BMO Financial Group

National Bank Financial - Canadian Financial Services Conference
March 26, 2008

Hosted by: Robert Sedran – Analyst - National Bank Financial
Guest Speaker: Bill Downe – President & CEO – BMO Financial Group

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 2008 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 2007 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. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented and our strategic priorities and objectives, and may not be appropriate for other purposes.

Assumptions about the performance of the Canadian and U.S. economies in 2008 and how it will affect our businesses were material factors we considered when setting our strategic priorities and objectives, and when determining our financial targets, including provisions for credit losses. Key assumptions were 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 assumed that interest rates in 2008 will decline slightly in Canada and the United States, and that the Canadian dollar will trade at parity to the U.S. dollar at 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. We now anticipate weaker economic growth in Canada and that the United States will slip into a mild recession in the first half of 2008. We also expect lower interest rates and a somewhat weaker Canadian dollar than when we established our 2008 financial targets. 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.

Material factors which were taken into account when establishing our expectation of the future risk of credit losses in Apex and Sitka Trusts as discussed in this document included industry diversification in the portfolio, initial credit quality by portfolio and the first-loss protection incorporated into the structure discussed in the press release announcing the restructuring.

In establishing the expectation that the collateral calls will be capped at $3.3 billion as discussed in this document, we assumed that BMO's credit rating would not be materially lowered.

CAUTION REGARDING NON-GAAP MEASURES

Bank of Montreal uses both GAAP and non-GAAP measures to assess performance. Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies.

Reconciliations of GAAP to non-GAAP measures as well as the rationale for their use can be found in Bank of Montreal's Quarterly Report to Shareholders, MD&A and in its Annual Report to Shareholders all of which are available on our website at www.bmo.com/investorrelations.

Non-GAAP results or measures include revenue, taxes and cash operating leverage results and measures that use Taxable Equivalent Basis (teb) amounts, cash-based profitability and cash operating leverage measures, Net Economic Profit and results and measures that exclude items that are not considered reflective of ongoing operations. Results stated on a basis that excludes commodities losses, charges for certain trading and valuation adjustments, changes in the general allowance and restructuring charges are non-GAAP measures. Bank of Montreal also provides supplemental information on combined business segments to facilitate comparisons to peers.

Robert Sedran *- National Bank Financial - Analyst*

Our next speaker is Bill Downe, President and CEO of BMO Financial Group. Bill joined Bank of Montreal in 1983. He's held a variety of senior management positions in Denver, Houston, Chicago, and now Toronto. In 2001, he was named Deputy Chair of BMO Financial Group and Chief Executive Officer, BMO Nesbitt Burns. In '06, appointed Chief Operating Officer of BMO Financial Group and has held his current role for little more than a year now and an interesting year I guess it's been Bill. Welcome.

Bill Downe *- BMO Financial Group – President & CEO*

Thanks very much. That's the first time I've come to a conference and had applause at the beginning. See if we can keep it alive. Rob, thanks very much for the introduction and for the opportunity to be here and thank you also everyone in the room and everyone on the webcast for the interest that you have in BMO Financial Group. I'm going to start off by once again drawing your attention to the cautions regarding forward-looking statements and the use of non-GAAP measures.

This morning, I want to start with two themes that I know are on your mind and they certainly are on mine. The first one is the current credit environment, the progress that we've made in dealing with issues that relate to capital markets and credit markets, and the second is the performance of our core businesses. These are the businesses that drive long-term performance and I want to discuss in particular personal and commercial banking in Canada where we've been investing to change the competitive position of BMO over the last two years and we have a new management team that's focused on the basics of banking.

Quick recap on Q1. The results reflected a challenging market and a challenging economic environment. The total operating group net income was stable excluding significant items despite the difficult operating conditions and it reflects ongoing progress in each of our four business groups. This is the source of confidence that we have in the capital strength of the balance sheet and in our capacity to maintain and grow the bank's dividends as we've done for a long period of time. Despite the issues that are currently reflecting overall results, we're optimistic about the underlying earnings power of the individual businesses and we're working to quickly put the issues behind us.

I want to talk about those issues right at the start. First, the lending performance of the business given the current state of North American economy and where we are in the credit cycle. Specific provisions in the core area were 31 basis points of average net loans and acceptances and it's not surprising given where we are in the credit cycle, but I also remind you that it's below the 16-year average of provisions for BMO of 33 basis points and that remains below the Canadian peer average of 54 basis points.

