

FOR IMMEDIATE RELEASE

Bank of Montreal Reports Annual and Fourth Quarter 2001 Results

TORONTO, November 27, 2001 – Bank of Montreal reported net income of \$1.5 billion and cash earnings per share of \$2.86 for the fiscal year ended October 31, 2001, down from \$1.9 billion and \$3.39, respectively, in the prior year.

“The challenging economic environment of the past year has had an impact on our results,” said Tony Comper, Chairman and Chief Executive Officer, Bank of Montreal. “Nonetheless, our return on equity of 13.8 per cent, or 14.8 per cent on a cash basis, is a testament to our consistent performance. Bank of Montreal is the only major bank in North America that can claim a return on equity of more than 13 per cent for each of the last 12 years.

“We remain committed to our strategy to become one of the leading full-service trans-national banks in North America by building on our capabilities in order to strengthen our franchise in Canada and expand selectively and substantially in the United States,” said Mr. Comper.

FINANCIAL HIGHLIGHTS

Reported (\$ millions, except per share data and as noted)	Fiscal 2001	Increase/ (Decrease) vs. Fiscal 2000	Q4 2001	Increase/ (Decrease) vs. Q4-2000	Increase/ (Decrease) vs. Q3-2001
Revenues	\$ 8,863	\$ 199 2%	\$ 1,951	\$ (211) (10%)	\$ (283) (13%)
Provision for credit losses	\$ 980	\$ 622 +100%	\$ 546	\$ 488 +100%	\$ 429 +100%
Non-interest expenses	\$ 5,671	\$ 413 8%	\$ 1,449	\$ 119 9%	\$ 28 2%
Net income	\$ 1,471	\$ (386) (21%)	\$ 4	\$ (481) (99%)	\$ (440) (+100%)
Cash return on equity	14.8%	(4.0%)	0.7%	(18.6%)	(17.1%)
Return on equity	13.8%	(4.2%)	(0.4%)	(18.8%)	(17.2%)
Cash earnings per share - diluted	\$ 2.86	\$ (0.53) (16%)	\$ 0.06	\$ (0.84) (93%)	\$ (0.82) (93%)
Earnings per share - diluted	\$ 2.66	\$ (0.59) (18%)	\$ -	\$ (0.86) (100%)	\$ (0.83) (100%)
Expense-to-revenue ratio	64.0%	3.3%	74.2%	12.7%	10.6%

Excluding non-recurring items

Revenues	\$ 8,708	\$ 270 3%	\$ 2,129	\$ (26) (1%)	\$ (105) (5%)
Provision for credit losses	\$ 880	\$ 480 +100%	\$ 546	\$ 446 +100%	\$ 429 +100%
Non-interest expenses	\$ 5,671	\$ 370 7%	\$ 1,449	\$ 76 5%	\$ 28 2%
Net income	\$ 1,378	\$ (294) (18%)	\$ 109	\$ (321) (75%)	\$ (335) (75%)
Cash return on equity	13.9%	(3.0%)	4.8%	(12.3%)	(13.0%)
Return on equity	12.9%	(3.2%)	3.8%	(12.4%)	(13.0%)
Cash earnings per share - diluted	\$ 2.68	\$ (0.37) (12%)	\$ 0.25	\$ (0.55) (69%)	\$ (0.63) (72%)
Earnings per share - diluted	\$ 2.48	\$ (0.43) (15%)	\$ 0.19	\$ (0.57) (75%)	\$ (0.64) (77%)
Expense-to-revenue ratio	65.1%	2.3%	68.1%	4.3%	4.5%

The weakening of the economy, accelerated by the tragic events of September 11, prompted the Bank to announce higher provisions for credit losses and write-downs totalling \$682 million or \$414 million after-tax in the fourth quarter of 2001. These charges caused net income to decline year-over-year and resulted in earnings, excluding non-recurring items, falling to \$109 million in the quarter.

Excluding the higher provisions and write-downs referred to above, cash earnings per share increased by seven per cent from fiscal 2000 and cash return on equity was 16.9 per cent, excluding non-recurring items. These results were in line with the guidance provided by the Bank following the release of third quarter results, but were below the annual targets established at the beginning of the year.

Excluding non-recurring items, Personal and Commercial Client Group net income for 2001 was slightly lower than in 2000, reflecting low revenue growth in the first half of the year, which was affected by implementing initiatives related to the Bank's longer-term growth strategies. Sales momentum improved in the second half of the year, but results were affected by lower net interest margins in the declining interest rate environment.

Investment Banking Group was most affected by the higher provisions and write-downs announced in the fourth quarter and its results fell year-over-year as a result. Otherwise, net income rose strongly, driven by significantly improved results from fixed income businesses, which benefited from the low interest rate environment this year. While earnings from other core high-return businesses declined from the record performances of 2000, results continue to reflect leadership positions in equities, mergers and acquisitions, securitizations and research.

Private Client Group continued to execute its strategy of expanding its distribution capabilities. Results fell year-over-year due to challenging market conditions, but the Group is well positioned to benefit from a return to more active equity markets.

Fiscal 2001 Compared with Fiscal 2000

Excluding non-recurring items, cash earnings per share were \$2.68, down 12 per cent from fiscal 2000. Excluding non-recurring items, net income of \$1.38 billion fell by 18 per cent. Non-recurring items are defined and their effects by period are detailed on page 13.

Excluding non-recurring items, the provision for credit losses increased by \$480 million in 2001. Excluding non-recurring items and the after-tax effect of the higher provisions for credit losses, net income in 2001 was substantially unchanged from the prior year.

The charges that were announced in the quarter included additional provisions for credit losses totalling \$430 million (\$265 million after-tax), of which approximately \$260 million related to U.S. loans. Investment Banking Group absorbed \$314 million (\$188 million after-tax) of the increase, while Personal and Commercial Client Group absorbed \$19 million (\$11 million after-tax). Provisions in Corporate Support increased \$97 million (\$66 million after-tax).

The remainder of the announced charges related to write-downs totalling \$252 million (\$149 million after-tax). The most significant item was a \$178 million (\$105 million after-tax) write-down related to the Investment Banking Group's equity investments in its own collateralized bond obligations (CBOs), which was categorized as a non-recurring item for reporting purposes. Amounts also

included a \$22 million (\$13 million after-tax) write-down of a corporate loan securitization receivable and approximately \$52 million (\$31 million after-tax) of securities write-downs. Write-downs affecting Investment Banking Group totalled \$200 million (\$118 million after-tax), while Private Client Group incurred \$12 million (\$7 million after-tax) and Personal and Commercial Client Group \$4 million (\$2 million after-tax). The remaining \$36 million (\$22 million after-tax) affected Corporate Support.

The higher provisions and write-downs announced in the quarter related to weakness in economic conditions and the credit environment, and were reflective of recessionary conditions developing in the Midwest United States, and beginning to affect Canada.

Net income of the Personal and Commercial Client Group declined \$86 million to \$804 million. Excluding non-recurring items, net income declined \$4 million to \$795 million. Revenues increased on higher volumes while margins were relatively flat year-over-year, despite falling in the fourth quarter. The Group maintained its top-tier leadership in small business banking in Canada. The U.S. retail banking group experienced particularly strong volume growth, resulting in a 24 per cent increase in earnings. Expenses increased but expense growth slowed over the course of the year. Year-over-year expense growth in the fourth quarter was three per cent and expenses for the most recent quarter were unchanged from the third quarter, notwithstanding the inclusion of First National Bank of Joliet and higher U.S. exchange rates.

Net income of the Investment Banking Group declined by \$201 million to \$402 million. Excluding a \$178 million (\$105 million after-tax) write-down in the Group's equity investments in its own CBOs in the fourth quarter, net income of \$507 million declined \$96 million or 16 per cent from last year. The write-down has been categorized as non-recurring for reporting purposes. Excluding its effect and the after-tax effects of a \$387 million increase in the provision for credit losses, net income rose \$136 million or 23 per cent. This increase was driven by significantly improved performance in Capital Markets interest-rate-sensitive businesses. Core fee-based businesses continued their market leading performance, but their contribution to revenues declined from the record performance of last year.

Private Client Group net income declined \$69 million to \$121 million. Results reflected the effects of significantly weaker equity markets relative to last year, which particularly affected full-service investing and direct investing, and continued investment in the Group's distribution capabilities.

Emfisys and Corporate Support net income for the year was \$144 million, down \$30 million from fiscal 2000. Excluding non-recurring items, the net loss for the year was \$45 million, a decrease of \$125 million. Excluding non-recurring items, results were affected by reduced earnings on the Bank's former investment in Bancomer, lower revenues and higher provisions for credit losses. Tax initiatives and other adjustments affected results favourably.

During the fourth quarter of the year, the Bank completed its previously announced common share repurchase program. Under the 2001 program, the Bank paid \$2.0 billion to acquire 52 million shares at an average cost of \$39.06 per share. Including the share buybacks completed in fiscal 2000, the Bank has returned \$2.5 billion of capital to shareholders. Excluding non-recurring items, the share buybacks were responsible for a \$0.10 increase in earnings per share in 2001, representing 3.4 percentage points of growth from 2000.

Fourth Quarter 2001 compared with Fourth Quarter 2000

Net income was \$4 million, compared with \$485 million in the fourth quarter of last year. Excluding non-recurring items, net income of \$109 million was down \$321 million.

Cash earnings per share were \$0.06 for the quarter, compared with \$0.90 in the fourth quarter of last year. Excluding non-recurring items, cash earnings per share were \$0.25, down from \$0.80.

The \$682 million (\$414 million after-tax) of provisions and write-downs affected net income for the fourth quarter. Of these amounts, the \$105 million after-tax effect of the CBO write-down has been categorized as a non-recurring item for reporting purposes. The residual \$309 million is reflected in net income, excluding non-recurring items. Net income in the fourth quarter of 2000 benefited from a net \$55 million effect of non-recurring items.

