Executive Compensation Discussion and Analysis

The following is the Human Resources and Management Compensation Committee's report on executive compensation, which covers approximately 290 Bank of Montreal executives. The number has increased this year as it includes additional equivalent executive positions in the subsidiaries.

Executive Summary

The Bank's pay-for-performance philosophy seeks to reward the achievement of performance goals and align the interests of executives with the interests of the Bank's shareholders. At the same time, the Bank seeks to attract, retain and motivate high performing executives by providing competitive compensation.

In 2007, a year in which Bank performance was affected by the commodities losses, the Bank demonstrated its pay-for-performance philosophy with zero short-term incentive awards for four senior executives: Messrs. Downe, Bourdeau and Milroy and Ms. Maidment. These foregone bonus awards were not reallocated to other executives.

This philosophy is further illustrated through the equity plan holdings and share ownership of the Bank's senior officers, specifically:

- Only two of eight option grants since 2000 that include a 100% price increase condition have met this condition and can be exercised;
- Only four of the eight option grants since 2000 that include a 50% price increase condition have met this condition and can be exercised; and
- The Named Executive Officers (NEOs) have experienced a similar decline to shareholders in the value of their outstanding share units and shareholdings.

In 2008, the Bank performed well in challenging times. This is demonstrated by:

- An increase in revenue to $10,205 million in 2008
- Net income of $1,978 million for 2008 with Personal and Commercial Banking Canada increasing both revenue and earnings in each quarter of the year, and Private Client Group's annual earnings matching record results of a year ago
- Return on equity of 13.0%, the 19th consecutive year at or above 13.0%, and the only North American bank in our peer group with this level of earnings consistency
- The Bank's Tier 1 Capital Ratio remained strong at 9.77%

The summary table highlights the Bank's performance in fiscal 2008 and the trend over the previous two years. While the Committee examines a wide number of key metrics and factors, the following are of particular importance, and are considered indicative of the Bank's overall performance for the year and how it performed relative to its comparator group.

Metric	2008 Performance	2007 Performance	2006 Performance
Net Income	$1,978 million	$2,131 million	$2,663 million
Return on Equity	13.0%	14.4%	19.2%
Revenue	$10,205 million	$9,349 million	$9,985 million
Earnings Per Share (EPS)	$3.76	$4.11	$5.15
Tier 1 Capital Ratio	9.77% (Basel II basis) 9.41% (Basel I basis)	not applicable 9.51% (Basel I basis)	not applicable 10.22% (Basel I basis)
1-Year TSR (a)	−27.9%	−5.8%	24.1%
1-Year TSR for Canadian Peer Group (b)	−22.7%	8.0%	19.75%
3-Year TSR	−5.6%	6.6%	15.6%
3-Year TSR for Canadian Peer Group (b)	−0.2%	14.5%	17.9%

Notes

(a) The TSR or total shareholder return is measured by the change in the Bank's Common Share price plus dividends received assuming they are reinvested in additional common shares.

(b) Represents the average TSR for the Bank and the five other largest Canadian banks named on page 26.

After establishing competitive pay levels, the Committee determines the funding for executives' short-, mid- and long-term incentive awards by considering the Bank's and operating groups' performance against their performance targets. Despite solid performance by the Bank and the operating groups in the current market environment, results fell below the annual performance targets. As a result, overall funding available for short-term, mid-term and long-term incentive awards to executives was below target.

Incentive funding for the Named Executive Officers was below target because actual 2008 Revenue, Earnings Per Share and Return on Equity fell short of 2008 business performance targets. As a result, individual compensation for the Named Executive Officers, excluding the CEO, who received a zero short-term incentive award in 2007, is down from 2007 for those who are in the same roles. Two of the officers, Messrs. Flynn and Milroy, were promoted early in 2008 and their compensation reflects the promotions plus the overall business performance and funding level for incentive awards.

Executive Compensation

In fiscal 2007, the Committee undertook a full review of the Bank's executive compensation programs. The purpose of the review was to ensure that the Bank's executive compensation programs support the Bank's strategy and provide compensation incentives to encourage strong results for shareholders. As a result of this review, the Committee approved changes to the Bank's executive compensation program that were implemented in fiscal 2008. These changes and a discussion of how the CEO, CFO and three most highly paid Senior Executives of the Bank (the "Named Executive Officers" or "NEOs") were compensated in fiscal 2008 are outlined in the following pages.

Executive Compensation Philosophy

The compensation program for the Bank's executives is designed to provide pay for performance, i.e., to provide a clear link between an executive's total direct compensation and both business performance and the executive's own performance. In particular, how much an executive officer earns should depend to a significant degree upon how well the business and the executive officer perform against established measures that are aligned with shareholder interests. At the same time, the Bank must attract, retain and motivate exceptional talent to meet the Bank's objectives. The Bank's compensation philosophy is to:

- Establish compensation opportunities that are at a competitive level in relation to the Bank's comparator group, and in line with the market median of relevant comparator groups;
- Grant higher levels of individual incentive compensation when the Bank and the individual achieve higher performance relative to their peers;
- Grant lower levels of individual incentive compensation when the Bank and the individual underperform relative to their peers; and
- Encourage executive officers to view their compensation as being tied to the long-term best interests of the Bank's shareholders.

Overview of the Compensation Process

The Bank has an established protocol to review executive compensation annually. The key steps undertaken in determining compensation for the Bank's executives are:

At beginning of fiscal year:

i) set total compensation targets for executive roles based on competitive levels of pay for comparable roles in the market; and

ii) set annual business performance targets for the Bank as a whole and for each operating group.

