BMO Financial Group

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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With respect to the M&I transaction, such factors include, but are not limited to: the possibility that the anticipated benefits from the transaction such as it being accretive to earnings and other impacts on earnings, expanding our North American presence and synergies are not realized in the time frame anticipated or at all as a result of changes in general economic and market conditions, interest and exchange rates, monetary policy, laws and regulations (including changes to capital requirements) and their enforcement, and the degree of competition in the geographic and business areas in which the combined businesses now operate; the ability to promptly and effectively integrate the businesses of M&I and BMO; reputational risks and the reaction of M&I's customers to the transaction; diversion of management time on integration and restructuring related issues; and increased exposure to exchange rate fluctuations. A significant amount of M&I's business involved making loans or otherwise committing resources to specific companies, industries or geographic areas. Unforeseen events affecting such borrowers, industries or geographic areas could have a material adverse effect on the performance of our integrated U.S. operations. Our anticipation that annual cost savings from the integration of M&I and BMO will exceed US$300 million is based on the assumption that changes to business operations and support infrastructure and staffing will be consistent with our plans and that our expectations for business volumes are met. Our anticipation that the M&I acquisition will be accretive to adjusted earnings per share in 2012 is based on the assumption that results in 2012 will be consistent with our expectations based on our experience since the acquisition, our expectations for the economy and anticipated savings from integration and restructuring in 2012.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors could adversely affect our results. For more information, please see the discussion on pages 30 and 31 of BMO's 2011 MD&A, which outlines in detail certain key factors that may affect Bank of Montreal's future results. When relying on forwardlooking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Bank of Montreal does not undertake to update any forward-looking statements, whether written or oral, that may be made, from time to time, by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented and our strategic priorities and objectives, and may not be appropriate for other purposes.

In calculating the pro-forma impact of Basel III on our regulatory capital and regulatory capital ratios, we have assumed our interpretation of the proposed rules announced by the Basel Committee on Banking Supervision (BCBS) as of this date and our models used to assess those requirements are consistent with the final requirements that will be promulgated by BCBS and the Office of the Superintendent of Financial Institutions Canada (OSFI). We have also assumed that the proposed changes affecting capital deductions, risk-weighted assets, the regulatory capital treatment for non-common share capital instruments (i.e. grandfathered capital instruments) and the minimum regulatory capital ratios are adopted as proposed by BCBS and OSFI. We also assumed that existing capital instruments that are non-Basel III compliant but are Basel II compliant can be fully included in such estimates. The full impact of the Basel III proposals has been quantified based on our financial and risk positions at October 31 or as close to October 31 as was practical. The impacts of the changes from IFRS are based on our analysis to date, as set out in Transition to International Financial

Reporting Standards in the Future Changes in Accounting Policies – IFRS section in our 2011 MD&A and later in this document. In setting out the expectation that we will be able to refinance certain capital instruments in the future, as and when necessary to meet regulatory capital requirements, we have assumed that factors beyond our control, including the state of the economic and capital markets environment, will not impair our ability to do so.

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 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 Fourth Quarter 2011 Earnings Release and Bank of Montreal's 2011 Management's Discussion and Analysis, all of which are available on our website at www.bmo.com/investorrelations.

Examples of non-GAAP amounts or measures include: productivity and leverage ratios; revenue and other measures presented on a taxable equivalent basis (teb); amounts presented net of applicable taxes; adjusted net income, revenues, provision for credit losses, earnings per share, ROE, productivity ratio and other adjusted measures which exclude the impact of certain items such as integration costs, amortization of acquisition related intangibles and charges for foreign exchange on hedges.

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

PRESENTATION

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

Our next participant will be Bill Downe, President and CEO of BMO Financial Group. Bill started at the bank in 1983 and has worked in many parts of the bank, both in the US, as well as in Toronto, and Bill has been in his current position since the spring of 2007.

Amongst his leadership roles outside of the Bank of Montreal, Bill is the only Canadian member of the International Business Leaders Advisory Council of the Mayor of Beijing, and Bill also spends time in the community, including sitting on the board of St. Michael's Hospital Foundation here in Toronto.

