BMO Financial Group

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In concluding that we will complete the conversion of the operations acquired through the second quarter Rockford, Illinois-based bank transaction, we have assumed that no competing priorities emerge that take a priority claim to the needed staffing and technical resources and that no serious systems problems arise on the conversion.

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 Third 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 Third Quarter 2010 Report to Shareholders and 2009 Annual Report to Shareholders all of which are available on our website at www.bmo.com/investorrelations .

Examples of non-GAAP amounts or measures include: cash earnings per share, cash operating leverage and cash expense-to-revenue ratio; revenue and other measures presented on a taxable equivalent basis (teb); amounts presented net of applicable taxes.

Bank of Montreal provides supplemental information on combined business segments to facilitate comparisons to peers.

PRESENTATION

John Aiken – *Barclays Capital - Analyst*

I think we'll get the next session started. We have Tom Flynn who is EVP and Chief Risk Officer. We're very pleased to have Tom here, particularly since he's the sole Chief Risk Officer presenting at the community financials. Tom has been with Bank of Montreal since 1992 where he started in capital markets operations. He was appointed EVP and Treasurer in 2004 and actually had a time acting as CFO for a period. He's been in his current position since March 2008 but we're not going to point out the fact of the matter is that he was appointed CRO just at the height of the downturn. We're not going to blame the entire global markets on him. Anyhow, Tom, thank you very much.

Tom Flynn – *BMO Financial Group – EVP and Chief Risk Officer*

Thank you, John. Good morning, everyone. I'd like to compliment you, John, and Barclays, on picking a day for your banking conference that's as exciting as today as given the Basel release that came out yesterday.

In my remarks today I'll touch on three topics; the changes at BMO over the last four years and the resulting improvement in both our operating performance and financial strength, the coming regulatory financial reform and the expected impact on our Company, risk management philosophies and practices at BMO and, our outlook for credit.

Before I begin, please note the caution regarding forward-looking statements. For your information, further details about such statements are available in BMO's public filings. Also please note that all financial numbers in this presentation unless otherwise noted are in Canadian dollars.

Let me start by providing you with an overview of BMO. As measured by market capitalization BMO is the ninth largest bank in North America. We're financially strong with a tier one capital ratio of 13.5% and a tangible common equity to risk weighted asset ratio of 10.3% at the end of our third quarter. We serve more than 10 million personal, commercial, corporate, and institutional customers in North America and internationally.

BMO has a very strong market position in our personal and commercial businesses. We have a national retail platform across Canada and a strong regional presence in the U.S. Midwest. Our wealth and capital market businesses have continent wide reach. Our roots in North America are deep, almost 200 years in Canada and more than 125 years here in the United States.

In 2007 we established a set of business priorities under one strategic vision: to be the bank that defines great customer experience. We're providing a value proposition that's more customer focused, rooted in listening to and guiding customers to make sense of their choices.

Our success against these priorities is evident across all of our operating groups. Let me address each of them in turn.

Before I do, I note that BMO employs a methodology for reporting group financial results whereby expected credit losses are charged to the operating groups and the difference between expected losses and actual losses is recorded in Corporate. Actual credit losses by operating group are disclosed separately in our quarterly financial results.

I'll begin with Personal and Commercial banking in Canada which is the largest business and the biggest generator of revenue and net income. This group serves seven million customers through a national footprint of over 900 branches and a powerhouse commercial banking business with a 20% market share.

Our 2010 year-to-date financial results reflect a strong performance of this business. Net income has increased 20% to $1.2 billion and revenues of $4.3 billion are up 10%.

Our success is rooted in the quality and consistency of our customer service and the productivity of our sales and distribution network. We've accomplished a great deal to differentiate ourselves and drive performance in these two areas. I'll give you some examples.

We've created a customer-focused mindset across the organization including hiring frontline staff who have a predisposition for delivering great service.

We've changed our performance management system to ensure we motivate and reward employees based on targets that deliver improved financial performance and customer loyalty.

