

# Management's Discussion and Analysis

MD&A commentary is as of August 26, 2008. Unless otherwise indicated, all amounts are in Canadian dollars and have been derived from financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP). The MD&A should be read in conjunction with the unaudited consolidated financial statements for the period ended July 31, 2008, included in this document, and the annual MD&A for the year ended October 31, 2007, included in BMO's 2007 Annual Report. The material that precedes this section comprises part of this MD&A.

**Bank of Montreal uses a unified branding approach that links all of the organization's member companies. Bank of Montreal, together with its subsidiaries, is known as BMO Financial Group. As such, in this document, the names BMO and BMO Financial Group mean Bank of Montreal, together with its subsidiaries.**

## Summary Data

(Unaudited) (Canadian \$ in millions, except as noted)	Q3-2008	Increase (Decrease) vs. Q3-2007		Increase (Decrease) vs. Q2-2008		YTD-2008	Increase (Decrease) vs. YTD-2007	
Net interest income	<b>1,286</b>	39	3%	112	10%	<b>3,674</b>	27	1%
Non interest revenue	<b>1,460</b>	152	12%	14	1%	<b>3,718</b>	216	6%
Revenue	<b>2,746</b>	191	8%	126	5%	<b>7,392</b>	243	3%
Specific provision for credit losses	<b>434</b>	343	+100%	283	+100%	<b>755</b>	553	+100%
Increase in the general allowance	<b>50</b>	50	100%	50	100%	<b>110</b>	110	100%
Total provision for credit losses	<b>484</b>	393	+100%	333	+100%	<b>865</b>	663	+100%
Non-interest expense	<b>1,782</b>	123	7%	102	6%	<b>5,076</b>	265	6%
Restructuring charge	-	-	-	-	-	-	(135)	(100%)
Total non-interest expense	<b>1,782</b>	123	7%	102	6%	<b>5,076</b>	130	3%
Income taxes	<b>(59)</b>	(186)	(+100%)	(187)	(+100%)	<b>(22)</b>	(288)	(+100%)
Non-controlling interest in subsidiaries	<b>18</b>	-	-	(1)	(5%)	<b>55</b>	(1)	(3%)
Net income	<b>521</b>	(139)	(21%)	(121)	(19%)	<b>1,418</b>	(261)	(16%)
Amortization of intangible assets (after tax)	<b>9</b>	(1)	(7%)	1	13%	<b>25</b>	(4)	(14%)
Cash net income (1)	<b>530</b>	(140)	(21%)	(120)	(19%)	<b>1,443</b>	(265)	(16%)
Earnings per share – basic (\$)	<b>1.00</b>	(0.30)	(23%)	(0.25)	(20%)	<b>2.73</b>	(0.56)	(17%)
Earnings per share – diluted (\$)	<b>0.98</b>	(0.30)	(23%)	(0.27)	(22%)	<b>2.70</b>	(0.54)	(17%)
Cash earnings per share – diluted (\$) (1)	<b>1.00</b>	(0.30)	(23%)	(0.26)	(21%)	<b>2.75</b>	(0.54)	(16%)
Return on equity (ROE)	<b>13.5%</b>		(4.5%)		(4.4%)	<b>12.7%</b>		(2.4%)
Cash ROE (1)	<b>13.7%</b>		(4.5%)		(4.4%)	<b>12.9%</b>		(2.5%)
Productivity ratio	<b>64.9%</b>		-		0.8%	<b>68.7%</b>		(0.5%)
Cash productivity ratio (1)	<b>64.5%</b>		-		0.7%	<b>68.2%</b>		(0.5%)
Operating leverage	<b>0.1%</b>		nm		nm	<b>0.8%</b>		nm
Cash operating leverage (1)	-		nm		nm	<b>0.7%</b>		nm
Net interest margin on earning assets	<b>1.59%</b>		(0.02%)		0.11%	<b>1.50%</b>		(0.13%)
Effective tax rate	<b>(12.2%)</b>		(27.9%)		(28.5%)	<b>(1.5%)</b>		(14.8%)
Capital Ratios (2)								
Tier 1 Capital Ratio	<b>9.90%</b>		nm		0.48%	<b>9.90%</b>		nm
Total Capital Ratio	<b>12.29%</b>		nm		0.65%	<b>12.29%</b>		nm
Net income:								
Personal and Commercial Banking	<b>371</b>	(10)	(3%)	10	3%	<b>1,060</b>	(3)	-
P&C Canada	<b>343</b>	(13)	(3%)	12	3%	<b>976</b>	(4)	-
P&C U.S.	<b>28</b>	3	6%	(2)	(4%)	<b>84</b>	1	-
Private Client Group	<b>110</b>	8	8%	1	1%	<b>317</b>	25	9%
BMO Capital Markets	<b>259</b>	65	34%	77	42%	<b>407</b>	36	10%
Corporate Services, including Technology and Operations	<b>(219)</b>	(202)	(+100%)	(209)	(+100%)	<b>(366)</b>	(319)	(+100%)
BMO Financial Group Net Income	<b>521</b>	(139)	(21%)	(121)	(19%)	<b>1,418</b>	(261)	(16%)

(1) These are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section that follows, which outlines the use of non-GAAP measures in this document.

(2) Variances to the prior year have not been provided as the basis of computation is no longer comparable. In 2008, capital ratios are computed under Basel II versus on a Basel I basis in prior periods. On a Basel I basis, at the end of the current quarter, the Tier 1 capital ratio was 9.45% and the total capital ratio was 12.07% (Q2 2008: 9.03% and 11.47%; Q3 2007: 9.29% and 11.18%). See the Capital Management section.

nm – not meaningful.

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### Management's Responsibility for Financial Information

BMO's CEO and Interim CFO have signed certifications relating to the appropriateness of the financial disclosures in our interim MD&A and unaudited interim consolidated financial statements for the period ended July 31, 2008 and relating to the design of our disclosure controls and procedures and internal control over financial reporting.

BMO's internal control over financial reporting includes policies and procedures that: pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of BMO; provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with Canadian generally accepted accounting principles and the requirements of the Securities and Exchange Commission in the United States, as applicable, and that receipts and expenditures of BMO are being made only in accordance with authorizations of management and directors of BMO; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of BMO's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

There were no changes in our internal control over financial reporting during the quarter ended July 31, 2008 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

As in prior quarters, BMO's audit committee reviewed this document, including the attached unaudited interim consolidated financial statements, and BMO's Board of Directors approved the document prior to its release.

A comprehensive discussion of our businesses, strategies and objectives can be found in Management's Discussion and Analysis in BMO's 2007 Annual Report, which can be accessed on our web site at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations). Readers are also encouraged to visit the site to view other quarterly financial information.

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### Caution Regarding Forward-Looking Statements

Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the 'safe harbor' provisions of, and are intended to be forward-looking statements under, the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives and priorities for 2008 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price, and the results of or outlook for our operations or for the Canadian and U.S. economies.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic and market conditions in the countries in which we operate; interest rate and currency value fluctuations; changes in monetary policy; the degree of competition in the geographic and business areas in which we operate; changes in laws; judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; our ability to execute our strategic plans and to complete and integrate acquisitions; critical accounting estimates; operational and infrastructure risks; general political conditions; global capital market activities; the possible effects on our business of war or terrorist activities; disease or illness that impacts on local, national or international economies; disruptions to public infrastructure, such as transportation, communications, power or water supply; and technological changes.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors could adversely affect our results. For more information, please see the discussion on pages 28 and 29 of BMO's 2007 Annual Report, which outlines in detail certain key factors that may affect BMO's future results. When relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Bank of Montreal does not undertake to update any forward-looking statement, whether written or oral, that may be made, from time to time, by the organization or on its behalf. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented and our strategic priorities and objectives, and may not be appropriate for other purposes.

Assumptions about the level of asset sales, expected asset sale prices and risk of default of the underlying assets of the structured investment vehicles were material factors we considered when establishing our expectations regarding the structured investment vehicles discussed in this document including the amount to be drawn under the BMO liquidity facilities. Key assumptions included that assets would continue to be sold with a view to reducing the size of the structured investment vehicles, under various asset price scenarios.

Assumptions about the level of defaults and losses on defaults were material factors we considered when establishing our expectation of the future performance of the transactions that Apex Trust has entered into. Key assumptions included that the level of defaults and losses on defaults would be consistent with historical experience. Material factors which were taken into account when establishing our expectations of the future risk of credit losses in Apex Trust as discussed in this document included industry diversification in the portfolio, initial credit quality by portfolio and the first-loss protection incorporated into the structure.

In establishing our expectations regarding the run-rate costs of our credit card loyalty rewards program discussed in this document, we took into account the terms of the agreement that was entered into with Loyalty Management Group Canada Inc. in the quarter.

In establishing our expectations regarding the timing of completion of the integration of the Wisconsin acquisitions and associated costs discussed in this document, we assumed that the integration would be completed in accordance with the current project plan and in line with current cost estimates.

In establishing our fourth quarter expectations for specific provisions for credit losses and for gross impaired loans, we assumed that the credit environment would remain consistent with current conditions, and that our credit exposures would perform in a manner consistent with the expectations we have developed through the ongoing assessment of our exposures.

Assumptions about the performance of the Canadian and U.S. economies in 2008 and how it would affect our businesses were material factors we considered when setting our strategic priorities and objectives, and when determining our financial targets, including provisions for credit losses and our expectations about achieving those targets and our outlook for our businesses. Key assumptions were that the Canadian economy would expand at a moderate pace in 2008 while the U.S. economy expands modestly, and that inflation would remain low in North America. We also assumed that interest rates in 2008 would decline slightly in Canada and the United States, and that the Canadian dollar would trade at parity to the U.S. dollar at the end of 2008. In determining our expectations for economic growth, both broadly and in the financial services sector, we primarily consider historical economic data provided by the Canadian and U.S. governments and their agencies. In the first quarter, we anticipated that there would be weaker economic growth in Canada and that the United States would slip into a mild recession in the first half of 2008. We also updated our views that quarter to expect lower interest rates and a somewhat weaker Canadian dollar than when we established our 2008 financial targets. Although the United States avoided a technical recession in the first half of the year, we anticipate further weakness in its economy and as such our views remain largely unchanged from the first quarter. Tax laws in the countries in which we operate, primarily Canada and the United States, are material factors we consider when determining our sustainable effective tax rate.

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### Regulatory Filings

Our continuous disclosure materials, including our interim filings, annual MD&A and audited consolidated financial statements, our Annual Information Form and the Notice of Annual Meeting of Shareholders and Proxy Circular are available on our web site at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations), on the Canadian Securities Administrators' web site at [www.sedar.com](http://www.sedar.com) and on the EDGAR section of the SEC's web site at [www.sec.gov](http://www.sec.gov).

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## Economic Outlook

The Canadian economy is expected to grow just 1% in 2008, the slowest pace since 1992. The weak U.S. economy and strong Canadian dollar continue to depress exports and manufacturing, though low interest rates and high commodity prices have supported domestic demand and incomes. Housing markets have cooled from record levels of activity last year, and should continue to moderate as past increases in prices have reduced affordability. Consumer spending remains healthy, especially for automobiles, but will likely soften in response to weakening employment gains. Business investment is also expected to slow given the uncertain economic climate and the recent pullback in commodity prices. Despite higher inflation, Canadian interest rates are projected to remain near current low levels for the rest of the year in response to the weak economy. The Canadian dollar is expected to continue trading below parity against the U.S. dollar, as the trade balance declines. The resource-based western provinces should continue to outperform Central and Atlantic Canada.

The U.S. economy is expected to slow further in the second half of 2008 after expanding modestly in the first half. House prices will continue to decline until demand strengthens and the large overhang of unsold homes is reduced. Falling house prices, rising unemployment, tightening credit standards and high food and fuel prices will continue to depress consumer spending. Waning support from tax-rebate cheques could cause consumption to decline in the near term. Businesses are also likely to continue to scale back investment until the economic outlook brightens. Capital markets activity remains subdued in response to ongoing dislocations in credit markets. Despite the highest inflation in 17 years, the Federal Reserve has not indicated any immediate plans to raise interest rates, given concerns about the economy and financial markets. It will likely remain on hold for the rest of the year.

This Economic Outlook section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

## Effects of the Capital Markets Environment on Third Quarter Results

Financial markets remain unsettled with continuing apprehension with respect to capital markets and concerns about an economic downturn. In the current quarter, capital markets continued to be affected by volatility in credit spreads, impacting mark-to-market valuations. The economic downturn is raising concerns about financial institutions credit exposures on traditional products such as home equity lines of credit, auto loans and commercial loans.

BMO's results in the third quarter were affected by capital markets environment charges of \$134 million (\$96 million after tax), or \$0.19 per share in respect of:

- a charge of \$88 million (\$65 million after tax) including:
  - a charge of \$58 million (\$39 million after tax) for mark-to-market valuations on counterparty credit exposures on derivative contracts largely as a result of widening corporate counterparty credit spreads relative to BMO;
  - a charge of \$55 million (\$43 million after tax) for other than temporary impairments and valuation adjustments on preferred shares held in our trading portfolio;
  - a recovery of \$25 million (\$17 million after tax) for other trading and structured-credit related positions;
- a \$28 million (\$19 million after tax) impairment charge for asset-backed commercial paper held that is subject to the Montreal Accord;
- a net charge of \$15 million (\$10 million after tax) related to Apex; and
- a \$3 million (\$2 million after tax) charge for our capital notes investment in SIVs.

The capital markets environment charges of \$134 million above were all reflected in non-interest revenue with \$61 million in securities gains/losses other than trading, \$76 million in trading non-interest revenue and a recovery of \$3 million in other revenue.

The effects of significant and notable items affecting comparative period results are discussed at the end of this MD&A.

Given the uncertainty in the capital markets environment, our investments in ABCP, SIVs, structured finance vehicles and mark-to-market investments could experience further valuation gains and losses due to changes in market value.

