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Bank of Montreal Reports First Quarter Earnings

VANCOUVER, February 27, 2001 – Bank of Montreal reported net income of $416 million for the quarter ended January 31, 2001. This compared with $474 million in the first quarter 2000. Excluding non-recurring items in each period, net income for the first quarter 2001 was $403 million compared with $407 million in the same period last year.

Other highlights were, including the effects of non-recurring items, on a year-over-year basis:

- **total revenues of $2,193 million, up $70 million;**
- **earnings per share of $1.45, down $0.20;**
- **return on equity of 15.3 per cent, down from 19.0 per cent.**

“Throughout the first quarter, the Bank continued to accelerate the shift of its business mix toward high-growth, high-return businesses,” said Tony Comper, Chairman and Chief Executive Officer, Bank of Montreal. “The Bank is targeting the following key areas: business customers – small business and commercial banking; personal customers – wealth management and consumer lending; e-business and selective investment banking businesses.

“While the results for the quarter were mixed, we remain committed to our enterprise targets for fiscal 2001. And we are on track to achieving the targets for the year.”

Earnings in the Investment Banking Group improved significantly, largely due to capital markets businesses. The Personal and Commercial Client Group experienced a slowdown in earnings growth. A number of initiatives were introduced throughout the year associated with the Bank’s growth strategy. The absorption of these changes, including the introduction of 1,000 new staff in sales and service, affected growth in the first quarter. At the same time, while Private Client Group revenues increased due to higher asset and deposit volumes, expenses also increased as the Group continued to integrate recent acquisitions and invest in sales force expansion.

“Asset quality overall remained sound,” added Mr. Comper. “Loan performance is within expectations as we continue to benefit from good diversification of our portfolio.”

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SUMMARY OF FINANCIAL RESULTS

First Quarter 2001 Compared with First Quarter 2000

- Total revenues were $2,193 million, an increase of $70 million or 3.2 per cent. Excluding non-recurring items, revenues increased $138 million or 6.8 per cent to $2,149 million;
- Earnings per share were $1.45, down $0.20 or 12.1 per cent from $1.65. Excluding non-recurring items, earnings per share were $1.40 compared with $1.41;
- Return on equity declined from 19.0 per cent to 15.3 per cent. Excluding non-recurring items in both periods, return on equity declined from 16.2 per cent to 14.8 per cent;
- Non-interest expenses increased $143 million or 11.4 per cent. There were no non-recurring items in either period;
- The provision for credit losses was $100 million, unchanged from the first quarter of 2000.

First Quarter 2001 Compared with Fourth Quarter 2000

- Total revenues increased $31 million or 1.4 per cent from $2,162 million. Excluding non-recurring items, revenues were down $6 million from the previous quarter;
- Earnings per share decreased $0.27 from $1.72. Excluding non-recurring items, earnings per share were $1.40 compared with $1.51;
- Return on equity declined from 18.4 per cent to 15.3 per cent. Excluding non-recurring items, return on equity declined from 16.2 per cent to 14.8 per cent;
- Non-interest expenses increased $67 million or 5.0 per cent. Excluding non-recurring items, expenses rose $24 million or 1.7 per cent to $1,397 million;
- The provision for credit losses increased $42 million. Excluding non-recurring items, the provision was $100 million, unchanged from the fourth quarter of 2000.

Effect of Accounting Changes on Earnings Per Share

During the quarter, the Bank adopted new accounting requirements of the Canadian Institute of Chartered Accountants covering pensions and other future employee benefits and governing the computation of earnings per share. These changes lowered diluted earnings by $0.07 per share in the first quarter of 2001.

EPS (excluding non-recurring items)	$1.40
Pensions and other future employee benefits	0.04
EPS methodology	0.03
EPS before accounting changes (excluding non-recurring items)	$1.47

The text of the Bank's First Quarter 2001 Report to Shareholders follows.

FIRST QUARTER 2001 REPORT TO SHAREHOLDERS

First Quarter 2001 vs. First Quarter 2000

Bank of Montreal earned net income of $416 million for the first quarter of 2001, down from $474 million for the first quarter of 2000 when the Bank recorded a $67 million after-tax gain from the sale of its Partners First credit card issuing business in the United States. Excluding non-recurring items in both periods (which are itemized on page 12), net income was $403 million versus $407 million in the prior year.

