

# Additional Information

Transforming BMO's U.S. Platform

Acquisition of Marshall & Ilsley Corp



**BMO**



December 19 • 2010

# Forward Looking Statements & Non-GAAP Measures

## Cautionary Statement Regarding Forward-Looking Information

Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbour" provisions of, and are intended to be forward-looking statements under, the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements may involve, but are not limited to, statements with respect to the acquisition of M&I, plans for the acquired business and the financial impact of the acquisition and are typically identified by words such as "believe", "expect", "anticipate", "intend", "estimate", "plan", "will", "should", "may", "could" and other similar expressions.

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

Such factors include, but are not limited to: the possibility that the proposed transaction does not close when expected or at all because required regulatory, shareholder or other approvals and other conditions to closing are not received or satisfied on a timely basis or at all; the terms of the proposed transaction may need to be modified to satisfy such approvals or conditions; the anticipated benefits from the proposed transaction such as it being accretive to earnings, expanding our North American presence and synergies are not realized in the time frame anticipated or at all as a result of changes in general economic and market conditions, interest and exchange rates, monetary policy, laws and regulations (including changes to capital requirements) and their enforcement, and the degree of competition in the geographic and business areas in which M&I operates; the ability to promptly and effectively integrate the businesses of M&I and BMO; reputational risks and the reaction of M&I's customers to the transaction; diversion of management time on merger-related issues; increased exposure to exchange rate fluctuations; and those other factors set out on pages 29, 30, 61 and 62 of BMO's 2010 Annual Report. A significant amount of M&I's business involves making loans or otherwise committing resources to specific companies, industries or geographic areas. Unforeseen events affecting such borrowers, industries or geographic areas could have a material adverse effect on the performance of our integrated U.S. operations.

In calculating certain pro-forma impacts of the transaction and the \$800 million in additional common equity on our Tier 1 capital ratio and common equity ratio we have assumed our interpretation of the proposed rules announced by the Basel Committee on Banking Supervision (BCBS) prior to December 16 and our models used to assess those requirements are consistent with the final requirements that will be promulgated by BCBS and the Office of the Superintendent of Financial Institutions Canada (OSFI). We have also assumed that the proposed changes affecting capital deductions, risk-weighted assets, the regulatory capital treatment for non-common share capital instruments (i.e. grandfathered capital instruments) and the minimum regulatory capital ratios are adopted as proposed by BCBS and OSFI. We also assumed that existing capital instruments that are non-Basel III compliant but are Basel II compliant can be fully included in such estimate. Our estimates of expected RWA and capital deductions for M&I at closing are based on anticipated balances outstanding and credit quality at closing and our estimate of their fair value. It also reflected our assessment of goodwill, intangibles and deferred tax asset balances that would arise at closing. The full impact of the Basel III proposals has been quantified based on our financial and risk positions at October 31, 2010 or as close to October 31, 2010 as was practical. The Basel rules are not yet finalized and are subject to change, which may impact the results of our analysis.

Assumptions about current and expected capital requirements, M&I's revenues and expenses, potential for earnings growth as well as costs associated with the transaction, and expected synergies were material factors we considered in estimating the internal rate of return to BMO and our estimate of the acquired business being accretive to BMO's earnings in 2013.

In setting out our estimated credit mark, we considered our analysis of the M&I portfolio, our assumptions regarding consumer behaviour, future real estate market conditions and general economic conditions.

In calculating price to adjusted tangible book value we used IBES estimates to arrive at M&I's pre-provision after-tax earnings until closing of the transaction. This number is used for illustrative purposes only and actual results may differ materially from the IBES estimate

Assumptions about our integration plan, the efficiency and duration of integration and the alignment of organizational responsibilities were material factors we considered in estimating transaction and integration costs. BMO does not undertake to update any forward-looking statement, whether written or oral, that may be made, from time to time, by the organization or on its behalf, except as required by law.