This Effects of the Capital Markets Environment on Third Quarter Results section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

**GAAP and Related Non-GAAP Measures used in the MD&A**

(Canadian \$ in millions, except as noted)

	Q3-2008	Q2-2008	Q3-2007	YTD-2008	YTD-2007
Non-interest expense (a)	<b>1,782</b>	1,680	1,659	<b>5,076</b>	4,811
Restructuring charge (b)	-	-	-	-	135
Total non-interest expense (c)	<b>1,782</b>	1,680	1,659	<b>5,076</b>	4,946
Amortization of intangible assets	<b>(11)</b>	(10)	(11)	<b>(31)</b>	(35)
Cash-based non-interest expense (d) (note 1)	<b>1,771</b>	1,670	1,648	<b>5,045</b>	4,911
Net income (e)	<b>521</b>	642	660	<b>1,418</b>	1,679
Amortization of intangible assets, net of income taxes	<b>9</b>	8	10	<b>25</b>	29
Cash net income (f) (note 1)	<b>530</b>	650	670	<b>1,443</b>	1,708
Preferred share dividends	<b>(19)</b>	(14)	(9)	<b>(48)</b>	(31)
Charge for capital (note 1)	<b>(389)</b>	(370)	(381)	<b>(1,134)</b>	(1,145)
Net economic profit (note 1)	<b>122</b>	266	280	<b>261</b>	532
Restructuring charge (b)	-	-	-	-	135
Related income taxes (g)	-	-	-	-	47
Net impact of restructuring (h)	-	-	-	-	88
Commodities losses (i) (note 2)	-	-	149	-	829
Performance - based compensation (j)	-	-	-	-	(120)
Related income taxes (k)	-	-	52	-	285
Net impact of commodities losses (l)	-	-	97	-	424
Charges related to deterioration in capital markets environment (m)	-	-	-	<b>488</b>	-
Related income taxes (o)	-	-	-	<b>164</b>	-
Net impact of charges related to capital markets environment (p)	-	-	-	<b>324</b>	-
Increase in general allowance	<b>50</b>	-	-	<b>110</b>	-
Related income taxes (q)	<b>20</b>	-	-	<b>42</b>	-
Net impact of increase in general allowance (r)	<b>30</b>	-	-	<b>68</b>	-
Net impact of significant items (h+l+p+r) (1)	<b>30</b>	-	97	<b>392</b>	512
Revenue (s)	<b>2,746</b>	2,620	2,555	<b>7,392</b>	7,149
Non-interest expense (c)	<b>1,782</b>	1,680	1,659	<b>5,076</b>	4,946
Cash-based non-interest expense (d)	<b>1,771</b>	1,670	1,648	<b>5,045</b>	4,911
Income tax (t)	<b>(59)</b>	128	127	<b>(22)</b>	266
Productivity ratio (%) ((c/s) x 100)	<b>64.9</b>	64.1	64.9	<b>68.7</b>	69.2
Cash productivity ratio (%) ((d/s) x 100) (note 1)	<b>64.5</b>	63.8	64.5	<b>68.2</b>	68.7
Revenue growth (%) (u)	<b>7.5</b>	3.6	(0.6)	<b>3.4</b>	(5.0)
Non-interest expense growth (%) (v)	<b>7.4</b>	4.1	3.6	<b>2.6</b>	4.3
Cash-based non-interest expense growth (%) (w) (note 1)	<b>7.5</b>	4.3	3.6	<b>2.7</b>	4.3
Operating leverage (%) (u-v)	<b>0.1</b>	(0.5)	(4.2)	<b>0.8</b>	(9.3)
Cash operating leverage (%) (u-w) (note 1)	-	(0.7)	(4.2)	<b>0.7</b>	(9.3)
EPS (uses net income) (\$)	<b>0.98</b>	1.25	1.28	<b>2.70</b>	3.24
Cash EPS (note 1) (uses cash net income) (\$)	<b>1.00</b>	1.26	1.30	<b>2.75</b>	3.29
Effective tax rate (%) (t/(e+t+Min. Int of approx. \$19MM per quarter))	<b>(12.2)</b>	16.3	15.7	<b>(1.5)</b>	13.3
<b>Measures on a basis that excludes the impact of significant items (note 1)</b>					
Revenue (s+i+m) (2)	<b>2,746</b>	2,620	2,704	<b>7,880</b>	7,978
Non-interest expense (c-b-j) (3)	<b>1,782</b>	1,680	1,659	<b>5,076</b>	4,931
Cash-based expense (d-b-j) (4)	<b>1,771</b>	1,670	1,648	<b>5,045</b>	4,896
Income tax (t+g+k+o+q) (5)	<b>(39)</b>	128	179	<b>184</b>	598
Net income (e+1) (6)	<b>551</b>	642	757	<b>1,810</b>	2,191
Cash net income (f+1)	<b>560</b>	650	767	<b>1,835</b>	2,220
Productivity ratio (%) ((3/2) x 100)	<b>64.9</b>	64.1	61.4	<b>64.4</b>	61.8
Cash productivity ratio (%) ((4/2) x 100)	<b>64.5</b>	63.8	60.9	<b>64.0</b>	61.4
Revenue growth (%) (x)	<b>1.6</b>	(2.9)	5.2	<b>(1.2)</b>	6.0
Non-interest expense growth (%) (y)	<b>7.4</b>	2.0	3.6	<b>2.9</b>	4.0
Cash-based expense growth (%) (z)	<b>7.5</b>	2.2	3.6	<b>3.0</b>	4.0
Operating leverage (%) (x-y)	<b>(5.8)</b>	(4.9)	1.6	<b>(4.1)</b>	2.0
Cash Operating leverage (%) (x-z)	<b>(5.9)</b>	(5.1)	1.6	<b>(4.2)</b>	2.0
EPS (uses net income excluding significant items)	<b>1.04</b>	1.25	1.47	<b>3.48</b>	4.24
Cash EPS (uses cash net income excluding significant items)	<b>1.06</b>	1.26	1.49	<b>3.53</b>	4.29
ROE (%) (uses net income excluding significant items)	<b>14.3</b>	17.9	20.6	<b>16.3</b>	19.8
Effective tax rate (%) (5/(6+5+Min. Int of approx. \$19MM per quarter))	<b>(7.3)</b>	16.3	18.7	<b>9.0</b>	21.0

Note 1: These are non-GAAP amounts or non-GAAP measures.

Note 2: Commodities losses were \$15 million (\$10 million after tax) in Q3 2008 and \$45 million (\$30 million after tax) for the year to date. Commodities losses were not considered a significant item in 2008.

## Non-GAAP Measures

BMO uses both GAAP and certain non-GAAP measures to assess performance. Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies. The following table reconciles the non-GAAP measures, which management regularly monitors, to their GAAP counterparts.

Management discloses amounts on a basis that adjusts for certain significant items. Amounts and measures stated on a basis that excludes the significant items are considered useful as they would be expected to be more reflective of ongoing operating results. These significant items included: charges related to certain trading activities and valuation adjustments in the first quarter of 2008; losses in our commodities business in 2007 (including associated performance-based compensation); restructuring charges recorded in 2007; and changes in the general allowance for credit losses. Amounts are summarized in the accompanying table and further detail is provided in the Significant and Notable Items section. Since such charges tend to be irregular, adjusting for them is helpful in assessing quarterly trends in results.

Cash earnings, cash productivity and cash operating leverage measures may enhance comparisons between periods when there has been an acquisition, particularly because the purchase decision may not consider the amortization of intangible assets to be a relevant expense. Cash EPS measures are also disclosed because analysts often focus on this measure, and cash EPS is used by Thomson First Call to track third-party earnings estimates that are frequently reported in the media. Cash measures add the after-tax amortization of intangible assets to GAAP earnings to derive cash net income (and associated cash EPS) and deduct the amortization of intangible assets from non-interest expense to derive cash productivity and cash operating leverage measures.

BMO analyzes consolidated revenues on a GAAP basis. However, like many banks, BMO analyzes revenue of its operating groups, and ratios of the groups computed using revenue, on a taxable equivalent basis (teb). This basis includes an adjustment that 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 equivalent to amounts that would incur tax at the statutory rate. The effective income tax rate is also analyzed on a taxable equivalent basis for consistency of approach. The offset to the group teb adjustments is reflected in Corporate Services. Analysis on a taxable equivalent basis neutralizes the impact on ratios of investing in tax exempt or tax-advantaged securities rather than fully-taxable securities with higher yields. It reduces distortions in ratios between periods and between institutions related to the choice of tax-advantaged and taxable investments. In this MD&A, all revenues and tax amounts and related ratios of our operating groups are stated on a taxable equivalent basis, unless indicated otherwise.

Net economic profit represents cash net income available to common shareholders, less a charge for capital, and is considered an effective measure of economic value added.

## Foreign Exchange

The Canadian dollar equivalents of BMO's U.S. dollar-denominated net income, revenues, expenses, provisions for credit losses and income taxes were lowered relative to the third quarter of 2007 by the weakening of the U.S. dollar in the past year. The average Canadian/U.S. dollar exchange rate in the third quarter, expressed in terms of the Canadian dollar cost of a U.S. dollar, fell by 5% from a year ago but rose 1% from the second quarter of 2008. The following table indicates the relevant average Canadian/U.S. dollar exchange rates and the impact of changes in the rates.

### Effects of U.S. Dollar Exchange Rate Fluctuations on BMO's Results

(Canadian \$ in millions, except as noted)	Q3-2008		YTD-2008 vs
	vs. Q3-2007	vs. Q2-2008	YTD-2007
Canadian/U.S. dollar exchange rate (average)			
Current period	1.0122	1.0122	1.0057
Prior period	1.0673	1.0065	1.1243
Increased (Decreased) revenue	(23)	2	(118)
Decreased (Increased) expense	23	(2)	138
Decreased (Increased) provision for credit losses	24	(3)	58
Decreased (Increased) income taxes	(18)	2	(12)
Increased (Decreased) net income	6	(1)	66

At the start of each quarter, BMO enters into hedging transactions that are expected to partially offset the pre-tax effects of exchange rate fluctuations in the quarter on our expected U.S. dollar net income for that quarter. As such, these activities partially mitigate the impact of exchange rate fluctuations within a single quarter; however, the hedging transactions are not designed to offset the impact of year over year or quarter over quarter fluctuations in exchange rates. The U.S. dollar strengthened in the first and second quarters. It also strengthened but more modestly over the course of the current quarter, as the exchange rate increased from Cdn\$1.0072 per U.S. dollar at April 30, 2008 to an average of Cdn\$1.0122. Hedging transactions resulted in an after-tax gain of \$1 million in the quarter and an after-tax loss of \$7 million for the year to date. The gain or loss from hedging transactions in future periods will be determined by both future currency fluctuations and the amount of underlying future hedging transactions, since the transactions are entered into each quarter in relation to expected U.S. dollar-denominated net income for the next three months.

The effect of currency fluctuations on our investments in foreign operations is discussed in the Income Taxes section.

## Other Value Measures

Net economic profit was \$122 million (see the Non-GAAP Measures section), compared with \$280 million in the third quarter of 2007 and \$266 million in the second quarter.

The total shareholder return (TSR) on an investment in BMO common shares was -2.9% in the third quarter and -24.4% for the twelve months ended July 31, 2008. BMO's average annual TSR for the five-year period ended July 31, 2008 was 5.1%.

## Net Income

### Q3 2008 vs Q3 2007

Net income was \$521 million for the third quarter of 2008, down \$139 million or 21% from a year ago. Earnings per share were \$0.98, compared with \$1.28. Results for the quarter include \$96 million after tax (\$0.19 per share) in respect of the capital markets environment charges as set out in the Effects of the Capital Markets Environment on Third Quarter Results section. Results a year ago included \$149 million of commodities losses in BMO Capital Markets (\$97 million after tax and \$0.19 per share).

Provisions for credit losses were up \$393 million from a year ago. Provisions for credit losses totalled \$484 million including a \$50 million increase in the general allowance. Specific provisions of \$434 million were elevated due to the inclusion of \$247 million for two corporate accounts related to the U.S. housing market that were identified as impaired in the first half of the current year. The size of the provisions for these two exposures reflects the continued weakness in the U.S. residential real estate market and the specific nature of the underlying loans. BMO funded these two accounts out of its U.S. securitization conduit earlier this year. The remaining increase reflects the weaker economic environment.

P&C Canada net income decreased \$13 million or 3.2% from a year ago. Results a year ago included a \$14 million recovery of prior period income taxes. Adjusted for this item, net income increased by \$1 million or 0.8%. Volume growth continued to be strong across most products in the face of a slowing economy, while margins declined due to higher funding costs and competitive pricing pressures. As anticipated, expenses rose due to higher capital taxes and the timing of strategic spending.

P&C U.S. net income increased US\$4 million or 12%. There were improved volumes, spreads and fees.

Private Client Group net income increased \$8 million or 8.4%, to record levels. The increase was primarily due to higher revenues in the brokerage businesses and North American Private Banking. Expenses increased, primarily due to higher revenue-based costs and expansion of the sales force.

BMO Capital Markets net income increased \$65 million or 34%. The capital markets environment remains challenging, but our interest-rate-sensitive businesses continue to perform well and trading revenue was up significantly as prior year results included large commodities losses. Merger and acquisition fees and equity underwriting fees were down from the strong levels of a year ago. Results in the quarter were affected by charges of \$96 million after-tax related to the capital markets environment and \$19 million after tax for severance, but benefited from the group's \$82 million share of a recovery of prior period income taxes.

Corporate Services results were \$202 million lower than in the prior year due primarily to higher specific provisions for credit losses and an increase in the general allowance. BMO charges the operating groups with expected credit losses and charges/credits the balance of actual provisions for credit losses to Corporate Services.

### Q3 2008 vs Q2 2008

Net income decreased \$121 million or 19%. The reduction was attributable to the valuation adjustments and increased provisions for credit losses. In addition, results in the second quarter reflected the beneficial impact from valuation adjustments of \$42 million (\$28 million after tax) in BMO Capital Markets. See the Significant and Notable Items section for more details.

In P&C Canada, net income increased \$12 million or 3.4%. There was strong revenue growth, attributable to the impact of two more calendar days in the current quarter, volume growth across most products, improved net interest margin, higher cards revenue and higher Moneris revenues. Non-interest expense rose due to increased strategic initiative spending, higher capital taxes and increased advertising.

P&C U.S. net income fell US\$2 million or 5.2%. Results in the preceding quarter included a US\$13 million after-tax gain net of a litigation reserve on the Visa Inc. initial public offering and higher than normal expenses and reduced revenues. In the current quarter, there were improvements in core volumes, spreads & fees. Net interest margin was also higher, with early signs of spread stabilization in both the consumer and commercial segments, in both loans and deposits.

Private Client Group net income increased \$1 million or 1.0% from the second quarter. Revenue rose strongly, primarily driven by higher revenue in the brokerage and mutual fund businesses. Expenses also increased appreciably, primarily as a result of higher revenue-based costs.

BMO Capital Markets net income increased \$77 million or 42%. Conditions in the current quarter were challenging but there was strength in our trading and interest-rate-sensitive businesses and improvements in equity and debt underwriting fees. There were increased investment securities losses and lower merger and acquisition activity. As discussed above, results in the quarter were affected by charges related to the current capital markets environment and severance costs, but benefited from the recovery of prior period income taxes. Results in the second quarter included a net benefit from the credit markets environment.

Corporate Services results deteriorated \$209 million primarily due to increased provisions for credit losses.

### Q3 YTD 2008 vs Q3 YTD 2007

Net income decreased \$261 million or 16% to \$1,418 million. Net income for the current period was lowered by \$392 million after-tax of charges related to the capital markets environment and a \$68 million after-tax increase in the general allowance for credit losses. Current period earnings were increased by the \$95 million benefit recognized on the recovery of prior period income taxes. Net income in the comparable period of 2007 was lowered by significant items totalling \$512 million in respect of commodities losses (\$424 million) and a restructuring charge (\$88 million). Specific provisions for credit losses were up \$553 million from a year ago due to the credit environment and weakness in U.S. housing markets.

P&C Canada net income decreased \$4 million or 0.3%, but increased \$42 million or 4.6% adjusted for the benefit in 2007 of insurance and investment gains and a recovery of prior years' income taxes. There was good volume growth across most products. Net interest margin decreased 2 basis points from last year. Expenses were higher due to increased initiatives spending,

including expansion and renovation of the branch network and increasing our mortgage specialist and financial planner workforce, as well as higher capital tax expense.

P&C U.S. net income rose US\$10 million or 12%. The increase was attributable to the Visa transaction and acquisitions, volume growth and increases in fee and other non-interest revenue, partially offset by the more difficult credit environment, continued targeted business investment and expansion, and lower net interest margins.

Private Client Group net income increased \$25 million or 8.9%. Revenue increased in softer market conditions by \$29 million or 1.9%, and \$60 million or 3.9% excluding the impact of the weaker U.S. dollar and the prior year's \$7 million gain on sale of Montreal Stock Exchange common shares. The growth was attributable to higher deposits in the brokerage businesses and higher trust and investment revenue in private banking.

BMO Capital Markets net income increased \$36 million or 9.6%. Capital markets conditions are much more challenging for many of our businesses in 2008 than in 2007 but interest-rate-sensitive businesses continue to perform well. Results for the current year to date were affected by the charges of \$392 million after tax related to deterioration in capital markets but benefited from the \$82 million recovery of prior period income taxes. Results in the comparable period of 2007 were affected by charges related to commodities losses of \$424 million, net of compensation adjustments and taxes.

Corporate Services net income decreased \$319 million, primarily due to higher provisions for credit losses including increases in the general allowance for credit losses. Results in 2007 included a \$135 million (\$88 million after tax) restructuring charge.

## Revenue

BMO analyzes consolidated revenues on a GAAP basis. However, like many banks, BMO analyzes revenue of its operating groups and associated ratios computed using revenue on a taxable equivalent basis (teb). This basis includes an adjustment that 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 equivalent to amounts that would incur tax at the statutory rate. The offset to the group teb adjustments is reflected in Corporate Services revenues.

Total revenue for the third quarter of 2008 increased \$191 million or 7.5% from a year ago. Revenues in the current quarter were affected by the charges related to the capital markets environment while revenues of a year ago were affected by the commodities losses. Revenue increased \$126 million from the second quarter, due to volume growth in P&C Canada, and higher revenues in the private banking businesses in Private Client Group and from trading revenues and interest-rate-sensitive businesses in BMO Capital Markets.

The weaker U.S. dollar lowered revenue growth by \$23 million or 0.9 percentage points year over year. The impact of changes in the Canadian/U.S. dollar exchange rate from the second quarter was insignificant. Changes in net interest income and non-interest revenue are reviewed in the sections that follow.

