BMO Financial Group
Q4 2008 CONFERENCE CALL

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PRESENTATION

Operator

Please be advised that this conference call is being recorded. Good afternoon, and welcome to the BMO Financial Group fourth quarter 2008 conference call for November 25th. Your host for today is Viki Lazaris, Senior Vice President of Investor Relations. Miss Lazaris, please go ahead.

Viki Lazaris *- BMO Financial Group - Sr VP IR*

Great, thank you. Good afternoon, everyone, and thanks for joining us today. Presenting today are Bill Downe, BMO's CEO, and Russ Robertson, BMO's Chief Financial Officer, and Tom Flynn, our Chief Risk Officer. The following members of our management team are also here this afternoon -- Tom Milroy from BMO Capital Markets; Gilles Ouellette from the Private Client Group; Frank Techar, head of P&C Canada; Ellen Costello, from P&C US; Barry Gilmour, head of Technology and Operations; and Simon Fish, General Counsel. After the presentation, the management team will be available to answer questions from pre-qualified analysts. To give everyone an opportunity to participate, we ask that you please ask one or two questions and then requeue.

At this time, I would like to caution our listeners by stating the following on behalf of those speaking today. Forward-looking statements may be made during this call and there are risks that actual results could differ materially from forecast, projections or conclusions in the forward-looking statements. Certain material factors and assumptions were applied in drawing the conclusions or making the forecast or projections in these forward-looking statements. You may find additional information about such material factors and assumption 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 or on our investor relations website. With that said, I will hand things over to Bill.

Bill Downe - BMO Financial Group - President & CEO

Thank you, Viki, and good afternoon. As noted my comments may include forward-looking statements. Since I last spoke with you on August 26th, there's no question the extraordinary turmoil and value erosion in global markets has continued and intensified. And it is clear that our performance is being impacted by the current market conditions. That said, we continue to look for opportunities to grow the business and we are focusing on the fundamentals. We are taking deposits, we are lending money, we are giving advice, we are solidly profitable and we are paying our dividend. And while we are doing all of these things, at the same time we recognize the broad economic outlook has changed. Like other financial institutions, our core businesses are facing challenges from the cost of funding, slowing loan growth, and weak equity markets. And in that sense it is not business as usual, at least not as we understood it starting fiscal 2008

But it hasn't affected our business strategy, our customer focus, or our commitment to shareholders. We are maintaining our competitive stance and executing on our agenda, an agenda that has moved us forward in 2008. We have dealt with multiple issues this year that are reflected in our results and we are better positioned both for 2009 and for the ultimate recovery in the global economy.

Before I get into a discussion of our businesses, I want to make the point that despite the environment that all financial institutions are facing, we are driving BMO to create opportunity in 2009 and we are proud of the direction we have taken in 2008. I believe our commitment to our customers will serve them well and will serve the shareholders of the Bank well. As we demonstrate success against our strategic plan, we would hope to see the gains reflected in the relative valuation of BMO shares.

Turning to slide four, I want to discuss our dividend. Over 15 years to the end of fiscal 2008 our dividend has grown at a compound annual rate of over 11%. The current annual dividend of $2.80 a share, the payout ratio at year-end was above our target range of 45% to 55%.

As a result, until we have better visibility on the length and extent of the current slowdown, further growth in the dividend is not appropriate. We believe our current dividend is appropriate based on the earnings power of the Bank and we will continue to focus on the core business performance to return the payout ratio to the target range.

To put our dividend in perspective, our retail businesses, including PCG, generated more than $1.8 billion in net income in 2008 relative to the current annual cost of the dividend of $1.4 billion, while BMO Capital Markets has continued to generate positive earnings from a diversified client base.

Turning now to the financial results, net income for the fourth quarter of fiscal 2008 was $560 million and that was $108 million or 24% better than Q4 a ago. For the fiscal year, net income was almost $2 billion, that was down $153 million or 7% from fiscal '07. Return on equity was 14% for Q4 and 13% for fiscal 2008. Our Tier 1 capital ratio of 9.77%, tangible common equity to risk weighted asset ratio of 7.47%, both continue to be strong. Loan loss provisions in the year of $1.33 billion, of which $260 million was in addition to the general provision, reflect where we are in the economic cycle. We are aggressively managing watch list and impaired credits with a focus to maximizing the realized recoveries.

Turning to our operating groups in slide six, P&C Canada reported very good quarterly results throughout the year, with both revenue and net income improving in each consecutive quarter and we earned net income of $1.3 billion for the year. Revenue grew in each of our personal, commercial and cards businesses this year over last and overall revenue growth strengthened as the year went on. We are making the Bank more visible in the market place with clearly defined and differentiated brand promise centered around helping our customers make sense of their finances by taking away complexity and that is something that our customers have told us they value. This year total loans for the group increased almost 7% over last year. Beyond transactions, our focus for this market is on relationships and bringing value. We stick with our customers and we work with them through downturns. Our consistent approach to customers is positioning us to build our business further, when more stable times return.

P&C US ended the year with cash net income of $121 million, which was down from last year, but we continue to see good progress on expanding our branch network in the important US Midwest. The current market in Chicago presents a tremendous opportunity for Harris, a better alternative to network banks. And as the banking landscape changes, Harris is the natural home for Midwest businesses and customers. We are conscious of the reality of today's markets and the importance of maintaining our financial strength. We see opportunities to increase share in the Chicago market.

Private Client Group earned $395 million for the year, which is a sign of strength and the group's ability to manage in the current difficult environment. The group made the correct decision with respect to client assets invested in auction rate securities and Lehman paper. Notwithstanding these charges, it is notable that 2008 net income equaled the record results of 2007.

In Capital Markets we are benefiting from strong performance in our interest-rate-sensitive and foreign exchange businesses. This strength is offsetting softness in some of our fee-based businesses and is a good example of how the Bank benefits from the diversity of our business.

Collectively and individually, our core businesses are continuing to perform well in difficult times, which may be most evident in loan losses, but they're not losing sight of positioning the Bank to perform even more strongly when growth resumes.

Looking forward, due to tighter credit conditions the US economy is sliding into a deeper recession, similar to the downturn of the early 1980s. Canada's economy has been faring only modestly better, supported by continued growth in consumer spending, but it too will face a downturn in coming quarters. The potential for a modest recovery in the second half of 2009 in response to aggressive monetary and fiscal stimulus and some stabilization in US housing markets could well be delayed until the end of next year.

But clearly, forecasts are difficult in the current environment. Traditionally at this time we announce our annual financial performance targets. Given the uncertainty in global markets, as a management team we will forego publishing 2009 annual targets in this uncertain environment, but we are committed to provide medium term targets as noted in today's press release. We have a rigorous business planning process that considers many potential economic scenarios, there's clear and direct accountable for performance against internal benchmarks and progress against strategic priorities, including financial measures.

Before handing it over to Russ for a more detailed look at the financials, I want to acknowledge the Government of Canada's recent constructive actions to maintain the availability of longer term credit and attempt to level the playing field for Canadian banks internationally.

In stark contrast to the staggering losses posted by some US and European banks, Canadian banks have maintained their strong capital ratios and continue to generate profits for shareholders, perhaps not at the same high levels reported in recent years, but solid profits not losses.

Without transferring any risk from banks to taxpayers, the Government's actions have supported the availability of credit, which will benefit Canadian businesses and their ability to compete internationally. With that I will turn the discussion over to Russ.

