BMO Financial Group

BMO Financial Group Investor Day - Personal & Commercial and Wealth Management
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Forward Looking Statements

Caution Regarding Forward-Looking Statements

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By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic and market conditions in the countries in which we operate; interest rate and currency value fluctuations; changes in monetary policy; the degree of competition in the geographic and business areas in which we operate; changes in laws; judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; our ability to execute our strategic plans and to complete and integrate acquisitions; critical accounting estimates; operational and infrastructure risks; general political conditions; global capital market activities; the possible effects on our business of war or terrorist activities; disease or illness that impacts on local, national or international economies; disruptions to public infrastructure, such as transportation, communications, power or water supply; and technological changes.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors could adversely affect our results. For more information, please see the discussion on pages 28 and 29 of BMO's 2007 Annual Report, which outlines in detail certain key factors that may affect BMO's future results. When relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Bank of Montreal does not undertake to update any forward-looking statement, whether written or oral, that may be made, from time to time, by the organization or on its behalf. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented and our strategic priorities and objectives, and may not be appropriate for other purposes.

Assumptions about the performance of the Canadian and U.S. economies in 2008 and how it will affect our businesses were material factors we considered when setting our strategic priorities and objectives, and when determining our financial targets, including provisions for credit losses. Key assumptions were that the Canadian economy will expand at a moderate pace in 2008 while the U.S. economy expands modestly, and that inflation will remain low in North America. We also assumed that interest rates in 2008 will decline slightly in Canada and the United States, and that the Canadian dollar will trade at parity to the U.S. dollar at the end of 2008. In determining our expectations for economic growth, both broadly and in the financial services sector, we primarily consider historical economic data provided by the Canadian and U.S. governments and their agencies. We now anticipate weaker economic growth in Canada and that the United States will slip into a mild recession in the first half of 2008. We also expect lower interest rates and a somewhat weaker Canadian dollar than when we established our 2008 financial targets. Tax laws in the countries in which we operate, primarily Canada and the United States, are material factors we consider when determining our sustainable effective tax rate.

Non-GAAP Measures

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

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

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

PRESENTATION

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

I hope you enjoyed the video. This video was prepared last December by our senior leadership team to really give our employees messages on what our strategic priorities are for 2008 with a focus on the customer, growth and pace, which you'll hear a similar theme throughout the day. Bill had conducted a bunch of employee meetings through January, and this was really kicking off messages from all our senior leaders across our businesses with a very similar theme, as you saw.

Well, good morning, everyone, and welcome to BMO Financial Group's Investor Day. It's so nice to see so many of you in person here today. And for those of you who couldn't make it in person and listening via phone or webcast, we really appreciate you spending the morning with us.

Throughout the course of the day, you'll be hearing a lot more about our plans in personal and commercial banking in Canada and the United States, and in wealth management. As you listen, I hope you will appreciate the magnitude of the change that is occurring in this company, the distance we've traveled over the past two years to really reposition BMO for increased levels of growth.

Before we begin, I'll just cover off some of the logistics. I'll start with forward-looking statements. At this time, I'd like to caution the audience and the listeners by stating the following on behalf of those speaking today. Forward-looking statements may be made during this presentation, and there are risks that actual results could differ materially from forecasts, 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 assumptions, and the material factors that could cause actual results to so differ in the caution regarding forward-looking statements set forth in our first quarter report to our shareholders, as well in the presentations today.

We have a full morning planned for you. First up are Bill Downe, our Chief Executive Officer, and Russ Robertson, Interim Chief Financial Officer, followed by the Retail Group. Frank Techar and his team from P&C Canada will be presenting first, Gilles Ouellette and team from the Private Client Group, and then Ellen Costello and her team from P&C U.S.

Tom Flynn, our new Chief Risk Officer, will make a few comments before lunch. We invite you to join us for lunch in the Strathcona Room where Bill will wrap up the morning and take any further questions. As well, he'll be joined by the presenters and senior leaders of the bank.

As a reminder, this event is being webcast live. There will be a Q&A session after each of the team presentations. During the Q&A, there will be two or three roving mics on the floor, and we ask that you state your name and company before asking your questions.

And so with that, it gives me great pleasure to turn the floor over to our CEO, Bill Downe.

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

Thanks very much, Viki, and good morning to everyone here in Toronto, and today visiting on the webcast. It's a great pleasure to have you here for our Investor Day. I particularly appreciate your taking the time right now. I know it's quarter end for companies that have March 31 reporting, and there's a lot going on in the background. But, it's also a particularly good time for us to be talking with you about our core Retail and Commercial businesses.

We have four substantive presentations today, and they underscore how fundamentally different a company we are than we were just 18 months ago, how much the center of gravity of the Company has shifted to the customer and to Personal and Commercial Banking in Canada and the United States, how important this fact is for our Private Client Group, because the branch-based advisory channel has been a big driver of strong growth and profitability, and how in every business we're rewarding performance relative to clear and specific targets.

I want to start by introducing the members of the leadership team who are here and are going to be presenting. And first, with their management teams, Frank Techar, who heads the Personal & Commercial business, Gilles Ouellette, who's the head of the Private Client Group, and Ellen Costello, who's head of Personal & Commercial Banking in the United States, also known as Harris Bank. And as Viki said, Russ Robertson, our Interim Chief Financial Officer, is going to come up shortly.

And then right before lunch, Tom Flynn, our Chief Risk Officer, is going to make some comments and then be available. Russ, Tom, and I will be available during the lunch hour, and we're have a chance for further Q&A. Also with us this morning are Rose Patten, who's the Head of Human Resources and Communications for our company, and Joan Dea, who's the Head of Strategic Management and Marketing.

Since our last Retail Investment Day -- Investor Day in December of 2006, there's been many changes in the leadership of the businesses, but I think you'll notice that the group is characterized by deep experience and broad experience in our industry and within the Company. I've got great confidence in the team that we're presenting to you this morning.

They're talented, motivated, determined and single-minded in the belief that by working together, we're developing a business model that delivers what our customers want. They're also fiercely competitive, and they intend to take market share in every category where we compete. The collaboration between the groups is paying off in a much more efficient sales process, and in higher customer satisfaction.

As a team, our collective goals are aligned with our shareholders, building the success that will enable BMO to outperform the market, and I'm going to keep my comments quite brief because I want the team to talk about their strategies and their agendas. But, we recognize that the credit environment continues to reflect global scale adjustments, and yet, this is a time when the strength of the lending disciplines of BMO will again to prove to be a competitive advantage.

At this point in the cycle, we expect to see much better credit terms, much better pricing, and in fact, an opportunity to grow market share. Without minimizing the importance of market price adjustments on BMO, our focus today is going to be on our operating divisions and the key growth drivers of the organization, and it's in this context that Tom will speak about his new mandate as Chief Risk Officer.

Today, we're going to start by discussing the renewal and transformation taking place in Personal & Commercial Banking in Canada. It's BMO's primary engine of growth, and we've been investing and building the franchise that’s at the core of our success.

When you look at the broader market, our research, and in fact, our instincts told us that none of the banks were doing a particularly good job at making it easier for their customers to do business. At the time I was appointed Chief Operating Officer, this became our number one priority. We had a large franchise with over 7 million customers in Canada, and a talented and experienced front line work force.

But that said, there was a gap in terms of where we wanted to be. The branch network wasn't at full strength, but in a short period of time, we brought our branches up to full retail strength and we built new branches. We've changed the way we've handled complaints. We accelerated programs to bring new product to market and services that our customers want. In short, we reconnected with the market.

There's a new mindset and a real sense of purpose in the bank, and we're challenging the notion that there's any bank in the market that we can't take market share away from. I know you're going to get a sense of our determination and passion for the customer as you listen to the presentations.

And at this point, I'd like to turn things over to Russ Robertson. Russ brings to the critical position of CFO invaluable professional experience and a long history of achievement. You have direct access to him, and I encourage you to get to know him. As I've said before, Russ is leading a talented finance team. He brings a ‘challenge your mindset’ to this role, and in a very short period of time, he's brought value to the businesses. Russ, I'll turn it over to you.

Russ Robertson *- Bank of Montreal - Interim CFO - BMO Financial Group*

Thanks, Bill, and good morning, everyone. I'm delighted to be here today. I've had a chance to meet some of you already and look forward to meeting more of you today and in the coming months. By way of background, I was the Lead Partner on the audit of CIBC from 1993 until 2000, when I was the Managing Partner of Arthur Anderson, here in Canada.

When the Anderson firm failed in the United States in 2002, we integrated over 1,000 partners and employees from Anderson Canada with Deloitte & Touche, where I became Vice Chairman working with clients in the financial services industry, particularly BMO. In the two years prior to joining BMO, I was also the Advisory Partner on the initial audit of the Agricultural Bank of China in Beijing, which is one of China's largest banks.

When Bill approached me about taking on the CFO role at BMO on an interim basis, it didn't take me long to conclude that it was a great opportunity for me to use my knowledge and experience to help the bank. I am really looking forward to working with the management team to enhance the bank's performance.

I'd like to take a few moments to give a quick snapshot of our retail businesses, which are our Personal & Commercial Banking Groups in Canada and the United States, and our Private Client Group, and size them to further underscore how important they are to BMO. In fiscal 2007, our retail businesses as a percentage of the total operating groups represented 80% of revenue and 81% of net income on an as-reported basis. They also represented 71% of revenue and 62% of net income when you exclude significant items.

Almost 70% of our people, and probably closer to 90% when you factor in corporate services, are full-time dedicated to supporting the retail businesses. Revenue is up over $700 million, or 10%, in these businesses since 2005, and net income is up about $270 million, or 18% in that same timeframe.

Retail will be the main driver of future growth for BMO, and as you know, we have been investing in these businesses and shifting resources to the front line. Headcount is up almost 2,000 people in these groups from the end of fiscal 2005 to the first quarter of 2008. In order to fund this investment, you'll recall we announced an efficiency and effectiveness initiative in January 2007.

As Bill said 20 months ago, this was undertaken to support BMO's intention to enhance customer service and focus on directing spending and resources on front line sales and service improvements, creating more efficient processes and systems across the Company and continuing and accelerating the pace of the Company's growth. We continue to progress against our objectives on this initiative.

We've reorganized a number of essential services such as finance and HR. We've reviewed outsourcing and contracting, and we've consolidated real estate. At Q1 2008, headcount reduction related to this initiative was approximately 900, and the annual run rate savings were almost $160 million. The businesses will provide more detail about how these investments are reflected and the momentum that is building.

Thank you, and I look forward to meeting you. At this point, it gives me great pleasure to turn the floor over to Frank Techar and members of his team. Frank.

Frank Techar *- Bank of Montreal - President and CEO - Personal & Commercial Banking Canada*

Thanks Russ, and good morning, everyone. It's great to be here for my second Investor Day as the Head of P&C Canada. At the end of 2006, I had the opportunity to talk to you about our 2007 objectives and plans for building momentum in our business.

And at that time, our objectives were pretty simple. We had four of them. Number one was to improve our customer experience, to continue to expand and upgrade our branch network in priority markets, to drive revenue growth and improve customer loyalty through a robust performance management system, to improve the performance in our small business segment. Those four things, we talked about 18 months ago.

One of our objectives today is to demonstrate to you that we have done what we said we were going to do at that time. And while there's still work to do, we are pleased with our progress and we're building strong momentum across our entire business.

I'm going to start today with just a few facts about the business. We represent the largest business in BMO, and we are the biggest contributor to net income and revenue. Based on the average of the past three years' reported results, P&C Canada contributed approximately 50% of the bank's net income.

It's a growing franchise with a strong history of profitability with a compound annual growth rate of net income of 11.4% over the past four years. We have almost 17,000 employees serving seven million customers through a national footprint of 982 branches and almost 2,000 ABMs.

As we discussed the last time I had the opportunity to talk with you, we have some significant strengths that we continue to build on. First of all, we have a powerhouse Commercial Banking business, which is number two in the marketplace, and it is growing strongly. Our everyday banking products are second to none.

We're the largest MasterCard issuer in Canada, and with our AIR MILES partnership, we have the number one coalition loyalty program in the country. And as you'll see a bit later, we continue to maintain our industry-leading credit risk management practices.

Our structure in the business is quite simple. We have strong leadership capabilities in six divisions across the country as well as our Corporate Finance division, which supports the entire network. We've made changes in leadership, and we are focusing on recruiting and promoting top talent as part of our management renewal.

As Bill mentioned, we've had change in our leadership in the business, and three of our seven division heads are new within the past year, and I'm very confident in their ability to lead our people in the field. And one of those seven leaders is here with me this morning. Alex Dousmanis-Curtis, to my left, is our Senior Vice President of our Greater Toronto division, and as many of you know, it is our largest and most prominent division, which covers approximately 16% of the population of Canada.

Alex has joined us to talk about the great results we are enjoying in her division and our new approach to performance management. Alex is approaching her one-year anniversary with BMO. After starting her banking career with our company, she left us and took a few years off to the help the competition. But we're happy she's back home now, and we're thrilled to have her on the team.

Sandra Hanington, our Executive Vice President, is responsible for Direct Banking, our Personal & Commercial segments and strategies, and our Product Management business. Sandra's prior role was in the U.S. at Harris where she had similar responsibilities, and she's brought her knowledge of the competitive U.S. marketplace back to Canada with here.