Personal and Commercial Client Group net income declined by \$13 million to \$197 million in the fourth quarter of 2001, excluding non-recurring items. Volumes increased in U.S. retail banking as a result of growth in consumer, mortgage and small business loans and retail deposits, as well as the acquisition of Joliet. In Canada, revenues fell year-over-year in spite of growth in loans and deposits, as spread compression lowered net interest income. Expenses increased somewhat from the prior year, but were unchanged from the third quarter, notwithstanding the addition of Joliet.

Investment Banking Group's net loss was \$116 million in the fourth quarter, compared with net income of \$158 million in the fourth quarter of last year. Excluding the \$105 million after-tax write-down in the Group's equity investments in its own CBOs, Investment Banking Group had a modest loss of \$11 million. However, results were down sharply from the fourth quarter of last year due to a \$342 million increase in the provision for credit losses in the corporate loan portfolio. Excluding these two items, net income increased by approximately 23 per cent from the fourth quarter of last year. The Group maintained market leadership in its core high-return fee businesses, although revenues from these businesses were down year-over-year because of the challenging credit market environment and because of lower volumes in equity-related businesses. Continued strong performance from interest-rate-sensitive businesses and client-driven trading in the Capital Markets lines more than offset the declines from other businesses. Controlled spending and lower revenue-based compensation contributed to a year-over-year expense reduction.

Private Client Group net income was \$10 million, compared with \$36 million in the fourth quarter of 2000. Lower equity valuations and lower transaction volumes affected full-service and direct investing revenues. Revenues were affected by the \$12 million write-down of certain investments in the quarter, which was included in the charges announced in the fourth quarter. The Group continued to invest strategically in its distribution capabilities in expanding its integrated U.S. wealth management presence, which contributed to increased expenses.

Emfisis and Corporate Support had a net loss for the fourth quarter of 2001 of \$87 million, compared with net income of \$76 million in the fourth quarter of last year. Excluding non-recurring items, the net loss of \$87 million compared with net income of \$26 million. Revenues, excluding non-recurring items, declined due to lower securitization revenues, including the \$22 million write-down of a corporate loan securitization receivable, and weaker revenues from securities in the most recent quarter. The provision for credit losses increased, while tax initiatives had a favourable effect in the most recent quarter.

Fourth Quarter 2001 compared with Third Quarter 2001

Net income of \$4 million declined from \$444 million in the third quarter. Excluding non-recurring items, net income of \$109 million declined by \$335 million.

Cash earnings per share of \$0.06 for the quarter, compared with \$0.88 in the third quarter. Excluding non-recurring items, cash earnings per share of \$0.25 declined by \$0.63 from the third quarter.

Personal and Commercial Client Group net income declined by \$19 million to \$197 million in the fourth quarter. Lower net interest margins in the declining interest rate environment and higher provisions for credit losses affected results. Expenses were unchanged, notwithstanding the inclusion of Joliet.

Investment Banking Group's net loss was \$116 million in the fourth quarter, compared with net income of \$167 million in the third quarter. Excluding the CBO write-down, the net loss in the fourth quarter was \$11 million. Excluding both the CBO write-down and a \$323 million increase in the provision for credit losses in the fourth quarter, net income was higher than in the third quarter, notwithstanding the weaker economy. Expenses declined due to lower revenue-based compensation.

Private Client Group net income was \$10 million, compared with \$29 million in the third quarter. Revenues declined as markets continued to deteriorate, resulting in reductions in transaction volumes, equity valuations and net interest margins, and due to the write-down of investments. The inclusion of revenues from the recently acquired Guardian Group of Funds Ltd. partially offset the declines. Expenses rose over the preceding quarter due to further investment initiatives and the inclusion of a full quarter's results for Guardian. These increases were partially offset by lower revenue-based compensation costs.

Excluding non-recurring items, net income of Emfisys and Corporate Support declined by \$119 million, of which \$88 million related to the charges that were announced in the fourth quarter. Lower interest rates and the effects of share repurchases also contributed to the reduction.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This press release in respect of earnings for the fiscal year and fourth quarter of 2001 includes forward-looking statements, which are made pursuant to the 'safe harbor' provisions of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, comments with respect to our objectives, targets, strategies, financial condition, the results of our operations and our businesses, our outlook for our businesses and for the Canadian and U.S. economies, and risk management.

By their very nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this report not to place undue reliance on these forward-looking statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, targets, expectations, estimates and intentions expressed in such forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by the following factors: fluctuations in interest rates and currency values; regulatory developments; statutory changes; the effects of competition in the geographic and business areas in which we operate,

including continued pricing pressure on loan and deposit products; and changes in political and economic conditions including, among other things, inflation and technological changes. We caution that the foregoing list of important factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider the foregoing factors as well as other uncertainties and potential events. The Bank does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Bank.

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Bank of Montreal invites interested investors to join our conference call to review the fourth quarter's results on **Tuesday November 27, 2001 at 1:00 p.m. (EST)**. The conference call can be accessed in a listen-only mode as follows:

Via the Internet at: www.bmo.com/investorrelations

Via telephone at: Toll free 1-877-871-4065 or
From within Toronto 416-641-6449

A replay of the conference call will be available until Friday December 7, 2001 by calling 1-800-558-5253 and quoting reservation number 171 146 90. The web cast can also be accessed on our web site for three months, or until February 27, 2001.

The press release, quarterly presentations and supplementary financial information package are available on Bank of Montreal's web site at www.bmo.com/investorrelations and at our offices at 1 First Canadian Place, 18th Floor, Toronto, Ontario.

The text of the Bank's Annual and Fourth Quarter 2001 Review is attached.

ANNUAL AND FOURTH QUARTER 2001 REVIEW

Bank of Montreal's annual and fourth quarter review of 2001 results is outlined in the following pages. A more comprehensive discussion of results, financial position, our businesses and strategies and objectives can be found in the Management Discussion and Analysis section of the Bank's 2001 Annual Report, which will be available in the new year.

Tony Comper
Chairman and Chief Executive Officer
November 27, 2001

RESULTS OVERVIEW

Fiscal 2001 vs. Fiscal 2000

Net income for the year ended October 31, 2001 was \$1,471 million, down \$386 million from fiscal 2000. Excluding non-recurring items, net income declined by \$294 million or 18 per cent to \$1,378 million.

Cash return on equity for the year was 14.8 per cent, a decrease of 4.0 percentage points from 2000. Excluding non-recurring items, cash return on equity declined 3.0 percentage points to 13.9 per cent.

Return on equity was 13.8 per cent, down 4.2 percentage points from fiscal 2000. Excluding non-recurring items, return on equity decreased by 3.2 percentage points to 12.9 per cent.

Cash earnings per share were \$2.86, a decrease of \$0.53 or 16 per cent from last year. Excluding non-recurring items, cash earnings per share were \$2.68, down \$0.37 or 12 per cent. In this document, unless indicated otherwise, all references to earnings per share and cash earnings per share refer to 'diluted' per share amounts.

Earnings per share were \$2.66, down \$0.59 from last year. Excluding non-recurring items, earnings per share were \$2.48, down \$0.43 or 15 per cent from last year.

Net economic profit was \$433 million in 2001, compared with \$763 million in the prior year.

Results in both 2001 and 2000 were affected by non-recurring items, the effects of which are detailed in the table on page 13. Net income for 2001 was \$93 million higher because of non-recurring items, while net income for 2000 was \$185 million higher.

As announced prior to the year-end, results for 2001 were affected by increased provisions and write-downs totalling \$682 million (\$414 million after-tax) that were recorded in the fourth quarter. Excluding non-recurring items and the effects of these charges, cash earnings per share increased by 7.2 per cent year-over-year and cash return on equity was 16.9 per cent for fiscal 2001. These results were in line with the guidance provided by management at the end of the Bank's third quarter, notwithstanding the weaker than anticipated economic environment. However, results for fiscal 2001 were below the targets established at the beginning of the year, as indicated on page 14.

The fourth quarter charges referred to above included a \$178 million (\$105 million after-tax) write-down in the Bank's equity investments in its own CBOs, which were affected by deterioration in credit markets. This write-down has been categorized as non-recurring for reporting purposes. The

charges also included a \$430 million increase in the quarter's provision for credit losses, which totalled \$880 million for the year, excluding a non-recurring \$100 million increase in the general provision for credit losses that was categorized as non-recurring for reporting purposes in the second quarter of the year. The increase in the provision was prompted by the continuing deterioration of the U.S. economy and the more recent weakening of the Canadian economy, together with the realization that economic recovery will take longer than had previously been anticipated. The provision for credit losses in 2000 was \$400 million, excluding non-recurring items, and totalled \$358 million, net of a non-recurring \$42 million credit.

Following a dilution in its ownership interest in Bancomer during the third quarter of fiscal 2000, the Bank adopted the cost basis of accounting, replacing the equity basis of accounting for its investment. This change in accounting and the current year's adoption of a new accounting standard for employee benefits affect the comparison of earnings between fiscal 2001 and fiscal 2000. If the accounting methodology used in fiscal 2001 were in effect last year, excluding non-recurring items, the decline in net income in 2001 would be \$95 million lower and the decline in cash earnings per share would be \$0.19 lower.

During the fourth quarter of the year, the Bank completed its previously announced common share repurchase program. Under the 2001 program, the Bank paid \$2.0 billion to acquire 52 million shares at an average cost of \$39.06 per share. Including the share buybacks completed in fiscal 2000, the Bank has returned \$2.5 billion of capital to shareholders. Excluding non-recurring items, the share buybacks were responsible for a \$0.10 increase in earnings per share in 2001, representing 3.4 percentage points of growth from 2000.

The Bank issued approximately 10.3 million shares valued at \$400 million as partial consideration for its acquisitions of Guardian and Joliet in the third quarter of 2001.

