

BANK OF MONTREAL

DIRECTOR INDEPENDENCE STANDARDS

The Board of Directors must be able to operate independently of management to maximize effectiveness. A substantial majority of the directors of the Bank are independent. To facilitate the objective of a majority-independent Board, the Bank has adopted the following standards for determining whether a director is independent, taking into consideration applicable and other Canadian and United States securities laws and the New York Stock Exchange corporate governance standards, or affiliated under the *Bank Act* (Canada). No director will be independent unless the Board has affirmatively determined that the director has no material relationship with the Bank or any of its affiliates, either directly or indirectly or as a partner, shareholder or officer of an organization that has a relationship with the Bank or its Affiliates. A material relationship means a relationship which could, in the view of the Board, reasonably be expected to interfere with the exercise of a director's independent judgement. In making these determinations the Board will consider all relevant facts and circumstances. Determinations will be made on an annual basis and, if a director joins the Board between annual meetings, at such time.

PART I

INDEPENDENCE STANDARDS

1.1 Employment Relationships

A director will be deemed not to be independent if:

- 1.1.1 he or she is, or was within the last three years, an Executive Officer or employee of the Bank or any of its Affiliates, or an Immediate Family Member of the director is, or was within the last three years, an Executive Officer of the Bank or any of its Affiliates (provided that former part-time service as an interim chair of the board or service as an interim chief executive officer need not be considered);
- 1.1.2 he or she or his or her Immediate Family Member is, or was within the last three years, an Executive Officer of an entity in which any of the Bank's current Executive Officers serve or served at that same time on the entity's compensation committee;
- 1.1.3 he or she received, or whose Immediate Family Member who is employed as an Executive Officer of the Bank or any of its Affiliates received, during any twelve-month period within the last three years, more than the lesser of Cdn\$75,000 or US\$120,000 in direct compensation (provided that compensation received by a director for former part-time service as an interim chair of the board or service as an interim chief executive officer need not be considered) from the Bank or any of its Affiliates, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided that such compensation is not contingent in any way on continued service); or
- 1.1.4 his or her Spouse is a current Officer or employee of the Bank or any of its Affiliates.

1.2 Audit Firm Relationships

A director will be deemed to not be independent if:

- 1.2.1 he or she is a partner¹ or employee of the Shareholders' Auditors;
- 1.2.2 he or she was within the last three years, a partner or employee of the Shareholders' Auditors and personally worked on the Bank's audit within that time;
- 1.2.3 his or her Immediate Family Member is a partner¹ of the Shareholders' Auditors;
- 1.2.4 his or her Immediate Family Member is an employee of the Shareholders' Auditors and participates in the Shareholders' Auditors audit, assurance or tax compliance (but not tax planning) practice; or
- 1.2.5 his or her Immediate Family Member was within the last three years, a partner or employee of the Shareholders' Auditors and personally worked on the Bank's audit within that time.

1.3 Commercial Relationships

- 1.3.1 A director who provides, or whose Spouse provides goods or services to the Bank, or who is or whose Spouse is, a partner, employee of or person with a Substantial Investment in a partnership or incorporated body that provides goods or services to the Bank, with total annual billings to the Bank that exceed 10% of total annual billings of such person or partnership or incorporated body, the director will be deemed not to be independent.
- 1.3.2 The Board will also review other relationships where:
 - (i) the relationship was not entered into on terms substantially similar to those that would be offered to comparable counterparties in similar circumstances and termination of the relationship in the normal course of business would reasonably be expected to have a material and adverse effect on the financial condition, results of operations or business of the counterparty; or
 - (ii) a director is an officer or general partner of, or owns more than 5% of, an entity with whom the Bank has a relationship. Such relationships will not be deemed relevant to a director who is a non-management director or a retired officer of such entity, unless the Board determines otherwise.