Maurice Hudon is our Senior Executive Vice President, and he's responsible for our Cards & Payment Services, as well as our Insurance and Auto business. And Maurice is also responsible for managing our distribution investments. He's held various executive positions in P&C Canada for 16 years, and has broad and deep knowledge of our business from the front line right through to the back office.

And Wendy Millar is our Executive Vice President and Senior Risk Officer. Wendy has spent 15 years in our Risk Group with the last three years in her current position. I'm very confident in the strength and the depth of the entire P&C Canada leadership team, and we have a great balance of history and renewal.

The past year has also seen significant change in our overall executive ranks. On the front line, more than 30% of our executive team are now new to their jobs, and a number of them have come from outside the organization. With strong leadership in place, we're reinvigorated. We're passionate about our strategy, and we are ready to win.

Less than a year ago, we set a new course for our business and as Bill mentioned, we put the customer at the center. We recognized the need for a fundamental changed of direction, and we've embedded a customer-centric mindset across the entire organization. And for us, it starts with our vision.

Quite simply, our vision is for every single customer to be a strong advocate of our company. Last year, we implemented the use of Net Promoter Score to track our progress on the loyalty front. This score measures the strength of our customer advocacy, and our vision is to earn a score of 100 wherever we operate. With this vision, our objective is clearly to be number in the marketplace in customer loyalty. We believe this competitive space is open, and we intend to fill it.

Our strategy is quite clear. We will win through the quality and consistency of our customer experience with the most productive sales force and distribution network in the country. And, we have identified six elements of our business that we think will set us apart in this marketplace.

We'll excel at sales leadership and performance management by setting clear targets with clear accountabilities right down to the front line employee, and as I mentioned, Alex will give you some insights into performance management in a few minutes.

We'll leverage customer insights to drive offers in marketing results. We are identifying what customers want and need, and we're getting them to the market more quickly in a straightforward way that is easy to understand. Sandra will talk more about this and describe some of these programs that we're very proud of.

We'll focus our investments and resources on the highest-value sales and distribution opportunities. We are strategically investing where we see the greatest returns, and Maurice will touch on this in a minute. We continue to redesign our core processes and leverage technology to improve our customer experience, free up capacity and reduce operating costs. And, we are building a best-in-class human resource capability that through strong leadership will bring our strategy to life.

Technical qualification of our people is important, but our objective is to have 17,000 customer-qualified people across our business. And underpinning our business, we will maintain our superior credit risk management position, and Wendy will cover this a bit later.

While this strategy and focus is less than one year old, it's working. In a short period of time, we have made a number of changes to the business that are showing positive results. We have overhauled our performance management system. We've launched new offers. We've implemented new credit strategies in our Consumer business. We're managing pricing more effectively.

We have a sharper focus on the customer experience with well-defined customer values that promote specific, consistent behaviors in our front line staff. We've made technology upgrades that have generated capacity, and we've increased the size of our specialized sales forces.

And as you can see on this slide in the upper, left-hand graph, consistent with last year's stated objectives to focus on high-spread products, our growth in personal loans has accelerated from 7% two years ago to 17% in Q1. And our market share is growing strongly and has improved by 80 basis points over the past year.

On the upper, right-hand graph, you'll see that our deposits are also growing. Over the last four quarters, we are seeing improving balance growth, which should turn into sustained share growth. Deposit growth is a priority of ours. We're happy with the recent results, but we know we have more work to do here.

On the lower, left-hand graph, you'll see that our growth in credit card balances has also accelerated from 4% two years ago to almost 14% in Q1, and our market share of net retail sales is holding steady at over 14%. On the bottom, right-hand graph, after making the decision to exit the broker channel one year ago, our mortgage balances are growing once again, and our share declines are starting to ease. And Maurice will speak more about the changes we've made to our mortgage business in his section.

We've seen accelerated growth in our personal products but perhaps more importantly, we're seeing growth in our relationships with both new and existing customers. We're turning customers into advocates, and they are rewarding us with more of their business. And as we stated earlier, our goal is to be number one in customer loyalty, and we're making strong progress.

You can see from the upper, left-hand graph on this page that our 12-month rolling average Net Promoter Score is up two points from a year ago. Our three-month rolling average is up six points, which bodes well for the future, and while the one-month scores are more volatile, we are seeing a nice trend developing.

Each of our six divisions is now well above last year's levels. We now have branches that have seen an increase of as much as 55 points over the last 12 months, and we have a number of them that have achieved a perfect score of 100 for three months in a row.

You can see on the upper, right-hand graph that the number of active chequing customers is also on the rise. Over the past year, we've added more than 100,000 new active chequing account customers, as a result a number of changes we've made to our business. And across the bottom of the slide, the percentage of households retained has improved from 92.6% to 92.9% since last April, and the number of product categories per household, our share of wallet measure, has risen steadily.

Our growth in active card accounts remains strong 6% and is also showing some improvement. Our customers are noticing, and more and more of them are telling us that something has changed. They're staying with us, and they're rewarding us with more of their business. As you can see from slide seven, something has changed in our commercial business as well. As stated last year, this segment was a focus of ours, and we're delivering.

Our loyalty scores have improved. Our 12-month average rolling score is up three points, from 17 to 20 through February, and as with the Personal segment, the three-month rolling scores are stronger and bode well for the future. As we recently received our March results, our 12-month rolling score went up a further point to 21 in our Commercial business.

And on the upper, right-hand graph, building on our number two ranking in market share for business loans of $5 million and below, we have seen balance growth accelerate from 7% last year to 11% in Q1, and market share improved 80 basis points.

Much to our competitors' dismay, one of the things we said we'd do last year is change the momentum in our small business segment, and you can also see from this slide that our market share is up 58 basis points in this segment over the last four quarters.

We have seen Q1 2008 share gains in every segment in every geography in our Commercial business, and as you can see from the bottom graph on this page, we are also deepening our commercial relationships as well. We have a great plan and strategy. We're executing against those plans. It's working, and we're making progress.

And I'll now turn the floor over to Alex, who will discuss one of our differentiators, our best-in-class performance management. Alex?

Alex Dousmanis-Curtis ***- Bank of Montreal - SVP - Greater Toronto Division***

Thanks, Frank. I'm very happy to be here, and proud to be representing the largest division in the country to share a high-level overview with you of our new performance management program. At the last Investor Day, Frank talked about plans to roll out our new score card and improve performance management.

Our ultimate objective was to bring greater discipline to how we managed our performance in a clear, concise and simple way. So what I'd like to do today is give you, as I said, a high-level overview of the four components to the program, and then, I'd like to show you some of the immediate lift that we've seen in Greater Toronto division as a result of the implementations.

So, let's start with planning. Performance planning is how we establish with our employees their individual and team goals for the year. The key measures have evolved, and teams are measured on three areas, revenue growth, customer loyalty as measured by NPS, our Net Promoter Score, collaboration, which is a key differentiator for us at BMO given our ability to offer customers a seamless relationship between the retail bank, Harris private bank and Nesbitt Burns partners. Performance planning provides consistent, transparent planning, and gives us the ability to insert stretch goals to take advantage of specific market opportunities.

Another key component of our success is to ensure that our team members are crystal clear on what success means, both from a revenue and also a client-loyalty perspective, and they also know how they personally can make a difference. This brings us then to the tracking.

The success of performance management wouldn't be possible without accurate, timely and transparent reporting, so this year, we have introduced three new tools, the first being our weekly scoreboard. We measure what matters. The weekly scoreboard evaluates an individual's results quickly against their targets. It provides comparisons across the network and ranks individual employee and also team results.

The scoreboard provides immediate identification of under and also over-performance at the individual and management level. It provides input for weekly sales meetings at all levels to review progress and areas for improvement. It also provides a basis for insight to develop weekly action plans, coaching interventions and commitments to the team.

My experience with weekly reporting has been very positive. Internal competition increases, which drives superior employee performance. When I was out visiting branches just last Friday, I heard a fairly typical story in the division where a branch manager proudly shared her success with setting daily chequing account targets with her team members. They follow up weekly and since they've been doing this, she was excited to tell me that they'd seen an increase of 33% in their chequing account sales. So, we know this works.

The second tool that is making a difference is our monthly scorecard. The scorecard is a major shift for our teams this year, because it takes a more holistic approach to measure not only revenue, but as I said, how loyal our clients are to us, and how effective and efficiency we work with our partners.

I have a great example of customer loyalty success. Again last week, when I had the pleasure of having dinner with a branch in Scarborough. I had met with them in the fall and their NPS score was 20 out of 100. So, they set targets, developed action plans, really challenged themselves.

And I had said to them if they had reached a score of 75, I would take them all out to dinner. And the manager called me a couple weeks ago, and they had hit 83%, so it was a pleasure to share their success with them over dinner. And this team is an inspiration to what we can achieve.

Accurate, immediate peer comparison has encouraged friendly internal competition, and then also the best practices from branches that have proven to be successful. We have a culture focused on sales and customer loyalty.

Now for our Commercial team, we have our third tool, which is portfolio management report. This is reporting for our commercial account managers showing share of wallet and profitability at an individual client level, rather than gross sales at the portfolio level. This allows our commercial account managers to become even more customer-centric, and it givers us a much broader view of their entire relationship potential.

The tracking introduced this year has been simplified, allowing greater clarity and transparency of results. And clarity and focus helps individuals and coaches make quicker, more effective decisions around what needs to be improved to win. And the key to these reports is that it underscores it an individual's results, and just as critically, how these results are linked to the team's success.

And that leads us to coaching. I think perhaps the most important thing we've done this year is to reinforce a highly disciplined structure for performance coaching that we call passport coaching. It's a chain of accountabilities, with a structured approach to weekly and monthly performance coaching from the front line to Frank. We like to call Frank our head coach.

Everyone leads by example, and everyone is a coach. Coaching identifies what is going well, and also what needs to change quickly in order to achieve improved results. Actions are determined, agreed upon, and then follow-up takes place the next week without fail. Individual outcome-based coaching is our focus, and a key priority for me is to improve the effectiveness of all of our coaches.

We are coaching our leaders to focus on doing what matters with specific outcomes identified and employees held accountable for their results. The transparency we now have been able to achieve through our new metric, allows individuals and coaches to better evaluate expected performance against actual performance both on financial results, and just as importantly, on the loyalty of our clients.

And this brings us then to assessment. Assessment is objective, clear and consistent, and is directly linked to our scorecards and passport coaching. Our assessment provides rigor and differentiation of all our performers, and the new measurement tools provide transparency, and allow individuals to assess their own performance against specific weekly targets, and again team results. It is important to note that end-of-year evaluation and rewards are established against these targets.

Now, I'd like to share some early indicators that tell us we're on the right track. This is actually my favorite slide. I'm excited to show our initial progress and the positive momentum shown here. Our daily target setting, tracking focus and disciplined coaching has resulted in, as you can see, our sales per FTE has improved 27% over prior year. New personal loan and mortgage sales have increased 30% over prior year, and this is just new sales, does not include refinances or renewals.

Creditor insurance sales are up 37%, MasterCard sales up 52%. New chequing customers have increased 23%. These are new-to-bank customers who have a chequing account with us. Commercial borrowing customers have increased 15%, and as you can see, our average products per household have grown 8.4% versus prior year.

I'm really proud of the results generated by the Greater Toronto division team, and I'm confident this positive momentum is going to continue. As Frank said earlier, something has changed. In the time I've been back, I agree that BMO has changed, and I'm excited about our continuous advancements in growth.

And now, I'm happy to turn it over to Sandra.

Sandra Hanington ***- Bank of Montreal - EVP - Customer Strategies & Marketing***

Thanks, Alex. Good morning. As the leader of our Personal & Commercial Segments, our Product Management team, and our Direct Banking Group, I'm delighted to be part of the change that's going on here at BMO.

There's a theme running through today that we are transforming our organization into a customer-oriented service business. A big part of that is retail. It is one customer at a time, day after day. And as retailers, it's not complicated. We have to get customers in the door. We have to meet as many of their needs as we possibly can, and we've got to hang on to them for life.

With that in mind, I'm going to illustrate one of the planks of our strategy you saw in an earlier strategy slide, leverage customer insights to drive offers and marketing results. Let me start with a bit of background about a unique feature that we have, one that is worth its weight in gold in what is largely an undifferentiated Canadian retail banking landscape. We have the exclusive banking relationship with AIR MILES.

An active AIR MILES collector can be found in two-thirds of Canadian households. It was just over a year ago that we decided that the program, which we'd had in place for about 12 years, just wasn't working hard enough for us. So, we turned to our customers to explore the opportunities. Our customers and our prospective customers told us that we just had the program structured wrong.

We were rewarding banking. We paid for balances, bill payments, direct deposits and funny enough, that just didn't get them excited enough to change their bank. We probed more deeply with them, and we had a bit of an a-ha moment. And we found that if we instead shifted to rewarding them for shopping, instead of rewarding them for banking, we thought we had something.

It's the old banking saying, no one is actually going out and looking for a mortgage, they're really looking for a house, and the mortgage is the means to the end. And so, we used those insights to develop our AIR MILES on debit card programs. It's possible you've not signed up yet, so I'll take a minute to explain.

We were building off the strength of our AIR MILES credit card program, and then, we moved to a higher place with our customers by telling them if they banked with us, they could also earn air miles on all of their debit card purchases so that with BMO, you're always collecting.