After fiscal year completed:

i) determine incentive pool funding based on Bank and operating group performance against targets;

ii) assess individual performance based on individual performance targets; and

iii) allocate executives' incentive awards based on individual performance against performance goals and within determined incentive pool funding.

Comparator Groups Used to Set Competitive Pay

The Bank uses two primary comparator groups in setting competitive pay. Within these comparator groups, the Bank reviews compensation levels of comparable jobs, and assesses relative performance and the relative institution size. Other financial institutions and non-financial companies are also reviewed to consider the wider pool from which talent may be recruited.

The primary comparator group that the Bank uses for Canadian executives includes the five other largest Canadian banks named below. The banks are direct competitors and share the same economic and business challenges as BMO, making relative performance comparisons meaningful.

- Bank of Nova Scotia
- Canadian Imperial Bank of Commerce
- Royal Bank of Canada
- Toronto Dominion Bank
- National Bank of Canada

For executives in the United States, the Bank uses a comparator group of the nine regional mid-sized banks named below. They are all publicly traded and are comparable to the Bank's U.S. operations in terms of business mix and size.

- Marshall & Ilsley Corp.
- Huntington Bancshares Inc.
- Associated Banc-Corp.
- TCF Financial Corp.
- Commerce Bancshares Inc.
- Citizens Republic Bancorp, Inc.
- Wintrust Financial Corp.
- First Midwest Bancorp Inc.
- MB Financial Inc.

Elements of Executive Compensation

There are four main elements of direct compensation:

- Base salary;
- Short-term cash incentive plan;
- Mid-term incentive plan based on restricted share units; and
- Long-term incentive plan that issues stock options.

Incentive compensation plans are designed to reward executives based on performance in as many as three areas: (1) total Bank, (2) operating group, and (3) individual performance.

Compensation Mix for each Element of Compensation

The table below shows how the executives' target total direct compensation is comprised as a percentage for each element.

This mix reflects each executive's ability to influence short-term (1-year), mid-term (3-year) and long-term (10-year) business results. For example, the mix of Senior Executive compensation is more heavily weighted towards pay-at-risk (incentives versus base salary), reinforcing the pay-for-performance link and an alignment with the interests of the Bank's shareholders.

While the Bank's compensation mix is market competitive, and within the range adopted by its peer group, the Bank generally provides a higher proportion of total direct compensation in mid- and long-term incentives than its Canadian peer group.

Annual Compensation Review Process

Each year, the Committee reviews and recommends to the Board for approval the compensation of the President and Chief Executive Officer. The Committee also reviews and approves the compensation of the other Senior Executives (the top 10 executives) which includes the Named Executive Officers. In addition, the Committee reviews and approves the aggregate annual awards of salary, and short-, mid- and long-term incentive plans for the remaining executives. The President and Chief Executive Officer is responsible for reviewing and approving all recommendations for executives, other than Senior Executives, within the Committee approved aggregate award amounts.

	Percentage of Target Total Direct Compensation (excluding BMO Capital Markets (CM))			
Title	**Base Salary**	**Short-Term Incentive**	**Mid-Term Incentive**	**Long-Term Incentive**
President and Chief Executive Officer	13%	25%	31%	31%
Operating Group President	16%	28%	28%	28%
Senior Executive Vice-President Executive Vice-President	27%	23%	28%	22%
Senior Vice-President	34%	24%	27%	15%
Vice-President	44%	23%	26%	7%

Assessment of Total Bank and Operating Group Performance
At the beginning of each fiscal year, the Committee establishes business performance targets (described in the incentive plan sections on pages 28 to 29) for funding the executive short-, mid- and long-term incentive plans. Once the target-based pools are determined, the Committee examines business results against the predetermined business performance targets, the economic environment, relative performance and other considerations it deems relevant. These inputs are used to determine if the pool funding should be adjusted positively or negatively to provide the appropriate level of incentive compensation funding.

Assessment of Individual Performance
Individual performance against set goals is also reviewed for all executives. While awards are generally tied to performance against quantitative objectives, consideration is also given to an individual's contribution to the organization through leadership, demonstrated commitment to the Bank's customers, innovation and teamwork.

Annual Compensation Decision-Making
In addition to using business and individual performance to determine annual compensation levels, the Committee also reviews a total compensation tally sheet for each Senior Executive. These tally sheets assign a dollar value to each component of compensation, including:

- Base salary;
- Short-term cash incentives;
- Vested, unvested and previously paid equity awards;
- Benefits (e.g., pensions);
- Perquisites (flexible allowances); and
- Potential severance payments.

2008 Changes to Incentive Plans

Overview
Throughout 2007, the Committee led a comprehensive review of the Bank's executive compensation program. The review covered all executive incentive plans for each of the banking groups including the BMO Capital Markets Executive Committee (consisting of the eight most senior executives in BMO Capital Markets). The following tables outline the changes to business performance metrics and pool funding for each of the short-, mid- and long-term incentive plans and changes to performance-based criteria for award payouts, as well as the rationale for the changes made. Generally, the changes are intended to better align executive compensation practices with Bank strategies in order to maximize shareholder value while enhancing the recruitment, retention and motivation of executive talent through competitive pay opportunities.

To support the implementation of these changes in 2008, extensive communication was undertaken with executives to provide them with a full explanation of, and the rationale for, the changes.

