Notice of Annual Meeting of Shareholders and Proxy Circular

Annual Meeting – February 26, 2002

Bank of Montreal

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Invitation to Shareholders

It is my great pleasure to invite you to join our Board of Directors and the senior leadership team of Bank of Montreal at our next annual meeting, which convenes at 9:30 a.m. (Eastern Standard Time) on Tuesday, February 26, 2002 at Fairmont The Queen Elizabeth Hotel in Montreal, Quebec.

I urge you to attend if you can. This occasion is your opportunity to receive a first-hand account of how Bank of Montreal performed over the past 12 months, as well as to hear our plans for the future.

Should you have any questions for a member of the Board of Directors or the senior leadership team, the annual meeting is an excellent place to ask them.

If you cannot attend in person, I encourage you to exercise the power of your proxy, which is well explained in the accompanying Proxy Circular. Whether you choose to participate in person or by proxy, you can do so in the knowledge that as one of the owners of Bank of Montreal, your vote counts.

I appreciate your participation, and I look forward to seeing you this February in Montreal.

Sincerely,

Tony Comper
Chairman and Chief Executive Officer

January 11, 2002

P.S. As in previous years, our 2001 Annual Report is posted on our web site at www.bmo.com, along with quarterly results, presentations to the investment community and a wealth of other information about Bank of Montreal. I invite you to pay a visit.

Notice of Annual Meeting of Shareholders

The 2002 Annual Meeting of Shareholders will commence at 9:30 a.m. (Eastern Standard Time) on Tuesday, February 26, 2002 in Le Grand Salon, Fairmont The Queen Elizabeth Hotel, 900 René-Lévesque Boulevard West, Montreal, Quebec, and will have the following purposes:

1. To receive the financial statements of the Bank for the year ended October 31, 2001 and the auditors' report on those statements;
2. To elect the Board of Directors for 2002;
3. To appoint auditors for 2002;
4. To consider and, if thought fit, confirm by Special Resolution an amendment to Special By-law "A" – Remuneration of Directors (the Special Resolution is set out on page 5 of the Proxy Circular);
5. To consider and, if thought fit, approve the Non-Officer Director Stock Option Plan, attached as Schedule 2 of the Proxy Circular;
6. To consider and, if thought fit, approve the Bank of Montreal Qualified Employee Share Purchase Plan, attached as Schedule 3 of the Proxy Circular;
7. To consider shareholder proposals, attached as Schedule 4 of the Proxy Circular; and
8. To transact any other business properly before the meeting.

Shareholders as at January 11, 2002 will be entitled to vote at the meeting. The number of eligible votes* that may be cast at this meeting is 489,783,824, such number being the total number of Common Shares of the Bank outstanding on January 11, 2002.

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 (514) 982-7635. For your vote to be recorded, your proxy must be in the hands of Computershare Trust Company of Canada, at its Montreal office, no later than 5:00 p.m. (Eastern Standard Time) on Monday, February 25, 2002.

By order of the Board of Directors,

Velma J. Jones
Vice-President and Secretary

January 11, 2002

*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 January 2, 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 2002, the appointment of auditors for the Bank for 2002, the Special Resolution confirming an amendment to Special By-law "A" – Remuneration of Directors, the resolution approving the Non-Officer Director Stock Option Plan, the resolution approving the Bank of Montreal Qualified Employee Share Purchase Plan, and shareholder proposals.

Q: Who is entitled to vote?

A: Shareholders as of the close of business on January 11, 2002 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.

If you acquired your shares after January 11, 2002, please refer to the answer to the question "What if ownership of shares has been transferred after January 11, 2002?" 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 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 26, 2002 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 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 (514) 982-7635, so that it arrives no later than 5:00 p.m. (Eastern Standard Time) on Monday, February 25, 2002. 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 25, 2002 or to the Chairman on the day of the meeting, February 26, 2002, or any adjournment of the meeting.

Q&A on Proxy Voting

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. In the absence of such directions, however, your shares will be voted **in favour of** the election of directors to the Board, the appointment of auditors, the Special Resolution confirming an amendment to Special By-law "A" – Remuneration of Directors, the resolution approving the Non-Officer Director Stock Option Plan, the resolution approving the Bank of Montreal Qualified Employee Share Purchase Plan, and **against** the shareholder proposals as set out in Schedule 4 of this Proxy Circular.

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 11, 2002, there were outstanding 489,783,824 Common Shares of the Bank. Subject to the terms of the *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 11, 2002.

Q: What if ownership of shares has been transferred after January 11, 2002?

A: The person who acquired such shares after January 11, 2002 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 15, 2002 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, except the Special Resolution, 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. The Special Resolution confirming an amendment to Special By-law "A" – Remuneration of Directors presented for shareholders' approval requires an affirmative vote of not less than two-thirds of the votes cast on the matter by the shareholders.

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 to 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
P.O. Box 1542, Station B
Montreal, Quebec H3B 3L2

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. Unless you have previously informed your nominee that you do not wish to receive material relating to the meeting, 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 does not have access to the names of its non-registered shareholders, if you attend the meeting the Bank will 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 2003 Annual Meeting?

A: The final date for submitting shareholder proposals to the Bank is November 28, 2002.

Business of the Meeting

1. Financial Statements

The Consolidated Financial Statements for the year ended October 31, 2001 are included in the 2001 Annual Report, Book Two mailed to shareholders with the Notice of Annual Meeting of Shareholders and Proxy Circular.

2. Election of the Board of Directors

The fifteen nominees proposed for election as directors of the Bank are listed beginning on page 7. 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 7. 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 and management propose that the firm of PricewaterhouseCoopers LLP and the firm of KPMG LLP be appointed as auditors of the Bank for the 2002 fiscal year. During the five financial years ended October 31, 2001, PricewaterhouseCoopers LLP (formerly Coopers & Lybrand) and KPMG LLP have served as the Bank's auditors. PricewaterhouseCoopers LLP and KPMG LLP or their predecessor firms have served continuously since 1993 and 1990, respectively, and have also served during various prior periods.

4. Amendment to Special By-law "A" – Remuneration of Directors

Shareholders at the Annual Meeting held on February 27, 2001 confirmed an amendment to Special By-law "A" to increase to $2,000,000 the aggregate of all amounts that may be paid to all directors of the Bank in a year as remuneration for their services as directors. At this meeting, shareholders are being asked to approve a Non-Officer Director Stock Option Plan that, if approved, will provide for the granting of options to purchase Common Shares of the Bank to non-officer directors. The purpose of the Plan is to provide to non-officer directors compensation that further aligns their interests with those of shareholders, and to make their compensation competitive with other banks that already have in place director stock option plans. It is considered appropriate at this time to amend Special By-law "A" to include options granted under the Plan.

Accordingly, on November 27, 2001 the Board of Directors of the Bank passed a resolution that, subject to confirmation by the shareholders by Special Resolution, amends Special By-law "A" to provide that the aggregate of all amounts that may be paid to all directors of the Bank as remuneration for their services as directors in each year shall not exceed $2,000,000 plus such number of options to purchase Common Shares of the Bank as granted pursuant to the Non-Officer Director Stock Option Plan. The shareholders will be asked to confirm the amendment by Special Resolution.

The Special Resolution that will be presented for the approval of the shareholders requires an affirmative vote of not less than two-thirds of the votes cast on the matter by the shareholders, and is as follows:

> "THAT the following amendment to Special By-law "A" of the Bank, approved by the Board of Directors on November 27, 2001, be and it is hereby confirmed:
>
> THAT Special By-law "A" of the Bank be amended by deleting the first paragraph thereof and substituting therefor:
>
> 'In each year the total of all amounts that may be paid by the Bank to all directors of the Bank as remuneration for their services as directors shall not exceed $2,000,000 plus such number of options to purchase Common Shares of the Bank as granted pursuant to the Non-Officer Director Stock Option Plan.' so that Special By-law "A" shall read as follows:
>
> 'Special By-law "A" – Remuneration of Directors
>
> In each year the total of all amounts that may be paid by the Bank to all directors of the Bank as remuneration for their services as directors shall not exceed $2,000,000 plus such number of options to purchase Common Shares of the Bank as granted pursuant to the Non-Officer Director Stock Option Plan.
>
> The annual remuneration of any single director depends on the nature and frequency of the services performed during the year by the director as a director, and shall be paid in accordance with rates to be determined from time to time by the directors.'"

5. Non-Officer Director Stock Option Plan

On August 24, 2001, the Board of Directors approved a stock option plan for non-officer directors of the Bank (the "Director Stock Option Plan"), subject to shareholder approval. (The Director Stock Option Plan was subsequently amended on November 27, 2001.)

The purpose of the Director Stock Option Plan is to promote the long-term success of the Bank through an alignment of interests of non-officer directors of the Bank with those of shareholders. It is also intended to make the compensation of non-officer directors competitive with that of directors of other major Canadian corporations, including banks, which already have in place director stock option plans, as well as to assist the Bank in retaining and attracting persons with experience and ability to act as directors of the Bank. Only directors of the Bank who are neither officers nor employees of the Bank or any of its subsidiaries may participate in the Director Stock Option Plan.

A maximum of 400,000 Common Shares are issuable pursuant to the exercise of options under the Director Stock Option Plan.

The Director Stock Option Plan provides for grants of options to purchase Common Shares to each non-officer director upon the approval of the Director Stock Option Plan by the shareholders and to each newly appointed or elected non-officer director thereafter, in an amount to be decided by the Board of Directors. The Director Stock Option Plan provides 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, including this meeting, in an amount to be decided by the Board of Directors. Twenty-five per cent of options granted to a participant will vest each year after the date of the grant. Price-conditioned options become exercisable upon the Common Shares trading at the applicable price condition. On January 4, 2002 the Board of Directors declared, subject to shareholder approval of the Director Stock Option Plan, initial grants of options to purchase 4,500 Common Shares and an annual grant for 2002 of options to purchase 3,000 Common Shares for each director.

Options granted under the Director Stock Option 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.

The Director Stock Option Plan has been approved by The Toronto Stock Exchange, subject to shareholder approval. See Schedule 2 of the Proxy Circular on page 29 for the complete text of the Plan.

The resolution to approve the Non-Officer Director Stock Option Plan that will be presented at the meeting and, if thought fit, adopted with or without variation, is as follows:

> "THAT the establishment of the Bank's Non-Officer Director Stock Option Plan by the Board of Directors of the Bank on August 24, 2001, amended on November 27, 2001 as described in the Proxy Circular, is hereby approved; and THAT any officer of the Bank is hereby authorized to do all such things and to sign, execute and deliver any and all documents and instruments as may be necessary or advisable in order to give effect to this resolution."

6. Bank of Montreal Qualified Employee Share Purchase Plan

On November 27, 2001, the Board of Directors approved, subject to shareholder approval, the Bank of Montreal Qualified Employee Share Purchase Plan (the "Plan"). In general, the Plan permits eligible employees of U.S. subsidiaries of the Bank to purchase Common Shares of the Bank at a discounted purchase price through payroll deductions. The Plan is being submitted to shareholders for approval to satisfy a requirement of the United States Internal Revenue Code. Key features and provisions of the Plan follow. See Schedule 3 of the Proxy Circular on page 32 for the complete text of the Plan.

The purpose of the Plan is to provide eligible employees with the opportunity to acquire a proprietary interest in the Bank and thereby provide such employees an additional incentive to contribute to the long-term profitability and success of the Bank and its subsidiaries. Employees of U.S. subsidiaries of the Bank are generally eligible to participate in the Plan. The number of Common Shares available for purchase under the Plan is 3,000,000. All Common Shares will be purchased on the New York Stock Exchange.

The Plan will be administered by the Benefits Administration Committee of Harris Bank. The Plan allows employees to purchase Common Shares through payroll deductions during offering periods of such duration as the Committee determines, provided that no offering period is longer than 27 months. The employees' purchase price for Common Shares purchased under the Plan is equal to 85% of the last sale price of Common Shares on the New York Stock Exchange as reported in *The Wall Street Journal* on the last day of the offering period. The employer pays the remaining portion of the purchase price. Employees purchase Common Shares with funds that are accumulated through payroll deductions during the offering period. The deductions may not exceed 15% of an employee's eligible compensation.

If any change occurs with respect to the Bank's capitalization, such as stock splits or stock dividends, or a corporate transaction occurs, such as a merger, the number of Common Shares under the Plan and the purchase price will be adjusted so that the aggregate consideration payable by employers and the value of the benefit to employees are not changed.

The Bank has delegated to the Committee the power to amend the Plan. However, the Plan may not be amended without shareholder approval if such amendment would increase the number of Common Shares reserved for purchase under the Plan or would materially modify the eligibility conditions or increase the benefits available to employees under the Plan.

