BMO Financial Group

Q4 2007 CONFERENCE CALL

CORPORATE PARTICIPANTS

Viki Lazaris
BMO Financial Group – SVP, IR

Bill Downe
BMO Financial Group – President and CEO

Tom Flynn
BMO Financial Group -EVP Finance, Treasurer and Acting CFO

Bob McGlashan
BMO Financial Group – EVP and Chief Risk Officer

Yvan Bourdeau
BMO Financial Group - CEO, BMO Capital Markets

Frank Techar
BMO Financial Group –President and CEO, P&C Canada

Gilles Ouelette
BMO Financial Group – President and CEO, Private Client Group

CONFERENCE CALL PARTICIPANTS

Jim Bantis
Credit Suisse - Analyst

Ian de Verteuil
BMO Capital Markets - Analyst

Andre Hardy
RBC Capital Markets - Analyst

Darko Mihelic
CIBC World Markets - Analyst

Michael Goldberg
Desjardins Securities - Analyst

John Aiken
Dundee Securities - Analyst

Sumit Malhotra
Merrill Lynch - Analyst

Mario Mendonca
Genuity Capital Markets - Analyst

Robert Sedran
National Bank Financial - Analyst

Brad Smith
Blackmont Capital - Analyst

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 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 harbor' 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, comments with respect to our objectives and priorities for 2007 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 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.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic and market 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 impacts on local, national or international economies; 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 28 and 29 of BMO's 2006 Annual Report, which outlines in detail 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 about the performance of the Canadian and U.S. economies in 2008 and how that will affect our businesses are material factors we consider when setting our strategic priorities and objectives, and in determining our financial targets, including provision for credit losses. Key assumptions include that the Canadian economy will expand at a moderate pace in 2008 while the U.S. economy expands modestly, and that inflation will remain low in North America. We also have assumed that interest rates in 2008 will decline slightly in Canada and the United States, and that the Canadian dollar will trade at approximately parity to the U.S. dollar by the end of 2008. 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. Assumptions about the terms of any agreement we enter to transfer our liability for future customer redemptions, or to change the cost structure, relating to our customer credit card loyalty rewards program are material factors we considered in assessing expected changes in the run-rate costs of the program. 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.

PRESENTATION

Operator

Please be advised that this conference call is being recorded. Good afternoon and welcome to the BMO Financial Group's fourth-quarter 2007 conference call for November 27. Your host for today is Viki Lazaris, Senior Vice President of Investor Relations. Ms. Lazaris, please go ahead.

Viki Lazaris *- BMO Financial Group - SVP IR*

Thank you. Good afternoon, everyone, and thanks for joining us today. Presenting today are Bill Downe, BMO's CEO; Tom Flynn, Treasurer and Acting Chief Financial Officer; and Bob McGlashan, our Chief Risk Officer. The following members of the management team are also here this afternoon. Yvan Bourdeau from BMO Capital Markets; Gilles Ouellette from the Private Client Group; Frank Techar, head of P&C Canada; Ellen Costello, from P&C US; and Barry Gilmour, head of Technology and Operations.

After the presentation, the management team will be available to answer questions from prequalified analysts. To give everyone an opportunity to participate, we ask that you please ask one or two questions then requeue.

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 these forward-looking statements.

You may find additional information about such material factors and assumptions and the material factors that could cause actual results to so differ in the caution regarding forward-looking statement set forth in our news release or on the investor relations website. With that said, I will hand things over to Bill.

Bill Downe *- BMO Financial Group - President, CEO*

Thanks, Viki, and good afternoon, everyone. As noted, my comments may also include forward-looking statements. Before reviewing our results I would like to take a moment to acknowledge the many calls and emails we received regarding our Chief Financial and Administrative Officer, Karen Maidment. As many of you know, Karen has taken an illness-related leave from the Bank. On her behalf I would like to thank everyone for the best wishes they have sent along; and like them, look forward to Karen's return to work.

As Viki said, until that time Tom Flynn, our Executive Vice President Finance and Treasurer, is acting as Chief Financial Officer and will be participating in the call.

Moving to today's business, as we look back on the year and the fourth quarter, our core businesses performed well in the face of very significant issues. We had record earnings in P&C Canada, in the Private Client Group, and the best quarter ever for P&C US, measured in US dollars.

Looking back on the challenges of the last nine months, I take great confidence in the resiliency of our businesses.

In the fourth quarter of 2007 we reported net income of $452 million after $275 million in after-tax charges related to various items, most notably in capital markets. Excluding these items, the Bank generated net income of $727 million and a return on equity of 20%. Tom is going to review the numbers in more detail in a few minutes.

For the full year, we reported net income of $2.1 billion. As you know, we dealt with a number of significant issues in 2007, both internal and external. These resulted in $787 million in after-tax charges, which are included in these results.

Charges which related to capital markets, commodities, restructuring, and an increase in our general allowance clearly weighed heavily on our reported results in 2007; and despite these conditions we earned a return of 14.4%. This is a testament to the diversified earnings power of the Bank both by geography and source of earnings.

Over and above this, our annual results excluding the charges reflect an ROE of 19.8%, once again highlighting the resiliency of the business and the strong fundamentals in our core operations.

Moving to slide 4, let me briefly review the year's highlights by business. P&C Canada delivered a record $1.25 billion in net income, up 9% for the year. This business is fundamentally stronger and better positioned than it was 18 months ago, reflecting our success in executing against a clearly defined personal and commercial strategy. It is showing up in our numbers with visible growth in high spread loans and cards.

As you know, underpinning our growth plan is our commitment to customers. We put dollars behind the commitment in 2007 by adding 22 branches and redeveloping 31 branches. That is the most we have completed in a year.

We also added over 900 full-time employees to the Group, over 90% of those in client-facing roles. 25% of the new hires are part of our specialized work force which includes mortgage specialists, commercial account managers, and financial planners.

Profitability of mortgages in our portfolio is improving due to a higher proportion of branch originated mortgages, and our focus on deposits has been successful with good growth in commercial deposits. I might add, a priority for the Group is to grow personal deposits.

P&C US is a very good story, earning US$105 million, which includes acquisition related expenses. Looking at the performance excluding these costs, Q4 represented the fourth consecutive quarterly increase in net income. While the stars definitely lined up in this quarter with 51% year-over-year growth, the fundamentals of the business are stable.

The cash productivity ratio excluding acquisition and integration costs improved to 69.7% in the quarter. We have a high-quality portfolio, and we have recruited qualified senior bankers from the competition. As competitors in the mortgage business withdraw in the current environment, our consistent approach stands out in the marketplace.

Private Client Group also had a record year with net income up 15% to $408 million. Cash productivity for the year was 69.2%, while we continue to invest in the business and add more client-facing staff. In fact we added 75 private bankers. Q4 net income was up 27% compared to the year prior and all lines contributing to growth.

Earlier this year, we announced the acquisition -- or this month, rather, we announced the acquisition of UK based Pyrford International to strengthen our institutional asset management business with the addition of international equities.

Moving to BMO Capital Markets, net income of $425 million was down significantly from the prior year. The reported results should not obscure the fact that a number of our businesses performed very well. Investment and corporate banking, our client origination business, generated great results in both Canada and the US, driven by strong balance growth and an increase in the customer base which translated into revenue growth. Clearly, our trading business had a more challenging year, with charges related to commodities in capital markets.

On November 16, we released advance information about asset revaluation in the quarter. At this point, I would like to talk briefly about our statement that we would participate in the senior debt of two SIVs.

I know you're going to have questions about our position and market conditions in general, and we're going to have an opportunity to discuss those in the Q&A. But Bob is also going to provide additional details on the risks of the Bank relative to the current market events.