1.4 Charitable and Other Relationships

The Board will also review other relationships where:

- (i) a director serves as an officer of a tax-exempt entity with which the Bank has a relationship. Such relationships will not be deemed relevant to a director who is a non-management director or a retired officer of such entity, unless the Board determines otherwise; or
- (ii) the relationship was not entered into on terms substantially similar to those that would be offered to comparable counterparties in similar circumstances and termination of the relationship in the normal course of business would reasonably be expected to have a material and adverse effect on the financial condition, results of operations or business of the counterparty.

¹ For the purpose of 1.2.1, a partner does not include a fixed income partner as such term is defined in s. 1.4(5) of National Instrument 52-110.

1.5 Lending and Banking Relationships

1.5.1 A director will be deemed not independent if the director or his or her Spouse:

- (i) has a Substantial Investment in an Affiliate of the Bank;
- (ii) has a Significant Interest in a class of shares of the Bank;
- (iii) is a Significant Borrower in respect of the Bank;
- (iv) has a loan that is Not in Good Standing from the Bank or its Affiliates or that is not a “permitted loan” under the *Sarbanes Oxley Act of 2002*;
- (v) is a director, Officer, employee of or person that Controls an entity with a loan that is Not in Good Standing from the Bank or its Affiliates;
- (vi) controls one or more entities, of which the total indebtedness to the Bank or to any of its Affiliates would cause those entities, if treated as a single entity, to be a Significant Borrower of the Bank; or
- (vii) is an Officer or employee of an entity that is a Significant Borrower in respect of the Bank.

1.5.2 The Bank provides personal banking and other financial services to individuals in the ordinary course of its business. All such relationships that are in the ordinary course of business will not be deemed material for director independence determinations.

1.6 Human Resource Committee Relationships

In assessing the independence of Human Resource Committee members, the Board will consider all factors specifically relevant to determining whether a director has a relationship to the Bank which is material to that director’s ability to be independent from management in connection with the duties of a Human Resource Committee member, including, but not limited to:

- (i) the source of compensation of such director, including any consulting, advisory or other compensatory fee paid by the Bank to such director; and
- (ii) whether such director is affiliated with the Bank, a subsidiary of the Bank or an affiliate of a subsidiary of the Bank.

PART II

ADDITIONAL STANDARDS FOR AUDIT COMMITTEE MEMBERS

In addition to the Independence Standards set out in Part I, a director will not serve on the Audit and Conduct Review Committee if:

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

- 2.2 the director is an Affiliated Person of the Bank or any of its Affiliates.
- 2.3 for the purpose of 2.1, the indirect acceptance by a director of any consulting, advisory or other compensatory fee includes acceptance of such a fee by a director's Spouse, a minor child or stepchild or a child or stepchild sharing a home with the director or by an entity in which such director is a partner, member, an officer such as a managing director occupying a comparable position or Executive Officer, or a person who occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the Bank or any of its Affiliates.

PART III DEFINITIONS

"Affiliate" means:

- (i) a company that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the entity; provided that a company is deemed not to be in control of an entity if the company is not the beneficial owner, directly or indirectly, of more than 10% of any class of voting equity securities of the entity and is not an Executive Officer of the entity;

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

"Affiliated Person of an Entity" means

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

"Bank" means the Bank of Montreal.

"Board" means the Board of Directors of the Bank of Montreal.

"Control" means:

- (1)(i) a person controls a body corporate if securities of the body corporate to which are attached more than 50 per cent of the votes that may be cast to elect directors of the

body corporate are beneficially owned by the person and the votes attached to those securities are sufficient, if exercised, to elect a majority of the directors of the body corporate;

- (ii) person controls an unincorporated entity, other than a limited partnership, if more than 50 per cent of the ownership interests, however designated, into which the entity is divided are beneficially owned by that person and the person is able to direct the business and affairs of the entity;
 - (iii) the general partner of a limited partnership controls the limited partnership; and
 - (iv) a person controls an entity if the person has any direct or indirect influence that, if exercised, would result in control in fact of the entity.
- (2) A person who controls an entity is deemed to control any entity that is controlled, or deemed to be controlled, by the entity.
- (3) A person is deemed to control, within the meaning of paragraph (1)(a) or (b), an entity if the aggregate of
- (i) any securities of the entity that are beneficially owned by that person, and
 - (ii) any securities of the entity that are beneficially owned by any entity controlled by that person

is such that, if that person and all of the entities referred to in paragraph (b) that beneficially own securities of the entity were one person, that person would control the entity.