Pursuant to the terms of the Plan, the approval of the Plan by a majority of the votes cast at the meeting is required. Accordingly, shareholders will be asked to consider and, if thought fit, pass the following resolution:

> "THAT the Bank of Montreal Qualified Employee Share Purchase Plan approved by the Board of Directors on November 27, 2001 and described in the Proxy Circular, is hereby approved."

7. Shareholder Proposals

Shareholder proposals submitted for the consideration of shareholders are attached as Schedule 4 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:	4,578

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, Fairmont Hotels & Resorts Inc. and Krystal Bond 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 Committee.

David R. Beatty, O.B.E.
Toronto, Ontario
Director since
January 20, 1992

Common Shareholdings:	4,000
Deferred Share Units:	8,269

David Beatty is Chairman and Chief Executive Officer of Beatinvest Limited, a holding company. Formerly Chairman and Chief Executive Officer of Old Canada Investment Corporation Limited, an investment management company, Mr. Beatty is Chairman of Selwyn Mines Limited, which operates a copper and gold mine in Queensland, Australia, and Chairman of The Peter F. Drucker Canadian Foundation. His directorships include Cambridge Shopping Centres Limited, Gardiner Group Capital Limited and Quebecor Media Inc. He is Professor of Strategic Management and Director of the Clarkson Centre for Business Ethics at the University of Toronto's Rotman School of Business. 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, 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:	2,750

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 Incorporées 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:	67,153
Deferred Stock Units*:	149,164

Tony Comper has 34 years' experience with Bank of Montreal, and is currently Chairman and Chief Executive Officer. He serves on the boards of Harris Bankcorp, Inc., Harris Trust and Savings Bank and BMO Nesbitt Burns Corporation Limited, as well as the C.D. Howe Institute, the C.D. Howe Memorial Foundation and Catalyst, New York. In addition, he is a member of the International Business Leaders Advisory Council of the Mayor of Beijing, Board of Governors of Junior Achievement of Toronto and York Region and Board of Governors of Junior Achievement of Canada; Chair of the Capital Campaign of the University of Toronto; and Honorary Chair of the Board of Governors of the Yee Hong Centre for Geriatric Care. Mr. Comper joined the Bank after graduating with a B.A. in English from the University of Toronto. In 1998, Mr. Comper received the Human Relations Award from the Canadian Council of Christians and Jews. In addition, he has honorary degrees from the University of Toronto (LL.D.) and Mount Saint Vincent University (D.Hum.L.).

Mr. Comper chairs the Bank's Executive Committee and is a member of the Risk Review Committee.

Notes

Common and Preferred Shareholdings of the Bank over which control or direction is exercised are as at January 2, 2002.

Deferred Share Units credited are as at January 2, 2002. For a description of Deferred Share Units see "Board of Directors Compensation/Attendance" on page 11.

*Mr. Comper does not receive compensation for his services as director and he is not entitled to receive Deferred Share Units as described on page 11. Mr. Comper's Deferred Stock Units pertain to holdings under the Bank's Deferred Stock Unit Plan and Performance Share Units under the Bank's Mid-Term Incentive Plan described on page 17.

Nominees for Election to Board of Directors

David A. Galloway
Toronto, Ontario

Director since
February 24, 1998

Common Shareholdings: 2,000
Deferred Share Units: 7,262

David Galloway is President and Chief Executive Officer of Torstar Corporation, a publishing company. Torstar Corporation owns five broadsheet newspapers, including *The Toronto Star*, *The Hamilton Spectator* and *The Kitchener-Waterloo Record*, Metroland Printing, Publishing & Distributing Ltd. and Harlequin Enterprises Limited. He is on the boards of Corel Corporation and Visible Genetics Inc. He is also a member of the Board of Trustees of The Hospital for Sick Children and is a member of the Advisory Council, Faculty of Administrative Studies, York University. He has a B.A. (Hons.) in political science and economics from 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: 3,994

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 for several major corporations, including Air Canada and Husky Energy 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: 14,807

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 several other companies. He is a trustee of the Art Gallery of Ontario Foundation. 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: 6,888

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 numerous corporate directorships, including CanWest Global Communications Corp., Noranda Inc., General Motors of Canada Ltd. and UPS, 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.

Bruce H. Mitchell
Toronto, Ontario
Director since
August 17, 1999

Common Shareholdings: 20,000
Deferred Share Units: 4,322

Bruce Mitchell is President 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: 101
Deferred Share Units: 2,336

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.

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

Deferred Share Units: 2,042

Robert Prichard is President of Torstar Media Group and Chief Operating Officer of Torstar Corporation, a publishing company. Torstar Corporation owns five broadsheet newspapers, including *The Toronto Star*, *The Hamilton Spectator* and *The Kitchener-Waterloo Record*, Metroland Printing, Publishing & Distributing Ltd. and Harlequin Enterprises Limited. He is also President Emeritus of the University of Toronto, having served as President of the University 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: 12,098

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.

Nominees for Election to Board of Directors

Joseph L. Rotman, O.C.
Toronto, Ontario

Director since
October 15, 1999

Common Shareholdings:	23,180
Deferred Share Units:	3,229

Mr. Rotman is Chairman and Chief Executive Officer of Roy-L Capital Corporation, a private family investment company.

Formerly Executive Chairman of Clairvest Group Inc., Mr. Rotman serves as a director of Barrick Gold Corporation, Ovation Inc., Masonite International Corporation, TrizecHahn Corporation and Clairvest Group Inc. Mr. Rotman is a member of the Governing Council and Executive Committee, University of Toronto, and the Dean's Advisory Council of the School of Management 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 a director of the C.D. Howe Institute and The Canadian Ditchley Foundation. Mr. Rotman is Chair of the Research Advisory Committee and a member of the Board of Trustees of Baycrest Centre for Geriatric Care, and is also Chair of the Ontario Genomics Institute and Chair of the Ontario BIOCouncil. He is former President and a current member of the Art Gallery of Ontario Board of Trustees and Honorary Chairman of the Canadian Friends of the Israel Museum.

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:	10,315

Guylaine Saucier is a Corporate Director who serves on the boards of Nortel Networks Corporation, AXA Assurance Inc., Petro-Canada, Tembec, 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) 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 and currently chairs the Joint Committee on Corporate Governance established by the CICA, The Toronto Stock Exchange and the Canadian Venture Exchange.

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:	7,209
Deferred Share Units:	545

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 January 2, 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: $1,250 per meeting; $1,000 for Conduct Review Committee
- Committee Chair fee: $1,500 per diem (for committee-related work)
- Committee Chair retainers: $3,000 for Chairs of Governance, Human Resources and Management Compensation, Risk Review and Audit Committees; $1,000 for Conduct Review Committee
- 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, six outside directors of the Bank (one of whom retired on February 27, 2001) served as directors of subsidiaries and affiliates, for which they received additional compensation as follows:

The Trust Company of Bank of Montreal – annual retainer: $11,000; meeting fee: $950; Chairman's meeting fee: $950 (additional); Committee meeting fee: $600; Committee Chair meeting fee: $200 (additional).

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 2001, 93% of the 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 either Common Shares 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.
- 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, 2001 the accrual in respect of Deferred Share Units currently outstanding to Board members was $2,743,882.
- Only non-employee directors participate.

Shareholdings of Board Members

- Total Common Shares held by non-employee directors: 134,780 *(a)*
- Total Deferred Share Units held by non-employee directors: 83,435 *(a)*
- Total value of Common Shares and Deferred Share Units held by non-employee directors: $7,884,108 *(b)*

Notes

(a) Shareholdings of the non-employee directors as at January 2, 2002.

(b) Based on the closing price of the Bank's Common Shares on The Toronto Stock Exchange as of January 2, 2002: $36.13.

Summary of Board and Committee Meetings Held

For the 12-month period ended October 31, 2001

Board *(a)*	13
Audit Committee	7
Conduct Review Committee	2
Executive Committee *(b)*	NA
Human Resources and Management Compensation Committee	8
Governance Committee	7
Risk Review Committee	11
Pension Fund Society Board *(c)*	4
Total number of meetings held	52

(a) In addition to the eight regularly scheduled Board meetings, four 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) 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, 2001

Director	Board meetings attended	Committee meetings attended *(a)*
Stephen E. Bachand	12 of 13	8 of 8
David R. Beatty	11 of 13	15 of 18
Peter J.G. Bentley (retired February 27)	4 of 5	10 of 10
Robert Chevrier	12 of 13	11 of 11
F. Anthony Comper	13 of 13	29 of 33
John F. Fraser (retired February 27)	5 of 5	6 of 6
David A. Galloway	11 of 13	18 of 19
Eva Lee Kwok	9 of 13	7 of 9
J. Blair MacAulay	13 of 13	15 of 15
Hon. Frank McKenna	13 of 13	13 of 13
Robert H. McKercher (retired February 27)	5 of 5	6 of 6
Bruce H. Mitchell	13 of 13	15 of 15
Philip S. Orsino	13 of 13	9 of 9
J. Robert S. Prichard	12 of 13	8 of 8
Jeremy H. Reitman	12 of 13	24 of 24
Joseph L. Rotman	12 of 13	12 of 15
Guylaine Saucier	11 of 13	13 of 13
Nancy C. Southern	9 of 13	6 of 10

(a) Includes attendance at Board meetings of The Pension Fund Society.

Report of the Audit Committee

The Audit Committee in its oversight function is ultimately responsible for the Bank's financial reporting processes and the quality of its financial reporting. The Committee operates within a mandate which describes the Committee's objectives and responsibilities and how it will function.

In 2001 the Committee continued to focus on three key areas, as described below. In discharging its responsibilities, 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 Reporting

- Reviewed with management and the Shareholders' Auditors the appropriateness of the Bank's accounting and financial reporting, the accounting treatment of significant risks and uncertainties, and the key estimates and judgements of management that were material to the Bank's financial reporting.
- Reviewed and recommended to the Board for its approval, where appropriate, the Audited Consolidated Financial Statements; all interim unaudited Financial Statements; other material financial public disclosure documents, including Management's Discussion and Analysis of Operations and Financial Condition and the Annual Information Form; those returns of the Bank specified by the Superintendent of Financial Institutions under the *Bank Act*; as well as the Annual Financial Statements and regulatory returns of certain subsidiaries of the Bank, to ensure they were complete, fairly presented and, in accordance with established principles, consistently applied.

Risk and Control

- Assessed the processes relating to the Bank's internal control environment, including reviewing the quarterly reports of the Chief Auditor in respect of internal controls. This included evaluating internal audit processes and conducting regular reviews of the adequacy of resources and independence of the Corporate Audit function.
- Reviewed and recommended to the Board for its approval 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 adherence to the Standards of Sound Business and Financial Practices prescribed by the Canada Deposit Insurance Corporation to ensure the Bank meets acceptable standards.

Members
Jeremy Reitman (Chair), Robert Chevrier, Eva Lee Kwok,
Frank McKenna, Philip Orsino, Guylaine Saucier

- Reviewed and recommended to the Board for its approval the Bank's annual self-assessment report as required by the *Canada Deposit Insurance Corporation Act.*
- Reviewed reports of the Chief Compliance Officer.
- Reviewed observations and recommendations of the Shareholders' Auditors and external regulators.

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, plans and fees, in order to ensure their performance against acceptable standards.
- 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 during the year ended October 31, 2001.

Jeremy H. Reitman
Chair
Audit Committee

Report of the Conduct Review Committee

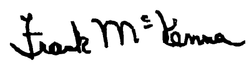
The Committee reports to the Office of the Superintendent of Financial Institutions annually on the proceedings of the Committee and on all transactions and other matters reviewed by it during the year.

In fulfilling its responsibilities, the Committee:

- Required management of the Bank to establish procedures for complying with Part XI (Self-Dealing) of the *Bank Act* and reviewed those procedures.
- Reviewed the practices of the Bank to ensure that any transactions with related parties of the Bank that may have had a material effect on the stability or solvency of the Bank 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 General Arrangement concerning Asset Securitization Transactions.
- Reviewed and approved the Bank's *Code of Conduct*.
- Reviewed the annual report presented by the Bank's Ombudsman on complaint resolution.

Members
Frank McKenna (Chair), Robert Chevrier, Eva Lee Kwok, Philip Orsino, Jeremy Reitman, Guylaine Saucier

The Committee is satisfied that it appropriately fulfilled its mandate to the best of its ability during the year ended October 31, 2001.



