

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada (the permanent information record in Quebec). Copies of the documents incorporated herein by reference may be obtained on request without charge from the Vice President and Secretary, Bank of Montreal, 1 First Canadian Place, Toronto, Ontario, M5X 1A1, telephone (416) 867-6783.

The securities have not been and will not be registered under the Securities Act of 1933, as amended, of the United States of America. Accordingly, these securities may not be offered, sold or delivered by the Underwriters in the United States or to U.S. persons.

New Issue

\$200,000,000

 **Bank of Montreal**

(8,000,000 shares)

Non-cumulative Class B Preferred Shares Series 5

The Non-cumulative Class B Preferred Shares Series 5 (the “Preferred Shares Series 5”) of Bank of Montreal (the “Bank”) will be entitled to non-cumulative preferential cash dividends, payable quarterly as and when declared by the Board of Directors. The initial dividend, payable May 25, 1998, shall be \$0.3275 per share, based on the anticipated closing date of February 26, 1998. Thereafter, quarterly dividends shall be at a rate of \$0.33125 per share. Reference is made to “Details of the Offering”.

Subject to the provisions of the *Bank Act* (Canada) and the prior approval of the Superintendent of Financial Institutions Canada (the “Superintendent”), on and after February 25, 2013 the Bank may redeem the Preferred Shares Series 5, in whole or in part, at the Bank’s option, by the payment in cash of a sum equal to \$25.00 per share together with declared and unpaid dividends to the date fixed for redemption. Reference is made to “Details of the Offering”.

In the opinion of counsel, the Preferred Shares Series 5 will be, at the date of issue, eligible for investment under certain statutes as set forth under “Eligibility for Investment”.

Price: \$25.00 per share to yield 5.30%

The Toronto and Montreal stock exchanges have conditionally approved the listing of the Preferred Shares Series 5 subject to the fulfilment of certain requirements, including distribution of the Preferred Shares Series 5 to a minimum number of public shareholders, on or before May 18, 1998.

We, as principals, conditionally offer the Preferred Shares Series 5, subject to prior sale if, as and when issued by the Bank and accepted by us in accordance with the conditions contained in the Underwriting Agreement referred to under “Plan of Distribution” and subject to the approval of certain legal matters on behalf of the Bank by Osler, Hoskin & Harcourt and on our behalf by Fraser & Beatty.

Nesbitt Burns Inc. is a wholly-owned subsidiary of The Nesbitt Burns Corporation Limited which in turn is a majority-owned subsidiary of the Bank. The Bank is a related and connected issuer of Nesbitt Burns Inc. under applicable securities legislation by virtue of the Bank’s ownership of The Nesbitt Burns Corporation Limited. Reference is made to “Plan of Distribution”.

	Price to the Public	Underwriting Fee ⁽¹⁾	Net Proceeds to the Bank ⁽²⁾
Per Share	\$25.00	\$0.75	\$24.25
Total	\$200,000,000	\$6,000,000	\$194,000,000

(1) The underwriting fee is \$0.25 for each share sold to certain institutions and \$0.75 per share for all other shares. The total represents the underwriting fee assuming no Preferred Shares Series 5 are sold to such institutions.

(2) Before deduction of expenses of the issue payable by the Bank estimated at \$250,000.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that a definitive share certificate representing the Preferred Shares Series 5 will be available for delivery on the closing date of this offering, which is expected to be on or about February 26, 1998. A book entry only certificate representing the Preferred Shares Series 5 distributed hereunder will be issued in registered form only to the Canadian Depository for Securities Limited (“CDS”) or its nominee and will be deposited with CDS on closing of this offering. A purchaser of Preferred Shares Series 5 will receive only a customer confirmation from the registered dealer who is a CDS participant and from or through whom the Preferred Shares Series 5 are purchased.

Table of Contents

	<u>Page</u>
Eligibility for Investment	2
Documents Incorporated by Reference	3
Bank of Montreal	3
Share and Subordinated Debt Capital	3
Details of the Offering	4
Depository Services	6
Bank Act Restrictions	7
Restraints on Bank Shares Under the Bank Act	7
Shareholder Dividend Reinvestment and Share Purchase Plan	7
Canadian Federal Income Tax Considerations	8
Ratings	9
Dividend and Asset Coverage	9
Plan of Distribution	10
Use of Proceeds	11
Legal Matters	11
Transfer Agent and Registrar	11
Purchaser's Statutory Rights	11
Certificate of Bank of Montreal	12
Certificate of the Underwriters	13