Return on equity for the quarter was 15.3 per cent, compared with 19.0 per cent for the first quarter of 2000. Excluding non-recurring items, return on equity declined 1.4 percentage points to 14.8 per cent.

Diluted earnings per share, previously referred to as 'fully diluted earnings per share', were $1.45 versus $1.65 in the first quarter of last year. Excluding non-recurring items, diluted earnings per share of $1.40 were $0.01 lower than in the prior year.

Certain accounting changes, related to Bancomer and to the adoption of new accounting standards, affected year-over-year comparative results, excluding non-recurring items.

Following the reduction in the Bank's ownership interest, when Bancomer's shareholders approved its merger with Grupo Financiero Probursa, the Bank adopted the cost basis of accounting, replacing the equity basis of accounting for the investment in Bancomer. Net income from the Bank's investment declined by $31 million or by 12 cents per share from the first quarter of last year. Net income was further reduced by $10 million or four cents per share, due to the adoption of a new accounting standard covering pensions and other future employee benefits.

During the quarter the Bank also adopted, retroactively, the new accounting requirements of the Canadian Institute of Chartered Accountants governing the computation of earnings per share. The application of these new rules reduced diluted earnings in the current quarter by three cents per share.

In aggregate, these accounting changes reduced net income for the quarter by $41 million or $0.19 per share and lowered return on equity by 1.6 percentage points.

During the quarter the Bank sold 200 million Bancomer shares and reached an agreement to sell most of its remaining shares by the end of fiscal 2002. The $37 million gain on sale in the first quarter ($33 million after-tax) is included in non-recurring items within the Emfisys and Corporate Support Group.

Net income from the Investment Banking Group rose significantly from the first quarter of 2000, reflecting improved results from capital market businesses due to higher client-driven trading revenue. Net income from the Personal and Commercial Client Group, excluding non-recurring items, was substantially unchanged. Revenues grew only moderately from somewhat higher business volumes, and were offset by the effects of higher spending on business initiatives. Revenue growth was curtailed as the Group's expanded sales and service staff has yet to reach full productivity. The introduction of various initiatives, which will benefit future periods, also affected the success of sales efforts and slowed volume growth. Notwithstanding increased loan and deposit volumes, net income from the Private Client Group declined due to lower client transaction trading revenues associated with weaker market conditions relative to the first quarter of fiscal 2000, and due to higher expenses from strategic investments.

First Quarter 2001 vs. Fourth Quarter 2000

Net income for the first quarter of 2001 declined by $69 million or 14.2 per cent from $485 million for the fourth quarter of 2000. Excluding non-recurring items, net income declined $27 million or 6.4 per cent.

The $27 million reduction in net income was largely attributable to the $10 million after-tax effect of the adoption of the new accounting standards for pensions and other employee benefits, and to the benefits of lower tax rates that were recognized in the fourth quarter last year.

Return on equity of 15.3 per cent was 3.1 percentage points lower than for the fourth quarter of 2000. Excluding non-recurring items, return on equity declined 1.4 percentage points to 14.8 per cent.

Diluted earnings per share declined $0.27. Excluding non-recurring items, diluted earnings per share declined $0.11 or 7.3 per cent. As indicated, the adoption of new accounting standards in the current quarter reduced diluted earnings per share by seven cents in the current quarter.

The Investment Banking Group contributed higher net income, reflecting improved capital market conditions and higher revenues from interest-rate-sensitive businesses. Net income from the Personal and Commercial Client Group declined as lower revenues, due to reduced fees from venture capital and securitizations activities, offset the benefits of effective cost controls. Uncertain market conditions led to reduced earnings from the Private Client Group, particularly in full-service investing and direct investing.

Gross impaired loans and acceptances increased $201 million to $1,702 million in the first quarter of 2001, mainly reflecting the Bank's classification of a syndicated loan to a U.S. based financial institution as impaired.

The Bank continued to maintain a strong Tier 1 capital ratio, at 8.87 per cent, up slightly from the end of the prior year. On January 23, 2001, the Bank's Board of Directors announced an increase in the quarterly dividend to $0.56 per share, up $0.06 from the previous quarterly rate. The Bank has now increased its common share dividends every year since 1992.

