

BMO Capital Markets (BMO CM)

Who We Are

BMO Capital Markets combines all of our businesses serving a broad range of corporate, institutional and government clients domestically and internationally. We serve clients from our offices in Canada, the United States, the United Kingdom, Europe, Australia, Asia and South America. We offer complete financial solutions, drawing upon our expertise in areas including equity and debt underwriting, corporate lending and project financing, mergers and acquisitions (M&A) advisory services, merchant banking, securitization, treasury and market risk management, foreign exchange, derivatives, debt and equity research and institutional sales and trading.



"We excel at using our knowledge, skills and ideas to clarify financial matters and develop and deliver solutions that help our clients realize their ambitions."

TOM MILROY
CHIEF EXECUTIVE OFFICER
BMO CAPITAL MARKETS

Strengths and Value Drivers

- Well-established franchise with a leadership position in certain industries and products and a reputation for quality advice.
- Top-tier equity research, sales and trading capabilities.
- Significant investment and corporate banking presence in the U.S. Midwest.
- Cross-border capabilities with the ability to leverage North American expertise.

Challenges

- Continuation of the volatility and distress in the global credit markets.
- Slowing of the global economy due to a recession and the uncertainty of the financial system restructuring.
- Mature and competitive Canadian financial markets.
- Highly competitive landscape of the U.S. and international markets.

Our Major Lines of Business

Investment and Corporate Banking services include strategic advice on mergers and acquisitions, restructurings and recapitalizations, as well as providing valuation and fairness opinions. We provide capital-raising services through debt and equity underwriting. We also provide a full range of loan and debt products, balance sheet management solutions and treasury management services. In support of our clients' international business activities, we provide trade finance and risk mitigation services. We also offer a wide range of banking and other operating services to international and domestic financial institutions.

Trading Products services include sales, trading and research activities. We provide integrated debt, foreign exchange, interest rate, credit, equity, securitization and commodities solutions to wholesale, commercial and retail clients. In addition, we provide efficient funding and liquidity management to BMO Financial Group and its clients, as well as new product development, proprietary trading and origination.

VISION

To be the investment and corporate bank that defines great customer experience by enabling our clients to fulfill their ambitions.

PATH TO DIFFERENTIATION

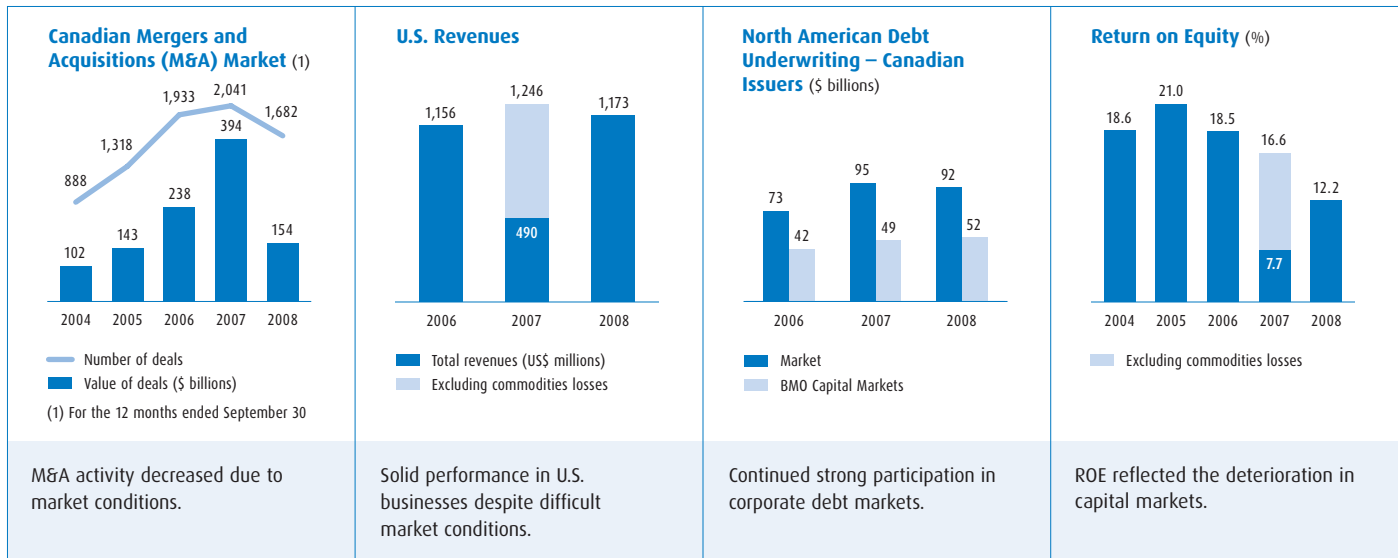
- Ability to serve a broad range of core Canadian issuer and investor client needs with an integrated capital markets offering.
- Successful, stable and trustworthy universal North American banking model.
- Ability to serve U.S. mid-market clients with an integrated offer, given the restructuring of the U.S. financial market.
- Ability to leverage capabilities to be a leading competitor in niche markets in North America and globally.
- Nimble and responsive execution, with an ability to react quickly to evolving market and client needs.

