

Private Client Group (PCG)

Who We Are

Private Client Group brings together all of BMO Financial Group's wealth management businesses. Operating under the BMO brand in Canada and Harris in the United States, PCG serves a full range of client segments, from mainstream to ultra-high net worth, as well as select institutional market segments. We offer our clients a broad range of wealth management products and solutions, including full-service and online brokerage in Canada, and private banking and investment products in Canada and the United States.



"We are defining great client experience in the wealth management industry by simplifying financial matters, creating innovative solutions and providing personalized, expert advice."

GILLES OUELLETTE
PRESIDENT AND CHIEF EXECUTIVE OFFICER
PRIVATE CLIENT GROUP

Strengths and Value Drivers

- Prestige, recognition and trust of the BMO, BMO Nesbitt Burns and Harris brands.
- Strong national presence in Canada.
- Strategic presence in the Chicago area and select high-growth wealth management markets across the United States.
- Full range of award-winning client offerings and industry-recognized leadership in client service.
- Access to BMO's broad client base and distribution network in Canada and the United States.

Challenges

- Sensitivity to financial markets and a changing regulatory environment.
- Accelerating growth and improving performance in a consolidating U.S. wealth management marketplace.
- Adding to our first-class sales force in an extremely competitive market.

Our Lines of Business

Full-Service Investing offers a comprehensive range of investment and wealth advisory services through BMO Nesbitt Burns. We are focused on becoming the top-performing full-service brokerage firm in North America. BMO Nesbitt Burns drives investment growth by leveraging our high level of client satisfaction, the strength and breadth of our product offerings and our performance-driven culture.

Online Brokerage operates as BMO InvestorLine in Canada, providing self-directed investors with the ability to plan, research and manage their investing decisions in their own way. We are focused on providing a superior client experience, understanding and anticipating our clients' investing needs and helping them to be financially successful. By providing an innovative and comprehensive online offering to key client segments, we will acquire new clients as well as increase investing activity among existing clients.

North American Private Banking operates as BMO Harris Private Banking in Canada and Harris Private Bank in the United States. We are focused on capitalizing on our comprehensive wealth management capabilities and continuing to build our integrated value proposition, which delivers a unique client experience to the high and ultra-high net worth client segments, with offerings ranging from specific individual solutions to complex team-based wealth management strategies.

Investment Products consists of Retail Investment Products and BMO Asset Management. Retail Investment Products includes BMO Mutual Funds, BMO Guardian and BMO Term Investments. We help our clients build a confident future by providing trusted, long-term investment solutions, by understanding our clients, competitors and industry and by having a robust multi-channel distribution capability. BMO Mutual Funds offers a targeted, comprehensive product line and supports specialized life stage advice for key Canadian client segments. BMO Guardian provides investment products and services delivered to retail investors through financial intermediaries – primarily the advisory channel. BMO Term Investments is focused on providing innovative principal-protected solutions and advice to the retail investment market. BMO Asset Management, which includes Jones Heward Investment Counsel and HIM Money in Toronto, Harris Investment Management in Chicago and Pырford International in London, U.K., is focused on providing institutional and retail investment management solutions to external and internal clients.

VISION

To be the wealth management solutions provider that defines great customer experience, helping our clients to accumulate, protect and grow their assets.

PATH TO DIFFERENTIATION

- Deliver an exceptional client experience and simplify complex financial matters.
- Collaborate effectively within PCG and across BMO Financial Group.
- Attract, develop and retain superior talent.

STRATEGIES

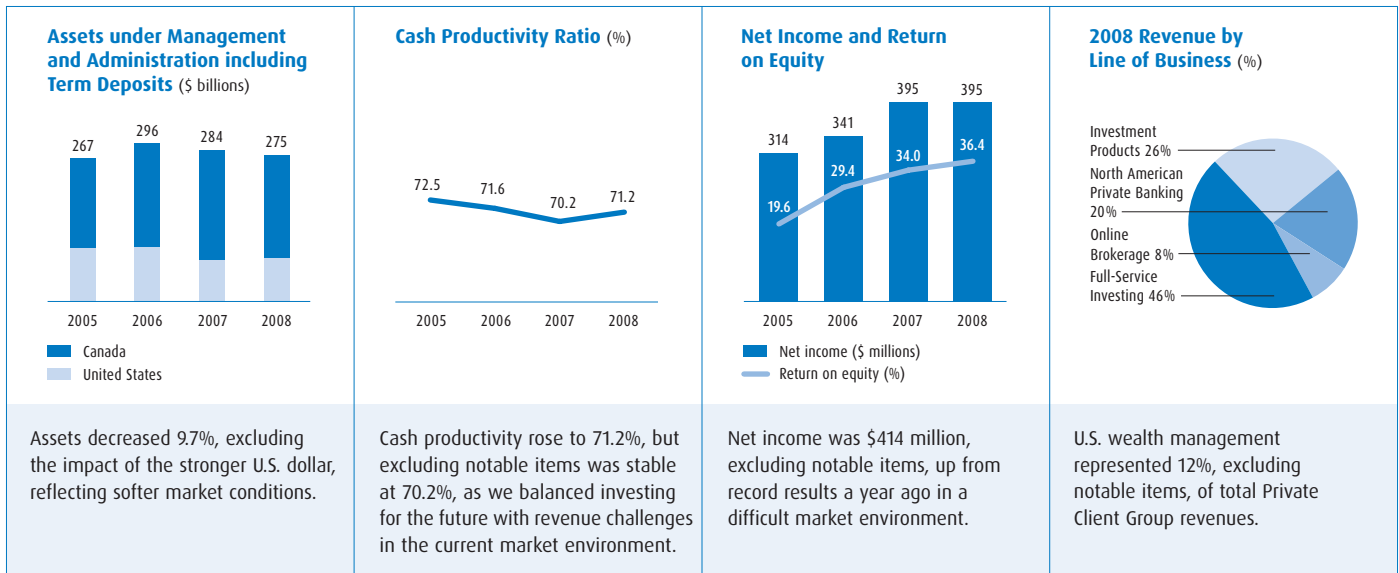
We will succeed by delivering an exceptional client experience that meets our clients' wealth management needs and by continuing to improve the productivity of our sales forces through:

