

Review of Fourth Quarter Performance

Results in the fourth quarter of 2008 were good, in the context of a difficult capital markets environment and weakening North American economies. We remained focused on our core operations and on serving our customers. This was reflected in results and in further gains in market share in our priority businesses in Canadian retail banking. P&C Canada reported very good results and Private Client Group had strong underlying performance. Net income in BMO Capital Markets was up sharply from 2007, while results in Corporate Services were down appreciably due to higher credit losses charged to the group under our expected credit loss provisioning methodology.

BMO's net income was \$560 million, an increase of \$108 million or 24% from the fourth quarter of 2007. Summary income statements and data for the quarter and comparative quarters are outlined on page 88. Notable items affected quarterly results in both years. Results in 2008 included the \$125 million after-tax impact of charges of \$45 million related to the deterioration in the capital markets environment and a \$150 million increase in the general allowance for credit losses. Results in 2007 included the \$275 million after-tax impact of charges of \$318 million related to the deterioration in the capital markets environment and a \$50 million increase in the general allowance for credit losses, as well as modest charges related to commodities losses and restructuring.

The charges of \$45 million related to the capital markets environment were reflected in BMO Capital Markets and Private Client Group. The charges in BMO Capital Markets included \$14 million (\$8 million after tax) comprised of:

- charges of \$258 million in respect of exposures related to Apex (\$170 million before tax), and mark-to-market valuations on counterparty credit exposures on derivative contracts largely as a result of corporate counterparties' credit spreads widening relative to BMO's (\$88 million before tax);

- a charge of \$49 million for other-than-temporary impairment of securities in our portfolios, including \$29 million in respect of securities transferred from the trading to the available-for-sale portfolio;
- a benefit of \$133 million for mark-to-market valuations on credit default swaps related to BMO Capital Markets' loan portfolio;
- a benefit of \$89 million related to our liabilities recorded at fair value as a result of our widening credit spreads; and
- a number of other valuation adjustments and trading activities resulting in a net benefit of \$71 million, including an \$81 million pre-tax gain primarily related to portfolios where certain securities were transferred to the available-for-sale portfolio.

The charges in Private Client Group included \$31 million (\$19 million after tax) in respect of management actions taken to support our U.S. clients in the difficult capital markets environment, including:

- a net charge of \$19 million related to securities of Lehman Brothers; and
- a charge of \$12 million in respect of the valuation of auction rate securities that we expect to be tendered to our offer to purchase them from client accounts.

As explained on page 71, during the quarter, the CICA amended accounting and reporting rules applicable to financial instruments and as a result, we elected to transfer certain securities from our trading portfolio to our available-for-sale portfolio. We subsequently recorded mark-to-market charges on these securities, of which \$29 million was charged to earnings as other than temporary impairments and \$183 million (\$123 million after tax) was charged to other comprehensive income rather than to trading revenues (losses).

Personal and Commercial Banking net income increased \$36 million or 11% from a year ago to \$356 million. P&C Canada net income increased \$57 million or 19% to \$344 million. There was good volume growth in both personal and commercial banking, and especially cards and payment services, notwithstanding the weakness in the economy. Strong revenue growth from improved volumes was bolstered by higher net interest margin due to interest on tax refunds. Expenses increased due to higher employee costs, reflecting continued investment in the business, and higher capital taxes. Results in 2007 included \$6 million of net income arising from a \$107 million pre-tax gain on sale of MasterCard shares and a recovery of prior years' income taxes, partially offset by a \$185 million pre-tax adjustment to increase the liability for future redemptions related to our credit card customer loyalty rewards program.

P&C U.S. net income decreased US\$22 million or 66% from the particularly strong performance of a year ago to US\$11 million, due to higher acquisition integration costs incurred as we completed the integration of our Wisconsin subsidiaries, an increase in a Visa litigation reserve and the impact of difficult credit market conditions. There are higher levels of non-performing loans and costs of managing the loan portfolio have increased.