Bill, on behalf of everyone in the room, thank you for participating in this event. But before we start, I have been asked to remind investors that the speakers at today's event may make forward-looking statements and that listeners should consult each company's disclosures filed with the Securities and Exchange Commission and on their website for further details. And we would rather not be reading that.

Before we jump into Q&A, Bill, what are some of the key messages you would like to leave us with today?

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

Well, thanks for the intro, Andre, and thanks for having me at your conference. It's a nice way to start the year.

I guess the bottom line is a good look at 2011, the fundamental position of the bank, the strength of the bank, showed again, and it's about the third or sixth year real progress against a very clear agenda. We had strong revenue growth and strong net income, revenue growth, topline growth, around 10% on an adjusted basis net income growth of 15%. And, most importantly, we announced and closed a significant acquisition in the year, and we are very pleased with our progress on that acquisition. To have a transaction like that be as accretive as quickly as it has been was very encouraging. And, as a consequence, we were able to show EPS growth of 10% and good ROE above 15%. Most importantly, the capital position of the bank and the primary measure that I think the world is interested in is the Tier 1 Common ratio. With Basel III fully implemented under 2019 rules, we finished the year at 6.9%. So I think we are very comfortable with the position of the bank, and I think that the opportunities going forward are quite significant.

The fourth quarter, I think, reflected, most importantly, some decisions that we took prior to mid year around the quality of assets, and we did tighten our underwriting around residential mortgages appropriately. I know you want to talk a little bit about that. And in commercial lending, we have around a 20% market share in Canada. And we have maintained our standards around pricing and terms. As you know, commercial banking is an area where, if you want to grow assets quickly, you can, but I'm pleased that we held the discipline there. And I think we will see opportunities going into 2012 for further growth. But I think the timing was right there.

And then in capital markets, since midsummer there's no question that the risk/return in the trading book has not been attractive. We are running at low levels of VAR relative to history because of that. And the corporate finance pipeline is full; it's just not moving. So I think later in the year we will also see movement around both equity and debt raising and mergers and acquisitions.

Looking into 2012, and I'll just finish with this, I think the prospects for the year are quite good. I think we will see continued recovery in the US, and that's important to us because of the size of our US business. But I also think it has an impact on Canada, and I think that bodes well. Europe is going to be a tangled ball for two or three years, and that's because there are so many conflicting interests, there isn't a single common interest. Our exposure, direct exposure to Europe is modest, and we don't think it's going to have an appreciable impact on North America.

And with respect to the US acquisition, 2012 is a really important year. We have to do the platform conversion by the end of the year. We have now rebranded, re-signed 240 branches. That's not just changing the logo on the outside. We have actually done a complete workover on all of the original Harris banks to convert them into BMO Harris banks. So I'm really looking forward to the latter part of the year. I think the first part of the year may look a little bit like the last few quarters, but I do think 2012 will be as good a year as 2011.

QUESTION AND ANSWER

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

Let's start with the US, because that's the area of greatest interest, given the recent, still fairly recent acquisition. Before we get into specifics, you've mentioned in the past that you would like to make $1 billion in the US over the medium term. What needs to happen for the bank to get there?

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

I would say, of all of the long-term objectives we have, the path to achieving that $1 billion is about as clear as it could be. The personal and commercial business, we have done an extremely good job so far with the integration of management. We have had a very low turnover, so far, with fingers crossed, but got through the year-end period and compensation period. And I think people across the whole system are quite encouraged, and we are seeing very little client attrition, which is also extremely important to us.

The platform conversion is essentially a technology assignment, and it takes about 18 months, and we are on track to get that done. That has to be done crisply. So far, as our Chief Financial Officer has said, against all of the objectives we set and we report to the board around that acquisition, we are agreeing with the exception of loan growth, which is a little bit slower in the US than we anticipated when we announced the transaction.

The second piece is wealth management. The wealth management business has really benefited in private banking and institutional asset management from the combination of M&I and BMO Harris, and we are well on the track to success there. But that has to be a major contributor.

