

Personal and Commercial Banking Canada (P&C Canada)

Who We Are

We serve more than seven million customers. Working in partnership with other BMO businesses, we offer a full range of products and services. These include solutions for everyday banking, financing, investing, credit cards and insurance as well as a full suite of integrated commercial and capital markets products and financial advisory services. P&C Canada manages an integrated national network of BMO Bank of Montreal branches, telephone banking, online banking, mortgage specialists, financial planners and more than 2,000 automated banking machines.



"We are committed to making sure that every time a customer interacts with us, their experience is a great one."

FRANK TECHAR
PRESIDENT AND CHIEF EXECUTIVE OFFICER, PERSONAL AND COMMERCIAL BANKING CANADA

Strengths and Value Drivers

- Strong competitive position in commercial banking, reflected in our number two ranking in market share for business loans of \$5 million and below.
- Superior risk management that provides our customers with consistent access to financing solutions in all economic conditions.
- Comprehensive range of everyday banking and payment capabilities, combined with our AIR MILES customer loyalty program.
- Competitive electronic transaction processing business through Moneris Solutions, which serves approximately 40% of the Canadian market.
- Integrated technology platform and customer data management capabilities that support our effective sales and service model.
- Effective performance management system, encompassing planning, tracking, assessment and coaching.

Challenges

- Global credit environment has materially increased funding costs.
- Increased pace of change and innovation provides customers with easy access to an expanding array of alternative products and services.
- Strong competition for deposit accounts is pressuring deposit margins and customer retention.
- Competition to attract and retain highly qualified employees has increased in high-growth sectors and regions.
- Demand continues to grow for resources to meet regulatory, compliance, information security and fraud management requirements.

Our Lines of Business

Personal Banking provides financial solutions for everyday banking, financing, investing and insurance needs. We serve approximately 20% of Canadian households. Our national integrated multi-channel sales and distribution network offers customers convenience and choice in meeting their banking needs.

Commercial Banking provides our small business, medium-sized enterprise and mid-market banking clients with a broad range of banking products and services. We offer a full suite of integrated commercial and capital markets products and financial advisory services.

Cards and Payments Services provides flexible, secure payment options to our customers. We are the largest MasterCard issuer in Canada.

VISION

To be the bank that defines great customer experience.

PATH TO DIFFERENTIATION

- Excel at sales leadership and performance management.
- Leverage customer insights to develop offers and drive marketing program results.
- Focus investments and allocate resources to capitalize on highest-value sales and distribution opportunities.
- Redesign core processes and leverage technology to improve the customer experience, free up front-line capacity and reduce operating costs.
- Build best-in-class human resources capabilities and develop strong line leaders.

STRATEGIES

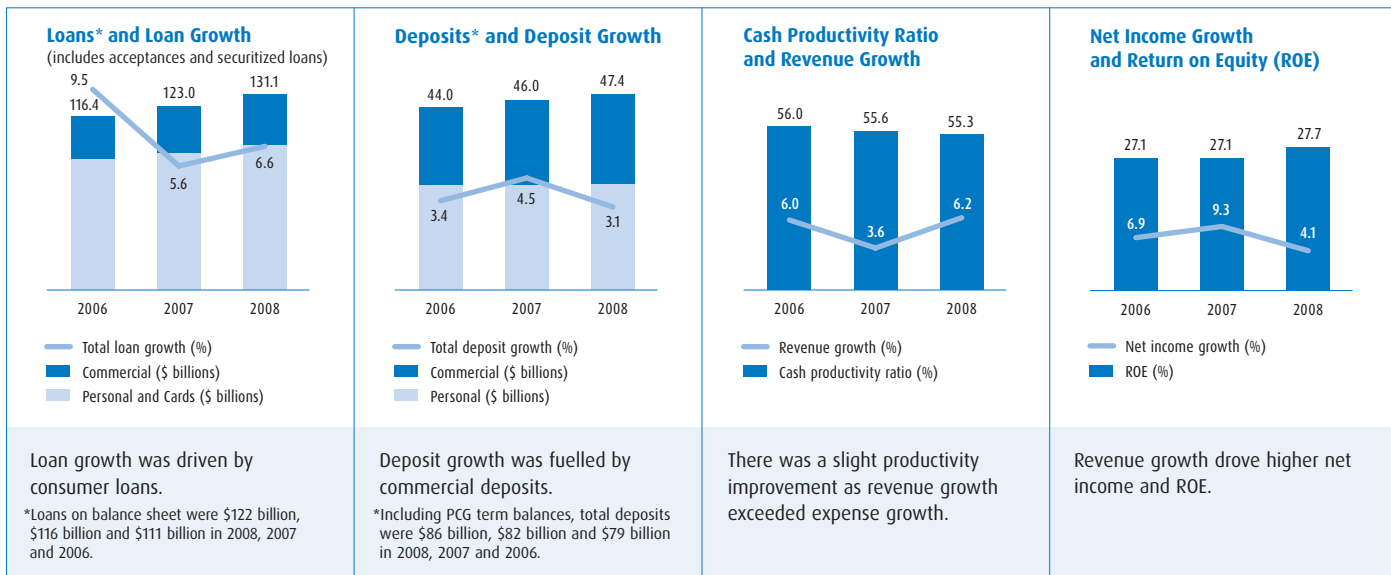
We will succeed in the Canadian market through the quality and consistency of our customer experience and through the productivity of our sales and distribution network. Our main strategies are:

