HARRIS PREFERRED CAPITAL CORP
Form 10-K
March 26, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

2000
FORM 10-K
ANNUAL REPORT UNDER SECTION 13 OR 15 (D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000 COMMISSION FILE NUMBER 1-13805

HARRIS PREFERRED CAPITAL CORPORATION
(Exact name of registrant as specified in its charter)

MARYLAND	# 36-4183096
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
111 WEST MONROE STREET, CHICAGO, ILLINOIS	60603
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:
(312) 461-2121

SECURITIES REGISTERED PURSUANT TO
SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTE
7 3/8% Noncumulative Exchangeable Preferred Stock, Series A, par value $1.00 per share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No

The number of shares of Common Stock, $1.00 par value, outstanding on March 22, 2001 was 1,000.

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HARRIS PREFERRED CAPITAL CORPORATION

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PART I

Forward-Looking Information

Forward-looking statements contained in this Annual Report on Form 10-K ("Report") of Harris Preferred Capital Corporation (the "Company") may include certain forward-looking information statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including (without limitation) statements with respect to the Company's expectations, intentions, beliefs or strategies regarding the future. Forward-looking statements include the Company's statements regarding tax treatment as a real estate investment trust, liquidity, provision for loan losses, capital resources and investment activities. In addition, in those and other portions of this document, the words "anticipate," "believe," "estimate," "expect," "intend" and other similar expressions, as they relate to the Company or the Company's management, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. It is important to note that the Company's actual results could differ materially from those described herein as anticipated, believed, estimated or expected. Among the factors that could cause the results to differ materially are the risks discussed in the "Risk Factors" section included in the Company's Registration Statement on Form S-11 (File No. 333-40257), with respect to the Preferred Shares declared effective by the Securities and Exchange Commission on February 5, 1998. The Company assumes no obligation to update any such forward-looking statements.

ITEM 1. BUSINESS

General

Harris Preferred Capital Corporation is a Maryland Corporation incorporated on September 24, 1997, pursuant to the Maryland General Corporation Law. The Company's principal business objective is to acquire, hold, finance and manage qualifying real estate investment trust ("REIT") assets (the "Mortgage Assets"), consisting of a limited recourse note or notes (the "Notes") issued by Harris Trust and Savings Bank (the "Bank") secured by real estate mortgage assets (the "Securing Mortgage Loans") and other obligations secured by real property, as well as certain other qualifying REIT assets. The Company's assets are held in a Maryland real estate investment trust subsidiary, Harris Preferred Capital Trust. The Company has elected to be treated as a REIT under the Internal Revenue Code of 1986 (the "Code"), and will generally not be subject to federal income tax if it distributes 95% of its ordinary taxable income and meets all of the qualifications necessary to be a REIT. All of the shares of the Company's common stock, par value $1.00 per share (the "Common Stock"), are owned by Harris Capital Holdings, Inc. ("HCH"), a wholly-owned subsidiary of the Bank. The Company was formed by the Bank to provide investors with the opportunity to invest in residential mortgages and other real estate assets and to provide the Bank with a cost-effective means of raising capital for federal regulatory purposes.

On February 11, 1998, the Company through a public offering (the "Offering") issued 10,000,000 shares of its 7 3/8% Noncumulative Exchangeable Preferred Stock, Series A (the "Preferred Shares"), $1.00 par value. The Offering raised $250 million less $7.9 million of underwriting fees. The Preferred Shares are traded on the New York Stock Exchange under the symbol "HBC Pr A". Holders of Preferred Shares are entitled to receive, if declared by the Company's Board of Directors, noncumulative dividends at a rate of 7 3/8% per annum of the $25 per share liquidation preference (an amount equivalent to $1.8438 per share per annum). Dividends on the Preferred Shares, if authorized and declared, are payable quarterly in arrears on March 30, June 30, September 30 and December 30 of each year. Except upon the occurrence of certain events, the Preferred Shares are not redeemable by the Company prior to March 30, 2003. On or after such date, the Preferred Shares may be redeemed for cash at the option of the Company, in whole or in part, at any time and from time to time, at the principal amount thereof, plus the quarterly accrued and unpaid dividends, if any, thereon. The Company may not redeem the Preferred Shares without prior approval from the Board of Governors of the Federal Reserve System or the appropriate successor federal regulatory agency.

Each Preferred Share will be automatically exchanged for one newly issued Bank Preferred Share in the event (i) the Bank becomes less than "adequately capitalized" under regulations established pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991, as amended, (ii) the Bank is placed into conservatorship or receivership, (iii) the Board of Governors directs such exchange in writing because, in its sole discretion and even if the Bank is not less than "adequately capitalized", the Board of Governors anticipates that the Bank may become less than adequately capitalized in the near term, or (iv) the Board of Governors in its sole discretion directs in writing an exchange in the event that the Bank has a Tier 1 risk-based capital ratio of less than 5%. In the event of an exchange, the Bank Preferred Shares would constitute a new series of preferred shares of the Bank, would have the same dividend rights, liquidation preference, redemption options and other attributes as the Preferred Shares, except that the Bank Preferred Shares would not be listed on the New York Stock Exchange and would rank pari passu in terms of cash dividend payments and liquidation preference with any outstanding shares of preferred stock of the Bank.

Concurrent with the issuance of the Preferred Shares, the Bank contributed additional capital of $241 million, net of acquisition costs to the Company. The Company and the Bank undertook the Offering for two principal reasons: (i) the qualification of the Series A Preferred Shares as Tier 1 capital of the Bank for U.S. banking regulatory purposes under relevant regulatory capital guidelines, as a result of the treatment of the Preferred Shares as a minority interest in a consolidated subsidiary of the Bank, and (ii) lack of federal income tax on the Company's earnings used to pay the dividends on the Series A Preferred Shares, as a result of the Company's qualification as a REIT. On December 30, 1998, the Bank contributed the common stock of the Company to HCH, a newly-formed and wholly-owned subsidiary of the Bank. The Bank is required to maintain direct or indirect ownership of at least 80% of the outstanding Common Stock of the Company for as long as any Preferred Shares are outstanding.

The Company used the Offering proceeds and the additional capital contributed by the Bank to purchase $356 million of notes (the "Notes") from the Bank and $135 million of mortgage-backed securities at their estimated fair value. The Notes are obligations issued by the Bank that are recourse only to the underlying mortgage loans (the "Securing Mortgage Loans") and were acquired pursuant to the terms of a loan agreement with the Bank. The principal amount of the Notes equals approximately 80% of the principal amounts of the Securing Mortgage Loans.

Business

The Company was formed for the purpose of raising capital for the Bank. One of the Company's principal business objectives is to acquire, hold, finance and manage Mortgage Assets. These Mortgage Assets generate interest income for distribution to stockholders. A portion of the Mortgage Assets of the Company consists of Notes issued by the Bank that are recourse only to Securing Mortgage Loans that are secured by real property. The Notes mature on October 1, 2027 and pay interest at 6.4% per annum. Payments of interest are made to the Company from payments made on the Securing Mortgage Loans. Pursuant to an agreement between the Company and the Bank, the Company, through the Bank as agent, receives all scheduled payments made on the Securing Mortgage Loans, retains a portion of any such payments equal to the amount due on the Notes and remits the balance, if any, to the Bank. The Company also retains approximately 80% of any prepayments of principal in respect of the Securing Mortgage Loans and applies such amounts as a prepayment on the Notes. The Company has a security interest in the real property securing the Securing Mortgage Loans and will be entitled to enforce payment on the loans in its own name if a mortgagor should default. In the event of such default, the Company would have the same rights as the original mortgagee to foreclose the mortgaged property and satisfy the obligations of the Bank out of the proceeds.

The Company may from time to time acquire fixed-rate or variable-rate mortgage-backed securities representing interests in pools of mortgage loans. The Bank may have originated a portion of any such mortgage-backed securities by exchanging pools of mortgage loans for the mortgage-backed securities. The mortgage loans underlying the mortgage-backed securities will be secured by single-family residential properties located throughout the United States. The Company intends to acquire only investment grade mortgage-backed securities issued by agencies of the federal government or government sponsored agencies, such as the Federal Home Loan Mortgage Corporation ("FHLMC"), the Federal

National Mortgage Association ("Fannie Mae") and the Government National Mortgage Association ("GNMA"). The Company does not intend to acquire any interest-only, principal-only or similar speculative mortgage-backed securities.

The Bank may from time to time acquire or originate both conforming and nonconforming residential mortgage loans. Conventional conforming residential mortgage loans comply with the requirements for inclusion in a loan guarantee program sponsored by either FHLMC or Fannie Mae. Nonconforming residential mortgage loans are residential mortgage loans that do not qualify in one or more respects for purchase by Fannie Mae or FHLMC under their standard programs. The nonconforming residential mortgage loans that the Company purchases will be nonconforming because they have original principal balances which exceed the limits for FHLMC or Fannie Mae under their standard programs. The Company believes that all residential mortgage loans will meet the requirements for sale to national private mortgage conduit programs or other investors in the secondary mortgage market. As of December 31, 2000 and 1999 and for each of the years then ended, the Company did not directly hold any residential mortgage loans.

The Company may from time to time acquire commercial mortgage loans secured by industrial and warehouse properties, recreational facilities, office buildings, retail space and shopping malls, hotels and motels, hospitals, nursing homes or senior living centers. The Company's current policy is not to acquire any interest in a commercial mortgage loan if commercial mortgage loans would constitute more than 5% of the Company's Mortgage Assets at the time of its acquisition. Unlike residential mortgage loans, commercial mortgage loans generally lack standardized terms. Commercial real estate properties themselves tend to be unique and are more difficult to value than residential real estate properties. Commercial mortgage loans may also not be fully amortizing, meaning that they may have a significant principal balance or "balloon" payment due on maturity. Moreover, commercial properties, particularly industrial and warehouse properties, are generally subject to relatively greater environmental risks than non-commercial properties, generally giving rise to increased costs of compliance with environmental laws and regulations. There is no requirement regarding the percentage of any commercial real estate property that must be leased at the time the Bank acquires a commercial mortgage loan secured by such commercial real estate property, and there is no requirement that commercial mortgage loans have third party guarantees. The credit quality of a commercial mortgage loan may depend on, among other factors, the existence and structure of underlying leases, the physical condition of the property (including whether any maintenance has been deferred), the creditworthiness of tenants, the historical and anticipated level of vacancies and rents on the property and on other comparable properties located in the same region, potential or existing environmental risks, the availability of credit to refinance the commercial mortgage loan at or prior to maturity and the local and regional economic climate in general. Foreclosures of defaulted commercial mortgage loans are generally subject to a number of complicated factors, including environmental considerations, which are generally not present in foreclosures of residential mortgage loans. As of December 31, 2000 and 1999 and for each of the years then ended, the Company did not hold any commercial mortgage loans.

The Company may invest up to 5% of the total value of its portfolio in assets eligible to be held by REITs other than those described above. In addition to commercial mortgage loans and mortgage loans secured by multi-family properties, such assets could include cash, cash equivalents and securities, including shares or interests in other REITs and partnership interests.

The Company intends to continue to acquire Mortgage Assets from the Bank and/or affiliates of the Bank on terms that are comparable to those that could be obtained by the Company if such Mortgage Assets were purchased from unrelated third parties. The Company may also from time to time acquire Mortgage Assets from unrelated third parties.

The Company intends to maintain at least 90% of its portfolio in Bank-secured obligations and mortgage-backed securities. The Company may, however, invest in other assets eligible to be held by a REIT. The Company's current policy and the Servicing Agreement (defined below) prohibit the acquisition of any Mortgage Asset constituting an interest in a mortgage loan (other than an interest resulting from the acquisition of mortgage-backed securities), which mortgage loan (i) is delinquent (more than 30 days past due) in the payment of principal or interest at the time of proposed acquisition; (ii) is or was at any time

during the preceding 12 months (a) on nonaccrual status or (b) renegotiated due to financial deterioration of the borrower; or (iii) has been, more than once during the preceding 12 months, more than 30 days past due in payment of principal or interest. Loans that are on "nonaccrual status" are generally loans that are past due 90 days or more in principal or interest. The Company maintains a policy of disposing of any mortgage loan which (i) falls into nonaccrual status, (ii) has to be renegotiated due to the financial deterioration of the borrower, or (iii) is more than 30 days past due in the payment of principal or interest more than once in any 12 month period. The Company may choose, at any time subsequent to its acquisition of any Mortgage Assets, to require the Bank (as part of the Servicing Agreement) to dispose of the mortgage loans for any of these reasons or for any other reason.

The Bank services the Securing Mortgage Loans and the other mortgage loans purchased by the Company on behalf of, and as agent for, the Company and is entitled to receive fees in connection with the servicing thereof pursuant to the servicing agreement (the "Servicing Agreement"). The Bank receives a fee equal to 0.25% per annum on the principal balances of the loans serviced. Payment of such fees is subordinate to payments of dividends on the Series A Preferred Shares. The Servicing Agreement requires the Bank to service the loans in a manner generally consistent with accepted secondary market practices, with any servicing guidelines promulgated by the Company and, in the case of residential mortgage loans, with Fannie Mae and FHLMC guidelines and procedures. The Servicing Agreement requires the Bank to service the loans solely with a view toward the interest of the Company and without regard to the interest of the Bank or any of its affiliates. The Bank will collect and remit principal and interest payments, administer mortgage escrow accounts, submit and pursue insurance claims and initiate and supervise foreclosure proceedings on the loans it services. The Bank may, with the approval of a majority of the Company's Board of Directors, as well as a majority of the Company's Independent

Directors, subcontract all or a portion of its obligations under the Servicing Agreement to unrelated third parties. An "Independent Director" is a director who is not a current officer or employee of the Company or a current director, officer or employee of the Bank or of its affiliates. The Bank will not, in connection with the subcontracting of any of its obligations under the Servicing Agreement, be discharged or relieved in any respect from its obligations under the Servicing Agreement. The Company may terminate the Servicing Agreement upon the occurrence of such events as they relate to the Bank's proper and timely performance of its duties and obligations under the Servicing Agreement. As long as any Preferred Shares remain outstanding, the Company may not terminate, or elect to renew, the Servicing Agreement without the approval of a majority of the Company's Independent Directors.

The Company entered into an advisory agreement with the Bank (the "Advisory Agreement") pursuant to which the Bank administers the day-to-day operations of the Company. The Bank is responsible for (i) monitoring the credit quality of Mortgage Assets held by the Company, (ii) advising the Company with respect to the reinvestment of income from and payments on, and with respect to the acquisition, management, financing and disposition of the Mortgage Assets held by the Company, and (iii) monitoring the Company's compliance with the requirements necessary to qualify as a REIT, and other financial and tax-related matters. The Bank may from time to time subcontract all or a portion of its obligations under the Advisory Agreement to one or more of its affiliates. The Bank may, with the approval of a majority of the Company's Board of Directors, as well as a majority of the Company's Independent Directors, subcontract all or a portion of its obligations under the Advisory Agreement to unrelated third parties. The Bank will not, in connection with the subcontracting of any of its obligations under the Advisory Agreement, be discharged or relieved in any respect from its obligations under the Advisory Agreement. The Advisory Agreement is renewed annually. The Company may terminate the Advisory Agreement at any time upon 60 days' prior written notice. As long as any Preferred Shares remain outstanding, any decision by the Company either to renew the Advisory Agreement or to terminate the Advisory Agreement must be approved by a majority of the Board of Directors, as well as by a majority of the Company's Independent Directors.

The Advisory Agreements in effect in 2000, 1999 and from inception (January 2, 1998) through December 31, 1998 entitled the Bank to receive advisory fees of $57,000, $50,000 and $43,000, respectively. In 2001, advisory fees of $60,000 have been approved.

The Company may from time to time purchase additional Mortgage Assets out of proceeds received in connection with the repayment or disposition of Mortgage Assets, the issuance of additional shares of Preferred Stock or additional

capital contributions with respect to the Common Stock. The Company may also issue additional series of Preferred Stock. However, the Company may not issue additional shares of Preferred Stock senior to the Series A Preferred Shares either in the payment of dividends or in the distribution of assets on liquidation without the consent of holders of at least 67% of the outstanding shares of Preferred Stock at that time or without approval of a majority of the Company's Independent Directors. The Company does not currently intend to issue any additional shares of Preferred Stock unless it simultaneously receives additional capital contributions from HCH or other affiliates sufficient to support the issuance of such additional shares of Preferred Stock.

Although the Company does not currently intend to incur any indebtedness in connection with the acquisition and holding of Mortgage Assets, the Company may do so at any time (although indebtedness in excess of 25% of the Company's total stockholders' equity may not be incurred without the approval of a majority of the Company's Independent Directors). To the extent the Company were to change its policy with respect to the incurrence of indebtedness, the Company would be subject to risks associated with leverage, including, without limitation, changes in interest rates and prepayment risk.

Employees

As of December 31, 2000, the Company had no paid employees.

Environmental Matters

In the event that the Company is forced to foreclose on a defaulted Securing Mortgage Loan to recover its investment in such loan, the Company may be subject to environmental liabilities in connection with the underlying real property, which could exceed the value of the real property. Although the Company intends to exercise due diligence to discover potential environmental liabilities prior to the acquisition of any property through foreclosure, hazardous substances or wastes, contaminants, pollutants or sources thereof (as defined by state and federal laws and regulations) may be discovered on properties during the Company's ownership or after a sale thereof to a third party. If such hazardous substances are discovered on a property which the Company has acquired through foreclosure or otherwise, the Company may be required to remove those substances and clean up the property. There can be no assurance that in such a case the Company would not incur full recourse liability for the entire costs of any removal and clean-up, that the cost of such removal and clean-up would not exceed the value of the property or that the Company could recoup any of such costs from any third party. The Company may also be liable to tenants and other users of neighboring properties. In addition, the Company may find it difficult or impossible to sell the property prior to or following any such clean-up.

Qualification as a REIT

The Company elected to be taxed as a REIT commencing with its taxable year ended December 31, 1998 and intends to comply with the provisions of the Code with respect thereto. The Company will not be subject to Federal income tax to the extent it distributes 95% of its adjusted REIT taxable income to stockholders and as long as certain assets, income and stock ownership tests are met. For 2000 as well as 1999 the Company met all Code requirements for a REIT, including the asset, income, stock ownership and distribution tests. Cash distributions in the amount of $1.8438 cents per Preferred Share were paid in 2000 and 1999. A cash dividend on common stock of $13 million was declared on December 4, 2000 to the stockholder of record on December 15, 2000 and paid on December 30, 2000. A cash dividend of $12 million on common stock was declared on December 2, 1999 to the stockholder of record on December 15, 1999 and paid on December 31, 1999. In addition, on September 12, 2000 and September 8, 1999 the Company paid a cash dividend of $224 thousand and $332 thousand, respectively, on the outstanding common shares to the stockholder of record on December 30, 1999 and December 30, 1998, respectively. These dividends completed the Company's 1999 and 1998 REIT tax compliance requirements.

ITEM 2. PROPERTIES

None as of December 31, 2000.

ITEM 3. LEGAL PROCEEDINGS

The Company is not currently involved in any material litigation nor, to the Company's knowledge is any material litigation currently threatened against the Company, the Bank or any affiliate of the Bank other than routine litigation arising in the ordinary course of business. See Note 8 to Financial Statements on page 27.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2000.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SECURITY HOLDER MATTERS

HCH presently owns all 1,000 shares of the common stock of the Company, which are not listed or traded on any securities exchange. In 2000, the Company declared $13 million in cash dividends on common stock, which were paid in December 2000 compared to $12 million declared on December 2, 1999 and paid in December 1999. In addition, on September 12, 2000 and September 8, 1999 the Company paid a cash dividend of $224 thousand and $332 thousand, respectively, on the outstanding common shares to the stockholder of record on December 30, 1999 and December 30, 1998, respectively.

The Preferred Shares are traded on the New York Stock Exchange under the symbol "HBC Pr A". During 2000 and 1999, the Company declared and paid cash dividends to preferred stockholders of approximately $18.4 million in each year. Although the Company declared cash dividends on the Preferred Shares for 2000 and 1999, no assurances can be made as to the declaration of, or if declared, the amount of, future distributions since such distributions are subject to the Company's financial condition and capital needs; the impact of legislation and regulations as then in effect or as may be proposed; economic conditions; and such other factors as the Board of Directors may deem relevant. Notwithstanding the foregoing, to remain qualified as a REIT, the Company must distribute annually at least 95% of its taxable income to preferred and/or common stockholders.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data for the Company and should be read in conjunction with the Financial Statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Report.