## Net Interest Income

Net interest income increased \$39 million or 3.0% from a year ago. There was growth in each of the operating groups and a reduction in Corporate Services. Average earning assets increased \$14 billion with growth in each of the operating groups. P&C Canada earning assets increased by \$6 billion with growth in all lines of business except mortgages, which decreased due to our exit from broker channels and the impact of securitizations. BMO Capital Markets earning assets increased \$4 billion due primarily to growth in corporate loans.

Relative to the second quarter, net interest income rose \$112 million with growth in each of the operating groups. BMO's average earning assets fell \$2 billion due to a reduction in BMO Capital Markets' trading assets.

Year to date, net interest income increased \$27 million. There was growth in P&C Canada, Private Client Group, BMO Capital Markets and P&C U.S. on a U.S. dollar basis, but a decline in Corporate Services. Average earning assets increased \$28 billion. P&C Canada earning assets increased \$6 billion with growth in all lines except mortgages, due to our exit from broker channels and the impact of securitizations. BMO Capital Markets earning assets increased \$20 billion due to growth in corporate loans and money market assets. Corporate Services net interest income declined due to higher net funding costs and a large number of small items that negatively impacted the first quarter.

BMO's overall net interest margin on earning assets for the third quarter of 2008 was 1.59%, or 2 basis points lower than in the third quarter of the prior year and 11 basis points higher than in the second quarter. The two main drivers of a change in total bank margin are the individual group margins and the changes in the magnitude of each operating group's assets. The year-over-year decrease of 2 basis points was mainly due to growth in lower-spread assets in BMO Capital Markets, reduced net interest income in Corporate Services and lower spreads in the operating groups except BMO Capital Markets. As in the first and second quarters, both P&C U.S. and Private Client Group had significant margin declines but they are relatively smaller groups and their effect on the total change in BMO's overall margin was minimal.

Relative to a year ago, net interest margin was lower by 5 basis points in P&C Canada due to lower mortgage refinancing fees, higher funding costs and competitive pricing pressures, partially offset by improving product mix. P&C Canada net interest margin improved 2 basis points relative to the second quarter, due to more favourable product mix and higher mortgage refinancing fees, partially offset by higher funding costs. In P&C U.S., net interest margin declined by 26 basis points from a year ago, of which 22 basis points relates to a portfolio transfer in the first quarter. Net interest margin was affected by weaker credit markets and continued competitive pressures but improved 18 basis points from the second quarter with early signs of spread stabilization in loans and deposits. BMO Capital Markets margin improved from a year ago and the second quarter due to better spreads in trading and corporate lending. Relative to a year ago, Corporate Services net interest income declined \$45 million in part due to higher net funding costs. The decline lowered BMO's overall margin.

Year to date, BMO's overall net interest margin fell 13 basis points. The decline was due to growth in BMO Capital Markets asset levels, lower margin in each operating group and reduced net interest income in Corporate Services.

## Net Interest Margin (teb)\*

(In basis points)	Q3-2008	Increase (Decrease) vs. Q3-2007	Increase (Decrease) vs. Q2-2008	YTD-2008	Increase (Decrease) vs. YTD-2007
P&C Canada	268	(5)	2	266	(2)
P&C U.S.	311	(26)	18	301	(37)
Personal and Commercial Client Group	275	(8)	4	272	(7)
Private Client Group	887	(70)	(33)	891	(94)
BMO Capital Markets	67	6	12	62	(1)
Corporate Services, including Technology and Operations (T&O)	nm	nm	nm	nm	nm
Total BMO	159	(2)	11	150	(13)
Total Canadian Retail**	303	(5)	1	300	(4)

\* Net interest margin is disclosed and computed with reference to average earning assets, rather than total assets. This basis provides a more relevant measure of margins and changes in margins. Operating group margins are stated on a teb basis while total BMO margin is stated on a GAAP basis.

\*\* Total Canadian retail margin represents the net interest margin of the combined Canadian business of P&C Canada and Private Client Group.  
nm- not meaningful

## Non-Interest Revenue

Non-interest revenue increased \$152 million or 12% from a year ago. There was significant growth in all of the client groups and Corporate Services. Trading revenues were higher primarily due to last year's commodities losses and higher interest rate and foreign exchange trading revenues. Investment banking fees and securities commission revenue declined in the difficult capital markets environment. Securitization revenues were higher due to gains totalling \$41 million on the securitization of \$1.7 billion of residential mortgages and \$1 billion of credit card loans as well as a \$33 million increase in gains on sales of loans to revolving vehicles.

Relative to the second quarter, non-interest revenue increased \$14 million, due to higher trading revenues and increases in lending fees. There were also increases in debt and equity underwriting fees, commission revenues and card services fees. Securities gains fell appreciably and there were lower merger and acquisition fees.

Year to date, non-interest revenue increased \$216 million or 6.2%. There was significant growth in trading revenues as commodities losses in 2007 exceeded the charges related to the deterioration in capital markets in 2008. There was also a significant increase in securitization revenues because of higher gains on sale and mutual fund fees increased. There were significant decreases in capital markets related fees such as securities commissions and fees, equity underwriting fees and merger and acquisition fees. Investments securities gains were also down appreciably together with other income.

## Non-Interest Expense

Non-interest expense increased \$123 million or 7.4% from a year ago to \$1,782 million. The increase was due to investments in the businesses including sales force expansion and acquisitions, a charge for severance in BMO Capital Markets and higher capital tax expense, partially offset by lower performance-based compensation, primarily in BMO Capital Markets. The weaker U.S. dollar lowered expense growth by \$23 million or 1.4 percentage points year over year.

Cash operating leverage was 0% in the current quarter.

Non-interest expense increased \$102 million or 6.0% from the second quarter. The increase was due to higher performance-based compensation aligned with higher revenues, investments in the business including acquisitions, a charge for severance in BMO Capital Markets and higher capital tax expense. In the second quarter, expenses included a Visa Inc. litigation reserve and higher than normal benefit costs. The impact of changes in the Canadian/U.S. dollar exchange rate from the second quarter was insignificant.

Year to date, non-interest expense increased \$130 million or 2.6% to \$5,076 million. There were investments in the businesses including acquisitions, new branches and new customer-facing roles as well as a charge in BMO Capital Markets for severance, while benefit costs decreased. The weaker U.S. dollar lowered expense growth by \$138 million or 2.9 percentage points year over year. Expenses in the prior year included a \$135 million restructuring charge net of a \$120 million reduction in performance-based compensation.

Cash operating leverage was 0.7% year to date.

## Risk Management

Market conditions continued to be volatile through the third quarter, due to concerns related to the U.S. real estate market, structured-finance related activities and liquidity in the marketplace. These concerns, along with continuing high energy prices, a strong Canadian dollar through much of the third quarter as well as the softening in the U.S. economy have contributed to a continued weaker credit environment.

Specific provisions for credit losses were unusually elevated and totalled \$434 million in the quarter. Included in the provisions for credit losses in the current quarter were charges of \$27 million for a customer in the oil & gas sector, as well as \$247 million for two corporate accounts related to the U.S. housing market that were identified as impaired earlier in the year. The size of the latter provisions reflects the continued weakness in the U.S. residential real estate market and the specific nature of the underlying loans. One of the accounts provided funding to a company that was in the business of buying distressed mortgages and the other was in the residential real estate development business.

There were \$91 million of specific provisions in the third quarter of 2007 and \$151 million of specific provisions in the second quarter of 2008. There was a \$50 million increase in the general allowance for credit losses in the current quarter, with no corresponding change in the comparative periods. The increase in the general allowance reflects the weaker outlook for the economy.

The provision for credit losses year to date totalled \$865 million, comprised of \$755 million of specific provisions and a \$110 million increase in the general allowance. In the comparable period of 2007, there were \$202 million of specific provisions and no changes in the general allowance.

Specific provisions on an annualized basis for the year to date represented 46 basis points of average net loans and acceptances, including securities borrowed or purchased under resale agreements, compared with 13 basis points a year ago, 30 basis points for the second quarter year to date and a 15 basis point average over the past five fiscal years.

New impaired loan formations totalled \$438 million in the quarter, down from \$554 million in the second quarter but up from \$106 million a year ago. The manufacturing, U.S. commercial real estate and oil & gas sectors accounted for the majority of third quarter formations. In the second quarter, \$234 million of formations was attributable to the U.S. commercial real estate sector and \$100 million to the manufacturing sector. Second quarter formations in the U.S. commercial real estate sector included \$150 million related to a single enterprise.

There were \$5 million of impaired loan sales in the third quarter with related reversals and recoveries of \$2 million, compared with no impaired loan sales in the prior quarter or a year ago.

Gross impaired loans and acceptances were down slightly from the second quarter but up from the first quarter due to the formations discussed above. Reflective of our position in the credit cycle, gross impaired loans are expected to remain higher than the historically low levels of 2007.

The total allowance for credit losses increased by \$158 million in the quarter to \$1,494 million, and was comprised of a specific allowance of \$427 million and a general allowance of \$1,067

million. The allowance for credit losses was \$1,494 million relative to gross impaired loans of \$1,798 million at the end of the third quarter, compared with \$1,336 million and \$1,820 million, respectively, at the end of the second quarter. The general allowance is maintained to absorb impairment in the existing credit portfolio that cannot yet be associated with specific credit assets. It is assessed on a quarterly basis and increased \$169 million from the end of the previous fiscal year. Of this, \$110 million is due to increases in the allowance recorded in the first and third quarters of 2008, with the remainder attributable to the acquisition of the Wisconsin-area banks and the impact of the change in the Canadian/U.S. dollar exchange rate.

BMO's loan book continues to be comprised largely of more stable consumer and commercial portfolios, which, excluding securities borrowed or purchased under resale agreements, represented 77.8% of the loan portfolio at the end of the quarter, down from 80.9% a year ago and 78.7% at the end of the second quarter.

We expect the credit environment to continue to be challenging over the balance of 2008 as the U.S. real estate and manufacturing sectors remain weak.

We indicated at the end of the second quarter that the average quarterly specific provisions over the balance of the year would be higher than in the first and second quarters, given the continued deterioration in the credit environment including the U.S. real estate sector. As indicated earlier, provisions for credit losses in the third quarter were unusually elevated relative to prior quarters due to large provisions taken on two accounts. We anticipate that specific provisions in the fourth quarter will be lower than those in the third quarter.

BMO's market risk and liquidity and funding management practices and key measures are outlined on pages 68 to 71 of BMO's 2007 Annual Report. Trading and Underwriting Market Value Exposure (MVE) and Earnings Volatility (EV) increased quarter over quarter, primarily as a result of higher observed market volatilities for credit spreads and interest rates. To align with the regulatory definition of risk classifications, effective the beginning of fiscal 2008, general credit spread risk and interest rate risk have been combined and are now reported in the 'Interest Rate Risk (Mark-to-Market)' line in the Total Trading and Underwriting MVE Summary. This change does not impact the Total MVE result but only the way in which the results are reported. MVE data for October 31, 2007 has been restated to reflect this change. There were no significant changes to our market risk management practices in the third quarter.

There were no significant changes to the levels of structural market risk and liquidity and funding risk in the quarter. There were also no significant changes in our structural market risk management practices during the quarter. We remain satisfied that our liquidity and funding management framework provides us with a sound position despite market developments. BMO's cash and securities-to-total assets ratio was 29.6% at the end of the quarter, unchanged from the end of the second quarter and down from 33.1% at the end of 2007.

This Risk Management section and the following Income Taxes section contain forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

## Provisions for Credit Losses (PCL)

(Canadian \$ in millions, except as noted)

	Q3-2008	Q2-2008	Q3-2007	YTD-2008	YTD-2007
New specific provisions	475	201	129	881	308
Reversals of previously established allowances	(7)	(15)	(14)	(35)	(39)
Recoveries of loans previously written-off	(34)	(35)	(24)	(91)	(67)
Specific provision for credit losses	434	151	91	755	202
Increase in the general allowance	50	-	-	110	-
Provision for credit losses	484	151	91	865	202

Specific PCL as a % of average net loans and acceptances (annualized)	0.80%	0.28%	0.18%	0.46%	0.13%
PCL as a % of average net loans and acceptances (annualized)	0.89%	0.28%	0.18%	0.53%	0.13%

## Changes in Gross Impaired Loans and Acceptances (GIL)

(Canadian \$ in millions, except as noted)

GIL, Beginning of Period	1,820	1,347	688	720	666
Additions to impaired loans & acceptances	438	554	106	1,700	350
Reductions in impaired loans & acceptances (1)	(91)	31	(60)	(39)	(124)
Write-offs	(369)	(112)	(116)	(583)	(274)
GIL, End of Period	1,798	1,820	618	1,798	618
GIL as a % of gross loans & acceptances	0.86%	0.88%	0.30%	0.86%	0.30%
GIL as a % of equity and allowances for credit losses	9.09%	9.54%	3.49%	9.09%	3.49%

(1) Includes impaired amounts returned to performing status, loan sales, repayments, the impact of foreign exchange fluctuations and offsets for consumer write-offs which have not been recognized as formations (Q3-08 \$106MM; Q2-08 \$98MM; and Q3-07 \$76MM).

## Aggregate Market Value Exposure and Earnings Volatility for Trading and Underwriting and Structural Positions (\$ millions)\*

(After-tax Canadian equivalent)

	Market value exposure (MVE)			12-month earnings volatility		
	July 31 2008	Apr. 30 2008	Oct. 31 2007	July 31 2008	Apr. 30 2008	Oct. 31 2007
Trading and Underwriting	(24.0)	(18.3)	(18.2)	(21.5)	(16.1)	(12.6)
Structural	(256.8)	(231.1)	(231.6)	(21.7)	(24.3)	(24.2)
BMO Financial Group	(280.8)	(249.4)	(249.8)	(43.2)	(40.4)	(36.8)

\* Measured at a 99% confidence interval. Losses are in brackets.

## Total Trading and Underwriting MVE Summary (\$ millions)\*

(Pre-tax Canadian equivalent)	For the quarter ended July 31, 2008				As at April 30, 2008		As at October 31, 2007	
	Quarter-end	Average	High	Low	Quarter-end	Quarter-end	Quarter-end	
Commodities Risk	(1.2)	(3.0)	(6.8)	(1.1)	(2.7)	(2.7)	(2.7)	
Equity Risk	(9.3)	(9.6)	(14.8)	(6.4)	(12.7)	(9.5)	(9.5)	
Foreign Exchange Risk	(1.9)	(1.5)	(3.5)	(0.3)	(1.3)	(0.9)	(0.9)	
Interest Rate Risk (Mark-to-Market)	(22.7)	(18.0)	(27.0)	(10.9)	(12.3)	(10.0)	(10.0)	
Diversification	8.3	8.8	nm <sup>(1)</sup>	nm <sup>(1)</sup>	8.3	9.1	9.1	
Comprehensive Risk	(26.8)	(23.3)	(32.1)	(17.3)	(20.7)	(14.0)	(14.0)	
Interest Rate Risk (accrual)	(6.3)	(6.0)	(8.4)	(4.2)	(4.6)	(9.1)	(9.1)	
Issuer Risk	(3.9)	(3.7)	(5.0)	(2.7)	(2.8)	(4.9)	(4.9)	
Total MVE	(37.0)	(33.0)	(43.3)	(25.4)	(28.1)	(28.0)	(28.0)	

nm- not meaningful

\* One-day measure using a 99% confidence interval. Losses are in brackets and benefits are presented as positive numbers.

(1) Computation of a diversification effect for the high and low is not considered meaningful.

## Structural Balance Sheet Earnings and Value Sensitivity to Changes in Interest Rates (\$ millions)\*

(After-tax Canadian equivalent)

	Economic value sensitivity			Earnings sensitivity over the next 12 months		
	July 31 2008	Apr. 30 2008	Oct. 31 2007	July 31 2008	Apr. 30 2008	Oct. 31 2007
100 basis point increase	(212.7)	(187.9)	(201.1)	2.5	(20.2)	6.6
100 basis point decrease	152.8	141.5	138.6	(4.2)	27.5	(15.4)
200 basis point increase	(476.9)	(439.4)	(438.1)	(8.3)	(47.0)	0.4
200 basis point decrease	280.0	280.9	234.0	(111.4)	(14.3)	(17.0)

\* Losses are in brackets and benefits are presented as positive numbers.