Russ Robertson - ***BMO Financial Group - Interim CFO***

Thanks, Bill, and good afternoon. As some of my comments are forward-looking, please note the caution regarding forward-looking statements. Our overall performance in the quarter was good and I would reiterate Bill's comments that BMO is not immune to the current market difficulties and we remain focused on our core operations and serving our customers. On slide three you can see the reported fourth quarter earnings were $560 million or $1.06 per share compared to $0.87 last year. On a cash basis, earnings were $1.08 per share and our Tier 1 capital ratio remains strong at 9.77%. On slide four, revenue was $2.8 billion, up over 2% quarter over quarter. In P&C Canada revenues increased as a result of volume growth across most products and higher revenues from securitization activities included in non-interest revenue partially offset by net investment securities losses.

The other three operating groups' revenues were down, reflecting the current operating environment. These declines were partially offset by the positive impact of the stronger US dollar. Year-over-year revenues increased 28% on a reported basis. P&C Canada revenues grew strongly due to volume growth across most products, particularly in cards and consumer lending. Over half of the Bank's increase is due to the high level of Capital Market environmental charges and commodities losses in Q4 of '07. The stronger US dollar increased revenue by $48 million quarter over quarter and by $55 million year-over-year. Net interest income was $1.4 billion in Q4, up over both comparative quarters.

Looking more specifically at margins on slide five, Total Bank margin was up 12 basis points quarter over quarter. The increase is attributable to higher spreads on trading assets in BMO Capital Markets. On a group basis, margins were up year-over-year in every group with the exception of P&C US. In P&C Canada, the increase of eight basis points year-over-year was due to interest on tax refunds and improving product yields, partially offset by higher funding costs and lower mortgage refinancing fees. Quarter over quarter margins remain flat, as higher funding costs and competitive pricing pressure offset interest on tax refunds. Looking forward, net interest margins will be under pressure given the impact of higher funding and competitive pressures. Margins in P&C US were down 34 basis points year-over-year due to the 22 basis point impact of a portfolio transfer and higher levels of nonperforming loans and product mix. Quarter over quarter margins decreased 11 basis points due to the impact of nonperforming loans and changes in product mix. The year-over-year increase of 29 basis points in Capital Markets is due to higher spreads on trading assets and interest-rate-sensitive businesses. Quarter over quarter margins were up due to higher spreads on trading assets, supported by wider spreads on cash management and interest-rate-sensitive businesses.

Turning to slide eight, non-interest revenue was impacted in the quarter by capital markets environment charges in both Capital Markets and Private Client Group totaling $45 million pretax, $27 million after tax or $0.06 per share, compared with the prior quarter charge of $134 million pretax or $0.19 per share. BMO Capital Markets pretax charges totaled $14 million.

Highlighting the items on the slide in order, first, a charge of $88 million pretax for mark-to-market valuations on counterparty credit exposures on derivative contracts, largely as a result of corporate counter parties' credit spreads widening relative to BMO's, similar to prior quarters. Next $170 million pretax charge for exposures related to Apex Trust can be broken down into a charge of $105 million and another charge of $65 million.

The $105 million charge relates to reducing the carrying value of those notes to $625 million, down from $730 million at July 31, 2008. The decline in fair value is due to the deterioration in credit quality of the underlying portfolios and significant increases in credit spreads given current market conditions. Realized losses will only be incurred should losses on defaults in the underlying credits exceed the first loss protection on a tranche The $65 million charge relates to the total return swap transaction. A third party holds its exposure to the Apex medium-term notes for a total return swap with us. The valuation of this swap and the related underlying medium-term notes have been determined by management based on expected discounted cash flows. The determination of the discount rate used in the discounted cash flow model has the most significant impact on the valuation of the swap and underlying securities and is impacted by changes in credit spreads and the ratings of the underlying credit swaps.

As I mentioned to you last quarter a 50 basis point movement in spreads would produce a gain or loss of $10 million. Tom will add more color regarding Apex. The third item on the chart is the other than temporary impairment charge of $49 million pretax on securities and portfolios, which I will come back to. The fourth item, a benefit of $133 million pretax for mark-to-market valuations on credit default swaps relate to BMO Capital Market's loan portfolio, due to widening spreads and a weak credit environment making the mark-to-market on these credit protection positions positive. The fifth item, a benefit of $89 million pretax related to our liabilities' recorded fair value as a result of our credit spreads widening. Finally, as it relates to BMO Capital Markets, a net benefit of $71 million pretax, which is made up of a number of other valuation adjustments, including a $81 million pretax gain primarily related to portfolios where certain securities were transferred to the available for sale portfolio.

In Private Client Group pretax charges totaled $31 million, consisting of, first of all, a $19 million pretax net charge related to securities of Lehman Brothers and a $12 million pretax charge in respect to the valuation of auction rate securities that we expect to be tendered to our offer to purchase them from client accounts. Turning to slide nine, as a result of a recent accounting and reporting pronouncement, the Bank elected to transfer certain securities from our trading portfolio to the available for sale portfolio. The fair value of these securities as of August 1, 2008 was $2 billion and we subsequently recorded mark-to-market charges totaling $212 million after the transfer to available for sale. This was broken down into two charges. Firstly, $183 million pretax or $123 million after tax was charged to other comprehensive income rather than trading revenue in the income statement.

And secondly, $29 million or $20 million after tax was charged to earnings as part of the other than temporary impairments charge I mentioned earlier, which is recognized as a reduction to revenues as securities gains or losses other than trading. Since we intend to hold certain securities impacted by current market issues for the foreseeable future rather than trading them in the short-term, we elected to transfer securities from trading to available for sale portfolio.

Turning to slide 10, expenses were up 9.9% from a year ago. While our corporate segment had a reduction in cost, there were increases in each of the operating groups. Half of the increase year-over-year has been the continued investment in our businesses of approximately $70 million. The other half is due to the stronger US dollar and higher performance based compensation in-line with higher revenues, largely in BMO Capital Markets.

The quarter over quarter increase was 2%. Consistent with year-over-year, the increase reflects continued investment in our businesses and the impact of a higher US dollar. These increases were offset by lower performance based costs quarter over quarter. Let me take a minute here to address the tax rate. Our effective tax rate for the quarter was a recovery of 9.2%. The low rate for the quarter is mainly attributable to $73 million of recoveries of prior period income taxes and a higher proportion of income from lower tax rate jurisdictions. Adjusting for the increase in the general allowance, tax recoveries and the higher portion of income from lower tax rate jurisdictions, the effective tax rate for the quarter would be within our expected sustainable range. While rates will vary from quarter to quarter due to one-time adjustments and significant items, our current estimate of a sustainable effective tax rate for 2009 will be in the range of 16% to 20%, down from the estimated range of 17% to 21% due to a reduction in the statutory rate.

On slide 13 you will see that our capital ratio was 9.77% for the quarter, down 13 basis points from Q3, with risk-weighted assets of $191.6 billion under Basel II. The RWA increase in the quarter was due to the impact of the weaker Canadian dollar on US dollar denominated RWA. The impact of higher risk weighted assets on the Tier 1 ratio was partially offset by higher capital resulting from the weaker Canadian dollar and retained earnings growth. To conclude, Tier 1 capital remains well above our minimum and our balance sheet remains strong. With that I will turn things over to Tom.