Excluding non-recurring items, Personal and Commercial Client Group net income was slightly lower year-over-year. Revenues increased on higher volumes and higher gains on securitizations, partially offset by lower gains on sales of securities. Revenue growth was adversely affected by the introduction of initiatives to assist in the implementation of the Bank's longer-term growth strategies, including a significant increase in the number of front-line sales staff. In the second half of the year, the assimilation of the new sales team resulted in increased volume growth momentum, but the effect of this improvement was more than offset by spread compression in the declining interest rate environment. Expenses increased, largely due to spending on business initiatives and investment in front-line sales staff. The rate of expense growth slowed from eight per cent in the first half of the year to three per cent in the fourth quarter, notwithstanding the inclusion of expenses of Joliet in the most recent quarter.

Investment Banking Group net income declined appreciably from last year, due largely to the increased charges reflected in the fourth quarter of the year, which included a \$178 million write-down in the Group's equity investments in its own CBOs. Year-over-year there was a \$387 million increase in the provision for credit losses, which was reflective of the weaker economic environment. Excluding this increase and the fourth quarter CBO write-down, net income rose approximately 23 per cent year-over-year, notwithstanding challenging conditions in a number of the Group's markets. This improvement was driven by increased earnings in Capital Markets businesses, which benefited from the low interest rate environment. While results were generally down in the Group's core high-return fee businesses because of market conditions, Investment Banking Group maintained its Canadian leadership positions in equity block trading, mergers and acquisitions, securitization and research.

Private Client Group net income declined from the strong results of 2000. Revenues fell somewhat as growth from business acquisitions was more than offset by the effects of challenging market conditions. Market-driven businesses were affected by lower client-trading volumes and lower equity valuations. Expenses increased year-over-year as reduced revenue-based compensation costs and effects of cost management programs were more than offset by the expenses of acquired businesses and costs of investment in the Group's long-term growth strategy to expand the distribution network and the Group's U.S. wealth management businesses.

Emfisys and Corporate Support Group net income for the year declined from fiscal 2000. Excluding non-recurring items, results were down sharply. Results reflected lower earnings recognized on the Bank's investment in Bancomer and significantly higher provisions for credit losses, but earnings for fiscal 2001 benefited from lower tax rates and other favourable tax adjustments and initiatives.

Gross impaired loans increased by approximately \$513 million year-over-year, due to further impairments in a broad number of industry sectors, including manufacturing, retail and wholesale trade, services, utilities, transportation and telecommunications, but remain within the expected range given the weak economic environment in the United States and Canada.

In the third quarter of the year, the Bank completed the acquisition of Joliet in the United States, resulting in a \$2 billion increase in assets and \$1.6 billion increase in liabilities and also completed its acquisition of Guardian, with its \$2 billion of assets under management in Canada.

On January 23, 2001 the Bank's Board of Directors declared a 100 per cent stock dividend, effectively achieving a two-for-one split of the Bank's common shares. All data in respect of numbers of shares and per share amounts reflect the effects of the split and all prior period comparatives have been restated accordingly.

Fourth Quarter 2001 vs. Fourth Quarter 2000

The announced provisions and write-downs of \$414 million after-tax affected results for the fourth quarter. However, net income in the fourth quarter of 2000 benefited from the effects of a net \$55 million of non-recurring items. Non-recurring items and their impacts by period are detailed on page 13.

Net income for the fourth quarter of 2001 was \$4 million, compared with net income of \$485 million in the fourth quarter of fiscal 2000. Excluding the effects of non-recurring items, net income for the fourth quarter of 2001 was \$109 million, compared with \$430 million in the fourth quarter of last year.

Cash return on equity for the fourth quarter was 0.7 per cent, compared with 19.3 per cent in the fourth quarter of 2000. Excluding non-recurring items, cash return on equity was 4.8 per cent in the fourth quarter of 2001, compared with 17.1 per cent in the fourth quarter of last year.

Return on equity for the quarter was negative 0.4 per cent, compared with 18.4 per cent in the fourth quarter of last year. Excluding non-recurring items, return on equity was 3.8 per cent, compared with 16.2 per cent.

Cash earnings per share were \$0.06, compared with \$0.90 for the fourth quarter of last year. Excluding non-recurring items, cash earnings per share were \$0.25 for the fourth quarter of 2001, compared with \$0.80.

There were no earnings on a per share basis for the quarter, compared with earnings per share of \$0.86 for the fourth quarter of last year. Excluding non-recurring items, earnings per share were \$0.19, down from \$0.76 in the fourth quarter of last year.

The net economic loss was \$249 million for the quarter, compared with net economic profit of \$212 million in the fourth quarter of last year.

Year-over-year comparatives are affected significantly by the provisions and write-downs that were recorded this quarter. Excluding the effects of those charges, cash earnings per share of \$0.84 increased \$0.04 from the fourth quarter of the prior year, excluding non-recurring items.

Excluding non-recurring items, net income declined by \$321 million from the fourth quarter of last year. Excluding non-recurring items and the higher charges announced in the fourth quarter, net income declined by \$12 million year-over-year.

Excluding non-recurring items, Personal and Commercial Client Group net income was slightly lower than in the fourth quarter of last year. Revenues increased as a result of strong volume growth, particularly in U.S. retail banking, the inclusion of revenues from Joliet and favourable U.S. exchange rates. In Canada, revenues declined year-over-year as higher revenues from volume growth were more than offset by the effects of lower net interest income due to spread compression in the declining interest rate environment. Year-over-year expense growth was limited to three per cent overall and was primarily related to U.S. retail banking, which was affected by the addition of Joliet. In Canada, expenses declined as management continued to focus on cost containment.

Excluding the \$105 million after-tax write-down on its equity investments in its own CBOs, Investment Banking Group had a modest loss in the fourth quarter, but results were down sharply from the fourth quarter of last year. This decline was due to a \$342 million increase in the provision for credit losses in the corporate loan portfolio. Excluding these two items, net income increased by approximately 23 per cent from the fourth quarter of last year. The Group maintained market leadership in its core high return fee businesses, although revenues from these businesses were down year-over-year because of the challenging credit market environment and because of lower volumes in equity-related businesses. Continued strong performance from interest-rate-sensitive businesses and client-driven trading in the Capital Markets lines more than offset the declines from other businesses. Controlled spending and lower revenue-based compensation contributed to a year-over-year expense reduction.

Private Client Group net income declined sharply from the fourth quarter of last year. Revenues from full-service and direct investing declined because of significantly lower equity transaction volumes relative to the fourth quarter of last year. Reduced equity valuations also contributed to the decline, which was somewhat mitigated by increased revenues from business acquisitions. The quarter's revenues were affected by the \$12 million write-down of investments. Expenses increased because of higher strategic investment spending and costs of acquired businesses, partially offset by lower revenue-based compensation costs and cost management programs initiated in the Group's core businesses.

Emfisys and Corporate Support had a net loss for the fourth quarter of 2001 of \$87 million, compared with net income of \$76 million in the fourth quarter of last year. Excluding non-recurring items, the net loss of \$87 million compared with net income of \$26 million. Revenues, excluding non-recurring items, declined due to lower securitization revenues, including the \$22 million write-down of a corporate loan securitization receivable, and weaker revenues from securities in the most recent quarter. The provision

for credit losses increased year-over-year. Year-over-year results also benefited from the lower income taxes referred to above.

Prompted by the continuing deterioration of the U.S. economy and the more recent weakening of the Canadian economy, together with the realization that economic recovery would take longer than had been previously anticipated, the Bank increased its provision for credit losses by \$430 million for the fourth quarter. This increase raised total fourth quarter provisions for credit losses to \$546 million. The total provision for credit losses for 2001 was \$880 million, excluding non-recurring items, compared with \$400 million for fiscal 2000, representing 0.60 per cent of average net loans and acceptances, including securities purchased under resale agreements.

Gross impaired loans at October 31, 2001 were \$2,014 million, up from \$1,836 million at the end of the third quarter and from \$1,501 million at the end of fiscal 2000. Gross impaired loans and acceptances represented 1.37 per cent of total loans and acceptances at the end of the fourth quarter, up from 1.26 per cent at July 31, 2001 and from 1.04 per cent at October 31, 2000. Loans continue to be well provisioned, with an allowance for credit losses – both specific and general – totalling \$1,949 million at the end of the fourth quarter. The Bank's allowance represented 97 per cent of gross impaired loans, versus 90 per cent at the end of the third quarter of fiscal 2001 and 106 per cent at the end of fiscal 2000.

In the final weeks of the fourth quarter, the Bank completed its common share repurchase program and paid \$771 million to acquire 19 million common shares at an average cost of \$39.70 during the quarter.

Fourth Quarter 2001 vs. Third Quarter 2001

There were no non-recurring items in the third quarter. Excluding non-recurring items, net income for the fourth quarter of 2001 was \$109 million, compared with net income of \$444 million in the third quarter.

Excluding non-recurring items, cash return on equity for the fourth quarter was 4.8 per cent, compared with 17.8 per cent in the third quarter.

Excluding non-recurring items, return on equity was 3.8 per cent, compared with 16.8 per cent in the third quarter.

Excluding non-recurring items, cash earnings per share were \$0.25 for the fourth quarter, compared with \$0.88 in the third quarter.

Excluding non-recurring items, earnings per share were \$0.19 for the fourth quarter, compared with \$0.83 in the third quarter.

The net economic loss of \$249 million for the fourth quarter, compared with net economic profit of \$184 million in the third quarter.

Quarter-over-quarter comparatives are significantly affected by the additional provisions and the write-downs that were recorded in the fourth quarter. Excluding the effects of those charges, cash earnings per share of \$0.84 were down from \$0.88 in the third quarter.

Net income of the Personal and Commercial Client Group declined from the third quarter as the Group's results were somewhat affected by increased provisions for credit losses, as well as the

effects of spread compression in a challenging economic environment. Expenses were unchanged, notwithstanding the addition of Joliet and the impact of foreign currency translation.

Results of the Investment Banking Group were down from the third quarter. Higher provisions for credit losses and the write-down in the Group's equity investments in its own CBOs contributed to the decline. In addition, revenues from other core fee-based business were down because of the weaker economic environment in the fourth quarter. Expenses fell, largely due to lower revenue-based compensation.