## Income Taxes

As explained in the Revenue section, in fiscal 2008, management assesses BMO's consolidated results and associated provisions for income taxes on a GAAP basis. We continue to assess the performance of the operating groups and associated income taxes on a taxable equivalent basis and to report accordingly.

The provision for income taxes declined \$186 million from the third quarter a year ago and \$187 million from the second quarter, to a recovery of \$59 million. The effective tax rate for the quarter was a recovery rate of 12.2%, compared with a tax expense rate of 15.7% in the third quarter a year ago and 16.3% in the second quarter of 2008. The effective tax rate year to date was a recovery rate of 1.5%, compared with a tax expense rate of 13.3% for the same period last year.

The decreases in the effective rate from the second quarter of 2008 and third quarter a year ago were mainly attributable to \$95 million of recoveries of prior period income taxes and a higher proportion of income from lower-tax-rate jurisdictions. Excluding the impact of capital markets environment charges, the change in the general allowance and tax recoveries, the effective rate for the year-to-date period in 2008 was 14.5%, compared with 21.0% a year ago on a basis that excludes commodities losses and the restructuring charge. The reduction in the 2008 rate was due to the reasons noted above as well as a reduction in the statutory tax rate. While rates will vary from quarter to quarter due to one-time adjustments and significant items, our current estimate is that the sustainable effective tax rate will be in the range of 17% to 21%.

BMO hedges the foreign exchange risk arising from its investments in U.S. operations by funding the investments in U.S. dollars. Under this program, the gain or loss from hedging and the unrealized gain or loss from translation of the investments in U.S. operations are charged or credited to shareholders' equity. For income tax purposes, the gain or loss on the hedging activities attracts an income tax charge or credit in the current period, which is charged or credited to shareholders' equity, while the associated unrealized gain or loss on the investments in U.S. operations does not attract income taxes until the investments are liquidated. The income tax charge/benefit arising from a hedging gain/loss is a function of the fluctuation in U.S. rates from period to period. Hedging of the investments in U.S. operations has given rise to income tax recoveries in shareholders' equity of \$57 million for the quarter and \$253 million for the year to date. Refer to the Consolidated Statement of Changes in Shareholders' Equity included in the attached unaudited consolidated financial statements for further details.

## Summary Quarterly Results Trends

(Canadian \$ in millions, except as noted)

	Q3-2008	Q2-2008	Q1-2008	Q4-2007	Q3-2007	Q2-2007	Q1-2007	Q4-2006
Total revenue	<b>2,746</b>	2,620	2,026	2,200	2,555	2,528	2,066	2,461
Provision for credit losses - specific	<b>434</b>	151	170	101	91	59	52	51
Provision for credit losses - general	<b>50</b>	-	60	50	-	-	-	(35)
Non-interest expense	<b>1,782</b>	1,680	1,614	1,631	1,659	1,614	1,538	1,613
Restructuring charge	-	-	-	24	-	-	135	-
Total non-interest expense	<b>1,782</b>	1,680	1,614	1,655	1,659	1,614	1,673	1,613
Income taxes (recovery) (teb)	<b>(59)</b>	128	(91)	(77)	127	165	(26)	117
Net income	<b>521</b>	642	255	452	660	671	348	696
Basic earnings per share (\$)	<b>1.00</b>	1.25	0.48	0.89	1.30	1.31	0.68	1.37
Diluted earnings per share (\$)	<b>0.98</b>	1.25	0.47	0.87	1.28	1.29	0.67	1.35
Net interest margin on earning assets (%)	<b>1.59</b>	1.48	1.45	1.47	1.61	1.65	1.64	1.78
Effective income tax rate (%)	<b>(12.2)</b>	16.3	(50.3)	(19.3)	15.7	19.4	(7.8)	14.1
Canadian/U.S. dollar exchange rate (average)	<b>1.01</b>	1.01	1.00	1.00	1.07	1.14	1.16	1.12
Net income:								
P&C Canada	<b>343</b>	331	302	287	356	327	297	277
P&C U.S.	<b>28</b>	30	26	33	25	29	29	24
Personal and Commercial Banking	<b>371</b>	361	328	320	381	356	326	301
Private Client Group	<b>110</b>	109	98	103	102	99	91	80
BMO Capital Markets	<b>259</b>	182	(34)	46	194	197	(20)	185
Corporate Services, including T&O	<b>(219)</b>	(10)	(137)	(17)	(17)	19	(49)	130
BMO Financial Group	<b>521</b>	642	255	452	660	671	348	696

BMO's quarterly earning trends were reviewed in detail on pages 75 and 76 of the 2007 Annual Report. Readers are encouraged to refer to that review for a more complete discussion of trends and factors affecting past quarterly results including the modest impact of seasonal variations in results. The above table outlines summary results for the fourth quarter of fiscal 2006 through the third quarter of fiscal 2008.

Significant 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 smaller losses of \$24 million in the fourth quarter of 2007. Losses remained modest in the first through third quarters of 2008, as the size and risk of the portfolio were reduced. Associated performance-based compensation was lowered appreciably in the first and second quarters of 2007. In addition,

the fourth quarter of 2007, and the first and third quarters of 2008 reflected charges for certain trading activities and valuation adjustments of \$318 million, \$488 million and \$134 million, respectively. The second quarter of 2008 reflected the beneficial revenue impact from valuation adjustments of \$42 million. BMO Capital Markets other businesses that were not affected by significant items performed very strongly over the course of 2007 but market conditions have been softer in 2008.

Personal and Commercial Banking has continued to benefit from strong volume growth over 2007 and into 2008, with stable margins in Canada. P&C U.S. margin had been pressured in 2006 and early 2007 but stabilized in the latter part of 2007. In the first quarter of 2008, P&C U.S. margins declined due to the competitive environment but stabilized in the third quarter of 2008.

Private Client Group results have demonstrated fairly consistent growth as capital markets were quite strong over the course of 2006 and 2007, with revenue growth slowing in late 2007 and in 2008.

Corporate Services results are impacted by increased provisions for credit losses because BMO allocates provisions to the operating groups on an expected loss basis.

Non-interest expense has increased in the two most recent quarters. The increase was attributable to higher performance-based compensation, as revenues have increased, and to investment in our businesses related to acquisitions, sales force expansion and initiative spending, as well as higher professional fees.

Provisions for credit losses started trending higher in 2008 as economic conditions softened from the particularly favourable credit environment of recent years. The specific provisions were unusually elevated in the third quarter of 2008 because of \$247 million of provisions taken on two corporate accounts related to the U.S. housing market. The decline in BMO's net interest margin over the last two years has been largely due to asset growth in BMO Capital Markets, which has lower net interest margin than other groups. The favourable effective tax rates are in part due to losses being incurred in high-tax-rate jurisdictions and higher income earned in low-rate jurisdictions. There were recoveries of prior period income taxes in the third quarter of 2008. The U.S. dollar has weakened over the course of the past two years but was more stable in 2008, trading at close to parity with the Canadian dollar through the end of the third quarter. A weaker (stronger) U.S. dollar lowers (raises) the translated values of BMO's U.S. dollar-denominated revenues and expenses.

#### **Balance Sheet**

Total assets of \$375.0 billion increased \$8.5 billion from \$366.5 billion at October 31, 2007. Asset levels at the end of the quarter were raised \$12.1 billion relative to last year end by the impact of the stronger U.S. dollar on the translated value of U.S. dollar-denominated assets. The \$8.5 billion increase on a Canadian dollar basis primarily reflects growth in derivative assets of \$10.6 billion, net loans and acceptances of \$7.1 billion and other assets of \$1.1 billion, partially offset by a decrease in securities of \$9.4 billion and cash resources of \$0.8 billion.

The net loans and acceptances increase of \$7.1 billion was due to growth in consumer instalment and other personal loans of \$7.1 billion and loans to businesses and governments and related acceptances of \$2.0 billion. There were decreases in credit cards of \$1.0 billion due to \$1.6 billion of securitizations and in

residential mortgages of \$0.7 billion due to \$4.3 billion of securitizations. The allowance for credit losses increased by \$0.4 billion due to credit market conditions. The Wisconsin-based acquisitions contributed \$1.5 billion to the overall increase in loans. Included in the net loans to businesses and governments were higher loans of \$9.3 billion, which were partially offset by reductions in securities borrowed or purchased under resale agreements of \$4.7 billion and acceptances of \$2.6 billion.

The \$10.6 billion increase in derivative assets was driven by a \$9.9 billion increase in interest rate contracts, an \$8.3 billion decrease in foreign exchange contracts and a total increase of \$9.0 billion in credit, equity and commodity contracts. Derivative assets increased largely due to changes in interest rates, credit spreads and the underlying mark-to-market valuations on equity securities.

The \$9.4 billion decrease in securities was primarily attributable to lower trading securities held in BMO Capital Markets, partially offset by higher available-for-sale securities. Increases in Canadian and provincial government securities held were more than offset by a decrease in other corporate securities.

Liabilities and shareholders' equity of \$375.0 billion increased \$8.5 billion from \$366.5 billion at October 31, 2007. Liabilities and shareholders' equity at the end of the quarter were raised \$12.1 billion relative to last year end by the impact of the stronger U.S. dollar on the translated value of U.S. dollar-denominated liabilities and equity. The \$8.5 billion increase on a Canadian dollar basis reflects growth in deposits of \$16.6 billion, derivative liabilities of \$3.2 billion, shareholders equity of \$1.7 billion and subordinated debt of \$0.8 billion. There were decreases in securities sold but not yet purchased of \$7.6 billion, securities lent or sold under repurchase agreements of \$3.1 billion and acceptances of \$2.6 billion.

Deposits by businesses and governments, which account for 53% or \$131.7 billion of total deposits, increased \$10.0 billion and offset the decrease in secured funding, which includes securities sold but not yet purchased and securities lent or sold under repurchase agreements. Deposits from individuals, which account for 35% or \$86.9 billion of total deposits, increased \$10.7 billion and were used to fund growth in loans. Deposits by banks, which account for the remaining 12% or \$30.0 billion of total deposits, decreased \$4.1 billion due to lower funding requirements because of lower securities. The Wisconsin-based acquisitions contributed \$1.6 billion to the growth in deposits.

The net decrease in securities lent or sold under repurchase agreements and securities sold but not yet purchased corresponded to the decrease in trading securities balances.

Contractual obligations by year of maturity were outlined in Table 24 on page 89 of BMO's 2007 Annual Report. There have been no material changes to contractual obligations that are outside the ordinary course of our business.

## Capital Management

Effective November 1, 2007, BMO began calculating its regulatory capital requirements under a new capital management framework. The new framework, Basel II, replaced Basel I, the framework utilized for the past 20 years.

BMO uses the Advanced Internal Ratings Based (AIRB) approach to measure credit risk in our portfolio and the Standardized Approach to measure operational risk. The Office of the Superintendent of Financial Institutions (OSFI), our regulator, has granted a waiver to apply the Standardized Approach to determine the credit risk-weighted assets of our subsidiary Harris Bankcorp, Inc. The methodology for determining risk-weighted assets for market risk did not change materially between Basel I and Basel II.

Basel II is discussed further on pages 66 to 67 of BMO's 2007 Annual Report.

At July 31, 2008, BMO's Tier 1 Capital Ratio was 9.90%, with risk-weighted assets (RWA) of \$182.3 billion and Tier 1 Capital of \$18.0 billion. The ratio increased 48 basis points from 9.42% in the second quarter due to growth in capital and lower RWA. Capital grew due to the issuance of \$300 million of 5.20% Preferred Shares Series 16 on June 23, 2008 and growth in common shareholders' equity. RWA decreased primarily due to lower credit and market risk. The ratio remains strong and is well above our minimum target of 8.0%.

BMO's Total Capital Ratio was 12.29% at July 31, 2008. The ratio increased 65 basis points from 11.64% in the second quarter due to higher capital and lower RWA noted above. Total capital grew due to the items noted above and a lower deduction for investments in unconsolidated subsidiaries.

Basel II and Basel I are not comparable. Relative to 2007 and for comparison purposes only, the Basel I Tier 1 Capital Ratio was 9.45% and the Total Capital Ratio was 12.07% at July 31, 2008, compared with 9.51% and 11.74%, respectively, at the end of 2007.

During the quarter, 1,010,806 shares were issued due to the exercise of stock options, share exchanges and the dividend reinvestment plan. We did not repurchase any Bank of Montreal common shares under our common share repurchase program during the quarter or for the year to date.

On August 26, 2008, we announced that we intend to file a notice of intention with the Toronto Stock Exchange to make a new normal course issuer bid, subject to regulatory approval and the approval of the Exchange, that provides that we may purchase up to 15 million common shares, being approximately 3% of the public float, between September 8, 2008 and September 7, 2009. Our share repurchase program is primarily used to offset, over time, the impact of dilution caused by issuing shares through the exercise of stock options, our dividend reinvestment plan and convertible shares.

On August 26, 2008, we announced that BMO's Board of Directors declared a quarterly dividend payable to common shareholders of \$0.70 per share, unchanged from a year ago and from the preceding quarter.

## Qualifying Regulatory Capital

### Basel II Regulatory Capital and Risk-Weighted Assets

(Canadian \$ in millions)	Q3 2008	Q2 2008
Common shareholders' equity	15,120	14,866
Non-cumulative preferred shares	1,996	1,696
Innovative Tier 1 Capital Instruments	2,442	2,438
Non-controlling interest in subsidiaries	37	31
Goodwill and excess intangible assets	(1,449)	(1,398)
Net Tier 1 Capital	18,146	17,633
Securitization-related deductions	(86)	(81)
Expected loss in excess of allowance – AIRB approach	-	-
Other deductions	(13)	(1)
Adjusted Tier1 Capital	18,047	17,551
Subordinated debt	4,065	4,060
Trust subordinated notes	800	800
Accumulated net after-tax unrealized gain from available-for-sale equity securities	7	7
Eligible general allowance for credit losses	293	268
Total Tier 2 Capital	5,165	5,135
Securitization-related deductions	(10)	(12)
Expected loss in excess of allowance – AIRB approach	-	-
Investment in non-consolidated subsidiaries/substantial investments	(799)	(998)
Other deductions	(3)	(1)
Adjusted Tier 2 Capital	4,353	4,124
Total Capital	22,400	21,675

### Risk-Weighted Assets (RWA)

(Canadian \$ in millions)	Q3 2008	Q2 2008
Credit risk	146,535	151,840
Market risk	16,207	18,206
Operational risk	16,426	15,990
Total risk-weighted assets	179,168	186,036
Regulatory floor	3,090	216
Total Transitional Risk-Weighted Assets	182,258	186,252

## Outstanding Shares and Securities Convertible into Common Shares

As of August 20, 2008	Number of shares or Canadian dollar amount
Common shares	504,488,000
Class B Preferred Shares	
Series 5	\$ 200,000,000
Series 13	\$ 350,000,000
Series 14	\$ 250,000,000
Series 15	\$ 250,000,000
Series 16	\$ 300,000,000
Convertible into common shares:	
Class B Preferred Shares	
Series 6	\$ 250,000,000
Series 10	\$ 396,000,000
Stock options	
– vested	15,134,000
– non-vested	5,693,000

Details on share capital are outlined in Notes 21 and 22 to the audited financial statements on pages 121 and 122 and the table on page 58 in the Annual MD&A included in the 2007 Annual Report.

### **Eligible Dividends Designation**

For the purposes of the *Income Tax Act* (Canada) and any similar provincial and territorial legislation, BMO designates all dividends paid on both its common and preferred shares in the 2006 calendar year, and all dividends (including deemed dividends) paid thereafter, as “eligible dividends” unless BMO indicates otherwise.

### **Credit Rating**

BMO’s senior debt credit ratings remain unchanged with a stable outlook. All four ratings are indicative of high-grade, high-quality issues. They remain: DBRS (AA); Fitch (AA-); Moody’s (Aa1); and Standard & Poor’s (A+).

### **Transactions with Related Parties**

In the ordinary course of business, we provide banking services to our directors and executives and their affiliated entities, joint ventures and equity-accounted investees on the same terms that we offer our customers. A select suite of customer loan and mortgage products is offered to our employees at rates normally accorded to our preferred customers. We also offer employees a fee-based subsidy on annual credit card fees.