Frank McKenna
Chair
Conduct Review Committee

Report of the Governance Committee

Again this year the Bank was recognized for its leadership in corporate governance. In January, the Bank was named the Private Sector Winner of the 2001 National Award in Governance sponsored by The Conference Board of Canada and Spencer Stuart Canada.

In fulfilling its mandate, 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 adequate size to provide for effective decision-making and staffing of Board committees.
- Recommended to the Board nominees to stand for election as directors at the Annual Meeting on February 26, 2002.
- Ensured the appropriate structure, composition, mandate and membership of each Board committee.
- Conducted an annual peer evaluation process to provide feedback to individual directors on their effectiveness.
- Conducted an annual evaluation of the effectiveness of the Board and its committees.
- Conducted an assessment of the performance of the Chairman and Chief Executive Officer in his role as Chairman.
- Reviewed the compensation paid to directors to ensure that it was competitive and aligned the interests of directors with those of our shareholders.
- Assessed the merits of the shareholder proposals and formulated draft responses for Board approval.
- Supervised the process for review of the Board's *Approval/ Oversight Guidelines.*
- Satisfied itself that a satisfactory orientation program was in place for new directors.
- Monitored the Board's governance program.

Members
Blair MacAulay (Chair), David Beatty, Bruce Mitchell, Jeremy Reitman

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 many instances goes beyond, the guidelines adopted by The Toronto Stock Exchange. A detailed comparison of the Bank's governance procedures compared with these guidelines may be found in Schedule 1 on page 25.

J. Blair MacAulay
Chair
Governance Committee

Report of the Risk Review Committee

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 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. Delegated authorities and limits were adjusted in line with prudent 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 15, Annual Report 2001, Book Two), 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.

Members
David Beatty (Chair), Tony Comper, David Galloway, Bruce Mitchell, Joseph Rotman, Nancy Southern

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, 2001.

David R. Beatty
Chair
Risk Review Committee

Report of the Human Resources and Management Compensation Committee on Executive Compensation

The Human Resources and Management Compensation Committee of the Board of Directors is mandated to establish human resources strategies that support the Bank's objectives and sustain shareholder value.

During fiscal 2001, 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 mandate, the Committee:

- Reviewed and approved executive compensation policies, programs and levels.
- Assessed the performance of the Bank's Chief Executive Officer.
- 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.
- Conducted an annual review of the Bank's overall human resources policies.

Executive Compensation Principles and Objectives

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 pay and performance.

Based on these principles, the Committee's objectives are to:

- 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
  - individual performance on the job.
- motivate management to create sustained shareholder value by:
  - ensuring incentive-based compensation comprises a significant "at risk" component of senior executives' total compensation,
  - linking annual incentive awards to both absolute results of the Bank and its businesses and, for senior executives, the Bank's results relative to those of other financial institutions, and
  - providing mid-term and long-term incentives to align executive compensation with the results realized by shareholders.

Members
Stephen Bachand (Chair), David Galloway, Blair MacAulay, Robert Prichard

The Committee engages independent consultants to gather information regarding the compensation practices of comparable Canadian and U.S. banks and other major Canadian companies.

Elements of Executive Compensation

Base Salary

The Committee reviews and approves base salary policy for each executive level based on comparable salaries within the banking industry for equivalent jobs. The base salary policy is set at the market average and individual salaries are then determined based on the executive's skills, responsibilities and overall performance.

Short-Term Incentive Plan

The purpose of the Short-Term Incentive Plan is to reward executives for achieving annual operating and financial objectives. Annual bonuses for most Bank executives, other than executives in the Investment Banking Group, are based on the net income after tax performance of the executive's client group (Personal and Commercial Client Group or Private Client Group). For executives in Corporate areas, bonuses reflect return on equity (ROE) results for the Bank as a whole. A portion of the annual bonuses for senior executives is also based on the Bank's ROE performance relative to other major Canadian banks.

To support the Bank's goal of maximizing shareholder value, bonus pools may be increased by up to an additional 15% of the target amount when any client group exceeds annual net economic profit performance goals. Exceptionally strong performance against objectives may generate a bonus pool of more than 200% of the target amount. In this case, payments of up to 200% of the target amount will be in cash and any remainder above that level will be in three-year restricted share units.

Actual incentive payments will vary for each executive based on overall individual performance, leadership and contribution to the growth and profitability of the Bank.

The more senior the employee, the greater is the portion of overall cash compensation that is performance-based. For the Named Executive Officers listed on page 19, with the exception of those who participate in the Investment and Corporate Banking Short-Term Incentive Plan, the portion of total annual cash compensation that was performance-based in 2001 ranged from 0% to 47%. Approximately 300 executives participate in this program.

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. Annual bonuses awarded under this Plan are based on a percentage of the Investment Banking Group's operating profit.

Deferred Stock Unit Plan

This Plan was developed to further align the interests of executives with those of shareholders by linking short-term incentives to the future value of the Bank's Common Shares. Under the Plan, executives authorized by the Committee may elect to receive all or a portion of their annual bonuses in Deferred Stock Units (DSUs). When bonus awards are determined after the fiscal year-end, the amounts elected 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. Participants may redeem the DSUs in cash, Bank Common Shares (purchased on the open market) or a combination of both only upon retirement or termination of employment. 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 a significant portion of the incentive compensation of Bank executives should be directly linked to the market price of the Bank's Common Shares, and executives should be rewarded for creating returns for shareholders greater than those achieved by the Bank's Canadian peer group.

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 (TSR) 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 thresholds, no payments are made to executives. As at September 1, 2001, the payout curve was amended for existing grants (fiscal 2000 and 2001) and future grants in order to control volatility and the corresponding impact on the Bank's earnings.

Participants in this Plan are the same as those in the Short-Term Incentive Plan, together with approximately 740 senior managers who participate on a selected basis.

Stock Option Plan

The Committee considers a significant portion of the total compensation for senior executives must be aligned with the market price of the Bank's shares, and that share price increase hurdles should be established for vesting purposes. Under the Bank's Stock Option Plan, stock option vesting is based on a combination of time-based vesting (25% per year over four years) 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 (including the Named Executive Officers listed on page 19) 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.

Participants in this Plan are the same as those in the Short-Term Incentive Plan, together with approximately 640 senior managers who participate on a selected basis.

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 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. Unvested shares are forfeited upon resignation or termination for cause.

Report of the Human Resources and Management Compensation Committee on Executive Compensation

Executive Stock Ownership Guidelines

The Committee strongly supports the holding of ownership in the Bank by executive officers. The Bank has established guidelines for minimum stock holding requirements for executives, which are proportional to the executive's compensation and position in the Bank. The minimum required holdings are four times salary for the Chief Executive Officer, three times salary for Deputy Chairs, Vice-Chairs and Presidents, two times salary for Executive Vice-Presidents, one and one-half times salary for Senior Vice-Presidents and one 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 19 are in compliance with stock holding requirements.

Compensation of the Chief Executive Officer

As previously mentioned, the Committee monitors and assesses the performance of Mr. Comper, Chief Executive Officer, and other senior executives and determines pay levels.

Effective March 1, 2001, Mr. Comper's base salary was increased to $1,000,000 to reflect his performance and salary relative to peers among the six major Canadian banks.

In December 2001, the Committee reviewed Mr. Comper's performance, considering both financial and non-financial components including:

- financial performance and condition of the Bank, both absolute and relative to Canadian and U.S. competitors, including ROE performance and earnings per share growth,
- strategic direction and positioning of the Bank,
- marketing and customer satisfaction,
- human resources management,
- technology and infrastructure management, and
- community service and Bank reputation.

Given the financial performance of the Bank this past year, Mr. Comper recommended that no award be paid to him under the Bank's Short-Term Incentive Plan. The Committee accepted Mr. Comper's recommendation.

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, unlike the Short-Term Incentive Plan, are intended to reward and motivate executives over the mid to long term. Both plans reward recipients only when returns are earned for shareholders. Under the Mid-Term Incentive Plan, the number of units vest only when competitive total shareholder returns are achieved, while stock options reward executives only when the stock price increases. In the context of these objectives, the Committee decided to grant Mr. Comper comparable value awards as in 2000 under both plans.

As such, 29,006.54* Performance Share Units under the Mid-Term Incentive Plan were granted to Mr. Comper on December 12, 2000 at a unit price of $34.475, the average closing price for the 90 calendar days ending December 11, 2000. The payout value of these Units, which vest at the end of fiscal 2003, will be determined as set forth in the Plan description above.

Under the terms of the Stock Option Plan, 357,000* stock options were granted to Mr. Comper on December 12, 2000 at an exercise price of $38.45, 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% will not vest unless 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:

Stephen E. Bachand
Chair

David A. Galloway

J. Blair MacAulay

J. Robert S. Prichard

Note
During the course of the year, there were two changes to Committee membership. Both the former Chairman of the Committee, Mr. Bentley, and Mr. Fraser retired on February 27, 2001.

*The number of Units and Stock Options shown and the respective prices have been adjusted to reflect the one-for-one stock dividend on the Bank's Common Shares held as at March 5, 2001 which had the effect of a two-for-one stock split.

Executive Compensation

Summary Compensation Table for Named Executive Officers

Compensation for the Chief Executive Officer and the next four most highly compensated executive officers (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 the fiscal year 2001 starting November 1, 2000 and ending October 31, 2001.

		Annual compensation			Long-term compensation awards			
Name and principal position	Year	Salary ($)	Bonus ($) *(a)(b)(c)*	Other annual compensation ($)	Securities under options granted (#) *(c)*	Restricted share units ($) *(c)(d)*	LTIP payouts ($) *(e)*	All other compensation ($) *(f)*
F.A. Comper	2001	966,667	Nil	N/A	357,000	1,000,000	Nil	126,086
Chairman and Chief	2000	900,000	1,400,000	N/A	408,000	850,000	Nil	72,142
Executive Officer	1999	838,333	800,000	N/A	236,000	Nil	Nil	19,769
Y.J.P. Bourdeau	2001	300,000	1,000,000	N/A	80,000	800,000	203,403	128,253
President and Chief	2000	300,000	2,500,000	N/A	92,000	450,000	200,959	63,337
Operating Officer	1999	393,333	1,250,000	N/A	124,000	Nil	Nil	6,187
BMO Nesbitt Burns								
W.A. Downe	2001	US 533,333	US 900,000	N/A	220,000	US 500,000	Nil	44,942
Deputy Chair and	2000	US 500,000	US 800,000	N/A	324,000	US 300,000	Nil	22,554
Chief Executive Officer	1999	US 404,167	US 920,000	N/A	120,000	Nil	Nil	Nil
BMO Nesbitt Burns								
and Head of Investment								
Banking Group								
A.G. McNally	2001	US 604,500	US 530,000	N/A	140,000	US 350,000	Nil	91,038
Vice-Chair and	2000	US 600,000	US 525,000	N/A	124,000	US 325,000	Nil	47,112
Chairman and Chief	1999	US 600,000	US 550,000	N/A	160,000	Nil	Nil	14,166
Executive Officer								
Harris Bankcorp, Inc.								
R.G. Rogers	2001	604,500	375,000	N/A	180,000	600,000	Nil	61,103
Vice-Chair	2000	600,000	1,000,000	N/A	124,000	325,000	Nil	42,582
Personal &	1999	600,000	525,000	N/A	160,000	Nil	Nil	3,020
Commercial Client Group								

Notes

(a) Amounts shown were earned in relation to the financial year indicated, except for Mr. McNally. Because Mr. McNally's bonus is determined by Harris Bankcorp, Inc., which has a calendar year-end, the amounts represent those paid in the financial year relating to the immediately preceding financial year.

(b) With respect to 2001 bonuses, Mr. Rogers elected to defer $281,250 of his annual bonus into DSUs under the Deferred Stock Unit Plan based on a share price of $34.54, which was the average closing price of the Bank's Common Shares for the five consecutive trading days ending October 31, 2000. Mr. McNally's bonus of US$530,000 was converted into DSUs based on the share price of $27.065, which was The Toronto Stock Exchange five-day average closing price of the Bank's Common Shares on October 29, 1999 adjusted for the March 5, 2001 stock dividend. Aggregate holdings of DSUs granted under this Plan as at October 31, 2001 and their value at date of grant were as follows: Mr. Comper 41,365.68 DSUs with a value of $1,100,029.61, Mr. Bourdeau 94,627.12 DSUs with a value of $2,500,046.08, Mr. Downe 13,144.00 DSUs with a value of $339,180.92, Mr. McNally 63,173.20 DSUs with a value of $1,552,181.46 and Mr. Rogers 37,885.08 DSUs with a value of $1,012,540.45. Additional DSUs are credited to reflect dividends paid on Common Shares of the Bank.