The Bank also announced a 100 per cent stock dividend and filed a normal-course issuer bid to repurchase up to 15 million common shares (up to 30 million after the stock dividend), representing approximately 5.7 per cent of outstanding shares.

STRATEGIC OVERVIEW

Throughout the first quarter, the Bank continued to make progress with the next phase of its growth strategy, namely accelerating the shift of its business mix toward high-growth, high-return businesses. The Bank is targeting the following key areas: business customers – small business and commercial banking; personal customers – wealth management and consumer lending; e-business and selective businesses in investment banking.

Consistent with this strategy, average capital invested in the Private Client Group increased 37.4 per cent over the fiscal 2000 average, while capital invested in the Personal and

Commercial Client Group was up 4.3 per cent. The Investment Banking Group's capital levels were largely unchanged as growth in high-potential capabilities-based businesses and sector strategies were funded by further progress in reducing low-return assets in the corporate loan book.

E-business continues to be an important component of the Bank's growth strategy. On November 1, 2000, Emfisys, the Bank's technology and e-business group, assumed responsibility for e-business activities, making it one of the largest information technology research, development and service operations in the country.

During the first quarter, Emfisys continued to focus on increasing its market competitiveness, efficiency and quality of service. In support of the Bank's goal to become North America's leading e-business financial institution, the Group will create new high-growth, high-return businesses; invest in technology, e-business research and development; and optimize revenue generation through its Corporate and Commercial Electronic Financial Solutions business, strategic alliances, partnerships, joint ventures and outsourcing. The Bank has committed to invest more than $300 million in Emfisys' e-business division over the next four years.

Personal and Commercial Client Group made further progress in integrating branch and electronic banking capabilities in order to help simplify customers' financial lives. In the past 12 months, the number of instore branches rose by 32 to 78. At quarter-end, there were 891 traditional branches in Canada, a reduction of 106 from the first quarter of 2000. The reduction included the innovative sales of 74 branches, to credit unions and to National Bank of Canada, and was net of the addition of 12 former TD/Canada Trust branches.

The Private Client Group's strategy involves differentiation through a solid brand identity and the highest-quality advice, focusing on helping clients accumulate, protect and grow their financial assets. This is coupled with excellent product offerings and maximum choice and flexibility through targeted distribution.

During the first quarter, the Group continued to increase its Canadian investment professional team, completed the integration of Seattle-based Freeman Welwood and Arizona-based Century Bank and launched a number of new products and services, including new mutual funds and BMO Nesbitt Burns Full-Service online trading capability.

Investment Banking Group continued to focus on increasing returns by growing selective high-potential businesses and withdrawing capital from non-productive activities. The Group's strategy is to build on BMO Nesbitt Burns' strong market position in Canada, expand coverage in the highly profitable U.S. Midwest mid-market sector and grow its presence in the energy and media and telecommunications sectors. The Group is also building in selective high-return product areas such as merchant banking, securitization and credit investment management.

During the first quarter, BMO Nesbitt Burns ranked first in both Canadian equity block trading and equity underwriting market share.

By continuing to progress in the implementation of its growth strategy, Bank of Montreal intends to move closer to its objective of achieving top-tier shareholder returns relative to its Canadian and North American peers by 2002. For the twelve months ended January 31, 2001, the 1–year Total Shareholder Return from Bank of Montreal common stock was 75.8 per cent, the highest return among Canada's major banks.

FISCAL 2001 FINANCIAL TARGETS

At the end of fiscal 2000, Bank of Montreal adopted more detailed and aggressive financial targets for fiscal 2001. Following completion of the first quarter, the Bank remains committed to its fiscal 2001 targets and is on track to achieving them.

Targets for fiscal 2001, excluding the effects of non-recurring items, include:

- return on shareholders' equity of 17.0 to 17.5 per cent;
- revenue growth of 7.0 to 9.0 per cent;
- expense-to-revenue ratio consistent with 2000 ratio of 62.8 per cent;
- provision for credit losses consistent with the 2000 provision of $400 million;
- a tax rate (tax equivalent basis) averaging 37 per cent;
- modest growth from $134.4 billion of risk-weighted assets in 2000;
- a Tier 1 capital ratio of at least 8.0 per cent; and
- cash and securities-to-total assets consistent with 2000 ratio of 27.8 per cent.