Eligibility for Investment

In the opinion of Osler, Hoskin & Harcourt, counsel for the Bank, and Fraser & Beatty, counsel for the Underwriters, the Preferred Shares Series 5 offered hereby will be at the date of issue eligible investments without resort to the so-called "basket" provisions, or their purchase will not be prohibited, in each case subject to general investment provisions, and in certain cases subject to prudent investment requirements relating to investment or lending policies or goals, under or by the following statutes:

- (i) *Insurance Companies Act* (Canada)
- (ii) *Trust and Loan Companies Act* (Canada)
- (iii) *Pension Benefits Standards Act, 1985* (Canada)
- (iv) *Insurance Act* (Ontario)
- (v) *Loan and Trust Corporations Act* (Ontario)
- (vi) *Pension Benefits Act* (Ontario)
- (vii) *Trustee Act* (Ontario)
- (viii) *Supplemental Pension Plans Act* (Quebec)
- (ix) *an Act respecting insurance* (Quebec)
- (x) *an Act respecting trust companies and savings companies* (Quebec)
- (xi) *Employment Pension Plans Act* (Alberta)
- (xii) *Insurance Act* (Alberta)
- (xiii) *Financial Institutions Act* (British Columbia)
- (xiv) *The Pension Benefits Act* (Manitoba)

In the opinion of such counsel, the Preferred Shares Series 5 offered hereby will be at the date of issue qualified investments under the Income Tax Act (Canada) for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans.

Documents Incorporated by Reference

The following documents, filed by the Bank with the Superintendent and the various securities commissions or similar authorities in Canada, are specifically incorporated by reference into and form an integral part of this short form prospectus:

- (a) Annual Information Form dated January 5, 1998;
- (b) Audited consolidated financial statements for the fiscal year ended October 31, 1997 with comparatives for the fiscal year ended October 31, 1996 together with the auditors' report thereon and management's analysis of operations as contained in pages 20 to 88 of the Bank's Annual Report for the year ended October 31, 1997;
- (c) Proxy Circular dated as of December 12, 1997 in connection with the Bank's annual meeting of shareholders to be held on February 24, 1998, excluding the sections entitled "Corporate Governance", "Report on Executive Compensation by the Human Resources and Management Compensation Committee" and the "Performance Graph"; and
- (d) Material Change Report dated February 2, 1998 in connection with the Bank's announcement of a definitive agreement, subject to regulatory and shareholder approval, to merge by way of statutory amalgamation with Royal Bank of Canada.

Any documents of the type referred to in the preceding paragraph and any material change report (excluding any confidential material change reports) filed by the Bank with a securities commission or any similar authority in Canada, after the date of this short form prospectus and prior to the termination of this offering, shall be deemed to be incorporated by reference herein.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.

Bank of Montreal

Bank of Montreal, a chartered bank subject to the provisions of the Bank Act, was founded in 1817 and is Canada's oldest chartered bank. The head office is at 129 rue Saint-Jacques, Montreal, Quebec, H2Y 1L6, and the executive offices are located at 1 First Canadian Place, Toronto, Ontario, M5X 1A1.

The Bank offers, domestically and internationally, a broad range of credit and non-credit products and services to individuals, industry, financial institutions and governments directly and through special-purpose domestic and foreign subsidiaries. The Bank had total assets as at October 31, 1997 of approximately \$208 billion.

Share and Subordinated Debt Capital

The following material change in the subordinated debt of the Bank and proposed material change in the share capital of the Bank occurred or is expected to occur, as the case may be, after the fiscal year ended October 31, 1997:

- (i) on January 2, 1998, the Bank issued \$150,000,000 5.75% Series A Medium Term Notes (Second Tranche) Due 2013 (the "Series A Notes (Second Tranche)"); and
- (ii) on February 18, 1998, the Bank filed a final prospectus with respect to the issue of \$200,000,000 Non-Cumulative Class B Preferred Shares Series 4 (the "Preferred Shares Series 4").

Details of the Offering

The following is a summary of the rights, privileges, restrictions and conditions of or attaching to the Class B preferred shares of the Bank as a class (the "Class B Preferred Shares") and the Preferred Shares Series 5 as a series.

Certain Provisions of the Class B Preferred Shares as a Class

Priority

The Class B Preferred Shares of each series will rank on a parity with Class B Preferred Shares of every other series and with every series of Class A Preferred Shares and are entitled to preference over the Common Shares and over any other shares of the Bank ranking junior to the Class A Preferred and the Class B Preferred Shares with respect to the payment of dividends and upon any distribution of assets in the event of liquidation, dissolution or winding-up of the Bank.