We also built in sweeteners so that the more products they had with us the more they could earn. There's a 10% boost each month if you hold a mortgage, premium-rate savings account, a line of credit, even a small business banking account. And you keep on earning as long as you're with us.

No, it's not an iPod to get you in the door, although you could use your air miles to earn one and then another one and more besides. It is part of the best everyday banking plan in the market.

When we went to launch, we really knew we needed to create some buzz in the marketplace. We were due, and we needed to create some internal excitement with our employees, but we also had very clear business targets for the program. It needed to be profitable for us. We wanted to attract new, core, everyday banking customers. We wanted to increase our share of their wallet, and we wanted to keep customers with us longer.

It has been less than a year, but the program is working on all three fronts. As you see on the slide, we've had a dramatic increase in our ability to attract new everyday banking customers. Since we started the campaign, we have blown through our share of wallet target, and we're seeing materially better retention with these customers.

Our work is not done. We need to keep thinking like retailers. There are just too many Canadians and many of them air miles collectors who still aren't aware of the program. And so as we originally planned, we're about to go back into the market with more advertising. This time, we're working the link to our very successful Mosaik MasterCard offer even stronger.

We're using that same customer-insight-based approach on other big offers as well. The campaign that's in our branches right now is a great example of how it can work even when we don't have a unique feature. We have a personal-lending product that has been doing particularly well for us recently, and we think it can do even better. It's our Homeowner ReadiLine. It is a great product.

It's a combination of a mortgage and a line of credit, a secured line of credit. And what happens as you pay down the balance of your mortgage, the room that's available to you in the line of credit increases. Once you're in, it's the only loan you ever need. Our Homeowner ReadiLine has been an important part of our accelerating personal loan growth.

We talked to customers to see why it was doing so well and surprisingly, they didn't talk about the loan, they talked about their lives, a once-in-a-lifetime trip, putting a child through college, a compelling business venture. And what we heard is they wanted more control. They wanted to be able to make those decisions to invest on their own. They didn't want to have to approach the bank each time and make a case of why it was a good idea.

And so in our campaign, we have focused not on the product features, although that is so tempting as bankers to do. We have focused on the role it plays in our customers' lives, how it changes shoulda, woulda, coulda into should, would, and could.

We're at the early stages of our launch, so I don't have outcomes yet other than some great customer stories from our front line people, but I will tell you it makes great business sense for us. The product has good spread. The balances are big. This is one of those high-spread products we said we wanted to focus on. Our sales force has proven that they are comfortable selling it, and there is magic in the fact that there's no fixed maturity date. It is indeed the only loan you'll ever need.

Finally, just recently, I think the paint is still drying, is our brand new partnership with Shell. It has got the best package of rewards going, and we know that rewards drive the choice of cards. It also leverages our expertise in cards. We are after all, Canada's largest issuer of MasterCard.

Here's the deal. You get 3% cash back at Shell or 1% everywhere else, or you can choose an equally sweet Gold AIR MILES offer. And you get to double the reward you earn at Shell. For those of you who are keeping track, you might notice it says 5%. That's actually an even better special introductory offer that's available at Shell.

So, why do we like the Shell deal so much? Well clearly, they are a great partner. They are a strong, national retailer, and also a member of the AIR MILES coalition. The program itself has great standalone economics, and we get guaranteed visibility at 1,600 Shell stations across the country.

You might also have seen our recent announcement about our new Gold AIR MILES MasterCard benefits. I think actually it was Rob Carrick at The Globe and Mail who put it the best for us. We've now got a 20% discount on the number of points you need for reward flights with 11 carriers to more than 500 destinations. And then, he did the math to show that with BMO you fly faster.

I'm going to stop there and return to my original theme. We are going to continue to have great visible offers in the market. We are going to leverage unique features when we have them, but in every case, we are going to look at our offers through our customers' eyes. And the offers are going to drive business results, quality customer acquisitions, deeper customer relationships, longer lifetime with us.

Now, I'd like to turn it over to Maurice, who's going to give you the highlights of our integrated distribution strategy.

Maurice Hudon *- Bank of Montreal - Senior EVP - Personal & Commercial Banking Canada*

Well, thank you, Sandra. Good morning. My task is going to be to go over how we are focusing our distribution investments to the highest value sales and distribution opportunities available to us. And I'm also going to take a moment to update you on where we stand with our mortgage business. We exited the mortgage broker business early in 2007, so we'll review where we are on that front, but first, the distribution.

Our philosophy in distribution is to move forward on multiple fronts to ensure that we're able to connect to our customers through their channel of choice, while at the same time, provide the ease and convenience needed to bring new customers to the bank. Let's start with the state of our branch network.

In a word, it's in terrific shape. In 2005 and 2006, we refreshed virtually our entire network, along with replacing all of our ABMs. Following that, in 2007, we increased our spend with more focus on expanding our footprint with the addition of 22 branches. And our strategy going forward is to first, maintain our share of branches, and secondly, target our new branches in area with the greatest opportunity for growth.

And now, with every new branch, we're getting better and better at site selection, timing the market, and execution of our entry into these new markets. We have 21 new branches in the pipeline for 2008 with a similar level planned for 2009, so maintaining our share and continuously improving our execution is the order of the day.

We're also spending time thinking about branch formats our customers value most, while ensuring our online and contact centers keep pace with the changing needs of our customers, and I'll refer to that in a few moments.

On another front, we work closely with our business partners to bring a comprehensive suite of services to our clients in one location from Personal to Commercial to, of course, Wealth Management. And for instance, 74% of our traditional branches are serviced either on a full-time or part-time basis by one or more of our financial planners.

Let me turn to hours of service, which of course is an area of attention. In this respect, we are managing this with the customer in mind. Our approach on hours is rooted in the belief that local market knowledge and local discretion will lead to optimal decisions on hours of operation.

In fact, we recently compared our hours of service to those of our competitors Canada-wide and found that we had the second-longest hours of service among the big five on a national basis, with the biggest increase in hours year-over-year. This is another means of enhancing the productivity of our network.

Another critical area of focus for us is the effectiveness of our specialized sales forces. Their role, simply put, is to drive new sales and traffic into the branches. The establishment of our very successful and highly regarded financial planner sales force gives us the confidence in building an equally successful mortgage specialist network as part of the mortgage strategy that I'll touch on in a moment.

Our number of mortgage specialists has increased from 170 at the end of 2006, to a projected level of over 300 at the end of 2008. And at the same time, the efficiency of this sales force has improved by 31% year-over-year as measured by sales volume. We also know our customers value the direct channel, and we continue to improve this capability. For instance, we most recently have improved the effectiveness of our ability to book mortgages originated through this channel by 7% quarter-over-quarter.

Let me now turn to the update on the mortgage strategy. As Frank mentioned, we decided to exit the mortgage broker business early in 2007. This channel was less profitable, not in line with our objective to use this core offering to build deep and lasting relationships with our customers. As we said we would, we have shifted our originations, as seen on the upper left of the chart, away from the broker channel to our mortgage specialist sales force.

As a result, we have achieved our first goal of replacing the lost originations, and are now seeing growth in aggregate from all channels return to the portfolio, as new originations have made up for those lost by leaving the broker channel. Our second goal is now in sight, which is to grow market share, and we expect to achieve this by the end of 2009.

With respect to profitability, the chart on the upper right demonstrates we have improved the spread on our new business at a time when competition remains strong. We've gained 37 basis points in spread since January 2007 in new originations, by improving the channel mix, and through renewed discipline on discretionary pricing.

Finally, we're making progress in our quest to deepen relationships. Rigorous sales focus, which you heard about from Alex, is resulting in a deeper share of wallet as we've improved our product penetration for new customers. We track the products for customers new to BMO over a one-year period.

The number of products for these customers increased by 34% from our branch channel, and by 27% for our mortgage-specialist channel, and that does not include the value to our customers of insurance protection, where our penetration levels of mortgage life have improved steadily, as the chart also demonstrates.

So, that concludes the progress we're making on both distribution and the mortgage front, and I'd like to pass the floor to our Senior Risk Officer, Wendy Millar.

Wendy Millar ***- Bank of Montreal - EVP, Senior Risk Officer (P&C Canada/PCG)***

Thank you, Maurice. Good morning, everyone. I wanted to take a few minutes to talk to you about our best-in-class credit risk management practices. As Frank told you, our vision and strategy in P&C Canada really puts the customer at the heart of all of our practices and our decision making, and we are very much aligned with that in Risk Management.

If I turn to my first slide, I want to take a minute to talk to you about the quality of our portfolio and what differentiates us from our competitors. We are now at a point in the cycle when economic conditions are more likely to put upward pressure on loan losses. Given the quality of our portfolio however, we have the confidence and fully expect to perform better than our peers despite this uncertainty.

What gives us this confidence is the fact that we have maintained a leadership position in credit risk management in P&C Canada consistently for more than ten years. Our advantaged loan loss performance stems from the quality of our underwriting and the mix of our portfolio. Our portfolio is made up of very high quality assets that are well diversified by industry, geography and segments. Nearly three-quarters of our portfolio is retail-based, of which 92% is secured by high-quality assets.

So, what differentiates us specifically? Well, we have consistent and conservative underwriting standards, a very disciplined lending process, and at the foundation of it is our best-on-the-street credit training and accreditation program. It's because of the strength in our training and practices that we're able to delegate limits to our highly skilled lenders and credit officers in the field.

Each of them is then accountable for the credit decisions that they make. In other words, lending decisions are not made by committee here. We are the only bank that actually provides up to $50 million in authority limits to our regional divisions and credit units. In contrast, at some of the other banks, when deals hit the $10 million or $12 million level, they are often routed to their Toronto office for final authorization.

Another advantage of this decentralized approach is that local knowledge and experience is always factored into the decision. This local loan decisioning gives us quite an edge on our peers, and allows us to provide faster approvals to our customers. Having said that, we do have our checks and balances in place.

Commercial lending is a dual-approval process, which requires sign-off on a transaction from both a line officer and a credit officer. Given that credit reports independently into the broader enterprise, we ensure consistent and prudent underwriting standards are maintained. We aren't about to jeopardize our long-term profitability for short-term gain.

On the retail-lending side, our modeling expertise drives the effectiveness of our credit risk strategies across the lifecycle of a loan, from the front-end underwriting stage, right through to account management strategies such as automated line of credit increases for existing customers, triggers for review of deteriorating accounts, and if necessary, to the back-end collection process.

Designing our automated lending credit strategies is both an art and a science, with the art provided by mapping the actual thinking behind a credit decision of a credit officer into our strategies, and then balancing this with the science provided by models that are purely data-driven. Getting the right balance between the two is what we're actually really good at. Supporting this expert decisioning system is a very disciplined monitoring process to closely track credit strategy performance to ensure our risk tolerance is maintained.

Another advantage is that we recognize deteriorating accounts earlier than our peers. In support of this approach, we have a specialized unit that has highly trained expertise in working closely with customers who have financial difficulties to ensure we return them back to health. Of course, there's always going to be some accounts that can't be brought back to health, and in these cases, appropriate and often swift action is taken to minimize our loss.

To sum up, historically at the first sign of a downturn, many other institutions pull back, tighten their lending criteria to minimize their losses. The strength of our portfolio, combined with our differentiated approach, allows us to remain consistent to our good quality customers right through the credit cycle.

Just like Alex, Sandra, and Maurice, using metrics and benchmarking our performance is important to tracking ourselves to our peers. This chart clearly demonstrates that we are delivering the best credit risk management performance consistently year-over-year. We're first in installment loans. We're first in line of credit, and we have been first in credit cards as well. While we don't have a ranking for mortgages, our losses have ranged in the one to two-basis-point range for over ten years.

And we're not just in first place by a hair. For personal lending, we are two to three times better than our peer average in terms of loan losses. For credit cards, we've been 60 to 100 basis points better than our peer average for loan losses. But, we're not about to become complacent on this -- with these results. Our goal is to maintain our best-in-class positions by leveraging our risk expertise in support of driving sustainable and profitable growth.

With that, I'll hand things back to Frank.

Frank Techar - ***Bank of Montreal - President and CEO - Personal & Commercial Banking Canada***

Great, thanks Wendy. I hope we've been able to demonstrate to you that we have a strong and confident leadership team in place, and that we do what we set out to do. Just a few takeaways before we go to Q&A. We have a new clear vision and strategy that puts the customer at the center of everything that we do.

We are improving our branch performance and holding individuals accountable for delivering results. We're bringing customer offers to the marketplace faster, and we're becoming more visible in the marketplace on a daily basis. We are continuing to make strategic investments and expanding our distribution network and specialized sales forces.

And we are certain, that our credit loss performance will be better than the competition, no matter what happens in the marketplace. This is a large business. We set some tough aspirational goals. There's no doubt that we're on the right track. Our strategy is working. We can compete, and we believe we can win.

So with that, we'd be happy to answer any questions that you have.

QUESTION AND ANSWER

Unidentified Audience Member

Your loan growth has been accelerating over the last year and a half. What is it due to? And what are the different credit metrics for a…what are you seeing recently in terms of credit performance across the different buckets? And the second question, can you comment on the recent mortgage originations and the trends, which you are seeing in the industry?

Frank Techar *- Bank of Montreal - President and CEO - Personal & Commercial Banking Canada*

I'm sorry. I didn't hear the second part of the question.

Unidentified Audience Member

Mortgage originations and credit trends across your mortgage portfolio?