OPERATING GROUP REVIEW

During the quarter certain business lines were transferred between client groups to more closely align the Bank's organization structure and its strategic priorities. All comparative figures have been restated to give effect to the transfers.

Personal and Commercial Client Group

The Personal and Commercial Client Group provides financial services, including electronic financial services, to households and commercial businesses in Canada and the United States. Results discussed below exclude earnings from the Bank's investment in Bancomer, which, as of the first quarter of 2001, is included in Emfisys and Corporate Support.

First Quarter 2001 vs. First Quarter 2000

Net income for the first quarter of 2001 was $191 million, compared with $254 million in the first quarter of 2000 when the Bank recorded an after-tax gain of $67 million from the sale of Partner's First. Excluding non-recurring items in both periods, net income was $186 million, a decline of $1 million.

Revenues were $1,045 million versus $1,115 million a year earlier. Excluding non-recurring items, revenues increased $35 million or 3.6 per cent to $1,038 million. The increase reflected higher volumes across most businesses and the favourable effects of strategic initiatives.

Non-interest expenses for the first quarter rose $36 million or 5.7 per cent, mainly reflecting strategic initiative spending, which was only partially offset by the effects of cost reduction initiatives and divestitures over the last year.

First Quarter 2001 vs. Fourth Quarter 2000

Net income of $191 million was $19 million or 8.8 per cent lower than in the fourth quarter of 2000. Excluding non-recurring items in both periods, net income of $186 million was $19 million or 9.0 per cent lower. The reduction reflected lower revenues from venture capital and securitization activities, which more than offset the effects of cost controls. Core business spreads increased slightly in Canada and declined in the U.S.

Non-interest expenses of $659 million increased $4 million from the previous quarter as the costs of an expanded frontline sales force and increased fringe benefits were largely offset by lower initiative spending.

Business Developments

In Canada, residential mortgages, after adjusting for securitizations, increased by $2.0 billion or 5.4 per cent from the first quarter of 2000, and by $390 million or 1.0 per cent from last quarter. Credit cards and other personal loans increased by $901 million or 5.5 per cent year-over-year and by $142 million or 0.8 per cent from last quarter, while loans and acceptances to commercial enterprises, including small business, were $1.1 billion or 4.9 per cent higher than a year ago and up $162 million or 0.7 per cent from the fourth quarter of 2000.

In U.S. retail banking, consumer loans grew by 16.4 per cent and total loans by 13.0 per cent from a year ago, and increased 6.4 per cent and 4.7 per cent, respectively, from the last quarter.

During the first quarter of 2001, the Bank announced the sale of 17 Quebec branches to National Bank of Canada and the sale of an Alberta branch to a credit union. During the quarter, the Bank completed the sale of 12 branches for a gain of $7 million ($5 million after-tax). Seven instore branches were opened during the quarter and now total 78 outlets.

Moneris Solutions Corporation, a credit and debit card processing company jointly owned by Bank of Montreal and Royal Bank, began offering central processing of Visa, MasterCard and Interac transactions and providing point-of-sale solutions to traditional and Internet businesses. Also during the quarter, Bank of Montreal simplified its Online Lending service by providing customers with a real-time “chat” option to assist them in completing loan applications.

Private Client Group

The Private Client Group, which has total assets under management and administration, and term deposits of $232 billion and approximately 4,900 employees, brings together all of the Bank of Montreal Group of Companies’ wealth management services. Operating under Private Client Group in Canada and The Harris brand in the United States, the Group provides North American investors with the tools they need to accumulate, protect and grow their financial assets. Private Client Group offers a broad array of products and services, including retail investment products, direct and full-service investing, private banking and institutional money management.

First Quarter 2001 vs. First Quarter 2000

Net income for the first quarter of 2001 was $31 million, compared with $48 million for the first quarter of 2000.

Revenues for the quarter rose $24 million or 6.9 per cent to $379 million. Growth in asset and deposit volumes of existing businesses and growth from acquisitions more than offset the effects of a return to more normal client trading volumes in full-service investing and direct investing and of our clients’ reactions to uncertain market conditions. Full-service investing experienced an increase in more stable fee-based income relative to the first quarter of 2000.

Non-interest expenses rose by $54 million or 20.2 per cent to $323 million. The increase was due to significant investment in the wealth management business to support future growth, operating expenses of recent U.S. acquisitions, as well as general business growth.

