	1,239
Provision for credit losses	**4**	8	(33)	12	15	**820**	980	358	320	130
Transfer of allowance	**6**	(11)	(9)	—	17	**—**	—	—	—	—
Recoveries	**1**	—	—	—	—	**68**	40	44	47	64
Write-offs (a)	**—**	(6)	(45)	(15)	(3)	**(884)**	(698)	(251)	(193)	(195)
Other, including foreign exchange	**1**	1	3	(4)	9	**(4)**	30	19	(19)	34
Allowance for credit losses, end of year	**49**	37	45	129	136	**1,949**	1,949	1,597	1,427	1,272
Allocation of Write-offs by Market										
Individuals	**—**	—	—	—	—	**(176)**	(157)	(139)	(104)	(93)
Commercial, corporate and institutional	**—**	(6)	—	—	—	**(708)**	(541)	(67)	(74)	(99)
Lesser-developed countries	**—**	—	(45)	(15)	(3)	**—**	—	(45)	(15)	(3)
Allocation of Recoveries by Market										
Individuals	**—**	—	—	—	—	**30**	25	23	22	23
Commercial, corporate and institutional	**1**	—	—	—	—	**38**	15	21	25	41
Net write-offs as a % of average loans and acceptances	**NA**	NA	NA	NA	NA	**0.6**	0.4	0.1	0.1	0.1

TABLE 16 Allocation of Allowance for Credit Losses — Segmented Information ($ millions, except as noted)

	Canada					United States				
As at October 31	**2002**	**2001**	**2000**	**1999**	**1998**	**2002**	**2001**	**2000**	**1999**	**1998**
Individuals										
Residential mortgages	**5**	6	6	4	4	**—**	—	—	—	—
Consumer instalment and other personal loans	**4**	6	3	5	4	**—**	2	2	3	5
Total loans to individuals	**9**	12	9	9	8	**—**	2	2	3	5

Diversified commercial (b)	**391**	399	231	134	125	**320**	319	230	182	113
Lesser-developed countries	**—**	—	—	—	—	**—**	—	—	—	—
Off-balance sheet	**—**	—	—	—	—	**—**	—	—	—	—
Total specific allowance	**400**	411	240	143	133	**320**	321	232	185	118
General allowance	**800**	855	930	820	735	**380**	325	150	150	150
Allowance for credit losses	**1,200**	1,266	1,170	963	868	**700**	646	382	335	268
Coverage Ratios										
ACL as a % of gross impaired loans and acceptances										
Total	**116.4**	134.0	153.7	145.0	170.9	**58.9**	63.6	57.5	104.7	118.6
Individuals	**5.4**	6.2	4.6	4.8	5.4	**—**	50.0	100.0	100.0	100.0
Diversified commercial	**45.3**	53.0	40.8	28.0	34.6	**27.2**	31.6	34.8	57.4	51.1
Lesser-developed countries (c)	**na**	na	na	na	na	**na**	na	na	na	na

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Other countries					Total				
As at October 31	**2002**	**2001**	**2000**	**1999**	**1998**	**2002**	**2001**	**2000**	**1999**	**1998**
Individuals										
Residential mortgages	—	—	—	—	—	**5**	6	6	4	4
Consumer instalment and other personal loans	—	—	—	—	—	**4**	8	5	8	9
Total loans to individuals	—	—	—	—	—	**9**	14	11	12	13
Diversified commercial (b)	**31**	37	45	44	24	**742**	755	506	360	262
Lesser-developed countries	**18**	—	—	85	104	**18**	—	—	85	104
Off-balance sheet	—	—	—	—	8	**—**	—	—	—	8
Total specific allowance	**49**	37	45	129	136	**769**	769	517	457	387
General allowance	—	—	—	—	—	**1,180**	1,180	1,080	970	885
Allowance for credit losses	**49**	37	45	129	136	**1,949**	1,949	1,597	1,427	1,272
Coverage Ratios										
ACL as a % of gross impaired loans and acceptances										
Total	**41.5**	68.5	59.2	131.6	142.2	**83.4**	96.8	106.4	130.6	153.3
Individuals	—	—	—	—	—	**5.1**	7.1	5.6	6.3	8.6
Diversified commercial	**31.0**	68.5	59.2	47.8	28.6	**34.6**	41.5	38.8	40.1	39.3
Lesser-developed countries (c)	**100.0**	na	na	100.0	100.0	**100.0**	na	na	100.0	100.0

(a) Write-offs on designated LDCs include losses of $45 million on sales of performing assets that were charged directly against the allowance in 2000.

(b) There are no impaired securities purchased under resale agreements and no related allowances.

(c) Excludes LDC reservations in excess of impaired loans of $79 million in 1999 and $98 million in 1998.

(d) Prior years have been reclassified to conform with the current year presentation.

(e) There has been no provision for credit losses on securities purchased under resale agreements.

NA— not available

na — not applicable

TABLE 17 Provision for Credit Losses — Segmented Information ($ millions)

For the year ended October 31	2002	2001	2000	1999	1998
Individuals					
Residential mortgages	**7**	6	5	7	7
Cards	**58**	48	35	26	26
Personal loans	**79**	74	73	48	30
Total loans to individuals	**144**	128	113	81	63
Diversified Commercial (d)					
Commercial mortgages	**6**	10	(1)	—	—
Commercial real estate	**(2)**	(1)	1	(6)	(66)
Construction (non-real estate)	**(23)**	28	(2)	3	3
Retail trade	**29**	74	20	6	(5)
Wholesale trade	**19**	114	3	10	1
Agriculture	**2**	(1)	(10)	2	(5)
Communications	**399**	129	—	5	13
Manufacturing	**94**	280	81	14	4
Mining	**—**	5	—	—	(3)
Oil and gas	**2**	(22)	6	43	(2)
Transportation	**17**	38	68	8	17
Utilities	**69**	17	(1)	—	3
Forest products	**4**	—	3	2	5
Service industries	**19**	18	14	46	(19)
Financial institutions	**5**	64	(6)	7	12
Other	**(2)**	(1)	1	14	(1)
Total commercial, corporate and institutional (e)	**638**	752	177	154	(43)
Net charge to earnings for general provision	**—**	100	110	85	110
Lesser-developed countries	**38**	—	(42)	—	—
Total provision for credit losses	**820**	980	358	320	130

TABLE 18 Allowance for Credit Losses — Segmented Information ($ millions)

As at October 31	2002	2001	2000	1999	1998
Diversified Commercial Specific Allowance by Industry (d)					
Commercial mortgages	**—**	6	—	4	5
Commercial real estate	**9**	12	30	28	35
Construction (non-real estate)	**5**	31	5	4	4
Retail trade	**18**	59	23	7	8
Wholesale trade	**109**	80	12	8	13
Agriculture	**14**	3	10	6	4
Communications	**116**	60	30	13	8
Manufacturing	**175**	300	96	37	62
Mining	**—**	—	—	—	2
Oil and gas	**20**	18	51	44	1
Transportation	**64**	77	77	23	17
Utilities	**87**	19	2	3	3
Forest products	**6**	10	19	7	6
Service industries	**44**	48	85	56	31
Financial institutions	**11**	26	35	35	27
Other	**64**	6	31	85	36
Total specific allowance for credit losses on diversified commercial loans (b)	**742**	755	506	360	262

TABLE 19 Interest Rate Gap Position ($millions, except as noted)

As at October 31	0 to 3 months	4 to 6 months	7 to 12 months	Total within 1 year	Effective interest rate (%)	1 to 5 years	Effective interest rate (%)	Over 5 years	Effective interest rate (%)	Non-interest sensitive	Effective interest rate (%)	Total
Canadian Dollars												
Assets												
Cash resources	3,583	—	—	3,583	2.31	347	—	—	—	(727)	na	3,203
Securities	22,175	38	55	22,268	4.79	969	8.47	144	7.96	90	na	23,471
Loans	52,866	4,034	6,102	63,002	4.79	22,356	6.28	3,598	6.41	—	na	88,956
Other	10,799	86	171	11,056	na	1,368	na	—	na	6,383	na	18,807
Total assets	89,423	4,158	6,328	99,909		25,040		3,742		5,746		134,437
Liabilities and Shareholders' Equity												
Deposits	43,057	6,153	8,609	57,819	2.81	32,539	1.86	585	6.85	—	na	90,943
Subordinated debt	—	—	250	250	8.85	1,525	7.21	540	8.55	—	na	2,315
Other	22,453	21	43	22,517	na	339	na	1,150	na	5,746	na	29,752
Shareholders' equity	—	—	—	—	na	600	na	450	na	10,377	na	11,427
Total liabilities and shareholders' equity	65,510	6,174	8,902	80,586		35,003		2,725		16,123		134,437
On-balance sheet gap position	23,913	(2,016)	(2,574)	19,323		(9,963)		1,017		(10,377)		—
Off-balance sheet gap position	(23,472)	2,087	3,622	(17,763)		17,362		401		—		—
Total Interest Rate Gap Position												
2002	441	71	1,048	1,560		7,399		1,418		(10,377)		—
2001	3,829	(392)	637	4,074		3,620		1,938		(9,632)		—
2000	2,404	1,355	565	4,324		4,801		1,110		(10,235)		—
1999	(117)	1,103	(5,078)	(4,092)		11,042		2,485		(9,435)		—
1998	2,076	1,437	(7,771)	(4,258)		11,599		1,479		(8,820)		—
U.S. Dollar and Other Currencies												
Assets												
Cash resources	8,927	2,928	2,724	14,579	1.82	1,087	—	389	—	47	na	16,102
Securities	5,164	1,388	1,782	8,334	2.73	9,029	3.55	2,710	3.55	171	na	20,244
Loans	40,646	1,927	1,908	44,481	2.85	8,224	6.17	1,003	6.68	31	na	53,739
Other	1,165	(200)	—	965	na	3,789	na	178	na	23,410	na	28,342
Total assets	55,902	6,043	6,414	68,359		22,129		4,280		23,659		118,427
Liabilities and Shareholders' Equity												
Deposits	44,846	3,921	7,499	56,266	1.95	9,123	1.34	4,559	0.20	947	na	70,895
Subordinated debt	544	—	—	544	2.12	935	6.95	—	na	—	na	1,479
Other	21,655	249	20	21,924	na	677	na	389	na	22,596	na	45,586
Shareholders' equity	—	—	—	—	na	—	na	467	na	—	na	467
Total liabilities and shareholders' equity	67,045	4,170	7,519	78,734		10,735		5,415		23,543		118,427
On-balance sheet gap position	(11,143)	1,873	(1,105)	(10,375)		11,394		(1,135)		116		—
Off-balance sheet gap position	3,107	569	(137)	3,539		(2,858)		(681)		—		—

Total Interest Rate Gap Position									
2002	(8,036)	2,442	(1,242)	(6,836)	8,536	(1,816)	116	—	
2001	(12,985)	1,583	3,540	(7,862)	8,133	(131)	(140)	—	
2000	(10,841)	5,162	838	(4,841)	3,834	575	432	—	
1999	(7,039)	(7,764)	2,969	(11,834)	11,478	(57)	413	—	
1998	(12,524)	731	3,258	(8,535)	7,680	520	335	—	

Gap Position

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, by necessity encompasses numerous assumptions.

The gap position presented is as at October 31 of each 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 BMO's asset and liability management policies.

The assumptions for 2002 were as follows:

Assets

Fixed term assets such as residential mortgages and consumer loans are reported using scheduled repayments and estimated prepayments based upon historical behaviour.

Trading assets are reported in the 0 to 3 months category. Fixed rate non-maturity assets and non-interest bearing non-maturity assets are reported based upon historical balance behaviour.

na — not applicable

Deposits/Liabilities

Interest bearing non-maturity deposits on which interest rates have historically moved in reference to a specific interest rate basis, such as prime, and on which rates are above the minimum rate committed, are reported as interest sensitive in the 0 to 3 months category. Such deposits may be sensitive to declining rates only to the extent of the minimum interest rate committed. When they no longer demonstrate correlation with market interest rate movements, they are reported in time periods based upon expected balance behaviour.

Term deposits and investment certificates are reported based upon scheduled maturity and estimated redemption based upon historical behaviour.

Fixed rate non-maturity liabilities and non-interest bearing non-maturity liabilities are reported based upon historical account balance behaviour.

Capital

Common Shareholders' Equity is reported as non-interest sensitive.

Yields

Yields are based upon the contractual interest rate in effect for the assets or liabilities on October 31, 2002.

TABLE 20 Risk-Weighted Assets ($ millions, except as noted)

As at October 31	Balance	Credit risk equivalent	Risk weighting %	2002 Risk-weighted balance	2001 Risk-weighted balance
Balance sheet items					
Cash resources	**19,305**	**3,689**	**0-20**	**3,689**	3,184
Securities	**43,715**	**17,178**	**0-100**	**6,771**	7,705
Mortgages	**51,912**	**15,300**	**0-100**	**15,300**	14,838
Other loans and acceptances	**97,684**	**71,268**	**0-100**	**71,268**	72,798
Other assets	**40,248**	**7,534**	**0-100**	**7,534**	8,272
Total balance sheet items	**252,864**	**114,969**		**104,562**	106,797
Off-balance sheet items					
Guarantees and standby letters of credit	**11,902**	**10,292**	**0-100**	**8,251**	6,841
Securities lending	**580**	**67**	**0-100**	**38**	319
Documentary and commercial letters of credit	**642**	**128**	**0-100**	**84**	63
Commitments to extend credit:					
Original maturity of one year and under	**72,723**	**—**	**—**	**—**	—
Original maturity of over one year	**21,765**	**10,883**	**0-100**	**9,787**	10,155
Derivative financial instruments	**1,919,431**	**19,901**	**0-50**	**5,994**	5,708
Total off-balance sheet items	**2,027,043**	**41,271**		**24,154**	23,086
Total risk-weighted assets — credit risk				**128,716**	129,883
Total risk-weighted assets — market risk				**2,362**	5,885
Total risk-weighted assets				**131,078**	135,768
Total risk-weighted assets — U.S. basis				**132,730**	139,060

TABLE 21 Capital Adequacy ($ millions, except as noted)

As at October 31	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Tier 1 — Common shareholders' equity	**10,377**	9,632	10,260	9,313	8,650	7,629	6,729	6,174	5,678	4,834
Non-cumulative preferred shares	**1,517**	1,050	1,681	1,668	1,958	1,274	857	858	860	852
Innovative Tier 1 capital	**1,150**	1,150	350	—	—	—	—	—	—	—
Non-controlling interest in subsidiaries	**32**	32	20	27	40	80	101	121	144	66
Goodwill and excess intangible assets (a)	**(1,547)**	(798)	(447)	(430)	(494)	(521)	(557)	(411)	(450)	(159)
Tier 1 Capital	**11,529**	11,066	11,864	10,578	10,154	8,462	7,130	6,742	6,232	5,593
Tier 2 — Subsidiary preferred shares (b)	**377**	397	—	—	—	—	—	—	—	—
Subordinated debt	**3,171**	4,133	4,550	4,522	4,670	3,582	3,179	2,268	1,999	2,248
General allowance for credit losses (c)	**1,147**	1,180	1,007	970	873	775	—	—	—	—
Tier 2 Capital	**4,695**	5,710	5,557	5,492	5,543	4,357	3,179	2,268	1,999	2,248
Less: First loss protection	**192**	325	511	315	323	113	na	na	na	na
Investment in non-consolidated subsidiaries/substantial investments	**—**	—	821	1,010	858	697	625	—	—	—
Total capital	**16,032**	16,451	16,089	14,745	14,516	12,009	9,684	9,010	8,231	7,841
Risk-weighted assets	**131,078**	135,768	134,360	136,964	139,782	124,348	106,267	96,075	86,589	76,074
Risk-weighted capital ratios (%)										
Tier 1	**8.80**	8.15	8.83	7.72	7.26	6.80	6.71	7.02	7.20	7.35
Total	**12.23**	12.12	11.97	10.77	10.38	9.66	9.11	9.38	9.51	10.31
U.S. basis Tier 1	**8.32**	7.87	8.47	7.42	6.95	6.35	6.26	6.82	6.91	7.13
U.S. basis total	**11.60**	11.69	12.50	11.34	10.86	9.92	9.81	9.97	10.07	11.14
Assets-to-capital multiple	**15.8**	14.2	14.8	16.3	16.0	18.0	19.0	17.6	17.7	15.6
Equity-to-assets ratio (%)	**5.3**	5.1	5.4	4.9	5.0	4.4	4.6	4.7	4.8	4.9

(a) In addition to goodwill, intangible assets in excess of gross Tier 1 capital are deducted from Tier 1 capital as required by OSFI guidelines.

(b) Reflects the qualification of existing preferred shares of a subsidiary as Tier 2 capital.

(c) General allowance included with the approval of OSFI beginning in 1997. OSFI approved the inclusion of the lesser of the balance of our general allowance for credit losses or a percentage of risk-weighted assets (0.875% in 2002).

na — not applicable

SUPPLEMENTAL INFORMATION

TABLE 22 Average Deposits ($ millions, except as noted)

	2002		2001		2000	
	Average balance	Average rate paid (%)	Average balance	Average rate paid (%)	Average balance	Average rate paid (%)
Deposits Booked in Canada						
Demand deposits — interest bearing	**6,646**	**1.12**	6,589	2.80	5,909	3.76
Demand deposits — non-interest bearing	**8,327**	**—**	7,193	—	6,621	—
Payable after notice	**32,526**	**1.22**	28,807	2.61	27,391	2.86
Payable on a fixed date	**51,670**	**2.54**	49,253	4.93	51,217	5.09
Total deposits booked in Canada	**99,169**	**1.80**	91,842	3.66	91,138	3.96
Deposits Booked in the U.S. and Other Countries						
U.S. demand deposits	**11,449**	**1.20**	12,635	3.09	12,310	4.08
Other U.S. deposits payable after notice or on a fixed date	**36,007**	**2.55**	34,759	4.72	32,496	6.43
Deposits booked in other countries	**9,764**	**2.83**	16,048	4.86	23,500	5.09
Total average deposits	**156,389**	**2.00**	155,284	3.98	159,444	4.66

As at October 31, 2002, 2001 and 2000, deposits by foreign depositors in our Canadian bank offices amounted to $8,612 million, $8,668 million and $9,148 million, respectively. As at October 31, 2002, 2001 and 2000, total deposits payable after notice included $19,581 million, $20,021 million and $18,597 million, respectively, of chequing accounts that would have been classified as demand deposits under U.S. reporting requirements. As at October 31, 2002, 2001 and 2000, total deposits payable on a fixed date included $14,953 million, $21,362 million and $27,041 million, respectively, of federal funds purchased and commercial paper issued. These amounts would have been classified as short-term borrowings for U.S. reporting purposes.

TABLE 23 Unrealized Gains (Losses) on Investment Securities (a) ($ millions)

			Unrealized gains (losses)				
As at October 31	Book value	Fair value	2002	2001	2000	1999	1998
Government debt and other securities							
Canadian governments	**1,147**	**1,145**	**(2)**	(13)	13	21	NA
U.S. governments	**13,372**	**13,621**	**249**	202	(84)	(92)	NA
Mortgage-backed securities	**1,059**	**1,088**	**29**	53	(139)	(175)	NA
Corporate debt	**3,391**	**3,453**	**62**	11	(117)	(103)	NA
Corporate equity	**2,216**	**2,197**	**(19)**	2	101	9	NA
Other governments	**83**	**85**	**2**	3	—	10	NA
Total government debt and other securities	**21,268**	**21,589**	**321**	258	(226)	(330)	315
Grupo Financiero Bancomer	**—**	**—**	**—**	—	277	(226)	(190)
Lesser-developed countries	**—**	**—**	**—**	—	—	18	65
Equity investment in 724 Solutions Inc.	**3**	**3**	**—**	(14)	134	—	—
Total investment securities	**21,271**	**21,592**	**321**	244	185	(538)	190

(a) Unrealized gains (losses) may be offset by related losses (gains) on liabilities or by hedge contracts.

NA — not available

TABLE 24 Contractual Obligations ($ millions)

As at October 31	Less than one year	1-3 years	4-5 years	Over 5 years	No fixed maturity	Total
Subordinated debt	250	467	467	2,610	—	3,794
Operating leases	195	299	181	421	—	1,096
Deposits (a)	72,876	13,574	5,591	596	69,201	161,838
Capital trust securities (b)	—	—	—	1,150	—	1,150
Total	73,321	14,340	6,239	4,777	69,201	167,878

(a) Includes deposits that are redeemable at the customers' option under certain conditions.

(b) Represents Innovative Tier 1 capital instruments.

TABLE 25 Summarized Statement of Income ($ millions)

	Oct. 31 2002	July 31 2002	April 30 2002	Jan. 31 2002	Oct. 31 2001	July 31 2001
Net interest income (teb)	**1,230**	**1,217**	**1,200**	**1,288**	1,201	1,231
Non-interest revenue	**1,059**	**926**	**1,022**	**917**	750	1,003
Total revenue (teb)	**2,289**	**2,143**	**2,222**	**2,205**	1,951	2,234
Provision for credit losses	**160**	**160**	**320**	**180**	546	117
Non-interest expense	**1,604**	**1,488**	**1,476**	**1,462**	1,449	1,421
Income before provision for income taxes, non-controlling interest in subsidiaries and goodwill	**525**	**495**	**426**	**563**	(44)	696
Provision for income taxes (teb)	**110**	**135**	**110**	**175**	(77)	227
Non-controlling interest in subsidiaries	**17**	**14**	**15**	**16**	14	11
Amortization of goodwill, net of applicable income tax	**–**	**–**	**–**	**–**	15	14
Net income	**398**	**346**	**301**	**372**	4	444
Amortization of goodwill and intangible assets, net of income taxes	**22**	**22**	**15**	**16**	27	25
Cash net income	**420**	**368**	**316**	**388**	31	469
Taxable equivalent adjustment (teb)	**24**	**26**	**29**	**27**	32	44
Reported revenue	**2,265**	**2,117**	**2,193**	**2,178**	1,919	2,190

[Additional columns below]

[Continued from above table, first column(s) repeated]

	April 30 2001	Jan. 31 2001	2002	2001	2000
Net interest income (teb)	1,092	1,117	**4,935**	4,641	4,338
Non-interest revenue	1,393	1,076	**3,924**	4,222	4,326
Total revenue (teb)	2,485	2,193	**8,859**	8,863	8,664
Provision for credit losses	217	100	**820**	980	358
Non-interest expense	1,404	1,397	**6,030**	5,671	5,258
Income before provision for income taxes, non-controlling interest in subsidiaries and goodwill	864	696	**2,009**	2,212	3,048
Provision for income taxes (teb)	233	260	**530**	643	1,123
Non-controlling interest in subsidiaries	10	7	**62**	42	19
Amortization of goodwill, net of applicable income tax	14	13	**–**	56	49
Net income	607	416	**1,417**	1,471	1,857
Amortization of goodwill and intangible assets, net of income taxes	25	24	**75**	101	74
Cash net income	632	440	**1,492**	1,572	1,931
Taxable equivalent adjustment (teb)	32	34	**106**	142	134
Reported revenue	2,453	2,159	**8,753**	8,721	8,530

TABLE 26 Non-Recurring Items ($ millions)

	Oct. 31 2002	July 31 2002	April 30 2002	Jan. 31 2002	Oct. 31 2001	July 31 2001
Non-Interest Revenue						
Gain on sale of Partners First	**–**	**–**	**–**	**–**	–	–
Gain on sale of U.S. Corporate Trust	**–**	**–**	**–**	**–**	–	–
Gain on sales of branches	**–**	**–**	**–**	**–**	–	–

Gain on sale of Bancomer	**–**	**–**	**–**	**–**	–	–
Write-down of equity investments in CBOs	**–**	**–**	**–**	**–**	(178)	–
Total non-interest revenue	**–**	**–**	**–**	**–**	(178)	–
Provision for Credit Losses						
Reversal of loss provision on sale of LDC securities	**–**	**–**	**–**	**–**	–	–
Increase of general allowance	**–**	**–**	**–**	**–**	–	–
Total provision for credit losses	**–**	**–**	**–**	**–**	–	–
Non-Interest Expense						
Reversal of restructuring charge	**–**	**–**	**–**	**–**	–	–
Acquisition-related costs	**39**	**23**	**–**	**–**	–	–
Total non-interest expense	**39**	**23**	**–**	**–**	–	–
Pre-tax impact of non-recurring items	**(39)**	**(23)**	**–**	**–**	(178)	–
Income taxes thereon	**(14)**	**(9)**	**–**	**–**	(73)	–
Adjustment of future tax assets	**–**	**–**	**–**	**–**	–	–
After-tax non-recurring items	**(25)**	**(14)**	**–**	**–**	(105)	–

[Additional columns below]

[Continued from above table, first column(s) repeated]

	April 30 2001	Jan. 31 2001	**2002**	2001	2000
Non-Interest Revenue					
Gain on sale of Partners First	–	–	**–**	–	112
Gain on sale of U.S. Corporate Trust	–	–	**–**	–	74
Gain on sales of branches	5	7	**–**	12	40
Gain on sale of Bancomer	284	37	**–**	321	–
Write-down of equity investments in CBOs	–	–	**–**	(178)	–
Total non-interest revenue	289	44	**–**	155	226
Provision for Credit Losses					
Reversal of loss provision on sale of LDC securities	–	–	**–**	–	(42)
Increase of general allowance	100	–	**–**	100	–
Total provision for credit losses	100	–	**–**	100	(42)
Non-Interest Expense					
Reversal of restructuring charge	–	–	**–**	–	(43)
Acquisition-related costs	–	–	**62**	–	–
Total non-interest expense	–	–	**62**	–	(43)
Pre-tax impact of non-recurring items	189	44	**(62)**	55	311
Income taxes thereon	4	6	**(23)**	(63)	126
Adjustment of future tax assets	–	25	**–**	25	–
After-tax non-recurring items	185	13	**(39)**	93	185

TABLE 27 Summarized Statement of Income Excluding Non-Recurring Items ($ millions)

	Oct. 31 2002	**July 31 2002**	**April 30 2002**	**Jan. 31 2002**	Oct. 31 2001	July 31 2001
Net interest income (teb)	**1,230**	**1,217**	**1,200**	**1,288**	1,201	1,231
Non-interest revenue	**1,059**	**926**	**1,022**	**917**	928	1,003
Total revenue (teb)	**2,289**	**2,143**	**2,222**	**2,205**	2,129	2,234
Provision for credit losses	**160**	**160**	**320**	**180**	546	117
Non-interest expense	**1,565**	**1,465**	**1,476**	**1,462**	1,449	1,421

Income before provision for income taxes, non-controlling interest in subsidiaries and goodwill	**564**	**518**	**426**	**563**	134	696
Provision for income taxes (teb)	**124**	**144**	**110**	**175**	(4)	227
Non-controlling interest in subsidiaries	**17**	**14**	**15**	**16**	14	11
Amortization of goodwill, net of applicable income tax	**–**	**–**	**–**	**–**	15	14
Net income	**423**	**360**	**301**	**372**	109	444
Amortization of goodwill and intangible assets, net of income taxes	**22**	**22**	**15**	**16**	27	25
Cash net income	**445**	**382**	**316**	**388**	136	469

[Additional columns below]

[Continued from above table, first column(s) repeated]

	April 30 2001	Jan. 31 2001	**2002**	2001	2000
Net interest income (teb)	1,092	1,117	**4,935**	4,641	4,338
Non-interest revenue	1,104	1,032	**3,924**	4,067	4,100
Total revenue (teb)	2,196	2,149	**8,859**	8,708	8,438
Provision for credit losses	117	100	**820**	880	400
Non-interest expense	1,404	1,397	**5,968**	5,671	5,301
Income before provision for income taxes, non-controlling interest in subsidiaries and goodwill	675	652	**2,071**	2,157	2,737
Provision for income taxes (teb)	229	229	**553**	681	997
Non-controlling interest in subsidiaries	10	7	**62**	42	19
Amortization of goodwill, net of applicable income tax	14	13	**–**	56	49
Net income	422	403	**1,456**	1,378	1,672
Amortization of goodwill and intangible assets, net of income taxes	25	24	**75**	101	74
Cash net income	447	427	**1,531**	1,479	1,746

TABLE 28 Quarterly Financial Measures

	Oct. 31 2002	July 31 2002	April 30 2002	Jan. 31 2002	Oct. 31 2001	July 31 2001
Information per Common Share ($)						
Dividends declared	**0.30**	**0.30**	**0.30**	**0.30**	0.28	0.28
Net income before goodwill						
Basic (a)	**0.77**	**0.66**	**0.57**	**0.73**	0.03	0.87
Diluted (a)	**0.75**	**0.65**	**0.57**	**0.71**	0.04	0.85
Earnings						
Basic	**0.77**	**0.66**	**0.57**	**0.73**	–	0.85
Diluted	**0.75**	**0.65**	**0.57**	**0.71**	–	0.83
Excluding non-recurring items	**0.80**	**0.68**	**0.57**	**0.71**	0.19	0.83
Cash earnings						
Basic	**0.81**	**0.71**	**0.60**	**0.76**	0.06	0.89
Diluted	**0.79**	**0.70**	**0.59**	**0.75**	0.06	0.88
Excluding non-recurring items	**0.85**	**0.72**	**0.59**	**0.75**	0.25	0.88
Book value	**21.07**	**20.74**	**20.29**	**20.11**	19.69	20.44
Market price						
High	**40.65**	**38.13**	**39.60**	**37.70**	44.10	43.25
Low	**34.15**	**31.00**	**34.05**	**34.39**	32.75	34.20
Close	**38.10**	**35.26**	**37.68**	**36.00**	33.86	40.85
Financial Measures (%) (b)						
Five-year average total shareholder return	**7.9**	**7.4**	**11.6**	**12.5**	14.3	23.9
Diluted earnings per share growth	**+100.0**	**(21.7)**	**(48.2)**	**(2.7)**	(+100.0)	20.3
Excluding non-recurring items	**+100.0**	**(18.1)**	**(25.0)**	**1.4**	(75.0)	23.9
Diluted cash earnings per share growth	**+100.0**	**(20.5)**	**(48.7)**	**(2.6)**	(93.3)	20.5
Excluding non-recurring items	**+100.0**	**(18.2)**	**(26.3)**	**–**	(68.8)	23.9
Return on equity	**14.6**	**12.9**	**11.6**	**14.5**	(0.4)	16.8
Excluding non-recurring items	**15.5**	**13.5**	**11.6**	**14.5**	3.8	16.8
Cash return on equity	**15.4**	**13.8**	**12.2**	**15.2**	0.7	17.8
Excluding non-recurring items	**16.4**	**14.4**	**12.2**	**15.2**	4.8	17.8
Net economic profit growth	**+100.0**	**(54.6)**	**(88.2)**	**(21.4)**	(+100.0)	48.9
Net income growth	**+100.0**	**(22.0)**	**(50.4)**	**(10.5)**	(99.1)	10.5
Excluding non-recurring items	**+100.0**	**(18.8)**	**(28.8)**	**(7.5)**	(74.6)	13.5
Revenue growth	**17.3**	**(4.1)**	**(10.5)**	**0.6**	(9.7)	6.6
Excluding non-recurring items	**7.5**	**(4.1)**	**1.2**	**2.6**	(1.2)	7.5
Non-interest expense-to-revenue ratio	**70.1**	**69.4**	**66.4**	**66.3**	74.2	63.6
Excluding non-recurring items	**68.3**	**68.4**	**66.4**	**66.3**	68.1	63.6
Provision for credit losses as a % of average net loans and acceptances	**0.43**	**0.44**	**0.87**	**0.49**	1.49	0.32
Excluding non-recurring items	**0.43**	**0.44**	**0.87**	**0.49**	1.49	0.32
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	**15.16**	**13.55**	**14.19**	**14.64**	14.17	12.55
Cash and securities-to-total assets	**24.9**	**24.2**	**26.0**	**25.2**	23.1	25.6
Tier 1 ratio	**8.80**	**8.72**	**8.61**	**8.87**	8.15	8.84
Credit rating (c)	**AA–**	**AA–**	**AA–**	**AA–**	AA–	AA–

[Additional columns below]

[Continued from above table, first column(s) repeated]

	April 30 2001	Jan. 31 2001	**2002**	2001	2000
Information per Common Share ($)					
Dividends declared	0.28	0.28	**1.20**	1.12	1.00
Net income before goodwill					
Basic (a)	1.16	0.77	**2.73**	2.83	3.40
Diluted (a)	1.13	0.75	**2.68**	2.77	3.34
Earnings					
Basic	1.13	0.74	**2.73**	2.72	3.30
Diluted	1.10	0.73	**2.68**	2.66	3.25
Excluding non-recurring items	0.76	0.70	**2.76**	2.48	2.91
Cash earnings					
Basic	1.18	0.79	**2.88**	2.92	3.45
Diluted	1.15	0.77	**2.83**	2.86	3.39

Excluding non-recurring items	0.80	0.75	**2.91**	2.68	3.05
Book value	19.93	19.53	**21.07**	19.69	19.63
Market price					
High	44.40	41.70	**40.65**	44.40	35.80
Low	35.00	33.40	**31.00**	32.75	21.00
Close	35.20	40.89	**38.10**	33.86	35.25
Financial Measures (%) (b)					
Five-year average total shareholder return	20.4	23.8	**7.9**	14.3	22.9
Diluted earnings per share growth	26.4	(12.0)	**0.8**	(18.2)	38.9
Excluding non-recurring items	(2.6)	–	**11.3**	(14.8)	15.9
Diluted cash earnings per share growth	27.8	(10.5)	**(1.0)**	(15.6)	37.8
Excluding non-recurring items	–	1.4	**8.6**	(12.1)	15.5
Return on equity	23.7	15.3	**13.4**	13.8	18.0
Excluding non-recurring items	16.2	14.8	**13.8**	12.9	16.1
Cash return on equity	24.7	16.2	**14.2**	14.8	18.8
Excluding non-recurring items	17.2	15.7	**14.6**	13.9	16.9
Net economic profit growth	55.6	(27.6)	**(15.2)**	(43.3)	90.0
Net income growth	22.3	(12.3)	**(3.7)**	(20.8)	34.4
Excluding non-recurring items	(4.9)	(1.1)	**5.7**	(17.6)	13.1
Revenue growth	8.8	3.2	**–**	2.3	9.3
Excluding non-recurring items	–	6.8	**1.7**	3.2	6.1
Non-interest expense-to-revenue ratio	56.5	63.7	**68.1**	64.0	60.7
Excluding non-recurring items	63.9	65.0	**67.4**	65.1	62.8
Provision for credit losses as a % of average net loans and acceptances	0.57	0.27	**0.56**	0.66	0.25
Excluding non-recurring items	0.31	0.27	**0.56**	0.60	0.28
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	11.52	11.94	**15.16**	14.17	10.51
Cash and securities-to-total assets	26.4	26.3	**24.9**	23.1	27.8
Tier 1 ratio	8.94	8.87	**8.80**	8.15	8.83
Credit rating (c)	AA–	AA–	**AA–**	AA–	AA–

(a) Reported diluted exceeds basic in the quarter ended October 31, 2001 because of rounding.
(b) All quarterly ratios have been annualized.
(c) Composite of Moody's and Standard & Poor's ratings on Senior Debt.

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 29 Other Statistical Information

As at October 31	2002	2001	2000	1999	1998
Other Information					
Employees (a)	**33,912**	33,842	33,200	32,844	33,400
Bank branches	**1,134**	1,129	1,135	1,198	1,216
Automated banking machines (Canada)	**2,000**	1,982	1,987	2,039	2,069
Rates					
Average Canadian prime rate (%)	**4.15**	6.55	7.05	6.49	6.44
Average U.S. prime rate (%)	**4.79**	7.68	9.18	8.00	8.59
Canadian/U.S. dollar exchange rates ($)					
High	**1.61**	1.49	1.44	1.45	1.40
Low	**1.51**	1.59	1.53	1.56	1.58
Average	**1.57**	1.54	1.48	1.50	1.46
End of period	**1.56**	1.59	1.52	1.47	1.54

[Additional columns below]

[Continued from above table, first column(s) repeated]

As at October 31	1997	1996	1995	1994	1993
Other Information					
Employees (a)	34,286	33,468	33,341	34,769	32,067
Bank branches	1,246	1,296	1,245	1,248	1,214
Automated banking machines (Canada)	2,035	2,017	1,763	1,708	1,538
Rates					
Average Canadian prime rate (%)	4.80	6.67	8.58	6.42	6.44
Average U.S. prime rate (%)	8.51	8.49	8.89	6.69	6.04

Canadian/U.S. dollar exchange rates ($)					
High	1.33	1.34	1.33	1.29	1.24
Low	1.41	1.38	1.42	1.40	1.34
Average	1.37	1.37	1.38	1.36	1.29
End of period	1.41	1.34	1.34	1.35	1.32

(a) Reflects full-time equivalent number of employees, comprising full-time and part-time employees and adjustments for overtime hours.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

BMO's management is responsible for presentation and preparation of the annual consolidated financial statements, Management's Discussion and Analysis ("MD&A") and all other information in the Annual Report.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Securities and Exchange Commission ("SEC") in the United States, as applicable. The financial statements also comply with the provisions of the Bank Act and related regulations, including the accounting requirements of the Superintendent of Financial Institutions Canada.

