BMO Financial Group

Q4 2006 CONFERENCE CALL

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PRESENTATION

Operator

Good afternoon and welcome to the BMO Financial Group's fourth-quarter 2006 conference call for November 28, 2006. Your host for today is [Viki Lazaris], Senior Vice President of Investor Relations. Ms. Lazarus, please go ahead.

Viki Lazaris *- Bank of Montreal - SVP IR*

Good afternoon, everyone. This afternoon's brief overview of our fourth-quarter results will be provided by Tony Comper, our Chief Executive Officer; Bill Downe, our Chief Operating Officer; Karen Maidment, our Chief Financial and Administrative Officer and Bob McGlashan, our Chief Risk Officer.

After Bill's presentation, Tony, Bill, Karen, Bob and the following members of the management committee will be available to answer your questions; Yvan Bourdeau from Investment Banking; Gilles Ouellette from the Private Client Group; Frank Techar head of P&C Canada; Ellen Costello, head of P&C U.S. and Barry Gilmour, head of Technology and Operations.

At this time, I would like to caution our listeners by stating the following on behalf of those speaking today. Forward-looking statements may be made during this call and there are risks that actual results could differ materially from forecasts, projections or conclusions in the forward-looking statements.

Certain material factors and assumptions were applied in drawing the conclusions or making the forecasts or projections in the forward-looking statements. You may find additional information about these material factors and assumptions and the material factors that could cause actual results to so differ in the caution regarding forward-looking statements set forth in the news release or on our investor relations website at BMO.com. With that said, I'd like to hand the floor over to Tony.

Tony Comper *- Bank of Montreal - CEO*

Thanks, Viki and good afternoon, everyone. Before beginning, I would like to underscore the importance of Viki’s comments regarding forward-looking statements.

Now looking at the quarter and the year, while operating momentum slowed in the fourth quarter due to a weaker business environment, BMO earned record net income in 2006 with 11% earnings growth and a 19.2% return on equity. It was a good year overall marking BMO's fourth consecutive year of records results. All three operating groups delivered record net income for the second consecutive year.

In the final quarter, favorable income taxes and low credit losses helped us maintain strong financial performance in spite of our businesses facing a more difficult operating environment. Net income for the quarter was surpassed only by our record performance in the third quarter.

Slide four shows BMO's performance against our targets for 2006. We exceeded our targets for earnings per share, return on equity, credit and tier 1 capital. Regrettably, we didn't achieve our targeted improvement in cash productivity as we faced higher expenses in relation to revenue in the latter part of the year. That was due in large part to the business mix in the investment banking group and higher retail investment spending in Canada and in the U.S. as we continued to focus on strengthening and extending our personal and commercial networks, building a better bank for our customers.

In Canada, we added 700 additional people to our branches in 2006 to provide a higher level of customer service. We replaced virtually all of our banking machines to make them more customer-friendly and secure and refreshed more than 90% of our branches to create a physical environment where clients want to do business.

We also announced our intention to acquire bcpbank Canada. Now this is scheduled to close in the first quarter. The state branch acquisition will increase BMO's presence in growing multicultural markets in the greater Toronto area and Hamilton.

In the U.S., we completed the deployment of our Harris Connect technology platform to enable staff to better meet our customers' needs. This major new platform also makes it easier to integrate future acquisitions quickly and cost effectively, including First National Bank & Trust. First National Bank & Trust is a 32-branch community bank in central Indiana and is a natural extension of the Harris network from its base in the Chicago area. We are pretty excited about the beachhead it gives us in the fast-growing Indianapolis and surrounding communities.

Just to give you a little bit of a background around that, if you looked at Indianapolis in the Canadian context, it would be the fifth largest city in Canada. In fact, Indianapolis is larger than all the four Maritime provinces.

When the First National acquisition closes in the first quarter, we will have 234 Harris branches in Illinois and Indiana moving closer to the goal that we have established of becoming the leading personal and commercial bank of the U.S. Midwest with a network of around 350 to 400 branches.

Part of our focus on accelerating growth in our wealth [manage] of businesses, we launched our Regeneration campaign and new products to help customers who are approaching retirement investment plan for the next phase of their lives.

There were some other highlights of the year and they include the unification of our investment banking operations in Canada and the United States under the banner of BMO Capital Markets and the opening of a BMO Capital Markets office in Beijing to better serve China's business leaders. We are actually feeling pretty good about the long-term relationships that we have been building in China.

Finally, I would like to note BMO's recent track record for value creation. We delivered a return on common shares of just over 24% in fiscal 2006. This morning, we announced a dividend increase of $0.03 per common share and that brings our total increase in dividend to 16% since this time last year and that is an increase of 33%.

If you annualized that, the new dividend of $0.65 per common share represents a payout of approximately 50% of 2006 earnings available to shareholders and that is consistent with BMO's industry-leading dividend payout policy of 45% to 55%.

Now just before I ask Karen to take us through the numbers, I would like to take the opportunity to congratulate Bill Downe on the news of the day, the announcement that the Board of Directors has unanimously appointed Bill as BMO's next President and Chief Executive Officer.

After the change of leadership, which will happen at our annual meeting on March 1, I am going to stay on in an advisory capacity until my scheduled retirement, which is April 24, 2007, which is my 62nd birthday. I will help in every way possible, every way I can to ensure a smooth leadership transition and I know that the entire leadership team will do so likewise.

I have worked with Bill for most of the 23 years that he has served BMO so very capably. I have watched him and admired him at very close range over the last seven years since he has been part of the senior management team and he has taken on broad leadership responsibilities as a member of the overall what we call our Management Board Executive Committee, which is the top management team and we have worked almost as one since his appointment as Chief Operating Officer last year.

Bill takes on his new role at a time of strength for BMO. The balance sheet is robust, our businesses are healthy and poised for higher growth, and the management team is talented, experienced and unified in executing our growth strategy and delivering higher value to our shareholders.

And what's more, Bill has the intellect, the industry knowledge, the leadership acumen and the will to take this enterprise to new heights of growth and success. He has a passionate customer focus and he has an intimate understanding and finely honed appreciation of the contributions and needs of all of our stakeholders. I warmly applaud the board's choice for my successor and wish Bill every success. I know he will do a wonderful job. Following Karen and Bob's remarks, I have asked Bill to comment briefly on business performance last year and our plans for 2007 and now over to you, Karen.

Karen Maidment - ***Bank of Montreal - CFO & CAO***

Thanks, Tony and good afternoon. Before I start, I would like to draw your attention to the caution regarding the forward-looking statements as well. Starting on slide 2, while the momentum in our operating group slowed during the fourth quarter, we delivered an overall strong bottom line. Net earnings of $696 million were up $32 million or 4.8% from a year ago and you recall that we had a very strong fourth quarter in 2005 and the increase is mainly due to favorable income taxes and credit losses.

On the capital side, we generated quarterly ROE of 19.4% and ended the quarter with a tier 1 capital ratio of 10.22%. And as Bob will cover, asset quality remains strong.

Turning to slide 5, you can see the components of the cash EPS growth for the year. Unquestionably, this was a weaker operating quarter across all of our businesses. On the positive side and on a year-over-year basis, our tax line and favorable credit experience more than offset the business decline.