First Quarter 2001 vs. Fourth Quarter 2000

Net income declined $4 million or 13.0 per cent from the fourth quarter of 2000. Revenues were $12 million or 3.0 per cent lower as the favourable effect of higher asset and deposit balances was more than offset by lower trading volumes in direct and full-service investing due to market conditions. Non-interest expenses of $323 million were unchanged from the prior quarter.

Business Developments

Private Client Group's Canadian investment professional team, which encompasses all wealth management sales professionals within the Group, grew by more than 170 to more than 2,100 individuals, during the first quarter of the year. The team provides advice and services to help clients meet their wealth management needs.

The Group continued the North American expansion of its wealth management business with the completion of its acquisition of Scottsdale, Arizona-based, Century Bank and the opening of the Biltmore office in Phoenix. Century Bank's geographic coverage presents an opportunity to deliver a full suite of wealth management products and services to an expanded and highly desirable market.

BMO Nesbitt Burns full-service investing launched Full-Service Online, a new program that combines the benefits of a full-service relationship with comprehensive internet-based services. BMO Nesbitt Burns full-service investing also launched Total Equity Portfolio, which offers a number of set portfolios that contain Canadian and foreign content and are eligible to be held in registered accounts.

BMO Mutual Funds launched thirteen new mutual funds. Six of these are BMO Global Tax Advantage Funds that allow investors to transfer between funds, outside their RRSPs, without realizing capital gains and the associated taxes at the time of transfer. BMO is the only bank that offers a tax advantaged mutual fund structure.

BMO Term Investments launched BMO Account Tracker, which is an innovative service providing clients, who have a minimum balance of $25,000 in BMO Term Investments and/or BMO Mutual Funds, the ability to see all of their investments (registered and non-registered) and banking accounts in one consolidated, easy-to-read, monthly statement.

Investment Banking Group

The Investment Banking Group provides a full range of financial products and services to institutional investors and corporate, government and institutional client segments.

First Quarter 2001 vs. First Quarter 2000

Net income for the first quarter of 2001 was $169 million, an increase of $20 million or 13.8 per cent from the first quarter of 2000.

Revenues for the quarter increased $94 million or 16.8 per cent from a year earlier. The increase reflected higher trading revenue due to higher results from client-driven trading activity in capital markets, increased security gains and more favourable conditions in the secondary equity markets. Partially offsetting these factors was a reduction in net interest income reflecting higher short-term rates, despite recent interest rate cuts, compared with the prior year and a reduction in assets in the Canadian fixed-income business.

Non-interest expenses increased $45 million or 16.1 per cent from the first quarter of 2000, reflecting higher revenue-driven compensation and increased employee costs due to hiring in support of the group's sector strategy.

First Quarter 2001 vs. Fourth Quarter 2000

Net income increased $11 million or 7.2 per cent from the fourth quarter of 2000. Revenues grew by $49 million or 8.3 per cent, reflecting improved results from interest-rate-sensitive businesses due to the reduction in short-term interest rates during the quarter, higher revenues from client-driven trading activities and increased securities gains. Non-interest expenses rose $33 million or 11.5 per cent, largely due to higher revenue-driven compensation.

Business Developments

BMO Nesbitt Burns ranked first in both Canadian equity block trading and equity underwriting market share in the quarter. The firm participated in 53 corporate new issues, with an aggregate value of $4.7 billion. In addition, the firm provided advisory services on seven transactions. Transactions for the quarter included advising Inco Limited on the redemption of its Class VBN shares, advising C–MAC Industries Inc. on its acquisition of DY 4 Systems and advising Equisure Financial on its sale to ING Group.

The Investment Banking group continued to aggressively pursue the North American energy and media and telecommunications sectors.

In December, the U.S. Media and Telecom group was lead arranger for a US$120 million senior bank facility for New York-based Inner City Broadcasting. In addition, the firm's Halyard Capital Fund was an investor in Inner City's preferred stock financing.

In November, the U.S. Oil & Gas Group underwrote and was the sole arranger of a US$515 million acquisition facility for Pogo Producing Company to partially finance its acquisition of North Central Oil Corporation. Also in November, the U.S. Oil & Gas Group served as lead agent and arranger of a new US$535 million senior bank facility for Vintage Petroleum, Inc. Both clients are large, publicly traded independent exploration & production companies based in the United States.