The assets in the SIVs are high quality and, from our perspective, we believe our decision to purchase senior notes, combined with the purchases by other investors, will assist the SIVs in restructuring. We should note that they have made good progress to date.

The loss in the commodities business in the fourth quarter was $24 million, down significantly from the three prior quarters. This improvement is a reflection of success in reducing both the size and risk of the portfolio. We are on track and we're comfortable with our progress.

Wrapping up the review of 2007, I would like to give you an update on the $135 million restructuring charge that we announced in January. At this point, we're ahead of schedule, and since January we have eliminated 840 jobs. The program has been very successful in highlighting additional opportunities in support of this initiative. In the fourth quarter, we took a further $40 million charge, in part offset by a reversal of $16 million of the initial charge as we have been able to redeploy more staff than initially anticipated.

Moving to slide 5, today's press release also highlights our 2008 financial targets. Tom will discuss the specific measures. These targets reflect earnings momentum and solid growth across all of our businesses while anticipating a weaker credit environment. They reflect confidence in our underlying business and their teams, their increased focus we're placing on the customer. Our expectation is that the latter half of the year will be stronger than the first half.

In P&C Canada we expect margin pressure resulting from higher wholesale funding costs to continue in the first half of the year, but to improve thereafter, while competitive pressure on spreads will continue throughout the year. The Group remains committed to maintain a revenue-to-expense growth differential of 300 basis points over time, underlining the continuing emphasis on the control of expense.

We're introducing attractive new products and offers on a frequent basis. Just last week, for example, we announced that we will pay a portion of the new City of Toronto land transfer tax on behalf of customers who arrange a mortgage by February 29, 2008. I am hoping that many people on the call today will be submitting applications for loans.

In P&C US our focus is on improving our net income, net of integration costs. Acquisition integration costs will recur in 2008, although the timing may be lumpy as we integrate another two acquisitions. While the first quarter would have to be extraordinary to match Q4, I am looking for a stronger 2008 than 2007.

PCG has consistently delivered strong performance and we expect that to continue. The systematic approach to sales force productivity and new products for the clients continues to strengthen our competitive position.

The environment in which BMO Capital Markets operates will continue to be unsettled at least for the first half of 2008, but the focus will be on lower volatility in our trading businesses, as the losses in 2007 were outside our risk tolerance, notwithstanding a difficult market environment. Our goal is that this business will generate a return on equity in access of 20% consistently.

To be sure, 2007 was a challenging year. However, I can say with equal certainty that it was a year in which we made tangible progress in each one of our businesses, and that is progress that I expect to see in our financial results. With that, Tom, I will turn it over to you.

Tom Flynn ***- BMO Financial Group - EVP Finance, Treasurer, Acting CFO***

Thank you, Bill and good afternoon. Certain of my comments may be forward-looking, so please note the caution regarding forward-looking statements.

On slide 3, on the far left-hand side of the chart, you can see that fourth-quarter earnings were $452 million or $0.87 per share, down 36% year-over-year. There were a number of significant items this quarter that lowered earnings by $275 million or $0.55 per share. Excluding these items, earnings were $727 million, and revenue and expenses increased 3.7% and 1.1%, respectively.

Our return on equity was over 12% on a reported basis and almost 20% excluding significant items. The Tier 1 ratio remained strong at 9.51%.

Slide 4 shows the significant items in Q4 that make up the $275 million charge. The first three items on the slide total $318 million pretax and are related to difficult capital market conditions. We recorded a charge of $169 million related to trading structured credit-related positions and preferred shares. These losses largely reflect difficulties in credit markets.

We recorded a charge of $134 million related to Canadian asset-backed commercial paper. This includes $80 million related to holdings in BMO-sponsored conduits for which we do not provide backup liquidity commitments; and $54 million for holdings of commercial paper issued by non-bank-sponsored conduits. Both write-downs reflect a 15% discount.

We also recorded a charge of $15 million for our approximately $70 million investment in capital notes of the Links and Parkland SIVs.

In addition to these market-related items, this quarter we had commodity losses of $24 million; a general allowance increase of $50 million; and a $24 million net restructuring charge. In total, these items reduced earnings by $275 million after-tax.

As you are aware, there were other items recorded in P&C Canada, a gain on the sale of MasterCard shares of $83 million after-tax and a recovery of prior year's income taxes of $43 million. These items were offset by a $120 million after-tax adjustment to increase the liability for future customer redemptions in our credit card loyalty rewards program. Together, these items largely net.

Adjusting for the significant items totaling $275 million after-tax, the P&C Canada items I mentioned, and an $18 million prior year's income tax recovery, cash EPS would have been approximately $1.39.

On slide 5, you can see that quarter-over-quarter EPS is down $0.41 to $0.89 on a reported basis. Removing the significant items in each quarter, the decrease is $0.05. The negative operating growth in the quarter was due to lower net interest income in P&C Canada and softer capital market performance.

On a year-over-year basis, EPS is up $0.11 to $1.44, excluding significant items. There was volume growth in a number of areas in P&C Canada, strong results in P&C US, broad-based revenue growth in the Private Client Group, and improved performance in lending, foreign exchange trading, and commission revenue in BMO Capital Markets, all contributing to this growth.

On slide 6, looking at fiscal 2007, operating growth was strong despite the significant items recorded. P&C Canada achieved record net income with good volume growth in a number of product areas. Private Client Group also had record net earnings with all of its lines of business contributing and P&C Canada was up year-over-year in US dollars. Excluding commodity losses and the charges in the fourth quarter, BMO Capital Markets performed well with strong growth in a number of its businesses.

Moving to slide 7, you will see that revenues were down 14% quarter-over-quarter or 6% excluding the significant items. The impact of the loyalty rewards program liability and MasterCard's share gain netted to a $78 million decrease. This represents approximately half of the revenue decline, excluding the significant items. Lower margins in P&C Canada, weaker capital markets, and the exchange rate also contributed to lower revenue.

Year-over-year revenues decreased 10% on a reported basis but increased 3.7% excluding the significant items. BMO Capital Markets had increases in trading products, foreign exchange, and interest rate-sensitive businesses. P&C Canada's commercial banking segment was up 4.5% as both commercial loans and deposits grew, offsetting lower margins.

Turning to slide 8 on net interest margin, net interest income was $1.2 billion in Q4; flat year-over-year; and down 4.7% quarter over quarter. The net interest margin was down 15 basis points.

BMO Capital Markets declined due to lower spreads on money market assets and growth in lower spread corporate loans. P&C Canada's margins were down largely due to increased wholesale cost of funds and lower mortgage refinancing fees.

Year-over-year, margins were down 30 basis points. The main drivers were BMO Capital Markets representing a larger share of assets, and within BMO Capital Markets an increase in lower spread assets.

On slide 9, noninterest revenue decreased $304 million quarter-over-quarter and $242 million year-over-year. Excluding the significant items as well as the MasterCard share sale and charge for the loyalty reward program, noninterest revenue decreased $44 million quarter-over-quarter and increased $168 million year-over-year.

On this basis, Q4's trading revenue was down $20 million versus Q3 due to lower interest rate and equity trading.

On slide 11, you can see that we are focusing on expense management, with expenses reasonably flat over the year.

Turning to expenses again on slide 12, expenses were down 0.2% quarter-over-quarter and up 2.6% or $42 million year-over-year. The increase in expenses year-over-year is primarily due to higher computer costs and professional fees, offset in part by lower capital tax expense and performance-based comp.

There has been significant increase in front-line staff in P&C Canada and the Private Client Group. The resulting increase in costs has been offset by lower costs in corporate.