Our tax rate is influenced by a number of factors, including geographic distribution of earnings, the type of income, tax planning initiatives and settlement of open years with various tax authorities. This quarter's rate was unusually low and we have had a large number of small initiatives, which all went in a positive direction for us. While it is hard to predict the rate for 2007, we anticipate a tax rate in the 25% to 28% range.

Turning briefly to capital and risk weighted assets on slide 6, our tier 1 capital ratio of 10.22% is well above our stated target of a minimum of 8% and while our total capital is 11.76%, the bank's risk weighted assets reached $162.8 billion in Q4 representing a quarter-over-quarter increase of $1.1 billion mostly in IBG from mainly higher loans.

I am going to focus my remaining remarks on three broad areas; revenue, expenses and 2007 financial targets. So first in terms of revenue growth, on slide 8 and putting it in context, our spread or net interest revenue is $1.2 billion, up 2% year-over-year, but down 1.5% on a quarter-over-quarter basis. Our net interest margins, as shown on this slide, are down five basis points quarter-over-quarter.

While the net interest margin is down in both P&C Canada and P&C U.S., the largest driver at the total bank level is IBG. This is due to IBG's asset size relative to the total bank and the basis point decline is driven by pressure in IBG's interest-rate sensitive businesses and corporate banking. And this effect of IBG on the bank's net interest margin is consistent with the year-over-year trend.

As we expected, retail NIM in Canada declined three basis points quarter-over-quarter due to lower mortgage refinancing fees. You will recall last quarter, we discussed the short-term positive effect on margins as customers refinanced their mortgages and this activity has slowed.

In P&C U.S., margins declined nine basis points quarter-over-quarter due to competitive pressures with changing product mix and compressed loan spreads.

Our outlook on retail margins remains that we continue to have downward pressure due to the mix of our products, but we continue to address this through our sales and pricing initiatives.

Looking at slide 9, non-interest revenue declined $90 million quarter-over-quarter. The largest single driver was a decrease in trading revenues due to a slowdown from commodity derivatives driven by reduced client flows, declining market prices and implied volatility of crude oil, as well as our positioning in natural gas.

To see the key trends, you really need to look at a combination of the trading revenues and the investment security gains shown above and this totaled $115 million in the quarter versus $176 million in Q3 excluding the gain on the MasterCard IPO. It is important to add the securities gains as some of the activity in this line is trading-related.

However, if you just look at the trading line itself, over the last eight quarters, the range has been as high as $231 million with an average of about $150 million. So at $90 million this quarter, we certainly believe this is an unusually low level and there is additional upside.

Also on slide 10, on a full-year basis, you can see we had excellent revenues from trading, adding 220 to the non-interest revenue demonstrating our leadership in the energy sector. There is no question that these businesses are subject to prevailing market conditions, but our IBG business is very well-diversified. In addition, mutual fund fees and underwriting and advisory fees added to our revenues and we saw excellent volume growth, higher insurance and card revenue from P&C Canada.

Turning to expenses on slide 11, expenses are modestly up quarter-over-quarter and higher relative to our revenue growth on both a quarterly and annual basis. This really reflects two factors. First, the mix of the revenue generated in our wholesale and wealth management businesses and the related performance-based compensation. Secondly, our heavy investment in our retail franchises on both sides of the border over the last year.

Expenses in P&C Canada were unchanged quarter-over-quarter, but increased $26 million year-over-year reflecting investment that was focused on our distribution network and in growing our front-line workforce. This was necessary to position us for future growth.

We also continue to grow our P&C U.S. franchise where expenses increased $9 million quarter-over-quarter and $23 million year-over-year in source currency. We continue to incur acquisition integration costs and costs associated with new branch openings and marketing campaigns.

One slide 13, you can see that the cash productivity ratio, as Tony mentioned, improved 25 basis points this year. However, it is important to note that over the past four years, we have improved this ratio by 560 basis points. The key now is to deliver the top-line revenue growth on this expense base and we have a strong ongoing commitment to improve productivity heading into 2007.

Slide 14 shows how we measure versus our 2006 target achieving four out of five and turning to slide 15, you can see our 2007 financial targets that were released today. These targets are aggressive and reflect the management team's commitment to improving overall operating performance. Bill will lead you through a bit more detail on revenue growth initiatives and opportunities to continue to streamline costs.

Our targets are as follows. EPS growth of 5% to 10% off of a GAAP base of $5.11, which excludes the Q4 '06 reduction in the general allowance, specific provision for credit losses of $400 million or less, 100 to 150 basis point improvement in cash productivity and an ROE of 18% to 20%.

To achieve the EPS target of 5% to 10% on a GAAP basis, simply put, we need an EPS of $5.37 to meet the low end of the target. If you wanted to convert that to a cash basis, you'd take about $0.08 off and that would be $5.45. This translates into about $1.34 per quarter in 2007. The delta to Q4 will be driven by improved performance in P&C Canada and movement to a more sustainable bottom-line contribution from our IBG businesses combined with modest growth in all of our businesses.

In the current environment, we are targeting the low end of the range unless we experience a more favorable credit environment, changes in the yield curve or a generally more favorable economic picture. With that, let me turn things over to Bob who will lead you through the credit piece.

Bob McGlashan - ***Bank of Montreal - CRO***

Thanks, Karen and good afternoon, everyone. Before I begin, I too would like to draw your attention to the caution regarding forward-looking statements on slide 2. As you can see on slide 3, credit performance exceeded earlier expectations for the year with continued low levels of losses and gross impaired loans as the deterioration in the credit environment anticipated during 2006 has not yet materialized.

On slide 4, credit quality remains strong. Gross impaired loan balances remain at historical lows with Q4 and 2006 gross impaired loan formations comparable to those of the prior quarter and year. On slide 5, total PCL is $16 million, net of a $35 million reduction in the general allowance, which was taken primarily as a result of the $1.5 billion securitization of our credit card portfolio. Specific PCL increased modestly from Q3 and with $6 million lower than the same period last year.

On slide 6, new specific provisions remain low and in line with our provision or position in the credit cycle. On slide 7, on a comparative basis, Q4 and fiscal 2006 specific PCL both represent 11 basis points of average net loans and acceptances, including reverse repos relative to Q3 at nine basis points in fiscal 2005 at 13. Specific PCL remains low compared to our 15-year average of 38 basis points and the Canadian peer group average of 59 basis points for the same period.

On slide 8, looking forward, we expect the credit environment to remain stable early on in 2007 with potential weakness developing in the latter part of the year. We continue to track a number of sectors of concern including auto, forestry and those sectors most sensitive to rising energy prices and a strong Canadian dollar. None currently represent a material risk.

We estimate specific PCL of $400 million or less for fiscal 2007. This represents 19 basis points of average net loans and acceptances, consistent with this part for this period in the cycle and well below our 15-year average of 38 basis points. The increase over fiscal 2006 is due to an expected increase in the level of new specific provisions and in light of our historically low GIL balances, lower reversals and recoveries.

As we reported in the past, slide 9 illustrates our exposure to the auto manufacturing and supply sectors. While we are seeing modest increases in the level of gross impaired loans and some risk migration from investment grade to non-investment-grade, exposure remains low and is actively managed.