Summary of Incentive Plan Changes

Element	Prior	New	Rationale for Change
All incentive plan pools have a range of funding for performance. Pool funding for a normal range of business performance has a threshold and maximum range from 80%–120% for all executives with the exception of Senior Executives, for whom the pool funding ranges from 70%–130%. The Committee retains discretion in all cases to adjust the pool funding ranges in extraordinary circumstances.			
Short-Term Incentive Plan (Paid in cash and/or deferred into Deferred Stock Units)			
Total Bank performance measures for pool funding	• EPS growth – 50% • Revenue growth – 50%	• Cash EPS growth – 40% • Revenue growth – 40% • Return on equity (ROE) – 20%	• EPS growth and revenue growth continue to have a strong correlation with Total Shareholder Return • ROE was added so that the earnings and revenue growth would not compromise return on capital (i.e., that the growth is quality growth)
Mid-Term Incentive Plan (Restricted Stock Units)			
Performance metrics for pool funding • Senior Executives	• Cash productivity (a) at total Bank level	• Relative 3-year historical Total Shareholder Return (phased implementation – in 2008, will use 1-year historical return; in 2009, will use 2-year historical return; and in 2010 will use 3-year historical return)	• Enhance the pay/performance linkage by sizing awards to relative performance on the basis of the Bank's actual performance against its peers • Relative TSR is a better measure for driving desired outcomes
• Other Executives	• Operating groups: operating group cash productivity (a) • Corporate groups: total Bank cash productivity (a)	• 25% relative 3-year historical Total Shareholder Return (phasing in as above) • 75% Short-Term Incentive Plan measures	• Provide balance between relative performance and executive line of sight to business operating performance
Performance metrics used to determine award payouts	• Relative 3-year Total Shareholder Return	• With changes in the performance metrics for pool funding based on relative 3-year historical Total Shareholder Return, the Committee decided that relative TSR for award payouts was no longer required as a measure	
Long-Term Incentive Plan (Stock Options)			
Performance metrics for pool funding	• No business performance metric to adjust pool funding	• Relative 3-year historical Total Shareholder Return establishes pool funding (phased implementation as above)	• Enhance the pay/performance linkage by sizing awards to relative performance on the basis of the Bank's actual performance against its peers
Condition to exercise	• Exercise subject to share price increase hurdle for a portion of each grant	• Replaced with performance metric based on relative 3-year historical Total Shareholder Return to determine pool size	

Note
(a) Cash productivity is the cash expense-to-revenue ratio, or the percentage of revenue consumed by operating expenses, excluding the impact of amortization of intangible assets on non-interest expense.

The first table below sets out the operating group annual operating measures used to determine the level of incentive pool funding. The next table shows how the total Bank performance measures, operating group annual operating measures and shareholder measures (TSR) are combined to establish pool funding by incentive plan and executive group.

The Bank has four operating groups that service a broad range of personal, commercial, corporate and institutional customers. These are the Private Banking Group (PCG), Personal and Commercial Banking Canada (P&C Canada), Personal and Commercial Banking U.S. (P&C U.S.) and BMO Capital Markets (BMO CM). The Corporate Groups support the operating groups.

Operating Group Annual Operating Measures

Corporate Groups (Total Bank)		PCG		P&C Canada		P&C U.S.		BMO CM	
Revenue growth	40%	Cash net income growth	40%	Cash net income growth	35%	Cash net income growth	30%	Cash net income	67%
Cash EPS growth	40%	Revenue growth	40%	Revenue growth	35%	Revenue growth	30%	Return on equity	33%
Return on equity	20%	Cash operating leverage	20%	Cash operating leverage	15%	Cash operating return on tangible common equity	20%		
				Return on equity	15%	Cash operating leverage	20%		

Pool Funding Performance Measures by Incentive Plan and Executive Group

	Short-Term Incentive		Mid-Term Incentive		Long-Term Incentive	
Senior Executives	Operating group annual operating measures	75%	Relative 3-year TSR	100%	Relative 3-year TSR	100%
	Total Bank performance measures (a)	25%				
Other Executives (includes BMO CM Executive Committee)	Operating group annual operating measures	75%	Operating group annual operating measures	75%	Relative 3-year TSR	100%
	Total Bank performance measures (a)	25%	Relative 3-year TSR	25%		

Note

(a) Total Bank performance measures are the same as the corporate groups annual operating measures.

Short-Term Cash Incentive Plan (STIP)

The Bank's Short-Term Incentive Plan is designed to motivate achievement of specific annual goals at business and individual levels.

Summary

Eligibility	• Executives in BMO and BMO CM Executive Committee
Performance measures	• The size of the short-term incentive plan (STIP) pool is determined either by total Bank performance or by a combination of total Bank and operating group performance • The Committee may adjust pool based on its assessment of results achieved and relevant secondary considerations
Allocation of incentive pool funds	• Individual awards are based on the individual's contribution to annual business results
Form of incentive	• Participants receive short-term incentives in cash • Deferral of short-term incentives is also permitted (see Voluntary Cash Deferral section below for more details)

Funding of the December 2008 Pool

In the operating groups, P&C Canada reported very good results, increasing both revenues and earnings in each quarter of the year and demonstrating tangible progress on its strategic agenda. The U.S. Personal and Commercial Banking group's results were lower year-over-year, having been affected by the impact on revenues and expenses of the difficult market environment and by higher levels of integration costs for the Wisconsin acquisitions. The Private Client Group's results for the fiscal year matched the record performance of a year ago despite softer market conditions. BMO Capital Markets reported good results in a number of core businesses despite a very difficult capital market environment. Overall, with the challenges of economic and market conditions, the Bank and operating groups did not achieve all of their annual operating targets, and short-term incentive funding was below target for all groups.