Net income from the Private Client Group declined due to continuing challenging market conditions in Canada and the United States. Revenues in the most recent quarter were influenced by the \$12 million write-down of investments, but benefited from the inclusion of a full quarter of Guardian's revenues. Expenses rose due to continued strategic initiative spending to expand the Group's distribution network by increasing the number of investment professionals serving our clients and increasing the number of U.S. distribution points. The inclusion of Guardian also added to expenses. These increases were partially offset by lower revenue-based compensation costs and the effects of cost management programs in core businesses.

Emfisys and Corporate Support net earnings declined sharply from the third quarter, largely due to the effects discussed previously.

Gross impaired loans increased by approximately \$178 million from the third quarter due to further weakness in U.S. mid-market corporate and commercial portfolios across a broad range of industries. Approximately \$ 70 million of the increase was attributable to the depreciation of the Canadian dollar relative to the U.S. dollar. As explained previously, the provision for credit losses rose significantly from the third quarter.

Effects of Non-Recurring Items (\$ millions, except per share data and as noted)

Reported		Fiscal 2001	Fiscal 2000	Q4-2001	Q4-2000	Q3-2001
Revenues (teb)		\$ 8,863	\$ 8,664	\$ 1,951	\$ 2,162	\$ 2,234
Provision for credit losses		\$ 980	\$ 358	\$ 546	\$ 58	\$ 117
Non-interest expenses		\$ 5,671	\$ 5,258	\$ 1,449	\$ 1,330	\$ 1,421
Net income		\$ 1,471	\$ 1,857	\$ 4	\$ 485	\$ 444
Cash return on equity		14.8%	18.8%	0.7%	19.3%	17.8%
Return on equity		13.8%	18.0%	(0.4%)	18.4%	16.8%
Cash earnings per share - diluted		\$ 2.86	\$ 3.39	\$ 0.06	\$ 0.90	\$ 0.88
Earnings per share - diluted		\$ 2.66	\$ 3.25	\$ -	\$ 0.86	\$ 0.83
Non-interest expense-to-revenue ratio		64.0%	60.7%	74.2%	61.5%	63.6%
Non-recurring items						
	Operating Group	Fiscal 2001	Fiscal 2000	Q4-2001	Q4-2000	Q3-2001
Increased/(Decreased) revenues						
Gain on sale of Partners First	P&C	\$ -	\$ 112	\$ -	\$ -	\$ -
Gain on sale of U.S. corporate trust	Corp.	-	74	-	-	-
Gains on sales of branches	P&C	12	40	-	7	-
Gain on sale of Bancomer	Corp.	321	-	-	-	-
Write-down of equity investments in CBOs	IBG	(178)	-	(178)	-	-
Total non-recurring revenues		155	226	(178)	7	-
Decreased/(Increased) provision for credit losses	Corp.	(100)	42	-	42	-
Decreased Expense - Restructuring charge	Corp.	-	43	-	43	-
Increased/(Decreased) pre-tax income		55	311	(178)	92	-
Increased/(Decreased) income taxes						
Income taxes on non-recurring items		(63)	126	(73)	37	-
Adjustment of future tax asset due to proposed reductions in federal tax rates		25	-	-	-	-
		(38)	126	(73)	37	-
Increased / (Decreased) net income		\$ 93	\$ 185	\$ (105)	\$ 55	\$ -
Excluding non-recurring items						
		Fiscal 2001	Fiscal 2000	Q4-2001	Q4-2000	Q3-2001
Revenues (teb)		\$ 8,708	\$ 8,438	\$ 2,129	\$ 2,155	\$ 2,234
Provision for credit losses		\$ 880	\$ 400	\$ 546	\$ 100	\$ 117
Non-interest expenses		\$ 5,671	\$ 5,301	\$ 1,449	\$ 1,373	\$ 1,421
Net income		\$ 1,378	\$ 1,672	\$ 109	\$ 430	\$ 444
Cash return on equity		13.9%	16.9%	4.8%	17.1%	17.8%
Return on equity		12.9%	16.1%	3.8%	16.2%	16.8%
Cash earnings per share - diluted		\$ 2.68	\$ 3.05	\$ 0.25	\$ 0.80	\$ 0.88
Earnings per share - diluted		\$ 2.48	\$ 2.91	\$ 0.19	\$ 0.76	\$ 0.83
Non-interest expense-to-revenue ratio		65.1%	62.8%	68.1%	63.8%	63.6%

The Bank's results of operations periodically include non-recurring items. Such items are generally infrequent, material and quantifiable, and are not expected to recur in the near future. They are not considered to be appropriate inclusions in assessing the ongoing operations of the Bank. As a result, trend analysis is considered most relevant when non-recurring items are excluded from results. Throughout this release, we have calculated our performance both including and excluding these non-recurring items.

FINANCIAL TARGETS

As suggested following the release of third quarter results, the Bank did not achieve a number of its performance targets for 2001. Notable shortfalls occurred in earnings per share growth, the expense-to-revenue ratio, revenue growth and the provision for credit losses. The shortfalls were primarily attributable to increased provisions for credit losses, weaker retail equity markets, lower growth in retail and business banking in Canada and to unfavourable economic conditions in the United States and, in the fourth quarter, in Canada.

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

Prospects for the economy remain uncertain in both Canada and the United States, with business investment and consumer confidence still at low levels. The Bank's outlook for fiscal 2002 anticipates cash earnings per share for the first six months to approximate the comparable amounts in the first six months of 2001, excluding non-recurring items. The outlook also anticipates that cash earnings per share should then increase modestly in the second half of the year.

The Bank's operating philosophy is to grow revenues at a higher rate than expenses, over time, and at a rate above economic growth rates, to strive for efficiencies in expense management and to balance the trade-off between current profitability and the need to invest for future growth. When possible, expense efficiencies, partially or totally, fund the costs of investing for the future as the bank continues to implement initiatives to advance its strategies. However, the relationship between revenues and expenses in any year is affected by economic conditions. In this challenging economic and competitive environment in particular, it is necessary to ensure that expense growth is appropriately aligned with revenue growth.

Excluding non-recurring items, the Bank's targets for 2002 are:

- to achieve cash EPS growth of 8 to 12 per cent;
- to achieve a cash ROE of 14 to 15 per cent;
- to maintain a provision for credit losses in the range of 40 to 50 basis points of average net loans and acceptances (including securities purchased under resale agreements); and
- to maintain a Tier 1 capital ratio of at least 8 per cent.

OPERATING GROUP REVIEW

Reported net income (\$ millions)	Fiscal 2001	Fiscal 2000	Q4-2001	Q4-2000	Q3-2001
Personal and Commercial Client Group	\$ 804	\$ 890	\$ 197	\$ 215	\$ 216
Private Client Group	121	190	10	36	29
Investment Banking Group	402	603	(116)	158	167
Emfisys and Corporate Support	144	174	(87)	76	32
Bank of Montreal	\$ 1,471	\$ 1,857	\$ 4	\$ 485	\$ 444

Excluding non-recurring items (\$ millions)	Fiscal 2001	Fiscal 2000	Q4-2001	Q4-2000	Q3-2001
Personal and Commercial Client Group	\$ 795	\$ 799	\$ 197	\$ 210	\$ 216
Private Client Group	121	190	10	36	29
Investment Banking Group	507	603	(11)	158	167
Emfisys and Corporate Support	(45)	80	(87)	26	32
Bank of Montreal	\$ 1,378	\$ 1,672	\$ 109	\$ 430	\$ 444

An analysis of financial results of each operating group is provided, together with their business achievements for the fourth quarter of 2001. A separate analysis of Harris Bank, whose financial results are incorporated within each of the operating groups, is also provided.

Periodically, certain business lines and units within the business lines are transferred between client groups to more closely align the Bank's organizational structure and its strategic priorities. All comparative figures are restated to give effect to the transfers.

During the year the fixed income securities of Harris Bank, formerly reported entirely in Investment Banking Group, were reallocated to each of the operating groups, aligning the operating groups' longer-term liabilities with the term assets that they fund.

The net interest expense that remains unallocated to the lines of business in the Bank's internal transfer pricing process is now reflected within Emfisys and Corporate Support, rather than in the Personal and Commercial Client Group, as was the case last year.

In addition, most of the Bank's e-business, including North American Cash Management, and the Bancomer/Mexico Group were transferred from the Personal and Commercial Client Group to Emfisys and Corporate Support.

PERSONAL AND COMMERCIAL CLIENT GROUP

Reported (\$ millions, except as noted)	Fiscal 2001	Fiscal 2000	Q4-2001	Q4-2000	Q3-2001
Net interest income (teb)	\$ 3,062	\$ 2,937	\$ 783	\$ 767	\$ 773
Other income	1,256	1,376	311	322	335
Total revenue	4,318	4,313	1,094	1,089	1,108
Provision for credit losses	267	235	80	59	64
Non-interest expense	2,683	2,545	678	659	678
Income before income taxes, non-controlling interest in subsidiaries and goodwill	1,368	1,533	336	371	366
Income taxes (teb)	541	626	132	152	145
Non-controlling interest in subsidiaries	-	(1)	1	-	(1)
Amortization of goodwill, net of income tax	23	18	6	4	6
Net income	\$ 804	\$ 890	\$ 197	\$ 215	\$ 216
Net economic profit	\$ 493	\$ 566	\$ 114	\$ 137	\$ 140
Cash return on equity	26.7%	30.6%	24.4%	30.0%	29.2%
Average net interest margin	3.19%	3.20%	3.13%	3.27%	3.21%
Non-interest expense-to-revenue ratio	62.1%	59.0%	62.0%	60.5%	61.2%
Average common equity	\$ 3,039	\$ 2,877	\$ 3,269	\$ 2,817	\$ 2,954
Average assets	\$ 95,909	\$ 91,680	\$ 99,193	\$ 93,337	\$ 95,610
Total risk-weighted assets	\$ 61,814	\$ 58,376	\$ 61,814	\$ 58,376	\$ 59,444
Assets under administration	\$ 11,756	\$ 10,483	\$ 11,756	\$ 10,483	\$ 10,678
Assets under management	\$ 486	\$ -	\$ 486	\$ -	\$ -
Full-time equivalent staff	18,479	18,426	18,479	18,426	18,285
Excluding non-recurring items (\$ millions)	Fiscal 2001	Fiscal 2000	Q4-2001	Q4-2000	Q3-2001
Total revenue (teb)	\$ 4,306	\$ 4,161	\$ 1,094	\$ 1,082	\$ 1,108
Net income	\$ 795	\$ 799	\$ 197	\$ 210	\$ 216
Cash return on equity	26.4%	27.5%	24.4%	29.3%	29.2%
Non-interest expense-to-revenue ratio	62.3%	61.1%	62.0%	60.9%	61.2%

Fiscal 2001 vs. Fiscal 2000

Net income of the Personal and Commercial Client Group was \$804 million, a decrease of \$86 million from 2000. Excluding after-tax gains on sales of branches in 2001 and gains on the sales of Partners First and branches in 2000, net income was \$795 million, a decrease of \$4 million from last year. The U.S. retail banking group experienced particularly strong loan growth, resulting in a 24 per cent increase in its earnings.

