BMO Financial Group

April 27 2007 CONFERENCE CALL

CORPORATE PARTICIPANTS

Viki Lazaris
Bank of Montreal – SVP, IR

Bill Downe
Bank of Montreal – President, CEO, BMO Financial Group

Karen Maidment
Bank of Montreal – CFO and Administrative Officer

Bob McGlashan
Bank of Montreal – Chief Risk Officer

Yvan Bourdeau
Bank of Montreal – CEO, BMO Capital Markets

CONFERENCE CALL PARTICIPANTS

Jason Bilodeau
UBS Warburg – Analyst

Rob Wessel
National Bank Financial – Analyst

Mario Mendonca
Genuity Capital Markets – Analyst

Jim Bantis
Credit Suisse – Analyst

Michael Goldberg
Desjardins Securities – Analyst

Sumit Malhotra
Merrill Lynch – Analyst

Steve Cawley
TD Newcrest – Analyst

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Assumptions about the performance of the natural gas and crude oil commodity markets and how that will affect the performance of our commodity business were material factors we considered when establishing our estimates of the trading losses set out in this release. Key assumptions included that commodity prices and implied volatility would be stable and our positions would continue to be managed with a view to reposition the portfolio to a lower and sustainable level.

PRESENTATION

Operator

Good morning and thank you for joining BMO Financial Group's conference call for April 27. Your host for today is Viki Lazaris, Senior Vice President of Investor Relations. Ms. Lazaris, please go ahead.

Viki Lazaris – *Bank of Montreal – SVP, IR*

Thank you, Operator. Good morning and thank you for joining us today on such short notice. This morning's call will provide further background in the press release issued earlier today. We will begin the call with some brief comments and then open the lines for a brief question-and-answer period. As a reminder we are currently in a quiet period which will end when BMO reports its second quarter results on Wednesday, May 23. At this time we will not discuss the most consolidated second quarter results or the outlook for the remainder of the year.

Speaking today are Bill Downe, President and Chief Executive Officer; and Karen Maidment, Chief Financial and Administrative officer. Also available during the Q&A is Yvan Bourdeau from BMO Capital Markets and Bob McGlashan, our Chief Risk Officer.

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 forecast projections or conclusions in the forward-looking statements. Certain material factors and assumptions were applied in drawing the conclusions or making the forecast and projections in the forward-looking statement. 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 statements set forth in our news release.

With that said I would like to turn the call over to Bill.

Bill Downe - *Bank of Montreal – President, CEO, BMO Financial Group*

Thank you, Viki, and good morning. Let me remind you once again of the caution with respect to forward-looking statements.

As you are now aware we issued a press release this morning announcing that we will record mark-to-market commodity trading losses in the second quarter of 2007.

As I said in the release, these losses are particularly disappointing and were the result of decisions that didn't adequately recognize the vulnerability of the portfolio and the changes in market volatility. We are conducting a thorough review and actions have been taken to address the current situation and reduce the likelihood of a recurrence.

In conjunction with this, there have been refinements made to our approach to estimating the market value of this portfolio.

As you are aware the Bank has had a successful business providing customers in the energy sector with commodity derivatives to hedge their energy positions. In the aftermath of Hurricane Katrina, the volatility in the natural gas market increased significantly and natural gas prices increased as well. Clients wanted to lock in prices and the Bank increased its book of business related to this market which you are aware resulted in increasing trading revenues in the first half of 2006.

In the latter half of 2006, the customer business started to slow. However the bank continued to trade in the commodity market as a market-maker. Market-making ensures that when there is customer business in the pipeline the Bank will have the ability to trade. As the Bank's Energy Trading business continued to grow so did our position in out of the money natural gas options.

At the same time while natural gas prices continued to decline, the market became increasingly illiquid and volatility dropped to historic lows. As a result, we have a large portfolio with significant mark-to-market losses at this time.

These losses are estimated at between C$350 and C$450 million Canadian dollars pretax and as I said are to be recorded in the second quarter.