“Executive Officer of an entity” means its chair or vice-chair (where the person performs the function of the office on a full time basis), president, any vice president in charge of a principal business unit, division or function (such as sales, administration, production or finance), principal accounting officer, any other officer of the entity or any of its subsidiaries who performs a policy making function in respect of the entity and any other person who performs a similar policy making function in respect of the entity. An officer of the entity’s parent who performs a policy making function in respect of the entity is included as an executive officer of the entity. In respect of an entity that is a limited partnership, executive officer includes any officer or employee of the general partner who performs a policy making function for the limited partner of the entity. In respect of an entity that is trust, executive officer includes any officer or employee who performs a policy making function in respect of the entity.

“Immediate Family Member” means an individual’s Spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law and anyone (other than domestic employees) who shares such individual’s home.

“Indebtedness” includes indebtedness in respect of commercial paper, acceptances, lines of credit to the extent drawn on and margin loans made to a director or officer of a Bank.

“Not in Good Standing” means in respect of a loan of which:

- (i) any payment of principal or interest is 90 days or more overdue;
- (ii) interest is not being accrued on the books of the lender because it is doubtful whether the principal or interest will be paid or recovered; or
- (iii) the rate of interest is reduced by the lender because the borrower is financially weak.

“Officer” means:

- (i) in relation to a body corporate, a chief executive officer, president, vice-president, secretary, controller, treasurer and any other natural person designated as an officer of the body corporate by by-law or by resolution of the directors of the body corporate, and
- (ii) in relation to any other entity, any natural person designated as an officer of the entity by by-law, by resolution of the members thereof or otherwise.

“Shareholders’ Auditors” mean the independent financial statement auditors of the Bank as at the relevant time or period.

“Significant Borrower” means:

- (i) a natural person who has indebtedness for money borrowed from the Bank or an Affiliate, other than a loan secured by a mortgage on the principal residence of that person, the total principal of which exceeds the greater of: (i) \$200,000; or (ii) 1/50 of 1% of the Bank’s regulatory capital; or
- (ii) an entity that has indebtedness for money borrowed from the Bank or an Affiliate, the total principal of which exceeds the greatest of: (i) \$500,000; (ii) 1/20 of 1% of the Bank’s regulatory capital; and (iii) 25% of the value or the entity’s assets.

“Significant Interest” means an interest in a class of shares of the Bank or any holding company of the Bank if the aggregate of:

- (i) any shares of that class beneficially owned by the person; or
- (ii) any shares of that class beneficially owned by entities Controlled by the person,

exceeds 10% of all the outstanding shares of that class of shares of the Bank or any holding company of the Bank.

“Spouse” includes a common-law partner.

“Substantial Investment” means an investment in:

A an incorporated body where:

- (i) the voting rights attached to the aggregate of any voting shares of such incorporated body beneficially owned by the person and by any entities Controlled by the person exceed 10% of the voting rights attached to all of the outstanding voting shares of such incorporated body; or
- (ii) the aggregate of any shares of such incorporated body beneficially owned by the person and by an entities Controlled by the person represents ownership of greater than 25% of the shareholders’ equity of such incorporated body.

OR

B. an unincorporated entity where the aggregate of any ownership interests, however designated into which the entity is divided, beneficially owned by the person and by any entities Controlled by the person exceeds 25 percent of all of the ownership interests into which the entity is divided.