Restrictions

The Bank may not, without the approval of the holders of both the Class A Preferred Shares and the Class B Preferred Shares, create or issue any class of shares ranking prior to the Class A Preferred Shares or the Class B Preferred Shares as to the payment of dividends or the distribution of assets in the event of liquidation, dissolution or winding-up of the Bank.

Shareholder Approvals

Any approval to be given by the holders of the Class B Preferred Shares may be given by a resolution carried by the affirmative vote of not less than 66 $\frac{2}{3}$ % of the votes cast at a meeting of holders of Class B Preferred Shares at which a majority of the outstanding Class B Preferred Shares is represented or, if no quorum is present at such meeting, at any adjourned meeting at which no quorum requirements would apply.

Certain Provisions of the Preferred Shares Series 5 as a Series

Issue Price

The Preferred Shares Series 5 will have an issue price of \$25.00 each.

Dividends

The holders of the Preferred Shares Series 5 will be entitled to receive a quarterly non-cumulative preferential cash dividend, as and when declared by the Board of Directors, on the 25th day of each of February, May, August and November in each year, at a quarterly rate equal to \$0.33125 per share. The first of such dividends, if declared, shall be payable on May 25, 1998 and shall be \$0.3275 per share, based on the anticipated closing date of February 26, 1998.

If the Board of Directors of the Bank does not declare the dividends, or any part thereof, on the Preferred Shares Series 5 on or before the dividend payment date for a particular quarter, then the entitlement of the holders of the Preferred Shares Series 5 to receive such dividends, or to any part thereof, for such quarter shall be forever extinguished.

Redemption

The Preferred Shares Series 5 will not be redeemable prior to February 25, 2013. On and after February 25, 2013, but subject to the provisions of the Bank Act and to the prior approval of the Superintendent and to the provisions described below under "Restrictions on Dividends and Retirement of Shares", the Bank may redeem at any time all or from time to time any part of the outstanding Preferred Shares Series 5, at the Bank's option, by the payment of an amount in cash for each such share so redeemed of \$25.00 together with declared and unpaid dividends to the date fixed for redemption.

Notice of any redemption will be given by the Bank at least 30 days and not more than 60 days prior to the date fixed for redemption. If less than all the outstanding Preferred Shares Series 5 are at any time to be redeemed, the shares to be redeemed will be selected by lot or in such other manner as the Bank may determine.

Purchase for Cancellation

Subject to the provisions of the Bank Act and to the prior approval of the Superintendent and to the provisions described below under “Restrictions on Dividends and Retirement of Shares”, the Bank may at any time purchase for cancellation any Preferred Share Series 5 at the lowest price or prices at which in the opinion of the Board of Directors of the Bank such shares are obtainable.

Rights on Liquidation

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Preferred Shares Series 5 shall be entitled to receive \$25.00 per share together with all dividends declared and unpaid to the date of payment before any amount shall be paid or any assets of the Bank distributed to the holders of any shares ranking junior to the Preferred Shares Series 5. The holders of the Preferred Shares Series 5 shall not be entitled to share in any further distribution of the assets of the Bank.

Restrictions on Dividends and Retirement of Shares

So long as any of the Preferred Shares Series 5 are outstanding, the Bank will not, without the approval of the holders of the Preferred Shares Series 5 given as specified below:

- (a) pay any dividends on the Common Shares or any other shares ranking junior to the Preferred Shares Series 5 (other than stock dividends in shares ranking junior to the Preferred Shares Series 5); or
- (b) redeem, purchase or otherwise retire any Common Shares or any other shares ranking junior to the Preferred Shares Series 5 (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Preferred Shares Series 5); or
- (c) redeem, purchase or otherwise retire less than all the Preferred Shares Series 5; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to any series of Preferred Shares, redeem, purchase or otherwise retire any other shares ranking on a parity with the Preferred Shares Series 5;

unless all dividends on the Preferred Shares Series 5, in respect of which the rights of holders thereof have not been extinguished, have been declared, and all dividends then accrued on all shares ranking on a parity with the Preferred Shares Series 5 have been declared and paid or set apart for payment.

Issue of Additional Series of Preferred Shares

The Bank may issue other series of Class A Preferred Shares or Class B Preferred Shares ranking on a parity with the Preferred Shares Series 5 without the authorization of the holders of the Preferred Shares Series 5.

