

Financial Condition Review

Summary Balance Sheet (\$ millions)

As at October 31	2008	2007	2006	2005	2004
Assets					
Cash resources	21,105	22,890	19,608	20,721	18,045
Securities	100,138	98,277	67,411	57,034	49,849
Net loans and acceptances	214,995	201,188	190,994	174,337	156,248
Other assets	79,812	44,169	41,965	41,770	36,764
	416,050	366,524	319,978	293,862	260,906
Liabilities and Shareholders' Equity					
Deposits	257,670	232,050	203,848	193,793	175,190
Other liabilities	134,761	114,330	96,743	82,158	69,005
Subordinated debt	4,315	3,446	2,726	2,469	2,395
Preferred share liability	250	250	450	450	450
Capital trust securities	1,150	1,150	1,150	1,150	1,150
Shareholders' equity	17,904	15,298	15,061	13,842	12,716
	416,050	366,524	319,978	293,862	260,906

Total assets increased \$49.5 billion or 13.5% from last year to \$416.0 billion at October 31, 2008. There was a \$35.6 billion increase in other assets, a \$13.8 billion increase in net loans and acceptances, a \$1.9 billion increase in securities and a \$1.8 billion decrease in cash resources. The stronger U.S. dollar increased assets (and liabilities and shareholders' equity) by \$47.4 billion.

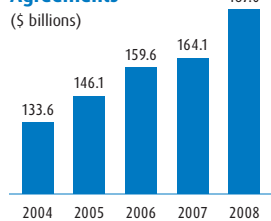
Total liabilities and shareholders' equity increased \$49.5 billion or 13.5%. There was a \$25.6 billion increase in deposits, a \$20.4 billion increase in other liabilities, a \$0.9 billion increase in subordinated debt and a \$2.6 billion increase in shareholders' equity.

Securities (\$ millions)

As at October 31	2008	2007	2006	2005	2004
Investment	—	—	14,166	12,936	15,017
Trading	66,032	70,773	51,820	44,087	34,821
Available-for-sale	32,115	26,010	—	—	—
Other	1,991	1,494	1,414	—	—
Loan substitute	—	—	11	11	11
	100,138	98,277	67,411	57,034	49,849

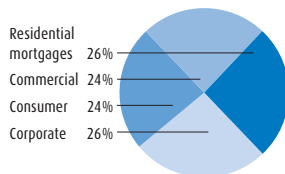
Available-for-sale securities increased \$6.1 billion from \$26.0 billion in 2007, primarily due to the increase in BMO-underwritten Canadian mortgages held in the form of government-insured mortgage-backed securities and the reclassification of \$2.0 billion in trading securities to available-for-sale. Trading securities decreased \$4.7 billion to \$66.0 billion. There were lower holdings of asset-backed commercial paper and equity positions in support of equity derivatives, as well as a reduction due to the impact of the reclassification of securities from trading to available-for-sale. These factors were partially offset by the effect of the stronger U.S. dollar and a change in the asset mix that lowered

Net Loans – Excluding Securities Borrowed or Purchased under Resale Agreements



The stronger U.S. dollar accounted for \$14 billion of loan growth.

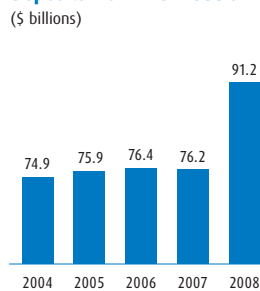
Portfolio Diversification – Gross Loans and Acceptances*



*Excluding securities borrowed or purchased under resale agreements

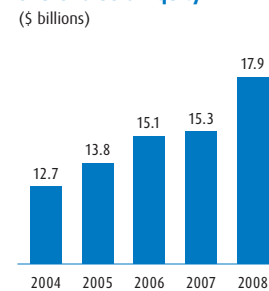
The portfolio remains well diversified, with a lower level of residential mortgages than in prior years.

Deposits from Individuals



The increase in 2008 reflects growth in term investments and the \$4.5 billion impact of the stronger U.S. dollar.

Shareholders' Equity



The increase was due to shares issued to acquire Ozaukee and to a decline in accumulated other comprehensive loss.

investments in reverse repurchase agreements in favour of investing in the securities that had served as collateral on the loans. Within the trading securities portfolio, there was a shift away from corporate debt and equity into more stable and secure Canadian and U.S. government securities.

Loans and Acceptances (\$ millions)

As at October 31	2008	2007	2006	2005	2004
Residential mortgages	49,343	52,429	63,321	60,871	56,444
Consumer instalment and other personal loans	43,737	33,189	30,418	27,929	24,887
Credit cards	2,120	4,493	3,631	4,648	3,702
Businesses and governments	84,151	62,650	56,030	47,803	44,559
Acceptances	9,358	12,389	7,223	5,934	5,355
Securities borrowed or purchased under resale agreements	28,033	37,093	31,429	28,280	22,609
Gross loans and acceptances	216,742	202,243	192,052	175,465	157,556
Allowance for credit losses	(1,747)	(1,055)	(1,058)	(1,128)	(1,308)
Net loans and acceptances	214,995	201,188	190,994	174,337	156,248

Net loans and acceptances increased \$13.8 billion to \$215.0 billion, which reflected approximately \$17 billion in growth due to the impact of the stronger U.S. dollar. Loans to businesses and governments, including acceptances, increased \$18.5 billion due to growth in demand from businesses and other financial institutions. Consumer instalment and other personal loans increased \$10.5 billion, reflecting healthy personal lending markets and growth from acquisitions. The consumer portfolio remains well diversified, with growth in both Canada and the United States. Residential mortgages decreased \$3.1 billion, reflecting the conversion of BMO-underwritten Canadian mortgages to government-insured mortgage-backed securities. Credit card loans decreased \$2.4 billion, reflecting securitization activity during the year. Securities borrowed or purchased under resale agreements decreased \$9.1 billion as a result of lower trading volume.

Table 11 on page 96 provides a comparative summary of loans by geographic location and product. Table 13 on page 97 provides a comparative summary of net loans in Canada by province and industry. Loan quality is discussed on page 41 and further details on loans are provided in Notes 4, 5 and 7 to the financial statements, starting on page 113.

Other Assets

Other assets increased \$35.6 billion to \$79.8 billion, primarily due to derivative financial instrument assets. The year-over-year increase in derivative assets and liabilities of \$33.0 billion and \$26.5 billion, respectively, was primarily due to movements in interest rates, foreign exchange rates and underlying equity values as well as client-driven volume. Volatility in exchange and interest rates increases the value of

derivative assets and liabilities, usually comparably. These positions are managed with other trading assets, and any changes in volume and value of the derivative instruments are generally offset by changes in the associated trading assets.

Deposits (\$ millions)

As at October 31	2008	2007	2006	2005	2004
Banks	30,346	34,100	26,632	25,473	20,654
Businesses and governments	136,111	121,748	100,848	92,437	79,614
Individuals	91,213	76,202	76,368	75,883	74,922
	257,670	232,050	203,848	193,793	175,190

Deposits increased \$25.6 billion to \$257.7 billion. The stronger U.S. dollar increased deposits by \$24.3 billion. Deposits from businesses and governments, which account for 53% of total deposits, increased \$14.4 billion and deposits from individuals, which account for 35% of total deposits, increased \$15.0 billion. Deposits by banks, which account for 12% of total deposits, decreased \$3.8 billion. Further details on the composition of deposits are provided in Note 15 on page 130 of the financial statements and in the Liquidity and Funding Risk section on page 81.