The Investment Banking Group is also committed to becoming the leading mid-market bank in the U.S. Midwest through Chicago-based Harris Nesbitt. During the quarter, Harris Nesbitt advised WLR Foods in its US$300 million merger with Pilgrims Pride Corporation. Displaying its strength as both a corporate and investment bank in the food and agribusiness sector, Harris was agent bank to both WLR and Pilgrims.

Emfisys and Corporate Support

Emfisys is the technology and e-business group that provides information technology planning, strategy and development services, together with information technology transaction-processing capabilities, North American cash management solutions, Cebra's e-commerce solutions, and real estate operations for the Bank of Montreal Group of Companies and its customers. The group is also responsible for the creation and development of new e-businesses such as wireless, ABM, payments, lending and exchange businesses.

Corporate Support includes the corporate units that provide expertise and governance support for the Bank, such as strategic planning, law, finance, economics, internal audit, risk management, corporate communications, human resources and learning. Corporate Support also includes revenues and expenses associated with certain securitization activities, hedging foreign source earnings and the management of certain treasury positions. Beginning in the first quarter of 2001, Corporate Support also includes the Bank's investment in Bancomer.

First Quarter 2001 vs. First Quarter 2000

Net income was $25 million for the first quarter of 2001, up $2 million or 3.5 per cent from the first quarter of 2000. Excluding non-recurring items, net income was $17 million, a decline of $6 million. The reduction was attributable to the decline in earnings recognized on the Bank's investment in Bancomer, partially offset by higher cash management earnings and lower provisions for credit losses.

A $25 million income tax charge was reflected in results for the first quarter of 2001. The charge related to the effect of proposed federal tax rate reductions on the Bank's future tax assets and has been included in non-recurring items.

First Quarter 2001 vs. Fourth Quarter 2000

Net income was $25 million, compared with $82 million in the fourth quarter of 2000. Excluding non-recurring items, first-quarter net income declined $15 million from the previous quarter.

Business Developments

Emfisys – The e-business strategy has two key elements of focus – reinventing the financial products and services the Bank offers its own clients and repackaging its 'e-capabilities' to other financial institutions and companies to reach out to their clients. The strategy will build on several fronts to create a full suite of 'e-enabled' financial services – among them, wireless, ABM, payments, lending and exchange services.

Bank of Montreal's online clients have increased from 350,000 a year ago to 870,000 today, an increase of 150 per cent. Online accounts are now increasing at 20,000 per month, up from 8,000 per month during the first quarter of 2000.

In January 2001, BMO Veev announced a reseller agreement with 724 Solutions Inc., which is a cornerstone to its strategy to become North America's leading Application Service Provider for secure mobile transactions.

The Bank became one of eight founding members of eScout.com - a web-based B2B (business-to-business) internet marketplace for U.S. based independent businesses and banks that cannot participate on their own due to cost and size.

Bancomer – Included in revenue in the first quarter of 2001 was a pre-tax gain of $37 million from the sale of 200 million Bancomer voting shares to Banco Bilbao Vizcaya Argentaria (BBVA), representing approximately 20 per cent of the Bank's holding, at a price of 5.935 Mexican Pesos. The sale was pursuant to agreements reached with BBVA and Bancomer during the quarter, through which the Bank expects to sell most of its remaining Bancomer shares in an orderly fashion by the end of fiscal 2002. The $37 million pre-tax gain ($33 million after income taxes) has been treated as a non-recurring item in the Bank's first quarter results.

Harris Bank

On a US dollar/US GAAP basis, Harris Bank net income was $95 million, up 64 per cent from the same quarter a year earlier. Comparability of results was affected by a $60 million gain ($36 million after-tax) on the sale of Harris Bank's merchant card business in the quarter, to a unit of Bank of Montreal in connection with the transfer to the Moneris Solutions joint venture, and a $3 million reduction ($2 million after-tax) 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 Bank of Montreal. Excluding the foregoing gains and related charges, net income was $62 million, an increase of $4 million or 7 per cent from the first quarter last year. Earnings grew across Harris' core businesses – community banking, private banking and mid-market corporate banking. Harris Bank earnings included in the Bank's results on a Canadian dollar basis, were $143 million for the first quarter of 2001, up 82 per cent from the same period last year. Excluding the foregoing gains and related charges, earnings included in the Bank's results, on a Canadian dollar basis, were $94 million compared with $78 million a year earlier. The net income growth, on a Canadian dollar basis, was positively affected by movement in the Canadian $/U.S. $ exchange rate from 1.45 to 1.51.