Again let me say that these losses are clearly a disappointment particularly as our Company continues to experience good operating momentum. However, our tier one capital ratio continues to be strong and provides continued capacity for us to pursue strategic goals.

With that I'll turn it over to Karen to talk about the financial statement impact.

Karen Maidment – *Bank of Montreal – CFO and Administrative Officer*

Thanks, Bill, and good morning.

I would like to remind you of Viki's caution regarding forward-looking statements. Given that we are announcing our second quarter results in a few weeks' time and we are in the regulatory quiet period, I will keep my comments brief.

The estimated range of the commodity losses that Bill mentioned is in the range of $0.45 to $0.55 per share and will be recorded as part of non-interest revenue in our U.S. capital markets business. At this point we have provided an estimated range for the losses and the actual number will be finalized and reported with our second quarter financial results. The range recognizes the difficulty in predicting the independent market information that will be used as part of the quarter end valuation process and the potential for changing market volatility.

Our tier one capital ratio at the end of the first quarter of 2007 was 9.9% and the impact of these losses will be less than 20 basis points on that ratio.

Going forward, the value of this energy portfolio will be subject to market conditions and, as a reminder, commodity derivatives are required to be accounted for at fair value. BMO will continue to reposition this portfolio to a lower and sustainable level consistent with maintaining its core business of serving its energy clients franchise. It is possible that as the portfolio is repositioned, it could experience additional gains or losses, depending on future market conditions. However, we expect that even using adverse assumptions, any losses will be at a substantially lower range than those announced today.

We will have further comments during the second quarter conference call on May 23 about the outlook for the year. And with that, Operator, we can turn it over to questions.

QUESTION & ANSWER

Operator

(OPERATOR INSTRUCTIONS). Jason Bilodeau.

Jason Bilodeau – *UBS Warburg – Analyst*

Just listening to some of your comments about how you are going to sort of change the controls around this business, you know, sounds to me like at the end of the day we end up with probably a smaller book of business and maybe one that's got a little bit less torque in it during the good times, which I think we saw some in '06. So maybe ultimately a bit slower growth trajectory. Is that kind of the right way to think about it? Can you give us any colour around how we should think about this business line going forward?

Bill Downe - *Bank of Montreal – President, CEO, BMO Financial Group*

I think that is a reasonable way to look at it. The business is lined up against natural clients' flows. We have a big oil and gas business in both Canada and the United States, are a significant counterparty to our clients.

But at the same time, the amount of market-making that is necessary to support the business is less than it has been and as you said the size of the business going forward will be somewhat reduced.

Jason Bilodeau – *UBS Warburg – Analyst*

And, then, either this is a mark-to-market is -- how much can this maybe come back to us if things sort of go the right way for you or is some of this stuff sort of being crystallized now and it's done?

Bill Downe - *Bank of Montreal – President, CEO, BMO Financial Group*

Well, it is very difficult to make any prediction in either direction. Clearly, the opportunity for us in more favourable market conditions in the past has been we've generated profit, but we are not in a position to say now what the size of the potential either way is except the range that we have given you.

Operator

Rob Wessel.

Rob Wessel – *National Bank Financial – Analyst*

I apologize. I tried to get on before the call had started but I missed everything. So I apologize if these questions have been addressed in your commentary.

The first question I wanted to ask you is did your risk limits -- I thought it was amazing to read that the losses incurred were within the Company's limits and controls. So I guess my first question is, have these limits changed over the past several quarters? And or did they change within the quarter?

Bob McGlashan – *Bank of Montreal – Chief Risk Officer*

It's Bob McGlashan. The limits that we have been using are VaR-related and that number was clearly indicating a rapid growth rate in the book, which is a cue to the risk function to review the control machinery that we are using for the portfolio, which we did. The challenge for us was implementing the changes that we believe were appropriate and have since implemented ahead of the precipitous decline in volatility which is -- what got us to where we are. So the VaR limits were working as far as they went.

Rob Wessel – *National Bank Financial – Analyst*

I'm sorry. Maybe I missed it if you answered my question, but did your risk limits rise in this activity over the past four quarters and or did they rise during the quarter?