Other Liabilities

Other liabilities increased \$20.4 billion to \$134.8 billion. Derivative-related liabilities increased \$26.5 billion, increasing at a rate lower than the increase in derivative-related assets. Acceptances decreased \$3.0 billion and there was a \$2.0 billion increase in other liabilities. Securities sold but not yet purchased decreased \$6.2 billion and securities lent or sold under repurchase agreements increased \$1.2 billion, both due to lower trading volume. Further details on the composition of other liabilities are provided in Note 16 on page 131 of the financial statements.

Subordinated Debt

Subordinated debt increased \$0.9 billion to \$4.3 billion. There was one new issuance in 2008, as detailed in Note 18 on page 132 of the financial statements.

Shareholders' Equity

Shareholders' equity increased \$2.6 billion to \$17.9 billion. The increase was largely related to a decrease in accumulated other comprehensive loss as a result of exchange gains on our net investment in foreign operations, and to higher share capital and retained earnings. BMO's Consolidated Statement of Changes in Shareholders' Equity on page 106 provides a summary of items that increase or reduce shareholders' equity, while Note 21 on page 135 of the financial statements provides details on the components of and changes in share capital. Details of our enterprise-wide capital management practices and strategies can be found on page 60.

Enterprise-Wide Capital Management

Capital Management Framework

Our capital management framework is designed to maintain a strong capital position in a cost-effective structure that: meets our target regulatory capital ratios; meets our internal assessment of required economic capital; is consistent with our targeted credit ratings; underpins our operating groups' business strategies; and builds long-term shareholder value. Our approach includes establishing limits, goals and performance measures for the management of balance sheet positions, risk levels and minimum capital amounts, as well as issuing and redeeming capital instruments to obtain the most cost-effective capital structure possible. Our disciplined approach to capital management supports our long-standing commitment to enhance shareholder value.

The key elements of our capital management framework are approved by the Board pursuant to its annual review of our capital management corporate policy and capital plan, which includes the results of the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP was formally implemented in 2008 to meet the requirements of Basel II, which was adopted in Canada on November 1, 2007. The ICAAP is an integrated process employed to evaluate capital adequacy, and establishes capital targets and capital strategies that take into consideration the strategic direction and risk appetite of the organization. The ICAAP and capital plan are developed in conjunction with BMO's annual business plan, ensuring an alignment between our business strategies, regulatory capital and economic capital requirements, and capital availability. Assessments of actual and forecast capital adequacy are monitored against the capital plan throughout the year, and the capital plan is updated based on changes in our business activities, risk profile or operating environment.

BMO uses both regulatory capital and economic capital to evaluate business performance and as the basis for strategic, tactical and transactional decision-making. By allocating capital to operating units and measuring their performance with respect to the capital necessary to support the risks in their business, we maximize our risk-adjusted return to shareholders. We also ensure that we maintain a well-capitalized position to protect our stakeholders from the risks inherent in our various businesses, while still allowing the flexibility to deploy resources in the high-return, strategic growth activities of our operating groups. Capital in excess of what is necessary to support our line of business activities is held in Corporate Services.

Regulatory Capital Review

A new regulatory capital management framework was implemented in Canada on November 1, 2007. The new framework, Basel II, replaced Basel I, the framework utilized for the past 20 years. The Basel II methodology was applied prospectively, effective November 1, 2007, and prior-year data is not available on a comparable basis.

Basel II is an important step in the alignment of regulatory and economic capital requirements. It represents an improvement over Basel I in that it established regulatory capital requirements that are more sensitive to a bank's risk profile. The Office of the Superintendent of Financial Institutions (OSFI), our regulator, approved BMO's application to apply the Advanced Internal Ratings Based (AIRB) Approach for calculations related to credit risk in our portfolio and the Standardized Approach for calculations related to operational risk. We were granted a waiver, ending after fiscal 2010, to apply the Standardized Approach in determining the credit risk-weighted assets of our subsidiary Harris Bankcorp, Inc.

The AIRB Approach is the most advanced of the approaches to determining credit risk capital requirements under Basel II. It utilizes more sophisticated techniques to measure risk-weighted assets at the borrower level, based on sound risk management principles, including consideration of estimates of the probability of default, the likely loss given a default, exposure at the time of default, term to maturity

The Tier 1 Capital Ratio, Total Capital Ratio and Assets-to-Capital Multiple are the primary capital measures monitored by OSFI.

The **Tier 1 Capital Ratio** is defined as Tier 1 capital divided by risk-weighted assets.

The **Total Capital Ratio** is defined as total capital divided by risk-weighted assets.

The **Assets-to-Capital Multiple** is calculated by dividing total assets, including specified off-balance sheet items net of other specified deductions, by total capital.

and the type of Basel Asset Class exposure. These risk parameters are determined using historical portfolio data supplemented by benchmarking, and are updated periodically. The validation procedures related to these parameters are in place and are enhanced periodically in order to appropriately quantify and differentiate risks so that they reflect changes in economic and credit conditions. Basel I utilized an approach where risk-weighted assets were determined primarily based on balance sheet volumes rather than credit quality.

Under the Standardized Approach, operational risk capital requirements are determined by the size and type of our lines of business. Gross income, as defined under Basel II, serves as a proxy for the size of the line of business and an indicator of operational risk. Gross income is segmented into eight regulatory business lines by business type, and each segment amount is multiplied by a corresponding factor prescribed by the Basel II framework to determine its operational risk capital requirement.

The methodology for determining risk-weighted assets related to market risk did not change materially between Basel I and Basel II.

Total risk-weighted assets on a Basel II basis were \$191.6 billion at October 31, 2008. Credit risk represents the most significant contributor to BMO's risk-weighted assets. In 2009, we anticipate continued disciplined growth in risk-weighted assets and deployment of capital to strategically advantaged businesses. The table below provides a breakdown of our risk-weighted assets by risk type.

Risk-Weighted Assets (\$ millions)

	2008
Credit risk	163,616
Market risk	11,293
Operational risk	16,699
Total risk-weighted assets	191,608

Tier 1 capital represents more permanent forms of capital, and primarily includes common shareholders' equity, preferred shares and innovative hybrid instruments, less a deduction for goodwill and excess intangible assets and certain other deductions required under Basel II. Our Tier 1 capital was \$18.7 billion as at October 31, 2008.

Total capital includes Tier 1 and Tier 2 capital, net of certain deductions. Tier 2 capital is primarily comprised of subordinated debentures and the eligible portion of the general allowance for credit losses. Deductions from Tier 2 capital are primarily comprised of our investments in non-consolidated subsidiaries and substantial investments. Total capital was \$23.3 billion as at October 31, 2008.

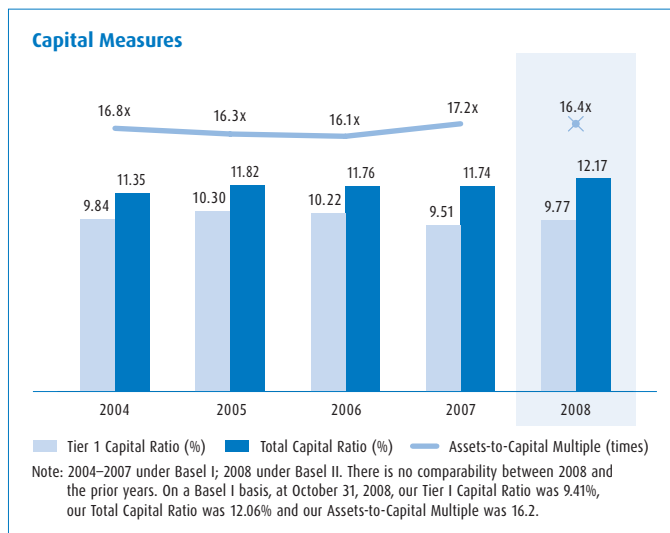
As of November 1, 2008, investments in non-consolidated entities and substantial investments, excluding insurance subsidiaries, are subject to a 50% deduction from Tier 1 capital and a 50% deduction from Tier 2 capital. The change would have reduced our Tier 1 Capital Ratio by 11 basis points if it had been implemented on October 31, 2008.