We've improved the productivity of our sales and distribution network and redesigned core processes and technologies to achieve a higher quality customer experience.

And we continue to launch attractive and compelling new offerings in the market, increasing our presence to drive results.

Our U.S. Personal and Commercial business, Harris, serves more than 1.2 million customers in the Midwest markets. We're based in Chicago which is by far our largest market. We have over 300 branches and more than 900 automated bank machines. We're ranked in the top three for [retail] deposit share in most markets where we compete with a number two position in the Chicago area.

P&C US results reflect the economic environment in which we are operating. The earnings capacity of our P&C US business will become evident as the economy recovers.

We are continuing to advance our strategic agenda in this business. Here are some examples.

We have implemented a commercial banking strategy under the direction of a new leader, which is designed to capitalize on a business led recovery. Earlier this year we identified a number of U.S. mid-market clients in BMO's Capital Markets business that could be better served under a P&C commercial banking model and have migrated 500 relationships comprising assets of approximately $6.4 billion to this P&C business from Capital Markets as a result.

We have also enhanced our business model which focuses on specialized sectors organized under the leadership of seven segment heads. This sets the stage for faster growth in key markets, broadening our footprint, and establishing brand leadership as demand for credit improves and loan utilization picks up.

And lastly, Harris is expanding its presence in the Midwest. In Q2 we closed our first FDIC-assisted transaction in Rockford, Illinois. We've made substantial progress towards major integration milestones and we're seeing good client and deposit retention as well as growth in deposits and checking accounts.

We've steadily grown our P&C US business over the past decade with nine acquisitions, adding about 180 branches over $9.5 billion in assets and more than $7.5 billion in deposits.

I might add that we've been disciplined in our objective to grow, consistent with a methodical approach to ensure the right fit and equally important, the right price. Valuations are more reflective of value than they were pre-crisis and we view the current environment as an opportunity to strategically expand our US footprint.

Let's now turn to our Private Client Group which focuses on wealth management. PCG offers customers a planning and advice based approach that integrates investments, insurance, and specialized wealth management. We deal with multiple client segments from mainstream to ultra high net worth to institutional markets. We have approximately $252 billion of assets under management and administration.

In Canada our online brokerage business, BMO InvestorLine was ranked best of the bank owned brokerages in 2009 and our full service brokerage business has a number three position in market share for assets. With access to BMO's broad client base and distribution network in Canada and the US, our North American private banking business has significant scope for expansion.

In the past 18 months PCG has expanded its product offering, enhancing our position as a market leader. We broadened our life insurance offering by acquisition and we're benefiting from a strong link between customer's insurance and wealth management needs. We have a good mutual fund business and we've also been a pioneer in the market for exchange traded funds in Canada. We launched eight more ETFs last quarter, expanding our product line to a total of 30 funds.

Year to date, revenue for the Private Client Group is up 13% to $1.7 billion with net income ahead 34% at $339 million.

Our fourth business group is BMO Capital Markets. This business provides a full range of products and services to corporate, institutional, and government clients and is our second largest contributor to earnings. We operate from 26 offices on five continents with a full offering of Investment and Corporate Banking services as well as a full suite of trading products.

Our business strategy is designed to produce a sustainable risk return profile, with high quality earnings over the course of a business cycle and a stable ROE. We have a bulge bracket focus in Canada and a mid-market focus in the US and we have globally recognized research and financing expertise in a number of target sectors including energy, food, agriculture, infrastructure, and mining.

Our strategy embraces BMO's Company-wide focus on the customer by building client relationships that encompass multiple offerings. Year-to-date revenue of $2.4 billion is 7% above last year, with net income essentially unchanged at $604 million. ROE is strong at 18.4%.

We're continuing to build on our capabilities, including key hires in investment banking and research. This is positioning us for growth across key sectors as the market continues to improve.

