

Note 21: Share Capital

Outstanding

(Canadian \$ in millions, except as noted)

| | 2007 | | | 2006 | | | 2005 | | |
|---|--------------------|--------------|------------------------------|--------------------|--------------|------------------------------|--------------------|--------------|------------------------------|
| | Number of shares | Amount | Dividends declared per share | Number of shares | Amount | Dividends declared per share | Number of shares | Amount | Dividends declared per share |
| Preferred Shares – Classified as Liabilities | | | | | | | | | |
| Class B – Series 4 (1) | – | \$ – | \$ 0.91 | 8,000,000 | \$ 200 | \$ 1.20 | 8,000,000 | \$ 200 | \$ 1.20 |
| Class B – Series 6 | 10,000,000 | 250 | 1.19 | 10,000,000 | 250 | 1.19 | 10,000,000 | 250 | 1.19 |
| | | 250 | | | 450 | | | 450 | |
| Preferred Shares – Classified as Equity | | | | | | | | | |
| Class B – Series 5 | 8,000,000 | \$ 200 | \$ 1.33 | 8,000,000 | \$ 200 | \$ 1.33 | 8,000,000 | \$ 200 | \$ 1.33 |
| Class B – Series 10 | 12,000,000 | 396 | US\$ 1.49 | 12,000,000 | 396 | US\$ 1.49 | 12,000,000 | 396 | US\$ 1.49 |
| Class B – Series 13 | 14,000,000 | 350 | 0.96 | – | – | – | – | – | – |
| Class B – Series 14 | 10,000,000 | 250 | – | – | – | – | – | – | – |
| | | 1,196 | | | 596 | | | 596 | |
| Common Shares | 498,562,702 | 4,411 | \$ 2.71 | 500,726,079 | 4,231 | \$ 2.26 | 500,219,068 | 4,022 | \$ 1.85 |
| Share Capital | | \$ 5,607 | | | \$ 4,827 | | | \$ 4,618 | |

(1) \$200 million redeemed in 2007.

Preferred Shares

We are authorized by our shareholders to issue an unlimited number of Class A Preferred shares and Class B Preferred shares without par value, in series, for unlimited consideration. Class B Preferred shares may be issued in a foreign currency.

During the year ended October 31, 2007, we issued the following preferred shares:

- 14,000,000 4.5% Non-Cumulative Perpetual Class B Preferred shares, Series 13, at a price of \$25.00 per share, representing an aggregate issue price of \$350 million.
- 10,000,000 5.25% Non-Cumulative Perpetual Class B Preferred shares, Series 14, at a price of \$25.00 per share, representing an aggregate issue price of \$250 million.

During the year ended October 31, 2007, we redeemed all of our 8,000,000 Non-Cumulative Class B Preferred shares, Series 4, at a price of \$25.00 per share plus any declared and unpaid dividends to the date of redemption. This represents an aggregate redemption price of approximately \$200 million.

Preferred Share Rights and Privileges

Class B – Series 4 shares were convertible at the shareholder's option; however, they were redeemed during the year. The shares carry a non-cumulative quarterly dividend of \$0.30 per share.

Class B – Series 5 shares are redeemable at our option starting February 25, 2013 for \$25.00 cash per share, and are not convertible. The shares carry a non-cumulative quarterly dividend of \$0.33125 per share.

Class B – Series 6 shares are redeemable at our option starting November 25, 2005 for \$25.00 cash per share, plus a premium if we redeem the shares before November 25, 2007, or an equivalent value of our common shares. They are convertible at the shareholder's option starting November 25, 2008 into our common shares; however, we have the right to pay \$25.00 cash per share instead. The shares carry a non-cumulative quarterly dividend of \$0.296875 per share.

Class B – Series 10 shares are redeemable at our option starting February 25, 2012 for US\$25.00 cash per share, and are convertible at our option starting February 25, 2012 into our common shares. The shares carry a non-cumulative quarterly dividend of US\$0.371875 per share.

Class B – Series 13 shares are redeemable at our option starting February 25, 2012 for \$25.00 cash per share, plus a premium if we redeem the shares before February 25, 2016. The shares carry a non-cumulative quarterly dividend of \$0.28125 per share.

Class B – Series 14 shares are redeemable at our option starting November 25, 2012 for \$25.00 cash per share, plus a premium if we redeem the shares before November 25, 2016. The shares carry a non-cumulative quarterly dividend of \$0.328125 per share.

Common Shares

We are authorized by our shareholders to issue an unlimited number of our common shares, without par value, for unlimited consideration. Our common shares are not redeemable or convertible. Dividends are declared by us on a quarterly basis and the amount can vary from quarter to quarter.

