



# Notice of Annual Meeting of Shareholders and Proxy Circular

Annual Meeting – February 27, 2001

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## Invitation to Shareholders

Please accept my personal invitation to join us at Bank of Montreal's next annual meeting, which takes place on February 27, 2001 at the Four Seasons Hotel in Vancouver.

This is your opportunity to meet and question members of the Board of Directors and the senior leadership team, become well informed about last year's performance, and receive a first-hand account of our relentless pursuit of maximum value for shareholders.

It should be a very informative and gratifying occasion. Please do try to join us if you can.

Sincerely,

**Tony Comper (signed)**

Chairman and Chief Executive Officer

January 12, 2001

P.S. In the meantime, you can view the Bank's 2000 Annual Report, quarterly results, analysts' presentations and a wealth of other information about the Bank by visiting our web site at *www.bmo.com*.

# Notice of Annual Meeting of Shareholders

The 2001 Annual Meeting of Shareholders will commence at 9:30 a.m. (Pacific Standard Time) on Tuesday, February 27, 2001 in the Park Ballroom, Four Seasons Hotel, 791 West Georgia Street, Vancouver, British Columbia, and will have the following purposes:

1. To receive the financial statements of the Bank for the year ended October 31, 2000 and the auditors' report on those statements;
2. To appoint auditors for 2001;
3. To elect the Board of Directors for 2001;
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 shareholder proposals attached as Schedule "A" of the Proxy Circular; and
6. To transact any other business properly before the meeting.

Shareholders as at January 12, 2001 will be entitled to vote at the meeting. 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) 877-9676. For your vote to be recorded, the proxy must be in the hands of The Trust Company of Bank of Montreal, at its Montreal office, no later than 5:00 p.m. Eastern Standard Time (EST) on Monday, February 26, 2001.

By order of the Board of Directors,

**Velma J. Jones (signed)**  
Vice-President and Secretary

January 12, 2001

Please note: Light refreshments will be served prior to the meeting commencing at 8:45 a.m.

## Q&A on Proxy Voting

### Q: What am I voting on?

A: Shareholders are voting on the appointment of auditors for the Bank for 2001, election of directors to the Board of the Bank for 2001, the Special Resolution confirming an amendment to Special By-law “A” – Remuneration of Directors, and shareholder proposals.

### Q: Who is entitled to vote?

A: Shareholders as of the close of business on January 12, 2001 are entitled to vote. Each Common Share is entitled to one vote on those items of business identified in the Notice of Meeting, 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 12, 2001, please refer to the answer to “What if ownership of shares has been transferred after January 12, 2001?” to determine how you may vote such shares.

### Q: How do I vote?

A: There are two ways in which you can vote your shares if you are a registered shareholder. You can vote in person at the meeting or you can 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 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 plan to attend the meeting on February 27, 2001 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, The Trust Company of Bank of Montreal, upon arrival at the meeting.

### 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 primarily by mail but may also be made by telephone, in writing or in person by regular employees of the Bank and/or The Trust Company of Bank of Montreal. The Bank will also use the services of an outside agency, Georgeson Shareholder Communications Canada, to solicit proxies, and the cost of such services is \$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 “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. Proxy-holders should, at the meeting, present themselves to a representative of The Trust Company of Bank of Montreal.

### Q: What do I do with my completed proxy?

A: Return it to the Bank’s transfer agent, The Trust Company of Bank of Montreal, in the envelope provided, or fax to (514) 877-9676 so that it arrives no later than 5:00 p.m. EST on Monday, February 26, 2001. This will ensure 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, prepare a written statement to that 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. EST on Monday, February 26, 2001 or to the Chairman on the day of the meeting, February 27, 2001, or any adjournment of the meeting.

### Q: How will my shares be voted if I give my proxy?

A: The persons named on the form of proxy must vote for or against or withhold from voting your shares in accordance with your directions. In the absence of such directions, however, your shares will be voted in favour of the appointment of auditors, the election of directors to the Board, and the Special Resolution confirming the amendment to Special By-law “A” – Remuneration of Directors, and against the shareholder proposals as set out in Schedule “A” of this Proxy Circular.

## Q&A on Proxy Voting

### Q: What if amendments are made to these matters or if other matters are brought before the meeting?

A: The person named in the form of proxy will have discretionary authority with respect to amendments to and variations on matters identified in the Notice of Meeting as well as 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 judgment.

### Q: How many shares are entitled to vote?

A: As of January 3, 2001, there were outstanding 263,073,094 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 12, 2001.

### Q: What if ownership of shares has been transferred after January 12, 2001?

A: The person who acquired such shares after January 12, 2001 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. EST on Friday, February 16, 2001 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” 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, The Trust Company of Bank of Montreal, 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:

The Trust Company of Bank of Montreal  
P.O. Box 6002  
Station Place d’Armes  
Montreal, Quebec H2Y 3S8

or by telephone:  
within Canada and the United States  
at 1-800-332-0095  
all other countries at (514) 877-2500  
or by fax at (514) 877-9676

### 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 that 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 receive 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.

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 it 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, The Trust Company of Bank of Montreal, upon arrival at the meeting.

# Business of the Meeting

## 1. Financial Statements

The Consolidated Financial Statements for the year ended October 31, 2000 are included in the 2000 Annual Report mailed to shareholders with the Notice of Annual Meeting of Shareholders and Proxy Circular.

## 2. 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 2001 fiscal year.

## 3. Election of the Board of Directors

The fifteen nominees proposed for election as directors of the Bank are listed beginning on page 6. Directors will hold office until the next Annual Meeting of Shareholders of the Bank or until their successors are elected or appointed.

## 4. Amendment to Special By-law “A” – Remuneration of Directors

Special By-law “A” currently provides that 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 may not exceed \$1,300,000. This amount has remained unchanged since January 1993, when the aggregate amount was increased from \$1,000,000 to \$1,300,000. In the eight years since that amendment, directors’ fees have increased in line with the increased accountability of directors as the Bank’s business has grown and the regulatory environment in which it operates has become more complex. This has resulted in increased Committee workloads and more frequent meetings. For these reasons, it is considered appropriate at this time to amend the limit on the aggregate amount payable to all directors as remuneration to \$2,000,000.

Accordingly, on August 22, 2000 the Board of Directors of the Bank passed a resolution which, 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. 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 August 22, 2000, be and it is hereby confirmed:

THAT Special By-law “A” of the Bank be amended by deleting the amount of \$1,300,000 and substituting therefor the amount of \$2,000,000 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 taken from the funds of the Bank and paid to all directors of the Bank as remuneration for their services as directors shall not exceed \$2,000,000.

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. Shareholder Proposals

Shareholder proposals submitted for the consideration of shareholders are attached as Schedule “A” to this circular.



# Nominees for Election to Board of Directors



**Stephen E. Bachand**  
Ponte Vedra Beach, Florida

Director since  
July 1, 1999

Common Shareholdings: 12,800  
Deferred Share Units: 1,210

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 Limited and The Hospital for Sick Children. He graduated from Williams College in Williamstown, Massachusetts with a B.A. degree and from the Darden School of the University of Virginia with an M.B.A.

Mr. Bachand is a member of the Bank's Human Resources and Management Compensation Committee.



**David R. Beatty, O.B.E.**  
Toronto

Director since  
January 20, 1992

Common Shareholdings: 4,924  
Deferred Share Units: 2,942

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. 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: 5,000  
Preferred Shareholdings: 2,000  
(Class B, Series 4)  
Deferred Share Units: 528

Robert Chevrier is Chairman and Chief Executive Officer of Rexel Canada Inc., one of North America's largest integrated distributors of electrical, plumbing, heating, refrigeration, ventilation and waterworks supplies. He also serves as a director of The Conference Board of Canada, 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.