- Providing best-in-class wealth management solutions with a focus on helping our clients invest and plan for their retirement years.
- Enhancing our business models and investing selectively to create incremental value.
- Building a culture of innovation.

Key Performance Metrics and Drivers

	2008	2007	2006
Increase (decrease) in assets under management (%) (1) (2)	(16.2)	9.0	14.1
Increase (decrease) in assets under management, assets under administration and term deposits (%) (1) (2) (3)	(9.7)	7.4	12.9
Increase (decrease) in full-time employees (%) (4)	4.2	3.9	(0.9)

- (1) Excludes the impact of changes in the Canadian/U.S. dollar exchange rate.
- (2) Excludes the impact of the transfer of institutional trust and custody assets to P&C U.S. in 2007.
- (3) Historical figures have been adjusted for a reclassification of assets under administration to assets under management and for an increase in assets under administration to reflect a change in valuation.
- (4) Excludes businesses sold/transferred: Harrisdirect, Retirement Plan Services, Harris Insight Funds.



2008 Group Objectives and Achievements

Enhance the client experience by streamlining our processes and providing enhanced tools and solutions designed to assist our clients in achieving their financial goals.

- Continued to invest in an Investment Advisor technology platform to drive operational efficiencies and support increased client satisfaction and sales force productivity.
- Invested in a new financial planning software tool to provide an enterprise-wide common technology platform supporting the delivery of an exceptional client experience.

Satisfy our clients' needs by continuing our high level of internal collaboration and referrals.

- Our Canadian and U.S. sales forces delivered consistently strong referral volumes that were above the high levels attained in the previous year.
- Continued to partner with P&C Canada and P&C U.S. to identify opportunities to better align the complexity of clients' needs with the appropriate solutions.
- In partnership with P&C U.S., launched six new wealth branches in the Chicago area which combine traditional retail banking with wealth services.

Expand our sales force and innovate within sales channels to drive revenue growth.

- PCG increased full-time equivalent staff by 173 in 2008, the majority in sales and sales support roles.
 - Full-Service Investing added Investment Advisors and related support staff.
 - BMO InvestorLine added call centre and sales staff to support the retail branches.
 - BMO Harris Private Banking added Private Wealth Consultants, Investment Counsellors and Private Bankers as well as sales support staff.
- Partnered with P&C Canada to expand the retail investment sales force in select markets.

Other Achievements

- For the second consecutive year, BMO Mutual Funds was awarded the Dalbar, Inc. Mutual Fund Service Award for best overall customer service in the English and French language categories.
- BMO InvestorLine was recognized as Canada's fastest online brokerage web site by Gómez Canada and was named the number one bank-owned online brokerage in *The Globe and Mail's* 10th annual online brokerage ranking.
- Four funds managed by Private Client Group received a 2008 Lipper Award, recognizing excellence in fund performance: BMO Resource Fund, BMO Dividend Fund, BMO Guardian Global Technology Fund and Phoenix Insight Value Equity Fund (sub-advised by Harris Investment Management).
- BMO Guardian won the 2007 Canadian Investment Award for its Science and Technology Equity Fund.
- Completed the purchase of Pyrford International plc, a United Kingdom-based institutional asset manager, expanding the group's international asset management capabilities outside of North America.
- Announced an agreement with Phoenix Companies, Inc. under which Harris would take an equity position in Virtus Investment Partners, Inc., Phoenix's wholly owned asset management subsidiary, to further expand PCG's asset management capabilities.