Tom Flynn ***- BMO Financial Group - Chief Risk Officer***

Thanks, Russ. Before I begin I draw your attention to the caution regarding forward-looking statements. I want to start with four key messages about the quarter and the current market conditions. First, as you all know, market conditions in the fourth quarter were very difficult and as you would expect, this had an impact on our results. Second, credit losses continue to be elevated in the quarter and we are likely, and are likely to remain elevated into 2009. Performance through 2009 will depend on how the economy performs and on the state of the US housing market. Third, the majority of our loan portfolio is performing solidly considering the environment. The Canadian portfolio continues to perform well. Our retail portfolio's continued to perform better than peers in both Canada and the US. Lastly, during the year, we made substantial progress in reducing and managing the risk associated with our off-balance sheet vehicles.

In 2008 we reduced our Canadian and US securitization conduit liquidity facilities by 39% and 28% respectively. We reduced our SIV exposure by over 55% and we restructured Apex. Starting now on slide three, you can see from the chart on left that impaired loan formations during the quarter totaled $806 million. Gross impaired loans have increased through the year with the increase initially coming, to a large degree, from portfolios tied to US residential real estate and more recently from a broader portion of the US portfolio given the weakening environment. Gross impaired loans totaled $2.2 billion at year-end.

Slide four shows a geographic and industry segmentation, a fourth quarter formations and impaired loans. On the left of the page, you can see that fourth quarter formations were primarily from the US. Within the US, loans associated with the US housing market in particular experienced continued weakness. Within Canada, looking at the impaired loan balance on the right of the page, you can see that the consumer segment, which has been fairly stable, is the largest component of the impaired balance. Manufacturing represents the largest commercial component.

Turning to slide five, our specific provision for credit losses was $315 million in the fourth quarter. The table on the page provides segmented information on the provision. The Canadian consumer business showed stable results compared to the third quarter and commercial Canada showed only a modest increase. In the US P&C business consumer and commercial both showed increases in the quarter. This was largely due to home equity loans on the consumer side, which were $34 million, and residential commercial real estate-related exposures on the commercial side.

Capital Markets US third quarter losses were high due to provisions taken on two US conduit credits, so the fourth quarter shows a significant improvement. The Capital Markets Canadian and other country segment losses in the fourth quarter were largely due to a provision of $36 million for one exposure related to the European subsidiary of an Icelandic bank. We also increased the general allowance by $150 million in the quarter.

Moving to slide six, you can see a further segmentation of fourth quarter specific provisions. As with impaired loan formations, provisions were largely driven by the US portfolio and within that, by exposures associated with the housing market. The manufacturing segment is also showing some softness given the weaker economy. To sum up the credit picture for the quarter, first, portfolios associated with US housing market continue to feel the effects of declining house prices. Second, our Canadian portfolios continue to perform well given the environment. Third, while portfolio migration and provisions in earlier quarters was largely a US housing related phenomenon, we are now seeing softness across a broader range of portfolios given the weakening economy. And finally, although loss levels have increased, we take comfort from the fact that loss experience on our consumer portfolios continues to perform well compared to peers in both Canada and the US. In addition, while we don't think that US house prices have bottomed, it is worth noting that Chicago area housing prices have been less impacted than the, than prices countrywide. The Chicago area prices are down approximately 11% from their peak versus 22% for the country as a whole.

Slide seven provides details of our US loan book, which is well diversified across portfolios. The US consumer portfolio represents less than 11% of BMO's loan book. The consumer portfolio was 40% first mortgages, with the balance split evenly across home equity and auto loans. Each of the portfolios has experienced a pickup in losses, but they remain modest in absolute terms and below peer US banks. Of the three portfolios, the home equity portfolio has shown the most stress. This segment is not oversized and the component of the portfolio that had a loan to value ratio above 80% and a FICO score of under 660 is only approximately $300 million. US commercial real estate portfolio represents a small portion of the total loan portfolio, specifically $4.4 billion or approximately 2.8% of the total loan book. Within this sector, the developer exposure is approximately $1.5 billion. As you would expect, we are actively monitoring and managing this part of the portfolio.

Turning to slide eight, I will provide a few comments on the credit risk in Apex. Apex provides credit protection on diversified credit portfolios located in the US and Europe. Over 70% of these credits are currently investment grade rated, with 52% being in the triple B category. The credits are held across 12 tranches. Each tranche has a unique set of underlying credits and a first loss cushion, the upper end of which is referred to as an attachment point. Given the structure, Apex noteholders will only experience credit losses if the realized credit losses on the 12 underlying portfolios exceed the first loss protection. The bar graph on right side of the slide gives an illustration of how this works. In a tranche with a 15% first loss protection layer, the Apex noteholders would only experience a credit loss if realized credit losses on the underlying credit portfolio exceed 15%. To have losses of 15%, you would need 25% of the portfolio to default, assuming a 60% loss given a default.

This level of defaults would be well in excess of what has been experienced historically on a portfolio of the credit quality that we have here. The table at the bottom of the slide provides you with details on the various tranches within Apex. As you can see, ten tranches are rated AAA and one is now rated A high and one A. The way we look at this, the first loss protection in groups three and four is so high that realized credit losses are very unlikely for the reasons I mentioned earlier. And while we believe that the first loss cushion in groups one and two is most likely to be sufficient, these tranches do have the lowest ratings and levels of protection. BMO's exposure to these two tranches is effectively $450 million. Lastly, I'd note that the transaction structure includes a collateral cap, which effectively eliminates any liquidity risk.

On slide nine we provide an update on our SIVs, Links and Parkland. As a reminder, we provide senior ranked liquidity facilities, which are intended to facilitate an orderly liquidation of the SIVs. The asset quality of Links and Parkland remains high, 98% of assets are rated investment grade, approximately 84% of assets are rated AA or better by Moody's and over 70% are rated AA or better by S&P. I do note that these ratings have remained strong over the past year in the face of a very difficult environment. The market value of the assets has been impacted by the illiquid state of the market. We continue to believe that the first loss protection provided by the subordinate capital notes will protect our senior funding position. The subordinate capital notes provide sizable first loss cushions, approximately 13% for Links and higher for Parkland. Consistent with our comments last quarter, at the end of the fourth quarter, we had funded approximately 3.7 billion for Links and EUR477 million for Parkland.

Given market conditions, we have continued to have slower asset sales in an effort to preserve the value of the subordinate capital that protects our position. Funding is expected to peak late in the third quarter of 2009 and is expected to be less than the full amount of the facilities that we have provided. Information on the assets within the vehicles is provided at the bottom of the chart and I note that the SIVs do not have direct subprime exposure.

Slide 10 shows the trading and underwriting gains and losses for the quarter. These were largely driven by the type of valuation adjustments that Russ referred to earlier. On slide 11 we give an undate on some topical issues. As you can see, we have made progress on a number of fronts during the year. We have modest exposure to US subprime mortgages. The liquidity facilities in our Canadian and US securitization conduits are down 39% and 28% respectively from levels a year ago.

There were no material developments related to our US securitization conduit in the quarter. No additional loans were purchased from the conduit, no reserves have been taken against the third loan that we funded earlier in the year, and we made a small $15 million adjustment to the provision for one of the two impaired loans that was funded earlier. Our exposure to Monoline is manageable. We did not underwrite auction rate securities and as such our auction rate security exposure is modest. We have agreed to purchase a small amount of auction rate securities from our clients. We had modest exposure to financial institutions that had difficulty during the quarter. Our exposure to Lehman was $32 million and as I mentioned earlier we had a 36 million provision on an Icelandic bank subsidiary. Lastly, our exposure to the big three North American based auto companies is not large and their auto finance exposures are well secured. That concludes my presentation and we can now move to your questions.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS) The first question is from Jim Bantis of Credit Suisse. Please go ahead.