Voluntary Cash Deferral (Deferred Stock Unit Plans)

The voluntary Deferred Stock Unit Plans allow participants to defer cash awarded under the Short-Term Incentive Plan. The eligibility has been expanded in order to enhance alignment with maximizing shareholder value.

Summary

Eligibility	• Selected executives in BMO and BMO CM
Objective	• Align the interests of executives with those of shareholders by linking Short-Term Incentive Plan awards to future value of the Bank's Common Shares
Description	• May voluntarily defer cash awarded under the Short-Term Incentive Plan • Elect to receive 0%, 25%, 50%, 75% or 100% of Short-Term Incentive Plan in Deferred Stock Units (DSUs) • Senior Executives can defer up to 100%; non-Senior Executives can defer up to 100% or a maximum of $350,000
Process	• Irreversible elections must be made before the beginning of the fiscal year • After short-term incentives are determined at year-end, the deferred percentage of STIP awards is converted to DSUs
Value/Form	• The value of DSUs is equivalent to the fair market value of an equal number of Common Shares when redeemed. DSUs earn dividend equivalents in the form of additional units • Redeemed for cash and/or Common Shares (purchased on the open market) only upon termination of all positions with the Bank and its affiliates

Mid-Term Incentive Plan (MTIP) – all Executives

The Bank's Mid-Term Incentive Plan is designed to motivate the creation of sustainable shareholder value and superior returns over a three-year performance period.

Summary

Eligibility	• Executives in BMO and selected executives in BMO CM
Performance measures	• Pool is funded based on relative 3-year historical TSR and operating group annual operating measures
Allocation of incentive pool funds	• Individual performance in the current year, level and consistency of performance, and potential to assume greater responsibility and make more significant contribution in the future
Form of incentive	• Participants receive awards of Restricted Share Units
Final payouts	• Each award vests and is paid out at the end of 3 years • MTIP units earn dividend equivalents in the form of additional units • Valued on share price at date of payout

Funding of the December 2008 Pool

Pool funding was determined using a combination of operating group measures and for 2008 a relative 1-year TSR. With the Bank's TSR below the peer average and below target operating group performance, the mid-term incentive pool funding was below target for all groups.

Mid-Term Incentive Plan – BMO Capital Markets (BMO CM)

Summary

Eligibility	• Executives in BMO CM and selected senior managers of BMO CM
Performance measures	• Pool is funded based on BMO CM's net income, return on equity and relative 3-year historical Total Shareholder Return, and then is adjusted for loan loss performance
Allocation of incentive pool funds	• Individual awards are based on the individual's contribution to annual business results
Form of incentive	• Participants receive annual awards of Restricted Share Units
Final payouts	• Units vest one-third in each subsequent year of the award and are paid annually as they vest or, at the election of the participant, at the end of 3 years • MTIP units earn dividend equivalents in the form of additional units • Valued on share price at date of payout

Funding of the December 2008 Pool

Pool funding was determined using a combination of BMO CM's operating group measures and for 2008 a relative 1-year TSR. Despite improved performance, BMO CM did not achieve its target operating measures and this combined with the Bank's relative 1-year TSR resulted in decreased pool funding from 2007.

Long-Term Incentive Plan

The Bank's Long-Term Incentive Plan is designed to provide executives with an incentive to enhance long-term shareholder value. Consideration is not given to the outstanding amount or terms of an individual's Performance Share Units (PSUs), Restricted Share Units (RSUs) or stock options, or to the current value of those holdings, in determining whether and how many options will be granted.

Summary

Eligibility	• Bank executives, executives in subsidiaries and the members of the BMO CM Executive Committee
Performance measures	• Pool is funded based on relative 3-year historical TSR
Allocation of incentive pool funds	• Individual performance in the current year, level and consistency of performance and potential to assume greater responsibility and make a more significant contribution in the future
Form of incentive	• Participants receive awards of stock options • The Bank's policy is to grant options on the December Board date when CEO compensation is approved. If employees are not permitted to trade in BMO Common Shares under the Bank's Insider Trading Policy on that date, options will be awarded on the next day when trading is permissible
Final payouts	• Before stock options can be exercised, the options must be vested (options vest 25% per year over four years) • Value is based on the difference between price at grant date and exercise date

Funding of the December 2008 Pool

In 2008, pool funding was determined by the Bank's relative 1-year TSR. The 2008 pool was funded below target, reflecting a lower than average relative 1-year TSR compared to the Bank's Canadian peer group.

Dilution Impact of Long-Term Incentive Plan

To reduce the future dilutive effects of stock options on share value, the Committee has established a guideline that is intended to limit overhang to 7.5% or less of the total number of issued and outstanding Common Shares of the Bank. The Bank also monitors the outstanding options (dilution) and the number of options issued each year (burn rate).

Overhang, Dilution and Burn Rate Measures

	Measure (shown as a % of outstanding Bank Common Shares as of October 31, 2008)		
	2008	**2007**	**2006**
Overhang (a)	4.50%	4.92%	5.05%
Dilution (b)	3.96%	4.14%	4.64%
Burn rate (c)	0.29%	0.25%	0.28%

Notes

(a) Overhang is defined as the total number of options available for issuance, plus all options outstanding that have not yet been exercised, expressed as a percentage of the total number of issued and outstanding Common Shares of the Bank at the end of the fiscal year.