And the last one is capital markets. We have been investing time and energy in building out a much stronger origination and distribution capability in the US. It's in place. We have very strong people in the major industry segments that we are concentrating on, and we have very strong research underneath each of those segments. And they have to deliver. Right now, if you look at the performance of the bank, we built the expense base up, we built the quality of the people up. We're building the reputation of the firm up. We will be a leading mid-cap bank going forward, and they have to deliver. So those are really the three dimensions.

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

When you look at what's going on in the mid-Western economies that you are in, clearly, C&I growth appears to be picking up. Your comments around that would be interesting, and perhaps you could also overlay the struggles of the state of Illinois and how that affects or doesn't affect your bank?

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

Well, the Midwest is an interesting market, the six states that we are concentrated in. We have a number three market share, a very significant population, over 40 million people, a very significant GDP, about CAD1.8 trillion. This is a market that is really benefiting from the beginning of economic recovery. Both the very significant increase in US exports and, as you know, the statistics around manufacturing have really picked up; the unemployment rate in the region is 8.3%. It has been improving in lockstep with the reduction in unemployment across the US, but better. And interestingly, in the state of Wisconsin, much better than the national average.

So we are benefiting from that pickup. If you look at loan balances, our C&I book is growing nicely now. We're going to continue to see a reduction in the commercial real estate book in the US. So total loans, I think, by the end of the year will start to show net growth. But I'm very happy with the C&I growth.

The state of Illinois is, I think, an interesting case. Like every state, every municipality in the country, there's a rebalancing underway. And one of the biggest drivers of that is reduction of cost. And if you take the city of Chicago, which is, I think, the biggest challenge in the region, there's a mayor recently elected in the city who is really taking on the cost challenge very aggressively.

So I think the environment is actually improving from a fundamental sense. There still is a lot of work to be done, but I think that the city of Chicago will be successful in refinancing and reducing their cost base. And we hope to be participants in that. We recently led an issue for the city of Chicago, and we think we can be part of the solution.

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

Before we switch to another topic, there's two questions I get a lot. The first is, how can you show us that M&I is not losing customers or people as a result of the integration? Is it an issue, or is it not an issue? But, also, how do you make sure that management efforts that are being spent on the M&I don't lead to other areas, i.e., Canadian banking or capital markets, like losing focus on those businesses?

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

Well, I think the focus in 2011 for me, was to be in the market as frequently as I could, in the acquired territories. So I probably had 100 meetings in the course of the year between meeting with staff, management, doing business roundtables. And I'm pretty confident from my own face-to-face exposure to the market that we are holding our key clients through this transition. It has to be face to face. Mark Furlong, who is the CEO of BMO Harris Bank, is now shifting more and more of his time from the mechanics of closing and integration to being in the market. And he has a very strong management team working for him, and they are in the market.

I think, going into 2012, I can spend less of my time in the market around that acquisition because the management team has the bandwidth to do that. There's no question that, from a resource perspective around technology, finance, strategic management, their hands were full in 2011. But now the plans are laid, and most of the work is really being done down at the line level within the groups in the US. And it has turned into a tight monitoring assignment for the people who are not directly involved.

In the other businesses, in Personal & Commercial Banking in Canada, I can assure you there has been no distraction. Frank Techar and his management team continue to make progress, and I know you want to talk a little bit about the Canadian environment, so I will leave it to that. And in capital markets, as I said, I think the US business is really the place where I expect to see an uplift, and Tom Milroy and his management team are focused on delivering that.

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

Okay. So let's talk about Canada, perhaps. I was going to start with revenues, but you brought up in your earlier comment changes you have made to underwriting. Can you give us a little more specifics around that, what changes were made and why?

