

**Hosted by: Ihor Danyliuk - Managing Director and Head of Research - National Bank Financial**  
**Guest Speaker: Bill Downe – President & CEO – BMO Financial Group**

#### **Caution Regarding Forward-Looking Statements**

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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 32 and 33 of BMO's 2009 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, except as required by law. 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 as well as overall market conditions and their combined effect on the bank's business, including those described under the heading Economic Outlook and Review in our First Quarter 2010 Report to Shareholders, are material factors we consider when determining our strategic priorities, objectives and expectations for our business. 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.

#### **Non-GAAP Measures**

Bank of Montreal uses both GAAP and non-GAAP measures to assess performance. Readers are cautioned that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies. Reconciliations of GAAP to non-GAAP measures as well as the rationale for their use can be found in Bank of Montreal's First Quarter 2010 Report to Shareholders and 2009 Annual Report to Shareholders all of which are available on our website at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations).

Examples of non-GAAP amounts or measures include: cash earnings, cash productivity and cash operating leverage measures, and cash earnings per share; revenue and other measures presented on a taxable equivalent basis (teb); amounts presented net of applicable taxes; net economic profit and core results and measures that exclude items that are not considered reflective of ongoing operations. For example, core measures and results which exclude the impact of impaired loans, Visa litigation accruals, acquisition integration costs. Bank of Montreal provides supplemental information on combined business segments to facilitate comparisons to peers.

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**Ihor Danyliuk - Managing Director and Head of Research - National Bank Financial**

Our next speaker is Bill Downe, President and Chief Executive Officer of BMO Financial Group. Bill was appointed to his current role on March 1, 2007. Bill joined the Bank of Montreal in 1983 and held a variety of senior management positions in Canada and the U.S., including Denver, Houston, Chicago, and Toronto. In 1999 he was appointed Vice Chair, Bank of Montreal and in 2001 he was named Deputy Chair of BMO Financial Group and Chief Executive Officer of BMO Nesbitt Burns. In 2006 he was appointed Chief Operating Officer of BMO Financial Group. He is the only Canadian member of the International Business Leaders Advisory Council of the Mayor of Beijing, a member of the Economic Club of Chicago and Past President of the Federal Reserve Board's Federal Advisory. Welcome Bill.

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**Bill Downe - President and Chief Executive Officer – BMO Financial Group**

Thanks very much, Ihor. Very much appreciate the introduction and the opportunity to be here and good morning to everyone. It's great for us to be here in Montreal, where just over 190 years ago the Bank of Montreal was founded. Okay, and before I begin, please note the caution regarding forward-looking statements on slide one, and we had a backward-looking statement and now we have a forward-looking statement.

I'm going to make some brief comments and then I'll open it up for questions. What I'd like to talk to you about falls under three headings. First, BMO's performance and the strengthening of our competitive position including steps in U.S. commercial banking to take advantage of the opportunity for growth coming out of recession; second, our strong capital position; and third, why we are well positioned for solid top line growth in the future recognizing that there are going to be revised global capital standards, a reconciliation of international accounting and U.S. financial reform.

Let me start with a reminder of our Q1 results which were released on March 2. Net income was \$657 million, ROE improved to 14.3%, revenues exceeded \$3 billion for the first time coupled with disciplined expense control in each of our operating groups. Our pre-provision pre-tax earnings were \$1.2 billion and credit performance was slightly better than expected with moderation in negative credit migration. And we expect to demonstrate once again that the management of credit is a core strength of BMO.

Our performance is attributable to success against five strategic priorities that we established in 2007. We set the stage for how we intend to compete providing a value proposition that's clearly higher touch and rooted in listening to and guiding customers to make better choices. We believe relationships are important in banking. Making money make sense for our customers is how we've come to think and it's how we operate. In doing so, we're delivering on a brand promise that has clear benefits for our customers and for our shareholders, as we demonstrate the earning power of our core businesses and reinforce the confidence we have in the execution of our strategy.

This differentiated approach and its success is highlighted in our flagship P&C Canada business, where there are four measures we use to track progress against our strategy and compare performance with our competitors.