(b) Dilution is defined as options issued but not exercised, expressed as a percentage of issued and outstanding Common Shares of the Bank at the end of the fiscal year.

(c) Burn rate is defined as the number of stock options issued each year, expressed as a percentage of the issued and outstanding Common Shares of the Bank at the end of the fiscal year.

Stock Option Exercise Protocol for the President and Chief Executive Officer

An option exercise protocol has been established for the President and Chief Executive Officer whereby the Committee is consulted prior to each option exercise.

Executive Share Ownership Guidelines

The Committee strongly supports executives holding ownership in the Bank. The timeline below describes key milestones in establishing the guidelines.

- In January 2001, the Bank introduced minimum shareholding guidelines, which could be met through the holding of the Bank's Common Shares, DSUs or Units under the Bank's Mid-Term Incentive Plans.
- These guidelines were met by all executives by December 2003.
- In January 2003, the guidelines were increased to the levels outlined in the table below.
- Existing executives were required to meet these new minimum shareholding guidelines by fiscal 2006 and new executives within three years of appointment.
- Once executives have met their initial shareholding requirement, they are expected to maintain compliance, which is reconfirmed annually.
- Compliance is assessed annually based on the higher of market value or value at purchase or grant date.
- The value of the holdings of each Named Executive Officer other than Mr. Robertson exceeds the applicable share ownership guideline set out below. Mr. Robertson, as newly appointed Chief Financial Officer, has three years to comply.

Share Ownership Guidelines		
Title	**Guidelines**	**Post-Termination Requirements**
President and Chief Executive Officer	7.0 times base salary	2 years following termination
Operating Group Presidents	5.0 times base salary	1 year following termination
Senior Executive Vice-Presidents Executive Vice-Presidents	3.0 times base salary	
Senior Vice-Presidents	2.0 times base salary	
Vice-Presidents	1.5 times base salary	

Perquisites

The Bank provides a taxable cash allowance for Canadian executives in lieu of perquisites such as a car lease or club membership. This program is market-competitive, promotes greater executive satisfaction through choice and manages program and administration costs.

Compensation of the President and Chief Executive Officer

Summary and Philosophy

A critical function of the Committee is to monitor and assess Mr. Downe's performance and to recommend his compensation to the Board for approval. The Board supports the principle that CEO compensation should be directly related to the overall current performance of the Bank and its potential for continued future growth. As such, in determining recommendations for Mr. Downe's total compensation, the Committee considers:

- The absolute and relative performance of the Bank;
- Mr. Downe's individual performance against specified objectives established at the beginning of the fiscal year; and
- Comparison with equivalent roles within the Canadian peer group.

Mr. Downe participates in the same compensation programs as other executives of the Bank as detailed on pages 28 to 29 of this Proxy Circular. Compensation pools available for short-, mid- and long-term awards are also based on the same performance metrics and weighting for other Senior Executives set out on page 28.

Mr. Downe's objectives cover not only financial but also strategic and leadership components. The Committee considers Mr. Downe's personal contribution and achievements during the fiscal year against his specified objectives to determine compensation recommendations. A summary of the 2008 financial highlights is set out on page 25 of this Proxy Circular and reflects the Bank's relative strength and stability among global financial institutions during difficult economic conditions.

2008 Compensation

In determining the funding for Mr. Downe's short-, mid- and long-term incentive awards, the Committee considers the Bank's performance against its performance targets. Overall, the Bank performed well in challenging times; however, results fell below the annual financial performance targets established at the beginning of the year.

Based solely on financial performance, Mr. Downe's total compensation for 2008 yielded a calculation of $5,982,000 (adjusted to reflect Canadian dollar equivalent of base pay). Notwithstanding, the Board wished to exercise some upward discretion to reward Mr. Downe's substantial contribution as CEO of the Bank by awarding him this year with an enhanced Restricted Share Unit award. This award was in recognition of the following accomplishments in 2008:

- His steady and focused leadership in a difficult financial environment;
- His leadership in strengthening the Bank's risk management capability, in the improvement of the Canadian retail and commercial banking business, and in the transformation to a customer-centred and talent-minded culture; and
- His role in the enhancement of the Bank's profile in the North American marketplace.

The Committee also considered the Bank's absolute and relative performance, the achievement of strategic objectives and the competitive pay levels of Canadian bank peer CEOs.

The Committee's discretion resulted in the Board approving an additional Restricted Share Unit award valued at $550,000. Upon being informed of this decision, Mr. Downe requested that this special award be withdrawn from his compensation package in light of the current economic conditions. The Board accepted Mr. Downe's request.

Consistent with the incentive funding for all executives, Mr. Downe's total compensation is below the target levels set for meeting business performance targets. However, excluding the impact of pension service and compensation cost, Mr. Downe's compensation is higher than it was in 2007. Last year, in light of commodities trading losses, Mr. Downe requested, and the Board agreed to, a zero short-term incentive award. The table below shows the 2008 compensation for Mr. Downe.