Amendments to Preferred Shares Series 5

The Bank will not, without the approval of the holders of the Preferred Shares Series 5 given as specified below, delete or vary any rights, privileges, restrictions and conditions attaching to the Preferred Shares Series 5. In addition to the aforementioned approval, the Bank will not without, but may from time to time with, the prior approval of the Superintendent make any such deletion or variation which might affect the classification afforded the Preferred Shares Series 5 from time to time for capital adequacy requirements pursuant to the Bank Act and the Regulations and Guidelines thereunder.

Shareholder Approvals

The approval of any amendments to the rights, privileges, restrictions and conditions attaching to the Preferred Shares Series 5 may be given by a resolution carried by the affirmative vote of not less than 66 $\frac{2}{3}$ % of the votes cast at a meeting of holders of Preferred Shares Series 5 at which a majority of the outstanding Preferred Shares Series 5 is represented or, if no quorum is present at such meeting, at any adjourned meeting at which no quorum would apply.

Voting Rights

The holders of the Preferred Shares Series 5 will not be entitled to receive notice of or to attend or to vote at any meeting of the shareholders of the Bank unless and until the first time at which the rights of such holders to any undeclared dividends have become extinguished as described under “Dividends” above. In that event, the holders of the Preferred Shares Series 5 will be entitled to receive notice of, and to attend, meetings of shareholders at which directors are to be elected and will be entitled to one vote for each share held. The voting rights of the holders of the Preferred Shares Series 5 shall forthwith cease upon payment by the Bank of the first dividend on the Preferred Shares Series 5 to which the holders are entitled subsequent to the time such voting rights first arose. At such time as the rights of such holders to any undeclared dividends on the Preferred Shares Series 5 have again become extinguished, such voting rights shall become effective again and so on from time to time.

Depository Services

Except as otherwise provided below, the Preferred Shares Series 5 will be issued in “book entry only” form and must be purchased or transferred through participants (“Participants”) in the depository service of The Canadian Depository for Securities Limited or a successor (collectively “CDS”) or its nominee, which include securities brokers and dealers, banks and trust companies. On the date of closing, the Bank will cause a global certificate representing the Preferred Shares Series 5 to be delivered to, and registered in the name of, CDS or its nominee. Except as described below, no purchaser of Preferred Shares Series 5 will be entitled to a certificate or other instrument from the Bank or CDS evidencing that purchaser’s ownership thereof, and no purchaser will be shown on the records maintained by CDS except through a book entry account of a Participant acting on behalf of such purchaser. Each purchaser of Preferred Shares Series 5 will receive a customer confirmation of purchase from the registered dealer from which the Preferred Shares Series 5 are purchased in accordance with the practices and procedures of that registered dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS will be responsible for establishing and maintaining book entry accounts for its Participants having interests in the Preferred Shares Series 5.

If (i) the Bank determines that CDS is no longer willing or able to discharge properly the responsibilities as depository with respect to the Preferred Share Series 5 and the Bank is unable to locate a qualified successor, or (ii) the Bank at its option elects, or is required by law, to terminate the book entry system, then certificates representing the Preferred Shares Series 5 will be issued to purchasers thereof or their nominees.

Manner of Effecting Transfer or Redemption

A transfer or redemption of Preferred Shares Series 5 will be effected through records maintained by CDS or its nominee with respect to interests of Participants, and on the records of Participants with respect to interests of persons other than Participants. Purchasers of Preferred Shares Series 5 who are not Participants, but who desire to purchase, sell or otherwise transfer ownership of or other interests in the Preferred Shares Series 5, may do so only through Participants.

The ability of a purchaser to pledge Preferred Shares Series 5 or otherwise take action with respect to such purchaser’s interest in Preferred Shares Series 5 (other than through a Participant) may be limited due to the lack of a physical certificate.

Payment of Dividends and Other Amounts

Payments of dividends and other amounts in respect of the Preferred Shares Series 5 will be made by the Bank to CDS or its nominee, as the case may be, as registered holder of the Preferred Shares Series 5. As long as CDS or its nominee is the registered holder of the Preferred Shares Series 5, CDS or its nominee, as the case may be, will be considered the sole owner of the Preferred Shares Series 5 for the purposes of receiving payment on the Preferred Shares Series 5.

The Bank expects that CDS or its nominee, upon the date of receipt of any payment in respect of the Preferred Share Series 5, will credit the Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Preferred Shares Series 5 as shown on the records of CDS or its nominee. The Bank also expects that payments by the Participants to the owners of beneficial interests in such Preferred Shares Series 5 held through such Participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants. The responsibility and liability of the Bank in respect of the Preferred Shares Series 5 issued in book entry form is limited to making payment of any amount due on such Preferred Shares Series 5 to CDS or its nominee.