Private Client Group net income was \$78 million, a decrease of \$25 million or 25% from last year. Results in the fourth quarter of 2008 were affected by after-tax charges of \$19 million related to the deterioration in the capital markets environment outlined above. Adjusted for the charges, underlying performance was good. Deposit balances increased year over year and loan balances rose in North American Private Banking. There was lower commission revenue in Full-Service Investing and lower mutual fund revenue. The effect of strong growth in transaction volumes in BMO InvestorLine was largely offset by pricing changes resulting from competitive pressures in the industry. The implementation of a fixed administration fee by BMO Mutual Funds in the first quarter of 2008 contributed to growth in both revenue and non-interest expense. Expense growth also reflected the expansion of the sales force, partially offset by lower revenue-based costs. Assets under management and administration and term deposits have been affected by recent market conditions, and total amounts have decreased \$27.4 billion or 10% from a year ago, excluding the impact of foreign exchange rates.

BMO Capital Markets net income of \$285 million increased \$239 million from a year ago. Results in 2008 were affected by the after-tax charges of \$8 million related to the deterioration in the capital markets environment outlined above. There was a corresponding charge of \$318 million (\$211 million after tax) in the fourth quarter of 2007. The capital markets environment remained challenging in the fourth quarter; however, there was continued strong performance in our interest-rate-sensitive businesses and higher trading revenue. These were partially offset by net securities losses and reductions in underwriting revenues and merger and acquisition fees. Results for the fourth quarter of 2008 also benefited from the group's \$52 million share of a recovery of prior-period income taxes and from higher tax-exempt income.

Corporate Services net loss of \$159 million increased \$142 million from the fourth quarter of 2007. Results were negatively affected by a \$150 million increase in the general allowance, up from a \$50 million increase in the prior year. The overall charge for credit losses increased \$291 million to \$333 million, due to BMO's provisioning for credit losses methodology. Results in the fourth quarter included a recovery of \$21 million of prior-period income taxes.

BMO's revenue increased \$613 million or 28% from a year ago to \$2,813 million. Adjusted for the \$273 million year-over-year reduction in charges related to the capital markets environment, revenue increased \$340 million or 14%. The stronger U.S. dollar increased revenue by \$55 million or 2.5%.

Net interest income increased \$217 million or 18% from a year ago to \$1,413 million. There was growth in each of the operating groups, with a reduction in Corporate Services. Average earning assets increased \$7 billion or 2% to \$329 billion. P&C Canada earning assets increased \$6 billion, with growth in all lines of business. P&C U.S. had similar growth due to a portfolio transfer, acquisitions, organic growth and the benefit of a stronger U.S. dollar in the fourth quarter. BMO Capital Markets earning assets decreased \$4 billion despite the stronger U.S. dollar, due to a reduction in trading assets, partially offset by growth in corporate loans.

BMO's overall net interest margin on average earning assets for the fourth quarter of 2008 was 1.71%, or 24 basis points higher than in the fourth quarter of 2007. The year-over-year increase was mainly due to growth in interest-rate-sensitive businesses in BMO Capital Markets, interest on tax refunds in P&C Canada and higher margins in Private Client Group. P&C U.S. net interest margin was significantly lower, due in large part to a portfolio transfer, but its effect on BMO's margin was minimal.

Non-interest revenue increased \$396 million or 39% from a year ago to \$1,400 million. There was a \$273 million reduction in charges related to the deterioration in the capital markets environment. The remaining growth was attributable to increases in trading and securitization revenues, the latter driven by the securitization of \$4.2 billion of mortgage loans and \$1.6 billion of credit card loans in the fourth quarter. Card services fees increased \$163 million from the prior year due to the \$185 million adjustment to increase the liability for future redemptions related to our credit card customer loyalty rewards program in the fourth quarter of 2007. The benefit of volume growth was offset by the effects of securitizations. Underwriting and advisory fees declined in the difficult capital markets environment.