Jim Bantis *- Credit Suisse - Analyst*

Hi, good afternoon. Just want to follow up on Tom's comment about credit losses to remain elevated depending on factors, specifically in the US housing market and the state of the economy. I am just looking at your slide seven, Tom, in terms of the breakdown of the US portfolio, which we appreciate. With respect to the home equity portion of $5 billion, you gave us some data with respect to Chicagoland. How much of that $5 billion in home equity is actually in Chicagoland or out of footprint.

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

The vast majority of our home equity exposure is in footprint. So in the Chicago area and the surrounding states where we do business. We’ve got little home equity exposure outside of that area.

Jim Bantis *- Credit Suisse - Analyst*

Got it. Thank you. When you look at the $4.6 billion in auto exposure, can you give us a little bit of color on how that portfolio is performing?

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

Yes. That portfolio is a portfolio where we provide financing for auto sales. The portfolio is a very high quality portfolio and our performance here has been significantly better than peers. The loss rate on the portfolio year-to-date would be in the order of 50 to 55 basis points, which based on the peer information that we have got would be a little under one-third of peer group loss rates on comparable portfolios. So it is holding up well.

Jim Bantis *- Credit Suisse - Analyst*

And the last question I have got with respect to the CI book, $22 billion, could you give us your perspective on where loss rates are today versus perhaps 1992 in the context of if we are going to a prolonged US recession, just want to get a sense of where the loss rates stand and how elevated they could get, assuming that we get to potentially like an 8% unemployment rate.

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

Yes. Maybe --

Jim Bantis *- Credit Suisse - Analyst*

I guess, Tom, I am trying to find out are we still in the second inning with respect to impairments and loss rates escalating or are we beyond that?

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

I will answer that question in a general way. Clearly, loss performance in the industry and for our Bank will depend on how the economy does, what happens to unemployment, what happens to US housing, and the environment is a weak one and appears to be getting weaker. We are hopeful that the fiscal stimulus programs our governments are talking about introducing will be introduced and we will have some positive impact in mitigating the downward economic trend late next year. Talking about the different portfolios in the US, the residential real estate developer portfolio is one that is experiencing some stress given what's going on in the marketplace. Our portfolio is not large, it is about $1.5 billion in size, but it is in an area that is experiencing some stress. The US consumer area has elevated losses, as we have talked about. And we think the loss rates will continue to be elevated until the housing market recovers. In Canada, we have seen delinquencies trending up, but we don't see a sharp spike in losses coming.

But the trend clearly will continue to be up if the economy continues to weaken, which is our expectation. To give you a little bit of historical perspective, which is I think what you wanted. Specific provisions in the quarter for us were $315 million, that's about 55 basis points on our loan book. For the year, the specific provision was $1.1 billion, which is about 50 basis points. And if you go back to the last two downturns, in 2001, our specific provisions peaked at about 60 basis points. So we are approaching that level at the '08 loss rate and in the recession in the early 90s, our specific provisions peaked at about 1%. So, I think where we end up in that range and how things trend from where they are really depends on how the economic situation unfolds here, but that gives you a sense of what the range has been in the past.

Jim Bantis *- Credit Suisse - Analyst*

Got it. Thanks for the detailed response. I will requeue.

Operator

Thank you. The next question is from Mario Mendonca of Genuity Capital Markets. Please go ahead.

Mario Mendonca *- Genuity Capital Markets - Analyst*

Good afternoon. Tom, I'd like to, Tom Flynn that is, I would like to tackle some of the tougher ones as they relate to Fairway and some of the SIVs. Actually, first on the SIVs, you indicate that Links, the capital notes provide about 13% coverage and Parkland a little higher than that. 13 seems -- you sound very confident that 13 is sufficient to cover things off? And I am, I question that in the context of the underlying exposures and what's happened to credit spreads in Q4 '08, but particularly in Q1 '09. When you look at credit spreads for commercial banks, CBO, CLO, CMBS all exploding in the first few weeks of Q1 '09, are you still confident that 13% is appropriate and sufficient protection?

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

Well, I will comment on it in two ways. The market credit spreads that you are referring to clearly reflect a difficult market and an illiquid market and those spreads are having a negative impact on the market value of the assets that are in Links, like they're affecting all market assets. And so the market value for the SIVs has decreased in the quarter and if spreads widen further they will decrease further. That said, we do continue to be comfortable that the subordinate capital position will be adequate here.

And the reason really relates to the quality of the assets and the ability that we have to slow our sales if we think asset price levels in the market reflect distress. And over the last couple of quarters we have slowed the pace of sales in the SIVs in an effort to preserve the par value of the capital cushion that we have beneath our position. And we have talked about the public ratings on the assets. We have done our own ratings work and we also think that the asset quality is high here. Not to say that we won't have hits on some of the assets, but we continue to think that the subordinate position will protect our position as we work out this situation.

Mario Mendonca *- Genuity Capital Markets - Analyst*

A follow up to that one question, any, has there been any level of delinquencies or perhaps even a default on any of the assets inside of Links and Parkland?

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

There have been a couple of defaults within the vehicles. There was a relatively small Lehman position and there was also a WaMu position and the effect of both of those are reflected in the book value that we are showing for the capital notes and the market value for the assets in total.

Mario Mendonca *- Genuity Capital Markets - Analyst*

Nothing else in there is default, has defaulted aside from those two?

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

Those are the only two that occurred during the quarter.

Mario Mendonca *- Genuity Capital Markets - Analyst*

Okay. A follow up another -- my second question relates to Apex. In tranche one you indicate that the original attachment was 9.5%, it has declined to 7%. The decline, what causes an original attachment point to decline. Presumably that's an actual loss. That's the first question. The second sort of related question is the detachment point is 1.8%, is just 1.1% higher than the new attachment point. Am I correct in suggesting that the entire net notional amount is lost when you move from the 7% attachment to the 8.1% detachment point or am I missing something there.

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

To answer the first question. The decrease in the attachment point from the original attachment point of 9.5% down to 7% in the quarter does reflect defaults in the underlying portfolio. And we did experience defaults during the quarter and they were concentrated in the financial services industry. The second part of your question is correct, this tranche is what they refer to as being narrow, which means that the at-risk amount is quite narrow, it is between 7% and 8%. And the notional amount of 875 that you see in the page is covered by that roughly 1% difference between the attachment point and the detachment point.

Mario Mendonca *- Genuity Capital Markets - Analyst*

And BMO's exposure is the 875, is that correct.

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

No, it is not correct. To think about our exposure, and I will link my answer to the point that we have got on the page. We have participation in $815 million of the $2.2 billion of medium term notes that are outstanding in Apex and so we have got about 38% participation in those notes. And so our exposure to the 8.75 is roughly 38% of the amount.

Mario Mendonca *- Genuity Capital Markets - Analyst*

I will stop soon. I just wanted to make sure I understood. When you talked about the restructuring I got the impression that BMO was also covering everything above the notes as well. That once the notes were chewed through, as would be the case in this particular tranche, I thought at that point BMO also had all the remaining exposure.