Effects of Non-Recurring Items ($Millions)

Reported:	Q1-2001	Q4-2000	Q1-2000
Revenues	2,193	2,162	2,123
Expenses	1,397	1,330	1,254
Net income	416	485	474
Return on equity	15.3	18.4	19.0
Earnings per share - diluted	1.45	1.72	1.65
Expense-to-revenue ratio	63.7	61.5	59.0

Non-Recurring Items	Operating Group	Q1-2001	Q4-2000	Q1-2000
Increased Revenues				
Gain on sale of Partners First	P&C			112
Gains on sales of branches	P&C	7	7	
Gain on sale of Bancomer	Corp.	37		
		44	7	112
Decreased Expenses				
Restructuring charge reversal	Corp.		43	
Reduced Provision for Credit Losses				
Reversal of country risk allowance	Corp.		42	
Increased / (Decreased) Pre-Tax Income		44	92	112
Increased Income Taxes				
Income taxes on non-recurring items		6	37	45
Adjustment of future tax asset due to proposed reductions in federal tax rates		25		
		31	37	45
Increased / (Decreased) Net Income		13	55	67

Excluding Non-Recurring Items	Q1-2001	Q4-2000	Q1-2000
Revenues	2,149	2,155	2,011
Expenses	1,397	1,287	1,254
Net income	403	430	407
Return on equity	14.8	16.2	16.2
Earnings per share - diluted	1.40	1.51	1.41
Expense-to-revenue ratio	65.0	63.8	62.3

FINANCIAL STATEMENT REVIEW

Revenues

First Quarter 2001 vs. First Quarter 2000

Total revenues for the first quarter of 2001 were $2,193 million, an increase of $70 million or 3.2 per cent from the first quarter of 2000. Excluding non-recurring items, revenues increased $138 million or 6.8 per cent. The decline in earnings on the investment in Bancomer reduced revenue growth by 1.8 per cent.

Net interest income was $1,117 million, up $36 million or 3.3 per cent, reflecting volume growth, particularly in retail and commercial banking, and higher levels of assets and term deposits in the Private Client Group. Partially offsetting these factors were the effects of lower earnings from the investment in Bancomer and lower Canadian fixed income asset levels in the Investment Banking Group.

Other income was $1,076 million, an increase of $34 million or 3.2 per cent. Excluding non-recurring items, other income increased $102 million or 10.9 per cent. The increase reflected improved conditions in capital markets that resulted in higher revenue from client-driven trading activity and increased retail and commercial banking volumes. These factors more than offset lower commissions and trading income from retail investment services.

First Quarter 2001 vs. Fourth Quarter 2000

Revenues increased $31 million or 1.4 per cent from the fourth quarter of 2000. Excluding non-recurring items, revenues were down $6 million from the previous quarter.

Net interest income increased $34 million or 3.1 per cent, mainly reflecting improved performance in interest-rate-sensitive businesses in the Investment Banking Group and higher assets and deposit balances in the Private Client Group.

Other income was largely unchanged. Excluding non-recurring items, other income declined $40 million or 3.7 per cent as higher revenues from client-driven trading volumes in capital markets were more than offset by lower revenues from reduced trading volumes in retail investment services.

Non-Interest Expenses

First Quarter 2001 vs. First Quarter 2000

Non-interest expenses were $1,397 million, an increase of $143 million or 11.4 per cent from the first quarter of 2000. The increase largely reflected higher strategic initiative spending in both the Personal and Commercial Client Group and the Private Client Group, business volume growth, including the impact of acquired operations in the U.S. wealth management operations, and higher revenue-driven compensation.

Also contributing to higher expenses was a $17 million ($10 million after income taxes) expense increase on the adoption of the new accounting standard for pensions and other benefits. The effect of adopting the new standard on a retroactive basis, totalling $250 million (net of $171 million of income tax), was charged to retained earnings at the beginning of fiscal 2001.