Through the first three quarters of fiscal 2010, we have continued the momentum evident in all of our businesses. Year-to-date, BMO has delivered good results with net income of $2.1 billion. Revenues of $9 billion are up 11.2%. Our expense to revenue ratio was 61.7% and return on equity was 14.8% on a very strong capital base.

Let me turn now to changes coming to the global banking industry. We're at a moment in time where a bank that has a strong financial position, has a strong balance sheet, and a clear business strategy and manages risk well, has a unique opportunity to grow. And we're planning for growth.

We continue to assess U.S. reform and the impact of the Dodd-Frank Act which is complex and broad in scope with, as you know, many aspects subject to rule making and implementation over several years.

There has been a lot of talk about the impact of U.S. reform. Based on the visibility we have today we don't expect BMO to be affected in a significant way:

Reg E is not expected to have a significant impact as only about 5% of our households are active over-drawers on their account. We estimate the impact at approximately US$25 million in annual revenues.

Interchange regulation impact cannot be determined until the Fed finalizes the rules sometime in the latter half of fiscal 2010; however, these fees represent only a nominal percentage of total revenues for us.

We will be looking at mitigation efforts and would expect some recovery through product restructuring and changes to our business model.

Turning to capital, under Basel III based on the visibility we have now and the work we have done to date, we're well positioned, on both an absolute and relative basis, to adopt the new rules.

As stated, our third quarter Tier 1 capital ratio was 13.5% and our tangible common equity to risk weighted asset ratio was 10.3%. These strong capital ratios in concert with our business strategies represent an opportunity for growth.

I'd now like to turn your attention for a few moments to a review of BMO's risk philosophy practices and performance. Our objective is to have a leadership position in integrated risk management, consistent with our strong credit history. In this regard, we developed a statement of our vision, strategy, and priorities similar to the process undertaken by our business groups. Our approach is to provide appropriate and independent risk oversight while working with all of our businesses to generate sustainable shareholder returns within our risk appetite.

Our risk management focus is integrated in our risk management framework which has five key principles; accountability, transparency, process, governance, and culture.

At BMO, our approach to accountability is based on three lines of defense in risk management. The first line of defense is the bank's operating groups who "own" the risk in their businesses. The risk management group provides a second line of defense which is to provide independent oversight. Corporate audit provides the third line of defense.

The second principle is transparency. This is one way in which we ensure that our organization fully understands the risks we are taking and allows us to focus on the risks that matter most.

Another element of focus is the written processes and policies of the bank. They map out in detail the bank's approaches in areas impacting risk and they define compliance contingency and scenario planning.

Governance is our fourth principle which speaks to the responsibility and accountability of each of the three lines of defense as well as corporate management and the Board. As part of our governance model each of our businesses has its own Chief Risk Officer who reports into the bank CRO, and we have a comprehensive set of risk committees.

For me personally risk culture is perhaps the most important element of our risk management framework and we have worked hard to ensure that it pervades the bank. Every employee at BMO has the ability and the obligation to ask the question, "Does this make sense?" when looking at a business opportunity.

I'd like to spend a minute on credit where we have a strong record of performance. In Canada, BMO out-performs the peer average credit card loss rate by [80] basis points and we have the lowest personal loan loss rate among our peers. In the US, although the residential real estate market remains stressed, our more conservative underwriting practices are also reflected in below average loss rates in both Home Equity and Residential Mortgages.

Our indirect auto portfolio has shown strong loss performance in comparison to peers as well. While our commercial portfolio has been impacted by the downturn, the loss rate for the US commercial portfolio is better than peers.

This slide details our credit loss performance since 1991. As you can see, in the recent downturn we recognized losses early and we are now seeing signs of a clear downward trend in consolidated provisions. Our conservative underwriting practices have maintained a strong loss history over the long run compared to our Canadian banking peers. Recent consolidated comparisons to Canadian banks are influenced by the fact that we have a relatively larger US business and loss rates are higher in the US. As I have shown, we have performed very well comparing like portfolios in both Canada and the US.