Our credit risk philosophy has historically resulted in us recognizing individual credits early. We move them into special assets where we can work them intensively and this has been a contributor at the high levels of recovery over time. It serves us very well and at this point in the cycle, we do expect to see increases across the industry. While absolute provisions have been at very low levels since 2001, it just takes a small number of credits in a quarter to move the numbers and following a period of very low provisions, you have low opportunities for recoveries.

However, pessimism sets in at this point in the cycle and this is generally when banks that had very consistent lending disciplines are able to grow share and that's been our strength in the past. Canadian economy has held up well, but there's no question that the U.S. recession is going to be a factor in the coming year.

What does it mean for BMO? Well, our U.S. consumer loans have typically performed better than the industry as a whole in the U.S. and in Q1 our delinquencies averaged 0.41% and that compares to the RMA average of 0.9%. We've maintained conservative loan to value profiles and strong borrower profiles. We do not originate subprime mortgages and we have minimal exposure to creditors with subprime characteristics.

Our U.S. commercial loan portfolio is experiencing increases in non-performing levels associated with the housing market. It's so far been limited to residential construction. All other portfolios including commercial mortgages are performing well. U.S. developer and investor owned real estate as percentage of our commercial loans is significantly below our peers, 31% of our real estate lending in Harris Bank and only 14% of BMO.

So let's turn to asset securitization and the five areas that our management has been focused on since last August when liquidity started to dry up in the markets. I want to remind you how each one of these has been addressed.

First -- Canadian bank sponsored asset-backed commercial paper. The market is functioning now as expected in its given current conditions, but with the Montreal Accord signed, we think the capacity is being restored to the market and we'll be able to see the borrowing requirements of Canadian clients met in the Canadian conduit market going forward. In the U.S. bank sponsored ABCP market and I'm talking about our conduit, Fairway, it has funded itself consistently since August. All the paper has rolled in an orderly way. It contains diversified assets and those assets are underwritten to the banks lending standards.

Third -- Canadian non-bank sponsored ABC and the majority of which is under the Montreal Accord. We have small exposure at $300 million. We fully support the accord and believe it's in the interest of a stable long-term Canadian market and that it will be successful.

Fourth -- SIVs. Our two SIV Links in Parkland based in the UK. Last month, we elected to provide senior support -- funding support to both Links and Parkland in order to provide supplemental funding and allow them to continue their strategy of selling assets in an orderly manner and reduce ultimately those vehicles to zero.

Our team has been very successful to date in reducing the size of the portfolios primarily through asset sales but also through capital note swaps and as of last Thursday Links sat at $9.6 billion and Parkland at EUR830 million and this compares to $23 billion and EUR4 billion last July. That's a significant reduction and I don't know of another financial institution who has had this level of success in the orderly reduction of their SIVs or anyone who's done it significantly from asset sales.

It speaks to the high quality of the program and the strong team that we have in place. They've protected the investment of the capital note holders and they've allowed for the orderly reduction of the senior notes and that has protected the reputation of the BMO Financial Group.

The last item I want to talk about is the successful agreement to restructure Apex/Sitka our Canadian CDO trust in a move that's been beneficial for all stakeholders. We have a team now that is currently working with the counterparties to complete final documentation. The restructuring is going to avoid unnecessary losses. It's going to preserve all the underlying positions. The risks to BMO of credit loss are considered very low. The portfolio is primarily investment grade diversified by industry and geography. About 450 names in 40 sectors. Limited exposure to subprime and mortgage backed securities.

The key points to remember with respect to Apex/Sitka are that there is now a collateral cap in place of $3.3 billion. Mark-to-market exposure due to further widening of spreads is not an issue. It doesn't create collateral cap issues and there is significant first loss protection underlying the notes and finally DBRS has affirmed the rating of the notes at AAA on the portfolio, a AAA rating of the portfolio itself.

Successful restructuring underlines our team’s ability to successfully work through and resolve these issues. Uniquely important, we did it without disrupting any of the attention on the ongoing business operations. We were willing to take some short-term heat in order to get the transaction done. We think in the long run it does preserve the reputation of BMO most importantly it protects enormous economic value.