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

Yes, that's not quite right but it is close. We have $1 billion of the $1.1 billion senior funding facility that sits on top of the notes and we have the exposure above that amount. So the assumption in the answer that I just gave is that any losses that are realized are consumed by the $2.2 billion and that would be our expectation.

Mario Mendonca *- Genuity Capital Markets - Analyst*

Okay. I think I will follow up off line, but thank you for your help.

Operator

Thank you. The next question is from Jason Bilodeau of TD Newcrest. Please go ahead.

Jason Bilodeau *- TD Securities - Analyst*

Good afternoon. Just taking a look at Links, if we are starting with about $6.8 billion of fair value of assets, what dollar amount of assets actually mature over the sort of coming year to midpoint of 2009. What's the dollar amount?

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

The dollar amount would be in the order of over our next fiscal year, $600 million.

Jason Bilodeau *- TD Securities - Analyst*

Around $600 million. And is that -- I assume as that stuff matures and you cash it out that's being used to repay the notes, the senior notes that come due.

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

That's correct.

Jason Bilodeau *- TD Securities - Analyst*

So is that maturity scheduled then consistent with you guys going from $3.7 billion of liquidity adding the other $3 billion up to the $6.7 billion.

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

Yes, it is. The $3 billion does reflect the asset maturities that we have. So it is net of those maturities paying out as they come due.

Jason Bilodeau *- TD Securities - Analyst*

Okay. So this is an oversimplification but if I assume the marks don't really change from today, $600 odd million matures and you pay that out to redeem the notes, are we not in a situation which you have got about $6 billion worth of fair value against which you have lent about $6.7 billion. If we make those assumptions, is that the right way to think about it?

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

Yes. I think that is the right way to think about it and we would continue to have the benefit of the subordinate capital notes.

Jason Bilodeau *- TD Securities - Analyst*

Okay. I guess that's maybe where you are losing me. If we assume, as I did, that the total fair value of the assets is $6 billion, at that point you have essentially got $6.7 billion against that in senior notes, so the subordinate notes are all gone at that point right?

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

No, well, the $6 billion that you are speaking to is the market value.

Jason Bilodeau *- TD Securities - Analyst*

Right.

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

Of the assets.

Jason Bilodeau ***- TD Securities - Analyst***

Right.

Tom Flynn ***- BMO Financial Group - Chief Risk Officer***

The par value of the assets would be a fair bit higher. And as asset maturities are paid out at par, in effect we will recapture the difference between the market value of the assets and their par value.

Jason Bilodeau ***- TD Securities - Analyst***

Right. Okay. So the assumption that you are not going to incur any loss is premised on the fact that these things will ultimately mature at values above the $6 billion, in my assumption.

Tom Flynn ***- BMO Financial Group - Chief Risk Officer***

That's correct.

Jason Bilodeau ***- TD Securities - Analyst***

Ok, How long can you sort of be off side on that situation before you would feel you need to reflect an impairment in your loans.

Tom Flynn ***- BMO Financial Group - Chief Risk Officer***

We do have loans to the SIVs. And so in assessing the credit quality and the need for any provision, we apply normal loan provisioning methodologies and there isn't a magic number and really it is a judgment that is made based on the quality of the assets and the subordinated capital that we have protecting our position. And we have not taken a provision, which reflects our expectation that will get paid out in full.

Jason Bilodeau ***- TD Securities - Analyst***

Okay. Good stuff. That's helpful. Thank you very much.

Operator

Thank you. The next question is from Ian De Verteuil of BMO Capital Markets. Please go ahead.

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

Tom, while we are on these two topics. When you look at the effects and SIV's can you talk to the issue of duration on these things? I mean one of the things that we heard about with other banks when they have similar structures as this concept of sort of the pull to par, assuming that credit holds together, can you talk to how that, how sort of the passage of time with credit leave credit as a static for the time being, how that effects these two structures.

Tom Flynn ***- BMO Financial Group - Chief Risk Officer***

Sure. Why don't we start with the SIVs and people use the term pull to par and that refers to valuations for pools of assets approaching par as and if they are paid out at par. And in the case of the SIV assets, the maturity over '09 is in the order of $750 million give or take, in 2010 it is about $1.4 billion, in '11 it is $1.9 billion and in '12 it is $1.8 billion. That's when the majority of the assets are repaid or will be repaid according to their terms. And I think the relationship between the par value of these assets and the market value will be determined over time by the degree of liquidity that we have got in fixed income markets and we hope and expect the payout at par over time that will occur. Any, questions on the SIVs before I go to Apex?

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

So when we get one year from now, it is $750 is repaid and the $1.4 billion would be relatively short, so, if there isn't static like the further for the credit deterioration, what I mean is, do you have a sense on how they mark straight or is it that the marks are so irrelevant of how close you are to maturity that they will just price them where they're going to price them?

Tom Flynn ***- BMO Financial Group - Chief Risk Officer***

I think the biggest thing that is impacting marks right now is liquidity in the market and the low levels of liquidity have resulted in credit spreads just absolutely blowing out. In addition there's the expectation that defaults will increase generally. And so spreads have widened because of that. Over -- the way I think of this is we expect over the next one, two, three, four years, the assets will payout as they mature and as the likelihood of that happening increases, you would expect market values to approach par. And in addition, as that occurs, and the SIVs continue to reduce in size, the size of the capital, note protection that we have got will grow because the capital notes are not being paid out and so that roughly $1.1 billion of cushion that we have got will become a larger percentage of the remaining portfolio as the portfolio shrinks through time.

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

Okay. And Apex?

Tom Flynn ***- BMO Financial Group - Chief Risk Officer***

Okay. On Apex, we have got on page eight in the second row to the left of the table, the maturity date for the different tranches within Apex, so you can see the dates there. The majority of the trades mature in about 2013. And the mark-to-markets that we are taking on Apex are affected by the credit spread that we are using in the discounting and as we approach maturity high discount rates will have less of a negative impact. So that would have a positive impact on valuation. And then between now and maturity, the discounting and the marks will also, obviously, depend on the underlying credit performance in the portfolios.

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

Okay. And I guess I will leave it at that for the time being. And maybe I just switch to Russ. Last quarter one of the things you tried to do was give a sort of a macro view of what you thought the earnings power of the Bank was. And I think you talked $1.20 or $1.30 of earnings. This quarter when you have listed what you viewed as unusual items, you have listed $1.08 of cash EPS and you had at some stages seemed to add back $0.06 and then other times you add back the general for it to be $0.25. I guess, Russ, for yourself for this year forwarding how do you think of this quarter from a ongoing basis given the realities of tough markets.

Russ Robertson - ***BMO Financial Group - Interim CFO***

It's Russ. I view it as a, Ian, I view it as a solid quarter. And the logic I go through, I start first with this recent accounting pronouncement giving you the option to move trading securities to available for sale and I debate in my mind well, those losses now go through OCI are those income or not. I come to the conclusion that they're not. I think what the accounting profession was doing was being responsive to an economic environment with such illiquidity and such inability to assess what a reasonable mark was on some assets that they gave banks and others the opportunity to look at some of their securities where the intent was not to trade them and was also the ability not to trade them or lack of ability to trade them.