Non-interest expense increased \$163 million or 10% from a year ago to \$1,818 million. Approximately two-thirds of the increase was attributable to employee costs, including an increase in performance-based compensation in line with improved performance, as well as higher severance costs. These increases reflect the addition of front-line sales and service staff in P&C Canada and Private Client Group over the past year, as well as the effect of acquisitions by P&C U.S. Premises, computer and equipment costs increased as a result of writing off deferred costs of a technology project in the fourth quarter of 2008. The stronger U.S. dollar increased expense by \$45 million or 2.7%. BMO's productivity ratio was 64.6% in the quarter, compared with 75.2% a year ago. The cash productivity ratio was 64.2%, compared with 74.7% a year ago.

Credit conditions have deteriorated significantly in 2008. The provision for credit losses totalled \$465 million in the fourth quarter of 2008, comprised of \$315 million of specific provisions and a \$150 million increase in the general allowance for credit losses. The provision for credit losses totalled \$151 million in the fourth quarter of 2007, comprised of \$101 million of specific provisions and a \$50 million increase in the general allowance. Specific provisions in the fourth quarter of 2008 represented an annualized 81 basis points of average net loans and acceptances, including securities borrowed or purchased under resale agreements, compared with 29 basis points a year ago and an 18 basis point average over the past five years. The increase was attributable to higher levels of gross impaired loans, due to weakness in the manufacturing, financial institutions and U.S. commercial real estate sectors.

The effective tax rate in the quarter was a recovery rate of 9.2%, and included the benefit of \$73 million of recoveries of prior-period income taxes. Excluding the impact of the increase in the general allowance, tax recoveries and a higher proportion of income from lower-tax-rate jurisdictions, the effective tax rate in the fourth quarter of 2008 would be within the expected sustainable range of 16% to 20%.

Quarterly Earnings Trends

BMO's results and performance measures for the past eight quarters are outlined on page 88.

Over 2008, we have remained focused on our objectives and priorities and made good progress in developing a culture that places the customer at the focus of everything we do. We maintained this focus in the face of very difficult capital and credit market conditions as well as a slowing economy. At the end of 2008, many of our businesses had delivered solid results but most anticipate facing some headwind in the coming quarters.

BMO's quarterly earnings, revenue and expense are modestly affected by seasonal factors. Since our second fiscal quarter has 89 days (90 days in 2008) and other quarters have 92 days, second-quarter results are lower relative to other quarters because there are three fewer calendar days (two in 2008), and thus fewer business days. The months of July (third quarter) and August (fourth quarter) are typically characterized by lower levels of capital markets activity, which has an effect on results in Private Client Group and BMO Capital Markets. The December holiday season also contributes to a slowdown in some activities; however, credit card purchases are particularly robust in that first-quarter period, as well as in the back-to-school period that falls in our fourth quarter.

Notable items have affected revenues in BMO Capital Markets. There were commodities losses of \$509 million, \$171 million and \$149 million in the first through third quarters of 2007, with more modest losses in subsequent quarters and a modest gain in the most recent quarter, as the size and risk profile of the portfolio were reduced. Associated performance-based compensation was reduced appreciably in the first and second quarters of 2007. In addition, the fourth quarter of 2007 through the fourth quarter of 2008 reflected charges related to the deterioration in the capital markets environment of \$318 million, \$488 million, (\$42) million, \$134 million and \$45 million. The latter charge included \$31 million related to Private Client Group. Although the net charges were modest in certain quarters, they have included both favourable and unfavourable items and, as such, the modest net charges in some quarters should not be considered a reliable indicator that charges will continue to be modest.

Personal and Commercial Banking earnings have trended slightly higher over 2007 and 2008.

P&C Canada has developed a more customer-focused culture over the course of 2008, increasing market share in its priority markets and growing net income while continuing to invest for future growth. P&C Canada's net interest margin was relatively stable over 2007 and 2008, but there were higher funding costs in the latter half of the year and margin in the fourth quarter would have decreased in the absence of the receipt of interest on tax refunds. P&C Canada's revenues have grown steadily, benefiting from volume growth. Revenues were reduced in the fourth quarter of 2007 by the net impact of the \$185 million reduction in card fees associated with the adjustment to increase our liability for future redemptions related to our customer loyalty rewards program and the \$107 million gain on sale of common shares of MasterCard, as well as reduced securitization revenue. Results in that quarter included a \$43 million income tax recovery, which largely offset the after-tax impact of the card fees adjustment and the gain on sale.