**F. Anthony Comper**  
Toronto

Director since  
January 15, 1990

Common Shareholdings: 32,062

Tony Comper has 33 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 for 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 addition, he has honorary degrees from the University of Toronto (LL.D.) and Mount Saint Vincent University (D.Hum.L.).

Mr. Comper is Chair of the Bank's Executive Committee and 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 3, 2001.
- Deferred Share Units credited under the Directors' Stock Plan are as at January 3, 2001. For a description of Deferred Share Units see "Board of Directors Compensation/Attendance".
- For Mr. Comper, only Common Shares owned outright are indicated. He does not receive compensation for his services as director and so does not participate in the Directors' Stock Plan. See pages 21 and 22 for the total equity-based interest which Mr. Comper has in the Bank including his stock options.





**David A. Galloway**  
Toronto

Director since  
February 24, 1998

Common Shareholdings: 1,000  
Deferred Share Units: 2,638

David Galloway was appointed President and Chief Executive Officer of Torstar Corporation, a publishing company, in 1988. 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 a member of the Board of Trustees of The Hospital for Sick Children. Mr. Galloway also serves as Chairman Delegate, Connaught Committee at the University of Toronto 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, 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

Director since  
September 14, 1999

Deferred Share Units: 1,183

Eva Kwok is Chair and Chief Executive Officer of Amara International Investment Corporation, 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: 10,000  
Deferred Share Units: 5,956

Blair MacAulay is of Counsel to Fraser Milner Casgrain, Barristers and Solicitors, Toronto. He also serves on the boards of The Great-West Life Assurance Company, London Life Insurance Company, Moffat Communications Ltd., Cambridge Shopping Centres Limited 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, and Chairman of the Board of The Trust Company of Bank of Montreal.



**Hon. Frank McKenna,**  
**P.C., Q.C.**  
Cap Pelé, New Brunswick

Director since  
February 24, 1998

Common Shareholdings: 500  
Deferred Share Units: 2,289

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, 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 is a member of the Bank’s Audit and Conduct Review Committees and is a director of The Pension Fund Society of Bank of Montreal.

## Nominees for Election to Board of Directors



**Bruce H. Mitchell**  
Toronto

Director since  
August 17, 1999

Common Shareholdings: 10,000  
Deferred Share Units: 1,220

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 Committee.



**Philip S. Orsino, F.C.A.**  
Caledon, Ontario

Director since  
July 1, 1999

Common Shareholdings: 49  
Deferred Share Units: 357

Philip Orsino is President and Chief Executive Officer of Premdor Inc., one of the world's largest manufacturers and merchandisers of residential and commercial doors, with a major presence in North, Central and South America, France, the United Kingdom, Israel and other countries in Europe, Asia and the Middle East. Mr. Orsino is an active volunteer and is involved in many community activities. He currently serves as a member of the board and Chairman of the Finance and Audit Committee of the University Health Network. A published author and member of the Young Presidents' Organization, Mr. Orsino won the 1998 Entrepreneur of the Year Award for Manufacturing sponsored by Ernst & Young International. He currently serves as a director of Clairvest Group Inc. and Voxcom Incorporated.

Mr. Orsino is a member of the Bank's Audit and Conduct Review Committees.



**J. Robert S. Prichard,  
O.C., O.Ont.**  
Toronto

Director since  
July 18, 2000

Deferred Share Units: 257

Robert Prichard is a Professor of Law and President Emeritus of the University of Toronto, having served as President of the University from 1990 to 2000. He is also a Professor of Higher Education at the Ontario Institute for Studies in Education, University of Toronto and is currently a visiting Professor at Harvard Law School. Mr. Prichard serves as a director or trustee of a number of national and international organizations and corporations. 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

Director since  
January 19, 1987

Common Shareholdings: 5,000  
Deferred Share Units: 4,707

Jeremy Reitman is President, Chief Executive Officer and a director of Reitmans (Canada) Limited, a retailing company. He is also a member of the Board of Governors of McGill University. A lawyer by profession, Mr. Reitman studied at Dartmouth College, Hanover, New Hampshire (A.B.) and McGill University (B.C.L.).

In addition to chairing the Bank's Audit Committee, he is a member of the Executive, Governance and Conduct Review Committees and is an *ex officio* member of the Risk Review Committee.



**Joseph L. Rotman, o.c.**  
Toronto

Director since  
October 15, 1999

Common Shareholdings: 10,716  
Deferred Share Units: 766

Mr. Rotman is Executive Chairman of Clairvest Group Inc., a Toronto-based merchant bank. He also serves as a director of Barrick Gold Corporation, Ovation Inc., Premdor Inc. and TrizecHahn Corporation. 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 also a director of the University of Toronto Asset Management Corporation. Mr. Rotman is 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. 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

Director since  
May 1, 1992

Common Shareholdings: 4,045  
Preferred Shareholdings: 400  
(Class B, Series 4)  
Deferred Share Units: 4,053

Guylaine Saucier is a Corporate Director who serves on the boards of Nortel Networks Corporation, AXA Assurance Inc., Petro-Canada, Tembec and Fondation du Musée des Beaux Arts. She is a former Chairman of the Board of Directors of 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-Bourgeoise 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 and Conduct Review Committees.



**Nancy C. Southern**  
Calgary

Director since  
September 1, 1996

Common Shareholdings: 2,638  
Deferred Share Units: 218

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 Akita Drilling Ltd. and Sentgraf Enterprises Ltd. and Executive Vice-President of Spruce Meadows, one of the world's finest show jumping facilities. Ms. Southern is an active volunteer and has been involved in many community endeavours.

Ms. Southern is a member of the Bank's Audit and Conduct Review Committees.

# Board of Directors Compensation/Attendance

## How is the Board Compensated?

- Number of directors at January 3, 2001: 18 (17 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 who travel more than 1,000 km from their principal residence to meeting

### Notes:

During the course of the year, six outside directors of the Bank (one of whom resigned on February 29, 2000) 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; Committee Chair retainer: \$3,000; Committee 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' Stock Plan

To ensure that directors' compensation is aligned with shareholders' equity:

- 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 2000, 94% of the directors elected to take all of their annual retainer and meeting fees in 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, 2000, the accrual in respect of Deferred Share Units currently outstanding to Board members was \$2,508,837

Only non-employee directors participate in this plan.

## Shareholdings of Board Members

- Total Common Shares held by non-employee directors: 99,622 (a)
- Total Deferred Share Units held by non-employee directors: 41,962 (a)
- Total value of Common Shares and Deferred Share Units held by non-employee directors: \$11,093,106 (b)

### Notes:

(a) Shareholdings of the non-employee directors as at January 3, 2001.

(b) Based on closing price of the Bank's Common Shares on The Toronto Stock Exchange as of January 3, 2001: \$78.35.

## Summary of Board and Committee Meetings Held

For the 12-month period ended October 31, 2000

Board (a)	13
Audit Committee	6
Conduct Review Committee	2
Executive Committee	Nil
Human Resources and Management Compensation Committee	6
Governance Committee	8
Risk Review Committee	12
Pension Fund Society Board (b)	4
Total number of meetings held	51

(a) In addition to the nine regularly scheduled Board meetings, one Organizational and two Special Board meetings were held; there was also one all-day Board Strategy Session.