Frank Techar *- Bank of Montreal - President and CEO - Personal & Commercial Banking Canada*

Okay. I'll let Wendy answer the credit-related parts of both of those questions. The reason that we're seeing growth in our consumer lending book is as a result of a number of the changes that we've made to the business. Alex talked very specifically about performance management, setting clear targets, holding people accountable for those targets, and that has clearly been part of the change that we've seen in the growth in all of our products across the business.

So, we're managing our sales process more effectively with the changes that we've put in place. We've changed some of our credit strategies for our consumer lending businesses as well over the last few years, and that has helped. In particular on the credit card business where we've seen very large growth, we have re-engaged our sales force in the branches to sell this product.

Historically, we had not been doing a very good job in selling the product through our branch staff, and we now have them clearly on board. It's one of our key metrics that we use in our performance management system and our individual target setting. And we're starting to see the results.

So it's just transparency, focus and holding people accountable that's having the biggest effect. So, Wendy, maybe you can touch on what we are seeing or not seeing relative to any changes in losses for both consumer lending and mortgages.

Wendy Millar *- Bank of Montreal - EVP, Senior Risk Officer (P&C Canada/PCG)*

Certainly. I just want to stress that our risk appetite hasn't changed. We're closing more deals, and we're also extending more credit to our good quality customers. And that has been underway for the past two … three-plus years and accounts for the increase that we've been seeing.

As I mentioned earlier, we have been optimizing and leveraging our automated lending system, and for instance, when a customer comes in to apply for a mortgage, our back-end system also runs them through our decision engine and will, if appropriate, cross-sell them for a line of credit or an overdraft facility or another product. So, we have really been growing share of wallet with our customers using our back-end decision engine capability.

So through all the channels, just as Frank said, with offering MasterCard through the branches this has greatly helped us grow, both to existing customers, as well as to new customers. As the chart that was up previously indicated our delinquency rates have remained very, very good compared to our peers. For instance, those personal loans, they are two to three times better than our peers, and so, there isn't a concern from that perspective.

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

Great. Next question? One here, Michael, the mic is coming.

Michael Goldberg *- Desjardins Securities - Analyst*

I have two questions, and I guess the first two are for Alex. First of all, can you explain to us what you mean by Net Promoter Score and collaboration , and how do you measure these criteria?

Second, what's unique about your home owner ReadiLine product from others that are out there? And for Wendy, what percent of commercial loans are secured by hard assets? What sort of loan to value do you aim for, and what's your understanding of how this compares with peers?

Alex Dousmanis-Curtis ***- Bank of Montreal - SVP - Greater Toronto Division***

So actually, I'm going to … am I allowed to turn them over to somebody?

Frank Techar ***- Bank of Montreal - President and CEO - Personal & Commercial Banking Canada***

Sure.

Alex Dousmanis-Curtis ***- Bank of Montreal - SVP - Greater Toronto Division***

The home owner ReadiLine is really Sandra's, and as well how the workings of the Net Promoter Score. But what's important from our perspective in the division and for all of the employees in the division is they take these scores very seriously and we have targets set, and they care about their customers.

And this is the measure of the customers telling them how they're taking care of them. So it's something that really drives their behavior as we've been seeing, as Frank mentioned the numbers are steadily increasing across the division. So that's how we use the scores.

Frank Techar ***- Bank of Montreal - President and CEO - Personal & Commercial Banking Canada***

Okay maybe I can take the first one Sandra and then you can add to what Alex has said the Net Promoter Score targets have been set right down to the branch levels. So again, this is a measure of loyalty. We survey our customers and we survey the competition's customers on a monthly basis within each one of our branch catchment areas.

So we have a score that is tied right into the team scorecard that Alex mentioned. The collaboration piece of our scorecard has to do with how we're doing in referring and closing business amongst the groups within the Company. So I think you'll hear from Gilles and his team one of the things that we're particularly proud of, and we think we actually do a better job of than the competition, is that referral process, how we coordinate and collaborate in our performance in closing those deals.

So there are specific targets for referrals into our Private Client Group, and referrals from the Private Client Group into the P&C Group that are on the scorecards as well. So we think that's a very important differentiator for us and we've built it right into our performance management system.

Sandra Hanington ***- Bank of Montreal - EVP - Customer Strategies & Marketing***

I'm going to give you first a product manager's answer about the home owner ReadiLine, and then I'm going to give you two seconds of a customer's view of what's unique about it. You know any of my product managers could at the drop of a hat do a great chart.

Some of the unique features about it, the fact that as you're paying down your mortgage that balance actually shifts over and becomes available to you in a line of credit. That's a cool feature, not fully unique to us. I think I said it's actually not the uniqueness of the product that makes it a big offer for us.

The customers, while they value those as they have, it doesn't actually make them search it out. This is one of those opportunities for us where it wasn't about talking about the individual product features. It was talking about the role it could play in our customer's lives that made it unique. It was resisting the temptation that makes them follow down that little chart of features and options with us.

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

There was another part?

Michael Goldberg *- Desjardins Securities - Analyst*

The commercial business?

Wendy Millar *- Bank of Montreal - EVP, Senior Risk Officer (P&C Canada/PCG)*

Greater than 70% … this pertains to the commercial loans. Greater than 70% of our commercial loans are fully secured by good quality hard assets. Our loan to value really depends on the quality of the customer. I have to say we were back two, three years ago out of the market with respect to loan to value, and we moved up to the market. And so, in some cases it's 70%, in other cases it's 75%, but it depends on the quality of the customer and the quality of the assets. And then, compared to peers I would say we're at market.

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

Great thank you. Next question? Darko?

Darko Mihelic *- CIBC World Markets - Analyst*

Darko from CIBC World Markets. A couple of questions, I think this one is for Frank. I noticed in an earlier slide from Russ that the run rate of cost savings achieved it about $160 million, if I remember correctly, it was $300 million is the goal. So where does it stand in your division in terms of cost cutting?

And presumably, you're also the biggest user of the cost saves in terms of the cost reducing initiatives. So maybe you can tell us maybe what your revenue or slash expense targets are for the year? And then, I guess my final question is the Net Promoter Score. You're sitting at about 32, your goal is 100. Can you help us quantify, what would it mean revenue-wise if you went from 32 to 100?

Frank Techar *- Bank of Montreal - President and CEO - Personal & Commercial Banking Canada*

Darko, I'll take the second first. Our vision is to have every one of our customers be a strong advocate, which as you quite rightly articulated is a score of 100. We haven't quantified what that would mean because we're a long way from that target at this particular moment in time.

And the science in one point of increase in Net Promoter Score turned into revenue is not as precise as we would like. So the way we're tracking it is some of those measures that we shared with you this morning, how is our retention doing? Because we think retention is important, how is our share of wallet doing? Those types of things.

And we think, as we get more seasoning in our experience with this score, and our experience with the reaction that our customers have to us doing a better job, we will be able to quantify that. At this point in time we're not far enough along to be able to do that with our own customer base.

As far as the cost savings are concerned, we were the biggest participant in our program from last year. And then, I think as we've talked about over the last few quarters, we've reinvested those savings in some of the strategic initiatives that we've had over the course of the past year or so, new branches as Maurice mentioned, specialized sales forces some of the product and advertising and those types of things.

So we have been using those savings to reinvest in our strategy agenda, and that's really where our focus is. I've said this before in other forums, our medium term objective relative to operating leverage is to maintain a 3% revenue to expense differential. We clearly haven't done that over the last couple of quarters, because we've been challenged in the marketplace regarding our cost of funding and the interest rate environment.

We would have actually expected to see an expansion of our net interest margin over the course of the last few quarters as a result of some of the product mix changes that have been going on, and we haven't been able to extract that from the marketplace.

So our near term objective, our medium term objective is still that 3% differential. We've clearly invested in the business over and above the savings that we've seen come through in that initiative. And as we go forward, we're going to continue to invest wisely in our strategic agenda, and manage all of the tactical spends that we have very tightly until we can get more transparency regarding the top-line growth in the business.

So, I don't have a target for you relative to where our expense levels are likely to go over the course of the year, but suffice it to say we're managing them very closely, in particular over the next couple of quarters.

Viki Lazaris ***- Bank of Montreal - SVP - Investor Relations***

All right, thank you. Next question?

Stu Kedwell – RBC

Maybe just to follow on Darko -- asked a different way. Households retained and the growth that you're seeing in some parts of your business … how important has absolute new growth been, versus just changing your retained score? And, what is the opportunity … where can you get that households retained too, and how can we think about that opportunity? Thanks.

Frank Techar ***- Bank of Montreal - President and CEO - Personal & Commercial Banking Canada***

I think, if you look at the results so far probably the biggest win has come from doing more business with our current customers. We're happy, as I mentioned, with the number of new deposit customers that have brought into the organization. But we still have a lot of work to do in building that share of wallet. Our opportunity, the way we measure share of wallet is to have five product categories per customer, is it five, Sandra?

Sandra Hanington ***- Bank of Montreal - EVP - Customer Strategies & Marketing***

Seven.

Frank Techar ***- Bank of Montreal - President and CEO - Personal & Commercial Banking Canada***

Sorry, seven product categories per customer. We're well away from that seven number at this point in time. So we still think there's a big opportunity to grow share of wallet with our current customers. And as a result of, as Wendy mentioned, some of the changes we've made to our underwriting systems, that's been driving a lot of the growth so far. So we think it's an untapped opportunity.

Viki Lazaris ***- Bank of Montreal - SVP - Investor Relations***

Great. We'll take -- sorry.

Unidentified Audience Member

Can retention go like up another 200 basis points? What would be the goal there?

Sandra Hanington *- Bank of Montreal - EVP - Customer Strategies & Marketing*

I don't think we've set a specific target. More is clearly better. But I don't think that we've set a specific target. I think to Frank's point we'd like to hold onto our customers for longer periods of time. But it's the depth of our share of wallet with them that's driving the greatest economic opportunity.

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

We'll take Rob over here, and then Andre.

Rob Sedran *- National Bank Financial - Analyst*

Rob Sedran, National Bank Financial. It's a question I guess regarding the broker channel, Frank. Was part of the decision to exit related to some of those Net Promoter Scores that we saw? And as you improve your service scores is it a viable channel at some point for customer acquisition, again? In other words, how important is the ability to cross-sell out of that channel, to reenter that channel?

Frank Techar *- Bank of Montreal - President and CEO - Personal & Commercial Banking Canada*

Well, as Maurice mentioned there were a number of reasons we exited the channel. First was, it was a less profitable channel for us. The second one was, from a customer experience perspective, actually our customers were confused because we were in the market with the same product at two different prices, BMO branded products at two different prices, and our customers were feeding back to us that they were confused about that offer. So just by getting out of the channel, and we think we've actually improved our experience with our customers.

And the third element was we had proven to ourselves that we could not cross-sell those customers coming through that channel very effectively, and that we had more of an opportunity cross-selling the customers coming through our proprietary channels to build that business and build share of wallet.

So I can't envision a time in the future when that dynamic would actually change. We think we have enough opportunity with building our sales forces, bringing more customers through the door and doing a better job of building that share of wallet than we do with customers coming through that other channel. And I think until we exhaust that opportunity, which by all accounts is large, we'll probably stay away from that channel.

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

Great, Andre?

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

Thank you, I have two lines of questioning, so the first on Net Promoter Scores. Your scores are up. Where would they rank versus the other four banks? And how would the other four banks have improved or not in the last year?

And the other one relates to compensation at the branch levels so clearly encouraging balanced growth, loyalty, at what level is the check on costs and the check on credit? So said differently is the bank willing to accept the low average operating leverage for the next few years as it improves its customer service platform?

Frank Techar *- Bank of Montreal - President and CEO - Personal & Commercial Banking Canada*

Net Promoter Score relative to the competition in the personal segment has remained relatively flat or the gap to the exemplar has remained about the same, over that short period of time that we've been measuring. So while we're happy with the increases we haven't made up any ground on the competition, and right now we're in fourth place.

On the commercial side we have made up ground against the competition. The gap isn't nearly as large. And so, we believe we're going to be closing that a lot more rapidly than on the personal side. So that's what I can tell you about Net Promoter Score.

And again, these are proprietary numbers. We do survey the competition's customers as well. So we don't want to get too far ahead of ourselves in disclosing specifics. The second question around operating leverage, I think as we continue to invest we will see some quarters where that 3% operating leverage target we're not going to achieve. But we don't think that we need to be in that situation quarter, after quarter, after quarter.

So, I would say that looking forward the performance is going to be a bit lumpy relative to operating leverage as we manage the strategic agenda over the next couple of years. But our objective is still that 3% revenue to expense. And if you look at some of the things that we talked about growing the top-line is really important to us and the strategy. And if we can improve our revenue growth by a percent or two it will give us a little more flexibility from an expense perspective.

So the answer is no, we're not going to undermine that operating leverage target forever just to deliver those strong customer experience for us that we want. We think it's both. We need the financial performance and the experience.

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

Maybe I'm getting too far ahead, but what about the next step which is new customer acquisition, as opposed to increased share of wallet and return cost numbers? Would that be a more costly proposition in terms of marketing, advertising?

Frank Techar *- Bank of Montreal - President and CEO - Personal & Commercial Banking Canada*

I mean, if I gave you the impression that the only lift we're getting is from our current customer base, then I apologize for that. Because, I think as Sandra mentioned, some of our offers are driving in new customers to the business and it is important to us, and we do have some current capabilities that aren't costly that are allowing us to bring in new customers.