Basel II Regulatory Capital (\$ millions)

	2008
Common shareholders' equity	15,974
Non-cumulative preferred shares	1,996
Innovative Tier 1 Capital instruments	2,486
Non-controlling interest in subsidiaries	39
Goodwill and excess intangible assets	(1,635)
Accumulated net after-tax unrealized loss from available-for-sale equity securities	(15)
Net Tier 1 Capital	18,845
Securitization-related deductions	(115)
Expected loss in excess of allowance (AIRB Approach)	-
Other deductions	(1)
Adjusted Tier 1 Capital	18,729
Subordinated debt	4,175
Trust subordinated notes	800
Eligible portion of general allowance for credit losses	494
Total Tier 2 Capital	5,469
Securitization-related deductions	(6)
Investments in non-consolidated subsidiaries/substantial investments	(871)
Adjusted Tier 2 Capital	4,592
Total Capital	23,321

The Tier 1 Capital Ratio is our key measure of capital adequacy. Our Tier 1 Capital Ratio was 9.77% as at October 31, 2008. The ratio is strong and was well above our target for 2008 of maintaining a ratio of at least 8.0%. In 2009, our target continues to be to maintain a strong regulatory position, with a Tier 1 Ratio in excess of 8.0%.

Our Total Capital Ratio was 12.17% as at October 31, 2008. Both our Tier 1 and Total Capital Ratios remain well above OSFI's stated minimum capital ratios of 7% and 10%, respectively, for a well-capitalized financial institution. BMO's Assets-to-Capital Multiple was 16.4 as at October 31, 2008. The multiple remains well below the maximum permitted by OSFI.

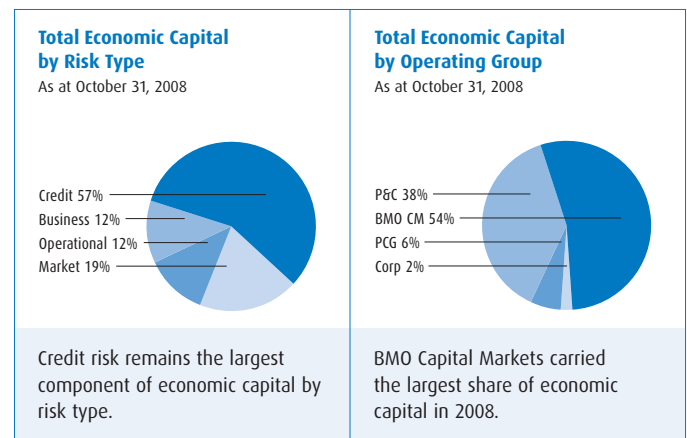


As a result of the implementation of Basel II in fiscal 2008, amounts reported for risk-weighted assets, capital and capital ratios are not comparable on a year-over-year basis. On a Basel I basis, at October 31, 2008 our Tier 1 Capital Ratio was 9.41% and our Total Capital Ratio was 12.06%. In fiscal 2007, they were 9.51% and 11.74%, respectively.

As noted in the Provisions for Income Taxes section, BMO hedges the foreign exchange risk arising from our net investment in our U.S. operations by funding the net investment in U.S. dollars. This strategy reduces the impact on BMO's capital ratios of changes in foreign exchange rates, as the effect of foreign currency adjustments to Tier 1 capital arising from an increase or decrease in the value of the Canadian dollar is largely offset by the change in the Canadian dollar equivalent of U.S.-dollar-denominated risk-weighted assets.

Economic Capital Review

Economic capital is our internal assessment of the risks underlying BMO's business activities. It represents management's estimation of the likely magnitude of economic losses that could occur if adverse situations arise, and allows returns to be adjusted for risks. Economic capital is calculated for various types of risk – credit, market (trading and non-trading), operational and business – where measures are based on a time horizon of one year. For further discussion of these risks, refer to the Enterprise-Wide Risk Management section on page 73. Economic capital is a key element of our risk-based capital management and ICAAP process.



Capital Management Activities

As part of ongoing efforts to manage capital on a cost-effective basis, BMO undertook a number of issuances and redemptions during 2008. We issued \$250 million of 5.80% Class B Preferred shares, Series 15 and \$300 million of 5.20% Class B Preferred shares, Series 16. On November 25, 2008, we announced a public offering of \$150 million of 6.50% Class B Preferred shares, Series 18. We also issued \$900 million of Series F Medium-Term Notes, First Tranche. We redeemed our \$150 million 5.75% Debentures, Series A MTN, Second Tranche in fiscal 2008 and our \$250 million Class B Preferred shares, Series 6 on November 25, 2008. Further details are provided in Notes 18 and 21 on pages 132 and 135 of the financial statements.

On September 4, 2008, we announced a new normal course issuer bid, commencing September 8, 2008 and ending September 7, 2009, under which we may repurchase for cancellation up to 15 million BMO common shares, representing approximately 3% of our common shares. No common shares were repurchased under our previous 12-month normal course issuer bid, which expired on September 5, 2008.

Our share repurchase program is primarily used to offset, over time, the impact of dilution caused by issuing shares through the exercise of stock options, our dividend reinvestment plan and exchangeable shares. During the year ended October 31, 2008, 7.5 million shares were issued as consideration for the Ozaukee acquisition and for the reasons mentioned above. In 2007, BMO repurchased 2.2 million more shares than were issued.

Dividends

BMO's target dividend payout range is 45% to 55% of net income available to common shareholders, the highest among Canada's major banks. The target is reflective of our confidence in our continued ability to grow earnings and our strong capital position. Dividends are generally increased in line with long-term trends in earnings per share growth, while sufficient earnings are retained to support anticipated business growth, fund strategic investments and provide continued support for depositors.

Dividends declared per common share in 2008 totalled \$2.80, up 3.3% from \$2.71 in 2007. Dividends declared in 2008 represent 74.0% of net income available to common shareholders, above our target dividend payout range of 45% to 55%. At year-end, BMO's common shares provided a 6.51% annual dividend yield based on the closing share price. On November 25, 2008, BMO's Board of Directors declared a quarterly dividend on common shares of \$0.70 per share, unchanged from the prior quarter.

Until we have a better understanding of the likely length and extent of the current economic slowdown, we do not anticipate increasing common share dividends. We believe the current dividend rate is appropriate, based on BMO's earning power, and we continue to focus on improving our core business performance to return the dividend payout ratio to our target range.

Eligible Dividends Designation

For the purposes of the *Income Tax Act* (Canada) and any similar provincial and territorial legislation, BMO designates all dividends paid on both its common and preferred shares after December 31, 2005, and all dividends (including deemed dividends) paid thereafter, as "eligible dividends" unless BMO indicates otherwise.