(IN THOUSANDS, EXCEPT PER SHARE DATA)	YEAR ENDED DECEMBER 31, 2000	YEAR ENDED DECEMBER 31, 1999	FROM (JANUA T DECEMB
Statement of Operations Data:			
Interest income..............................	$ 32,312	$ 31,588	$
Noninterest income...........................	257	--	
Operating expenses:			
Loan servicing fees........................	373	511	
Advisory fees..............................	57	50	
General & administrative...................	290	300	
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Total operating expenses	720	861	
Net income	31,849	30,727	
Preferred stock dividends	18,438	18,438	
Net income available to common stockholder	$ 13,411	$ 12,289	$
Basic and diluted net income per common share	$13,411.00	$12,289.00	$10
Distributions per preferred share	$ 1.8438	$ 1.8438	$
Balance Sheet Data (end of period):			
Total assets	$ 489,939	$ 473,988	$
Total liabilities	$ 115	$ 97	$
Total stockholders' equity	$ 489,824	$ 473,891	$
Cash Flows Data:			
Operating activities	$ 31,638	$ 30,821	$
Investing activities	$ (419)	$ 10,290	$ (
Financing activities	$ (31,662)	$ (40,470)	$

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Financial Statements and notes thereto appearing later in this Report.

SUMMARY

YEAR ENDED DECEMBER 31, 2000 COMPARED TO DECEMBER 31, 1999

The Company's net income for 2000 was $31.8 million. This represented a $1.1 million or 3.6% increase from 1999 net income of $30.7 million.

Interest income on the Notes for 2000 totaled $7.8 million and yielded 6.4% on $122 million of average principal outstanding compared to $10.8 million and a 6.4% yield on $169 million average principal outstanding for 1999. The decrease in income was attributable to a reduction in the Note balance because of customer payoffs in the Securing Mortgage Loans. The average outstanding balance of the Securing Mortgage Loans was $151 million for 2000 and $208 million for 1999. Interest income on securities available-for-sale for 2000 was $22.6 million, resulting in a yield of 6.9% on an average balance of $328 million compared to $19.8 million with a yield of 6.7% on an average balance of $294 million for 1999. The increase in interest

income is primarily attributable to an increase in the investment securities portfolio and the purchase of higher yielding securities, raising the average return. Gains from investment securities sales were $257 thousand in 2000. There were no investment securities sales in 1999. There were no Company borrowings during either year.

Operating expenses for the year ended December 31, 2000 totaled $720 thousand, a decrease of $141 thousand from the year ended December 31, 1999. Loan servicing expenses for the 2000 totaled $373 thousand, a decrease of $138 thousand or 27% from 1999. This decrease is attributable to the reduction in the principal balance of the Notes. Advisory fees for the year ended December 31, 2000 was $57 thousand compared to $50 thousand for the same period a year ago. General and administrative expenses for the same period totaled $290 thousand, a decrease of $10 thousand or 3.3% from 1999.

On December 30, 2000, the Company paid a cash dividend of $0.46094 cents per share on the outstanding Preferred Shares to the stockholders of record on December 15, 2000 as declared on December 4, 2000. On December 30, 1999, the Company paid a cash dividend of $0.46094 cents per share on the outstanding Preferred Shares to the stockholders of record on December 15, 1999 as declared on December 2, 1999. On a year-to-date basis, the Company declared and paid $18.4 million of dividends to holders of Preferred Shares for 2000 and 1999, respectively. A cash dividend on common stock of $13 million was declared on December 4, 2000 to the stockholder of record on December 15, 2000 and paid on December 30, 2000. A cash dividend on common stock of $12 million was declared on December 2, 1999 to the stockholder of record on December 15, 1999 and paid on December 31, 1999. In addition, on September 12, 2000 and September 8, 1999 the Company paid a cash dividend of $224 thousand and $332 thousand, respectively, on the outstanding common shares to the stockholder of record on December 30, 1999 and December 30, 1998, respectively. These dividends completed the Company's 1999 and 1998 REIT tax compliance requirements. At December 31, 2000, there were no Securing Mortgage Loans on nonaccrual status and there was no allowance for loan losses.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO THE PERIOD FROM INCEPTION (JANUARY 2, 1998) THROUGH DECEMBER 31, 1998

While the Company's inception date was January 2, 1998, substantial operations did not commence until February 11, 1998.

The Company's net income for 1999 was $30.7 million. This represented a $4.2 million or 16% increase from the period February 11, 1998 through December 31, 1998 of $26.5 million.

Interest income on the Notes for 1999 totaled $10.8 million and yielded 6.4% on $169 million of average principal outstanding compared to $16.3 million and a 6.4% yield on $288 million average principal outstanding for the period February 11, 1998 through December 31, 1998. The reduction in income was attributable to the reduction in the Note balance because of customer payoffs in the Securing Mortgage Loans. Interest income on securities available-for-sale for 1999 was $19.8 million, resulting in a yield of 6.7% on an average balance of $294 million compared to interest income of $10.2 million with a yield of 6.1% on an average balance of $188 million for the period from February 11, 1998 through December 31, 1998. The increase is primarily attributable to an increase in the investment securities portfolio and the purchase of higher yielding securities, raising the average return. The average outstanding balance of the Securing Mortgage Loans was $208 million during the year ended December 31, 1999 and $329 million for the period February 11, 1998 through December 31, 1998. There were no Company borrowings during these periods.

Operating expenses for the year ended December 31, 1999 totaled $861 thousand, a decrease of $125 thousand from the period February 11, 1998 through December 31, 1998. Loan servicing expenses for the year ended December 31, 1999 totaled $511 thousand, a decrease of $245 thousand or 32% from the period February 11, 1998 through December 31, 1998. This decrease is attributable to the reduction in the principal balance of the Notes. Advisory fees for the year ended December 31, 1999 were $50 thousand compared to $43 thousand over the period from February 11, 1998 through December 31, 1998. General and administrative expenses for the same period totaled $300 thousand, an increase of $113 thousand or 60% over the period from February 11, 1998 through September 30, 1998. The higher general and administrative expenses in 1999 were

primarily attributable to substantial operating activities not commencing until February 11, 1998 and to costs related to the filing of the initial 1998 Form 10-K incurred in 1999.

On December 30, 1999, the Company paid a cash dividend of $0.46094 cents per share on the outstanding Preferred Shares to the stockholders of record on December 15, 1999 as declared on December 2, 1999. On December 30, 1998, the Company paid a cash dividend of $0.46094 cents per share on the outstanding Preferred Shares to the stockholders of record on December 17, 1998. On a year-to-date basis, the Company declared and paid $18.4 million of dividends to holders of Preferred Shares for 1999 compared to $16.3 million of dividends paid for the period from inception (January 2, 1998) through December 31, 1998. On December 31, 1999 the Company paid a cash dividend of $12 million on the outstanding common shares to the stockholder of record on December 15, 1999 as declared on December 2, 1999. On January 28, 1999, the Company paid cash dividends of $9.7 million on the outstanding common shares to the stockholder of record on December 30, 1998, as declared on December 10, 1998. On September 8, 1999, the Company paid a cash dividend of $332 thousand on the outstanding common shares to the stockholder of record on December 30, 1998, as declared on September 2, 1999. This dividend completed our 1998 REIT tax compliance requirements. At December 31, 1999 and 1998, there were no Securing Mortgage Loans on nonaccrual status nor was there an allowance for loan losses.

QUARTER ENDED DECEMBER 31, 2000 COMPARED TO QUARTER ENDED DECEMBER 31, 1999

The Company's net income for the fourth quarter of 2000 was $8.0 million compared to $7.9 million in the fourth quarter of 1999.

Fourth quarter 2000 interest income on the Notes totaled $1.7 million and yielded 6.4% on $109 million of average principal outstanding compared to interest income of $2.3 million and a 6.4% yield on $143 million average principal outstanding for the fourth quarter 1999. The decrease in income was attributable to a reduction in the Note balance because of customer payoffs in the Securing Mortgage Loans. The average outstanding balance of the securing mortgage loans for the fourth quarter 2000 and 1999 was $121 million and $177 million, respectively. Interest income on securities available-for-sale for the current quarter was $6.0 million resulting in a yield of 6.7% on an average balance of $359 million, compared to interest income of $5.5 million with a yield of 6.9% on an average balance of $319 million for the same period a year ago. There were no Company borrowings during the quarter.

Fourth quarter 2000 operating expenses totaled $217 thousand, a decrease of $2 thousand from the fourth quarter of 1999. Loan servicing expenses totaled $83 thousand, a decrease of $26 thousand or 24% from the prior year's fourth quarter, attributable to the reduction in the principal balance of the Notes, thereby reducing servicing fees payable to the Bank. Advisory fees for 2000 were $12 thousand an increase of $4 thousand from the prior year's fourth quarter. General and administrative expenses totaled $120 thousand, an increase of $25 thousand over fourth quarter 1999. The higher general and administrative expenses in 2000 were primarily attributable to higher legal and insurance costs.

ALLOWANCE FOR LOAN LOSSES

The Company does not currently maintain an allowance for loan losses due to the over-collateralization of the Securing Mortgage Loans and the prior and expected credit performance of the collateral pool.

CONCENTRATIONS OF CREDIT RISK

A majority of the collateral underlying the Securing Mortgage Loans is located in Illinois and Arizona. The financial viability of customers in these states is, in part, dependent on the states' economies. The collateral may be subject to a greater risk of default than other comparable loans in the event of adverse economic, political or business developments or natural hazards that may affect such region and the ability of property owners in such region to make payments of principal and interest on the underlying mortgages. The Company's maximum risk of accounting loss, should all customers in Illinois and Arizona fail to perform according to contract terms and all collateral prove to be worthless, was approximately $79 million and

$18 million, respectively at December 31, 2000 and $106 million and $23 million, respectively, at December 31, 1999.

INTEREST RATE RISK

The Company's income consists primarily of interest payments on the Mortgage Assets it holds. If there is a decline in interest rates during a period of time when the Company must reinvest payments of interest and principal with respect to its Mortgage Assets, the Company may find it difficult to purchase additional Mortgage Assets that generate sufficient income to support payment of dividends on the Preferred Shares. Because the rate at which dividends, if, when and as authorized and declared, are payable on the Preferred Shares is fixed, there can be no assurance that an interest rate environment in which there is a decline in interest rates would not adversely affect the Company's ability to pay dividends on the Preferred Shares.

COMPETITION

The Company does not engage in the business of originating mortgage loans. While the Company will acquire additional Mortgage Assets, it anticipates that such Mortgage Assets will be acquired from the Bank and affiliates of the Bank. Accordingly, the Company does not expect to compete with mortgage conduit programs, investment banking firms, savings and loan associations, banks, thrift and loan associations, finance companies, mortgage bankers or insurance companies in acquiring its Mortgage Assets.

LIQUIDITY RISK MANAGEMENT

The objective of liquidity management is to ensure the availability of sufficient cash flows to meet all of the Company's financial commitments. In managing liquidity, the Company takes into account various legal limitations placed on a REIT.

The Company's principal liquidity needs are to maintain the current portfolio size through the acquisition of additional Notes or other qualifying assets and to pay dividends to its stockholders after satisfying obligations to creditors. The acquisition of additional Notes or other qualifying assets is funded with the proceeds obtained from repayment of principal balances by individual mortgages or maturities of securities held for sale on a reinvested basis. The payment of dividends on the preferred shares will be made from legally available funds, principally arising from operating activities of the Company. The Company's cash flows from operating activities principally consist of the collection of interest on the Notes and mortgage-backed securities. The Company does not have and does not anticipate having any material capital expenditures.

In order to remain qualified as a REIT, the Company must distribute annually at least 95% of its adjusted REIT taxable income through 2000, as provided for under the Code, to its common and preferred stockholders. The Company currently expects to distribute dividends annually equal to 95% or more of its adjusted REIT taxable income.

The Company anticipates that cash and cash equivalents on hand and the cash flow from the Notes and mortgage-backed securities will provide adequate liquidity for its operating, investing and financing needs.

As presented in the accompanying Statement of Cash Flows, the primary sources of funds in addition to $31.6 million provided from operations during 2000 were $33.8 million provided by principal payments on the Notes and $123.1 million from the maturities of securities available-for-sale. In 1999, the primary sources of funds other than from operations of $30.8 million were $71.1 million provided by principal payments on the Notes and $22.1 million from the maturities of securities available-for-sale. The primary uses of funds for 2000 were $169.7 million in purchases of securities available-for-sale and $18.4 and $13.2 million in preferred stock dividends and common stock dividends paid, respectively. In 1999 the primary uses of funds were $95.6 million in purchases of securities available-for-sale and $18.4 and $22.0 million in preferred stock dividends and common stock dividends paid, respectively.

ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Statement is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company will adopt this Statement at January 1, 2001. The adoption will not have an effect on the Company as the Company has historically not invested in derivatives or participated in hedging activities.

In September 2000, the Financial Accounting Standards Board (FASB) issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of SFAS No. 125." The Statement revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. It carries over most of the provisions of SFAS No. 125 without change. The Statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The Statement is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The Company does not expect the implementation of this Statement to have a material effect on the Company's financial position or results of operations.

OTHER MATTERS

As of December 31, 2000, the Company believes that it is in full compliance with the REIT tax rules, and expects to qualify as a REIT under the provisions of the Code. The Company expects to meet all REIT requirements regarding the ownership of its stock and anticipates meeting the annual distribution requirements.

The REIT Modernization Act, which was passed in 1999 and will take effect on January 1, 2001, modifies certain provisions of the Internal Revenue Code of 1986, as amended, with respect to the taxation of REITs. A key provision of this tax law change will impact the Company through the reduction in the required level of distributions by a REIT from 95% to 90% of ordinary taxable income.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

As of December 31, 2000, the Company had $103 million invested in Notes, a decrease of $34 million from December 31, 1999, attributable to customer payoffs in the Securing Mortgage Loans. At December 31, 2000, the Company holds $353 million in mortgage-backed securities compared to $315 million at December 31, 1999. At December 31, 2000 the Company holds $25 million in U.S. Treasuries. At December 31, 2000, the Company holds an investment of $3 million in securities purchased from the Bank under agreement to resell compared to $15 million at December 31, 1999. The Company is subject to exposure for fluctuations in interest rates. Adverse changes in interest rates could impact negatively the value of mortgage-backed securities, as well as the levels of interest income to be derived from these assets.

The Company's investments held in mortgage-backed securities are secured by adjustable and fixed interest rate residential mortgage loans. The yield to maturity on each security depends on, among other things, the price at which each such security is purchased, the rate and timing of principal payments (including prepayments, repurchases, defaults and liquidations), the pass-through rate and interest rate fluctuations. Changes in interest rates could impact prepayment rates as well as default rates, which in turn would impact the value and yield to maturity of the Company's mortgage-backed securities.

The Company currently has no outstanding borrowings.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Refer to the Index to Financial Statements on page 18 for the required information.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in or disagreements with accountants on any matter of accounting principles, practices or financial statement disclosure.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The Company's Board of Directors consists of six members. The Company does not anticipate that it will require any additional employees because it has retained the Bank to perform certain functions pursuant to the Advisory Agreement described above. Each officer of the Company currently is also an officer of the Bank and/or affiliates of the Bank. The Company maintains corporate records and audited financial statements that are separate from those of the Bank or any of the Bank's affiliates. None of the officers, directors or employees of the Company will have a direct or indirect pecuniary interest in any Mortgage Asset to be acquired or disposed of by the Company or in any transaction in which the Company has an interest or will engage in acquiring, holding and managing Mortgage Assets.

Pursuant to terms of the Preferred Shares, the Company's Independent Directors will consider the interests of the holders of both the Preferred Shares and the Common Stock in determining whether any proposed action requiring their approval is in the best interests of the Company.

The persons who are directors and executive officers of the Company are as follows:

NAME	AGE	POSITION AND OFFICES HELD
Paul R. Skubic..	52	Chairman of the Board, Preside
Pierre O. Greffe......................................	48	Chief Financial Officer
Thomas R. Sizer.......................................	62	Secretary, Director
Frank M. Novosel......................................	54	Treasurer, Director
John F. Faulhaber.....................................	54	Vice President of Operations
Margaret M. Sulkin....................................	42	Assistant Treasurer
Delbert J. Wacker.....................................	69	Director
David J. Blockowicz...................................	58	Director
Forrest M. Schneider..................................	53	Director

The following is a summary of the experience of the executive officers and directors of the Company:

Mr. Skubic has been Vice President and Controller of the Bank and Chief Accounting Officer for Harris Bankcorp, Inc., and the Bank since 1990. Prior to joining Harris Bankcorp, Inc., Mr. Skubic was employed by Arthur Andersen & Co. He is a certified public accountant.

Mr. Greffe has been Senior Vice President and Chief Financial Officer of Harris Bankcorp, Inc. and the Bank since June 1994. Prior to that he was Vice President of Finance, Corporate and Institutional Financial Services, of Bank of Montreal in Toronto. Mr. Greffe has been with the Bank of Montreal group of companies since November 1974. Mr. Greffe is a member of the Certified Management Accountant Institute of Canada.

Mr. Sizer has been Vice President and Secretary of the Bank since 1983. Prior to that time he was a Vice President of the Bank. He holds a Juris Doctor degree from Fordham University, New York.

Mr. Novosel has been a Vice President in the Treasury Group of the Bank since 1995. Previously, he served as Treasurer of Harris Bankcorp, Inc., managing financial planning. Mr. Novosel is a Chartered Financial Analyst and a member of the Investment Analysts' Society of Chicago.

Mr. Faulhaber has been Vice President and Division Administrator, Residential Mortgages, at the Bank since 1994. Prior to this position, he was Manager, Secondary Mortgage Market, since 1991. He currently serves on the Bank's Asset/Liability Committee.

Ms. Sulkin has been a Vice President in the Taxation Department of the Bank since 1992. Ms. Sulkin has been employed by the Bank since 1984. Prior to joining the Bank, she was employed by KPMG Peat Marwick LLP. She is a certified public accountant.

Mr. Wacker retired as a partner from Arthur Andersen & Co. in 1987 after 34 years. From July 1988 to November 1990, he was Vice President--Treasurer, Parkside Medical Services--a subsidiary of Lutheran

General Health System. From November 1990 to September 1993, he completed various financial consulting projects for Lutheran General.

Mr. Blockowicz is a certified public accountant and is a partner with Blockowicz & Del Guidicie LLC. Prior to forming his firm, Mr. Blockowicz was a partner with Arthur Andersen & Co. through 1990.

Mr. Schneider is President and Chief Executive Officer of Lane Industries, Inc. Mr. Schneider is a director of Lane Industries and director and member of the executive committee of General Binding Corporation. He has been employed by Lane Industries since 1976. He is a graduate of the University of Illinois where he received his B.S. and masters degree in finance.

INDEPENDENT DIRECTORS

The terms of the Preferred Shares require that, as long as any Preferred Shares are outstanding, certain actions by the Company be approved by a majority of the Company's Independent Directors. Delbert J. Wacker, David J. Blockowicz and Forrest M. Schneider are the Company's Independent Directors.

If at any time the Company fails to declare and pay a quarterly dividend payment on the Preferred Shares, the number of directors then constituting the Board of Directors of the Company will be increased by two at the Company's next annual meeting and the holders of Preferred Shares, voting together with the holders of any other outstanding series of Preferred Stock as a single class, will be entitled to elect two additional directors to serve on the Company's Board of Directors. Any member of the Board of Directors elected by holders of the Company's Preferred Stock will be deemed to be an Independent Director for purposes of the actions requiring the approval of a majority of the Independent Directors.

AUDIT COMMITTEE

The Board of Directors of the Company has established an audit committee which will review the engagement of independent accountants and review their independence. The audit committee will also review the adequacy of the Company's internal accounting controls. The audit committee is comprised of Delbert J. Wacker, David J. Blockowicz and Forrest M. Schneider.

COMPENSATION OF DIRECTORS AND OFFICERS

The Company pays the Independent Directors of the Company fees for their services as directors. The Independent Directors receive annual compensation of $10,000 plus a fee of $750 for attendance (in person or by telephone) at each meeting of the Board of Directors.

ITEM 11. EXECUTIVE COMPENSATION

The Company will not pay any compensation to its officers or employees or to directors who are not Independent Directors.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) Security ownership of certain beneficial owners

No person owns of record or is known by the Company to own beneficially more than 5% of the outstanding 7 3/8% Noncumulative Exchangeable Preferred Stock, Series A.

(b) Security Ownership of Management

The following table shows the ownership of 7 3/8% Noncumulative Exchangeable Preferred Stock, Series A, by the only officer or director who owns any such shares.

TITLE OF CLASS	NAME OF BENEFICIAL OWNER	AMOUNT OF BENEFICIAL OWNERSHIP
Preferred Stock....................................	Paul R. Skubic	300 Shares

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

(a) Transactions with Management and Others

The Bank, through its wholly-owned subsidiary, HCH, indirectly owns 100% of the common stock of the Company.

As described on page 4 of this Report, a substantial portion of the assets of the Company consists of Notes issued by the Bank. The Notes mature on October 1, 2027 and pay interest at 6.4% per annum. During 2000, the Company received repayments on the Notes of $34 million compared to 1999 repayments of $71 million. In years ended December 31, 2000 and 1999, the Bank paid interest on the Notes in the amount of $7.8 million and $10.8 million, respectively, to the Company.