P&C U.S. net income held relatively steady over the course of 2007 and 2008, until the most recent quarter. Its results that period were affected by higher levels of costs associated with completing the integration of the Wisconsin acquisitions, an increase to a litigation reserve and the effects of higher non-performing loans and costs of managing credit assets in the difficult credit environment. Net interest margin was lower over 2008, due primarily to a portfolio transfer at the start of the year.

Private Client Group's results have grown steadily over 2007 and 2008, but were reduced in the fourth quarter of 2008 by \$19 million of after-tax charges related to support for certain U.S. clients in the difficult capital markets environment. Deposits increased in the latter half of 2008, but revenue growth slowed as difficult market conditions have lowered managed and administered asset levels.

BMO Capital Markets earnings in 2008 reflected stronger performances in our interest-rate-sensitive businesses, higher trading revenues and, in the last half of 2008, higher tax recoveries. There were significant commodities losses in the first half of 2007 and charges related to the deterioration in the capital markets environment in the last quarter of 2007, as well as in each quarter of 2008. Underwriting and merger and acquisition fees were lower in 2008 in the difficult capital markets environment. Over the course of 2008, BMO Capital Markets refocused its business with the goal of improving its risk-return profile and concentrating on core profitable client relationships.

Corporate Services quarterly net income varies in large part because of our expected loss provisioning methodology and the impact from revenue, expenses and income taxes not attributed to the operating groups. The third and fourth quarters of 2008 in particular were affected by high provisions for credit losses, including increases in the general allowance. Results in the first and fourth quarters of 2007 included restructuring charges related to improving the efficiency and effectiveness of our organization. These charges reflected the costs of eliminating 1,400 positions, primarily in non-customer facing areas across all support functions and business groups.

Over the past few years, the U.S. dollar has generally weakened relative to the Canadian dollar. In 2008, this trend was broken and there was a period of relative stability, which ended in the fourth quarter with a sudden sharp appreciation of the U.S. dollar. A strong U.S. dollar increases the translated values of BMO's U.S.-dollar-denominated results. The effect of movements in exchange rates is muted somewhat by our practice of hedging the impact of exchange movements within a single quarter, which is explained on page 37.

BMO's provision for credit losses measured as a percentage of loans and acceptances deteriorated in 2008, and particularly in the last two quarters, as a result of the difficult credit market conditions and a slowdown in the economy.

The effective income tax rate can vary, as it depends on the timing of resolution of certain tax matters, recoveries of prior-period income taxes and the relative proportion of earnings attributable to the different jurisdictions in which we operate.

