

Note 27: Operating and Geographic Segmentation

Operating Groups

We conduct our business through operating groups, each of which has a distinct mandate. We determine our operating groups based on our management structure and therefore these groups, and results attributed to them, may not be comparable with those of other financial services companies. We evaluate the performance of our groups using measures such as net income, revenue growth, return on equity, net economic profit and non-interest expense-to-revenue (productivity) ratio, as well as cash operating leverage.

Personal and Commercial Banking

Personal and Commercial Banking (“P&C”) is comprised of two operating segments: Personal and Commercial Banking Canada and Personal and Commercial Banking U.S.

Personal and Commercial Banking Canada

Personal and Commercial Banking Canada (“P&C Canada”) offers a full range of consumer and business products and services, including: every-day banking, financing, investing, credit cards and insurance, as well as a full suite of commercial and capital markets products and financial advisory services, through a network of branches, telephone banking, online banking, mortgage specialists and automated banking machines.

Personal and Commercial Banking U.S.

Personal and Commercial Banking U.S. (“P&C U.S.”) offers a full range of products and services to personal and business clients in select U.S. Midwest markets through branches and direct banking channels such as telephone banking, online banking and a network of automated banking machines.

Private Client Group

Private Client Group (“PCG”) brings together all of our wealth management businesses. 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, the United States, United Kingdom and China.

BMO Capital Markets

BMO Capital Markets (“BMO CM”) combines all of our businesses serving corporate, institutional and government clients. In Canada and the United States, its clients span a broad range of industry sectors. BMO CM also serves clients in the United Kingdom, Europe, Asia and Australia. It offers clients complete financial solutions, including equity and debt underwriting, corporate lending and project financing, mergers and acquisitions advisory services, merchant banking,

securitization, treasury and market risk management, debt and equity research and institutional sales and trading.

Corporate Services

Corporate Services includes the corporate units that provide expertise and governance support in areas such as strategic planning, law, finance, internal audit, risk management, corporate communications, economics, corporate marketing, human resources and learning. Operating results include revenues and expenses associated with certain securitization activities, the hedging of foreign-source earnings, and activities related to the management of certain balance sheet positions and our overall asset liability structure.

Technology and Operations (“T&O”) manages, maintains and provides governance over our information technology, operations services, real estate and sourcing. T&O focuses on enterprise-wide priorities that improve quality and efficiency to deliver an excellent customer experience.

Operating results for T&O are included with Corporate Services for reporting purposes. However, costs of T&O services are transferred to the three operating groups. As such, results for Corporate Services largely reflect the activities outlined above.

Corporate Services also includes residual revenues and expenses representing the differences between actual amounts earned or incurred and the amounts allocated to operating groups.

Basis of Presentation

The results of these operating segments are based on our internal financial reporting systems. The accounting policies used in these segments are generally consistent with those followed in the preparation of our consolidated financial statements as disclosed in Note 1 and throughout the consolidated financial statements. Notable accounting measurement differences are the taxable equivalent basis adjustment and the provision for credit losses, as described below.

Taxable Equivalent Basis

We analyze net interest income on a taxable equivalent basis (“teb”) at the operating group level. This basis includes an adjustment which increases GAAP revenues and the GAAP provision for income taxes by an amount that would raise revenues on certain tax-exempt securities to a level that would incur tax at the statutory rate. The operating groups’ teb adjustments are eliminated in Corporate Services.

Analysis on a teb basis neutralizes the impact of investing in tax-exempt or tax-advantaged securities rather than fully taxable securities with higher yields. It reduces distortions in net interest income related to the choice of tax-advantaged and taxable investments.

Provisions for Credit Losses

Provisions for credit losses are generally allocated to each group based on expected losses for that group over an economic cycle. Differences between expected loss provisions and provisions required under GAAP are included in Corporate Services.

Inter-Group Allocations

Various estimates and allocation methodologies are used in the preparation of the operating groups' financial information. We allocate expenses directly related to earning revenue to the groups that earned the related revenue. Expenses not directly related to earning revenue, such as overhead expenses, are allocated to operating groups using allocation formulas applied on a consistent basis. Operating group net interest

income reflects internal funding charges and credits on the groups' assets, liabilities and capital, at market rates, taking into account relevant terms and currency considerations. The offset of the net impact of these charges and credits is reflected in Corporate Services.

Geographic Information

We operate primarily in Canada and the United States but we also have operations in the United Kingdom, Europe, the Caribbean and Asia, which are grouped in Other countries. We allocate our results by geographic region based on the location of the unit responsible for managing the related assets, liabilities, revenues and expenses, except for the consolidated provision for credit losses, which is allocated based upon the country of ultimate risk.