Revenues of \$4,318 million increased \$5 million from last year. Excluding non-recurring items in both periods, revenues increased by \$145 million or three per cent to \$4,306 million. The increase was attributable to volume growth and higher gains on securitizations, partially offset by lower gains on sales of securities. Revenue growth in the first half of the year was adversely affected by the introduction of initiatives to assist in implementing the Bank's longer-term growth strategy, including a significant increase in the number of front-line sales staff. In the second half of the year, the effects of the assimilation of the new sales team and resulting improvement in volume growth was more than offset by the effects of spread compression in a declining interest rate environment.

Stimulative monetary policy in the first half of 2002 may result in further interest rate declines. As a result, spread compression in the deposit businesses is anticipated to continue in the short-term as rates paid to customers cannot change in response to changes in loan yields.

Non-interest expenses for 2001 increased by \$138 million or five per cent to \$2,683 million, largely due to spending on business initiatives and investment in front-line sales staff. The rate of expense growth has slowed from eight per cent for the first half of the year to three per cent for the last quarter, notwithstanding the inclusion of costs of Joliet.

Fourth Quarter 2001 vs. Fourth Quarter 2000

Net income for the fourth quarter of 2001 was \$197 million, compared with \$215 million in the fourth quarter of 2000. Excluding non-recurring gains on the sales of branches in the prior year, net income decreased by \$13 million or six per cent.

Revenues, at \$1,094 million, were \$5 million higher than a year earlier. Excluding non-recurring items in the fourth quarter of 2000, revenues increased \$12 million or one per cent. The increase was due to volume growth and the effects of favourable currency translation rates on U.S. retail and business banking revenues. U.S. retail and business banking contributed to the Group's revenue growth through strong loan growth of 17 per cent from the prior year, excluding the effects of Joliet. In Canada, revenues declined year-over-year as improved revenues from higher volumes were more than offset by sundry reductions in other income and the effects of spread compression in the low interest rate environment.

Non-interest expenses for the fourth quarter of 2001 increased by \$19 million or three per cent from last year. The increase was primarily due to the inclusion of Joliet in the fourth quarter of 2001, as well as the effects of currency translation on U.S. retail and business banking expenses. The rate of expense growth has slowed to three per cent for the fourth quarter over the fourth quarter of 2000, compared with eight per cent growth for the first six months of 2001 over the comparable period in 2000.

Fourth Quarter 2001 vs. Third Quarter 2001

Net income of \$197 million was \$19 million lower than in the third quarter of 2001.

Revenues, at \$1,094 million, were \$14 million lower. Spreads narrowed somewhat as a result of continued market and competitive pressures. Volume growth has continued to improve since the end of the second quarter, indicating improved momentum in core businesses. Excluding the impact of Joliet, deposits and assets owned and managed increased four per cent from the fourth quarter of last year, compared with two per cent year-over-year growth in the third quarter.

Non-interest expenses of \$678 million were unchanged from the previous quarter as managed initiative spending and cost containment offset the addition of expenses of Joliet.

Fourth Quarter 2001 Business Achievements

During the quarter, the Bank continued to reinforce its long-standing support for the small business community by launching a prime interest rate sale for its customers. Products offered included small business lines of credit of up to \$50,000 and small business loans of \$50,000 to \$250,000 at prime rates. Market share of business loans below \$5 million continued to increase and the Bank continued to rank second in small business lending in Canada, with its market share increasing to 18.9 per cent.

The new Premium Rate Savings account has been very successful, offering consumers the highest interest rates on Canadian and U.S. dollar accounts of any leading full-service banking financial institution. This new product's growth has increased market share in Retail Operating Deposits by 49 basis points since the end of the second quarter.

In the United States, notwithstanding a slowing of the U.S. economy, retail and small business lending increased by US\$1 billion or 17 per cent from the previous year. The strong loan growth was achieved through business banking's expansion of its sales force, expansion of auto lending in Indiana, Wisconsin and Minnesota, and strong mortgage and consumer lending volumes.

PRIVATE CLIENT GROUP

Reported (\$ millions, except as noted)	Fiscal 2001	Fiscal 2000	Q4-2001	Q4-2000	Q3-2001
Net interest income (teb)	\$ 531	\$ 505	\$ 131	\$ 133	\$ 127
Other income	966	1,059	229	258	237
Total revenue	1,497	1,564	360	391	364
Provision for credit losses	2	1	1	-	-
Non-interest expense	1,273	1,212	336	322	310
Income before income taxes and goodwill	222	351	23	69	54
Income taxes (teb)	91	153	10	31	23
Amortization of goodwill, net of income tax	10	8	3	2	2
Net income	\$ 121	\$ 190	\$ 10	\$ 36	\$ 29
Net economic profit	\$ 59	\$ 138	\$ (5)	\$ 22	\$ 12
Cash return on equity	17.7%	35.1%	8.1%	24.1%	16.4%
Average net interest margin	9.94%	11.76%	10.48%	10.17%	9.51%
Non-interest expense-to-revenue ratio	85.0%	77.5%	93.4%	82.4%	84.8%
Average common equity	\$ 821	\$ 572	\$ 832	\$ 655	\$ 829
Average assets	\$ 5,345	\$ 4,291	\$ 4,956	\$ 5,190	\$ 5,309
Total risk-weighted assets	\$ 4,420	\$ 4,855	\$ 4,420	\$ 4,855	\$ 4,720
Assets under administration	\$ 130,548	\$ 130,937	\$ 130,548	\$ 130,937	\$ 130,666
Assets under management	\$ 72,980	\$ 69,353	\$ 72,980	\$ 69,353	\$ 73,567
Full-time equivalent staff	5,127	4,735	5,127	4,735	4,994

Fiscal 2001 vs. Fiscal 2000

Net income of the Private Client Group was \$121 million, a decline of \$69 million or 37 per cent from the prior year as market conditions deteriorated in both Canada and the United States.

Revenues of \$1,497 million declined \$67 million or four per cent, as increased revenues from acquired businesses and initiatives were offset by the effects of challenging market conditions and the overall decline in equity values, primarily affecting full-service investing and direct investing.

Non-interest expenses increased \$61 million or five per cent to \$1,273 million. Revenue-based compensation declined from the prior year, in line with weaker market conditions. Lower revenue-based compensation and cost management savings were offset by incremental expenses from acquired businesses and increased investment spending. The Group remained focused on its long-term strategy of expanding its distribution capabilities, as evidenced by the Group's recent acquisition of Guardian.

Despite challenging market conditions that resulted in the TSE 300 Index declining by 29 per cent and the S&P 500 Index declining by 26 per cent, assets under management and administration and term deposits grew by \$3 billion to \$237 billion.

Fourth Quarter 2001 vs. Fourth Quarter 2000

Net income for the fourth quarter of 2001 was \$10 million, compared with \$36 million in the fourth quarter of 2000.

Revenues declined by \$31 million or eight per cent to \$360 million, as weaker market conditions in Canada and the United States continued to negatively affect client-trading volumes and equity values and reduced margin loan balances in full-service and direct investing. Volume increases in term investments and in both U.S. and Canadian private banking were offset by narrowing spreads due to the current interest rate environment. The most recent quarter's revenues were affected by the \$12 million write-down in investments included in the bank-wide charges announced in the fourth quarter. This was partially offset by the inclusion of a full quarter of results for Guardian.

Non-interest expenses in the fourth quarter of 2001 increased by \$14 million or four per cent to \$336 million. The increase was primarily attributable to incremental expenses of acquired businesses and increased strategic investment spending, partially offset by lower revenue-based compensation.

Fourth Quarter 2001 vs. Third Quarter 2001

Net income declined by \$19 million or 64 per cent from the third quarter of 2001.

Revenues decreased by \$4 million, mainly due to the continued deterioration of market conditions in Canada and the United States, as the TSE 300 Index and S&P 500 Index declined by approximately 10 per cent and 13 per cent, respectively. In addition, client transaction-based trading volumes declined significantly and spreads narrowed during the quarter as a result of continued market pressures. Revenues were also affected by the investment write-downs. Excluding this item, revenues increased by \$8 million, mainly due to the inclusion of a full quarter's results for Guardian and increased returns from expansion of the Group's distribution network.

Non-interest expenses of \$336 million were \$26 million higher than in the third quarter of 2001. Expenses increased due to operating expenses of Guardian and investment expenditures related to the expansion of the Group's distribution network.