On a quarter-over-quarter basis, the decrease in expenses was primarily due to lower performance-based comp in line with slowing capital markets activities as Q3 was strong. This decrease was in part offset by net restructuring costs and higher business promotion costs.

On slide 14, you can see that the Tier 1 Capital Ratio of 9.51% increased quarter-over-quarter. The ratio remained strong and is well above our minimum target. The Tier 1 capital increased this quarter with the issuance of preferred shares and the reclassification of a Harris capital security to Tier 1 capital.

Risk-weighted assets decreased due to lower mortgage risk-weighted assets in P&C Canada as a result of initiatives to manage capital on a cost-effective basis, and lower US risk-weighted assets due to the stronger Canadian dollar. The increase in BMO Capital Markets risk-weighted assets in Q3 was, as we said at the time, largely a result of higher market risk due to the adoption of a more conservative translation of certain of our risk positions for regulatory capital purposes.

In Q4, the majority of the increase in capital markets is due to the adoption of global-style backup liquidity lines on our Canadian asset-backed commercial paper. Our total capital ratio, you can see, was 11.74% at the end of the year.

Turning now to slide 15 and our '07 targets. Given the commodity losses, the capital market issues in the fourth quarter, we did not hit our '07 targets, with the exception of the PCL target.

Moving to '08 on slide 16, you can see the targets that we announced today. These targets reflect the management team's commitment to continuing to improve operating performance. The targets are based on our expectation of achieving economic growth in line with the growth talked about in our comments in the press release and based on the expectations that momentum will build through the year, as capital markets return to more normal levels, with this someone offset by higher credit costs.

Our targets are as follows. EPS growth of 10% to 15% off a base of $5.24 per share. This base excludes the commodity losses, the restructuring charges, and the increase in the general that we had in Q4. This translates to an '08 EPS of $5.76 to $6.03.

Specific PCLs $475 million or less, and Bob will address this further. Operating leverage of 2%; and ROE of 18 to 20%, and a Tier 1 Capital Ratio of at least 8%.

In 2008, the total Bank tax rate will be reported on a non-TEB basis. We expect the current sustainable tax rate to be 21% to 24% in fiscal '08 on a non-TEB basis. This is effectively 1% below our previous guidance, the guidance for '07, which was 25% to 28% on a TEB basis. With that, I will turn things over to Bob.

Bob McGlashan ***- BMO Financial Group - EVP, Chief Risk Officer***

Thanks, Tom. Good afternoon. Before I begin I would like to draw your attention to the caution regarding forward-looking statements on slide 2. I will begin with a review of our participation in the asset-backed commercial paper market, followed by an update on our commodities portfolio, and finish with a review of credit quality.

Turning to current market concerns, slide 3 provides an update on exposure to subprime and asset-backed commercial paper. The slide also summarizes the Q4 write-downs, excluding the $169 million in trading and structured credit-related positions and preferred shares referenced by Tom.

As noted in the prior quarter, we have no material exposure to the US subprime mortgages and neither BMO nor any of its subsidiaries originates subprime mortgages. With respect to BMO-sponsored Canadian ABCP programs that we provide liquidity for, the paper issued by these conduits continues to roll in the market. However, due to reduced demand in the Canadian market, we held higher levels than normal of inventory for our Canadian conduit, at $6.2 billion at year end. This has since been reduced to $5.6 billion.

Our inventory continues to decline with returning demand for this high-quality paper. Of note, the underlying assets within these programs all remain investment-grade rated.

As noted previously, nominal exposure to US subprime residential mortgages within the [US$]11.4 billion program was held in the form of a warehouse facility provided for the purchase at a discount of defaulted mortgages, some of which are subprime. The risk associated with the facility has increased over the quarter; and in order to not affect continued access to funding for the conduit, we will be removing this facility, which represents less than 5% of the total, from the program.

There's no incremental risk to the Bank as we already provide the liquidity backstop line; and there is no P&L impact from this action. At this time, we do not anticipate any material loss from this transaction, which has a solid loan-to-value in the 75% range for two-thirds of the book, with the balance at a stronger coverage ratio. As well, we hold a first-loss protection note.

As a commercial paper market maker for BMO-sponsored Canadian conduits, where we do not provide a liquidity backstop facility -- this is in the third section from the top -- we have acquired $546 million of paper. The underlying assets are AAA rated, super senior advances in CDOs comprised of diversified corporate exposures with no direct exposure to US residential subprime mortgages.

The aggregate paper is held by a small number of investors. We are in discussions on restructuring alternatives regarding this conduit. We hope to have a resolution by the end of Q1.

We provide a US$1.1 billion in liquidity backup facilities to third-party asset-backed conduits in the US made up of auto-related securitizations and financial-based conduits. There is no exposure to US residential subprime mortgages.

Two of the three financial-based conduits have drawn under the liquidity lines, given market concerns which have impacted their ability to fund. Current advances are US$174 million. However, asset quality remains acceptable, and we do not anticipate any losses. The auto-based securitizations are not experiencing any funding issues to date.

We do not provide liquidity backup facilities to non-bank-sponsored asset-backed programs in Canada. Acting in our capacity as a commercial paper market maker, however, we held $362 million of paper prior to this sector becoming frozen, the majority of which is under the Montreal accord. Our realization on these investments will be affected by the outcome of the accord.

BMO is also the sponsor and manager of two UK-based structured investment vehicles, Links and Parkland. You'll find more detail on these vehicles on slides 15, 16, and 17 in the appendix. Overall, Links and Parkland have high-quality portfolios with minimal direct exposure to subprime mortgages.

The weighted average rating of the portfolios is AA with a blend of exposures to financial institutions and securitizations. Amongst the securitizations, nothing has been downgraded by either rating agency since the turmoil began in August, in spite of widespread downgrades within the industry during that period.

Links has a current asset value of US$18.7 billion and Parkland at EUR2.5 billion. Since late August, sales of these assets have accumulated to US$4 billion for Links and EUR820 million for Parkland. None of these asset sales have been to BMO.

Sales have represented a fairly good cross-section of the assets. Total discounts on sales to date have not exceeded 40 basis points, providing some evidence of the high quality of the assets in these vehicles.

We hold equity investments of US$50 million in Links and EUR14 million in Parkland out of a total capital of US$1.87 billion and EUR244 million, respectively.

To put the 20% valuation adjustment to the equity investments in perspective, and recognizing the leverage in these vehicles, discounts on the sale of the remaining assets would have to be 5 times as great as the average we have experienced to date to equate to this adjustment. Consequently, we believe it is unlikely that any meaningful loss to senior debt holders in Links and Parkland would occur.

In light of this, we have made available up to US$1.6 billion to participate in the senior debt to provide the vehicles with the time to execute their shorter-term liquidity strategies and to develop longer-term solutions. This support includes the existing liquidity lines of US$125 million and EUR75 million, which are not expected to be drawn.

Our view of the strong asset quality of these vehicles is shared by both existing senior debt holders and capital note holders, as US$500 million of additional senior debt funding has been made available from the capital note holders, in addition to US$600 million of additional senior debt funding from existing senior debt investors. Collectively, these facilities in conjunction with the provision of $1.6 billion of repo facilities provided by third parties and continued asset sales cause us to remain confident we can effectively work through the current market issues without meaningful additional loss.

Finally, on slide 3, we have nominal exposure to LBO underwriting and continue to manage our exposure to hedge funds on a conservative and well-defined basis.

Given the related concern with the viability of monoline insurance providers and the exposures they may have to the US subprime market, we have completed a review of our reliance on these insurers across our portfolios. We have only one monoline with which we had some concern and have them under review. Our mark-to-market exposure should that company fail would be approximately $90 million. However, at this time, we do not anticipate any losses.