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

Well, there's no question that the warning signs around the Canadian housing market have been visible for more than a year. And I think that, particularly with respect to two markets, Toronto and Vancouver, investor-owned condo properties have got to be a cause for concern just because of supply and demand. So we have -- and this goes back more than 12 months -- we have been quite focused on ensuring that our underwriting in those sectors was conservative. And I think it has paid off. We have done a survey of the market recently. We know who has been financing which projects. And I think that the hope, and I think it's a realistic hope, of the Canadian housing market plateauing and the system absorbing the excess supply that has built up in condos in those two cities can be worked off. If that's the case, then we will see a resumption of growth. If it's not the case, if there is a discontinuity in the pricing or evaluation of properties in those markets, we have lower exposure to the market, and we have a higher proportion of insurance against that portfolio.

I'm happy to have taken a pause in 2011 around the growth in residential mortgage. More than the underwriting, I think the focus of our marketing has been around our customers and the choices they make. So even in the case of consumers who come in to refinance their houses, the CMHC limit now is 90% loan to value. We are restricting most of our lending to a level lower than that, and we are achieving that by working with clients to demonstrate that it's not in their best interest to carry leverage at such high levels in a market that is more than fully valued.

And I think it's the combination of caution with respect to underwriting but, more importantly and more consistent with the brand, making sure that our customers are making better decisions.

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

So being more conservative on the underwriting front can have negative consequences on revenues, and the residential mortgage growth has been slower than peers. So what are your expectations for revenue growth in general for the retail business next year, and do you expect to again see the bank be below average on residential mortgage credit growth?

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

I think, by slowing the business in 2011, you are seeing values plateauing. I think our opportunity to see stronger growth in 2012 is better, and I'm more comfortable with having seen slower growth in 2011 and a pickup in 2012 than I would have been with the reverse. I think the underlying quality of the portfolio is going to be stronger in the long run. But I also think the marketing around better decisions by customers is going to get more traction, too. And I think the brand effectiveness, when you put it together with the continuing improvement in customer loyalty, stronger and stronger customer loyalty scores coming out of personal and commercial banking, we are very confident in our ability to grow the business in 2012.

I think the bottom line is I wouldn't give up on the Canadian housing market, but there has to be a soft landing. There has to be a landing.

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

Now, what can the bank's revenue growth be in that context? I mean loan growth for the sector is predicted to slow. There's margin pressure. Can you get enough revenue growth to get pretax, pre-provision earnings growth?

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

We think we can. The last three years, we have shown very strong revenue growth and pre-provision, pretax earnings growth -- in fact, market-leading in personal and commercial banking, and I think the pause in 2011 was an appropriate foundation for better growth in 2012.

Most importantly, I think in C&I in Canada I think you will see a stronger market. We have been calling for C&I growth North American-wide, and my view of the economy is it's going to be more supportive of that kind of growth.

The other dimension that we have talked about, Andre, is that we are continuing to see strong deposit growth in commercial banking. And if you look at our market share, around 20% market share in lending, we continue to be underrepresented on the operating services and cash management, commercial deposits side, and that is showing good growth. And I think that will be productive in the coming year.

And ultimately, we are going to get relief on interest rates. It won't be in 2012. But I think, going into 2013, you're going to start to see increasing interest rates, and that will take pressure off NIM in the market.

We also have shown in the last three years much stronger performance on expense to revenue improvement than the market. We have led the market in improvement, expense to revenue, coinciding with really significant levels of investment in the business, and we have shown the best performance around NIM management, and we continue to believe that management of margins can be effective. It's not all about volume.

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

Let's talk about capital markets for a bit. The bank has expanded in the US, but that really hasn't shown in net income. So perhaps talk about, a), how much expansion has there been in the US, which businesses are you now bigger in; and, b), how are you going to make that a profitable venture?

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

In the US, the biggest change in capability in the last four or five years, I think, is in the execution around capital raising. Our ability to lead equity issuance and underwrite equity issuance in the mid-cap sector is dramatically stronger than it was, and we have been able to take advantage of the changes in the labor market in the US to bring in some very strong people. I've spent time with the leaders, both on the equity sales and trading desk and calling in the market. And I would say there's a sea change in our execution capability.