	Short-Term Incentive Plan	Mid-Term Incentive Plan		Long-Term Incentive Plan	
Salary	Cash Awarded	Mid-Term Incentive Plan Units Awarded	Compensation Value of Award	Stock Options Awarded	Compensation Value of Award
US$1,000,000	$1,400,000	44,677	$1,750,000	219,749	$1,800,000

Compensation Summary

Mr. Downe's 2008 compensation is shown in the following three-year summary compensation table:

(Cdn $ (a))	2008	2007	2006
Cash			
Salary	**$ 1,032,000**	$ 964,245	$ 704,613
Bonus	**$ 1,400,000**	Nil	$ 1,249,448
Total cash	**$ 2,432,000**	$ 964,245	$ 1,954,061
Equity			
Mid-term (b)	**$ 1,750,000**	$ 1,800,000	$ 1,837,376
Stock options (c)	**$ 1,800,000**	$ 2,700,000	$ 1,837,376
Total equity	**$ 3,550,000**	$ 4,500,000	$ 3,674,752
Total direct compensation (d)	**$ 5,982,000**	$ 5,464,245	$ 5,628,813
Pension service and compensation cost (e,f)	**$ (13,359)**	$ 3,801,000	$ 936,843
Other compensation (g,h)	**$ 401,444**	$ 370,448	$ 348,949
Total	**$ 6,370,085**	$ 9,635,693	$ 6,914,605

Notes

(a) All compensation reported in this table is expressed in Canadian dollars. Where compensation was received in U.S. dollars, it has been converted into Canadian dollars at the average rate of exchange for the applicable year as follows: for 2008, US$1.00 = Cdn$1.032; for 2007, US$1.00 = Cdn$1.093; and for 2006, US$1.00 = Cdn$1.132.

(b) Amounts shown for 2006 and 2007 are for Performance Share Units (PSUs) granted under the Bank's Executive Mid-Term Incentive Plans (Bank MTIP) and for 2008 are for Restricted Share Units (RSUs) granted under the same plan. The amounts represent the value of PSUs and RSUs granted in December of each year. For further details refer to the Executive Mid-Term Incentive Plans on page 29. Stated equity amounts are values at the time of grant.

(c) These amounts represent the compensation value of the number of options granted as reported in the Summary Compensation Table on page 34. This compensation value is based on a methodology which considers, among other things, the full 10-year term of the option. For further details refer to Stock Option Plan on pages 40 to 41.

(d) Based on the aggressive performance hurdles of Mr. Downe's special incentive award that was granted in 2007 (referenced on page 35) and the risk that the threshold performance conditions will not be met, the award is deemed to have an indeterminate value.

(e) Annual pension service and compensation cost is the value of the projected pension expense for the year of service credited and any other compensation-related costs, including the impact of differences between the actual compensation paid in the year and the actuarial assumptions used for the year. For further details refer to the Supplemental Pension Disclosure section on page 39.

(f) Of the $3,801,000 reported for 2007, $284,300 is attributable to the cost for 2007 service. The remainder is attributable to the increase in accrued pension liability, based on Mr. Downe's total years of credited service to date, resulting from his increase in salary upon being appointed President and Chief Executive Officer on March 1, 2007. The net effect of the changes in the compensatory assumptions used for the 2008 year-end disclosure reduces the Bank's pension accounting liability.

(g) The amounts shown represent: the amount of interest accrued for the relevant fiscal year under the executive incentive bonus plan for amounts deferred prior to November 1, 1987; dividend equivalents automatically credited under the DSU Plans, the Bank MTIPs, and the BMO CM MTIPs for the relevant fiscal year; Bank contributions under the Bank's Employee Share Ownership Plan for the relevant fiscal year; and Bank contributions under the Employees' Savings and Profit Sharing Plan. Named Executive Officers in Canada participate in the Employee Share Ownership Plan on the same basis as all other employees in Canada, whereby for each dollar contributed by employees up to 6% of base salary, the Bank will contribute additional Common Shares up to 50% of eligible contributions. Mr. Downe participates in the Employees' Savings and Profit Sharing Plan on the same basis as all other U.S. employees, whereby the Bank matches the employee's contribution up to the first 5% of eligible pay.

(h) Perquisites and benefits are not included as the aggregate value in each of the three years is less than $50,000 and 10% of the CEO's total salary and bonus.

Compensation of the Named Executive Officers (NEOs)

Summary

This report has discussed the compensation philosophy and process for determining the Bank's executives' compensation as a group. The supplemental disclosure shown on page 32 focuses on the Named Executive Officers (NEOs) of the Bank. For 2008, the NEOs include the Chief Executive Officer, each individual who acted as the Chief Financial Officer and the three senior executives in addition to the Chief Executive Officer and the Chief Financial Officer who received the highest compensation.

Named Executive Officers

Position	Name
Chief Executive Officer	W.A. Downe
Chief Financial Officer (Interim) as of March 2008	R.C. Robertson
Chief Financial Officer (Acting) October 2007 to February 2008	T.E. Flynn
Three other most highly compensated executive officers	T.V. Milroy G.G. Ouellette F.J. Techar

Impact of Actual Performance

As a result of the Bank and operating group performance against targets and the Bank's relative 1-year TSR, funding for short-, mid- and long-term incentive pool funding was below target. Actual individual awards may be up over 2007 due to individual performance or promotions during the year.

Compensation Summary for the Other Named Executive Officers

While the information in the following tables appears on pages 34 to 39 in the required disclosure format, this information has been consolidated here in order to provide greater disclosure, ease of readability and clarity for shareholders.