The sum of our direct mark-to-market exposure to all of the other monoline insurers is less than $135 million. At this point there are no others in the group that we're particularly concerned about.

Turning to slide 4 and our commodities book, you can see the material reductions in MVE, fair value, notional outstandings, and net open interest from the peak of our risk exposure last January. Q4 continued that trend, with MVE operating at our target level.

We are on track with our risk-reduction plan for this book. While the book is still larger than required to support our client business flow, the majority of the target risk reduction has been achieved.

The significantly reduced pre-tax loss of $24 million in Q4 related primarily to risk-reduction activities and provides further evidence of a risk position that is getting close to our sustainable targets. However, the volatility associated with this book is high by its nature, making future gains and losses difficult to predict.

As you can see on slide 5, BMO's credit performance met our revised expectations for the year, with 2007 specific PCL coming in at $303 million, in line with our revised estimate of $300 million or less. While up 44% over '06, it is still less than our original forecast of $400 million for the year.

Recognizing the purpose of the general allowance is to provide for losses not yet identified within our performing portfolio, we booked a $50 million increase to reflect portfolio growth in Q4 as well as some negative risk migration. As adjusted, we're comfortable with the coverage this provides relative to our performing portfolio at this point in the credit cycle.

Slide 6 shows an increase in the US consumer delinquencies. However, delinquencies are still low and the portfolio is sound.

On slide 7, provision for credit losses were $151 million for the quarter, including the $50 million increase in the general allowance. The increase over the prior quarter and year are primarily related to a single credit that was designated as impaired in the quarter, most of which has been written off. Q3, as you recall, included an isolated loss in our Canadian mortgage business unrelated to subprime.

On slide 8, new specific provisions have increased, however, allowing for the loss related to the single transaction, remain in line with our prior eight quarters' experience.

On slide 9, on a comparative basis, fiscal '07 specific PCL represents 15 basis points of average net loans and acceptances, and remains below our 15-year average of 34 points and the Canadian peer group average of 56 for the same period.

As seen on slide 10, both gross impaired loan formations and balances remain at historical lows.

Turning to slide 11 and looking forward, we're anticipating current market events to produce a weaker credit environment in fiscal 2008, with additional pressure provided by high energy prices and a strong Canadian dollar. The weakness is being led by the US, off the back of the subprime mortgage problem, and poses associated risk for the Canadian economy.

Overall for fiscal 2008, we expect new specific provisions to be higher, and reversals and recoveries to be lower than in fiscal 2007. We anticipate specific provisions in fiscal '08 to be $475 million or less or 24 basis points of average net loans and acceptances, consistent with this period in the cycle and still well below our 15-year average of 34 points.

As shown on slide 12, absent the large losses on August 31 and October 31, which were driven by the valuation adjustments addressed in Tom's remarks, our trading and underwriting portfolio remained relatively stable and profitable during the quarter.

The largest daily P&L gains for the quarter were $18.7 million on September 26, primarily related to gains in Canadian equity positions, and $16.9 million on October 29, driven in part by dividend payments on equity positions. With that, I will turn it back to the operator to take questions.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS) Jim Bantis from Credit Suisse.

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

Hi, good afternoon. I have just got two questions. Bob, I certainly appreciate all the data you provided us with respect to the SIV exposure. But I am wondering, perhaps without a lot of the numbers, you can just walk us through in terms of the confidence you see that the $1.6 billion really won't become impaired and there won't be another restructuring. You talked about asset sales, you talked about the level of capital. But if you could just kind of simply walk through that, where you get that confidence from.

Then secondly, the question I have got is for P&C Canada, for Frank. You know, I hear management's optimism in terms of some of the measures that you are showing in terms of improvements within the regional operations. But if we look at the $286 million contributed this quarter, it's actually the lowest of the four quarters this year. Maybe we can -- outside of the three adjustments that were highlighted, what are some of the issues that maybe have taken down revenues or highlighted expenses this quarter that won't be a run rate going forward? Thank you.

Bob McGlashan ***- BMO Financial Group - EVP, Chief Risk Officer***

Thanks, Jim. The first question, a couple things I mentioned. Number one, we have sold a fair volume of assets in both of those vehicles to date, and they represent a pretty good cross-section of all the asset classes in there. There is a slight bias to the more liquid assets, but it is still pretty representative.

The discount, right up to and including very recent days, has been pretty modest that we have had to take on those assets. We know what is in there. Looking at the asset quality of what is there, we are very comfortable with it, that none of it would produce a loss given the opportunity to run to maturity.

Compounded with what we are able to sell into a pretty tough market at a very, very low discount, it is hard to see how we would end up burning through the equity notes.

40 basis points, as I mentioned, we would have to experience discounts 5 times that large just to address the size of the adjustments that we have already taken in the capital notes.

So, it is pretty hard for us to see how we would ever get to the point of having to burn through the capital and into the senior debt. Yvan may want to add something as well.

Yvan Bourdeau ***- BMO Capital Markets - CEO, Head Investment of Banking Group***

The only other point that I would like to add is maybe reinforce some of points that Bob mentioned earlier. The weighted average rating of the portfolio is double-A. It is a mix of exposure to financial institutions and securitizations. The financial institutions are a blend of banks, investment banks, and insurance companies. Among the securitizations, not a single one has been either downgraded or watchlisted by other rating agencies since the term turmoil began in August.

So I think all of this really demonstrates the quality of the portfolio. Once again, I would like to reinforce the point that Bob just made. If you think about the amount of the asset sale that has taken place since the month of August, which is substantial, approximately 20% of the portfolio; and yet, under the condition that we had to operate, the discount is about 40 basis points. Which is again a clear illustration that the portfolio is of high quality.

The other point that I would add is, as Bob has mentioned, throughout this period we have been able to actually bring into the vehicle a large number of third-party participants that contributed to the senior notes. It amount to approximately $1.1 billion; and in terms of repo close to $1.6 billion.

So all of those in our minds are clear signs that we have put in place a plan that should enable us to lead towards a resolution, a permanent resolution for both SIVs.

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

Great, I certainly appreciate that. I guess what we're trying to understand is we have seen a large global bank, HSBC, make the decision to take their SIVs on balance sheet. I know each SIV is different and each bank's role within the SIV is different as well. But I think that is what perhaps threw us for a loop in that regards.

Yvan Bourdeau ***- BMO Capital Markets - CEO, Head Investment of Banking Group***

I think that is exactly the point. If I look at the information that is available publicly, I think you would see that our SIV is definitely of a high quality. I think each SIV has to come up with their own plan to come up with a resolution for their vehicle.

At this point in time, we feel the plan that we are progressing on and discussing with the stakeholders is actually the proper one. So it's on that basis that we are continuing to execute it.

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

Great, thank you. If Frank is there, that would be helpful.

Frank Techar ***- BMO Personal and Commercial Banking Canada - President, CEO***

With respect to your question, two things in the quarter. The first one was the pressure we felt on our margins as a result of the increased cost of funds in the marketplace. We had some lower mortgage refinancing fees in the quarter as well. So revenue was put under pressure as a result of that.

As I have mentioned in previous quarters, we are continuing to invest in the business; and our expenses were up in Q4 as a result of that. Bill already touched on the fact that we have increased our staff in some of our specialized sales forces. We have invested in branches.

So looking forward, my expectation is we're going to continue to invest in the business, but we have great momentum in our balance sheet. And my expectation is also that if the margin issue in the marketplace comes back to us over the first couple of quarters, that our revenue growth is going to be higher next year as well.

So, we are going to continue to invest, although we are going to do it prudently. Our long-term objective as well, as Bill mentioned, was to manage that operating leverage to 3%. So the quarter was a little soft as a result of the margin pressure in particular and the fact that we knew we had some expense build up over the year.