Obviously there isn't a lot of equity raising going on right now. But the pipeline of companies both in Canada and the United States who are prepared to go to the equity market when the market is there, I think, ties in with our execution capability very nicely and the same thing in the area of fixed-income.

In the market segments that we have historically been the strongest -- food and agriculture, oil and gas, business services, healthcare -- we have also been able to bring in investment bankers with very good performance histories to strengthen those teams. And one of the things that I was reflecting on, the change in the mix of our business and investment banking in the US, is when we move the commercial lending book into commercial banking, we saw an improvement in C&I loan origination. But one of the things that is different about the business today is it doesn't have the run rate of a big loan book underlying it. And in periods when there is very low equity raising and M&A is restricted, the business is going to run tighter.

But the flipside of that is, when we get a pickup in activity, the operating leverage in that business is not using very much capital. And in fact, capital markets as a whole, which was using almost 40% of the capital of the bank, is now down below 25%. It means that, assuming a reasonable market for capital raising and M&A, I think the business will do much better.

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

How much does the acquisition of M&I provide opportunities for the capital markets business to take advantage of?

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

You know, I think that's one that we are going to have to wait and see what the impact of just the visibility of BMO in their core markets is. The amount of the acquired company that ended up being moved into capital markets was extremely small. But I think, for the originators, the overall visibility of BMO in the US market is dramatically higher.

Certainly, in the six-state area, the existence of a 700-branch distribution system, a much bigger wealth management business and then a number of prominent locations where simply having the logo of the bank highly visible. If you have been to downtown Indianapolis, which is a very thriving city, there is only one headquarters building in the downtown that has grandfathered visible signage on all four sides, and the BMO logo is now on all four sides of that building.

So for an investment banking business that is in the region and active, I think the credibility of BMO is going to be much higher. So I've told them that I expect that they should increment their business plan by 2 or 3 more full percentage points.

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

So going to the first question from the audience, when you look at credit in general, are there any emerging areas of stress? And specifically, what is your exposure to Canadian condo development? In the session earlier, Royal Bank talked about CAD2 billion on a nationwide basis in Canada.

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

Our exposure to the condo sector would be lower than our market share in lending, certainly under 10% and quite significantly below that level. I think the stresses in credit -- if anywhere they will fall will be in commercial and real estate development in Canada. In the US, just the revaluation of the market has taken most of the risk out of it. If you look at both residential and commercial, in the case of residential the affordability of housing, homeownership relative to renting, has really widened out in the United States. And I think that home buyers, potential home buyers, there's a big inventory or a big backlog of potential home buyers. So I think the risk in the residential market in the US is very low.

And in commercial real estate, in the last five years, there has been almost no significant development started. So the pipeline of new development has run out, and we think there is going to be a supply-demand problem in commercial real estate availability in the US. So the only short-term stress area that I see would be currently in Canada. And, as I said, the possibility of a soft landing is much more likely today than I would have said it was a year ago.

On the C&I side, balance sheets are exceptionally clean. Loan utilization is low. We have continued to open new lines of credit, but the quality of profits remains very good. I would say that the manufacturing and service sector in North America is stronger than it has been in a decade and, I think, poised for expansion.

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

On capital, the regulator has been clear in what it wants, which is a 7% Tier 1 Common pro forma ratio in Q1 2013. But most people don't expect it to end there. Most people expect some sort of buffer, perhaps a national SIFI buffer, but also a buffer that reflects bank conservatism. What are your views on what is ultimately likely to be held in terms of capital?

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

Well, I think in the short term, thinking about common equity ratios a point above a 7% minimum is a prudent way to think about where you want to get to. We were running above that level prior to the announcement of the acquisition. We had very good discussions with regulators on both sides of the US-Canada border about the impact that the acquisition would have, the timeline, relatively short timeline in which we would restore those capital levels.

And I don't think we're going to see much abatement of the desire for more capital and more capital. But I was speaking at a banking conference in New York in December, and there was about 200 bank CEOs there, and a number of institutional investors presented. And I thought the thing that was most striking about investor attitudes was a questioning of whether capital levels ultimately are going to get too high and that the regulatory regimes that are continuing to push for more and more capital at some point are going to have to say this can inhibit economic growth.