Stock options and deferred share units granted to directors were discussed in Note 27 of the audited consolidated financial statements on page 132 of the 2007 Annual Report.

Preferred rate loan agreements for executives, relating to transfers we initiate, are discussed in Note 27 of the audited consolidated financial statements on page 132 of the 2007 Annual Report.

### **Off-Balance-Sheet Arrangements**

BMO enters into a number of off-balance-sheet arrangements in the normal course of operations. The most significant off-balance-sheet arrangements that we enter into are credit instruments and VIEs, which are described on pages 59 and 60 of the 2007 Annual Report and in Notes 5 & 6 to the attached unaudited consolidated financial statements. See both the Effects of the Capital Markets Environment on Third Quarter Results and the Financial Instruments in the More Difficult Credit Environment sections for changes to our off-balance-sheet arrangements during the three months ended July 31, 2008.

### **Accounting Policies and Critical Accounting Estimates**

The notes to BMO’s October 31, 2007 audited consolidated financial statements outline our significant accounting policies. There were no changes to our accounting policies in the first three quarters of 2008.

Pages 61 to 63 of the 2007 Annual Report contain a discussion of certain accounting estimates that are considered particularly important as they require management to make significant judgments, some of which relate to matters that are inherently uncertain. Readers are encouraged to refer to the Annual Report to review that discussion.

### **Accounting Changes**

#### **Financial Instruments Disclosure and Presentation**

On November 1, 2007, we adopted new CICA Handbook requirements regarding the disclosure and presentation of financial instruments. The new requirements are intended to enhance financial statement users’ ability to evaluate the significance of financial instruments to an enterprise and the exposures inherent within these instruments, and to understand the entity’s ongoing management of such exposures. For new disclosures, refer to Notes 4 and 13 in the attached unaudited interim consolidated financial statements.

#### **Capital Disclosures**

On November 1, 2007, we adopted the CICA’s new handbook section establishing requirements to disclose both qualitative and quantitative information on capital management. This disclosure requirement is intended to enhance a reader’s evaluation of an entity’s objectives, policies and procedures related to ongoing capital management. For new disclosures, refer to Note 12 in the attached unaudited interim consolidated financial statements.

## Financial Instruments in the More Difficult Credit Environment

At the request of the G7 Ministers and Central Bank Governors, The Financial Stability Forum issued a report in April on enhancing market and institutional resilience. Among its recommendations, it encouraged enhanced disclosure of financial instruments that markets now consider to be higher risk. Effective in the second quarter of 2008, we expanded our discussion of financial instruments in keeping with these developments.

### Subprime First Mortgage Loans

In the United States, subprime loans are typically considered to be those with credit bureau scores of 620 or less. We do not originate subprime mortgages through a subprime mortgage program in the United States; however, we make loans available to individuals with credit scores of less than 620 as part of our lending requirements under the Community Reinvestment Act. We also occasionally lend to parties with credit scores of less than 620 when there are other strong qualification criteria. As such, we have authorized US\$0.2 billion of first mortgage loans that had subprime characteristics at the date of authorization, of which US\$0.2 billion was outstanding at July 31, 2008 (US\$0.2 billion at April 30, 2008). Of this, \$5 million or 2.11% was 90 days or more in arrears at the end of July (\$3 million or 1.38% at April 30, 2008). This compares with a rate of 0.59% on BMO's total U.S. first mortgage portfolio.

In Canada, BMO does not have any subprime mortgage programs nor does it purchase subprime mortgage loans from third-party lenders. BMO mortgage lending decisions incorporate a full assessment of the customer and loan structure. Credit score is only one component of the adjudication process and consequently we do not categorize loans based upon credit scores alone. There is a nominal amount of subprime mortgage loans held in certain BMO-sponsored Canadian conduits that hold third-party assets, as described in the discussion of those conduits that follows.

We also have US\$208 million net exposure at July 31, 2008 (US\$396 million at April 30, 2008) to a business that buys distressed mortgages (including subprime mortgages) at a discounted price. This exposure is one of the three accounts discussed in the BMO-Sponsored U.S. Conduit section that follows.

### Alt-A First Mortgage Loans

In the United States, Alt-A loans are generally considered to be loans on which borrower qualifications are subject to limited verification. The U.S. portfolio had two loan programs that met this definition – our Easy Doc and No Doc programs. Loans under the No Doc program, which comprise most of the exposure in this class, required minimum credit bureau scores of 660 and maximum loan-to-values ratios of 80% (90% with private mortgage insurance). Due to these lending requirements, the credit quality of the portfolios is strong and the loans have performed well. Our direct Alt-A loans totalled US\$1.6 billion at July 31, 2008 (US\$1.7 billion at April 30, 2008). Of this, \$6 million or 0.35% was 90 days or more in arrears (\$5 million or 0.29% as of April 30, 2008). This compares with a rate of 0.59% on BMO's total U.S. first mortgage portfolio. We discontinued offering the Easy Doc and No Doc programs in the third quarter.

Subprime and Alt-A loans are generally considered to be higher risk than traditional prime loans. We also consider loans with credit scores between 620 and 660 and a loan-to-value ratio above 80% (without private mortgage insurance) to be a higher risk component of our portfolio. This component of the portfolio was negligible.

In Canada, we do not have a mortgage program that we consider Alt-A. As part of our credit adjudication process, we may choose not to verify income or employment for existing bank customers when there are other strong characteristics that support the credit worthiness of the loan. We also have a Newcomers to Canada/non-resident mortgage program that allows for limited income verification but has other strong qualification criteria. At July 31, 2008, there was approximately \$2.9 billion (\$2.7 billion at April 30, 2008) outstanding under this program. Of this, only \$10 million or 0.34% was 90 days or more in arrears (\$9 million or 0.34% at April 30, 2008), reflecting the strong credit quality of these loans.

### Home Equity Products

Home equity products are secured by the homeowner's equity and rank subordinate to any existing first mortgage on the property. In the United States, we have a US\$4.8 billion home equity loan portfolio, which amounted to 2% of BMO's total loan portfolio as of July 31, 2008. Of the total portfolio, US\$0.4 billion (US\$0.4 billion at April 30, 2008) was extended to customers with original credit bureau scores of less than 620, and would be categorized as subprime loans. Of this amount, only US\$4 million or 1.3% was greater than 90 days in arrears at July 31, 2008 (US\$4 million and 1.1% at April 30, 2008).

BMO also offered two limited documentation programs within the home equity portfolio in the United States, which would be categorized as Alt-A if they were in the First Mortgage loans portfolio. As of July 31, 2008, the amount authorized under these programs was US\$1.1 billion and US\$0.6 billion was outstanding. Loans made under these programs have the same strong credit score and loan-to-value requirements as the first mortgage portfolio, and as such the portfolio has performed well. As of July 31, 2008, US\$4 million or 0.66% of the portfolio was greater than 90 days in arrears (US\$3 million and 0.46% at April 30, 2008). This compares with a rate of 0.74% on BMO's total U.S. home equity loan portfolio. We discontinued offering the Easy Doc and No Doc programs in the quarter.

We also consider home equity loans with credit bureau scores greater than 620 but less than 660 to be a higher risk component of the portfolio. This component of the portfolio was US\$0.3 billion as of July 31, 2008 (US\$0.3 billion at April 30, 2008). As of July 31, 2008, US\$5 million or 1.87% of these loans were greater than 90 days in arrears (US\$5 million and 1.67% at April 30, 2008).

Loans having a loan-to-value ratio of greater than 90% at issuance represent US\$0.4 billion or 8% of the U.S. home equity loan portfolio. Loans having both a loan-to-value ratio of greater than 80% and a credit bureau score of below 660 at the time of issuance represent just \$0.3 billion.

In Canada, we have a \$12.7 billion home equity line of credit portfolio. The portfolio is high quality, with loans in arrears greater than 90 days at only 0.08% of the portfolio. Of these lines of credit, one product line is offered only in first mortgage position and represents approximately 50% of the total portfolio. We also

have a \$0.3 billion home equity instalment loan portfolio, with loans in arrears greater than 90 days at 0.41% of the portfolio.

#### **Leveraged Finance**

Leveraged finance loans are defined by BMO as loans to Private Equity businesses and mezzanine financings where our assessment indicates a higher level of credit risk. BMO has limited exposure to leveraged finance loans, representing less than 1% of our total assets, with \$2.9 billion outstanding as at July 31, 2008 (\$4.4 billion authorized), compared with \$2.8 billion outstanding (\$4.3 billion authorized) at April 30, 2008.

#### **Monoline Insurers and Credit Derivative Product Companies**

At July 31, 2008, BMO's direct exposure to companies that specialize in providing default protection amounted to \$242 million (\$214 million at April 30, 2008) in respect of the mark-to-market value of counterparty derivatives and \$10 million (\$6 million at April 30, 2008) in respect of the mark-to-market value of traded credits.

The \$242 million exposure is related to counterparties rated AA or better and the \$10 million exposure is related to counterparties rated BBB- or better. The notional value of direct contracts involving monolines and credit derivative product companies was approximately \$3.9 billion, substantially unchanged from April 30, 2008. Contracts with these companies mostly related to collateralized debt obligations and credit default swaps within our trading portfolio and provided protection against losses arising from defaults. These instruments have minimal subprime exposure. BMO also held \$924 million (\$999 million at April 30, 2008) of securities insured by monolines, of which \$595 million were municipal bonds. Approximately 97% of the municipal bond portfolio is rated investment grade including the benefits of the insurance guarantees. Approximately 61% of the municipal bond holdings have ratings exclusive of the monoline guarantee and all of those are rated investment grade.

#### **BMO-Sponsored Canadian Securitization Conduits**

BMO provided liquidity support facilities to six of the non-consolidated conduits it sponsors in Canada totalling \$18.2 billion at July 31, 2008 (\$20.6 billion at April 30, 2008). All of these facilities remain undrawn. Notes issued by all six of these programs are rated R-1 (high) by DBRS and Prime-1 by Moody's. Two of these conduits hold only prime residential mortgages transferred from BMO and account for \$5.1 billion of BMO's liquidity commitment. The four remaining conduits hold client assets and account for \$13.1 billion of BMO's liquidity commitment. The assets of each of the four third-party client funding conduits consist primarily of high quality, diversified pools of Canadian auto receivables and Canadian residential mortgages. These two asset classes combined comprise from 69% to 93% of the assets of each of the conduits.

Assets in the four client-funding conduits include \$201 million of Canadian residential mortgage loans with subprime characteristics, \$1.03 billion of Canadian residential mortgage loans with Alt-A characteristics and \$244 million of small commercial mortgage loans. There are no CDOs and no exposure to monolines in these conduits.

BMO's investment in the ABCP of the six non-consolidated conduits totalled \$1.3 billion at July 31, 2008, compared with \$3.1 billion at April 30, 2008 and \$5.9 billion at October 31, 2007. No

losses have been recorded on BMO's investment in the ABCP of these conduits.

BMO consolidates the accounts of two vehicles it sponsors in Canada where the majority of the gain or loss of the vehicles is expected to accrue to BMO. One of the vehicles comprises the series of notes rated R-1 (low) by DBRS of one of the six conduits discussed above. The other vehicle is a conduit, whose notes are rated R-1 (mid) by DBRS. These two vehicles had, respectively, \$67 million and \$210 million of assets at July 31, 2008. The combined assets include \$12 million of mortgage loans with subprime characteristics, \$70 million of mortgage loans with Alt-A characteristics and \$14 million of small commercial mortgage loans. No losses have been recorded on BMO's exposures to these vehicles.

#### **BMO-Sponsored U.S. Conduit**

BMO provided committed liquidity support facilities of US\$9.2 billion to our U.S.-sponsored ABCP conduit, Fairway Finance Company, LLC at July 31, 2008 (US\$9.6 billion at April 30, 2008). Fairway provides funding to diversified pools of portfolios through 99 individual securitization transactions with an average facility size of US\$93 million. At present, the size of the pools range from US\$1.2 million to US\$510 million. The ten largest pools comprise 31% of the portfolio. Committed amounts comprise a wide-range of asset classes including mid-market corporate loans (22%), auto loans and leases (13%), commercial real estate loans and leases (13%), corporate loans (11%), and consumer instalment (10%) and equipment loans and leases (8%). Residential mortgages comprise 2.2% of the portfolio, of which a nominal 0.3% is classified as subprime or Alt-A.

Approximately 60% of Fairway's commitments have been rated by Moody's and/or S&P and all of those are rated single A or higher. Approximately \$1.9 billion of the commitments are insured by monolines, primarily MBIA and Ambac, the ratings of which, while downgraded during the quarter to AA, were recently affirmed. The rating downgrades have no impact on the performance of the underlying assets. None of the monoline guarantees involve mortgages or ABS/structured-finance CDOs. All of the underlying transactions are performing in accordance with their terms and conditions.

Fairway had US\$6.8 billion of commercial paper outstanding at July 31, 2008, down from US\$7.2 billion at April 30, 2008. The ABCP of Fairway is rated A1/P1 by S&P/Moody's. BMO has not invested in the conduit's ABCP. Outstanding commercial paper has rolled consistently with third-party investors notwithstanding market disruption, and pricing levels are in line with those of top-tier ABCP conduits in the United States.

In the first half of this fiscal year, as a result of the deterioration in credit and in accordance with the terms of the supporting liquidity agreements, BMO funded directly three specific commercial accounts that have exposure to the U.S. housing sector totalling US\$851 million. The credit quality of two of the accounts began to deteriorate and specific provisions have been taken against them. BMO's provision for credit losses reflects \$247 million related to these accounts in the quarter.

### **Non-Bank sponsored Canadian Securitization Conduits**

We hold ABCP of six non-bank sponsored Canadian conduits with a carrying value of \$201 million as at July 31, 2008 (\$229 million as at April 30, 2008). We have not provided backstop liquidity commitments to these conduits. We recorded impairment charges of \$28 million in the third quarter (\$36 million in the second quarter). Our investments in the ABCP reflect a cumulative market-to-market loss of \$124 million. Realization on our investment in the ABCP of the non-bank-sponsored conduits will be affected by the outcome of the agreement reached among certain non-bank-sponsored Canadian ABCP conduits and investors known as the Montreal Accord. BMO is fully supportive of the resolution of the Montreal Accord.

### **Apex Trust**

We also sponsor Apex Trust (formerly Apex/Sitka Trusts), a Canadian special purpose vehicle that provides credit protection on highly-rated leveraged super-senior tranches of a diversified pool of U.S. and European corporate credits via credit default swaps.

On May 13, 2008, the Trusts were restructured as investors in the Trusts exchanged their original holdings for mid-term notes in Apex Trust with terms of five and eight years. Under the terms of the restructuring, BMO entered into credit default swap contracts with the swap counterparties and entered into offsetting swaps with Apex. A senior funding facility of \$1.13 billion was put in place, with BMO providing \$1.03 billion of that facility. Advances under the senior-funding facility rank ahead of the mid-term notes. As of July 31, 2008, \$124 million had been drawn against BMO's committed \$1.03 billion share of the senior-funding facility.

Under the terms of the restructuring, BMO has exposure to the swap counterparties for realized credit losses on the notional credit positions held by the Trusts if those credit losses exceed the first-loss protection and the posted collateral. The existing collateral plus the additional senior funding, which are available to absorb credit losses above the first-loss protection levels, total approximately \$3.3 billion and represent approximately 16% of the net notional credit positions held by the Trusts.

On May 13, 2008, as part of the restructuring, BMO converted its \$705 million exposure to mid-term notes and invested a further \$110 million in the notes, for a total exposure of \$815 million. Another party to the restructuring holds its \$600 million exposure to the mid-term notes through a total return swap with BMO.

In the third quarter we reversed \$40 million of the charges that had been previously recorded in relation to our \$815 million exposure and recorded a \$55 million charge in relation to the total return swap transaction described above, resulting in a net loss of \$15 million in the quarter. The carrying value of BMO's exposure to Apex mid-term notes was \$730 million at July 31, 2008.

BMO does not consider the May 2008 purchase of the mid-term notes described above to imply or be an indication of its intent to provide support to other mid-term noteholders or provide additional subordinated support to Apex. Instead, the purchase was a one-time, isolated event upon the restructuring of Apex. We do not intend to purchase additional mid-term notes of Apex nor do we intend to reimburse any other mid-term noteholder for any loss they may incur.