Fourth Quarter 2001 Business Achievements

- Guardian Group of Funds launched three new funds, GGOF Guardian Global Equity Fund, GGOF Guardian International Fund and GGOF Guardian Dividend Growth Fund. Putnam Advisory Company, LLC will manage GGOF Guardian Global Equity Fund and GGOF Guardian International Fund. Jones Heward Investment Counsel Inc. will manage the GGOF Guardian Dividend Growth fund.
- BMO InvestorLine launched Retirement Planner, a dynamic retirement planning tool that incorporates a client's financial situation, risk tolerance and retirement goals to develop a customized plan.
- The Private Wealth Group was created within BMO Harris Private Banking to provide clients with specialized services, such as family administration and education services, philanthropic and foundation advisory services, and business succession planning.

INVESTMENT BANKING GROUP

Reported (\$ millions, except as noted)	Fiscal 2001	Fiscal 2000	Q4-2001	Q4-2000	Q3-2001
Net interest income (teb)	\$ 1,260	\$ 1,098	\$ 338	\$ 254	\$ 360
Other income	1,120	1,211	97	340	283
Total revenue	2,380	2,309	435	594	643
Provision for credit losses	538	151	380	38	57
Non-interest expense	1,227	1,168	269	287	323
Income before income taxes and goodwill	615	990	(214)	269	263
Income taxes (teb)	206	380	(100)	109	94
Non-controlling interest in subsidiaries	-	-	-	-	-
Amortization of goodwill, net of income tax	7	7	2	2	2
Net income	\$ 402	\$ 603	\$ (116)	\$ 158	\$ 167
Net economic profit	\$ (95)	\$ 106	\$ (243)	\$ 34	\$ 42
Cash return on equity	8.3%	13.6%	(11.7%)	14.1%	14.4%
Average net interest margin	0.89%	0.79%	0.95%	0.72%	1.07%
Non-interest expense-to-revenue ratio	51.6%	50.6%	62.1%	48.4%	50.2%
Average common equity	\$ 4,258	\$ 4,012	\$ 4,351	\$ 4,057	\$ 4,244
Average assets	\$ 141,685	\$ 139,567	\$ 141,024	\$ 139,778	\$ 133,129
Total risk-weighted assets	\$ 66,366	\$ 72,497	\$ 66,366	\$ 72,497	\$ 65,666
Assets under administration	\$ 2,207	\$ 4,344	\$ 2,207	\$ 4,344	\$ 2,458
Assets under management	\$ 16,485	\$ 11,404	\$ 16,485	\$ 11,404	\$ 14,923
Full-time equivalent staff	2,163	2,117	2,163	2,117	2,141
Excluding non-recurring items (\$ millions)	Fiscal 2001	Fiscal 2000	Q4-2001	Q4-2000	Q3-2001
Total revenue (teb)	\$ 2,558	\$ 2,309	\$ 613	\$ 594	\$ 643
Net income	\$ 507	\$ 603	\$ (11)	\$ 158	\$ 167
Cash return on equity	10.7%	13.6%	(2.2%)	14.1%	14.4%
Non-interest expense-to-revenue ratio	48.0%	50.6%	44.1%	48.4%	50.2%

Fiscal 2001 vs. Fiscal 2000

Net income for the year was \$402 million, a decrease of \$201 million or 33 per cent from fiscal 2000. Excluding the \$105 million after-tax fourth quarter write-down in the Group's investment in its own CBOs, net income for 2001 declined by \$96 million.

Revenues improved by \$71 million or three per cent to \$2,380 million. The increase was primarily driven by significantly improved results from the Capital Markets line of business, which benefited from reduced wholesale funding costs as central banks aggressively decreased interest rates, and from improved client transaction volumes across the Group's comprehensive debt, interest rate, currency and commodity derivatives product offerings. Strong dividend income, securitization fees and increased corporate loan spreads also contributed to the improved performance.

A weaker economy in both Canada and the United States contributed to lower levels of merger and acquisition revenue, particularly in technology, media and telecommunications. The weaker economy also contributed to decreased levels of new corporate equity and debt issues, and to lower equity market

volumes from the record levels experienced in 2000. However, the Group maintained market leadership in its core high-return fee businesses, including Equities, Mergers and Acquisitions, Securitization and Research. Revenues were materially affected by \$225 million of write-downs of the Group's equity ownership interests in its own high yield CBOs in the year, including \$178 million in the fourth quarter. The investments were made to sponsor the establishment of the Group's Credit Investment Management unit and have been adversely affected by deterioration in credit markets. The write-downs were determined by applying new U.S. accounting guidance on the valuation of beneficial interests in securitized financial assets. Higher private equity investment write-downs in our Merchant Banking unit were also experienced during the year, reflecting the weak economic environment.

The provision for credit losses increased \$387 million from the prior year to \$538 million. The increase related primarily to U.S. mid-market corporate borrowers in a broad range of industries, although increases were also experienced in the U.S. commercial portfolio and in the Canadian corporate loan book. The increase was prompted by the deteriorating economic conditions in North America, particularly in the latter part of fiscal 2001.

Non-interest expenses increased by \$59 million or five per cent to \$1,227 million, largely due to higher revenue-based compensation and increased employee costs in support of the Group's sector strategies.

Fourth Quarter 2001 vs. Fourth Quarter 2000

The net loss of \$116 million for the fourth quarter of 2001 was \$274 million below results for the fourth quarter of last year.

Fourth quarter revenues of \$435 million were \$159 million or 27 per cent lower than in the comparable period in 2000, reflecting deteriorating economic conditions, a challenging credit market environment and weak equity market volumes. Revenues for the most recent quarter were significantly affected by the \$178 million write-down in the Group's equity investments in its own high yield CBOs. The Group also experienced private equity investment write-downs as a result of the weakening economy and mark-to-market declines in securities held by the Credit Investment Management business for product issuance. Underwriting and merger and acquisition activities were affected by a weak business environment during the quarter, although the Group maintained its Canadian market leadership. Equities ranked first for total volume block trading, although volumes were lower than in the comparable quarter of last year.

Client transaction volumes across many different product offerings in Capital Markets remained strong this quarter. The Group benefited from lower wholesale funding costs than in the prior year and also benefited from improved performance in its Securitization unit.

In response to a sharp deterioration in corporate credit quality, the Bank accelerated its regular quarterly loan review and increased its provisions for credit losses by \$314 million in its U.S. and Canadian corporate loan books in the fourth quarter of 2001. The increase was a prudent response to the challenging economic conditions in North America in the latter part of the fiscal year. The provision for credit losses was \$380 million, compared with \$38 million in the fourth quarter of last year.

Non-interest expenses of \$269 million were \$18 million or six per cent lower than in the fourth quarter of last year, partially due to lower revenue-based compensation costs.

Fourth Quarter 2001 vs. Third Quarter 2001

The net loss in the fourth quarter of 2001 was \$116 million, compared with net income of \$167 million in the third quarter.

Revenues declined by \$208 million. A sharp deterioration in economic conditions and a weak fourth quarter business environment affected the performance of several units. Quarter-over-quarter comparatives were affected by the \$178 million write-down in the Group's equity investments in its own CBOs. Ongoing interest rate reductions by central banks continue to benefit the performance of the Group's interest-rate-sensitive businesses. Merger and acquisition revenues improved, despite a weak business environment. The Group benefited from significant dividend realizations during the third quarter in its Merchant Banking line of business.

Non-interest expenses of \$269 million were \$54 million or 17 per cent lower than in the third quarter, mainly due to lower revenue-based compensation costs.

The provision for credit losses was \$380 million, compared with \$57 million in the third quarter. The increase was prompted by the continuing deterioration of the U.S. economy and the more recent weakening of the Canadian economy.

Fourth Quarter 2001 Business Achievements

In October, BMO Nesbitt Burns executed a public equity transaction for George Weston Ltd., involving the placement of a block of 9.6 million shares in Loblaw Cos. Ltd., valued at \$466 million. In addition, the Group:

- demonstrated its cross-border merger and acquisition expertise in energy by serving as financial advisor to Anderson Exploration in its US\$4.6 billion sale to U.S. independent, Devon Energy Corporation;
- served as one of the lead arrangers of Adelphia Communications US\$2 billion senior bank financing – the largest leveraged loan completed in the U.S. Media/Telecom market for the quarter and the first leveraged transaction completed after September 11th;
- expanded its presence in key strategic areas of the U.S. middle market through the combined efforts of Harris Nesbitt's Equity Sponsors and Food Groups. Transactions completed in the quarter included a successful recapitalization of Simeus Foods and the sale of Sterling Foods;
- ranked first in Canadian equity block trading and maintained a leading share of the underwriting market in the quarter;
- participated in 59 North American corporate new issues during the quarter, with an aggregate value of \$12.2 billion;
- provided advisory services on eight transactions with an aggregate value of \$8.4 billion; and
- completed 17 securitization transactions with an aggregate value of over \$2.2 billion.

EMFISYS AND CORPORATE SUPPORT

Reported (\$ millions)	Fiscal 2001	Fiscal 2000	Q4-2001	Q4-2000	Q3-2001
Net interest income (teb)	\$ (212)	\$ (202)	\$ (51)	\$ (71)	\$ (29)
Other income	880	680	113	159	148
Total revenue	\$ 668	\$ 478	\$ 62	\$ 88	\$ 119
Provision for credit losses	173	(29)	85	(39)	(4)
Non-interest expense	488	333	166	62	110
Income before income taxes, non-controlling interest in subsidiaries and goodwill	7	174	(189)	65	13
Income taxes (teb)	(195)	(36)	(119)	(22)	(35)
Non-controlling interest in subsidiaries	42	20	13	6	12
Amortization of goodwill, net of income tax	16	16	4	5	4
Net income	\$ 144	\$ 174	\$ (87)	\$ 76	\$ 32

Excluding non-recurring items (\$ millions)	Fiscal 2001	Fiscal 2000	Q4-2001	Q4-2000	Q3-2001
Total revenue (teb)	\$ 347	\$ 404	\$ 62	\$ 88	\$ 119
Provision for credit losses	\$ 73	\$ 13	\$ 85	\$ 3	\$ (4)
Non-interest expense	\$ 488	\$ 376	\$ 166	\$ 105	\$ 110
Income taxes (teb)	\$ (227)	\$ (101)	\$ (119)	\$ (57)	\$ (35)
Net income	\$ (45)	\$ 80	\$ (87)	\$ 26	\$ 32

Fiscal 2001 vs. Fiscal 2000

Net income for the year was \$144 million, down \$30 million from fiscal 2000. Excluding non-recurring items, the net loss for the year was \$45 million, a deterioration of \$125 million from fiscal 2000. There was a \$54 million reduction in earnings recognized on the Bank's investment in Bancomer, as a result of the change in accounting methodology and the adoption of cost accounting. The provision for credit losses in corporate support increased by \$202 million. Excluding amounts categorized as non-recurring for reporting purposes, the provision increased by \$60 million. Revenues, excluding non-recurring items, reflected lower amounts from securitizations, partially due to credit factors, and lower contributions from investment securities. Expenses were higher, partially due to the timing of cost allocations and pension and other credits that were more favourable in fiscal 2000. Results for fiscal 2001 benefited from lower tax rates and other favourable tax adjustments and initiatives.