The MD&A has been prepared in accordance with the requirements of securities regulators including National Instrument 44-101 of the Canadian Securities Administrators as well as Item 303 of Regulation S-K of the Securities Exchange Act, and their related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the estimated impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

In meeting our responsibility for the reliability of financial information, we maintain and rely on a comprehensive system of internal control and internal audit, including organizational and procedural controls and internal accounting controls. Our system of internal control includes written communication of our 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 we regularly update. This structure ensures appropriate internal control over transactions, assets and records. We also regularly audit internal controls. These controls and audits are designed to provide us with 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 we are in compliance with all regulatory requirements.

We, as Bank of Montreal's Chief Executive Officer and Chief Financial Officer, will be certifying Bank of Montreal's annual disclosure document filed with the SEC (Form 40-F) as required by the new United States Sarbanes-Oxley Act.

In order to provide their opinion on our consolidated financial statements, the Shareholders' Auditors review our system of internal control and conduct their work to the extent that they consider appropriate.

The Board of Directors is responsible for reviewing and approving the financial information contained in the Annual Report, including the MD&A, and overseeing management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls, management and control of major risk areas and assessment of significant and related party transactions. The Board delegates these responsibilities to its Audit and Conduct Review Committees, comprised of non-management directors, and to its Risk Review Committee.

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.

/s/ F. Anthony Comper

F. Anthony Comper
Chairman and
Chief Executive Officer

/s/ Karen Maidment

Karen Maidment
Executive Vice-President
and Chief Financial Officer

Canada
November 26, 2002

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, 2002 and 2001 and the related consolidated statements of income, changes in shareholders' equity and cash flow for each of the years in the three-year period ended October 31, 2002. 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 Canadian 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, 2002 and 2001 and the results of its operations and its cash flow for each of the years in the three-year period ended October 31, 2002 in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

/s/ KPMG LLP

KPMG LLP
Chartered Accountants

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants

Canada
November 26, 2002

CONSOLIDATED BALANCE SHEET

As at October 31 (Canadian $ in millions)	2002	2001
Assets		
Cash Resources (Notes 2 & 22)	**$ 19,305**	$ 17,656
Securities (Notes 3 & 22)		
Investment (fair value $21,592 in 2002 and $21,714 in 2001)	**21,271**	21,470
Trading	**22,427**	16,200
Loan substitutes	**17**	6
	43,715	37,676
Loans (Notes 4 & 6)		
Residential mortgages	**47,569**	41,941
Consumer instalment and other personal	**21,168**	19,107
Credit cards	**2,280**	1,527
Businesses and governments	**57,963**	61,249
Securities purchased under resale agreements	**15,664**	14,954
	144,644	138,778
Allowance for credit losses	**(1,949)**	(1,949)
	142,695	136,829
Other		
Customers' liability under acceptances	**6,901**	7,936
Premises and equipment (Note 8)	**2,159**	2,170
Other assets (Note 9)	**38,089**	37,142
	47,149	47,248
Total Assets	**$252,864**	$239,409
Liabilities and Shareholders' Equity		
Deposits (Note 12)		
Banks	**$ 15,273**	$ 20,539
Businesses and governments	**71,411**	66,132
Individuals	**75,154**	67,619
	161,838	154,290
Other Liabilities (Note 13)		
Acceptances	**6,901**	7,936
Securities sold but not yet purchased	**7,654**	6,609
Securities sold under repurchase agreements	**24,796**	17,480
Other	**35,987**	37,738
	75,338	69,763
Subordinated Debt (Note 14)	**3,794**	4,674
Shareholders' Equity		
Share capital (Note 15)	**4,976**	4,425
Retained earnings	**6,918**	6,257
	11,894	10,682
Total Liabilities and Shareholders' Equity	**$252,864**	$239,409

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

/s/ F. Anthony Comper
F. Anthony Comper
Chairman and Chief Executive Officer

/s/ Jeremy H. Reitman

Jeremy H. Reitman

Chairman, Audit Committee

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended October 31 (Canadian $ in millions except per share amounts)	2002	2001	2000
Interest, Dividend and Fee Income			
Loans	**$ 7,017**	$ 9,689	$ 10,404
Securities (Note 3)	**1,616**	2,419	2,854
Deposits with banks	**502**	892	1,045
	9,135	13,000	14,303
Interest Expense			
Deposits	**3,134**	6,183	7,426
Subordinated debt	**294**	351	350
Other liabilities	**878**	1,967	2,323
	4,306	8,501	10,099
Net Interest Income	**4,829**	4,499	4,204
Provision for credit losses	**820**	980	358
Net Interest Income After Provision for Credit Losses	**4,009**	3,519	3,846
Non-Interest Revenue			
Securities commissions and fees	**813**	742	859
Deposit and payment service charges	**732**	670	646
Trading revenues	**209**	490	388
Lending fees	**306**	352	322
Card fees	**260**	204	216
Investment management and custodial fees	**314**	336	373
Mutual fund revenues	**309**	251	232
Securitization revenues (Note 6)	**329**	331	343
Underwriting and advisory fees	**228**	234	210
Investment securities gains (losses) (Note 3)	**(146)**	123	183
Foreign exchange, other than trading	**151**	127	146
Insurance income	**105**	125	96
Other revenues	**314**	237	312
	3,924	4,222	4,326
Net Interest Income and Non-Interest Revenue	**7,933**	7,741	8,172
Non-Interest Expense			
Employee compensation (Note 16)	**3,403**	3,212	3,065
Premises and equipment (Note 8)	**1,280**	1,153	1,071
Communications	**173**	194	259
Other expenses	**1,087**	1,069	883
	5,943	5,628	5,278
Amortization of intangible assets (Note 9)	**87**	43	23
	6,030	5,671	5,301
Restructuring charge (Note 17)	**–**	–	(43)
Total Non-Interest Expense	**6,030**	5,671	5,258
Income Before Provision for Income Taxes, Non-Controlling Interest in Subsidiaries and Goodwill Amortization	**1,903**	2,070	2,914
Income taxes (Note 18)	**424**	501	989
	1,479	1,569	1,925
Non-controlling interest in subsidiaries	**62**	42	19
Net Income Before Goodwill Amortization	**1,417**	1,527	1,906
Amortization of goodwill, net of applicable income tax (Notes 9 & 18)	**–**	56	49
Net Income	**$ 1,417**	$ 1,471	$ 1,857
Preferred dividends	**$ 79**	$ 80	$ 101
Net income before goodwill amortization available to common shareholders	**$ 1,338**	$ 1,447	$ 1,805
Net income available to common shareholders	**$ 1,338**	$ 1,391	$ 1,756

Average common shares outstanding (in thousands)	**490,816**	511,286	531,318
Earnings Per Share Before Goodwill Amortization (Note 19)			
Basic	**$ 2.73**	$ 2.83	$ 3.40
Diluted	**2.68**	2.77	3.34
Earnings Per Share (Note 19)			
Basic	**2.73**	2.72	3.30
Diluted	**2.68**	2.66	3.25
Dividends Declared Per Common Share	**1.20**	1.12	1.00

The accompanying notes to consolidated financial statements are an integral part of this statement. Certain comparative figures have been reclassified to conform with the current year's presentation. The earnings per share calculations for the year ended October 31, 2000 have been restated to reflect the stock dividend declared on March 1, 2001 of one common share of no value, for each common share.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Year Ended October 31 (Canadian $ in millions)	2002	2001	2000
Preferred Shares (Note 15)			
Balance at beginning of year	**$ 1,050**	$ 1,681	$ 1,668
Issued during the year	**478**	—	—
Redeemed during the year	**—**	(633)	—
Translation adjustment on shares issued in a foreign currency	**(11)**	2	13
Balance at End of Year	**1,517**	1,050	1,681

	Number of Shares					
	2002	2001	2000			
Common Shares (Note 15)						
Balance at beginning of year	**489,084,527**	522,583,894	534,064,200	**3,375**	3,173	3,190
Issued under the Shareholder Dividend Reinvestment and Share Purchase Plans	**1,204,820**	903,186	1,373,272	**44**	35	37
Issued under the Stock Option Plan	**1,923,115**	6,177,235	1,915,282	**37**	114	35
Issued on the exchange of shares of subsidiary corporations	**292,416**	1,134,765	959,140	**3**	7	6
Issued on the acquisition of businesses (Note 10)	**—**	10,285,447	—	**—**	400	—
Cancellation of stock options granted on acquisition of an investment (Note 15)	**—**	—	—	**—**	(22)	—
Repurchased for cancellation (Note 15)	**—**	(52,000,000)	(15,728,000)	**—**	(332)	(95)
Balance at End of Year	**492,504,878**	489,084,527	522,583,894	**3,459**	3,375	3,173
Retained Earnings						
Balance at beginning of year				**6,257**	7,087	6,123
Cumulative impact of adopting Future Employee Benefits standard, net of applicable income tax (Note 16)				**—**	(250)	—
				6,257	6,837	6,123
Net income				**1,417**	1,471	1,857
Dividends — Preferred shares				**(79)**	(80)	(101)
— Common shares				**(589)**	(568)	(530)
Net unrealized gain (loss) on translation of net investments in foreign operations				**(81)**	179	143
Recognition of unrealized translation losses on disposition of an investment in a foreign operation (Note 3)				**—**	99	—
Gain on cancellation of stock options granted on acquisition of an investment, net of applicable income tax (Note 15)				**—**	18	—
Common shares repurchased for cancellation (Note 15)				**—**	(1,699)	(405)
Share issue expense, net of applicable income tax				**(7)**	—	—
Balance at End of Year				**6,918**	6,257	7,087
Total Shareholders' Equity				**$11,894**	$10,682	$11,941
Supplemental Disclosure of Net Unrealized Gain (Loss) on Translation of Net Investments in Foreign Operations						
Unrealized gain (loss) on translation of net investments in foreign operations				**$ (200)**	$ 440	$ 322
Hedging gain (loss)				**200**	(439)	(332)
Net income tax benefit (expense)				**(81)**	178	153
Net unrealized gain (loss) on translation of net investments in foreign operations				**$ (81)**	$ 179	$ 143

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

CONSOLIDATED STATEMENT OF CASH FLOW

For the Year Ended October 31 (Canadian $ in millions)	2002	2001	2000
Cash Flows from Operating Activities			
Net income	**$ 1,417**	$ 1,471	$ 1,857
Adjustments to determine net cash flows provided by (used in) operating activities			
Provision for credit losses	**820**	980	358
Amortization of premises and equipment	**396**	406	402
Amortization of intangible assets	**100**	56	33
Amortization of goodwill (Note 9)	**—**	62	54
Gain on sale of securitized loans	**(168)**	(82)	(23)
Write-down of investment securities	**322**	284	16
Restructuring charge	**—**	—	(43)
Future income tax expense (benefit)	**283**	(180)	131
Net (gain) on sale of investment securities	**(176)**	(407)	(199)
Change in accrued interest			
(Increase) decrease in interest receivable	**256**	512	(202)
Increase (decrease) in interest payable	**(189)**	(250)	182
Net (increase) decrease in unrealized gains and amounts receivable on derivative contracts	**1,207**	(9,318)	(4,402)
Net increase (decrease) in unrealized losses and amounts payable on derivative contracts	**(1,551)**	10,304	4,313
Net (increase) decrease in trading securities	**(6,227)**	5,794	(4,748)
Net (decrease) in current income taxes payable	**(175)**	(80)	(423)
Changes in other items and accruals, net	**(412)**	1,105	(294)
Net Cash Provided by (Used in) Operating Activities	**(4,097)**	10,657	(2,988)
Cash Flows from Financing Activities			
Net increase (decrease) in deposits	**7,548**	(3,793)	(905)
Net increase (decrease) in securities sold but not yet purchased	**1,045**	(2,744)	(1,097)
Net increase (decrease) in securities sold under repurchase agreements	**7,316**	(2,499)	(4,428)
Net (decrease) in liabilities of subsidiaries	**(1,313)**	(15)	(1,219)
Proceeds from issuance of securities of a subsidiary	**—**	800	350
Proceeds from issuance of subordinated debt	**—**	—	300
Repayment of subordinated debt	**(850)**	(300)	(150)
Redemption of preferred shares	**—**	(633)	—
Proceeds from issuance of preferred shares	**478**	—	—
Proceeds from issuance of common shares	**81**	149	72
Share issue expense, net of applicable income tax	**(7)**	—	—
Common shares repurchased for cancellation	**—**	(2,031)	(500)
Dividends paid	**(668)**	(648)	(631)
Net Cash Provided by (Used in) Financing Activities	**13,630**	(11,714)	(8,208)
Cash Flows from Investing Activities			
Net (increase) decrease in interest bearing deposits with banks	**(1,407)**	2,308	5,253
Purchase of investment securities	**(37,437)**	(35,979)	(31,524)
Maturities of investment securities	**27,444**	25,955	24,299
Proceeds from sales of investment securities	**9,928**	13,838	8,966
Net (increase) in loans and loan substitute securities	**(6,338)**	(6,694)	(6,322)
Proceeds from securitization of assets	**519**	2,234	1,837
Net (increase) decrease in securities purchased under resale agreements	**(710)**	1,354	8,782
Proceeds from sale of land (Note 8)	**122**	—	—
Premises and equipment — net purchases	**(384)**	(399)	(345)
Acquisitions (Note 10)	**(1,028)**	(245)	(25)
Net Cash Provided by (Used in) Investing Activities	**(9,291)**	2,372	10,921
Net Increase (Decrease) in Cash and Cash Equivalents	**242**	1,315	(275)
Cash and Cash Equivalents at Beginning of Year	**3,459**	2,144	2,419
Cash and Cash Equivalents at End of Year	**$ 3,701**	$ 3,459	$ 2,144
Represented by:			
Cash and non-interest bearing deposits with Bank of Canada and other banks	**$ 1,257**	$ 2,066	$ 1,219
Cheques and other items in transit, net	**2,444**	1,393	925
	$ 3,701	$ 3,459	$ 2,144

Supplemental Disclosure of Cash Flow Information			
Amount of interest paid in the year	**$ 4,495**	$ 8,751	$ 9,917
Amount of income taxes paid in the year	**393**	405	1,123

The accompanying notes to consolidated financial statements are an integral part of this statement. Certain comparative figures have been reclassified to conform with the current year's presentation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Canadian $ in millions unless otherwise stated)

NOTE 1 Basis of Presentation

We prepare our consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") including the accounting requirements of our regulator, the Superintendent of Financial Institutions Canada.

In addition, our consolidated financial statements comply with disclosure requirements of United States GAAP, except for United States GAAP disclosures provided in our Management's Discussion and Analysis and disclosures related to Canadian and United States GAAP differences disclosed in Note 25. The more significant differences in consolidated total assets, total liabilities or net income arising from applying United States GAAP are described in Note 25.

Basis of Consolidation

We conduct business through a variety of corporate structures, including subsidiaries and joint ventures. Subsidiaries are those where we exercise control through our ownership of the majority of the voting shares. Joint ventures are where we exercise joint control through an agreement with other shareholders All of the assets, liabilities, revenues and expenses of our subsidiaries and proportionate share of the assets, liabilities, revenues and expenses of our ventures are included in our consolidated financial statements.

All significant inter-company transactions and balances are eliminated.

Trust assets under administration, mutual fund assets under management assets held in off-balance sheet special-purpose entities (Note 7) are maintained separately and are not included in our Consolidated Balance Sheet.

Translation of Foreign Currencies

We conduct business in a variety of foreign currencies and report our consolidated financial statements in Canadian dollars. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated using the average exchange rate for the year.

Unrealized gains and losses arising from translating net investments in foreign operations into Canadian dollars, net of applicable income taxes and related hedging activities, are included in retained earnings in our Consolidated Balance Sheet. When we sell or liquidate an investment in any foreign operation, the associated translation gains and losses, previously included in retained earnings, are recorded in non-interest revenue as part of the gain or loss on disposal of the investment. All other foreign currency translation gains and losses are included in non-interest revenue.

From time to time, we enter into foreign exchange hedge contracts to reduce our exposure to changes in the value of foreign currencies. Realized and unrealized gains and losses on the translation of foreign exchange hedge contracts are included in non-interest revenue unless they relate to a net investment in foreign operations, in which case they are included in retained earnings.

Use of Estimates

In preparing our consolidated financial statements we must make estimates and assumptions, mainly concerning values, which affect reported amounts of assets, liabilities, net income and related disclosures. The most significant assets and liabilities where we must make estimates include measurement of the allowance for credit losses, trading instruments when no prices or quotes are available, tax assets and liabilities, pension and other future employee benefits obligations, goodwill and other intangible assets, retained interests in securitization vehicles and assessing other than temporary impairment of investment securities. If actual results differ from the estimates, the impact would be recorded in future periods.

Specific Accounting Policies

To facilitate a better understanding of our consolidated financial statements we have disclosed our significant accounting policies in blue throughout the following notes with the related financial disclosures by major caption.

Changes in Accounting Policies

New accounting policies issued by standard setters adopted in the current year and those that will become effective next year are described in Notes 3, 7, 9, 16, 23 and 25.

NOTE 2 Cash Resources

	2002	2001
Cash and non-interest bearing deposits with Bank of Canada and other banks	$ 1,257	$ 2,066
Interest bearing deposits with banks	15,604	14,197
Cheques and other items in transit, net	2,444	1,393
Total	$19,305	$17,656

Deposits with Banks

Deposits with banks are recorded at cost and include acceptances which we have purchased that have been issued by other banks. Interest income earned on these deposits is recorded on an accrual basis.

Cheques and Other Items in Transit, Net

Cheques and other items in transit are recorded at cost and represent the net position of the uncleared cheques and other items in transit between us and other banks.

Cash Restrictions

We have a number of banking subsidiaries whose cash is available for use in their own business and may not be used by other related corporations.

In addition, some of our subsidiaries are required to maintain reserves or minimum balances with central banks in their respective countries of operation amounting to $257 as at October 31, 2002 and $472 as at October 31, 2001.

NOTE 3 Securities

Securities are divided into three components, each with a different purpose and accounting treatment. The three types of securities we hold are as follows:

- **Investment securities** are comprised of equity and debt securities that we purchase with the intention of holding until maturity or until market conditions, such as a change in interest rates, provide us with a better investment opportunity. Equity securities are recorded at cost and debt securities at amortized cost. Our investments in equity securities where we exert significant influence, but not control, over a corporation are recorded at cost and adjusted for our proportionate share of the corporation's net income or loss. When we identify a decline in value that is other than temporary, the affected securities are written down to their fair value. Any write-downs or gains and losses on the disposal of our investment securities are recorded in the year they occur and are included in our Consolidated Statement of Income as either an increase or a decrease in investment securities gains (losses). Gains and losses on disposal are calculated using the average cost of the securities sold. Investment securities of designated countries are accounted for in accordance with our accounting policy for loans which is described in Note 4.

- **Trading securities** are securities that we purchase for resale over a short period of time. We report these securities at their market value and record the mark-to-market adjustments and any gains and losses on the sale of these securities in our Consolidated Statement of Income in trading revenues.

- **Loan substitute securities** are customer financings, such as distressed preferred shares, that we structure as after-tax investments to provide our customers with an interest rate advantage over what would be applicable on a conventional loan. These securities are accounted for in accordance with our accounting policy for loans which is described in Note 4.

We did not own any securities issued by a single non-government entity where the book value, as at October 31, 2002 or October 31, 2001, was greater than 10% of our shareholders' equity.

Change in Accounting Policy

Prior to November 1, 2001, we amortized goodwill that arose at the time of acquisition when adjusting the value of our investment securities where we exert significant influence. This change in accounting requirements is described in Note 9.

	Term to maturity									
	Within 1 year		1 to 3 years		3 to 5 years		5 to 10 years		Over 10 years	
Investment Securities		Yield		Yield		Yield		Yield		Yield
Issued or guaranteed by:		%		%		%		%		%
Canadian federal government	$ 557	3.58	$ 588	4.38	$ —	—	$ —	—	$ —	—
Canadian provincial and municipal governments	2	2.90	—	—	—	—	—	—	—	—
U.S. federal government	1,001	1.97	2,069	2.76	1,396	3.63	1,241	4.18	—	—
U.S. states, municipalities and agencies	3,671	2.77	2,858	3.50	689	5.67	219	7.12	228	3.05
Other governments	34	4.19	32	5.21	6	6.38	11	5.65	—	—
Mortgage-backed securities and collateralized mortgage obligations	1	13.75	—	—	1	5.60	584	4.88	473	5.64
Corporate debt	944	4.28	625	5.64	1,279	6.87	352	5.28	191	4.55
Corporate equity	157	7.74	364	9.69	411	8.81	83	8.21	1,204	2.15
Total investment securities	6,367	3.07	6,536	3.90	3,782	5.67	2,490	4.90	2,096	3.25
Trading Securities										
Issued or guaranteed by:										
Canadian federal government	1,851		963		852		897		1,045	
Canadian provincial and municipal governments	227		234		157		307		476	
U.S. federal government	367		98		76		18		50	
U.S. states, municipalities and agencies	—		—		—		—		—	
Other governments	—		—		—		19		—	
Corporate debt	2,711		362		216		439		1,211	
Corporate equity	—		—		—		—		9,851	
Total trading securities	5,156		1,657		1,301		1,680		12,633	
Loan Substitute Securities	11		—		6		—		—	
Total Securities	$ 11,534		$8,193		$5,089		$4,170		$14,729	

[Additional columns below]

[Continued from above table, first column(s) repeated]

	2002 Total book value		2001 Total book value
Investment Securities		Yield	
Issued or guaranteed by:		%	
Canadian federal government	$ 1,145	3.99	$ 436
Canadian provincial and municipal governments	2	2.90	43
U.S. federal government	5,707	3.14	2,801
U.S. states, municipalities and agencies	7,665	3.44	8,522
Other governments	83	4.94	113
Mortgage-backed securities and collateralized mortgage obligations	1,059	5.23	3,415
Corporate debt	3,391	5.63	4,078
Corporate equity	2,219	5.24	2,062
Total investment securities	21,271	4.02	21,470
Trading Securities			
Issued or guaranteed by:			
Canadian federal government	5,608		3,343
Canadian provincial and municipal governments	1,401		1,214
U.S. federal government	609		278
U.S. states, municipalities and agencies	—		337
Other governments	19		—
Corporate debt	4,939		3,924
Corporate equity	9,851		7,104
Total trading securities	22,427		16,200
Loan Substitute Securities	17		6
Total Securities	$ 43,715		$ 37,676

Yields in the table above are calculated using the book value of the security and the contractual interest or stated dividend rates associated with each security adjusted for any amortization of premiums and discounts. Tax effects are not taken into consideration.

Securities of designated countries include any securities that we receive as part of a debt restructuring by a foreign country. They are recorded net of any country risk allowance (see Note 4) that we have allocated to these securities.

The term to maturity included in the table above is based on the contractual maturity date of the security. Securities with no maturity date are included in the over 10 years category.

During the year ended October 31, 2001 we sold our investment in Grupo Financiero BBVA Bancomer and realized a gain of $321 ($272 after tax). The gain was net of unrealized translation losses of $99.

Interest income and gains and losses from securities are:

	2002	2001	2000
Reported in:			
Interest, Dividend and Fee Income			
Investment securities	$1,156	$1,610	$1,949
Trading securities	460	809	905
	$1,616	$2,419	$2,854
Non-Interest Revenue			
Investment securities			
Gross realized gains	$ 232	$ 480	$ 245
Gross realized losses	(56)	(73)	(46)
Write-downs (a)	(322)	(284)	(16)
Net realized gains (losses) and write-downs	$ (146)	$ 123	$ 183
Trading securities, net realized and unrealized gains (losses)	$ 10	$ 139	$ 166

Interest expense is not included in the amounts shown above.
(a) Included in write-downs for 2002 is $103 and for 2001 is $225 related to our equity investments in collateralized bond obligations.

Unrealized Gains and Losses

	2002				2001			
	Book value	Gross unrealized gains	Gross unrealized losses	Fair value	Book value	Gross unrealized gains	Gross unrealized losses	Fair value
Investment Securities								
Issued or guaranteed by:								
Canadian federal government	**$ 1,145**	**$ —**	**$ 2**	**$ 1,143**	$ 436	$ 4	$ 17	$ 423
Canadian provincial and municipal governments	**2**	**—**	**—**	**2**	43	—	—	43
U.S. federal government	**5,707**	**143**	**1**	**5,849**	2,801	93	1	2,893
U.S. states, municipalities and agencies	**7,665**	**107**	**—**	**7,772**	8,522	110	—	8,632
Other governments	**83**	**2**	**—**	**85**	113	3	—	116
Mortgage-backed securities and collateralized mortgage obligations	**1,059**	**29**	**—**	**1,088**	3,415	53	—	3,468
Corporate debt	**3,391**	**119**	**57**	**3,453**	4,078	88	77	4,089
Corporate equity	**2,219**	**48**	**67**	**2,200**	2,062	101	113	2,050
Total	**$21,271**	**$ 448**	**$ 127**	**$21,592**	$21,470	$ 452	$ 208	$21,714

For actively traded securities, quoted market value is considered to be fair value. For infrequently traded securities, we use either the price of the most recent transaction or the midpoint between bid and ask price. For privately held securities and for thinly traded securities where market quotes are not available, we use estimation techniques to determine fair value. Estimation techniques used include discounted cash flows, multiple of earnings or comparisons with other securities that are substantially the same.

NOTE 4 Loans and the Allowance for Credit Losses

Loans

Loans are recorded at cost net of unearned interest and unamortized discounts. Interest income is recorded on an accrual basis, except for impaired loans the treatment of which is described below.

From time to time we will restructure a loan due to the poor financial condition of the borrower. Interest on these restructured loans is recorded on an accrual basis.

Securities purchased under resale agreements represent the amounts we will receive as a result of our commitment to resell securities that we have purchased, back to the original sellers, on a specified date at a specified price. We account for these instruments as loans.

Loan Fees

The accounting treatment for loan fees varies depending on the transaction. Loan syndication fees are included in lending fees when they are earned. Loan origination, restructuring and renegotiation fees are recorded as interest income over the term of the loan. Commitment fees are also recorded as interest income over the term of the loan, unless we believe the loan commitment will not be used. In the latter case, commitment fees are recorded as lending fees over the commitment period.

Impaired Loans

We classify loans, except for credit card loans and consumer instalment loans, as impaired when any of the following criteria are met:

- we are no longer reasonably assured principal or interest will be collected on a timely basis;
- principal or interest payments become 90 days past due (unless we are actively trying to collect the loan and it is fully secured);
- fully secured loans become 180 days past due; or
- we consider it prudent to cease accruing interest on the loan.

Credit card loans are classified as impaired and immediately written off when principal or interest payments become 180 days past due. Consumer instalment loans are immediately classified as impaired when the principal or interest payments are 90 days past due, and are written off when they are past due by one year.

We do not accrue interest when we classify a loan as impaired, and any interest income that is accrued is reversed to interest income.

Payments received on a loan that has been classified as impaired are recorded first to recover collection costs and any previous write-offs or allowances, and then as interest income. Payments received on impaired consumer instalment loans and loans to designated countries are applied first to outstanding interest, and then to the remaining principal.

Property or other assets that we receive from borrowers to satisfy their loan commitments are classified as impaired and recorded at the lower of the amount we expect to recover and the outstanding balance of the loan at the time of the transfer.

A loan will be reclassified back to performing status when it is determined that there is reasonable assurance of full and timely repayment of interest and principal in accordance with the terms and conditions of the loan, and that none of the criteria for classification of the loan as impaired continue to apply.

Allowance for Credit Losses

The allowance for credit losses recorded in our Consolidated Balance Sheet is maintained at a level which we consider to be adequate to absorb credit-related losses in our loan portfolio. We also have an allowance for credit loss related to derivative financial instruments which is included in other liabilities.

The allowance comprises the following components:

Specific Allowances

These allowances are recorded for specific loans to reduce their book value to the amount we expect to recover. We review our loans and acceptances, other than consumer instalment and credit card loans, on an ongoing basis to assess whether any loans should be classified as impaired and whether an allowance or write-off should be recorded. Our review of problem loans is conducted at least quarterly by our account managers who assess the ultimate collectibility and estimated recoveries on a specific loan based on all events and conditions that the manager believes are relevant to the condition of the loan. This assessment is then reviewed and concurred by an independent credit officer. In addition, significant specific allowances are reviewed by officers in the Risk Management Group.

To determine the amount we expect to recover from an impaired loan we use the value of the estimated future cash flows discounted at the effective rate inherent in the loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability the expected recovery amount is estimated using the fair value of any security underlying the loan, net of expected costs of realization and any amounts legally required to be paid to the borrower, or an observable market price for the loan. Security can vary by type of loan and may include cash,

securities, real property, accounts receivable, guarantees, inventory or other capital assets.

General Allowance

We maintain a general allowance in order to cover any impairment in the existing portfolio that cannot yet be associated with specific loans. Our approach to establishing and maintaining the general allowance is based on the guideline issued by our regulator, the Superintendent of Financial Institutions Canada, that became effective in 2002.

The general allowance is reviewed on a quarterly basis. A number of factors are considered when determining the appropriate level of the general allowance. A statistical analysis of past performance is undertaken to derive the mean (Expected Loss) and volatility (Unexpected Loss) of loss experience. This analysis calculates historical average losses for each homogeneous portfolio segment (e.g., mortgages), while other models estimate loss for portfolios of corporate loans and investments that can be referenced to market data. In addition, the level of allowance already in place and management's professional judgement regarding portfolio quality, business mix and economic as well as credit market conditions are also considered.

Country Risk Allowance

This allowance is recorded for loans to and securities of countries designated by the Superintendent of Financial Institutions Canada that have restructured or experienced difficulties in servicing all or part of their external debt to commercial banks.

Changes in the value of our loan portfolio due to credit-related losses are included in the provision for credit losses in our Consolidated Statement of Income.

The following table sets out our loans and allowance for credit losses by loan category:

	Gross loans amount		Specific allowance		General allowance		Net loans amount	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
Residential mortgages	**$ 47,569**	$ 41,941	**$ 5**	$ 6	**$ 13**	$ 12	**$ 47,551**	$ 41,923
Credit card, consumer instalment and other personal loans	**23,448**	20,634	**4**	8	**294**	247	**23,150**	20,379
Business and government loans	**57,963**	61,249	**760**	755	**873**	921	**56,330**	59,573
Securities purchased under resale agreements	**15,664**	14,954	**–**	–	**–**	–	**15,664**	14,954
Total	**$144,644**	$138,778	**$ 769**	$ 769	**$ 1,180**	$ 1,180	**$142,695**	$136,829

Restructured loans classified as performing during the year ended October 31, 2002 were $38 (nil in 2001). No restructured loans were written off in the years ended October 31, 2002 and 2001. Included in loans as at October 31, 2002 are $53,981 ($53,929 in 2001) of loans denominated in U.S. dollars and $598 ($558 in 2001) of loans denominated in other foreign currencies.

The following table sets out the outstanding amounts that we have classified as impaired and the related allowances:

	Gross impaired amount		Specific allowance		Impaired loans, net of specific allowance	
	2002	2001	**2002**	2001	**2002**	2001
Residential mortgages	**$ 124**	$ 132	**$ 5**	$ 6	**$ 119**	$ 126
Consumer instalment and other personal loans	**53**	64	**4**	8	**49**	56
Business and government loans	**2,160**	1,818	**760**	755	**1,400**	1,063
Total	**$2,337**	$2,014	**$ 769**	$ 769	**$1,568**	$1,245

Included in impaired loans are other real estate owned and securities received from customers in satisfaction of their loans totalling $13 as at October 31, 2002 ($13 in 2001).

Fully secured loans with past due amounts between 90 and 180 days that we have not classified as impaired totalled $49 as at October 31, 2002 ($36 in 2001).

Our average gross impaired loans and acceptances were $2,150 for the year ended October 31, 2002 ($1,657 in 2001). Our average impaired loans, net of the specific allowance, were $1,351 for the year ended October 31, 2002 ($1,198 in 2001).

During the years ended October 31, 2002, 2001 and 2000, we would have recorded interest income of $172, $126 and $103, respectively, if we had not classified any loans as impaired.

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

	Specific allowance			General allowance		
	2002	2001	2000	**2002**	2001	2000
Balance at beginning of year	**$ 769**	$ 517	$ 372	**$1,180**	$1,080	$ 970
Provision for credit losses	**820**	880	290	**–**	100	110
Recoveries	**68**	40	44	**–**	–	–
Write-offs	**(884)**	(698)	(206)	**–**	–	–
Other, including foreign exchange rate changes	**(4)**	30	17	**–**	–	–
Balance at end of year	**$ 769**	$ 769	$ 517	**$1,180**	$1,180	$1,080

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Country risk allowance (1)			Total		
	2002	2001	2000	**2002**	2001	2000
Balance at beginning of year	**$ –**	$ –	$ 85	**$1,949**	$1,597	$1,427
Provision for credit losses	**–**	–	(42)	**820**	980	358
Recoveries	**–**	–	–	**68**	40	44
Write-offs	**–**	–	(45)	**(884)**	(698)	(251)
Other, including foreign exchange rate changes	**–**	–	2	**(4)**	30	19
Balance at end of year	**$ –**	$ –	$ –	**$1,949**	$1,949	$1,597

(1) We did not have any impaired loans to designated countries as at October 31, 2002 and 2001.

NOTE 5 Other Credit Instruments

We use other off-balance sheet credit instruments as a method of meeting the financial needs of our customers. Summarized below are the types of instruments that we use:

- Guarantees and standby letters of credit represent our obligation to make payments to third parties on behalf of our customers if our customers are unable to make the required payments or meet other contractual requirements;
- Securities lending represents our credit exposure when we lend our securities, or our customers' securities, to third parties should the securities borrower default on their redelivery obligation;

- Documentary and commercial letters of credit represent our agreement to honour drafts presented by a third party upon completion of specific activities; and

- Commitments to extend credit represents our commitment to our customers to grant them credit in the form of loans or other financings for specific amounts and maturities, subject to meeting certain conditions.

The contractual amount of our other credit instruments represents the maximum undiscounted potential credit risk if the counter-party does not perform according to the terms of the contract before any amounts that could possibly be recovered under recourse or collateralization provisions. A large majority of these commitments expire without being drawn upon. As a result, the total contractual amounts are not representative of the Bank's likely credit exposure or liquidity requirements for these commitments.

The risk-weighted equivalent values of our other credit instruments are based on the rules for capital adequacy of the Superintendent of Financial Institutions Canada. The risk-weighted equivalent value is used in the ongoing assessment of our capital adequacy ratios.

Summarized below is information related to various commitments.

	2002		2001	
	Contract amount	**Risk-weighted equivalent**	Contract amount	Risk-weighted equivalent
Credit Instruments				
Guarantees and standby letters of credit	**$ 11,902**	**$ 8,251**	$ 10,216	$ 6,841
Securities lending	**580**	**38**	584	319
Documentary and commercial letters of credit	**642**	**84**	588	63
Commitments to extend credit				
Original maturity of one year and under	**72,723**	**–**	69,428	–
Original maturity of over one year	**21,765**	**9,787**	25,001	10,155
Total	**$107,612**	**$ 18,160**	$105,817	$ 17,378

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

NOTE 6 Asset Securitization

Periodically, we securitize loans for capital management purposes or to provide alternative sources of funding. Securitization involves selling loans to off-balance sheet special-purpose entities or trusts (securitization vehicles) which buy the loans and then issue interest bearing investor certificates.

Contracts with the securitization vehicles provide for the payment to us over time of the excess of the sum of interest and fees collected from customers, in connection with the loans that were sold, over the yield paid to investors in the securitization vehicle, less credit losses and other costs (the deferred purchase price).

When the transferred loans are considered sold for accounting purposes, we remove them from our balance sheet.

For transfers that have occurred since July 1, 2001, we account for them as sales when control over the assets is given up. We recognize securitization revenues at the time of the sale, based on our best estimate of the net present value of expected future cash flows, primarily the deferred purchase price, net of our estimate of the fair value of any servicing obligations undertaken. The deferred purchase price is recorded in our Consolidated Balance Sheet in other assets.

For all transfers prior to July 1, 2001, except for the securitization of National Housing Act ("NHA") insured mortgages, we accounted for these securitization transactions as sales when the significant risks and rewards of ownership of the loans had been transferred. For those transfers, we record securitization revenues over the life of the securitization as the deferred purchase price becomes legally payable to us. For transfers of NHA-insured mortgages, we recorded a gain or loss in securitization revenues at the date of sale, based on the estimated net present value of the deferred purchase price at that time.

For some of our securitizations, we are required to purchase subordinated interests or maintain cash amounts deposited with the securitization vehicle. This provides the securitization vehicle with a source of funds in the event that the sum of interest and fees collected on the loans is not sufficient to pay the interest owed to investors. We record these amounts in other assets in our Consolidated Balance Sheet.

We periodically review the carrying value of assets on our Consolidated Balance Sheet arising from our securitizations and when we identify a decline in value that is other than temporary, the affected carrying amount is written down to its fair value. Any write-down is recorded in our Consolidated Statement of Income as a reduction of securitization revenues.