First is growth in revenue, then growth in net income after-tax and then customer loyalty scores in both personal and commercial banking.

We've improved in each of these measures narrowing the gap to exemplar. At the end of 2007, we ranked fifth in both revenue and net income growth. By the end of fiscal 2009 we moved up to second in revenue growth and first in net income growth. As of Q1 2010, we maintained our number two ranking in revenue growth and top two position in net income growth.

In customer loyalty for both personal and commercial banking, we have materially improved our scores and we've narrowed the gap to the industry leader.

We're focused on growing the balance sheet. In the first quarter, personal deposits, consumer loans and credit cards continued to grow. Mortgage growth, where we haven't see as much progress as we'd like, remains a priority. But we're growing our specialized sales force to address this and we're taking a strong advisory role ensuring our customers get the right mortgage for the right house.

We continue to rank second in Canadian business lending and we're well positioned to drive growth when commercial credit demand starts to pick up again.

The Private Client Group continues to generate good results with strong top line growth and momentum in attracting new client assets. Accelerating the growth of our wealth management business is a priority, and we have the benefit of award winning brands and we plan to capitalize on this as well as benefit from improving equity markets.

BMO Capital Markets' results reflect a diversified nature of our revenue flow and the work we've been doing to ensure that we drive strong sustainable returns throughout the cycle. And to that end, this group has achieved an ROE of at least 18% for the last three quarters. The pipeline of corporate equity, debt and M&A is recovering slowly, but we expect this will continue to improve as rising interest rates moderate the profitability of trading businesses.

P&C U.S. business is gaining traction highlighted by deposit growth and stronger commercial mid-market mortgage and auto loan originations. In terms of banking the Midwest is still an uneven market. There are a number of regional competitors who remain extremely cautious, many still have challenges in rebuilding capital; and in large part universal or network banks seem to have other priorities. So there is a visible opportunity we believe for Harris to grow and take market share in corporate banking.

We've identified a number of U.S. mid-market clients that will be better served under a P&C U.S. commercial banking model, and by migrating these accounts we expect to intensify RM coverage on an expanded universe of accounts and that's going to create an opportunity for deeper relationships. We'll realize economic benefits by significantly reducing the cost to serve each account and we're going to leverage our strong reputation as a commercial lender with the Harris brand at a time when customer loyalty has a great deal more visibility and the marketplace remains disruptive. We remain confident that our longstanding reputation for being consistent and supportive of our customers will enable us to build market share in the period of economic recovery.

To put this initiative in perspective, we expect to more than double the size of our existing commercial banking business, which has a book of about \$6.5 billion in both loans and deposits. Increase the average client size in our U.S. commercial mid market loan portfolio from a range of \$150 to \$200 million to sales of \$400 to \$500 million. The realignment will also improve our business mix within P&C U.S. and that will drive better productivity and ROE.

Migrating, primarily lending accounts into P&C U.S. will allow BMO Capital Markets to focus its attention fully on sectors and clients where we have differentiated competitive advantage with a clear focus on winning investment banking mandates.

This positions us well for growth as we expect credit utilization to pick up in the latter half of the year and we expect the U.S. commercial business to account for a much greater proportion of our revenue and profitability and the ROE of both the operating groups to begin to improve. Simply put, we're moving the business to where we think we have the best chance for growth in line with high expectations. And our second quarter results will reflect a transfer of these accounts.

Moving to slide six, I want to touch on financial and capital strength. As measured by market cap, BMO is the ninth largest bank in North America. Our quarter-end Tier 1 capital ratio was 12.5% and our tangible common equity to risk-weighted asset ratio was 9.5%. Applying a consistent methodology for calculating TCE, BMO is ranked number four among North American banks, clearly a position of strength.

We're at a moment in time...where a bank that has a strong financial position and has a clear business strategy has a unique opportunity to grow. At BMO, we're in this position because of good decision-making and a clear vision about how we compete and how we manage risk. We embrace global financial reform and we believe we will thrive in the emerging global market, which will define the behaviour of the most successful banks. It's necessary and it simply makes sense. We've thought through the implication of regulatory reform unfolding in the U.S. and global scenarios of changing capital standards and under multiple scenarios we expect we'll be in a strong position to grow our business.