The strength of our commercial business and what we believe is a differentiated way to come to market is having a big effect. Our AIRMILES offers that are in the marketplace right now are driving new customers in. So we don't think that it is going to cost us dramatically to change the momentum in the rate of growth of our new customers as well.

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

Thank you.

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

Our next question, Jim Bantis?

Frank Techar *- Bank of Montreal - President and CEO - Personal & Commercial Banking Canada*

Hey, Jim.

Jim Bantis *- Credit Suisse - Analyst*

Jim Bantis, Credit Suisse. Just looking at … thinking of Eastern Canada, Western Canada, Bank of Montreal has been a little under-represented in Western Canada. Can you talk about the initiatives you've got in that marketplace with respect to branch expansion, and maybe some of the gains you've made recently in Western Canada?

And then also for Wendy, on Slide 21 you've shown us a PCL performance and some pretty good times in terms of '04 and '07. But maybe you can remind us what peak levels were in maybe 2000 or maybe going back to the 1990s given that we've got a slowdown in terms of the economy approaching us?

Frank Techar *- Bank of Montreal - President and CEO - Personal & Commercial Banking Canada*

Relative to your first question if you look at our distribution network across the country we have been probably most under-represented in the GTA relative to the competition, and maybe second would be the West, Alberta and B.C. So starting with this past year and the branch build that Maurice mentioned earlier, we have put more and more of our resources against those two marketplaces.

And my expectation is we would continue to invest in the West and in the GTA predominantly as we move through the next couple of years. And that's probably not a surprise to you given the strength of the economy out West.

But we have a bit of a gap, a bit of a larger gap in the GTA relative to our number of branches. And we're going to try to change that over the next couple of years. So that's really the focus, and we think it's going to be positive for the business top-line growth perspective as well. As Maurice said, we're trying to pick those spots that have the highest, you know, the highest growth potential, and so we're competing heavily for those locations.

Jim Bantis *- Credit Suisse - Analyst*

You made a really good point there, when you think of competing for those branch locations with TD and Royal, everyone is looking three years out with respect to those locations. How is BMO going to compete against them in selecting those branches?

Frank Techar *- Bank of Montreal - President and CEO - Personal & Commercial Banking Canada*

I don't think there's any magic. You know they're out talking to developers and doing the same analysis that we're doing. I think the reality was over the last three or four years we weren't doing it, and now we're back. But there's no reason why we can't compete. There's no magic to the science, and there's no magic to the relationship building that's required to get those sites and prove to ourselves that we're getting the best sites in those marketplaces.

So hopefully, if you talk to them they'll be talking about the fact that the heat has been turned up a little bit because there's a couple of others who are in the marketplace competing more aggressively for the properties. The reality of that might be that prices might go up, but we're going to compete very aggressively in those marketplaces. I don't think they have a proprietary system that is allowing them … we probably seeded a little territory to them over the last couple of years.

There's a second question about peak losses I think, Wendy.

Wendy Millar *- Bank of Montreal - EVP, Senior Risk Officer (P&C Canada/PCG)*

Unfortunately, I don't have the exact historical data. By memory, I believe it's about five to ten basis points higher than what we have for installment loans and line of credit on the chart. So that was 30 basis points for installment loans, and 15 basis points. So, about five to ten higher than that would be through the peak of the cycle.

For credit cards it would be a little bit higher than that, probably about 20 basis points. But I don't have the firm numbers and we can provide that. Keep in mind, we have had the lowest loan losses versus our peer averages for more than ten years, even though that cycle.

Frank Techar *- Bank of Montreal - President and CEO - Personal & Commercial Banking Canada*

So that number one doesn't change even if you go back through the turn of the century.

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

Great, any other questions? Great, so I think at this point we're going to take a ten, 15-minute break and be back here just before ten to start the next team's presentation. Thank you.

(BREAK)

PRESENTATION

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

Before I turn it back to Viki I was asked a question about the Net Promoter Score in the break. And I operate under the assumption that many of you are quite familiar with the measurement, it's a measurement that a lot of firms in the U.S. use, it's one that we've used widely.

But I thought I'd just provide a 20-second perspective from my view on Net Promoter Score, and why it's as important as it is. We used to use a proprietary measure here at the bank called Secure Customer Index, and it measured customer satisfaction.

Basically, it involved interviewing customers of ourselves and other financial institutions, asked about 35 questions. And the objective of the questions were to determine if the customer was satisfied with their last transaction, if they would do another transaction and if they would refer someone to the bank who they knew, if they knew that they had a banking requirement.

And the advantage of that is you really get a sense of where the customer loyalty is high, where customers are satisfied. But we notice that a difference in the Canadian market in our own experience where our sales performance was actually quite good, but the growth wasn't at the same level as we would have expected, and it had a lot to do with retention.

That's why it was so important that Frank talked about the increase in retention. One of the elements of Net Promoter Score that we really value is that it takes what I described as the Secure Customer Index and it subtracts from the people who would promote, people who have negative feelings about the bank or about another bank.

And that's particularly important in an industry where you have to recognize that people really aren't universally satisfied with the banking, and that goes across the whole industry and across all competitors. So that's why we've focused on that particular score. And the question about why do you shoot for 100?

Well, it should be within the aspiration of any manager or any business unit to have a Net Promoter Score of 100. That if you're on top of your business, all of the people who come into your location ought to be happy and willing to refer, and you would have no detractors.

And so, you can find individual locations where there are 100s. And I've spoken to branch managers in the last six months who are quick to come forward, and say in my location I've got 100. Now generally, because it's early days, it's within a small enough area, a small branch or unit where they actually are so visible they know all of their customers.

But across the whole system having a Net Promoter Score of, say 50, would be outstanding. You would be a market leader anywhere in the U.S. the best financial services companies tend to be in that range, and as you'll hear from Ellen and her colleagues that's the level that we're very close to.

So it's the right aspiration for us to have, to have 100s in business units. I think if you want to think about the number getting into the 50 range means that you have a very satisfied customer base, and that would be a source of competitive advantage.

The last element of it that is extremely valuable is because we're now doing it at the branch level. We can differentiate between leaders in markets and leaders in branches. And so often customer satisfaction really is a function of the leader, the environment in the branch.

And where we're seeing the biggest opportunities for gain in personal and commercial banking and where the numbers have improved, is because we're now able to go into those individual locations and diagnose what's the issue. Because what we see is a wide distribution of Net Promoter Scores, very high scores in some areas and not so high score in other areas.

The temptation might be on the part of someone leading the business to say, well it's hard, the business is hard, the market is hard. But the score now is granular enough that we can get down to the individual and sit down with them and talk about is it you have an issue, is it an environmental issue that we can correct.

So, I was operating under the assumption that all of you had a pretty clear view of NPSs, and it's our score since we use it to analyze our competition. It's not something that we want to publish the numbers around our competitors or around ourselves. But we thought the glimpse of the tool and how we're using it would be a pretty powerful example of the focus that we have on the customer.

So, I wanted to say that before we went to the next group, because both Gilles and his team, and Ellen and her team will be speaking about that loyalty measure. Thanks very much. Viki?

Viki Lazaris ***- Bank of Montreal - SVP - Investor Relations***

Great, thanks, Bill. Well as we said the next group up is our wealth management business, the Private Client Group, and I'll just turn it right over to Gilles and his team.

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

Great thanks, Viki. Good morning. And before we begin, I'd like to introduce the leadership team. To my immediate left is Dean Manjuris. He's the Vice Chairman of BMO Nesbitt Burns, the Private Client Division. Then Connie Stefankiewicz who is the President and CEO of BMO InvestorLine and Ed Legzdins, who is the Senior Vice President and Head of Retail Investments. Andrew Auerbach, Senior Vice President and Chief Operating Officer of BMO Harris Private Banking, and Terry Jenkins who is the Senior Vice President and Head of the Harris private bank in Chicago.

And also joining us today are Graham Parsons who is the Executive Vice President of Global Private Bank, and Harold Hillier, Head of BMO Asset Management. I'm going to start this morning by providing you with an overview of the Private Client Group, the wealth management capabilities and strategy. And then, I'm going to turn it over to my leadership to talk about each of their businesses and the growth strategies.

Before we start, I'd like to point out that in our slides there's a lot of detail. I think it's been a little while since we have a chance to meet the investor community, and so we provide a lot of detail. It may be actually easier to follow the slides with the booklet. But anyway, when you go back home you'll have lots of data to look at, and I think some of the stuff that you haven't seen before.

So, let me start off with speaking about the wealth management market. The wealth management market continues to be attractive, and there are significant opportunities to serve evolving client needs. We believe that this is a great industry despite the near term capital market volatility.

And we believe there's significant opportunity existing in our client base. We also believe that our service offerings positions us very well to gain new clients. As you can see in the top right box in the slide is that the wealth industry remains attractive, and wealth assets are forecasted to grow by 8.6% annually in Canada and 7% annually for North American high net growth individuals. And that's approximately twice the growth rates of the GDP.

In the bottom left box it helps to have history that the wealth is becoming increasingly concentrated in the hands of individuals who are 45 and older. And we recognize the need to leverage the retirement market opportunity.

In the bottom right box indicates that our client needs are changing and becoming more complex and require more sophisticated solutions. The boomers are driving the need for capital preservation income, and they're embracing the opportunity for advisory services and that's validated by the industry growth.

And our intent is to capture more than our fair share of the wealth market. Our leadership team will illustrate their commitment to this goal as they individually review their strategies with you. By bringing together BMO's wealth management capabilities under one team in 1999 we created a very strong platform.

This has allowed us to dedicate greater management attention to taking advantage of national synergies among the businesses, and to focus on growing the number of clients we serve, as well as increasing our client assets under management. And the result has been improved financial performance.

The Private Client Group has a diverse client base as illustrated in the slide from mass retail to ultra high net worth, as well as institutional clients across Canada and in select U.S. markets. Our businesses provide a broad offering of wealth management products and solutions, and our successful businesses represent every major part of our industry including full service and online brokerage, private banking, investment products, and asset management.

Now I'd like to take a minute just to highlight our track record of delivering strong financial performance. As you can see from this slide that our revenue CAGR for the four years ending in '07 is 9.7% in source currency. Our net income CAGR for the same period was 24.6%.

And our cash productivity has improved by 1160 basis points during the same period. And you can see that our asset under management CAGR this is our fee business, is growing by 12% a year, and our AUA by 7.5%. But we're not satisfied with a term CAGR of 1.6% and this is an opportunity for improvement and we're focusing on it.

But we've experienced a recent turnaround in term market share. Since last August, our term market share has improved by 24 basis points. PCG's contribution to the bank has grown since 2003 and we believe that PCG is very well positioned for future growth.

Since 2003, four years, we've grown our percentage of BMO Financial Group's revenue from 17% to 22%. And given the value of the wealth business we're continually targeting a larger role in BMO's portfolio. We continue to grow from a position of strength and know that BMO Nesbitt Burns' full service investing, BMO InvestorLine, BMO Harris Private Banking and our mutual funds are all performing well.

But we also recognize that Term and that the Harris Private Bank U.S. provides opportunities for improvement in growth. Terry and Ed will address some of their ongoing actions targeting these opportunities.

There's significant competition given the attractiveness of the wealth market itself. And we're competing against a complex and broad range of competitors including banks, insurance companies, foreign multi-nationals, boutiques, as well as dealing with the potential threat from non-traditional players.

As you can see from our rankings in the bottom right hand that we have well-positioned businesses roughly landing in third spot. And we continue to work on improving our current ranking, and we're confident that we can succeed.

PCG's strategy is clearly focused on ensuring that we meet the wealth needs of our clients. And core to our strategy is delivering an exceptional client experience and continuing to improve the productivity of our sales force. Our strategic priority is clear. We remain committed to five key strategic priorities. First, we will continue to focus on delivering an exceptional client experience, and driving our Net Promoter Score and our client share of wallet performance.

And we deliver this exceptional client experience by differentiating in things like advice based financial planning, and on the breadth of our customer solutions. And we know that we're succeeding in our efforts. For example, we see very high client satisfaction reviews at both BMO Nesbitt Burns and BMO Harris Private Banking. We've received numerous accolades at BMO InvestorLine, and BMO Mutual Funds is one that has won the DALBAR Service Award for the past two years.

Second, we concentrate on providing best-in-class wealth management solutions, with a focus on helping our clients invest and plan for their retirement years. For example, over the years we've launched very successful managed asset programs, and more recently we launched several innovative life cycle funds. We believe that these types of solutions are valuable to our client, and they're aligned to their changing needs.

Third, we've expanded our sales force and we've improved our productivity by doing things like focusing on enhancing sales capabilities, and reducing their administrative burden so they can spend more time providing advice to clients. This is a large source of leverage for us, and something that we've been focusing on for the last couple of years.

Fourth, we're going to enhance our business models and invest selectively to create incremental value. We've removed significant cost in our business, and as a result we've experienced a substantial improvement in our cash productivity. We continue to ensure we capitalize on synergies, most recently with the merger of our GGOF and BMO Mutual Fund management.

And finally, we continue to build a culture of innovation to meet our client's evolving needs. We know that innovation is critical for the future. And highlighted at the bottom of the slide we've chosen to differentiate ourselves on three capabilities.

First, we'll deliver an exceptional client experience. As you've heard today from my colleagues, an exceptional customer experience is a core focus for us at BMO and it's no different in PCG. We believe this is one of our key differentiators and we're building from a position of strength, and we continue to be well-positioned for future growth.