Outstanding Shares and Securities Convertible into Common Shares

As at November 19, 2008	Number of shares or dollar amount	Dividends declared per share		
		2008	2007	2006
Common shares	506,053,000	\$ 2.80	\$ 2.71	\$ 2.26
Class B Preferred shares				
Series 5	\$ 200,000,000	\$ 1.33	\$ 1.33	\$ 1.33
Series 13	\$ 350,000,000	\$ 1.13	\$ 0.96	—
Series 14	\$ 250,000,000	\$ 1.48	—	—
Series 15	\$ 250,000,000	\$ 0.94	—	—
Series 16	\$ 300,000,000	\$ 0.55	—	—
Convertible into common shares:				
Class B Preferred shares (1)				
Series 4 (2)	—	\$ —	\$ 0.91	\$ 1.20
Series 6 (3)	\$ 250,000,000	\$ 1.19	\$ 1.19	\$ 1.19
Series 10	US\$ 300,000,000	US\$ 1.49	US\$ 1.49	US\$ 1.49
Stock options				
— vested	14,325,000			
— nonvested	5,724,000			

(1) Convertible preferred shares may be exchanged for common shares in future years on a pro-rata basis based on 95% of the average trading price of common shares for the 20 days ending four days prior to the exchange date.

(2) Redeemed in August 2007.

(3) Redeemed on November 25, 2008.

Note 21 on page 135 of the financial statements includes details on share capital.

Financial Instruments in the Difficult Credit Environment

At the request of the G7 finance ministers and central bank governors, The Financial Stability Forum issued a report in April 2008 on enhancing market and institutional resilience. Among its recommendations, it encouraged enhanced disclosure related to financial instruments that markets now consider to carry higher risk. We have expanded our discussion of certain financial instruments in keeping with these developments.

Caution

Given the uncertainty in the capital markets environment, our capital market instruments could experience further valuation gains and losses due to changes in market value.

This section, Financial Instruments in the Difficult Credit Environment, contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements on page 30.

Subprime First Mortgage Loans

In the United States, subprime loans are typically considered to be those made to borrowers with credit bureau scores of 620 or less. We do not originate subprime mortgages through a subprime mortgage program in the United States; however, we make loans available in the United States to individuals with credit scores below 620 as part of our lending requirements under the *Community Reinvestment Act*. We also occasionally lend to parties with credit scores below 620 when there are other strong qualification criteria. As a result, we have US\$0.25 billion of first mortgage loans outstanding that had subprime characteristics at the date of authorization. Of this, US\$5.4 million or 2.14% was 90 days or more in arrears at October 31, 2008. This compares with a rate of 0.94% for BMO's total U.S. first mortgage loan portfolio.

In Canada, BMO does not have any subprime mortgage programs, nor do we purchase subprime mortgage loans from third-party lenders. BMO mortgage lending decisions incorporate a full assessment of the customer and loan structure. Credit score is only one component of the adjudication process and consequently, we do not categorize loans based upon credit scores alone. There is a nominal amount of subprime mortgage loans held in certain BMO-sponsored Canadian conduits that hold third-party assets, as described in the discussion of those conduits that follows.

We also had net exposure of US\$159 million at October 31, 2008 to a business that buys distressed mortgages (including subprime mortgages) at a discounted price. This exposure is one of the three accounts discussed in the BMO-Sponsored Securitization Conduits section that follows.

Alt-A First Mortgage Loans

In the United States, Alt-A loans are generally considered to be loans for which borrower qualifications are subject to limited verification. The U.S. loan portfolio had two loan programs that met this definition — our Easy Doc and No Doc programs. Loans under the No Doc program, which comprise most of the exposure in this class, required minimum credit bureau scores of 660 and maximum loan-to-value ratios of 80% (90% with private mortgage insurance). Due to these lending requirements, the credit quality of our Alt-A portfolio is strong and the loans have performed well. Our direct Alt-A loans totalled US\$1.6 billion at October 31, 2008. Of this, US\$10 million or 0.62% was 90 days or more in arrears. This compares with a rate of 0.94% for BMO's total U.S. first mortgage loan portfolio. We discontinued the Easy Doc and No Doc programs in the third quarter of 2008.

Subprime and Alt-A loans are generally considered to carry higher risk than traditional prime loans. We also consider loans to customers with credit scores between 620 and 660 and a loan-to-value ratio above 80% (without private mortgage insurance) to be a higher-risk component of our portfolio. This component of the U.S. loan portfolio was negligible.

In Canada, we do not have a mortgage program that we consider Alt-A. As part of our credit adjudication process, we may choose not to verify income or employment for customers when there are other strong characteristics that support the creditworthiness of the loan. We also have a Newcomers to Canada/non-resident mortgage program that permits limited income verification but has other strong qualification criteria. At October 31, 2008, there was approximately \$2.2 billion outstanding under this program. Of this, only \$11 million or 0.51% was 90 days or more in arrears, reflecting the strong credit quality of these loans.

Home Equity Products

Home equity products are secured by the homeowner's equity and rank subordinate to any existing first mortgage on the property. In the United States, we have a US\$5.0 billion home equity loan portfolio, which amounted to 2.5% of BMO's total loan portfolio at October 31, 2008. Of the total portfolio, loans of US\$0.4 billion were extended to customers with original credit bureau scores below 620, and would be categorized as subprime loans. Of these, only US\$3 million or 0.8% of the loans were 90 days or more in arrears as at October 31, 2008.

BMO also offered two limited documentation programs within the home equity portfolio in the United States, which would be categorized as Alt-A if they were in the first mortgage loan portfolio. As of October 31, 2008, the amount authorized under these programs was US\$1.0 billion, and US\$0.6 billion was outstanding. Loans made under these programs have the same strong credit score and loan-to-value requirements as the first mortgage loan portfolio, and as such the portfolio has performed well. As at October 31, 2008, US\$4 million or 0.68% of the portfolio was 90 days or more in arrears. This compares with a rate of 0.57% for BMO's total U.S. home equity loan portfolio. We discontinued these programs in the third quarter of 2008.

We also consider home equity loans to customers with credit bureau scores above 620 but below 660 to be a higher-risk component of the loan portfolio. This component of the portfolio was US\$0.3 billion as at October 31, 2008. Of these, US\$3 million or 0.88% of the loans were 90 days or more in arrears.

Loans having a loan-to-value ratio higher than 90% at issuance represent US\$0.4 billion or 7% of the U.S. home equity loan portfolio as of October 31, 2008. Loans having a loan-to-value ratio higher than 80% to customers with a credit bureau score below 660 at the time of issuance represent US\$0.3 billion.

In Canada, we have a \$13.8 billion home equity line of credit portfolio (\$30.1 billion authorized). The portfolio is high quality, with only 0.08% of loans in the portfolio 90 days or more in arrears. Of these lines of credit, one product line is offered only in first mortgage position and represents approximately 54% of the total portfolio. We also have a \$0.3 billion home equity instalment loan portfolio, with only 0.23% of loans in the portfolio 90 days or more in arrears.

Leveraged Finance

Leveraged finance loans are defined by BMO as loans to private equity businesses and mezzanine financings where our assessment indicates a higher level of credit risk. BMO has limited exposure to leveraged finance loans, representing less than 1% of our total assets, with \$3.6 billion outstanding as at October 31, 2008 (\$5.8 billion authorized).

Monoline Insurers and Credit Derivative Product Companies

At October 31, 2008, BMO's direct exposure to companies that specialize in providing default protection amounted to \$573 million in respect of the mark-to-market value of counterparty derivatives and \$19 million in respect of the mark-to-market value of traded credits.