BMO believes that the credit quality of Apex is strong, based on the diversification by industry and geography of the underlying

credit exposures in the Apex credit default swaps (CDS) transactions, and the first loss protection supporting Apex's super-senior positions under the CDS that are significantly higher than historical credit losses of the underlying corporate credits.

Apex Trust has exposure to approximately 450 corporate names of which 79% are investment grade. Names are diversified by geography and industry with the largest industry exposures being insurance at 9% and telecommunications at 8%.

### **Links and Parkland**

We hold subordinate capital notes of BMO-managed London-based SIVs, Links Finance Corporation and Parkland Finance Corporation, with a carrying value of Cdn \$8 million. The net asset value of the SIVs capital notes as at July 31, 2008 was approximately US\$140 million for Links and approximately €100 million for Parkland (April 30, 2008 US\$382 million and €108 million). The par values of the subordinate capital notes, as reduced by realized losses of Links and Parkland, at July 31, 2008 were US\$1.27 billion and €158 million, respectively. The assets held by Links and Parkland were US\$8.2 billion and €780 million at July 31, 2008, reduced from US\$9.3 billion and €802 million at April 30, 2008. At July 31, 2008 and April 30, 2008, we held no senior notes in the SIVs as our \$1.4 billion of senior notes outstanding at January 31, 2008 were repaid when they matured.

On March 3, 2008, we agreed to provide senior-ranked support for the funding of Links and Parkland through BMO liquidity facilities. The facilities backstop the repayment of senior note obligations to facilitate the SIVs access to further senior funding, provide the SIVs with supplemental funding and permit the SIVs to continue the strategy of selling assets in an orderly manner. The liquidity facilities total a maximum of approximately US\$7.9 billion related to Links and €686 million for Parkland as of July 31, 2008, down from US\$8.8 billion and €750 million at April 30, 2008. Advances under the liquidity facilities rank ahead of the subordinate capital notes. Given the terms and conditions of the liquidity facilities and the maturity profile of the senior notes, the amount to be drawn is expected to be below 70% of the maximum amount of the facilities for both SIVs. At July 31, 2008, amounts drawn on the facilities totalled US\$3.3 billion and €423 million (US\$288 million and €90 million at April 30, 2008). Capital noteholders will continue to bear the economic risk from actual losses up to the full amount of their investment and BMO is not providing any protection from the economic risk to capital noteholders, now or in the future.

The asset quality of the SIVs is high with approximately 86% of assets rated Aa or better by Moody's, 75% rated AA or better by Standard & Poor's (S&P) and 98% of the assets rated investment grade; certain of the assets ratings are on watch. The senior notes of the SIVs are rated AA- by S&P and Aaa by Moody's. The SIVs hold no direct exposure to U.S. subprime mortgages. Links assets are comprised of a diversified mix of assets including senior and subordinated commercial bank debt (34.9%), CBOs and CLOs whose underlying assets are primarily corporate obligations (19.3%), assets wrapped by monolines (Ambac, FGIC, FSA and MBIA) (9.6%), RMBS (13.1%) and CMBS (6.0%). CBOs include US\$107 million (1.27% of assets) backed primarily by U.S. subprime and Alt-A RMBS collateral. Parkland's assets total €780 million and asset diversification is broadly in line with that of Links.

### **Collateralized Debt Obligations (CDOs)**

CDOs are obligations of a special purpose vehicle (SPV) that is created for a specific financing transaction. The SPV typically has a nominal amount of equity. The SPV issues various tranches of rated and unrated debt securities (usually AAA to BB) that have well-defined rights to cash generated from the operation and liquidation of the vehicle's assets. The risk of loss on the SPV's portfolio varies by tranche. Losses will first affect the equity tranche, next the mezzanine tranches and finally the senior tranche. Super-senior is generally the most secure of all tranches. The SPV uses the cash raised through the issuance of the CDOs to invest in one or more different types of assets including bonds, loans and mortgages. The corresponding obligations of the SPV would be, respectively, collateralized bond obligations (CBOs), collateralized loan obligations (CLOs) and collateralized mortgage obligations (CMOs). CMOs for which the underlying assets are residential properties are referred to as residential mortgage-backed securities (RMBS); CMOs for which the underlying assets are commercial properties are referred to as commercial mortgage-backed securities (CMBS).

Exposures to CDOs are outlined in the following table.

### **CDO-squared Investments**

CDO-squared investments are CDOs that are primarily backed by tranches of CDOs issued by other vehicles. We do not hold any investments in CDOs that hold investments in other CDOs.

### **Auction-Rate Securities**

Auction-rate securities (ARS) are typically short-term notes issued by trusts in the United States to fund long-term, fixed-rate debt instruments (corporate or municipal bonds primarily issued by municipalities, student loan authorities and other sponsors). The interest rate on ARS is regularly reset every 7 to 35 days through auctions managed by financial institutions. A disruption in the market for ARS occurred in the early part of 2008.

There are no BMO-sponsored ARS programs in the market and BMO does not own any ARS in its trading portfolios. Currently, BMO has clients with holdings of approximately \$480 million par value of ARS. Auctions are currently functioning for approximately \$160 million of this total. Within the remaining \$320 million, for which the market is disrupted, approximately \$130 million represents unsolicited orders executed on behalf of our clients.

### **Caution**

Given the uncertainty in the capital markets environment, our capital market instruments could experience further valuation gains and losses due to changes in market value.

This Financial Instruments in the More Difficult Credit Environment section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

The following table provides additional detail on select financial instruments that markets may consider to be higher risk that are held in our investment and trading books. Most of our CDOs and CLOs are held on behalf of our clients and the risk of loss is fully hedged with other large financial institutions. Net CDO exposure is minimal at \$33 million, consisting of the \$16 million carrying value of unhedged and wrapped instruments and a \$17 million cumulative net loss on hedged investments. Net CLO exposure is also minimal, at \$191 million, consisting of the \$114 million carrying value of unhedged and wrapped investments and a \$77 million net loss on hedged instruments.

### Select Financial Instrument Exposures

\$million (Cdn) as at July 31, 2008	Tranche Rating	Carrying Value of Unhedged & Wrapped Investments	Hedged Investment Amounts	Carrying Value of Hedged Investment Amounts	Cumulative Loss in Value of Hedged Investments	Cumulative Gain on Hedges	Net Losses on Hedged Investments
<b>CDO's**</b>	AAA	16					
	AAA		967	669	(298)	298	- Hedged with FI's rated A or better
	AAA		263	238	(25)	9	(16) Hedged with monolines rated AA or better
	A- to AA+		1,557	731	(826)	826	- Hedged with FI's rated A or better
	BBB- to BBB+		163	160	(3)	3	- Hedged with FI's rated AA- or better*
	B- to BB+		855	201	(654)	653	(1) Hedged with FI's rated A or better*
	CCC or worse		1,077	270	(807)	807	- Hedged with FI's rated A or better
		16	4,882	2,269	(2,613)	2,596	(17)
<b>CLO's</b>	AAA	114					Mostly U.K. and European mid-size corporate loans
	AAA		1,026	910	(116)	39	(77) Hedged with monolines rated AA or better
		114	1,026	910	(116)	39	(77)
<b>Residential MBS***</b>							
No subprime	AAA	60					Mostly U.K. and Australian mortgages
U.S. subprime - wrapped	A- to AA+	24					Wrapped with monolines rated AA or better
	B- to BB+	12					Wrapped with monolines rated BB
U.S. subprime	AAA	2					Older mortgages
	AAA		220	133	(87)	87	- Hedges with FI's rated AA or better
	A- to AA+	4					Mostly low loan-to-value or older U.S. mortgages
	A- to AA+		94	65	(29)	29	- Hedges with Financials rated AA
		102	314	198	(116)	116	-
<b>CMBS</b>	AAA	61					European, U.K. and U.S. commercial real estate loans
	A- to AA+	96					Mostly Canadian commercial and multi-use residential loans
		157					
<b>ABS</b>	AAA	213					Mostly Canadian credit card receivables and auto loans
	AAA		103	103			- Hedged with monolines rated AAA
	A- to AA+	114					Mostly Canadian credit card receivables and auto loans
	BBB- to BBB+	69					Collateral notes on Canadian credit card receivables
		396	103	103			-

FI's = Financial Institutions

\* Certain ratings are under review

\*\* CDOs include indirect exposure to approximately \$1.7 billion of U.S. subprime residential mortgages. As noted above, this exposure is hedged via total return swaps with three large non-monoline financial institutions. Amounts exclude the \$1.5 billion notional value of CDO credit default swap (CDS) protection purchases from two AAA rated credit derivative product company counterparties and corresponding CDS protection provided to other financial institutions in our role as intermediary.

\*\*\* Wrapped MBS have an insurance guarantee attached and are rated inclusive of the wrap protection. RMBS included in the hedged investment amounts of \$314 million have exposure to approximately \$153 million of underlying U.S. subprime loans.

BMO has invested only in senior and super-senior tranches of CDOs and CLOs. Tranche ratings in the table use the lowest external rating available provided by S&P, Moody's or Fitch. The difference between hedged investment amounts and carrying value of hedged investment amounts reflect mark-to-market adjustments, which are generally recoverable through total return or credit default swaps. The underlying securities are a wide range of assets. BMO's investments typically represent about 20% of the pool but can be as low as 5% and as high as 50%. Approximately 80% of the hedged investment amounts have been hedged through swaps with three Financial Institution counterparties rated A to AA. The value of BMO's interest in those hedges is supported by collateral held, with the exception of relatively modest amounts as permitted under counterparty agreements. The remainder of the hedged investment amounts is hedged through three monoline insurer counterparties rated AA to AAA.

## Review of Operating Groups' Performance

### Operating Groups' Summary Income Statements and Statistics for Q3-2008

(Canadian \$ in millions, except as noted)	Q3-2008					YTD-2008				
	P&C	PCG	BMO CM	Corporate including T&O	Total BMO	P&C	PCG	BMO CM	Corporate including T&O	Total BMO
Net interest income (teb) (1)	1,019	167	287	(187)	<b>1,286</b>	2,937	487	824	(574)	<b>3,674</b>
Non-interest revenue	521	377	459	103	<b>1,460</b>	1,504	1,086	873	255	<b>3,718</b>
Total revenue (teb) (1)	1,540	544	746	(84)	<b>2,746</b>	4,441	1,573	1,697	(319)	<b>7,392</b>
Provision for (recovery of) credit losses	99	1	29	355	<b>484</b>	283	3	87	492	<b>865</b>
Non-interest expense	904	380	477	21	<b>1,782</b>	2,621	1,096	1,301	58	<b>5,076</b>
Restructuring charge	-	-	-	-	-	-	-	-	-	-
Total non-interest expense	904	380	477	21	<b>1,782</b>	2,621	1,096	1,301	58	<b>5,076</b>
Income before income taxes and non-controlling interest in subsidiaries	537	163	240	(460)	<b>480</b>	1,537	474	309	(869)	<b>1,451</b>
Income taxes (recovery) (teb) (1)	166	53	(19)	(259)	<b>(59)</b>	477	157	(98)	(558)	<b>(22)</b>
Non-controlling interest in subsidiaries	-	-	-	18	<b>18</b>	-	-	-	55	<b>55</b>
Net income Q3-2008	371	110	259	(219)	<b>521</b>	1,060	317	407	(366)	<b>1,418</b>
Net income Q2-2008	361	109	182	(10)	<b>642</b>					
Net income Q3-2007	381	102	194	(17)	<b>660</b>	1,063	292	371	(47)	<b>1,679</b>

#### Other statistics

Net economic profit	178	81	107	(244)	<b>122</b>	519	233	(41)	(450)	<b>261</b>
Return on equity	20.0%	39.6%	18.5%	nm	<b>13.5%</b>	20.4%	39.5%	9.5%	nm	<b>12.7%</b>
Cash return on equity	20.4%	39.9%	18.5%	nm	<b>13.7%</b>	20.8%	39.8%	9.5%	nm	<b>12.9%</b>
Operating leverage	(3.5%)	(0.3%)	1.3%	nm	<b>0.1%</b>	(2.5%)	1.3%	(1.1%)	nm	<b>0.8%</b>
Cash operating leverage	(3.7%)	(0.4%)	1.3%	nm	-	(2.7%)	1.3%	(1.1%)	nm	<b>0.7%</b>
Productivity ratio (teb)	58.7%	69.9%	64.0%	nm	<b>64.9%</b>	59.0%	69.7%	76.7%	nm	<b>68.7%</b>
Cash productivity ratio (teb)	58.0%	69.7%	64.0%	nm	<b>64.5%</b>	58.4%	69.5%	76.6%	nm	<b>68.2%</b>
Net interest margin on earning assets (1)	2.75%	8.87%	0.67%	nm	<b>1.59%</b>	2.72%	8.91%	0.62%	nm	<b>1.50%</b>
Average common equity	7,123	1,093	5,314	1,254	<b>14,784</b>	6,706	1,059	5,280	1,384	<b>14,429</b>
Average earning assets (\$ billions)	147.6	7.5	169.4	(2.5)	<b>322.0</b>	144.4	7.3	176.8	(2.3)	<b>326.2</b>
Full-time equivalent staff	20,957	4,517	2,449	9,442	<b>37,365</b>					

nm – not meaningful

(1) Operating group revenues, income taxes and net interest margin are stated on a taxable equivalent basis (teb). The group teb adjustments are offset in Corporate, and Total BMO revenue, income taxes and net interest margin are stated on a GAAP basis. See the Non-GAAP Measures section.

The following sections review the financial results of each of our operating segments and operating groups for the third quarter of 2008.

Periodically, certain business lines and units within the business lines are transferred between client groups to more closely align BMO's organizational structure and its strategic priorities. All comparative figures are reclassified to reflect these transfers.

Note 15 to the attached unaudited interim consolidated financial statements outlines how income statement items requiring allocation are distributed among the operating groups, including the allocation of the provision for credit losses. Corporate Services is generally charged (or credited) with differences between the periodic provisions for credit losses charged to the client groups under our expected loss provisioning methodology and the periodic provisions required under GAAP.

## Personal and Commercial Banking (P&C)

(Canadian \$ in millions, except as noted)	Q3-2008	Increase (Decrease) vs. Q3-2007		Increase (Decrease) vs. Q2-2008		YTD-2008	Increase (Decrease) vs. YTD-2007	
Net interest income (teb)	1,019	37	4%	61	6%	2,937	83	3%
Non-interest revenue	521	22	5%	4	1%	1,504	38	3%
Total revenue (teb)	1,540	59	4%	65	4%	4,441	121	3%
Provision for credit losses	99	9	10%	7	7%	283	14	5%
Non-interest expense	904	65	8%	48	5%	2,621	135	5%
Income before income taxes and non-controlling interest in subsidiaries	537	(15)	(2%)	10	2%	1,537	(28)	(2%)
Income taxes (teb)	166	(5)	(1%)	-	-	477	(25)	(4%)
Non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-
Net income	371	(10)	(3%)	10	3%	1,060	(3)	-
Amortization of intangible assets (after tax)	8	-	-	1	13%	22	(3)	(15%)
Cash net income	379	(10)	(3%)	11	3%	1,082	(6)	(1%)
Return on equity	20.0%	(2.4%)		(1.0%)		20.4%	(1.3%)	
Cash return on equity	20.4%	(2.5%)		(1.0%)		20.8%	(1.5%)	
Operating leverage	(3.5%)	nm		nm		(2.5%)	nm	
Cash operating leverage	(3.7%)	nm		nm		(2.7%)	nm	
Productivity ratio (teb)	58.7%	1.9%		0.6%		59.0%	1.4%	
Cash productivity ratio (teb)	58.0%	1.9%		0.5%		58.4%	1.5%	
Net interest margin on earning assets (teb)	2.75%	(0.08%)		0.04%		2.72%	(0.07%)	
Average earning assets	147,616	10,031	7%	3,709	3%	144,405	7,924	6%

nm – not meaningful

Personal and Commercial Banking (P&C) represents the sum of our two retail and business banking operating segments, Personal and Commercial Banking Canada (P&C Canada) and Personal and Commercial Banking U.S. (P&C U.S.). These operating segments are reviewed separately in the sections that follow.