(b) 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, 2000

Director	Board meetings attended	Committee meetings attended (a)(b)
Stephen E. Bachand	13 of 13	6 of 6
Ralph M. Barford (retired February 29)	4 of 4	7 of 7
David R. Beatty	11 of 13	22 of 24
Peter J.G. Bentley	12 of 13	20 of 22
Robert Chevrier (elected February 29)	8 of 9	2 of 4
F. Anthony Comper	13 of 13	32 of 34
John F. Fraser	13 of 13	14 of 14
David A. Galloway	13 of 13	18 of 18
Eva Lee Kwok	11 of 13	6 of 8
J. Blair MacAulay	13 of 13	15 of 15
Ronald N. Mannix (resigned February 29)	3 of 4	1 of 1
Hon. Frank McKenna	13 of 13	11 of 12
Robert H. McKercher	13 of 13	12 of 12
Bruce H. Mitchell	12 of 13	8 of 12
Eric H. Molson (resigned February 29)	3 of 4	1 of 2
Philip S. Orsino (c)	5 of 13	2 of 8
J. Robert S. Prichard (appointed July 18)	4 of 4	1 of 1
Jeremy H. Reitman	12 of 13	20 of 22
Joseph L. Rotman	12 of 13	12 of 15
Guylaine Saucier	12 of 13	12 of 12
Nancy C. Southern	10 of 13	8 of 8

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

(b) Due to the number of ad hoc Risk Review Committee meetings required for immediate decisions on exposures which exceed delegated limits and the fact that such meetings are called on 24 hours notice, full attendance by Committee members is not always feasible.

(c) Due to illness and hospitalization Mr. Orsino was unable to attend any meetings during the first half of the year. In the second half of the year, he attended all but one meeting. The matter was reviewed by the Governance Committee and his lack of attendance during the first half of the year was excused.

# 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.

During the year the Committee engaged outside counsel to review the mandate and operations of the Audit Committee. The review concluded that the current practices of the Committee generally meet or exceed current best practices.

During fiscal 2000 the Committee met regularly with the Shareholders' Auditors, the Chief Financial Officer, Chief Auditor, General Counsel, Chief Compliance Officer and representatives of the Office of the Superintendent of Financial Institutions.

In fulfilling its mandate and responsibilities, the Committee focused its attention on three key areas:

## 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 judgments 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 the Management Analysis of Operations and 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 risk and control environment, including reviewing the quarterly reports of the Chief Auditor in respect of internal controls over credit, liquidity, market and operational risk. 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.



### Members

Philip Orsino, Guylaine Saucier, Jeremy Reitman (Chair), Eva Kwok, Peter Bentley, Robert Chevrier, Bob McKercher, Frank McKenna, Nancy Southern (not present)

- Reviewed adherence to the Standards of Sound Business and Financial Practices prescribed by Canada Deposit Insurance Corporation (CDIC) to ensure the Bank meets acceptable standards.
- Reviewed and recommended to the Board for its approval the Bank's annual self-assessment report as required by the CDIC Act.
- 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, 2000.

**Jeremy H. Reitman (signed)**

Chair  
Audit Committee



# Report of the Governance Committee

For the third year in a row, the Bank has received the Award of Excellence for Leadership in Corporate Governance as part of the 2000 Annual Report Awards presented by the Canadian Institute of Chartered Accountants and the *National Post*. In addition, in February 2000 the Bank received the International Governance Award presented by Institutional Shareholder Services of Washington, D.C.

The Governance Committee, in executing its mandate:

- Identified and recommended to the Board suitable director candidates.
- 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 shareholders.
- Monitored the orientation program for new directors.
- Reviewed the Board's *Approval/Oversight Guidelines*.
- Assessed the merits of shareholder proposals and formulated draft responses for Board approval.
- Monitored the Board's governance program.

One of the most significant innovations in the governance program over the past few years has been the institution of the Peer Feedback for Directors survey, which rates the performance of each director against the standards of performance established in the Board's *Charter of Expectations for Directors*, the text of which can be found at the end of this report. The survey measures the performance and contribution of each director on a wide variety of indicators including strategic insight, financial literacy, business judgment and accountability, communication and participation. To ensure strict confidentiality, each director forwards the completed survey directly to an outside consulting firm which compiles the results and provides to each director individually his or her score. The Governance Committee and Board receive summaries of the aggregate performance of all directors. Bank of Montreal believes it is virtually the only major Canadian corporation requiring



#### Members

Jack Fraser, Peter Bentley, Blair MacAulay (Chair), Jeremy Reitman, David Beatty

its directors to complete such a survey. Directors who have served on the Board for less than twelve months do not participate in the survey.

A key challenge facing boards is how to foster a high level of individual director participation around the board table. Underperforming directors can be a source of frustration to other members of the board and may diminish overall board effectiveness. Peer feedback and the review of individual performances against the *Charter of Expectations for Directors* were instituted as a tool to improve individual and collective performance. The consensus is that the survey is an excellent self-assessment tool. Directors have readily accepted the process and, we believe, are gaining meaningful insight into their individual performance and contribution.

A summary of other key elements of the Bank's governance program is set out below.

#### Board Membership

At the Annual Meeting on February 27, 2001, fifteen directors will stand for re-election for a one-year period, down from the current eighteen. The reduction is the result of the retirement of three long-serving directors who are not eligible to stand for re-election because of the Board's age policy. No new candidates are proposed for election at the forthcoming meeting, as the Committee and the Board are 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 the staffing of Board committees.



Other policies affecting Board membership include the requirement that a director who changes his or her principal occupation or who in any fiscal year attends less than 75% of the Board and committee meetings which he or she is expected to attend is required to tender his or her resignation for consideration by the Board.

### **Board Independence**

Board independence at Bank of Montreal is assured given the Board policy mandating that no more than two members of management serve on the Board at any one time. Currently only the Chairman and Chief Executive Officer serves on the Board.

Further, all directors standing for re-election on February 27, 2001, with the exception of the Chairman and Chief Executive Officer, are “unaffiliated” as defined in the *Bank Act*. This was also the case for 2000. The Chair of the Governance Committee serves as lead director and 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. In addition, the Board and its committees are empowered to engage independent consultants as appropriate to assist in discharging their responsibilities.

### **Accountability**

In addition to completing the Peer Feedback for Directors survey, each year directors complete a comprehensive survey which measures the effectiveness of the Board. This survey covers the operation of the Board, 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. In addition, this year the directors were required to complete separate surveys dealing with the annual all-day Strategy Session and committee activities. To ensure frank responses, completed surveys are forwarded directly to an outside consulting firm, which compiles and analyzes the survey results. The results of the survey assist the Governance Committee in identifying and correcting perceived shortfalls in Board procedures and practices and allow individual directors to suggest new or improved practices and procedures that will improve the operation of the Board and its committees.

Directors have the responsibility for safeguarding the integrity of the Bank’s internal control systems and for ensuring ethical behaviour and compliance with laws and regulations. These responsibilities are vested in the Board’s Audit Committee, Conduct Review Committee and Risk Review Committee. The full Board retains responsibility for the review of material transactions which fall outside the ordinary course of the Bank’s business.

As described on page 10, substantially all of the remuneration paid by the Bank to its directors is in the form of Deferred Share Units. This ensures that directors’ compensation is aligned with Bank performance and with the interests of all shareholders.

A comprehensive job description is in place for the Chairman and Chief Executive Officer. The Governance Committee conducts an annual assessment of the Chairman and Chief Executive Officer on his performance in the role of Chairman, while the Human Resources and Management Compensation Committee annually assesses his performance as Chief Executive Officer.

### **Board Access to Information**

An important element of the Board’s governance program is the continuous improvement in the quality and timeliness of the dissemination of information to directors. To the maximum extent practical, communications are sent electronically. On a quarterly basis, directors are provided with comprehensive reports which compare the performance of the Bank, measured by each of the principal operating ratios, against the performance of its Canadian and North American peer groups. Also, quarterly investor relations reports are provided to the Board.