Finally, slide 10 shows our training and underwriting performance has been relatively stable with the largest P&L loss of approximately $7 million on October 31 primarily attributable to credit holdbacks and fiscal year-end valuation adjustments. During the quarter, money market accrual, VaR, increased as a result of the addition of longer dated assets to take advantage of market opportunities. These positions were profitable and have subsequently been unwound.

The two largest daily P&L gains for the quarter were approximately $8 million and $9 million on September 19 and October 27 respectively. The largest contributors to these gains were the equity and commodity lines of business primarily driven by recognition of dividend and favorable market conditions with the balance contributed to normal trading activity. With that, I will turn it over to Bill.

Bill Downe - ***Bank of Montreal - COO***

Thanks, Bob and good afternoon. I want to start by thanking Tony for his vote of confidence earlier in the call. Tony has been a superb steward of BMO's legacy with a keen sense of where this Company came from and where it is going. When I assume my new role next March, I will be proud and honored to be taking over from a leader of his stature.

In the last 12 months, we have announced key management changes in all they operating groups and in our technology and operations functions. My confidence in BMO Financial Group is confirmed by the strength and commitment of this leadership team, which, with the guidance of Tony, we have been building.

We'll leave plenty of time for questions. I am going to talk very briefly today about our plans for the year ahead. In the context of our performance in 2006, my comments will include forward-looking statements and should be treated accordingly.

While the top-line results for 2006 exceeded our targets for the year, we are clearly not pleased with the softer operating performance in the fourth quarter. Initiatives originating in the corporate center make a continuing contribution to the performance of the bank and in the fourth quarter, the achievement was significant. I am specifically speaking of the management of credit losses and recoveries, the systematic improvement in the tax rate and overall tax management.

Looking forward, we have established targets for 2007, which reflect the underlying capacity of the operating businesses in which we have confidence we can meet. This slide summarizes the economic projections we took into account in setting our targets and business priorities.

My only additional comment would be that we expect the U.S. economy to experience a soft landing, which will help the challenge in improving our U.S. performance. Over the past couple of years, we have invested significant financial and management resources in converting to an integrated platform in personal and commercial banking in the U.S. and the impact has weighed heavily on the results in the last three quarters reducing profitability.

At the same time, we have been investing in front-line sales and service initiatives that are being consistently applied in existing and newly acquired locations. This results in a higher service business model that is much more scalable. While demand for residential mortgages, personal loans and other personal products has been constrained in the P&C U.S. market in recent months, business loan growth has been good and we look to a strengthening in personal product balances as the year progresses.

Focus throughout 2007 will be on sustaining double-digit loan growth, improving deposit growth and achieving consistent reductions in the expense to revenue ratio.

In P&C Canada, we have also made significant investments in the last 12 months in particular. And we expect to see the value of these investments translate into growth in revenue and market share. As well, we are at the tail end of working our way through margin issues related to pricing decisions taken earlier in the year and we have spoken extensively about those in previous quarterly calls.

We are making progress in improving customer loyalty scores, to build profitable relationships and we are focused on growing market share in priority segments, including personal deposits and commercial lending. While we continue to expect a challenging environment for spreads in 2007, we are anticipating improved business performance in P&C Canada. Maintaining and improving margins is going to be a major focus.

In our Private Client Group, which had a strong year because markets were strong in the first three quarters, we're going to continue to focus on building assets while maintaining expense discipline and we are confident that we will remain profitable through all parts of the business cycle.

Investment Banking Group experienced a disappointing fourth quarter relative to the previous three, which have been very strong. As Karen discussed, the largest single driver was the decrease in trading revenue and a number of units contributed below potential. In 2007, the focus will be on our client businesses and continuing to grow relationships, particularly in the U.S. where the outlook for loan growth is positive. We look forward to higher earnings from this well-diversified group.

Karen has discussed the performance targets for 2007 and on December 6, we are hosting an investor meeting to outline the strategic priorities that are in place to meet these targets. All of our group heads will be on hand to provide further details at that time.

For now, let me say that our targets reflect a strong, ongoing commitment to improve productivity at the same time that we grow the Company. We have improved our cash productivity ratio as Karen said by 560 basis points over the last four years. We are targeting an improvement of 100 to 150 basis points in 2007 by driving revenue through an increased customer focus and continued expense management. We are also working to create greater efficiency in all functions, groups and business processes that support the front line. While specific measures have not yet been determined, we expect to shift headcount from the internal functions to the front line.

Overall, the management team is focused on growth, on our customers and on the pace of execution. We are committed to delivering higher revenue and earnings growth. We are committed to delivering consistently superior customer experience and we are committed to substantially improving efficiency to build a better bank for our customers. And with that, operator, I think we're ready to go to questions.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS). Jim Bantis, Credit Suisse.

Jim Bantis - ***Credit Suisse - Analyst***

I just wanted to focus on a couple of areas, specifically looking at the productivity gains expected for 2007. And I wanted to see if we could break that up in terms of percentage coming from revenue gains and relative to the expense savings. When I think of the P&C Canada expense base, it is roughly about $2.6 billion in terms of non-interest expenses. And I wanted to get a sense of to what extent of the substantial investments made on distribution systems and people would be non-recurring into 2007.

Bill Downe - ***Bank of Montreal - COO***

I am happy to start with that question and I would like Frank to fill in on some of the details. The expenses in 2006, many of them went into capital expenditures in the infrastructure and so those are going to stay in the operating base, the cost of improving branches, the cost of the bank machine update and the shift of people to the front line. So I expect those expenses are going to stay at the level they are.

I think what we are looking for is a slowdown in the rate of growth of those expenses. If you look at the difference between 2005 and 2006, it is quite a significant increase over 2004. But all of those expenditures were focused on the front line and creating an environment where customers want to come into our branches, want to come into the bank over the web and we are looking for revenue to be a big driver and Frank, I'll turn it over to you to talk a little bit about the approach you are taking.

Frank Techar - ***Bank of Montreal - Head of P&C Canada***

Not much to add on that, Jim. To Bill's point, the investment we've made in the people we are looking at as a run rate expense in 2007 and the investment in the branch environment and the ABMs and the technology platform obviously had a high capital element, which is going to translate into depreciation expense going forward.

So Bill's point is our expectation is that we are going to hopefully see a declining rate of growth in the expense line, but I wouldn't characterize any of those investments as non-recurring as we look into 2007 and the opportunities for us are really about leveraging those investments, turning them into revenue rather than doing an about-face in any respect on the level of investment.

Jim Bantis - ***Credit Suisse - Analyst***

Just to follow along those lines, revenue growth in P&C Canada was not that bad at 6% year-over-year. With respect to some of the changes you and I have talked about that are going to happen within the retail operation, can you give a sense in terms of timelines on some of the initiatives actually taking effect to accelerate revenue growth. i.e. we all recognize how difficult it can be to turn around a branch network in terms of being more sales-oriented and things of that nature.

Frank Techar - ***Bank of Montreal - Head of P&C Canada***

Well, I think the way I would answer that is we have some very strong pockets of activity in the business right now and my focus is on high spread products with a strong linkage to customer relationships and if you dig into the numbers a little bit, we have had unbelievable growth in our card business and our consumer loan business has held up extremely well from a share perspective. Both of those are not an accident. They are both as a result of some of the cross-sell efforts that we've put in place over the course of the year when at the point of account opening, at the point of having a conversation with customers about mortgages.