Normal Course Issuer Bid

On September 6, 2007, we commenced a normal course issuer bid, effective for one year. Under this bid, we may repurchase up to 25,000,000 common shares, approximately 5% of our outstanding common shares.

We participated in a normal course issuer bid during the period from September 6, 2006 to September 5, 2007, under which we were able to repurchase up to 15,000,000 common shares, approximately 3% of our then outstanding common shares.

During the year ended October 31, 2007, we repurchased 7,621,600 shares at an average cost of \$68.80 per share, totalling \$524 million. During the year ended October 31, 2006, we repurchased 5,919,400 shares at an average cost of \$63.58 per share, totalling \$376 million. During the year ended October 31, 2005, we repurchased 6,957,800 shares at an average cost of \$56.04 per share, totalling \$390 million.

Issuances Exchangeable into Common Shares

One of our subsidiaries, Bank of Montreal Securities Canada Limited (“BMSCL”), has issued various classes of non-voting shares that can be exchanged at the option of the holder for our common shares, based on a formula. If all of these BMSCL shares had been converted into our common shares, up to 270,657, 327,863 and 361,397 of our common shares would have been needed to complete the exchange as at October 31, 2007, 2006 and 2005, respectively.

Share Redemption and Dividend Restrictions

The Superintendent of Financial Institutions Canada must approve any plan to redeem any of our preferred share issues for cash.

We are prohibited from declaring dividends on our preferred or common shares when we would be, as a result of paying such a dividend, in contravention of the capital adequacy, liquidity or any other regulatory directives issued under the *Bank Act*. In addition, common share dividends cannot be paid unless all dividends declared and payable on our preferred shares have been paid or sufficient funds have been set aside to do so.

In addition, we have agreed that if BMO Capital Trust (the “Trust”), one of our subsidiaries, fails to pay any required distribution on its capital trust securities, we will not declare dividends of any kind on any of our preferred or common shares for a period of time following the Trust’s failure to pay the required distribution (as defined in the capital trust securities’ prospectuses) unless the Trust first pays such distribution to the holders of its capital trust securities (see Note 19).

Shareholder Dividend Reinvestment and Share Purchase Plan

We offer a dividend reinvestment and share purchase plan for our shareholders. Participation in the plan is optional. Under the terms of the plan, cash dividends on common shares are reinvested to purchase additional common shares. Shareholders also have the opportunity to make optional cash payments to acquire additional common shares. We may issue these common shares at an average of the closing prices of our common shares on the Toronto Stock Exchange based on the five trading days prior to the last business day of the month or we may purchase them on the open market at market price. During the year ended October 31, 2007, we issued a total of 1,626,374 common shares (1,378,328 in 2006) under the plan.

Potential Share Issuances

As at October 31, 2007, we had reserved 1,641,923 common shares for potential issuance in respect of our Shareholder Dividend Reinvestment and Share Purchase Plan and 4,990,777 common shares in respect of the exchange of certain shares of BMSCL. We also have reserved 21,380,724 common shares for the potential exercise of stock options, as further described in Note 22.

Change in Accounting Policy

On November 1, 2004, we adopted the CICA’s new accounting requirements on the classification of financial instruments as liabilities or equity. The new rules require that our preferred shares and capital trust securities, which are ultimately convertible into a variable number of our common shares at the holders’ option, be classified as liabilities. We reclassified \$850 million of our Class B Preferred shares, Series 3, 4 and 6, from share capital to preferred share liability. We also reclassified \$1,150 million of our capital trust securities, Series A, B and C, previously recorded in other liabilities as non-controlling interest in subsidiaries, to capital trust securities. The dividends declared on those preferred shares, as well as the distributions made on those capital trust securities, are now recorded as interest expense. This change did not impact earnings per share or net income available to common shareholders since preferred share dividends are deducted from net income in determining those measures.

The impact of this change in accounting policy on our Consolidated Statement of Income for the years ended October 31, 2007, 2006 and 2005 was as follows:

| (Canadian \$ in millions) | 2007 | 2006 | 2005 |
|--|---------------|--------|--------|
| Increase (decrease) in net income | | | |
| Interest Expense – Preferred shares and capital trust securities | \$(99) | \$(99) | \$(97) |
| Non-controlling interest in subsidiaries | 51 | 42 | 42 |
| Income taxes | 28 | 37 | 37 |
| Net Income | (20) | (20) | (18) |
| Preferred share dividends | 20 | 20 | 18 |
| Net income available to common shareholders | \$ – | \$ – | \$ – |