Approximately 88% of the \$573 million exposure is related to counterparties rated AA or better and approximately 53% of the \$19 million exposure is related to counterparties rated BBB- or better. The notional value of direct contracts involving monoline insurers and credit derivative product companies was approximately \$4.5 billion. Most contracts with these companies relate to collateralized debt obligations and credit default swaps within our trading portfolio and provide protection against losses arising from defaults. These instruments have minimal subprime exposure. At October 31, 2008, BMO also held \$1,176 million of securities insured by monoline insurers, of which \$795 million were municipal bonds. Approximately 79% of the municipal bond portfolio is rated investment grade, including the benefits of the insurance guarantees. Approximately 68% of the municipal bond holdings have ratings exclusive of the insurance guarantees and all of those are rated investment grade.

BMO-Sponsored Securitization Conduits

BMO sponsors ten securitization conduits which are not consolidated, consisting of three Canadian vehicles that hold BMO assets (Bank Securitization Vehicles), six client-funding vehicles in Canada (Canadian Customer Securitization Vehicles) and one client-funding vehicle in the United States (U.S. Customer Securitization Conduit). We earn fees for providing services related to the securitizations, including liquidity, distribution and financial arrangement fees for supporting the ongoing operations of the vehicles. These fees totalled approximately \$68 million in 2008 and \$80 million in 2007.

Bank Securitization Vehicles

Periodically, we sell loans to off-balance sheet entities or trusts, either for capital management purposes or to obtain alternate sources of funding. Gains on sales to the securitization vehicles, as well as revenues paid to us for servicing the loans sold, are recognized in income.

BMO has retained interests in our three bank securitization vehicles, as we are sometimes required to purchase subordinated interests or maintain cash deposits in the entities, and we have also recorded deferred purchase price amounts. These latter amounts represent gains on sales to securitization vehicles that have not been received in cash. Retained interests recorded as assets in our Consolidated Balance Sheet as at October 31, 2008 and 2007 were \$882 million and \$388 million, respectively. In the event there are defaults on the assets held by the vehicles, retained interests may not be recoverable and would then be written down. In addition, prepayments and changes in interest rates will impact the expected cash flows from the vehicles, which may result in write-downs of retained interests. During the year ended October 31, 2008, there was a \$5 million write-down of retained interests in bank securitization vehicles (\$27 million of write-downs in 2007).

The assets of two of the conduits consist of Canadian residential mortgages and the third holds Canadian credit card loans transferred from BMO. BMO's investment in the asset-backed commercial paper (ABCP) of conduits that hold residential mortgages totalled \$0.5 billion at October 31, 2008 (\$0.4 billion in 2007). No losses have been recorded on these investments. We have provided \$5.1 billion in liquidity facilities to the two conduits that hold residential mortgages and no amounts were drawn against these facilities at October 31, 2008. We have not provided liquidity facilities to the conduit that holds credit card loans. Further information on the impact of securitization activities on the Consolidated Balance Sheet is outlined in Note 8 on page 118 of the financial statements.

Canadian Customer Securitization Vehicles

The six customer securitization vehicles we sponsor in Canada assist our customers with the securitization of their assets to provide them with alternate sources of funding. These vehicles provide clients with access to financing in the commercial paper markets by allowing them to sell their assets into these vehicles, which then issue commercial paper to investors to fund the purchases. In almost all cases, the sellers continue to service the transferred assets and are first to absorb any realized losses on the assets.

In general, investors in the commercial paper have recourse only to the assets of the related vehicle. Our exposure to losses relates to our investment in commercial paper issued by the vehicles, derivative contracts we have entered into with the vehicles and the liquidity support we provide through backstop liquidity facilities. We use our credit adjudication process in deciding whether to enter into these agreements just as we do when extending credit in the form of a loan.

BMO sometimes enters into derivative contracts with these vehicles to enable them to manage their exposures to interest rate and foreign exchange rate fluctuations. The fair value of such contracts at October 31, 2008 was \$55 million, which was recorded as a derivative asset in our Consolidated Balance Sheet (derivative liability of \$20 million in 2007).

BMO consolidates the accounts of two of the six customer securitization vehicles, as the majority of the gains or losses of those vehicles are expected to accrue to BMO. One of the vehicles holds notes of another conduit that are rated R-1 (low) by DBRS and has \$65 million of assets. The other vehicle is a conduit whose notes are rated R-1 (mid) by DBRS and has \$200 million of assets. Their combined assets include \$8 million of mortgage loans with subprime characteristics, \$66 million of mortgage loans with Alt-A characteristics and \$13 million of small commercial mortgage loans. No losses have been recorded on BMO's exposure to these vehicles.

BMO's investment in the asset-backed commercial paper (ABCP) of the four non-consolidated conduits totalled \$2.1 billion at October 31, 2008 (\$5.6 billion in 2007). No losses have been recorded on these investments.

BMO provided liquidity support facilities to the four non-consolidated conduits totalling \$11.0 billion at October 31, 2008 (\$20.8 billion in 2007). This amount comprised part of other credit instruments outlined in Note 5 on page 115 of the financial statements. All of these facilities remain undrawn. The assets of each of these vehicles consist primarily of high-quality, diversified pools of Canadian auto receivables and Canadian residential mortgages. These asset classes together comprise 67% to 92% of the assets of the four conduits. The mortgages in the conduits include \$111 million of Canadian residential mortgage loans with subprime characteristics, \$948 million of Canadian residential mortgage loans with Alt-A characteristics and \$233 million of small commercial mortgage loans. There are no collateralized debt obligations (CDOs) and no exposure to monoline insurers in these conduits.

In the event we choose to or are required to terminate our relationship with a customer securitization vehicle, we would be obligated to hold any associated derivatives until their maturity. We would no longer receive fees for providing services relating to the securitizations, as previously described.

U.S. Customer Securitization Conduit

BMO provided committed liquidity support facilities of US\$8.2 billion to our ABCP U.S. multi-seller conduit at October 31, 2008 (US\$11.5 billion in 2007). The conduit provides funding to diversified pools of portfolios through 91 individual securitization transactions with an average facility size of US\$90 million. At present, the size of the pools ranges from US\$1.9 million to US\$450 million. The ten largest pools comprise 33% of the portfolio. Committed amounts comprise a wide range of asset classes, including mid-market corporate loans (24%), commercial real estate loans and leases (13%), auto loans and leases (12%), corporate loans (12%), consumer instalment loans (8%) and equipment loans and leases (8%). Residential mortgages comprise 2.5% of the portfolio, of which 0.3% are classified as subprime or Alt-A.

Approximately 60% of the conduit's commitments have been rated by Moody's or S&P, and all of those are rated A or higher. Approximately \$1.5 billion of the commitments are insured by monolines, primarily MBIA and Ambac, the ratings of which, while recently downgraded to Baa1 by Moody's and AA by S&P, have no impact on the performance of the underlying assets. None of the insurance guarantees involve mortgages or asset-backed securities/structured-finance CDOs. All of the underlying transactions are performing in accordance with their terms and conditions.

The conduit had US\$6.5 billion of commercial paper outstanding at October 31, 2008, down from US\$8.3 billion in 2007. The ABCP of the conduit is rated A1 by S&P and P1 by Moody's. BMO has not invested in the conduit's ABCP. Outstanding commercial paper has consistently been purchased by third-party investors, notwithstanding market disruptions, and pricing levels are in line with those of top-tier ABCP conduits in the United States.