So we have seen some up tick in activity that has been strong in those two product categories. My expectation is it is going to continue into 2007. Our GAAP really from a revenue perspective as we are looking into 2007 is really operating deposits and we are taking a hard look at our participation strategy on mortgages as we've talked about in previous quarters. We have backed off a very aggressive pricing strategy and we are looking at that participation strategy as we move into the first couple of quarters.

I think those are opportunities for us in 2007, as well as the commercial business where we are doing a very good job in the upper end of the mid-market and in our corporate finance division, but we have some gaps in the small-business sector and we are losing share at this point in time. So the small end of commercial, the retail operating deposit and our mortgage business is where we are going to be focusing in 2007 and where we hope we can move the revenue line higher.

Jim Bantis - ***Credit Suisse - Analyst***

Thanks for that specific response as well, Frank. I just want to just follow up on the trading revenues in terms of the drop-off in other, which is I guess where the commodity derivative trading book is. I guess our impression was that this was going to be more of a client-driven activity as opposed to open positions that the bank has taken. But I guess the press release had highlighted some open positions regarding natural gas contracts. So I just want to get to the extent of how big those losses were coming from that side of the portfolio.

Yvan Bourdeau - ***Bank of Montreal - Investment Banking***

Thank you, Jim. Maybe if I would comment first with regard to the crude oil because we have two big commodities that we trade in; oil and gas. Similar factors were affecting both commodities incidentally. We do start all of our trading philosophy by trying to engineer as much credit client flows as much as possible and from those flows, it is inevitable that you will have some proprietary positions that would emanate from them.

In the case of the oil sector, during the fourth quarter, several items happened, as you all know, that the oil price dropped quite significantly during that period, but also the implied volatility dropped as well. In our particular case, we tend to have a risk profile that would be long volatility just because we don't like to be short in the commodities area volatility wise and if we are, it is a very small amount and it would be for a relatively short period of time. So these two factors of price coming down and client volatility as well coming down were not conducive for us or our natural long position in the volatility sector.

There is also one characteristic that applies both to oil as well as gas in terms of client flows. You will see in that sector the greatest amount of client flows when volatility are very high and also prices are rising in rapid fashion. In Q4, we had exactly the reverse with volatility coming down and prices as well coming down and normally producers, whenever that happens, start to decrease their client volume tremendously just because they believe that the timing is not right for them and that price will start to rise again, as well as volatility.

On the buy side, exactly the opposite where the large utilities or other consumers of those commodities feel that price will continue to drop at a greater extent and that characteristic is really specific to the commodities area. It maybe not the extent of the reduction in client flows that applies there when those conditions are happening in our market are not to the same extent happening in other product lines.

In the case of the natural gas, similar things happen. We had also a large decrease in client volume during the quarter. That was engineered by also lower volatility, as well as lower prices and definitely in that market, we are also normally long volatility, which was not conducive for us. As we receive or retain some proprietary position out of our client volume, we not positive in terms of opening some trading revenue.

I think we all are familiar also during the quarter what happened with one hedge fund as they were unwinding their position and that also created for a certain period of time some liquidity squeeze and also forced us if you wish to reconsider our position that we had in place and at that point in time, reduce the risk profile that we had, even though it cost us some money.

So if you were to look at all of those factors, you will see that intrinsically we didn't have a large proprietary position that were taken in other oil or in natural gas, but it shows the accumulation of all of those factors that actually contributed to the reduction in revenue from commodities.

In addition to that, each year, we review the amount of notional contracts that we have in that line of business and because of the activities that took place in the first three quarters, which was extremely large, our notional book increased a fair amount year-over-year and normally when that happens, we would set aside a liquidity reserve that would be brought back into our P&L as a contract or actually maturing and that we put in place at the end of the quarter for approximately $15 million. So this is a one-time charge that was put against commodities that will not happen in the future and yet it was contributing to the reduction in revenue that you see associated with both oil and gas. So that is basically the explanation.

Jim Bantis - ***Credit Suisse - Analyst***

Thanks very much for that, Yvan. Appreciate it.

Operator

James Keating, RBC Capital Markets.

James Keating - ***RBC Capital Markets - Analyst***

A couple of more specific, perhaps boring questions maybe for Frank on mortgage prepaid. I wonder if you could just give us a little detail around the dollar amount this quarter versus last quarter and last year to help us understand what the impact might have been there. And also let's get a follow-up on customer stats. I'm curious, I think Bill or Frank alluded to potential improvement there. I wonder if you've got any progress for it there.

Frank Techar - ***Bank of Montreal - Head of P&C Canada***

Mortgage prepay, [Jamie], are you asking about refinancing?

James Keating - ***RBC Capital Markets - Analyst***

Yes. As I understand it, the spread is down because the prepaid dried up on the re-financings, if I'm not mistaken.

Frank Techar - ***Bank of Montreal - Head of P&C Canada***

Yes. What we have seen -- I don't have the numbers for you, but what we have seen is re-financings in Q4 were down from Q3, and so that impacted some of our fee business. We just saw a slowdown. I don't have the numbers for you on that.

James Keating - ***RBC Capital Markets - Analyst***

I don't know if it's possible to follow up. It would be helpful for us just to get a read on what the underlying is; maybe I'll come back.

Frank Techar - ***Bank of Montreal - Head of P&C Canada***

We'll come back to that. On customer satisfaction, as I have talked to a few of you, it is going to be one of our focuses going into the year. We have built a customer satisfaction measure into our branch scorecards this year. We think it is important. Another revenue driver based on a retention going forward. So we are going to put a lot of focus on that.

The good news is in 2006, our customer satisfaction scores went up fairly dramatically across the country. That is the good news. The bad news is the competition went up as well. So we are happy that we saw some improvement over '05. We think we are back in the game, but we have a long way to go.

James Keating - ***RBC Capital Markets - Analyst***

No measure as to what the delta was or anything for us?

Frank Techar - ***Bank of Montreal - Head of P&C Canada***

Well, the other thing that we have done over the course of the year is we have changed our measure from SCI, our internal measure from SCI to net promoter score. So I don't know what the base is or what we have disclosed to this point in time, but maybe we can talk about that going forward.

It was an increase overall in net promoter score of about 30% in the measure, so it was a fairly significant increase; recognizing that we were starting from a number four position, though.

James Keating - ***RBC Capital Markets - Analyst***

I wanted to also follow up with Yvan or perhaps Bob on prime brokers' loans and or private equity involvement. I just wondered if you have a comment or can give us a feel as to what sort of exposure may be there.

Yvan Bourdeau - ***Bank of Montreal - Investment Banking***

So I can comment from a merchant banking or private investment perspective. As of the end of the last quarter, in Canadian dollars, are investment in the merchant banking field were approximately $C370 million and they were approximately 50-50 equally split between direct investments and 50% investment in funds of funds. And so far, we are in the cycle whereby those investments were made three to five years ago and we are now realizing profits from them and so far, the experience has been very good.