The expense-to-revenue ratio was 63.7 per cent compared with 59.0 per cent for the first quarter of 2000. Excluding non-recurring items, the expense-to-revenue ratio was 65.0 per cent, up from 62.3 per cent a year earlier.

First Quarter 2001 vs. Fourth Quarter 2000

Non-interest expenses were up $67 million or 5.0 per cent from the fourth quarter of 2000. Excluding non-recurring items, expenses rose $24 million or 1.7 per cent, as lower strategic spending and the effect of cost reduction initiatives only partially offset higher revenue-driven compensation and the effect of adopting the new benefits accounting standard. The expense-to-revenue ratio, excluding non-recurring items, increased 1.2 percentage points from the prior quarter.

ASSET QUALITY

The provision for credit losses was $100 million in the first quarter of 2001, unchanged from the first quarter of 2000 and from the fourth quarter of 2000, excluding non-recurring items. The provision was up $42 million from last quarter, when the Bank reversed its remaining $42 million of country risk allowance.

Gross impaired loans at January 31, 2001 were $1,702 million, up from $1,501 million at the end of fiscal 2000, primarily because of the Bank's classification of a syndicated loan to a U.S. based financial institution as impaired. Gross impaired loans and acceptances represented 1.13 per cent of total loans and acceptances, up from 1.04 per cent at October 31, 2000. The Bank's level of impaired loans remained within the historical range over a full economic cycle. Loans continue to be well provisioned, with an allowance for credit losses – both specific and general – totalling $1,554 million at the end of the quarter. The Bank's allowances represented 91 per cent of gross impaired loans, versus 106 per cent at the end of fiscal 2000.

CAPITAL MANAGEMENT

At January 31, 2001, the Bank's Tier 1 capital ratio was 8.87 per cent compared with 7.84 per cent at the end of the first quarter of 2000 and 8.83 per cent at the end of fiscal 2000. The Bank's total capital ratio was 12.12 per cent, up from 10.99 per cent a year ago and 11.97 per cent at the end of the previous quarter. Risk-weighted assets were $133.4 billion, down from $138.3 billion at January 31, 2000 and from $134.4 billion last quarter.

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 and making the shares more accessible for retail investors. The shares are expected to trade on a post-stock dividend basis on March 1, 2001, on the Toronto Stock Exchange. The Bank also announced a program to repurchase up to 15 million common shares (up to 30 million after the stock dividend), or approximately 5.7 per cent of the then-issued and outstanding common shares through a normal-course issuer bid expiring December 31, 2001.

LIQUIDITY

Liquid assets, comprising cash, securities and deposits with banks, declined $1.2 billion from the end of fiscal 2000 to $63.8 billion. Liquid assets represented 26.3 per cent of total assets at the end of the first quarter, compared with 29.9 per cent a year earlier and 27.8 per cent at October 31, 2000. To maintain strong liquidity, the Bank continues to ensure that it has well-diversified funding sources, with deposits broadly diversified by customer, type, currency and geography. The Bank's large base of deposits by individuals provides a strong and secure source of funding in both the Canadian and U.S. dollar markets. These deposits, along with the Bank's strong capital base, reduce the reliance on other more volatile sources of funds.

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- during the first quarter of 2001.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time we make written and verbal forward-looking statements. These may be included in this quarterly report, in filings with Canadian regulators or the U.S. Securities and Exchange Commission, in reports to shareholders and in other communications. These forward-looking statements include but are not limited to comments with respect to our objectives and strategies, financial condition, the results of our operations and our businesses, our outlook for the Canadian and U.S. economies and our risk management discussion.

However, by their nature these 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 be achieved. 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, expectations, estimates and intentions expressed in such forward-looking statements.

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 events.

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Notes:
A live **Internet broadcast** of the first quarter investor community conference call will take place on February 27, 2000 at 1 p.m. (PST) (4:00 p.m. EST) and is accessible to investors, analysts and the media at www.bmo.com/investorrelations. The web site will contain the press release, the presentations and other related documents.

Retail investors and the media can access the conference call, in listen-only mode, by dialling toll free 1-877-871-4065 from outside Toronto and 416-641-6449 for Toronto area callers.

The conference call will be available in rebroadcast mode until Friday March 9, 2001 by calling 1-800-558-5253 and entering the reservation number 171-148-15. In addition, the webcast will be accessible for the next three months through the investor relations section of the Bank's web site.