## Personal and Commercial Banking Canada (P&C Canada)

(Canadian \$ in millions, except as noted)	Q3-2008	Increase (Decrease) vs. Q3-2007		Increase (Decrease) vs. Q2-2008		YTD-2008	Increase (Decrease) vs. YTD-2007	
Net interest income (teb)	822	21	3%	36	5%	2,401	105	5%
Non-interest revenue	469	14	4%	36	9%	1,320	(14)	(1%)
Total revenue (teb)	1,291	35	3%	72	6%	3,721	91	3%
Provision for credit losses	87	6	8%	5	6%	252	10	4%
Non-interest expense	710	46	7%	53	8%	2,062	108	6%
Income before income taxes and non-controlling interest in subsidiaries	494	(17)	(3%)	14	4%	1,407	(27)	(2%)
Income taxes (teb)	151	(4)	(1%)	2	4%	431	(23)	(5%)
Non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-
Net income	343	(13)	(3%)	12	3%	976	(4)	-
Amortization of intangible assets (after tax)	(1)	-	-	(4)	nm	2	(3)	nm
Cash net income	342	(13)	(4%)	8	3%	978	(7)	(1%)
Personal, Insurance & Other revenue	654	14	2%	32	5%	1,885	19	1%
Commercial revenue	343	(6)	(1%)	9	3%	1,026	10	1%
Cards revenue	294	27	10%	31	12%	810	62	8%
Operating leverage	(3.8%)	nm		nm		(3.0%)	nm	
Cash operating leverage	(4.1%)	nm		nm		(3.2%)	nm	
Productivity ratio (teb)	54.9%	1.9%		0.9%		55.4%	1.5%	
Cash productivity ratio (teb)	54.9%	2.1%		1.0%		55.3%	1.6%	
Net interest margin on earning assets (teb)	2.68%	(0.05%)		0.02%		2.66%	(0.02%)	
Average earning assets	122,153	6,143	5%	1,866	2%	120,567	6,154	5%

nm – not meaningful

### Q3 2008 vs Q3 2007

Net income of \$343 million fell \$13 million or 3.2% from a year ago. Net income a year ago included a \$14 million recovery of prior period income taxes. Adjusted for the above item, net income increased \$1 million or 0.8%.

Revenue rose \$35 million or 3.0%. Volume growth continued to be strong across most products in the face of a slowing economy. Our customer loyalty continues to improve, our customer base is growing and we are strengthening our customer relationships.

Net interest margin deteriorated by 5 basis points due to lower mortgage refinancing fees, higher funding costs and competitive pricing pressures, partially offset by improving product mix.

In the personal banking segment, revenue increased \$14 million or 2.3% with growth in most products.

Personal loan growth from the third quarter of 2007 was a strong 19% with increased market share of 87 basis points from the prior year and 29 basis points from the second quarter. Our HomeOwner Readiline product has been an important part of our accelerating personal loan growth. We continued to see growth in our branch-originated mortgage portfolio as new originations outpaced the impact of having exited from the mortgage broker channels. As expected, mortgage market share has decreased, falling 148 basis points from a year ago and 33 basis points from the second quarter as broker mortgages continue to run off.

Personal deposits increased 1.2% from the third quarter of 2007 as the number of active chequing customers and the percentage of households retained showed positive trends. Market share declined 6 basis points relative to the second quarter and 10 basis points year over year in a highly competitive environment.

Within the commercial banking segment, revenue declined \$6 million or 1.2%. Loan growth continues to be strong, rising 9.3% from a year ago despite ongoing intense competition; however, the impact was offset by higher funding costs and competitive pricing pressures in 2008, and higher recoveries of interest on loans a year ago. BMO ranks second in Canadian business banking market share at 19.89%. Our objective is to be the market leader and this quarter we increased market share by 69 basis points from the prior year and 29 basis points from the second quarter. In the \$1 to \$5 million segment, there was loan growth of 10.5% and market share growth of 88 basis points relative to the third quarter of 2007 and 47 basis points relative to the second quarter. In the deposit side of the business, balance growth of 4.5% was accompanied by a steady increase in the number of commercial operating account customers.

Cards and payments service revenue increased \$27 million or 10% with growth in transactions and accelerating balance growth, as well as higher Moneris revenues. This was another quarter with consistent, strong growth from our cards products. The strength of our AIR MILES and Cashback rewards offers, which has been enhanced through our two most recent product launches, has broad appeal to customers. Our Shell co-branded offer further expands the options we provide to our customers to select a program that best suits their needs – AIR MILES or Cashback. The coordinated AIR MILES offering on both our credit and debit cards complement each other, driving increasing cards volumes as well as branch deposits. The strength of our rewards, combined with our pricing and credit strategies, continue to drive strong balance and profit growth in a highly competitive industry. We are also seeing improvement in the customer experience in this area.

Non-interest expense increased \$46 million or 6.8%, primarily due to increased strategic initiative spending and higher capital tax expense, partially offset by lower employee benefits costs. We continue to invest in the business through the expansion and renovation of our branch network and expanding our mortgage specialist and financial planner workforce to drive incremental sales. On a year-to-date basis, we opened 7 new branches, relocated 4 and expanded 6. We also continue to manage our expense base, including the largest component, our full-time staffing, to an appropriate level in light of economic challenges.

Average loans and acceptances, including securitized loans, increased \$8.7 billion or 7.0% from the third quarter of 2007. Personal and commercial deposits grew \$1.1 billion or 2.4% from a year ago. The group's cash operating leverage was -4.1%.

During the quarter, we entered into an agreement to transfer the liability associated with our credit card loyalty rewards program to Loyalty Management Group Canada Inc. (LMGCI), our partner in the AIR MILES Reward Miles program. There was no significant gain on the transfer. In addition, we have renegotiated and extended the term of our agreement with LMGCI for the issuance of AIR MILES reward miles. Under the terms of the agreement, we no longer retain a liability for future AIR MILES reward miles redemptions and as a result no longer have exposure to changing redemption patterns. We expect negligible change in run-rate costs as a result of the agreement.

### Q3 2008 vs Q2 2008

Net income increased \$12 million or 3.4%.

Revenue increased \$72 million or 5.9% from the second quarter. Growth was attributable to the \$18 million impact of two more calendar days in the current quarter, volume growth across most products, improved net interest margin, and higher cards and Moneris revenues. Net interest margin improved by 2 basis points due to favourable product mix and higher refinancing fees, partially offset by higher funding costs and competitive pricing pressures.

Non-interest expense increased \$53 million or 7.8% due to increases in initiatives spending, higher capital taxes, increased advertising and two more calendar days this quarter.

Average loans and acceptances, including securitized loans, increased \$2.9 billion or 2.3% from the second quarter, while personal and commercial deposits increased \$1.3 billion or 2.9%.

### Q3 YTD 2008 vs Q3 YTD 2007

Net income decreased \$4 million or 0.3%, but increased \$42 million or 4.6% adjusted for the \$46 million impact in 2007 of an insurance gain, investment gains and a recovery of prior period income taxes. Revenue increased \$91 million or 2.5%, but increased \$131 million or 3.7% adjusted for last year's \$26 million insurance gain and \$14 million investment gains. There was volume growth across most products. Net interest margin decreased 2 basis points from last year.

Non-interest expense increased \$108 million or 5.5% primarily due to initiatives spending including expansion and renovation of the branch network as well as increasing our mortgage specialist and financial planner workforce.

## Personal and Commercial Banking U.S. (P&C U.S.)

(Canadian \$ in millions, except as noted)	Q3-2008	Increase (Decrease) vs. Q3-2007		Increase (Decrease) vs. Q2-2008		YTD-2008	Increase (Decrease) vs. YTD-2007	
Net interest income (teb)	197	16	9%	25	15%	536	(22)	(4%)
Non-interest revenue	52	8	16%	(32)	(39%)	184	52	40%
Total revenue (teb)	249	24	10%	(7)	(3%)	720	30	5%
Provision for credit losses	12	3	33%	2	19%	31	4	13%
Non-interest expense	194	19	11%	(5)	(3%)	559	27	5%
Income before income taxes and non-controlling interest in subsidiaries	43	2	4%	(4)	(10%)	130	(1)	-
Income taxes (teb)	15	(1)	(6%)	(2)	(19%)	46	(2)	-
Non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-
Net income	28	3	6%	(2)	(4%)	84	1	-
Amortization of intangible assets (after tax)	9	-	-	5	nm	20	-	-
Cash net income	37	3	8%	3	9%	104	1	1%
Operating leverage	(0.3%)		nm		nm	(0.6%)		nm
Cash operating leverage	(0.2%)		nm		nm	(0.7%)		nm
Productivity ratio (teb)	78.1%		0.2%		0.4%	77.6%		0.4%
Cash productivity ratio (teb)	74.5%		0.1%		(0.2%)	74.3%		0.6%
Net interest margin on earning assets (teb)	3.11%		(0.26%)		0.18%	3.01%		(0.37%)
Average earning assets	25,463	3,888	18%	1,843	8%	23,838	1,770	8%

### U.S. Select Financial Data (US\$ in millions)

Net interest income (teb)	195	26	15%	24	14%	533	37	7%
Non-interest revenue	51	9	22%	(33)	(39%)	183	66	56%
Total revenue (teb)	246	35	16%	(9)	(4%)	716	103	17%
Non-interest expense	192	27	17%	(6)	(3%)	556	82	17%
Net income	28	4	12%	(2)	(5%)	84	10	12%
Average earning assets	25,156	4,942	24%	1,690	7%	23,697	4,050	21%

nm - not meaningful

### Q3 2008 vs Q3 2007

Net income increased \$3 million or 6.4%. On a U.S. dollar basis, net income rose \$4 million or 12% to \$28 million. There was solid volume growth and early signs of spread stabilization, partially offset by the impact of the difficult credit environment and continued targeted business investment and expansion.

Revenue rose US\$35 million or 16% primarily due to the Wisconsin acquisitions (US\$18 million), and core revenue growth related to improved volumes, spreads and fees. Net interest margin decreased by 26 basis points, of which 22 basis points relates to a portfolio transfer in the first quarter. Net interest margin was also affected by the weaker credit market environment.

Non-interest expense increased US\$27 million or 17%. The increase was attributable to the impact of acquisitions (US\$16 million), business volume growth, the effects of the weaker credit environment and business expansion initiatives. Cash operating leverage was -0.2%.

### Q3 2008 vs Q2 2008

Net income decreased \$2 million or 4.3%. On a U.S. dollar basis, net income fell \$2 million or 5.2%. Second quarter results included a US\$13 million after-tax gain on the Visa transaction and higher than normal expenses and reduced revenues.

Revenue decreased US\$9 million or 3.6% as the prior quarter benefited from the US\$38 million Visa gain. Revenue was up US\$29 million or 13% excluding the Visa gain, primarily due to

the Wisconsin acquisitions (US\$11 million), and improvements in core volume, spread and fees. Net interest margin rose 18 basis points due to core spread stabilization and a lower impact of credit markets in the current quarter as a result of cash collections. We are seeing early signs of spread stabilization in consumer and commercial, in both loans and deposits, in part due to pricing initiatives.

Non-interest expense fell US\$6 million or 3.0% due to the US\$17 million Visa litigation reserve taken in the prior quarter. Excluding the Visa litigation and the impact of the Wisconsin acquisitions (US\$11 million), expenses were unchanged from the prior quarter.

Our Retail Net Promoter Score, a measure of the strength of customer loyalty, was consistent with the prior quarter at 42%.

### Q3 YTD 2008 vs Q3 YTD 2007

Net income of \$84 million rose \$1 million or 0.3%. On a U.S. dollar basis, net income rose \$10 million or 12%.

Revenue increased US\$103 million or 17%. The increase was attributable to the Visa transaction and acquisitions, volume growth and increases in fee and other non-interest revenue. Net interest margin fell by 37 basis points due to the 22 basis points impact of the portfolio transfer, higher levels of non-performing loans and the highly competitive environment.

Non-interest expense rose US\$82 million or 17% due to the litigation charge, acquisitions, continued targeted business investment and expansion and the impact of credit markets.

## Private Client Group (PCG)

(Canadian \$ in millions, except as noted)	Q3-2008	Increase (Decrease) vs. Q3-2007		Increase (Decrease) vs. Q2-2008		YTD-2008	Increase (Decrease) vs. YTD-2007	
Net interest income (teb)	167	13	9%	2	2%	487	29	6%
Non-interest revenue	377	11	3%	32	9%	1,086	-	-
Total revenue (teb)	544	24	5%	34	7%	1,573	29	2%
Provision for credit losses	1	-	-	-	-	3	1	26%
Non-interest expense	380	18	5%	32	10%	1,096	6	1%
Income before income taxes	163	6	4%	2	1%	474	22	5%
Income taxes (teb)	53	(2)	(4%)	1	1%	157	(3)	(2%)
Net income	110	8	8%	1	1%	317	25	9%
Amortization of intangible assets (after tax)	1	-	-	-	-	3	-	-
Cash net income	111	8	8%	1	1%	320	25	9%
Return on equity	39.6%		5.0%		(1.9%)	39.5%		5.8%
Cash return on equity	39.9%		5.0%		(2.0%)	39.8%		5.7%
Operating leverage	(0.3%)		nm		nm	1.3%		nm
Cash operating leverage	(0.4%)		nm		nm	1.3%		nm
Productivity ratio (teb)	69.9%		0.2%		1.8%	69.7%		(0.9%)
Cash productivity ratio (teb)	69.7%		0.3%		1.8%	69.5%		(0.8%)
Net interest margin on earning assets (teb)	8.87%		(0.70%)		(0.33%)	8.91%		(0.94%)
Average earning assets	7,493	1,140	18%	235	3%	7,293	1,082	17%

### U.S. Select Financial Data (US\$ in millions)

Total revenue (teb)	62	-	-	3	7%	183	2	1%
Non-interest expense	58	(1)	(2%)	5	11%	170	(7)	(4%)
Net income	3	1	58%	(1)	(16%)	9	6	+100%
Cash net income	3	1	40%	(1)	(15%)	10	6	+100%
Average earning assets	2,134	197	10%	4	-	2,119	209	11%

nm - not meaningful

### Q3 2008 vs Q3 2007

Net income increased \$8 million or 8.4% to a record \$110 million in a difficult market environment.

Revenue increased \$24 million or 4.8% and \$29 million or 5.6% excluding the impact of the weaker U.S. dollar. Net interest income increased primarily due to higher deposit balances in the brokerage businesses. Higher loan and deposit balances in North American Private Banking also contributed to the growth. Non-interest revenue increased primarily due to higher fee-based revenue in Full Service Investing and higher trust and investment revenue in North American Private Banking. The BMO Mutual Funds fixed administration fee implemented in the first quarter of 2008 also contributed to the growth.

Non-interest expense increased \$18 million or 5.1% and \$22 million or 6.0% excluding the impact of the weaker U.S. dollar, primarily due to higher revenue-based costs, expansion of the sales force and the impact of the fixed administration fee. Cash operating leverage was -0.4%.

The Group's \$286 billion of assets under management and administration and term deposits were significantly impacted by softer market conditions. Assets increased \$4.2 billion or 1.5% year over year, excluding the impact of foreign exchange.

### Q3 2008 vs Q2 2008

Net income increased \$1 million or 1.0%.

Revenue increased \$34 million or 6.9%, primarily due to higher commission and fee-based revenue in Full Service Investing. Higher deposit balances in the brokerage businesses and higher mutual fund revenue also contributed to the growth.

Non-interest expense increased \$32 million or 9.7%, primarily as a result of higher revenue-based costs. The group continues to invest to drive future revenue growth.

### Q3 YTD 2008 vs Q3 YTD 2007

Net income increased \$25 million or 8.9%.

Revenue increased \$29 million or 1.9% and, excluding the impact of the weaker U.S. dollar and the prior year's \$7 million gain on sale of Montreal Stock Exchange common shares, by \$60 million or 3.9% in softer market conditions. Net interest income improved primarily due to higher deposit balances in the brokerage businesses. Higher deposit and loan balances in North American Private Banking also contributed to the growth. Non-interest revenue improved, adjusted for the gain and the weaker U.S. dollar, primarily due to higher trust and investment revenue in North American Private Banking and higher mutual fund revenue including the fixed administration fee. Those increases were partially offset by lower commission revenue in the brokerage businesses.

