

Report of the Governance and Nominating Committee

The Governance and Nominating Committee is responsible for developing and maintaining governance principles consistent with high standards of corporate governance, and reviewing and assessing on an ongoing basis the Bank's system of corporate governance. The Committee identifies and recommends candidates for election or appointment to the Board and ensures that Board and Board committee orientation programs are in place for new directors, as well as ongoing education for all directors so that their knowledge and understanding of the Bank's business and their responsibilities as directors are kept current. The Committee conducts an annual review of director compensation and makes recommendations to the Board thereon. The Committee is also responsible for developing and recommending to the Board a process for assessing the Board, its committees and individual directors, including the Board and committee Chairs.



Members: Robert Prichard (Chair), Robert M. Astley, Stephen Bachand, David Galloway, Bruce Mitchell, Philip Orsino

Year in Review

- **Chairman of the Board Matters** – Evaluated the Chairman of the Board, David Galloway, based on the comments received from Board members. The evaluation was communicated to the Chairman and was used to review the current year's Board priorities and initiatives and to establish goals for the ensuing year. In light of the expiry of the Chairman of the Board's term in 2009, the Committee undertook a review of the matter (which included discussions with each member of the Board of Directors) and recommended an extension of the Chairman's term to 2012. The extension of Mr. Galloway's term to 2012 was subsequently approved by the Board of Directors.
- **Corporate Governance Initiatives** – Assessed, on an ongoing basis, the Bank's system of corporate governance to ensure that the Bank's corporate governance practices meet applicable legal and regulatory requirements and best practices. (For a complete discussion of the Bank's corporate governance practices, see Schedule 1 of this Proxy Circular or www.bmo.com/investorrelations.) The Committee supported the work of the Risk Review Committee in overseeing the Bank's comprehensive review of its risk management practices.
- **Board/Committee Composition** – Assessed the composition and size of the Board, examining its breadth and the diversity of experience of its current members. Reviewed the skills and competencies of the Board as a whole and of individual directors against a list of desirable skills and competencies. Recommended to the Board the nominees to stand for election as directors at the Annual Meeting of Shareholders, as well as the committee members and Chairs for the year. Determined the need to augment the Board with a director with specific risk management and U.S. capital markets skills and experience. After undertaking a search process and considering all relevant criteria for a new director, the Committee recommended the appointment of Don M. Wilson III to the Board of Directors. Mr. Wilson was subsequently appointed on March 28, 2008.
- **Board, Committee and Director Performance Assessment** – Reviewed the Board's current evaluation process and conducted the annual evaluation of the effectiveness and contributions of the Board, its committees and individual directors based on a combination of questionnaires and interviews conducted by the Chairman of the Board.

- **Director Independence, Shareholdings and Attendance** – Worked with the Board in determining that, with the exception of the Bank's President and Chief Executive Officer, William Downe, all the directors were independent in accordance with the independence standards approved by the Board. Reviewed the shareholdings of directors and concluded that all directors met the six times annual retainer requirement as at October 31, 2008, with the exception of Dr. Piper, who was appointed to the Board in July 2006. Monitored director attendance and determined that all directors met the requirement to attend at least 75% of all meetings (Board and committees) that they are required to attend during the year.
- **Director Compensation** – Conducted an assessment of the director compensation practices of comparator corporations and made recommendations to the Board regarding compensation of the Bank's directors.
- **Annual Strategy Session** – Conducted a survey following the Board's annual strategy session, which confirmed the directors' agreement with the strategies outlined and provided input regarding future strategy sessions.
- **Annual Governance Reviews and Updates** – Reviewed and recommended to the Board position descriptions for the Chairman of the Board and the committee Chairs. Supervised the annual review of the Bank's Board Approval/Oversight Guidelines, which define the lines of accountability for both the Board and management. Reviewed and made recommendations to the Board on amendments to the Board's mandate and the Board committee charters in light of applicable governance guidelines, standards and best practices. Reviewed and approved the Board orientation program for new directors and the committee orientation programs for new committee members.

The Committee is satisfied that it has appropriately fulfilled its mandate for the year ended October 31, 2008.

J. Robert S. Prichard
Chair