STRATEGIES

- Increase focus on core clients by emphasizing our areas of strength in niche North American and global markets.
- Maintain a diversified, dynamic portfolio of businesses that serves the evolving needs of our core clients.
- Better serve clients by creating a more focused and integrated North American capital markets business.
- Continue to optimize our businesses to generate appropriate risk-adjusted returns.
- Build strong risk management capabilities through solid partnerships and enhanced risk transparency.

Key Performance Metrics and Drivers	2008	2007	2006
Trading products revenue (\$ millions)	993	281	1,370
Equity block trading dollar value (\$ billions)	118	116	92
Investment and Corporate Banking and other revenue (\$ millions)	1,419	1,688	1,410
Equity underwriting participation (deals) (1)	140	276	267
Debt underwriting participation (deals) (1)	121	110	143
Average loans and acceptances (\$ billions)	85.0	69.6	55.0
Canadian equity research ranking (2)	#1	#1	#1

(1) Canadian issuers in North America.
(2) Brendan Wood International survey.



2008 Group Objectives and Achievements

Continue to grow BMO Capital Markets U.S. revenues by increasing product penetration, improving cross-selling to the U.S. client base, expanding trading activities and enhancing client coverage of key segments, with a focus on growing fee-based revenues.

- Configured our U.S. lending business to focus on our core clients, emphasizing our profitable, multi-product relationships.
- Advised United States Sugar Corporation on multi-billion-dollar land sale to support Florida Everglades restoration.
- Named by StarMine in February 2008 as the number-two stock picker in the United States for 2007, based on coverage of stocks in the S&P 500.

Implement a number of high-value initiatives to drive earnings growth in our Trading Products line of business.

- Reorganized our Canadian and U.S. equity products and research group to provide an integrated North American research, sales and trading platform to our global client base.
- Demonstrated what can be achieved by bringing together the strengths of BMO Financial Group for the benefit of our clients and shareholders by partnering with BMO Mutual Funds in the creation of the BMO Lifestages Plus Fund, raising over \$1 billion in 14 months. We also led multiple notable transactions in 2008 including the \$130 million initial public offering of Cymbria Corporation.
- Doubled the size of our U.S. municipal bonds business through the acquisition of Griffin, Kubik, Stephens & Thompson Inc.

Maintain Canadian leadership in the high-return fee businesses of mergers and acquisitions, equity and debt underwriting and securitization.

- Named Best Investment Bank in Canada by *Global Finance* magazine.

- Hosted 17th annual BMO Capital Markets Global Metals & Mining conference, which attracted more than 1,200 attendees from six continents.
- Bookrunner on the IPO of Franco-Nevada by Newmont Mining, the largest-ever mining IPO in North America.