The Company purchases U.S. Treasury and Federal agency securities from the Bank under agreements to resell identical securities. At December 31, 2000, the Company held $3 million of such assets and had earned $1.9 million of interest from the Bank during 2000. At December 31, 1999 the company held $15 million of such assets and earned $984 thousand of interest for 1999. The Company receives rates on these assets comparable to the rates that the Bank offers to unrelated counterparties under similar circumstances.

During 2000 and 1999, the Company acquired $145 million and $96 million, respectively, of GNMA securities at fair value from the Bank. During 2000 the Company acquired $25 million of U.S. T-Bills at fair value from the Bank.

The Bank and the Company have entered into a Servicing Agreement and an Advisory Agreement, the terms of which are described in further detail on page 5 of this Report. In 2000, the Bank received payments of $373 thousand and $57 thousand, respectively, compared to $511 thousand and $50 thousand for 1999, under the terms of these agreements.

The Company entered into an agreement with the Bank to act as Transfer Agent and Registrar for the Preferred Shares. For these services, the Bank received in 2000 and 1999, $5 thousand and $25 thousand, respectively. In March 2000, Harris Bankcorp, Inc. sold its shareholder services business to Computershare Limited. At July 1, 2000 the Company entered into an agreement with an independent company to act as Transfer Agent and Registrar for the Preferred Shares.

(b) Certain Business Relationships

Paul R. Skubic, Chairman of the Board of the Company, and all of its executive officers, Pierre O. Greffe, Thomas R. Sizer, Frank M. Novosel, John F. Faulhaber and Margaret M. Sulkin, are also officers of the Bank.

(c) Indebtedness of Management

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed with Report:

(1) Financial Statements (See page 18 for a listing of all financial statements included in Item 8)

(2) Financial Statement Schedules

All schedules normally required by Form 10-K are omitted since they are either not applicable or because the required information is shown in the financial statements or notes thereto.

(3) Exhibits:

*3(a)(I)	Articles of Incorporation of the Company
*3(a)(ii)	Form of Articles of Amendment and Restatement of the Company establishing the Series A Preferred Shares
*3(b)	Bylaws of the Company
*4	Specimen of certificate representing Series A Preferred Shares
*10(a)	Form of Servicing Agreement between the Company and the Bank
*10(b)	Form of Advisory Agreement between the Company and the Bank
*10(c)	Form of Bank Loan Agreement between the Company and the Bank
*10(d)	Form of Mortgage Loan Assignment Agreement between the Company and the Bank
24	Power of attorney

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* Incorporated by reference to the exhibit of the same number filed with the Company's Registration Statement on Form S-11 (Securities and Exchange Commission file number 333-40257)

(b) No reports on Form 8-K were filed.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Harris Preferred Capital Corporation has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on the 22nd day of March 2001.

/s/ PAUL R. SKUBIC

Paul R. Skubic
Chairman of the Board and President

/s/ PIERRE O. GREFFE

Pierre O. Greffe
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by Paul R. Skubic, Chairman of the Board and President of the Company, as attorney-in-fact for the following Directors on behalf of Harris Preferred Capital Corporation of the 22nd day of March 2001.

David J. Blockowicz
Frank M. Novosel

Forrest M. Schneider
Thomas R. Sizer
Delbert J. Wacker

Paul R. Skubic
Attorney-In-Fact
Supplemental Information

No proxy statement will be sent to security holders in 2001.

INDEX TO FINANCIAL STATEMENTS

The following financial statements are included in Item 8 of this Annual Report on Form 10-K:

HARRIS PREFERRED CAPITAL CORPORATION

Financial Statements

Report of Independent Accountants

Balance Sheets

Statements of Operations and Comprehensive Income

Statements of Changes in Stockholders' Equity

Statements of Cash Flows

Notes to Financial Statements

HARRIS TRUST AND SAVINGS BANK

Financial Review

Financial Statements

Joint Independent Auditors

Report of Independent Accountants

Consolidated Statements of Condition

Consolidated Statements of Income

Consolidated Statements of Comprehensive Income

Consolidated Statements of Changes in Stockholder's Equity

Consolidated Statements of Cash Flows

Notes to Financial Statements

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule or because the information required is included in the financial statements and notes hereof.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholder and Board of Directors
of Harris Preferred Capital Corporation

In our opinion, the accompanying balance sheets and the related statements of operations and comprehensive income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Harris Preferred Capital Corporation (the "Company") at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the two years ended December 31, 2000 and for the period January 2, 1998 (inception) to December 31, 1998, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

January 25, 2001
Chicago, Illinois

HARRIS PREFERRED CAPITAL CORPORATION
BALANCE SHEETS
DECEMBER 31, 2000 AND 1999

(IN THOUSANDS, EXCEPT SHARE DATA)	DECEMBER 31, 2000	DECEMBER 31,
ASSETS		
Cash on deposit with Harris Trust and Savings Bank..........	$ 819	$
Securities purchased from Harris Trust and Savings Bank under agreement to resell................................	3,000	1
Notes receivable from Harris Trust and Savings Bank.........	102,960	13
Securities available-for-sale:		

Mortgage-backed..	352,965	31
U.S. Treasury..	24,850	
Securing mortgage collections due from Harris Trust and Savings Bank..	2,786	
Other assets...	2,559	
TOTAL ASSETS..	$ 489,939	$ 47
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accrued expenses...	$ 115	$
Commitments and contingencies............................	--	
STOCKHOLDERS' EQUITY		
7 3/8% Noncumulative Exchangeable Preferred Stock, Series A ($1 par value); liquidation value of $250,000; 20,000,000 shares authorized, 10,000,000 shares issued and outstanding...	250,000	25
Common stock ($1 par value); 1,000 shares authorized, issued and outstanding.......................................	1	
Additional paid-in capital...............................	240,733	24
Earnings in excess of distributions......................	536	
Accumulated other comprehensive income -- unrealized losses on available-for-sale securities.........................	(1,446)	(1
TOTAL STOCKHOLDERS' EQUITY..........................	489,824	47
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY..........	$ 489,939	$ 47

The accompanying notes are an integral part of these financial statements.

HARRIS PREFERRED CAPITAL CORPORATION
STATEMENTS OF OPERATIONS
AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999 AND
FROM INCEPTION (JANUARY 2, 1998) THROUGH DECEMBER 31, 1998

(IN THOUSANDS, EXCEPT PER SHARE DATA)	2000	1999	1998
INTEREST INCOME:			
Securities purchased from Harris Trust and Savings Bank under agreement to resell..........................	$ 1,907	$ 984	$ 9
Notes receivable from Harris Trust and Savings Bank....	7,807	10,808	16,3
Securities available-for-sale:			
Mortgage-backed..................................	22,287	19,796	9,7
U.S. Treasury....................................	311	--	4
Total interest income...........................	32,312	31,588	27,4
NONINTEREST INCOME:			
Securities gains.....................................	257	--	
Total noninterest income........................	257	--	
OPERATING EXPENSES:			
Loan servicing fees paid to Harris Trust and Savings Bank...	373	511	7

Advisory fees paid to Harris Trust and Savings Bank....	57	50	
General and administrative.............................	290	300	1
Total operating expenses.........................	720	861	9
Net income...	31,849	30,727	26,4
Preferred dividends....................................	18,438	18,438	16,3
NET INCOME AVAILABLE TO COMMON STOCKHOLDER..............	$ 13,411	$ 12,289	$ 10,0
Basic and diluted earnings per common share.............	$13,411.00	$12,289.00	$10,092.
Net income...	$ 31,849	$ 30,727	$ 26,4
Other comprehensive income -- unrealized income (loss) on available-for-sale securities.........................	15,746	(19,694)	2,5
Comprehensive income...................................	$ 47,595	$ 11,033	$ 28,9

The accompanying notes are an integral part of these financial statements.

HARRIS PREFERRED CAPITAL CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999 AND
FROM INCEPTION (JANUARY 2, 1998) THROUGH DECEMBER 31, 1998

(IN THOUSANDS EXCEPT PER SHARE DATA)	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	EARNINGS IN EXCESS OF DISTRIBUTIONS	ACCU O COMPR INCOM
BALANCE AT INCEPTION..................	$ --	$--	$ --	$ --	$
Issuance of common stock.............	--	1	--	--	
Initial public offering of 7 3/8% Noncumulative Exchangeable Preferred Stock, Series A, par value $1, on February 11, 1998..................	250,000	--	--	--	
Contribution to additional paid-in capital, net of acquisition costs...	--	--	240,733	--	
Net income...........................	--	--	--	26,481	
Other comprehensive income(loss)......	--	--	--	--	
Dividends declared on common stock ($9,700.00 per share)...............	--	--	--	(9,700)	
Dividends declared on preferred stock ($1.6389 per share)................	--	--	--	(16,389)	
BALANCE AT DECEMBER 31, 1998...........	$250,000	$1	$240,733	$ 392	$
Net income...........................	--	--	--	30,727	
Other comprehensive income(loss)......	--	--	--	--	(1
Dividends declared on common stock ($12,332.00 per share).............	--	--	--	(12,332)	
Dividends declared on preferred stock ($1.8438 per share)................	--	--	--	(18,438)	
BALANCE AT DECEMBER 31, 1999...........	$250,000	$1	$240,733	$ 349	$(1

Net income..........................	--	--	--	31,849	
Other comprehensive income(loss)......	--	--	--	--	1
Dividends declared on common stock ($13,224.00 per share).............	--	--	--	(13,224)	
Dividends declared on preferred stock ($1.8438 per share)................	--	--	--	(18,438)	
BALANCE AT DECEMBER 31, 2000...........	$250,000	$1	$240,733	$ 536	$ (

The accompanying notes are an integral part of these financial statements.

HARRIS PREFERRED CAPITAL CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999 AND
FROM INCEPTION (JANUARY 2, 1998) THROUGH DECEMBER 31, 1998

(IN THOUSANDS)	2000	1999	1998
OPERATING ACTIVITIES:			
Net Income..	$ 31,849	$ 30,727	$ 26,481
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of securities...........................	(257)	--	
Decrease (increase) in other assets...................	28	59	(2,646)
Increase in accrued expenses..........................	18	35	62
Net cash provided by operating activities...........	31,638	30,821	23,897
INVESTING ACTIVITIES:			
Net decrease (increase) in securities purchased from Harris Trust and Savings Bank under agreement to resell..	12,000	2,004	(17,004)
Purchases of notes receivable from Harris Trust and Savings Bank...	--	--	(356,000)
Repayments of notes receivable from Harris Trust and Savings Bank...	33,789	71,186	148,065
Decrease (increase)in securing mortgage collections due from Harris Trust and Savings Bank....................	339	10,565	(13,690)
Purchases of securities available-for-sale...............	(169,678)	(95,628)	(309,790)
Proceeds from sales and maturities of securities available-for-sale.................................	123,131	22,163	50,798
Net cash (used) provided by investing activities.....	(419)	10,290	(497,621)
FINANCING ACTIVITIES:			
Proceeds from issuance of preferred stock................	--	--	250,000
Proceeds from issuance of common stock...................	--	--	1
Contribution to additional paid-in capital, net of acquisition costs..................................	--	--	240,733
Cash dividends paid on preferred stock...................	(18,438)	(18,438)	(16,389)
Cash dividends paid on common stock......................	(13,224)	(22,032)	--
Net cash used by financing activities...............	(31,662)	(40,470)	474,345

Net (decrease) increase in cash on deposit with Harris Trust and Savings Bank................................	(443)	641	621
Cash on deposit with Harris Trust and Savings Bank at beginning of period..................................	1,262	621	--
Cash on deposit with Harris Trust and Savings Bank at end of period..	$ 819	$ 1,262	$ 621

The accompanying notes are an integral part of these financial statements.

HARRIS PREFERRED CAPITAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

Harris Preferred Capital Corporation (the "Company") is a Maryland corporation whose principal business objective is to acquire, hold, finance and manage qualifying real estate investment trust ("REIT") assets (the "Mortgage Assets"), consisting of a limited recourse note or notes (the "Notes") issued by Harris Trust and Savings Bank (the "Bank") secured by real estate mortgage assets (the "Securing Mortgage Loans") and other obligations secured by real property, as well as certain other qualifying REIT assets. The Company holds its assets through a Maryland real estate investment trust subsidiary, Harris Preferred Capital Trust. The Company has elected to be a REIT under sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), and will generally not be subject to Federal income tax to the extent that it meets all of the REIT requirements in the Internal Revenue Code Sections 856-860. All of the one thousand shares of the Company's common stock, par value $1.00 per share (the "Common Stock"), are owned by Harris Capital Holdings, Inc. ("HCH"), a wholly-owned subsidiary of the Bank. On December 30, 1998, the Bank transferred its ownership of the common stock of the Company to HCH. The Bank is required to maintain direct or indirect ownership of at least 80% of the outstanding Common Stock of the Company for as long as any 7 3/8% Noncumulative Exchangeable Preferred Stock, Series A (the "Preferred Shares"), $1.00 par value, is outstanding. The Company was formed by the Bank to provide investors with the opportunity to invest in residential mortgages and other real estate assets and to provide the Bank with a cost-effective means of raising capital for federal regulatory purposes.

On February 11, 1998, the Company completed an initial public offering (the "Offering") of 10,000,000 shares of the Company's Preferred Shares, receiving proceeds of $242,125,000, net of underwriting fees. The Preferred Shares are traded on the New York Stock Exchange. Concurrent with the issuance of the Preferred Shares, the Bank contributed additional capital of $250 million to the Company.

The Company used the proceeds raised from the initial public offering of the Preferred Shares and the additional capital contributed by the Bank to purchase $356 million of Notes from the Bank and $135 million of mortgage-backed securities at their estimated fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on deposit with the Bank.

ALLOWANCE FOR POSSIBLE LOAN LOSSES

The allowance for possible loan losses is maintained at a level considered adequate to provide for potential loan losses. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. Known losses of principal on impaired loans are charged off. The provision for loan losses is based on past loss experience, management's evaluation of the loan portfolio securing the Mortgage Assets under current economic conditions and management's estimate of anticipated, but as yet not specifically identified, loan losses. Such estimates are reviewed periodically and adjustments, if necessary, are recorded during the periods in which they become known. At December 31, 2000 and 1999, no allowance for possible loan losses was recorded under this policy.

INCOME TAXES

The Company has elected to be taxed as a REIT commencing with its taxable year ended December 31, 1998 and intends to comply with the provisions of the Code with respect thereto. The Company does not expect to be subject to Federal income tax because assets, income distribution and stock ownership tests in Internal Revenue Code Sections 856-860 are met. Accordingly, no provision for income taxes is included in the accompanying financial statements.

The REIT Modernization Act, which was passed in 1999 and will take effect on January 1, 2001, modifies certain provisions of the Internal Revenue Code of 1986, as amended, with respect to the taxation of REITs. A key provision of this tax law change will impact the Company through the reduction in the required level of distributions by a REIT from 95% to 90% of ordinary taxable income.

SECURITIES

The Company classifies all securities as available-for-sale, even if the Company has no current plans to divest. Available-for-sale securities are reported at fair value with unrealized gains and losses included as a separate component of stockholders' equity.

Interest income on securities, including amortization of discount or premium, is included in earnings. Realized gains and losses, as a result of securities sales, are included in securities gains, with the cost of securities sold determined on the specific identification basis.

The Company purchases U.S. Treasury and Federal agency securities from the Bank under agreements to resell identical securities. The amounts advanced under these agreements represent short-term loans and are reflected as receivables in the Balance Sheet. Securities purchased under agreement to resell totaled $3 million at December 31, 2000 compared to $15 million at December 31, 1999. The securities underlying the agreements are book-entry securities. Securities are transferred by appropriate entry into the Company's account with the Bank under a written custodial agreement with the Bank that explicitly recognizes the Company's interest in these securities.

The Company's investment securities are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the carrying value of investments in securities available-for-sale currently reported in the balance sheets.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Statements is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The company will adopt this Statement at January 1, 2001. The adoption will not have an effect on the Company as the company has historically not invested in derivatives or participated in hedging activities.

In September 2000, the Financial Accounting Standards Board (FASB) issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of SFAS No. 125." The Statement revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. It carries over most of the provisions of SFAS No. 125 without change. The Statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The Statement is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The Company does not expect the implementation of this Statement to have a material effect on the Company's financial position or results of operations.

MANAGEMENT'S ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. NOTES RECEIVABLE FROM THE BANK

On February 11, 1998, proceeds received from the Offering were used in part to purchase $356 million of Notes at a rate of 6.4%. The Notes are secured by mortgage loans originated by the Bank. The principal amount of the Notes equals approximately 80% of the aggregate outstanding principal amount of the collateralizing mortgage loans.

The Notes are recourse only to the securing mortgage loans that are secured by real property. The Notes mature on October 1, 2027. Payments of principal and interest on the Notes are recorded monthly from payments received on the securing mortgage loans. The Company has a security interest in the real property securing the underlying mortgage loans and is entitled to enforce payment on the securing mortgage loans in its own name if a mortgagor should default. In the event of default, the Company has the same rights as the original mortgagee to foreclose the mortgaged property and satisfy the obligations of the Bank out of the proceeds. The securing mortgage loans are serviced by the Bank, as agent of the Company.

The Company intends that each mortgage loan securing the Notes will represent a first lien position and will be originated in the ordinary course of the Bank's real estate lending activities based on the underwriting standards generally applied (at the time of origination) for the Bank's own account. The Company also intends that all Mortgage Assets held by the Company will meet market standards, and servicing guidelines promulgated by the Company, and Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan

Mortgage Corporation ("FHLMC") guidelines and procedures.

The balance of Securing Mortgage Loans at December 31, 2000 and 1999 was $129 million and $171 million, respectively. The weighted average interest rate on those loans at December 31, 2000 and 1999 was 7.858% and 7.442%, respectively.

None of the mortgage loans collateralizing the Notes were on nonaccrual status at December 31, 2000 or 1999.

A majority of the collateral securing the underlying mortgage loans is located in Illinois and Arizona. The financial viability of customers in these states is, in part, dependent on those states' economies. The Company's maximum risk of accounting loss, should all customers in Illinois and Arizona fail to perform according to contract terms and all collateral prove to be worthless, was approximately $79 million and $18 million, respectively, at December 31, 2000 and $106 million and $23 million, respectively, as of December 31, 1999.

4. SECURITIES

	DECEMBER 31, 2000				DE	
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE	AMORTIZED COST	UNREA GAI
(IN THOUSANDS)						
AVAILABLE-FOR-SALE SECURITIES						
Mortgage-backed.......	$354,407	$--	$1,442	$352,965	$332,457	$
U.S. Treasury.........	$ 24,854	$--	$ 4	$ 24,850	$ --	$
Total Securities...	$379,261	$--	$1,446	$377,815	$332,457	$

Mortgage-backed securities include Government National Mortgage Association Platinum Certificates. The contractual maturities of the mortgage-backed securities exceed ten years. Expected maturities can differ from contractual maturities since borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

5. COMMON AND PREFERRED STOCK

On February 11, 1998, the Company issued 10,000,000 Preferred Shares, Series A, at a price of $25 per share pursuant to its Registration Statement on Form S-11. Proceeds from this issuance, net of underwriting fees, totaled $242,125,000. The liquidation value of each Preferred Share is $25 plus any authorized, declared

and unpaid dividends. Except upon the occurrence of certain events, the Preferred Shares are not redeemable by the Company prior to March 30, 2003. On or after such date, the Preferred Shares will be redeemable at the option of the Company, in whole or in part, at the liquidation preference thereof, plus the quarterly accrued and unpaid dividends, if any, to the date of redemption. The Company may not redeem the Preferred Shares without prior approval from the Board of Governors of the Federal Reserve System or the appropriate successor federal regulatory agency. Except under certain limited circumstances, as defined, the holders of the Preferred Shares have no voting rights. The Preferred Shares are automatically exchangeable for a new series of preferred stock of the Bank upon the occurrence of certain events.

Holders of Preferred Shares are entitled to receive, if declared by the Board of Directors of the Company, noncumulative dividends at a rate of 7 3/8% per annum of the $25 per share liquidation preference (an amount equivalent to $1.84375 per share per annum). Dividends on the Preferred Shares, if authorized and declared, are payable quarterly in arrears on March 30, June 30, September 30, and December 30 each year. Dividends paid to the holders of the Preferred Shares for the years ended December 31, 2000 and 1999 were $18,438,000 in both years. The allocations of the distributions declared and paid for income tax purposes were 99.2% of ordinary income and .8% of short-term capital gain.