Summarized Statement of Income and Quarterly Financial Measures

(\$ millions)	Oct. 31 2008	July 31 2008	April 30 2008	Jan. 31 2008	Oct. 31 2007	July 31 2007	April 30 2007	Jan. 31 2007	2008	2007	2006
Net interest income	1,413	1,286	1,174	1,214	1,196	1,247	1,204	1,196	5,087	4,843	4,744
Non-interest revenue	1,400	1,460	1,446	812	1,004	1,308	1,324	870	5,118	4,506	5,241
Total revenue	2,813	2,746	2,620	2,026	2,200	2,555	2,528	2,066	10,205	9,349	9,985
Provision for credit losses – specific	315	434	151	170	101	91	59	52	1,070	303	211
Provision for credit losses – general	150	50	–	60	50	–	–	–	260	50	(35)
Non-interest expense	1,826	1,782	1,680	1,614	1,631	1,659	1,614	1,538	6,902	6,442	6,353
Restructuring charge (reversal)	(8)	–	–	–	24	–	–	135	(8)	159	–
Income before provision for income taxes and non-controlling interest in subsidiaries	530	480	789	182	394	805	855	341	1,981	2,395	3,456
Provision for income taxes	(49)	(59)	128	(91)	(77)	127	165	(26)	(71)	189	717
Non-controlling interest in subsidiaries	19	18	19	18	19	18	19	19	74	75	76
Net income	560	521	642	255	452	660	671	348	1,978	2,131	2,663
Amortization of intangible assets, net of income taxes	10	9	8	8	9	10	10	9	35	38	36
Cash net income	570	530	650	263	461	670	681	357	2,013	2,169	2,699
Operating group net income:											
Personal and Commercial Banking	356	371	361	328	320	381	356	326	1,416	1,383	1,277
Private Client Group	78	110	109	98	103	102	99	91	395	395	341
BMO Capital Markets	285	259	182	(34)	46	194	197	(20)	692	417	852
Corporate Services, including T&O	(159)	(219)	(10)	(137)	(17)	(17)	19	(49)	(525)	(64)	193
BMO Financial Group net income	560	521	642	255	452	660	671	348	1,978	2,131	2,663
Information per Common Share (\$)											
Dividends declared	0.70	0.70	0.70	0.70	0.70	0.68	0.68	0.65	2.80	2.71	2.26
Earnings											
Basic	1.06	1.00	1.25	0.48	0.89	1.30	1.31	0.68	3.79	4.18	5.25
Diluted	1.06	0.98	1.25	0.47	0.87	1.28	1.29	0.67	3.76	4.11	5.15
Cash earnings											
Basic	1.08	1.01	1.27	0.50	0.90	1.32	1.33	0.70	3.86	4.25	5.33
Diluted	1.08	1.00	1.26	0.49	0.89	1.30	1.31	0.68	3.83	4.18	5.23
Book value	32.02	30.15	29.71	28.64	28.29	28.81	28.95	28.90	32.02	28.29	28.89
Market price											
High	51.74	52.31	58.78	63.44	67.17	71.35	72.75	72.22	63.44	72.75	70.24
Low	35.65	37.60	38.00	51.35	60.21	66.59	68.29	67.75	35.65	60.21	56.86
Close	43.02	47.94	50.10	56.75	63.00	66.59	69.46	70.01	43.02	63.00	69.45
Financial Measures (%)											
Five-year average annual total shareholder return	0.9	5.1	8.2	10.1	14.2	17.2	16.6	17.8	0.9	14.2	19.1
Dividend yield	6.5	5.8	5.6	4.9	4.4	4.1	3.9	3.7	6.5	4.3	3.3
Diluted earnings per share growth	21.8	(23.4)	(3.1)	(29.9)	(35.6)	(7.2)	3.2	(42.7)	(8.5)	(20.2)	11.2
Diluted cash earnings per share growth	21.3	(23.1)	(3.8)	(27.9)	(35.0)	(7.1)	3.1	(42.9)	(8.4)	(20.1)	9.4
Return on equity	14.0	13.5	17.9	6.7	12.2	18.0	18.3	9.2	13.0	14.4	19.2
Cash return on equity	14.3	13.7	18.1	6.9	12.5	18.2	18.5	9.5	13.3	14.7	19.5
Net economic profit growth	103.4	(56.5)	(7.9)	(242.7)	(78.1)	(19.8)	(4.2)	(114.6)	(32.8)	(51.0)	10.3
Net income growth	23.9	(21.1)	(4.3)	(26.8)	(35.0)	(7.1)	3.1	(42.5)	(7.2)	(20.0)	11.2
Revenue growth	27.9	7.5	3.6	(2.0)	(10.6)	(0.6)	2.3	(16.7)	9.2	(6.4)	1.5
Net interest margin	1.71	1.59	1.48	1.45	1.47	1.61	1.65	1.64	1.56	1.59	1.81
Productivity ratio	64.6	64.9	64.1	79.7	75.2	64.9	63.8	81.0	67.6	70.6	63.6
Provision for credit losses as a % of average net loans and acceptances	0.81	0.89	0.28	0.42	0.29	0.18	0.12	0.10	0.60	0.17	0.09
Effective tax rate	(9.2)	(12.2)	16.3	(50.3)	(19.3)	15.7	19.4	(7.8)	(3.6)	7.9	20.7
Canadian/U.S. dollar average exchange rate (\$)	1.111	1.012	1.007	0.998	0.999	1.067	1.144	1.162	1.032	1.093	1.132
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	11.34	9.09	9.54	7.46	4.07	3.49	3.86	4.19	11.34	4.07	3.81
Cash and securities-to-total assets	29.1	29.6	29.6	30.7	33.1	31.0	28.6	28.4	29.1	33.1	27.2
Tier 1 Capital Ratio (1)	9.77	9.90	9.42	9.48	9.51	9.29	9.67	9.76	9.77	9.51	10.22