To ensure that directors are fully versed in the Bank’s strategic plans, an all-day Strategy Session is conducted annually. In addition, during the year, updates on the strategies of the various client groups and their lines of business are provided at regular Board meetings. Further, following every committee meeting, committee chairs report to the Board on the activities of their respective committees.

New directors are introduced to the business of the Bank through a comprehensive orientation and education program.

# Report of the Governance Committee

## Shareholder Communications

The Bank is committed to fair treatment of shareholders, irrespective of the size of their holdings. All information related to material changes is available on the Bank's web site as it is made public. Further, the Bank provides live Internet access through its web site to its quarterly meetings with analysts.

A dedicated Shareholder Services group responds to individual shareholder inquiries, while the Investor Relations group responds to questions from institutional investors and financial analysts.

The Governance Committee, not management, assesses the merits of shareholder proposals and recommends to the Board their appropriateness for inclusion in the Proxy Circular. This ensures that shareholder proposals are handled by outside directors.

## Conclusion

The Bank constantly reviews, evaluates and modifies its governance program to ensure that it is of the highest standard. The Board is satisfied that the Bank's comprehensive governance program is consistent with, and in most instances goes beyond, the guidelines adopted by The Toronto Stock Exchange in 1995.

**J. Blair MacAulay (signed)**

Chair

Governance Committee

# Charter of Expectations for Directors

The Bank has adopted a *Charter of Expectations for Directors* which sets out the specific responsibilities to be discharged by the Bank's directors and the individual roles expected of them.

The Charter also stipulates the personal and professional characteristics expected of directors. This stipulation forms a recruitment model for use in screening and selecting Board nominees.

## Board Responsibilities

The Board of Directors is explicitly responsible for the stewardship of the Bank. To discharge this obligation, the Board should assume responsibility in the following areas:

### Strategic Planning Process

- Provide input to management on emerging trends and issues.
- Review and approve management's strategic plans.
- Review and approve the Bank's financial objectives, plans and actions, including significant capital allocations and expenditures.

### Monitoring Tactical Progress

- Monitor corporate performance against the strategic and business plans, including assessing operating results to evaluate whether the business is being properly managed.

### Risk Assessment

- Identify the principal risks of the Bank's businesses and ensure that appropriate systems are in place to manage these risks.

### Senior Level Staffing

- Select, monitor, evaluate and, if necessary, replace the Chief Executive Officer and other senior executives, and ensure management succession.

### Integrity

- Ensure the integrity of the Bank's internal control and management information systems.
- Ensure ethical behaviour and compliance with laws and regulations, audit and accounting principles, and the Bank's own governing documents.

### Material Transactions

- Review and approve material transactions not in the ordinary course of business.

### Monitoring Board Effectiveness

- Assess its own effectiveness in fulfilling the above and other Board responsibilities, including monitoring the effectiveness of individual directors.

### Other

- Perform such other functions as prescribed by law or assigned to the Board in the Bank's governing documents.

## Director Attributes

To execute these Board responsibilities, directors must possess certain characteristics and traits:

### Integrity and Accountability

- Directors must demonstrate high ethical standards and integrity in their personal and professional dealings, and be willing to act on – and remain accountable for – their boardroom decisions.

### Informed Judgment

- 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 judgment 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.

# 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 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.

There was a significant increase in meeting frequency in fiscal 2000. Committee agendas included detailed reviews of strategies in several of the Bank's major business units. Delegated authorities were adjusted in line with prudent risk management 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 19 of the 2000 Annual Report), 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 (CDIC).
- Provided decisions on exposures recommended by the Chief Executive Officer which exceed delegated limits.
- Reviewed core methods and procedures established by management in respect to its control of the key risks. Some of these were related to new business and change management initiatives.
- Reviewed at least quarterly the attestation and report of the head of the Bank's Risk Management Group. This attestation comments on positions and trends in the risk portfolio, including the comparison of actual positions to exposure limits, as well as any exceptions to corporate policies.



#### Members

Bruce Mitchell, Joe Rotman, David Beatty (Chair), Tony Comper, David Galloway

The mandate of the Risk Review Committee is subject to review at least annually. A review by an independent consultant has confirmed that the mandate and practices of the Committee represent leading-edge approaches.

The Committee is satisfied that it appropriately fulfilled its mandate to the best of its ability during the year ended October 31, 2000

**David R. Beatty (signed)**

Chair

Risk Review 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 reviews those procedures.
- Reviewed the practices of the Bank to ensure that any transactions with related parties of the Bank that may have a material effect on the stability or solvency of the Bank are 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

Philip Orsino, Guylaine Saucier, Peter Bentley (Chair), Eva Kwok, Jeremy Reitman, Robert Chevrier, Bob McKercher, Frank McKenna, Nancy Southern (not present)

The Committee is satisfied that it appropriately fulfilled its mandate to the best of its ability during the year ended October 31, 2000.

**Peter J.G. Bentley (signed)**

Chair

Conduct Review Committee

## Report of the Executive Committee

The Committee is now an ad hoc committee which meets on an “as required” basis. In recent years, the Board has been reduced in size and the efficiencies of its smaller size have made it possible to dispense with regular Committee meetings, thus facilitating more effective utilization of directors' time. The Committee did not meet in fiscal 2000.

The mandate of the Committee is to act for the Board when it is not in session, with all the powers of the Board in respect of management and direction of the business and affairs of the Bank, subject to certain *Bank Act* statutory limits on the Board's capacity to delegate authority.



### Members

Blair MacAulay, Jeremy Reitman, Jack Fraser, Tony Comper (Chair), David Beatty, Peter Bentley

**F. Anthony Comper (signed)**

Chair

Executive Committee

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

During fiscal 2000, the Human Resources and Management Compensation Committee meetings included a detailed review of strategic organizational and leadership issues, executive compensation programs, performance assessments on the Bank's most senior officers and succession management for all key executive roles.

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 executives are in place.
- Conducted an annual review of the Bank's overall human resources.

## Our Compensation Philosophy

- To support the continued success of the Bank by providing compensation that is competitive in order to attract, retain and motivate talented employees. The Committee engages independent compensation consultants to gather information regarding the compensation practices of comparable Canadian and U.S. banks and other major Canadian companies.
- 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
  - their level of individual performance on the job.
- To structure executive compensation so as to motivate management to create sustained shareholder value by:
  - ensuring that incentive-based compensation comprises a significant component of senior executives' total compensation
  - linking annual incentive awards to both absolute results of the Bank and its businesses and, for senior executives, to results of the Bank in relation to other comparable financial institutions
  - providing mid-term and long-term incentives to align executive compensation with the results realized by shareholders.



### Members

David Galloway, Peter Bentley (Chair), Jack Fraser, Blair MacAulay, Steve Bachand, Rob Prichard

## Elements of Compensation

### Base Salaries

- Base salaries for each position and level are set so as to be competitive relative to the practices of comparable banks.

### Short-Term Incentive Plan

- Annual bonuses for most Bank executives are based on the net income after tax performance of the Bank's three client groups (Personal and Commercial Client Group, Private Client Group and Investment Banking 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 based on the Bank's performance compared to the Bank's Canadian peer group.
- To support the Bank's goal of maximizing shareholder value, pools may be increased by up to an additional 15% of the target amount when a client group's net economic profit performance goals are exceeded.
- When very strong performance is achieved, such that it generates pools of more than 200% of the target amount, payouts up to that level will be in cash and above that level will be in three-year restricted stock units.
- Senior executives in the Investment Banking Group participate in the Investment and Corporate Banking Short-Term Incentive Plan. This Plan is based on a percentage of the Investment Banking Group's operating profit.