Non-interest expense increased \$6 million or 0.6% and \$26 million or 2.4% excluding the impact of the weaker U.S. dollar, primarily due to the impact of the fixed administration fee and increased sales force, partially offset by lower revenue-based costs. The group continues to focus on expense management in the current market environment, balanced with investment in the sales force and supporting technology to drive future revenue growth.

Cash operating leverage was 1.3%.

## BMO Capital Markets (BMO CM)

(Canadian \$ in millions, except as noted)	Q3-2008	Increase (Decrease) vs. Q3-2007		Increase (Decrease) vs. Q2-2008		YTD-2008	Increase (Decrease) vs. YTD-2007	
Net interest income (teb)	287	34	13%	53	22%	824	83	11%
Non-interest revenue	459	22	5%	8	2%	873	66	8%
Total revenue (teb)	746	56	8%	61	9%	1,697	149	10%
Provision for credit losses	29	10	52%	-	-	87	29	48%
Non-interest expense	477	29	7%	36	8%	1,301	126	11%
Income (loss) before income taxes	240	17	7%	25	11%	309	(6)	(2%)
Income taxes (recovery) (teb)	(19)	(48)	(+100%)	(52)	(+100%)	(98)	(42)	(75%)
Net income	259	65	34%	77	42%	407	36	10%
Amortization of intangible assets (after tax)	-	-	-	-	-	-	(1)	(7%)
Cash net income	259	65	34%	77	42%	407	35	10%
Trading Products revenue	390	116	42%	30	9%	715	432	+100%
Investment and Corporate Banking and Other revenue	356	(60)	(15%)	31	9%	982	(283)	(23%)
Return on equity	18.5%		3.8%		5.3%	9.5%		0.1%
Cash return on equity	18.5%		3.8%		5.3%	9.5%		0.1%
Operating leverage	1.3%		nm		nm	(1.1%)		nm
Cash operating leverage	1.3%		nm		nm	(1.1%)		nm
Productivity ratio (teb)	64.0%		(0.8%)		(0.3%)	76.7%		0.8%
Cash productivity ratio (teb)	64.0%		(0.8%)		(0.3%)	76.6%		0.8%
Net interest margin on earning assets (teb)	0.67%		0.06%		0.12%	0.62%		(0.01%)
Average earning assets	169,410	4,452	3%	(5,333)	(3%)	176,840	19,853	13%

### U.S. Select Financial Data (US\$ in millions)

Total revenue (teb)	297	147	98%	50	21%	838	705	+100%
Non-interest expense	197	35	22%	46	30%	556	111	25%
Net income	59	57	+100%	(5)	(7%)	179	338	+100%
Average assets	66,968	12,445	23%	(4,276)	(6%)	70,869	21,861	45%

nm - not meaningful

### Q3 2008 vs Q3 2007

Net income of \$259 million increased \$65 million or 34% from a year ago. Revenue rose \$56 million or 7.9% to \$746 million, due to significantly higher trading revenues and strong performance from our interest-rate-sensitive businesses, partially offset by lower merger and acquisition fees, equity underwriting revenue and corporate banking net interest income. Results for the quarter were lowered by the net \$33 million impact of: capital markets environment charges of \$96 million after tax, a severance charge of \$19 million after tax and the group's \$82 million share of a recovery of prior period income taxes. Net income a year ago was lowered by \$97 million in respect of losses in our commodities business. See the Effects of the Capital Markets Environment on Third Quarter Results section for more details of the capital markets environment charges.

We re-focused some of our businesses this quarter with the goal of improving our risk-return profile and concentrating on core, profitable client relationships.

Trading Products revenue increased \$116 million or 42% due to the commodities losses in 2007. There was higher revenue from interest-rate-sensitive businesses, partially offset by higher levels of other than temporary impairment write-downs and charges for Apex and third party asset-backed commercial paper. There has been continued volatility in our trading businesses; however, management is focused on reducing the volatility of the group's results.

Investment and Corporate Banking and Other revenue decreased by \$60 million or 15%. There were lower merger and

acquisition fees and equity and debt underwriting fees due to the difficult market environment. The market environment was much more favourable a year ago and conditions remain challenging for our fee-based businesses.

Net interest income rose from a year ago due to higher revenues from our interest-rate-sensitive businesses and trading net interest income, partially offset by reduced corporate banking net interest income. Net interest margin improved 6 basis points from the prior year due to higher trading spreads and higher spreads in our interest-rate-sensitive businesses.

Non-interest expense increased \$29 million or 6.6%, primarily due to a \$28 million charge for severance costs. The Group's cash operating leverage was 1.3%.

### Q3 2008 vs Q2 2008

Net income increased \$77 million or 42%. Results in the second quarter included a \$42 million (\$28 million after tax) net recovery related to valuation adjustments, including mark-to-market reversals of some of the first quarter charges.

Revenue rose \$61 million or 8.6% due to higher revenues from trading and from our interest-rate-sensitive businesses and improved debt and equity underwriting performance. These were partially offset by increased net investment losses consisting of other than temporary impairment write-downs and charges related to Apex and third party asset-backed commercial paper. Merger and acquisition fees were lower.

Non-interest expense was \$36 million or 8.1% higher, primarily due to the \$28 million charge for severance costs and an increase in variable compensation.

### Q3 YTD 2008 vs Q3 YTD 2007

Net income increased \$36 million or 9.6%. Results in 2008 were affected by charges of \$580 million (\$392 million after tax) related to deterioration in capital markets. Results in 2007 were affected by charges of \$829 million (\$424 million net of compensation adjustments and taxes) related to commodities losses.

Revenue rose \$149 million or 9.6% due to last year's commodities losses and favourable performance in our interest-rate-sensitive businesses. Partially offsetting these increases in

revenue were net investment losses and lower lending revenue including decreased collections on impaired loans, and reduced merger and acquisition and equity underwriting fees from record levels in the prior year.

Non-interest expense was \$126 million or 11% higher, due to higher employee-based costs, including performance-based compensation and charges for severance, and higher allocated costs.

### Corporate Services, Including Technology and Operations

(Canadian \$ in millions, except as noted)	Q3-2008	Increase (Decrease) vs. Q3-2007		Increase (Decrease) vs. Q2-2008		YTD-2008	Increase (Decrease) vs. YTD-2007	
Net interest income (teb)	(187)	(45)	(34%)	(4)	(2%)	(574)	(168)	(42%)
Non-interest revenue	103	97	+100%	(30)	(21%)	255	112	77%
Total revenue (teb)	(84)	52	38%	(34)	(65%)	(319)	(56)	(22%)
Provision for (recovery of) credit losses	355	374	+100%	326	+100%	492	619	+100%
Non-interest expense	21	11	98%	(14)	(41%)	58	(2)	(3%)
Restructuring charge	-	-	-	-	-	-	(135)	(100%)
Total non-interest expense	21	11	98%	(14)	(41%)	58	(137)	(70%)
Income (loss) before income taxes and non-controlling interest in subsidiaries	(460)	(333)	(+100%)	(346)	(+100%)	(869)	(538)	(+100%)
Income taxes (recovery) (teb)	(259)	(131)	(+100%)	(136)	(+100%)	(558)	(218)	(65%)
Non-controlling interest in subsidiaries	18	-	-	(1)	(5%)	55	(1)	(3%)
Net income (loss)	(219)	(202)	(+100%)	(209)	(+100%)	(366)	(319)	(+100%)

### U.S. Select Financial Data (US\$ in millions)

Total revenue (teb)	(35)	7	17%	(4)	(18%)	(134)	(29)	(27%)
Provision for credit losses	412	403	+100%	369	+100%	574	601	+100%
Non-interest expense	(20)	(11)	(+100%)	(14)	(+100%)	(45)	(36)	(+100%)
Restructuring charge	-	-	-	-	-	-	(18)	(100%)
Total non-interest expense	(20)	(11)	(+100%)	(14)	(+100%)	(45)	(54)	(+100%)
Income taxes (recovery) (teb)	(152)	(129)	(+100%)	(120)	(+100%)	(256)	(209)	(+100%)
Net income (loss)	(280)	(256)	(+100%)	(240)	(+100%)	(421)	(367)	(+100%)

### Corporate Services

Corporate Services includes the corporate units that provide expertise and governance support to BMO Financial Group in areas such as strategic planning, law, finance, internal audit, risk management, corporate communications, 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 BMO's overall asset-liability structure.

Corporate Services is generally charged (or credited) with differences between the periodic provisions for credit losses charged to the client groups under our expected loss provisioning methodology and the required periodic provisions charged by the consolidated organization under GAAP.

### Technology and Operations

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

### Financial Performance Review

Technology and Operations operating results are included with Corporate Services for reporting purposes. Costs of T&O's services are transferred to the client groups (P&C, PCG and BMO Capital Markets) and only relatively minor amounts are retained within T&O. As such, results in this section largely reflect the other corporate units outlined above.

There was a net loss of \$219 million in the quarter compared with a net loss of \$17 million in the prior year, primarily due to high provisions for credit losses, due to BMO's policy of charging expected losses to the operating groups, partially offset by higher securitization and other revenues and more favourable income taxes. The more favourable income taxes were due to lower income and \$13 million of prior period tax recoveries.

Net income decreased \$209 million from the second quarter, primarily due to higher provisions for credit losses. Results in the current quarter included a \$50 million (\$30 million after tax) increase in the general allowance.

Net income for the year to date fell \$319 million from a year ago, driven primarily by higher provisions for credit losses, including a \$110 million (\$68 million after tax) increase in the general allowance.

## Significant and Notable Items

### Q3 2008

Charges related to the capital markets environment in the third quarter are detailed in the Effects of the Capital Markets Environment on Third Quarter Results section. Additionally, a \$50 million increase in the general allowance has been included in significant items as set out in the GAAP and Related Non-GAAP Measures table.

### Q2 2008

No amounts were designated as significant items in the second quarter as the effects of charges related to the credit environment were not large on a net basis.

BMO's results in the second quarter included a net benefit of \$42 million (\$28 million after tax) in respect of charges/recoveries related to the capital markets environment. The charges/recoveries consisted of:

- a net recovery of \$26 million (\$18 million after tax) in respect of:
  - a mark-to-market recovery of \$85 million (\$57 million after tax) for Apex/Sitka Trust in recognition during the quarter of the increased likelihood of a successful restructuring;
  - a mark-to-market charge of \$36 million (\$24 million after tax) for our holdings of commercial paper of third-party Canadian conduits affected by the Montreal Accord;
  - a charge of \$23 million (\$15 million after tax) for the capital notes in the Links and Parkland SIVs;
- a recovery of \$35 million (\$24 million after tax) for items impacted by credit spreads, specifically mark-to-market adjustments, consisting of a benefit of \$128 million (\$86 million after tax) for mark-to-market gains on counterparty credit exposures on derivatives contracts as BMO's credit spreads have moved out relative to various counterparties; less a charge of \$93 million (\$62 million after tax) for other trading and structured-credit related positions; and
- a charge of \$19 million (\$14 million after tax) related to four smaller items, each with a net income impact of \$10 million or less and including mark-to-market charges on our preferred share trading portfolio and monoline exposures.

The net benefit of \$42 million above was reflected in trading non-interest revenue (\$71 million), other revenue (\$6 million) and securities gains/losses other than trading (-\$35 million).

### Q1 2008

Notable items in the first quarter were reported as significant items.

In the first quarter of 2008, BMO recorded \$548 million (\$362 million after tax and \$0.72 per share) of charges for certain trading activities and valuation adjustments and an increase in the general allowance for credit losses. They included \$488 million (\$324 million after tax) in BMO Capital Markets in respect of: losses on exiting positions related to monoline insurer ACA Financial Guarantee Corporation (\$158 million); trading and structured-credit related positions, preferred shares, third party Canadian conduits and other mark-to-market losses (\$177 million); investments in Apex (\$130 million); and capital notes in the Links and Parkland SIVs (\$23 million). BMO has no further exposure to ACA. Reduced performance-based compensation

associated with the charges was not included in the determination of the impact of significant items.

The \$177 million charge above was primarily due to the impact of widening credit spreads on a number of our trading portfolios. The charge was comprised of a number of items, the largest of which was \$78 million for counterparty credit risk on our derivatives, with approximately half related to monoline insurers (other than ACA) and similar credit derivative product companies. The \$488 million charge included reductions in trading non-interest revenue (\$420 million), investment securities gains (\$23 million) and other income (\$45 million).

Corporate Services results included a \$60 million (\$38 million after tax) increase in the general allowance for credit losses to reflect portfolio growth and risk migration.

### Q3 2007

In the third quarter of 2007, BMO recorded \$149 million (\$97 million after tax and \$0.19 per share) of charges in respect of commodities trading losses.

### YTD 2008

Significant and notable items in 2008 are detailed above.

### YTD 2007

Net income for the year-to-date 2007 was reduced by \$512 million of significant items. They included \$424 million after tax in respect of commodities losses of \$829 million net of \$120 million of reduced performance-based compensation. They also included the \$88 million after-tax impact of a \$135 million restructuring charge.

## **INVESTOR AND MEDIA PRESENTATION**

### **Investor Presentation Materials**

Interested parties are invited to visit our web site at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations) to review this quarterly news release, presentation materials and a supplementary financial information package online. Copies of these documents are also available at BMO Financial Group's offices at 100 King Street West, 18<sup>th</sup> Floor, 1 First Canadian Place, Toronto, Ontario, M5X 1A1.

### **Quarterly Conference Call and Webcast Presentations**

Interested parties are also invited to listen to our quarterly conference call on Tuesday, August 26, 2008 at 3:30 p.m. (EDT). At that time, senior BMO executives will comment on results for the quarter and respond to questions from the investor community. The call may be accessed by telephone at 416-695-9753 (from within Toronto) or 1-888-789-0089 (toll-free outside Toronto). A replay of the conference call can be accessed until Monday, November 24, 2008 by calling 416-695-5800 (from within Toronto) or 1-800-408-3053 (toll-free outside Toronto) and entering passcode 648304.

A live webcast of the call can be accessed on our web site at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations). A replay can be accessed on the site until Monday, November 24, 2008.

### **Media Relations Contacts**

Ralph Marranca, Toronto, [ralph.marranca@bmo.com](mailto:ralph.marranca@bmo.com), 416-867-3996

Ronald Monet, Montreal, [ronald.monet@bmo.com](mailto:ronald.monet@bmo.com), 514-877-1873

### **Investor Relations Contacts**

Viki Lazaris, Senior Vice-President, [viki.lazaris@bmo.com](mailto:viki.lazaris@bmo.com), 416-867-6656

Steven Bonin, Director, [steven.bonin@bmo.com](mailto:steven.bonin@bmo.com), 416-867-5452

Krista White, Senior Manager, [krista.white@bmo.com](mailto:krista.white@bmo.com), 416-867-7019

### **Chief Financial Officer**

Russel Robertson, Interim Chief Financial Officer

[russ.robertson@bmo.com](mailto:russ.robertson@bmo.com), 416-867-7360

### **Corporate Secretary**

Blair Morrison, Vice-President & Corporate Secretary

[corp.secretary@bmo.com](mailto:corp.secretary@bmo.com), 416-867-6785

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### **Shareholder Dividend Reinvestment and Share Purchase Plan**

Average market price

May 2008 \$ 48.33

June 2008 \$ 42.86

July 2008 \$ 47.73

### **For dividend information, change in shareholder address or to advise of duplicate mailings, please contact**

Computershare Trust Company of Canada

100 University Avenue, 9th Floor

Toronto, Ontario M5J 2Y1

Telephone: 1-800-340-5021 (Canada and the United States)

Telephone: (514) 982-7800 (international)

Fax: 1-888-453-0330 (Canada and the United States)

Fax: (416) 263-9394 (international)

E-mail: [service@computershare.com](mailto:service@computershare.com)

### **For other shareholder information, please contact**

Bank of Montreal

Shareholder Services

Corporate Secretary's Department

One First Canadian Place, 19th Floor

Toronto, Ontario M5X 1A1

Telephone: (416) 867-6785

Fax: (416) 867-6793

E-mail: [corp.secretary@bmo.com](mailto:corp.secretary@bmo.com)

### **For further information on this report, please contact**

Bank of Montreal

Investor Relations Department

P.O. Box 1, One First Canadian Place, 18th Floor

Toronto, Ontario M5X 1A1

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