Other Achievements

- Ranked as the top Equity Research Group in Canada for the 28th consecutive year in the Brendan Wood International Survey of Institutional Investors.
- We will be opening our first subsidiary in India, located in Mumbai. Our expanded presence in India will help to facilitate strategic dialogue between issuers in high-growth regions and our core clients and markets, primarily in North America.
- Participated in 162 corporate and government debt transactions that raised \$126 billion. Raised \$45 billion through participation in 197 equity transactions.
- Advised on 54 completed mergers and acquisitions in North America totalling \$46 billion.

2009 Group Objectives

- Increase our focus on core profitable clients.
- Optimize our capital.
- Improve our risk-return profile.
- Improve our return on equity while securing our future growth.

Business Environment and Outlook

Fiscal 2008 was very challenging for BMO Capital Markets. The difficulties and related volatility in global credit markets that began in August 2007 continued to negatively affect our earnings. As capital markets conditions deteriorated, we recorded losses related to certain trading activities and valuation adjustments. The North American economy weakened sharply and, given the uncertain economic outlook, investment banking volumes declined from the higher levels of recent years. Despite difficult market conditions, there was very strong performance in our interest-rate-sensitive businesses and foreign exchange trading

businesses during the year. We also reduced the size and risk profile of our commodities portfolio, which had incurred large losses in the previous year. Further, in our efforts to improve the risk-return profile of our businesses, we also reduced the size and risk exposure of our core credit trading business, securitization business and structured investment vehicles (SIVs). During the year, corporate banking assets continued to grow, mainly due to clients accessing undrawn commitments. In our lending business, approximately 20% of our U.S. authorizations were designated as non-core in the third quarter and

we continue to pursue reduction opportunities. As a result of these initiatives, we eliminated a number of positions within BMO Capital Markets.

Following the bankruptcy of Lehman Brothers Holdings Inc. (Lehman Brothers), the largest bankruptcy in U.S. history, equity markets declined dramatically in October 2008, reflecting difficult credit market conditions, massive deleveraging in hedge funds and financial institutions, and redemptions in the mutual fund industry. The current weakness in financial markets will slow global economic growth, and it is uncertain how long these conditions will last.

Looking forward, we expect a recession in the United States, which will likely spread to Canada, with only a modest recovery anticipated in the latter half of 2009. The economic slowdown has dampened demand

for commodities, affecting the formerly thriving commodity-related sectors of our economy and weakening the Canadian dollar. Volatility in the currency markets should be favourable to our currency trading businesses. Weakness in capital markets will likely extend into the first half of 2009, which will prove challenging to our fee-based businesses. The cost of capital remains high, reducing the attractiveness of acquisitions and leveraged buyouts, and this will impact the level of mergers and acquisitions activity. Our focus in 2009 will be to improve performance by maintaining a diversified, dynamic portfolio of businesses serving the needs of our core clients. Growth in fiscal 2009 will depend on the performance of financial and commodity markets, as well as general economic activity and business confidence.

BMO Capital Markets Financial Results

BMO Capital Markets net income increased \$275 million to \$692 million. Results in 2008 were affected by charges of \$594 million (\$400 million after tax) related to the deterioration in capital markets. Results in 2007 were affected by charges of \$318 million (\$211 million after tax) related to the capital markets environment as well as charges of \$853 million (\$440 million net of compensation adjustments and taxes) related to commodities losses.

During the year, we refocused our businesses with the goal of improving our risk-return profile and concentrating on core profitable client relationships.

Revenue increased \$443 million or 23% to \$2,412 million. The weaker U.S. dollar reduced revenue by \$20 million. Non-interest revenue increased \$238 million or 24% over the previous year. Trading revenues were significantly higher, driven by improvements in commodities trading as management successfully reduced the size and risk profile of the commodities portfolio. However, gains in trading were partially offset by lower investment banking revenues, particularly lower merger and acquisition fees and equity underwriting fees. The market environment was much more favourable in the prior year and conditions remain challenging for our fee-based businesses. Net securities gains declined from a year ago due to large losses recorded in the current year, including write-downs on Apex and our capital notes in the SIVs.