- The more senior the employee, the greater the portion of his or her total cash compensation that is performance-based. For the Named Executive Officers listed on page 21, the portion of total annual cash compensation that was performance-based in 2000 ranged from 47% to 94%.
- Approximately 300 executives participate in this program.
- The Bank's TSR relative to comparable financial institutions. When the Bank outperforms its competitors, payments may be increased by up to 250% of the original award. If the Bank's performance fails to meet thresholds, no payments will be made to executives.
- Participants in this program are largely the same as those in the Short-Term Incentive Plan described above.

#### **Deferred Stock Unit Plan**

- This Plan was introduced in 1999 for senior executives in order to further align the interests of executives with those of our shareholders. Under the Plan, senior 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 are converted into DSUs based on the market price of the Bank's Common Shares. Additional DSUs are credited to participants' accounts at the same rate as dividends on the Bank's Common Shares. Participants are permitted to 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 will be 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**

- We strongly believe that a significant portion of the incentive compensation of Bank executives should be directly linked to the value of the Bank's Common Shares and that executives should be rewarded for creating returns for our 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.
- Each award will vest and be paid out at the end of a three-year performance cycle.
- The value of the Units will be determined at that time based on the following performance results:
  - The Bank's total shareholder return (TSR) over the three-year period; and

#### **Stock Option Plan**

- The Committee believes that it is imperative that a significant portion of the total compensation of senior executives be aligned with the market value of the Bank's shares, and that share price increase hurdles be established for vesting purposes. To achieve this objective, the Bank introduced a Stock Option Plan in 1995 which was amended in 2000 with the approval of shareholders. In the fiscal year ended October 31, 2000, 690 executives and senior managers were granted options to purchase 4,221,600 Common Shares at an option price of \$51.20, being the closing market price of shares on December 13, 1999, the date immediately preceding the date of the grants.
- Under the 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 price increase hurdle of 50% over the exercise price. Senior executives (including the Named Executive Officers as defined on page 21) 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 300 senior managers who participate on a selected basis.

#### **Investment Banking Group (IBG) Long-Term Incentive Plan**

- Executives in the Investment Banking Group participate in the IBG Long-Term Incentive Plan. Under the Plan, executives are awarded phantom share units based on the price of the Bank's Common Shares. These shares vest and are paid out over 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

We believe that the Bank's executive officers should hold significant ownership in the Bank. The Bank has implemented guidelines which are being phased in over three years. The guidelines stipulate minimum stock holding requirements 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 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.

## Compensation of the Chief Executive Officer

For the fiscal year ended October 31, 2000, the compensation of Mr. Comper, the Chief Executive Officer, consisted of base salary, annual bonus, Performance Share Units and stock option grants as follows:

- The base salary of the Chief Executive Officer remained unchanged at \$900,000.
- The Chief Executive Officer was awarded a bonus for the fiscal year 2000 of \$1,400,000, based on:
  - the Bank's absolute ROE performance of 18%
  - the Bank's relative ROE performance, which ranked third among the six major Canadian banks
  - the annual performance review of the Chief Executive Officer, which covers financial and non-financial performance including:
    - financial performance and condition of the Bank
    - strategic direction/positioning of the Bank
    - marketing and customer satisfaction
    - human resources management
    - technology and infrastructure management
    - community service and Bank reputation.
  - 50% of Mr. Comper's 2000 bonus was paid to him in Deferred Stock Units which can be redeemed only upon his retirement from the Bank.

- A total of 16,074.13 Performance Share Units were granted to the Chief Executive Officer at a unit price of \$51.65. The payout value of these Units, which vest at the end of fiscal 2002, is based on the Bank's TSR compared to the Bank's Canadian peer group.
- Under the terms of the Stock Option Plan, 204,000 stock options were granted to the Chief Executive Officer at an exercise price of \$51.20, the market value at the date of grant. These options, which are designed to provide a significant incentive to the Chief Executive Officer and to be aligned with increasing shareholder value, will not vest unless the share price increase hurdles described previously are met.

Submitted by the Human Resources and Management Compensation Committee of the Board of Directors, which is comprised of the following six independent directors:

**Peter J.G. Bentley (signed)**  
Chair

**Stephen E. Bachand (signed)**

**John F. Fraser (signed)**

**D.A. Galloway (signed)**

**J. Blair MacAulay (signed)**

**J. Robert S. Prichard (signed)**

*Note: During the course of the year, there were two changes to Committee membership. Mr. Barford retired on February 29, 2000. On July 25, 2000, Mr. Prichard was appointed to the Committee.*

# 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 2000.

Name and principal position	Year	Annual compensation			Long-term compensation awards			
		Salary (\$)	Bonus (\$) (a)(b)	Other annual compensation (\$)	Securities under options granted (#)	Restricted share units (\$) (c)	LTIP payouts (\$) (d)	All other compensation (\$) (e)
F.A. Comper Chairman & Chief Executive Officer	2000 1999 1998	900,000 838,333 682,500	1,400,000 800,000 675,000	N/A N/A N/A	204,000 118,000 90,000	850,000 Nil Nil	Nil Nil Nil	72,142 19,769 7,176
Y.J.P. Bourdeau President & Chief Operating Officer BMO Nesbitt Burns	2000 1999 1998	300,000 393,333 371,700	2,500,000 1,250,000 431,550	N/A N/A N/A	46,000 62,000 26,000	450,000 Nil Nil	200,959 Nil Nil	63,337 6,187 727
W.A. Downe (f) Vice-Chair, Private Client Group	2000 1999 1998	US 500,000 US 404,167 US 287,500	US 800,000 US 920,000 US 700,000	N/A N/A N/A	162,000 60,000 15,000	US 300,000 Nil Nil	Nil Nil Nil	22,554 Nil Nil
A.G. McNally Vice-Chair and Chairman & Chief Executive Officer Harris Bankcorp, Inc.	2000 1999 1998	US 600,000 US 600,000 US 583,333	US 525,000 US 550,000 US 650,000	N/A N/A N/A	62,000 80,000 60,000	US 325,000 Nil Nil	Nil Nil Nil	47,112 14,166 13,090
R.J. Orr Vice-Chair, Investment Banking and Chairman & Chief Executive Officer BMO Nesbitt Burns	2000 1999 1998	300,000 210,000 120,000	4,500,000 2,600,000 1,150,000	N/A N/A N/A	62,000 N/A N/A	475,000 Nil Nil	212,124 Nil Nil	83,711 Nil Nil

### 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 2000 bonuses, the Named Executive Officers elected to defer the following amounts of their annual bonuses into DSUs under the Deferred Stock Unit Plan based on a share price of \$54.13, which was the average closing price of the Bank's Common Shares for the five consecutive trading days ending October 29, 1999: Mr. Comper, \$700,000, Mr. Bourdeau, \$1,250,000, Mr. Orr, \$2,250,000. Mr. McNally's bonus of US\$525,000 was converted into DSUs based on the share price of \$44.81, which was the five-day average closing price of the Bank's Common Shares on February 15, 2000. Aggregate holdings of DSUs under this Plan as at October 31, 2000 and their value were as follows: Mr. Comper 7,967.62 DSUs with a value of \$561,717.21, Mr. Bourdeau 24,897.88 DSUs with a value of \$1,755,300.54, Mr. Downe 6,755.67 DSUs with a value of \$476,274.74, Mr. McNally 17,190.91 DSUs with a value of \$1,211,959.16 and Mr. Orr 44,815.35 DSUs with a value of \$3,159,482.18. Additional DSUs are credited to reflect dividends paid on Common Shares of the Bank.
- (c) Amounts shown for Mr. Comper, Mr. McNally and Mr. Downe represent awards made on December 14, 1999 under the Bank's Mid-Term Incentive Plan which were converted into Units based on a share price of \$52.88, which was the average closing price of the Bank's

Common Shares for the 90 calendar days ending December 13, 1999. 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 page 19 for details on the Mid-Term Incentive Plan). Amounts shown for Mr. Bourdeau and Mr. Orr were awarded on December 1, 1999 under the IBG Long-Term Incentive Plan and were converted into phantom share units based on a share price of \$53.03, which was the average closing price of the Bank's Common Shares for the three days ending on December 1, 1999. These units vest and become payable over a three-year vesting period at the rate of one-third each year.