Fourth Quarter 2001 vs. Fourth Quarter 2000

The net loss for the fourth quarter of 2001 was \$87 million, compared with net income of \$76 million last year. Excluding non-recurring items, the net loss of \$87 million compared with net income of \$26 million. Revenues, excluding non-recurring items, declined due to lower securitization revenues, including the \$22 million write-down of a corporate loan securitization receivable, and weaker revenues from securities in the most recent quarter. The provision for credit losses increased \$82 million year-over-year, excluding non-recurring items. Expenses were higher in the fourth quarter of this year, partially due to the timing of allocations to the operating groups, principally in 2000, and due to sundry other increases. Year-over-year comparative results also benefited from the lower income taxes referred to above.

Fourth Quarter 2001 vs. Third Quarter 2001

The net loss for the fourth quarter of 2001 was \$87 million, compared with net income of \$32 million in the third quarter of last year. Factors contributing to the decline were largely consistent with those affecting the comparison to the fourth quarter of last year.

Bancomer

The Bank sold its entire 1,012 million shares for a non-recurring gain on sale of \$321 million (\$272 million after-tax) in the first half of 2001. The shares were sold to Banco Bilbao Vizcaya Argentaria (BBVA) pursuant to agreements reached with BBVA and Bancomer during the first quarter. The Bank had owned approximately 20 per cent of Bancomer's voting shares and first invested in Bancomer in 1996. Bank of Montreal earned an average annual 17.3 per cent after-tax cash-on-cash return over the holding period and continues to hold a US\$99 million debenture issued by Bancomer.

Following a dilution in Bank of Montreal's ownership interest in Bancomer in the third quarter of fiscal 2000, the Bank adopted the cost basis of accounting, replacing the equity basis of accounting for its investment. Earnings recognized on the Bank's investment in Bancomer declined by \$54 million year-over-year.

Emfisys Fourth Quarter 2001 Business Achievements

There were a number of notable business developments.

Bank of Montreal's online clients continue to grow. Today, more than one million clients are accessing banking, brokerage and MasterCard online – an increase of 60,000 clients over the third quarter.

Bank of Montreal continues to demonstrate business excellence, customer focus, and leadership on a number of fronts:

- Emfisys commenced the launch of Pathway Connect, a state-of-the-art technology platform, to provide retail and commercial employees with tools to deepen client relationships and better meet client needs.
- Emfisys completed the national rollout of Optimizer, a leading-edge sales and service application that enables over 2,000 commercial lenders across Canada to provide clients with enhanced service and products, and time-sensitive solutions.
- DirectLine for Business, an Internet-based cash management tool for large corporate, and small and medium-sized businesses, has continued to enhance its service and attract new business.
- BMO Nesbitt Burns' Full-Service Online (FSO) was recognized by the Next 21 program, a national program that recognizes companies that implement innovative technology to create successful business change.
- Bank of Montreal received The Data Warehousing Institute's annual 'Best Practices in Data Warehousing Award' in the Financial Institutions category.
- Harris Bank was named to Computerworld's list of the top 25 wireless innovators for 2001 and recognized as one of the best and brightest innovators using wireless technology.

HARRIS BANK

The results of Harris Bank are included within the results of each of Bank of Montreal's operating groups. Harris Bank legal entity results are outlined below.

Reported (U.S. GAAP/US\$ millions, except as noted)	Fiscal 2001	Fiscal-2000	Q4-2001	Q4-2000	Q3-2001
Net interest income (teb)	\$ 760	\$ 694	\$ 204	\$ 175	\$ 194
Other income	504	489	120	108	108
Total revenue	1,264	1,183	324	283	302
Provision for credit losses	208	27	153	8	26
Non-interest expense	723	713	196	171	175
Income before income taxes and goodwill	333	443	(25)	104	101
Income taxes (teb)	115	159	(10)	37	35
Non-controlling interest in subsidiaries	-	-	-	-	-
Amortization of goodwill, net of income tax	17	16	5	4	4
Net income	\$ 201	\$ 268	\$ (20)	\$ 63	\$ 62
Net economic profit	\$ 28	\$ 124	\$ (66)	\$ 25	\$ 18
Cash return on equity (U.S. basis)	12.9%	21.1%	(4.9%)	18.8%	15.6%
Average net interest margin (U.S. basis)	2.99%	2.83%	3.15%	2.74%	3.08%
Non-interest expense-to-revenue ratio	57.2%	60.3%	60.6%	60.5%	58.1%
Average common equity	\$ 1,798	\$ 1,509	\$ 1,955	\$ 1,557	\$ 1,813
Average assets	\$ 28,677	\$ 27,705	\$ 28,906	\$ 28,374	\$ 28,390
Total risk-weighted assets	\$ 22,732	\$ 23,287	\$ 22,732	\$ 23,287	\$ 21,702
Full-time equivalent staff	5,756	6,260	6,019	5,822	5,714

Fiscal 2001 vs. Fiscal 2000

On a U.S. dollar/U.S. GAAP basis, Harris Bank's net income was \$201 million compared with \$268 million a year ago. This represents a decline of \$67 million or 25 per cent. The continued uncertainty in the economic environment prompted Harris Bank to announce a fourth-quarter increase in provisions for credit losses of \$80 million after-tax. Excluding the impact of this increase, which related primarily to the corporate loan portfolio, Harris' net income for the year was \$281 million. Results include the effects of the acquisition of Joliet and its US \$1.1 billion in assets. Comparability of results is also affected by the \$30 million after-tax gain on the sale of the corporate trust business in the prior year, by the current year's \$36 million after-tax gain on the sale of Harris Bank's merchant card business to Moneris and this year's \$2 million after-tax reduction of the gain on sale of the corporate trust business. Because the card business transaction was between related companies, the gain was not included in the consolidated results of the Bank of Montreal. Excluding these gains and related charges, the aforementioned increased provision for credit losses, and the operating income of the divested businesses, net income for the year was \$248 million, an increase of \$15 million or six per cent from the prior year. This increase was mainly attributable to continued strong growth in consumer, mortgage and small business loans and retail deposits, and a more favourable interest rate environment that contributed to increased earnings from treasury and trading activities. These increases were largely offset by higher provisions for credit losses associated with the impact of a slowing economy, primarily affecting the Bank's corporate loan portfolio, and by expenses related to business growth and expansion.

Harris Bank earnings included in the Bank's results, on a Canadian dollar/Canadian GAAP basis, were \$287 million in 2001, a decrease of \$98 million from a year ago. Excluding the impact of divested

businesses and the announced \$128 million after-tax increase in the fourth quarter provision, net income included in the Bank's results on a Canadian basis was \$421 million, a \$38 million increase from a year earlier.

Fourth Quarter 2001 vs. Fourth Quarter 2000

On a U.S. dollar/U.S. GAAP basis, the previously noted \$80 million after-tax increase in provisions for credit losses resulted in a net loss of \$20 million in the quarter, compared with net income of \$63 million in the same quarter a year earlier. Excluding the increased provision referred to above, Harris' net income for the fourth quarter was \$60 million. Year-to-year comparative results were affected by the December 2000 sale of the merchant card business to Bank of Montreal's Moneris Solutions joint venture (Moneris) and the second quarter 2000 sale of the corporate trust business. Excluding the impact of both of these divestitures and the above mentioned increased provision for loan losses, earnings grew one per cent in the current quarter. Results benefited from continued strong growth in consumer, mortgage and small business loans and retail deposits, and a more favourable interest rate environment that contributed to increased earnings from treasury and trading activities. These effects were largely offset by higher loan loss provisions associated with the impact of a slowing economy on Harris' corporate loan portfolio. Non-performing assets increased to \$208 million from \$96 million a year ago. Revenue growth reflected higher interest margins and higher gains on sales of investment securities. Excluding the operating results of both corporate trust and the merchant card businesses, year-over-year revenue growth was 18.6 per cent. Non-interest expenses increased \$26 million over the prior year. Excluding post-acquisition operating expenses for Joliet and expenses associated with businesses sold in 2000, non-interest expenses increased 13 per cent, reflecting expansion initiatives in our corporate and investment banking, private client and retail banking businesses.

Harris Bank results included in the Bank's net income, on a Canadian dollar/Canadian GAAP basis, were a net loss of \$36 million in the fourth quarter, a decrease of \$130 million from a year ago. Excluding the impact of divested businesses and the announced \$128 million after-tax increase in the fourth-quarter provision, net income included in the Bank's results on a Canadian basis was \$97 million, a \$5 million increase from a year earlier.

Fourth Quarter 2001 Business Achievements

Retail and business banking maintained business and earnings momentum despite the slowing of the U.S. economy, with 24 per cent growth in consumer, mortgage and small business loans, of which five per cent is attributable to the acquisition of Joliet. The strong loan growth was achieved through business banking's expansion of its sales force, expansion of auto lending in Indiana, Wisconsin and Minnesota and strong mortgage and consumer lending volumes. Enhanced capabilities and services at the call centre have resulted in an increase in sales through alternative channels and increased online banking use. In addition, a sales force of private bankers is now in place in the community banking network to support wealth management expansion across the Chicagoland area.