(c) The number of Common Shares covered under stock options and the number of DSUs covered under footnote (b) have been adjusted to reflect a stock dividend of one share for each Common Share held as at March 5, 2001 which had the effect of a two-for-one stock split.

(d) Amounts shown for 2001 for Messrs. Comper, McNally, Downe and Rogers represent awards made on December 12, 2000 under the Bank's Mid-Term Incentive Plan which were converted into Units based on a share price of $34.475, which was the average closing price of the Bank's Common Shares for the 90 calendar days ending December 11, 2000 after the price adjustment to reflect a stock dividend of one share for each Common Share held as at March 5, 2001. Aggregate holdings of Units granted under this Plan as at October 31, 2001 and their value at date of grant were as follows: Mr. Comper 61,154.80 Units with a value of $1,850,000.46, Mr. Downe 38,899.58 Units with a value of $1,207,500.75, Mr. McNally 33,601.68 Units with a value of $1,013,725.57 and Mr. Rogers 29,695.92 Units with a value of $925,000.62. Additional Units are credited to reflect dividends paid on Common Shares of the Bank. 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 2001 for Mr. Bourdeau represents an award made on December 1, 2000 under the IBG Long-Term Incentive Plan which was converted into Units based on a share price of $35.70 which was the average closing price of the Bank's Common Shares for the five days ending December 1, 2000 adjusted for the March 5, 2001 stock dividend. 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, 2001 is 5,656.85 and the value at date of grant is $150,002.80.

(e) Amounts shown are in relation to phantom share units under the IBG Long-Term Incentive Plan that vested and became payable October 31, 2001.

(f) The amounts shown represent: the amount of interest accrued for the year ending October 31, 2001 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.

2001 Stock Option Grants

In the fiscal year 2001, 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*). The number of Common Shares covered by stock options shown in the following two tables and the exercise prices have been adjusted to reflect the one-for-one stock dividend on the Bank's Common Shares held as at March 5, 2001 which had the effect of a two-for-one stock split.

Executive Compensation

Option Grants during the Year Ended October 31, 2001

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	357,000	5.3%	38.45	38.45	Dec. 12, 2010
Y.J.P. Bourdeau	80,000	1.2%	38.45	38.45	Dec. 12, 2010
W.A. Downe	220,000	3.2%	38.45	38.45	Dec. 12, 2010
A.G. McNally	140,000	2.1%	38.45	38.45	Dec. 12, 2010
R.G. Rogers	180,000	2.7%	38.45	38.45	Dec. 12, 2010

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, 2001, which was $33.86.

Aggregated Option Exercises during the Year Ended October 31, 2001 and Financial Year-End Options

Name	Securities acquired on exercise (#)	Aggregate value realized ($)	Unexercised options at October 31, 2001 (#)		Value of unexercised in-the-money options at October 31, 2001 ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
F.A. Comper	Nil	Nil	625,320	1,309,680	11,642,443	6,587,737
Y.J.P. Bourdeau	Nil	Nil	131,180	418,820	2,425,647	2,339,803
W.A. Downe	Nil	Nil	118,060	686,540	1,723,336	3,346,670
A.G. McNally	172,000	4,259,476	162,460	661,540	2,776,120	3,483,070
R.G. Rogers	234,000	5,306,880	20,460	671,540	169,000	3,065,020

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 ending October 31, 2001. The number of Units shown in the table and the exercise price have been adjusted to reflect the one-for-one stock dividend of the Bank's Common Shares held as at March 5, 2001 which had the effect of a two-for-one stock split.

Long-Term Incentive Plans – Awards during the Year Ended October 31, 2001

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	29,006.54	3 years	N/A	N/A	N/A
Y.J.P. Bourdeau	22,408.96	3 years	N/A	N/A	N/A
W.A. Downe	22,277.02	3 years	N/A	N/A	N/A
A.G. McNally	15,593.92	3 years	N/A	N/A	N/A
R.G. Rogers	17,403.92	3 years	N/A	N/A	N/A

Note

Messrs. Comper, Downe, McNally and Rogers received Units under the Mid-Term Incentive Plan based on a share price of $34.475. The payout value of these Units, which vest after three years, will depend on the Bank's TSR over the three-year period as well as the Bank's TSR compared to its competitors. Mr. Bourdeau received phantom share units under the IBG Long-Term Incentive Plan based on a share price of $35.70. These units vest over a three-year vesting 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	37,929	53,644	69,360	85,076	100,791
225,000	42,616	59,894	77,173	94,451	111,729
250,000	47,304	66,144	84,985	103,826	122,666
300,000	56,679	78,644	100,610	122,576	144,541
400,000	75,429	103,644	131,860	160,076	188,291
500,000	94,179	128,644	163,110	197,576	232,041
750,000	94,179	128,644	163,110	197,576	232,041
1,000,000	94,179	128,644	163,110	197,576	232,041
1,250,000	94,179	128,644	163,110	197,576	232,041
1,500,000	94,179	128,644	163,110	197,576	232,041
1,750,000	94,179	128,644	163,110	197,576	232,041

The projected years of credited service in the pension plan, at their normal retirement date, for the Named Executive Officers are as follows: F.A. Comper, 42 years, Y.J.P. Bourdeau, 41 years, W.A. Downe, 34 years, A.G. McNally, 35 years and R.G. Rogers, 38 years.

Employment Agreements, Retirement Allowances and Termination of Employment

Bank of Montreal has entered into employment agreements with the Named Executive Officers. The terms and conditions of the employment agreements are similar for each of the Named Executive Officers.

Upon retirement, Messrs. Comper, Bourdeau, McNally, Downe and Rogers are each entitled to receive an annual retirement allowance during their lifetimes pursuant to employment agreements with the Bank. In the cases of Messrs. Comper, Bourdeau, McNally and Rogers, 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. Mr. Downe's agreement requires continuous employment with the Bank or a Bank subsidiary until age 60, but allows for early retirement at age 55 subject to a reduction in the allowance of 3% per year between ages 55 and 60. Upon normal retirement at age 62, Messrs. Comper, Bourdeau, McNally and Rogers 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. Mr. Downe will receive upon normal retirement at age 60 an annual retirement allowance based on 2% of best average earnings for each year of 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.

Executive Compensation

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, Bourdeau, McNally and Rogers at normal retirement is the sum of the final 12 months' salary plus ⅕ 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 Mr. Downe is the sum of the final 12 months' salary plus ⅕ 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: F.A. Comper $1,333,967, Y.J.P. Bourdeau $686,000, A.G. McNally $1,316,751, W.A. Downe $708,099 and R.G. Rogers $860,511.

The employment 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 employment 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, Messrs. Comper, Bourdeau, McNally and Rogers are entitled to a retiring allowance based upon a percentage ranging from 24% of Pensionable Earnings at age 50 up to 70% of Pensionable Earnings at the Normal Retirement Date. Mr. Downe is entitled to a retiring allowance based upon percentages of pensionable earnings at age 50 of 23% and up to 58% at the Normal Retirement Date. If a Named Executive Officer is dismissed without cause by the Bank and has reached the applicable age for early retirement benefits, the executive is entitled to a retiring allowance as noted in the table above.

In addition, under the terms of the employment 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.

Messrs. Bourdeau, McNally and Rogers – two times the sum of annual salary and one-third of the aggregate of the best three years' bonuses.

Mr. Downe – 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 or former directors, officers and employees of the Bank or its subsidiaries is approximately $3,514,363.

Table of Indebtedness of Directors and Executives[a] under Securities Purchase Programs

Name and principal position	Involvement of issuer or subsidiary	Largest amount outstanding during the year ended October 31, 2001 ($)	Amount outstanding as at January 2, 2002 ($)	Financially assisted securities purchases during the year ended October 31, 2001 ($)	Security for indebtedness
R.M. Patten, Executive Vice-President	Bank/Lender	325,000	225,000	Nil	Nil

Indebtedness other than in connection with the purchase of securities of the Bank or its subsidiaries incurred by current or former directors, officers and employees of the Bank or its subsidiaries is as follows:

– 5,444 Mortgage Loans:	$322,527,407
– 10,026 Personal Loans:	$274,769,822
– Total:	$597,297,229

Table of Indebtedness of Directors and Executives[a] Other than under Securities Purchase Programs

Name and principal position	Involvement of issuer or subsidiary	Largest amount outstanding during the year ended October 31, 2001 ($)	Amount outstanding as at January 2, 2002 ($)
C.B. Begy, Senior Vice-President	Bank/Lender	33,268	18,716
R.H. Call, Senior Vice-President	Bank/Lender	7,320	2,760
J.M. Mulhall, Vice-President	Bank/Lender	410,637	346,247
P.J. Robertson, Executive Vice-President	Bank/Lender	35,922	24,000
F.J. Techar, Executive Vice-President	Bank/Lender	798,095	795,745

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.

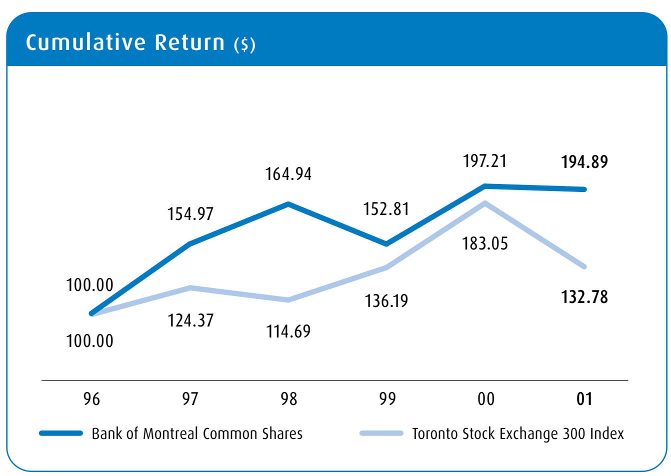
– Prior to September 1, 1999, mortgage loans were available to executive officers for the purchase of or renovations to their principal residence based on funding limits determined by geographic location. Interest rates were 2% below the Bank's posted rates, with a minimum rate of 6%. Mortgage loans 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.

Performance Graph

This graph compares the total cumulative shareholder return for $100 invested in Common Shares of the Bank on October 31, 1996 with the cumulative total return of The Toronto Stock Exchange 300 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 Toronto Stock Exchange 300 Index is the total return index, including dividends reinvested.

Directors' and Officers' Insurance

As part of our Integrated Risk Insurance Program, the Directors and Officers Liability Insurance policy provides corporate reimbursement, with coverage limits of $390 million, for each and every loss experienced by the directors and officers. The policy also includes separate dedicated coverage limits of $390 million for each and every loss, for each director and officer. There are no deductibles for the coverage. For the policy year October 31, 2001 to October 31, 2002, the annual premium paid by the Bank is $1,300,000.

Subject to the limitations of the *Bank Act* and By-law Seven of the Bank, a director or officer would be entitled to claim from the Bank costs, charges and expenses incurred (including amounts paid to settle an action or satisfy a judgement) in respect of any action or proceeding to which a director or officer is a party by reason of being a Bank director or officer.

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, 2001 together with the accompanying report of the auditors thereon and any interim financial statements of the Bank for periods subsequent to October 31, 2001; 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.

Velma J. Jones
Vice-President and Secretary

January 11, 2002

Schedule 1 – Governance Procedures

In this Schedule, the Bank's governance procedures are compared with The Toronto Stock Exchange's guidelines for effective corporate governance.

The 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.
(i) adoption of a strategic planning process	yes	The Board approves strategy plans of the Bank. An annual all-day 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 in respect to the 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 Committee, has approved a Disclosure Policy covering the timely dissemination of all material information. The policy 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. Individual shareholder inquiries are the responsibility of the Shareholder Services group, with institutional inquiries handled by the Investor Relations group.
(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 re-election on February 26, 2002, with the exception of the Chairman and Chief Executive Officer, Mr. Comper, are "unaffiliated" as defined in the *Bank Act,* which rules are more restrictive than the "unrelated" criteria contained in The Toronto Stock Exchange guidelines.
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 fifteen persons proposed for election to the Board for 2002 is "related" and that is the Chairman and Chief Executive Officer.
4. The board should appoint a committee of directors composed exclusively of outside, i.e., non-management 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 is responsible for identifying and recommending to the Board suitable director candidates. The Committee is composed exclusively of non-management directors, all of whom are "unrelated" to the Bank. It 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 28.