Second, we see collaboration both within PCG, and more importantly, with P&C in Canada and in the U.S. as being a crucial differentiator and a key part of our future success. PCG has a long and proven track record of collaboration within BMO, and we plan to continue to build on this strength.

The true integration of wealth and retail banking is unique, and we believe that we're leaders in this area. For example, we have Nesbitt Burns resident investment advisors in many of our branches across Canada, and we have private bankers co-located with our commercial and corporate bankers.

But the product that's even more exciting for BMO is the collaboration with P&C and the tremendous opportunities in the U.S. As you'll hear from Terry Jenkins and Ellen Costello, it's one that we're aggressively pursuing. Through our strong U.S. branch network, our powerful brand, and our capital markets relationship, we have access to a huge base of attractive wealth customers.

And the collaboration both in Canada and the U.S. drives significant benefits for both P&C and PCG. And finally, we'll attract, develop and retain superior talent. We have a number of initiatives underway to ensure that we can attract and retain superior talent to our organization, given the intense war on talent.

In summary, I'd like to highlight a few points on the critical role that PCG must play in the success of BMO Financial Group. Given its importance to our portfolio, full service investing must continue to focus on growing assets by being run effectively, and by increasing the productivity of its sales force.

We must continue to leverage our BMO InvestorLine platform and brand by focusing on cross-selling other BMO products and services, and by continuing to increase referrals. Given the importance to both P&C and PCG, we must continue to increase our share of our retail business by better leveraging our proprietary distribution channels and expanding our branch-based sales team.

We must continue to grow our Term business so it can reach its full potential, and primarily by better managing term maturities. We must continue to build on the success of BMO Harris Private Banking and their success in collaborating across BMO. And finally, we must take advantage of the tremendous U.S. wealth opportunities by leveraging the strong client relationships within our U.S. branch system.

I'd now like to turn it over to our leadership team to talk about their businesses and their strategies for growth, and we'll start with BMO Nesbitt Burns full service investing and Dean Manjuris. Dean?

Dean Manjuris ***- BMO Financial Group - Vice Chairman, Private Client Division***

Great, thank you, Gilles. Good morning, everybody. What I'd like to do today is provide you with a quick update on the Private Client Division, and then conclude with some thoughts on the business going forward. We were a strong, proud and determined organization with deep roots in the financial services industry. We have our sights firmly set on being number one in North America in investment advisor productivity as measured by the annual Boston Consulting Group Benchmarking Study.

But at its core our business is really one of relationships. It's relationships that our investor advisors have with our clients. And as the clients needs change the role of the advisor has changed over time as well, one from being focused on investments, which is the traditional stockbroker role, to one of being really a financial quarterback for the client.

And, why is that? Because we have the unmatched capability to bring the power of the BMO Financial Group to support our client evolving needs, whether it's locating loans officers visiting in our BMO Nesbitt Burns branches, or as Gilles was saying, it's physically locating investment advisors in our bank branches. Or, maybe it's locating investor advisors in our BMO Harris Private Banking offices, or working with Private Banking via deal teams to bring customized solutions for the high net worth markets.

From a P&C perspective, this allows us to bring our clients mortgages, lines of credit, banking for small business, credit cards et cetera. This, combined with leveraging our top ranked research, a broad array of products and services primarily our managed asset business, and one particular type of account in the managed assets businesses, architect, which is unified managed accounts, the only one in Canada, and it's one of the very few in North America, and by leveraging our technology platform.

It's the only one in Canada, and one of about 65 worldwide that's received the CMMI Level 4 accreditation for technology development standard issued by the Carnegie Mellon Institute which means that we've got a full suite of answers for our clients.

So, what's the result of that? Very high client satisfaction levels. In fact, of the 18 categories that measure client satisfaction, we rank number one amongst our competitors in nine of them. Focusing on the client has resulted in a strong P&L. The Private Client Division has the highest pretax operating margin in Canada.

Also contributing to our strong P&L is our healthy recurring revenue, which was 57% for fiscal '07, and for the first quarter of this year has moved to 62%, primarily coming from our strong managed asset and fee businesses. We've continued to grow our sales force. In fiscal '07, we became the second largest sales force in Canada, and although we ranked number three in assets, our market share amongst the top five still continues to be at 20%.

Going forward, we've made strategic investments in growing our sales force and enhancing technology. Technology helps us improve the knowledge that we have of our clients, and as Gilles was saying, it also helps enable our IAs to become more productive by eliminating manual process that will free up their valuable time.

As an example, putting a simple link to research in our retail information system, which in itself is unique on the Street, has helped our IA save about ten minutes per client discussion. This in turn, should help them manage more clients and more assets going forward.

We're also focused on continuing to grow our sales force through active recruitment and new and experienced IAs. In fact, we recently hired the person who many considered to be the top recruiter on the Street to help us drive this. In summary, ours is a story of growth which is accomplished by leveraging our leading edge client offerings, our strategic capabilities, our strong P&L, and our growing sales force.

So now, I'd like to turn it over to Connie Stefankiewicz, President and CEO of InvestorLine.

Connie Stefankiewicz *- BMO Financial Group - President and CEO, InvestorLine*

Thanks, Dean. Good morning, everyone. As you can see from my slide at InvestorLine we're focused on proactively helping our clients to be financially successful. This is a lens that we use when we're looking at enhancements to our website, changes in our call centers, so really anything that we do. And this is something that appears to have been noticed by our clients. Our client satisfaction scores are very high.

In fact, in two independent surveys that were done at the end of 2007 by Ipsos Reid and Phase 5 we had the highest client satisfaction scores in the industry. In fact, the Ipsos Reid report went onto to say that, and I quote, "BMO InvestorLine leads all major online brokerages as most stable to meet client needs." This focus on our clients has helped us to grow the business in terms of both assets and profitability.

And despite what has been quite aggressive and intensive pricing pressure, which have seen average commissions in the industry drop by 50% between December '05 and December '07, our revenue growth has had a CAGR of 11% over the past four years, and almost 16% over the past two years.

This is driven by increased assets, higher trading volumes, and spread revenues. Our assets have grown at 19% CAGR, and this has translated into increased market share over the period. And despite the current market conditions this momentum has continued into fiscal '08. In fact, we had the strongest RSP season since 2001 as measured by new accounts in this past year.

Our focus is on maintaining this momentum and continuing to grow our market share. So we continue to invest in the business. According to Gomez we have the fastest online broker's website in Canada. And while speed is obviously important in the online channel, it's also important that our website is effective and meets the needs of our clients.

And so, to that end, we continue to enhance the functionality and the services that we provide on our website. Later this year we are going to be introducing portal technology, which will provide the foundation for us to build unique client experiences for different types of investors, and ultimately it will give your clients the opportunity to customize their online experience.

The goal of this is to simplify the online experience for our clients. Now our client database and MyLink, which we introduced in the fall of last year, give us a unique ability to better understand our clients and their needs. With MyLink, we can actually send out targeted personal messages to our clients to better inform them about their portfolio and their holdings. We think this will help them to be more successful investors, that it will increase their confidence, and ultimately, it will increase their overall satisfaction with us.

And by targeting clients based on the information that we have on them in our client database, we can intelligently cross sell other BMO products and services using the online channel. And while over 90% of our client contact is through the online channel, personal support remains critical. So we've ensured that we have adequate staffing in our call centers to minimize client wait times, which is a key client dissatisfier, and also to ensure an exceptional experience when they do call.

All of our call center agents have received sales training, and they proactively look for opportunities to talk to clients about consolidating assets with us, or when a need is identified, to refer that client to one of our partners to solve that need for that client. Now new business comes to us from many sources. The P&C retail channels continue to be very important to us.

Our collaboration with P&C, and in particular, our integrated sales and marketing strategy seem to be working, as we have strong referrals from the branches. And we're also seeing strong new account growth coming directly from our online advertising. In the last year, we've run several Mosaik MasterCard, AIRMILES promotions, which has driven net new business both Mosaik MasterCard and to BMO InvestorLine, and we plan to do more of these.

And leveraging the fact that the Phase 5 report indicated that our clients are the most likely to refer in the industry. We're going to be launching an ongoing refer-a-friend program later this month. So in closing, our focus remains on delivering an exceptional client experience and continuing to grow the business by increasing the share of wallet with our existing clients, as well as attracting new clients to the organization.

And with that, I will turn it over to my partner, Ed Legzdins, who is the Head of Retail Investments.

Ed Legzdins - ***BMO Financial Group - SVP and Head of Retail Investments***

Thank you, Connie, and good morning, everybody. The Retail Investments line of business consists of mutual funds, term deposits and the program management for the financial planners that are resident in branches of personal and commercial banking Canada. BMO Mutual Fund are sold primarily through branches of P&C Canada and GGOF, or the Guardian Group of Funds are distributed primarily through third-party advisory channels and in particular IDA firms.

We purchased GGOF in 2001 for $187 million, when it had assets under management of about $2 billion. Today GGOF has AUM of $5.5 billion, so clearly this has been a very successful acquisition for us. Over the past five years, BMO's mutual fund AUM and industry market share growth, including both BMO Mutual Fund and GGOF, have been significant.

AUM increased by $20.2 billion to $37 billion, and market share went up 98 basis points to 5.46% of industry assets. Compared to the other Big Five banks this ranks a very solid second behind only RBC. That growth was due to growth in the size and productivity of the financial planners in the P&C Canada branch network, innovative and timely products, and very good investment performance.

It is also due to the excellent collaboration between P&C Canada and PCG. I sit on Frank Techar's leadership committee for P&C Canada representing all of the PCG businesses, so I've been able to have input to the development of the P&C Canada strategic agenda and its prioritization.

A key element of that agenda is the importance of the specialist investment sales force, the financial planners' retirement and investment planning. This network has grown to approximately 700 professionals over the past seven years. Our objective is to continue to enhance our financial planning capabilities by broadening the scope of the conversation our financial planning professionals can have with our customers.

We also intend to continue to expand our network of financial planners, which has increased by about 85 professionals since the last Investor Day in December of 2006. Our key mutual fund distribution priority has been and continues to be our proprietary branch channel. The branch-based advice channel is projected to be the fastest growing channel to 2016. This is why expanding our network of financial planners is a high priority.

While expanding the mutual fund share of wallet we have with our branch-based customers is our highest priority, our second major priority is achieving greater presence in the third-party advisory channel, that is, selling mutual funds through IDA and MFDA advisors.

Recognizing that scale is planning an increasing role in how mutual fund companies can compete, we recently brought BMO Mutual Funds and GGOF under common management. The realized synergies will enable us to be a stronger competitor, particularly in the highly competitive third-party advisor channel.

This distribution channel, while not having the projected growth rates of the branch advisory channel to 2016, is projected to continue to be a dominant one for the mutual fund industry. Today the IDA and MFDA advisor distribution channels account for approximately 64% of the mutual fund industry's AUM. GGOF has significant penetration in the IDA adviser channel, though the breadth and size of GGOF product owned in this channel represents an area for improvement.

GGOF has lower penetration in the MFDA adviser channel, which we aim to increase by offering a broader array of products and services that we feel will be particularly attracted to this channel. Now let me now turn to the term deposit business, obviously a very important business for BMO.

This is a business that hasn't grown market share like the mutual fund business has. In fact, the Term business has lost about 100 basis points market share over the last five years, but as Gilles mentioned, market share has increased by 24 basis points since August of 2007. We are pursuing four initiatives to grow this market share and realize the full potential of this business.

First, a renewed emphasis on the management of term deposit maturities. We are changing our processes to ensure that we better engage all of our clients prior to the maturity of their term deposits to increase our retention of their business.

Second, our branch-based general sales force is critical to the growth of our term deposit business. Over the past few years, they have relied more on the financial planners to conduct invest including term deposit, discussions, and transactions. We are working to reengage the general sales force in simpler term deposit, as well as mutual fund transactions with our customers.

Third, we have a very broad range of term deposit solutions for our customers needs, perhaps too broad for our general sales force to properly position to their customers. We will be narrowing the product array available to our general sales force to enable them to better meet our customers' needs.

And fourthly, we have done a detailed review of our operating processes and supporting technology and have identified numerous areas where improvements are required. We will be prioritizing our ongoing investments to improve these processes to enhance the customer experience to increase capacity in our front-line sales force and to decrease errors and delays.

Finally, some of you know that we have an investment in a Chinese fund management company. In fact we were the first foreign financial institution to purchase an equity stake, currently around 28% in one of the original ten mutual fund companies in China, Fullgoal Fund Management of Shanghai. At the time Fullgoal had AUM of less than CAD$1 Billion. Today its AUM is just under CAD$10 billion, and we're broadening the cooperation between Fullgoal and BMO's capabilities in North America.

Furthermore, given how important personal relationships are in China, we have developed significant relationships through our Fullgoal investment and its ongoing governance that have been, and we think will continue to be important sources of opportunities for BMO Financial Group in the Chinese marketplace.

So in summary, Retail Investments in collaboration with P&C Canada is well-positioned to continue to expand its Mutual Fund business in both our proprietary and third-party advisory channels, and to grow our term deposit market share. I will now pass it over to Andrew Auerbach, Chief Operating Officer of BMO Harris Private Banking.