Bob McGlashan – *Bank of Montreal – Chief Risk Officer*

We didn't change the limit.

Rob Wessel – *National Bank Financial – Analyst*

Now or in the past say a year or so?

Bob McGlashan – *Bank of Montreal – Chief Risk Officer*

Correct.

Rob Wessel – *National Bank Financial – Analyst*

Are these traders still with the firm?

Bob McGlashan – *Bank of Montreal – Chief Risk Officer*

Yes.

Rob Wessel – *National Bank Financial – Analyst*

The last question I have is, given the huge nature of this loss will there be a decline or will there be a commensurate reduction in incentive compensation? i.e., will your compensation ratio remain stable? As a mitigating impact on the fair limit material negative impact on capital.

Actually that is a question for Bill.

Bill Downe - *Bank of Montreal – President, CEO, BMO Financial Group*

Yes, and this is Bill. In these businesses, there's direct derived compensation and so you can do the arithmetic.

Operator

Mario Mendonca.

Mario Mendonca – *Genuity Capital Markets – Analyst*

The statement -- one that commodity trade losses over decisions but did not adequately recognize the vulnerability of the portfolio changes market volatility.

I understand all the words. Just when you put them together it's not really clear to me. Is the statement here that the models you were using to facilitate this trading activity were just wrong? They weren't sufficiently robust?

Yvan Bourdeau – *Bank of Montreal – CEO, BMO Capital Markets*

The models were -- this is Yvan, Mario. The models were actually adequate and they were very fine and vetted. The issue that we had is a confluence. It was a convergence of three factors within the limits that Bob explained earlier. The book did increase and as the book increased as Bill was saying, primarily because in the latter part of the 2006 because of market-making activities we were also unable to anticipate adequately the lack of liquidity that would emanate out of a sharp decrease in the volatility. And you may recall from January 2007 to March 2007, volatility dropped from 70% to 40%.

Mario Mendonca – *Genuity Capital Markets – Analyst*

So your models didn't capture volatility? Declining from 70 to 40?

Yvan Bourdeau – *Bank of Montreal – CEO, BMO Capital Markets*

So the VaR did capture the risk profile that was imminent in the book, but the models were therefore adequate from that point of view.

Mario Mendonca – *Genuity Capital Markets – Analyst*

So the models picked up on the potential damage caused by volatility dropping from 70 to 40, but BMO was content with the extent of loss that would result like that was entirely acceptable to BMO then? You just didn't conceive of that ever happening? That was just the risk the Bank was willing to take.

Yvan Bourdeau – *Bank of Montreal – CEO, BMO Capital Markets*

I think the VaR reflects certain aspects of risk that is associated with the book. But I would say that the volatility aspect of it was not as much as it should have and since then we have made some adjustment to our matrix of risk management monitoring of the portfolio that would capture that in the future.

Bill Downe - *Bank of Montreal – President, CEO, BMO Financial Group*

I might also add that as volatility in the market was dropping, we were in the process of managing the book down. So we were aware of the rise in the time decay in the book and we are working on it. But the market moves very quickly.

Mario Mendonca – *Genuity Capital Markets – Analyst*

On the last call, another analyst asked if you were considering shrinking the size of that book and the answer to this other analyst was no. You were content with size of the book. So the decision to shrink it now, is it simply that you felt the pain of having the book this large?

Yvan Bourdeau – *Bank of Montreal – CEO, BMO Capital Markets*

The answer is yes.

Operator

Jim Bantis.

Jim Bantis – C*redit Suisse – Analyst*:

Just kind of circling back on these questions. When we look at the Q1 conference call these issues kind of raised itself and I want to get a sense of, was there any adjustments made to the modeling to the risk management accounting process related to this market-making approach? Because it was raised in Q1 so it sounds like really no adjustments were made during this time?