Before wrapping up I will make some comments on BMO's loan portfolio. The portfolio is well diversified both geographically and by segment. 75% of loans are in Canada and 20% in the US. Consumer loans represent 60% of the Canadian portfolio and 86% of these are secured.

Our U.S. portfolio mix is 43% consumer and 57% commercial and corporate. Our US portfolio is also well diversified, underpinned with underwriting practices that resulted in lower than industry level provisions. The portfolio is just under 50% consumer which is reasonably evenly split between Home Equity, Residential Mortgages, and indirect auto. The commercial portfolio is diversified with commercial real estate of approximately $3.5 billion representing just 2% of total loans.

The two key takeaways from this credit discussion and the loan portfolio review are as follows; we have a well diversified loan portfolio with conservative underwriting practices and we have maintained a strong loss performance compared to peers in both Canada and the US.

Looking ahead on the economic front and what's ahead for credit, economic factors will obviously play an important role here. In Canada, the economy rebounded strongly in 2010. Although we are seeing some moderation, we expect the expansion to continue in 2011 but at a more moderate pace. Credit performance has been better relative to the US as there weren't excesses in the system that had to be worked off and fiscal and monetary stimulus has been effective.

In the US, the economy is grinding through unusually uncertain times. Even so, we believe that the economy is unlikely to sink back into a double-dip recession. BMO's prudent lending practices and our strong track record in credit performance relative to peers serves us well over the long run.

Overall, as we have said for the last two quarters, loss performance quarter to quarter still has the potential for variability given the weak recovery and the extent to which provisions in the last two quarters have benefited from low capital market provisions and recoveries; however, we're confident in the positive general trend.

Before I invite your questions I'd like to conclude with some final thoughts. As we look ahead we're excited about the platform we've established and the opportunities it represents. We have a clear North American growth strategy supported by a strong customer base. We have a growing global presence to support those customers and new ones. Our financial position is very strong, providing significant flexibility and the regulatory environment is manageable. Our risk management is proactive, independent, and disciplined and we have a strong commitment to all stakeholders, including shareholders, customers, and employees.

Thank you for your attention. I would now be pleased to answer any questions that you have.

Unidentified Speaker

Do you have enough capital to fund acquisitions internally or will you have to issue capital to make acquisitions? Thanks.

Tom Flynn – *BMO Financial Group – EVP and Chief Risk Officer*

Thank you for the question. Our capital ratios, as you've seen, are very strong, both in absolute terms and relative terms compared to peers and also relative to the Basel requirements that are coming out. So, the answer to that question will depend obviously on the size of an acquisition but we feel that we've got a strong enough capital base for capital not to be an impediment to growing the business both organically and through acquisition.

Unidentified Speaker

Do you have a target limit for your growth in the U.S.? You said there is 20% current loans, where would you like to get that to? And also in Canada, in the M&A activity, do you foresee the regulators eventually allowing mergers again in Canada?

Tom Flynn – *BMO Financial Group – EVP and Chief Risk Officer*

Yes. In terms of a target rate in the US, we don't have an explicit target for the portion of the business that we would like the U.S. to represent. We talked about wanting to grow the business significantly with a focus on growing the Personal and Commercial banking business and increasing that business significantly from what we've got currently and also growing out the Wealth business. But we haven't put out a percentage target on it.

In terms of bank consolidation in Canada, there's a long history on this, as you know, that goes back to 1998 and I would say the current sentiment in Canada is that it's quite unlikely that the government will take a positive posture with respect to consolidation any time soon.

Unidentified Speaker

Good morning. We've seen housing roll over a bit as far as price appreciation. What do you think that means for consumer volumes that have really been on a tear the last 12 months? What's your outlook going forward?