BMO is a well-capitalized North American competitor, with concentrations in retail strength in Canada and the U.S. Midwest, a successful application of the universal banking model. We have a strong wealth management and capital markets presence across the continent and we have deep roots in this market almost 200 years in both Canada and the

U.S. We intend to grow by deepening share of wallet with existing customers and serving new customers with BMO's unique geographic footprint.

Looking ahead, we have clear North American strategies supported by a large and high quality customer base. Our financial position is very strong providing financial flexibility as the economy recovers and banking reform unfolds. We continue to execute strategic initiatives that expand our markets, and drive strong top-line growth while investing in productivity and we are at a point now where we can say the leadership team itself is becoming a source of advantage. The depth and experience of management has been augmented by external recruitment of very talented individuals since the beginning of 2006. We've engaged employees and we have a track record of delivering on our commitments.

Thanks very much I'd be very happy to take questions if you have any?

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**Ihor Danyliuk - Managing Director and Head of Research - National Bank Financial**

I'll kick off the questions. I have a two-part question on regulatory reform Bill. Can you comment on the U.S. regulatory reform rules being proposed in Senator Dodd's bill and then the second part can you provide your views on the proposed changes to the Basel framework?

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**Bill Downe - President and Chief Executive Officer – BMO Financial Group**

It is a two-part question, Ihor; thank you. Well I did refer to regulatory reform, and I think that upfront I should say that I think the status quo failed the system and that regulatory reform is necessary, it should be embraced, but I think that we need to start talking about specifics. A lot of the debate has really been general in nature and there are some very specific areas that need to be examined before regulatory reform moves forward.

One of the things that I think does need more debate is the notion of principles as well as rules. There are going to be new rules put in place but unless principles are established at the same time as those rules are defined, I think it's very difficult to expect that people's behavior will reflect the intent of those rules. So a good healthy debate about the principles behind rules is necessary and I think that the Dodd bill, which is somewhat different than what went before the House, from the House Finance Committee in December, creates a good opportunity for that debate and it's a precondition probably for any kind of a global reform that unfolds.

So I think we ought to, we as Canadians and investors and banks, global banks, ought to be very focused on how this unfolds. There are a number of elements in the Dodd bill that simply make common sense. A consumer protection agency -- we have a very effective consumer protection agency in Canada and I have some confidence that what will come out of the reform in the U.S. will reflect that same sensible approach and the notion of an oversight council to make sense of the competing regulatory regimes will make it easier for us to operate as a bank in that environment.

The discussion about the limits on proprietary trading I think ought to be a little more specific. In order to be in the banking business you have to be able to facilitate trading, you have to carry inventories, but some notion of what's an appropriate level of open positions relative to a size of the bank is probably a healthy thing to resolve. And then more transparency around derivative trading and the movement of OTC derivatives to clearing houses and potentially to exchanges are very positive. That's going to be -- have to be balanced by just the total impact of the accumulation of changes to ensure that we have a healthy banking system that's able to support economic growth.

Once that legislation is complete, Ihor, I think that we can then turn our minds to the G20 and the FASB and the more specific rules around levelling the playing field, globally levelling the playing field around capital.

And I guess the news there is that Canadian banks start out in a very strongly capitalized position and I think we will be well represented, if you want, in the global negotiations, which admittedly I think nations will be trying to preserve their own advantage. So, thanks for the question in both parts.

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**Unidentified Audience Member**

Good morning. Could you comment on your provisions for both Canadian losses as well as your U.S. loans?

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**Bill Downe - President and Chief Executive Officer – BMO Financial Group**

Sure. The provisioning that we've seen in the portfolios reflects estimates of loss; they are built up from the bottom. They peaked or they rose rapidly I would say in 2008. In 2009 we are seeing formations starting to abate. It's – this is an unusual cycle in that we went into the downturn and I think most of the industry went into the downturn with very few impaired loans. So, the process of seeing reversals offsetting new formations wasn't evident in 2008 and 2009. I think in 2010 and 2011 with a reduction in risk migration and a reduction in new impaired loan formation, we'll probably see provisions start to come down, and I think they are in a very good position now. Was that the nature of your question?