- (d) Amounts shown are in relation to phantom share units under the IBG Long-Term Incentive Plan that vested and became payable October 31, 2000.
- (e) For the Named Executive Officers, the amounts shown represent the amount of interest accrued for the year ending October 31, 2000 under the executive incentive bonus plan for amounts deferred prior to November 1, 1987, as well as dividend equivalents credited to the Named Executive Officers under the Bank's Deferred Stock Unit Plan, Mid-Term Incentive Plan and the IBG Long-Term Incentive Plan. In addition, the amounts shown for 1999 and 2000 include 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.
- (f) Mr. Downe's 2000 option grant includes a special one-time grant of 100,000 options as a result of his converting to the Bank's Executive Compensation Program from the Investment Banking Group's compensation plans.

## 2000 Stock Option Grants

In the fiscal year 2000, stock options to purchase Common Shares of the Bank were granted to the Named Executive Officers as set out in the table below. All of the options granted had an exercise price equal to the market value of Bank of Montreal Common Shares on the date of 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 (see page 19 for details of the Stock Option Plan).

### Option Grants during the Year Ended October 31, 2000

Name	Number of securities under options granted	% of total options granted to employees in financial year	Exercise or base price (\$/security)	Market value of securities underlying options on the date of grant (\$/security)	Expiration date
F.A. Comper	204,000	4.8%	51.20	51.20	Dec. 14, 2009
Y.J.P. Bourdeau	46,000	1.1%	51.20	51.20	Dec. 14, 2009
W.A. Downe	162,000	3.8%	51.20	51.20	Dec. 14, 2009
A.G. McNally	62,000	1.5%	51.20	51.20	Dec. 14, 2009
R.J. Orr	62,000	1.5%	51.20	51.20	Dec. 14, 2009

## Executive Compensation

The following table shows the aggregate number of options which each Named Executive Officer now holds and the

value of these based on the market value of Bank of Montreal Common Shares as at October 31, 2000, which was \$70.50.

### Aggregated Option Exercises during the Year Ended October 31, 2000 and Financial Year-End Options

Name	Securities acquired on exercise (#)	Aggregate value realized (\$)	Unexercised options at October 31, 2000 (#)		Value of unexercised in-the-money options at October 31, 2000 (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
F.A. Comper	Nil	Nil	153,000	636,000	6,885,000	13,538,600
Y.J.P. Bourdeau	Nil	Nil	31,000	204,000	1,395,000	4,023,750
W.A. Downe	Nil	Nil	17,400	274,900	783,000	5,099,600
A.G. McNally	Nil	Nil	86,000	342,000	3,870,000	7,209,950
R.J. Orr	Nil	Nil	–	62,000	–	1,196,600

### 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, 2000.

### Long-Term Incentive Plans – Awards during the Year Ended October 31, 2000

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	16,074.13	3 years	N/A	N/A	N/A
Y.J.P. Bourdeau	8,485.28	3 years	N/A	N/A	N/A
W.A. Downe	8,311.28	3 years	N/A	N/A	N/A
A.G. McNally	9,003.88	3 years	N/A	N/A	N/A
R.J. Orr	8,956.69	3 years	N/A	N/A	N/A

**Note:**

Mr. Comper, Mr. Downe and Mr. McNally received Units under the Mid-Term Incentive Plan based on a share price of \$52.88. 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 and Mr. Orr received phantom share units under the IBG Long-Term Incentive Plan based on a share price of \$53.03. 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

Compensation (\$)	Years of service				
	15	20	25	30	35
200,000	38,572	54,288	70,003	85,719	101,434
225,000	43,259	60,538	77,816	95,094	112,372
250,000	47,947	66,788	85,628	104,469	123,309
300,000	57,322	79,288	101,253	123,219	145,184
400,000	76,072	104,288	132,503	160,719	188,934
500,000	94,822	129,288	163,753	198,219	232,684
750,000	94,822	129,288	163,753	198,219	232,684
1,000,000	94,822	129,288	163,753	198,219	232,684
1,250,000	94,822	129,288	163,753	198,219	232,684
1,500,000	94,822	129,288	163,753	198,219	232,684
1,750,000	94,822	129,288	163,753	198,219	232,684

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, and A.G. McNally, 35 years. Mr. Orr is not covered by the Bank's pension plan.

### Retirement Allowances for Certain Named Executive Officers

Upon retirement, Mr. Comper, Mr. Bourdeau, Mr. McNally and Mr. Downe are each entitled to receive an annual retirement allowance during their lifetimes pursuant to retirement agreements with the Bank. In the cases of Mr. Comper, Mr. Bourdeau and Mr. McNally, 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, Mr. Comper, Mr. Bourdeau and Mr. McNally 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 his best average earnings for each year of service less whatever annual amount is payable to him from the pension plan of the Bank. If any such individual is receiving an annual retirement allowance at the time of his death the Bank would, subject to certain deductions, pay annually to his surviving spouse during her lifetime 60% of this retirement allowance. If such individual or his spouse is receiving an annual retirement allowance at the time of the death of the survivor of them, the amount that would otherwise be paid to the spouse upon his death would be divided and paid in equal shares for the benefit of any surviving dependent children.

Estimated annual retirement allowance benefits payable upon retirement to the specified Named Executive Officers are shown in the following table.

### Estimated Annual Retirement Allowance Benefits (retirement allowance benefits – normal retirement)

Best average earnings \$(a)	Age 62 \$(c)	Best average earnings \$(b)	Age 60 \$(c)
500,000	350,000	500,000	290,000
750,000	525,000	750,000	435,000
1,000,000	700,000	1,000,000	580,000
1,250,000	875,000	1,250,000	725,000
1,500,000	1,050,000	1,500,000	870,000
1,750,000	1,225,000	1,750,000	1,015,000
2,000,000	1,400,000	2,000,000	1,160,000

#### Notes:

(a) Best average earnings for Mr. Comper, Mr. Bourdeau and Mr. McNally at normal retirement is the sum of the final 12 months' salary plus 1/5 of the aggregate of the best five years of bonuses awarded, except in Mr. Bourdeau's case, where the best five years average bonus is limited to 200% of final salary. For early retirement between ages 57 and 62, best average bonus is limited to 45% of final salary, except in Mr. Bourdeau's case, where the best average bonus is limited to 100% of final salary.

(b) Best average earnings for Mr. Downe is the sum of the final 12 months' salary plus 1/5 of the aggregate of the best consecutive five years of bonuses limited to 45% of final salary.  
(c) Annual benefits payable upon retirement will be reduced by the annual amount payable under the pension plan of the Bank and/or a pension plan of a subsidiary.

Based on current compensation, the estimated annual benefits payable upon retirement are as follows:

F.A. Comper \$1,287,300, Y.J.P. Bourdeau \$686,000, A.G. McNally \$1,264,175 and W.A. Downe \$640,211.