Tom Flynn – *BMO Financial Group – EVP and Chief Risk Officer*

You know, we've had stronger consumer credit growth over the full recession, than we expected heading into the recession, and we were happy to see that. The housing market in Canada really paused early in the downturn and then kicked back into gear. We had an acceleration of activity earlier this year as a result of some changes to the government insurance program around mortgages and also some tax changes, so that did front end load some demand into the first half of the year. And the pause that we're seeing now reflects that to some degree, but it's hard to know exactly to what degree. So we don't think we're going to have a really significant slowdown but, at the same time, the growth that we had was stronger than anticipated and the future growth is likely to be somewhat below that.

Unidentified Speaker

Tom, as a follow on to that, how do you address concerns, largely outside of Canada, but the perception that there's a housing bubble within the Canadian market?

Tom Flynn – *BMO Financial Group – EVP and Chief Risk Officer*

Well, we don't think that there is a housing bubble in the Canadian market. From a risk perspective, as you likely know, we don't underwrite mortgages with a loan to value above an 80% ratio. So, our exposure is very low. The loss rate on the mortgage portfolio through the downturn was also very low. It was three, four, five basis points, both for us and for the industry, and that reflects the loan to value rules that we live by in the banking system and, also generally, I think prudent lending. House prices have increased pretty significantly in Canada but we don't think there's a bubble. When you look at affordability metrics given low rates, affordability is in fine shape and we do think it's positive from a risk perspective that the increase in housing prices has slowed. So, I consider that to be good news and a positive thing. But we're not worried at the moment about there being a bubble.

Unidentified Speaker

Tom, in your remarks you talked about willingness to expand in the U.S. How do you, as Chief Risk Officer, get comfort around potential acquisitions in terms of where the environment sits? Are you viewing the U.S. credit environment as hitting a trough or a plateau? Or do you think any near-term deals would still have to be FDIC assisted in order to eliminate or alleviate the risk?

Tom Flynn – *BMO Financial Group – EVP and Chief Risk Officer*

We've done the one FDIC deal, as you know. They really have low levels of credit risk because you've got the benefit in our case of an 80% FDIC ramp on the assets. I do think that going forward we'll see more non-FDIC transactions in the marketplace generally as a result of confidence increasing. Credit will be a function of economic performance and what unemployment does and what the housing market does.

We believe in a slow growth recovery and assuming the economy continues to perform in that way we think there is an ability to get visibility to credit risk in portfolios. Like other, we were very cautious on the M&A front through the downturn and didn't feel that we could get the clarity that we would want but now given where we are we think we can get that. The times are uncertain as everyone has said and so we're mindful of that and we're going to continue to look at how the expansion plays out here and evaluate that question over time. Commercial real estate is weak. We think it's going to stay weak. The good news is the market is down very significantly and again we think that through good due diligence we're able to get our arms around the situation that we have with any portfolio.

I'd also add that we have an experienced team on the M&A front and we have made a number of acquisitions over time like I've talked about. Most of the risk people who have been involved in those acquisitions are still with us and so are the business people and the finance people. So, we've got a good capability around due diligence generally and also integration.

Unidentified Speaker

I guess I'll continue to monopolize the microphone. Tom, in terms of the U.S., your credit experience is very favorable against your peer group. But as we're coming out of the peak, how does BMO grapple with the fact that in terms of trying to keep this very rigid risk management program in place, how do you offset that against trying to grow the business and essentially compete on pricing and in terms of once when the market alleviates, how do you balance the growth versus your risk management processes?

Tom Flynn – ***BMO Financial Group – EVP and Chief Risk Officer***

What we want to do in the US in the commercial space is build on the base that we've got and we've been in the marketplace for a very long time, take advantage of the new structure and the new leadership that we've got. We don't see disciplined credit risk management as being a hindrance to growth. The best example that I would point out in that regard is in Canada where we have a 20% share in the commercial market. We've built that share over time through a lot of focus on the business. Our loss performance is in line with or better than peers and we've been able to have that good credit performance and also do well in the market.