R.C. Robertson
Interim Chief Financial Officer (as of March 2008)

	2008	2007	2006
Cash			
Salary	$ 265,425	n/a	n/a
Bonus	$ 1,100,000	n/a	n/a
Total cash	$ 1,365,425	n/a	n/a
Equity			
Mid-term (a)	$ 700,000	n/a	n/a
Stock options (c)	$ Nil	n/a	n/a
Total equity	$ 700,000	n/a	n/a
Total direct compensation	$ 2,065,425	n/a	n/a
Pension service and compensation cost (d)	$ 24,636	n/a	n/a
Other compensation (e,f)	$ 14,830	n/a	n/a
Total	$ 2,104,891	n/a	n/a

T.E. Flynn
Executive Vice-President and Chief Risk Officer (current)
and Acting Chief Financial Officer (October 2007 to February 2008)

	2008	2007	2006
Cash			
Salary	$ 393,592	$ 326,667	$ 308,750
Bonus	$ 800,000	$ 440,000	$ 390,000
Total cash	$ 1,193,592	$ 766,667	$ 698,750
Equity			
Mid-term (a)	$ 1,024,000	$ 652,000	$ 445,000
Stock options (c)	$ 576,000	$ 575,000	$ 450,000
Total equity	$ 1,600,000	$ 1,227,000	$ 895,000
Total direct compensation	$ 2,793,592	$ 1,993,667	$ 1,593,750
Pension service and compensation cost (d)	$ 137,282	$ 110,200	$ 98,300
Other compensation (e,f)	$ 71,030	$ 61,692	$ 50,130
Total	$ 3,001,904	$ 2,165,559	$ 1,742,180

T.V. Milroy
Chief Executive Officer, BMO Capital Markets

	2008	2007	2006
Cash			
Salary	$ 331,667	$ 200,000	$ 94,750
Bonus	$ 1,600,000	$ Nil	$ 2,275,000
Total cash	$ 1,931,667	$ 200,000	$ 2,369,750
Equity			
Mid-term (a,b)	$ 1,830,000	$ 2,305,000	$ 2,100,000
Stock options (c)	$ –	$ 400,000	$ 412,500
March 27, 2008	$ 800,000	$ –	$ –
December 11, 2008	$ 1,170,000	$ –	$ –
Total equity	$ 3,800,000	$ 2,705,000	$ 2,512,500
Total direct compensation	$ 5,731,667	$ 2,905,000	$ 4,882,250
Pension service and compensation cost (d)	$ 3,500	$ 3,500	$ 3,500
Other compensation (e,f)	$ 432,573	$ 411,588	$ 408,871
Total	$ 6,167,740	$ 3,320,088	$ 5,294,621

G.G. Ouellette
President and Chief Executive Officer, Private Client Group

	2008	2007	2006
Cash			
Salary	$ 500,000	$ 500,000	$ 500,000
Bonus	$ 1,000,000	$ 1,620,000	$ 1,900,000
Total cash	$ 1,500,000	$ 2,120,000	$ 2,400,000
Equity			
Mid-term (a)	$ 716,000	$ 650,000	$ 750,000
Stock options (c)	$ 684,000	$ 950,000	$ 850,000
Total equity	$ 1,400,000	$ 1,600,000	$ 1,600,000
Total direct compensation	$ 2,900,000	$ 3,720,000	$ 4,000,000
Pension service and compensation cost (d)	$ 400,513	$ 428,800	$ 243,700
Other compensation (e,f)	$ 312,225	$ 324,715	$ 321,968
Total	$ 3,612,738	$ 4,473,515	$ 4,565,668

F.J. Techar
President and Chief Executive Officer
Personal and Commercial Banking Canada

(US$)	2008	2007	2006
Cash			
Salary	$ 541,667	$ 500,000	$ 457,215
Bonus	$ 668,000	$ 760,000	$ 900,000
Total cash	$ 1,209,667	$ 1,260,000	$ 1,357,215
Equity			
Mid-term (a)	$ 1,116,000	$ 750,000	$ 1,925,000
Stock options (c)	$ 666,000	$ 1,250,000	$ 1,050,000
Total equity	$ 1,782,000	$ 2,000,000	$ 2,975,000
Total direct compensation	$ 2,991,667	$ 3,260,000	$ 4,332,215
Pension service and compensation cost (d)	$ 307,863	$ 63,100	$ 682,800
Other compensation (e,f)	$ 624,051	$ 582,587	$ 520,433
Total	$ 3,923,581	$ 3,905,687	$ 5,535,448

Notes

(a) Amounts shown for 2006 and 2007 are for Performance Share Units (PSUs) granted under the Bank's Executive Mid-Term Incentive Plans (Bank MTIP) and for 2008 are for Restricted Share Units (RSUs) granted under the same plan. The amounts represent the value of PSUs and RSUs granted in December of each year. For further details refer to Executive Mid-Term Incentive Plans on page 29. For Mr. Techar the amount shown for 2006 includes Units (RSU Plan) granted on September 22, 2006 in recognition of his appointment to President and Chief Executive Officer, P&C Canada. These Units vest and are paid out in one lump sum three years from the grant date. Stated equity amounts are values at the time of grant.

(b) Amounts shown include PSUs granted under Bank MTIP (described above) and Restricted Share Units (RSUs) granted under the BMO Capital Markets Mid-Term Incentive Plan (BMO CM MTIP) and represent the total value of PSUs and RSUs granted in December of each year. For further details on the BMO CM MTIP refer to Mid-Term Incentive Plans for BMO Capital Markets on page 29. Stated equity amounts are values at the time of grant.

(c) These amounts represent the compensation value of the number of options granted as reported in the Summary Compensation Table on page 34. This compensation value is based on a methodology which considers, among other things, the full 10-year term of the option and is valued at the time of grant. For further details refer to Stock Option Plan on pages 40 to 41. For Mr. Milroy the amount shown for 2008 includes options granted on March 27, 2008 in recognition of his promotion to Chief Executive Officer, BMO Capital Markets.