The following table summarizes the impact of securitizations on our Consolidated Statement of Income for the years ended October 31:

	Residential mortgages			Consumer instalment and other personal loans			Credit card loans			Business and government loans			Total		
	2002	2001	2000	**2002**	2001	2000	**2002**	2001	2000	**2002**	2001	2000	**2002**	2001	2000
Gains on sales of loans	**$ 37**	$ 38	$ 23	**$ 14**	$ 5	$ —	**$117**	$ 39	$ —	**$—**	$—	$—	**$168**	$ 82	$ 23
Other securitization revenue	**37**	58	54	**10**	—	—	**70**	172	186	**39**	19	80	**156**	249	320
Amortization of servicing liability	**5**	—	—	**—**	—	—	**—**	—	—	**—**	—	—	**5**	—	—
Total	**$ 79**	$ 96	$ 77	**$ 24**	$ 5	$ —	**$187**	$211	$186	**$39**	$19	$80	**$329**	$331	$343

The following table summarizes the impact of securitizations on our Consolidated Balance Sheet as at October 31:

	Residential mortgages			Consumer instalment and other personal loans			Credit card loans			Business and government loans		
	2002	2001	2000	**2002**	2001	2000	**2002**	2001	2000	**2002**	2001	2000
Retained interests												
Investment in securitization vehicles	**$ —**	$ —	$—	**$ 56**	$ 32	$ —	**$—**	$—	$—	**$ —**	$ —	$ —
Deferred purchase price	**117**	121	81	**7**	5	—	**25**	20	—	**—**	—	—
Cash deposits with securitization vehicles	**11**	25	26	**—**	—	—	**—**	—	—	**170**	472	940
Servicing liability	**14**	4	—	**—**	—	—	**—**	—	—	**—**	—	—

The following table summarizes certain cash flows received from securitization vehicles for the years ended October 31:

		Consumer instalment and			Business and

	Residential mortgages			other personal loans			Credit card loans			government loans		
	2002	2001	2000	**2002**	2001	2000	**2002**	2001	2000	**2002**	2001	2000
Proceeds from new securitizations	**$ —**	$1,197	$1,837	**$519**	$1,037	$—	**$ —**	$ —	$ —	**$—**	$ —	$ —
Proceeds from loans sold to revolving securitization vehicles	**2,737**	2,117	1,775	**—**	—	—	**10,795**	11,549	11,129	**—**	—	2,132
Servicing fees collected	**3**	6	2	**—**	1	—	**47**	50	50	**—**	2	3
Receipt of deferred purchase price	**92**	83	59	**10**	—	—	**134**	136	130	**—**	37	77

The following table sets out credit information related to our securitized assets:

	2002		2001	
	Securitized loans	**Credit losses**	Securitized loans	Credit losses
Residential mortgages	**$ 7,241**	**$ —**	$ 8,063	$ —
Consumer instalment and other personal loans	**1,271**	**4**	965	1
Credit card loans	**1,950**	**53**	2,500	57
Business and government loans	**402**	**70**	2,207	46
Total	**$10,864**	**$127**	$13,735	$104

Static pool credit losses provide a measure of the credit risk in our securitized assets. They are calculated by totalling the actual and projected future credit losses and dividing the result by the original balance of each pool of assets. Static pool credit losses for the years ended October 31 are as follows:

Static pool credit losses	**2002**	2001
Residential mortgages	**–**	–
Consumer instalment and other personal loans	**2.19%**	1.25%
Credit card loans	**3.74%**	2.36%
Business and government loans	**2.50%**	1.29%

Our credit exposure to securitized assets as at October 31, 2002 was limited to our deferred purchase price of $149 ($146 in 2001), certain cash deposits of $93 ($120 in 2001) and investments in securitization vehicles of $56 ($32 in 2001).

The adjoining table outlines the key economic assumptions used in measuring the deferred purchase price and the sensitivity of the current value of the deferred purchase price as at October 31, 2002 to immediate 10% and 20% adverse changes in those assumptions. The sensitivity analysis should be used with caution as it is hypothetical and changes in each key assumption may not be linear. The sensitivities in each key variable have been calculated independently of changes in the other key variables. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities.

For additional information concerning our off-balance sheet special-purpose entities refer to Note 7.

	Residential mortgages	Consumer instalment and other personal loans	Credit card loans
Deferred purchase price	$ 117	$ 7	$ 25
Weighted average life (in years)	2.68	2.19	0.17
Prepayment rate (%)	12.75-13.19	5.0-8.0	33.0
Impact of: 10% adverse change	$ 1.0-$1.1	$ 0.1	$ 0.1
20% adverse change	$ 1.9-$2.2	$ 0.2	$ 0.2
Interest rate (%)	0.98-2.49	1.81-3.17	8.68
Impact of: 10% adverse change	$ 6.7-$7.8	$ 0.8	$ 2.5
20% adverse change	$ 13.3-$15.6	$ 1.7	$ 5.1
Expected credit losses (%)	—	1.25-1.50	1.95
Impact of: 10% adverse change	$ —	$ 1.1	$ 0.6
20% adverse change	$ —	$ 2.3	$ 1.2
Discount rate (%)	5.95-13.30	13.30-13.73	13.30
Impact of: 10% adverse change	$ 0.5-$0.9	$ 0.1	$ 0.1
20% adverse change	$ 0.9-$1.7	$ 0.3	$ 0.2

NOTE 7 Off-Balance Sheet Special-Purpose Entities

Off-balance sheet special-purpose entities (“SPEs”) are either corporate entities or trusts whose activities are set out in the legal agreements that govern them. We have ongoing relationships with two types of SPEs: asset securitization SPEs and asset management SPEs.

We securitize our loans either for capital management purposes or to provide alternative sources of funding. Our securitizations are more fully described in Note 6.

We assist our customers with the securitization of their assets to provide them with alternative sources of funding. In exchange for providing this service we earn fees for providing structuring advice related to the securitizations as well as administrative fees for supporting the ongoing operations of the customer securitization SPEs.

We conduct asset management activities through SPEs that provide investors with customized, diversified debt portfolios in a variety of asset and rating classes. We earn investment management fees for managing these portfolios. We have two types of asset management SPEs: our High Yield Collateralized Bond Obligation SPEs and our High Grade Structured Investment SPEs. Our investments to sponsor these off-balance sheet SPEs were $109 at October 31, 2002 ($187 at October 31, 2001).

We provide liquidity support for the securities issued by some off-balance sheet SPEs. We also enter into derivative transactions to assist them in hedging their interest rate exposure. The terms and conditions for these transactions are the same as for those with third-party customers.

The majority of the funding issued by these off-balance sheet SPEs is rated by one or more rating agencies that review the terms of the SPE to ensure that investors are appropriately protected.

The following table summarizes the financial position of our SPEs as at October 31, 2002:

	Customer Securitization SPEs	High Yield Collateralized Bond Obligation SPEs	High Grade Structured Investment SPEs
Assets	$ 28,092	$ 3,397	$16,539
Liabilities	$ 27,228	$ 3,546	$15,222

Included in customer securitization SPEs is $6,700 of loans securitized by the Bank.

Future Change in Accounting Policy

The Canadian Institute of Chartered Accountants has issued a draft guideline on the consolidation of SPEs. We are currently reviewing the draft guideline to determine whether it will require us to consolidate any of our off-balance sheet SPEs.

NOTE 8 Premises and Equipment

We record all premises and equipment at cost. Buildings, computer and other equipment and leasehold improvements are amortized on a straight-line basis over their estimated useful lives. The maximum estimated useful lives we use to amortize our assets are:

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

Gains and losses on disposal are included in non-interest revenue in our Consolidated Statement of Income.

	2002	2001
Land	**$ 269**	$ 292
Buildings	**1,309**	1,387
Computer and other equipment	**2,737**	2,483
Leasehold improvements	**529**	491
	4,844	4,653
Accumulated amortization	**(2,685)**	(2,483)
Total	**$ 2,159**	$ 2,170

Amortization expense for the years ended October 31, 2002, 2001 and 2000 amounted to $396, $406 and $402, respectively. Included in land and buildings are the costs of Bank-owned branches, of which we owned 457 as at October 31, 2002 and 460 as at October 31, 2001, and other properties, located in Canada, the United States and other countries.

On September 12, 2002, we sold our 25% undivided interest in the land located at King and Bay Streets in Toronto for cash proceeds of $122. The gain on sale of $112 ($87 after tax) was deferred and will be recorded as a reduction in rental expense over the term of our leases in the building, which expire between 2013 and 2023.

Lease Commitments

We have entered into a number of non-cancellable leases for premises and equipment. Our total contractual rental commitments outstanding as at October 31, 2002 are $1,096. The commitments for each of the next five years are $195 for 2003, $163 for 2004, $136 for 2005, $99 for 2006 and $82 for 2007 and $421 thereafter. Included in these amounts are the commitments related to 677 leased Bank branch locations as at October 31, 2002. Net rent expense for premises and equipment reported in our Consolidated Statement of Income was $223, $175 and $165 for the years ended October 31, 2002, 2001 and 2000, respectively.

NOTE 9 Other Assets

	2002	2001
Accounts receivable, prepaid expenses and other items	**$ 5,303**	$ 4,657
Accrued interest receivable	**723**	979
Due from clients, dealers and brokers	**7,645**	6,483
Unrealized gains and amounts receivable on derivative contracts (Note 23)	**22,108**	23,315
Future income taxes	**109**	392
	35,888	35,826
Intangible assets		
Customer relationships	**489**	188
Core deposit intangibles	**126**	162
Branch distribution network	**134**	150
Other	**24**	18
	773	518
Goodwill	**1,428**	798
Intangible assets and goodwill	**2,201**	1,316
Total	**$38,089**	$37,142

We had no intangible assets with indefinite lives as at October 31, 2002 and 2001.

Intangible Assets

When we acquire a subsidiary or make other specific investments, we may acquire intangible assets, which are recorded at their fair value at the time we make the investment.

Intangible assets with a definite life are amortized to income over the period during which we believe the assets will benefit us, generally not exceeding 20 years. We write down intangible assets with a definite life to fair value when the undiscounted cash flows are not expected to allow for recovery of the carrying value. Intangible assets with an indefinite life are not subject to amortization; they are tested at least annually for impairment to ensure that their fair value is greater than or equal to book value. Any excess of book value over fair value is charged to income in the period in which impairment is determined.

Goodwill

When we acquire a subsidiary, joint venture or investment securities where we exert significant influence we determine the fair value of the net tangible and intangible assets acquired and compare the total to the amount that we paid for the investments. Any excess of the amount paid over the fair value of those net assets is considered to be goodwill.

Goodwill is tested at least annually for impairment to ensure that its fair value is greater than or equal to book value. Any excess of book value over fair value is charged to income in the period in which impairment is determined.

Amortization of intangible assets is recorded in our Consolidated Statement of Income as:

	2002	2001	2000
Interest expense	**$ 13**	$13	$10
Non-interest expense	**87**	43	23
Total	**$100**	$56	$33

There were no write-downs of intangible assets due to impairment during the years ended October 31, 2002, 2001 and 2000.

The total estimated amortization expense relating to intangible assets for each of the next five years is $120 for 2003, $111 for 2004, $103 for 2005, $93 for 2006 and $87 for 2007.

Change in Accounting Policy

Prior to November 1, 2001 we amortized goodwill arising from acquisitions made before July 1, 2001 over its useful life. Amortization of goodwill was recorded net of applicable income tax in our Consolidated Statement of Income. Goodwill amortization of $56 and $49, net of income tax

benefits of $6 and $5, was included in income for the years ended October 31, 2001 and 2000, respectively.

If we had continued to amortize this goodwill, goodwill amortization expense for the year ended October 31, 2002 would have been $55, net of an income tax benefit of $7.

The net assets of acquired businesses, including any goodwill, are allocated to the operating segments to which they relate. The goodwill associated with those acquisitions is allocated on this same basis, as illustrated in the following table:

For the Year Ended October 31, 2002	Personal and Commercial Client Group	Private Client Group	Investment Banking Group	Corporate Support, including Technology and Solutions	Total
Balance at beginning of year	$ 452	$ 286	$ 58	$ 2	$ 798
Acquisitions made during the year	–	605	–	1	606
Disposals during the year	(2)	–	–	–	(2)
Effects of foreign exchange and other	5	21	–	–	26
Balance at end of year	$ 455	$ 912	$ 58	$ 3	$1,428

There were no write-downs of goodwill due to impairment during the year ended October 31, 2002.

NOTE 10 Acquisitions

We account for acquisitions of businesses using the purchase method. This involves allocating the purchase price paid for a business to the assets acquired, including identifiable intangible assets, and the liabilities assumed based on their fair value at the date of acquisition. Any excess is then recorded as goodwill.

We account for acquisitions of assets at the fair value of assets acquired, including identifiable intangible assets.

On February 4, 2002 we completed the acquisition of all outstanding voting shares of CSFB *direct*, Inc., a New Jersey-based direct investing firm previously owned by Credit Suisse First Boston, for total cash consideration of $854. The results of CSFB*direct*, Inc.'s operations have been included in our consolidated financial statements since that date. The acquisition of CSFB*direct*, Inc. significantly increases our U.S. client base and provides a national franchise for our existing integrated wealth management business in the United States.

As part of this acquisition we acquired a customer relationship intangible asset, which will be amortized on an accelerated basis over 15 years, and a covenant not to compete which will be amortized over five years on a straight-line basis.

On July 26, 2002 we completed the acquisition of Morgan Stanley Individual Investor Group's online client accounts for total cash consideration of $153. The online client accounts asset is included in our customer relationships intangible asset and will be amortized on an accelerated basis over 15 years.

On July 13, 2001 we completed the acquisition of all outstanding voting shares of First National Bank of Joliet, a publicly traded, full-service community bank in the United States. The purchase price of $337 consisted of $124 in cash consideration and 5,325,307 of our common shares valued at $213.

On July 19, 2001 we completed the acquisition of all outstanding voting shares of Guardian Group of Funds Ltd., a mutual fund subsidiary of a publicly traded financial services company in Canada. The purchase price consisted of 4,960,140 of our common shares valued at $187.

The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition:

	2002		2001	
	CSFB*direct*, Inc.	**Morgan Stanley client accounts**	Joliet	Guardian
Cash resources	**$ 51**	**$ –**	$ 193	$ –
Premises and equipment	**10**	**–**	–	–
Investment securities	**–**	**–**	653	–
Loans	**–**	**–**	852	–
Other assets				
Other	**6**	**–**	23	9
Customer relationships	**200**	**153**	–	–
Core deposit intangible	**–**	**–**	76	–
Other intangible assets	**9**	**–**	–	18
Goodwill	**597**	**–**	152	187
	812	**153**	251	214
Total assets	**873**	**153**	1,949	214
Deposits	**–**	**–**	1,347	–
Securities sold under repurchase agreements	**–**	**–**	230	–
Other liabilities	**19**	**–**	35	27
Total liabilities	**19**	**–**	1,612	27
Purchase price	**$ 854**	**$ 153**	$ 337	$ 187

NOTE 11 Operating and Geographic Segmentation

We conduct our business through operating segments, each of which has a distinct market and product mandate. Our Personal and Commercial Client Group provides financial services to personal and commercial customers; our Private Client Group provides wealth management services; and our Investment Banking Group offers corporate, institutional and government clients comprehensive financial services including advisory, investment and operating services.

In addition, Corporate Support, including Technology and Solutions, provides enterprise-wide services including overall technology support and risk management.

Information concerning these operating segments, including disclosure of their revenues, expenses, net income, average assets, loans and deposits, is presented in the tables on pages 36 to 47 of our Management's Discussion and Analysis.

NOTE 12 Deposits

	Demand deposits									
	Interest bearing		Non-interest bearing		Payable after notice		Payable on a fixed date		Total	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
Deposits by:										
Banks	**$ 210**	$ 237	**$ 363**	$ 512	**$ 188**	$ 462	**$14,512**	$19,328	**$ 15,273**	$ 20,539
Businesses and governments	**4,659**	5,042	**9,008**	10,103	**16,028**	15,288	**41,716**	35,699	**71,411**	66,132
Individuals	**2,450**	2,425	**3,346**	2,733	**32,949**	28,819	**36,409**	33,642	**75,154**	67,619
Total	**$7,319**	$7,704	**$12,717**	$13,348	**$49,165**	$44,569	**$92,637**	$88,669	**$161,838**	$154,290
Booked in:										
Canada	**$6,561**	$6,822	**$ 8,941**	$ 7,861	**$32,671**	$31,390	**$54,799**	$47,358	**$102,972**	$ 93,431
United States	**730**	842	**3,766**	5,474	**16,102**	12,916	**28,595**	31,488	**49,193**	50,720
Other countries	**28**	40	**10**	13	**392**	263	**9,243**	9,823	**9,673**	10,139
Total	**$7,319**	$7,704	**$12,717**	$13,348	**$49,165**	$44,569	**$92,637**	$88,669	**$161,838**	$154,290

Demand deposits are comprised primarily of our customers' chequing accounts, some of which we pay interest on. Our customers need not

notify us prior to withdrawing money from their chequing accounts.

Deposits payable after notice are comprised primarily of our customers' savings accounts, on which we pay interest. Our customers are often required to give us notice prior to withdrawing money from these accounts.

Deposits payable on a fixed date are comprised primarily of various investment instruments purchased by our customers, such as term deposits and guaranteed investment certificates, to earn interest over a fixed period. The term of these deposits can vary from one day to ten years.

Deposits include federal funds purchased, which are overnight borrowings of other banks' excess reserve funds at a United States Federal Reserve Bank. As at October 31, 2002 we had purchased $4,096 of federal funds and $4,160 as at October 31, 2001.

Deposits include commercial paper totalling $597 as at Octo-ber 31, 2002 and $505 as at October 31, 2001.

Included in our deposits payable on a fixed date as at October 31, 2002 are $65,304 of individual deposits greater than one hundred thousand dollars of which $31,529 were booked in Canada and $33,775 were booked outside Canada. We had $61,789 of such deposits as at October 31, 2001 of which $24,746 were booked in Canada and $37,043 were booked outside Canada. Of these deposits booked in Canada as at October 31, 2002, the amount maturing within three months was $20,054, between three and six months was $1,642, between six and twelve months was $3,708 and over twelve months was $6,125. As at October 31, 2001, the amount maturing within three months was $13,101, between three and six months was $2,139, between six and twelve months was $3,610 and over twelve months was $5,896.

NOTE 13 Other Liabilities

Acceptances

Acceptances represent a form of negotiable short-term debt that is issued by our customers and which we guarantee for a fee. We have an offsetting claim, equal to the amount of the acceptances, against our customers when the instrument matures. The amount due under acceptances is recorded as a liability and our corresponding claim is recorded as an asset in our Consolidated Balance Sheet.

Securities Sold but not yet Purchased

Securities sold but not yet purchased represent our obligation to deliver securities which we did not own at the time of sale. These obligations are recorded at their market value. Adjustments to the market value as at the balance sheet date and gains and losses on the settlement of these obligations are recorded as interest, dividend and fee income from securities in our Consolidated Statement of Income.

Securities Sold under Repurchase Agreements

Securities sold under repurchase agreements represent short-term funding transactions where we sell securities that we already own and simultaneously commit to repurchase the same securities at a specified price on a specified date in the future. These securities are recorded at their original cost. The interest expense related to these liabilities is recorded on an accrual basis.

	2002	2001
Acceptances	**$ 6,901**	$ 7,936
Securities sold but not yet purchased	**7,654**	6,609
Securities sold under repurchase agreements	**24,796**	17,480
	$39,351	$32,025
Accounts payable, accrued expenses and other items	**11,028**	9,718
Liabilities of subsidiaries, other than deposits	**168**	1,481
Accrued interest payable	**1,125**	1,314
Unrealized losses and amounts payable on derivative contracts (Note 23)	**22,095**	23,646
Non-controlling interest in subsidiaries	**1,571**	1,579
Other	**$35,987**	$37,738
Total	**$75,338**	$69,763

Included in liabilities of subsidiaries, other than deposits are other short-term borrowings totalling $156 and $1,467 as at October 31, 2002 and 2001, respectively.

Included in non-controlling interest in subsidiaries as at October 31, 2002 and 2001 are capital trust securities totalling $1,150 that form part of our Tier 1 regulatory capital.

NOTE 14 Subordinated Debt

Subordinated debt represents our direct unsecured obligations to our debt holders and forms part of our regulatory capital. The rights of the holders of our notes and debentures are subordinate to the claims of depositors and certain other creditors. We require approval from the Superintendent of Financial Institutions Canada before we can redeem any part of our subordinated debt.

Our subordinated debt consists of notes and debentures with interest rates ranging from 1.99% to 10.85%. The maturity dates extend from June 2003 to December 2040.

The interest rates on certain debenture series are variable based on various indices. In addition, certain series of subordinated debt are redeemable at our option on various dates prior to February 2012.

Included in subordinated debt are debentures and subordinated notes denominated in U.S. dollars totalling US$950 as at October 31, 2002 and 2001. The Canadian dollar equivalent of these was $1,480 and $1,510 as at October 31, 2002 and 2001, respectively.

During the year ended October 31, 2002 we redeemed our Series 24 Debentures of $250, our Series 14 Debentures of $150 and our Series A medium term Debentures of $450. During the year ended October 31, 2001 we redeemed our Series 23 Debentures of $300. There was no gain or loss on redemption.

Repayments of our subordinated debt required over the next five years and thereafter are:

2003	$ 250
2004	–
2005	467
2006	–
2007	467
Thereafter	2,610
Total	$3,794

NOTE 15 Share Capital

Outstanding

(except per share information) Canadian $ in millions,	**2002**			2001			2000		
	Number of shares	**Amount**	**Dividends declared per share**	Number of shares	Amount	Dividends declared per share	Number of shares	Amount	Dividends declared per share
Preferred Shares									
Class B — Series 1	**—**	**$ —**	**$ —**	—	**$ —**	$0.57	10,000,000	$ 250	$2.25
Class B — Series 2	**—**	**—**	**—**	—	—	US $1.28	10,000,000	381	US $1.69
Class B — Series 3	**16,000,000**	**400**	**1.39**	16,000,000	400	1.39	16,000,000	400	1.39
Class B — Series 4	**8,000,000**	**200**	**1.20**	8,000,000	200	1.20	8,000,000	200	1.20
Class B — Series 5	**8,000,000**	**200**	**1.33**	8,000,000	200	1.33	8,000,000	200	1.33
Class B — Series 6	**10,000,000**	**250**	**1.19**	10,000,000	250	1.19	10,000,000	250	1.19
Class B — Series 10	**12,000,000**	**467**	**US $1.39**	—	—	—	—	—	—
		1,517			1,050			1,681	
Common Shares	**492,504,878**	**3,459**	**1.20**	489,084,527	3,375	1.12	522,583,894	3,173	1.00
Total Outstanding Share Capital		**$ 4,976**			$4,425			$4,854	

Preferred Shares

We are authorized by our shareholders to issue an unlimited num- ber of Class A Preferred Shares and Class B Preferred Shares without par value, in series, for unlimited consideration. Class B Preferred Shares may be issued in a foreign currency.

During the year ended October 31,2002 we issued 12,000,000 5.95% Non-Cumulative Class B Preferred Shares, Series 10, at a price of US$25.00 per share, representing an aggregate issue price of US$300.

During the year ended October 31, 2001 we redeemed all of our Class B – Series 1 preferred shares for $25.00 per share or $250, and all of our Class B – Series 2 preferred shares for US$25.00 per share or US$250.

Class B – Series 3 shares are redeemable at our option starting August 25, 2004 for $25.00 cash per share, plus a premium if we redeem the shares before August 25, 2006, or an equivalent value of our common shares, and are convertible at the shareholder's option starting May 25, 2007 into our common shares; however, we have the right to pay $25.00 cash per share instead. The shares carry a non-cumulative quarterly dividend of $0.346875 per share.

Class B – Series 4 shares are redeemable at our option starting August 25, 2005 for $25.00 cash per share, plus a premium if we redeem the shares before August 25, 2007, or an equivalent value of our common shares, and are convertible at the shareholder's option starting May 25, 2008 into our common shares; however, we have the right to pay $25.00 cash per share instead. The shares carry a non-cumulative quarterly dividend of $0.30 per share.

Class B – Series 5 shares are redeemable at our option starting February 25, 2013 for $25.00 cash per share, and are not convertible. The shares carry a non-cumulative quarterly dividend of $0.33125 per share.

Class B – Series 6 shares are redeemable at our option starting November 25, 2005 for $25.00 cash per share, plus a premium if we redeem the shares before November 25, 2007, or an equivalent value of our common shares, and are convertible at the shareholder's option starting November 25, 2008 into our common shares; however, we have the right to pay $25.00 cash per share instead. The shares carry a non-cumulative quarterly dividend of $0.296875 per share.

Class B – Series 10 shares are redeemable at our option starting February 25, 2012 for US$25.00 cash per share, and are convertible at our option starting February 25, 2012 into our common shares. The shares carry a non-cumulative quarterly dividend of US$0.371875 per share.

Common Shares

We are authorized by our shareholders to issue an unlimited number of our common shares, without par value, for unlimited consid- eration. Our common shares are not redeemable or convertible. Dividends are declared by us on a quarterly basis and the amount can vary from quarter to quarter.

During the year ended October 31, 2001, we repurchased 52,000,000 shares at an average cost of $39.06 per share, totalling $2,031. During the year ended October 31, 2000, 15,728,000 shares were repurchased at an average cost of $31.80 per share, totalling $500.

During the year ended October 31, 2001, we paid a stock dividend of one common share, with no value, for each outstanding common share. The stock dividend had the same effect as a two-for-one stock split. All common share balances have been restated to reflect this stock dividend.

Issuances Exchangeable into Common Shares

In 1996 we granted options to Grupo Financiero BBVA Bancomer to purchase up to 19,914,570 of our common shares as part of the consideration paid for our investment in Grupo Financiero BBVA Bancomer. These options were cancelled on December 18, 2000. As a result, the $22 option value that was included in share capital in 1996 was reversed and an after-tax gain of $18 was recorded directly in retained earnings when the options were cancelled.

One of our subsidiaries, Bank of Montreal Securities Canada Limited, has issued various classes of non-voting shares which can be exchanged at the option of the holder for our common shares, based on a formula. There were 1,133,722 and 1,379,960 of these shares outstanding with a weighted average conversion price per share of $8.50 and $8.95 as at October 31, 2002 and 2001, respectively.

Share Redemption and Dividend Restrictions

The Superintendent of Financial Institutions Canada must approve any plan to redeem any of our preferred share issues for cash.

We are prohibited from declaring dividends on our preferred or common shares when we are, or would be as a result of paying such a dividend, in contravention of the capital adequacy, liquidity or any other regulatory directives issued under the Bank Act. In addition, common share dividends cannot be paid unless all dividends declared and payable on our preferred shares have been paid or sufficient funds have been set aside to do so.

In addition, we have agreed that if BMO Capital Trust, one of our subsidiaries, fails to pay any required distribution on its capital trust securities, we will not declare dividends of any kind on any of our preferred or common shares.

Potential Share Issuances

As at October 31, 2002, we had reserved 8,127,324 common shares for potential issue in respect of our Shareholder Dividend Reinvestment and Share Purchase Plans, 5,839,505 common shares in respect of the exchange of certain shares of Bank of Montreal Securities Canada Limited. We also have 41,471,968 common shares for the potential exercise of stock options, as further described in Note 16.

NOTE 16 Employee Compensation

We provide a range of benefits to our employees, the costs of which are recorded in the year services are provided as employee compen- sation expense in our Consolidated Statement of Income. Information on pension benefits, certain other future employee benefits and stock-based compensation plans is provided below.

Pension and Other Future Employee Benefits Plans

We have a number of arrangements in Canada, the United States and the United Kingdom which provide pension and future employee benefits to our retired and current employees. Pension arrangements include statutory pension plans as well as supplemental arrange- ments which

provide pension benefits in excess of statutory limits. Generally, we provide retirement benefits based on employees' years of service and average earnings at the time of retirement and do not require employees to make contributions. Voluntary contributions can be made by employees. Other future employee benefits, including health and dental care benefits and life insurance, are provided for current and retired employees.

Our actuaries perform regular valuations of our accrued benefit obligation for pension and other future employee benefits based on assumptions about salary growth, retirement age, mortality, and health care cost trend rates. Assets are set aside to satisfy our pension obligation related to statutory pension plans, and a retirement compensation arrangement was set up in 2001 to fund supplemental pension arrangements in Canada. Our other future employee benefits obligation in the United States is partially funded; and our other future employee benefits obligation in Canada is unfunded.

Pension and other future employee benefits expenses are determined as the cost of employee benefits earned in the current year, interest expense on the accrued benefit obligation, expected investment return on the market value of plan assets, the amortization of deferred past service costs and the amortization of deferred actuarial gains and losses in excess of a predetermined range.

Past service costs arise when we make plan amendments that result in the granting of benefits that are calculated by reference to service already provided by employees. We defer and amortize past service costs to expense over the average remaining service period of active employees.

Actuarial gains and losses can arise in one of two ways: first, when the actual return on plan assets for a period differs from the expected return on plan assets for that period, and second, when the expected accrued benefit obligation differs from the actual accrued benefit obligation at the end of the year. We defer and amortize all experience gains and losses in excess of a predetermined range to pension and other future employee benefits expense over the average remaining service period of active employees.

Our accrued benefit asset related to pension benefits is included in other assets in our Consolidated Balance Sheet. The accrued benefit liability relating to our supplemental pension arrangements and other future employee benefits is included in other liabilities.

Change in Accounting Policy

On November 1, 2000 we adopted a new accounting policy for pension and other future employee benefits plans. The impact of adopting the new standard was recorded as a decrease of $250 (net of tax of $171) in opening retained earnings.

The following table provides summaries of the estimated financial positions of our pension benefit plans and other future employee benefits plans: Pension Other future employee benefits benefit plans:

	Pension benefit plans			Other future employee benefits plans		
	2002	2001	2000	**2002**	2001	2000
Accrued benefit obligation, beginning of year	**$2,903**	$2,211	$2,098	**$ 537**	$ —	$—
Adjustment to adopt change in accounting standard	**—**	402	—	**—**	490	—
Benefits earned by employees	**105**	93	69	**13**	13	—
Interest cost accrued on accrued benefit obligation	**191**	177	166	**35**	32	—
Benefits paid to pensioners and employees (a)	**(167)**	(151)	(152)	**(23)**	(18)	—
Voluntary employee contributions	**5**	6	4	**—**	—	—
Actuarial (gain) loss	**119**	117	(7)	**34**	17	—
Plan amendments	**15**	24	18	**—**	—	—
Other, primarily foreign exchange	**(14)**	24	15	**(1)**	3	—
Accrued benefit obligation, end of year	**$3,157**	$2,903	$2,211	**$ 595**	$ 537	$—
Fair value of plan assets, beginning of year	**$2,816**	$3,103	$2,825	**$ 54**	$ —	$—
Transition adjustment to reflect prior funding by U.S. subsidiary	**—**	—	—		50	—
Actual return on plan assets	**(188)**	(285)	365	**(3)**	(3)	—
Bank contributions	**454**	122	44	**27**	5	—
Voluntary employee contributions	**5**	6	4	**—**	—	—
Benefits paid to pensioners and employees	**(167)**	(151)	(152)	**(23)**	—	—
Other, primarily foreign exchange	**(8)**	21	17	**—**	2	—
Fair value of plan assets, end of year	**$2,912**	$2,816	$3,103	**$ 55**	$ 54	$—
Plan funded status	**$ (245)**	$ (87)	$ 892	**$(540)**	$(483)	$—
Unrecognized actuarial (gain) loss	**1,148**	633	(543)	**63**	25	—
Unrecognized past service costs	**33**	20	78	**—**	—	—
Unrecognized transition amount	—	—	(1)	**—**	—	—
Accrued benefit asset (liability), end of year	**$ 936**	$ 566	$ 426	**$(477)**	$(458)	$—
Annual Benefits Expense						
Net benefits expense includes the following components:						
Actual investment return on plan assets	**$ 188**	$ 285	$ (365)	**$ 3**	$ 3	$—
Excess of actual over expected return	**(423)**	(537)	135	**(8)**	(8)	—
Expected return on plan assets	**$ (235)**	$ (252)	$ (230)	**$ (5)**	$ (5)	$—
Benefits earned by employees	**105**	93	72	**13**	13	—
Interest cost accrued on accrued benefit obligation	**191**	177	166	**35**	32	—
Amortization of actuarial loss (gain)	**27**	—	(38)	**3**	1	—
Amortization of past service costs	**2**	1	14	**—**	—	—
Amortization of transition amount	**—**	(1)	(1)	**—**	—	—
Benefits paid to pensioners and employees (a)	**—**	—	—	**—**	—	16
Annual benefits expense	**90**	18	(17)	**46**	41	16
Other (includes Canada, Quebec and defined contribution pension plans expense)	**45**	49	40	**—**	—	—
Total annual pension and other future employee benefits expenses	**$ 135**	$ 67	$ 23	**$ 46**	$ 41	$16
Weighted Average Actuarial Assumptions (%)						
Discount rate	**6.5**	6.7	8.1	**6.7**	6.6	—
Rate of compensation increase	**4.1**	4.2	4.2	**3.7**	4.2	—
Expected long-term rate of return on plan assets	**7.5**	8.2	8.4	**8.0**	8.0	—

(a) Prior to November 1, 2000, we recorded the expense for other future employee benefits when it was incurred. Effective November 1, 2000, we recorded an actuarially determined liability and expense for these benefits.

As at October 31, 2002, the pension plan assets consisted of equities (53%) and fixed income investments (47%). The plans paid $5 for the year ended October 31, 2002 ($4 in 2001 and 2000) to us and certain of our subsidiaries for investment management, record-keeping, custodial and administrative services rendered on the same terms that we offer to our customers. The plans did not hold any of our shares directly as at October 31, 2002, 2001 and 2000.

Included in the accrued pension benefit obligation as at October 31, 2002 was $926 ($763 in 2001; $123 in 2000) and included in the fair value of plan assets for pension benefit plans as at October 31, 2002 was $572 ($596 in 2001; nil in 2000) in respect of plans that are not fully funded.

The following table outlines the key weighted average economic assumptions used in measuring the accrued pension benefit obligation, the accrued other future employee benefits obligation and related expenses. The sensitivity analysis provided in the table should be used with caution as it is hypothetical and changes in each key assumption may not be linear. The sensitivities in each key variable have been calculated independently of changes in other key variables. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities.

	Pension		Other future employee benefits	
	Accrued benefit obligation	Benefits expense	Accrued benefit obligation	Benefits expense
Expected rate of return on assets (%)	—	7.5	—	—
Impact of: 1% increase	$ —	$ (31)	$ —	$ —
1% decrease	$ —	$ 31	$ —	$ —
Discount rate (%)	6.5	6.7	6.7	6.6
Impact of: 1% increase	$ (363)	$ (19)	$(76)	$ (3)
1% decrease	$ 445	$ 21	$ 96	$ 4
Assumed overall health care cost (%) trend	—	—	5.3(1)	5.6(2)
Impact of: 1% increase	$ —	$ —	$ 75	$ 6
1% decrease	$ —	$ —	$(62)	$ (5)

(1) Trending to 4.26% in 2005 and remaining at that level thereafter.

(2) Trending to 4.24% in 2005 and remaining at that level thereafter.

Stock-Based Compensation

Stock Option Plan

We maintain a Stock Option Plan for designated officers and employees. The options granted under the plan from 1995 to 1999 vest five fiscal years from November 1 of the year in which the options were granted to the officer or employee, if we have met certain performance targets. The options granted in 2000, 2001 and 2002 vest 25% per year over a four-year period starting from their grant date. A portion of the options granted in 2000 and 2001 are subject to performance targets. All options expire ten years from the date they are granted.

When stock options are granted, no compensation expense is recognized. When stock options are exercised, we include the amount of the proceeds in share- holders' equity.

The following table summarizes information about our stock option plan:

	2002		2001		2000	
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding at beginning of year	**32,997,743**	**$28.31**	33,548,918	$18.64	27,615,900	$ 23.55
Granted	**7,485,500**	**35.70**	6,774,750	38.45	8,493,200	25.64
Exercised	**1,923,115**	**18.87**	6,177,235	17.72	1,915,282	18.12
Forfeited/cancelled	**185,501**	**31.63**	1,148,690	28.31	644,900	26.08
Outstanding at end of year	**38,374,627**	**30.21**	32,997,743	28.31	33,548,918	24.34
Exercisable at end of year	**11,955,097**	**23.95**	7,443,288	21.92	5,828,718	18.64
Available for grant	**3,097,341**		10,342,140		2,023,400	
Outstanding stock options as a % of outstanding shares	**7.79%**		6.75%		6.42%	

No stock options expired during 2002, 2001, and 2000.

	Options outstanding			Options exercisable	
Range of exercise prices	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of stock options	Weighted average exercise price
$20 and less	5,652,082	3.4	$17.65	5,652,082	$ 17.65
$20.01 to $30.00	7,278,182	7.0	25.60	3,102,242	25.60
$30.01 to $36.40	18,740,300	7.0	32.82	2,215,600	31.27
$36.41 to $40.00	6,552,763	8.0	38.45	965,899	38.46
$40.01 and over	151,300	6.0	41.98	19,274	41.29

Future Change in Accounting Policy

Beginning on November 1, 2002, we will change our accounting policy for stock options granted on or after that date. We will recognize the fair value of stock options on their grant date as compensation expense over the period that the stock options vest. We expect employee compensation expense to increase and net income to decrease by $10 to $20 in fiscal 2003 as a result of this change in accounting policy.

We determine the fair value of options granted using the Rolle-Geske Option Pricing Model. The weighted average fair value of options granted during the years ended October 31, 2002, 2001 and 2000 was $7.02, $8.17 and $4.79, respectively. The following weighted average assumptions were used to determine the fair value of options on the date of grant.