Schedule 1 – Governance Procedures

The Toronto Stock Exchange Guideline	Bank Alignment	The Bank's Governance Procedures
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 also conducts an annual evaluation of the effectiveness of the Board and its committees. The 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, the effectiveness of the lead director, strategic direction and process.
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 and by-laws. They also meet with the Chief Financial Officer, the Head of Risk Management and the Heads of each of the Bank groups to learn of the functions and activities of the Bank. On an ongoing basis, presentations are made to the Board on various aspects of the Bank's operations.
7. The board should examine its size with a view to determining the impact upon effectiveness and should undertake, where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making.	yes	At the Annual Meeting on February 26, 2002, fifteen directors will stand for re-election for a one-year period. The Board has considered the matter of Board size and is of the view that the current Board membership has the necessary breadth and diversity of experience and is of an adequate size 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 and aligns the interests of directors with those of shareholders. The Board recently adopted share ownership guidelines for directors and, subject to shareholder approval, will introduce a Non-Officer Director Stock Option Plan.
9. Committees of the board should generally be composed of outside directors, a majority of whom are unrelated.	yes	All Board committees are composed solely of outside directors who are "unrelated", except for the Executive Committee and Risk Review Committee, of which the Chairman and Chief Executive Officer is a member.
10. The board should assume responsibility for, or assign to a committee of directors responsibility for, developing the approach to corporate governance issues.	yes	The Governance Committee monitors best practices for governance worldwide and annually reviews the Bank's governance practices to ensure the Bank continues to exemplify high standards of corporate governance.
11. The board of directors, together with the chief executive officer, should develop position descriptions for the board and for the chief executive officer, involving the definition of the limits to management's responsibilities.	yes	Position descriptions have been developed for the Board, its committees and the Chief Executive Officer. In the case of the Board, the *Bank Act* specifically sets out those matters that must be dealt with by the Board. 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 board should approve or develop the corporate objectives which the chief executive officer is responsible for meeting.	yes	The Board annually approves the corporate objectives which the Chief Executive Officer is responsible for meeting.
12. The board should have in place appropriate structures and procedures to 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) adopt alternate means such as assigning this responsibility to a committee of the board or to a director, sometimes referred to as the "lead director".	yes	The Board has adopted the structure of "lead director" and has given that responsibility to the Chair of the Governance Committee.

The Toronto Stock Exchange Guideline	Bank Alignment	The Bank's Governance Procedures
Appropriate procedures may involve the board meeting on a regular basis without management present or may involve expressly assigning responsibility for administering the board's relationship to management to a committee of the board.	yes	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.
13. The audit committee should be composed only of outside directors.	yes	The Audit Committee is composed of outside directors, as required by the *Bank Act*.
The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to audit committee members as to their duties.	yes	The roles and responsibilities of the Audit Committee are set out in the Committee's mandate and are detailed in the Audit Committee Report presented on page 12 of the Proxy Circular.
The audit committee should have direct communication channels with the internal and the external auditors to discuss and review specific issues as appropriate.	yes	The Audit Committee meets separately with the Chief Auditor, Shareholders' Auditors and management to discuss the state of internal control.
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	As outlined in its mandate, the Audit Committee requires management to implement and maintain appropriate internal control. The Committee reviews and approves appropriate internal control policies required under the *Canada Deposit Insurance Corporation Act,* as well as approves the Bank's annual Canada Deposit Insurance Corporation self-assessment report.
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.

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.

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.

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.

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 – Non-Officer Director Stock Option Plan

ARTICLE I Purpose of the Plan and Effective Date

1.1 This Plan is established for non-officer directors of the Board of Directors of Bank of Montreal (the "Bank"), in order to provide an incentive to Participants in the Plan to attain the Bank's long-term strategic goals.

1.2 This Plan is effective upon its approval by the shareholders of the Bank.

ARTICLE II Definitions

2.1 In this Plan, words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall extend to and include the feminine gender, unless the context in which a particular word is used clearly requires otherwise; and the following capitalized terms shall have the following meanings:

"Board" means the Board of Directors of Bank of Montreal;

"Common Share" means a common share in the capital of the Bank;

"Date of Grant" means, for any Option, the date it was granted in accordance with subsections 3.1.1 and 3.1.2 of the Plan;

"Employee Stock Option Plan" means the Bank's restated stock option plan for certain designated executives and other employees of the Bank as amended on December 14, 1999;

"Director" means a person who, as of any applicable date, is a member of the Board and is not an officer or employee of the Bank or any of its direct or indirect subsidiaries;

"Exercisable Option" means an Option which is exercisable under the provisions of Article IV hereof;

"Expiry Date" means the tenth anniversary of the date upon which a particular Option is granted to a Participant hereunder;

"Fiscal Year" means a twelve month period ending October 31 in each calendar year;

"Governance Committee" means the Governance Committee of the Board or such other Committee designated by the Board carrying on the same function;

"Market Value" of a Common Share of the Bank means the closing price of the Bank's Common Shares on The Toronto Stock Exchange on the last trading date prior to the determination being made;

"Option" means an option to acquire a Common Share of the Bank granted to a Participant in accordance with the provisions of Article III;

"Option Price" means an amount equal to the Market Value of a Common Share determined on the date that the Option is granted to a Participant;

"Participant" means a Director who has been granted Options hereunder;

"Permanent Disability" means the inability of a Participant to permanently perform the duties of his or her employment as a result of illness, accident or physical or mental disability;

"Plan" means the Bank of Montreal Non-Officer Director Stock Option Plan set forth in this document, as amended from time to time in accordance with Article VI hereof;

"Price Condition" means the average trading price, determined as a percentage increase in the Option Price, at which the Bank's Common Shares must be traded over 20 consecutive trading days in order for Price-Conditioned Options to be exercisable in accordance with section 4.4;

"Price-Conditioned Option" means an Option to acquire a Common Share of the Bank granted to a Participant which is vested in accordance with section 4.2 and exercisable upon the satisfaction of the conditions set out in section 4.4 hereof;

"Standard Option" means an Option to acquire a Common Share of the Bank granted to a Participant which is vested in accordance with section 4.2 and may be exercised immediately in accordance with section 4.3 hereof.

ARTICLE III Eligibility and Grant of Options

3.1 All Participants will be granted either Standard Options or Price-Conditioned Options or a combination of both under this Plan in accordance with the terms hereof:

3.1.1 Initial Grants. On the third business day following the effective date of the Plan, Options to purchase Common Shares with an Option Price determined as of such third business day will automatically be granted to each person who is a Director as of the close of the meeting of the shareholders of the Bank at which the Plan shall have been approved, in an amount to be determined by the Board. In addition, each person who becomes a Director after the effective date will automatically be granted, effective on the third business day following the date on which such person is first elected or appointed as a Director, Options to purchase Common Shares with an Option Price determined as of such third business day, in an amount to be determined by the Board. Such grants of Options are referred to herein as "Initial Grants" and shall be in addition to the Annual Grants of Options described in subsection 3.1.2 of the Plan.

3.1.2 Annual Grants. On the third business day following each annual meeting of shareholders of the Bank (including the meeting of shareholders of the Bank at which the Plan is first approved by the shareholders), each person who is elected, re-elected or retained as a Director at such meeting of shareholders will automatically be granted additional Options to purchase Common Shares with an exercise price determined as of such third business day, in an amount to be determined by the Board (the "Annual Grant").

Schedule 2 – Non-Officer Director Stock Option Plan

3.2 Options under this Plan shall be granted in the combination specified for Executive Vice-Presidents/Senior Vice-Presidents in section 3.2 of the Bank's Employee Stock Option Plan. Currently this combination is:
– 50% shall be Standard Options
– 50% shall be Price-Conditioned Options with a 50% Price Condition
– However, in the case of any Participant who has attained 62 years of age at the time of the grant, 100% of the grant shall be Standard Options

3.3 Notwithstanding section 3.2, in the event that the Employee Stock Option Plan is amended to change the combination of Standard Options and Price-Conditioned Options granted to Executive Vice-Presidents/Senior Vice-Presidents, the combination of Options granted under this Plan shall also be modified to correspond to the combination for Executive Vice-Presidents/Senior Vice-Presidents under the Employee Stock Option Plan.

3.4 Each Participant shall receive advice setting out the number of Options granted to such Participant and the relevant terms thereof.

3.5 Subject to the provisions of Article IV, each Exercisable Option to acquire a Common Share granted to the Participant shall expire on the earliest of the following dates: (i) the fifth anniversary of the date of the Participant ceasing to be a Director (whether as a result of the resignation of the Participant from the Board, the Participant not standing for re-election to the Board or the Participant not being re-elected as a member of the Board by the shareholders at a meeting); (ii) the third anniversary of the date of ceasing to be a Director due to Permanent Disability, or death; and (iii) the Expiry Date of the Option.

ARTICLE IV Exercisability of Options

4.1 No Options granted under this Plan may be exercised by a Participant unless the Options have become exercisable in accordance with the provisions of this Article, whereupon such Options will be deemed to be Exercisable Options.

4.2 Subject to sections 4.4, 4.5 and 4.6 hereof, the total number of Options granted to a Participant at any one time shall be vested in increments over the following periods:

Percentage of Number of Options Granted that Vest	Exercise Period
25% on the first anniversary of the Date of Grant	From the first anniversary of the Date of Grant to the Expiry Date of the Option
25% on the second anniversary of the Date of Grant	From the second anniversary of the Date of Grant to the Expiry Date of the Option
25% on the third anniversary of the Date of Grant	From the third anniversary of the Date of Grant to the Expiry Date of the Option
25% on the fourth anniversary of the Date of Grant	From the fourth anniversary of the Date of Grant to the Expiry Date of the Option

4.3 Each Standard Option granted under the Plan shall become exercisable immediately upon the vesting of such Option.

4.4 Where a Participant is granted Price-Conditioned Options under the Plan, such Options, following their vesting in accordance with section 4.2 above, shall become exercisable upon the Bank's Common Shares trading at the applicable Price Condition which may occur at any time after the Option has been issued. Where the applicable Price Condition is satisfied prior to the vesting of such Option, the Participant may exercise such Option immediately upon its vesting.

4.5 Subject to section 3.5 hereof, upon ceasing to be a Director, Options granted hereunder shall continue to be governed by sections 4.2, 4.3 and 4.4 above.

4.6 Subject to section 3.5 hereof, in the case of death or Permanent Disability of a Participant, any Options held by such Participant in accordance with the terms hereof, shall be considered vested and may be exercised by the Participant (or his or her legal representative as the case may be) immediately after that time in the event that they are Standard Options or upon the satisfaction of the exercise conditions set out in section 4.4 above in the event that they are Price-Conditioned Options.

4.7 No Option may be exercised subsequent to the Expiry Date of such Option.

ARTICLE V Method of Exercise of Exercisable Options

5.1 A Participant may exercise an Exercisable Option to acquire Common Shares by following the procedures prescribed from time to time by the Governance Committee. Each request to exercise Exercisable Options must be accompanied by payment of the Option Price for the Common Shares specified in such request.

5.2 Upon the exercise of an Exercisable Option in accordance with section 5.1 and payment of the Option Price, the Participant shall receive confirmation of the Participant's ownership of the Common Shares purchased.

ARTICLE VI Amendment or Termination of the Plan

6.1 The Board, subject to any regulatory or required shareholder approval, may amend, modify or terminate the Plan at any time, provided, however, that any such amendment or modification shall not decrease the entitlements of a Participant which have accrued prior to the date of such amendment or termination, as the case may be, and that the power to amend the Plan may be limited to any change other than that which would increase the number of shares reserved for issuance under the Plan.

6.2 The Governance Committee may at any time resolve to cease granting further Options under this Plan. Such resolution shall not, however, decrease the entitlements of a Participant that had accrued prior to the date of such termination.

6.3 Notwithstanding any other provision hereof, any modification or amendment to the Plan which is deemed necessary or appropriate to bring the Plan into conformity with applicable law or regulation may be made retroactively, if appropriate.

6.4 If the terms of Standard Options or Price-Conditioned Options are amended in the Employee Stock Option Plan, conforming amendments to the Plan will be effected.

ARTICLE VII Variation of Securities

7.1 Options to acquire Common Shares shall apply, *mutatis mutandis:*
- (a) to any securities that result either directly or indirectly from the conversion, changing, reclassification, redivision, redesignation, subdivision or consolidation of Common Shares; and
- (b) to any securities of the Bank or of any successor or continuing Bank which may result from a reorganization, amalgamation, consolidation or merger, statutory or otherwise.

ARTICLE VIII Compliance with Regulatory Requirements

8.1 The Bank shall use its best efforts to have any Common Shares underlying any Options granted under the Plan listed on any applicable stock exchange upon which the Common Shares are traded.