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**Unidentified Audience Member**

Yes, Thank you.

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**Unidentified Audience Member**

So, it seems like the emphasis for U.S. P&C has changed recently. Has that changed your thinking at all on FDIC deals, especially given the fact that it looks like Chicago activity is going to pick up here soon?

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**Bill Downe - President and Chief Executive Officer – BMO Financial Group**

Well, I think what we've said about FDIC deals is they are very tricky. Unless you are looking at a branch footprint or a customer base that fits right in with the strategy of the bank, then merely buying something because it's cheap doesn't, I don't think, give you a good long-term benefit.

So the shift in our discussion about the potential for economic growth and growth in the Commercial Banking business I think is somewhat separate from the issue of would an FDIC transaction be attractive.

I think that the good news on FDIC transactions is that the volume has risen. It's clear that in the pipeline there will be some FDIC banks that do have good locations and good customers. I think in the early days, it was clear that the banks that really required closing didn't have much in the way of value in their asset base. So, I am optimistic that there will be some opportunities, but most of our focus is on just building the business through organic growth in a market that we think is going to recover.

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**Unidentified Audience Member**

Hi. Last year you acquired the AIG's Canadian Life Insurance business. Could you tell us whether the acquisition has met the bank's expectations?

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**Bill Downe - President and Chief Executive Officer – BMO Financial Group**

We're very happy with the acquisition. At the time that we made it I think it was a very dark environment. There wasn't a lot of competition for it and what was most attractive to us was the quality of management and the underlining quality of the product slate. We thought it would fit very well with our own distribution. We have close to 1,500 investment advisors in Canada and more than half of them are licensed to sell insurance, and we are seeing a very good match between the Nesbitt Burns IAs and the products, so that's going extremely well.

The independent agent channel has always been an area where the bank has had good customers, and AIG's distribution through that channel is also very complementary. Their response has been very positive and what AIG had as a customer base has grown under the umbrella of BMO Assurance. So, in both those areas, I would say that the early results exceed our expectations. We are very happy with the acquisition.

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**Unidentified Audience Member**

Hello. What will happen under Basel on the payout – maximum payout ratio and the consequence on the volatility of the dividend?

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**Bill Downe - President and Chief Executive Officer – BMO Financial Group**

I don't think that the new Basel framework will have an impact, if you are talking specifically about how we think about our payout ratio. Going into the process, there is a list of things that could be used to reduce the current calculation of Tier 1 capital or of tangible common equity. And I think you have to look at that list of line items in a consolidated sense and that is, I think, that the questions were put out in the QIS to encompass all possibilities, but if you took any two of the line items and impose them you would end up with a much higher level of capitalization in the banking system. So, I think what will happen in the process is the balanced approach will ultimately prevail. And if you think about bank capital, Canadian banks were running north of 8% Tier 1 and U.S. banks were running around 6% and European banks were running around 4%. Most of the debate I think will take us to Tier 1 capital somewhere in the 8% to 10% range on the basis that Canadian banks were calculating – recognized we have the benefit of a much higher component of common equity in our Tier 1 ratios that will be of assistance and that those notions of restricting dividends or executive compensation are really designed to kick in at a time of crisis when capital ratios would be pushed well below that.

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**Ihor Danyliuk - Managing Director and Head of Research - National Bank Financial**

In terms of growth in the U.S., in the Midwest, Bill, how much of that growth do you see being organic and how much do you see it being acquisition driven? And then in terms of acquisitions, Can you share with us what you are seeing out there, are they primarily distressed banks, are there good banks for sale?

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**Bill Downe - President and Chief Executive Officer – BMO Financial Group**

Initially, the only banks that were for sale were distressed banks and if that continues to be the case, then all the growth would be organic. And it's quite simple. Unless acquisitions fit in with the strategy of the bank, unless they bring the quality of customers and the quality of franchise that we're trying to build, we don't think it's the right way to grow.