	2002	2001	2000
Expected dividend yield	**3.6%**	2.9%	3.9%
Expected share price volatility	**23.4%**	22.1%	21.5%
Risk-free rate of return	**5.5%**	6.1%	6.3%
Expected period until exercise	**7.0 years**	7.0 years	7.0 years

Pro forma net income and earnings per share

The following table illustrates the impact on our net income and on our earnings per share if we had recorded employee compensation expense

in the current and prior years based on the fair value of all of our outstanding stock options on their grant date:

	2002	2001	2000
Pro forma net income	**$1,370**	$1,431	$1,825
Pro forma earnings per share — Basic	**$ 2.63**	$ 2.64	$ 3.24
Pro forma earnings per share — Diluted	**$ 2.59**	$ 2.59	$ 3.19

Other Stock-Based Compensation Plans

Share Purchase Plan

We offer our employees the option of contributing a portion of their gross salary toward the purchase of our common shares. For employee contributions up to 6% of gross pay, we match 50% of the contribution.

We account for our contribution as employees compensation expense when it is contributed to the plan.

Employee compensation expense related to this plan for the years ended October 31, 2002, 2001 and 2000 was $26, $26 and $17, respectively.

Mid-Term Incentive Program

We offer a mid-term incentive program for executives and certain senior employees. Under this program, a cash bonus is paid at the end of each three-year period based on performance targets driven by annualized total shareholder return compared with that of our competitors.

Employee compensation expense for this program is recorded over the three-year performance cycle for the program. The amount of compensation expense is adjusted over the three-year performance cycle to reflect the current market value of our common shares and those of our competitors.

During the year we entered into an agreement with a third party to assume our obligation related to the mid-term incentive program for fiscal 2002 in exchange for a cash payment of $58.

This amount will be recorded as employee compensation expense over the three- year performance cycle of the plan on a straight-line basis.

Employee compensation expense related to this program for the years ended October 31, 2002, 2001 and 2000 was $47, $51 and nil, respectively.

Deferred Bonus Plans

We offer deferred bonus plans for certain senior executives and certain key employees in our Investment Banking and Private Client Groups. Under these plans, payment of annual bonuses can be deferred as stock units of our common shares. The amount of deferred bonus is adjusted to reflect dividends and changes in the market value of our common shares.

Depending on the plan, deferred bonuses can be paid upon retirement, resignation, evenly at the end of each year over the

three years following the year in which the bonus is earned, or in a lump sum at the end of the three-year period. The bonus may be paid in cash, common shares or a combination of both.

Employee compensation expense for these plans is recorded in the year the bonus is earned. Changes in the amount of the bonus payable as a result of dividends and share price movements are recorded as employee compensation expense in the period of the change.

We have entered into derivative instruments in order to hedge our exposure to these plans.

Changes in the fair value of these derivatives are recorded as employee compensation expense in the period in which they arise.

Employee compensation expense related to these plans for the years ended October 31, 2002, 2001 and 2000 was $18, $25 and $3, respectively, net of the impact of hedging.

NOTE 17 Restructuring Charge

In October 1999, we recorded a charge of $141 for exit costs 2002, 2001 and 2000, payments associated with restructuring initiatives. During the year ended were made. The restructuring October 31, 2000, we revised our estimate of the remaining costs $6 and related to severance to execute our restructuring plan and reduced the liability by $43.

During the years ended October 31, of $8, $23 and $48, respectively, accrual as at October 31, 2002 was payments to former employees in the form of salary continuance.

NOTE 18 Income Taxes

We report our provision for income taxes in our Consolidated Statement of Income based upon transactions recorded in our consolidated financial statements regardless of when they are recognized for income tax purposes, with the exception noted below for repatriation of retained earnings from our foreign subsidiaries.

In addition, we record income tax expense or benefit directly in retained earnings for the tax effects of those items recorded in shareholders' equity.

The net future income tax asset included in other assets is the cumulative amount of tax applicable to temporary differences between the accounting and tax values of our assets and liabilities. Future income tax assets and liabilities are measured at the tax rates expected to apply when these differences reverse. Changes in future income tax assets and liabilities related to a change in tax rates are recorded in income in the period of the tax rate change.

We review the valuation of our future income tax assets on an ongoing basis and adjust our valuation allowance, as necessary, to reflect the realizable amount of our future income tax assets.

We expect that we will realize our future income tax assets in the normal course of our operations.

Components of Future Income Tax Balances	2002	2001
Future Income Tax Assets		
Allowance for credit losses	**$ 508**	$ 572
Future employment benefits	**165**	165
Deferred compensation benefits	**140**	80
Other	**119**	181
	932	998
Valuation allowance	**—**	—
Total Future Income Tax Assets	**932**	998
Future Income Tax Liabilities		
Premises and equipment	**(394)**	(283)
Pension	**(290)**	(186)
Amortization of intangibles	**(81)**	(63)
Other	**(58)**	(74)
Total Future Income Tax Liabilities	**(823)**	(606)
Net Future Income Tax Asset	**$ 109**	$ 392

Provision for Income Taxes	2002	2001	2000
Consolidated Statement of Income			

Provision for income taxes	**$424**	$ 501	$ 989
Income tax (benefit) related to amortization of goodwill	**—**	(6)	(5)
Shareholders' Equity			
Income tax expense (benefit) related to items recognized directly in retained earnings	**77**	(350)	(153)
Total	**$501**	$ 145	$ 831
Components of Total Income Taxes			
Canada: Current income taxes			
Federal	**$207**	$ 95	$ 279
Provincial	**46**	32	109
	253	127	388
Canada: Future income taxes			
Federal	**132**	(108)	43
Provincial	**44**	(36)	14
	176	(144)	57
Total Canadian	**429**	(17)	445
Foreign: Current income taxes	**(35)**	198	312
Future income taxes	**107**	(36)	74
Total Foreign	**72**	162	386
Total	**$501**	$ 145	$ 831

Set out below is a reconciliation of our statutory tax rates and income tax that would be payable at these rates to the effective income tax rates and provision for income taxes that we have recorded in our Consolidated Statement of Income:

	2002		2001		2000	
Combined Canadian federal and provincial income taxes and statutory tax rate	**$ 727**	**38.3%**	$ 848	41.0%	$1,230	42.2%
Increase (decrease) resulting from:						
Tax-exempt income	**(99)**	**(5.2)**	(93)	(4.5)	(128)	(4.4)
Foreign operations subject to different tax rates	**(197)**	**(10.3)**	(161)	(7.8)	(151)	(5.2)
Non-taxable portion of gain on sale of investment in Bancomer	**—**	**—**	(83)	(4.0)	—	—
Large corporations tax	**15**	**0.8**	15	0.7	14	0.5
Financial institutions temporary surcharge	**—**	**—**	—	—	11	0.4
Change in tax rate for future income taxes	**9**	**0.4**	38	1.9	11	0.4
Intangible assets not deductible for tax purposes	**16**	**0.8**	11	0.5	4	0.1
Other	**(47)**	**(2.5)**	(74)	(3.6)	(2)	(0.1)
Provision for Income Taxes and Effective Tax Rate	**$ 424**	**22.3%**	$ 501	24.2%	$ 989	33.9%

Income which we earn in foreign countries, either through our branches or subsidiaries, is generally subject to tax in those countries. We are also subject to Canadian taxation on the income earned in our foreign branches. Canada allows a credit for foreign taxes paid on this income. Upon repatriation of earnings from foreign subsidiaries, we would be required to pay tax on certain of these earnings.

As repatriation of such earnings is not planned in the foreseeable future, we have not recorded the related future income tax liability. Canadian and foreign taxes that would be payable if all of our foreign subsidiaries' earnings were repatriated as at October 31, 2002, 2001 and 2000 are estimated to be $530, $501 and $434, respectively.

NOTE 19 Earnings Per Share

Basic Earnings per Share

Our basic earnings per share is calculated by dividing our net income, after deducting total preferred share dividends, by the daily average number of fully paid common shares outstanding throughout the year.

(Canadian $ in millions, except per share information)

Basic earnings per share	2002	2001	2000
Net income before goodwill amortization	**$ 1,417**	$ 1,527	$ 1,906
Dividends on preferred shares	**(79)**	(80)	(101)
Net income before goodwill amortization available to common shareholders	**1,338**	1,447	1,805
Amortization of goodwill	**—**	(56)	(49)
Net income available to common shareholders	**$ 1,338**	$ 1,391	$ 1,756
Average number of common shares outstanding (in thousands)	**490,816**	511,286	531,318
Basic earnings per share before goodwill amortization	**$ 2.73**	$ 2.83	$ 3.40
Basic earnings per share	**$ 2.73**	$ 2.72	$ 3.30

The earnings per share calculations for the year ended October 31, 2000 have been amended to reflect the stock dividend of one common share, with no value, for each outstanding common share declared on March 1, 2001.

Diluted Earnings per Share

Diluted earnings per share represents what our earnings per share would have been if any convertible issuances had been converted into common shares during the year.

Convertible Shares

We increase net income before goodwill amortization by dividends paid on convertible shares as these dividends would not have been paid if the shares had been converted at the beginning of the year. Similarly, we increase the average number of common shares outstanding by the number of shares that would have been issued had the conversion taken place at the beginning of the year.

Our Series 3, 4, 6 and 10 Class B Preferred Shares, in certain circumstances, are convertible into common shares. These conversions are not included in the calculation of diluted earnings per share as we have the option to settle in cash instead of common shares.

Employee Stock Options

We increase the average number of common shares outstanding by the number of shares that would have been issued if all stock options with a strike price below the average share price for the year had been exercised. We also decrease the average number of common shares outstanding by the number of our com- mon shares that we could have repurchased if we had used the proceeds from the exercise of stock options to repurchase them on the open market at the average share price for the year. We do not adjust for stock options with a strike price above the average share price for the year because including them would increase our earnings per share, not dilute it.

(Canadian $ in millions, except per share information)

Diluted earnings per share	2002	2001	2000
Net income before goodwill amortization available to common shareholders	**$ 1,338**	$ 1,447	$ 1,805
Dividends on convertible shares	**1**	2	2
Net income before goodwill amortization adjusted for dilution effect	**1,339**	1,449	1,807
Amortization of goodwill	**—**	(56)	(49)

Net income adjusted for dilution effect	**$ 1,339**	$ 1,393	$ 1,758
Average number of common shares outstanding (in thousands)	**490,816**	511,286	531,318
Convertible shares	**1,278**	2,213	3,125
Stock options potentially exercisable(a)	**30,575**	31,742	21,336
Shares potentially repurchased	**(23,205)**	(21,680)	(14,964)
Average diluted number of common shares outstanding (in thousands)	**499,464**	523,561	540,815
Diluted earnings per share before goodwill amortization	**$ 2.68**	$ 2.77	$ 3.34
Diluted earnings per share	**$ 2.68**	$ 2.66	$ 3.25

(a) In computing diluted earnings per share for the year ended October 31, 2002, we excluded stock options with exercise prices in excess of $36.40. Refer to Note 16 for more information on these options.

NOTE 20 Related Party Transactions

We provide banking services to our joint ventures and equity- accounted investments on the same terms that we offer to our customers.

Effective September 1, 1999, new loans and mortgages to executive officers were no longer available at preferred rates, other than mortgages for Bank-initiated transfers; a select suite of customer loan and mortgage products is now offered to employees at rates normally accorded to preferred customers. Existing loans and mortgages at preferred rates will be phased out by September 1, 2004.

Prior to September 1, 1999, loans to executive officers for personal purposes, principally for consumer purchases, home improvement and sundry investments, were made available at an interest rate of one-half of the Bank's prime rate to a maximum of $25,000. Loans in excess of this amount were available at prime rate.

The interest earned on these loans is recorded in interest, dividend and fee income in our Consolidated Statement of Income. The amounts outstanding under these loan agreements are:

	2002	2001
Mortgage loans	**$223**	$344
Personal loans	**106**	285
Total	**$329**	$629

Beginning in fiscal 2002, we introduced a stock option plan for non-officer directors and issued 105,000 options at an exercise price of $36.01 per share. The terms of the stock option plan are the same as our 2000, 2001 and 2002 plans for designated officers and employees described in Note 16.

NOTE 21 Risk Management

Our business necessitates the management of several categories of risk including credit, market, liquidity and operational risks. Certain information about our exposure to these risks such as the allowance for credit losses, trading revenue, derivative financial instruments and fair value of financial instruments are set out in our consolidated financial statements. A summary of our interest rate gap position and effective interest rates on our financial instrument assets and liabilities is set out on page 62 of our Management's Discussion and Analysis.

NOTE 22 Contingent Liabilities

(a) Legal Proceedings

BMO Nesbitt Burns Inc., an indirect subsidiary of Bank of Montreal, has been named as a defendant in several class and individual actions in Canada and a class action in the United States brought on behalf of shareholders of Bre-X Minerals Ltd. ("Bre-X"). Other defendants named in one or more of these actions include Bre-X, officers and directors of Bre-X, a mining consulting firm retained by Bre-X, Bre-X's financial advisor, brokerage firms which sold Bre-X common stock, and a major gold production company. These actions are largely based on allegations of negligence, negligent or fraudulent misrepresentation and a breach of the U.S. Securities Exchange Act of 1934 (United States only), in connection with the sale of Bre-X securities. Two of the proposed class actions in Canada have been dismissed as to BMO Nesbitt Burns Inc. All of the other actions are at a preliminary stage. Based upon information presently available, counsel for BMO Nesbitt Burns Inc. is not in a position to express an opinion as to the likely outcome of any of these actions. Management is of the view that BMO Nesbitt Burns Inc. has strong defences and will vigorously defend against all such actions. The Bank and its subsidiaries are party to other legal proceedings in the ordinary course of their businesses. Management does not expect the outcome of any of these other proceedings, individually or in the aggregate, to have a material adverse effect on the consolidated financial position or results of the Bank's operations.

(b) Pledged Assets

In the normal course of our business, we pledge assets as security for various liabilities that we incur. We had pledged investment and trading securities and other assets totalling $35,214 as at October 31, 2002 and $31,388 as at October 31, 2001 as security for call loans, securities sold but not yet purchased, securities sold under repurchase agreements and other secured liabilities. Additionally, we had deposited assets in the amount of $2,204 as at October 31, 2002 and $1,846 as at October 31, 2001 to act as security for our participation in clearing and payment systems and as security for contract settlements with derivatives exchanges or other derivative counterparties.

The following table summarizes our assets pledged:

	2002	2001
Cash resources	**$ 78**	$ 260
Securities		
Issued or guaranteed by Canada	**5,606**	3,659
Issued or guaranteed by a Canadian province, municipality or school corporation	**886**	923
Other securities	**12,032**	10,792
Other assets	**18,816**	17,600
Total assets pledged	**$37,418**	$33,234

Excludes restricted cash resources disclosed in Note 2.

NOTE 23 Derivative Financial Instruments

We enter into interest rate, foreign exchange, commodity, equity and credit contracts to enable our customers to manage risk, and for asset/liability management purposes where we manage the risk associated with our balance sheet positions.

Customer Trading Derivatives

Customer trading derivative transactions are comprised of sales and other activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to transfer, modify or reduce current or expected risks. Other activities include market-making, positioning and arbitrage activities. Market-making activities involve quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning activities involve managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between markets and products. We may also take proprietary trading positions in various capital markets instruments and derivatives, which are designed to profit from anticipated changes in market factors.

We conduct our customer trading activities through business units dealing in both on- and off-balance sheet positions, including derivatives, which are marked to market. The revenue generated by these units is set out on page 21 of our Management's Discussion and Analysis.

Customer trading derivatives are marked to market. Realized and unrealized gains and losses are recorded in trading revenues. A portion of the income derived from marking derivatives to market in respect of credit, model and liquidity risks as well as administrative costs is deferred and amortized to trading revenues, as appropriate. Unrealized gains on trading derivatives are recorded in other assets and unrealized losses are

recorded in other liabilities.

Asset/Liability Management ("ALM") Derivatives

In accordance with our risk management strategy, we enter into various derivative instruments to hedge our interest rate, foreign currency and equity exposures.

Hedging Derivatives

A derivative will qualify as a hedge if the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge, the specific asset, liability or cash flow being hedged, as well as how effectiveness is being assessed. In addition, changes in the fair value of the derivative must be highly effective in offsetting either changes in the fair value of on-balance sheet items or changes in the amount of future cash flows. The effectiveness of these hedging relationships is evaluated at inception of the hedge and on an ongoing basis, both retrospectively and prospectively using quantitative statistical measures of correlation. If a hedge relationship is found to be ineffective, the derivative is redesignated as customer trading. Subsequent changes in the fair value of derivatives originally identified as hedges, but which are no longer effective as hedges, are redesignated as customer trading and are reported in trading revenues.

Swaps and options that qualify as hedges are accounted for on the accrual basis. For interest rate swaps, interest income received and interest expense paid on the derivative is accrued as an adjustment to the yield of the item being hedged over the term of the hedge contract. For purchased options, premiums are amortized to interest expense over the term of the contract. Accrued interest receivable and payable and deferred gains and losses for these contracts are recorded in other assets or liabilities as appropriate. Realized gains and losses from the settlement or the early termination of hedge contracts are deferred and amortized over the remaining original life of the hedged item.

Cross-currency swaps and equity derivatives are marked to market with realized and unrealized gains and losses recorded in non-interest revenue, along with the gains and losses of the items hedged. Credit derivatives entered into for hedging purposes are accounted for as off-balance sheet financial guarantees.

Future Change in Accounting Policy
The Canadian Institute of Chartered Accountants has approved new accounting requirements for derivatives. Under these new requirements, all derivatives are marked to market unless they meet criteria for hedging. We will be adopting the new requirements in fiscal 2003 and do not expect these new requirements to impact our results as our accounting policies already substantially comply with these new requirements.

Foreign Currency Risk
We manage foreign currency risk through cross-currency swaps.

We also periodically hedge contractual U.S. dollar revenues to minimize fluctuations in U.S. dollar earnings through forward foreign exchange contracts.

These contracts are marked to market and mature monthly as related revenues are recorded and the realized gains and losses on these contracts are then recorded in non-interest revenue.

Interest Rate Risk
We manage interest rate risk primarily through interest rate swaps and options, which are linked to and adjust the interest rate sensitivity of a specific asset, liability, firm commitment or a specific pool of transactions with similar risk characteristics. These include fair value hedges which modify exposure to interest rate risk by converting fixed rate assets and liabilities to floating rate, and cash flow hedges which hedge exposure to variability in cash flows for variable rate interest bearing instruments. Our fair value hedges are primarily hedges of fixed rate deposits and mortgages. Our cash flow hedges, which have a maximum term of 12 years, are primarily hedges offloating rate deposits and commercial and personal loans.

Types of Derivatives
Derivative transactions, both customer trading and ALM, which are conducted directly between two counterparties in the over-the- counter market or on regulated exchange markets, include:

Swaps
Swaps 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. The main risks associated with these instruments are the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contract. Interest rate swaps are used to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of assets and liabilities.

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.

For commodity swaps, counterparties generally exchange fixed and floating rate payments based on a notional value in a single commodity.

Forwards and Futures
Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity, equity 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. Risks arise from the possible inability of over-the-counter counterparties to meet the terms of their contracts and from movements in securities values, interest rates and foreign exchange rates.

Options
Options are contractual agreements that convey the right but not the obligation to either buy or sell a specific amount of a currency, commodity, equity or 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 us, we receive a premium from the purchaser for accepting market risk. For options purchased by us, a premium is paid for the right to exercise the option, but we sustain 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.

The effect of asset/liability management derivatives on net interest income and the net amount of deferred realized losses, included in other liabilities in our Consolidated Balance Sheet, was:

	2002	2001	2000
Increase (decrease) in net interest income	**$236**	$ 8	$ 94
Deferred realized (losses)	**$ (10)**	$(10)	$(15)

One technique that we use to reduce credit exposure on derivatives is to enter into master netting agreements with customers. These allow us to offset amounts due to/from a customer to limit our losses should the customer default on a derivative contract.

Losses incurred on defaults of counterparties charged to the allowance for credit losses in the years ended October 31, 2002, 2001 and 2000 were not significant.

The following terms are used in the derivatives table on page 88, which summarizes our derivative portfolio and related credit exposure.

Notional amount: represents the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under the contract.

Replacement cost: represents the cost of replacing all contracts which have a positive fair value using current market rates. This figure represents in effect the unrealized gains on our derivative instruments.

Credit risk equivalent: represents the total replacement cost and thereby the potential future credit exposure, if the counter-party defaults.

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

Exchange traded derivatives have no potential for credit exposure as they can be settled net with the exchange.

	2002						2001					
	Notional amount						Notional amount					
	Customer trading	ALM	Total	Replacement cost	Credit risk equivalent	Risk-weighted balance	Customer trading	ALM	Total	Replacement cost	Credit risk equivalent	Risk-weighted balance
Interest Rate Contracts												
Over-the-counter												
Swaps	**$ 697,505**	**$50,494**	**$ 747,999**	**$ 15,195**	**$ 18,768**	**$ 4,675**	$1,243,277	$41,336	$1,284,613	$ 13,649	$ 16,978	$ 4,793
Forward rate agreements	**226,140**	**–**	**226,140**	**211**	**244**	**49**	384,064	–	384,064	326	375	82
Purchased options	**95,860**	**1,460**	**97,320**	**2,470**	**2,939**	**774**	91,628	985	92,613	2,098	2,532	724
Written options	**118,067**	**–**	**118,067**	**–**	**–**	**–**	101,177	5	101,182	–	–	–
	1,137,572	**51,954**	**1,189,526**	**17,876**	**21,951**	**5,498**	1,820,146	42,326	1,862,472	16,073	19,885	5,599
Exchange traded												
Futures	**158,203**	**–**	**158,203**	**–**	**–**	**–**	158,613	–	158,613	–	–	–
Purchased options	**62,329**	**–**	**62,329**	**–**	**–**	**–**	61,958	–	61,958	–	–	–
Written options	**54,552**	**–**	**54,552**	**–**	**–**	**–**	56,202	–	56,202	–	–	–
	275,084	**–**	**275,084**	**–**	**–**	**–**	276,773	–	276,773	–	–	–
Total Interest Rate Contracts	**1,412,656**	**51,954**	**1,464,610**	**17,876**	**21,951**	**5,498**	2,096,919	42,326	2,139,245	16,073	19,885	5,599
Foreign Exchange Contracts												
Over-the-counter												
Cross-currency swaps	**18,348**	**–**	**18,348**	**287**	**1,324**	**461**	18,133	–	18,133	180	1,210	451
Cross-currency interest rate swaps	**39,156**	**5,511**	**44,667**	**817**	**2,845**	**551**	45,117	6,867	51,984	996	3,202	712
Forward foreign exchange contracts	**143,396**	**8,050**	**151,446**	**1,493**	**3,094**	**868**	157,965	2,052	160,017	1,865	4,238	1,218
Purchased options	**87,766**	**–**	**87,766**	**775**	**1,694**	**406**	59,589	–	59,589	603	1,235	336
Written options	**93,413**	**–**	**93,413**	**–**	**–**	**–**	72,549	–	72,549	–	–	–
	382,079	**13,561**	**395,640**	**3,372**	**8,957**	**2,286**	353,353	8,919	362,272	3,644	9,885	2,717
Exchange traded												
Futures	**663**	**–**	**663**	**–**	**–**	**–**	515	1	516	–	–	–
Purchased options	**2,934**	**–**	**2,934**	**–**	**–**	**–**	2,856	–	2,856	–	–	–
Written options	**841**	**–**	**841**	**–**	**–**	**–**	1,660	–	1,660	–	–	–
	4,438	**–**	**4,438**	**–**	**–**	**–**	5,031	1	5,032	–	–	–
Total Foreign Exchange Contracts	**386,517**	**13,561**	**400,078**	**3,372**	**8,957**	**2,286**	358,384	8,920	367,304	3,644	9,885	2,717
Commodity Contracts												
Over-the-counter												
Swaps	**16,956**	**–**	**16,956**	**860**	**2,829**	**1,230**	17,159	–	17,159	1,128	3,275	1,550
Purchased options	**10,262**	**–**	**10,262**	**738**	**2,731**	**1,125**	14,009	–	14,009	2,518	3,976	1,838
Written options	**9,767**	**–**	**9,767**	**–**	**–**	**–**	13,850	–	13,850	–	–	–
	36,985	**–**	**36,985**	**1,598**	**5,560**	**2,355**	45,018	–	45,018	3,646	7,251	3,388
Exchange traded												
Futures	**891**	**–**	**891**	**–**	**–**	**–**	643	–	643	–	–	–
Purchased options	**432**	**–**	**432**	**–**	**–**	**–**	306	–	306	–	–	–
Written options	**536**	**–**	**536**	**–**	**–**	**–**	561	–	561	–	–	–
	1,859	**–**	**1,859**	**–**	**–**	**–**	1,510	–	1,510	–	–	–
Total Commodity Contracts	**38,844**	**–**	**38,844**	**1,598**	**5,560**	**2,355**	46,528	–	46,528	3,646	7,251	3,388
Equity Contracts												
Over-the-counter	**12,003**	**114**	**12,117**	**277**	**1,021**	**425**	8,200	182	8,382	173	620	284
Exchange traded	**1,692**	**–**	**1,692**	**–**	**–**	**–**	1,794	–	1,794	–	–	–
Total Equity Contracts	**13,695**	**114**	**13,809**	**277**	**1,021**	**425**	9,994	182	10,176	173	620	284
Credit Contracts – Over-the-counter	**1,691**	**399**(1)	**2,090**	**6**	**126**	**26**	32	502(1)	534	–	3	1

Subtotal	**1,853,403**	**66,028**	**1,919,431**	**23,129**	**37,615**	**10,590**	2,511,857	51,930	2,563,787	23,536	37,644	11,989
Impact of Master Netting Agreements	**na**	**na**	**na**	**(12,105)**	**(17,714)**	**(4,596)**	na	na	na	(11,563)	(22,123)	(6,281)
Total	**$1,853,403**	**$66,028**	**$1,919,431**	**$ 11,024**	**$ 19,901**	**$ 5,994**	$2,511,857	$51,930	$2,563,787	$ 11,973	$ 15,521	$ 5,708

Included in the notional amounts is $743 as at October 31, 2002 and $2,520 as at October 31, 2001 related to the Managed Futures Certificates of Deposit Program. Risk exposures represented by the assets in this program are traded on behalf of customers with all gains and losses accruing to them.

Replacement costs disclosed in the table above represent the net of the asset and liability to a specific counterparty when we have a legally enforceable right to offset the amount owed to us and the amount owed by us and we intend either to settle on a net basis or to realize the asset and settle the liability simultaneously. Credit contracts were previously included with equity contracts. We excluded exchange traded instruments with unrealized gains of nil as at October 31, 2002 and nil as at October 31, 2001 because we are not required to provide capital against these instruments. Included in the total are unrealized gains on ALM derivatives which we include in the Consolidated Balance Sheet on an accrual rather than market basis. The excess of market value over book value for these items was $774 as at October 31, 2002 and $483 as at October 31, 2001.

(1) Credit contracts entered into for hedging purposes are accounted for as off-balance sheet financial guarantees. The replacement cost of these contracts was less than $1 million as at October 31, 2002 and 2001.

na – not applicable

Transactions are conducted with counterparties in various geographic locations and industries. Set out below is the replacement cost of contracts from customers located in the following countries based on country of ultimate risk:

	2002		2001	
Canada	**$ 4,362**	**19%**	$ 4,639	20%
United States	**10,789**	**47**	11,694	50
Other countries	**7,978**	**34**	7,203	30
Total	**$23,129**	**100%**	$23,536	100%

Set out below is the replacement cost of contracts from customers in the following industries:

	2002									
	Interest rate contracts		**Foreign exchange contracts**		**Commodity contracts**		**Equity contracts**		**Credit contracts**	
Financial institutions	**$15,324**	**86%**	**$2,496**	**74%**	**$ 842**	**53%**	**$115**	**42%**	**$6**	**100%**
Other	**2,552**	**14**	**876**	**26**	**756**	**47**	**162**	**58**	**–**	**–**
Total	**$17,876**	**100%**	**$3,372**	**100%**	**$1,598**	**100%**	**$277**	**100%**	**$6**	**100%**

	2001									
	Interest rate contracts		Foreign exchange contracts		Commodity contracts		Equity contracts		Credit contracts	
Financial institutions	$13,504	84%	$2,590	71%	$1,129	31%	$100	58%	$–	–
Other	2,569	16	1,054	29	2,517	69	73	42	–	–
Total	$16,073	100%	$3,644	100%	$3,646	100%	$173	100%	$–	–

Set out below are the maturities and weighted average interest rates paid and received on derivative contracts:

	Term to maturity										2002	2001
	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	**$ 39,697**	**4.05**	**$ 28,636**	**4.95**	**$ 15,510**	**5.42**	**$ 10,824**	**5.62**	**$ 3,013**	**6.14**	**$ 97,680**	$ 79,835
Canadian $ receive fixed	**31,581**	**4.41**	**35,467**	**4.88**	**26,822**	**5.13**	**17,290**	**5.49**	**2,982**	**6.07**	**114,142**	96,027
US $ pay fixed	**41,532**	**4.32**	**41,677**	**4.45**	**18,608**	**5.39**	**22,417**	**6.20**	**6,070**	**6.72**	**130,304**	138,213
US $ receive fixed	**39,694**	**3.77**	**32,704**	**4.78**	**18,876**	**5.30**	**23,063**	**5.93**	**5,790**	**6.78**	**120,127**	109,069
Basis swaps	**7,006**	**na**	**7,800**	**na**	**2,133**	**na**	**2,767**	**na**	**–**	**na**	**19,706**	21,023
Other swaps	**146,026**	**na**	**69,516**	**na**	**19,342**	**na**	**29,830**	**na**	**1,326**	**na**	**266,040**	840,446
Total interest rate swaps	**305,536**		**215,800**		**101,291**		**106,191**		**19,181**		**747,999**	1,284,613
Forward rate agreements, futures and options	**549,786**	**na**	**100,346**	**na**	**26,634**	**na**	**37,422**	**na**	**2,423**	**na**	**716,611**	854,632
Total Interest Rate Contracts	**855,322**	**na**	**316,146**	**na**	**127,925**	**na**	**143,613**	**na**	**21,604**	**na**	**1,464,610**	2,139,245
Foreign Exchange Contracts												

Cross-currency swaps	**389**	**na**	**11,125**	**na**	**1,430**	**na**	**4,263**	**na**	**1,141**	**na**	**18,348**	18,133
Cross-currency interest rate swaps	**12,971**	**na**	**13,136**	**na**	**6,013**	**na**	**10,653**	**na**	**1,894**	**na**	**44,667**	51,984
Forward foreign exchange contracts, futures and options	**327,725**	**na**	**8,214**	**na**	**800**	**na**	**299**	**na**	**25**	**na**	**337,063**	297,187
Total Foreign Exchange Contracts	**341,085**	**na**	**32,475**	**na**	**8,243**	**na**	**15,215**	**na**	**3,060**	**na**	**400,078**	367,304
Commodity Contracts												
Swaps	**10,984**	**na**	**4,774**	**na**	**849**	**na**	**349**	**na**	**–**	**na**	**16,956**	17,159
Futures and options	**18,551**	**na**	**3,284**	**na**	**53**	**na**	**–**	**na**	**–**	**na**	**21,888**	29,369
Total Commodity Contracts	**29,535**	**na**	**8,058**	**na**	**902**	**na**	**349**	**na**	**–**	**na**	**38,844**	46,528
Total Equity Contracts	**12,367**	**na**	**715**	**na**	**132**	**na**	**92**	**na**	**503**	**na**	**13,809**	10,176
Total Credit Contracts	**879**	**na**	**111**	**na**	**1,100**	**na**	**–**	**na**	**–**	**na**	**2,090**	534
Total	**$1,239,188**	**na**	**$357,505**	**na**	**$138,302**	**na**	**$159,269**	**na**	**$25,167**	**na**	**$1,919,431**	$2,563,787

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

Basis swaps are floating interest rate swaps where 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 US $.

na – not applicable as weighted average rates are not meaningful.

US $ amounts are presented in Canadian $ equivalents.

The following table provides the fair value of our derivative financial instruments portfolio:

	2002							2001		
	Customer trading					ALM	Total	Customer trading	ALM	Total
	Gross assets	Gross liabilities	Net	Gross assets	Gross liabilities	Net	Net	Net	Net	Net
Interest Rate Contracts										
Swaps	**$14,277**	**$(14,260)**	**$ 17**	**$918**	**$ (570)**	**$348**	**$ 365**	$ (856)	$ 315	$ (541)
Forward rate agreements	**211**	**(290)**	**(79)**	**–**	**–**	**–**	**(79)**	21	–	21
Futures	**17**	**(2)**	**15**	**–**	**–**	**–**	**15**	7	–	7
Purchased options	**2,515**	**–**	**2,515**	**4**	**–**	**4**	**2,519**	2,320	1	2,321
Written options	**–**	**(2,138)**	**(2,138)**	**–**	**–**	**–**	**(2,138)**	(1,815)	–	(1,815)
Foreign Exchange Contracts										
Cross-currency swaps	**287**	**(404)**	**(117)**	**–**	**–**	**–**	**(117)**	(261)	–	(261)
Cross-currency interest rate swaps	**811**	**(955)**	**(144)**	**6**	**(99)**	**(93)**	**(237)**	(389)	(97)	(486)
Forward foreign exchange contracts	**1,007**	**(1,254)**	**(247)**	**22**	**(32)**	**(10)**	**(257)**	497	1	498
Futures	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–
Purchased options	**801**	**–**	**801**	**–**	**–**	**–**	**801**	612	–	612
Written options	**–**	**(773)**	**(773)**	**–**	**–**	**–**	**(773)**	(661)	–	(661)
Commodity Contracts										
Swaps	**860**	**(948)**	**(88)**	**–**	**–**	**–**	**(88)**	(1)	–	(1)
Futures	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–
Purchased options	**820**	**–**	**820**	**–**	**–**	**–**	**820**	2,587	–	2,587
Written options	**–**	**(776)**	**(776)**	**–**	**–**	**–**	**(776)**	(2,412)	–	(2,412)
Equity Contracts	**320**	**(152)**	**168**	**–**	**13**	**13**	**181**	63	26	89
Credit Contracts	**6**	**(6)**	**–**	**–**	**–**	**–**	**–**	–	–	–
Total Fair Value	**$21,932**	**$(21,958)**	**$ (26)**	**$950**	**$ (688)**	**$262**	**$ 236**	$ (288)	$ 246	$ (42)
Total Book Value	**$21,932**	**$(21,958)**	**$ (26)**	**$176**	**$ (168)**	**$ 8**	**$ (18)**	$ (288)	$ (43)	$ (331)
Average Fair Value	**$21,407**	**$(21,665)**	**$ (258)**	**$774**	**$ (643)**	**$131**	**$ (127)**	$ 482	$(154)	$ 328

In order to calculate fair values:

- Instruments are marked to market using quoted market rates and/or zero coupon valuation techniques.
- Zero coupon curves are created using generally accepted valuation techniques from underlying instruments such as cash, bonds, futures and off-balance sheet prices observable in the market.
- Option implied volatilities are either obtained directly from market sources or calculated from market prices utilizing the appropriate option pricing models given our assessment and market conventions.

Assets are shown net of liabilities to customers where we have an enforceable right to offset amounts and we intend to settle contracts on a net basis.

NOTE 24 Fair Value of Financial Instruments

As a financial institution, we record trading assets at market values and non-trading assets and liabilities at their original amortized cost less allowances or write-downs for impairment. Fair value is subjective in nature, requiring a variety of valuation techniques and assumptions. The values are based upon the estimated amounts for individual assets and liabilities and do not include an estimate of the fair value of any of our legal entities or underlying operations that comprise our business.

Fair value amounts disclosed represent point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value generally represents our estimate of the amounts we could exchange the financial instruments for with third parties who were interested in acquiring the instruments. In most cases, however, the financial instruments are not typically exchangeable or exchanged and therefore it is difficult to determine their fair value. In those cases, we have estimated fair value assuming that we will not sell the assets or liabilities, taking into account only changes in interest rates and credit risk that have occurred since we acquired them or entered into a contract. These calculations represent management's best estimates based on a range of methodologies and assumptions; since they involve uncertainties, the results may not be realized in an actual sale or immediate settlement of the instruments.

Interest rate changes are the main cause of change in the fair value of our financial instruments.

Premises and equipment are not financial instruments and have been excluded from our estimate of fair value. The net amounts excluded totalled $2,159 as at October 31, 2002 and $2,170 as at October 31, 2001.

Determination of Fair Value
Fair value is assumed to equal book value for acceptance assets and liabilities, securities sold but not yet purchased and securities sold under repurchase agreements. This is based on the short-term nature of these assets and liabilities. Fair value is also assumed to equal book value for our other assets and other liabilities.

Loans
In determining the fair value of our loans, we incorporate the following assumptions:

- For fixed rate performing loans, we discount the remaining contractual cash flows at market interest rates currently charged for loans with similar terms and risks.

- For floating rate performing loans, changes in interest rates have minimal impact on fair value since loans reprice to market frequently. On that basis, fair value is assumed to equal book value.

The adjusted amount of our loan balances determined based on the above assumptions is further reduced by the allowance for credit losses to determine the fair value of our loan portfolio.

Deposits

In determining the fair value of our deposits, we incorporate the following assumptions:

- For fixed rate, fixed maturity deposits, we discount the remaining contractual cash flows for these deposits at market interest rates currently offered for deposits with similar terms and risks.
- For floating rate, fixed maturity deposits, changes in interest rates have minimal impact on fair value as the deposits reprice to market frequently. On that basis, fair value is assumed to equal book value.
- For deposits with no defined maturities, we consider fair value to equal book value based on book value being equivalent to the amount payable on the reporting date.