Net interest income increased \$205 million or 21%. Revenues from our interest-rate-sensitive businesses were significantly higher and trading net interest income also increased, partially offset by lower corporate banking net interest income and increased funding costs. Corporate banking assets grew during the year, primarily due to clients accessing undrawn commitments. Corporate banking revenues were lower as a result of higher funding costs and reduced cash collections from impaired loans, partially offset by increased revenues due to higher asset volumes. Net interest margin was higher than a year ago due to increased trading net interest income and higher spreads in our interest-rate-sensitive businesses.

The provision for credit losses was \$117 million, compared with \$77 million in 2007, largely due to asset growth in the loan portfolio. BMO's practice is to charge loss provisions to the client operating groups each year using an expected loss provisioning methodology based on each group's share of expected credit losses over an economic cycle. Corporate Services is generally charged (or credited) with differences between expected loss provisions charged to the client operating groups and provisions required under GAAP.

Non-interest expense increased \$178 million or 11% to \$1,752 million, primarily due to increased employee costs and higher allocated costs. Included in employee compensation costs was severance of \$28 million (\$19 million after tax) in the third quarter. The weaker U.S. dollar reduced expense by \$40 million.

BMO Capital Markets (Canadian \$ in millions, except as noted)

Reported As at or for the year ended October 31	2008	2007	2006	Change from 2007	
				\$	%
Net interest income (teb)	1,179	974	773	205	21
Non-interest revenue	1,233	995	2,007	238	24
Total revenue (teb)	2,412	1,969	2,780	443	23
Provision for credit losses	117	77	79	40	52
Non-interest expense	1,752	1,574	1,612	178	11
Income before income taxes	543	318	1,089	225	71
Income taxes (recovery) (teb)	(149)	(99)	237	(50)	(50)
Net income	692	417	852	275	66
Amortization of intangible assets (after tax)	1	1	1	-	-
Cash net income	693	418	853	275	66
Net economic profit	91	(139)	359	230	+100
Return on equity (%)	12.2	7.7	18.5	4.5	4.5
Cash return on equity (%)	12.2	7.7	18.5	4.5	4.5
Cash operating leverage (%)	11.2	(26.9)	(7.5)		nm
Productivity ratio (teb) (%)	72.6	79.9	58.0	(7.3)	(7.3)
Cash productivity ratio (teb) (%)	72.6	79.9	57.9	(7.3)	(7.3)
Net interest margin on earning assets (%)	0.67	0.60	0.62	0.07	0.07
Average common equity	5,305	4,972	4,481	333	7
Average earning assets	176,080	162,309	124,782	13,771	8
Average loans and acceptances	85,009	69,645	55,042	15,364	22
Average deposits	105,984	94,019	77,027	11,965	13
Assets under administration	90,188	57,590	58,774	32,598	57
Assets under management	9,294	23,233	28,044	(13,939)	(60)
Full-time equivalent staff	2,465	2,365	2,213	100	4

nm - not meaningful

U.S. Business Selected Financial Data (US\$ in millions)

As at or for the year ended October 31	2008	2007	2006	Change from 2007	
				\$	%
Total revenue	1,173	490	1,156	683	+100
Non-interest expense	721	635	632	86	14
Net income	279	(45)	311	324	+100
Average earning assets	69,411	53,238	37,604	16,173	30
Average loans and acceptances	41,724	29,058	21,959	12,666	44
Average deposits	36,335	24,920	16,620	11,415	46

Results for the year benefited from by the group's recovery of prior-period income taxes, which were up \$119 million from 2007.

The group's productivity ratio improved from 79.9% to 72.6% due to the increase in revenue in 2008.

Net income from U.S. operations improved US\$324 million to US\$279 million, as results in 2007 included the commodities losses.