James Keating - ***RBC Capital Markets - Analyst***

On the prime broker side?

Yvan Bourdeau - ***Bank of Montreal - Investment Banking***

The prime broker side, we have a prime brokerage operation here in Canada and it is, as you know, this is an operation whereby it is a very safe operation. We are collateralized for the advances we are making to our counterparties and it is very steady, provides us with a good annualized revenue and we are trying, in fact, we were discussing that just before I came up here, how to upgrade the technology platform associated with that business in order to gain a greater market share.

James Keating - ***RBC Capital Markets - Analyst***

Any hint as to the size of your portfolio there at all?

Yvan Bourdeau - ***Bank of Montreal - Investment Banking***

I'm sorry. Could you repeat that?

James Keating - ***RBC Capital Markets - Analyst***

The size of your portfolio?

Yvan Bourdeau - ***Bank of Montreal - Investment Banking***

I don't have an exact figure. I will have to follow up with you on that one.

James Keating - ***RBC Capital Markets - Analyst***

Just wondered if it was tens of millions or hundreds of millions?

Yvan Bourdeau - ***Bank of Montreal - Investment Banking***

It would be hundreds of millions.

James Keating - ***RBC Capital Markets - Analyst***

I will follow up. Thank you very much and congratulations, Tony.

Tony Comper - ***Bank of Montreal - CEO***

Thank you very much.

Operator

Steve Cawley, TD Newcrest.

Steve Cawley - ***TD Newcrest - Analyst***

A couple for Yvan. The U.S. investment bank has been producing negative results over the last two quarters and I know it was an operation before that was somewhat reliant on the carry trade. Can you talk a little bit about what is going on in the U.S. investment banking side right now?

Yvan Bourdeau - ***Bank of Montreal - Investment Banking***

So the U.S. investment banking side, if you look at our [process] in U.S. dollar terms, it was a $60 million and last quarter, it was also $60 million. So we generated profit in both quarters, quarter three and quarter four. The previous two were $80 million and $80 million. So essentially quite -- we produced $160 million in the first two quarters and $120 million in the next two quarters.

I would say that the progress that we are experiencing there is very good and particularly on our penetration of clients and I would like, as usual, maybe to put that with facts to back that up with facts. Q4 is especially of interest to me. If you look at -- the numbers I'm going to give you would be in U.S. dollar equivalents and if you look at the total authorization in the U.S. as of the end of this quarter, they were $31.3 billion. If you go back October '05, they were $25 billion. So that is an increase of $6.3 billion or 25% year-over-year.

What's interesting is of that $6.3 billion increase over the year, actually $3.3 billion came in the last quarter. So nearly 55% of the annual increase came in Q4 and I think the reason for that I think was alluded by Tony and Bill that we are experiencing -- the U.S. economy is experiencing some slowdown and there is no question that our clients traditionally would come back to us other in asking for additional facilities or actually drawing on their facilities.

The next statistic I will give you, our outstanding in the U.S. and U.S. equivalent at the end of the quarter were 15.7 versus 11.7 a year ago. So that is a $4 billion increase or 34% year-over-year. On that $4 billion increase in outstanding, 2.1 took place in the last quarter. So once again, you can see to what extent the fourth quarter suddenly our clients were starting to draw on their facilities.

And something that is also relatively new is our extending an authorization in Canada. I will just give you that for the sake of completion. In the case of Canada, our total authorization as of the end of this quarter was $28.3 billion in Canadian dollars and a year ago, there were C$20.6. So that is a C$3.7 billion increase or 15% and the same growth profile is taking place. Of the C$3.7 billion increase in authorization over the year, C$2.5 billion took place in Q4.

In terms of increase in outstanding in Canada, if you look at the end of the quarter, we are at $9.4 billion and at the end of the Q3, we are at $8.7 billion. So $700,000 increase in Q4 for an 8% increase overall.

So my message to you would be that those really illustrate that we have set the goal to increase the number of clients that we have in the U.S., as well as penetrating more actively our existing franchise and I think those numbers illustrate the fact that we have succeeded.

The counterpoint to the increase in our outstanding authorization is the fact that throughout the year, the spread on our corporate loan, as Karen was mentioning, has actually dropped by close to 56 basis points and in the last quarter in the U.S. by 13 basis points.

But overall, even with that decrease in spreads in U.S., especially with that increase at the end of the year. Now looking forward in '07, I know we should have a greater contribution emanating out of our [INCB] or corporate lending and investment banking lines of business in the U.S. Where there was some softness in Q4 was also related to trading revenue that takes place in the U.S. because all of our commodities trading takes place in the U.S., as well as our interest-rate trading.

But as you can see, quarter-over-quarter, we are flat. 61 in Q4 U.S. contribution and 60 in Q4. So therefore there was substitution from some of the LOBs in the U.S. that contributed to offset some of the reduction in revenue emanating from our trading performance.

Steve Cawley - ***TD Newcrest - Analyst***

Second question for you, the income trust market, it looks like it has been suffocated here. I would suspect that it would be important for your division and also the Private Client Division. Is there any sort of numbers that you can pass along in terms of how important the income trust market was for BMO in 2006?

Yvan Bourdeau - ***Bank of Montreal - Investment Banking***

It was a relatively important line of business, but it was not one that I would call a core line of business for us. And in fact we spent a fair amount of time trying to analyze the impact of income trust of the decision that was made on our overall business here in Canada.

We feel that looking into '07 because there would be different kind of demands by our clients either through high yield or other types of forms of debt that they will have to require to finance themselves. We feel that we should be able to substitute the reduction in revenue from income trust from other product lines.

Steve Cawley - ***TD Newcrest - Analyst***

One last one for Frank. You mentioned you are looking at your mortgage portfolio and considering your pricing options there. I think the only way as far as what my model is telling me for the whole bank to get 5% to 10% EPS growth next year is for your operation to have better profitability. In a falling interest rate environment, it looks like and with you potentially becoming more competitive in some products, can you tell me what you would envision on the net interest margin side in 2007?

Frank Techar *- Bank of Montreal - Head of P&C Canada*

Well, as Bill said earlier, I am expecting it to be a tough environment again in 2007. I think we have an issue in our balance sheet. Our loans are growing a lot faster than our deposits and so even if we make some -- even if we make some improvement in some of the product categories, mortgages and others, I think we are going to be challenged because of the deposit growth that we are jumping off the year on. So I think until we get our deposit growth numbers up to a higher level, I think it is going to be bumpy for the net interest margin outlook in 2007.

Steve Cawley *- TD Newcrest - Analyst*

So that means you are really going to have to clamp down on expenses to make the numbers work?

Frank Techar *- Bank of Montreal - Head of P&C Canada*

Well, we are going to, as I said earlier, look at the rate of growth in expenses, but we also think we've got some positive factors working in some of the other product categories as well. So we think there is a way to get there.

Steve Cawley *- TD Newcrest - Analyst*

All right. I look forward to seeing it.

Operator

Andre Hardy, Merrill Lynch.

Andre Hardy *- Merrill Lynch - Analyst*

Thanks. A few credit questions and one on the tax rate and maybe I'll start with the tax rate with Karen. You are a North American institution so can you quickly run by how you can have a 25% tax rate on an ongoing basis and how much risk would there be to some of those tax structures being reviewed?