## Non-GAAP Measures

Bank of Montreal uses both GAAP and non-GAAP measures to assess performance. Readers are cautioned that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies. Reconciliations of GAAP to non-GAAP measures as well as the rationale for their use can be found in Bank of Montreal's Fourth Quarter 2010 Earnings Release and Bank of Montreal's 2010 Management's Discussion and Analysis, all of which are available on our website at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations).

Examples of non-GAAP amounts or measures include: cash earnings per share and cash productivity; revenue and other measures presented on a taxable equivalent basis (teb); amounts presented net of applicable taxes, earnings which exclude the impact of provision for credit losses and taxes, and core earnings which exclude non recurring items such as acquisition integration costs.

Bank of Montreal provides supplemental information on combined business segments to facilitate comparisons to peers.

## Additional Information for Stockholders

In connection with the proposed merger transaction, BMO will file with the Securities and Exchange Commission a Registration Statement on Form F-4 that will include a Proxy Statement of M&I, and a Prospectus of Bank of Montreal, as well as other relevant documents concerning the proposed transaction. Shareholders are urged to read the Registration Statement and the Proxy Statement/Prospectus regarding the merger when it becomes available and any other relevant documents filed with the SEC, as well as any amendments or supplements to those documents, because they will contain important information. A free copy of the Proxy Statement/Prospectus, as well as other filings containing information about BMO and M&I, may be obtained at the SEC's Internet site (<http://www.sec.gov>). You will also be able to obtain these documents, free of charge, from BMO at [www.bmo.com](http://www.bmo.com) under the tab "About BMO - Investor Relations" and then under the heading "Frequently Accessed Documents" or from M&I by accessing M&I's website at [www.MICorp.com](http://www.MICorp.com) under the tab "Investor Relations" and then under the heading "SEC Filings."

BMO and M&I and certain of their directors and executive officers may be deemed to be participants in the solicitation of proxies from the shareholders of M&I in connection with the proposed merger. Information about the directors and executive officers of BMO is set forth in the proxy statement for BMO's 2010 annual meeting of shareholders, as filed with the SEC on Form 6-K on February 26, 2010. Information about the directors and executive officers of M&I is set forth in the proxy statement for M&I's 2010 annual meeting of shareholders, as filed with the SEC on a Schedule 14A on March 12, 2010. Additional information regarding the interests of those participants and other persons who may be deemed participants in the transaction may be obtained by reading the Proxy Statement/Prospectus regarding the proposed merger when it becomes available. Free copies of this document may be obtained as described in the preceding paragraph.

# Attractive Transaction Multiples

US\$ billions

Price to Earnings ("P/E")		Price to Tangible Book Value ("TBV")		Price to Adjusted TBV		
<b>Purchase Price</b>	<b>\$4.1</b>	<b>Purchase Price</b>	<b>\$4.1</b>	<b>Purchase Price</b>	(A)	<b>\$4.1</b>
LTM Pre-Provision Pre-Tax Earnings <sup>(1)</sup>	\$0.7	M&I Total Common Equity (9/30/10)	\$4.9	<b>M&amp;I TBV (9/30/10)</b>	(B)	<b>\$4.2</b>
Normalized Provision <sup>(2)</sup>	(0.2)	Less: Goodwill & Intangibles (9/30/10)	<u>(0.7)</u>	Estimated Future Credit Losses		\$4.7
Taxes (@ 35%)	<u>(0.2)</u>	<b>M&amp;I TBV (9/30/10)</b>	<b>\$4.2</b>	M&I Allowance for Loan Losses (9/30/10)		(1.4)
<b>LTM Normalized Net Income<sup>(3)</sup></b>	<b>\$0.3</b>			Tax Impact (@ 35%)		<u>(1.2)</u>
Fully Phased-In Synergies (After-Tax)	<u>0.2</u>			<b>Net Credit Mark Adjustment</b>	(C)	<b>\$2.2</b>
<b>LTM Net Income Including Synergies</b>	<b>\$0.5</b>			M&I Pre-Provision After-Tax Earnings Until Close <sup>(4)</sup> (IBES)	(D)	\$0.4
				<b>Adjusted TBV</b>	(E)=(B-C+D)	<b>\$2.4</b>
<b>Implied P / E</b>	<b>8.2x</b>			<b>Price / Adjusted TBV</b>	(A) / (E)	<b>1.71x</b>
Planned Capital Raise	\$0.8			Planned Capital Raise	(F)	\$0.8
<b>Adjusted P / E (Including Capital Raise)</b>	<b>9.8x</b>	<b>Price / TBV</b>	<b>0.98x</b>	<b>Price / Adjusted TBV (Including Capital Raise)</b>	(A+F) / (E+F)	<b>1.53x</b>