So I think in the short, early, intermediate term continuing to strengthen capital ratios means you have flexibility and the opportunity to do things. It's a prudent thing to do, and that's what we're going to do. I think in the longer-term there may be a look back and say, well, we strengthened the regulatory environment worldwide. We put in place a regime around resolution of banking problems that we can have a much higher degree of confidence in. I think we are going to get much more transparency around the risk in bank portfolios, and I think the discipline that Basel II brings to consistent measurement of capital at risk ultimately is going to be applied in the US. And I think we are getting closer to a level playing field with respect to the transparency of risk.

When all of that is accomplished and you look at the capital levels in the industry in 2005 versus in the industry today, capital is significantly higher. In the US, it's a significantly higher because a lot of equity has been raised. In Canada there has been a lot of retained earnings. And in Europe I think there's going to be a recapitalization unfold. And when that is complete, I think you're going to be able to stand back and say, the system itself has been dramatically strengthened and will be to the point where incremental capital, incremental capital will not be the constant refrain.

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

And a lot of your peers in the US have talked about taking business from European banks that are facing capital and/or funding issues. Is that something that has benefited the bank in the US? And, also, perhaps talk about the European involvement in the Canadian condo market. Were they a relatively large size compared to the rest of the market share?

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

Yes, well, they are quite large from a market share perspective. I think that would be one area where they are not going to have an opportunity to divest. I think they will have to ride that one out. But, in other areas, there's no question that European banks are not competitive in the syndicated loan market, as an example. So I think that's supportive of rational pricing in syndicated lending, and I think that will go on for some time.

The notion that there is a yard sale underway on the part of European banks, I think, is a little bit exaggerated. I think there's a game of cat and mouse going on with respect to being able to demonstrate that certain non-European operations could be sold and, therefore, the true capitalization of the bank is a little bit higher with an argument not necessary to raise so much equity.

But the willingness of banks to sell good assets at fire sale prices, it's not clear to me. You can see assets being shown to the market and then pulled back and shown to the market and pulled back. So I think there's more talk than action in the sale of subsidiaries. There has been some done. The further away it is from Europe, the greater the probabilities. So I think that's why you've seen some sales in Asia on the part of European banks; it's just the distance.

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

And back to your capital position in M&I, once M&I is integrated later this year, how high is the desire to make further acquisitions in the Midwest?

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

Well, I think you have to digest your last meal before you sit down to the table again. But we have maintained an ongoing dialogue with what we think would be complementary properties in the US. And I think we've said, when the concentration of our business was around Chicago, that we thought continuous markets were the most attractive. I think that continues to be the case.

So as you know, we have been acquisitive for the last, really, two decades. We have made close to 25 acquisitions, and this is the largest one that we have done. There will be opportunities to do smaller ones in the future, there's no question.

But, at the same time, I think you're going to see very strong organic growth going into 2013, and I think that will benefit the bank as well.

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

There's a couple questions on some numbers around M&I. One is, how big is the runoff book in commercial real estate? Secondly, an update on the dollar amount of cost savings for M&I and the progress on that, and lastly, on the credit mark and the size of the credit mark and, given how credit is evolving, whether that will prove to be too conservative or appropriate.

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

Yes, to bring the concentration of real estate in the bank back to historic levels, we would see a runoff of maybe $1 billion a year in commercial real estate for the next two or three years, which I think is a reasonable amount, and we think we can offset that after this year in C&I growth. And I'm quite happy with that because it means that the quality of the book will continue to improve or at least come back towards BMO's historic standards. I feel good about that.

With respect to cost synergies, we are looking for in excess of CAD300 million of cost synergies. I think, going into the early part of this year, we will have captured about a third of it. Two-thirds of it is really going to be dependent on the platform change in the teller platform and the branches. So you won't see the full run-rate until 2013. But our progress on that cost synergy is holding up very well.