Subordinated Debt
The fair value of our subordinated debt is determined by referring to current market prices for similar debt instruments.

Set out below is a comparison of the amounts which would be reported if all of our financial instrument assets and liabilities were reported at their fair values:

	2002				2001			
	Book value	Fair value of assets and liabilities	Fair value of ALM hedges	Fair value over (under) book value	Book value	Fair value of assets and liabilities	Fair value of ALM hedges	Fair value over (under) book value
Assets								
Cash resources	**$ 19,305**	**$ 19,305**	**$ –**	**$ –**	$ 17,656	$ 17,656	$ –	$ –
Securities (Note 3)	**43,715**	**44,036**	**(344)**	**(23)**	37,676	37,920	(368)	(124)
Loans	**142,695**	**142,971**	**48**	**324**	136,829	137,310	67	548
Customers' liability under acceptances	**6,901**	**6,901**	**–**	**–**	7,936	7,936	–	–
Other assets	**38,089**	**38,089**	**–**	**–**	37,142	37,142	–	–
	250,705	**251,302**	**(296)**	**301**	237,239	237,964	(301)	424
Liabilities								
Deposits	**161,838**	**162,628**	**(546)**	**244**	154,290	155,390	(588)	512
Acceptances	**6,901**	**6,901**	**–**	**–**	7,936	7,936	–	–
Securities sold but not yet purchased	**7,654**	**7,654**	**–**	**–**	6,609	6,609	–	–
Securities sold under repurchase agreements	**24,796**	**24,796**	**–**	**–**	17,480	17,480	–	–
Other liabilities	**35,987**	**35,987**	**–**	**–**	37,738	37,738	–	–
Subordinated debt	**3,794**	**4,145**	**(4)**	**347**	4,674	5,018	(2)	342
	$240,970	**$ 242,111**	**$ (550)**	**$ 591**	$228,727	$ 230,171	$ (590)	$ 854
Total				**$ (290)**				$ (430)

ALM – asset/liability management derivatives which we use to manage the interest rate and foreign exchange exposures arising from our on-balance sheet positions.

NOTE 25 Reconciliation of Canadian and United States Generally Accepted Accounting Principles

We prepare our consolidated financial statements in accordance with generally accepted accounting principles ("GAAP") in Canada, including the accounting requirements of our regulator, the Superintendent of Financial Institutions Canada.

Set out below are the more significant differences which would result if United States generally accepted accounting principles were applied in the preparation of our consolidated financial statements.

Condensed Consolidated Balance Sheet As at October 31 (Canadian $ in millions)	2002			2001		
	Canadian GAAP	Increase (Decrease)	United States GAAP	Canadian GAAP	Increase (Decrease)	United States GAAP
Assets						
Cash Resources	**$ 19,305**	**$ –**	**$ 19,305**	$ 17,656	$ –	$ 17,656
Securities	**43,715**	**2,779**(6)	**46,494**	37,676	1,092(6)	38,768
Loans, net of the allowance for credit losses	**142,695**	**3**	**142,698**	136,829	5	136,834
Other	**47,149**	**256**	**47,405**	47,248	287	47,535

Total Assets	**$252,864**	**$3,038**	**$ 255,902**	$239,409	$1,384	$ 240,793
Liabilities and Shareholders' Equity						
Deposits	**$161,838**	**$ 66**	**$ 161,904**	$154,290	$ (20)	$ 154,270
Other Liabilities	**75,338**	**2,582**(6)	**77,920**	69,763	985(6)	70,748
Subordinated Debt	**3,794**	**87**	**3,881**	4,674	150	4,824
Shareholders' Equity (1)	**11,894**	**303**(8)	**12,197**	10,682	269(8)	10,951
Total Liabilities and Shareholders' Equity	**$252,864**	**$3,038**	**$ 255,902**	$239,409	$1,384	$ 240,793

Certain comparative figures have been reclassified to conform with the current year's presentation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Income (Canadian $ in millions except per share amounts) For the Year Ended October 31	2002			2001			2000		
	Canadian GAAP	Increase (Decrease)	United States GAAP	Canadian GAAP	Increase (Decrease)	United States GAAP	Canadian GAAP	Increase (Decrease)	United States GAAP
Interest, Dividend and Fee Income	**$ 9,135**	**$ –**	**$ 9,135**	$ 13,000	$ –	$ 13,000	$ 14,303	$ –	$ 14,303
Interest Expense	**4,306**	**–**	**4,306**	8,501	–	8,501	10,099	–	10,099
Net Interest Income	**4,829**	**–**	**4,829**	4,499	–	4,499	4,204	–	4,204
Provision for credit losses	**820**	**–**	**820**	980	–	980	358	–	358
Net Interest Income After Provision for Credit Losses	**4,009**	**–**	**4,009**	3,519	–	3,519	3,846	–	3,846
Non-Interest Revenue	**3,924**	**(77)**(2,3)	**3,847**	4,222	45(2,3,7)	4,267	4,326	(19)(2)	4,307
Net Interest Income and Non-Interest Revenue	**7,933**	**(77)**	**7,856**	7,741	45	7,786	8,172	(19)	8,153
Total non-interest expense before restructuring charge	**6,030**	**1**(4)	**6,031**	5,671	56(4)	5,727	5,301	111(4)	5,412
Restructuring charge	**–**	**–**	**–**	–	–	–	(43)	–	(43)
Total Non-Interest Expense	**6,030**	**1**	**6,031**	5,671	56	5,727	5,258	111	5,369
Income Before Provision for Income Taxes, Non-Controlling Interest in Subsidiaries and Goodwill Amortization	**1,903**	**(78)**	**1,825**	2,070	(11)	2,059	2,914	(130)	2,784
Income taxes	**424**	**(21)**(5)	**403**	501	1(5)	502	989	(35)(5)	954
	1,479	**(57)**	**1,422**	1,569	(12)	1,557	1,925	(95)	1,830
Non-controlling interest in subsidiaries	**62**	**–**	**62**	42	–	42	19	–	19
Net Income Before Goodwill Amortization	**1,417**	**(57)**	**1,360**	1,527	(12)	1,515	1,906	(95)	1,811
Amortization of goodwill, net of applicable income tax	**–**	**–**	**–**	56	(56)(4[iv])	–	49	(49)(4[iv])	–
Net Income	**$ 1,417**	**$ (57)**	**$ 1,360**	$ 1,471	$ 44	$ 1,515	$ 1,857	$ (46)	$ 1,811
Earnings per share – Basic	**$ 2.73**	**$(0.12)**	**$ 2.61**	$ 2.72	$0.09	$ 2.81	$ 3.30	$(0.08)	$ 3.22
– Diluted	**2.68**	**(0.11)**	**2.57**	2.66	0.09	2.75	3.25	(0.07)	3.18

Consolidated Statement of Comprehensive Income For the Year Ended October 31 (Canadian $ in millions)	2002	2001	2000
Net income (under United States GAAP)	**$1,360**	$1,515	$1,811
Other Comprehensive Income, net of tax:			
Unrealized gain (loss) on translation of net investments in foreign operations, net of hedging activities (a)	**(79)**	179	143
Unrealized translation losses on disposition of an investment in a foreign operation	**–**	18	–
Unrealized holding gains (losses) arising on available for sale securities, net of hedging activities (b)	**(45)**	3	307
Realized (gains) losses and write-downs on available for sale securities recognized in net income (c)	**94**	(57)	(42)
Net transition adjustment gain on derivatives designated as cash flow hedges (d)	**–**	13	–
Unrealized gains (losses) arising on derivatives designated as cash flow hedges (e)	**(22)**	258	–
Net (gains) losses on derivatives designated as cash flow hedges recognized in net income (f)	**15**	(22)	–
Total Other Comprehensive Income	**(37)**	392	408
Comprehensive Income	**$1,323**	$1,907	$2,219

(a) Net of income taxes of $81 ($178 in 2001, $153 in 2000).

(b) Net of income taxes of $30 ($2 in 2001, $222 in 2000).

(c) Net of income taxes of $59 ($41 in 2001, $30 in 2000).

(d) Net of income taxes of nil ($9 in 2001).

(e) Net of income taxes of $14 ($182 in 2001).

(f) Net of income taxes of $9 ($16 in 2001).

(1) Accumulated other comprehensive income is recorded as a separate component included in shareholders' equity under United States GAAP. Canadian GAAP does not have other comprehensive income.

The accumulated balances related to each component of other comprehensive income, net of tax, are as follows:

	2002	2001
Unrealized gain on translation of net investments in foreign operations, net of hedging activities	**$421**	$500
Net unrealized gains on available for sale securities (i)	**78**	29
Unrealized gains on derivatives designated as cash flow hedges (ii)	**242**	249
Total Accumulated Other Comprehensive Income	**$741**	$778

(i) Under United States GAAP, we have designated as available for sale securities all of our investment securities, other than investment securities accounted for using the equity method. Available for sale securities are carried at fair value, with any unrealized gains or losses recorded in other comprehensive income. Under Canadian GAAP, investment securities are carried at cost or at amortized cost.

(ii) Under United States GAAP, derivatives designated as cash flow hedges are carried at fair value, with any unrealized gains or losses recorded in other comprehensive income, to the extent the hedge is effective. Under Canadian GAAP, derivatives designated as cash flow hedges are accounted for on the accrual basis, with gains or losses deferred and recorded in income on the same basis as the underlying hedged item.

(2) Under United States GAAP, gains on all securitized assets are recorded at the date of the securitization. Under Canadian GAAP, prior to July 1, 2001, gains on sales of NHA-insured mortgages were recorded at the date of the securitization and gains on sales of loans securitized were recorded over the life of the loans securitized. Effective July 1, 2001, we adopted a new Canadian accounting standard on securitizations that eliminates this difference between Canadian and United States GAAP. There will continue to be an adjustment to our Consolidated Statement of Income until the gains related to loans securitized prior to July 1, 2001 have all been recorded in income. As a result of this difference, non-interest revenue has been decreased by $40, $17 and $19 for the years ended October 31, 2002, 2001 and 2000, respectively.

(3) Under United States GAAP, we adopted a new accounting standard on derivatives and hedging effective November 1, 2000. Under this new standard, all derivatives are recorded at fair value in our Consolidated Balance Sheet. Changes in the fair value of derivatives that are not hedges are recorded in our Consolidated Statement of Income as they arise. If the derivative is a hedge, depending on the nature of the hedge, a change in the fair value of the derivative is either offset in our Consolidated Statement of Income against the change in the fair value of the hedged asset, liability or firm commitment or is recorded in other comprehensive income until the hedged item is recorded in our Consolidated Statement of Income. If the change in the fair value of the derivative is not completely offset by the change in the fair value of the item it is hedging, the difference is recorded immediately in our Consolidated Statement of Income.

When we adopted this new United States accounting standard on November 1, 2000, it increased consolidated assets by $163, increased consolidated liabilities by $149, increased other comprehensive income by $13 and increased net income by $1. Because the transition adjustment was not material to our consolidated net income, the adjustment to net income was included in non-interest revenue on a before-tax basis rather than shown separately as the cumulative effect of an accounting change.

Under current Canadian GAAP and United States GAAP prior to November 1, 2000, hedging derivatives were accounted for on an accrual basis, with gains or losses deferred and recorded in income on the same basis as the underlying hedged item. As a result of this difference, non-interest revenue has been decreased by $37 and $19 for the years ended October 31, 2002 and 2001, respectively.

(4) The impact of applying United States GAAP to total non-interest expense before restructuring charge is as follows:

	2002	2001	2000
Increase (decrease)			
Stock options (i)	**$ 47**	$ 40	$ 32
Software development costs (ii)	**(40)**	(44)	(47)
Pension and related benefits (iii)	**4**	8	82
Amortization of goodwill (iv)	**–**	62	54
Amortization of goodwill and other assets (v)	**(10)**	(10)	(10)
Total	**$ 1**	$ 56	$111

(i) Under United States GAAP, the fair value of stock options granted is recorded as compensation expense over the period that the options vest. Under Canadian GAAP, we currently include the amount of proceeds in shareholders' equity when the options are exercised.

(ii) Under United States GAAP, certain costs of internally developed software are required to be capitalized and amortized over the expected useful life of the software. Under Canadian GAAP, only certain external costs of internally developed software are capitalized and amortized over the expected useful life of the software.

(iii) Under United States GAAP, both pension and other future employee benefits are recorded in our Consolidated Statement of Income in the period services are provided by our employees. The related obligations are valued using current market rates. Under Canadian GAAP, prior to November 1, 2000, pension benefits were recorded in our Consolidated Statement of Income in the period services were provided by our employees, with the corresponding obligation valued using management's best estimate of the long-term rate of return on assets, while other future employee benefits were expensed as incurred. Effective November 1, 2000, we adopted a new Canadian accounting standard on pension and other future employee benefits that eliminates this difference between Canadian and United States GAAP. When we adopted this new standard, we accounted for the change in accounting as a charge to retained earnings. As a result, there will continue to be an adjustment to our Consolidated Statement of Income until amounts previously deferred under United States GAAP have been fully amortized to income.

(iv) Effective November 1, 2001, we adopted a new accounting standard on goodwill that is identical under Canadian and United States GAAP. Previously, we presented goodwill amortization expense net-of-tax on a separate line in our Consolidated Statement of Income under Canadian GAAP. That presentation was not permitted under United States GAAP.

(v) Under United States GAAP, our acquisition of Suburban Bank Corp. would have been accounted for using the pooling of interests method. Under Canadian GAAP, we accounted for this acquisition using the purchase method which resulted in the recognition and amortization of goodwill and other intangible assets associated with the acquisition. Effective November 1, 2001, goodwill is no longer amortized to income under either United States or Canadian GAAP.

(5) In addition to the tax impact of differences outlined above, under United States GAAP, tax rate changes do not impact the measure- ment of our future income tax balances until they are passed into law. Under Canadian GAAP, tax rate changes are reflected in the measurement of our future income tax balances when they are substantively enacted.

(6) Under United States GAAP, non-cash collateral received in security lending transactions that we are permitted by contract to sell or repledge is recorded as an asset in our Consolidated Balance Sheet and a corresponding liability is recorded for the obligation to return the collateral. Under Canadian GAAP, such collateral and the related obligation are not recorded in our Consolidated Balance Sheet. As a result of this difference, securities and other liabilities have been increased by $2,399 at October 31, 2002 and $740 at October 31, 2001.

(7) During the year ended October 31, 2001, we sold our investment in Bancomer and recognized translation losses of $99 in non-interest income under Canadian GAAP. Under United States GAAP, we recognized translation losses of $18, net of the $81 previously recognized in net income in the years ended October 31, 1999, 1998 and 1997. As a result of this difference, non-interest revenue has been increased by $81 for the year ended October 31, 2001.

(8) Includes cumulative adjustment to shareholders' equity arising from current and prior years' GAAP differences.

Future Changes in United States Accounting Policies

The Financial Accounting Standards Board has issued a proposed interpretation regarding the consolidation of special-purpose entities, which we expect will be consistent with the draft guideline being developed by the Canadian Institute of Chartered Accountants discussed in Note 7. As a result, we do not expect that this will create a new difference between Canadian and United States GAAP.

The Financial Accounting Standards Board has issued a proposed interpretation on the measurement and disclosure of guarantees. The proposed interpretation would require companies to recognize a liability equal to the fair value of its obligations under certain guarantees. Although the Canadian Institute of Chartered Accountants has issued a draft guideline on the disclosure of guarantees, it does not address the recognition of similar guarantees in the consolidated financial statements. We expect that this will create a new difference between Canadian and United States GAAP. We are currently reviewing the proposed interpretation to determine its impact on our consolidated financial statements.

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)
Bank of Montreal Assessoria e Serviços Ltda.	Rio de Janeiro, Brazil	100	–
Bank of Montreal Capital Markets (Holdings) Limited	London, England	100	91
BMO Nesbitt Burns Limited (U.K.)	London, England	100	
Bank of Montreal Finance Ltd.	Toronto, Canada	50.01	12
Bank of Montreal Global Capital Solutions Ltd.	Calgary, Canada	100	13
Bank of Montreal Holding Inc.	Calgary, Canada	100	10,085
Bank of Montreal Insurance (Barbados) Limited	Bridgetown, Barbados	100	
Bank of Montreal Securities Canada Limited	Toronto, Canada	100	
BMO Nesbitt Burns Corporation Limited and subsidiaries	Montreal, Canada	100	
BMO Holding Finance, LLC	Wilmington, United States	100	
BMO Investments Limited and subsidiaries	Hamilton, Bermuda	100	
BMO Nesbitt Burns Trading Corp. S.A.	Münsbach, Luxembourg	100	
BMO Service Inc.	Calgary, Canada	100	
Bank of Montreal Ireland plc	Dublin, Ireland	100	1,393
Bank of Montreal Mortgage Corporation	Calgary, Canada	100	1,994
Bankmont Financial Corp.	Wilmington, United States	100	5,792
BMO Financial, Inc.	Wilmington, United States	100	
BMO Global Capital Solutions, Inc.	Wilmington, United States	100	
BMO Managed Investments Corp.	Chicago, United States	100	
BMO Nesbitt Burns Corp.	Chicago, United States	100	
BMO Nesbitt Burns Equity Group (U.S.), Inc. and subsidiaries	Chicago, United States	100	
BMO Nesbitt Burns Financing, Inc.	Chicago, United States	100	
EFS (U.S.), Inc. and subsidiaries	Chicago, United States	100	
Harris Bancorp Insurance Services, Inc.	Chicago, United States	100	
Harris Bankcorp, Inc. and subsidiaries	Chicago, United States	100	
Harris Investor Services, LLC	Wilmington, United States	100	
Harris InvestorLine, Inc.	Chicago, United States	100	
Harris Trust Company	Seattle, United States	100	
Harris Trust/Bank of Montreal	West Palm Beach, United States	100	
BMO Capital Corporation	Toronto, Canada	100	72
BMO Investments Inc.	Toronto, Canada	100	76
BMO InvestorLine Inc.	Toronto, Canada	100	45
BMO Ireland Finance Company	Dublin, Ireland	100	663
BMO Life Insurance Company	Toronto, Canada	100	15
BMO Nesbitt Burns Equity Partners Inc.	Toronto, Canada	100	85
BMO (N.S.) Holdings Co.	Halifax, Canada	100	1,209
BMO (U.S.) Finance, LLC	Wilmington, United States	100	
dealerAccess Inc.	Wilmington, United States	100	3
dealerAccess Canada Inc.	Toronto, Canada	100	
Guardian Group of Funds Ltd.	Toronto, Canada	100	190
Lakeshore Funding Company, LLC	Wilmington, United States	100	762
MyChoice Inc.	Toronto, Canada	80	–
The Trust Company of Bank of Montreal	Toronto, Canada	100	32

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

We own 100% of the outstanding non-voting shares of subsidiaries except for Bank of Montreal Securities Canada Limited, of which we own 95.35% of the outstanding non-voting shares.

MEMBERS OF MANAGEMENT BOARD

as at January 1, 2003

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Enterprise Risk & Portfolio Management Group

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* Members of Management Board Executive Committee

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GLOSSARY OF FINANCIAL TERMS

Allowance for Credit Losses
Represents an amount deemed adequate by management to fully provide for impairment in the existing loan portfolios. Allowances for credit losses can be specific or general and are recorded on the balance sheet as a deduction from loans.

Assets under Administration and under Management
Assets administered or managed by a financial institution that are beneficially owned by clients and therefore not reported on the balance sheet of the administering or managing financial institution.

Average Earning Assets
Represents the daily or monthly average balance of deposits with other banks and loans and securities, over a one-year period.

Bankers' Acceptances (BAs)
Bills of exchange or negotiable instruments drawn by a borrower for payment at maturity and accepted by a bank. BAs constitute a guarantee of payment by the bank and can be traded in the money market. The bank earns a "stamping fee" for providing this guarantee.

Basis Point
One one-hundredth of a percentage point.

Derivatives
Contracts whose value is "derived" from interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Forwards and Futures
Contractual agreements to either buy or sell a specified currency, commodity, equity or financial instrument on a specified future date at a specified price. 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.

Hedging
A risk management technique used to neutralize or manage interest rate, foreign currency, equity or credit exposures.

Impaired Loans
Loans for which there is no longer reasonable assurance of the timely collection of principal or interest.

Innovative Tier 1 Capital
OSFI allows banks to issue instruments that qualify as "Innovative" Tier 1 capital. In order to qualify, these instruments have to be issued indirectly through a special-purpose entity, be permanent in nature and free of any fixed charges. The bank has to absorb any losses arising on these Innovative Tier 1 instruments and account for them as non-controlling interests. Innovative Tier 1 capital cannot comprise more than 15% of net Tier 1 capital and the sum of innovative Tier 1 capital and perpetual preferred shares cannot exceed 25% of net Tier 1 capital.

Mark-to-Market
Represents valuation at market rates, as of the balance sheet date, of securities and derivatives held for trading purposes.

Notional Amount
The principal used to calculate interest and other payments under derivative contracts. The principal amount does not change hands under the terms of a derivative contract, except in the case of cross-currency swaps.

Off-Balance Sheet Financial Instruments
Assets or liabilities that are not recorded on the balance sheet but have the potential to produce positive or negative cash flows in the future. A variety of products offered to clients can be classified as off-balance sheet and they fall into two broad categories: (i) credit-related arrangements, which provide clients with liquidity protection, and (ii) derivatives for hedging.

Options
Contractual agreements that give the holder the right, but not the obligation, to either buy or sell a specific amount of a currency, commodity, equity or financial instrument at a fixed price, either at a fixed future date or at any time within a fixed future period.

Provision for Credit Losses
A charge to income that represents an amount deemed adequate by management to fully provide for impairment in the existing loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for credit losses already established.

Regulatory Capital Ratios
The percentage of risk-weighted assets supported by capital, as defined by OSFI under the framework of risk-based capital standards developed by the Bank for International Settlements. These ratios are labeled Tier 1 and Tier 2. Tier 1 capital is considered to be more permanent, consisting of common shares together with any qualifying non-cumulative preferred shares, less unamortized goodwill. Tier 2 capital consists of other preferred shares, subordinated debentures and the general allowance, within prescribed limits. The assets-to-capital multiple is adjusted assets divided by total capital.

Securities Purchased under Resale Agreements
Result from transactions that involve the purchase of a security, normally a government bond, with the commitment by the buyer to resell the security to the original seller at a specified price on a specified date in the future. They represent low-cost, low-risk loans.

Securities Sold under Repurchase Agreements
Result from transactions in which a security is sold with the commitment by the seller to repurchase the security at a specified price on a specified date in the future. They provide low-cost funding.

Swaps
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 amount in a single currency. For cross-currency interest rate swaps, principal amounts and fixed and floating rate interest payments are exchanged in different currencies.

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SHAREHOLDER INFORMATION

Common Share Trading Information during Fiscal 2002

Primary stock exchanges	Ticker	**Year-end price October 31, 2002**	High	Low	Total volume of shares traded
Toronto	BMO	**$ 38.10**	$40.65	$31.00	362.6 million
New York	BMO	**US$ 24.59**	US$26.05	US$19.50	11.1 million

Dividends per Share Declared during Fiscal Year

Issue/Class	Ticker	Shares outstanding at October 31, 2002	**2002**	2001	2000	1999	1998
Common (a)	BMO	492,504,878	**$1.20**	$1.12	$1.00	$ 0.94	$ 0.88
Preferred Class A							
Series 4 (b)		–	**–**	$ –	$ –	$ 1.87	$ 2.25
Series 5 (c)		–	**–**	$ –	$ –	$522.26	$19,062.50
Preferred Class B							
Series 1 (d)		–	**–**	$0.57	$2.25	$ 2.25	$ 2.25
Series 2 (e)		–	**–**	US$1.28	US$1.69	US$ 1.69	US$ 1.69
Series 3	BMO F	16,000,000	**$1.39**	$1.39	$1.39	$ 1.39	$ 1.39
Series 4 (f)	BMO G	8,000,000	**$1.20**	$1.20	$1.20	$ 1.20	$ 0.90
Series 5 (f)	BMO H	8,000,000	**$1.33**	$1.33	$1.33	$ 1.33	$ 0.99
Series 6 (f)	BMO I	10,000,000	**$1.19**	$1.19	$1.19	$ 1.19	$ 0.63
	BMO V	12,000,000	**US$1.39**	–	–	–	–

(a) Common share dividends have been restated to reflect the two-for-one stock distribution completed in March 2001.

(b) The Class A Preferred Shares Series 4 were redeemed on September 24, 1999.

(c) The Class A Preferred Shares Series 5 were redeemed on December 5, 1998.

(d) The Class B Preferred Shares Series 1 were redeemed on February 26, 2001.

(e) The Class B Preferred Shares Series 2 were redeemed on August 27, 2001.

(f) The Class B Preferred Shares were issued in February 1998 for Series 4 and 5, and in May 1998 for Series 6.

(g) The Class B Preferred Shares Series 10 were issued in December 2001.

2003 Dividend Dates

Subject to approval by the Board of Directors.

Common and preferred shares record dates	**Preferred shares payment dates**	**Common shares payment dates**
February 12	February 25	February 27
May 7	May 26	May 29
August 6	August 25	August 28
November 12	November 25	November 27

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

Shareholder Administration

Computershare Trust Company of Canada, with transfer facilities in the cities of Halifax, Montreal, Toronto, Winnipeg, Calgary and Vancouver, serves as transfer agent and registrar for common and preferred shares. In addition, Computershare Investor Services PLC and Computershare Trust Company of New York 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, lost certificates, estate transfers, or to advise of duplicate mailings, please call Bank of Montreal's Transfer Agent and Registrar at 1-800-332-0095 (Canada and the United States), or at (514) 982-7800 (international), or write to Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1, e-mail to caregistryinfo@computershare.com, or fax 1-888-453-0330 (Canada and the United States) or (416) 263-9394 (international).

For all other shareholder inquiries, please write to Shareholder Services at the Corporate Secretary's Department, 21st Floor, 1 First Canadian Place, Toronto, Ontario M5X 1A1, e-mail to corp.secretary@bmo.com, call (416) 867-6785, or fax (416) 867-6793.

Market for Securities of Bank of Montreal

The common shares of Bank of Montreal are listed on the Toronto and New York stock exchanges. The preferred shares of Bank of Montreal are listed on the Toronto Stock Exchange.

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 Bank of Montreal without the payment of any commissions or service charges.

Shareholders of Bank of Montreal may also purchase additional common shares of Bank of Montreal by making optional cash payments of up to $40,000 per fiscal year. Full details of the plan are available from Computershare Trust Company of Canada or Shareholder Services.

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

Institutional Investors and Research Analysts
Institutional investors or research analysts who would like to obtain financial information should write to the Senior Vice-President, Investor Relations, 18th Floor, 1 First Canadian Place, Toronto, Ontario M5X 1A1, e-mail to investor.relations@bmo.com, call (416) 867-6656, or fax (416) 867-3367. Alternatively, please visit our web site at www.bmo.com/investorrelations.

General Information
For general inquiries about company news and initiatives, or to obtain additional copies of the Annual Report, please contact the Corporate Communications Department, 302 Bay Street, 10th Floor, Toronto, Ontario M5X 1A1, or visit our web site at www.bmo.com. (On peut obtenir sur demande un exemplaire en français.)

Annual Meeting
The Annual Meeting of Shareholders will be held on Tuesday, February 25, 2003 at 9:30 a.m. (Eastern Standard Time) at the Fairmont Château Laurier, Ottawa, Ontario, Canada.

Fees Paid to Shareholders' Auditors
For fees paid to Shareholders' Auditors, see page 5 of the Proxy Circular for the Annual Meeting of Shareholders, which will be held on February 25, 2003.

www.bmo.com/annualreport2002

Corporate Information
This BMO Financial Group 2002 Annual Report is available for viewing/printing on our web site at www.bmo.com. For a printed copy, please contact:

Corporate Communications Department
302 Bay Street, 10th Floor
Toronto, Ontario M5X 1A1
(On peut obtenir sur demande un exemplaire en français.)

General Information
For general inquiries about company news and initiatives please contact our Corporate Communications Department. BMO Financial Group's news releases are available on our web site at www.bmo.com.

Shareholder Inquiries
For dividend information, change in share registration or address, lost certificates, estate transfers, or to advise of duplicate mailings, please call Bank of Montreal's Transfer Agent and Registrar at 1-800-332-0095 (Canada and the United States), or at (514) 982-7800 (international), or write to:

Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1

Annual Meeting
The Annual Meeting of Shareholders will be held on Tuesday, February 25, 2003 at 9:30 a.m. (Eastern Standard Time) at the Fairmont Château Laurier, Ottawa, Ontario, Canada.

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®* "Nesbitt Burns" is a registered trade mark of BMO Nesbitt Burns Corporation Limited

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TM5 Trade mark of Moneris Solutions Corporation

BMO Financial Group

ANNUAL MEETING
FEBRUARY 25, 2003

BANK OF MONTREAL NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND PROXY CIRCULAR



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INVITATION TO SHAREHOLDERS

Please accept my invitation to join our Board of Directors and senior leadership team at the next annual meeting of your BMO Financial Group on February 25, 2003 at the Fairmont Château Laurier in Ottawa — *the* perfect historical setting for an organization that is currently celebrating 185 years in the business (and which hasn't missed a dividend payment since 1829).

As one of the owners of BMO Financial Group — our new name for a new century, and one that better reflects the breadth of what we do today — this is your opportunity to receive a first-hand accounting of BMO's performance over 2002, along with the plans we have set in motion for the year ahead. Should you have any questions, this is the best time and place to get answers.

If you cannot attend the annual meeting in person, I urge you to make your vote count by exercising the power of your proxy, which is fully explained in the attached Proxy Circular. In preparation, you may wish to consult our corporate web site at www.bmo.com, which includes the full text of the Annual Report 2002, plus quarterly results, presentations that we have made to the investment community, and other information that may be of use or interest.

One way or another, your participation will be welcome at this historical annual meeting. Your vote *will* count.

Sincerely,

/s/ Tony Comper
Tony Comper
Chairman and Chief Executive Officer
BMO Financial Group
January 6, 2003

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

The 2003 Annual Meeting of Shareholders will commence at 9:30 a.m. (Eastern Standard Time) on Tuesday, February 25, 2003 in the Ballroom, Fairmont Château Laurier, 1 Rideau Street, Ottawa, Ontario, and will have the following purposes:

1. To receive the financial statements of the Bank for the year ended October 31, 2002 and the auditors' report on those statements;

2. To elect the Board of Directors for 2003;

3. To appoint auditors for 2003;

4. To consider and, if thought fit, to approve a resolution amending the Stock Option Plan by increasing the number of Common Shares reserved for issuance under the Plan from 54,200,000 to 59,200,000;

5. To consider shareholder proposals, attached as Schedule 2 of the Proxy Circular; and

6. To transact any other business properly before the meeting.

Shareholders as at January 6, 2003 will be entitled to vote at the meeting. The number of eligible votes* that may be cast at this meeting is 494,585,740, such number being the total number of Common Shares of the Bank outstanding on January 6, 2003.

If you cannot attend the meeting in person, please complete the enclosed form of proxy and return it in the postage prepaid envelope provided or fax it to 1-866-249-7775 within Canada and the United States or 416-263-9524 for all other countries. For your vote to be recorded, your proxy must be in the hands of Computershare Trust Company of Canada, by fax at the above noted numbers, or by mail at its Toronto office, no later than 5:00 p.m. (Eastern Standard Time) on Monday, February 24, 2003.

By order of the Board of Directors,

/s/ Velma J. Jones
Velma J. Jones
Vice-President and Secretary
January 6, 2003

* The actual number of eligible votes may be less due to voting restrictions set forth in the *Bank Act*.

PROXY CIRCULAR

All information is as at December 31, 2002, unless otherwise indicated.

Q&A on Proxy Voting

Q: What am I voting on?
A: Shareholders are voting on the election of directors to the Board of the Bank for 2003, the appointment of auditors for the Bank for 2003, an amendment to the Stock Option Plan, and shareholder proposals.

Q: Who is entitled to vote?
A: Shareholders as of the close of business on January 6, 2003 are entitled to vote. Each Common Share is entitled to one vote on those items of business identified in the Notice of Annual Meeting of Shareholders, except shares of the Bank which are beneficially owned by: the Government of Canada or of a province or any of their agencies; or the government of a foreign country or any political subdivision thereof or any of its agencies; or any person who has acquired more than 10% of any class of shares of the Bank without the approval of the Minister of Finance.

If you acquired your shares after January 6, 2003, please refer to the answer to the question "What if ownership of shares has been transferred after January 6, 2003?" to determine how you may vote such shares.

Q: How do I vote?
A: There are two ways you can vote your shares if you are a registered shareholder. You may vote in person at the meeting or you may sign the enclosed form of proxy appointing the named persons or some other person you choose, who need not be a shareholder, to represent you as proxyholder and vote your shares at the meeting. If your shares are held in the name of a nominee, please see the shaded box on page 4 for voting instructions.

Q: What if I plan to attend the meeting and vote in person?
A: If you are a registered shareholder and plan to attend the meeting on February 25, 2003 and wish to vote your shares in person at the meeting, do not complete or return the form of proxy. Your vote will be taken and counted at the meeting. Please register with the transfer agent, Computershare Trust Company of Canada, upon arrival at the meeting. If your shares are held in the name of a nominee, please see the shaded box on page 4 for voting instructions.

Q: Who is soliciting my proxy?
A: The enclosed form of proxy is being solicited by Bank of Montreal and the associated costs will be borne by the Bank. The solicitation will be made primarily by mail but may also be made by telephone, in writing or in person by employees of the Bank and/or Computershare Trust Company of Canada. The Bank will also use the services of an outside agency, Georgeson Shareholder Communications Canada, Inc., to solicit proxies, at a cost of $32,500.

Q: What if I sign the form of proxy enclosed with this circular?
A: Signing the enclosed form of proxy gives authority to Tony Comper or Blair MacAulay, each of whom is a director of the Bank, or to another person you have appointed, to vote your shares at the meeting.

Q: Can I appoint someone other than these directors to vote my shares?
A: Yes. Write the name of this person, who need not be a shareholder, in the blank space provided in the form of proxy. Note, however, that the terms of the *Bank Act* disallow voting by persons representing those entities referred to in the answer to the question "Who is entitled to vote?"

It is important to ensure that any other person you appoint is attending the meeting and is aware that he or she has been appointed to vote your shares. Proxyholders should, upon arrival at the meeting, present themselves to a representative of Computershare Trust Company of Canada.

Q: What do I do with my completed proxy?
A: Return it to the Bank's transfer agent, Computershare Trust Company of Canada, in the envelope provided, or by fax to 1-866-249-7775 within Canada and the United States or 416-263-9524 for all other countries, so that it arrives no later than 5:00 p.m. (Eastern Standard Time) on Monday, February 24, 2003. This will ensure that your vote is recorded.

Q: If I change my mind, can I take back my proxy once I have given it?
A: Yes. If you change your mind and wish to revoke your proxy, prepare a written statement to this effect. The statement must be signed by you or your attorney as authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney of the corporation duly authorized. This statement must be delivered either to the head office of the Bank no later than 5:00 p.m. (Eastern Standard Time) on Monday, February 24, 2003 or to the Chairman on the day of the meeting, February 25, 2003, or any adjournment of the meeting.

Q: How will my shares be voted if I give my proxy?
A: The persons named on the form of proxy must vote for or against or withhold from voting your shares in accordance with your directions or you can let your proxyholder decide for you. In the absence of such directions, proxies received by management will be voted in favour of the election of directors to the Board, the appointment of auditors, the resolution amending the Stock Option Plan, and against the shareholder proposals as set out in Schedule 2 of this Proxy Circular.

Q&A on Proxy Voting (continued)

Q: What if amendments are made to these matters or if other matters are brought before the meeting?

A: The persons named in the form of proxy will have discretionary authority with respect to amendments or variations to matters identified in the Notice of Annual Meeting of Shareholders and with respect to other matters which may properly come before the meeting.

As of the time of printing of this Proxy Circular, management of the Bank knows of no such amendment, variation or other matter expected to come before the meeting. If any other matters properly come before the meeting, the persons named in the form of proxy will vote on them in accordance with their best judgement.

Q: How many shares are entitled to vote?

A: As of January 6, 2003,there were outstanding 494,585,740 Common Shares of the Bank. Subject to the terms *Bank Act* restricting the voting of shares (see "Who is entitled to vote?" on page 3), each registered shareholder has one vote for each Common Share held at the close of business on January 6, 2003.

Q: What if ownership of shares has been transferred after January 6, 2003?

A: The person who acquired such shares after January 6, 2003 must produce properly endorsed share certificates or otherwise establish that he or she owns the shares and must ask the Bank no later than 5:00 p.m. (Eastern Standard Time) on Friday, February 14, 2003 that his or her name be included in the list of shareholders before the meeting in order to be entitled to vote these shares at the meeting.

Q: How will the votes be counted?

A: Except as provided in the *Bank Act*, each question brought before the meeting is determined by a majority of votes cast on the question. In the case of equal votes, the Chairman of the meeting is entitled to a second or casting vote.

Q: Who counts the votes?

A: The Bank's transfer agent, Computershare Trust Company of Canada, counts and tabulates the proxies. This is done independently of the Bank to preserve the confidentiality of individual shareholder votes. Proxies are referred the Bank only in cases where a shareholder clearly intends to communicate with management or when it is necessary to do so to meet the requirements of applicable law.