Bank Act Restrictions

Under the Bank Act, the Bank, with the prior approval of the Superintendent, may redeem or purchase any of its shares, including the Preferred Shares Series 5, unless there are reasonable grounds for believing that the Bank is, or the payment would cause the Bank to be, in contravention of any regulation made under the Bank Act respecting the maintenance by banks of adequate capital and adequate and appropriate forms of liquidity, or any direction to the Bank made by the Superintendent pursuant to Subsection 485(3) of the Bank Act regarding its capital or its liquidity. No such direction to the Bank has been made to date.

The Bank is also prohibited under the Bank Act from paying or declaring a dividend if there are reasonable grounds for believing that the Bank is, or the payment would cause the Bank to be, in contravention of any regulation made under the Bank Act respecting the maintenance by banks of adequate capital and adequate and appropriate forms of liquidity, or any direction to the Bank made by the Superintendent pursuant to Subsection 485(3) of the Bank Act regarding its capital or its liquidity. As at the date hereof, this limitation would not restrict a payment of quarterly dividends on the Preferred Shares Series 5. Further, no such direction to the Bank has been made to date.

Restraints on Bank Shares Under the Bank Act

The Bank Act contains restrictions on the allotment, transfer, acquisition, holding and voting of all shares of a chartered bank. By way of summary, no person, or persons acting jointly or in concert, shall have a significant interest in any class of shares of a Schedule I bank, including the Bank. For purposes of the Bank Act, a person has a significant interest in a class of shares of a bank where the aggregate of:

- a) any shares of that class beneficially owned by the person; and
- b) any shares of that class beneficially owned by entities controlled by the person exceeds 10% of all of the outstanding shares of that class of shares of the Bank.

Purchasers of the Preferred Shares Series 5 may be required to furnish declarations relative to the foregoing in a form prescribed by the Bank.

Shareholder Dividend Reinvestment and Share Purchase Plan

Holders of Preferred Shares Series 5 will be entitled to participate in the Bank's Shareholder Dividend Reinvestment and Share Purchase Plan (the "Plan"). This Plan, subject to restrictions contained in the Bank Act, provides a means for holders of record of Common Shares or of any eligible series of Class A Preferred Shares or Class B Preferred Shares of the Bank to invest cash dividends and optional cash payments in Common Shares of the Bank. Such shares will be purchased either, at the Bank's Option, on the open market or directly from the Bank by an agent who will act on behalf of participants under the Plan.

A participant may purchase Common Shares of the Bank quarterly with cash dividends paid on the Common Shares or on any eligible series of Class A Preferred Shares or Class B Preferred Shares of the Bank which are registered in the name of the participant. A participant may also purchase Common Shares monthly with optional cash payments up to an aggregate sum of \$40,000 per annum. The price of Common Shares will be the Average Market Price (as defined in the Plan). No commissions or service charges will be payable by participants in connection with any purchase of Common Shares made under the Plan.

Canadian Federal Income Tax Considerations

In the opinion of Osler, Hoskin & Harcourt and Fraser & Beatty, the following is a summary of the principal Canadian federal income tax considerations generally applicable to a purchaser of Preferred Shares Series 5 pursuant to this prospectus who, within the meaning of the *Income Tax Act* (Canada) (the “Act”), is resident in Canada, deals at arm’s length with the Bank and holds the Preferred Shares Series 5 as capital property (an “investor”). The Preferred Shares Series 5 acquired by certain “financial institutions” (as defined in the Act) will generally not be held as capital property by such investors and will be subject to special “mark-to-market” rules. Such financial institutions should consult their own tax advisors as to the consequences under the mark-to-market rules of holding Preferred Shares Series 5. This summary does not address the consequences to an investor of participating in the Bank’s Shareholder Dividend Reinvestment and Share Purchase Plan.

The summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular investor. Accordingly, prospective investors are urged to consult their own tax advisors with respect to their particular circumstances.

This summary is based upon the current provisions of the Act, the regulations thereunder, all specific proposals to amend the Act and the regulations publicly announced by the Minister of Finance prior to the date hereof and the administrative practices published by Revenue Canada. This summary does not otherwise take into account any changes in law, whether by legislative, governmental or judicial decision or action, nor does it take into account or consider any provincial, territorial or foreign income tax considerations.