(1) A new framework, Basel II, was adopted in 2008. Basel II and Basel I methodologies are not comparable.

In the opinion of BMO's management, information that is derived from unaudited financial information, including information as at and for interim periods, includes all adjustments necessary for a fair presentation of such information. All such adjustments are of a normal and recurring nature. Financial ratios for interim periods are stated on an annualized basis where appropriate, and all growth rates represent year-over-year growth. Ratios, as well as interim operating results, are not necessarily indicative of actual results for the full fiscal year.

2007 Financial Performance Review

The preceding discussions in the MD&A focused on our performance in 2008. This section summarizes our performance in fiscal 2007.

Net income decreased \$532 million or 20% to \$2,131 million in fiscal 2007 and earnings per share fell \$1.04 or 20% to \$4.11. Results for the year were affected by \$787 million of after-tax losses in respect of charges related to the deterioration in capital markets, losses in our commodities business, an increase in the general allowance and restructuring charges. Return on equity was 14.4%, down from 19.2% in 2006, due to the \$532 million decrease in net income and the impact of a \$0.8 billion increase in average common shareholders' equity.

Revenue fell \$636 million or 6.4% in 2007 to \$9,349 million, driven by losses of \$853 million in our commodities trading business and by charges of \$318 million in the fourth quarter of 2007 related to the deterioration in capital markets. The net effect of businesses acquired in 2007 and 2006 increased revenues by \$52 million or 0.5%. The weaker U.S. dollar reduced revenue growth by \$87 million or 0.9 percentage points.

Credit conditions in 2007 softened from the favourable credit environment of 2006 as BMO recorded a \$353 million provision for credit losses, consisting of \$303 million of specific provisions and a \$50 million increase in the general allowance for credit losses. These amounts compare to a \$176 million provision recorded in 2006 comprised of specific provisions of \$211 million and a \$35 million reduction in the general allowance. The 2007 increase in the general allowance was primarily due to credit portfolio growth and risk deterioration.

Non-interest expense increased \$248 million or 3.9% to \$6,601 million. The net effect of businesses acquired in 2007 and 2006 increased expenses by \$46 million (0.7%) and restructuring charges increased costs by \$159 million (2.5%). Lower performance-based compensation costs reduced overall expenses by \$47 million (-0.7%), while the weaker U.S. dollar reduced costs by \$57 million (-0.9%). Other factors, including other business-based costs, increased overall expenses in 2007 by 2.3%. These included higher salaries and benefits costs associated with the expansion of our sales force, as well as initiatives and costs associated with business growth.

Net income in P&C Canada rose \$107 million or 9% from the record results of 2006 to \$1,267 million. Results in fiscal 2006 reflected the \$51 million impact of a \$38 million (\$25 million after tax) gain on the MasterCard IPO and a \$26 million recovery of prior years' income taxes. Results in fiscal 2007 were increased \$52 million by the net impact of a \$107 million (\$83 million after tax) gain on sale of MasterCard shares, a \$57 million recovery of prior years' 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 credit card customer loyalty rewards program. Revenue increased \$164 million or 4% to \$4,744 million. The items above reduced revenue growth by \$76 million or 1.7%. There was volume-based growth in personal and commercial loans, commercial deposits and cards. There were also higher revenues from securitization, as well as from increased sales of term investment products and mutual funds. Non-interest expense increased \$75 million or 3% to \$2,644 million due to higher employee-related expenses as a result of additions to front-line sales and service staff, bcpbank Canada costs and higher promotional costs, including a debit card AIR MILES initiative.