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

Got it. Thanks very much. I will requeue.

Operator

Ian de Verteuil from BMO Capital Markets.

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

Thanks. The question relates to the loan book, page 27. We continue to see a fairly material ramp in loans to financial institutions. I believe your loan-loss this quarter, Bob, which you highlighted as being unusual, was $40 million, I think to financial institutions.

What color can you provide to us on what kind of institutions? Are they hedge funds? Why did you have a particular name go bad?

Bob McGlashan ***- BMO Financial Group - EVP, Chief Risk Officer***

Yes, I will start here, and Yvan can jump in. The transaction that I referenced was in the business of funds management, as opposed to some of the other categories you might be wondering about. Relatively isolated, they suffered a sideswipe as a result of current market events that everyone is battling.

In terms of what is driving the growth in the financial industry sector, though, I will let Yvan speak to that.

Yvan Bourdeau ***- BMO Capital Markets - CEO, Head Investment of Banking Group***

The main factor that contributed to that growth is really the environment has changed, and we do have now a positive yield slope. In that kind of environment, especially the very short end of it, we were able to deploy some discretionary assets. In other words, a placement with other financial institutions. That is the main reason behind the growth that took place in that category.

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

But these are loans?

Yvan Bourdeau ***- BMO Capital Markets - CEO, Head Investment of Banking Group***

It would be -- it is a loan in the sense that it is a money market placement with a bank, another bank, for instance. It would be classified as a loan.

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

So, it is short-term money market, high-quality?

Yvan Bourdeau ***- BMO Capital Markets - CEO, Head Investment of Banking Group***

Yes, that is correct.

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

Okay, and funds management, I must admit when I think of funds management, Bob, I don't know what you mean by that. A hedge fund is funds management; and an asset -- a mutual fund company is funds management. What do you mean by funds management?

Bob McGlashan ***- BMO Financial Group - EVP, Chief Risk Officer***

I knew you were going to ask that. I can't -- there is a limit to how far I can go. It is not a hedge fund, if that helps you.

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

Okay. The second question relates to securitization. I think it is a question for Tom. It looked as if you insured about $10 billion worth of residential mortgages or you purchased insurance on those in the quarter.

Can you talk through what the thinking is behind that and what the P&L impact is on buying insurance on these mortgages?

Tom Flynn ***- BMO Financial Group - EVP Finance, Treasurer, Acting CFO***

Sure, the thinking behind the purchase of insurance is that it is a low-cost way to provide capital for the business. Buying insurance transfers the mortgages from being 50% risk-weighted to not being risk-weighted. And with that, we get both total capital and Tier 1 capital credit. The cost of buying the insurance is basically in line with the cost of raising subdebt, so it is cost-effective Tier 1. It's also attractive because it provides us with a diversification in terms of the sources of our capital.

There is really no unusual P&L impact in that the capital ratios are roughly in line with where we would expect them to be. So we would have incurred the cost associated with the capital either in the form of a spread on capital securities issued into the market or the payment of insurance premiums to the providers.

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

So when Frank in his section talked about the spreads in the domestic retail bank being down because of funding costs, is that saying that securitization, buying insurance, effectively boosted your funding costs? Is that the same thing, or am I--?

Tom Flynn ***- BMO Financial Group - EVP Finance, Treasurer, Acting CFO***

No, I think the reference that Frank made was to the prime to BA compression that took place during the quarter. Our book is exposed to prime to BA compression, and because of events in the market there was compression that contributed about half of the decline in P&C Canada's margin during the quarter.

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

So the securitization, is it a long-term effect on spread?

Tom Flynn *- BMO Financial Group - EVP Finance, Treasurer, Acting CFO*

No, the securitization -- well, there are two different things.

Ian de Verteuil *- BMO Capital Markets - Analyst*

Sorry, the insurance purchase, is that a long-term impact on spread?

Tom Flynn *- BMO Financial Group - EVP Finance, Treasurer, Acting CFO*

The insurance purchase has no impact on spread.

Ian de Verteuil *- BMO Capital Markets - Analyst*

Okay. I will have to follow up. Thank you.

Operator

Andre Hardy from RBC Capital Markets.

Andre Hardy *- RBC Capital Markets - Analyst*

Thanks. Two things. One, on the Tier 1 capital objective -- which I believe is a new objective, and correct me if I am wrong -- why have a number that is so far below the current Tier 1 ratio? Are you trying to tell us something by having a number that is so low?

Secondly, Frank, could you address deposit share? We hear about the success of AIR MILES in terms of opening new accounts, yet the deposit share continues to decline. So is this an issue of term versus checking account, or perhaps new deposit accounts that haven't yet been funded, if you wish?

Bill Downe *- BMO Financial Group - President, CEO*

It's Bill, I will take the first question. The Tier 1 Capital Ratio is consistent with prior periods and it recognizes our long-term Tier 1 capital target, assuming that we don't have prospective redeployment opportunities. Turn it over to Frank.

Frank Techar *- BMO Personal and Commercial Banking Canada - President, CEO*

Yes, Andre, on the deposit side I think I have mentioned in the past that in order to get on the right track, we're going to have to do a number of things differently. And we are doing a number of things differently.

I think adding the branches and redeveloping branches is going to put us in a better position going forward for deposit growth. Bill mentioned that this year we were the most active in the market ever. I think again, continuing to invest there going forward is going to help us out.

We have just starting this fiscal year significantly improved our performance management system, whereby we are focusing much more attention on individual targets, on deposit growth and retention. So my expectation is that is going to have some help or that is going to help out moving forward.

You mentioned the AIR MILES campaign. We are early into this program. We launched in June, and early results show that account openings were up significantly in the 20% year-over-year range. That is continuing.

We are now seeing the number of new deposit customers increase. For the last three months, that is up 18% over a similar period last year. We think that the next step is going to be that the deposits are going to start to move up from an operating perspective as well, as you mentioned, as those funds move into those accounts and those customers start to transfer funds.

So, we think we are doing the right things. Obviously, I would like to see the share improve a lot faster than it is. But I think it is going to take a number of initiatives, which we are continuing to execute on.

We clearly haven't got it right at this point in time, but we think we are doing the right thing sand we think it's going to come.

Andre Hardy *- RBC Capital Markets - Analyst*

Thanks.

Operator

Darko Mihelic from CIBC World Markets.

Darko Mihelic *- CIBC World Markets - Analyst*

Good afternoon. I have got a number of questions, I will promise to keep them short and requeue. I guess my question, first with respect to the SIV. I guess my first question is, how much time have you bought with these initiatives? In other words, how much is rolling in the short-term?

I guess, secondly, what is the spread on the SIV assets that you are adding to your balance sheet?

Then third, I understand -- I recognize the fact that you're saying the assets that you have sold have resulted in less than 50 basis points of losses. As I understand it, it is under review, because net asset values dropped to about 83%.

Now when I do the calculation, given the information I have got today, that suggests that the assets have declined by close to 2%. So I wonder if you can just rectify that for me. Thank you.

Yvan Bourdeau *- BMO Capital Markets - CEO, Head Investment of Banking Group*

Yes, I will answer this. First of all, in terms of liquidity available to us, we have two vehicles, as you know. One is Links and one is Parkland.

In the case of Links, we have in fact liquidity into January of next year, and in case of Parkland at this point in time towards the end of December. We are on an ongoing basis continuing to access liquidity especially for Parkland, we would like shortly to be also into January, through asset sales. This is progressing very smoothly as Bob has described earlier.