- In personal banking, deliver a differentiated customer experience and further enhance the performance management system.
- In commercial banking, enhance the quality and consistency of the customer experience for commercial and small business customer segments by focusing on the needs of the customer and embedding a strong performance management discipline.
- Further leverage our successful credit card product offering to provide the right choices by understanding and addressing the needs of customer segments.

Key Performance Metrics and Drivers	2008	2007	2006
Personal banking, insurance and other revenue (\$ millions)	2,565	2,464	2,370
Personal loan growth (%) (1)	5.0	4.3	10.9
Personal deposit growth (%)	1.1	0.3	0.4
Commercial banking revenue (\$ millions)	1,364	1,351	1,274
Commercial loan growth (%) (1)	9.5	8.1	6.4
Commercial deposit growth (%)	5.6	10.0	7.6
Cards revenue (\$ millions)	1,108	929	936
Cards loan growth (%)	13.8	12.0	7.0
Operating leverage (%)	0.7	0.7	1.8
Revenue growth (%)	6.2	3.6	6.0
Employee engagement index (%) (2)	73	75	73

(1) Includes consumer loans, mortgages, acceptances and securitized loans.

(2) Source: BMO's Annual Employee Survey, conducted by Burke Inc., an independent research company.



2008 Group Objectives and Achievements

Continue to enhance the customer experience and create a differentiated position in the Canadian market.

- We've created a customer-focused mindset across the organization. We have a sharper focus on the customer experience, with well-defined standards that promote specific, consistent front-line behaviours. Our customer loyalty continues to improve, our customer base is growing and we are strengthening our customer relationships.

Further improve our performance management systems to deliver stronger revenue growth and greater customer loyalty.

- We have brought greater rigour to performance management in a clear, concise and simple way. Scorecards have been introduced at the individual level so that all employees understand their role in achieving the organization's goals, and all customer-facing employees are held accountable for financial success and improving the customer experience.

Launch attractive and compelling customer offers that drive results.

- We are bringing new offerings to market faster and we're becoming more visible in the marketplace. We introduced a number of compelling new offerings, including AIR MILES reward miles on Debit, the new Shell Mosaik MasterCard and the Mosaik Gold AIR MILES MasterCard. HomeOwner Readiline has been an important part of our personal loan growth.

Continue to invest in our sales and distribution network so we have the best opportunities to attract more business.

- We continued to invest in our sales and distribution network, with better site selection, timing and execution for our entry into new markets. We opened 16 branches in high-growth areas, redeveloped 19 branches and renovated 15 others.

Redesign core processes and technologies to achieve a high-quality customer experience, create capacity for customer-facing employees and reduce costs.

- We have been systematically identifying opportunities to improve our customers' experience with BMO, updating our processes to make them more customer-friendly, reducing cycle time and improving our customer satisfaction levels.
- We simplified our account opening process, making it quicker and more efficient for the customer and allowing us to focus more of our time on value-added conversations.
- Through an end-to-end review of our lending process, we improved the effectiveness of booking lending products through our direct channel.