8.2 The maximum number of Common Shares reserved for issuance under this Plan is four hundred thousand (400,000) Common Shares or such other amount as may be approved by the shareholders. This maximum number shall be automatically adjusted to take into account any conversion, changing, reclassification, redivision, redesignation, subdivision or consolidation of Common Shares, and shall also apply to securities of the Bank or of any successor or continuing bank which may result from a reorganization, amalgamation, consolidation or merger, statutory or otherwise.

8.3 The Bank's obligation to issue Common Shares in accordance with the terms of this Plan and any Options granted hereunder are subject to compliance with any applicable legislation and the rules, regulations and published policies of any regulatory authorities or agencies having jurisdiction over the issuance and distribution of such Common Shares in such jurisdictions as the Bank may elect to grant Options to Participants.

ARTICLE IX Administration

9.1 This Plan shall be administered by the Governance Committee (the "Committee"). The Committee shall have full and complete authority to interpret this Plan and to prescribe such rules and regulations and make such other determinations as it deems necessary for the administration of this Plan.

9.2 Notwithstanding section 6.1 and section 9.1, the selection of the Directors to whom Options are to be granted, the timing of such grants, the Option Price of any Option, the periods during which an Option may be exercised, the method of determining the combination of Standard Options and Price-Conditioned Options to be granted, and the date of expiry of any Option shall be as provided in the Plan, and both the Board and the Committee shall have no discretion as to such matters except as provided for in section 3.3 and section 6.4.

9.3 The Bank shall maintain a register of all Options granted to, or exercised by any Participant, as well as all Options that have been terminated and cancelled or expired, as the case may be.

9.4 A Participant may request a copy of an excerpt of such register to the extent that the information requested relates to the Participant's own personal entitlements under the Plan.

9.5 The Bank shall from time to time determine whether any particular Options granted hereunder have become Exercisable Options in accordance with Article IV hereof and shall advise Participants from time to time of the status of such Options.

ARTICLE X General

10.1 No Options granted under the Plan shall be transferable or assignable by the Participant otherwise than by will or pursuant to the laws of succession and no Options may be exercised by anyone other than the Participant or his or her legal representative during the lifetime of the Participant. Furthermore, no Options may be pledged, encumbered or charged by the Participant in any manner.

10.2 The Plan shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

10.3 This Plan shall be binding upon the Bank, its successors and assigns.

10.4 A Participant shall not have any rights as a shareholder of the Bank in respect of the Common Shares related to an Option until such time as the Option is exercised, the Option Price paid and the Common Shares issued.

10.5 Participation in the Plan is entirely voluntary, and any decision of a Director not to participate shall not affect the status of the Director with the Bank.

10.6 It is intended the Options issued under the Plan shall not be treated or qualify as "incentive stock options" under Section 422 of the United States Internal Revenue Code of 1986, as amended.

10.7 The maximum number of Common Shares reserved for issuance to any one Participant pursuant to Options granted under this Plan shall not exceed 5% of the number of Common Shares then issued and outstanding.

Schedule 3 – Bank of Montreal Qualified Employee Share Purchase Plan

Section 1. Introduction.

Section 1.1. Purpose.

Bank of Montreal hereby establishes the Plan to provide eligible Employees the opportunity to acquire a proprietary interest in Bank of Montreal and thereby provide such Employees with an additional incentive to contribute to the long-term profitability and success of Bank of Montreal and its Subsidiaries. The Plan is for the exclusive benefit of eligible Employees of Bank of Montreal's Participating Subsidiaries. The Plan does not cover individuals who are directly employed by Bank of Montreal (whether in the United States or otherwise).

Section 1.2. Share Purchase Plan.

The Plan is a share purchase plan that is intended to satisfy all requirements of Section 423 of the Internal Revenue Code of 1986, as amended. Any provision of the Plan inconsistent with Section 423 of the Code will, without further act or amendment by Bank of Montreal, be reformed to comply with Code Section 423.

Section 1.3. Effective Date and Term.

The Plan will be effective April 1, 2002, subject to approval of the Plan by the shareholders of Bank of Montreal before such date. The Plan shall continue in effect until terminated in accordance with Section 7.2.

Section 1.4. Participating Subsidiaries.

Each Subsidiary organized under the laws of the United States as of the Effective Date will be deemed to have adopted the Plan for its eligible Employees as of the Effective Date. Any corporation (determined in accordance with Section 7701 of the Code) organized under the laws of the United States that becomes a Subsidiary after the Effective Date will be deemed to have adopted the Plan for its eligible Employees immediately upon becoming a Subsidiary, unless the Committee acts to exclude the Subsidiary and its eligible Employees from participation in the Plan.

Section 1.5. Shares Subject to Plan.

(a) The Shares subject to purchase under the Plan shall be acquired in the open market by the Custodian. The aggregate number of Shares that may be purchased under the Plan shall not exceed three million (3,000,000) Shares. All Shares purchased under the Plan other than Shares purchased as a result of the reinvestment of dividends will count towards this limitation. If, on a given Exercise Date, the number of Shares which are to be purchased exceeds the number of Shares then available under the Plan, the Committee shall make a pro-rata allocation of the Shares remaining available for purchase in as uniform a manner as shall be practicable and as it shall determine to be equitable.

(b) In case of a reorganization, recapitalization, stock split, reverse stock split, stock dividend, combination of shares, merger, consolidation, offering of rights or other change in the capital structure of Bank of Montreal, the Committee shall make such adjustment as it deems appropriate in the number, kind and purchase price of Shares available for purchase under the Plan so that the aggregate consideration payable by the Employers, and the value of the benefit to Employees, shall not be changed.

Section 1.6. Administrative Responsibilities.

For all administrative purposes, the Committee may designate a Subsidiary to perform some or all of the administrative responsibilities under the Plan.

Section 2. Definitions.

For purposes of the Plan, the following words and phrases, whether or not capitalized, have the meanings specified below, unless the context plainly requires a different meaning:

"Bank of Montreal" means Bank of Montreal and its respective successors and assigns.

"Beneficiary" means a person (as defined in Section 7701(a)(1) of the Code) to whom all or a portion of the Shares or cash amounts due to the Employee under the Plan will be paid if the Employee dies before receiving such Shares or cash amounts.

"Board" means the Board of Directors from time to time of Bank of Montreal.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and all regulations thereunder.

"Committee" means the Benefits Administration Committee of Harris Bank.

"Compensation" means total base pay (which does not include payments for overtime, commissions, bonuses or other remuneration paid to the Employee) for services rendered paid in cash to an Employee by an Employer during the applicable period specified in the Plan; *provided however,* with respect to an Employee who is paid on a commission basis, "Compensation" means the Employee's rate of pay based on his normal work week and shall not include overtime, bonuses or special or additional compensation of any kind.

"Custodial Account" means the non-interest bearing bookkeeping account maintained on behalf of the Employee to which Shares purchased under Sections 4.2 and 4.3 and dividends (net of withholding) shall be allocated and from which Shares and/or cash shall be distributed in accordance with Section 5.2.

"Custodian" means the custodian for the Plan appointed by the Committee.

"Effective Date" means April 1, 2002; or such later date designated by the Committee.

"Employee" means any common law employee of an Employer who is not an Excluded Employee and who is a Regularly Scheduled Employee; provided however, such term shall at least include those employees who are customarily employed for at least twenty (20) hours per week and more than five (5) months in a calendar year by an Employer.

"Employer" means a Participating Subsidiary.

"Excluded Employee" means: (a) a leased employee (as defined below); (b) an individual who provides services to an Employer pursuant to a contract, agreement or arrangement which designates the individual as an independent contractor or consultant, or which excludes the individual from participation in the plan; (c) an individual who provides services to an Employer pursuant to a contract, agreement or arrangement between the Employer and a third party; and (d) an individual who is compensated, directly or indirectly, by an Employer and whose compensation is treated by the Employer at the time of payment as not being subject to the Employer's tax withholding obligations under the Code. For purposes of this definition, a "leased employee" means any person who is not an employee of an Employer, but who has provided services for an Employer under primary direction or control by the Employer, on a substantially full-time basis for a period of at least one year, pursuant to an agreement between the Employer and a leasing organization.

"Exercise Date" means the last day of an Offering Period; *provided, however,* that if the last day of an Offering Period is not a business day, the immediately preceding business day shall be the Exercise Date.

"Fair Market Value" means, with respect to Shares as of a particular day, the fair market value as determined by the Committee based on the last sales price of the Shares on the New York Stock Exchange as reported in *The Wall Street Journal*.

"Offering Date" means the first day of the Offering Period.

"Offering Period" means a period of such duration as determined and communicated by the Committee; provided however, that the duration of the Offering Period shall not exceed (i) twenty-seven (27) months, where the option price is set by reference to the lower of the Fair Market Value on the Offering Date or the Exercise Date or (ii) five (5) years where the option price is set solely by reference to the Fair Market Value on the Exercise Date.

"Participating Subsidiary" means a Subsidiary which is participating in the Plan in accordance with Section 1.4.

"Payroll Deferral Account" means the non-interest bearing bookkeeping account maintained on behalf of the Employee under Section 3.4 to which payroll deferrals under the Plan are credited and from which amounts are withdrawn to exercise options as of an Exercise Date.

"Plan" means Bank of Montreal Qualified Employee Share Purchase Plan, as described in this document and as amended from time to time.

"Regularly Scheduled Employee" means any employee who receives a salary computed on an annual, monthly or semi-monthly basis, or an hourly employee whose compensation is computed on an hourly basis and who is regularly scheduled to work for an Employer.

"Shares" mean the Common Shares, without par value, of Bank of Montreal.

"Subsidiary" means any corporation (determined in accordance with Section 7701 of the Code) in an unbroken chain of corporations beginning with Bank of Montreal if, at the time an option is granted, each of the corporations other than the last corporation owns 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

Section 3. Enrollment and Contributions.

Section 3.1. Eligibility for Enrollment.

(a) An Employee may enroll in the Plan for an Offering Period unless the Employee would, immediately upon enrollment, own directly or indirectly, or hold options or rights to acquire, an aggregate of 5% or more of the total combined voting power or value of all outstanding shares of all classes of Bank of Montreal or any Subsidiary, determined in accordance with Section 424(d) of the Code.

(b) The Committee or its designee will notify an Employee that the Employee is first eligible to enroll in the Plan within a sufficient time before the Employee must elect to participate in the Plan.

Section 3.2. Enrollment Procedure.

(a) To enroll in the Plan for an Offering Period, an Employee must make an election with the Employer (or its designee) and elect to make deferrals under the Plan in accordance with Section 3.3 in such form and manner and by such date as determined and communicated by the Committee.

(b) An Employee whose enrollment in and contributions under the Plan continue throughout an Offering Period will automatically be enrolled in the Plan for the next Offering Period unless (i) the Employee timely elects to cease participation in the Plan with the Employer (or its designee) before the Offering Date for the next Offering Period in accordance with Section 5.1(a)(i) hereof, (ii) the Employee elects to cease payroll deferrals during a current Offering Period in accordance with Section 5.1(a)(ii) hereof, (iii) the Employee elects to withdraw payroll deferrals credited to his Payroll Deferral Account in accordance with Section 5.1(a)(iii) hereof, or (iv) on the Offering Date the Employee is not eligible to participate in accordance with Section 3.1 hereof. The deferral rate for an Employee who is automatically enrolled for an Offering Period pursuant to this Section will be the deferral rate in effect for the immediately preceding Offering Period, unless the Employee makes an election with the Employer (or its designee) in such manner and by such date that is determined and communicated by the Committee.

Section 3.3. Deferrals.

(a) To enroll for the first time in the Plan for an Offering Period, an Employee must elect to make a deferral under the Plan, subject to the terms and conditions prescribed below, by means of payroll deduction for each payroll period within the Offering Period.

(b) An Employee may elect to make payroll deferrals in a whole percentage which is not less than 1% of Compensation per Offering Period and not more than 15% of Compensation per Offering Period (or such other amount as the Committee may establish from time to time and communicate to Employees before the Offering Date). An Employee shall not be permitted to make any payments in cash or check or any other form which is not made through payroll deductions.

(c) Payroll deductions will commence with the first payroll period that begins within the Offering Period and will be made in conformity with the Employer's payroll deduction schedule and practices.
(d) Unless the Committee permits under uniform rules established by the Committee, and except as provided in Section 5.1, an Employee may elect to increase, decrease or discontinue deferrals only as of the beginning of an Offering Period by giving notice to the Employer (or its designee).

Section 3.4. Payroll Deferral Accounts.

All payroll deferrals made by an Employee under the Plan will be credited to a Payroll Deferral Account maintained by the Employer or the Custodian on behalf of the Employee. The Employer will make the credit as soon as is administratively reasonable after the deferrals are withheld from the Employee's Compensation.