Andrew Auerbach ***- BMO Financial Group - SVP and COO, BMO Harris Private Banking***

Thank you, Ed. Good morning. I'm pleased to be with you and talk about the strategy and direction of BMO Harris Private Banking. Let me start by talking about our strong market position. As you can see in the competitive position section, BMO Harris Private Banking is the fastest growing investment counsel firm in Canada based on the most recent market share data with the largest absolute dollar growth of any investment counsel firm.

As at December 31, we are the second largest investment counsel firm in Canada improving by one position. During this period, our market share improved by 79 basis points, and our market position strengthened to 7.97%. As you could see our compounded growth rate is 14% for revenue growth and 21% for assets. These are large numbers, and see significant growth opportunities ahead for us in the business.

There are tremendous growth opportunities in the high net worth and ultra high net worth spaces in Canada. These marketplaces are extremely attractive and forecasted to grow dramatically over the next ten years. On the wealth side, it's estimated that $1.6 trillion of wealth is concentrated in households, with $1 million or more in assets. Over the next ten years, the forecast is this will grow to $4 trillion in wealth assets.

BMO Harris Private Banking has been successful, executing as a business focused exclusively in the high net worth and ultra high net worth segments. Our professionals are entirely immersed in this space, and our solutions and approach are tailored directly to this market. This allows us to continually build our expertise in this high specialized area.

Our clients come to us looking for solutions. These are individuals and families that have accumulated significant wealth and wealth can create complexity. I'll take you through our strategy, and how we've been able to achieve the level of success I've described in the past, but more importantly, how we're positioning our business to grow in the future.

Our strategy is centered around delivering an exceptional client experience in the high net worth and ultra high net worth marketplace. We're implementing our strategy in three key ways. First, delivering planning solutions and capabilities that meet and exceed the needs of the high net worth and ultra high net worth marketplace.

Secondly, attracting and retaining the very best talent in the marketplace. And finally, working across the bank to add value to clients that we are introduced to, and providing solutions across BMO.

So let's start by talking about delivering planning solutions and capabilities that meet the needs of the high net worth marketplace. As Gilles spoke about earlier we exemplified the integration of wealth and banking services in a seamless way. The professionals that I've described are at the top of their field in delivering private banking, investment management, estate and trust, tax planning, philanthropic expertise and business succession planning.

Our VP of Business Succession Planning, Sean Foran has just released a book on this topic. We are seeing an increasing number of business owners selling businesses and this is creating significant liquidity events as a result. We have specialized expertise in business succession planning that allows us to work with clients years before the business is sold. Our value in developing the plan is an example of how we can differentiate ourselves in the marketplace.

So our strong advice-based planning capabilities are a key to our success and future growth strategies. The second key area of focus for us is the need to recruit and develop talent. You'll see in the strategies section that recruiting and retaining top professionals is a priority for us. The key to success in our space is the quality of the professionals in the business focusing on delivering an exceptional client experience.

The most important part of our roles is making an emotional connection with our clients that allow us to build and deepen the relationship over time. We recruit and retain the very best professionals in our space. We run our business in a way that ensures that our professionals actively participate in shaping the direction of our business.

This ensures a high level of engagement with our employees in this highly competitive talent landscape. In addition, we've developed a professionals' development program and have made significant investments in this program, to ensure that professionals joining our business are provided a rigorous orientation and training program that not only covers technical competencies to our profession, but also has a number of modules that orient professionals to our unique approach to the marketplace.

The final component of our strategy is around providing an exceptional client experience by assisting clients with products and services across BMO. As I've highlighted the high net worth marketplace is highly concentrated, and we grow our business extensively by working with our partners.

In Personal and Commercial, for example, we work closely with Frank's teams across the country to provide a private banking capability to clients. We're co-located in numerous offices with the commercial bank and corporate finance divisions coast to coast.

Within the Private Client Group, as you've heard already, we work closely with all businesses. As I've described to you the Private Bank has broad capabilities in numerous disciplines, and we are able to deliver capabilities that enhance and broaden the client experience working with other Private Client Group businesses.

We're very excited about the future potential and strategy for the private bank in Canada, and we have confidence in our strategy and approach. I'll now turn it over to Terry Jenkins, Head of Harris Private Bank.

Terry Jenkins *- BMO Financial Group - SVP and Head of Harris Private Bank, U.S.*

Great. Thanks, Andrew. Good morning, everyone. You'll see from the strategy overview on the screen that the private bank in the U.S. goes to market on a client segment basis. Essentially, we serve clients in the mass affluent, the high net worth, and the ultra high net worth segments.

As you've heard from Andrew about the Canadian private bank, we too at Harris Private Bank are an integrated business comprising banking, investment management and trust services, along with in the U.S. a multi-family office capability delivered through our Harris myCFO platform.

We've got a footprint in 12 wealth markets in the U.S. delivered through 26 locations in states such as Florida, Arizona, California, Washington, to name a few. As you can see from our annual growth rates we've had positive growth in the asset management businesses with growth of approximately 12%. But our overall revenue growth is clearly not at the levels that we want or we expect in this business.

Historically, we've made good progress managing costs carefully in this business while still investing in our platform and our distribution. And now that we have these in place our focus is squarely on growing the top-line and improving revenue growth.

We've had good success with our ultra high net worth segment with our Harris myCFO, where we now have in the U.S. a very competitive multi-family office platform that serves U.S. families with net worths greater than $100 million from seven offices across the country and through 150 professionals. This business is growing quickly, and delivering double-digit revenue growth for us.

To address the revenue growth opportunities in the business more broadly, we've identified four key drivers for this business. First, as you've heard from just about all of my colleagues in the PCG businesses, our client experience is very important to our success. We in the U.S. private bank have moved to an advisory model, and in the last year alone have added 25 CFPs and CPAs either through new hires or new employee designations.

Second, as Gilles highlighted earlier on for PCG overall, sales and distribution with a particular focus on productivity is fundamental to our success. In the last 12 months we've put an increased emphasis on our sales and our sales management skills.

This, combined with the work on client experience that I touched on earlier, has led to improved sales force productivity for us of 60% year-to-date '08 versus the same time period in '07. We still opportunities, however, to take advantage of improving our sales force productivity.

Over the next 18 months, with a continued focus on this area and the progress we're making on our new initiatives, we're confident that we will continue this positive trend. In addition to improving sales force productivity, we're selectively adding advisers to our network and leveraging primary growth opportunities.

Thirdly, from the slide, our most significant opportunity, in my view, is leveraging our partnerships with the community bank and with BMO Capital Markets in the U.S. Those of you familiar with the Harris history know that we have a strong legacy in the wealth business in the U.S. In the last 12 months we've completed a full review of all of our wealth businesses and we've prioritized our opportunities for growth.

We've identified six priority markets and 23 submarkets in the Chicago land area where our community bank has an overweighted share of affluent and high net worth clients. These branches range from having clients numbering 20% of their base to 70 plus percent of their base falling into the affluent and high net worth segments.

To take advantage of this opportunity we work in close partnership with our colleagues at capital markets and with Ellen and her team in the community bank. We've added a new wholesale sales force dedicated exclusively to leveraging the opportunity to convert clients to our wealth offerings. For the first four months of this year as a benchmark we've seen closed referrals increase close to 20% year-over-year.

And fourth, much along the lines of Andrew's comments, we continue to focus on attracting and retaining the very best people and advisers to our business. We have made some excellent additions to our team over the last 24 months. And when one is building out and advisory model, as we all know intuitively, the quality of our people is paramount to our business.

And we recognize that increasingly in our industry we compete for people as much as we compete for clients. So in summary, when you take the four key initiatives for growth that I've discussed building out our advisory based client experience, number two, a strong focus on our sales and our distribution skills.

Number three, the partnership with Ellen and her team and our capital markets colleagues, and number four continued focus on attracting and retaining the very best people, I'm confident that we're on track for substantial growth in the wealth businesses in the U.S. Thanks for listening, and I will turn it back to Gilles.

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

Thanks, Terry. We believe we've got great businesses with BMO Nesbitt Burns, BMO InvestorLine, BMO Mutual Funds, and BMO Harris Private Banking. And we have opportunities to improve the Term and the Harris Private Bank businesses. We're confident we have the right team, and all are well-positioned to continue to deliver strong results.

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

Great, thank you, Gilles. Can we just open it up now for questions on the floor.

QUESTION AND ANSWER

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

Okay a question here.

John Aiken *- Dundee Capital Markets - Analyst*

Thanks, John Aiken, Dundee Capital Markets. First a quick question for Ed. You talked about projections for the Mutual Fund growth rates through 2016 are different between the branch and the third-party networks. So are you uncomfortable telling us what those growth estimates are?

Ed Legzdins *- BMO Financial Group - SVP and Head of Retail Investments*

More the order of magnitude, so I would say that the growth rate for the branch advice model is about a third higher than it is for the third party advisory channels. However, as I mentioned the biggest pool of mutual fund assets currently exists in the IDA and MFDA channels so those pools even at a lower rate are going to be very, very important channels going forward. So both channels are very important to us and that's what I was trying to get across.

John Aiken *- Dundee Capital Markets - Analyst*

And just secondly for Dean sales force growth I have to assume is very difficult in terms of the competitive environment. How did you differentiate your offering, and what is costing you to bring people on board on an ongoing basis?

Dean Manjuris *- BMO Financial Group - Vice Chairman, Private Client Division*

Recruiting, like recruiting for everybody else and probably most businesses it's difficult. So we've -- that was the point behind hiring the person that many considered to be the top recruiter on the Street to really drive that effort.

And then underneath that, we've instituted certain incentives in place in our branch system, and we actually have incentives for people who refer people within the organization and who refer people that we would like to hire in place. So the flow of people has been pretty good although it's very tough. The second part of your question was again -- can you repeat the second?

John Aiken *- Dundee Capital Markets - Analyst*

What it actually costs you?

Dean Manjuris *- BMO Financial Group - Vice Chairman, Private Client Division*

Oh the cost. The cost, yes the marketplace I think we're lucky to be in Canada and not in the United States where the recruiting costs are amazing. But we've chosen actually not to pay at say, the going rate in the marketplace. We've chosen to compete on our platform, the value we bring to the client base and to the culture that we provide in a working environment for the investment advisors. So we've chosen to compete on things like the number one ranked research.

So if we're bringing in investment advisors, trying to bring an investment advisor over that's one clear thing that they can demonstrate to their clients is a benefit for them moving over what anybody else has. The value of, that's why I was using words like the strong, proud and determined organization sets sights on becoming number one.

And we will take them through what all that means, how we will work with them, what that means for their client base, what that means for their business plan, what that means in working and collaborating with everybody else in the BMO Financial Group.

And then lastly, this thing about culture where it's not just a caring culture or a culture where we try and have fun but it's a culture that demands success. And we impose the desire on ourselves to become number one, and by osmosis we impose that on each other and we measure that -- we measure that all of over the place.

I used the term -- when I was in Ottawa a couple of weeks ago I said, I said, we don't wake up in the morning thinking we're going to be the Toronto Maple Leafs. We wake up in the morning thinking we're going to be the Montreal Canadiens or the Detroit Red Wings. I think that's kind of sums it up there.

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

Great thank you. Next question here.

Michael Goldberg *- Desjardins Securities - Analyst*

Michael Goldberg, Desjardins Securities. I have a couple of questions. I haven't heard the word insurance in any of the PCG presentations including products that are aimed to deal with longevity risk. Can you discuss the current role of insurance and your objectives, and do you need more resources in this area?

And secondly, with respect to term product I've never seen term deposits as really being a high margin product. Is the objective here aimed at insuring appropriate matching with term assets more than just the growing share of the product itself?

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

Yes, Dean will take the insurance question because our insurance executives reside in the Private Client Division.

Dean Manjuris *- BMO Financial Group - Vice Chairman, Private Client Division*

Yes, the insurance business when I talked about our recurring revenue and recurring revenue being strong because our managed assets and our fee businesses insurance would fall under the fee business.

Right now it's a small but growing component of the Private Client Division, and in fiscal '07 the revenue probably grew 20%. We've targeted higher growth rates for this year, and we've structured around statement and insurance advisors that we have located in major centers across Canada.

And their role is to work with the investment advisors in a planning process, primarily a state planning process. So it's not about being out there selling seg funds and all that sort of stuff. It's about augmenting the role this financial quarterback role that IA plays with the clients. And we found that doing that has accomplished two things.

One is that it has helped them bring new assets into the firm as a result of that. And the second thing that we've seen happen as a result is that the average commission ticket generated by our insurance advisors is about twice the average on the Street.

Ed Legzdins ***- BMO Financial Group - SVP and Head of Retail Investments***

You know on the term side there's a couple of aspects. Certainly it is a very important product to fund the balance sheet, the asset side of the balance sheet, so that for sure is an important role that term products play. But they also generate pretty steady revenues and net margins -- particularly in market downturns.

So where a number of our businesses, certainly the Mutual Fund businesses are negatively impacted when markets go south often you looked at a Term business to pick up and in fact that's what's happened for us over the past half year or so.

So not only have the balances substantially increased but as we've mentioned our market share there has increased. In terms of the margin on the Term business certainly it is less than the overall margin on the entire mutual fund book. That is you look at comparable mutual fund products to term products like money market products the margins are kind of in the ball park so it's kind awash in terms of margin.

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

Michael, the only other thing I'd add to the insurance question is that this is a business that we've been in for 14 and 15 years -- we've been in this business for a long time. But it's only in the last couple of years that we've developed some traction.

