

Note 18: Subordinated Debt

Subordinated debt represents our direct unsecured obligations, in the form of notes and debentures, to our debt holders and forms part of our regulatory capital. The rights of the holders of our notes and debentures are subordinate to the claims of depositors and certain other creditors. We require approval from OSFI before we can redeem any part of our subordinated debt.

During the year ended October 31, 2008, we issued Series F Medium-Term Notes, Tranche 1, totalling \$900 million. We redeemed all of our 5.75% Debentures, Series A Medium-Term Notes, Tranche 2, due 2013, totalling \$150 million. The debentures were redeemed at a redemption price of 100% of the principal amount plus unpaid accrued interest to the redemption date. During the year ended October 31, 2007, we issued Series D Medium-Term Notes, Tranche 2, totalling \$1.2 billion. We redeemed our \$150 million Series 22 Debentures. Our US\$300 million 7.80% Notes matured. There were no gains or losses on any of our redemptions.

During the year ended October 31, 2007, we issued \$800 million of innovative subordinated debentures, BMO Trust Subordinated Notes (BMO TSNs – Series A), through BMO Subordinated Notes Trust

(“SN Trust”). SN Trust is a variable interest entity which we are not required to consolidate (see Note 9); therefore, the BMO TSNs – Series A issued by SN Trust are not reported in our Consolidated Balance Sheet. SN Trust used the proceeds of the issuance to purchase a senior deposit note from us which is reported as a business and government deposit liability in our Consolidated Balance Sheet. All of the BMO TSNs – Series A will be exchanged automatically, without the consent of the holders, into our Series E Subordinated Notes upon the occurrence of specific events, such as a wind-up of Bank of Montreal, a regulatory requirement to increase capital, violations of regulatory capital requirements or changes to tax legislation.

We have guaranteed the payments of principal, interest and redemption price, if any, and any other amounts on the BMO TSNs – Series A when they become due and payable. This guarantee is subordinate to our deposit liabilities and all other liabilities, except for other guarantees, obligations or liabilities that are designated as ranking either equally with or subordinate to the subordinated indebtedness.

The senior deposit note bears interest at an annual rate of 5.90% and will mature on September 26, 2022.

The term to maturity and repayments of our subordinated debt required over the next five years and thereafter are as follows:

(Canadian \$ in millions, except as noted)	Face value	Maturity date	Interest rate (%)	Redeemable at our option beginning in						Over	2008	2007
					1 year	2 years	3 years	4 years	5 years	5 years	Total	Total
Debentures Series 12	\$ 140	December 2008	10.85	December 1998	\$ 140	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 140	\$ 140
Debentures Series 16	\$ 100	February 2017	10.00	February 2012 (1)	–	–	–	–	–	100	100	100
Debentures Series 20	\$ 150	December 2025 to 2040	8.25	not redeemable	–	–	–	–	–	150	150	150
Series A Medium-Term Notes Tranche 2	\$ 150	February 2013	5.75	redeemed	–	–	–	–	–	–	–	150
Series C Medium-Term Notes Tranche 1	\$ 500	January 2015	4.00	January 2010 (2)	–	–	–	–	–	500	500	500
Tranche 2	\$ 500	April 2020	4.87	April 2015 (3)	–	–	–	–	–	500	500	500
Series D Medium-Term Notes Tranche 1	\$ 700	April 2021	5.10	April 2016 (4)	–	–	–	–	–	700	700	700
Tranche 2	\$ 1,200	June 2017	5.20	June 2012 (5)	–	–	–	–	–	1,200	1,200	1,200
Series F Medium-Term Notes Tranche 1	\$ 900	March 2023	6.17	March 2018 (6)	–	–	–	–	–	900	900	–
					\$ 140	\$ –	\$ –	\$ –	\$ –	\$ 4,050	\$ 4,190 ⁽⁷⁾	\$ 3,440 ⁽⁷⁾
BMO Trust Subordinated Notes Series A	\$ 800	September 2022	5.75	September 2017 (8)	–	–	–	–	–	800	800	800
Total					\$ 140	\$ –	\$ –	\$ –	\$ –	\$ 4,850	\$ 4,990	\$ 4,240

(1) Redeemable at the greater of par and the Canada Yield Price after their redemption date of February 20, 2012 until their maturity date of February 20, 2017.

(2) Redeemable at the greater of par and the Canada Yield Price prior to January 21, 2010, and redeemable at par commencing January 21, 2010.

(3) Redeemable at the greater of par and the Canada Yield Price prior to April 22, 2015, and redeemable at par commencing April 22, 2015.

(4) Redeemable at the greater of par and the Canada Yield Price prior to April 21, 2016, and redeemable at par commencing April 21, 2016.

(5) Redeemable at the greater of par and the Canada Yield Price prior to June 21, 2012, and redeemable at par commencing June 21, 2012.

(6) Redeemable at the greater of par and the Canada Yield Price prior to March 28, 2018, and redeemable at par commencing March 28, 2018.

(7) Certain subordinated debt amounts recorded on our Consolidated Balance Sheet include quasi fair value adjustments that increase their value by \$125 million (\$6 million in 2007) as they are part of fair value hedges (see Note 10).

(8) Redeemable at the greater of par and the Canada Yield Price prior to September 26, 2017, and redeemable at par commencing September 26, 2017.

Please refer to the offering circular related to each of the above issues for further details on Canada Yield Price calculations and definitions of Government of Canada Yield.