

DIRECTOR INDEPENDENCE STANDARDS

The Board of Directors of Bank of Montreal has adopted the following standards for determining whether a director is independent within the meaning of applicable Canadian and United States securities laws and the New York Stock Exchange corporate governance standards. A director will be independent for purposes of service on the Board and its Committees if the director satisfies these standards.

Independence Determinations. No director will be independent unless the Board has affirmatively determined that the director has no material relationship with the Bank or any of its affiliates, either directly or indirectly or as a partner, shareholder or officer of an organization that has a relationship with the Bank or its affiliates. Material relationship means a relationship which could, in the view of the Board, reasonably interfere with the exercise of a director's independent judgement. In making these determinations the Board will consider all relevant facts and circumstances. Determinations will be made on an annual basis and, if a director joins the Board between annual meetings, at such time. For these purposes, a director will be deemed to not be independent if:

- (a) the director is, or was within the last three years, an executive officer or employee of the Bank or any of its affiliates, or an immediate family member of the director is, or was within the last three years, an executive officer of the Bank or any of its affiliates (provided that former part-time service as an interim chair of the Board or interim chief executive officer need not be considered);
- (b) the director:
 - i. is a partner or employee of the Bank's external auditors; or
 - ii. was within the last three years, a partner or employee of the Bank's external auditors and personally worked on the Bank's audit within that time;
- (c) an immediate family member of the director
 - i. is a partner of the Bank's external auditors;
 - ii. is an employee of the Bank's external auditors and participates in that firm's audit, assurance or tax compliance (but not tax planning) practice; or
 - iii. was within the last three years, a partner or employee of the Bank's external auditors and personally worked on the Bank's audit within that time;
- (d) the director or an immediate family member of the director is, or was within the last three years, an executive officer of an entity in which a current executive officer of the Bank serves or served at that same time on the compensation committee of the board of directors of such entity; or
- (e) the director or an immediate family member of the director who was employed as an executive officer of the Bank, received during any twelve-month period within the last

three years, more than the lesser of Cdn \$75,000 or US\$120,000 in direct compensation (provided that compensation received by a director for former service as an interim chair of the Board or interim chief executive officer need not be considered) from the Bank or any of its affiliates, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided that such compensation is not contingent in any way on continued service).

Audit Committee Members. All members of the Audit Committee must be determined to be independent under these standards. In addition, a director will not serve on the Audit Committee if:

- (a) the director accepts, directly or indirectly, any consulting, advisory or other compensatory fee from the Bank or any of its affiliates, other than remuneration in the director's capacity as a member of the Board or a committee of the Board (provided that compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Bank if the compensation is not contingent in any way on continued service); or
- (b) the director is an affiliated person of the Bank or any of its affiliates.

The indirect acceptance by a director of any consulting, advisory or other compensatory fee includes acceptance of such a fee by a spouse, a minor child or stepchild or a child or stepchild sharing a home with the director or by an entity in which such director is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or a person who occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the Bank or any of its affiliates.

Relationship to an entity. The relationship between the Bank and an entity will be considered in determining whether a director is independent where a director serves as an officer of the entity or, in the case of a for-profit entity, where the director is a general partner of or owns more than 5% of the entity. Such relationships will not be deemed relevant to a director who is a non-management director or a retired officer of an entity unless the Board determines otherwise.

For-profit entities. Where a director is an officer, general partner, or owns more than 5% of a for-profit entity that is a client of the Bank or any of its affiliates, whether as borrower, trading counterparty or otherwise, the financial relationship between the Bank or such affiliate and the entity will not be deemed material to a director's independence if:

- (i) the relationship was entered into on terms substantially similar to those that would be offered to comparable counterparties in similar circumstances; and
- (ii) termination of the relationship in the normal course of business would not reasonably be expected to have a material and adverse effect on the financial condition, results of operations or business of the borrower or other counterparty.

A director who is an employee, or whose immediate family member is an executive officer, of another company that makes payments to, or receives payments from, the Bank or any of its affiliates for property or services in an amount which, in any single fiscal year, exceeds the greater of US\$1 million or 2% of such other company's consolidated gross revenues in any of the past three years will be deemed to not be independent.

For these purposes, payments exclude payments arising from investments by the entity in the Bank's securities and payments from trading and other financial relationships.

Not-for-profit entities. The Bank encourages directors and employees to contribute to not-for-profit entities. The Bank also supports not-for-profit entities through grants and other support. Where a director is an officer of a not-for-profit entity, contributions by the Bank will not be deemed material if they do not exceed the greater of US \$1 million or 2% of a not-for-profit entity's total revenues.

Personal banking and other financial services. The Bank provides personal banking and other financial services to individuals in the ordinary course of its business. The United States Sarbanes-Oxley Act prohibits loans to directors, as well as executive officers, except for certain permitted loans. Any loans to directors are made in accordance with the Sarbanes-Oxley Act. All such relationships that are in the ordinary course of business will not be deemed material for director independence determinations.

Definitions. The following terms used above shall have the following meanings:

Affiliate, affiliated with or affiliated person of an entity means:

- (i) a person or company that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the entity; provided that a person is deemed not to be in control of an entity if the person is not the beneficial owner, directly or indirectly, of more than 10% of any class of voting equity securities of the entity and is not an executive officer of the entity;
- (ii) an executive officer of an affiliate;
- (iii) a director who also is an employee of an affiliate;
- (iv) a general partner of an affiliate; or
- (v) a managing member of an affiliate.

For the purposes of this definition the term control (including the terms controlling, controlled by and under common control with) means the direct or indirect power to direct or cause the direction of the management and policies of a person or company, whether through the ownership of voting securities, by contract, or otherwise.

Executive officer of an entity means its chair or vice-chair (where the person performs the function of the office on a full time basis), president, any vice president in charge of a principal business unit, division or function (such as sales, administration, production or finance), principal accounting officer, any other officer of the entity or any of its subsidiaries who performs

a policy making function in respect of the entity and any other person who performs a similar policy making function in respect of the entity. An officer of the entity's parent who performs a policy making function in respect of the entity is included as an executive officer of the entity. In respect of an entity that is a limited partnership, executive officer includes any officer or employee of the general partner who performs a policy making function for the limited partner of the entity. In respect of an entity that is trust, executive officer includes any officer or employee who performs a policy making function in respect of the entity.

Immediate family member means a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law and anyone (other than domestic employees) who shares such person's home.