2009 Group Objectives

- Satisfy our clients' needs by continuing our high level of internal collaboration and referrals.
- Expand our sales force and improve its productivity to drive revenue growth.
- Innovate within sales channels and enhance products and solutions to satisfy clients' needs.

Business Environment and Outlook

Canadian and U.S. stock markets declined through 2008 and experienced significant volatility at the end of the year. Accordingly, the overall investment climate was unfavourable for much of the year. This translated into a decline in client assets and an increase in cash holdings as clients waited for markets to stabilize.

We expect the Canadian economy to recover modestly in the latter half of 2009 and the U.S. economy to continue contracting in the first half before improving slightly as housing markets stabilize and

credit conditions ease. Recent difficulties in credit markets and weakness in the U.S. housing market will likely contribute to continued volatility in equity markets.

Despite the current market volatility, the North American wealth management industry remains an attractive business over the long term, with the high net worth and aging baby boomer segments becoming increasingly significant.

Private Client Group Financial Results

Private Client Group net income of \$395 million matched the record results of 2007. Current year results included \$31 million (\$19 million after tax) of charges associated with actions taken to support U.S. clients in the difficult capital markets environment. Adjusting for the impact of the charges, net income increased \$19 million or 5% to \$414 million in a challenging economic environment.

Revenue of \$2,067 million increased \$15 million or 1% and \$46 million or 2%, excluding the impact of the charges. Net interest income increased \$59 million or 9%, primarily due to higher deposit balances in the brokerage businesses and term investment products. Non-interest revenue decreased \$44 million or 3%, and \$13 million or 1% adjusted for the charges, primarily due to lower commission revenue in the brokerage businesses. This was partially offset by higher trust and investment revenue in North American Private Banking. Effective December 1, 2007, BMO Mutual Funds began absorbing the operating expenses of its funds in return for a fixed administration fee. This had the effect of increasing both non-interest revenue and expenses. The weaker U.S. dollar reduced revenue growth by \$19 million or 1 percentage point.

Non-interest expense of \$1,477 million increased \$31 million or 2%. The increase in expenses was primarily attributable to the impact of the fixed mutual fund administration fee, partially offset by lower revenue-based costs in line with lower revenue. The group continues to focus on expense management in the current market environment, balanced with investments in the sales force and supporting technology to drive future revenue growth. The weaker U.S. dollar reduced expense growth by \$12 million or 1 percentage point.

Adjusted for the charges, the group's cash productivity ratio was relatively unchanged from the prior year.

All amounts in the following paragraph are stated in U.S. dollars. U.S. operations recorded a net loss of US\$6 million in 2008.

Adjusted for the charges related to support for U.S. clients, net income was US\$9 million, an improvement of US\$9 million from the prior year. Revenue, adjusted for the charges, was relatively unchanged in a difficult market environment. Trust and investment revenue in Harris Private Bank grew 4% over the prior year, the impact of which was offset by lower fee-based revenue in Harris Investment Management. Net interest income remained relatively unchanged from the prior year as strong growth in loans was offset by a decline in loan spreads. Expenses declined US\$13 million, primarily due to lower incentive compensation and active expense management.

Private Client Group (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)	671	612	570	59	9
Non-interest revenue	1,396	1,440	1,324	(44)	(3)
Total revenue (teb)	2,067	2,052	1,894	15	1
Provision for credit losses	4	3	3	1	32
Non-interest expense	1,477	1,446	1,363	31	2
Income before income taxes	586	603	528	(17)	(3)
Income taxes (teb)	191	208	187	(17)	(9)
Net income	395	395	341	–	–
Amortization of intangible assets (after tax)	4	4	5	–	–
Cash net income	399	399	346	–	–
Net economic profit	281	273	221	8	3
Return on equity (%)	36.4	34.0	29.4		2.4
Cash return on equity (teb) (%)	36.7	34.3	29.8		2.4
Cash operating leverage (%)	(1.6)	2.2	2.0		nm
Productivity ratio (teb) (%)	71.5	70.4	71.9		1.1
Cash productivity ratio (teb) (%)	71.2	70.2	71.6		1.0
Net interest margin on earning assets (%)	8.98	9.66	9.99		(0.68)
Average earning assets	7,474	6,352	5,703	1,122	18
Average loans and acceptances	6,726	5,637	5,114	1,089	19
Average deposits	50,440	45,304	43,323	5,136	11
Assets under administration	131,289	139,060	153,859	(7,771)	(6)
Assets under management	99,428	106,174	105,425	(6,746)	(6)
Full-time equivalent staff	4,535	4,362	4,202	173	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	217	243	243	(26)	(11)
Non-interest expense	230	243	242	(13)	(6)
Net income	(6)	–	1	(6)	(+100)
Cash net income	(5)	2	3	(7)	(+100)
Average earning assets	2,142	1,945	1,932	197	10
Average loans and acceptances	2,120	1,903	1,889	217	11
Average deposits	1,155	1,128	1,314	27	2