On the credit side, Bob, I noticed a pickup on page 24 and delinquencies on the retail side. Is it too early to call that a trend? Your thoughts there would be appreciated. And then also on your guidance. If I look back at the last three or four years, the bank has always given guidance of either $400 million or $500 million and for three years in a row, the specific PCLs have been way below that. Why has that been the case and why would that not happen in 2007 I guess is the way to ask the question?

Karen Maidment *- Bank of Montreal - CFO & CAO*

I will start with the tax. The tax rate -- what I said is the outlook is about 25% to 28% and there are a number of factors that influence the tax rate. One is the jurisdictions that we earn the tax in and you are right. Most of our business is North America, but we do have some offshore operations as well.

The other is tax initiatives that we do for ourselves and our clients, different structures, different tax planning strategies, all those types of items. So I think we are pretty comfortable with the 25% to 28% down from 28% to 30%. It is not risk-free. It never is. But we think it is an appropriate level of risk for the organization. We don't enter into tax structures that are completely independent from the businesses that we operate in. It is all business-related type tax activity.

Bob McGlashan - ***Bank of Montreal - CRO***

The two basis point deterioration over the quarter is actually principally driven in the residential mortgage book and it is not a loss issue; it is more an issue of liquidity in the market place for foreclosed properties. We are having to hold them a little longer before we can move them out so the book is growing a little bit. It is not a disturbing problem or an indication of a trend just yet.

Andre Hardy - ***Merrill Lynch - Analyst***

And in terms of what lead to you being so far off in your forecast in the last three years on the right side.

Bob McGlashan - ***Bank of Montreal - CRO***

Well, thank you for recognizing it was on the right side. The issue really is an expectation that I think most folks have had that we would begin to see some deterioration in the credit environment in each of the last two years. It just didn't materialize. I am ever more convinced though as we look out for '07 that it is showing up. We are starting to see certain pieces in the auto industry and so on, jobs in Ontario. We are starting to see some things that really should begin to materialize.

Andre Hardy - ***Merrill Lynch - Analyst***

And maybe just a quick one before I get off the air either for Frank or Karen. The impact of the credit card securitization on spreads going forward. I would suspect that would take your spreads down a bit on the P&C side.

Karen Maidment - ***Bank of Montreal - CFO & CAO***

Actually the credit card securitization was done in the corporate segment and the gain was recognized in the corporate segment of about $23 million. So there won't be an impact -- we will keep the P&C business full. It will affect the corporate line of business.

Andre Hardy - ***Merrill Lynch - Analyst***

So there is no spread income coming off.

Karen Maidment - ***Bank of Montreal - CFO & CAO***

No, there won't be a spread impact on P&C Canada.

Operator

Brad Smith, Blackmont Capital.

Brad Smith - ***Blackmonth Capital - Analyst***

Karen, I believe this probably would be a question for you. I was just wondering if you could run through the corporate segment for me, the net earnings up at $131 million. I note that there are still large reversals on the credit losses going through there, $250 million this year, $222 million last year. Can you give us a sense for how long that can continue and what exactly that is?

Karen Maidment - ***Bank of Montreal - CFO & CAO***

The corporate segment -- there is lots of little pluses and minuses in it, but the two big factors are the credit losses and the taxes. And our approach is on credit to charge each line of business with the expected loss. And the true-up goes through the corporate account. So as Bob talks about the outlook for the credit losses, the variants between expected losses, which is charged to each group and the actual credit losses ends up in the corporate line. That is really what you see there and year-over-year, you can see, as he said, credit has been low and stable.

On the tax side, again, the corporate initiatives, where we can put the initiatives to the lines of businesses that they relate to them, we do and you can see that in particular IBG's tax rate is a little bit lower than some of the others. The rest of the tax initiatives that are corporately driven sit in the corporate account. So it provides a bit of the volatility in that line of business. All the other items, which are numerous pluses and minuses, really net out.

Brad Smith - ***Blackmonth Capital - Analyst***

Maybe to ask the question this way, when you are providing guidance with respect to earnings growth, are you assuming that the corporate line will generate $187 million of earnings again next year?

Karen Maidment - ***Bank of Montreal - CFO & CAO***

What we look at is the component. We look at credit as a component versus in the particular line of business and we look at the tax component. So we don't sort of forecast in terms of the guidance the actual corporate line itself. Now you can conclude that the expected loss in the businesses will run at the rate that it has been running. As businesses grow, the expected loss grows, but you can see it from the line of business numbers and any difference we would put in our planning assumptions in the corporate line.

Brad Smith - ***Blackmonth Capital - Analyst***

So if credit is deteriorating going forward, the highest impact is going to be on this corporate line.

Karen Maidment - ***Bank of Montreal - CFO & CAO***

Right. Right. Because the businesses will continue to be charged EL, which is driven by two things. One is their volume of business and second of all is the risk profile of the business underlying it. But you wouldn't expect as much volatility there. The biggest swings would end up in the corporate line.

Brad Smith - ***Blackmonth Capital - Analyst***

Terrific. Then just a follow-up question. With respect to operating efficiencies, over the last number of years, just Private Client Group has really -- it looks like it has done an excellent job of managing or delivering operating leverage. I guess my question is how much longer can that go on. Is there an expectation in your guidance for next year that the Private Client side is also going to be able to continue on the trend that it is on?

Karen Maidment - ***Bank of Montreal - CFO & CAO***

Maybe I will make a couple of comments and then Gilles can jump in. When we look at each of our businesses and we look at our operating plan for next year, we expect continued operating improvement in efficiencies, but that is also two other things we factor into. One is where the group is compared to what we consider top tier and the Private Client Group in Canada is top tier in terms of its performance on expenses and also where we want to invest.

Obviously the wealth management business is one of the areas that we want to invest in going forward because we think we are positioned in an attractive -- already, we are competitively well-positioned and we think it is an attractive and growing market. So yes, there is always efficiencies, but there would be less that you would expect in a group like Private Client than maybe some of the other groups. Gilles?

Gilles Ouellette - ***Bank of Montreal - Private Client Group***

Just an additional comment is that we have improved our productivity ratio something like 1200 basis points in the past three years and clearly we are not going to be able to continue that because most of our businesses are, as Karen mentioned, are either the exemplar or they are in the top decile in cash productivity ratio.

But going forward, I mean one of the -- in spite of the fact that business slowed down in the brokerages in the latter part of the year, the really encouraging thing is that assets kept on growing. Our assets this year grew something in the order of about 16%, assets under management were 17% and asset administration were 18%. So we are feeling better about the coming year and certainly if November is any indication, November is a stronger month than what we have seen in the last four or five months.

Brad Smith - ***Blackmonth Capital - Analyst***

Gilles, the total revenue lines in this Private Client Group are down about it looks like 7%. Do you have a sense for where the industry is? Did you gain market share? Was it down a greater amount on the top line do you think?