2009 Group Objectives

- Continue to enhance the customer experience and create a differentiated position in the Canadian market.
- Leverage improvements in our performance management system to deliver stronger revenue growth and greater customer loyalty.
- Launch attractive and compelling new offerings that drive results.
- Improve productivity of our sales and distribution network.
- Redesign core processes and technologies to achieve a high-quality customer experience, create capacity for customer-facing employees and reduce costs.

Canadian Business Environment and Outlook

Weakening employment rates, unsettled financial markets and the effects of a global economic downturn characterized the Canadian business environment in 2008. While domestic economic activity, on balance, has been stronger in Canada than in the United States, growth is expected to slow. Meanwhile, residential mortgage balances continued to grow in 2008, despite a softer housing market. Personal deposit growth in 2008 reflected an upturn in disposable income early in the year, a slightly higher savings rate and marked aversion to risk among investors. In commercial banking, robust business activity early in the year contributed to growth in business loans, while there was easing in commercial deposit growth.

Looking forward to 2009, we anticipate weak business growth. In personal banking, declining rates of growth in employment and income are likely to dampen growth in personal deposits, personal loans and credit card loans. The residential real estate market is expected to moderate as housing starts decline and new home prices soften. Residential mortgage growth is likely to slow as a result. In commercial banking, non-residential mortgages and business loans will likely fall sharply from 2008 levels as North American economic growth slows, while business deposit growth is also expected to moderate.

P&C Canada Financial Results

P&C Canada net income was \$1,320 million, up \$53 million or 4% from a year ago. Net income in 2007 was increased \$52 million by the net impact of: a \$107 million (\$83 million after tax) gain on the sale of MasterCard shares, a \$57 million recovery of prior-year income taxes, a \$26 million (\$23 million after tax) insurance gain and a \$14 million (\$9 million after tax) gain on an investment security, less a \$185 million (\$120 million after tax) adjustment to increase the liability for future redemptions related to our customer loyalty rewards program in our credit card business. Excluding the impact of the above items, net income increased \$105 million or 9%.

Revenue increased \$293 million or 6% to \$5,037 million. Excluding the impact of the applicable items above, revenue grew by \$255 million or 5%.

In our personal banking business, revenue increased \$101 million or 4%. Adjusted for the \$26 million insurance gain in 2007, revenue increased \$127 million or 5%. The increase was driven by volume growth in personal loans, branch-originated mortgages and personal deposits, favourable product mix, higher securitization revenue and one extra day in 2008, partially offset by lower mortgage refinancing fees and lower insurance revenue.

In our commercial banking segment, revenue increased \$13 million or 1%. Adjusted for the 2007 gain on an investment security, revenue increased \$27 million or 2%. The increase was attributable to volume growth, partially offset by net investment securities losses in 2008 and the impact of increased funding costs.

Cards and payment services revenue increased \$179 million or 19%. Adjusted for the \$78 million net impact of the gain on the sale

of MasterCard shares and the increase in the liability for our customer loyalty rewards program, revenue increased \$101 million or 10%. The increase was attributable to growth in credit card transactions and accelerating balance growth, as well as higher Moneris revenues. Moneris is our 50% owned joint venture and one of North America's leading processors of debit and credit payment transactions.

During the year, we entered into an agreement to transfer the liability associated with our credit card customer loyalty rewards program to Loyalty Management Group Canada Inc. (LMGCI), our associate in the AIR MILES Reward Miles program. There was no significant gain on the transfer. In addition, we have renegotiated and extended the terms of our agreement with LMGCI for the issuance of AIR MILES reward miles. Under the terms of the agreement, we no longer retain a liability for future AIR MILES reward miles redemptions and as a result no longer have exposure to changing redemption patterns. We have incurred a negligible change in run-rate costs as a result of the agreement.

P&C Canada's overall net interest margin was 2.67%, 1 basis point higher than in the prior year, as better volumes in more profitable products were offset by increased funding costs.

Non-interest expense was \$2,790 million, up \$146 million or 6% from 2007 due to initiatives spending, including expansion and renovation of the branch network and debit and credit card chip technology, as well as higher operating costs and higher Moneris expenses. Our cash productivity ratio improved by 30 basis points from 2007 to 55.3%, as revenue growth exceeded expense growth.