In terms of the NAV versus the spread, the haircut that we have taken on asset sales, haircuts are actually cash. I mean, in the sense that we have actually actual sales that took place in the marketplace. In case of the NAV it is really a mark-to-market concept, whereby it would be the net asset value of the asset that exceeds the senior note that is divided by the paid-in capital.

So at this point in time, it is -- you are right -- approximately around 80% as of the third week of -- November 21, if I recall right. So it is an indication only of the quality of the asset.

But as we went into the asset and as I said, what we're saying, sending a representative portfolio of both SIVs, we have actually experienced a much better discount than what is represented by the NAV.

So I would take that under -- that is my comment with regard to the difference between the actual haircut and the NAV as calculated, as described to you.

In terms of the spread, I don't know exactly what is the spread. I would have to come back to you on that one. I will check with our London office and I will ask Viki to provide you with that information.

Darko Mihelic *- CIBC World Markets - Analyst*

Okay, thanks. I will requeue with questions on the asset-backed commercial paper.

Operator

Michael Goldberg from Desjardins Securities.

Michael Goldberg *- Desjardins Securities - Analyst*

Thanks. I've got a few questions also. Starting with how much Canadian non-bank ABCP did you sell to clients that they still hold?

Yvan Bourdeau *- BMO Capital Markets - CEO, Head Investment of Banking Group*

I will answer that question, Michael. Unfortunately, at this point in time given what is going on in the marketplace, we're not in a position to disclose client holdings. As you can appreciate, it is basically also a product of diverse investment decision on their parts as well as circumstances.

It is not the easiest information to be able to actually find in a very accurate way. So at this point in time I cannot provide you with a specific number.

Michael Goldberg *- Desjardins Securities - Analyst*

I will take a ballpark number. What I am really tried to get a handle on is the potential for litigation risk.

Yvan Bourdeau *- BMO Capital Markets - CEO, Head Investment of Banking Group*

So I know for sure that in the case of retail holders -- and Gilles may want to comment on this -- there is minimal exposure. Hardly anything, in fact. And on the institutional side, as I said, I don't have an exact figure.

Michael Goldberg *- Desjardins Securities - Analyst*

Okay. Now, turning to loan quality, what I would like to know is what caused the increase in gross formations from the third quarter, going from $106 to $238 million. I understand there is one credit in there for $43 million. But even excluding that, it is still close to a double.

Could you give us some idea of what you think this could look like going through the next few quarters?

Bob McGlashan *- BMO Financial Group - EVP, Chief Risk Officer*

Thanks, Michael. The increase net of the single transaction is still pretty well spread. Remember we are coming off of a pretty small base to begin with. So 2 times small still isn't huge.

The areas that we are seeing surface, I think there was about a third in commercial -- or pardon me, not commercial, but in real estate development. Then there is another 20%, I believe, in manufacturing. The rest is pretty diverse.

So it is just correlated to the cycle. There is nothing that leaps out there as an unusual item.

Michael Goldberg *- Desjardins Securities - Analyst*

So should we be thinking that somewhere in the area to 150 to $200 million a quarter might be reasonable to expect over the next few quarters?

Bob McGlashan *- BMO Financial Group - EVP, Chief Risk Officer*

That is hard to say. I can tell you, though, that I'm pretty comfortable with $475 million PCL forecast that I'm giving you.

Michael Goldberg *- Desjardins Securities - Analyst*

I know that is your specific forecast, though.

Bob McGlashan *- BMO Financial Group - EVP, Chief Risk Officer*

Right. Right, so we're not going to see -- we're not going to see gross impaired loan formations decline in a meaningful sense. I suspect they will continue to increase. I wouldn't expect them to go through the ceiling. But we would expect to see them increase from where they are.

Michael Goldberg *- Desjardins Securities - Analyst*

Okay. Now you are not subject to FAS 157. But if you were, how much would you be saying of level 3 securities that you have in the Bank?

Tom Flynn *- BMO Financial Group - EVP Finance, Treasurer, Acting CFO*

We're not subject to that, but the level 3 securities would represent about 1% of assets. The biggest items there would relate to asset-backed commercial paper and some corporate debt that we hold.

Michael Goldberg *- Desjardins Securities - Analyst*

Okay. Just as a last one, Ian asked a question about the mortgages that were insured during the quarter. Was $10 billion the right number for the amount of mortgages that were actually insured during the quarter? If so, how much did this reduce risk-weighted assets? Is there room to insure more mortgages?

Tom Flynn *- BMO Financial Group - EVP Finance, Treasurer, Acting CFO*

That is approximately the right number. It is 10 to $11 billion.

The reduction to risk-weighted assets is approximately half of that amount, because the assets are 50% risk-weighted and go to basically zero with the insurance. There is some remaining capacity, but not a significant amount of remaining capacity.

Michael Goldberg *- Desjardins Securities - Analyst*

Thank you very much.

Operator

John Aiken from Dundee Securities.

John Aiken *- Dundee Securities - Analyst*

Good afternoon. Bob, I was wondering if you might be able to provide us an update about Basel II and whether or not OSFI has given any guidance as to whether or not they would be allowing some net capital relief.

Bob McGlashan *- BMO Financial Group - EVP, Chief Risk Officer*

I really could not speak to any guidance that OSFI may be providing. But we, along with everyone else in the industry went through the fire drill to get the submission together by the end of October that we needed to. And we're comfortable with where we got to.

We are expecting, the industry is expecting, a response from OSFI in terms of where they believe each of us is at as of the end of December. There is really not much more I could add to that at the moment.

John Aiken *- Dundee Securities - Analyst*

Well, in terms of the drills that you went through, Bob, if OSFI accepts your models and your documentation are you expecting a material capital release once this is implemented?

Bob McGlashan *- BMO Financial Group - EVP, Chief Risk Officer*

It is really -- I know what you're trying to get to. I would love to be able to tell you. But part of the process of the response is going to include things like adjustments they may feel are appropriate, multipliers and so on.

So yes, there would be some capital relief, if it sat pat the way it is submitted. But trust me when I tell you I would not want to speculate and throw a number out there right now. I really don't know.

John Aiken *- Dundee Securities - Analyst*

That is understood. Bob, just in terms of the real estate development exposure, can we assume that this is fairly broad-based in terms of a lot of loans as opposed to a handful of large ones?

Bob McGlashan *- BMO Financial Group - EVP, Chief Risk Officer*

Yes, that is a fair assumption.

John Aiken *- Dundee Securities - Analyst*

Great. Thank you very much.

Operator

Sumit Malhotra from Merrill Lynch.

Sumit Malhotra *- Merrill Lynch - Analyst*

Good afternoon. First question probably for Bob, related to the structured investment vehicles. It sounds like your additional $1.3 billion purchase of the senior notes is essentially done.

Did I hear right that there have been some other members or other owners of some of the paper that have stepped in with purchases in the last little while? If that is true, could you give us some detail on what the size of the additional senior note purchases have been?

Bob McGlashan *- BMO Financial Group - EVP, Chief Risk Officer*

Yes. In fact we have recently -- very recently, in the last few weeks, resolved two different funding buckets. One from the capital noteholders, who have agreed to put up an additional $500 million of senior debt; and another from the existing senior debtholders, who have agreed to put up $600 million of additional senior debt. So we got $1.1 billion there.

Plus our $1.3 billion and then the other vehicles like repos and asset sales I was mentioning that are still available to provide ongoing liquidity for the vehicles.

Sumit Malhotra *- Merrill Lynch - Analyst*

I think some of the other questions have kind of focused around the same point. You know, a new Tier 1 target, at least specifically putting a number out there, $10 billion worth of mortgage insurance purchased. Is it fair to say you are freeing up some capital here for what may be additional funding requirements, if the situation, if the environment, remains as uncertain as it is?