Net income in P&C U.S. decreased \$1 million to \$116 million. On a U.S. dollar basis, net income increased \$3 million or 3%. Excluding acquisition integration costs, net income increased in each quarter of 2007 relative to the preceding quarter. Revenue increased \$3 million to \$908 million, but increased \$34 million or 4% on a U.S. dollar basis. Acquisitions contributed US\$39 million to increased revenues, while

revenue increases associated with loan and deposit volume growth and higher service charges were more than offset by the impact of lower net interest margins. Non-interest expense increased \$15 million or 2% to \$693 million, but increased \$35 million or 6% on a U.S. dollar basis. Excluding operating costs of acquisitions and acquisition integration costs, which accounted for US\$22 million of increased expense, expense growth was 2.3% on a U.S. dollar basis. The remaining increase reflected operating costs of our new branch technology platform, increased costs associated with branches opened during fiscal 2006 and higher business volumes. These factors were partially offset by the impact of expense management initiatives.

Net income in Private Client Group reached a record \$395 million, an increase of \$54 million or 16% over 2006. Higher earnings were achieved primarily through solid growth in operating revenues. Revenue increased \$158 million or 8% to \$2,052 million. Non-interest revenue increased \$116 million or 9%, primarily due to increases in fee-based revenues in Full-Service Investing and the mutual fund businesses, as well as growth in trust and investment revenues in North American Private Banking. Strong growth in assets and transaction volumes in BMO InvestorLine was offset by competitive pricing pressures in the industry. Net interest income increased \$42 million or 8%, primarily due to increased deposit balances and higher spreads in the brokerage businesses and term investment products. The weaker U.S. dollar reduced revenue by \$12 million or 1%. Non-interest expense increased \$83 million or 6% to \$1,446 million. The increase was primarily due to higher revenue-based costs, in line with increased revenue, combined with further investments in our sales force, innovative products, technology and infrastructure to drive future growth. The weaker U.S. dollar increased expense by \$10 million or 1%.

Net income in BMO Capital Markets fell \$435 million or 51% to \$417 million. Results in 2007 were affected by two notable items: losses in our commodities trading business of \$853 million (\$440 million after performance-based compensation adjustments and income taxes); and charges of \$318 million (\$211 million after tax) for certain trading activities and valuation adjustments related to the deterioration in the credit environment in late 2007. These included \$169 million of losses related to our structured-credit instruments and preferred shares, a \$134 million write-down related to Canadian asset-backed commercial paper holdings and a \$15 million write-down of capital notes issued by structured investment vehicles. Revenue decreased \$811 million or 29% to \$1,969 million due to the \$1,171 million of charges. There were significant increases in merger and acquisition fees, underwriting activity, lending fees and commissions. Trading revenues were down due to commodities losses and losses in interest rate trading, but equity and foreign exchange trading revenues increased. Net interest income increased due to higher trading net interest income and higher revenues in our interest-rate-sensitive businesses. Higher levels of corporate banking assets also contributed to the increase in net interest income, partially offset by lower spreads on corporate loans in the competitive environment. The weaker U.S. dollar reduced revenue by \$18 million. Non-interest expense decreased \$38 million or 2% to \$1,574 million, primarily due to a decrease in performance-based compensation, partially offset by higher professional fees and information technology costs. The weaker U.S. dollar reduced non-interest expense by \$21 million.

Corporate Services net loss for the year was \$64 million, compared with net income of \$193 million in 2006, primarily due to a \$159 million (\$103 million after tax) restructuring charge, reduced revenues and higher provisions for credit losses, including the impact of changes in the general allowance, partially offset by lower corporate expenses.