Bob McGlashan – *Bank of Montreal – Chief Risk Officer*

We were as I said right in the middle of reviewing the machinery and at that point in time we had not made any adjustments to it. It was subsequent to that that we were able to look at a couple of additional control metrics as well as a revised approach to the valuation of the portfolio.

Jim Bantis – C*redit Suisse – Analyst*:

When you think of the upper end range of this trading loss is at of $450 million, I mean that's nearly two-thirds of what the bank generated in its trading revenues in 2006 and so is the average of the past few years. Are there any other businesses that the Bank is taking or has been taking in aggressive market-making approach outside of natural gas?

Bill Downe - *Bank of Montreal – President, CEO, BMO Financial Group*

The energy trading business is the most volatile business in terms of price movement and changes in the market that we have. In fact it is -- because it is related to client business and there are no other businesses that would fit this profile.

Operator

Michael Goldberg.

Michael Goldberg – *Desjardins Securities – Analyst*

I would like to just follow up on Mario's questions because you know I've had problems with trading revenues for a long time just in terms of being able to forecast when it is going to be or benchmark it and you said that the models, you know, fit within the variability that you saw with VaR, but the problem that I've had is that I've never seen any correlation whatsoever between VaR and trading revenue. So I am not sure that it's of any particular use. So it sounds to me like really the models were faulty and I'm just wondering how you respond to this? And how much more of your trading revenue is algorithm based?

Bob McGlashan – *Bank of Montreal – Chief Risk Officer*

The VaR is intended to address a number of factors, not all of those factors -- pardon me, not all the necessary factors in the end is the point here, particularly associated with the nature of this business. It is a very narrowly traded market and it is difficult to obtain a transparency and price points in that kind of an environment. The machinery that we use, VaR-based, operates extremely well across the rest of our book. And the analysis that we have gone through since we started to grow this made it clear to us that the VaR methodology and isolation wasn't going to be adequate for this particular book, which is why we've made some changes.

Bill Downe - *Bank of Montreal – President, CEO, BMO Financial Group*

I might also just emphasize the fact that it's really in the last eight weeks that we have seen the move in the market and it's outside of the range of what we have experienced. It's not an area where we expect the market to stay, but the situation has developed because of the market move and we have a clear view of the risk in the book.

Michael Goldberg – *Desjardins Securities – Analyst*

I wonder if I could just follow up? What I'm getting at is that, last year, the six banks together generated about $6 billion in total of trading revenue. And to be frank, I have never felt comfortable that, you know, as to forecasting what that trading revenue would be or explaining how the trading revenue is generated. There is certainly no volume-margin type analysis that could be done. So, you know, and BMO actually as Mario said has the smallest of the big five banks in terms of trading revenue.

So do you have any insights that you could provide to us on how we should -- on how you benchmark your trading revenue and how we should try to project what trading revenue is going to be?

Bill Downe - *Bank of Montreal – President, CEO, BMO Financial Group*

Well, I can't give you any advice on how you might benchmark the whole industry. I can tell you that our trading revenues, historically, have been as a percentage of the Bank's total revenues smaller than the other banks; and we manage all of our books for profitability. Not for volume but for profitability. And the principle of having trading businesses that are related to client businesses is the foundation of the way we trade.

So there are profit opportunities that go with client-related businesses. That is why we are in the trading businesses and as you've said there are periods in which time that they are very profitable and an important part of the total package. But I can't give you insight on the whole industry.

Michael Goldberg – *Desjardins Securities – Analyst*

How about on Bank of Montreal?

Bill Downe - *Bank of Montreal – President, CEO, BMO Financial Group*

If you would like, I can ask Yvan to expand on what I just said.

Yvan Bourdeau – *Bank of Montreal – CEO, BMO Capital Markets*

You know, Michael, it is difficult to answer in one simple way. But what I would say is there's different elements or product lines to any trading operation and most of them are, you know, share similar kind of volatility characteristic. And I would say that the oil and gas is quite unique in the sense that it is a multiple of volatility versus the others.