Tom Flynn *- BMO Financial Group - EVP Finance, Treasurer, Acting CFO*

No, the 8% target might be a little confusing. Two years ago and I think for a few years before that, we explicitly had an 8% Tier 1 target. Last year, we took the 8% out of our formal targets, but included in our MD&A a statement saying that our policy was to maintain the Tier 1 above 8%.

So this year, all we have done is really put the number back into the formal targets. So there is no change. The 8% reflects sort of a minimum run rate level that we think is appropriate, and we are carrying excess capital at the current time.

The mortgage insurance was done not in anticipation of taking significant new assets on balance sheet. It was really done as part of an overall capital management strategy.

The capital ratio is quite strong at the end of the quarter. A portion of that relates to the currency, which on a net basis increased the Tier 1 by about 15 basis points. So that provided some lift during the quarter.

But really it is just, as we see it, normal capital management and looking to diversify our sources of capital and access capital on a cost-effective basis.

Sumit Malhotra *- Merrill Lynch - Analyst*

Okay, let's stay with capital then, because pro forma, I think, after some of the deals done by your competitors recently, BMO does have the best capital ratios in the group. This one is probably for Bill or Ellen.

A few years ago, we heard about a maximum deal size of 2 billion in the US. Recently the talk has been more bolt-on acquisitions. It sounds like the tone from you guys in both this call and the press release is more positive on US P&C than we have heard in a while.

Now that we're talking about capital more on the downside than the outside, is there still the appetite for deals? What is the new ceiling, if you will, in terms of acquisitions you would look at?

Bill Downe *- BMO Financial Group - President, CEO*

That ceiling was out there for a long time. I am not sure I would move it. As far as acquisitions goes, it represents about between 2 and $2.5 billion of surplus capital.

I would say that in the last 60 days, I have spent less time talking to other banks, merely because of activity in other parts of the market. But, we have been maintaining -- the team that works in the US constantly works on prospective acquisition targets. The only thing I could say is that hope springs eternal.

Sumit Malhotra *- Merrill Lynch - Analyst*

Okay, last one for me. Private Client Group, we don't talk about it very much, but it's probably been the best performing segment for BMO for a few years now. Another good result this quarter, although we are starting to see the asset-base, AUM and AUA, start to slow a little bit. We've had about six months of softer results in equity markets.

I just want to get some feedback here on especially given how domestic retail has become, to all of us, where wealth management specifically in Canada looks right now. Are we in for a period of the slowdown in capital markets starting to move more to the retail chain as well, since this has been in my opinion very quietly a good area of growth for the Bank for a number of years now?

Gilles Ouelette *- BMO Private Client Group - President, CEO*

Yes, it is true that things did slow down in the fourth quarter. But, so far this year, here we are three weeks into the year and things have held up well. One of the -- obviously there are a couple of drivers in our business and one is them is transactions. But the other one is the levels of the markets.

Because a lot of our businesses become fee business, whether it is our mutual funds, whether it is private banking, or even within PCD, the managed money side of the business is growing very rapidly. We had a 20% growth in managed money this year, and obviously, that is all fee based.

So the levels of the markets are going to be a large determinant of our revenues going forward. You have seen -- we have seen the markets come off in the last few weeks, but they are still holding up to a fairly good level. So we're feeling fairly confident about next year, but it will be volatile.

Bill Downe *- BMO Financial Group - President, CEO*

I might just step in here for one second. We still have a number of calls in the queue and we did agree to stay on for a little while longer to get through them. Maybe we could -- if there is time, and you have another question, you could cycle back into the queue.

Sumit Malhotra *- Merrill Lynch - Analyst*

That's it for me anyway. Thanks a lot.

Operator

Mario Mendonca from Genuity Capital Markets.

Mario Mendonca *- Genuity Capital Markets - Analyst*

Two quick questions. An earlier question referred to HSBC and how they are committing to buy in $45 billion or so. I don't think three months ago you would have even thought it was plausible that BMO would provide $1.6 billion in support.

In that vein, if the say 20-some-odd-billion BMO felt compelled to bring that on, on the books, on the balance sheet, what sort of capital implications would that have? Because I understand the capital implications are not quite as great we may have originally believed.

Bill Downe *- BMO Financial Group - President, CEO*

You know, Mario, it is Bill. I think we would be better off to just emphasize the point that in our initial release and again today we used the word maximum. We're not at the present time going through the process of contemplating what the capital impact would be of doing something like HSBC has done. Simply because as Yvan said we have a different universe of assets in Links and Parkland; a different set of managers; a different reputation; and we have a process underway that is making good progress.

Mario Mendonca *- Genuity Capital Markets - Analyst*

But Bill, with all due respect, last quarter when asked about what BMO's exposure was to the SIV, the message was -- we don't have very much; or lines are only a couple hundred million dollars. And now we're talking about $1.6 billion.

So I think it is appropriate to ask questions like this now, because the environment has changed so much and it keeps changing on us. I think it would sort of be responsible to give some thought to what it would mean to BMO if the assets were brought on.

Bill Downe *- BMO Financial Group - President, CEO*

Well, I know Yvan wants to comment on this. Clearly the market has yet to digest HSBC, what HSBC is doing. I know probably less than you do from reading in the press what they view their capital impact to be.

Mario Mendonca *- Genuity Capital Markets - Analyst*

Not terribly big. They don't see it as big.

Bill Downe *- BMO Financial Group - President, CEO*

Not terribly big. Yvan, do you want to --?

Yvan Bourdeau *- BMO Capital Markets - CEO, Head Investment of Banking Group*

The only thing I would add, Mario, is compared to the last quarter when we said our exposure was what it was-- I think it was much lower than the 1.6, obviously. One or two things I would like to mention first of all.

The 1.6 is really 1.3, because the 1.6 includes the two liquidity lines for Links and Parkland. In the case of Links, it is $125 million, which was included in our number in the last quarter. In the case of Parkland, it is EUR75 million. So the real number is 1.3.

The 1.3 really from our part, we felt it was a prudent and constructive thing to do, once again, given the quality of the assets and the SIV.

And also to enable us to secure additional funding from outside parties, and as Bob has indicated we have been successful in doing that. So we felt it was the appropriate thing to do.

At this point in time, given where we are, the market reaction, and also the characteristics of our SIV, we feel at this point in time that there is no need for us to put more than the $1.3 billion that I have just described to you.

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

Would be fair to say that that if the assets were brought on, they would be mostly very, very highly rated, so a lot would be AAA, and therefore the capital implications would be minor? Is that fair to say?

Yvan Bourdeau ***- BMO Capital Markets - CEO, Head Investment of Banking Group***

Yes, it is fair to say that capital implication would be minor, absolutely.

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

Okay, now, I want to move on to a second thing. $169 million in trading structured credits. No one has -- we haven't talked about this. The reason I want to understand what gave -- what caused those types of losses. I want to take it from the perspective of the way BMO has talked about it.

For the purposes of talking about your core earnings in the first few slides you remove it. For the purposes of talking about guidance you include it. It just seems there is this inconsistency. I think maybe it relates to the nature of those losses and the nature of those instruments. Could you speak to that, please?

Yvan Bourdeau ***- BMO Capital Markets - CEO, Head Investment of Banking Group***

Yes, sure. I will give you some -- I will speak to the major elements in that number. If I look, for instance, in the case of the pref share investment portfolio, which all of them are very highly rated, I think you realize as well as I do that towards the end of September and beginning of October there was a fair amount of new pressure that were issues in the market. On top of that the market conditions were such that the spreads have widened.

So you have no alternative but to take that into consideration and apply that to the portfolio that you actually hold on your books.