## 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 \$4,286,263.

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:

▪ 7,859 Mortgage Loans:	\$474,566,377
▪ 13,262 Personal Loans:	\$313,262,470
▪ Total:	\$787,828,847

**Table of Indebtedness of Directors and Executives** (other than for the purchase of securities of the Bank or its subsidiaries)

Name and principal position	Involvement of issuer or subsidiary	Largest amount outstanding during year ended October 31, 2000 (\$)	Amount outstanding as at January 3, 2001 (\$)
C.B. Begy, Senior Vice-President	Bank as lender	47,836	33,268
R.H. Call, Senior Vice-President	Bank as lender	12,260	7,320
B.M. Cooper, Chairman & Chief Executive Officer, Jones Heward Investment Counsel Inc.	Bank as lender	303,000	303,000
L.J. Ménard, President, Bank of Montreal Group of Companies, Quebec	Bank as lender	250,000	250,000
J.M. Mulhall, Vice-President	Bank as lender	461,830	410,637
D. Rosenswig, Executive Vice-President	Bank as lender	40,000	39,271

**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.

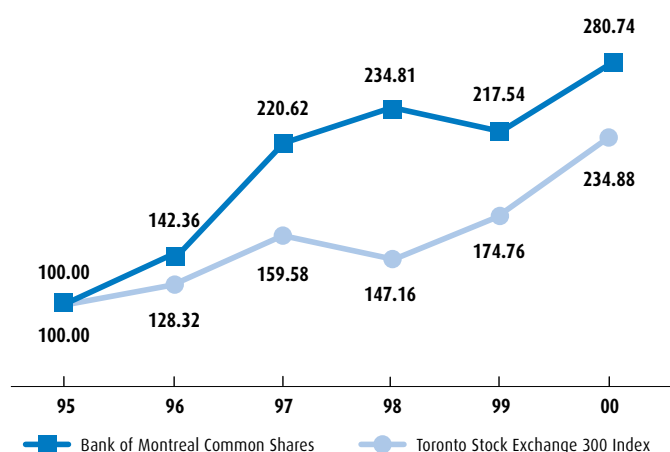
- Prior to September 1, 1999, loans to executive officers for personal purposes, principally for consumer purchases, home improvement and sundry investments, were made available at an interest rate of one-half of the Bank's prime rate to a maximum of \$25,000. Loans in excess of this amount were available 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 locations. 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 locations. 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, 1995 with the cumulative total return of the TSE 300 Stock Index for the five most recently completed financial years.

**Cumulative Return (\$)**



**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 TSE 300 Index is the total return index, including dividends reinvested.



## Directors' and Officers' Insurance

As part of the Integrated Risk Insurance Program, the Directors and Officers Liability Insurance policy provides corporate reimbursement, with coverage limits of \$400 million, for each and every loss experienced by the directors and officers. The policy also includes separate dedicated coverage limits of \$400 million for each and every loss, for each director and officer. There are no deductibles for the coverage. For the policy year October 31, 2000 to October 31, 2001, the annual premium paid by the Bank is \$940,000.

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 judgment) 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, 2000 together with the accompanying report of the auditors thereon and any interim financial statements of the Bank for periods subsequent to October 31, 2000; 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](mailto:corp.secretary@bmo.com)

## Directors' Approval

This Proxy Circular is dated as of January 3, 2001 and, except as otherwise indicated, all the information contained in this Proxy Circular is given as of that date. The Board of Directors of the Bank has approved the contents and the sending of this Proxy Circular to the shareholders.

**Velma J. Jones (signed)**  
Vice-President and Secretary

## Schedule “A” – Shareholder Proposals

The following five 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.

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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 three proposals. These proposals and APEIQ’s supporting comments (translated from French into English) are set out verbatim, in italics, below.

### Proposal No. 1: INDEPENDENCE OF EXTERNAL AUDITORS

*It is proposed that the Bank of Montreal change its internal by-laws in order to prohibit any business relationship, other than that related to auditing services, with the firm(s) acting as its external auditors. Such prohibition would extend to all of the firm’s associated or affiliated entities.*

*Appointed by the shareholders, the external auditors, who are responsible for the integrity of the financial statements, are the keepers of their client’s interests. Their independence from management and the Board of Directors must be flawless and above any suspicion. Accounting firms which concurrently provide auditing and related services, directly or through associated entities, place themselves in an actual or perceived situation of conflict of interest. The concurrent holding of different functions is a threat to the integrity of the auditing process which is all the more disquieting because the contracts for related services are often more substantial and profitable than the auditing contracts.*

*Mr. Arthur Levitt, Chairman of the Securities and Exchange Commission, has spoken against the major U.S. accounting firms, “accusing the industry’s biggest players of abdicating their responsibility to the public trust” and asked “mid-sized firms to stand up and preserve the integrity of their profession” (CBS MarketWatch, Sept. 18, 2000).*

*It is in the fundamental interest of institutional investors, pension fund and mutual fund managers and individual shareholders that the Board of Directors strongly recommend the adoption of this proposal.*

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

In mid-November, the U.S. Securities and Exchange Commission (SEC) publicly announced new rules governing auditor independence. None of the services now provided by the Shareholders’ Auditors contravene these rules. It is the view of the Audit Committee that the new SEC rules and the Bank’s current practices ensure the independence of the Shareholders’ Auditors.

Unlike most corporations in Canada, the Bank has two firms of Shareholders’ Auditors, who report jointly on the Bank’s Consolidated Financial Statements. The Audit Committee of the Board, which is comprised solely of external directors, each year assesses both the performance and the independence of the Shareholders’ Auditors. Also, each of the two audit firms quarterly confirms and annually certifies in writing to the Audit Committee that it is independent.

In the course of its business, the Bank frequently requires advisory services on such matters as legislative and regulatory compliance, tax, project management and other such issues. There are very few firms which have the leading-edge expertise possessed by the current Shareholders’ Auditors on many such issues facing the Bank. It is the view of the Board that it would not be in the best interest of the Bank and its shareholders to preclude the use of the advisory services available from the Shareholders’ Auditors. Also, frequently the knowledge of the Bank gained from their work in these areas improves the quality of the annual audit. It is for the above reasons that the Board recommends that shareholders vote against this proposal.

#### THE BOARD RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST PROPOSAL NO. 1.

### Proposal No. 2: PERFORMANCE-RELATED STOCK OPTION PLANS

*It is proposed that the Bank of Montreal adopt for all stock option plans (and similar long term incentive mechanisms) the principle of an indexed exercise price based on changes in the market value of shares in the Corporation’s industry.*

*Executives of stock exchange-listed corporations have cashed in astronomical amounts through stock option plans. This escalation of the compensation of the managerial elite is not foreign to the explosion of the stock markets over the last few years. A period of sustained growth in the American economy has enabled most firms to register results which have “carried” the stock markets. The good performance of securities is not solely attributable to exceptional management but often to favourable **external** factors. Officers have thus experienced benefits **extrinsic** to their management efforts. Many have cashed in millions, even tens of millions, to watch time go by! The aim of the APEIQ’s proposal is to correct present plans to ensure that they serve their purpose of rewarding officers who deliver performances and returns to their shareholders that are **above-average** in their industry. By comparing returns with those of a reference group, the influence of most external factors will be eliminated and the conditions and specific challenges officers are confronted with will be taken into account.*

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

The Board is of the opinion that the Bank's current executive compensation programs already address and go well beyond the issues identified by this proposal.

The Bank's executive compensation programs, including its stock option plan, are performance-related with substantial performance hurdles. They reflect the philosophy of linking incentive awards both to the Bank's absolute performance and to its performance relative to other comparable financial institutions. More detail on the executive compensation programs is included in the "Report of the Human Resources and Management Compensation Committee on Executive Compensation" on page 18 of this Proxy Circular.