In the first half of this fiscal year, as a result of the deterioration in credit conditions and in accordance with the terms of the supporting liquidity agreements, BMO directly funded three commercial accounts that have exposure to the U.S. housing sector totalling US\$851 million. The net book value of the three accounts was reduced to US\$296 million at October 31, 2008, having been lowered by payments and loss provisions. The credit quality of two of the accounts began to deteriorate and specific provisions have been taken in response. BMO's provision for credit losses reflects US\$327 million related to these accounts in 2008. In the fourth quarter of 2008, we noted some deterioration in certain of the conduit's portfolios; however, all of them were performing at that time.

BMO is also a counterparty to derivative contracts with the conduit that are used to manage its exposure to interest rates. The fair value of derivative contracts outstanding with the conduit and recorded in our Consolidated Balance Sheet was a derivative asset of \$1 million as at October 31, 2008 (\$nil in 2007). BMO is not required to consolidate the conduit, as the conduit has issued an expected-loss note. The holder of the note consolidates the conduit as the noteholder is exposed to the majority of expected losses.

In the event we choose or are required to terminate our relationship with the conduit, we would be required to settle any associated derivative contracts at their fair value and would no longer receive fees for the administration of the conduit.

Non-Bank-Sponsored Canadian Securitization Conduits

We hold ABCP of six non-bank-sponsored Canadian conduits with a carrying value of \$187 million as at October 31, 2008 (\$308 million in 2007). We have not provided backstop liquidity commitments to these conduits.

We recorded impairment charges of \$70 million in the year ended October 31, 2008 (\$54 million in 2007) on our investments in the conduits. Realization on our investment in the ABCP of the non-bank-sponsored conduits will be affected by the terms of the agreement reached among certain non-bank-sponsored Canadian ABCP conduits and investors known as the Montreal Accord. BMO is fully supportive of the Montreal Accord.

Structured Finance Vehicles

We facilitate development of investment products by third parties, including mutual funds, unit investment trusts and other investment funds that are sold to retail investors. We enter into derivative contracts with these funds to help the funds provide investors with the desired exposure and hedge our exposure related to these derivatives by investing in other funds. In addition, we also sponsor certain vehicles that provide investors with access to debt portfolios through the issuance of commercial paper. We consolidate those vehicles where our interests expose us to a majority of the expected losses or residual returns, or both. Assets held by the vehicles in which we have a significant variable interest but which are not consolidated totalled \$132 million as at October 31, 2008 (\$353 million in 2007). Our exposure to loss from vehicles related to this activity is limited to the amount of our investment, which totalled \$40 million as at October 31, 2008 (\$99 million in 2007). In the event we choose to or are required to terminate our relationship with these vehicles, we would be required to settle any associated derivative contracts at their fair value.

Credit Protection Vehicle

We also sponsor Apex Trust (Apex), a Canadian special purpose vehicle that provides credit protection via credit default swaps through 12 investment-grade-rated leveraged super-senior tranches of diversified pools of U.S. and European corporate credits. Apex has exposure to approximately 450 corporate credits that are diversified by geographic region and industry, of which 74% are rated investment grade.

On May 13, 2008, Apex was restructured and investors exchanged their original holdings for mid-term notes issued by Apex with terms of five and eight years (the Notes). Apex issued \$2.2 billion of Notes, to which BMO has an exposure of \$815 million. Another party to the restructuring has a \$600 million exposure to the Notes through a total return swap with BMO. The total return swap has a price reset in September 2009 based on a reference index and BMO has the option to terminate the swap at that time. If BMO chooses to extend the swap, its cost may increase due to the price reset, depending on market conditions at that time.

A senior funding facility of \$1.13 billion (the Senior Facility) was also put in place pursuant to the restructuring, with BMO providing \$1.03 billion of that facility. Advances under the Senior Facility rank ahead of the Notes. As at October 31, 2008, \$553 million had been drawn against BMO's committed share of the Senior Facility to fund collateral calls arising from declining mark-to-market values of the underlying credit default swaps. The Notes and the Senior Facility total approximately \$3.3 billion and represent 16% of the approximately \$21 billion of net notional credit positions held by the vehicle.

Under the terms of the restructuring, BMO also entered into credit default swap contracts with the swap counterparties and into offsetting swaps with Apex. BMO has exposure to the swap counterparties for realized credit losses on the notional credit positions if those credit losses exceed the aggregate \$3.3 billion value of the Notes and the Senior Facility.

In 2007, we recorded charges of \$80 million related to our exposure to Apex. In 2008, we recorded another \$110 million of charges and, at the end of 2008, had \$815 million exposure to the Notes, with a carrying value of \$625 million. We also recorded \$120 million of charges in 2008 in relation to the total return swap transaction. The foregoing charges largely related to deterioration in the credit quality of the underlying portfolios and significant increases in credit spreads given current market conditions.

Realized credit losses on the Apex Notes will only be incurred should losses on defaults in the underlying credits exceed the first-loss protection on a tranche. There were a number of credit events in the underlying portfolios that resulted in a reduction in Apex's first-loss protection on nine of the tranches. The two tranches with lower levels of first-loss protection experienced reductions in first-loss protection from 12.0% to an estimated 11.2% on a tranche with a notional amount of \$342 million, and from 8.3% to an estimated 7.0% on a tranche with a notional amount of \$875 million. These two tranches were rated A and A (high), respectively, by DBRS at October 31, 2008. Each of the other 10 tranches has first-loss protection ranging from 14.4% to 30.3%, and each was rated AAA. This substantial first-loss protection from future defaults is significantly higher than the historical credit loss experience of the corporate credits.

Based on the total notional amount of \$1,217 million for the two tranches with lower levels of first-loss protection, BMO's exposure to loss on the Notes in respect of these tranches would be \$450 million, as BMO owns 37% of the Notes.

BMO does not consider the May 2008 purchase of the Notes described above to imply or indicate an intent to provide support to other mid-term noteholders or provide additional subordinated support to Apex. Instead, the purchase was a one-time, isolated event related to the restructuring of Apex. We do not intend to purchase additional mid-term notes of Apex nor do we intend to reimburse any other mid-term noteholder for any loss they may incur.

Structured Investment Vehicles

Credit investment management vehicles provide investors with opportunities to invest in customized, diversified debt portfolios in a variety of asset and investment grade rating classes.

We hold subordinate capital notes of two BMO-managed London-based Structured Investment Vehicles (SIVs), Links Finance Corporation (Links) and Parkland Finance Corporation (Parkland), with a carrying value of \$nil. The investments are recorded as available-for-sale securities in our Consolidated Balance Sheet. Our exposure to loss relates to our investments in the vehicles, derivative contracts we have entered into with the vehicles and senior funding we provide through a liquidity facility in order to fund the repayment of the senior notes.

The assets held by Links and Parkland at October 31, 2008 totalled US\$6.8 billion and €698 million, respectively. The fair value of our derivative contracts outstanding with the SIVs as at October 31, 2008 was recorded in our Consolidated Balance Sheet as a derivative asset of \$57 million (derivative liability of \$11 million in 2007). We earned investment management fees of \$5 million and \$21 million in 2008 and 2007, respectively, for managing these portfolios.

In the event we choose to or are required to terminate our relationship with these vehicles, any associated derivative contracts would be settled at their fair value.

On March 3, 2008, we agreed to provide senior-ranked support for the funding of Links and Parkland through BMO liquidity facilities. The facilities backstop the repayment of senior note obligations to facilitate the SIVs' access to further senior funding, provide supplemental funding and permit the SIVs to continue the strategy of selling assets in an orderly manner.