So I look at that loss that is temporary and say I would not look for that to be an income, except for that part, as you know, that we did recognize as being other than temporary impairment, which was $29 million that we did flow through earnings. I sort of accept that, that there is permanent impairment that you should put that in. I put that aside. I look at Apex and I view that from a, from a quality of earnings and run rate perspective within the organization as being a one off situation that really isn't reflective of the overall earning power of the Bank of Montreal. So I do set that aside. Yes, it is something we are going to have to deal with in ongoing quarters and years, but I view that as something I would not put in the run rate, the general I think is debatable. Some people do pull the general out. But you know, the general is meant to reflect losses in the portfolio that you don't -- aren't able to site. It is not meant to deal with future losses, so I do, I do debate that one a little bit.

Some of the other gains, for example, the gains that we had on some of the structured in the trading liability, where we had the fair value option, we have availed ourselves of hedging some of that. That is a real gain. I view that as kind of a normal activity within the trading operation. And then the last comment I would make without coming to a number would be I would step back and say we have recorded a significant general, we have recorded a fairly significant credit valuation adjustment and we have recorded significant provision on Apex and it still come out as $560 million of income. So I think that's pretty good going considering taking all of those, those costs. So that is how I would view the quarter.

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

Thank you. Thanks for the color.

Operator

Thank you. The next question is from Sumit Malhotra of Merrill Lynch. Please go ahead.

Sumit Malhotra ***- Merrill Lynch - Analyst***

Good afternoon. For Tom Flynn to start, BMO Capital Markets, it looks like loans were up $7 billion to $8 billion sequentially from Q3 to Q4. Can you talk about how much of this relates to liquidity you may have had to provide to any of the conduits and ex of that, where exactly this loan growth is coming from?

Tom Flynn ***- BMO Financial Group - Chief Risk Officer***

Sure. I think a fair bit of the increase that you are looking at there is due to currency. And I am not certain what numbers you are looking at but the currency had the effect of increasing our loans by a fair bit and roughly 25% of the increase is due to the currency increases in the amount out to our two SIVs were about a little over $1 billion in the quarter. And the remainder would be normal business growth. We are watching draws on commitments fairly carefully to see how they behave given the uncertainty that exists in the environment and that kind of thing and we have not seen a significant pickup in draws on our commitments over the past quarter.

Sumit Malhotra ***- Merrill Lynch - Analyst***

So the majority of the growth here ex of the currency and the SIVs is, for lack of a better term, willing growth on the part of the Bank in terms of business you are seeing in mid-market commercial or corporate lending?

Tom Flynn ***- BMO Financial Group - Chief Risk Officer***

Yes. That would be correct.

Sumit Malhotra ***- Merrill Lynch - Analyst***

Okay. And to stay with you, your comments on Canada certainly appropriately conservative in terms of the economic spillover. The Bank's mentioned it a few times in the report to shareholders that personal loan and credit card market share in Canada has increased consistently over the last two years, certainly doesn't look like we are seeing anything too worrisome right now in terms of formations, but could you give me a little bit of color on how much of this portfolio in Canadian retail for Bank of Montreal is secured and whether the fact that there's been a consistent increase over the last couple of years in market share is a bit of a concern from a credit perspective?

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

Maybe I will let Frank Techar speak directly to that since he supervises the business.

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

Yes Sumit, the percentage secured in our consumer portfolio, if you exclude our credit card business, is 90%. So, we are, we are pretty comfortable with that. That hasn't changed much over time. We have seen significant growth over the course of the last 18 months or so, as you have mentioned. And it has resulted in great market share growth for us. We are doing that on the back of great secured business, acquiring new customers, but our expectation is, as we look into 2009, that the demand for those types of products will slow as the economy slows and our expectation is our volume growth will slow as well. Our objective going forward is to continue to grow share, it is a, it is a high spread profitable product for us. But we are going to look at an environment, I think, where growth will moderate and our share increase will likely moderate as well as we go into 2009.

Sumit Malhotra ***- Merrill Lynch - Analyst***

Last one for you as well, Frank. There was a few references to interest on tax recoveries in your segment. Can you comment on what net interest margin would have looked like ex of that?

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

Yes, sure, Sumit. It would have been lower, as you can imagine. We have done a great job this year in managing our balance sheet mix and our net interest margin has held up well over the course of, over the course of the year. If you exclude the interest recovery on those taxes, our margin would have been down about 8 basis points for the quarter sequentially. And I think that would have been flat on a year-over-year basis.

Sumit Malhotra ***- Merrill Lynch - Analyst***

Thanks for your help.

Operator

Thank you. The next question is from Andre Hardy of RBC Capital Markets. Please go ahead.

Andre Hardy ***- RBC Capital Markets - Analyst***

Thanks. The first one is for Bill Downe. Bill, I am thinking of dividends and capital, obviously this is an unusual period from a profitability perspective, so I don't presume you start with net income to drive what your dividend is going to be. But at what point, and I realize the answer is not black and white, but at what point would the Bank consider taking action on the dividend or capital. Is it when Tier 1 gets around 8 or is there more than that?

Bill Downe - BMO Financial Group - President & CEO

Andre, I think that that's a difficult question to answer. The focus around the dividend has been on core earnings and the ratio between core earnings and the dividend that's required. And we have been able to, in a period when the environment has been incredibly difficult, we have been able to continue to increase the common equity, which we look at as well as at the Tier 1 capital and we have a pretty heavy emphasis on, on maintaining and building both liquidity and capital. So I really don't want to go to a scenario that we'd be looking downward in that regard. My comments were with respect to the confidence we have in the earnings at the current level and I think for the time being, that is the right place to be.

Although we are very conscious of the environment in both Canada and the United States, with respect to economic growth next year and I think we have been quite clear it is not going to be robust. We also think that we have been very systemically putting behind us some of the obstacles that we faced 15 months ago, the progress that we have made with the off balance sheet. But most importantly, the relative competitiveness of our personal and commercial and wealth businesses in Canada and the United States, the investment that we have made there is going to pay off on a relative competitive basis irrespective of what growth rates are. So I think that's really the driver of the decision around the dividend and -- .

Andre Hardy ***- RBC Capital Markets - Analyst***

But I guess if I ask the question differently. We are in a rocky economic period. There's going be bad quarters and I don't want to assume you would panic and cut your dividend the first bad quarter. Maybe if I phrase the question like this, would you let your capital ratios slip as long as they're above your targets to maintain your dividend?

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

I think in, in this environment, maintaining strong capital ratios is extremely important. There's a lot of ways that you can address that. As you know, there's the possibility of issuing equity, issuing new preferreds, issuing alternative Tier 1 capital and all of those things have to go into the mix as you think about it. But as your question, in this environment do I think elevated levels of capital above the minimum target that we have set appropriate. The answer is yes. I do think it is appropriate to have higher levels of capital.

Andre Hardy ***- RBC Capital Markets - Analyst***

Okay. And on the topic of capital, if I look at page 19 of the supplementary package and what I am looking at is a very large increase in risk-weighted assets for credit risk and I understand part of that would be currency, but anyways if you could help me understand what is currency and what's increased probabilities of default and why the number is up so much, but also market risk is down significantly and I would like to understand why that is and whether there are any implications for future trading revenues.

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

Why don't I let Tom Flynn plow into the details on that for you, Andre.

Tom Flynn ***- BMO Financial Group - Chief Risk Officer***

Okay. With respect to credit risk, the number is up quite a bit. as you note. About $8 billion of the increase relates to the impact of FX. Around $2 billion relates to the impact of moving assets from trading inventories to available for sale. And the balance would reflect a mix of growth in the portfolios and some migration in the portfolios. On the market risk side, the market risk number is down on the quarter and that reflects a combination of factors. The first would be the transfer of the assets that I referred to earlier and that Russ referred to from trading to available for sale. The risk metrics in a couple of areas were down as well, which contributed to the decrease and those are really the two largest drivers of the decrease in the quarter.