Section 3.5. No Funding of Accounts.

No cash or Shares shall be set aside with respect to a Payroll Deferral Account or Custodial Account. Nothing contained in the Plan and no action taken pursuant to the provisions hereof shall create or be construed to create a trust of any kind, or a fiduciary relationship between Bank of Montreal or the Employer and any Employee or any other person with respect to a Payroll Deferral Account or Custodial Account. Cash or Shares credited to a Payroll Deferral Account or Custodial Account at any time and from time to time shall be the general assets of the Employer. To the extent that any person acquires a right to receive the benefit of amounts credited to a Payroll Deferral Account or Custodial Account, such right shall be that of an unsecured general creditor of the Employer.

Section 4. Grant and Exercise of Option.

Section 4.1. Grant of Option; Terms.

Enrollment in the Plan for an Offering Period will constitute the grant by Bank of Montreal of an option to purchase Shares under the Plan for such Offering Period. Enrollment in the Plan (whether initial or continuing) for each Offering Period will constitute a new grant of an option to purchase Shares under the Plan for that Offering Period. Notwithstanding anything to the contrary in the Plan, all Employees granted options for an Offering Period shall have the same rights and privileges as required by Section 423(b)(5) of the Code. Each option will be subject to the following terms:

(a) The option price will be as specified in Section 4.2.
(b) The option will be exercised automatically as of the Exercise Date for the Offering Period.
(c) The payment by an Employee for the Shares purchased under an option will be made only from amounts credited to the Employee's Payroll Deferral Account as a result of payroll deductions in accordance with Section 3.3.
(d) No Employee shall be granted an option which permits his right to purchase Shares under all employee stock purchase plans of Bank of Montreal and its Subsidiaries to accrue at a rate which exceeds twenty-five thousand dollars ($25,000) of fair market value of such Shares (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time.

Section 4.2. Purchase of Shares; Price.

(a) The Custodian will apply to the purchase of Shares the amounts credited to each Employee's Payroll Deferral Account as of such Exercise Date. The Employer shall pay to the Custodian on behalf of an Employee any additional amount required to purchase the number of Shares determined in accordance with Section 4.2(b). The Shares so purchased for each Employee shall be allocated to the Custodial Account for the Employee. The Shares shall be held by the Custodian on behalf of the Employee and registered in the name of a nominee.
(b) The option price of each Share purchased as of an Exercise Date shall be 85% of the Fair Market Value of the Share on such Exercise Date; or such other price designated by the Committee in its sole discretion, *provided* that such other price may not be lower than the lesser of 85% of the Fair Market Value of the Share on the Offering Date or 85% of the Fair Market Value of the Share on the Exercise Date.

Section 4.3. Custodial Accounts.

All whole Shares purchased on behalf of an Employee as of an Exercise Date shall be credited to such Employee's Custodial Account, as of such Exercise Date. Any cash insufficient to purchase a whole Share shall remain in the Employee's Payroll Deferral Account and be carried over to the next Offering Period. Dividends (net of any withholding taxes) received with respect to Shares will be credited to the Employee's Custodial Account and reinvested in additional Shares which shall be purchased by the Custodian in the open market as soon as administratively reasonable following receipt of such net dividend payment by the Custodian.

Section 4.4. No Interest on Account Balances.

No interest or other earnings will be credited to any Payroll Deferral Account with respect to (a) amounts credited thereto during an Offering Period or (b) amounts to be returned to the Employee, nor shall interest or other earnings (except dividends as provided in Section 4.3 above) be credited to any Custodial Account. Neither the Committee nor Bank of Montreal nor any Employer shall have any obligation to invest or otherwise manage amounts credited to a Payroll Deferral Account or a Custodial Account, other than to apply such amounts to the purchase of Shares in accordance with the terms of the Plan.

Section 5. Cessation of Enrollment.

Section 5.1. Cessation of Enrollment.

(a) An Employee's enrollment in the Plan will cease under the following circumstances:
    (i) An Employee's enrollment will cease as of the beginning of the next Offering Period that is a specified number of days (as determined and communicated by the Committee) after the Employee makes an election specifying such future cessation of enrollment in the form and manner determined and communicated by the Committee.

(ii) In the Committee's discretion, based on uniform rules and procedures established from time to time by the Committee, an Employee's enrollment will cease during a current Offering Period and for future Offering Periods if the Employee makes an election specifying the cessation of payroll deferrals for such current Offering Period. As of the Exercise Date of such Offering Period, Shares shall be purchased with payroll deferrals made prior to such cessation of payroll deferrals.

(iii) In the Committee's discretion, based on uniform rules and procedures established from time to time by the Committee, an Employee may withdraw all but not less than all of the payroll deferrals credited to his Payroll Deferral Account and not yet used to purchase Shares at any time by making an election. In such case, all cash credited to the Employee's Payroll Deferral Account shall be paid to the Employee as soon as is administratively reasonable and such Employee will cease participation in the Plan.

(iv) (A) An Employee's enrollment will cease on termination of employment with the Employer for any reason.

(B) If the Employee transfers employment from one Participating Subsidiary to another Participating Subsidiary, the Employee's enrollment in the Plan will not cease.

(C) If the Employee transfers employment from a Participating Subsidiary to Bank of Montreal or to a Subsidiary which is not a Participating Subsidiary, the Employee's enrollment will cease, provided however, if the next Exercise Date is three (3) months or less after the date of such transfer, any amounts previously deferred to the Employee's Payroll Deferral Account will be used to purchase Shares in accordance with Section 4.2.

(v) An Employee's enrollment will cease as of the date on which the Employee would own directly or indirectly, or hold options or rights to acquire, an aggregate of 5% or more of the total combined voting power or value of all outstanding shares of all classes of Bank of Montreal or any Subsidiary, determined in accordance with Sections 424(d) of the Code.

(vi) An Employee's enrollment will cease upon termination of the Plan.

(b) An Employee whose enrollment in the Plan ceases under this Section other than by reason of termination of the Plan may again enroll in the Plan as of any subsequent Offering Date if the Employee satisfies the eligibility conditions of Section 3.1 as of such date.

Section 5.2. Distributions to Employee.

(a) At such time as determined by the Committee, after an Employee's enrollment in the Plan ceases under Section 5.1(a)(iv)(A) or (vi) (provided that a successor plan is not established), the Committee will direct the Custodian to distribute to the Employee the Shares and/or cash then credited to the Employee's Custodial Account and any cash held in the Payroll Deferral Account.

(b) If an Employee's enrollment ceases as a result of death, or if the Employee's death occurs before the Employee receives a distribution under this Section, all Shares and/or cash amounts payable under this Section to the Employee will be paid to the Employee's Beneficiary as soon as is administratively reasonable.

(c) An Employee may from time to time request distribution of Shares and/or cash with respect to that portion of Shares or cash then credited to the Employee's Custodial Account. Such distribution will be made as soon as is administratively reasonable.

(d) In the Committee's discretion, an Employee may request a withdrawal of the cash in the Employee's Payroll Deferral Account as permitted in Section 5.1(a)(iii) above.

(e) If a distribution of certificates representing the Employee's Shares are distributed to the Employee (or the Employee's Beneficiary), the Committee may determine that a nominal fee be charged to the Employee (or, if applicable, the Employee's Beneficiary).

(f) If an Employee requests that distribution be made in cash instead of certificates representing Shares, the Employee shall pay and authorizes the Employer (or its designee) to withhold any brokerage fee or expense to convert the Shares to cash.

Section 5.3. Beneficiaries.

(a) An Employee may designate one or more persons (as defined in Section 7701(a)(1) of the Code) (concurrently, contingently or successively) to whom Shares and/or cash amounts credited to the Payroll Deferral Account or Custodial Account will be distributed if the Employee dies before receiving complete payment of such amounts. Any such designation must be made in such manner provided by the Committee (or its designee) for this purpose, will be effective on the date received by the Committee (or its designee), and may be revoked by the Employee at any time.

(b) If the Employee fails to designate a beneficiary or if no designated beneficiary survives the Employee, then any Shares and/or cash amounts shall be distributed to the Employee's estate.

Section 6. Plan Administration.

Section 6.1. Committee.

The Plan will be administered by the Committee.

Section 6.2. Committee Powers.

(a) The Committee will have all powers appropriate to administer the Plan including, but not limited to, the following:

(i) To determine all questions that may arise under the Plan, including the power to determine the rights or eligibility of an Employee or the Employee's Beneficiaries;

(ii) To construe the terms of the Plan and to remedy ambiguities, inconsistencies or omissions;

(iii) To adopt such rules of procedure and prescribe such forms as it considers appropriate for the proper administration of the Plan and are consistent with the Plan;

(iv) To enforce the Plan provisions and the rules of procedure which it adopts;

(v) To employ agents, attorneys, accountants, actuaries or other persons, and to allocate or delegate to them such powers, rights and duties as it considers appropriate for the proper administration of the Plan.

(b) The Committee will have such further powers and duties as may be elsewhere specified in the Plan.

Section 6.3. Committee Actions.

The actions of the Committee may be taken at a meeting by a majority of its members, in writing without a meeting if all members of the Committee sign such writing or by the use of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other and participation in such a meeting in this manner shall constitute attendance and presence in person at the meeting of the person or persons so participating for all purposes. In taking action:

(a) The Committee may allocate authority to a specific member(s) of the Committee to carry out such duties as the Committee may assign;

(b) A member of the Committee may by writing delegate any or all of such member's rights, powers, and duties to any other member of the Committee, with the consent of the latter; and

(c) The Committee may delegate to any agents, which may include a Plan Committee, such duties and powers, as it deems appropriate, by an instrument in writing which specifies which duties are so delegated and to whom each such duty is so delegated.

Section 6.4. Member Who Is Participant.

If a member of the Committee is an Employee, such member may not decide any matter relating to the member's participation or Accounts or how the Accounts are to be paid to the member that the member would not have the right to decide in the absence of membership on the Committee, and no Employee will receive any compensation for services as a member of the Committee.

Section 6.5. Information Required from Employer.

The Employer will furnish the Committee with such data and information as the Committee deems appropriate to administer the Plan. The records of the Employer as to an Employee's Compensation will be conclusive on all persons unless determined by the Committee to be clearly incorrect.

Section 6.6. Information Required from Employees.

Each person entitled to benefits under the Plan must furnish the Employer from time to time such person's mailing address, each change of mailing address and such other data and information as the Committee deems appropriate to administer the Plan. Any communication, statement or notice mailed with postage prepaid to any person at the last mailing address filed with the Employer will be binding upon such person for all purposes of the Plan.

Section 6.7. Uniform Rules and Administration.

The Committee will administer the Plan on a nondiscriminatory basis and will apply uniform rules to all persons similarly situated.

Section 7. Amendment and Termination.

Section 7.1. Amendment.

(a) Bank of Montreal reserves the right to amend the Plan from time to time subject to the following limitations:

   (i) No amendment will be made without the prior approval of the shareholders of Bank of Montreal if the amendment will (1) increase the number of shares reserved for purchase under the Plan, or (2) materially modify the eligibility conditions or increase the benefits available to Employees under the Plan.

   (ii) No amendment will make any change in an option granted previously and outstanding which adversely affects the rights of an Employee with respect to such option.

   (iii) No amendment will reduce the amount of an Employee's Payroll Deferral Account or Custodial Account balance.

   (iv) No amendment will be made which will cause the Plan to not satisfy the requirements under Section 423 of the Code.

(b) Bank of Montreal hereby delegates to the Committee the power to amend the Plan, subject to the limitations of this Section.

Section 7.2. Termination.

The Plan is entirely voluntary on the part of Bank of Montreal and the continuance of the Plan should not be construed as a contractual obligation of Bank of Montreal. Accordingly, Bank of Montreal reserves the right to terminate the Plan at any time and hereby designates to the Committee such right. Unless sooner terminated by the Committee, the Plan shall terminate on the earlier of: (i) the date all of the Shares specified in Section 1.5(a) are purchased unless additional Shares are authorized for the Plan by the shareholders of Bank of Montreal; and (ii) the end of the tenth year beginning on or after the Effective Date. No option may be granted under the Plan after the Plan is terminated.

Section 7.3. Rights upon Termination.

(a) If the Plan terminates, the Committee may elect to terminate all outstanding options to purchase Shares under the Plan either immediately or upon completion of the purchase of Shares as of the next following Exercise Date.

(b) If the Committee terminates an option to purchase Shares prior to the expiration of the option, all amounts contributed to the Plan which remain in an Employee's Payroll Deferral Account will be returned to the Employee as soon as is administratively reasonable.

Section 8. General Provisions.

Section 8.1. No Transfer or Assignment.