Q: If I need to contact the transfer agent, how do I reach them?

A: You can contact the transfer agent by mail at:
Computershare Trust Company of Canada
Proxy Department
P.O. Box 4599, Station A
Toronto, Ontario M5W 4Y4

or by telephone:
- within Canada and the United States at 1-800-332-0095
- all other countries (514) 982-7800

Q: If my shares are not registered in my name but are held in the name of a nominee (a bank, trust company, securities broker, trustee or other), how do I vote my shares?

A: There are two ways you can vote your shares held by your nominee. As required by Canadian securities legislation, you will have received from your nominee either a request for voting instructions or a form of proxy for the number of shares you hold.

For your shares to be voted for you, please follow the voting instructions provided by your nominee.

Since the Bank has limited access to the names of its non-registered shareholders, if you attend the meeting the Bank may have no record of your shareholdings or of your entitlement to vote unless your nominee has appointed you as proxyholder. Therefore, if you wish to vote in person at the meeting, insert your own name in the space provided on the request for voting instructions or form of proxy to appoint yourself as proxyholder and return same in the envelope provided. Do not otherwise complete the form as your vote will be taken at the meeting. Please register with the transfer agent, Computershare Trust Company of Canada, upon arrival at the meeting.

Q: What is the final date to submit a shareholder proposal for the 2004 Annual Meeting?

A: The final date for submitting shareholder proposals to the Bank is November 27, 2003.

BUSINESS OF THE MEETING

1. Financial Statements

The Consolidated Financial Statements for the year ended October 31, 2002 are included in the Annual Report 2002 mailed to shareholders with the Notice of Annual Meeting of Shareholders and Proxy Circular.

2. Election of the Board of Directors

The 15 nominees proposed for election as directors of the Bank are listed beginning on page 6. All are currently directors of the Bank. All nominees have established their eligibility and willingness to serve as directors. Directors will hold office until the next Annual Meeting of Shareholders of the Bank or until their successors are elected or appointed.

Unless otherwise instructed, the persons designated in the form of proxy intend to vote for the election of the nominees listed beginning on page 6. If, for any reason at the time of the meeting any of the nominees are unable to serve, and unless otherwise specified, it is intended that the persons designated in the form of proxy will vote in their discretion for a substitute nominee or nominees.

3. Appointment of Auditors

The directors propose that the firm of KPMG LLP and the firm of PricewaterhouseCoopers LLP be appointed as auditors of the Bank for the 2003 fiscal year. During the five financial years ended October 31, 2002, KPMG LLP and PricewaterhouseCoopers LLP (formerly Coopers & Lybrand) have served as the Bank's auditors. KPMG LLP and PricewaterhouseCoopers LLP or their predecessor firms have served continuously since 1990 and 1993, respectively, and have also served during various prior periods.

For fiscal 2002, fees for audit and audit related services provided by the auditors for the Bank and its subsidiaries were $6.4 million and $1.1 million, respectively (fiscal 2001 $5.8 million and $3.2 million). Non-audit fees paid to the auditors relating to tax planning and compliance, internal control, risk management, project management and other advisory services were $38.7 million (fiscal 2001 $26.9 million), including $32.1 million (fiscal 2001 $14.7 million) paid to PwC Consulting prior to October 1, 2002. Effective October 1, 2002 PricewaterhouseCoopers LLP sold its consulting practice, PwC Consulting, to IBM.

As discussed in the *Report of the Audit Committee* on page 12, the Committee has reviewed the nature of non-audit services provided by the auditors to ensure they are consistent with maintaining the auditors' independence.

4. Amendment to Stock Option Plan

The purpose of the Stock Option Plan is to align incentives for management with the results realized by shareholders while providing competitive compensation arrangements that reward the creation of shareholder value over the long-term. The Plan was amended for fiscal 2000 to enhance the competitiveness of the Plan's vesting conditions and establish share price hurdles that would need to be achieved in order for options to become exercisable. Details of the current Plan are included in the *Report of the Human Resources and Management Compensation Committee on Executive Compensation*.

BMO Financial Group adheres to prudent governance standards regarding the use of options as an element of compensation and maintains a leadership position in tying equity awards to share price performance. Specifically:

- Options do not vest immediately but vest over a period of four years at 25% per year.
- All executives have a portion of their stock options that can only be exercised, once they vest, when either a 50% or a 100% increase in share price is realized. For senior executives, 33% of their stock option grants must satisfy the 50% price increase and 34% must satisfy the 100% price increase. To the best of the Bank's knowledge, the Bank is the only bank in Canada that has this requirement.
- The Bank maintains the total number of Common Shares reserved for the Plan, minus those options that have been exercised, to 9.5% or less of the total number of issued and outstanding Common Shares of the Bank. This reduces the future dilutive effects of stock options on share value.
- Stock options are granted to all executives. This practice does not result in any significant concentration for any officer.

For fiscal 2003, the Human Resources and Management Compensation Committee approved a significant shift in the mix of executive compensation. The changes reduce the annual use of stock options by approximately two-thirds with corresponding increases in the short- and medium-term components of total compensation. These changes applied to the December 2002 stock option grants for executives for fiscal 2003 and resulted in a total option grant of less than 1% of the shares outstanding.

It is proposed to increase the number of Common Shares of the Bank which may be issued pursuant to the exercise of options under the Plan by an additional 5,000,000 shares. Under the Plan, 54,200,000 shares are currently authorized. This amendment to the Plan was approved by the Board subject to shareholder and regulatory approvals. As of December 31, 2002, 1,110,054 stock options remain available for grant, which is insufficient for next year's grants.

If approved by the shareholders, the total number of Common Shares reserved for the Plan, minus options that have been exercised, would represent less than 9.07% of the total number of issued and outstanding Common Shares of the Bank.

As of December 31, 2002, a net total of 53,089,946 options have been granted to participants in the Plan, taking into account options which have been forfeited or cancelled. Since the Plan was adopted, options exercised resulted in the issuance of 14,366,842 Common Shares.

As the amendment to increase the number of shares issuable under the Plan must be approved by a majority of votes cast at the meeting, the

following resolution is presented for consideration at the meeting:

"THAT an amendment to the Bank's Stock Option Plan to provide that the number of Common Shares of Bank of Montreal issuable pursuant to the exercise of options under the Bank's Stock Option Plan be increased by an additional 5,000,000 Common Shares is hereby approved."

5. Shareholder Proposals

Shareholder proposals submitted for the consideration of shareholders are attached as Schedule 2 to this Proxy Circular.

NOMINEES FOR ELECTION TO BOARD OF DIRECTORS

Stephen E. Bachand
Ponte Vedra Beach, Florida

Director since
July 1, 1999

Common Shareholdings:	28,200
Deferred Share Units:	7,703
Options:	7,500

Stephen Bachand, a Corporate Director, is the former President and Chief Executive Officer of Canadian Tire Corporation, Limited. He currently serves on the boards of Canadian Pacific Railway Limited and Fairmont Hotels & Resorts Inc. He graduated from Williams College in Williamstown, Massachusetts with a B.A. and from the Darden School of the University of Virginia with an M.B.A.

Mr. Bachand chairs the Bank's Human Resources and Management Compensation Committee and is a member of its Executive and Governance Committees.

David R. Beatty, O.B.E.
Toronto, Ontario

Director since
January 20, 1992

Common Shareholdings:	4,000
Deferred Share Units:	11,118
Options:	7,500

David Beatty is Chairman and Chief Executive Officer of Beatinvest Limited, a holding company, and is the former Chairman and Chief Executive Officer of Old Canada Investment Corporation Limited, an investment management company. Mr. Beatty is a director of First Service Corporation, Garbell Holdings Limited, Goldcorp, and Thistle Mining. He is Professor of Strategic Management and director of the Clarkson Centre for Business Ethics and Board Effectiveness at the University of Toronto's Rotman School of Management. Mr. Beatty is Honorary Consul to Canada for the Government of Papua New Guinea and in 1993 was awarded the O.B.E. A graduate in economics from Trinity College of the University of Toronto, he was a Nuffield Scholar at Queen's College, Cambridge, where he obtained an M.A.

Mr. Beatty chairs the Bank's Risk Review Committee and is a member of its Executive and Governance Committees.

Robert Chevrier, F.C.A.
Ile des Sœurs, Quebec

Director since
February 29, 2000

Common Shareholdings:	10,000
Preferred Shareholdings: (Class B, Series 4)	2,000
Deferred Share Units:	4,667
Options:	7,500

Robert Chevrier is President of Roche Management Co. Inc., a holding and investment company. He was formerly Chairman and Chief Executive Officer of Rexel Canada Inc. He also serves as a director of G.T.C. Transcontinental Group Ltd., Les Boutiques San Francisco Inc. and Richelieu Hardware Ltd. He is a graduate of Concordia University and is a Chartered Accountant.

Mr. Chevrier is a member of the Bank's Audit and Conduct Review Committees and a director of The Pension Fund Society of Bank of Montreal.

F. Anthony Comper
Toronto, Ontario

Director since
January 15, 1990

Common Shareholdings:	70,670
Deferred Stock Units*:	199,698

Tony Comper is Chairman and Chief Executive Officer of BMO Financial Group. He was appointed Chief Executive Officer in February 1999 and Chairman in July 1999. In over three decades with the Bank, he has served in virtually all its major operating areas. Mr. Comper serves on the Board of Directors of the Bank and of its subsidiaries, Harris Bankcorp, Inc., Harris Trust and Savings Bank, and BMO Nesbitt Burns Corporation Limited. He is Vice-Chair of the C.D. Howe Institute, a director of Catalyst — New York, Chair of Catalyst's Canadian Board of Advisors, Member of the North American Policy Committee of the Canadian Council of Chief Executives and Member of the International Business Leaders Advisory Council of the Mayor of Beijing. Mr. Comper also serves as Chair of the Campaign for the University of Toronto.

Notes

Common and Preferred Shareholdings of the Bank over which control or direction is exercised are as at December 31, 2002.

Deferred Share Units and Options are as at December 31, 2002. For a description of Deferred Share Units and Options under the non-officer director plans see *Board of Directors Compensation/Attendance* on pages 10 and 11.

*Mr. Comper does not receive compensation for his services as director and he is not entitled to receive Deferred Share Units or Options under the non-officer director plans, both as described on pages 10 and 11. Mr. Comper received Deferred Stock Units under the Bank's Deferred Stock Unit Plan, Performance Share Units under the Bank's Mid-Term Incentive Plan and Options under the Bank's Stock Option Plan, as described in the *Report of the Human Resources and Management Compensation Committee on Executive Compensation.*

David A. Galloway
Toronto, Ontario

Director since
February 24, 1998

Common Shareholdings:	2,000
Deferred Share Units:	9,857
Options:	7,500

David Galloway, a Corporate Director, is the former President and Chief Executive Officer of Torstar Corporation. He is Chairman of the Board of Trustees of the Hospital for Sick Children and serves on the following public company boards: Corel Corporation, Toromont Industries Ltd., E.W. Scripps Company and Bankmont Financial Corp. Mr. Galloway has a B.A. (Hons.) in political science and economics from the University of Toronto, and an M.B.A. from Harvard Business School.

Mr. Galloway is a member of the Bank's Risk Review Committee and Human Resources and Management Compensation Committee.

Eva Lee Kwok
Vancouver, British Columbia

Director since
September 14, 1999

Common Shareholdings:	1,000
Deferred Share Units:	6,240
Options:	7,500

Eva Lee Kwok is Chair and Chief Executive Officer of Amara International Investment Corp., a private corporation with diversified interests focused on real estate and land development, cross-cultural management and strategic partnerships. She also serves as a director of the following public companies: Air Canada, Husky Energy Inc., Telesystem International Wireless Inc. and CK Life Sciences Int'l., (Holdings) Inc. Mrs. Kwok has an M.Sc. in nutrition from King's College, University of London.

Mrs. Kwok is a member of the Bank's Audit and Conduct Review Committees.

J. Blair MacAulay
Oakville, Ontario

Director since
December 13, 1971

Common Shareholdings:	20,000
Deferred Share Units:	18,751
Options:	7,500

Blair MacAulay is of Counsel to Fraser Milner Casgrain LLP, Barristers and Solicitors, Toronto. He also serves on the boards of The Great-West Life Assurance Company, London Life Insurance Company and Great-West Lifeco Inc. Mr. MacAulay was called to the bar of Manitoba in 1960 and Ontario in 1977.

As Chair of the Bank's Governance Committee, Mr. MacAulay is Lead Director of the Board of the Bank. He is also a member of the Executive and Human Resources and Management Compensation Committees.

Hon. Frank McKenna,
P.C., Q.C.
Cap Pelé, New Brunswick

Director since
February 24, 1998

Common Shareholdings:	1,000
Deferred Share Units:	9,601
Options:	7,500

Frank McKenna is Counsel with the Atlantic law firm of McInnes Cooper in Moncton and is the former Premier of New Brunswick (1987—1997). He holds the following corporate directorships: CanWest Global Communications Corp., Noranda Inc., General Motors of Canada Ltd., Shoppers Drug Mart, UPS and Zenon Environmental Inc. In addition, Mr. McKenna participates in volunteer activities and continues to promote economic development in the Atlantic region. Mr. McKenna holds a B.A. from St. Francis Xavier University, carried out postgraduate studies in political science at Queen's University and received his law degree from the University of New Brunswick.

Mr. McKenna chairs the Bank's Conduct Review Committee, is a member of the Audit Committee and is a director of The Pension Fund Society of Bank of Montreal.

NOMINEES FOR ELECTION TO BOARD OF DIRECTORS

Bruce H. Mitchell
Toronto, Ontario

Director since
August 17, 1999

Common Shareholdings:	20,000
Deferred Share Units:	6,728
Options:	7,500

Bruce Mitchell is Chairman and Chief Executive Officer of Permian Industries Limited, a Toronto-based management and holding company with interests in the North American auto parts, food processing and technology industries. Mr. Mitchell has served on the board and executive committees of Ridley College and UNICEF Canada, is a counsellor of Queen's University and is a director of GSW Inc. and The Canadian Institute for Advanced Research. He holds a B.Sc. from Queen's University and an M.B.A. from Harvard University.

Mr. Mitchell is a member of the Bank's Risk Review and Governance Committees.

Philip S. Orsino, F.C.A.
Caledon, Ontario

Director since
July 1, 1999

Common Shareholdings:	7,500
Deferred Share Units:	4,282
Options:	7,500

Philip Orsino is President and Chief Executive Officer of Masonite International Corporation (formerly Premdor Inc.), an integrated global building products company, with operating facilities in North America, South America, Europe, Asia and Africa. Mr. Orsino is an active volunteer and is involved in many community activities. He currently serves as a member of the board and Chairman of the Finance and Audit Committee of the University Health Network. A published author and member of the Young Presidents' Organization, Mr. Orsino won the 1998 Entrepreneur of the Year Award for Manufacturing sponsored by Ernst & Young International. He currently serves as a director of Clairvest Group Inc. and The Institute for Research on Public Policy.

Mr. Orsino is a member of the Bank's Audit and Conduct Review Committees.

J. Robert S. Prichard,
O.C., O. Ont.
Toronto, Ontario

Director since
July 18, 2000

Common Shareholdings:	4,000
Deferred Share Units:	4,071
Options:	7,500

Robert Prichard is President and Chief Executive Officer of Torstar Corporation, a broadly based Canadian media company. Torstar Corporation has two principal businesses: newspapers led by *The Toronto Star*, Canada's largest daily, and book publishing through Harlequin Enterprises, the leading global publisher of women's fiction. He is also President Emeritus of the University of Toronto, having served as President from 1990 to 2000. Mr. Prichard is a director of Onex Corporation, George Weston Ltd. and Four Seasons Hotels Inc. He was appointed an Officer of the Order of Canada in 1994 and received the Order of Ontario in 2000.

Mr. Prichard is a member of the Bank's Human Resources and Management Compensation Committee.

Jeremy H. Reitman
Montreal, Quebec

Director since
January 19, 1987

Common Shareholdings:	10,000
Deferred Share Units:	15,184
Options:	7,500

Jeremy Reitman is President, Chief Executive Officer and a director of Reitmans (Canada) Limited, a retailing company. He is also a member of the Board of Governors of McGill University. A lawyer by profession, Mr. Reitman studied at Dartmouth College, Hanover, New Hampshire (A.B.) and McGill University (B.C.L.).

In addition to chairing the Bank's Audit Committee, he is a member of the Executive, Governance and Conduct Review Committees and is an

ex officio member of the Risk Review Committee.

Joseph L. Rotman, o.c.
Toronto, Ontario

Director since
October 15, 1999

Common Shareholdings:	20,510
Deferred Share Units:	5,365
Options:	7,500

Mr. Rotman is Chairman and Chief Executive Officer of Roy-L Capital Corporation, a private family investment company. A founder and formerly the Executive Chairman of Clairvest Group Inc., Mr. Rotman serves as a director of Barrick Gold Corporation, Masonite International Corporation and Clairvest Group Inc. Mr. Rotman is a Member of the Governing Council and Executive Committee of the University of Toronto, and is a director of the University of Toronto Asset Management Corporation. He is also a Member of the Governing Council of the Canadian Institutes of Health Research and Chair of the Ontario Genomics Institute. Mr. Rotman is Chair of the Research Advisory Committee and a Member of the Board of Trustees of Baycrest Centre for Geriatric Care and a Board Member of MARS (Medical and Related Sciences Discovery District). He is former President of the Art Gallery of Ontario Board of Trustees and is Honorary Chairman of the Canadian Friends of the Israel Museum. He is also a director of the C.D. Howe Institute and The Canadian Ditchley Foundation.

Mr. Rotman is a member of the Bank's Risk Review Committee and a director of The Pension Fund Society of Bank of Montreal.

Guylaine Saucier,
C.M., F.C.A.
Montreal, Quebec

Director since
May 1, 1992

Common Shareholdings:	8,090
Preferred Shareholdings: (Class B, Series 4)	400
Deferred Share Units:	13,279
Options:	7,500

Guylaine Saucier is a Corporate Director who serves on the boards of Nortel Networks Corporation, AXA Assurance Inc., Petro-Canada, Tembec Inc., Fondation du Musée des Beaux Arts and the International Federation of Accountants. She is a former Chairman of the Board of Directors of the Canadian Broadcasting Corporation, a former director of the Bank of Canada, a former Chair of the Canadian Institute of Chartered Accountants (CICA), was Chair of the Joint Committee on Corporate Governance established by the CICA, the Toronto Stock Exchange and the Canadian Venture Exchange and was the first woman President of the Quebec Chamber of Commerce. Mme Saucier obtained a B.A. from Collège Marguerite-Bourgeois and a B.Comm. from the École des hautes études commerciales, Université de Montréal. She is a Fellow of the CICA.

In addition to chairing the board of The Pension Fund Society of Bank of Montreal, Mme Saucier is a member of the Bank's Audit, Conduct Review and Executive Committees.

Nancy C. Southern
Calgary, Alberta

Director since
September 1, 1996

Common Shareholdings:	8,339
Deferred Share Units:	2,111
Options:	7,500

Nancy Southern is Co-Chairman and Chief Executive Officer of ATCO Ltd. and Canadian Utilities Limited and a director of both corporations. ATCO Group is an Alberta-based corporation with companies actively engaged in power generation, utilities, logistics and energy services, industrials and technologies. She is also a director of Shell Canada Ltd., Akita Drilling Ltd. and Sentgraf Enterprises Ltd. and Executive Vice-President of Spruce Meadows, renowned as one of the world's finest show jumping facilities. Ms. Southern was born and raised in Calgary, where she is an active volunteer and has been involved in many community endeavours.

Ms. Southern is a member of the Bank's Risk Review Committee.

BOARD OF DIRECTORS COMPENSATION/ATTENDANCE

How is the Board Compensated?

- Number of directors at December 31, 2002: 15 (14 non-employee, 1 management)
- Directors' compensation is paid only to non-employee directors
- Annual retainer: $30,000 per year
- Board meeting fee: $1,250 per meeting
- Committee meeting fee: up to $1,250 per meeting
- Committee Chair fee: $1,500 per diem for committee-related work
- Committee Chair retainers: up to $3,000 per year
- Related travel and out-of-pocket expenses
- Travel fees: $1,250 for directors having to travel more than 1,000 km from their principal residence to a meeting

Notes

During the course of the year, five non-employee directors of the Bank served as directors of subsidiaries and affiliates, for which they received additional compensation as follows:

Bankmont Financial Corp. — annual retainer: US$16,000; meeting fee: US$2,000; Committee meeting fee: US$1,000.

The Pension Fund Society of Bank of Montreal — no annual retainer; meeting fee: $1,250; Chair retainer: $3,000; Chair fee: $1,500 per diem for board-related work. (Management directors do not receive compensation for their services as directors.)

Directors are also reimbursed for travel and other out-of-pocket expenses incurred in attending Board and Committee meetings of subsidiaries and affiliates.

Directors' Shareholding Requirements

To ensure that directors' compensation is aligned with shareholders' interests:

- 50% of a director's annual retainer must be paid in Common Shares of the Bank (purchased on the open market) or in Deferred Share Units. Directors have the option to receive up to 100% of their annual retainer and meeting fees this way. In fiscal 2002, the 14 non-employee directors elected to take all of their annual retainer and meeting fees in Common Shares or Deferred Share Units. Directors are required to hold six times their annual retainer in Common Shares and/or Deferred Share Units and until this position is achieved, directors must take all remuneration in the form of either Common Shares or Deferred Share Units. All non-employee directors are in compliance with stock holding requirements.
- A Deferred Share Unit is a bookkeeping entry having the same value as one Common Share of the Bank, but is not paid out until such time as the director leaves the Board, thereby providing an ongoing equity stake in the Bank throughout the director's period of Board service. Payment of Deferred Share Units may be in cash or in Common Shares of the Bank purchased on the open market. As at October 31, 2002 the accrual in respect of Deferred Share Units currently outstanding to Board members was $4,371,482.
- Only non-employee directors participate.

Shareholdings of Board Members as at December 31, 2002

- Total Common Shares held by non-employee directors: 144,639
- Total Deferred Share Units held by non-employee directors: 118,957
- Total value of Common Shares and Deferred Share Units held by non-employee directors was $10,989,317 based on the closing price of the Bank's Common Shares on the Toronto Stock Exchange as of December 31, 2002 which was $41.69

Non-Officer Director Stock Option Plan

The Non-Officer Director Stock Option Plan provides for grants of options to purchase Common Shares to each newly appointed or elected non-officer director, in an amount to be decided by the Board of Directors and also for annual grants of options to purchase Common Shares to each non-officer director following each meeting of shareholders of the Bank at which directors are elected, in an amount to be decided by the Board of Directors. A maximum of 400,000 Common Shares are issuable pursuant to the exercise of options under the Plan. Twenty-five percent of options granted to a participant will vest each year after the date of the grant. Under the Plan, 50% of options granted are price-conditioned options, which become exercisable upon the Common Shares trading at the applicable price condition, and 50% of options granted are standard options, which become exercisable upon vesting, except in the case of a director who has attained 62 years of age at the time of the grant, in which case 100% of the grant is standard options.

During fiscal 2002, initial grants of options to purchase 4,500 Common Shares and an annual grant for 2002 of options to purchase 3,000 Common Shares were made to each director.

The exercise price for options is set at the market value of the Bank's Common Shares at the time of the grant. Options granted under the Plan may be exercised for a period of ten years from the date of the grant, subject to termination at an earlier date upon the retirement from the Board or death of their holders.

Summary of Board and Committee Meetings Held

For the 12-month period ended October 31, 2002

Board (a)	18
Audit Committee	6
Conduct Review Committee	2
Executive Committee (b)	1
Human Resources and Management Compensation Committee	12
Governance Committee	10
Risk Review Committee	12
Special Committee (c)	4
Pension Fund Society Board (d)	5
Total number of meetings held	70

(a) In addition to the nine regularly scheduled Board meetings, eight Special Board meetings were held; there was also one all-day Board Strategy Session.

(b) The reduction in Board size and resulting efficiencies have made it possible to dispense with regular Executive Committee meetings.

(c) For fiscal 2002, the Board of Directors established a Special Committee of the Board to provide guidance to the Chairman of the Board on various matters. Members of the Committee were the Chairs of each of the existing Board committees and the Chair of The Pension Fund Society Board.

(d) The Pension Fund Society Board is not a Board committee but certain directors of the Bank serve as members.

Summary of Attendance of Directors

For the 12-month period ended October 31, 2002

Director	Board meetings attended	Committee meetings attended (a)
Stephen E. Bachand	18 of 18	22 of 23
David R. Beatty	18 of 18	23 of 27
Robert Chevrier	15 of 18	10 of 13
F. Anthony Comper	18 of 18	41 of 44
David A. Galloway	16 of 18	26 of 28
Eva Lee Kwok	18 of 18	8 of 8
J. Blair MacAulay	18 of 18	26 of 27
Hon. Frank McKenna	18 of 18	17 of 17
Bruce H. Mitchell	17 of 18	22 of 22
Philip S. Orsino	17 of 18	11 of 12
J. Robert S. Prichard	17 of 18	13 of 13
Jeremy H. Reitman	17 of 18	30 of 34
Joseph L. Rotman	17 of 18	15 of 17
Guylaine Saucier	17 of 18	16 of 18
Nancy C. Southern	15 of 18	11 of 12

(a) Includes attendance at Board meetings of The Pension Fund Society.

REPORT OF THE AUDIT COMMITTEE

Members: Jeremy Reitman (Chair), Robert Chevrier, Eva Lee Kwok, Frank McKenna, Philip Orsino, Guylaine Saucier

The Audit Committee, on behalf of the Board of Directors, has oversight responsibility for the Bank's financial reporting processes and the quality of its financial reporting. The Committee operates within a written mandate which describes the Committee's objectives and responsibilities and how it functions.

In discharging its responsibility for financial reporting in 2002, the Committee continued to focus in three areas: reviewing key financial disclosure reports, ensuring the adequacy of internal control, and overseeing the work of the Shareholders' Auditors.

In a year of several significant corporate financial failures in the United States, the Committee paid special attention to the issues highlighted by those failures and took action to review the Bank's practices where applicable. The Committee continues to monitor, and adopt as appropriate, new regulatory requirements (including the provisions of the United States Sarbanes-Oxley Act) and emerging best practices. The Chief Executive Officer and the Chief Financial Officer of the Bank currently certify the information set forth in the consolidated financial statements and related disclosure materials of the Bank as required by the United States Sarbanes-Oxley Act.

In the course of its work the Committee met regularly with the Shareholders' Auditors, the Chief Financial Officer, Chief Auditor, Head of Risk Management Group, General Counsel and Chief Compliance Officer, and representatives of the Office of the Superintendent of Financial Institutions.

Financial Reports

- Reviewed with management and the Shareholders' Auditors the appropriateness of the Bank's accounting and financial reporting (including the accounting for special purpose entities), the impact of the adoption of new accounting pronouncements, the accounting treatment of significant risks and uncertainties, the key estimates and judgements of management that were material to the Bank's financial reporting, and the disclosure of critical accounting policies.

- Reviewed and recommended to the Board for its approval, where appropriate, the Audited Consolidated Financial Statements, annual Management's Discussion and Analysis (MD&A), Annual Information Form, all interim financial results press releases (including Interim MD&A and Unaudited Interim Consolidated Financial Statements), as well as the annual Financial Statements of certain subsidiaries of the Bank, to ensure they were complete, fairly presented and, in accordance with established principles, consistently applied.

Internal Control

- Assessed the processes relating to the evaluation of the Bank's internal control environment, including approving the annual audit plan and reviewing the quarterly reports of the Chief Auditor in respect of internal control. This included evaluating internal audit processes and conducting regular reviews of the adequacy of resources and independence of the Corporate Audit function.

- Reviewed and approved appropriate internal control and financial governance policies as well as the Corporate Audit Mandate.

- Reviewed key regulatory developments to understand their implications for the Bank.

- Reviewed reports relating to adherence to the Standards of Sound Business and Financial Practices prescribed by the Canada Deposit Insurance Corporation to ensure the Bank met or exceeded acceptable standards.

- Reviewed reports of the Chief Compliance Officer and the General Counsel in respect of compliance and litigation matters to assess their implications for the Bank.

- Reviewed observations and recommendations of the Shareholders' Auditors and external regulators as well as management's response, to assess their impact on the Bank.

- Met regularly with the Chief Auditor without management present.

Shareholders' Auditors

- Undertook, on behalf of the Bank's shareholders, the selection and evaluation of the Shareholders' Auditors, including a comprehensive review of their performance, qualifications, independence, annual audit plan and fees (including fees for non-audit services), in order to ensure their performance against acceptable standards.

- Reviewed the results of the work of the Shareholders' Auditors including the communications to the Committee required under generally accepted auditing standards.

- Reviewed and updated the Bank's Independence Policy in respect of the Shareholders' Auditors to reflect emerging practices. The Policy goes beyond professional and regulatory requirements in limiting the services the Auditors may provide to the Bank and includes a centralized approval process for all non-audit services conducted by the Auditors. The Committee continues to be satisfied that appropriate processes are in place to ensure the independence of the Shareholders' Auditors.

- Met regularly with the Shareholders' Auditors without management present.

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended October 31, 2002.

/s/ Jeremy H. Reitman

Jeremy H. Reitman
Chair
Audit Committee

REPORT OF THE CONDUCT REVIEW COMMITTEE

Members: Frank McKenna (Chair), Robert Chevrier, Eva Lee Kwok, Philip Orsino, Jeremy Reitman, Guylaine Saucier

The Committee reports to the Office of the Superintendent of Financial Institutions annually on the proceedings of the Committee and on all transactions and other matters reviewed by it during the year. The Committee is responsible for acting as the conduct review committee of such Bank subsidiaries as may be determined.

In fulfilling its responsibilities, the Committee:

- Required management of the Bank, Bank of Montreal Mortgage Corporation, The Trust Company of Bank of Montreal and BMO Life Insurance Company to establish procedures for complying with Self-Dealing as set out in the *Bank Act*, the *Trust and Loan Companies Act* and the *Insurance Companies Act* in respect of transactions between such entities and their related parties, and reviewed those procedures. (With respect to BMO Life Insurance Company, the Committee commenced to act in this capacity effective September 5, 2002.)

- Reviewed the practices of the Bank, Bank of Montreal Mortgage Corporation, The Trust Company of Bank of Montreal and BMO Life Insurance Company to ensure that any transactions with their respective related parties that may have had a material effect on the stability and solvency of the respective entity were identified.

- Monitored procedures established to identify and resolve conflicts of interest, provide disclosure of information to customers and deal with customer complaints.

- Reviewed the annual report presented by the Bank's Ombudsman on complaint resolution.

- Reviewed the General Arrangement concerning Asset Securitization Transactions.

- Reviewed and approved the Bank's Code of Conduct, *First Principles: Working with integrity*.

In addition, the mandate of the Committee was expanded effective July 23, 2002 to include the following responsibilities:

- Monitor procedures established to regulate the use and disclosure of customer and employee information to address the requirements of privacy legislation applicable to the Bank and its operations.

- Fulfill obligations imposed on the Committee by the Financial Consumer Agency of Canada.

The Committee is satisfied that it appropriately fulfilled its mandate to the best of its ability during the year ended October 31, 2002.

/s/ Frank McKenna

Frank McKenna

Chair
Conduct Review Committee

REPORT OF THE GOVERNANCE COMMITTEE

Members: Blair MacAulay (Chair), Stephen Bachand, David Beatty, Bruce Mitchell, Jeremy Reitman

Measuring Board performance continues to be a focus for the Governance Committee. This is accomplished through two surveys — the Peer Feedback for Directors Survey and the Annual Corporate Governance Survey. In addition, the Committee annually assesses the performance of the Chairman and Chief Executive Officer in his capacity as Chairman.

During the year the Governance Committee:

- Reviewed the size and composition of the Board to ensure that the current Board membership had the necessary breadth and diversity of experience and was of an appropriate size to provide for effective decision-making and staffing of Board committees.
- Recommended to the Board the 15 nominees to stand for election as directors at the Annual Meeting on February 25, 2003.
- Ensured the appropriate structure, composition, mandate and membership of each Board committee.
- Conducted the annual peer evaluation process to provide feedback to individual directors on their effectiveness as measured against the Board's *Charter of Expectations for Directors*. Again this year the services of an outside consultant were used to compile and communicate the results to the individual directors.
- Conducted the annual evaluation of the effectiveness of the Board and its committees. The survey addressed such topics as the operation of the Board and each of its committees, the adequacy and timeliness of the information provided to directors, Board structure, agenda planning for Board meetings, the effectiveness of both the Chairman and Lead Director, the strategic direction of the Bank, as well as Board processes. The feedback from this survey was reviewed by the Committee and resulted in the implementation of additional governance initiatives this year intended to maintain the Bank's leading position in corporate governance. The Committee also surveyed the directors for their views with respect to the annual strategy session.
- Conducted the assessment of the performance of the Chairman and Chief Executive Officer in his role as Chairman, with the results being shared with the whole Board.
- Reviewed and formalized the role and responsibilities of the Lead Director.
- Following an in-depth review, recommended to the Board that the Chairman and Chief Executive Officer roles continue to be combined.
- Reviewed the compensation paid to directors to ensure that it is competitive and aligns the interests of directors with those of shareholders.
- Assessed the merits of the shareholder proposals to be put before the Annual Meeting and formulated draft responses for Board approval.
- Supervised the process for the annual review of the Board's *Approval/Oversight Guidelines*, which guidelines define precisely and clearly the roles and responsibilities of the Board and management and explicitly delineate the lines of accountability that exist within the Bank. The guidelines set out those matters requiring Board approval and those of which the Board must be advised following action by management.
- Satisfied itself that a satisfactory orientation program was in place for new directors.
- Monitored the Board's governance program.

Through the Governance Committee, the Board constantly reviews, evaluates and modifies its governance program to ensure it is of the highest standard. The Board is satisfied that the Bank's comprehensive governance program is consistent with, and in certain instances goes beyond, the Toronto Stock Exchange corporate governance disclosure guidelines, including the proposed amendments published in April 2002. A detailed comparison of the Bank's governance procedures compared with these guidelines, including the proposed changes, may be found in Schedule 1 on page 26.

/s/ J. Blair MacAulay
J. Blair MacAulay
Chair
Governance Committee

REPORT OF THE RISK REVIEW COMMITTEE

Members: David Beatty (Chair), David Galloway, Bruce Mitchell, Joseph Rotman, Nancy Southern

The Risk Review Committee provides the Board with assurance that risks are properly identified and documented, accurately measured and aggregated, effectively mitigated and constrained, and reported and actively managed in a timely manner. Confirmation of the Bank's compliance with risk-related regulatory requirements is also a part of the Committee's review of management activity.

The Committee's agendas this year included detailed reviews of strategies in several of the Bank's major business units. The Committee also began every meeting with a survey of emerging risks. Delegated authorities and limits were adjusted in line with prudent, proactive risk management, market/business conditions and the requirements of approved strategies.

In fulfilling its mandate, the Committee:

- Considered risk issues in the broad context of the Bank's Enterprise-Wide Strategic Management framework (as outlined on page 26, Annual Report 2002), with particular attention to the risk-adjusted return on capital of specific initiatives and lines of business.

- Approved corporate policies addressing the management of the risk and return from credit, market, liquidity and operational risks and such other risk management controls as were considered by the Committee to be appropriate for prudent business practice; the controls include limits delegated to the Chief Executive Officer. These policies and controls are also designed to meet the requirements of laws and regulatory bodies to which the Bank and its subsidiaries are subject, as well as the requirements of the Canada Deposit Insurance Corporation.

- Provided decisions on exposures recommended by the Chief Executive Officer which exceeded delegated limits.

- Reviewed core methods and procedures established by management for control of the key risks.

- Reviewed regularly the attestations and reports of the Head of the Bank's Risk Management Group. These relate to positions and trends in the Bank's risk exposures, including the comparison of actual positions to exposure limits, and any exceptions to corporate policies.

- Approved, jointly with the Audit Committee of the Board, the Provision and Allowance for Credit Losses and reviewed/ discussed the annual Office of the Superintendent of Financial Institutions' examination report.

The mandate of the Risk Review Committee is subject to review at least annually.

The Committee is satisfied that it appropriately fulfilled its mandate to the best of its ability during the year ended October 31, 2002.

/s/ David R. Beatty
David R. Beatty
Chair
Risk Review Committee

REPORT OF THE HUMAN RESOURCES AND MANAGEMENT COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

Members: Stephen Bachand (Chair), David Galloway, Blair MacAulay, Robert Prichard

The Human Resources and Management Compensation Committee is tasked by the Board of Directors with ensuring that the Bank's human resources strategies support its objectives and sustain shareholder value.

During fiscal 2002, the Committee met to review strategic organizational and leadership issues, executive compensation programs, performance assessments of the Bank's most senior officers and succession management for all key executive positions. In fulfilling its role, the Committee:

- Reviewed and approved executive compensation policies, programs and levels.
- Assessed the performance of the Bank's Chief Executive Officer and reviewed the assessment with the Board of Directors.
- Reviewed annual performance assessments submitted by the Chief Executive Officer for other senior executives.
- Ensured that effective short-term and long-term succession plans for senior executive positions were in place.
- Reviewed the annual report on the Bank's overall human resources policies and programs.

Executive Compensation Principles

The executive compensation program is intended to support the continued success of the Bank by providing competitive compensation to:

- Attract, retain and motivate talented employees in a highly competitive business environment, and
- Reward executives for the creation of shareholder value by closely linking reward programs to business and individual performance.

