



## ACQUISITION OF FIRST NATIONAL BANK & TRUST (FNBT)

BMO  Financial Group

September 27 • 06



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## FORWARD-LOOKING STATEMENTS

### CAUTION REGARDING FORWARD-LOOKING STATEMENTS


Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this presentation, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995 and of any applicable Canadian securities legislation. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives and priorities for 2006 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price, and the results of or outlook for our operations or for the Canadian and U.S. economies.


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

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

We caution that the foregoing list is not exhaustive of all possible factors. Other factors could adversely affect our results. For more information, please see the discussion on pages 29 and 30 of BMO's 2005 Annual Report concerning the effect certain key factors that may affect BMO's future results. When relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Bank of Montreal does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by the organization or on its behalf.

Assumptions on how the Canadian and U.S. economies will perform in 2006 and how that impacts our businesses were material factors we considered when setting our strategic priorities and objectives, and in determining our financial targets for the fiscal year, including provisions for credit losses. Key assumptions included that the Canadian and U.S. economies would expand at a healthy pace in 2006 and that inflation would remain low. We also assumed that interest rates would increase gradually in both countries in 2006 and that the Canadian dollar would hold onto its recent gains. We believe that these assumptions are still valid and have continued to rely upon them in considering our ability to achieve our 2006 financial targets. In determining our expectations for economic growth, both broadly and in the financial services sector, we primarily consider historical economic data provided by the Canadian and U.S. governments and their agencies. Tax laws in the countries in which we operate, primarily Canada and the United States, are material factors we consider when determining our sustainable effective tax rate.





## KEY TERMS OF ACQUISITION

- Privately held, 32-branch community bank located throughout the Central Indiana Region
  - ▶ 10 branches in Indianapolis, balance in surrounding communities of Kokomo and Terre Haute
  - ▶ Over 350 employees
  - ▶ Other services include trust, investment, broker-dealer and insurance services
- Cash Purchase Price: US\$290MM
- Excluding one time items, the transaction is modestly accretive to cash earnings per share in year 1
- Non-capitalized one-time items of approximately US\$20MM
- LTM P/E of 24.8x (excludes one-time items of US\$7.3MM after tax and assumes 35% tax rate ) and P/B 2.2x. P/E of 21.8x based on annualized YTD '06 earnings
- Structure that allows deductibility of purchase price premium for tax and certain pre-closing adjustments to book value result in lower effective multiples estimated to be: LTM P/E 22.5x (excluding one-time items), P/B 1.9x

**FNBT Assets (US\$MM)**

F03	F04	F05	June 06
1,459	1,379	1,253	1,259

**FNBT Loans (US\$MM)**


F03	F04	F05	June 06
796	774	792	837


**FNBT Deposits (US\$MM)**

F03	F04	F05	June 06
929	847	883	923

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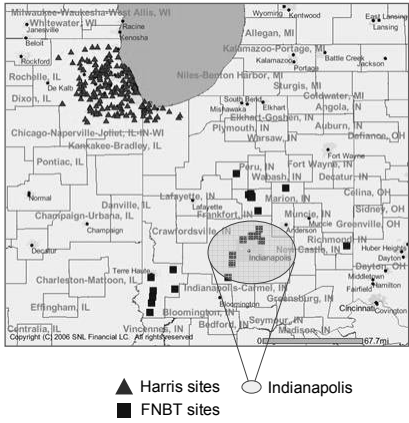
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## FNBT FITS STATED ACQUISITION CRITERIA

- Strategic fit:
  - ▶ Natural extension of Harris further into Indiana and attractive Indianapolis market
  - ▶ As both a commercial and retail bank, provides a full service platform from which to expand
- Cultural fit:
  - ▶ Lending practices within Harris standards
  - ▶ Community banking model
- Financial Fit:
  - ▶ IRR in line with target of 15%
  - ▶ Excluding one-time items, the transaction is modestly accretive to cash earnings per share in year 1



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## INDIANAPOLIS MARKET - ATTRACTIVE FIT

- Indianapolis is an attractive market for Harris:
  - ▶ Projected to be 2nd fastest growing MSA in the Midwest based on both population and median household income from 2006-2011
  - ▶ Projected population growth from 2006-2011 is 9.1%
  - ▶ Median household income above average for Midwest MSAs
- Indianapolis market is a natural extension for Harris:
  - ▶ One of the largest markets in close proximity to Chicago
  - ▶ Complements the Mercantile acquisition in Northwest Indiana
- The brand presence will support the Harris Business Banking line of business' planned expansion into the Indianapolis market
- Opportunity to leverage customer base by adding private banking and wealth offering as Indianapolis business banking grows

(All statistics source: SNL DataSource)



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## FINANCIAL REVIEW - FNBT

- Recent low level of growth reflects now-completed turnaround activities.
- Productivity ratio has declined from 75.4% in the first half of 2005 to 64.2% in the first half of 2006 – reflects recent initiatives and restructuring
- Commercial and retail bank – diversified business mix

**Revenue (US\$MM)**

03	04	05	YTD 06
54.7	48.7	47.7	28.6

Six months

**Loan Portfolio at 6/30/06 (%)**

1 <sup>st</sup> Mortgage	29
Commercial R/E	27
Home Equity	16
Commercial	15
Construction	10
Consumer	2
Other	1

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## ACQUISITION METRICS - MULTIPLES IN LINE

Comparables	Price / Book	Price / Tangible Book	LTM / Earnings	Deposit Premium
FNBT at US\$290MM purchase price	<b>2.2x</b>	<b>2.7x</b>	<b>24.8x</b> <sup>(1)</sup>	<b>17.2%</b>
FNBT adjusting for tax structure <sup>(2)</sup> and pre-closing adjustments estimated to be:	1.9x	2.3x	22.5x	-
Median for Metro Indiana comps*	2.3x	2.4x	31.5x	17.6%
Median for Indiana comps*	1.7x	1.7x	25.2x	10.5%
Median for Chicagoland comps*	2.6x	2.6x	20.5x	14.9%
Median for Midwest comps*	2.1x	2.4x	19.8x	13.3%

<sup>(1)</sup> Earnings adjusted to exclude US\$7.3MM of one-time items related to the early extinguishment of certain borrowings and hedging instruments and assumes a 35% tax rate. Using annualized YTD '06 earnings, P/E is 21.8x

<sup>(2)</sup> Tax structure results in purchase price premium being deductible for tax purposes

\*Source: SNL



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