Gilles Ouellette - ***Bank of Montreal - Private Client Group***

Well, I am not sure exactly the numbers you are looking at, but as you know, year-over-year, the numbers are down. It's because of our sale of Harris*direct*. But when we look at -- when we aggregate our market share, we have picked up this year something like 11 basis points. All of the brokerages; Investor Line was up 25 basis points, BMO Nesbitt Burns was up 27 basis points and really the only line where we did lose some market share was in the term book. So there is growth in all the lines of business in terms of market share with the exception of the term book.

Brad Smith - ***Blackmonth Capital - Analyst***

Terrific. Thanks very much.

Operator

Michael Goldberg, Desjardin Securities.

Michael Goldberg - ***Desjardins Securities - Analyst***

I have a couple of questions. You pointed out that your trading revenue had been running at about $150 million per quarter on average and so this quarter being below that could just be looked on I guess as a weak fluctuation for the reasons that you mentioned in terms of commodities and perhaps the flat inverted yield curve to some degree also.

What I am wondering when we look at your net interest revenue is if in a similar way there is any part of the revenue shortfall this quarter also that could be characterized as unusually low in the same way as the trading revenue? If so, if you could give us a clearer idea what would have caused that shortfall and in addition, what is due to specific product margin compression and mix? That's my first question. I will get to the next one after.

Karen Maidment - ***Bank of Montreal - CFO & CAO***

In terms of the non-interest trading revenue, if you went to the supp pack on page 12 and you looked at it quarter-over-quarter, you would actually see that, with the exception of trading, pretty much everything is -- everything else is in line with what you would expect and certainly has maintained a level or grown since the previous quarter. So the biggest area that we have really been impacted on the revenue side in the non-spread type revenue is on the trading side.

Also, I would add though remember as I said at the outset of my comments, the fourth quarter of last year had a number of items that boosted revenue like the sale of the TSX shares, the sale of the Calgary building, the sale of Harris*direct* and they all influenced the year-over-year top-line revenue comparison.

Michael Goldberg *- Desjardins Securities - Analyst*

If we leave those items out though and just look at your net interest revenue excluding trading revenue and look at this margin on an overall basis for the bank, the way I look at it is it's improved in the third quarter and now it has weakened quite a bit in the fourth quarter. And as I said, I am just trying to get some idea if there is an element in that weakening that could be looked on as being sort of an irregular type of fluctuation. If so, what accounts for that?

And for the remainder, just to get some idea of where the prospects are for some relief from the margin compression and adverse mix conditions that have been taking place.

Karen Maidment *- Bank of Montreal - CFO & CAO*

So on the non-interest revenue, which is where I spoke to and I said the biggest factor there is the trading and the unusual items I referred to. On the net interest revenue or the margin, really it goes back to the margin points that I referred to and each of business is influenced by it. Frank spoke to the margin issue on P&C Canada. In the P&C, you asked. We are facing a very competitive marketplace and in IBG, there is some relationship between the trading revenues and the margins. So it is a little harder to get a direct linkage and that has actually some downward pressure.

But as I also said, the commercial loans, while the authorizations are up, the margins are down a little bit there as well. So not anything large and unusual that has driven the margins down that you could point to to say that they will widen out in the upcoming quarters.

Michael Goldberg *- Desjardins Securities - Analyst*

Okay. And my next question is just looking at your incentive comp in relation to brokerage underwriting and trading revenue and your trading revenue is down for the reasons we discussed and brokerage and underwriting are roughly flat from last quarter. But your incentive comp is up a little bit and I know that there is more things to incentive comp than just capital markets-related, but is there anything unusual in the accrual for incentive comp or is there a true-up in the fourth quarter that elevated the incentive comp for the quarter?

Yvan Bourdeau *- Bank of Montreal - Investment Banking*

Maybe I will answer that question since a lot of the incentive -- the variable comes from IBG. You are right that certain lines of business and trading revenue did come down. By the same token, we had a record M&A and also in other areas of IBG, we had also a very good fourth quarter that offset some of those reductions in revenue. And therefore, we have specific drivers that are attached to each of the different lines of businesses. We accrue them based on the contribution that each of these lines of business would provide to IBG and the overall enterprise obviously and therefore the accrual are taking place according to that.

By the same token, if you go back the last two or three years, Q4 especially in IBG is always a bit of a more unusual quarter if you wish because we actually close the books and then we nail down what the accruals are for each of our lines of business and there is always a little bit more fluctuation in the fourth quarter than you would have normally in previous quarter. So this quarter, Q4, if you compare it to last year for instance, there would be less of an adjustment, but it was also an adjustment taking into consideration the overall year performance.

Just to give you an example, we talked a lot about the trading revenue, but if you look on page 12, you will see that in fiscal '06, we generated $665 million, which is 13% higher than last year and 41% higher than the year before. So that accounts, even though the fourth quarter was somewhat softer than the previous one, nonetheless the overall year on the trading was actually quite good.

And one thing that we didn't speak under the interest rate bucket under the trading revenue. If you were to look actually at the performance of IBG, it would be about $23 million higher just because there was one corporate element that affected that number. So effectively then the revenue for IBG was $688, which means year-over-year would be a 17% increase over last year and 46% over '04. So that is the reason why maybe you maintain that the incentive comp in IBG may not totally align itself specifically with commodity revenue generation particularly.

Michael Goldberg - ***Desjardins Securities - Analyst***

Can I just explore that a little bit? You are saying that the interest rate bucket is up to $270 million for the year. And a lot of that difference appears to be in the fourth quarter. What accounts for the $66 million difference there?

Yvan Bourdeau - ***Bank of Montreal - Investment Banking***

You are referring to the year as $227, right, on interest rates?

Michael Goldberg - ***Desjardins Securities - Analyst***

No. You said that it is up $23 million from last year when it was $247.

Yvan Bourdeau - ***Bank of Montreal - Investment Banking***

No, no. I will rectify that. If you look at Q4 under 2006 interest rate, it shows a figure of 11. So from an IBG perspective, that number would be 34 because this line was affected by a corporate charge of $23 million. So what I am saying to you is this -- you may think that we generated only $11 million in interest rate revenue, but effectively our generation was $34.

Michael Goldberg - ***Desjardins Securities - Analyst***

So what is that $23 million corporate charge?

Karen Maidment - ***Bank of Montreal - CFO & CAO***

You know what, it was -- when I was talking about the corporate bucket and I said there are lots of pluses and minuses that would be one that would be a minus. There would actually be a plus in the $46 number underneath of $10 million that offsets it and there are all kinds of other pluses that offsets it. So it is all awash in the corporate market, but what Yvan is trying to show is that from IBG, the relationship between the performance comp and the revenue side, he is separating those two strands out. But I don't think it is that relevant for the overall bank analysis. I think it is relevant for the point about the variable comp.

Yvan Bourdeau - ***Bank of Montreal - Investment Banking***

Exactly.

Michael Goldberg - ***Desjardins Securities - Analyst***

Okay. I have a question also for Bill Downe and to his comments. Bill, you talked about aiming for double-digit loan growth in 2007. Should we be expecting risk weighted assets up double-digit also?

Bill Downe - ***Bank of Montreal - COO***

Well, what I was talking about was in personal and commercial banking in the U.S. and if you look at personal and commercial banking in the U.S. and you actually go to U.S. dollar terms, revenue grew at 8% in U.S. dollar terms. If you just look at the net interest income in the year in personal and commercial banking in the United States, it rose from $739 to $799. We have actually had very good loan growth at Harris in U.S. dollar terms. And our expectation is that we will continue to grow the loan book.