Based on these principles, the Bank's objectives are to:

- Establish total compensation target levels at the median of the relevant comparator groups at total Bank level and specific Banking Group level where appropriate, e.g. Investment Banking Group.
- Provide all Bank employees, from entry-level to Chief Executive Officer, with compensation based on:
  - the market value of the job they perform,
  - internal pay equity, and
  - an individual's demonstrated ability to perform the job.
- Motivate management to create sustained shareholder value by:
  - incorporating an "at risk" component of total compensation for all employees that reflects their ability to affect business outcomes,
  - directly linking short-term incentive awards for senior executives to the absolute results of the Bank and its businesses as well as the Bank's results relative to those of other financial institutions,
  - directly linking short-term incentive awards for all employees to the absolute results of the Bank and its businesses,
  - aligning mid-term and long-term incentives for senior management with the results realized by shareholders, and
  - using an individual's performance to determine the actual level of incentive award.

The Committee engages independent consultants to gather information and opine on the compensation practices of comparable Canadian and U.S. banks and other major Canadian companies.

Changes to the Fiscal 2003 Executive Program

For fiscal 2003, the Committee has approved a significant shift in the current *mix* of executive compensation. The current level of total direct compensation opportunity has been maintained to remain market competitive. The changes reduce the use of stock options by approximately two-thirds with corresponding increases in the short- and medium-term portions of total compensation.

These changes from long-term stock options to short-and medium-term awards result in five important enhancements:

- BMO Financial Group's leadership position in "Pay for Performance" is further strengthened by linking actual equity award payments to shareholder returns. For example, all executives have a portion of their stock options that can only be exercised when either a 50% or 100% increase in share price is realized. In addition, mid-term incentive payments are adjusted by relative total shareholder return (positively or negatively).
- The size of the incentive pools are directly related to overall business performance.

- The shortened time frame between performance results and receipt of incentive rewards increases the focus on short- and mid-term business outcomes.
- The mix of incentive awards (short-, mid- and long-term) corresponds directly to executives' level of responsibility/ accountability. For example, the Named Executive Officers have a higher proportion of their incentive compensation in long-term awards because they are in the best position to influence the long-term direction of the Bank.
- It ensures the Bank's ability to maintain the total number of Common Shares reserved for the Plan, minus those options that have been exercised, to 9.5% or less of the total number of issued and outstanding Common Shares of the Bank. This reduces the future dilutive effects of stock options on share value.

Elements of Executive Compensation

Executive compensation consists of base salary, short-term incentives, Performance Share Units issued under the Bank's Mid-Term Incentive Plan, and stock options. The percentage mix of each element varies based on the executive's level of responsibility and is established through regular reviews of competitive practice. For fiscal 2003, the percentage mix for cash and equity compensation ranges from approximately 65%/35% for Vice-Presidents to 30%/70% for the Chief Executive Officer. These four main elements of executive compensation are described as follows:

Base Salary

The Committee reviews and approves base salary targets for each executive level based on actual salaries paid for equivalent jobs within the banking industry. The base salary targets are set at the market median. The market for Canadian executives includes the other major Schedule 1 banks. The market for U.S. executives includes U.S. regional banks of similar size. Individual salaries are then determined based on the executive's skills, accountabilities and overall performance.

Short-Term Incentive Plan

The Short-Term Incentive Plan (which includes all executives other than those in the Investment Banking Group) was amended for fiscal 2002 to reward executives for year-over-year improvement in financial performance. This incentive plan measures performance for the total Bank and for each specific Banking Group (other than the Investment Banking Group which has a different plan — see below).

The performance measures for the overall Bank component are growth in cash Earnings Per Share (EPS) and overall revenue growth over the prior year.

The performance measures for the specific Banking Group component are:

- Personal and Commercial Client Group: Cash Net Income After Tax and Revenue Growth
- Private Client Group: Growth in Net Income After Tax

Awards in corporate areas are based on overall Bank performance.

In addition, the Management Board Executive Committee, which includes the ten most senior executives of the Bank, has a portion of their short-term incentive awards based on the cash EPS and revenue performance relative to other major Canadian banks.

2002 Payout

As highlighted in the Bank's Annual Report 2002, performance of both the Bank as a whole and its main operating groups has improved over 2001 which has resulted in increases in bonus pools for the above Banking Groups. This is also reflected in the increased bonus compensation for the Named Executive Officers as shown in the Summary Compensation table on page 20. Approximately 250 executives participate in this plan.

Investment and Corporate Banking Short-Term Incentive Plan

In keeping with industry practice, executives in the Bank's Investment Banking Group, including Messrs. Bourdeau and Downe, participate in the Investment and Corporate Banking Short-Term Incentive Plan. In line with industry practice, short-term incentive awards are funded by a percentage of the Investment Banking Group's operating profit. A component of the overall short-term incentive awards for Messrs. Bourdeau and Downe is also determined by the performance of BMO Financial Group as a whole.

2002 Payout

The bonus pool in fiscal 2002 for the Investment Banking Group was similar to fiscal 2001 reflecting the performance of the Group in 2002.

Deferred Stock Unit Plan

This Plan was developed to further align the interests of executives with those of shareholders by linking short-term incentive awards to the future value of the Bank's Common Shares. Under the Plan, executives who are members of the Bank's Management Board and other selected executives authorized by the Committee may elect to receive all or a portion of their short-term incentive award in Deferred Stock Units (DSUs). When short-term incentive awards are determined after the fiscal year-end, the amounts elected by executives for deferral at the beginning of the fiscal year are converted into DSUs based on the market price of the Bank's Common Shares. Additional DSUs are credited to participants' accounts representing dividends on the Bank's Common Shares. Only upon retirement or termination of employment, may participants redeem the DSUs in cash, Bank Common Shares (purchased on the open market) or a combination of both. When redeemed, the value of the DSUs is equivalent to the fair market value of an equal number of Common Shares of the Bank at the time of redemption.

Mid-Term Incentive Plan

The Committee strongly believes that a significant portion of executives' incentive compensation should be directly linked to the market price of the Bank's Common Shares, and that executives should be rewarded for creating returns for shareholders greater than those achieved by the Bank's Canadian peer group. The Bank's Mid-Term Incentive Plan is highly performance-based in that it is linked to absolute share price as well as share price performance relative to that of other major Canadian banks using relative total shareholder return as the performance metric. For fiscal 2003, the Mid-Term Incentive Plan represents 25% to 35% of total compensation, depending on the executive's level.

REPORT OF THE HUMAN RESOURCES AND MANAGEMENT COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

Under the Mid-Term Incentive Plan, executives receive annual awards of Performance Share Units (Units). The initial value of each of these Units is equivalent to one Common Share of the Bank. Each award will vest and be paid out at the end of a three-year performance cycle based on the following:

- the Bank's Common Share price at the end of the three-year vesting period,
- additional Units representing dividends paid during the three-year vesting period, and
- the Bank's total shareholder return relative to other major Canadian banks.

When the Bank outperforms its competitors, payments may be increased by up to 150% of the original award. If the Bank's performance fails to meet threshold performance, no payments are made. Participants in this Plan are the same as those in the Short-Term Incentive Plan, together with approximately 700 senior managers below the executive level who participate on a selected basis.

Stock Option Plan

The Committee also believes that a portion of total compensation for executives must be aligned with the market price of the Bank's shares, and that hurdles on share price increase should be established for exercise purposes. Under the Bank's Stock Option Plan, stock options are first subject to time-based vesting (25% per year over four years) and then a portion must meet or exceed share price hurdles, which are dependent on increases in the Common Share price.

All executives have a portion of their options subject to a share price increase of 50% over the exercise price. Senior executives (including the Named Executive Officers listed on page 20) have 33% of their annual option grant subject to time-based vesting only, 33% subject to a 50% share price increase and the remaining 34% subject to a 100% share price increase. The Committee has established a guideline that ensures the Bank maintains the total number of Common Shares reserved for the Plan, minus those options that have been exercised, to 9.5% or less of the total number of issued and outstanding Common Shares of the Bank. This reduces the future dilutive effects of stock options on share value. Participants in this Plan are the same as those in the Short-Term Incentive Plan.

Investment Banking Group Long-Term Incentive Plan

Executives in the Investment Banking Group (IBG) participate in the IBG Long-Term Incentive Plan. Under the Plan, executives are awarded phantom share units based on the average closing price of the Bank's Common Shares on the Toronto Stock Exchange (TSX) for the five days ending on the day of the grant. These shares vest and are paid out either over a three-year period or as a lump sum at the end of three years, depending on the participant's election at the time the award is granted. The payout value of the units is dependent on the five-day average TSX closing price for the Bank's Common Shares on the relevant payable dates. Unvested shares are forfeited upon resignation or termination for cause.

Executive Stock Ownership Guidelines

The Committee strongly supports the holding of ownership in the Bank by executive officers. The Bank has increased its guidelines for minimum stock holding requirements for executives for fiscal 2003. The minimum required holdings are seven times salary for the Chief Executive Officer, five times salary for Deputy Chairs and Presidents, three times salary for Executive Vice-Presidents, two times salary for Senior Vice-Presidents and one and one-half times salary for Vice-Presidents. It is expected executives will meet minimum ownership requirements within three years of appointment. All Named Executive Officers listed on page 20 are in compliance with stock holding requirements.

Compensation of the Chief Executive Officer

As previously mentioned, the Committee monitors and assesses the performance of and determines pay levels for Mr. Comper, Chief Executive Officer, and other senior executives. For the fiscal year ending October 31, 2002, the compensation of Mr. Comper, the Chief Executive Officer, consisted of base salary, short-term incentive, mid-term incentive and stock option awards as follows:

- The Committee compared Mr. Comper's salary to his peers among the six major Canadian banks and decided that his salary should remain unchanged at $1,000,000 for fiscal 2002, which was slightly below the median of the peer group.
- In December 2002, the Committee reviewed Mr. Comper's performance, considering both financial and non-financial components including the following, in order of importance:
  - financial performance and condition of the Bank, both absolute and relative to Canadian and U.S. competitors, including cash return on equity (ROE) and revenue growth, cash EPS growth and provision for credit losses (PCL),
  - strategy implementation and ongoing development,
  - leadership and employee engagement,
  - marketing and customer satisfaction, and
  - risk and control.

Financial Performance Highlights — Fiscal 2002

	Excluding Non-Recurring Items		As Reported	
	BMO	Canadian Peer Group	BMO	Canadian Peer Group
Cash EPS Growth	8.6%	-20.2%	-1.0%	-28.9%
Cash ROE	14.6%	12.4%	14.2%	11.2%
Revenue Growth	1.7%	2.5%	0.0%	0.8%
PCL as % of Loans	0.56%	0.89%	0.56%	0.96%

For fiscal 2002, the Bank outperformed the Canadian peer group on each of the measures except revenue growth. While softer revenue growth also had an impact on performance relative to the North American peer group, it was partially offset by lower PCL.

Based on the Bank's financial performance in fiscal 2002 and the Committee's assessment of the Chief Executive Officer's performance in the other key areas, the Committee awarded a bonus to Mr. Comper of $1,100,000.

In assessing the appropriate award levels for Mr. Comper under the Mid-Term Incentive Plan and the Stock Option Plan, the Committee considered the objectives of these plans. The Mid-Term Incentive and Stock Option plans reward and incent executives over the mid- to long-term. Both plans reward recipients only when returns are earned for shareholders. Under the Mid-Term Incentive Plan, units vest only when competitive total shareholder returns are achieved, while stock options reward executives only when the share price increases.

In the context of these objectives, the Committee decided to grant Mr. Comper mid- and long-term incentive awards for fiscal 2002 of comparable value to those granted for fiscal 2001. As such, 27,367 Performance Share Units under the Mid-Term Incentive Plan were granted to Mr. Comper on December 11, 2001 at a unit price of $36.54, the average closing price for the 90 calendar days ending December 10, 2001. The value of these Units, which vest December 11, 2004, will be determined as set forth in the Plan description above.

Under the terms of the Stock Option Plan, 384,600 stock options were granted to Mr. Comper on December 11, 2001 at an exercise price of $35.68, the market price at the date immediately preceding the date of the grant. Of these options, which are designed to provide a significant incentive to the Chief Executive Officer and to be aligned with increasing shareholder value, 67% once vested, cannot be exercised until the share price increase hurdles described above are met.

Submitted by the Human Resources and Management Compensation Committee of the Board of Directors, which is comprised of the following four independent directors:

/s/ Stephen E. Bachand
Stephen E. Bachand
Chair

/s/ David A. Galloway
David A. Galloway

/s/ J. Blair MacAulay
J. Blair MacAulay

/s/ J. Robert S. Prichard
J. Robert S. Prichard

Summary Compensation Table for Named Executive Officers

Compensation for the Chief Executive Officer, the next four most highly compensated executive officers and a former Vice-Chair of the Bank (collectively the Named Executive Officers) is summarized in the table below.

Securities legislation provides that the Named Executive Officers are determined on the basis of the total cash compensation (salary and annual bonus) earned in fiscal 2002 starting November 1, 2001 and ending October 31, 2002.

		Annual compensation			Long-term compensation awards			
Name and principal position(a)	**Year**	**Salary($)**	**Bonus($)(b)(c)**	**Other annual compensation($)**	**Securities under options granted(#)**	**Restricted share units($)(d)**	**LTIP payouts($)(e)**	**All other compensation($)(f)**
F.A. Comper Chairman and Chief Executive Officer	2002 2001 2000	1,000,000 966,667 900,000	1,100,000 Nil 1,400,000	N/A N/A N/A	384,600 357,000 408,000	1,000,000 1,000,000 850,000	Nil Nil Nil	206,781 126,086 72,142
Y.J.P. Bourdeau President and Chief Operating Officer BMO Nesbitt Burns	2002 2001 2000	300,000 300,000 300,000	2,000,000 1,000,000 2,500,000	N/A N/A N/A	88,400 80,000 92,000	1,500,000 800,000 450,000	240,320 203,403 200,959	127,329 128,253 63,337
W.A. Downe Deputy Chair, BMO Financial Group, and Chief Executive Officer BMO Nesbitt Burns and Head of Investment Banking Group	2002 2001 2000	US 550,000 US 533,333 US 500,000	US 2,250,000 US 900,000 US 800,000	N/A N/A N/A	351,200 220,000 324,000	US 1,000,000 US 500,000 US 300,000	Nil Nil Nil	85,376 44,942 22,554
A.G. McNally Chairman Harris Bankcorp, Inc.	2002 2001 2000	US 515,000 US 604,500 US 600,000	US 267,000 US 350,000 US 530,000	N/A N/A N/A	157,400 140,000 124,000	US 350,000 US 350,000 US 325,000	Nil Nil Nil	164,891 91,038 47,112
R.G. Rogers Deputy Chair Enterprise Risk and Portfolio Management	2002 2001 2000	618,000 604,500 600,000	650,000 375,000 1,000,000	N/A N/A N/A	110,500 180,000 124,000	400,000 600,000 325,000	Nil Nil Nil	113,260 61,103 42,582
G.G. Omelet President and Chief Executive Officer Private Client Group	2002 2001 2000	500,000 463,333 404,167	500,000 375,000 650,000	N/A N/A N/A	110,500 140,000 292,000	450,000 450,000 250,000	Nil Nil Nil	167,189 97,041 43,884

Notes

(a) Mr. McNally retired from his position of Vice-Chair, Bank of Montreal and Chairman and Chief Executive Officer, Harris Bankcorp, Inc. effective September 1, 2002.

(b) Amounts shown were earned in relation to the financial year indicated. In prior years, the bonuses reported for Mr. McNally related to the year prior to the fiscal year being reported. For bonus award purposes only, Harris Bank's year-end was changed from December 31 to October 31 during fiscal 2002. The amounts shown for Mr. McNally have been restated to reflect bonuses paid for the respective financial year being reported.

(c) With respect to 2002 bonuses, Mr. Comper elected to defer 50% of his annual bonus into DSUs under the Deferred Stock Unit Plan based on a share price of $33.88, which was the average closing price of the Bank's Common Shares for the five consecutive trading days ending October 31, 2001. Mr. Rogers elected to defer all of his annual bonus into DSUs under the Plan based on a share price of $33.88, which was the average closing price of the Bank's Common Shares for the five consecutive trading days ending October 31, 2001. Aggregate holdings of DSUs granted under this Plan as at October 31, 2002 and their value at this date were as follows: Mr. Comper 44,276.20 DSUs with a value of $1,736,866.95, Mr. Bourdeau 101,789.31 DSUs with a value of $3,992,991.20, Mr. Downe 14,388.11 DSUs with a value of $564,416.74, Mr. Rogers 48,743.37 DSUs with a value of $1,912,104.77 and Mr. Ouellette 78,383.42 DSUs with a value of $3,074,824.77. As additional DSUs are credited to reflect dividends paid on Common Shares of the Bank, the aggregate values reported here include dividends paid during the financial year. On October 16, 2002, Mr. McNally received $3,062,933.09 reflecting a full redemption of the aggregate DSUs in his plan.

(d) Amounts shown for 2002 for Messrs. Comper, McNally, Downe, Rogers and Ouellette represent awards made on December 11, 2001 under the Bank's Mid-Term Incentive Plan which were converted into Units based on a share price of $36.54, which was the average closing price of the Bank's Common Shares for the 90 calendar days ending December 10, 2001. Aggregate holdings of Units granted under this Plan as at October 31, 2002 and their value at this date were as follows: Mr. Comper 109,575.92 Units with a value of $4,048,830.11, Mr. Downe 61,516.67 Units with a value of $2,273,040.86, Mr. McNally 60,324.82 Units with a value of $2,229,001.92, Mr. Rogers 51,453.87 Units with a value of $1,901,220.34 and Mr. Ouellette 43,089.99 Units with a value of $1,592,175.07. As additional Units are credited to reflect dividends paid on Common Shares of the Bank, the aggregate values reported here include dividends paid during the financial year. Units vest on the third anniversary date of the award (see details on the Mid-Term Incentive Plan in the *Report of the Human Resources and Management Compensation Committee on Executive Compensation*). The amount shown for 2002 for Messrs. Bourdeau and Downe includes an award made on December 1, 2001 under the IBG Long-Term Incentive Plan which was converted into Units based on a share price of $35.57, the average closing price of the Bank's Common Shares for the five days ending November 30, 2001. These Units vest and become payable over a three-year vesting period at the rate of one-third each year. The aggregate holdings of Mr. Bourdeau of Units granted under this Plan as at October 31, 2002 was 65,163.49 and the value at this date was $2,407,788.40. The aggregate holdings of Mr. Downe of Units granted under this Plan as at October 31, 2002 was 36,059.28 and the value at this date was $1,332,390.60.

(e) Amounts shown are in relation to phantom share units under the IBG Long-Term Incentive Plan that vested and became payable October 31, 2002.

(f) The amounts shown represent: the amount of interest accrued for the year ending October 31, 2002 under the executive incentive bonus plan for amounts deferred prior to November 1, 1987; dividend equivalents credited to the Named Executive Officers under the Bank's Deferred Stock Unit Plan, Mid-Term Incentive Plan and IBG Long-Term Incentive Plan; and Bank contributions under the Bank's Employee Share Ownership Plan. Named Executive Officers participate in this Plan on the same basis as all other Bank employees, whereby for each dollar contributed by employees up to 6% of base pay, the Bank will contribute additional Common Shares up to 50% of eligible contributions.

2002 Stock Option Grants

In fiscal 2002, stock options to purchase Common Shares of the Bank were granted to the Named Executive Officers as set out in the following table. All of the options granted had an exercise price equal to the market price of Bank of Montreal Common Shares on the date immediately preceding the date of the grant. The options vest over four years at the rate of 25% each year. Two-thirds of each of the Named Executive Officers' option grants are subject to share price increase hurdles that must be met before the options may be exercised (for details of the Stock Option Plan, refer to the *Report of the Human Resources and Management Compensation Committee on Executive Compensation*).

Option Grants during the Year Ended October 31, 2002

Name	Number of securities under options granted	% of total options granted to employees in financial year	Exercise or base price ($/security)	Market value of underlying securities on the date of grant ($/security)	Expiration date
F.A. Comper	384,600	5.20	$ 35.68	$ 35.68	December 11, 2011
Y.J.P. Bourdeau	88,400	1.20	$ 35.68	$ 35.68	December 11, 2011
W.A. Downe	351,200	4.75	$ 35.68	$ 35.68	December 11, 2011
A.G. McNally	157,400	2.13	$ 35.68	$ 35.68	September 1, 2007
R.G. Rogers	110,500	1.49	$ 35.68	$ 35.68	December 11, 2011
G.G. Ouellette	110,500	1.49	$ 35.68	$ 35.68	December 11, 2011

The following table shows the aggregate number of options each Named Executive Officer now holds and the value of these options based on the market price of Bank of Montreal Common Shares as at October 31, 2002, which was $38.10.

Aggregated Option Exercises during the Year Ended October 31, 2002 and Financial Year-End Options

Name	Securities acquired on exercise (#)	Aggregate value realized ($)	Unexercised options at October 31, 2002 (#)		Value of unexercised in-the-money options at October 31, 2002 ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
F.A. Comper	306,000	7,678,582	612,092	1,401,508	10,940,500	7,154,032
Y.J.P. Bourdeau	Nil	Nil	238,960	399,440	4,734,650	2,237,528
W.A. Downe	26,500	US 398,644	209,170	920,130	3,056,435	4,670,404
A.G. McNally	280,000	US 3,376,823	52,470	648,930	511,500	3,311,408
R.G. Rogers	Nil	Nil	163,770	638,730	2,474,400	3,197,910
G.G. Ouellette	Nil	Nil	107,910	434,590	1,204,500	2,712,910

Long-Term Incentives

The following table shows the number of Units awarded to the Named Executive Officers under the Bank's Mid-Term Incentive and IBG Long-Term Incentive Plans for the year ended October 31, 2002.

Long-Term Incentive Plans — Awards during the Year Ended October 31, 2002

Name	Securities, units or other rights (#)	Performance or other period until maturation or payout	Estimated future payouts under non-securities price-based plans		
			Threshold ($ or #)	Target ($ or #)	Maximum ($ or #)
F.A. Comper	27,367	3 years	N/A	N/A	N/A
Y.J.P. Bourdeau	42,755	3 years	N/A	N/A	N/A
W.A. Downe	44,755	3 years	N/A	N/A	N/A
A.G. McNally	15,217	3 years	N/A	N/A	N/A
R.G. Rogers	10,947	3 years	N/A	N/A	N/A
G.G. Ouellette	12,315	3 years	N/A	N/A	N/A

Note

Messrs. Comper, Downe, McNally, Rogers and Ouellette received Units under the Mid-Term Incentive Plan based on a share price of $36.54. The payout value of these Units, which vest after three years, will depend on the Bank's total shareholder return over the three-year period as well as the Bank's total shareholder return compared to its competitors. Messrs. Bourdeau and Downe received phantom share units under the IBG Long-Term Incentive Plan based on a share price of $35.57. These units vest over a three-year period.

Pension Plan

Certain Named Executive Officers are covered by a pension plan. The non-contributory portion, shown in the following table, allows benefits for service to June 30, 1987 equal to 2.0% of the three-year average of the individual's highest salary (to a maximum salary of $85,750) times the number of years of plan membership (to a maximum of 35 years) plus 1.25% of the best average earnings in excess of $85,750 (to a maximum of $500,000) times the number of years of plan membership. For service from July 1,1987, the plan allows benefits equal to 1.25% of the individual's best average earnings (to a maximum of $500,000) times the number of years of plan membership. For purposes of the plan, best average

earnings includes the executive's five-year average salary (to a maximum salary of $350,000) plus bonus, subject to a maximum of 145% of final salary for Senior Vice-Presidents and above, and 125% of final salary for other executive officers.

In addition, effective July 1, 1987, members of the plan may contribute, on a voluntary basis, an amount equal to 4.5% of annual salary (to a maximum contribution of $11,430).

Benefits under the contributory portion of the plan are equal to 0.75% of the five-year average highest salary (to a maximum salary of $350,000) times the number of years of contributions.

The plan allows for early retirement at age 50 with the completion of two years' membership. To be eligible for the best average earnings pension, retirement must be at age 55 or later. Generally, benefits are reduced by 6% per year for retirement between the ages of 50 and 54, and by 3% per year for retirement between the ages of 55 and 59. No reduction is applicable for ages 60 to 64. Pension benefits are subject to Canada Pension Plan offset deductions for service after July 1, 1987.

Estimated annual benefits payable upon retirement to persons with the specified compensation and years of credited service are as shown in the following table. Such amounts assume retirement occurs at age 55 or later and payments take the form of a joint and 60% survivor annuity.

Estimated Annual Benefits Payable upon Retirement

	Years of service				
Compensation ($)	**15**	**20**	**25**	**30**	**35**
200,000	37,500	53,001	68,717	84,433	100,148
225,000	42,188	59,251	76,529	93,808	111,086
250,000	46,875	65,501	84,342	103,183	122,023
300,000	56,250	78,001	99,967	121,933	143,898
400,000	75,000	103,001	131,217	159,433	187,648
500,000	93,750	128,001	162,467	196,933	231,398
750,000	93,750	128,001	162,467	196,933	231,398
1,000,000	93,750	128,001	162,467	196,933	231,398
1,250,000	93,750	128,001	162,467	196,933	231,398
1,500,000	93,750	128,001	162,467	196,933	231,398
1,750,000	93,750	128,001	162,467	196,933	231,398

The projected years of credited service in the BMO pension plan, at their normal retirement date (age 65), for the Named Executive Officers are as follows: Mr. Comper, 42 years, Mr. Bourdeau, 41 years, Mr. Downe, 34 years, Mr. Rogers, 40 years and Mr. Ouellette, 17 years.

Retirement Agreements, Retirement Allowances and Termination of Employment

Bank of Montreal has entered into retirement agreements with the Named Executive Officers. The terms and conditions of the retirement agreements are similar for each of the Named Executive Officers.

Upon retirement, Messrs. Comper, Bourdeau, Downe, Rogers and Ouellette are each entitled to receive an annual retirement allowance during their lifetimes pursuant to retirement agreements with the Bank. In the cases of Messrs. Comper and Bourdeau, the agreements require continuous employment with the Bank or a Bank subsidiary until age 62, but allow for early retirement at age 57 subject to a reduction in the allowance of 5% per year between ages 57 and 62. Messrs. Downe's, Rogers' and Ouellette's agreements require continuous employment with the Bank or a Bank subsidiary until age 60, but allow for early retirement at age 55 (age 56 for Mr. Rogers) subject to a reduction in the allowance of 3% per year between ages 55 and 60. Upon normal retirement at age 62, Messrs. Comper and Bourdeau will each receive an annual retirement allowance based on 70% of their best average earnings less whatever annual amount is payable to them from the pension plan of the Bank and/or the pension plan of a subsidiary. Messrs. Downe, Rogers and Ouellette will receive upon normal retirement at age 60 an annual retirement allowance based on 2% of best average earnings for each year of credited service less whatever annual amount is payable from the pension plan of the Bank. If any such individual is receiving an annual retirement allowance at the time of his death the Bank would, subject to certain deductions, pay annually to his surviving spouse during her lifetime 60% of this retirement allowance. If such individual or his spouse is receiving an annual retirement allowance at the time of the death of the survivor of them, the amount that would otherwise be paid to the spouse upon his death would be divided and paid in equal shares for the benefit of any surviving dependent children.

Estimated annual retirement allowance benefits payable upon retirement to the specified Named Executive Officers are shown in the following table.

Estimated Annual Retirement Allowance Benefits (retirement allowance benefits — normal retirement)

Best average earnings ($)(a)	Age 62 ($)(c)	Best average earnings ($)(b)	Age 60 ($)(c)
500,000	350,000	500,000	290,000
750,000	525,000	750,000	435,000
1,000,000	700,000	1,000,000	580,000
1,250,000	875,000	1,250,000	725,000
1,500,000	1,050,000	1,500,000	870,000
1,750,000	1,225,000	1,750,000	1,015,000
2,000,000	1,400,000	2,000,000	1,160,000

Notes

(a) Best average earnings for Messrs. Comper and Bourdeau at normal retirement is the sum of the final 12 months' salary plus 1/5 of the aggregate of the best five years of bonuses awarded, except in Mr. Bourdeau's case, where the best five years' average bonus is limited to 200% of final salary. For early retirement between ages 57 and 62, best average bonus is limited to 45% of final salary, except in Mr. Bourdeau's case, where the best average bonus is limited to 100% of final salary.

(b) Best average earnings for Messrs. Downe, Rogers and Ouellette is the sum of the final 12 months' salary plus 1/5 of the aggregate of the best consecutive five years of bonuses limited to 45% of final salary.

(c) Annual benefits payable upon retirement will be reduced by the annual amount payable under the pension plan of the Bank and/or a pension plan of a subsidiary.

Based on current compensation, the estimated annual benefits payable upon retirement are as follows: Mr. Comper $1,406,300, Mr. Bourdeau $686,000, Mr. Downe $734,159, Mr. Rogers $678,043 and Mr. Ouellette $246,500. Mr. McNally retired effective September 1, 2002 with an entitlement to an annual allowance of US$602,592 until age 62 (in 2007) and US$725,000 thereafter, which includes amounts payable under the Bank of Montreal and Harris Bank pension plans. As previously announced, Mr. McNally has been retained as a consultant with an annual retainer of US$250,000, which agreement will terminate at age 62.

The retirement agreements also provide that, if the Named Executive Officer leaves the employ of the Bank within two years of a change of control due to a material change in the executive's responsibilities, the executive is deemed to have been dismissed without cause by the Bank. The retirement agreements provide that if a Named Executive Officer is dismissed without cause by the Bank on or after age 50 and prior to the normal retirement date, he is entitled to a retiring allowance based upon a percentage of pensionable earnings according to his age at the time of dismissal. Given the respective ages and years of service for each Named Executive Officer as at October 31, 2002, entitlement to pensionable earnings is outlined as follows: Mr. Comper is entitled to a retiring allowance ranging from 45% to 70% of pensionable earnings at normal retirement, Mr. Bourdeau is entitled to a retiring allowance ranging from 36% to 70% of pensionable earnings at normal retirement, Mr. Downe is entitled to a retiring allowance ranging from 21% to 58% of pensionable earnings at normal retirement, Mr. Rogers is entitled to a retiring allowance ranging from 47% to 70% of pensionable earnings at normal retirement and Mr. Ouellette is entitled to a retiring allowance ranging from 12% to 34% of pensionable earnings at normal retirement. If Mr. Comper or Mr. Bourdeau are dismissed without cause by the Bank and have reached the applicable age for early retirement benefits, the executive may elect to receive an early retirement allowance as described earlier on page 22 in lieu of the allowances described in this paragraph.

In addition, under the terms of the retirement agreements, if a Named Executive Officer is dismissed without cause by the Bank, that executive is entitled to a lump sum severance payment as follows:

Mr. Comper — two and one half times the sum of annual salary and one-third of the aggregate of the best three years' bonuses.

Mr. Bourdeau — two times the sum of annual salary and one-third of the aggregate of the best three years' bonuses.

Messrs. Downe, Rogers and Ouellette — two times the sum of annual salary and the average of the best five consecutive years' bonuses.

All Named Executive Officers are entitled to any other amounts or benefits to which they are entitled under the Bank's compensation and benefits programs.

DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS — INDEBTEDNESS

The total indebtedness relating to the purchase of securities of the Bank or its subsidiaries incurred by current directors, officers and employees of the Bank or its subsidiaries is approximately $264,114.

Table of Indebtedness of Directors and Executives [(a)] under Securities Purchase Programs [(b)]

Name and principal position	Involvement of issuer or subsidiary	Largest amount outstanding during the year ended October 31, 2002 ($)	Amount outstanding as at December 31, 2002 ($)	Financially assisted securities purchases during the year ended October 31, 2002 ($)	Security for indebtedness
R.M. Patten Executive Vice-President	Bank/Lender	225,000	225,000	Nil	Nil

Total indebtedness other than in connection with the purchase of securities of the Bank or its subsidiaries incurred by current directors, officers and employees of the Bank or its subsidiaries is approximately $526,353,416.

Table of Indebtedness of Directors and Executives [(a)] Other than under Securities Purchase Programs [(b)]

Name and principal position	Involvement of issuer or subsidiary	Largest amount outstanding during the year ended October 31, 2002 ($)	Amount outstanding as at December 31, 2002 ($)
C.B. Begy Senior Vice-President	Bank/Lender	18,716	3,871
Y.J.P. Bourdeau President and Chief Operating Officer, BMO Nesbitt Burns	Bank/Lender	42,300	42,300
J. Mulhall Vice-President	Bank/Lender	346,309	266,189
E.M. Costello Executive Managing Director	Bank/Lender	US 36,375	US 36,375
T.V. Milroy Vice-Chair, BMO Nesbitt Burns	Bank/Lender	72,750	72,750
E.C. Tripp Vice-Chair, BMO Nesbitt Burns	Bank/Lender	72,750	72,750
R. Sirkis Executive Vice-President	Bank/Lender	449,465	441,330
E. Lyman Vice-Chair, Harris Bankcorp, Inc.	Harris Bank/Lender	US 881,171	US 452,000
W.E. Thonn Executive Vice-President, BMO Harris Private Banking	Harris Bank/Lender	US 285,000	US 282,079
P.J. Robertson Executive Vice-President	Bank/Lender	100,000	100,000
F.J. Techar (c) President and Chief Executive Officer, Harris Bankcorp, Inc.	Harris Bank/Lender	US 2,200,000	US 2,200,000

Notes

(a) "Executives" means the members of the Bank's Management Board, including the Chairman and Chief Executive Officer, and selected other officers of the Bank or its subsidiaries performing a policy-making function in respect of the Bank.

(b) Effective September 1, 1999, new loans and mortgages to executive officers were no longer available at preferred rates, other than mortgages for Bank-initiated transfers; a select suite of customer loan and mortgage products is now offered to employees at rates normally accorded to preferred customers. Existing loans and mortgages at preferred rates will be phased out by September 1, 2004.

— Prior to September 1, 1999, loans to executive officers for personal purposes, principally for consumer purchases, home improvement and sundry investments, were made available at an interest rate of one-half of the Bank's prime rate to a maximum of $25,000. Loans in excess of this amount were available at prime rate.

— Prior to September 1, 1999, mortgage loans were available to executive officers for the purchase of or renovations to their principal residence based on funding limits determined by geographic location. Interest rates were 2% below the Bank's posted rates, with a minimum rate of 6%. Mortgage loans at customer rates were also available.

— For Bank-initiated transfers, mortgage loans are available for the purchase of a principal residence based on funding limits set by geographic location. These funds are available in two tranches and each tranche has a funding limit. For the first tranche, funds are available at 3% with interest only payable for the first five years and thereafter at 3% with principal plus interest payable. The second tranche funds are available (to location limits) at 1.5% below the posted rate. There is no set minimum lending rate.

— For both normal and transferee mortgages, additional funds beyond those set for location limits are available at customer rates. Mortgages are amortized to a maximum of 25 years. Security is in accordance with customer lending practices for both loans and mortgages to executive officers.

(c) Mr. Techar's indebtedness represents a mortgage loan for a Bank-initiated transfer. The full amount of the loan is at customer rates.

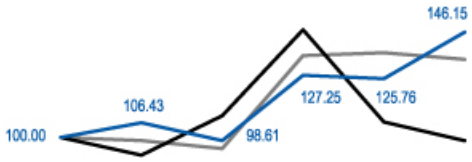
PERFORMANCE GRAPH

This graph compares the total cumulative shareholder return for $100 invested in Common Shares of the Bank on October 31, 1997 with the cumulative total return of the S&P/TSX Composite Index (formerly the TSE300 Composite Index) and the S&P/TSX Canadian Financial Services Index (formerly the TSE Financial Services Index), for the five most recently completed financial years.

Note

Dividends declared on Common Shares of the Bank are assumed to be reinvested at the closing share price on the dividend payment date. The S&P/TSX Composite Index and the S&P/TSX Canadian Financial Services Index are total return indices, including dividends reinvested.

Cumulative Return ($)



	1997	1998	1999	2000	2001	2002
Bank of Montreal Common Shares	100.00	106.43	98.61	127.25	125.76	146.15
S&P/TSX Composite Index	100.00	92.22	109.51	147.19	106.77	98.57
S&P/TSX Canadian Financial Services Index	100.00	98.62	95.12	135.86	137.13	134.21

DIRECTORS' AND OFFICERS' INSURANCE

The Bank has purchased, at its expense, an integrated insurance policy, which expires October 31, 2003 and includes Directors' and Officers' Liability Insurance under two sections. The first section relates to individual protection provided for directors and officers against liability incurred by them in their capacities as directors and officers of the Bank and its subsidiaries. This section has a limit of $300 million for each claim and an aggregate limit of $300 million. There is no deductible.

When the law permits or requires the Bank to provide an indemnity to a director or officer, the second section applies, and provides payment on behalf of the Bank under the indemnity. This section has a limit of $300 million for each claim and a shared aggregate limit of $300 million subject to a deductible of $50 million.

Premiums paid by the Bank for the integrated risk policy include approximately $3 million per annum relating to the Directors' and Officers' Liability Insurance.