But I do think that one of the things that we're going to see start to develop is banks that have good strong customer base, is in good reputation, and who have essentially repaired their capital coming out of the period of 2009, are going to be constrained with respect to their ability to grow. And I think that's where you might see the opportunity to combine banks if they had a growth strategy but don't have the capital to follow up on it. And I think that's, as has always been – the case, it's very difficult to predict because there is emotion involved. There is the attitude of the Boards of Directors of banks around whether they want to wait for value to recover, whether they believe in a growth strategy or whether they have just come through a period when they've been so unsettled that they would like to do nothing for a little while. So I really do think the opportunity to make good acquisitions has a subjective nature to it. It's very difficult to predict.

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**Unidentified Audience Member**

Sorry, just on your dividend payout policy, coming into that recession, you had somewhat of a higher payout target than the other banks. How do you think about your dividend payout going forward especially given the new reality?

And another quick question, given it may be a new target in terms of Tier 1 capital, and more of a loose constraints on you guys, do you feel that that can impair your ability to get back to a level of profitability that you've seen in past and impair your level of return of equity that you can achieve?

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**Bill Downe - President and Chief Executive Officer – BMO Financial Group**

Okay, that's a fairly complicated question. In two parts, it speaks to the dividend and then it speaks to the level of earnings. But let me start with the dividend. We established a dividend payout range of 45 to 55%. And we did that in consultation with many of our larger shareholders who I think were signaling that in an environment where there were few opportunities for reinvestment that represented good value and that's when banks were trading at three times multiples in the market that a higher dividend payout ratio was attractive.

We're still outside of that range. But as I said last year, when the yield on the dividend was quite high, we have confidence in the long-term earning power of the bank. And we're confident that the payout will come back inside that range.

The real issue around, I think, around dividends is that we agree with investors who say that companies that consistently grow their dividend tend to be good performers. I think there is a certain discipline around continuing to increase the dividend that reflects confidence in the business and probably a good balance between reinvestment and returning to the shareholder.

So whether the range of 45 to 55 in a new environment is the right range I think will depend on two things. One is the final judgment with respect to what new capital standards will mean, because that will determine how much surplus capital is being generated for growth. Number two, what the growth opportunities are. If in fact there is very slow economic growth and as a consequence the opportunity to grow the balance sheet, then maybe the payout ratios for the industry will in fact trend higher.

My own view is that we will have economic growth, that the banking system is going to be principal intermediation of those markets because commercial paper markets are not going to operate at the level that they have historically. And we're going to look to our shareholders and their view with respect to the appropriateness of the payout ratio. But job one is to, I think, see the earnings rise to the level that we're back within a payout ratio and then we'll think about the rate at which we would increase the dividend.

As far as the earnings go, I think I have probably expressed for a longer period of quarters confidence in economic recovery. I think the economic recovery showed up nicely in Canada. Part of that is resource driven, and the fact that the demand for natural resources recovered quite nicely. But I think the U.S. economy, because it's one of the most flexible economies in the world, the ability to move labor and move capital that, I think we will see a relatively strong rebound in U.S. competitiveness. And I think that will translate into earnings growth.

Half of our capital markets business is U.S. based, and it's only in the last five years that we've had the ability to fully participate in debt and equity markets in the capital markets area. And it's only in the last five years we've had a really strong M&A team in the U.S. comparable to our Canadian capability. So I think we will benefit from economic recovery in the corporate finance business in the investment bank and so I think that will be a contributor to revenue growth as well.

And I think the last point is, if you look at loan provisioning in the U.S. market in the last two or three years, it has been at a very high level by any historical standards. And I think for the most part, people are discounting the level of recoveries that will ultimately take place in the large commercial market. I think the residential provisioning is probably written-off and the recoveries will be very low. But I think in the commercial banking market there will be recoveries as well.

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**Ihor Danyliuk - *Managing Director and Head of Research - National Bank Financial***

Any last questions? Thank you very much.

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**Bill Downe - *President and Chief Executive Officer – BMO Financial Group***

Thanks very much.