On December 30, 1998, the Bank contributed the Common Stock of the Company to HCH. The Bank is required to maintain direct or indirect ownership of at least 80% of the outstanding Common Stock of the Company for as long as any Preferred Shares are outstanding. Dividends on Common Stock are paid if and when authorized and declared by the Board of Directors out of funds legally available after all preferred dividends have been paid. A Common Stock dividend of $13,000 per common share was declared on December 4, 2000, to the stockholder of record on December 15, 2000 and paid on December 30, 2000. The allocations of the distribution declared and paid for income tax purposes were 99.2% of ordinary income and .8% of short term capital gain. On December 31, 1999, the Company paid cash dividends of $12,000 per common share to the stockholder of record on December 15, 1999. In addition, on September 12, 2000 and September 8, 1999 the Company paid a cash dividend of $224 thousand and $332 thousand, respectively, on the outstanding common shares to the stockholder of record on December 30, 1999 and December 30, 1998, respectively. These dividends completed our 1999 and 1998 REIT tax compliance requirements.

6. TRANSACTIONS WITH AFFILIATES

The Company entered into an advisory agreement (the "Advisory Agreement") with the Bank pursuant to which the Bank administers the day-to-day operations of the Company. The Bank is responsible for (i) monitoring the credit quality of Mortgage Assets held by the Company; (ii) advising the Company with respect to the reinvestment of income from and payments on, and with respect to the acquisition, management, financing, and disposition of the Mortgage Assets held by the Company; and (iii) monitoring the Company's compliance with the requirements necessary to qualify as a REIT.

The Advisory Agreement in effect in 2000 and 1999 entitled the Bank to receive advisory fees of $57,000 and $50,000, respectively. For 2001, advisory fees of $60,000 have been approved by the Board of Directors.

The securing mortgage loans are serviced by the Bank pursuant to the terms of a servicing agreement (the "Servicing Agreement"). The Bank receives a fee equal to 0.25% per annum on the principal balances of the loans serviced. The Servicing Agreement requires the Bank to service the mortgage loans in a manner generally consistent with accepted secondary market practices, and servicing guidelines promulgated by the Company and with Fannie Mae and FHLMC guidelines and procedures.

For the periods ended December 31, 1998, 1999 and six months ended June 30, 2000 the Company had an agreement with the Bank to act as Transfer Agent and Registrar for the Preferred Shares. The total payment to the Bank for the year ended December 31, 1999 was $25 thousand and for the six months ended June 30, 2000 it was $10 thousand. As of July 1, 2000 the Company entered into an agreement with an independent company to act as Transfer Agent and Registrar for the Preferred Shares.

7. OPERATING SEGMENT

The Company's operations consist of monitoring and evaluating the investments in Mortgage Assets. Accordingly, the Company operates in only one segment. The Company has no external customers and transacts most of its business with the Bank.

8. COMMITMENTS AND CONTINGENCIES

Legal proceedings in which the Company is a defendant may arise in the normal course of business. At December 31, 2000 and 1999, there was no pending litigation against the Company.

9. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table sets forth selected quarterly financial data for the Company:

	YEAR ENDED DECEMBER 31, 2000				YEAR ENDED D	
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FIRST QUARTER	SECOND QUARTER
			(IN THOUSANDS EXCEPT PER SHARE DATA)			
Total interest income.....	$ 7,929	$ 8,012	$ 8,106	$ 8,265	$ 7,705	$ 7,83
Total noninterest income.................	--	--	257	--		
Total operating expenses...............	149	220	134	217	238	22
Net income...............	7,780	7,792	8,229	8,048	7,467	7,60
Preferred dividends.......	4,609	4,609	4,609	4,611	4,609	4,60
Net income available to common stockholder......	$ 3,171	3,183	3,620	3,437	$ 2,858	$ 2,99
Basic and diluted income per common share........	$3,171.00	$3,183.00	$3,620.00	$3,437.00	$2,858.00	$2,997.0

FINANCIAL STATEMENTS OF HARRIS TRUST AND SAVINGS BANK

The following unaudited financial information and audited financial statements for Harris Trust and Savings Bank are included because the Preferred Shares are automatically exchangeable for a new series of preferred stock of the Bank upon the occurrence of certain events.

HARRIS TRUST AND SAVINGS BANK

CERTAIN INFORMATION REGARDING HARRIS TRUST AND SAVINGS BANK

Harris Trust and Savings Bank ("the Bank") is an Illinois banking operation located at 111 West Monroe Street, Chicago, Illinois 60603. The Bank is a wholly-owned subsidiary of Harris Bankcorp, Inc., a multibank holding company incorporated under the laws of the State of Delaware and headquartered in Chicago and registered under the Bank Holding Company Act of 1956, as amended. Harris Bankcorp, Inc. is a wholly-owned subsidiary of Bankmont Financial Corp. ("Bankmont"). Harris Bankcorp, Inc. also owns 26 other banks, 25 in the counties surrounding Chicago and one in Arizona. On July 1, 2000, Bankmont contributed 100 percent of the common stock of its wholly-owned subsidiary, Harris Bankmont, Inc., a Chicago metropolitan area multibank holding company, to Harris Bankcorp, Inc. Immediately thereafter, Harris Bankmont, Inc. was liquidated and dissolved into Harris Bankcorp, Inc. under the corporation law of Delaware. Harris Bankcorp, Inc. was the surviving corporation. The assets of Harris Bankmont, Inc. consisted primarily of the stock of its thirteen community banks. This combination was accounted for at historical cost, similar to a pooling of interests. Bankmont is a wholly-owned subsidiary of Bank of Montreal. At December 31, 2000, Harris Bankcorp's assets amounted to $28.97 billion, with the Bank representing approximately 73 percent of that total.

The Bank, an Illinois state-chartered bank has its principal office, 54 domestic branch offices and 98 automated teller machines ("ATMs") located in the Chicago area. The Bank also has offices in Atlanta, Detroit and San Francisco; a foreign branch office in Nassau; and an Edge Act subsidiary, Harris Bank International Corporation ("HBIC"), engaged in international banking and finance in New York. At December 31, 2000, the Bank had total assets of $21.29 billion, total deposits of $12.49 billion, total loans of $10.77 billion and equity capital of $1.52 billion.

The Bank provides a broad range of banking and financial services to individuals and corporations domestically and abroad, including corporate banking, personal financial services, personal trust services and investment services. The Bank also offers (i) demand and time deposit accounts; (ii) various types of loans (including term, real estate, revolving credit facilities and lines of credit); (iii) sales and purchases of foreign currencies; (iv) interest rate management products (including swaps, forward rate agreements and interest rate guarantees); (v) cash management services; (vi) underwriting of municipal bonds; (vii) financial consulting; and (viii) a wide variety of personal trust and trust-related services.

Competitors of the Bank include commercial banks, savings and loan associations, consumer and commercial finance companies, credit unions and other financial services companies. Based on legislation passed in 1986 that allows Illinois banks to be acquired by banks or holding companies in states with a reciprocal law in effect together with the Federal Interstate Banking Efficiency Act of 1994, that allows for both interstate banking and interstate branching in certain circumstances, the Bank believes that the level of competition will increase in the future.

The Bank is subject to regulation by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation. As a state-chartered bank, it is also regulated by the Illinois Office of Banks and Real Estate. These regulatory bodies examine the Bank and supervise numerous aspects of its business. The Federal Reserve System regulates money and credit conditions and interest rates in order to influence general economic conditions, primarily through open market operations in U.S. Government securities, varying the discount rate on bank borrowings, setting reserve requirements against financial institution deposits and prescribing minimum capital requirements for member banks. These policies have a significant influence on overall growth and distribution of bank loans, investments and deposits, and affect interest rates charged on loans and earned on investments or paid for time, savings and other deposits. Board of Governors monetary policies have had a significant effect on the operating results of commercial banks in the past and this is expected to continue.

Although primarily focusing on U.S. domestic customers, identifiable foreign assets accounted for 1 percent of the Bank's total consolidated assets at December 31, 2000 and foreign net income was approximately 10 percent of the Bank's consolidated net income for the year then ended. Foreign net income

is generated from three primary sources: (i) lending to foreign banks and other financial institutions; (ii) time deposits held in foreign banks; and (iii) foreign exchange trading profits of approximately $7.2 million.

Corporate Trust Sale

In March 2000, Bankcorp sold its corporate trust business. In separate and unrelated transactions, the indenture trust business was sold to a subsidiary of The Bank of New York Company, Inc., and the shareholder services business to Computershare Limited. The combined sales resulted in a pre-tax gain to Bankcorp of $47.0 million. The Bank recognized $45.6 million of that gain. The Bank does not believe that the sale of the corporate trust business will have a material impact on the results of operations for future periods.

Merchant Card Sale

In December 2000, the Bank sold its merchant card business to a credit card processing joint venture (Moneris) formed between Bank of Montreal and Royal Bank of Canada. The sale resulted in a pretax gain to the Bank of $60.2 million, which was eliminated in the consolidation of the Bank's results with Bank of Montreal. The Bank does not believe that the sale of the merchant card business will have a material impact on the results of operations for future periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2000 COMPARED TO 1999

SUMMARY

The Bank's 2000 net income was $226.4 million, up $82.1 million, or 57 percent from 1999. Earnings comparability for 2000 was affected by both the sale of the Bank's corporate trust business in first quarter 2000 and the sale of its merchant card business in December 2000. Excluding the effect of the $45.6 million pretax gain on sale of the corporate trust business and related charges, and the $60.2 million pretax gain from the sale of the merchant card business, year 2000 earnings were $165.8 million representing a 15 percent increase over last year. The merchant card business was sold to the credit card processing joint venture (Moneris) formed between Bank of Montreal and Royal Bank of Canada, and the resulting gain was eliminated in the consolidation of the Bank's results with Bank of Montreal. 2000 earnings reflected strong earnings growth in the Bank's core businesses, partially offset by the impact of higher interest rates during the past year on securities portfolio earnings and the increased provision for loan losses associated with a slowing economy. Return on average common equity ("ROE") for 2000, excluding the gains on the sale of the corporate trust and merchant card businesses, was 12.54 percent and return on average assets ("ROA") was 0.80 percent. For 1999, ROE was 11.21 percent and ROA was

0.77 percent.

Earnings before amortization of goodwill and other valuation intangibles ("cash earnings") were $179.5 million in 2000, excluding the gains on the sale of the corporate trust and merchant card businesses, a 14 percent increase compared to 1999. Cash return on average common stockholder's equity ("cash ROE") represents net income applicable to common stock plus after-tax amortization expense of goodwill and other valuation intangibles, divided by average common stockholder's equity less average intangible assets. For the year ended December 31, 2000, cash ROE, excluding the gains on the sale of the corporate trust and merchant card businesses, was 16.39 percent compared to cash ROE of 15.23 percent in 1999.

For 2000, net interest income on a fully taxable equivalent basis of $444.6 million was up 11 percent from 1999. Net interest margin fell from 2.54 percent to 2.47 percent in 2000, reflecting the impact of a rising rate environment during the past year. Average earning assets rose $2.22 billion or 14 percent to $18.00 billion in the current year, attributable to an increase of 12 percent or $1.13 billion in average loans and $1.01 billion in investment securities. Commercial and consumer loans and residential mortgages were the strong contributors to the loan growth.

Noninterest income increased $74.7 million to $455.6 million for 2000. Excluding the effect of gains from the corporate trust and merchant card businesses sold in 2000, noninterest income decreased 8 percent from 1999. The decline was primarily caused by year-to-year reductions in operating revenues from the corporate trust business sold in first quarter 2000. Trust and investment management fees declined $20.9 million, while service charges on deposits decreased $8.2 million. Merchant and charge card fees declined $9.0 million. Income from bank-owned insurance increased $3.7 million or 9 percent from 1999 due to increased investment balances. Gains from sales of securities were slightly higher compared to 1999, $14.8 million compared to $13.6 million in 1999. Money market and bond trading profits were up slightly compared to the prior year.

Total noninterest expenses were $525.3 million, down $33.8 million or 6 percent from 1999, primarily reflecting a decline from last year's operating expense for the corporate trust business sold in first quarter 2000, and one-time systems expenditures related to Y2K made in 1999.

Income taxes were $97.3 million, up $58.1 million from 1999, reflecting substantially higher pretax income in 2000.

The 2000 provision for loan losses of $29.7 million was up $8.0 million from 1999. Net loan charge-offs during the current year were $24.4 million compared to $16.3 million in 1999 reflecting higher write-offs in the commercial loan portfolio.

Nonperforming assets at December 31, 2000 totaled $101 million, or 0.94 percent of total loans compared to $24 million or 0.24 percent a year ago. Most of the increase from December 31, 1999 is comprised of five loans in the shared national credit portfolio ranging in size from $8 million to $17 million, to borrowers in five different industry sectors. At December 31, 2000, the allowance for possible loan losses was $119 million or 1.10 percent of total loans outstanding compared to $114 million or 1.13 percent of loans at the end of 1999. As a result, the ratio of the allowance for possible loan losses to nonperforming assets declined from a multiple of 4.7 at December 31, 1999 to 1.2 at December 31, 2000.

At December 31, 2000, the Bank's equity capital amounted to $1.52 billion, up from $1.25 billion at December 31, 1999. Unrealized securities losses, net of tax, were $11 million at December 31, 2000 compared to $138 million at December 31, 1999. In February 1998, Harris Preferred Capital Corporation, a subsidiary of the Bank, issued $250 million of noncumulative preferred stock in a public offering (see Note 15 to Financial Statements). The preferred stock qualifies as Tier 1 capital for U.S. banking regulatory purposes.

The Bank's regulatory capital leverage ratio was 7.40 percent compared to 7.29 percent one year earlier. Regulators require most banking institutions to maintain capital leverage ratios of not less than 4.0 percent. At December 31, 2000, the Bank's Tier 1 and total risk-based capital ratios were 9.06 percent and 10.98 percent, respectively, compared to respective ratios of 8.68 percent and 10.77 percent at December 31, 1999. The 2000 year-end ratios substantially exceeded minimum required regulatory ratios of 4.0 percent and 8.0 percent, respectively.

1999 COMPARED TO 1998

SUMMARY

The Bank's 1999 net income was $144.3 million, up $14.7 million, or 11 percent from 1998. Return on average common equity ("ROE") for 1999 was 11.21 percent and return on average assets ("ROA") was 0.77 percent. For 1998, ROE was 10.02 percent and ROA was 0.78 percent.

Cash earnings were $157.9 million in 1999, an 11 percent increase compared to 1998. For the year ended December 31, 1999, cash ROE was 15.23 percent compared to cash ROE of 13.87 percent in 1998.

For 1999, net interest income on a fully taxable equivalent basis of $400.6 million was up 8 percent from 1998. Net interest margin fell from 2.67 percent to 2.54 percent in 1999, reflecting a relatively greater use of wholesale funding sources to support earning asset growth. Average earning assets rose $1.83 billion or 13 percent to $15.78 billion in 1999, attributable to an increase of 8 percent or $712 million in average loans and $1.24 billion in investment securities. Commercial lending was a strong contributor to the loan growth.

Noninterest income increased $5.0 million to $380.9 million for 1999. The primary contributors to this revenue growth were trust and investment management fees, service charges on deposits and income from tax-advantaged investments. Gains from sales of securities were substantially less in 1999, $13.6 million compared to $26.5 million in 1998. Money market and bond trading profits declined $1.9 million in 1999.

Total noninterest expenses were $559.2 million, up $28.6 million or 5 percent from 1998. Employment-related expenses totaled $344.5 million up $30.8 million or 10 percent. This increase reflects both salary adjustments and growth in benefit costs. Employee benefit increases were, in part, a function of lower discount rates applied to projected retirement liabilities. Net occupancy expenses totaled $37.1 million, down $3.0 million or 8 percent. Equipment expenses totaled $55.6 million, up $10.1 million or 22 percent from 1998 primarily due to additional depreciation from a new retail applications system and a new trust applications system, both placed in service during 1999. Contract programming and expert service fees were down $11.4 million and $5.3 million respectively, primarily due to limits on new systems development in order to devote resources to ensuring that all current systems were Y2K compliant. Amortization of goodwill and other valuation intangibles increased $1.2 million or 6 percent from 1998.

Income taxes were $39.2 million, down $6.1 million from 1998. The 1999 and

1998 effective tax rates were 21.4 percent and 25.9 percent respectively. The reduction in rate is primarily from the increase in revenue from tax-advantaged investments compared to 1998.

The 1999 provision for loan losses of $21.7 million was down $3.6 million from 1998. Net loan charge-offs during 1999 were $16.3 million compared to $16.8 million in 1998.

Nonperforming assets at December 31, 1999 totaled $24 million, or 0.24 percent of total loans compared to $16 million or 0.17 percent at December 31, 1998. At December 31, 1999, the allowance for possible loan losses was $114 million or 1.13 percent of total loans outstanding compared to $108 million or 1.16 percent of loans at the end of 1998. As a result, the ratio of the allowance for possible loan losses to nonperforming assets declined from a multiple of 6.9 at December 31, 1998 to 4.7 at December 31, 1999.

At December 31, 1999, the Bank's equity capital amounted to $1.25 billion, down from $1.33 billion at December 31, 1998. The decline is primarily attributable to unrealized securities losses, net of tax, which were $138 million at December 31, 1999 compared to unrealized securities gains, net of tax, of $31 million at December 31, 1998.

The Bank's regulatory capital leverage ratio was 7.29 percent at December 31, 1999 compared to 7.50 percent at December 31, 1998. Regulators require most banking institutions to maintain capital leverage ratios of not less than 4.0 percent. At December 31, 1999, the Bank's Tier 1 and total risk-based capital ratios were 8.68 percent and 10.77 percent, respectively, compared to respective ratios of 8.57 percent and 10.77 percent at December 31, 1998. The 1999 year-end ratios substantially exceeded minimum required regulatory ratios of 4.0 percent and 8.0 percent, respectively.

JOINT INDEPENDENT AUDITORS

The Board of Directors of Harris Trust and Savings Bank engaged the firms of KPMG LLP and PricewaterhouseCoopers LLP to serve as joint auditors for each of the years in the three year period ended December 31, 2000.

The Bank's ultimate parent company, Bank of Montreal ("BMO"), has elected to appoint two firms of independent public accountants to be auditors of BMO and all significant subsidiaries. The Bank's independent public accountants reflect the appointments made by BMO.

INDEPENDENT AUDITORS' REPORT

To the Stockholder and Board
of Directors of Harris Trust and Savings Bank:

We have audited the accompanying consolidated statements of condition of Harris Trust and Savings Bank and Subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, comprehensive income, changes in stockholder's equity and cash flows for each of the years in the three year period ended December 31, 2000. These consolidated financial statements are the responsibility of Harris Trust and Savings Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harris Trust and Savings Bank and Subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP PricewaterhouseCoopers LLP
Chicago, Illinois
January 29, 2001

FINANCIAL STATEMENTS

HARRIS TRUST AND SAVINGS BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CONDITION

	DECEMBER 31	
	2000	1999
	(IN THOUSANDS EXCEPT SHARE DATA)	
ASSETS		
Cash and demand balances due from banks....................	$ 1,292,694	$ 1,423,043
Money market assets:		
Interest-bearing deposits at banks.......................	141,348	239,832
Federal funds sold and securities purchased under agreement to resell..................................	491,075	298,000
Securities available-for-sale (including $3.30 billion of securities pledged as collateral for repurchase agreements)..	6,500,164	6,265,013
Trading account assets.....................................	65,211	66,996
Loans..	10,768,712	10,063,801
Allowance for possible loan losses.........................	(118,951)	(113,702)
Net loans..	10,649,761	9,950,099
Premises and equipment.....................................	284,142	311,353
Customers' liability on acceptances........................	34,100	43,599
Bank-owned insurance.......................................	906,103	772,579
Assets held for sale.......................................	242,271	--
Goodwill and other valuation intangibles...................	221,326	241,568
Other assets...	461,420	425,983
TOTAL ASSETS...	$21,289,615	$20,038,065
LIABILITIES		

Deposits in domestic offices--noninterest-bearing..........	$ 3,067,296	$ 3,449,650
--interest-bearing.............	7,065,300	6,314,523
Deposits in foreign offices--noninterest-bearing...........	34,780	35,537
--interest-bearing..............	2,326,001	1,329,977
Total deposits..	12,493,377	11,129,687
Federal funds purchased.....................................	1,041,824	1,429,617
Securities sold under agreement to repurchase..............	3,567,055	3,309,961
Short-term borrowings.......................................	1,489,730	681,097
Senior notes..	389,500	1,500,000
Acceptances outstanding.....................................	34,100	43,599
Accrued interest, taxes and other expenses.................	213,794	167,465
Other liabilities...	60,812	50,545
Minority interest -- preferred stock of subsidiary.........	250,000	250,000
Long-term notes...	225,000	225,000
TOTAL LIABILITIES.......................................	19,765,192	18,786,971
STOCKHOLDER'S EQUITY		
Common stock ($10 par value); 10,000,000 shares authorized, issued and outstanding..................................	100,000	100,000
Surplus...	613,365	610,512
Retained earnings...	821,719	678,275
Accumulated other comprehensive loss.......................	(10,661)	(137,693)
TOTAL STOCKHOLDER'S EQUITY..............................	1,524,423	1,251,094
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY..............	$21,289,615	$20,038,065

The accompanying notes to the financial statements are an integral part of these statements.