Now part of it is simply because we have had tight discipline around expenditure. The acquired management was for a discipline around expense between the time of announcement of the transaction and closing. And if you look at the last three years, in Harris Bank, we have shown exceptional cost discipline in that business. So I think a combination of very rigorous cost management and the synergies feeding in, I'm very confident around that number.

And the third part of the question was?

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

Credit marks.

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

Credit marks are consistent with where we establish them. So we established a credit mark of CAD4.7 billion at announcement. When you take the runoff of impaired loans prior to closing, at closing, it looked like the mark was just about right. And at the end of the quarter, it looked like the mark was just about right.

So I think we are satisfied with the assumptions that we made at the time of announcement of the transaction. Loan growth has been a little bit lower, but we have done better on expense, and we've had low attrition. So we're happy with both parts of that.

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

We talked earlier about capital and with Basel 2.5 and with liquidity rules eventually coming, are there some legacy assets that the bank has that perhaps aren't very big notionally but have very large risk weightings that might be disposed of or the current running off of these assets is what is likely to continue?

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

You know, I was reflecting on a comment that one of the big US investors made about which financial institutions would do well going into the future. And I think, actually, there's a parallel to every industry. Coming out of a deep recession, the world is different, and the companies that adjust to a different world prosper. They grow share, and it's really the only opportunity to become more dominant in your business.

And the three dimensions that caught my attention, and I think this goes to your question, were mitigation, which means looking at your business mix under new capital rules and asking yourself, have you allocated people and financial resources optimally? And clearly, there are mitigation opportunities. One that jumps to mind is prior to this year we didn't have our own credit card offering in the US. And it's fortunate that M&I was a Visa card issuer with a strong capability. But we have been able to look at -- and it will take a year to feed in, but we have been able to look at the buildup in credit card revenue over the next 24 months as a very nice offset to the loss of revenue on debit card. So that is all in the area of mitigation.

The second area around innovation, looking at new product offering, the way to bring product to market -- and one of the things that the acquisition has really triggered for us is the ability to do things on a North American basis that previously we ran as two separate businesses. And it's everything from asset-based lending to auto finance to the operation of our call centers to the development of online capability. And we're not only going to get some cost benefits out of that, but we are going to be able to have, I think, much more compelling offers for customers and a much stronger capability.

We've just done a very nice upgrade on bill paying in both Canada and the United States that has new features. It's not just a faster execution; it's new features around product.

And then the last part, the third part, is changing business models. And I talked about on the quarter-end conference call a fresh look at the relationship between expense and revenue. And I think in our industry, but most particularly in our bank, we think that the new capital framework allows you the opportunity to take a fresh look at the relationship between expense and revenue. And there is a lot of consolidation and a lot of change that has gone on in the market that I think will give us the opportunity to take some very significant costs out while enhancing revenues.

So I think these three dimensions -- in some way, the pressure around higher capital levels forces a reallocation. The banks that do it quickly, who aggressively believe that opportunity will come from that, I think will show in the short run slower revenue growth, but within two or three quarters will start to show some real advantage coming from that.

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

Now, where do you think your bank is at? Let's perhaps use a baseball game analogy in terms of how much change you have done to reflect capital or liquidity -- (multiple speakers)

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

On the mitigation, it's early innings. We introduced BMO Harris Bank Visa card in October. We have to be cautious around the way we market that because we previously had it outsourced to a competitor. But that will pick up. That's early innings. It's probably the first inning. That will pick up through the course of the year.

Around innovation, really advanced. The work that we have done around customer experience in Canada has taught us a lot about what pleases our customers. We really have done some very exciting things in the market, and that's why the brand is so much stronger. We're going to be able to take a lot of that into the new combined business post the platform conversion at the end of next year.

So we are really confident around the innovation.

On the economic underpinnings of the business model relationship between expense and revenue, again, early innings, there's a lot of opportunity that I expect to see in 2012 and 2013 to look at expense.

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

Well, thank you. Our time is up. As usual, I appreciate your participation. We're going to take a 15-minute break before we start our next session, so we will see you in a bit.

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

Thanks, Andre.