In the United States, Private Client Group continued to extend the convenience of technology and ease of use to its customers by providing them with the ability to access their brokerage accounts through wireless banking. Through Harris Wireless, an electronic service that provides financial services access through wireless phones, customers can now view and manage their accounts at Harris InvestorLine, the direct brokerage arm of The Harris. In addition, Harris Nesbitt expanded its presence in key strategic areas of the U.S. middle market through the combined efforts of its Equity Sponsors and Food Groups.

FINANCIAL STATEMENT REVIEW

REVENUES

Fiscal 2001 vs. Fiscal 2000

Total revenue increased \$199 million to \$8,863 million in 2001. Other income in both 2001 and 2000 was higher because of the inclusion of non-recurring items. Excluding non-recurring items, total revenue increased \$270 million or three per cent to \$8,708 million.

Net interest income for the year was \$4,641 million, an increase of \$303 million or seven per cent from 2000. Average assets grew \$8.3 billion from 2000, while the average net interest margin increased by six basis points to 1.91 per cent from 1.85 per cent in 2000. Following a reduction in the Bank's 20 per cent ownership position in Bancomer, as a result of its corporate reorganization, the Bank discontinued equity accounting for its investment in the third quarter of 2000. Our share of earnings recognized on our investment in Bancomer declined \$54 million from 2000, representing two basis points of decline.

In the Personal and Commercial Client Group, increased net interest income was generated by volume growth across all lines of business, while margins remained relatively flat year-over-year.

Within the Private Client Group, net interest income growth was attributable to acquired businesses in the United States, partially offset by the effects of lower margin lending balances and interest rate compression.

Net interest income of the Investment Banking Group improved year-over-year, reflecting significantly improved results in the Capital Markets interest-rate-sensitive businesses, which benefited from reduced funding costs as central banks aggressively decreased interest rates. Higher levels of dividend income in Merchant Banking and higher spreads on corporate loans also contributed to improved net interest margins.

Other income declined \$104 million to \$4,222 million. Excluding non-recurring items, other income was \$4,067 million, a decrease of \$33 million or one per cent from the comparable period last year. Non-recurring items are detailed on page 13.

Trading revenues were significantly higher because of improved performance in fixed income and commodity businesses. Capital market fees, which relate to investment banking and capital markets transactions, decreased \$93 million to \$976 million in 2001, reflecting the effects of less active markets. Investment securities gains also declined sharply and investment management and custodial fees declined due to the sale of corporate trust businesses in 2000. Securitization revenues were down marginally from last year, although gains on securitizing assets were up significantly, partly due to the application of new accounting guidelines that require recognition of gains that were previously deferred. Credit quality of securitized assets affected revenues recognized in 2001.

Fourth Quarter 2001 vs. Fourth Quarter 2000

Total revenues for the fourth quarter of 2001 were \$1,951 million, a decrease of \$211 million from the fourth quarter of 2000. Excluding non-recurring items in both periods, revenues were \$26 million lower.

Net interest income was \$1,201 million, an increase of \$118 million from a year earlier. Average assets increased by three per cent to \$245.8 billion and average loans increased by four per cent to \$139.1 billion. Net interest margins increased by 13 basis points to 1.94 per cent, largely due to

higher margins in Investment Banking Group, including higher dividend income. Other income was \$750 million, a decrease of \$329 million from the prior year. Excluding non-recurring items, other income declined \$144 million. Securitization revenues and investment securities gains declined, partially due to the previously announced charges.

Fourth Quarter 2001 vs. Third Quarter 2001

Revenues of \$1,951 million were down \$283 million from the third quarter of 2001. Excluding non-recurring items, revenues decreased \$105 million or five per cent.

Net interest income at \$1,201 million decreased \$30 million or two per cent from the third quarter. Average assets increased by five per cent to \$245.8 billion and average loans were two per cent higher at \$139.1 billion, Net interest margins decreased by 15 basis points to 1.94 per cent. Other income was \$750 million, a decrease of \$253 million from the third quarter. Excluding non-recurring items, other income declined \$75 million.

NON-INTEREST EXPENSES

Fiscal 2001 vs. Fiscal 2000

Non-interest expenses were \$5,671 million, an increase of \$413 million or eight per cent from last year.

The non-interest expense-to-revenue ratio of 64.0 per cent was 330 basis points higher than in 2000. Excluding non-recurring items, the non-interest expense-to-revenue ratio of 65.1 per cent increased by 230 basis points. Excluding non-recurring items, revenue growth was three per cent, while expense growth was seven per cent.

Expense growth was largely due to increased strategic initiative spending in the operating Groups, including increased front-line staffing costs in the Personal and Commercial Client Group. Benefits costs increased, partly due to changes in accounting for pensions and other future benefits costs as discussed below. Revenue-based compensation costs declined modestly as costs rose in Investment Banking Group but declined in Private Client Group. Acquired businesses, net of disposals, resulted in a modest increase in overall expenses.

In fiscal 2001 the Bank adopted a new standard for accounting for pensions and other future benefits. The standard was adopted in the first quarter of 2001 on a retroactive basis by charging \$250 million (net of \$171 million of income tax) to retained earnings at the beginning of fiscal 2001. The new standard resulted in the recognition of increased annual benefits expenses of approximately \$69 million (\$41 million after-tax) in 2001.

Salaries and employee benefits increased to \$3,212 million, compared with \$3,065 million in 2000.

Because of changes in the shareholder agreement governing the Bank's rights in respect of Symcor, its items processing affiliate, the accounting related to Symcor changed in 2001. The Bank had accounted for its share of the results of Symcor using the proportionate consolidation method, whereby the Bank's proportionate share of salaries and other Symcor costs were reflected in the Bank's results as though those costs were incurred directly by the Bank. These costs are now invoiced to the Bank and reflected only in other expenses.

Fourth Quarter 2001 vs. Fourth Quarter 2000

Non-interest expenses were \$1,449 million, an increase of \$119 million or nine per cent from the fourth quarter of 2000.

The non-interest expense-to-revenue ratio was 74.2 per cent, compared with 61.5 per cent in the fourth quarter of 2000. The non-interest expense-to-revenue ratio, excluding non-recurring items, was 4.3 percentage points worse than in the prior year.

INCOME TAXES

The provision for income taxes reflected in the consolidated statement of income is based upon transactions recorded in income, regardless of when they are subject to income taxes. Non-recurring items and income taxes thereon are outlined on page 13.

Excluding non-recurring items, the effective tax rate was 31.6 per cent in 2001, compared with 36.4 per cent in 2000, an improvement of 4.8 percentage points. The year-over-year improvements related to lower statutory tax rates, a shift in the proportion of income taxed in lower tax rate jurisdictions and entities, various tax initiatives and the resolution of issues with taxation authorities. The benefits of tax initiatives are generally reflected in the Corporate Support Group in the year they arise.

The tax rate for the fourth quarter of 2001 was somewhat unusual due to the effect of loan losses and write-downs being recognized in particular tax jurisdictions and due to tax initiatives and the resolution of certain issues. The higher provision for credit losses and write-downs in the quarter affected the distribution of income between high and low tax rate jurisdictions.

BALANCE SHEET

Total assets increased \$6.0 billion or three per cent from last year to \$239.4 billion. The growth was primarily due to an increase of \$13.3 billion in other assets. That increase related to higher unrealized gains and amounts receivable on derivatives, and to higher amounts due from dealers and brokers. The derivatives increase was largely due to the significant declines in interest rates over the last half of fiscal 2001, which resulted in certain positions increasing in value. Offsetting positions resulted in a significant increase in other liabilities. The increased amounts due from brokers and dealers was largely due to a change to trade date accounting in certain Capital Markets businesses during the year.

Investment securities declined by \$3.0 billion to \$21.5 billion. The decline related to lower holdings of federal government securities in the United States and Canada, and to the sale of the investment in Bancomer.

Trading securities declined by \$5.8 billion to \$16.2 billion. Holdings of federal government securities in the United States and Canada declined due to lower activity levels.

Net loans and acceptances increased \$2.3 billion from last year to \$144.8 billion, reflecting primarily an increase of approximately \$3.4 billion in loans to individuals, as well as the addition of \$852 million of loans of Joliet. Securities purchased under resale agreements decreased by \$1.4 billion, but balances remained within normal levels. Market preferences and overall liquidity management in the financial markets drive the use of these low-risk, low-margin products.

Net loans to Commercial, Corporate and Institutional borrowers increased slightly overall, reflecting an increase of approximately \$2.2 billion in loans to financial institutions, \$2.1 billion in the diversified category and \$0.7 billion in commercial mortgages, offset principally by reductions in loans to the manufacturing, energy, mining, transportation, utilities and construction sectors.

In the Personal and Commercial Client Group, loan balances were reduced by approximately \$500 million due to branch sales. Balances were also reduced by securitizations of lease receivables and residential mortgages, totalling approximately \$1.5 billion.

The Bank's portfolio remains well diversified with minimal change in the geographic breakdown from last year-end, as loan growth was concentrated in the relatively stronger Ontario region.

Deposits declined by \$2.4 billion from last year to \$154.3 billion. Deposits from business and governments, which account for 43 per cent of total deposits, decreased by \$3.4 billion. Deposits by banks, which tend to be somewhat variable, decreased by \$2.8 billion. Deposits from individuals, which account for 44 per cent of total deposits, tend to be more stable and increased by \$3.8 billion. During the year, the Bank introduced a premium rate savings account that proved popular with customers.

CREDIT RATING

The Bank's credit rating, as measured by a composite of Moody's and Standard & Poor's senior debt ratings, remained unchanged at AA- in 2001. However, following the Bank's October 26th announcement of investment portfolio write-downs and higher provisions for credit losses in the fourth quarter, Standard and Poor's announced that it had placed the Bank on credit watch with negative implications.