HARRIS TRUST AND SAVINGS BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	FOR THE YEARS ENDED DECEMBER 31		
	2000	1999	199
	(IN THOUSANDS EXCEPT SHARE DATA		
INTEREST INCOME			
Loans, including fees......................................	$ 905,942	$ 695,194	$672,
Money market assets:			
Deposits at banks...	5,580	1,483	10,
Federal funds sold and securities purchased under agreement to resell.................................	17,534	10,894	8,
Trading account...	3,214	3,973	3,
Securities available-for-sale:			
U.S. Treasury and federal agency.........................	417,577	330,214	266,
State and municipal......................................	949	1,906	3,
Other..	1,472	1,511	1,
Total interest income...................................	1,352,268	1,045,175	967,

INTEREST EXPENSE			
Deposits	480,551	351,384	360,
Short-term borrowings	362,132	208,453	170,
Senior notes	52,309	69,027	47,
Minority interest -- dividends on preferred stock of subsidiary	18,437	18,437	16,
Long-term notes	15,615	14,405	17,
Total interest expense	929,044	661,706	612,
NET INTEREST INCOME	423,224	383,469	354,
Provision for loan losses	29,689	21,732	25,
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	393,535	361,737	329,
NONINTEREST INCOME			
Trust and investment management fees	98,226	119,133	111,
Money market and bond trading	9,066	8,484	10,
Foreign exchange	7,225	8,314	6,
Merchant and charge card fees	21,025	30,029	26,
Service fees and charges	96,410	104,586	97,
Securities gains	14,780	13,582	26,
Gain on sale of credit card portfolio	--	--	12,
Gain on sale of corporate trust business	45,615	--	
Gain on sale of merchant card business	60,162	--	
Bank-owned insurance	45,076	41,414	32,
Foreign fees	20,998	18,674	19,
Syndication fees	8,667	11,531	15,
Other	28,341	25,183	18,
Total noninterest income	455,591	380,930	375,
NONINTEREST EXPENSES			
Salaries and other compensation	272,130	288,140	264,
Pension, profit sharing and other employee benefits	49,833	56,318	49,
Net occupancy	40,281	37,114	40,
Equipment	50,515	55,567	45,
Marketing	28,392	28,283	23,
Communication and delivery	21,232	23,080	20,
Expert services	21,378	26,359	31,
Contract programming	17,589	12,195	23,
Other	1,315	9,415	10,
	502,665	536,471	509,
Goodwill and other valuation intangibles	22,683	22,691	21,
Total noninterest expenses	525,348	559,162	530,
Income before income taxes	323,778	183,505	174,
Applicable income taxes	97,334	39,203	45,
NET INCOME	$ 226,444	$ 144,302	$129,
BASIC EARNINGS PER COMMON SHARE (based on 10,000,000 average shares outstanding)			
Net income	$ 22.64	$ 14.43	$ 12

The accompanying notes to the financial statements are an integral part of these statements.

HARRIS TRUST AND SAVINGS BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	FOR THE YEARS ENDED DECEMBER 31		
	2000	1999	1998
	(IN THOUSANDS)		
NET INCOME..	$226,444	$ 144,302	$129,557
Other comprehensive income:			
Unrealized gains/(losses) on available-for-sale securities:			
Unrealized holding gains/(losses) arising during period, net of tax expense (benefit) of $89,016 in 2000, ($106,170) in 1999 and $27,668 in 1998.........	136,063	(160,703)	42,520
Less reclassification adjustment for gains included in net income, net of tax expense of $5,749 in 2000, $5,284 in 1999 and $10,314 in 1998..................	(9,031)	(8,298)	(16,200
Other comprehensive income (loss).......................	127,032	(169,001)	26,320
Comprehensive income (loss)...............................	$353,476	$ (24,699)	$155,877

The accompanying notes to the financial statements are an integral part of these statements.

HARRIS TRUST AND SAVINGS BANK AND SUBSIDIARIES

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

	COMMON STOCK	SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	ST
	(IN THOUSANDS EXCEPT PER SHARE DATA)				
BALANCE AT DECEMBER 31, 1997.........	$100,000	$601,027	$ 573,416	$ 4,988	$
Contribution to capital surplus....	--	7,089	--	--	
Net income.........................	--	--	129,557	--	
Dividends -- ($10.90 per common share).........................	--	--	(109,000)	--	
Other comprehensive income.........	--	--	--	26,320	
BALANCE AT DECEMBER 31, 1998.........	100,000	608,116	593,973	31,308	
Contribution to capital surplus....	--	2,396	--	--	
Net income.........................	--	--	144,302	--	
Dividends -- ($6.00 per common share).........................	--	--	(60,000)	--	

Other comprehensive loss..........	--	--	--	(169,001)	
BALANCE AT DECEMBER 31, 1999.........	100,000	610,512	678,275	(137,693)	
Contribution to capital surplus....	--	2,853	--	--	
Net income.........................	--	--	226,444	--	
Dividends -- ($8.30 per common share).........................	--	--	(83,000)	--	
Other comprehensive income.........	--	--	--	127,032	
BALANCE AT DECEMBER 31, 2000.........	$100,000	$613,365	$ 821,719	$ (10,661)	$

The accompanying notes to the financial statements are an integral part of these statements.

HARRIS TRUST AND SAVINGS BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED DECEMBER		
	2000	1999	
		(IN THOUSANDS)	
OPERATING ACTIVITIES:			
Net Income..	$ 226,444	$ 144,302	$
Adjustments to reconcile net income to net cash (used) provided by operating activities:			
Provision for loan losses............................	29,689	21,732	
Depreciation and amortization, including intangibles....	70,283	69,014	
Deferred tax expense (benefit)........................	1,891	(4,254)	
Gain on sales of securities...........................	(14,780)	(13,582)	
Gain on sale of corporate trust business...............	(45,615)	--	
Gain on sale of merchant card business.................	(60,162)	--	
Gain on sale of credit card portfolio..................	--	--	
Trading account net cash sales (purchases).............	1,785	53,672	
(Increase) decrease in interest receivable.............	(18,417)	(37,595)	
(Decrease) increase in interest payable................	(18,255)	32,881	
(Increase) decrease in assets held for sale............	(242,271)	152,521	
Other, net..	(23,534)	15,955	
Net cash (used) provided by operating activities........	(92,942)	434,646	
INVESTING ACTIVITIES:			
Net decrease (increase) in interest-bearing deposits at banks..	98,484	(140,903)	
Net increase in Federal funds sold and securities purchased under agreement to resell..................	(193,075)	(146,425)	
Proceeds from sales of securities available-for-sale....	662,171	693,264	2
Proceeds from maturities of securities available-for-sale..................................	7,017,854	6,058,660	7
Purchases of securities available-for-sale.............	(7,690,097)	(7,988,312)	(11
Net increase in loans..................................	(729,351)	(926,025)	(1
Purchases of premises and equipment....................	(50,965)	(72,714)	
Net increase in bank-owned insurance...................	(133,524)	(47,277)	
Other, net..	(19,835)	59,403	

Net cash used by investing activities..................	(1,038,338)	(2,510,329)	(2
FINANCING ACTIVITIES:			
Net increase (decrease) in deposits.....................	1,363,690	(48,009)	
Net (decrease) increase in Federal funds purchased and securities sold under agreement to repurchase.........	(130,699)	1,097,529	
Net increase (decrease) in other short-term borrowings..	808,633	514,587	
Proceeds from issuance of senior notes.................	3,186,500	3,460,500	8
Repayment of senior notes...............................	(4,297,000)	(2,900,500)	(7
Proceeds from issuance of long-term notes...............	--	--	
Repayment of long-term notes............................	--	--	
Net cash proceeds from sale of corporate trust business...	88,704	--	
Proceeds from sale of merchant card business...........	64,103	--	
Proceeds from sale of credit card portfolio............	--	--	
Proceeds from the issuance of preferred stock of subsidiary...	--	--	
Cash dividends paid on common stock.....................	(83,000)	(60,000)	
Net cash provided by financing activities............	1,000,931	2,064,107	2
Net (decrease) increase in cash and demand balances due from banks..	(130,349)	(11,576)	
Cash and demand balances due from banks at January 1....	1,423,043	1,434,619	1
Cash and demand balances due from banks at December 31..	$ 1,292,694	$ 1,423,043	$ 1
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest (net of amount capitalized)..............	$ 947,299	$ 628,825	$
Income taxes......................................	$ 76,925	$ 45,107	$

The accompanying notes to the financial statements are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION AND NATURE OF OPERATIONS

Harris Trust and Savings Bank, is a wholly-owned subsidiary of Harris Bankcorp, Inc. ("Bankcorp"), a Delaware corporation which is a wholly-owned subsidiary of Bankmont Financial Corp. ("Bankmont"), a Delaware corporation which is a wholly-owned subsidiary of Bank of Montreal ("BMO"). Throughout these Notes to Financial Statements, the term "Bank" refers to Harris Trust and Savings Bank and subsidiaries.

The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated. Certain reclassifications were made to conform prior years' financial statements to the current year's presentation. See Note 19 to the Financial Statements for additional information on business combinations and Note 20 for additional information on related party transactions.

The Bank provides banking, trust and other services domestically and internationally through the main banking facility, 6 active nonbank subsidiaries and an Edge Act subsidiary, Harris Bank International Corporation ("HBIC"), in New York. The Bank provides a variety of financial services to commercial and industrial companies, financial institutions, governmental units, not-for-profit organizations and individuals throughout the U.S., primarily the Midwest, and abroad. Services rendered and products sold to customers include demand and time deposit accounts and certificates; various types of loans; sales and purchases of foreign currencies; interest rate management products; cash management services; underwriting of municipal bonds; and financial consulting.

BASIS OF ACCOUNTING

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and conform to practices within the banking industry.

FOREIGN CURRENCY AND FOREIGN EXCHANGE CONTRACTS

Assets and liabilities denominated in foreign currencies have been translated into United States dollars at respective year-end rates of exchange. Monthly translation gains or losses are computed at rates prevailing at month-end. There were no material translation gains or losses during any of the years presented. Foreign exchange trading positions including spot, forward, futures and option contracts are revalued monthly using prevailing market rates. Exchange adjustments are included with foreign exchange income in the Consolidated Statements of Income.

DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses various interest rate and foreign exchange derivative contracts in the management of its risk strategy or as part of its dealer and trading activities. Interest rate contracts may include futures, forward rate agreements, option contracts, guarantees (caps, floors and collars) and swaps. Foreign exchange contracts may include spot, futures, forwards, option contracts and swaps.

Derivative financial instruments that are used as part of the Bank's dealer and trading activities are marked to market and the resulting unrealized gains and losses are recognized in noninterest income in the period of change. Realized and unrealized gains and losses on interest rate contracts and foreign exchange contracts are recorded in trading account income and foreign exchange income, respectively.

Derivative financial instruments that are used in the management of the Bank's risk strategy may qualify for hedge accounting. A derivative financial instrument may be a hedge of an existing asset, liability, firm commitment or anticipated transaction. Hedge accounting is used when the following criteria are met: the hedged item exposes the Bank to price, currency or interest rate risk; the hedging instrument reduces the exposure to risk and the hedging

instrument is designated as a hedge. At the inception of the hedge and throughout the hedge period, a high correlation of changes in both the market value of the hedging instrument and the fair value of the hedged item should be probable. Additional criteria for using hedge accounting for anticipated transactions are: the significant characteristics and expected terms of the anticipated transaction are identified and it is probable that the anticipated transaction will occur.

If hedge criteria are met, then unrealized gains and losses on derivative financial instruments other than interest rate swaps are generally recognized in the same period and in the same manner in which gains and losses from the hedged item are recognized. Unrealized gains and losses on a hedging instrument are deferred when the hedged item is accounted for on an historical cost basis. The hedging instrument is marked to market when the hedged item is accounted for on a mark to market basis.

Deferred gains and losses on interest rate futures contracts used to hedge existing assets and liabilities are included in the basis of the item being hedged. For hedges of anticipated transactions, the Bank recognizes deferred gains or losses on futures transactions as adjustments to the cash position eventually taken. Gains or losses on termination of an interest rate futures contract designated as a hedge are deferred and recognized when the offsetting gain or loss is recognized on the hedged item. When the hedged item is sold, existing unrealized gains or losses on the interest rate futures contract are recognized as part of net income at the time of the sale. Thereafter, unrealized gains and losses on the hedge contract are recognized in income immediately.

The Bank engages in interest rate swaps in order to manage its interest rate risk exposure. Contractual payments under interest rate swaps designated as hedges are accrued in the Consolidated Statements of Income as a component of interest income or expense. There is no recognition of unrealized gains and losses on the Consolidated Statements of Condition. Gains or losses on termination of an interest rate swap contract designated as a hedge are deferred and amortized as an adjustment of the yield on the underlying balance sheet position over the remainder of the original contractual life of the terminated swap. When the hedged item is sold, existing unrealized gains or losses on the swap contract are recognized in income at the time of the sale. Thereafter, unrealized gains and losses on the hedge contract are recognized as part of net income when they occur.

Interest rate options are used to manage the Bank's interest rate risk exposure from rate lock commitments and fixed rate mortgage loans intended to be sold in the secondary market. Changes in the market value of options designated as hedges are deferred from income recognition and effectively recognized as other noninterest income when the loans are sold and the hedge position is closed. Loans intended to be sold in the secondary market are carried at lower of amortized cost or current market value. When a hedge contract with an embedded gain is terminated early, the deferred gain is recorded as an adjustment to the carrying value of the loans. When a hedge contract with an embedded loss is terminated early, the deferred loss is charged to other noninterest income. When the hedged item is sold before the hedge contract is terminated and the hedge contract has an embedded gain or loss, the deferred gain or loss is recorded as other noninterest income in the same period as part of the gain or loss on the sale of the loans. Thereafter, unrealized gains and losses on the hedge contract are recognized as part of net income when they occur.

IMPACT OF NEW ACCOUNTING STANDARDS

The Bank adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", on January 1, 2001. This Statement establishes accounting and reporting standards for derivative instruments and hedging activities.

Under this standard, all derivatives will be recognized at fair value in the Consolidated Statements of Condition. Changes in fair value for derivatives that are not hedges will be recognized in the Consolidated Statements of Income as they arise. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset in the Consolidated Statements of Income against the change in the fair value of the hedged asset, liability, or firm commitment or it will be recognized in other comprehensive income until the hedged item is recognized in the Consolidated Statements of Income. If the change in the fair value of the derivative is not

completely offset by the change in the value of the item it is hedging, the difference will be recognized immediately in the Consolidated Statements of Income.

The transition adjustment arising from the adoption of the Statement on January 1, 2001 was not material to the consolidated financial statements of the Bank.

In September 2000, the Financial Accounting Standards Board (FASB) issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of SFAS No. 125." The Statement revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. It carries over most of the provisions of SFAS No. 125 without change. The Statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The Statement is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The Bank does not expect the implementation of this Statement to have a material effect on the Bank's financial position or results of operations.

SECURITIES

The Bank classifies securities as either trading account assets or available-for-sale. Trading account assets include securities acquired as part of trading activities and are typically purchased with the expectation of near-term profit. These assets consist primarily of municipal bonds and U.S. government securities. All other securities are classified as available-for-sale, even if the Bank has no current plans to divest. Trading account assets are reported at fair value with unrealized gains and losses included in trading account income, which also includes realized gains and losses from closing such positions. Available-for-sale securities are reported at fair value with unrealized gains and losses included, on an after-tax basis, in a separate component of stockholder's equity.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains and losses, as a result of securities sales, are included in securities gains, with the cost of securities sold determined on the specific identification basis.

LOANS, LOAN FEES AND COMMITMENT FEES

Loans not held for sale are recorded at the principal amount outstanding, net of unearned income, deferred fees and origination costs. Origination fees collected on commercial loans, loan commitments, mortgage loans and standby letters of credit, which are not held for sale, are generally deferred and amortized over the life of the related facility. Other loan-related fees that are not the equivalent of yield adjustments are recognized as income when received or earned. At December 31, 2000 and 1999, the Bank's Consolidated Statements of Condition included approximately $18 million and $14 million, respectively, of deferred loan-related fees net of deferred origination costs.

In conjunction with its mortgage and commercial banking activities, the Bank will originate loans with the intention of selling them in the secondary market. These loans are classified as available-for-sale and are included in "Other Assets" on the Bank's Consolidated Statements of Condition. The loans are carried at the lower of allocated cost or current market value, on a portfolio basis. Deferred origination fees and costs associated with these loans are not amortized, and are included as part of the basis of the loan at time of sale. Realized gains and unrealized losses are included with other noninterest income.

The Bank engages in the servicing of mortgage loans and acquires mortgage servicing rights by purchasing or originating mortgage loans and then selling those loans with servicing rights retained. The rights to service mortgage loans for others are recognized as separate assets by allocating the total cost of the mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values. The capitalized mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income. The capitalized mortgage servicing rights are periodically evaluated for impairment based on the fair value of those rights. Fair values are estimated using discounted cash flow analyses. The risk

characteristics of the underlying loans used to stratify capitalized mortgage servicing rights for purposes of measuring impairment are current market interest rates, loan type and repricing interval.

Commercial and real estate loans are placed on nonaccrual status when the collection of interest is doubtful or when principal or interest is 90 days past due, unless the credit is adequately collateralized and the loan is in process of collection. When a loan is placed on nonaccrual status, all interest accrued but not yet collected which is deemed uncollectible is charged against interest income in the current year. Interest on nonaccrual loans is recognized as income only when cash is received and the Bank expects to collect the entire principal balance of the loan. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Interest income on restructured loans is accrued according to the most recently agreed upon contractual terms.

Commercial and real estate loans are charged off when, in management's opinion, the loan is deemed uncollectible. Consumer installment loans are charged off when 180 days past due. Accrued interest on these loans is charged to interest income. Such loans are not normally placed on nonaccrual status.

Loan commitments and letters of credit are executory contracts and are not reflected on the Bank's Consolidated Statement of Condition. Fees collected are generally deferred and recognized over the life of the facility.

Impaired loans (primarily commercial credits) are measured based on the present value of expected future cash flows (discounted at the loan's effective interest rate) or, alternatively, at the loan's observable market price or the fair value of supporting collateral. Impaired loans are defined as those where it is probable that amounts due according to contractual terms, including principal and interest, will not be collected. Both nonaccrual and certain restructured loans meet this definition. Large groups of smaller-balance, homogeneous loans, primarily residential real estate and consumer installment loans, are excluded from this definition of impairment. The Bank determines loan impairment when assessing the adequacy of the allowance for possible loan losses.

ALLOWANCE FOR POSSIBLE LOAN LOSSES

The allowance for possible loan losses is maintained at a level considered adequate to provide for estimated loan losses. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. Known losses of principal on impaired loans are charged off. The provision for loan losses is based on past loss experience, management's evaluation of the loan portfolio under current economic conditions and management's estimate of losses inherent in the portfolio. Such estimates are reviewed periodically and adjustments, if necessary, are recorded during the periods in which they become known.

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation and amortization. In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The Bank adopted this statement in January 1998 and it did not have a material effect on the Bank's financial position or results of operations. Interest costs associated with long-term construction projects are capitalized and then amortized over the life of the related asset after the project is completed. For financial reporting purposes, the provision for depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the assets.

BANK-OWNED INSURANCE

The Bank has purchased life insurance coverage for certain officers. The one-time premiums paid for the policies, which coincide with the initial cash surrender value, are recorded as assets on the Consolidated Statements of Condition. Increases or decreases in cash surrender value (other than proceeds

from death benefits) are recorded as other income or other expense. Proceeds from death benefits first reduce the cash surrender value attributable to the individual policy and any additional proceeds are recorded as other income.

GOODWILL AND OTHER VALUATION INTANGIBLES

The Bank records specifically identifiable and unidentifiable (goodwill) intangibles in connection with the acquisition of assets from unrelated parties or the acquisition of new subsidiaries. Original lives range from 3 to 15 years. Goodwill is amortized on the straight-line basis. Identifiable intangibles are amortized on either an accelerated or straight-line basis depending on the character of the acquired asset. Goodwill and other valuation intangibles are reviewed for impairment when events or future assessments of profitability indicate that the carrying value may not be recoverable. When assessing recoverability, goodwill and other valuation intangibles are included as part of the group of assets which were acquired in the transaction that gave rise to the intangibles.

OTHER ASSETS

Property or other assets received in satisfaction of debt are included in "Other Assets" on the Bank's Consolidated Statements of Condition and are recorded at the lower of remaining cost or fair value. Fair values for other real estate owned generally are reduced by estimated costs to sell. Losses arising from subsequent write-downs to fair value are charged directly to expense.

Loans intended to be sold in the secondary market are classified as available-for-sale and are included in "Other Assets" on the Consolidated Statements of Condition. The loans are carried at lower of allocated cost or current market value, on a portfolio basis.

RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS

The Bank has noncontributory defined benefit pension plans covering virtually all its employees. For its primary plan, the policy of the Bank is to, at a minimum, fund annually an amount necessary to satisfy the requirements under the Employee Retirement Income Security Act ("ERISA"), without regard to prior years' contributions in excess of the minimum.

Postemployment benefits provided to former or inactive employees after employment but before retirement are accrued if they meet the conditions for accrual of compensated absences. Otherwise, postemployment benefits are recorded when expenses are incurred.

INCOME TAXES

Bankmont, Bankcorp and their wholly-owned subsidiaries including the Bank file a consolidated Federal income tax return. Income tax return liabilities for the Bank are not materially different than they would have been if computed on a separate return basis.

MANAGEMENT'S ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The areas requiring significant management judgment include provision and allowance for possible loan losses, income taxes, pension cost, postemployment benefits, valuation of intangible assets, fair values and temporary vs. other-than-temporary impairment.

RECLASSIFICATIONS

Certain reclassifications were made to conform prior years' financial statements to the current year's presentation.

2. SECURITIES

The amortized cost and estimated fair value of securities available-for-sale were as follows:

	DECEMBER 31, 2000				D	
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE	AMORTIZED COST	UNRE GA
				(IN THOUSANDS)		
U.S. Treasury............	$1,377,910	$ 9,651	$ 4,095	$1,383,466	$1,604,120	$
Federal agency...........	5,108,617	2,724	26,696	5,084,645	4,839,974	
State and municipal.......	5,491	30	--	5,521	22,610	
Other....................	26,369	163	--	26,532	26,831	
Total securities....	$6,518,387	$12,568	$30,791	$6,500,164	$6,493,535	$

At December 31, 2000 and 1999, available-for-sale and trading account securities having a carrying amount of $3.57 billion and $5.32 billion, respectively, were pledged as collateral for certain liabilities, securities sold under agreement to repurchase, public and trust deposits, trading account activities and for other purposes where permitted or required by law. Securities carried at approximately $3.57 billion and $3.31 billion were sold under agreement to repurchase at December 31, 2000 and 1999, respectively.

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2000, by contractual maturity, are shown below. Expected maturities can differ from contractual maturities since borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	DECEMBER 31, 2000	
	AMORTIZED COST	FAIR VALUE
	(IN THOUSANDS)	
Maturities:		
Within 1 year	$1,858,215	$1,858,034
1 to 5 years	1,606,690	1,618,247
5 to 10 years	402,844	398,214
Over 10 years	2,624,269	2,599,137
Other securities without stated maturity	26,369	26,532
Total securities	$6,518,387	$6,500,164

In 2000, 1999 and 1998, proceeds from the sale of securities available-for-sale amounted to $662 million, $693 million and $2.31 billion, respectively. Gross gains of $14.8 million and no gross losses were realized on these sales in 2000, while gross gains of $13.6 million and no gross losses were realized on these sales in 1999, and gross gains of $27.9 million and gross losses of $1.4 million were realized in 1998. Net unrealized holding gains on trading securities included in earnings during 2000 decreased by $0.3 million from an unrealized gain of $1.3 million at December 31, 1999 to an unrealized gain of $1.0 million at December 31, 2000.

3. LOANS

The following table summarizes loan balances by category:

	DECEMBER 31	
	2000	1999
	(IN THOUSANDS)	
Domestic loans:		
Commercial, financial, agricultural, brokers and		

dealers	$ 7,832,276	$ 8,152,314
Real estate construction	88,227	29,490
Real estate mortgages	2,242,647	1,632,458
Installment	581,349	211,393
Foreign loans:		
Governments and official institutions	--	504
Banks and other financial institutions	12,913	10,751
Other, primarily commercial and industrial	11,300	26,891
Total loans	10,768,712	10,063,801
Less allowance for possible loan losses	118,951	113,702
Loans, net of allowance for possible loan losses	$10,649,761	$ 9,950,099

Nonaccrual loans, restructured loans and other nonperforming assets are summarized below:

	YEARS ENDED DECEMBER 31		
	2000	1999	1998
	(IN THOUSANDS)		
Nonaccrual loans	$ 95,850	$21,117	$14,507
Restructured loans	2,349	2,372	924
Total nonperforming loans	98,199	23,489	15,431
Other assets received in satisfaction of debt	3,125	690	366
Total nonperforming assets	$101,324	$24,179	$15,797
Gross amount of interest income that would have been recorded if year-end nonperforming loans had been accruing interest at their original terms	$ 7,480	$ 1,097	$ 1,225
Interest income actually recognized	1,404	86	75
Interest shortfall	$ 6,076	$ 1,011	$ 1,150

At December 31, 2000 and 1999, the Corporation had no aggregate public and private sector outstandings to any single country experiencing a liquidity problem which exceeded one percent of the Corporation's consolidated assets. At December 31, 2000 and 1999 commercial loans with a carrying value of $5.02 billion and $5.83 billion, respectively, were pledged to secure potential borrowings with the Federal Reserve.

MORTGAGE SERVICING RIGHTS

The carrying amount of mortgage servicing rights was $17.2 million and $16.8 million at December 31, 2000 and 1999, respectively. The fair value of those rights equaled or exceeded the carrying amount at both December 31, 2000 and December 31, 1999. Mortgage servicing rights, included in other assets, of $3.9 million and $7.7 million were capitalized during 2000 and 1999, respectively. Amortization expense associated with the mortgage servicing rights was $3.5 million and $3.2 million in 2000 and 1999, respectively. There were no direct write-downs in 2000 or 1999.

4. ALLOWANCE FOR POSSIBLE LOAN LOSSES

The changes in the allowance for possible loan losses are as follows:

	YEARS ENDED DECEMBER 31		
	2000	1999	1998
	(IN THOUSANDS)		
Balance, beginning of year	$113,702	$108,280	$ 99,678
Charge-offs	(30,128)	(21,164)	(25,680)
Recoveries	5,688	4,854	8,924
Net charge-offs	(24,440)	(16,310)	(16,756)
Provisions charged to operations	29,689	21,732	25,358
Balance, end of year	$118,951	$113,702	$108,280

Details on impaired loans and related allowance are as follows:

	IMPAIRED LOANS FOR WHICH THERE IS A RELATED ALLOWANCE	IMPAIRED LOANS FOR WHICH THERE IS NO RELATED ALLOWANCE	I
	(IN THOUSANDS)		
December 31, 2000			
Balance	$77,289	$20,910	$
Related allowance	35,379	--	
Balance, net of allowance	$41,910	$20,910	$
December 31, 1999			
Balance	$ 8,620	$14,869	$
Related allowance	4,582	--	
Balance, net of allowance	$ 4,038	$14,869	$

	YEARS ENDED DECEMBER 31		
	2000	1999	1998
	(IN THOUSANDS)		
Average impaired loans	$55,434	$29,283	$25,091

Total interest income on impaired loans recorded on a cash basis	$ 1,404	$ 329	$ 88

5. PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation and amortization. A summary of these accounts is set forth below:

	DECEMBER 31	
	2000	1999
	(IN THOUSANDS)	
Land	$ 24,153	$ 24,153
Premises	260,395	255,359
Equipment	309,892	318,567
Leasehold improvements	28,008	28,912
Total	622,448	626,991
Accumulated depreciation and amortization	338,306	315,638
Premises and equipment	$284,142	$311,353

Depreciation and amortization expense was $45.7 million in 2000, $46.3 million in 1999, and $37.1 million in 1998.

6. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL AND SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

The Bank enters into purchases of U.S. Treasury and Federal agency securities under agreements to resell identical securities. The amounts advanced under these agreements represent short-term loans and are reflected as receivables in the Consolidated Statements of Condition. There were no securities purchased under agreement to resell outstanding at December 31, 2000 and December 31, 1999. The securities underlying the agreements are book-entry securities. Securities are transferred by appropriate entry into the Bank's account with Bank of New York at the Federal Reserve Bank of New York under a written custodial agreement with Bank of New York that explicitly recognizes the Bank's interest in these securities.

The Bank also enters into sales of U.S. Treasury and Federal agency securities under agreements to repurchase identical securities. The amounts received under these agreements represent short-term borrowings and are reflected as liabilities in the Consolidated Statements of Condition. Securities sold under agreement to repurchase totaled $3.57 billion and $3.31 billion at December 31, 2000 and 1999, respectively. Securities sold under agreement to repurchase are transferred via book-entry to the counterparty, if transacted with a financial institution or a broker-dealer, or are delivered to customer safekeeping accounts. The Bank monitors the market value of these securities and adjusts the level of collateral for repurchase agreements, as appropriate.

Securities purchased under agreement to resell

	2000	1999
	(IN THOUSANDS)	
Amount outstanding at end of year..........................	$ --	$ --
Highest amount outstanding as of any month-end during the year...	$ --	$75,969
Daily average amount outstanding during the year...........	$4,224	$ 6,272
Daily average annualized rate of interest..................	6.43%	4.22%
Average rate of interest on amount outstanding at end of year...	--	--

Securities sold under agreement to repurchase

	2000	1999
	(IN THOUSANDS)	
Amount outstanding at end of year..........................	$3,567,055	$3,309,961
Highest amount outstanding as of any month-end during the year...	$3,878,202	$3,309,961
Daily average amount outstanding during the year...........	$3,745,810	$2,747,248
Daily average annualized rate of interest..................	6.18%	4.58%
Average rate of interest on amount outstanding at end of year...	6.37%	5.03%

7. SENIOR NOTES AND LONG-TERM NOTES

The following table summarizes the Bank's long-term notes:

	DECEMBER 31	
	2000	1999
	(IN THOUSANDS)	
Floating rate subordinated note to Bankcorp due March 31, 2005...	$ 50,000	$ 50,000
Floating rate subordinated note to Bankcorp due December 1, 2006...	50,000	50,000
Fixed rate 6 1/2% subordinated note to Bankcorp due December 27, 2007...	60,000	60,000
Fixed rate 7 5/8% subordinated note to Bankcorp due June 27, 2008...	15,000	15,000
Fixed rate 7 1/8% subordinated note to Bankcorp due June 30, 2009...	50,000	50,000
Total...	$225,000	$225,000

All of the Bank notes are unsecured obligations, ranking on a parity with all unsecured and subordinated indebtedness of the Bank and are not subject to redemption prior to maturity at the election of the debtholders. The interest rate on the floating rate notes reprices semiannually and floats at 50 basis points above 180 day LIBOR. At year-end 2000, 180 day LIBOR was 6.20 percent.

The Bank offers to institutional investors from time to time, unsecured short-term and medium-term bank notes in an aggregate principal amount of up to $1.5 billion outstanding at any time. The term of each note could range from fourteen days to fifteen years. The notes are subordinated to deposits and rank pari passu with all other unsecured senior indebtedness of the Bank. As of December 31, 2000, $390 million of senior notes were outstanding with original maturities ranging from 28 to 365 days (remaining maturities ranging from 23 to 163 days) and stated interest rates ranging from 6.52 percent to 6.66 percent. As of December 31, 1999, $1.5 billion of senior notes were outstanding with original maturities ranging from 366 to 385 days (remaining maturities ranging from 18 to 223 days) and stated interest rates ranging from 5.00 percent to 5.85 percent.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally accepted accounting principles require the disclosure of estimated fair values for both on- and off-balance-sheet financial instruments. The Bank's fair values are based on quoted market prices when available. For financial instruments not actively traded, such as certain loans, deposits, off-balance-sheet transactions and long term borrowings, fair values have been estimated using various valuation methods and assumptions. Although management used its best judgment in estimating these values, there are inherent limitations in any estimation methodology. In addition, accounting pronouncements require that fair values be estimated on an item-by-item basis, thereby ignoring the impact a large sale would have on a thin market and intangible values imbedded in established lines of business. Therefore, the fair value estimates presented herein are not necessarily indicative of the amounts the Bank could realize in an actual transaction. The fair value estimation methodologies employed by the Bank were as follows:

The carrying amounts for cash and demand balances due from banks along with short-term money market assets and liabilities reported on the Bank's Consolidated Statements of Condition were considered to be the best estimates of fair value for these financial instruments. Fair values of trading account assets and available-for-sale securities were based on quoted market prices.

A variety of methods were used to estimate the fair value of loans. Changes in estimated fair value of loans reflect changes in credit risk and general interest rates which have occurred since the loans were originated. Fair values of floating rate loans, including commercial, broker dealer, financial institution, construction, charge card, consumer and home equity, were assumed to be the same as carrying value since the loans' interest rates automatically reprice to market. Fair values of residential mortgages were based on current prices for securities backed by similar loans. For long-term fixed rate loans, including consumer installment and commercial mortgage loans, fair values were estimated based on the present value of future cash flows with current market rates as discount rates. Additionally, management considered appraisal values of collateral when nonperforming loans were secured by real estate.

The fair values of customers' liability on acceptances and acceptances outstanding approximate carrying value due to the short-term nature of these assets and liabilities and the generally negligible credit losses associated with them.

The fair values of accrued interest receivable and payable approximate carrying values due to the short-term nature of these assets and liabilities.

The fair values of bank-owned insurance investments approximate carrying value, because upon liquidation of these investments the Bank would receive the cash surrender value which equals carrying value.

The fair values of demand deposits, savings accounts, interest checking deposits, and money market accounts were the amounts payable on demand at the reporting date, or the carrying amounts. The fair value of time deposits was estimated using a discounted cash flow calculation with current market rates offered by the Bank as discount rates.

The fair value of senior notes approximates carrying value because the average maturity is less than one year.

The fair value of minority interest -- preferred stock of subsidiary ("Harris Preferred Capital Corporation") approximates carrying value as the preferred stock has a liquidation preference that equals book value.

The fair value of long-term notes was determined using a discounted cash flow calculation with current rates available to the Bank for similar debt as discount rates.

The fair value of credit facilities are presented as an obligation in order to represent the approximate cost the Bank would incur to induce third parties to assume these commitments.

The estimated fair values of the Bank's financial instruments at December 31, 2000 and 1999 are presented in the following table. See Note 9 for additional information regarding fair values of off-balance-sheet financial instruments.

	DECEMBER 31			
	2000		1999	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAI VAL
	(IN THOUSANDS)			
ASSETS				
Cash and demand balances due from banks...	$ 1,292,694	$ 1,292,694	$ 1,423,043	$ 1,42
Money market assets:				
Interest-bearing deposits at banks......	141,348	141,348	239,832	23
Federal funds sold and securities purchased under agreement to resell..............................	491,075	491,075	298,000	29
Securities available-for-sale............	6,500,164	6,500,164	6,265,013	6,26
Trading account assets...................	65,211	65,211	66,996	6
Loans, net of unearned income and allowance for possible loan losses......	10,649,761	10,656,867	9,950,099	9,90
Customers' liability on acceptances......	34,100	34,100	43,599	4
Accrued interest receivable..............	166,542	166,542	148,124	14
Assets held for sale.....................	242,271	242,271	--	

Bank-owned insurance investments..........	906,103	906,103	772,579	77
Total on-balance-sheet financial assets..........................	$20,489,269	$20,496,375	$19,207,285	$19,16
LIABILITIES				
Deposits:				
Demand deposits........................	$ 6,695,470	$ 6,695,470	$ 6,667,101	$ 6,66
Time deposits..........................	5,797,907	5,823,901	4,462,586	4,47
Federal funds purchased..................	1,041,824	1,041,824	1,429,617	1,42
Securities sold under agreement to repurchase.............................	3,567,055	3,567,055	3,309,961	3,30
Other short-term borrowings..............	1,489,730	1,489,730	681,097	68
Acceptances outstanding..................	34,100	34,100	43,599	4
Accrued interest payable.................	56,581	56,581	74,836	7
Senior notes.............................	389,500	389,500	1,500,000	1,50
Minority interest -- preferred stock of subsidiary.............................	250,000	250,000	250,000	25
Long-term notes..........................	225,000	223,359	225,000	21
Total on-balance-sheet financial liabilities....................	$19,547,167	$19,571,520	$18,643,797	$18,64
OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS (POSITIVE POSITIONS/(OBLIGATIONS))				
Credit facilities........................	$ (17,987)	$ (17,987)	$ (13,781)	$ (1
Interest rate contracts:				
Dealer and trading contracts...........	579	579	456	
Risk management contracts..............	(336)	(2,031)	(4)	
Foreign exchange rate contracts:				
Dealer and trading contracts...........	--	--	(315)	
Risk management contracts..............	(136)	(1,172)	150	
Total off-balance-sheet financial instruments....................	$ (17,880)	$ (20,611)	$ (13,494)	$ (

9. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Bank utilizes various financial instruments with off-balance-sheet risk in the normal course of business to a) meet its customers' financing and risk management needs, b) reduce its own risk exposure, and c) produce fee income and trading profits. The Bank's major categories of financial instruments with off-balance-sheet risk include credit facilities, interest rate, foreign exchange, and equity contracts, and various securities-related activities. Fair values of off-balance-sheet instruments are based on fees currently charged to enter into similar agreements, market prices of comparable instruments, pricing models using year-end rates and counterparty credit ratings.

Credit facilities

Credit facilities with off-balance-sheet risk include commitments to extend credit, standby letters of credit and commercial letters of credit.

Commitments to extend credit are contractual agreements to lend to a customer as long as contract terms have been met. They generally require payment of a fee and have fixed expiration dates. The Bank's commitments serve both business and individual customer needs, and include commercial loan commitments, credit card lines, home equity lines, commercial real estate loan commitments and mortgage loan commitments. The Bank's maximum risk of accounting loss is represented by the total contractual amount of commitments which was $7.4 billion and $7.4 billion at December 31, 2000 and 1999, respectively. Since only a portion of commitments will ultimately be drawn down, the Bank does not expect to provide funds for the total contractual amount. Risks associated with certain commitments are reduced by participations to third parties, which at December 31, 2000, totaled $501 million and at December 31, 1999, totaled $301 million.

Standby letters of credit are unconditional commitments which guarantee the obligation of a customer to a third party should that customer default. They are issued to support financial and performance-related obligations including brokers' margin maintenance, industrial revenue bond repayment, debt repayment, construction contract performance and trade agreement performance. The Bank's maximum risk of accounting loss for these items is represented by the total commitments outstanding of $2.34 billion at December 31, 2000 and $1.91 billion at December 31, 1999. Risks associated with standby letters of credit are reduced by participations to third parties which totaled $603 million at December 31, 2000 and $401 million at December 31, 1999.

Commercial letters of credit are commitments to make payments on behalf of customers when letter of credit terms have been met. Maximum risk of accounting loss is represented by total commercial letters of credit outstanding of $58 million at December 31, 2000 and $91 million at December 31, 1999.

Credit risks associated with all of these facilities are mitigated by reviewing customers' creditworthiness on a case-by-case basis, obtaining collateral, limiting loans to individual borrowers, setting restrictions on long-duration maturities and establishing stringent covenant terms outlining performance expectations which, if not met, may cause the Bank to terminate the contract. Credit risks are further mitigated by monitoring and maintaining portfolios that are well-diversified.

Collateral is required to support certain of these credit facilities when they are drawn down and may include equity and debt securities, commodities, inventories, receivables, certificates of deposit, savings instruments, fixed assets, real estate, life insurance policies and seats on national or regional exchanges. Requirements are based upon the risk inherent in the credit and are more stringent for firms and individuals with greater default risks. The Bank monitors collateral values and appropriately perfects its security interest. Periodic evaluations of collateral adequacy are performed by Bank personnel.

The fair value of credit facilities (i.e. deferred income) is approximately equal to their carrying value of $17.9 million at December 31, 2000 and $13.8 million at December 31, 1999.

Interest rate contracts

Interest rate contracts include futures, forward rate agreements, option contracts, guarantees (caps, floors and collars) and swaps. The Bank enters into these contracts for dealer, trading and risk management purposes.

Dealer and trading activity

As dealer, the Bank serves customers seeking to manage interest rate risk by entering into contracts as a counterparty to their (customer) transactions. In its trading activities, the Bank uses interest rate contracts to profit from expected future market movements.

These contracts may create exposure to both credit and market risk.

Replacement risk, the primary component of credit risk, is the risk of loss should a counterparty default following unfavorable market movements and is measured as the Bank's cost of replacing contracts at current market rates. The Bank manages credit risk by establishing credit limits for customers and products through an independent corporate-wide credit review process and continually monitoring exposure against those limits to ensure they are not exceeded. Credit risk is, in many cases, further mitigated by the existence of netting agreements which provide for netting of contractual receivables and payables in the event of default or bankruptcy.

Market risk is the potential for loss arising from potential adverse changes in underlying market factors, including interest and foreign exchange rates. The Bank manages market risk through the imposition of integrated value-at-risk limits and an active, independent monitoring process.

Value at risk methodology is used for measuring the market risk of the Bank's trading positions. This statistical methodology uses recent market volatility to estimate the maximum daily trading loss that the Bank would expect to incur, on average, 99 percent of the time. The model also measures the effect of correlation among the various trading instruments to determine how much risk is eliminated by offsetting positions.