- Price to adjusted tangible book multiple reflects low book value resulting from the credit mark

1. LTM denotes last four quarters of M&I financial data.  
 2. Based on provision of 50 bps on LTM average loans of \$43 billion.  
 3. Excludes one-time charges, gain/losses on securities, and TARP dividends.  
 4. Assumes three quarters of M&I pre-provision after-tax earnings before close, beginning with Q4 2010.  
 Source: Company Disclosure, IBES.

# Frequently Asked Questions

## Internal Rate of Return

- IRR in excess of 15%
- 5-year estimate (including synergies, net of one-time charges) using a 12x trailing P/E terminal multiple
- Based on notional capital<sup>(1)</sup> targeted and maintained under fully-implemented Basel III regulations throughout the 5-year period

## Goodwill

- Estimated goodwill of approximately US\$2 billion
- Represents US\$4.1 billion purchase price less tangible book value at close, as well as additional purchase accounting adjustments (e.g., net credit mark, other balance sheet market value adjustments, DTA, core deposit intangibles)

## Credit Marks

- Estimated credit mark at close of US\$4.7 billion less net charge-offs from 9/30/10 until close
- Adjustment to book value at close will consist of estimated credit mark, less the Allowance for Loan Losses balance as at the closing date (balance of US\$1.4 billion as at 9/30/10)
- Allowance for Loan Losses balance following the acquisition close will be zero

## TARP Preferred Share Repayment

- TARP preferred share repayment of US\$1.7 billion to the U.S. Treasury will be funded from cash/securities

1. Notional capital amount at close of ~US\$6.8 billion, representing ~US\$3.5 billion for 7.5% of estimated M&I Basel III RWA at close of ~US\$47 billion, ~US\$2.0 billion for goodwill, ~US\$0.6 billion for DTA from tax loss carry-forwards, ~US\$0.2 for core deposit intangibles (net of DTL), and ~US\$0.5 for additional adjustments.

# Frequently Asked Questions

## Capital Raise

- Approximately C\$800 million equity issuance planned to maintain strong capital ratios
- Flexibility to raise capital in 2011 prior to close
- On a Basel II basis, pro-forma the acquisition and equity offering, BMO's Tier 1 Capital Ratio would be ~11.7% as at October 31, 2010

## Rating Agency Reaction to Transaction

- Credit ratings<sup>(1)</sup> confirmed by DBRS (AA), S&P (A+), and Fitch (AA-)
- Moody's has placed credit rating<sup>(1)</sup> (Aa2) on review for downgrade

## Considerable Integration Experience

- Both BMO and M&I management have considerable experience completing successful integrations
  - ▶ BMO has completed 12 acquisitions (C\$2.2 billion) in the last five years, including four by BMO P&C U.S. (C\$0.9 billion)
  - ▶ M&I has completed nine acquisitions (US\$1.8 billion) in the last five years

1. Credit ratings based on DBRS Long-Term Deposit & Senior Rating, S&P Long Term Rating, Fitch Long-Term Issuer Default Rating, and Moody's Long Term Rating

# Investor Relations Contact Information

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The letters 'BMO' are rendered in a bold, white, 3D sans-serif font, casting a soft shadow on the grid below. The background is a blue sky with a white grid pattern that recedes into the distance.

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