ADDITIONAL INFORMATION

If you would like to obtain, at no cost to you, a copy of any of the following documents:

(a) the latest Annual Information Form of the Bank together with any document, or the pertinent pages of any document, incorporated by reference therein;

(b) the comparative financial statements of the Bank for the financial year ended October 31, 2002 together with the accompanying report of the auditors thereon and any interim financial statements of the Bank for periods subsequent to October 31, 2002; and,

(c) this Proxy Circular,
please send your request to:
Bank of Montreal
Corporate Secretary's Department
21st Floor, 1 First Canadian Place
Toronto, Ontario M5X 1A1
Fax: (416) 867-6793
Telephone: (416) 867-6785
E-mail: corp.secretary@bmo.com

DIRECTORS' APPROVAL

The Board of Directors of the Bank has approved the contents and the sending of this Proxy Circular to the shareholders.

/s/ Velma J. Jones
Velma J. Jones
Vice-President and Secretary
January 6, 2003

SCHEDULE 1 — GOVERNANCE PROCEDURES

Extensive regulatory changes are in progress, many arising from the United States Sarbanes-Oxley Act and anticipated further changes arising from discussions between the Toronto Stock Exchange (TSX) and the Ontario Securities Commission, as well as the New York Stock Exchange. The Bank continues to follow the changes and as clarification on each is available, appropriate action will be contemplated.

Below the Bank's governance procedures are compared with the TSX corporate governance disclosure guidelines, including the proposed amendments published in April 2002 arising from the final report of the Joint Committee on Corporate Governance as mandated by the TSX, the TSX Venture Exchange and the Canadian Institute of Chartered Accountants.

Toronto Stock Exchange Guideline	Bank Alignment	The Bank's Governance Procedures
1. The board should explicitly assume responsibility for stewardship of the Bank and specifically for:	yes	The Board, either directly or through Board committees, is responsible for management or supervision of management of the business and affairs of the Bank with the objective of enhancing shareholder value. The Board has adopted a formal mandate setting out its responsibilities.
(i) adoption of a strategic planning process and approval of a strategic plan which takes into account the opportunities and risks of the business	yes	The Board approves strategy plans of the Bank. These plans include details of the opportunities and risks of the business. An annual strategy session enables directors to gain a fuller appreciation of planning priorities and provides the opportunity for directors to give constructive feedback to management. Throughout the year, directors also receive strategic updates at regular Board meetings.
(ii) identification of the principal risks of the bank's business and ensuring implementation of appropriate systems to manage those risks	yes	The Board, through its Risk Review Committee, considers risk issues in the broad context of the Bank's enterprise-wide strategic management framework. It approves corporate policies addressing the management of the risk and return from credit, market, liquidity and operational risk and such other risk management controls as are considered by the Committee to be appropriate for prudent business practice. The Committee also reviews the core methods and procedures established by management for control of key risks.
(iii) succession planning, including appointing, training and monitoring senior management	yes	The Board's Human Resources and Management Compensation Committee reviews succession planning for senior management, including development and monitoring of senior management. The Board appoints senior management and annually receives a report on succession planning.
(iv) communications policy	yes	The Board, through its Risk Review and Audit Committees, has approved a Disclosure Policy covering the timely dissemination of all material information. The policy, which is reviewed annually, establishes consistent guidance for determining what information is material, how it is to be disclosed and, to avoid selective disclosure, making all material disclosures on a widely disseminated basis. The Bank seeks to communicate with its shareholders and other stakeholders through a variety of channels, including its annual report, quarterly reports, annual information form, news releases, web site, briefing sessions and group meetings.
(v) integrity of internal control and management information systems	yes	The Audit Committee of the Board requires management to implement and maintain appropriate systems of internal control. The Committee meets regularly with the Chief Auditor, Chief Compliance Officer, Shareholders' Auditors, regulators and management to assess the adequacy and effectiveness of these systems.
2. A majority of directors should be "unrelated".	yes	All directors standing for election on February 25, 2003, with the exception of the Chairman and Chief Executive Officer, Mr. Comper, are "unrelated".
3. The board has responsibility for applying the definition of "unrelated director" to each individual director and for disclosing annually the analysis of the application of the principles supporting this definition and whether the board has a majority of unrelated directors.	yes	Based on information provided by directors as to their individual circumstances, the Board has determined that only one of the 15 persons proposed for election to the Board for 2003 is "related" and that is the Chairman and Chief Executive Officer. The Board has determined that for these purposes "unrelated" shall mean "unaffiliated" as established in the *Bank Act* (Canada).

Toronto Stock Exchange Guideline	Bank Alignment	The Bank's Governance Procedures
4. The board should appoint a committee of directors composed exclusively of outside directors, a majority of whom are "unrelated" directors, with responsibility for proposing new nominees to the board and for assessing directors on an ongoing basis.	yes	The Governance Committee, composed exclusively of outside directors, all of whom are "unrelated" to the Bank, is responsible for identifying and recommending to the Board suitable director candidates. In undertaking this responsibility the Committee adheres to the *Selection, Approval, Renewal and Succession of Directors* process reviewed by the Board, which includes assessing the skill sets of the existing Board and identifying any additional skill sets deemed to be beneficial.
5. The board should implement a process, to be carried out by an appropriate committee, for assessing the effectiveness of the board, its committees and the contribution of individual directors.	yes	The Governance Committee annually conducts a peer evaluation process to provide feedback to individual directors on their effectiveness. The survey, the results of which are compiled by an outside consultant to ensure confidentiality, rates each director against the standards of performance established in the Board's *Charter of Expectations for Directors,* the text of which can be found following these governance procedures on page 30. The Committee also conducts an annual evaluation of the effectiveness of the Board and its committees. The Board survey covers the operation of the Board and committees, the adequacy of information provided to directors, Board structure, agenda planning for Board meetings, effectiveness of the Chairman in managing Board meetings, effectiveness of the Lead Director, strategic direction and process. A separate Committee survey is conducted for each of the Board committees.
6. The board should provide an orientation and education program for new directors.	yes	New directors are provided with a *Directors' Handbook* containing details of the Bank's organizational structure, the structure of the Board and its committees, the Board's *Approval/Oversight Guidelines,* compliance requirements for directors, corporate policies, by-laws and a glossary of commonly used acronyms, as well as agendas and minutes for Board meetings for the preceding 12 months. One-on-one meetings are arranged with each of the Heads of the Bank's principal business groups for the new director to learn about the various functions and activities of the Bank. On an ongoing basis, presentations are made to the Board on various aspects of the Bank's operations. Prior to agreeing to join the Board, new directors, in meetings with the Chairman and Chief Executive Officer and the Lead Director, are given a clear indication of the workload and time commitment required to serve on the Bank's Board.
7. The board should examine its size and undertake, where appropriate, a program to establish the size of the board which facilitates effective decision-making.	yes	At the Annual Meeting on February 25, 2003, 15 directors will stand for election for a one-year period. The matter of Board size is considered formally on an annual basis by the Board, and on an ongoing basis by the Governance Committee. The size of the Board has been reduced substantially over past levels as a conscious decision to improve Board effectiveness. The Board is of the view that the current membership has the necessary breadth and diversity of experience and its current size is appropriate to provide for effective decision-making and staffing of Board committees.
8. The board of directors should review the adequacy and form of compensation of directors in light of the risks and responsibilities involved in being an effective director.	yes	The Governance Committee of the Board annually reviews the compensation paid to directors to ensure that it is competitive, aligns the interests of directors with those of shareholders and is consistent with the risks and responsibilities involved in being an effective director. The Board has share ownership guidelines for directors, as well as a performance-based Non-Officer Director Stock Option Plan.
9. Committees of the board should generally be composed of outside directors, a majority of whom are unrelated although some board committees may include one or more inside directors.	yes	All Board committees are composed solely of outside directors who are "unrelated", except for the Executive Committee, of which the Chairman and Chief Executive Officer is a member.

SCHEDULE 1 — GOVERNANCE PROCEDURES

Toronto Stock Exchange Guideline	Bank Alignment	The Bank's Governance Procedures
10. The board should assume responsibility for, or assign to a committee of directors responsibility for, developing the approach to corporate governance issues. This committee would, among other things, be responsible for the bank's response to these governance guidelines.	yes	The Governance Committee monitors best practices for governance world-wide and annually reviews the Bank's governance practices to ensure the Bank continues to exemplify high standards of corporate governance. The Committee is responsible for the Bank's response to these governance guidelines.
11. The board of directors, together with the chief executive officer, should develop position descriptions for the board and for the chief executive officer, including the definition of the limits to management's responsibilities. The board should approve or develop corporate objectives which the chief executive officer is responsible for meeting and assess the chief executive officer against these objectives.	yes	Position descriptions have been developed for the Board and the Chief Executive Officer. The Board's *Approval/Oversight Guidelines* define precisely the roles and responsibilities of the Board and management and explicitly delineate the lines of accountability that exist within the Bank. The guidelines set out those matters requiring Board approval and those of which the Board must be advised following action by management. The Human Resources and Management Compensation Committee reviews and approves corporate objectives which the Chief Executive Officer is responsible for meeting. The Committee also conducts the annual assessment of the Chief Executive Officer's performance against these objectives. The results of the assessment are reported to the Board.
12. The board should implement structures and procedures which ensure that it can function independently of management. An appropriate structure would be to (i) appoint a chair of the board who is not a member of management with responsibility to ensure that the board discharges its responsibilities or (ii) assign this responsibility to an outside director, sometimes referred to as the "lead director". The chair or lead director should ensure that the board carries out its responsibilities effectively which will involve the board meeting on a regular basis without management present and may involve assigning the responsibility for administering the board's relationship to management to a committee of the board.	yes	The Board has formally adopted the structure of Lead Director and has given that responsibility to the Chair of the Governance Committee. The Lead Director's responsibilities include acting as liaison between the Board and the Chief Executive Officer and establishing, in consultation with the Chairman and Chief Executive Officer and the Governance Committee, procedures to govern the Board's work. The Lead Director chairs a session at every Board meeting at which only non-management directors are present. During their meetings, Board committees also hold sessions with only non-management directors present.

Toronto Stock Exchange Guideline	Bank Alignment	The Bank's Governance Procedures
13. The audit committee should be composed of only unrelated directors. All of the members of the committee should be financially literate and at least one member should have accounting or related financial expertise. Each board shall determine the definition of and criteria for "financial literacy" and "accounting or related financial expertise". The board should adopt a charter for the audit committee which sets out the roles and responsibilities of the committee. The audit committee should have direct communication channels with the internal and the external auditors to discuss and review specific issues as appropriate. The audit committee duties should include oversight responsibility for management reporting on internal control. While it is management's responsibility to design and implement an effective system of internal control, it is the responsibility of the audit committee to ensure that management has done so.	yes	The Audit Committee is composed of unrelated directors. The Committee has established definitions for "financial literacy" and "accounting or related financial expertise" and has determined that all members of the Committee are financially literate and three of those members have accounting or related financial expertise. The roles and responsibilities of the Audit Committee are set out in the Committee's mandate and an overview of those roles and responsibilities is included in the *Report of the Audit Committee* on page 12 of his Proxy Circular. The Audit Committee meets separately (without management present) with the Chief Auditor and Shareholders' Auditors and discusses with them the various aspects of the Committee's mandate. As outlined in its mandate, the Audit Committee requires management to implement and maintain appropriate internal control. The Committee approves the internal control policy and the Corporate Audit mandate. The Committee also reviews the quarterly report on internal control of the Chief Auditor together with management's response to any identified weaknesses. The Audit Committee mandate, which sets out explicitly the roles and responsibilities of the Committee, is reviewed by the Board at least annually.
14. The board should implement a system to enable an individual director to engage an outside advisor at the bank's expense in appropriate circumstances. The engagement of the outside advisor should be subject to the approval of an appropriate committee of the board.	yes	Individual directors may, with the concurrence of the Chair of the Governance Committee or the Chairman and Chief Executive Officer, engage outside advisors at the expense of the Bank.

New York Stock Exchange Listing Standards

With respect to the Bank's governance procedures as compared with the New York Stock Exchange existing and proposed listing standards, the Bank is generally in compliance with these standards and, in particular, is in compliance with the requirement that the majority of directors be "independent." It has been determined that for these purposes "independent" shall mean "unaffiliated" as established in the *Bank Act* (Canada). Annually each director is required to complete a Director's *Certificate Respecting Affiliated Persons,* certifying whether or not for purposes of the *Affiliated Persons (Bank) Regulations* they are "affiliated" or "unaffiliated." Based on current certificates, all directors standing for election on February 25, 2003, with the exception of the Chairman and Chief Executive Officer, Mr. Comper, are independent.

CHARTER OF EXPECTATIONS FOR DIRECTORS

The Bank has adopted a *Charter of Expectations for Directors* which sets out the specific responsibilities to be discharged by the Bank's directors and the individual roles expected of them.

The Charter also stipulates the personal and professional characteristics of directors. This stipulation forms a recruitment model for use in screening and selecting Board nominees.

Board Responsibilities

The Board of Directors is explicitly responsible for the stewardship of the Bank. To discharge this obligation, the Board should assume responsibility in the following areas:

Strategic Planning Process

- Provide input to management on emerging trends and issues.
- Review and approve management's strategic plans.
- Review and approve the Bank's financial objectives, plans and actions, including significant capital allocations and expenditures.

Monitoring Tactical Progress

- Monitor corporate performance against the strategic and business plans, including assessing operating results to evaluate whether the business is being properly managed.

Risk Assessment

- Identify the principal risks of the Bank's businesses and ensure that appropriate systems are in place to manage these risks.

Senior Level Staffing

- Select, monitor, evaluate and, if necessary, replace the Chief Executive Officer and other senior executives, and ensure management succession.

Integrity

- Ensure the integrity of the Bank's internal control and management information systems.
- Ensure ethical behaviour and compliance with laws and regulations, audit and accounting principles, and the Bank's own governing documents.

Material Transactions

- Review and approve material transactions not in the ordinary course of business.

Monitoring Board Effectiveness

- Assess its own effectiveness in fulfilling the above and other Board responsibilities, including monitoring the effectiveness of individual directors.

Other

- Perform such other functions as prescribed by law or assigned to the Board in the Bank's governing documents.

Director Attributes

To execute these Board responsibilities, directors must possess certain characteristics and traits:

Integrity and Accountability

- Directors must demonstrate high ethical standards and integrity in their personal and professional dealings, and be willing to act on — and remain accountable for — their boardroom decisions.

Informed Judgement

- The ability to provide wise, thoughtful counsel on a broad range of issues ranks high among the qualities required in directors. They must develop a depth of knowledge of banking, in order to understand and question the assumptions upon which the strategic and business plans are based, and to form an independent judgement as to the probability that such plans can be achieved.

Financial Literacy

- One of the most important roles of the Board is to monitor financial performance. To do this, directors must have a high level of financial literacy. They should know how to read financial statements, and they should understand the use of financial ratios and other indices for evaluating company performance.

Mature Confidence

- Teamwork

  Directors who value Board and team performance over individual performance, and who possess respect for others, facilitate superior Board performance.

- Communication

  Openness to others' opinions and the willingness to listen should rank as highly as the ability to communicate persuasively. Directors must approach others assertively, responsibly and supportively, and be willing to raise tough questions in a manner that encourages open discussion.

Track Record and Experience

- In today's highly competitive world, only companies capable of performing at the highest levels are likely to prosper. Directors must bring a history of achievement that reflects high standards for themselves and others.

SCHEDULE 2 — SHAREHOLDER PROPOSALS

The following eight shareholder proposals have been submitted for consideration at the Annual Meeting of Shareholders. The Bank is legally required to include these proposals in this Proxy Circular. For the reasons discussed below, the Board of Directors and management of the Bank recommend that shareholders vote AGAINST each of the proposals.

The following proposal has been submitted by three shareholders: Deborah Abbey, c/o Suite 801, 1166 Alberni Street, Vancouver, B.C. V6E 3Z3; Ethical Funds Inc., 1441 Creekside Drive, 8th Floor, Vancouver, B.C. V6J 4S7; and, Meritas Financial Inc. o/a Meritas Mutual Funds, 410 Hespeler Road, Unit 5, Cambridge, Ontario N1R 6J6. The proposal and supporting comments are set out verbatim, in italics, below.

Proposal No.1: Social, Ethical, and Environmental Risk Disclosure

Be It Resolved That *the Board of Directors issue a report (at reasonable cost and omitting proprietary information) to shareholders by October 1, 2003 to include: a discussion of the social, environmental, and ethical risks and opportunities that may significantly affect the company's short and long term value and how they might impact on the business; a description of the company's policies and procedures for managing risks to short term and long term value arising from social, environmental, and ethical risks; and information about the extent to which the company has complied with its policies and procedures for managing risks arising from social, environmental, and ethical matters.*

Supporting Statement:

Banks generate value by managing financial risk. But recent experience shows that banks do not always have the existing policies, staff expertise, training or incentive systems to correctly price risks of a social, environmental or ethical nature. The Goldman Sachs-led PetroChina IPO, for instance, raised only US$2.7 billion of the expected US$10 billion in 2000 following poor institutional uptake — motivated in part by human rights considerations. By signing the United Nations Environmental Program's 1992 Statement by Financial Institutions on the Environment and Sustainable Development, BMO has acknowledged that sustainable development is a fundamental aspect of sound business management and that identifying and quantifying environmental risks should be part of the normal process of risks assessment and management. By signing this voluntary instrument BMO also promised to integrate environmental considerations into its operations, asset management, and other business decisions, and to 'periodically report on the steps...taken to promote integration of environmental considerations into... [its]...operations.' The government currently requires that BMO issue an annual Public Accountability Statement, but this report covers only consumer and community impacts. Greater disclosure is required for shareholders to accurately assess Management's capacity to avoid risks and generate value through adequately addressing social, environmental, and ethical matters.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THIS PROPOSAL FOR THE FOLLOWING REASONS:

In order to ensure the Bank's ability to maximize the return to its shareholders, the Bank has developed an enterprise-wide ability to measure and manage a broad range of risks, beyond merely financial risk. Further details concerning the Bank's enterprise-wide risk management processes are included as part of Management's Discussion and Analysis of Operations and Financial Condition in its Annual Report 2002 to shareholders.

The Bank maintains a stringent code of ethics and standards of responsibility towards its customers, employees, shareholders and the public in general, and is committed to adhering to its policies involving social responsibility.

The Bank is also committed to the principle of sustainable development and, in particular, to the belief that the quality of our lives improves when economic growth is integrated with respect for the environment. Through its policies, the Bank has made the assessment of ethical and environmental issues an integral part of its normal lending process. The Bank supports business relationships with suppliers who share the Bank's commitment to ethical business practices and the protection of the environment.

However, the Board believes that preparing separate reports to be sent to shareholders, centred narrowly on specific aspects of the Bank's operations and risk management policies as described in this proposal, is not an efficient or effective practice for an organization of the size and complexity of the Bank. The Bank instead continues to consider other methods to further build on its communication with shareholders. To this end, the Bank will include in its annual Public Accountability Statement a summary of its social, ethical and environmental policies. The Public Accountability Statement will be made available to the public, including customers, employees and shareholders.

The Board Recommends that Shareholders Vote Against Proposal No.1.

SCHEDULE 2 — SHAREHOLDER PROPOSALS

Mr. J. Robert (Bob) Verdun, 153-B Wilfred Avenue, Kitchener, Ontario N2A 1X2 has submitted four proposals. These proposals and Mr. Verdun's supporting comments are set out verbatim, in italics, below.

Proposal No. 2: Separate the positions of Chairman and CEO

To comply with modern standards of corporate governance, it shall be the policy of this Bank to elect a person to chair the Board of Directors who is not the current CEO or a previous CEO of the Bank. This practice shall become formal policy of the Bank, and no significant change to this policy shall be allowed without the approval of the Shareholders.

Shareholder's Explanation:

The purpose of the Board of Directors is to represent the interests of the Shareholders, particularly with respect to monitoring the performance of the Chief Executive Officer. This function cannot be properly carried out by a Board that is chaired either by the current CEO or by a former CEO. The Royal Bank of Canada, the largest in this country, has already acknowledged the wisdom of separating the roles of Chairman and CEO, so it is now appropriate to have this Bank's Shareholders adopt and entrench this policy.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THIS PROPOSAL FOR THE FOLLOWING REASONS:

The Board of Directors believes there is no single right approach to the issue of whether the Chairman and Chief Executive Officer roles should be separated.

The Board has chosen to implement measures, including the use of a Lead Director (as provided for in the Toronto Stock Exchange corporate governance disclosure guidelines) and an independent committee of the Board, to monitor the performance of the Chairman and Chief Executive Officer. The Chair of the Governance Committee is an outside director and acts as Lead Director. The Governance Committee is responsible for conducting the annual assessment of the performance of the Chairman and Chief Executive Officer in his role as Chairman, while the Human Resources and Management Compensation Committee annually assesses his performance as Chief Executive Officer. Both Committees are composed entirely of outside directors. To provide further independence, the Lead Director chairs meetings of the Board without management present after every Board meeting.

Currently the Board has determined that it is in the best interests of the Bank and its shareholders that the Chairman and Chief Executive Officer roles be combined. The Board should continue to have the flexibility to determine a different approach as the circumstances dictate.

The Board Recommends that Shareholders Vote Against Proposal No. 2.

Proposal No. 3: Stock options shall be phased out

It shall henceforth be the policy of the Bank to cease issuing stock options, and where possible the Bank shall cancel or phase out existing stock options.

Shareholder's Explanation:

Recent events have exposed the serious negative aspects of stock options. Accounting for the costs of stock options in the financial statements does not solve all of the problems, and raises concerns about how options are evaluated. If the purpose of incentive programs is to "align the interests" of senior executives and other insiders with those of the Shareholders, the result should be long-term ownership of the Bank's shares by the insiders. The Board of Directors has an obligation to establish incentive programs that are fair, reasonable, and transparent, and that ensure that the desired "alignment of interests" extends beyond the date on which any benefiting insider retires.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THIS PROPOSAL FOR THE FOLLOWING REASONS:

The Board believes a significant portion of the total compensation for senior executives must be aligned with increasing shareholder value through the appropriate mix of stock options, and short-term and mid-term incentives. To ensure this result, under the terms of the Bank's Stock Option Plan, stock option vesting is based on a combination of time-based vesting and performance-based vesting which is linked to Common Share price increases.

All executives have a portion of their options subject to a share price increase hurdle of 50% over the exercise price. Senior executives have 33% of their annual option grant subject to time-based vesting, 33% subject to a 50% share price increase hurdle and the remaining 34% subject to a 100% share price increase hurdle. The performance-based options are directly linked to increased shareholder value and have no value to the executive unless these thresholds are met. To the best of our knowledge, the Bank is the only bank in Canada, and one of only a very few publicly owned companies trading on Canadian stock exchanges, to require significant gain in shareholder value (ranging from 50% to 100%) before some of the executives' share options vest.

The Bank has also implemented guidelines which stipulate substantial minimum stock holding requirements for executives which are proportional to the executive's compensation and position in order to further align their interests with increasing shareholder value. For example, the minimum required holding for the Chief Executive Officer is seven times salary. Executives are expected to meet these minimum ownership requirements within three years of their appointment. Currently, all of the Named Executive Officers set out in the Bank's Proxy Circular meet their stock holding requirements.

Also the Non-Officer Director Stock Option Plan, approved by the shareholders on February 26, 2002, was established to better align the interests of directors with those of the shareholders. Options granted under this plan are 50% standard options and 50% price-conditioned (except in the case of a director who has attained 62 years of age at the time of the grant, in which case 100% of the grant is standard options). Similar to the guidelines for minimum stock holding requirements for executives, the Board has a policy requiring each director to hold six times his/her annual retainer in either Common Shares or Deferred Share Units.

The Board of Directors is of the opinion that the Bank's current stock option plans, with their performance hurdles, achieve alignment of both senior executive and director compensation with increasing shareholder value. The Bank must have the flexibility to provide competitive compensation packages for its employees and not be bound by arbitrary and inflexible rules that are inconsistent with market practices.

The Board Recommends that Shareholders Vote Against Proposal No. 3.

Proposal No. 4: Executive compensation policies shall include penalties as well as incentives

The Board of Directors shall formulate and adopt policies for the compensation of senior executives that provide a balance of incentives and penalties. To the extent that senior executives are rewarded for good performance, their overall compensation shall also be subject to proportionate reductions when the Bank suffers poor performance under their leadership.

Shareholder's Explanation:

Shareholders have become increasingly concerned about the high levels of salary, bonus, stock incentives, and other compensation paid to senior executives. The stated justification for such high compensation is to reward the executives for good performance of the Bank. However, to be fair to the Shareholders, all forms of executive compensation should be subject to substantial reductions when the executives' actions result in poor performance of the Bank.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THIS PROPOSAL FOR THE FOLLOWING REASONS:

The Board of Directors is of the opinion that the Bank's current compensation practices for senior executives already effectively address the concerns identified by this Proposal.

The Bank's compensation policy is determined and monitored by the Human Resources and Management Compensation Committee of the Board and its objective is to provide competitive remuneration for management and to motivate management to increase shareholder value. The Committee is composed entirely of outside directors. The compensation policy:

- ensures that incentive-based compensation comprises a significant component of senior executives' total compensation;
- links annual incentive awards to both absolute results of the Bank and its businesses and, for senior executives, to results of the Bank in relation to other comparable financial institutions; and
- provides mid-term and long-term incentives to align executive compensation with the results realized by shareholders.

A significant component of senior executives' total compensation is already variable in nature, and therefore at risk, and may only be earned by meeting challenging individual and Bank performance goals. For example, the terms of the Bank's Short-Term Incentive Plan, Mid-Term Incentive Plan and Stock Option Plan already provide for significant variable, at risk, compensation. Further details on these plans can be found in the *Report of the Human Resources and Management Compensation Committee on Executive Compensation* contained in the Proxy Circular.

The Board Recommends that Shareholders Vote Against Proposal No. 4.

SCHEDULE 2 — SHAREHOLDER PROPOSALS

Proposal No. 5: Set a reasonable threshold for nomination of Directors

It shall be the policy of the Bank to accept the nomination of a Shareholder to the Board of Directors upon receipt of a formal proposal signed by a minimum of 100 beneficial or registered Shareholders, each of whom owns a minimum of 100 shares, but they must represent total shareholdings of at least 100,000 voting shares of the Bank (which means an average holding of 1,000 shares per Shareholder, with the minimum number of signatories).

Shareholder's Explanation:

Under the Bank Act, the Bank is not compelled to accept the nomination of a Shareholder to the Board of Directors unless the Shareholder submits a proposal signed by the owners of a minimum of 5% of the voting shares of the Bank. This is insurmountable for ordinary Shareholders of modest means, but it is within the Bank's powers to adopt a policy that sets a lower threshold for nomination. The standard that is proposed here is high enough to demonstrate commitment and to avoid abuse, as it requires the support of owners of approximately $4,000,000 worth of Bank shares and also requires the support of a significant number of individuals with more than a token investment. The final decision as to whether any individual is elected to the Board of Directors will, of course, continue to rest with the Shareholders in total, voting in person or by proxy at the annual meeting.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THIS PROPOSAL FOR THE FOLLOWING REASONS:

The Board believes that it is in the best interest of all shareholders that the Bank have a well-balanced Board possessed of the requisite mix of skills and talents. Acceptance of the proposal would encourage persons whose principal interest is not the Bank and its shareholders, but rather the promotion of narrow social or economic causes, to seek nomination as a director. The purpose of the provision of the *Bank Act* requiring the holders of a minimum of 5% of the shares entitled to vote to endorse any nomination is to ensure that persons so nominated represent the interests of all shareholders.

The Governance Committee of the Board, composed entirely of outside directors, is charged with the responsibility for recommending director nominees to the Board. A *Charter of Expectations for Directors* set forth in Schedule 1 of the Proxy Circular has been adopted by the Board which, at the individual level, stipulates the personal and professional characteristics and expectations for its directors. In addition, the Committee determines the optimal Board size and the mix of skills and talents required for the overall effectiveness of the Board and its committees. Based on these procedures, the Bank nominates directors with the appropriate balance of skills and talents.

The Bank believes the present process results in an independent, experienced and dedicated Board of Directors, with an appropriate mix of skills, representing the interests of all shareholders on an equal basis.

The Board Recommends that Shareholders Vote Against Proposal No. 5.

The Association for the Protection of Quebec Savers and Investors Inc. (APEIQ), 425 Maisonneuve Blvd. West, Suite 1002, Montreal, Quebec H3A 3G5 has submitted three proposals. These proposals and the APEIQ's supporting comments (translated from French into English) are set out verbatim, in italics, below.

Proposal No.6: Abolish stock option plans

It is proposed that the Corporation abolish stock option plans for purposes of executive officer and director compensation.

The compensation strategies of North American corporations have evolved since the middle of the 90s toward an increased use of stock options in the compensation of executive officers and directors. This practice has generally resulted in levels of compensation that are excessive, unfounded and indefensible given the performance of most corporations and the stock returns offered to shareholders. These abusive actions have greatly contributed to the dramatic loss of faith of investors and the public in the quality of the governance of public corporations and in the integrity of financial markets. Executive officers' compensation has become completely disconnected with the achievement of long term goals set for management and has been transformed into an incentive to manage corporations according to the immediate market price of their stock. The massive use of stock options in compensation plans is the principal cause of these distortions and many believe that it may be the root of a great number of cases of fraud in which officers, acting in complicity with their auditors, transgressed ethical and legal considerations and tampered with information pertaining to their corporation's actual financial position. An increasing number of observers and experts acknowledge that stock options have failed to reach the objective of aligning officers' interests with those of shareholders. Stock options have in fact favoured the misappropriation of shareholders' holdings by the executive officers of their corporations. On September 26, 2002, the Canadian Council of Chief Executives (CCCE, Governance, Values and Competitiveness, A Commitment to Leadership, September 2002, page 13) also acknowledged this failure and stated that it understood investors' frustration "when senior executives are rewarded handsomely for past performance that proves to be short-lived". It is imperative that this form of compensation be eliminated and alternative means found, such as granting options which must be held for a minimum period, in order to tie management's interests to shareholders' interests. It is therefore requested that the Bank of Montreal not renew its executive officers' and directors' stock option plans once past obligations have been honoured.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THIS PROPOSAL FOR THE FOLLOWING REASONS:

This proposal is essentially the same as the shareholder proposal submitted by Mr. J. Robert Verdun. As such, shareholders are referred to the response to Mr. Verdun's proposal (Proposal No. 3) for an explanation of why the Board of Directors recommends that shareholders vote against this proposal.

The Board Recommends that Shareholders Vote Against Proposal No. 6.

Proposal No. 7: Verbal committee reports

It is proposed that the Chairman of the Board as well as all the chairs of the committees of the Board of Directors present a verbal report and respond to questions from shareholders at the annual meeting of the Corporation.

Discussions about the business operations and internal affairs of the Corporation must be held at the annual meetings of its shareholders. One internal matter which should be at the heart of discussions at the annual meeting of shareholders is the quality of corporate governance. Because of poor corporate governance, investors have lost billions of dollars over recent years following bankruptcies and misappropriations which have had direct consequences not only on the shareholders of the corporations in question but also on the financial community as a whole. Corporate governance is not only an ideal, a theoretical concept or an ethical matter, it is also a question of performance for shareholders. A board of directors is a basic element of the governance system of a public corporation and plays a central part in decisions pertaining to this matter. It is at the centre of the chain of delegation which begins with the shareholders and moves up to the executive officers. Its main responsibilities are overseeing the corporation's management on behalf of shareholders, who have given it this mandate, making certain decisions (regarding for example the recruitment and compensation of executive officers) and generally identifying conflicts of interest between executive officers and shareholders and settling them in the best interests of the latter. To fulfill its mandate and carry out its responsibilities, the board of directors delegates certain important matters to committees. By virtue of this delegation of responsibilities and of the board of directors' oversight mandate, a corporation's management must be accountable to its board of directors. By virtue of this same chain of delegation of responsibilities, the board of directors must be accountable to shareholders of the manner in which it carried out its duties on their behalf. This proposal is intended firstly to strengthen the relationship between the Board of Directors, its committees and the shareholders and secondly, to enable shareholders to judge the quality of the Corporation's governance. Its adoption will provide shareholders with additional information on certain matters pertaining to the performance of the Board's mandate and will lead to increased transparency for their benefit.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THIS PROPOSAL FOR THE FOLLOWING REASONS:

The Board is of the view that the Bank's current practices provide detailed information to all shareholders on Board committees and governance practices. Each Committee of the Board already provides, in the Proxy Circular, a detailed report on the activities undertaken by the Committee in meeting its mandate. To the best of our knowledge, to date the Bank is the only Canadian bank providing shareholders with such detailed reports. Given that the reports are included in the Proxy Circular, they are available to all shareholders, not just those who are able to attend the annual meeting. The Board believes this is the most effective and fair way to ensure all shareholders have access to the report of each of the Board's Committees.

The Bank has in place a comprehensive governance program which is constantly reviewed, evaluated and, if appropriate, modified by the Board's Governance Committee. The Bank's Proxy Circular describes in further detail the Bank's corporate governance environment and the role of the Governance Committee. Over the past few years the Bank has received many awards for its governance program including: the Canadian Institute of Chartered Accountants and the *National Post* Award of Excellence for Leadership in Corporate Governance for three consecutive years; the 2001 National Award in Governance (Private Sector) sponsored by the Conference Board of Canada and Spencer Stuart; and the Institutional Shareholder Services Award for Excellence in Corporate Governance.

The Board believes the foregoing procedures ensure the appropriate mix of disclosure of information to all shareholders while still providing opportunities for those attending the annual meeting to raise questions.

The Board Recommends that Shareholders Vote Against Proposal No. 7.

SCHEDULE 2 — SHAREHOLDER PROPOSALS

Proposal No. 8: Certifications with respect to financial reports

It is proposed that the Chief Executive Officer and the Chief Financial Officer of the Corporation personally certify that the information set forth in the periodic reports containing financial statements fairly presents, in all respects, the facts, the financial position and the operations of the Corporation.

This obligation has become law in the United States since President Bush signed the Sarbanes-Oxley Act on July 30, 2002, enacted in reaction to numerous corporate scandals and "confessions" pertaining to the manipulation of accounting information. Bank of Montreal, whose shares are traded in the United States, must submit to this obligation toward the Securities and Exchange Commission. This obligation largely exceeds the scope of the statement made in the "Management's responsibility for financial information" section, firstly because it defines fair presentation in a general context and not only in the context of Generally Accepted Accounting Principles. Secondly, it requires the certification not only of financial statements but also of other financial information (notes, comments and management's discussion and analysis) relevant to the understanding of the statements. It is imperative that Canadian corporations adopt this practice and assert to their Canadian shareholders their concern for transparency and integrity before they are bound by law to do so. The Canadian Council of Chief Executives (CCCE, Governance, Values and Competitiveness, A Commitment to Leadership, September 2002, page 13) favours such certification.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THIS PROPOSAL FOR THE FOLLOWING REASONS:

The Chief Executive Officer and Chief Financial Officer currently certify the information set forth in the consolidated financial statements and related disclosure materials, as required by the United States Sarbanes-Oxley Act. Canadian regulators are currently reviewing how best to address issues raised by the Sarbanes-Oxley Act in the Canadian regulatory environment. The Bank supports the efforts of Canadian regulators in ensuring the fair presentation of financial information and maintaining confidence in our securities markets. The Bank will implement procedures, as needed, to meet any decisions made by Canadian regulators in that regard.

The Board Recommends that Shareholders Vote Against Proposal No. 8.



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CONSENT OF INDEPENDENT CHARTERED ACCOUNTANTS

We consent to the inclusion in the Annual Report on Form 40-F of our report dated November 26, 2002, with respect to the consolidated balance sheets of Bank of Montreal as at October 31, 2002 and 2001 and the related consolidated statements of income, changes in shareholders' equity and cash flow for each of the years in the three-year period ended October 31, 2002 included in the Bank of Montreal Annual Report, and of our comments for U.S. readers on a Canada-U.S. reporting difference, dated November 26, 2002.

/s/ KPMG LLP
Chartered Accountants

/s/ PricewaterhouseCoopers LLP
Chartered Accountants

Toronto, Canada
November 26, 2002

COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA-U.S. REPORTING DIFFERENCE

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the company's financial statements, such as the changes described in Note 9 to the financial statements as at and for the year ended October 31, 2002, relating to the adoption by the Bank of CICA Handbook Section 3062 — *Goodwill and Other Intangible Assets.* Our report to the shareholders dated November 26, 2002 is expressed in accordance with Canadian reporting standards which do not require a reference to such a change in accounting principles in the auditors' report when the change is properly accounted for and adequately disclosed in the financial statements.

/s/ KPMG LLP
Chartered Accountants

/s/ PricewaterhouseCoopers LLP
Chartered Accountants

Toronto, Canada
November 26, 2002

CERTIFICATION

Pursuant to 18 U.S.C. §1350, the undersigned officer of Bank of Montreal (the “Bank”), hereby certifies that the annual report for the period ended October 31, 2002 (the “Report”) fully complies with the requirements of Section 13(a) and 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report presents fairly, in all material respects, the financial condition and results of operations of the Bank.

Dated: January 24, 2003

/s/ Tony Comper

Tony Compter
Chief Executive Officer

CERTIFICATION

Pursuant to 18 U.S.C. §1350, the undersigned officer of Bank of Montreal (the "Bank"), hereby certifies that the annual report for the period ended October 31, 2002 (the "Report") fully complies with the requirements of Section 13(a) and 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report presents fairly, in all material respects, the financial condition and results of operations of the Bank.

Dated: January 24, 2003

/s/ Karen Maidment

Karen Maidment
Chief Financial Officer