Futures and forward contracts are agreements in which the Bank is obligated to make or take delivery, at a specified future date, of a specified instrument, at a specified price or yield. Futures contracts are exchange traded and, because of exchange requirements that gains and losses be settled daily, create negligible exposure to credit risk.

Forward rate agreements are arrangements between two parties to exchange amounts, at a specified future date, based on the difference between an agreed upon interest rate and reference rate applied to a notional principal amount. These agreements enable purchasers and sellers to fix interest costs and returns.

Options are contracts that provide the buyer the right (but not the obligation) to purchase or sell a financial instrument, at a specified price, either within a specified period of time or on a certain date. Interest rate guarantees (caps, floors and collars) are agreements between two parties that, in general, establish for the purchaser a maximum level of interest expense or a minimum level of interest revenue based on a notional principal amount for a specified term. Options and guarantees written create exposure to market risk. As a writer of interest rate options and guarantees, the Bank receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option or guarantee. Options and guarantees purchased create exposure to credit risk and, to the extent of the premium paid or unrealized gain recognized, market risk.

Interest rate swaps are contracts involving the exchange of interest payments based on a notional amount for a specified period. Most of the Bank's activity in swaps is as intermediary in the exchange of interest payments between customers, although the Bank also uses swaps to manage its own interest rate exposure (see discussion of risk management activity).

The following table summarizes the Bank's dealer/trading interest rate contracts and their related contractual or notional amounts and maximum replacement costs. Contractual or notional amount gives an indication of the volume of activity in the contract. Maximum replacement cost reflects the

potential loss resulting from customer defaults and is computed as the cost of replacing, at current market rates, all outstanding contracts with unrealized gains.

	DECEMBER 31			
	CONTRACTUAL OR NOTIONAL AMOUNT		MAXIMUM REPLACEMENT C	
	2000	1999	2000	19
	(IN THOUSANDS)			
Interest Rate Contracts:				
Futures and forwards............................	$ 50,825	$ 111,710	$ 121	$
Forward rate agreements.........................	--	--	--	
Options written.................................	8,500	--	17	
Options purchased...............................	5,000	1,000	17	
Guarantees written..............................	835,739	531,775	441	1
Guarantees purchased............................	838,739	519,022	51,811	1
Swaps...	3,970,187	2,677,750	33,202	23

The following table summarizes average and end of period fair values of dealer/trading interest rate contracts for the years ended December 31, 2000 and 1999:

	2000		
	END OF PERIOD ASSETS (LIABILITIES)	AVERAGE ASSETS (LIABILITIES)	END OF PERIOD ASSETS (LIABILITIES)
	(IN THOUSANDS)		
Interest Rate Contracts:			
Futures and forwards			
Unrealized gains.........................	$ 121	$ 101	$ 284
Unrealized losses........................	(18)	(101)	--
Forward rate agreements			
Unrealized gains.........................	--	--	--
Unrealized losses........................	--	--	--
Options			
Purchased................................	17	--	3
Written..................................	14	--	--
Guarantees			
Purchased................................	51,370	714	(695)
Written..................................	(51,370)	(700)	763
Swaps			
Unrealized gains.........................	33,202	1,288	23,871
Unrealized losses........................	(32,757)	(1,244)	(23,770)
Total Interest Rate Contracts..........	$ 579	$ 58	$ 456

Net gains (losses) from dealer/trading activity in interest rate contracts and nonderivative trading account assets for the years ended December 31, 2000, 1999 and 1998 are summarized below:

	YEAR ENDED DECEMBER 31		
	GAINS (LOSSES) 2000	GAINS (LOSSES) 1999	GAINS (LOSSES) 1998
	(IN THOUSANDS)		
Interest Rate Contracts:			
Futures and forwards	$ (52)	$ 542	$ 788
Forward rate agreements	--	2	--
Options	(6)	(36)	(16)
Guarantees	53	(57)	--
Swaps	(316)	439	210
Debt Instruments	9,386	7,594	9,388
Total Trading Revenue	$9,065	$8,484	$10,370

The following table summarizes the maturities and weighted average interest rates paid and received on dealer/trading interest rate swaps:

	DECEMBER 31, 2000				
	WITHIN 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	5 TO 10 YEARS	GREATER THAN 10 YEARS
	(IN THOUSANDS)				
Pay Fixed Swaps:					
Notional amount	$451,531	$ 982,641	$403,272	$ 90,143	$ 50,000
Average pay rate	6.48%	5.48%	6.90%	6.66%	6.12%
Average receive rate	6.76%	6.15%	6.67%	6.32%	6.72%
Receive Fixed Swaps:					
Notional amount	$451,531	$ 997,654	$403,272	$ 90,143	$ 50,000
Average pay rate	6.64%	6.26%	6.66%	6.32%	6.72%
Average receive rate	6.48%	5.85%	6.92%	6.66%	6.12%
Total notional amount	$903,062	$1,980,295	$806,544	$180,286	$100,000

The following table summarizes the bank's dealer/trading equities and commodities contracts and their related contractual or notional amounts and maximum replacement costs.

	DECEMBER 31			
	CONTRACTUAL OR NOTIONAL AMOUNT		MAXIMUM REPLACEMENT C	
	2000	1999	2000	19

		(IN THOUSANDS)		
Equities Contracts:				
Options written	$27,877	$15,451	$ --	$
Options purchased	27,877	15,451	4,065	2,
Commodities Contracts	--	--	--	

The following table summarizes average and end of period fair values of dealer/trading equities contracts and commodities contracts for the years ended December 31, 2000 and 1999:

	2000		
	END OF PERIOD ASSETS (LIABILITIES)	AVERAGE ASSETS (LIABILITIES)	END OF PERIOD ASSETS (LIABILITIES)
		(IN THOUSANDS)	
Equities Contracts:			
Options			
Purchased	$ 4,065	$ 289	$ 2,507
Written	(4,065)	(289)	(2,507)
Total Equities Contracts	$ --	$ --	$ --
Commodities Contracts:			
Unrealized Gains	$ --	$ --	$ --
Unrealized Losses	--	--	--
Total Commodities Contracts	$ --	$ --	$ --

There were no net gains (losses) from dealer/trading activity in equities or commodities contracts for the years ended December 31, 2000 and 1999.

Risk management activity

In addition to its dealer activities, the Bank uses interest rate contracts, primarily swaps, forwards and foreign exchange contracts and forwards to reduce the level of financial risk inherent in mismatches between the interest rate sensitivities and foreign currency exchange rate fluctuations of certain assets and liabilities. For non-trading risks, market risk is controlled by actively managing the asset and liability mix, either directly through the balance sheet or with off-balance sheet derivative instruments. Measures also focus on interest rate exposure gaps and sensitivity to rate changes. During 2000 and 1999, interest rate swaps were primarily used to alter the character of revenue earned on certain fixed rate loans. During 2000 and 1999 foreign exchange contracts were used to stabilize any currency exchange rate fluctuations for certain senior notes. The Bank had $349 million notional amount of swap contracts, used for risk management purposes, outstanding at December 31, 2000 with a loss in fair value of $3.2 million. At December 31, 1999, the Bank had $256 million notional amount of swap contracts outstanding with a fair value of $5.0 million. Gross unrealized gains and losses, representing the difference between fair value and carrying value (i.e. accrued interest payable or receivable) on these contracts, totaled $0.9 million and $1.4 million, respectively, at December 31, 2000 and $1.0 million and $0.9 million, respectively, at December 31, 1999. Risk management activity, including the related cash positions, had no material effect on the Bank's net income for the year ended December 31, 2000 or 1999. There were no deferred gains or losses on terminated contracts at December 31, 2000 or 1999.

The following table summarizes swap and forward activity for risk management purposes:

	NOTIONAL AMOUNT
	(IN THOUSANDS)
Amount, December 31, 1998	$151,634
Additions	142,850
Maturities	6,576
Terminations	(44,685)
Amount, December 31, 1999	$256,375
Additions	181,714
Maturities	(89,316)
Terminations	--
Amount, December 31, 2000	$348,773

The following table summarizes the maturities and weighted average interest rates paid and received on interest rate swaps and forwards used for risk management:

	DECEMBER 31, 2000				
	WITHIN 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	5 TO 10 YEARS	TO
			(IN THOUSANDS)		
Pay Fixed Swaps:					
Notional amount	$77,116	$124,528	$ 43,180	$28,830	$27
Average pay rate	5.82%	5.65%	6.64%	6.35%	
Average receive rate	6.68%	5.68%	5.99%	5.67%	
Receive Fixed Swaps:					
Notional amount	$ --	$ --	$ 75,119	$ --	$ 7
Average pay rate	--%	%	5.47%	--%	
Average receive rate	--%	%	5.46%	--%	
Total notional amount	$77,116	$124,528	$118,299	$28,830	$34

At December 31, 2000, swap contracts with BMO represent $5.9 million and $26.0 million of unrealized gains and unrealized losses, respectively. Guarantee contracts purchased from BMO represent $25.9 million and $0.3 million of unrealized gains and unrealized losses, respectively. Guarantee contracts written with BMO represent $25.8 million unrealized losses with no unrealized gains.

Foreign exchange contracts

Dealer activity

The Bank is a dealer in foreign exchange (FX). Foreign exchange contracts may create exposure to market and credit risk, including replacement risk and settlement risk. Credit risk is managed by establishing limits for customers through an independent corporate-wide credit approval process and continually monitoring exposure against those limits. In addition, both settlement and replacement risk are reduced through netting by novation, agreements with counterparties to offset certain related obligations. Market risk is managed through establishing exposure limits by currency and monitoring actual exposure against those limits, entering into offsetting positions, and closely monitoring price behavior. The Bank and BMO combine their U.S. foreign exchange revenues (FX). Under this arrangement, FX net profit is shared by the Bank and BMO in accordance with a specific formula set forth in the agreement. This agreement expires in April 2002 but may be extended at that time. Either party may terminate the arrangement at its option. FX revenues are reported net of expenses.

At December 31, 2000, approximately 95 percent of the Bank's gross notional positions in foreign currency contracts are represented by six currencies: English pounds, German deutsche marks, Japanese yen, Swiss francs, Canadian dollars, and the Eurodollar.

Foreign exchange contracts include spot, future, forward and option contracts that enable customers to manage their foreign exchange risk. Spot, future and forward contracts are agreements to exchange currencies at a future date, at a specified rate of exchange. Foreign exchange option contracts give the buyer the right and the seller an obligation (if the buyer asserts his right) to exchange currencies during a specified period (or on a certain date in the case of "European" options) at a specified exchange rate.

The following table summarizes the Bank's dealer/trading foreign exchange contracts and their related contractual or notional amount and maximum replacement cost:

	DECEMBER 31		
	CONTRACTUAL OR NOTIONAL AMOUNT		REPL
	2000	1999	2000
	(IN THOUSANDS)		
Foreign Exchange Contracts:			
Spot, futures and forwards..............................	$2,634,243	$1,563,178	$39,2
Options written...	22,450	168,590	
Options purchased.......................................	22,450	168,590	6
Cross currency swaps....................................	63,289	324,235	3,7

The following table summarizes average and end of period fair values of dealer/trading foreign exchange contracts for the years ended December 31, 2000 and 1999:

	2000		
	END OF PERIOD ASSETS (LIABILITIES)	AVERAGE ASSETS (LIABILITIES)	END OF P ASSET (LIABILI
		(IN THOUSANDS)	
Foreign Exchange Contracts:			
Spot, futures and forwards			
Unrealized gains................................	$ 39,232	$ 19,525	$ 22,2
Unrealized losses...............................	(39,232)	(19,525)	(22,2
Options			
Purchased.......................................	668	4,120	4,0
Written...	(668)	(4,120)	(4,0
Cross currency swaps			
Unrealized gains................................	3,751	1,716	13,4
Unrealized losses...............................	(3,751)	(1,848)	(13,7
Total Foreign Exchange......................	$ --	$ (132)	$ (3

At December 31, 2000, spot, futures and forward contracts with BMO represent $18.2 million and $21.1 million of unrealized gains and unrealized losses, respectively. Options contracts with BMO represent $.6 million and $.05 million of options purchased and options written, respectively. Cross currency swaps with BMO represent $3.8 million unrealized losses with no unrealized gains.

Net gains (losses) from dealer/trading foreign exchange contracts, for the years ended December 31, 2000, 1999 and 1998 totaled $7.2 million, $8.3 million and $6.8 million, respectively, of net profit under the aforementioned agreement with BMO.

Securities activities

The Bank's securities activities that have off-balance-sheet risk include municipal bond underwriting and short selling of securities.

Through its municipal bond underwriting activities, the Bank commits to buy and offer for resale newly issued bonds. The Bank is exposed to market risk because it may be unable to resell its inventory of bonds profitably as a result of unfavorable market conditions. In syndicate arrangements, the Bank is obligated to fulfill syndicate members' commitments should they default. The syndicates of which the Bank was a member had underwriting commitments totaling $53 million at December 31, 2000 and $50 million at December 31, 1999.

Security short selling, defined as selling of securities not yet owned, exposes the Bank to off-balance-sheet market risk because the Bank may be required to buy securities at higher prevailing market prices to cover its short positions. The Bank had no short position at December 31, 2000 or 1999.

10. CONCENTRATIONS OF CREDIT RISK IN FINANCIAL INSTRUMENTS

The Bank had one major concentration of credit risk arising from financial instruments at December 31, 2000 and 1999. This concentration was the Midwest geographic area. This concentration exceeded 10 percent of the Bank's total credit exposure, which is the total potential accounting loss should all customers fail to perform according to contract terms and all collateral prove to be worthless.

Midwestern geographic area

A majority of the Bank's customers are located in the Midwestern region of the United States, defined here to include Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Ohio and Wisconsin. The Bank provides credit to these customers through a broad array of banking and trade financing products including commercial loans, commercial loan commitments, commercial real estate loans, consumer installment loans, mortgage loans, home equity loans and lines, standby and commercial letters of credit and banker's acceptances. The financial viability of customers in the Midwest is, in part, dependent on the region's economy. Corporate customers headquartered in the region and serving a national or international market are not included in this concentration because their business is broad-based and not dependent on the region's economy. The Bank's maximum risk of accounting loss, should all customers making up the Midwestern concentration fail to perform according to contract terms and all collateral prove to be worthless, was approximately $13.8 billion or 48 percent of the Bank's total credit exposure at December 31, 2000 and $9.4 billion or 34 percent of the Bank's total credit exposure at December 31, 1999.

The Bank manages this exposure by continually reviewing local market conditions and customers, adjusting individual and industry exposure limits within the region and by obtaining or closely monitoring collateral values. See Note 9 for information on collateral supporting credit facilities.

11. EMPLOYEE BENEFIT PLANS

The Bank has noncontributory defined benefit pension plans covering virtually all its employees as of December 31, 2000. Most of the employees participating in retirement plans were included in one primary plan ("primary plan") during the three-year period ended December 31, 2000. The benefit formula for this plan is based upon length of service and an employee's highest qualifying compensation during five consecutive years of active employment. The plan is a multiple-employer plan covering the Bank's employees as well as persons employed by certain affiliated entities.

The policy for this plan is to have the participating entities, at a minimum, fund annually an amount necessary to satisfy the requirements under ERISA, without regard to prior years' contributions in excess of the minimum. For 2000, 1999 and 1998, cumulative contributions were greater than the amounts recorded as pension expense for financial reporting purposes. The total consolidated pension expense of the Bank, including the supplemental plan (excluding settlement losses and curtailment gains), for 2000, 1999 and 1998 was $8.2 million, $10.9 million and $8.2 million, respectively.

In addition to pension benefits, the Bank provides medical care benefits for retirees (and their dependents) who have attained age 55 and have at least 10 years of service. The Bank also provides medical care benefits for disabled employees and widows of former employees (and their dependents). The Bank

provides these medical care benefits through a self-insured plan. Under the terms of the plan, the Bank contributes to the cost of coverage based on employees length of service. Cost sharing with plan participants is accomplished through deductibles, coinsurance and out-of-pocket limits. Funding for the plan largely comes from the general assets of the Bank, supplemented by contributions to a trust fund created under Internal Revenue Code Section 401(h).

Curtailment gains amounting to $7.3 million and $2.3 million for pension plan and postretirement medical plan, respectively, were recognized in 2000 due to the sale of corporate trust, merchant card and Alltell businesses. Of those totals, $2.2 million and $0.5 million, respectively, were recognized as a direct reduction of benefit expense. Settlement losses amounting to $0.1 million and $1.3 million for the supplemental plan were recognized in 2000 and 1999, respectively.

The following tables set forth the change in benefit obligation and plan assets for the pension and postretirement medical care benefit plans for the Bank:

	PENSION BENEFITS			POSTRETIREMENT	
	2000***	1999***	1998***	2000***	199
			(IN THOUSANDS)		
CHANGE IN BENEFIT OBLIGATION*					
Benefit obligation at beginning of year......	$227,701	$242,661	$221,496	$ 35,238	$ 34
Service cost................................	9,373	10,197	8,781	1,346	1
Interest cost...............................	16,643	16,714	13,772	2,453	2
Curtailment (gain) or loss..................	(7,348)	--	--	(2,276)	
Benefits paid (net of participant contributions)............................	(19,595)	(22,851)	(20,899)	(3,322)	(2
Actuarial (gain) or loss....................	(2,772)	(19,020)	19,511	(506)	(1
Benefit obligation at end of year...........	$224,002	$227,701	$242,661	$ 32,933	$ 35
CHANGE IN PLAN ASSETS					
Fair value of plan assets at beginning of year....................................	$226,449	$215,721	$237,072	$ 21,022	$ 16
Actual return on plan assets................	27,559	25,539	(7,903)	2,614	1
Employer contribution.......................	12,499	8,040	7,451	1,573	2
Benefits paid...............................	(19,595)	(22,851)	(20,899)	--	
Fair value of plan assets at end of year**...	$246,912	$226,449	$215,721	$ 25,209	$ 21
Funded Status...............................	$ 22,910	$ (1,252)	$(26,940)	$ (7,724)	$(14
Contributions made between measurement date (September 30) and end of year............	--	--	8,040	--	
Unrecognized actuarial (gain) or loss........	1,097	11,767	36,764	(13,780)	(12
Unrecognized transition (asset) or obligation................................	(397)	(710)	(1,022)	20,893	23
Unrecognized prior service cost.............	(4,072)	(4,814)	(5,551)	1,523	1
Prepaid (accrued) benefit cost..............	$ 19,538	$ 4,991	$ 11,291	$ 912	$ (1
COMPONENTS OF NET PERIODIC BENEFIT COST					
Service cost................................	$ 9,373	$ 10,197	$ 8,781	$ 1,346	$ 1
Interest cost...............................	16,643	16,714	13,772	2,453	2
Expected return on plan assets..............	(19,527)	(20,393)	(16,499)	(1,686)	(1
Amortization of prior service cost..........	(743)	(737)	(664)	169	
Amortization of transition (asset) or obligation................................	(312)	(312)	(282)	1,751	1

Recognized actuarial (gain) or loss.........	(62)	831	50	(489)	
Net periodic benefit cost..................	$ 5,372	$ 6,300	$ 5,158	$ 3,544	$ 4
Additional (gain) or loss recognized due to:					
Curtailment............................	$ (2,223)	$ --	$ --	$ (524)	$

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* Benefit obligation is projected for the pension benefits and accumulated for the postretirement medical benefits.

** Plan assets consist primarily of participation units in collective trust funds or mutual funds administered by HTSB.

*** Plan assets and obligation measured as of September 30.

	PENSION BENEFITS			POSTRETIREME BENEF	
	2000	1999	1998	2000	199
WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31					
Discount rate*................................	7.75%	7.50%	7.00%	7.75%	7.5
Expected return on plan assets..................	9.00%	9.00%	9.00%	8.00%	8.0
Rate of compensation increase...................	5.50%	5.50%	5.50%	N/A	N/

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* Discount rates are used to determine service costs for the subsequent year.

For measurement purposes, a 6.50 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000. The rate was assumed to decrease gradually to 6.0 percent in 2001 and remain level thereafter.