So now let me turn to the most important business group in changing the momentum of BMO, P&C Canada. It's our largest business. It's the biggest contributor to net income and it's the anchor of our company.

Going back to January 2006, we set a revised course in personal banking to shift the focus to vastly improve customer service and to introduce relevant and industry leading offers to our customers. In commercial banking to build on a number two market share in the upper mid-market, strengthen our small business presence and once again to vastly improve customer service. I want to emphasize that our attention to personal and commercial banking was well thought out deliberate and we're 20 months into the changes. It predates current capital markets volatility and it predates risk reduction in the wholesale business.

On April 15th, we're having an Investor Day and I know the management team is looking forward to having the opportunity to speak to you in some detail about the changes that are underway. But over the last 12 months we've seen rolling changes across the business and we have future waves of change coming that reinforce the objectives that I set out for both personal and commercial banking.

In small business this month, we've seen a new web-based front-end put in place. It improves the quality of data, the consistency of cross-selling, but most importantly it gives back about 20% of the time that the commercial officers have to devote to completing applications and opening accounts. It's intuitive. It's going to cut our training time in half and it means more time for the sales force and more time focused on the customers, but more importantly, higher quality service for our customers.

We're qualifying lending personnel on the personal loan side to make small business loans. We've eliminated application fees. MasterCard, we shift the focus of origination to our bank branches and the result is personal applications up 28% in the last 12 months, business applications up 40%.

Next week, we're introducing a new business card in the U.S. similar to the strategy that we have in Canada constantly bringing new products that is of value to our customer and focusing on customer loyalty scores. The prominence of customer loyalty scores and the personal scorecards that people that work in our branch systems and in our branches itself are now forefront. We have about 12 months of work on the introduction of the data necessary to support this.

I visit 10 or 15 branches a month and I can tell you that the focus of the front line people on their personal scorecards and on the customer loyalty is front of mind. Everyone can tell you this is what's going on in my branch. This is the customer loyalty score. Most importantly, this is my contribution to it. This is what I can add to the performance of the office where I work.

We're seeing a payback in multiple ways in Q1. We had the highest quarter-over-quarter revenue growth among our Canadian peers. We've increased our NIM by 4 basis points. What we've seen is declines among most of our peers and we're showing market share increases in areas that are extremely important to us. We're focusing on opening new accounts, focusing on deposit growth as well as lending growth.

We've seen accelerating volume growth in most products improving personal deposits as I said. In mortgage growth in Q1, returned after declines in the past year that were a consequence of our shift out of the third party distribution channel moving away from brokers in order to have a relationship hold on the client when we did a mortgage origination. As a consequence of that we're seeing wallet share increasing and we're dealing with customer concerns much earlier at the point of contact and we've seen a reduction in the number of customer concerns that are actually being escalated above the first line of support.

I've been reading a lot of the correspondence that comes in from the branches, customers complaints, following up with customers and I can tell you in a 24-month period, I've seen a shift not only in the attitude of the front line but in the kinds of communication we're getting from our customer base. So looking forward in the business, we plan to continue to bring new offers wave after wave. We are going to continue to focus on increasing our market share irrespective of what's happening from an economic perspective in the Canadian markets and we're going to continue to manage expenses focusing on funding our strategic initiatives and deferring tactical spending.

We are committed to 300 basis points of operating leverage improvement over the medium-term. In Q1 expense growth was about 8% year-over-year, but you have to reflect on the fact we had a big surge of change in 2007 and quarter-over-quarter Q1 over Q4, the expense rise was only 1%. So we expect to see the pace of expense growth to slow over 2008, but we're not going to reduce the focus we have on customer loyalty or on improving our market share.

Personal and commercial banking is going to be a pillar of BMO in developing sustainable growth and I hope some of you will have the time to either attend or follow the April 15th Investor Day. In closing, I've spent a great deal of time recently with customers and with the investors in the Company and every discussion there's a couple of points I reinforce.

First, three of our four operating groups have new leadership in the last 20 months. We have a new head of BMO Capital Markets, Tom Milroy who is going to make fundamental changes in this area and a new Chief Risk Officer, Tom Flynn who has a specific action plan to see risk management enforcement within the Bank of Montreal.