In terms of forecasting trading revenue, some of them are intrinsically day-to-day business. And I'm referring for instance like foreign exchange whereby you have companies that do require services, whether on a spot basis or on a forward basis and there is an underlying requirement for them to be serviced in that area. Normally, depending on the type of the clients that we deal with there is actually a commercial spread that exists in terms of generating revenue for us. And, obviously, as we enter into those larger volumes of transaction we are never perfectly matched and there is an element of open market risk.

It is controlled and managed; and VaR actually is one tool that we use in order to manage the risk that is associated with those -- with that portfolio, particularly. And the same would be true on the short end of the yield curve and money market activities, for instance. It could be on the cash side or the non-cash. We would have a constant requirement by the client to either purchase money market instrument or sell them or hedge their interest rate risk and we could use a forward rate agreement for instance as a non-cash instrument for them. That would generate again some revenue. Out of it, you would have again some proprietary trading position but it would be in a very liquid and known market so therefore the risks are acceptable from our point of view.

If you look at our business and the equity and our trading equities, for instance, the same principle would apply where it's a highly liquid transparent market in where we have natural flows of clients all of which enable us to generate some spread as well as some proprietary profits.

Operator

Sumit Malhotra.

Sumit Malhotra – *Merrill Lynch – Analyst*

My question is for Bob. Bob, I think Bill specifically mentioned that the losses related to out-of-the-money options. If we look outside of VaR at something like a P&L attribution or middle office estimate, what is the process for marking the volatility skew, especially for a liquid position like natural gas? Is it third party brokers? Is it internal estimates? What is the volatility measure that you used to mark these options?

Bob McGlashan – *Bank of Montreal – Chief Risk Officer*

We have been using individual brokers because there are so few price points available in the marketplace, you have to go to places where someone would have some experience at that point in time. And, again, in a very, very narrow narrowly traded market especially as volumes have come off, it becomes progressively more difficult to find valid points to mark against. Which is a large part of a reason that we have weighted in with incremental approach to how we are valuing these things with multi-contributor data points, as well.

Sumit Malhotra – *Merrill Lynch – Analyst*

So when Yvan mentioned the fall from 70 to 40 on aggregate, all of that occurring this quarter, we actually see in the trading line that the -- when you break it up by product you have a group called Other which I think comprises most of your commodities. That was actually in losses the last two quarters as well. Much smaller than this.

Is that the same kind of thinking here? That the volatility was gradually moving down and it just collapsed this quarter?

Bob McGlashan – *Bank of Montreal – Chief Risk Officer*

Yes, exactly. The big, big move this quarter.

Sumit Malhotra – *Merrill Lynch – Analyst*

And the last thing I would ask in relation to the trading and the risk, is there anything on the credit side, given your position as a market-maker? We are seeing it in market risk. But is there anything on the credit side in terms of any kind of commodity-related loans that we have seen in any of the trading books?

Bob McGlashan – *Bank of Montreal – Chief Risk Officer*

No. There is nothing of consequence out there that, if you are concerned about commodity trading, specifically, that we have taken any meaningful credit risk that would be correlated to it.

Operator

Steve Cawley.

Steve Cawley – *TD Newcrest – Analyst*

Were you Amaranth's prime broker?

Bill Downe - *Bank of Montreal – President, CEO, BMO Financial Group*

No.

Steve Cawley – *TD Newcrest – Analyst*

Second question. We talked about this on the last call. I think you are making a reasonable sized bet on U.S. interest rates falling. Is that anything we should be concerned about?

Yvan Bourdeau – *Bank of Montreal – CEO, BMO Capital Markets*

No. We have ongoing interest rate position. But as far as I am concerned there was not necessarily a large position that would affect us. I mean, we do have -- if you were to look at our risk profile, we would have some short-term anomaly. We would be at a short end of the yield curve, but I would not characterize that as something substantial as yet just done, Steve.

Steve Cawley – *TD Newcrest – Analyst*

I just remember a few years back when the yield curve flattened out. You lost quite a bit of revenue in the U.S. business because there wasn't a carry trade available.

Yvan Bourdeau – *Bank of Montreal – CEO, BMO Capital Markets*

Yes.