Dividends

Dividends (including deemed dividends) received on the Preferred Shares Series 5 by an individual (other than certain trusts) will be included in the individual’s income and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations.

The Preferred Shares Series 5 will be “taxable preferred shares” as defined in the Act. The terms of the Preferred Shares Series 5 require the Bank to make the necessary election under Part VI.1 of the Act so that corporate investors will not be subject to tax under Part IV.1 of the Act on dividends paid (or deemed to be paid) by the Bank on the Preferred Shares Series 5.

Dividends (including deemed dividends) on the Preferred Shares Series 5 received by a corporation will be included in computing income and will generally be deductible in computing the taxable income of the corporation.

A “private corporation”, as defined in the Act, or any other corporation controlled whether by reason of a beneficial interest in one or more trusts or otherwise by or for the benefit of an individual or a related group of individuals, will generally be liable to pay a 33 $\frac{1}{3}$ % refundable tax under Part IV of the Act on dividends received (or deemed to be received) on the Preferred Shares Series 5 to the extent such dividends are deductible in computing its taxable income.

Dispositions

An investor who disposes of or is deemed to dispose of the Preferred Shares Series 5 (either on redemption of the shares for cash or otherwise) will generally realize a capital gain (or sustain a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to that investor. If the investor is a corporation, any such capital loss may in certain circumstances be reduced by the amount of any dividends, including deemed dividends, which have been received on such shares. Analogous rules apply where a partnership or trust of which a corporation is a member or beneficiary owns Preferred Shares Series 5 or where a trust or partnership is a member of a partnership or a beneficiary of a trust that owns Preferred Shares Series 5.

Generally, three-quarters of any such capital gain will be included in computing the investor’s income as a taxable capital gain and three-quarters of any such loss may be deducted from the investor’s net taxable capital gains in accordance with the rules contained in the Act. Capital gains realized by an individual may give rise to a liability for minimum tax.

Certain corporations may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on their “aggregate investment income” (which is defined in the Act to include an amount in respect of taxable capital gains, but not dividends or deemed dividends deductible in computing taxable income).

Redemption

If the Bank redeems for cash or otherwise acquires the Preferred Shares Series 5 other than by a purchase in the manner in which shares are normally purchased by a member of the public in the open market, the investor will be deemed to have received a dividend equal to the amount, if any, paid by the Bank in excess of the paid-up capital of such shares at such time. The difference between the amount paid and the amount of the deemed dividend will be treated as proceeds of disposition for the purposes of computing the capital gain or capital loss arising on the disposition of such shares. In the case of a corporate investor, it is possible that in certain circumstances all or part of the amount so deemed to be a dividend may be treated as proceeds of disposition and not as a dividend.

Ratings

The Preferred Shares Series 5 are provisionally rated Pfd-1 (low) by Dominion Bond Rating Service Limited (“DBRS”). Pfd-1 is the highest of five categories of ratings granted by DBRS for preferred shares generally. In certain cases, preferred shares may have a “low” characterization to reflect relative strength within a rating category. DBRS does not grant a rating higher than Pfd-1 (low) for non-cumulative preferred shares.

CBRS Inc. (“CBRS”) has indicated that the Preferred Shares Series 5 would have been provisionally rated P-2, except for the fact that following the announcement on January 23, 1998 of the Bank’s merger agreement with Royal Bank of Canada CBRS has placed the Bank on its Credit Watch List. This entails a temporary suspension of the normal ratings. CBRS has assigned a “Developing Implications” trend designation to this action. “Developing Implications” means that there is uncertainty surrounding the current situation and, therefore, an opinion as to the outcome is not possible at the time. CBRS has also indicated that this credit watch action is solely related to the proposed merger and, specifically, that it does not reflect any change in the financial risk profile of the Bank prior to the announcement of the merger agreement.

Neither of the foregoing ratings should be construed as a recommendation to buy, sell or hold the Preferred Shares Series 5. Either of the foregoing ratings may be revised or withdrawn at any time by the respective rating organization.

Dividend and Asset Coverage

Assuming annual dividend rates of \$2.25, \$19,062.50, \$2.25, U.S.\$1.6876, \$1.3875, \$1.20 and \$1.325 per share on the Class A Preferred Shares Series 4 and 5 and the Class B Preferred Shares Series 1, 2, 3, 4 and 5, respectively, (collectively, the “Preferred Shares”) the aggregate annual dividend requirements of the Preferred Shares would amount to approximately \$112 million as at October 31, 1997. The Bank’s net income for the 12 months ended October 31, 1997 was \$1,305 million. This amount is approximately 11.7 times such annual dividend requirements.