And lastly, Russ Robertson joined us as Interim Chief Financial Officer. He brings tremendous experience to the company that is in the midst of great change -- great management change and great business change, almost 40 years in the business. BMOs leadership team is strong and experienced and it's capable to make the difficult decisions that are necessary to move the company forward.

I don't want to minimize market-related issues. They are profound but you can see we have a small core that has been focused on dealing with those issues. The vast majority of our leadership in the company has been focused on the four operating groups. These issues do not affect our client focused businesses, our ability to deliver on our most important work and that's to bring an increase in the size of our business and shareholder value and I'm happy to take any questions you might have Rob.

Robert Sedran *- National Bank Financial - Analyst*

Well, I think I'll take the first one anyway and what I'd like to do Bill I guess is ask before we get to BMO specific a bit of a macro question. What do you think it's going to take to get the credit markets back to normal and how long do you think it's going to take for some of this turmoil to settle down? And I guess on a related note, what's your outlook for the U.S. and the Canadian economy?

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

Well, it's hard to predict the future and I'm not sure it's the role of a bank CEO to predict the future, but I can reflect a little bit on where we are in the credit market. I think that the adjustment of financial asset value globally, and certainly it's affected U.S. and Canadian markets, was a necessary step. The risk/return balance was not there and we all know that and in previous cycles and that's really the only reference point that we can look to Rob, there's been an overshooting. We've actually seen prices driven down below intrinsic values. In essence, some form of capitulation before markets return.

It looks to me that the period we're in right now it's very choppy. There's going to be -- I know there's going to be emerging news over the next couple of weeks as the banks that have December 31st quarter end or year end come out with their results and I expect that we'll see lots of news out of European banks.

But if you look through to the summer and through to the third quarter, there's enormous stimulus coming in the U.S. from the direct payment and the stimulus will add almost 2 -- maybe 2.5 points of GDP to the U.S. economy and I think maybe the thing to focus on is the combination of the resolution of many of the issues that individual banks and I can certainly speak of the Bank of Montreal.

We knew six months ago that if liquidity stayed out of the market we were going to have a hard six months. That's largely behind us now and I think many of our competitors are looking at the market in the same way and as the stimulus comes in in the summertime, I think you'll see a shift back to the future -- a focus of people on the future and where the best investment opportunities will be. That was a pretty general question.

Robert Sedran *- National Bank Financial - Analyst*

All right, well let me ask you a specific one. The focus to a large extent has been on the balance sheet which I think with things like Apex and Sitka are now being restructured. Obviously the balance sheet risk is following. Can you speak a little bit about the impact that these issues are going to have on the income statement?

In other words, you've got -- what kind of yield can you expect on the assets that are associated with the restructuring of Apex and Sitka, the stuff that's coming on the balance sheet? How much money are you making in it and what kind of returns can you expect on it because they seem like they're reasonably long term assets?

Bill Downe *- BMO Financial Group – President & CEO*

I think you have to put Apex and Sitka in the context of the $380 billion balance sheet. They are earning assets. They do provide a positive return but to the extent that the liquidity facility is not used and if you look at credit spreads, credit spreads have come in quite significantly in the last few weeks. I think the resolution in the Montreal Accord will also be salutatory on credit spreads. So in that kind of environment we actually don't expect to see much of an increase in asset on the balance sheet.

And in the case of Links and Parkland, which as you recall we put an $11 billion facility in place, we continue to reduce those assets and I think the impact on capital is de minimis as you said, and in truth the impact on the overall earnings of the bank. The bank will be very small as well.

Audience Member

This is not my father's Oldsmobile. It's not the Bank of Montreal I've always known, which is the most conservative bank meaning in good times you didn't have the same leverage on the way up, but in poor times you were protecting the shareholder. Something has gotten out of wack. You have the natural gas problems. You have the bad paper problem. How did this happen internally and how is it allowed to go on so long and what risk profile are you targeting in the future?

Bill Downe *- BMO Financial Group – President & CEO*

I think it's a good question. I'd like to hit that one head on. In the case of natural gas, the natural gas was inconsistent with the business strategy of the Company. We've said that. It was a one-time, one location event. My reflection on that is that we put it behind us very quickly. In May last year when we looked at the size of the position that we knew we were going to work down, we made the correct decision to not liquidate rapidly, to deal with the position ourselves. I thought it would take a little bit longer than it did.