Consistent with the strategy of selling assets in an orderly manner, the pace of asset sales slowed during the fourth quarter as a result of market conditions. The amount drawn under the facilities is expected to be less than the current maximum committed amount for both SIVs and is expected to be at its highest level in July 2009. It is currently anticipated that the SIVs will continue the strategy of selling assets in an orderly manner based upon market conditions. However, for illustrative purposes: if there were no further asset sales and assets were repaid as we anticipate given their terms, by July 2009, we would expect that draws under the Links facility would be US\$3.0 billion higher than at October 31, 2008 and draws under the Parkland facility would be €160 million higher. At October 31, 2008, amounts drawn on the facilities totalled US\$3.7 billion and €477 million, respectively. The liquidity facilities total a maximum of approximately US\$7.7 billion for Links and €672 million for Parkland at October 31, 2008. Advances under the liquidity facilities rank ahead of the SIVs' subordinated capital notes. The total amount drawn under the liquidity facilities is impacted by a number of factors, including the pace and price of asset sales, the maturity profile of the senior notes and asset maturities. While the assets of the SIVs mature over time, the majority of the assets are anticipated to be repaid in the period between 2010 and 2012.

The SIVs' capital noteholders will continue to bear the economic risk from actual losses up to the full amount of their investment. The par value of the subordinate capital notes less realized losses in Links and Parkland at October 31, 2008 was US\$1.17 billion and €158 million, respectively, and BMO holds a nominal amount of capital notes with a carrying value of \$nil. While the market value of the SIVs' assets is currently lower than the amount of senior debt outstanding, BMO believes that the first-loss protection provided by the subordinate capital notes exceeds future expected losses.

Although the credit quality of the assets in the SIVs has weakened due to market conditions and some of the debt securities in the SIVs were downgraded during the fourth quarter, the asset quality of Links and Parkland remains high, with approximately 84% of debt securities rated Aa or better by Moody's, 73% rated AA or better by S&P and 98% rated investment grade. Certain of the debt security ratings are on credit watch, for downgrade. The senior notes of the SIVs are rated AA- by S&P and Aaa by Moody's (on review for downgrade). The SIVs hold no direct exposure to U.S. subprime mortgages. Links holds a diversified mix of debt securities, including senior and subordinated commercial bank debt (33.4%), collateralized bond obligations and collateralized loan obligations whose underlying assets are primarily corporate obligations (19.3%), debt securities wrapped by monolines (Ambac, FGIC, FSA and MBIA) (10.0%), residential mortgage-backed securities (RMBS) (13.7%) and commercial mortgage-backed securities (6.4%). Collateralized bond obligations include US\$83 million (1.2% of assets) backed primarily by U.S. subprime and Alt-A RMBS collateral. Parkland's asset diversification is broadly in line with that of Links.

Auction-Rate Securities

Auction-rate securities (ARS) are typically short-term notes issued by trusts in the United States to fund long-term, fixed-rate debt instruments (corporate or municipal bonds issued primarily by municipalities, student loan authorities and other sponsors). The interest rate on ARS is regularly reset every 7 to 35 days through auctions managed by financial institutions. A disruption in the market for ARS occurred in the early part of 2008.

There are no BMO-sponsored ARS programs in the market and BMO does not own any ARS in its trading portfolios. However, in the fourth quarter of 2008, BMO offered to purchase from client accounts US\$143 million of ARS at par value plus accrued interest. During the fourth quarter, BMO recorded a charge of \$12 million (\$8 million after tax) in respect of the valuation of ARS expected to be tendered to our offer.

Exposure to Major Financial Institutions

In recent months, there have been significant developments affecting U.S. and European based financial institutions, causing governments in many jurisdictions around the world to take steps to support their financial systems. During the year, BMO did not incur any significant losses related to exposure to financial institutions. BMO had closed all positions with Lehman Brothers, which sought bankruptcy protection in the fourth quarter, and recorded a \$32 million charge. It consisted of a \$19 million charge in PCG in respect of actions taken to support U.S. clients and, in BMO Capital Markets, a \$13 million charge net of recoveries on credit default swap hedges. We also recorded a specific provision of US\$31 million on a US\$62 million loan to the European subsidiary of an Icelandic bank.

In addition, given the current international economic environment, we are monitoring exposures to financial institution counterparties in certain countries. At October 31, 2008, BMO's direct exposure to these financial institutions amounted to a modest \$73 million in respect of the uncollateralized mark-to-market value of counterparty derivatives, after deduction of \$8 million of collateral received in respect of our \$81 million gross exposure. There were no such exposures in respect of the mark-to-market value of traded credits. A nominal adjustment for counterparty credit risk was recorded against these exposures.

Collateralized Debt Obligations (CDOs)

CDOs are obligations of a special purpose vehicle (SPV) that is created for a specific financing transaction. The SPV typically holds a nominal amount of equity. The SPV issues various tranches of rated and unrated debt securities (usually AAA to BB) that have well-defined rights to cash generated from the operation and liquidation of the vehicle's assets. The risk of loss on the SPV's portfolio varies by tranche. Losses will first affect the equity tranche, next the mezzanine tranches and finally the senior tranche. Super-senior is generally the most secure of all tranches. The SPV uses the cash raised through the issuance of the CDOs to invest in one or more different types of assets, including bonds, loans and mortgages. The corresponding obligations of the SPV would be, respectively, collateralized bond obligations (CBOs), collateralized loan obligations (CLOs) and collateralized mortgage obligations (CMOs). CMOs for which the underlying assets are residential properties are referred to as residential mortgage-backed securities (RMBS); CMOs for which the underlying assets are commercial properties are referred to as commercial mortgage-backed securities (CMBS).

Exposure to Other Select Financial Instruments, including Collateralized Debt Obligations (CDOs)

The following table provides additional detail on select financial instruments that are held in our investment and trading books. Most of our CDOs and CLOs are fully hedged with other large financial institutions. Net CDO exposure is minimal at \$29 million, consisting of the \$12 million carrying value of unhedged and wrapped instruments and a \$17 million cumulative net loss on hedged investments. Net CLO exposure is also modest, at \$107 million, consisting of the \$83 million carrying value of unhedged and wrapped investments and a \$24 million net loss on hedged instruments.

BMO has invested only in senior and super-senior tranches of CDOs and CLOs. Tranche ratings in the table use the lowest external

rating available provided by S&P, Moody's or Fitch. The differences between hedged investment amounts and carrying value of hedged investment amounts reflect mark-to-market adjustments, which are generally recoverable through total return or credit default swaps. The underlying securities are a wide range of assets. BMO's investments typically represent about 20% of the pool but can be as low as 5% and as high as 50%. Approximately 70% of the hedged investment amounts have been hedged through swaps with three financial institution counterparties rated A- to AA. The value of BMO's interest in those hedges is supported by collateral held, with the exception of relatively modest amounts, as permitted under counterparty agreements. The remainder of the hedged investment amounts is hedged through three monoline insurer counterparties rated A to AAA.