For the postretirement medical care benefit plan, assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-PERCENTAGE POINT INCREASE	1-PERCENTAGE POINT DECREASE
	(IN THOUSANDS)	
Effect on total of service and interest cost components.....	$ 793	$ (623)
Effect on postretirement benefit obligation................	$5,713	$(4,599)

Certain employees participating in the primary plan are also covered by a supplemental unfunded retirement plan. The purpose of this plan is to extend full retirement benefits to individuals without regard to statutory limitations for qualified funded plans. The following table sets forth the status of this supplemental plan:

	SUPPLEMENTAL UNFUNDED RETIREMEN BENEFITS		
	2000	1999	199
	(IN THOUSANDS)		
CHANGE IN BENEFIT OBLIGATION			
Benefit obligation at beginning of year	$ 13,727	$ 21,752	$ 17,
Service cost	1,361	2,244	1,
Interest cost	819	1,312	1,
Benefits paid (net of participant contributions)	(1,957)	(5,094)	(1,
Actuarial (gain) or loss	5,308	(6,487)	3,
Benefit obligation at end of year	$ 19,258	$ 13,727	$ 21,
CHANGE IN PLAN ASSETS			
Fair value of plan assets at beginning of year	$ --	$ --	$
Actual return on plan assets	--	--	
Employer contribution	1,957	5,094	1,
Benefits paid	(1,957)	(5,094)	(1,
Fair value of plan assets at end of year	$ --	$ --	$
Funded Status	$(19,258)	$(13,727)	$(21,
Contributions made between measurement date (September 30) and end of year	45	45	
Unrecognized actuarial (gain) or loss	4,259	(867)	7,
Unrecognized transition (asset) or obligation	124	238	
Unrecognized prior service cost	1,694	2,194	2,
Prepaid (accrued) benefit cost	$(13,136)	$(12,117)	$(11,
COMPONENTS OF NET PERIODIC BENEFIT COST			
Service cost	$ 1,361	$ 2,244	$ 1,
Interest cost	819	1,312	1,
Expected return on plan assets	--	--	
Amortization of prior service cost	500	500	
Amortization of transition (asset) or obligation	114	114	
Recognized actuarial (gain) or loss	--	478	
Net periodic benefit cost	$ 2,794	$ 4,648	$ 3,
Additional (gain) or loss recognized due to:			
Settlement	$ 92	$ 1,314	$
WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31:			
Discount rate	6.00%	6.00%	6
Rate of compensation increase	5.70%	5.70%	5

The Bank has a defined contribution profit sharing plan covering virtually all its employees. The plan includes a matching contribution and a profit sharing contribution. The matching contribution is based on the amount of eligible employee contributions. The profit sharing contribution is based on the annual financial performance of the Bank relative to predefined targets. The Bank's total expense for this plan was $9.7 million, $9.5 million and $8.8 million in 2000, 1999 and 1998, respectively.

12. STOCK OPTIONS

The Bank has two remaining primary stock-based compensation plans, an options program and a performance incentive plan. A stock appreciation rights plan was fully paid out early in 2000. The option plans are accounted for under the fair value based method of accounting and they are described below.

Harris Bankcorp Stock Option Program

The Harris Bankcorp Stock Option Program was established under the Bank of Montreal Stock Option Plan for certain designated executives and other employees of the Bank and affiliated companies in order to provide incentive to attain long-term strategic goals and to attract and retain services of key employees.

The Bank has two types of option plans. The Fixed Stock Option Plan consist of standard stock options with a ten-year term which are exercisable only during the second five years of their term, assuming cumulative performance goals are met. The Performance Based Option Plan consists of standard and performance conditioned stock options with a ten-year term and a four-year vesting period, which are exercisable twenty-five percent per annum. The standard options may be exercised at any time once vested. The performance-conditioned options may be exercised provided the Bank of Montreal shares trade at fifty percent over the price of the stock at date of grant for twenty consecutive days, after the vesting date. The stock options are exercisable for Bank of Montreal common stock equal to the market price on the date of grant. The compensation expense related to this program totaled $2.9 million, $2.4 million and $1.1 million in 2000, 1999 and 1998, respectively.

The following table summarizes the stock option activity for 2000, 1999 and 1998 and provides details of stock options outstanding at December 31, 2000:

	2000		1999	
OPTIONS	SHARES	WTD. AVG. EXERCISE PRICE	SHARES	WTD. AVG. EXERCISE PRICE
Outstanding at beginning of year...........................	2,469,800	$34.50	1,751,600	$34.46
Granted..........................	665,165	50.36	735,700	34.72
Exercised........................	(207,476)	23.64	--	--
Forfeited, cancelled.............	(229,750)	35.05	(2,500)	39.06
Transferred......................	(32,000)	32.48	(15,000)	39.06
Expired..........................	--	--	--	--
Outstanding at end of year........	2,665,739	39.28	2,469,800	34.50
Options exercisable at year-end...	333,031	$28.73	None	
Weighted-average fair value of options granted during the year...........................	$ 11.54		$ 6.91	

	OPTIONS OUTSTANDING			OPTIONS EXERCISA	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING DECEMBER 31, 2000	WTD. AVG. REMAINING CONTRACTUAL LIFE	WTD. AVG. EXERCISE PRICE	NUMBER EXERCISABLE DECEMBER 31, 2000	W EXE
$22-30	435,800	5.66 years	$26.67	164,000	
34-42	1,370,224	8.45	36.92	169,031	
46-54	859,715	9.27	49.45	--	
22-54	2,665,739	8.26	39.28	333,031	

The fair value of the stock options granted has been estimated using the Bloomberg Model with the following assumptions:

	2000	1999	1998
Risk-free interest rate....................................	6.10%	6.31%	4.87%
Expected life, in years....................................	7.0	7.0	7.5
Expected volatility..	22.18%	21.46%	19.82%
Compound annual dividend growth............................	8.89%	9.02%	8.82%
Estimated fair value per option (US $).....................	$11.54	$ 6.91	$ 7.98

Harris Bankcorp Mid-Term Incentive Plan

The Bank maintains the Mid-Term Incentive Plan which was established in January 2000. The Plan is intended to enhance the Bank's ability to attract and retain high quality employees and to provide a strong incentive to employees to achieve Bank of Montreal's governing objective of maximizing value for its shareholders.

Payouts under the plan to participants depend on the achievement of specific performance criteria that are set at the grant date. The right to receive distributions under the plan vest and are paid out after three years based on various factors including the Bank of Montreal share price. There was no compensation expense related to this plan in 2000.

Harris Bankcorp Stock Appreciation Rights Plan

The Harris Bankcorp Stock Appreciation Rights Plan was fully paid out between November 23, 1999 and January 22, 2000. All rights were exercised at that time. Compensation expense for this plan totaled $0.3 million and $0.5 million in 1999 and 1998 respectively. No compensation expense was recorded in 2000.

The following table details the stock appreciation rights outstanding at December 31, 2000, 1999 and 1998.

	2000	1999	1998
Outstanding beginning of the year..........................	58,000	331,700	341,000
Granted..	--	--	--
Exercised..	(58,000)	(273,700)	(13,500)
Cancelled..	--	--	--
Transferred..	--	--	4,200
Outstanding end of the year..............................	--	58,000	331,700

13. LEASE EXPENSE AND OBLIGATIONS

Rental expense for all operating leases was $13.3 million in 2000, $15.0 million in 1999 and $13.7 million in 1998. These amounts include real estate taxes, maintenance and other rental-related operating costs of $3.3 million, $2.5 million and $3.0 million for 2000, 1999 and 1998, respectively, paid under net lease arrangements. Lease commitments are primarily for office space.

Minimum rental commitments as of December 31, 2000 for all noncancelable operating leases are as follows:

	(IN THOUSANDS)
2001..	$ 5,957
2002..	5,265
2003..	3,460
2004..	3,091
2005..	2,937
2006 and thereafter.......................................	14,277
Total minimum future rentals........................	$34,987

Occupancy expenses for 2000, 1999 and 1998 have been reduced by $13 million, $12.7 million and $13.5 million, respectively, for rental income from leased premises.

14. INCOME TAXES

The 2000, 1999 and 1998 applicable income tax expense (benefit) was as follows:

	FEDERAL	STATE	FOREIGN	TO
		(IN THOUSANDS)		
2000: Current..	$93,471	$ 1,952	$20	$95
Deferred.......................................	1,631	260	--	1
Total..	$95,102	$ 2,212	$20	$97

1999: Current	$45,070	$(1,637)	$24	$43
Deferred	(5,511)	1,257	--	(4
Total	$39,559	$ (380)	$24	$39
1998: Current	$41,356	$(1,445)	$23	$39
Deferred	4,474	878	--	5
Total	$45,830	$ (567)	$23	$45

Deferred tax assets (liabilities) are comprised of the following at December 31, 2000, 1999 and 1998:

	DECEMBER 31		
	2000	1999	1998
	(IN THOUSANDS)		
Gross deferred tax assets:			
Allowance for possible loan losses	$49,026	$ 45,189	$43,551
Deferred expense and prepaid income	11,640	10,131	--
Deferred employee compensation	4,130	1,893	6,208
Pension and medical trust	2,134	5,501	4,321
Other assets	4,370	5,646	8,352
Deferred tax assets	71,300	68,360	62,432
Gross deferred tax liabilities:			
Other liabilities	(14,870)	(10,039)	(8,365)
Deferred tax liabilities	(14,870)	(10,039)	(8,365)
Net deferred tax assets	56,430	58,321	54,067
Tax effect of adjustment related to available-for-sale securities	7,562	90,829	(20,625)
Net deferred tax assets including adjustment related to available-for-sale securities	$63,992	$149,150	$33,442

At December 31, 2000 and 1999, the respective net deferred tax assets of $56.4 million and $58.3 million included $49.0 million and $50.6 million for Federal taxes and $7.4 million and $7.7 million for state taxes, respectively. The Bank has recognized its Federal and state deferred tax assets because management believes that it is more likely than not that the net deferred tax assets will be realized. The deferred taxes reported on the Bank's Consolidated Statements of Condition at December 31, 2000 and 1999 also include a $7.6 million deferred tax asset and a $90.8 million deferred tax asset, respectively, for the tax effect of the net unrealized gains or losses associated with marking to market certain securities designated as available-for-sale.

Total income tax expense of $97.3 million for 2000, $39.2 million for 1999, and $45.3 million for 1998 reflects effective tax rates of 30.1 percent, 21.4 percent, and 25.9 percent, respectively. The reasons for the differences between actual tax expense and the amount determined by applying the U.S. Federal income tax rate of 35 percent to income before income taxes were as follows:

	YEARS ENDED DECEMBER 31				
	2000		1999		
	AMOUNT	PERCENT OF PRETAX INCOME	AMOUNT	PERCENT OF PRETAX INCOME	AMOUNT
			(IN THOUSANDS)		
Computed tax expense..............	$113,322	35.0%	$ 64,227	35.0%	$ 61,195
Increase (reduction) in income tax expense due to:					
Tax-exempt income from loans and investments net of municipal interest expense disallowance..................	(1,045)	(0.3)	(1,718)	(0.9)	(2,030
Bank-owned insurance............	(15,758)	(4.9)	(14,477)	(7.9)	(11,319
Equity ownership in securitization trust..........	(1,673)	(0.5)	(5,601)	(3.1)	--
Other, net......................	2,488	0.8	(3,228)	(1.7)	(2,560
Actual tax expense................	$ 97,334	30.1%	$ 39,203	21.4%	$ 45,286

The tax expense from net gains on security sales amounted to $5.7 million, $5.3 million, and $10.3 million in 2000, 1999, and 1998, respectively.

15. REGULATORY CAPITAL

The Bank, as a state-member bank, must adhere to the capital adequacy guidelines of the Federal Reserve Board (the "Board"), which are not significantly different than those published by other U.S. banking regulators. The guidelines specify minimum ratios for Tier 1 capital to risk-weighted assets of 4 percent and total regulatory capital to risk-weighted assets of 8 percent.

Risk-based capital guidelines define total capital to consist of Tier 1 (core) and Tier 2 (supplementary) capital. In general, Tier 1 capital is comprised of stockholder's equity, including certain types of preferred stock, less goodwill and certain other intangibles. Core capital must comprise at least 50 percent of total capital. Tier 2 capital basically includes subordinated debt (less a discount factor during the five years prior to maturity), other types of preferred stock and the allowance for possible loan losses. The portion of the allowance for possible loan losses includable in Tier 2 capital is limited to 1.25 percent of risk-weighted assets.

The Board also requires an additional measure of capital adequacy, the Tier 1 leverage ratio, which is evaluated in conjunction with risk-based capital ratios. The Tier 1 leverage ratio is computed by dividing period-end Tier 1 capital by adjusted quarterly average assets. The Board established a minimum ratio of 3 percent applicable only to the strongest banking organizations having, among other things, excellent asset quality, high liquidity, good earnings and no undue interest rate risk exposure. Other institutions are expected to maintain a minimum ratio of 4 percent.

The Federal Deposit Insurance Corporation Improvement Act of 1991 contains prompt corrective action provisions that established five capital categories for all Federal Deposit Insurance Corporation ("FDIC")-insured institutions ranging from "well capitalized" to "critically undercapitalized." Classification within a category is based primarily on the three capital adequacy measures. An institution is considered "well capitalized" if its capital level significantly exceeds the required minimum levels, "adequately capitalized" if it meets the minimum levels, "undercapitalized" if it fails to meet the minimum levels, "significantly undercapitalized" if it is significantly below the minimum levels and "critically undercapitalized" if it has a ratio of tangible equity to total assets of 2 percent or less.

Noncompliance with minimum capital requirements may result in regulatory corrective actions which could have a material effect on the Bank. Depending on the level of noncompliance, regulatory corrective actions may include the following: requiring a plan for restoring the institution to an acceptable capital category, restricting or prohibiting certain activities and appointing a receiver or conservator for the institution.

As of December 31, 2000, the most recent notification from the FDIC categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. Management is not aware of any conditions or events since December 31, 2000 that have changed the capital category of the Bank.

At December 31, 2000 the Bank had $250 million of minority interest in preferred stock of a subsidiary. The preferred stock is noncumulative, exchangeable Series A preferred stock. Dividends on the preferred stock are noncumulative and are payable at the rate of 7 3/8% per annum. During both 2000 and 1999, $18 million of dividends were paid on the preferred stock. The preferred stock qualifies as Tier 1 Capital for U.S. banking regulatory purposes.

The following table summarizes the Bank's risk-based capital ratios and Tier 1 leverage ratio for the past two years as well as the minimum amounts and ratios as per capital adequacy guidelines and FDIC prompt corrective action provisions.

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE W UNDER P ACTI
	CAPITAL AMOUNT	CAPITAL RATIO	CAPITAL AMOUNT	CAPITAL RATIO	CAPIT AMOUN
			(IN THOUSANDS)		
As of December 31, 2000:					
Total Capital to Risk-Weighted Assets...........................	$1,903,085	10.98%	M $ 1,386,583	M 8.00%	M $ 1,73
Tier 1 Capital to Risk-Weighted Assets...........................	$1,569,134	9.06%	M $ 692,774	M 4.00%	M $ 1,03
Tier 1 Capital to Average Assets....	$1,569,134	7.40%	M $ 848,181	M 4.00%	M $ 1,06
As of December 31, 1999:					
Total Capital to Risk-Weighted Assets...........................	$1,740,498	10.77%	M $ 1,292,849	M 8.00%	M $ 1,61

Tier 1 Capital to Risk-Weighted Assets...........................	$1,401,796	8.68%	M $	645,989	M 4.00%	M $ 96
Tier 1 Capital to Average Assets....	$1,401,796	7.29%	M $	769,161	M 4.00%	M $ 96

16. INVESTMENTS IN SUBSIDIARIES AND STATUTORY RESTRICTIONS

The Bank's investment in the combined net assets of its wholly-owned subsidiaries was $581 million and $527 million at December 31, 2000 and 1999, respectively.

Provisions of both Illinois and Federal banking laws place restrictions upon the amount of dividends that can be paid to Bankcorp by its bank subsidiaries. Illinois law requires that no dividends may be paid in an amount greater than the net profits then on hand, reduced by certain loan losses (as defined). In addition to these restrictions, Federal Reserve member banking subsidiaries require prior approval of Federal banking authorities if dividends declared by a subsidiary bank, in any calendar year, will exceed its net profits (as defined in the applicable statute) for that year, combined with its retained net profits, as so defined, for the preceding two years. Based on these and certain other prescribed regulatory limitations, the Bank could have declared, without regulatory approval, $248 million of dividends at December 31, 2000. Actual dividends paid, however, would be subject to prudent capital maintenance. Cash dividends paid to Bankcorp by the Bank amounted to $83 million and $60 million in 2000 and 1999, respectively.

The Bank is required by the Federal Reserve Act to maintain reserves against certain of their deposits. Reserves are held either in the form of vault cash or balances maintained with the Federal Reserve Bank. Required reserves are essentially a function of daily average deposit balances and statutory reserve ratios prescribed by type of deposit. During 2000 and 1999, daily average reserve balances of $209 million and $191 million, respectively, were required for the Bank. At year-end 2000 and 1999, balances on deposit at the Federal Reserve Bank totaled $285 million and $215 million, respectively.

17. CONTINGENT LIABILITIES

The Bank and certain subsidiaries are defendants in various legal proceedings arising in the normal course of business. In the opinion of management, based on the advice of legal counsel, the ultimate resolution of these matters will not have a material adverse effect on the Bank's financial position or results of operations.

18. FOREIGN ACTIVITIES (BY DOMICILE OF CUSTOMER)

Income and expenses identifiable with foreign and domestic operations are summarized in the table below:

	FOREIGN	DOMESTIC	CONSOLIDA
		(IN THOUSANDS)	
2000			
Total operating income..................................	$ 53,698	$ 1,754,161	$ 1,807,8
Total expenses..	15,597	1,468,484	1,484,0
Income before taxes.....................................	38,101	285,677	323,7

Applicable income taxes	15,143	82,191	97,3
Net income	$ 22,958	$ 203,486	$ 226,4
Identifiable assets at year-end	$223,976	$21,065,639	$21,289,6
1999			
Total operating income	$ 46,974	$ 1,379,131	$ 1,426,1
Total expenses	14,803	1,227,797	1,242,6
Income before taxes	32,171	151,334	183,5
Applicable income taxes	12,786	26,417	39,2
Net income	$ 19,385	$ 124,917	$ 144,3
Identifiable assets at year-end	$322,297	$19,715,768	$20,038,0
1998			
Total operating income	$ 53,747	$ 1,289,417	$ 1,343,1
Total expenses	11,627	1,156,694	1,168,3
Income before taxes	42,120	132,723	174,8
Applicable income taxes	16,741	28,545	45,2
Net income	$ 25,379	$ 104,178	$ 129,5
Identifiable assets at year-end	$219,883	$17,777,579	$17,997,4

Determination of rates for foreign funds generated or used are based on the actual external costs of specific interest-bearing sources or uses of funds for the periods. Internal allocations for certain unidentifiable income and expenses were distributed to foreign operations based on the percentage of identifiable foreign income to total income. As of December 31, 2000, 1999 and 1998, identifiable foreign assets accounted for 1 percent, 2 percent and 1 percent, respectively, of total consolidated assets.

19. BUSINESS COMBINATIONS AND DISPOSITIONS/INTANGIBLES

At December 31, 2000 and 1999, intangible assets, including goodwill resulting from business combinations, amounted to $221 million and $242 million, respectively. Amortization of these intangibles amounted to $22.7 million in 2000, $22.7 million in 1999, and $21.5 million in 1998. The impact of purchase accounting adjustments, other than amortization of intangibles, was not material to the Bank's reported results.

In March 2000, the Bank sold its corporate trust business. In separate and unrelated transactions, the indenture trust business was sold to a subsidiary of The Bank of New York Company, Inc., and the shareholder services business to Computershare Limited. The combined sales resulted in a pretax gain of $45.6 million.

On December 1, 2000, the Bank sold its merchant card business to the credit card processing joint venture (Moneris) formed between Bank of Montreal and Royal Bank of Canada. The sale resulted in a pretax gain to the Bank of $60.2 million, which was eliminated in the consolidation of the Bank's results with Bank of Montreal.

20. RELATED PARTY TRANSACTIONS

During 2000, 1999 and 1998, the Bank engaged in various transactions with BMO and its subsidiaries. These transactions included the payment and receipt of service fees and occupancy expenses, purchasing and selling Federal funds, repurchase and reverse repurchase agreements, short-term borrowings, interest rate and foreign exchange rate contracts. The purpose of these transactions was to facilitate a more efficient use of combined resources and to better serve customers. Fees for these services were determined in accordance with applicable banking regulations. During 2000, 1999 and 1998, the Bank received from BMO approximately $14.7 million, $14.6 million and $17.1 million respectively, primarily for trust services, data processing and other operations support provided by the Bank. The Corporation made payments to BMO of approximately $17.0 million, $17.2 million and $9.1 million in 2000, 1999 and 1998, respectively.

The Bank and BMO combine their U.S. foreign exchange activities. Under this arrangement, the Bank and BMO share FX net profit in accordance with a specific formula set forth in the agreement. This agreement expires in April 2002 but may be extended at that time. Either party may terminate the arrangement at its option. FX revenues are reported net of expenses. 2000, 1999 and 1998 foreign exchange revenues included $7.2 million, $8.3 million and $6.8 million of net profit, respectively, under this agreement.

On December 29, 2000, the Bank and BMO entered into an agreement whereby the Bank will sell $178 million in commercial loans to BMO. These loans were reclassified to "Assets Held for Sale" on the Statement of Condition as of December 31, 2000. The Corporation expects settlement to occur in the first quarter of 2001. The loans were sold at carrying value which equates to fair market value; accordingly, no gain or loss was recorded.