Andre Hardy *- RBC Capital Markets - Analyst*

And in the end you expect that it will have an impact on revenue capacity?

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

I'm not sure it will have a real big impact on revenue capacity. The assets that we transferred from trading to available for sale are obviously still with us and contributing. We have talked in the past about steps that we are implementing to reduce risk in some of our trading portfolios. So we do have a program to take the risk down a little bit in areas and a lot in certain of the portfolios. So over time, that will have some impact but I don't think it would be at all material in the context of the Bank overall.

Andre Hardy *- RBC Capital Markets - Analyst*

Okay. And just one last question, it is a small detail, on Apex, let's assume for a moment that credit spreads widen to a degree that the margin line is fully drawn and I understand this is a mark-to-market issue, not a realized loss issue but let's assume that is the case. There is a comment in your slide that says that collateral requirements are capped at the amounts, which are the medium-term notes in the senior funding facility. Is that right, that there would not be any collateral provided to the swap counterparties, A, and B, BMO is indemnifying the swap counterparties and under what scenario would it actually have to make a payment. Would it be actual default as opposed to wider spreads.

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

Okay. Your interpretation of the slide is correct. The collateral is capped at the medium-term notes that are currently outstanding of 2.2 and the senior funding facility of 1.1. So the total amount of collateral that is required to be posted is 3.3 and if the mark went above that amount, then the swap counterparties would have an unsecured exposure to BMO and they would stay with that position. With respect to, I'm not sure I understood the second part…

Andre Hardy *- RBC Capital Markets - Analyst*

I guess, how might the counterparties be able to get paid. Is it just at maturity.

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

No. It would be based on realized credit defaults in the underlying portfolios going through the attachment points.

Andre Hardy *- RBC Capital Markets - Analyst*

Okay. So it would have to be actual losses.

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

That's correct.

Andre Hardy *- RBC Capital Markets - Analyst*

Thank you very much.

Operator

Thank you. The next question is from Robert Sedran of National Bank Financial. Please go ahead.

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

Hi. Good afternoon. Most of my questions have been asked, just a couple of quick follow-up questions. First off I was a little surprised by the margin expansion year-over-year, especially in retail. After the hold back on cutting prime during the quarter, we were thinking that margin pressure might have been a bit worse than it appears to have been. So, Russ, when you talk about on going funding pressure, are we talking about 1 or 2 basis points, 3 basis points or are you seeing something more severe developing here?

Russ Robertson ***- BMO Financial Group - Interim CFO***

This is Russ. I will let Frank speak to that in retail.

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

I think from a margin perspective, Rob, the question earlier about the interest reversal was part of the answer to your question in Q4. Year-over-year in the retail businesses we were flat at 260 basis points for net interest margin, so we are seeing continued pressure on our margins through our funding cost and our tactical efforts to reprice consumer loans and commercial loans whenever we get the opportunity is having an impact. And for us, maybe a little different from our competitors, we have really focused on the high spread products this year and changed the mix in our balance sheet. Our mortgages, as you know, are not growing as rapidly as some of the other high spread products and that has helped us out over the course of the year. We are seeing continued funding cost increases in pressure but we are dealing with it at the margin and the repricing exercises and I think our balance sheet mix is going to continue to help us going forward.

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

So it is more a question of lack of expansion than it is further pressure?

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

I'm not sure I understand that.

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

It is more a question of the margin not going higher than it is about the margin going materially lower here.

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

I believe that's the case.

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

And Bill, just following up quickly on the issue of dividends. I guess the question is whether we are going through a cyclical downturn or a structural downturn. And I guess what you are saying is we are going through a cyclical downturn that's going to end and so you don't really need to adjust your dividend payout in that environment. Is that correct?

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

I would say it is premature to say we are going through a structural downturn. Each cycle that we live through, the question is is this a permanent state of change and I think that some of the comments that Frank has made about the products that we focused on, I think also looking at the business mix, changing the business mix with faster growth in our personal and commercial and wealth businesses and a proportionate growth in those businesses a part of the Bank, BMO is very well positioned for that. It is one thing for banks to say that there's a structural change in the market, the wholesale business is some of the, of the off balance sheet, like asset securitization businesses, are going to be structurally disadvantaged and therefore they are going to become deposit gatherers.

It is a little bit difficult for me to understand that, whereas over the last three years the emphasis we have placed on strengthening the competitiveness of those businesses, I think gives us the opportunity to change the mix. Where I do believe we are in a cyclical market is with respect to credit losses and what happens as you move into the cycle, you start to pick up recoveries, which at the present time with loan losses having been so low over a period of time, there really haven't been loans to work and recover. So I think those are really the two things, with respect to loan losses I do think it is cyclical and with respect to business mix that's the best reaction to structural change.

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

Okay. Thank you.

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

I think that's the, oh no, there's one more queued call.

Operator

The last question is from John Aiken of Dundee Capital Markets, please go ahead.

John Aiken - ***Dundee Securities - Analyst***

Thanks for letting me in, Bill. I appreciate it. And I guess going last means I don't get to pick on Tom or Russ. Bill, you mentioned in your prepared comments about the opportunity that you see for Harris. Is this, in the environment that we are seeing going through the US, is this somewhere where you might actually want to aggressively try to pickup business or if you just let things go as they are are you happy just picking up market share largely just through attrition?

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

Well, I am not sure that I really completely understood your question, John. I think there's going to be opportunities for us to take share in Harris in our home market, just because of the changes that have been taking place on the competitive horizon. And that is there's two national franchises that were competing against where I think that our focus on the community and on the, on customers is going to give us some leverage in this time. And then there's been a couple of competitors who clearly have, have strained balance sheets and in fact are withdrawing from the field of play. So I think there will be an opportunity, certainly there will be an opportunity to grow by taking share. Also think the Midwest, because it went into recession earlier, will probably stabilize before some of the markets in the south and on the two coasts. And so I think we will start to see at least a stable environment some time in 2009 and maybe a little bit of growth beyond that. And I am not sure was there -- did I miss a part of the question?

John Aiken *- Dundee Securities - Analyst*

Well I guess what I was alluding too, Bill, is Harris an area that you may actively start deploying more capital in in 2009 because of the environment or are you happy with where you stand?

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

Yes, John, if it grows, we will be happy to deploy capital. If you look back to the spring of this year as interest rates came down there was actually a reasonably high amount of refinancing done, home mortgage refinancing, and we were able to do very well in that phase. I think that was an environment in which we could open new accounts and grow. So it is really determined by the growth opportunity. And then as I have said before and I think it merits repeating, there will be consolidation in the US market. We have to wait and see where the TARP money goes. I think visibility around loan losses among competitors is going to be very helpful and I think we have time to be patient, but in the course of 2009 and 2010, I think we will start to see an emergence of some consolidation opportunities that could be very complimentary.

John Aiken *- Dundee Securities - Analyst*

That's great. Thanks, Bill.

Operator

Thank you. I would now like to turn the meeting back to Mr. Bill Downe.