The annual dividend requirements of the Preferred Shares would amount to \$193 million as at October 31, 1997 grossed up to a pre-tax equivalent basis assuming an effective tax rate of 42%. The net income of the Bank before income taxes and minority interests and before deduction of subordinated debt interest, and amortization of discounts and underwriting fee expenses in respect of the Bank’s outstanding subordinated debt for the 12 months ended October 31, 1997 amounted to \$2,463 million. This amount is approximately 5.0 times the aggregate subordinated debt interest (after giving effect to the issue of the Series A Notes (Second Tranche)) and amortization of discounts and underwriting fee expenses and grossed up dividend requirements of \$497 million.

After giving effect to this offering and the issue of the Series A Notes (Second Tranche) and the Preferred Shares Series 4 referred to under “Share and Subordinated Debt Capital”, the adjusted net tangible assets of the Bank as at October 31, 1997 available to cover the outstanding Preferred Shares would have been as follows:

	October 31, 1997
	(in millions of dollars)
Total assets	207,838
Deduct: Deposit liabilities	144,212
Other liabilities	50,892
Goodwill and other valuation intangibles	837
Deferred income taxes	277
Net tangible assets	11,620
Add: Net proceeds of this offering	194
Add: Net proceeds of the issue of the Series A Notes (Second Tranche)	149
Add: Net proceeds of the issue of the Preferred Shares Series 4	194
Adjusted net tangible assets available for subordinated indebtedness and outstanding Preferred Shares	12,157
Deduct: Subordinated debt (including the Series A Notes (Second Tranche))	(3,981)
Adjusted net tangible assets available for outstanding Preferred Shares	<u>\$ 8,176</u>

The adjusted net tangible assets available for outstanding Preferred Shares as at October 31, 1997 amounted to 4.9 times the aggregate issue price of the outstanding Preferred Shares of \$1,674 million.

The adjusted net tangible assets available for subordinated indebtedness and outstanding Preferred Shares as at October 31, 1997 amounted to 2.2 times the aggregate of the adjusted principal amount of such subordinated indebtedness and the aggregate issue price of the outstanding Preferred Shares.

Plan of Distribution

Under an agreement dated February 11, 1998 (the “Underwriting Agreement”) between the Bank and the underwriters whose names appear under the heading “Certificate of the Underwriters” (the “Underwriters”), the Bank has agreed to sell and the Underwriters have agreed to purchase on February 26, 1998, or on such later date as may be agreed upon, but in any event not later than March 5, 1998, all but not less than all of the 8,000,000 Preferred Shares Series 5 at a price of \$25.00 per share payable in cash to the Bank against delivery of the Preferred Shares Series 5. The Underwriting Agreement provides that the Underwriters will be paid an underwriting fee per share equal to \$0.25 with respect to Preferred Shares Series 5 sold to certain institutions and \$0.75 with respect to all other Preferred Shares Series 5.

The obligations of the Underwriters under the Underwriting Agreement may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all such principal amount of Preferred Shares Series 5 if any Preferred Shares Series 5 are purchased under the Underwriting Agreement. The Underwriters have agreed not to offer, sell or deliver the Preferred Shares Series 5 in the United States or to U.S. persons.

Pursuant to policy statements of the Ontario Securities Commission and the Commission des valeurs mobilières du Québec, the Underwriters may not, throughout the period of distribution under this prospectus, bid for or purchase the Preferred Shares Series 5. The foregoing restriction is subject to certain exceptions, as long as the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in or raising the price of such securities. These exceptions include a bid or purchase permitted under the by-laws and rules of The Toronto Stock Exchange and the Montreal Exchange relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer when the order was not solicited during the period of distribution. In connection with this offering, the Underwriters may over-allot the Preferred Shares Series 5 offered by this short form prospectus or effect transactions which stabilize or maintain

the market price of such Preferred Shares Series 5 at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

Nesbitt Burns Inc., the lead Underwriter, is a wholly-owned subsidiary of The Nesbitt Burns Corporation Limited. Bank of Montreal Securities Canada Limited ("BMSCL") holds 100% of the voting shares of The Nesbitt Burns Corporation Limited and the Bank in turn holds 100% of BMSCL's voting shares. The terms of this offering were negotiated at arm's length between the Bank and the Underwriters. None of Nesbitt Burns Inc., The Nesbitt Burns Corporation Limited or BMSCL will receive any benefit in connection with this offering other than a portion of the Underwriters' fee payable by the Bank.