**THE BOARD RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST PROPOSAL NO. 2.**

**Proposal No. 3: REPRESENTATIVENESS OF THE BOARD OF DIRECTORS**

***It is proposed that the incorporating documents of Bank of Montreal be amended to adopt the cumulative voting mechanism provided for in accordance with the terms of the Act.***

*In large corporations, daily decision-making is the responsibility of management, while the board of directors' duty consists of supervising management, i.e. ensuring that management acts in the best interest of shareholders and the corporation. It is essential that the Board of Directors benefit from a reasonable degree of independence from management, **and that its composition reflect the pluralism and diversity of shareholders.** It is far from clear that the "homogeneity" of a board, nominated by management, with the risk of acting as a blind registrar of management's decisions, is in the interest of shareholders and the corporation. Cumulative voting for the election of directors tempers the sometimes excessive influence of large shareholders and management on the board of director's operations. It constitutes an efficient method for improving a board of directors' representativeness and ensuring greater protection of minority, institutional or individual shareholders. In order that the Board of Directors may meet its objective of reinforcing supervision of management's activities, the APEIQ proposes that directors be elected through a cumulative voting process.*

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

This proposal evidences an unfamiliarity as to how candidates are selected at Bank of Montreal. Selection of all candidates proposed for nomination to the Board is the sole responsibility of the Governance Committee of the Board, which is comprised entirely of independent directors. Accordingly, contrary to what is indicated in the proposal, the selection of all director candidates is completely outside the control of management. The Governance Committee annually reviews the composition of the Board to ensure it is comprised of persons having the skills and experience necessary to allow it to supervise the business and affairs of the Bank, and a *Charter of Expectations for Directors* (set out on page 15 of the Proxy Circular) has been adopted by the Board which stipulates the personal and professional characteristics expected of its directors. These procedures ensure the optimal mix of skills and talents required for overall Board effectiveness.

Cumulative voting allows for a shareholder to vote all of his or her shares in favour of a single candidate for election as a director. As a result, the holders of a comparatively small percentage of the outstanding shares are able to elect a director. Cumulative voting is designed primarily for situations where there is a controlling or significant shareholder whose votes would otherwise elect one hundred percent of the directors. As no shareholder of a Schedule I bank is permitted to own more than 10% of any class of bank shares, cumulative voting is neither required nor necessary.

The law requires that each director represent the interests of all shareholders on an equal basis and not the special interests of any particular group of individuals. The Bank believes that each vote for a director should have equal weight and that the directors elected through the Bank's current procedures provide all shareholders with effective representation.

**THE BOARD RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST PROPOSAL NO. 3.**

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

**Proposal No. 4: SHORT-SELLING OF SHARES SHALL NOT OCCUR WITHOUT THE WRITTEN PERMISSION OF THE BENEFICIAL OWNER**

*Many of the shares that are "borrowed" for the purpose of short-selling are held in the accounts of individual investors, and their shares are "borrowed" by stock-market players who believe that the shares will go down in price – or actually be driven down in price by the action of short-selling – allowing the shares to be repurchased at a profit before being returned to the rightful owner. This "borrowing" typically takes place without either the knowledge or the permission of the beneficial (real) owner.*

*Henceforth, it shall be the policy of the Bank of Montréal in all of its brokerage operations to refrain from "borrowing" shares from any investor's account without the clearly-expressed consent of the beneficial owner, in writing, and only after the beneficial owner has received full disclosure of the possible consequences of allowing such shares to be "borrowed" for the purpose of short-selling.*

#### SHAREHOLDER'S EXPLANATION:

*Short-selling is a form of stock-market speculation that runs against the interests of prudent long-term investors. The sale of "borrowed" shares tends to drive down the value of the very same shares still held in the account of the beneficial (true) owner. This "borrowed" stock artificially inflates the number of shares in the marketplace, and can greatly increase market volatility, to the detriment of responsible investors. Brokers profit from fees charged to the "borrowers" of stock and from the increased trading activity that short-selling causes, and this creates a conflict of interest. The bank's first duty is to respect the rights of investors who buy and hold shares in brokerage accounts controlled by the bank. At very minimum, the bank has a fiduciary duty to inform beneficial owners of the possible consequences of short-selling of shares "borrowed" from their brokerage accounts, and to refrain from "borrowing" any shares without clearly-expressed permission, in writing, from the beneficial (real) owner.*

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

The Bank does not agree with the statements presented in this proposal. The use of securities held in customers' accounts in the Bank's brokerage business complies with all regulatory requirements and is authorized in the customer agreement.

Industry regulations require that all securities that have been paid for in full by a customer or that are in a margin account and not required as collateral for a customer's margin loan must be segregated and held in trust for the customer and therefore cannot be used for any purpose by the Bank's brokerage group. However, securities that are not paid for in full or are required as collateral for a customer's margin loan, that is, securities in which both the customer and the Bank's brokerage group have an interest, may be used by the Bank's brokerage group for the purposes of borrowing and/or short selling.

Our practices in this regard are consistent with prudent and standard practices in the investment industry and are authorized under the standard customer agreement for accounts with the Bank's brokerage group. Not allowing these permitted activities would place the Bank's brokerage group at a disadvantage with respect to our competitors in the industry.

#### THE BOARD RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST PROPOSAL NO. 4.

#### **Proposal No. 5: IDENTITY AND GENERAL SITUATION OF "AFFILIATED" AND "RELATED" DIRECTORS SHALL BE DISCLOSED**

*The Bank Act contains the concept of "affiliated" directors, and the Toronto Stock Exchange defines "related" directors. It is current industry practice to reveal only the number of directors who are either affiliated with, or related to, the bank – except for the Bank of Nova Scotia, which consented in 1999 to this shareholder's request to reveal the identity of such directors and the general nature of their respective interests and relationships. Henceforth, it shall be the policy of the Bank of Montréal to clearly identify each director who is either "affiliated" or "related" to the bank, along with the general nature of each affected director's interests and relationships. The extent of such revelation shall be only as much information as is required to constitute fair and adequate disclosure, and not place the affected directors under detailed scrutiny. It is not the intent of this policy to discourage a worthy director from serving solely because of a significant relationship with the bank.*

#### SHAREHOLDER'S EXPLANATION:

*Increasing standards of disclosure in all areas of investment make it unacceptable to deprive shareholders of general information about any significant conflict of interest involving any director. The number of closely-related directors has wisely been kept small, and most investors agree there are benefits in retaining a few directors who have significant experience in their day-to-day business dealings with the bank. The fact that the Bank of Nova Scotia consented in 1999 to begin revealing the identity and situation of affiliated and related directors creates a need for the Bank of Montréal to remain competitive in the level of disclosure of relevant information to shareholders. Furthermore, as the bank is a major participant in the brokerage industry, it is desirable for the bank to set a high standard by providing fair and adequate disclosure of significant conflicts of interest that could affect the governance of the bank.*

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

The *Bank Act* contains extensive provisions that limit the number of directors who can be "affiliated" with a bank, which rules are more restrictive than the criteria contained in the guidelines adopted by The Toronto Stock Exchange and which rules apply to all corporations listed on the exchange. The Bank currently discloses the number of affiliated directors and the reason for the affiliation. At present only one director is affiliated under the provisions of the *Bank Act* on the basis that he is also the Chief Executive Officer of the Bank.

The *Bank Act* also contains strict rules governing conflicts of interest and related party transactions with directors and others. The Bank has stringent procedures in place to ensure that these rules are diligently enforced.

The Bank strongly defends the confidentiality of its relationship with all customers, including directors who are customers. The provisions of the *Bank Act* and the Bank's existing procedures ensure the Bank's compliance with the limit on the number of affiliated directors.

#### THE BOARD RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST PROPOSAL NO. 5.