The rights of an Employee under the Plan may not be sold, pledged, assigned or transferred, voluntarily or involuntarily, in any manner other than by will or the laws of descent and distribution. Any such attempted sale, pledge, assignment or transfer shall be without effect. An Employee's rights and all options granted under the Plan shall only be exercisable during his or her lifetime by such Employee.

Section 8.2. Equal Rights and Privileges.

All Employees who are granted options under the Plan for the Offering Period will have equal rights and privileges with respect to such option.

Section 8.3. Rights as Shareholder.

The grant of an option to purchase Shares under the Plan will not confer upon an Employee any rights as a shareholder of Bank of Montreal with respect to Shares subject to the option. An Employee will become a shareholder with respect to Shares subject to an option under the Plan only when the purchase of such Shares is completed as of an Exercise Date.

Section 8.4. Rights as Employee.

The Plan is not a contract of employment, and the grant of an option to purchase Shares under the Plan will not confer upon any Employee the right to be retained in the employ of Bank of Montreal or any Employer. An Employee's enrollment in the Plan shall constitute a waiver of any and all rights to compensation or damages relating to the cessation of such Employee's eligibility to participate in the Plan upon termination of the Plan or termination of the Employee's employment for any reason whatsoever.

Section 8.5. Costs.

All costs and expenses incurred in the administration of the Plan will be paid by the Participating Subsidiaries. Any brokerage fees or expenses for the sale or transfer of Shares by an Employee will be borne by the Employee.

Section 8.6. Liability for Taxes.

Each Employee shall be responsible for, and will indemnify the Employer against, any federal, state or local income or other applicable taxes, including any interest or penalties relating thereto, to which the Employee may be subject as a result of the Employee's participation in the Plan or the Employee's sale of Shares acquired thereunder.

Section 8.7. Reports.

The Committee will provide or cause to be provided to each Employee no less frequently than annually a report of the Employee's contributions under the Plan for the reporting period, the Shares purchased with such contributions, any dividends received with respect to such Shares, and Shares purchased with respect to such dividends.

Section 8.8. Governmental Approval.

The Plan and any offering or sale made to Employees under the Plan are subject to any governmental requirements, approvals or consents that are or may become applicable in connection herewith.

Section 8.9. Shareholder Approval.

The Plan is subject to approval by the holders of a majority of the Shares of Bank of Montreal present in person or by proxy and voting at the meeting at which the Plan is considered and shall not be effective without such approval.

Section 8.10. Conditions Upon Purchase of Shares.

Shares shall not be purchased with respect to an option unless the exercise of such option and the purchase and delivery of such Shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed.

Section 8.11. Applicable Law.

The Plan will be governed by the laws of the State of Illinois, without regard to the law of conflicts of such state, to the extent that federal law does not preempt such laws.

Section 8.12. Gender and Number.

When the context permits, words in the Plan used in the masculine gender include the feminine gender, words in the singular include the plural and words in the plural include the singular.

Section 8.13. Headings.

All headings in the Plan are included solely for ease of reference and do not bear on the interpretation of the text.

Schedule 4 – Shareholder Proposals

The following four 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 Association for the Protection of Quebec Savers and Investors Inc. (APEIQ) of 425 Maisonneuve Blvd. West, Suite 1002, Montreal (Quebec) H3A 3G5 has submitted one proposal. This proposal and APEIQ's supporting comments (translated from French into English) are set out verbatim, in italics, below.

Proposal No. 1: Maintaining Subsidiaries in Tax Havens

It is proposed that the Board of Directors of Bank of Montreal review, in conjunction with the Canadian Bankers Association and the federal government, <u>the desirability of maintaining</u> its subsidiaries in tax havens and report back to shareholders no later than five months prior to the 2003 general meeting.

Tax havens are the cancer of the world economy – tax evasion, money laundering, terrorism, criminality, illicit transactions, drug money sheltering, etc. They are a constant menace to the legal economy. American author Jeffrey Robinson discloses the extent to which tax havens corrupt the world and particularly Canada, which he describes as being a "candy store" for criminal organizations.

Banks are one of the places, if not the main place, through which the fruits of the illegal economy are funnelled. They would be acting as "good corporate citizens", in their shareholders' best interests, if they initiated measures to thwart the perverse and harmful effects of the global scourge of tax havens.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THIS PROPOSAL FOR THE FOLLOWING REASONS:

The Bank conducts business in some 15 foreign jurisdictions and earns more than 50% of its net income from the business it conducts outside of Canada. The Government of Canada has entered into comprehensive tax treaties with substantially all of these jurisdictions and accordingly they cannot be regarded as "tax havens" as referred to in the proposal. Requiring that the Bank only conduct business in foreign jurisdictions where rates of tax are equal to or higher than in Canada would seriously limit the foreign operations of the Bank and its profitability and would not be in the best interests of the Bank's shareholders.

If there are foreign jurisdictions in which Canadian companies should not be allowed to carry on business, for taxation or other public policy reasons, the Government of Canada has the necessary legislative and regulatory powers to proscribe Canadian companies from doing so. Any such proscription should however apply to all Canadian corporations, and not solely to the Bank.

The Bank strongly supports and is fully compliant with all rules, and regulations enacted by both Canada and the foreign jurisdictions in which it carries on its business intended to detect and deter tax evasion, terrorist activity and organized crime.

The Board Recommends that Shareholders Vote Against Proposal No. 1.

Mr. J. Robert (Bob) Verdun, 29 Bristow Creek Drive, Elmira, Ontario N3B 3K6 has submitted three proposals. These proposals and Mr. Verdun's supporting comments are set out verbatim, in italics, below.

Proposal No. 2: Holding of Shares Acquired Under Options

Half of any shares acquired under options must be held for at least one year.

It shall henceforth be the policy of the Bank to issue stock options under the following restriction: At least 50% of the shares of the Bank that are purchased with stock options must be retained by the purchaser for a minimum of one year.

Shareholder's Explanation:
The primary stated objective of stock options is to enhance the alignment of the option-holder's interests with those of the Bank as a whole, and particularly of its shareholders. When an officer, director, or other insider buys shares under a stock option plan and immediately sells them into the open market, any benefit of alignment is lost. This new policy requiring the phased sale of shares purchased under options ensures that the benefiting individuals continue to have a keen interest in the ongoing success of the Bank. In a typical situation, the option holder can recoup the cost of purchasing the stock under the terms of the option, but must wait a year before reaping a substantial profit. During that year, the individual will be the owner of a substantial number of shares and will be directly affected by fluctuations in market value, clearly in alignment with the interests of the shareholders at large.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THIS PROPOSAL FOR THE FOLLOWING REASONS:

The Bank strongly supports the principle that there should be alignment of the interests of its executives and directors with those of the Bank's shareholders by requiring that all executives and directors own or are at risk in respect of a substantial number of Common Shares of the Bank. The Bank's existing requirements in this connection, together with the provisions of the Bank's Stock Option Plan, ensure that executives and directors hold many more Common Shares of the Bank than is demanded by the proposal.

Mandatory share ownership rules enacted in January 2001 require that all Vice-Presidents of the Bank hold directly or indirectly Common Shares of the Bank having an aggregate market value of not less than 100% of their annual salary. The mandatory share ownership requirement increases with seniority, and at the highest executive level requires that the executive hold Common Shares of the Bank equal to 400% of his/her annual salary. Mandatory share ownership rules for directors require that each director hold six times their annual retainer in Common Shares of the Bank or Deferred Shares Units.

Further alignment of interests of executives and shareholders results from the provisions of the Bank's Stock Option Plan, which differ substantially from similar plans at most other Canadian companies (including the corresponding plans at each of the Bank's Canadian competitors). A unique feature of the Bank's Stock Option Plan is that it provides for the granting of "price conditioned options", that is options that are not exercisable unless the market value of the optioned shares attain a multiple of their issue price. At least 25% of the options granted to every executive of the Bank are "price performance options" and cannot be exercised unless the market value of such shares attain 150% of the option price. With increasing seniority both the percentage of "price performance options" granted and the market value hurdle for the optioned shares increases. At the most senior executive level, ⅓ of all options granted can only be exercised if the market value of the optioned shares attain 150% of the option price, and a further ⅓ can only be exercised if the market value of the optioned shares attain 200% of the option price.

The requirement of the proposal that every executive be obligated to retain 50% of any shares obtained through the exercise of stock options is not practical. Many executives, particularly those without other financial resources, would find it difficult or impossible to meet the requirements of the proposal and to also finance the purchase of the Common Shares upon the exercise of options and satisfy the tax exigible upon such exercise. Acceptance of the proposal would accordingly reduce the value to executives of the granted options, be unduly onerous and non-competitive, and would necessitate that the Bank increase the number of stock options granted to remain competitive.

The Board of the Bank is of the view that the Bank's current share ownership requirements for all executives and directors, and the granting of "price performance options", align the interests of executives and directors and those of the Bank's shareholders to a much greater extent than would be the case if the requirements contained in the proposal were substituted for the requirements now in effect.

The Board Recommends that Shareholders Vote Against Proposal No. 2.

Proposal No. 3: Independent Directors of Publicly-Traded Companies Controlled by the Bank

Publicly-traded companies controlled by the Bank shall have a majority of independent Directors.

In any situation where the Bank is the controlling shareholder of a publicly-traded company, the Bank shall ensure that a majority of the Directors are clearly independent of the Bank. The majority of Directors must have no significant connections to the Bank, and must not fall within the legal definitions of "related" or "affiliated".

Shareholder's Explanation:
Offering shares of a company to the investing public is a serious matter that demands the highest standards of fairness and democratic procedure. Regardless of the percentage of voting shares actually held by a controlling corporation, the rights of the public shareholders must be paramount. This policy is essential if shareholders are to have confidence in the integrity of any publicly-traded company that is controlled by the Bank. Justice must not only be done, but it must also be seen to be done! In the absence of obvious assurance of fair corporate governance, individual shareholders are almost certain to discount the value of their investment in any Bank-controlled publicly-traded company, to the detriment of the shareholders of the Bank itself.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THIS PROPOSAL FOR THE FOLLOWING REASONS:

The Bank controls no publicly traded companies and accordingly the proposal has no present relevance to the Bank or its shareholders.

The proposal seeks to protect shareholders, other than the Bank, of a publicly traded company that at some future date may be controlled by the Bank, by limiting the rights of the Bank, as the controlling shareholder. The proposal is accordingly clearly contrary to the best interests of the Bank and its shareholders.

If the Proposer believes that minority shareholders in controlled corporations require additional protection he should lobby the appropriate governmental agency and seek to have it enact rules and regulations that are applicable to all corporations, not just to corporations that may at some future date be controlled by Bank of Montreal.

The Board Recommends that Shareholders Vote Against Proposal No. 3.

Proposal No. 4: Repurchasing Shares of Publicly-Traded Spinoff Company

The Bank shall not repurchase any shares of a publicly-traded spinoff company for a minimum of five years after the initial public offering.

In any situation where the bank creates a new publicly-traded company in which the Bank continues to own more than 20% of the voting shares, the Bank shall make an irrevocable commitment not to repurchase any of the shares sold in the initial public offering (IPO) for a minimum of five years from the date of the IPO, unless such purchases are made at the IPO price plus 0.5% per month for each month that has elapsed since the date of the IPO.

Shareholder's Explanation:
Stock markets are subject to major fluctuations, and five years is the minimum period to fairly test the effectiveness of a new public-traded company. Investors need to have confidence that the Bank will continue to support the independent status of a spinoff enterprise for a period that is long enough for it to survive a recessionary period. This policy is essential if public shareholders are to have confidence in the integrity of any company that is controlled by the Bank. Without such assurance of a sufficient period to grow and prosper, public shareholders are almost certain to discount the value of their investment in the spinoff company, to the detriment of the shareholders of the Bank itself.

Schedule 4 – Shareholder Proposals

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THIS PROPOSAL FOR THE FOLLOWING REASONS:

The Bank has no "publicly traded spin off companies" and accordingly the proposal has no present relevance to the Bank or its shareholders.

As with the immediately preceding proposal, this proposal seeks to protect shareholders, other than the Bank, of a publicly traded company that at some future date may be "spun off" by the Bank, by limiting the rights of the Bank. The proposal accordingly is contrary to the best interests of the Bank and its shareholders.

If the Proposer believes that shareholders in such corporations require additional protection he should lobby the appropriate governmental agency and seek to have it enact rules and regulations that are applicable to all corporations, not just to corporations that may at some future date be "spun off" by Bank of Montreal.

The Board Recommends that Shareholders Vote Against Proposal No. 4.

Bank of Montreal