

Note 18: Subordinated Debt

Subordinated debt represents our direct unsecured obligations, in the form of notes and debentures, to our debt holders and forms part of our regulatory capital. The rights of the holders of our notes and debentures are subordinate to the claims of depositors and certain other creditors. We require approval from the Superintendent of Financial Institutions Canada before we can redeem any part of our subordinated debt.

During the year ended October 31, 2007, we issued Series D Medium-Term Notes, Tranche 2, totalling \$1.2 billion. We redeemed our \$150 million Series 22 Debentures. Our US\$300 million 7.80% Notes matured. During the year ended October 31, 2006, we issued Series D Medium-Term Notes, Tranche 1, totalling \$700 million. We redeemed our \$300 million Series 21 Debentures and our \$125 million Series 19 Debentures. There were no gains or losses on any of our redemptions.

During the year ended October 31, 2007, we issued \$800 million of innovative subordinated debentures, BMO Trust Subordinated Notes (BMO TSNs – Series A), through BMO Subordinated Notes Trust (“SN Trust”). SN Trust is a variable interest entity which we are not

required to consolidate (see Note 8); therefore, the BMO TSNs – Series A issued by SN Trust are not reported on our Consolidated Balance Sheet. SN Trust used the proceeds of the issuance to purchase a senior deposit note from us which is reported as a business and government deposit liability on our Consolidated Balance Sheet. All of the BMO TSNs – Series A will be exchanged automatically, without the consent of the holders, into our Series E Subordinated Notes upon the occurrence of specific events, such as a wind-up of Bank of Montreal, a regulatory requirement to increase capital, violations of regulatory capital requirements, or changes to tax legislation.

We have guaranteed the payments of principal, interest and redemption price, if any, and any other amounts on the BMO TSNs – Series A when they become due and payable. This guarantee is subordinate to our deposit liabilities and all other liabilities, except for other guarantees, obligations or liabilities that are designated as ranking either equally with or subordinate to the subordinated indebtedness.

The senior deposit note bears interest at an annual rate of 5.90% and will mature on September 26, 2022.

The term to maturity and repayments of our subordinated debt required over the next five years and thereafter are as follows:

(Canadian \$ in millions, except as noted)	Face value	Maturity date	Interest rate (%)	Redeemable at our option beginning in						Over	2007	2006
					1 year	2 years	3 years	4 years	5 years	5 years	Total	Total
Debentures Series 12	\$ 140	December 2008	10.85	December 1998	\$ –	\$ 140	\$ –	\$ –	\$ –	\$ –	\$ 140	\$ 140
Debentures Series 16	\$ 100	February 2017	10.00	February 2012	–	–	–	–	–	100	100	100
Debentures Series 20	\$ 150	December 2025 to 2040	8.25	not redeemable	–	–	–	–	–	150	150	150
Debentures Series 22	\$ 150	July 2012	7.92	redeemed	–	–	–	–	–	–	–	150
7.80% Notes	US\$ 300	April 2007	7.80	matured (2)	–	–	–	–	–	–	–	336
Series A Medium-Term Notes												
2nd Tranche	\$ 150	February 2013	5.75	February 2008	–	–	–	–	–	150	150	150
Series C Medium-Term Notes												
1st Tranche	\$ 500	January 2015	4.00	January 2010 (3)	–	–	–	–	–	500	500	500
2nd Tranche	\$ 500	April 2020	4.87	April 2015 (4)	–	–	–	–	–	500	500	500
Series D Medium-Term Notes												
1st Tranche	\$ 700	April 2021	5.10	April 2016 (5)	–	–	–	–	–	700	700	700
2nd Tranche	\$ 1,200	June 2017	5.20	June 2012 (6)	–	–	–	–	–	1,200	1,200	–
					\$ –	\$ 140	\$ –	\$ –	\$ –	\$ 3,300	\$ 3,440 ⁽⁷⁾	\$ 2,726
BMO Trust Subordinated Notes												
Series A	\$ 800	September 2022	5.75	September 2017 (1)	–	–	–	–	–	800	800	–
Total					\$ –	\$ 140	\$ –	\$ –	\$ –	\$ 4,100	\$ 4,240	\$ 2,726

(1) Redeemable at the greater of par and the Canada Yield Price (the yield on an issue of non-callable Government of Canada bonds) prior to September 26, 2017, and redeemable at par commencing September 26, 2017.

(2) Redeemable at our option only if certain tax events occur.

(3) Redeemable at the greater of par and the Canada Yield Price prior to January 21, 2010, and redeemable at par commencing January 21, 2010.

(4) Redeemable at the greater of par and the Canada Yield Price prior to April 22, 2015, and redeemable at par commencing April 22, 2015.

(5) Redeemable at the greater of par and the Canada Yield Price prior to April 21, 2016, and redeemable at par commencing April 21, 2016.

(6) Redeemable at the greater of par and the Canada Yield Price prior to June 21, 2012, and redeemable at par commencing June 21, 2012.

(7) Certain subordinated debt recorded amounts include quasi fair value adjustments of \$6 million as they are included as part of fair value hedges (see Note 9).