Use of Proceeds

The net proceeds to the Bank from the sale of the \$200,000,000 aggregate amount of Preferred Shares Series 5, after deducting estimated total expenses of the issue and the Underwriters' fee, will amount to approximately \$193,750,000. Such proceeds will enlarge the Bank's Tier 1 capital base.

After giving effect to this offering and the offering of the Preferred Shares Series 4, the Bank's Tier 1 capital base as at October 31, 1997 would amount to \$8,862 million.

Legal Matters

Legal matters in connection with the issue and sale of the Preferred Shares Series 5 will be passed upon, on behalf of the Bank, by Osler, Hoskin & Harcourt and, on behalf of the Underwriters, by Fraser & Beatty. As at February 11, 1998, partners and associates of Osler, Hoskin & Harcourt and Fraser & Beatty, collectively, beneficially owned, directly or indirectly, less than 1% of any class of outstanding securities of the Bank.

Transfer Agent and Registrar

The Trust Company of Bank of Montreal, at its offices in the cities of Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver will be the transfer agent and registrar for the Preferred Shares Series 5.

Purchaser's Statutory Rights

Securities legislation in certain of the provinces of Canada provides a purchaser with the right to withdraw from an agreement to purchase securities within two business days after receipt, or deemed receipt, of a prospectus and any amendment. In several of the provinces and territories securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal advisor.

Certificate of Bank of Montreal

Dated: February 18, 1998

The foregoing, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the Bank Act (Canada) and the regulations thereunder and the securities laws of all provinces and territories of Canada. For the purposes of the Securities Act (Quebec), this short form prospectus, as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

(Signed) M.W. BARRETT
Chairman and
Chief Executive Officer

(Signed) R.B. WELLS
Executive Vice-President and
Chief Financial Officer

On behalf of the Board of Directors

(Signed) J. BLAIR MACAULAY
Director

(Signed) DAVID R. BEATTY
Director

Certificate of the Underwriters

Dated: February 18, 1998

To the best of our knowledge, information and belief, the foregoing, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the Bank Act (Canada) and the regulations thereunder and the securities laws of all provinces and territories of Canada. For the purposes of the Securities Act (Quebec), to our knowledge, this short form prospectus, as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

NESBITT BURNS INC.

By: (Signed) THOMAS E. FLYNN

CIBC WOOD GUNDY SECURITIES INC.

By: (Signed) JAMES R. MCSHERRY

LÉVESQUE BEAUBIEN GEOFFRION INC.

By: (Signed) IAN D. MCPHERSON

TD SECURITIES INC.

By: (Signed) J. DAVID BEATTIE

RBC DOMINION SECURITIES INC.

By: (Signed) M. MARIANNE HARRIS

SCOTIAMCLEOD INC.

By: (Signed) JOHN L. SHERRINGTON

MIDLAND WALWYN CAPITAL INC.

By: (Signed) DONALD A. FOX

FIRST MARATHON SECURITIES LIMITED

By: (Signed) VINCENZA SERA

TRILON SECURITIES CORPORATION

By: (Signed) TREVOR D. KERR

The following includes the name of every person having an interest, directly or indirectly, to the extent of not less than 5 percent in the capital of:

NESBITT BURNS INC.: The Nesbitt Burns Corporation Limited, a majority-owned subsidiary of the Bank;

RBC DOMINION SECURITIES INC.: RBC Dominion Securities Limited, a majority-owned subsidiary of a Canadian chartered bank;

CIBC WOOD GUNDY SECURITIES INC.: a wholly-owned subsidiary of The CIBC Wood Gundy Corporation, a wholly-owned subsidiary of a Canadian chartered bank;

SCOTIAMCLEOD INC.: a wholly-owned subsidiary of a Canadian chartered bank;

LÉVESQUE BEAUBIEN GEOFFRION INC.: wholly-owned by Lévesque Beaubien and Company Inc., a majority-owned subsidiary of a Canadian chartered bank;

MIDLAND WALWYN CAPITAL INC.: wholly-owned by Midland Walwyn Inc.;

TD SECURITIES INC.: a wholly-owned subsidiary of a Canadian chartered bank;

FIRST MARATHON SECURITIES LIMITED: a wholly-owned subsidiary of First Marathon Inc.; and

TRILON SECURITIES CORPORATION: a wholly-owned subsidiary of Trilon Financial Corporation.