(d) Annual pension service and compensation cost is the value of the projected pension expense for the year of service credited and any other compensation-related costs, including the impact of differences between the actual compensation paid in the year and the actuarial assumptions used for the year. For further details refer to the Supplemental Pension Disclosure section on page 39.

(e) The amounts shown represent: the amount of interest accrued for the relevant fiscal year under the executive incentive bonus plan for amounts deferred prior to November 1, 1987; dividend equivalents automatically credited under the DSU Plans, the Bank MTIPs, and the BMO CM MTIPs for the relevant fiscal year; Bank contributions under the Bank's Employee Share Ownership Plan for the relevant fiscal year; and Bank contributions under the Employees' Savings and Profit Sharing Plan. Named Executive Officers in Canada participate in the Employee Share Ownership Plan on the same basis as all other employees in Canada, whereby for each dollar contributed by employees up to 6% of base salary, the Bank will contribute additional Common Shares up to 50% of eligible contributions.

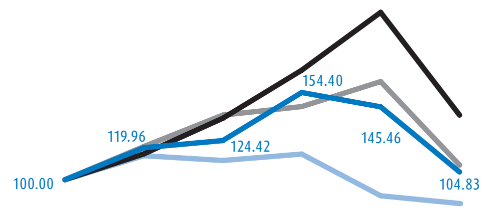
(f) Perquisites and benefits are not included as the aggregate value in each of the three years is less than $50,000 and 10% of the NEO's total salary and bonus, with the exception of Mr. Techar.

Total Cumulative Shareholder Return and Relationship with Executive Compensation

The following chart compares the cumulative BMO shareholder return (TSR) on $100 invested in Common Shares of the Bank on October 31, 2003 with the equivalent cumulative value invested in each of two Toronto Stock Exchange indices for the same period. The chart also shows a comparison between the investment values and the trend in aggregate executive compensation for the Chief Executive Officer, the Chief Financial Officer and the three most highly compensated named executive officers in each reported year, using $100 of total compensation as a base point. Executive compensation is defined as the aggregate of base salary, annual short-term incentive payment, the value of mid-term incentive awards at the time of grant, the fair market value of the long-term incentive awards, other compensation and the annual pension service and compensation cost for the named executive officers in each reported year.

Through 2006, the Bank's trend in executive compensation increased in concert with the improvements in the Bank's TSR and improvements in the markets in general. In 2007 and 2008, the Bank's pay-for-performance philosophy was clearly demonstrated with the reduction in pay. The TSR also declined over this period, reflecting business performance and general economic conditions.

Cumulative Return ($)



	2003	2004	2005	2006	2007	2008
BMO (a)	100.00	119.96	124.42	154.40	145.46	104.83
S&P/TSX Composite	100.00	116.13	138.34	168.32	204.39	140.31
S&P/TSX Composite Financials	100.00	120.72	140.29	145.62	161.21	109.13
Executive Compensation (b)	100.00	115.00	112.00	116.00	90.00	82.00

Notes

(a) Represents cumulative shareholder return of a $100 investment made on October 31, 2003 as measured by the change in the Bank's Common Share price plus dividends received assuming they are reinvested in additional Common Shares.

(b) For 2008, the named executive officers are W.A. Downe and R.C. Robertson (Interim CFO), in addition to the three most highly compensated executive officers. In 2007, the named executive officers were W.A. Downe and K.E. Maidment, in addition to the three most highly compensated executive officers. For 2003 through 2006, the named executive officers were all those reported.

Cost of Management Ratio

In response to a shareholder proposal received in 2005, the Bank committed to working with other financial institutions to develop a cost of management ratio to be reported annually. The agreed-upon measure, shown below, reports the total aggregate compensation for NEOs in the Proxy Circular issued in the year following each of the last three fiscal years noted below, expressed as a percentage of net income after tax.

Cost of Management Ratio

	2008	2007	2006
Total aggregate NEO compensation ($ millions) (a)	**$ 22.4**	$ 24.7	$ 31.9
As a percentage of net income after tax (b)	**1.13%**	1.16%	1.20%

Notes

(a) Total Named Executive Officer (NEO) compensation is defined as the aggregate of base salary, short-, mid- and long-term incentives, other compensation and the annual pension service and compensation cost for the Chief Executive Officer and Chief Financial and Administrative Officer in addition to the three most highly compensated NEOs for each reported year. For 2008, the NEOs are W.A. Downe and R.C. Robertson (Interim CFO), in addition to the three most highly compensated NEOs, and in 2007 the NEO's were W.A. Downe and K.E. Maidment, in addition to the three most highly compensated NEOs.

(b) Net income after tax (in accordance with Canadian GAAP) is reported on page 105 of the 2008 Annual Report.

Composition of the Human Resources and Management Compensation Committee

The Executive Compensation Discussion and Analysis has been approved by the Human Resources and Management Compensation Committee of the Board of Directors, the members of which are set out below. A majority of the members of the Committee are resident Canadians who are not affiliated with the Bank for the purposes of the Bank Act (Canada). Each member of the Committee is not an officer or employee of the Bank or an affiliate of the Bank and is "independent" within the meaning of applicable Canadian securities laws and New York Stock Exchange rules.

Robert M. Astley
Chair

Stephen E. Bachand

David R. Beatty

Ronald H. Farmer

David A. Galloway

Martha C. Piper

J. Robert S. Prichard