Steve Cawley – *TD Newcrest – Analyst*

Now there's this -- just this -- now the question is now for the overall bank. Does it make sense given the volatility that your trading business has been showing to participate in interest rate trading and commodity trading to the way that you have been doing it in the past? It just doesn't seem consistent with how the Bank has defined itself in the past as being the best credit bank in Canada.

Yvan Bourdeau – *Bank of Montreal – CEO, BMO Capital Markets*

Yes. So I think from -- I think the volatility associated with interest rate risk taking is so much lower than it would be in the case of commodities. So I think we feel comfortable with the risk profile that we have and the reason why our revenues have actually declined is because a risk return in terms of the yield curve that the yield curve provided us over the last 2 1/2 years, in fact as interest rates were rising.

And now the yield curve is flat and we have -- we felt all along that it was, with -- the reward was not there for us to take additional risk. If you go back four or five years ago when our revenue was larger emanating out of interest rate positioning, the risk reward at that time certainly warranted us to take that kind -- additional risk. That's how I would characterize it.

Bill Downe - *Bank of Montreal – President, CEO, BMO Financial Group*

I want to come back to your question. I have a point of clarification. We were not a prime broker to Amaranth in the United States where our business is centered. I do understand that we were -- we provided prime brokerage facilities to their Canadian operation.

Steve Cawley – *TD Newcrest – Analyst*

Maybe that question to you as well. Just strategically for the Bank moving forward, do you want the Bank to be maybe as reliant is too strong term, but would you like the bank to be less reliant on trading, moving forward? It certainly sounds like, given that you are going to have a smaller booking commodity, but in general do you feel comfortable with the direction the Bank is taking with trading in the past?

Bill Downe - *Bank of Montreal – President, CEO, BMO Financial Group*

I'm comfortable with the direction we've taken in trading in the past and when I said that our trading revenue as a percentage of the total revenue of the Company has historically been less than our competitors, that has been deliberate. We have managed our trading businesses, all of them, for profitability, definitely not for lead table status.

In the case of the commodity business, the loss that we announced today is outside our tolerance. And so you can draw the conclusion that we will take less trading risk in the natural gas commodity area and we don't have to have that level of risk to support our client business.

The client businesses remained very important. If you look at our business in the United States -- and we have had an office in Houston since 1961 -- we are one of the most significant providers of capital on the banking side to the Independent Oil and Gas sector and that financing very often requires hedging at the same time as the financing is done.

There are many transactions that actually hinge on price stability and so it is an integral part of the business. But I can say categorically that the amount of risk and the volume of trading risk in the commodity business is higher today than it is going to be; and when it comes down it is going to stay down.

Steve Cawley – *TD Newcrest – Analyst*

Moving forward, given that VaR is clearly not sufficient for us to gauge the risk the Bank might be taking in its training book, would you consider providing us with additional disclosure in the future to demonstrate that the risk that you are taking in your trading book has lessened?

Bob McGlashan – *Bank of Montreal – Chief Risk Officer*

Actually VaR isn't a bad measure, frankly, for most of the books that we are dealing with. This is a very unique situation, because of narrow and tight markets that we are talking about. Virtually all of the other markets that we trade in are very transparent. They are very deep. Lots of liquidity.

So the kinds of moves that you would expect to see are modest by comparison. So, VaR, I believe is an adequate indicator for the balance of the trading book.

Bill Downe - *Bank of Montreal – President, CEO, BMO Financial Group*

On this one, Steve, I think the fact is that we probably will look at different disclosure on an ongoing basis for the Natural Gas book. I think it is clear that the levels of risk are going to be lower and that said, I don't think we will have an issue doing that.

Operator

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

Viki Lazaris – *Bank of Montreal – SVP, IR*

Thank you. Thank you for joining us today and I would also like to just refer you to the Frequently Asked Questions document concerning the news release posted on the IR website at BMO.com.

For further questions, please contact the Investor Relations group. Thank you and good morning.

Operator

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