Exposure to Other Select Financial Instruments (\$ millions) (Note 1)

As at October 31, 2008	Tranche rating	Carrying value of unhedged and wrapped investments	Hedged investment amounts	Carrying value of hedged investment amounts	Cumulative loss in value of hedged investments	Cumulative gain on hedges	Net losses on hedged investments	
CDOs (2)	AAA	12					Sundry securities	
	AAA		805	542	(263)	263	– Hedged with FIs rated A- or better	
	AAA		308	274	(34)	17	(17) Hedged with monolines rated AAA (3)	
	A- to AA+		1,250	724	(526)	526	– Hedged with FIs rated A- or better	
	B- to BB+			184	117	(67)	67	– Hedged with FIs rated A- or better
	CCC or worse			18		(18)	18	– Hedged with FIs rated AA- or better
		12	2,565	1,657	(908)	891	(17)	
CLOs	AAA	83					Mostly U.K. and European mid-size corporate loans	
	AAA		836	773	(63)	63	– Hedged with FIs rated A or better (3)	
	AAA		1,201	1,082	(119)	95	(24) Hedged with monolines rated A or better (3)	
		83	2,037	1,855	(182)	158	(24)	
Residential MBS (4)	No subprime	37					Mostly U.K. and Australian mortgages	
	U.S. subprime – wrapped	AAA	4				– Wrapped with monolines rated AAA (3)	
		A- to AA+	17				– Wrapped with monolines rated A	
		B- to BB+	9				– Wrapped with monolines rated BB (3)	
	U.S. subprime	AAA		257	184	(73)	73	– Hedged with FIs rated AA or better
		A- to AA+		110	76	(34)		(34) Hedged with FIs rated AA or better
B- to BB+		2					– Mostly low loan-to-value or older U.S. mortgages	
		69	367	260	(107)	73	(34)	
Commercial MBS	AAA	49					European, U.K. and U.S. commercial real estate loans	
	A- to AA+	95					– Mostly Canadian commercial and multi-use residential loans	
		144						
Asset-backed securities (ABS)	AAA	220					– Mostly Canadian credit card receivables and auto loans	
	AAA		120	120			– Hedged with monolines rated AAA	
	A- to AA+	111					– Mostly Canadian credit card receivables and auto loans	
	BBB- to BBB+	68					– Collateral notes on Canadian credit card receivables	
		399	120	120			–	

FIs = Financial Institutions

(1) Most of the unhedged and wrapped investments were transferred to the available-for-sale portfolio effective August 1, 2008.

(2) CDOs include indirect exposure to approximately \$0.7 billion of U.S. subprime residential mortgages. As noted above, this exposure is hedged via total return swaps with three large non-monoline financial institutions. Amounts exclude the \$1.5 billion notional value of CDO credit default swap (CDS) protection purchases from two credit derivative product company

counterparties and corresponding CDS protection provided to other financial institutions in our role as intermediary.

(3) Certain ratings are under review.

(4) Wrapped MBS have an insurance guarantee attached and are rated inclusive of the wrap protection. RMBS included in the hedged investment amounts of \$367 million have exposure to approximately \$179 million of underlying U.S. subprime loans.

Off-Balance Sheet Arrangements

BMO enters into a number of off-balance sheet arrangements in the normal course of operations. Our arrangements with certain variable interest entities have been addressed on pages 63 to 66 and 69 to 70 of Management's Discussion and Analysis. The discussion that follows addresses our remaining off-balance sheet arrangements.

Credit Instruments

In order to meet the financial needs of our clients, we use a variety of off-balance sheet credit instruments. These include guarantees and standby letters of credit, which represent our obligation to make payments to third parties on behalf of a customer if the customer is unable to make the required payments or meet other contractual requirements. We also engage in securities lending where we lend either our securities or our customers' securities to third parties. This exposes us to credit risk, as a third party may not return the securities as agreed. We also write documentary and commercial letters of credit, which represent our agreement to honour drafts presented by a third party upon completion of specified activities. Commitments to extend credit are off-balance sheet arrangements that represent our commitment to customers to grant them credit in the form of loans or other financings for specific amounts and maturities, subject to meeting certain conditions.

There are a large number of credit instruments outstanding at any time. Our customers are broadly diversified and we do not anticipate events or conditions that would lead a significant number of our customers to fail to perform in accordance with the terms of the contracts. We use our credit adjudication process in deciding whether to enter into these arrangements just as we do when extending credit in the form of a loan. We monitor off-balance sheet instruments to ensure that there are no undue concentrations in any geographic region or industry.

The maximum amount payable by BMO in relation to these credit instruments was approximately \$99 billion at October 31, 2008 (\$110 billion in 2007). However, this amount is not representative of our likely credit exposure or liquidity requirements for these instruments as it does not take into account any amounts that could possibly be recovered under recourse or collateralization provisions. In addition, a large majority of these commitments expire without being drawn upon. Further information on these instruments can be found in Note 5 on page 115 of the financial statements.

Securities lending commitments are generally short-term in nature and subject to recall on a demand basis. For all other credit commitments outlined above, in the absence of an event that triggers a default, early termination by BMO may result in breach of contract.

Variable Interest Entities (VIEs)

Our interests in VIEs are discussed primarily on pages 63 to 66 and 69 to 70. Capital and Funding Trusts are discussed below.

Capital and Funding Trusts

BMO Subordinated Notes Trust (SN Trust) issued \$800 million of BMO Trust Subordinated Notes (the Notes) in 2007, the proceeds of which were used to purchase a senior deposit note from BMO. We hold all of the outstanding voting trust units in SN Trust and will do so at all times while the Notes are outstanding. We are not required to consolidate SN Trust. BMO will not terminate SN Trust while the Notes are outstanding, unless SN Trust has sufficient funds to pay the redemption

price on the Notes and only with the approval of the Office of the Superintendent of Financial Institutions. We also provide a \$30 million credit facility to SN Trust, of which \$5 million had been drawn at October 31, 2008 (\$5 million in 2007). We guarantee payment of the principal, interest, redemption price, if any, and any other amounts on the Notes on a subordinated basis.

BMO Covered Bond Trust (the CB Trust) was created to guarantee €1 billion of bonds issued by BMO in 2008. BMO sold assets to the CB Trust in exchange for a promissory note. The assets of the CB Trust have been pledged to secure payment of the bonds issued by BMO. This program is referred to as our covered bond program. We are required to consolidate the CB Trust as we are exposed to the majority of the expected losses and residual returns.

Guarantees

Guarantees include contracts where we may be required to make payments to a counterparty based on changes in the value of an asset, liability or equity security that the counterparty holds. Contracts under which we may be required to make payments if a third party does not perform according to the terms of a contract and contracts under which we provide indirect guarantees of indebtedness are also considered guarantees. In the normal course of business, we enter into a variety of guarantees, including standby letters of credit, backstop and other liquidity facilities and derivatives (including but not limited to credit default swaps and written options), along with indemnification agreements.

The maximum amount payable, without consideration of recovery through our recourse and collateral provisions, was \$120 billion as at October 31, 2008 (\$93 billion in 2007).

For a more detailed discussion of these agreements, please see Note 7 on page 118 of the financial statements.

Financial Instruments

As a financial institution, most of BMO's balance sheet is comprised of financial instruments and the majority of our net income results from gains, losses, income and expenses related to financial instruments.

Financial instrument assets include cash resources, securities, loans, customers' liabilities under acceptances and derivative instruments. Financial instrument liabilities include deposits, derivative instruments, acceptances, securities sold but not yet purchased, securities lent or sold under repurchase agreements, subordinated debt, preferred share liability and capital trust securities.

Financial instruments are used for both trading and non-trading activities. Non-trading activities generally include the business of lending, long-term investing, funding and asset-liability management.

Our use of financial instruments exposes us to credit and counterparty risk and various market risks, including equity price risk, commodity price risk, interest rate risk and foreign currency risk. A discussion of how we manage these and other risks as well as structural interest rate sensitivities can be found in the Enterprise-Wide Risk Management section on pages 73 to 84 of this MD&A. Further information on how we determine the fair value of financial instruments is included in the Financial Instruments Measured at Fair Value discussion in the Critical Accounting Estimates section of the MD&A that follows.