We think we've got a good team, a good focus through the sectors that we're looking at and a good brand and also a strong balance sheet and those things will allow us to do well in the market and to take some share. The other thing that we try to do as a conscious objective is to stay with customers through the downturn and so we try to take a longer-term approach to our customer relationships and our view on credit and not to fall back violently when the going gets tough. We think that kind of an approach builds strong relationships, builds our reputation, and having just gone through a test in both Canada and the US on that front we think the reputational benefits from that will be one of the things that will help us do well.

Unidentified Speaker

I guess one final question at least from my end, part of your view as Chief Risk Officer is not just credit but overall risk for the bank and one of the areas where banks globally have seen a lot of volatility is in trading. I will concede that the Bank of Montreal has been very well maintaining that volatility but how in your role do you oversee the trading function and try to make sure that there's no undue risk being put in place.

Tom Flynn – ***BMO Financial Group – EVP and Chief Risk Officer***

We put a lot of energy into market risk over the last three years. And to me there are a few key things around this. The first is to try to really get a transparent understanding of what risk you're taking in the business and to do that you need to have good discussions with the business and to move away from abstract market risk math and get down to basics where you're talking about the actual fundamental positions that you have in the book and having business discussions about those. And we've redone our market risk reporting, we've redone our market risk committee, and we put a lot of energy into creating transparency and with that having good discussions between people and risk people in the business.

Our business leadership on the trading side has been very supportive of the changes that we've made. We feel good about our understanding of the risks that we've got. And we're committed to keeping up the disciplined approach that we've put renewed energy into the last three years. The only thing I'd add is one of the things that I think causes challenges for people or can cause challenges is what I'd call strategy drift. Where you've got areas of the trading business that started out with a particular mandate and then over time as markets change, their strategies change and they can end up over time doing something quite different than what people thought they were doing a few years earlier. And to guard against that on an annual basis each of our desks goes to our market risk committee and reviews the business including its strategy which is approved and the appearance of their practices to the strategy and that will help hopefully keep us on track with the strategies that we've looked at and we've approved.

Unidentified Speaker

I wanted to ask you about dividends and buybacks given the new paper from Basel from last night. Do you have any thoughts on that? And specific to dividends and buybacks and also whether you expect to hear from your regulators?

Tom Flynn – *BMO Financial Group – EVP and Chief Risk Officer*

I think it's premature for me to comment on dividends or buybacks. Our position is strong. If you look at our ratios they stack up well against both Canadian banks and banks internationally. So, we're feeling confident about our position relative to Basel III but I'll leave comments on dividends and buybacks to others. In terms of whether we expect to hear from our national regulators there are elements of the implementation of Basel III that are subject to national discretion. I'm sure we'll be hearing from our regulator over time on how they propose to implement Basel in Canada. I have no idea if there will be any significant differences from what's been proposed but I think they're quite likely to come out with some clarity about implementation in Canada.

Unidentified Speaker

What's your view on the net interest margin in Canada going forward?

Tom Flynn – *BMO Financial Group – EVP and Chief Risk Officer*

We've had a positive trend in the net interest margin over the last few quarters. It's been driven by mainly focus on higher spread products in the personal and commercial banking business. And we've benefited a bit from increases in the central bank rate. Looking forward, we're not expecting significant movement in the credit spread in our Canadian retail business either way. We've seen a good uptake and most of the benefit from the repositioning that we've done related to products with moving into higher spread products is done and so we think we'll sort of grind it out on the spread side without significant movement either positive or negative.

Unidentified Speaker

Can you comment on the effect of the sort of Basel 2.5 trading rules, if that's a significant issue with your capital ratio as it's calculated now?

Tom Flynn – *BMO Financial Group – EVP and Chief Risk Officer*

Those rules will have an impact. In the context of our capital ratios I wouldn't say that they will be significant.

John Aiken – *Barclays Capital - Analyst*

Great. Tom, thank you very much for your presentation, if there's any further questions for Tom, the break out session will be in Liberty One which is upstairs just off the escalators.

Tom Flynn – *BMO Financial Group – EVP and Chief Risk Officer*

Thank you.