So in the case of the pref share, it was approximately $30 million impact on the overall BMO Capital Markets.

In the same vein, credit spreads have widened substantially through that period. We do have a core credit trading portfolio of cash and CDS. Because of that widening in the marketplace, it cost us also an amount that is reflected in the number that you have just mentioned.

Finally, we have some fixed income total return swaps, and the same principle applied there, either in terms of the credit spreads widening or the funding costs associated with those assets. Those also contributed to the overall number that we quoted in the press release.

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

How are those items different from any other trading revenue the Bank's earned in the past? Why would those specifically be highlighted either in your prerelease or as an unusual item?

Yvan Bourdeau *- BMO Capital Markets - CEO, Head Investment of Banking Group*

We just felt it was -- from a transparent point of view we want to make sure that we would provide the Street and the institutional investor with all the different factors contributing to the loss that we would incur in Q4. So that was really the reasoning behind it.

Mario Mendonca *- Genuity Capital Markets - Analyst*

Thanks very much.

Operator

Robert Sedran from National Bank Financial.

Robert Sedran *- National Bank Financial - Analyst*

Hi, good afternoon. I will be very brief, just wanted to return to the issue of the specific provision targets that were outlined earlier. I understand that formations have ticked up.

But given the almost 50% of the jump this quarter was in one credit; and as you mentioned there was a onetime-ish provision last quarter, it seems like $475 million would be a pretty significant, very, very significant deterioration, if it ever got even close to that. So I am wondering, is there a specific segment of the market that concerns you? You know, US versus Canada, personal, commercial, wholesale? Or is this just a broad deterioration we're looking for?

Bob McGlashan *- BMO Financial Group - EVP, Chief Risk Officer*

It's the latter. There is not a big bucket of a concentration that I am particularly worried about and trying to throw a big number up there to address.

If you look at what happened this quarter, the $40 million-ish that is in there in a single transaction, it is not unreasonable in a bank with capital markets mix that we have to expect those kinds of tickets to roll in from time to time. So it would be quite unreasonable, in fact, to assume that no more will for the foreseeable future.

So it gets a bit lumpy, I accept. But with the uncertainty in the marketplace that everyone is feeling right now as well, it is hard to imagine that PCL is not going to climb. I accept your point that it is a matter of judgment as to how steep that curve is.

Robert Sedran *- National Bank Financial - Analyst*

I guess just the second quick question is the commodity loss that was booked this quarter seems pretty small. The exposure has obviously come down by a significant amount. Is this the last time you think we are going to see commodity losses as a separately disclosed item? Or is this going to continue into 2008?

Yvan Bourdeau *- BMO Capital Markets - CEO, Head Investment of Banking Group*

There is no question that we did say at the last quarter that we had to reduce the size of the book and the risk associated with it substantially. I think what you are seeing in Q4 is an illustration of that fact. You see it on the charts also that Bob has given us earlier.

Looking forward, Bob did say also that we still intend to reduce risk in the coming quarters. As we do this, it is difficult to predict as to whether or not we will have yet again a loss from that line of business.

Having said so, because of the risk reduction that has taken place, I would think that moving forward and shortly that we will be back to a level where we would feel that it is a normal level of risk and that we would carry on with this line of business on a normal basis.

Robert Sedran *- National Bank Financial - Analyst*

Okay, thank you.

Operator

Brad Smith from Blackmont Capital.

Brad Smith *- Blackmont Capital - Analyst*

Thanks very much. Just two quick questions on the SIV. First of all, I am not quite clear, wondering if somebody can just clarify, how the $1.3 billion senior note amount was brought about. Is that it negotiated number?

Secondly, I think it was intimated a number of weeks ago that you might have been considering the initiatives in the US, the super SIV effort down there. From your comments today, would it be appropriate to conclude that that is no longer on your radar screen?

Bob McGlashan *- BMO Financial Group - EVP, Chief Risk Officer*

In terms of the latter issue -- are you talking about MLEC, right?

Brad Smith *- Blackmont Capital - Analyst*

Yes.

Bob McGlashan *- BMO Financial Group - EVP, Chief Risk Officer*

Yes, it is a little early for us to know whether or not there is something there for us or not. We're interested and following it. It will be a cost trade-off issue as well, I am sure.

As I mentioned, we are able to move these assets at a reasonable price. So you wouldn't certainly want to pay any kind of premium to attract the liquidity. For the first for the question, perhaps, Yvan can tackle that.

Yvan Bourdeau *- BMO Capital Markets - CEO, Head Investment of Banking Group*

In the case of the amount it was not necessarily -- it is an amount that we felt that would be appropriate to provide liquidity in the marketplace and to indicate that we are prepared to support in the short term the vehicle, in order to be able to line up, as Bob has described, other third-party investors that would provide liquidity to both vehicles.

So, it is in that vein that we came with that number. It was not derived from a formula.

Brad Smith *- Blackmont Capital - Analyst*

Okay, thank you. Is there a time frame with respect to how long you anticipate that support to be required? Or that you are willing to provide it, perhaps that is a better way of saying it?

Yvan Bourdeau *- BMO Capital Markets - CEO, Head Investment of Banking Group*

At this point in time, I cannot say, really.

Brad Smith *- Blackmont Capital - Analyst*

Thanks very much.

Operator

Darko Mihelic from CIBC World Markets.

Darko Mihelic *- CIBC World Markets - Analyst*

Hi, thanks, just looking at slide 3, with respect to your disclosure on the asset-backed commercial paper. Looking at BMO-sponsored asset-backed conduits with no BMO liquidity support, should that read no global-style liquidity support? Or just no support whatsoever?

Bob McGlashan *- BMO Financial Group - EVP, Chief Risk Officer*

No, it's right. No liquidity support.

Darko Mihelic *- CIBC World Markets - Analyst*

Okay, so am I right to assume that you still have sort of Canadian-style liquidity support outstanding to a couple of conduits?

Bob McGlashan *- BMO Financial Group - EVP, Chief Risk Officer*

No, no, no. The $26 billion in the section above that would be the Bank of Montreal sponsored Canadian conduits, where we had in the past the market disruption type liquidity. They have all been converted to global style. We have none of the latter.

Darko Mihelic *- CIBC World Markets - Analyst*

Okay, so am I to assume then that even Apex and Sitka both have sort of global-style liquidity support? Is that correct?

Bob McGlashan *- BMO Financial Group - EVP, Chief Risk Officer*

No, we provide no -- that is the third section, the one that you originally talking about and so we don't provide liquidity backup to those.

Darko Mihelic *- CIBC World Markets - Analyst*

So in other words, that cannot grow in size? The $546 million that you have, basically that is what is on the balance sheet now and it won't grow?

Bob McGlashan *- BMO Financial Group - EVP, Chief Risk Officer*

No, it could grow. It could grow. There is nothing to prevent it from growing. We can choose to take more of that paper or not.

Darko Mihelic *- CIBC World Markets - Analyst*

Okay, so maybe I will backtrack on that and say there is no liquidity agreement in place that could force you to make it grow?

Bob McGlashan *- BMO Financial Group - EVP, Chief Risk Officer*

There is nothing contractual at this point.

Darko Mihelic *- CIBC World Markets - Analyst*

Okay, that is what I was aiming at. Okay, thank you very much.

Operator

Thank you. There are no further questions registered at this time. I would now like to turn the meeting back over to Ms. Lazaris.

Viki Lazaris *- BMO Financial Group - SVP IR*

Thank you. I would like to thank everyone for joining us today. If you have any further questions, please call the investor relations group, and we will address your questions. Thanks very much and have a good afternoon.

Operator

Thank you. The conference is now ended. Please disconnect your lines at this time. Thank you for your participation and have a nice day.