Our results and average assets, grouped by operating segment and geographic region, are as follows:

(Canadian \$ in millions)	P&C Canada	P&C U.S.	PCG	BMO CM	Corporate Services (1)	Total	Canada	United States	Other countries
2008 (2)									
Net interest income	\$ 3,236	\$ 748	\$ 671	\$ 1,179	\$ (747)	\$ 5,087	\$ 3,662	\$ 1,110	\$ 315
Non-interest revenue	1,801	242	1,396	1,233	446	5,118	3,951	1,181	(14)
Total Revenue	5,037	990	2,067	2,412	(301)	10,205	7,613	2,291	301
Provision for credit losses	341	43	4	117	825	1,330	340	942	48
Non-interest expense	2,790	802	1,477	1,752	73	6,894	5,011	1,710	173
Income before taxes and non-controlling interest in subsidiaries	1,906	145	586	543	(1,199)	1,981	2,262	(361)	80
Income taxes	586	49	191	(149)	(748)	(71)	199	(196)	(74)
Non-controlling interest in subsidiaries	—	—	—	—	74	74	55	19	—
Net Income	\$ 1,320	\$ 96	\$ 395	\$ 692	\$ (525)	\$ 1,978	\$ 2,008	\$ (184)	\$ 154
Average Assets	\$ 125,763	\$ 26,924	\$ 8,237	\$ 233,873	\$ 2,812	\$ 397,609	\$ 236,495	\$ 129,260	\$ 31,854
Goodwill (As at)	\$ 105	\$ 1,070	\$ 349	\$ 109	\$ 2	\$ 1,635	\$ 424	\$ 1,192	\$ 19
2007 (2)									
Net interest income	\$ 3,066	\$ 730	\$ 612	\$ 974	\$ (539)	\$ 4,843	\$ 3,615	\$ 923	\$ 305
Non-interest revenue	1,678	178	1,440	995	215	4,506	3,843	589	74
Total Revenue	4,744	908	2,052	1,969	(324)	9,349	7,458	1,512	379
Provision for credit losses	323	35	3	77	(85)	353	257	99	(3)
Non-interest expense	2,644	693	1,446	1,574	244	6,601	4,788	1,656	157
Income before taxes and non-controlling interest in subsidiaries	1,777	180	603	318	(483)	2,395	2,413	(243)	225
Income taxes	510	64	208	(99)	(494)	189	415	(199)	(27)
Non-controlling interest in subsidiaries	—	—	—	—	75	75	55	20	—
Net Income	\$ 1,267	\$ 116	\$ 395	\$ 417	\$ (64)	\$ 2,131	\$ 1,943	\$ (64)	\$ 252
Average Assets	\$ 119,164	\$ 23,477	\$ 7,091	\$ 207,084	\$ 3,759	\$ 360,575	\$ 216,572	\$ 111,150	\$ 32,853
Goodwill (As at)	\$ 106	\$ 628	\$ 313	\$ 91	\$ 2	\$ 1,140	\$ 423	\$ 717	\$ —
2006 (2)									
Net interest income	\$ 2,941	\$ 739	\$ 570	\$ 773	\$ (279)	\$ 4,744	\$ 3,617	\$ 981	\$ 146
Non-interest revenue	1,639	166	1,324	2,007	105	5,241	3,697	1,375	169
Total Revenue	4,580	905	1,894	2,780	(174)	9,985	7,314	2,356	315
Provision for credit losses	314	30	3	79	(250)	176	179	(2)	(1)
Non-interest expense	2,569	678	1,363	1,612	131	6,353	4,526	1,695	132
Income before taxes and non-controlling interest in subsidiaries	1,697	197	528	1,089	(55)	3,456	2,609	663	184
Income taxes	537	80	187	237	(324)	717	560	171	(14)
Non-controlling interest in subsidiaries	—	—	—	—	76	76	55	21	—
Net Income	\$ 1,160	\$ 117	\$ 341	\$ 852	\$ 193	\$ 2,663	\$ 1,994	\$ 471	\$ 198
Average Assets	\$ 114,364	\$ 21,890	\$ 6,545	\$ 161,811	\$ 4,521	\$ 309,131	\$ 191,929	\$ 90,317	\$ 26,885
Goodwill (As at)	\$ 93	\$ 582	\$ 323	\$ 98	\$ 2	\$ 1,098	\$ 410	\$ 688	\$ —

(1) Corporate Services includes Technology and Operations.

(2) Operating groups report on a taxable equivalent basis – see Basis of Presentation section.

Prior years have been restated to give effect to the current year's organizational structure and presentation changes.