I think on the quarter end call, Bob McGlashan made it clear that that situation is now essentially resolved and the business is being viewed on a going forward basis. It's going to be a lot smaller than it was this time last year and the focus is going to be on customer business and that's where we have a big strength in the oil and gas market.

I think the Bank of Montreal that you speak of in the past was focused on client related business and certainly BMO Capital Markets needs to maintain a focus on the client. Doing business where there is a true -- a multi product opportunity where there's a relationship with the client. In the case of the asset securitization businesses, they've certainly gone through a period of seven or eight months of tremendous instability is guess is the best way I would put it and it's a reflection of the market. But I also point out that we've been in the asset securitization business for 15 years and that started with our U.S. conduit. We were the largest provider of asset securitization to the Canadian market and that was in service of our customers.

I think restoration of health to the Canadian -- asset-backed commercial paper market is essential to providing capital to those customers. We have been the market leader and I think it's been based on quality not on being aggressive with respect to the assets that we would finance and so I think for the most part you should expect to see those commercial paper supported vehicles continue to do well.

I think in the case of Apex, which was the CDO, I think it's the one area that we're going to see a permanent reduction. I don't think the market appetite for those kinds of investments in search of spreads is going to be there in the future and I think the changes you're going to see in BMO are going to be just that return to focus on the customers. There isn't a specific customer relationship behind the business and market making is not going to be productive for the value of the company.

I will say this that the growth of the earnings of the Company is going to have to be greater than the earnings growth that you referred to in your father's -- was it an Oldsmobile? We want to see a company that's just a little more dynamic, as well as being a good manager of risk. We've got a few over here.

Audience Member

Yes. I'm just wondering what kind of growth are you targeting on the Canadian operations?

Bill Downe *- BMO Financial Group – President & CEO*

Well, you have to temper your growth expectations a little bit by GDP growth. We went into the year looking for the Canadian economy to grow at 2.5%, maybe a little bit more. There's no question that in my mind there's no question that the U.S. is going to be at zero, maybe minus growth for a couple of quarters, and with the Canadian dollar where it is I think that it's appropriate to see Canadian economic growth coming down certainly below 1% for a quarter or two. What we're focused on is market share and our belief that whatever the growth rate is of the Canadian market we just can't tolerate a flat market share.

What we've experienced in personal banking over a period of six or seven years was declining market share. We stabilized that and Frank Techar and his management team are very focused on delivering market share growth in personal banking so I think you have to temper it by the fact that we'll probably have a year, 2008 for certain, a year of pretty modest economic growth.

Robert Sedran ***- National Bank Financial - Analyst***

I think we've got time for one more question.

Audience Member

It's a two-part question. First of all, can you assure us that we've seen the extent of all of your off balance sheet exposures at this point with the stuff that comes forward that we won't see anything else. And then secondly, could you just discuss, of the income year end from capital markets how much of that has been fixed income related to structured products?

Bill Downe ***- BMO Financial Group – President & CEO***

The issues that I talked about this morning we have been clear through the piece and I'll go back to August that these were areas where we had a market leadership position that the asset securitization business was challenged and we have spoken about all of the issues through the piece that were in front of us. Clearly, there will be a difficult trading environment. I'm confident there will be a difficult trading environment for all capital markets businesses certainly for the next quarter and probably for the next couple of quarters.

The importance of asset securitization to the total bank is not a major -- it won't be a major factor in the future earnings power of the business and as I said, I expect that it will continue to be a viable business. So I don't look at the earning power of capital markets being materially affected by the changes in the business.

If anything, what we're going to see is higher margins for the same amount of capital utilization and maybe even higher returns on less capital in a number of segments of the business. So I'm less pessimistic about the opportunity for capital markets and I'm going to look beyond 2008.

I'm less pessimistic for the opportunity for capital markets in '09, and '10 and '11 and I'll remind you of the fact that our corporate and investment banking business, our research led business we continue to have a market leadership position in terms of the number of deals done and we're mirroring that capability in the U.S. that we have in Canada. Thanks very much for the question.

Robert Sedran ***- National Bank Financial - Analyst***

Okay, thanks, Bill. On behalf of NBF, I would like to thank you for participating in this year's conference. Thank you.

Bill Downe ***- BMO Financial Group – President & CEO***

Thanks, Rob.