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

Okay, thanks very much. I want to thank you all for participating in the call. I know there is no other conference call queued up and maybe I can take advantage of that just to quickly go around our four operating groups. I have a great deal of confidence in the business strategies. We have talked about a lot of issues that I think are important to understanding where BMO is. I just want to not miss the opportunity to talk about what we think about the future looking forward and I am going ask Gilles Ouellette to go first and Ellen to go second and Frank to go third and Tom Milroy to go fourth.

Gilles Ouellette *- BMO Financial Group - President and CEO, Private Client Group*

In the wealth management business, we are very dependent on the markets and as you know, the last quarter has been particularly difficult. We expect to have difficult markets for probably the first two quarters of '09. But having said that, I mean the operating businesses here have done very well. I mean all of our, all of our lines of business, with the exception of mutual funds, have picked up market share. Mutual funds is a special case because here at BMO we have a higher percentage of equity funds in our mix. So, this year, equity funds obviously weren't very popular and it was mainly money market funds that were sold, which is one reason why we lost market share. But we are happy with the market share that we are picking, in a lot of ways it is a relative game. But certainly for the first six months, we will be focusing really hard on our costs, because we don't expect revenues to be picking up a lot.

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

Thanks very much, Gilles.

Ellen Costello *- BMO Financial Group - Chief Executive Officer, Harris Bankcorp, Inc*

I just want to, it's Ellen, I just want to pickup on a couple of things that Bill touched on about opportunity. It is true we have been in a slower economy in the Midwest for a while, so we have been seeking out what looks good from an opportunity point of view that's both good quality business but also an opportunity to build market share. Bill talked about the mortgage opportunity that we took advantage of last year. We also took advantage of the LaSalle/B of A acquisition, as well as some stress that Nat City was feeling locally and picked up a number of business bankers, right consistent with our strategy and have been able to convert some high quality customers to our franchise, resulting in very good revenue growth as well as a good pipeline facing us heading into the 2009 year.

I think there will be further opportunities as we progress. We had a bit of a lull in our deposits, if you look at our balance sheet, as we headed into the fourth quarter, but we have been able to reverse that with some good visibility through advertising as well as the CD specials that we have put into the marketplace and have pretty much recovered all of those deposits lost as we have headed into the month of October, which is not in our numbers at this point. In terms of outlook, certainly consistent with what was said earlier, we expect the first half of the year to be very slow on the residential front. So expect flat to probably some run off in our portfolio there. But do believe we can continue to focus on growth in deposits and that will be a big priority for us. We are also working in partnership with Gilles team in the US on wealth opportunities.

We have seen a lot of unsettled customers wanting to talk about moving their portfolios and have been successful in doing that already. And also focusing on the high quality parts of small business in commercial mid-market to continue to take share there, because we still see that opportunity continue into the next year. We have been focusing on expenses all along. I think you know that, but it is important we make a selective strategic investments as we have with those people hires I touched on and this year you will see us do the same thing with some of the things like online enhancements as well as the continued advertising for visibility, which is important during this period. I do want to touch on one last thing and it is not something that's very visible with our other businesses and that is the impact of credit costs on our results. What I mean by credit costs are the impaired loans that we carry at a negative spread that effects revenue as well as the cost of legal fees and collections on our expense line.

Just as a matter of course, in 2008 that number was a net income effect of $22 million. That is a pretty significant drag. I expect that to continue into next year as the amount of impaired losses is now at a high coming into the beginning of 2009 and we will expect some continued growth. And those are my comments.

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

All right, thanks, Ellen.

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

Thanks, Bill, it is Frank. Bill started out the call early on by talking a little bit about P&C Canada and saying that we had increased revenue and net income every quarter this year. And that we had made some tangible progress on our strategic agenda. With those things being true, I would just like to start maybe my comments by saying I am really happy with the progress that we have made over the course of this past year, happy with the quarter and happy with the year. We did some things that we said we were going do when we started the year. I have already talked about the balance sheet changes that we have, that have resulted over the course of the year, as a result of our management action. We started the year with the intent of improving our revenue growth and our reported revenue growth for 2008 at 6.2% is double what it was in 2007. And maybe more importantly, it is even higher than it was in 2006. So we are happy about the momentum we have on the top-line. And we also said we were going to prudently manage our mix growth over the course of 2008.

We invested strategically in branches, in products, in business process, and in advertising and through it all, managed over the course of the year to come away with positive operating leverage and an improvement in our cash productivity ratio for the entire year. So, in a year when we were trying to catch up a bit we managed our spend prudently within the revenue growth that we had over the course of the year and I am happy with that as well. Our market share was strong, as had been mentioned on the call, in both consumer loans and commercial loans and we ended the year in a really good place from a deposit perspective. Our share actually went up in Q4 in personal deposits. We have, without a doubt, stopped the decline in share and our objective in '09 is to continue to focus on growing deposits at a more rapid rate.

And maybe most importantly in-line with our brand promise, our loyalty improved across every one of our segments, personal, commercial, cards, all of the customers that do business with us in our contact centers, we narrowed the gap on the exemplars in all of those segments from a customer experience and loyalty perspective and we have great momentum built up in the business. When I look forward into 2009, we are going to continue too support our current customers. We are going to focus on growing deposits, as I have already mentioned. And we are going to continue to work hard on managing the pressure we are experiencing in our net interest margin through mix and repricing across all of our businesses.

There is no doubt, because of the higher credit costs our customers are going to be paying in the slowing economic activity that we expect, that there is going to be a slowdown in demand for loans, both on the consumer side and commercial side in 2009. So I am expecting slower growth, but our overall objective is to grow share and to continue to grow share in any economic climate that we might, that we might encounter in 2009. So, that is it for me. Thanks, Bill.

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

Okay. Thanks, Frank. Quick comment, Tom.

Tom Milroy *- BMO Financial Group -– CEO, BMO Capital Markets*

Hi, it is Tom Milroy. I think -- let me begin by just saying we believe that the steps we have taken to reposition ourselves earlier in the year served us well and we think they will continue to serve us well going through next year. We were very pleased with the resilience across our businesses. Looking forward I think we would expect to continue to see good customer flows in our trading businesses. We have of late had some rays of sunshine related to the new issue market and there's some chance that may continue in the short-term. And we would expect to see continued improvement in loan spreads. Obviously, there are a few offsets. There are a number of challenges that will continue to face us if the market continues to be as volatile as it has been. We are dealing with the increased cost of funding and our ability to pass that on to our customers. And finally, we will not be immune from the impact of a weaker economy. Obviously against that background, we as well are continuing to manage our costs very closely. That would be it, thank you.

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

Thanks very much, Tom. I want to thank everybody on the call. I think it has been a productive discussion. I hope we have been able to provide a little insight as to what we are seeing in the market. I think we are very realistic about the, about the economic environment. I spoke at the beginning about the aggressive management of watch list and impaired credits, as an area of focus that is very important to us, it has been through all previous cycles. I think we had a good discussion about our plans with respect to the SIVs and the high credit quality that underlies them. And you have just heard a pretty good discussion of the core businesses and the performance. Our balance sheet is strong as measured both by Tier 1 capital and tangible common equity. I am satisfied our liquidity and funding management framework has us in a sound position and I just want to say one more time thanks very much for joining us on the call and I will turn it back to you, Viki.

Viki Lazaris *- BMO Financial Group - Sr VP IR*

Great. Thanks, again, for joining us today. I know there's still some further questions. Please give us a call in Investor Relations and I will give you a call back to address those questions. Thanks and have a great afternoon.