The net income similarly if you do the same conversion on the currency, the net income while it appears the same effect was in place with the currency that net income once again was flat in U.S. dollars with the additional expenses around conversion. So as those conversion costs come down, we are expecting to see the relationship between expense and revenue to improve. So we will continue to see good loan growth in personal and commercial banking in the United States. It should translate into earnings growth.

Just if you were to look at it in Canadian dollar terms if you actually want to understand how it works, the net interest increase in Canadian dollar terms for P&C U.S. is almost nothing because of the currency effect.

Operator

Mario Mendonca, Genuity Capital.

Mario Mendonca - ***Genuity Capital - Analyst***

I'll be very quick. Everything that happened in Q4 '06 on the commodity side, does that cause the bank to sort of scale back, pull the reins in a little bit because I noticed the VaR, the commodity VaR is actually down sequentially?

Yvan Bourdeau - ***Bank of Montreal - Investment Banking***

You saw the drop I think is to 5.5 the number is at the end of our Q4. And it doesn't mean that we are deciding to reduce our activities there. We have a very good platform. I think we were subjected to very difficult market conditions in Q4. We have a very good reputation in the marketplace and in fact, we continue to try to add new commodities clients to our roster and looking into '07, we always try to find new products. In fact, we have put in place a new platform system wide to offer to our clients base metal commodity services.

The reason for that once again is to piggyback on the strength that we have as an investment bank in the natural resources field where we have a tremendous number of mining clients that are in the base metal field. So we want to add -- we've given them very good advice from an investment banking point of view and also from traditional products, which is cash management and leading. But now we would like to add base metal trading as well.

So we intend to -- we think we are very cautious in terms of the risk profile that we take in that product line, but if you look at the experience that we have had throughout '06, we have increased our revenue from that product line by 34%. And that is despite a soft quarter in Q4. We have a very good team and we intend to continue to deploy it.

Mario Mendonca - ***Genuity Capital - Analyst***

That is precisely the point. Commodity trading absolutely spiked in Q4 '05 and went along nicely for a year. What I am getting at is do you see that level of trading revenue, what was observed from Q4 '05 until Q3 '06 or is it more -- will it be more reminiscent of what was -- what the sort of revenue platform or level that we saw prior to Q4 '05? That is the gist of my question.

Yvan Bourdeau - ***Bank of Montreal - Investment Banking***

I would say that you're absolutely right. We had unusual volatility in Q4 '05 in the first quarter also of '06 and then it started to trend downwards from that point on. I would say that we have reached a trough in Q4 and that you saw again just this week the price of oil going over $60 and I anticipate that there will be still some opportunity for us. The opportunity will probably not drive the same level of revenue that we have experienced in the last quarter of last year and the first quarter of this year. By the same token, it would be -- we will have a good, sustainable level of revenue emanating from that product line that would support the number that was provided to you by Karen earlier. In terms of overall trading revenue.

Mario Mendonca - ***Genuity Capital - Analyst***

Thanks. A question for Frank. The level of securitizations is down in the credit cards this quarter. BMO certainly doesn't strike me as a bank that needs the capital. It seems to me the level of securitization would help fund some of this outsized loan growth that we're seeing, the loan growth far outstripping the deposit growth. Is that a fair characterization?

Karen Maidment - ***Bank of Montreal - CFO & CAO***

Mario, it's Karen. We did a securitization because we thought it was a cost-effective source of funding and you're right, we don't need capital. But at the corporate level, it was cost effective funding and we get capital relief. So it seemed like it made sense from an overall capital management perspective.

Mario Mendonca - ***Genuity Capital - Analyst***

Which sort of takes me back to the deposit question then. What can be done here? Because I think you were clear in your opening comments, no so much you, Karen, but more Frank and others, that the deposit market share has come up substantially over the last say 12 to 18 months. What can BMO due to sort of at least stem the losses?

Frank Techar - ***Bank of Montreal - Head of P&C Canada***

Well, Mario, if you look at the primary reason for the decline, it all has to do with our premium rate savings account where we have seen a significant runoff in balances primarily over the course of the last six months, but over this year. The reason for that is we did not increase price on that product as interest rates started to come up over the year. We were managing the portfolio for yield.

So one of the things that we are doing in effect, we made a price change effective November 1. We have actually seen a little bit of positive evidence of balances moving up. So we think we have got some levers to pull I guess is the point around price for that particular product, but also we want to do some things from a performance management perspective and a sales management perspective in the branches to get at the core deposit growth as well. And that stems in from everything from focusing on our customer welcome offers to improving some of the efficiencies in the processes that we have got. So there are a number of things that we think we can do to address that.

By the way, we also think the investment in the people and investment in our branches make our platform a little more attractive for people to walk into and open an account. So there is no one silver bullet on the deposit side, but if you look at the decline, it has been primarily as a result of that PRS product and we made a conscious decision not to move our rate up earlier in the year and it affected the balances.

Operator

Ian De Verteuil, BMO Capital Markets.

Ian De Verteuil - ***BMO Capital Markets - Analyst***

Frank, just following up on Mario's point. In the early part of '06, there was an issue with respect to pricing deposits because the bank seemed to be very aggressive -- on pricing mortgages -- the bank was very aggressive on pricing mortgages and its mortgage market share held. Then you clearly backed off on premium rate savings and on pricing mortgages and then it market share falls. So going back to premium rate savings and saying you are now going to put through enhanced offers, aren't we just getting back on the old vicious circle again?

Frank Techar - ***Bank of Montreal - Head of P&C Canada***

Well, I think if you are operating on either one of the ends of the spectrum, the answer is yes. I think the challenge for us is to find that middle ground, but focus on the overall offer and make it attractive from a competitive perspective and that ties back into the whole issue of customer satisfaction and service. I don't want to compete on price. That will not be the intent going forward, but clearly it is a lever that we have to play with and we may have gone too far on the PRS product this year. So I don't know how to answer the question any other way other than I think it is going to require improvement in a number of different levers to get to this deposit issue for the P&C business.

Ian De Verteuil *- BMO Capital Markets - Analyst*

The second thing that seems to be weak in the quarter is the fee income in P&C Canada. If you look at non-interest revenue year-over-year, it is actually down and one of the truisms I think of Canadian banks is that fees never go down. So if I do the adjustment on the credit card offer and the credit card adjustment in the fourth quarter of last year, fees are virtually -- fees are actually down in a P&C bank.

Frank Techar *- Bank of Montreal - Head of P&C Canada*

We saw some positive movement in fees from banking products and credit cards and it was offset by a decline in securitization revenues and Jamie actually mentioned the mortgage refinancing fees were down about $8 million Q to Q. So we saw both a decline in the mortgage piece, which again we made the decision to back off and we have seen some decline in activity and we are evaluating that position and also securitization.

Operator

This concludes today's question-and-answer period.

Viki Lazaris *- Bank of Montreal - SVP IR*

Thank you, operator. Thanks very much for joining us today. If you have any further questions, please contact the investor relations group. Thanks and have a great afternoon.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time. We thank you for your participation and have a great day.