I mean, this is -- we've always in the Private Client Division focused as Dean mentioned the IA is a financial quarterback. But insurance is something that -- that's in spite of the fact that we probably have, what's a number, maybe half of the IAs who are licensed?

Dean Manjuris ***- BMO Financial Group - Vice Chairman, Private Client Division***

Correct.

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

Probably half of the IAs are licensed. Insurance has been a tough thing for them to get their heads around, and the organization's structure around insurance has evolved over time. So now we think that we've got finally -- we think we've got a model that's developing traction. But there's a natural complement to our -- to our other business.

Unidentified Company Representative ***- BMO Financial Group -***

This is the same thing that happened with the managed asset business way back when, when we first came out. It took -- we were one of the first on the streets with that. It took -- it's only in the last six or seven years that the managed asset business in Canada has really grown and it looks like insurance is taking on that same kind of track.

Viki Lazaris ***- Bank of Montreal - SVP - Investor Relations***

Great. Thank you. Next question, Andre?

Andre Hardy – *RBC Capital Markets - analyst*

Thank you. Gilles I don't know if you've done this exercise, but can share with us if you have the sensitivity to equity market levels i.e. if they're up or down 10% what that does to fee revenues and then Dean's business on the commission activity? And you're in a business with a lot of variable cost so how much of the revenue increase or decrease would be offset by changes in compensation?

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

Yes, our market -- our business is very influenced obviously by the vagaries of the market. I mean our revenues are all based to either function of fees, transactions, or spread. And over time the fee business has represented a larger and larger part. I mean, we've got the Mutual Fund business they're all based on fees.

The Private Banking business are all fees. And now as Dean mentioned from what we've ten years ago maybe 10% of our revenues would be fee business or recurring business and PCD it's now up to 57% and now more recently 62%.

So obviously the volatility of the market has a big impact on it. Now the other thing too is that when the markets come off transaction volumes tended to dry up and that will impact the other 40% of the PCG but also InvestorLine. And in terms of PCG the variability is something in the order of about 40%.

And the reason for that is because PCD represents something like 48% of the revenue stream in the Private Client Group. And so we're heavily weighted towards the Private Client Division and as you know the variable tails in that business when you include IA compensation and manager's compensation et cetera it can be something like 55%. It's around -- for PCG it's around 40%.

Andre Hardy – *RBC Capital Markets - analyst*

Thanks.

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

Another question? Right there, Sumit?

Sumit Malhotra *- Merrill Lynch - Analyst*

Sumit Malhotra, Merrill Lynch. First for Ed. You referenced a few times the market share gains you've made in term deposits over the last year. Can you compare that or contrast that to what's happening on the long-term side of the business, long-term assets invested? And for Gilles small acquisition in the UK last year on the manufacturing side of the business. What's BMO's appetite right here where evaluations haven't come in, in asset management names?

Ed Legzdins *- BMO Financial Group - SVP and Head of Retail Investments*

Okay just to clarify the question, you're asking the term market share, and short term versus long term?

Sumit Malhotra *- Merrill Lynch - Analyst*

Or comparing that to some of the higher margin equity fixed income products that PCG manages as well and some of the gains in term, kind at the expense of those businesses?

Ed Legzdins *- BMO Financial Group - SVP and Head of Retail Investments*

Okay so first let me talk about Mutual Funds and Term. So on the fund side I talked about our long-term track record and building market share. Over the last few months we've lost market share on the Mutual Funds side and that's primarily because we've had a long-term focus on long-term solutions, which benefits our clients, it benefits us from a revenue perspective. It benefits us from markets arising in terms of market share gains and revenue growth.

However, when the market turned south it hurts us and that's really what's happened. Some of our competitors have sold a lot of money market funds and have retained market share there. Those same competitors have lost market share on the term side so our view has been we would rather keep focusing on selling long-term mutual fund solutions and to the extent people are more cautious and would like to move to something that's safer sell a deposit product of one form or another.

Our competitors like to stay and sell money market funds. So what we've seen is a significant increase in term balances and growth in term market share over the past several months and the competitors that have been selling money funds have seen a pretty significant deterioration in their term market share.

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

With respect to M&A we're constantly looking -- we have a very active M&A team. But it's very difficult to find properties not so much -- I mean the prices are high. It's not so much the prices. But for us if we're going to make an acquisition there has to be synergies. Because in today's prices I mean you're giving away a lot of the kind of visible synergies when you're buying those and so you have to be able to add something else.

And Pyrford was very interesting for us. We recognized a need for international money management going back about a year and we actively started looking for that. Because we have a distribution that's growing very rapidly and our books, our asset book is about the representation of international assets in our book is about half of the national average.

So we saw the next few years that our distribution is likely going to double. And the international component of this is going to double again. So it was an enormous opportunity. They had a fantastic track record and even the fact that it just closed at the end of December and already we're starting to do some business, the rest of our distribution is trying to do some business with them.

They're extremely well received. So the acquisitions that we want to do all kind of follow that pattern. And if you look around in Canada and a lot of the businesses that we're in I mean it's very difficult to find prospects.

In the U.S. we're currently out of the five businesses we're currently in two businesses. We're in private banking and we're in asset management. There may be opportunities in asset management. I think that -- and we're obviously looking at our experience with Pyrford very, very carefully to see what's happening to -- obviously to the retention of the clients and obviously the retention of the employees. And certainly after four months it's been a great experience.

Private banking is something that we would looking at closely in the U.S. but a lot of the sizable acquisitions, the potential acquisitions, I mean they're all parts of other large banks and they like this business as we much as we do. And so, we are looking at small acquisitions and the most recent ones have been two years ago when we bought myCFO, which gave us capability at the very high end. And that's been enormously successful.

I mean they've been growing as Terry mentioned they've been growing their revenues very, very rapidly. But we are looking aggressively but it's very difficult to find candidates where we would be able to add additional value to make the price worthwhile.

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

Great, thank you. We have time for one more question if there's another question here.

(BREAK)

PRESENTATION

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

Okay I think we can get started again. So now I'd like to introduce Ellen Costello and her team for BMO's Personal & Commercial Business in the United States. So over to you, Ellen.

Ellen Costello *- BMO Financial Group - CEO, Harris Bancorp, Inc.*

Thanks, Viki. Good morning, everyone. First, I'd like to start by introducing the members of the U.S. P&C team that are here with me today. To my left I have Ray Whitacre SVP and Head of our fast-growing Middle Market business segment. Beside Ray is Julie Curran who is SVP and Head of our Retail West district. She's leading our businesses from cities like Naperville, you may have heard or visited, as far north as Schaumburg.

And her partner, Abby Fredrick head of sales for Retail and Micro business supporting all of our five districts. Peter McNitt, Vice Chair and head of Business Banking overall, a very important segment for us. And Pam Salaway, Senior Vice President and our Chief Risk Officer, who is here for some questions that you might have today. We are really pleased to be here to speak to you about our business. I'll start with an overview and then turn things over to Julie and Ray.

Today I will address four things. First, the environment and market opportunities we face, progress on the priorities we outlined at our Investor Day in 2006, including some actions that we've taken in response to the current market environment, U.S. growth potential and how we are executing on our strategies to drive results. Let me start with a quick look at the marketplace.

We truly have some interesting dynamics in our market. We have consolidation with BofA and LaSalle, National City and Mid-America and possibly more to come. We have impact from the credit environment and the economy, and the real estate market with the Chicago housing market performing better than other regions in the country. To us, these factors present tremendous growth opportunity.

Given the state of the economy, I thought I would touch on our credit quality just to start off. You'll see that we are well positioned for these opportunities. The quality of our credit portfolio is strong. In Personal, we have loss rates at approximately half our peer group.

And as we've mentioned in the past, we did not originate subprime mortgages and our portfolio has very little exposure with subprime characteristics. In Commercial, we expect to perform better than peers with the real estate impact currently limited to housing construction.

When we met in December 2006 I spoke about three things, improving our financial performance, continuing to grow and capitalizing on our strengths. Regarding financial performance, we have focused on actively managing expenses as margin pressure impacted revenue.

We've done this by a careful assessment of returns on any spending we have across all of our categories, selective hiring and aggressive performance management on the bottom 10% of the workforce. These resulted in a 4% workforce reduction and overall good expense management.

We've slowed de novo branch growth. We expect to open seven new branches over the next three years, from 2007 to 2009, and that contrasts with 26 branches over the prior four years. We shifted to faster return investments such as acquisitions which have been accretive after 12 months, or business bankers who break even after 18 months versus branches who normally take up to three and four years.

And importantly, we've instilled a performance focus in everything we do. In 2007, we differentiated compensation for results versus activities and we engaged our frontline and support partners in driving our business together. Our numbers are not where we want them to be but, as you'll hear from Julie and Ray, our leading indicators are encouraging. I am confident we are well positioned for improved performance as we emerge from the current economic environment.

Turning to growth, since our last meeting we completed the smooth conversion of First National Bank and Trust in Central Indiana. We've achieved the run rate expense synergies that we expected, and we reduced overall integration costs by over 20% from our original estimates. We also expanded into Wisconsin.

We are now the sixth largest bank in Milwaukee and we plan conversion later on this year. The three transactions combined added $3.3 billion in assets, and $2.6 billion in deposits, bringing us to more than 270 locations now in three states, and to nearly 1.2 million customers. This also again demonstrates our ability to successfully acquire and convert franchises to our platform.

Thirdly capitalizing on our strengths, we introduced our Winning Edge program which Julie will discuss in detail. This better aligned our leadership roles and geographic distribution. Winning Edge also placed a greater emphasis on improved performance management and individual accountability for results.

It leverages an already strong customer experience. Our promoter scores that Bill and Frank both spoke about continue to be higher than network banks such as Chase. For example, in 2007 our retail Net Promoter Score was 41% versus the average for the network banks at 26% and the community banks at 49%. And we've been investing selectively where we're strong. Ray will speak about expanding our Mid-Market sales force.

We also added mortgage originators to capture the market opportunity. Our mortgage volumes were up 37% at a time when the overall market is down 22%. And we're increasing marketing spend to drive new customer acquisition. All of these are in line with our strategy and take advantage of the unique market opportunity that we face.

I thought I'd touch on U.S. growth potential for us. The Midwest has a highly diversified economy with MSA is generating positive growth on average in a less consolidated market which provides us with growth opportunities. So the Midwest continues to be the center point of our U.S. business.

Our acquisition strategy is a key priority and we are an acquirer of choice because of our community banking strategy and our approach of valuing the customers, the expertise and the market presence we gain. We believe with the current environment there will be more opportunities and at better prices than in the past, and we're monitoring these very closely.

Turning to our strategy, let me update you on where we are. And this is really at the bottom of that slide. These priorities focus on a multi-channel customer experience, you heard a bit about that from Maurice and P&C Canada, our wealth offering in partnership with the private bank, building a leading position for our business bank, expanding our distribution network and improving productivity through a strong performance culture.

Starting with multi-channel, we are anticipating and taking actions to adapt to customers changing channel preferences. Why is this important? Well almost three quarters of routine transactions were done in branches in 2000. By 2010 it's expected that this will be less than one third. Not surprisingly, the use of online and ATMs has been increasing.

And for sales, by 2010 we expect about one third of banking service sales will be executed online or through a call center. This is up from a modest 6% in 2000. The impact is that the purpose of branch visits really has shifted to be less transactional. Instead, customers are desiring more of an advisory conversation and online and call-center capabilities have rapidly increased in importance.

Through our multi-channel strategy we are positioning for these shifts. Some short-term outcomes and actions in June, we will begin to introduce enhancements to online banking and in our call center. We'll have fewer in-branch transactional staff and more staff with advisory skills, both in the branch and in the call center.

Longer term this means changes in branch formats, enhanced technology online, call and in other emerging channels. And changes in ATM positioning as well as staffing models will occur in all of our channels. The result will be better productivity through a greater use of cost-effective online and call channels and a well-served customer.

And in our U.S. wealth strategy you heard Terry and Gilles mention, with the demographics of our community bank customer base and the power of our wealth offering, we are capable of greater leadership in this area. We are working together to leverage the one third of our retail customer base overall that fits the wealth profile. Many of those are in those six priority markets that Terry mentioned.

Also important are our business banking customers, many of whom are private companies, for succession and wealth planning. A key focus is to make sure our conversations with our customers are more in keeping with their needs, leading with wealth rather than retail where it makes sense, and that each member of our team are aligned with targets that will drive results.

Turning now to business banking, our plan is to increase the revenue contribution of business banking. Today we're at about 37%, an increase from 29% four years ago. Our goal is to get to at least 50% and we will do this through a combination of organic growth, new hires and acquisitions. A stronger business banking segment gives us increased opportunities to cross sell personal wealth services and broader productivity as the revenue per RM is higher due to transaction size.

We are also looking for transformational opportunities in each of our segments, micro, small, commercial mid-market and real estate. We've enhanced our pricing disciplines and we're improving our back office to be more responsive and make things easier for our customers.

And finally on the last two priorities, taking advantage of the current market, I spoke earlier about what we're doing in hiring and marketing and anticipate doing with acquisitions. And I also touched on the steps we're taking in building a stronger performance culture. You'll hear more on this from Julie and Ray.

To summarize, we have sharpened our focus. We are doing the right things for our customers, taking advantage of market opportunities and, most importantly, we are doing the right things to drive bottom-line results. Now I'd like to turn it over to Julie to get to the heart of Winning Edge and then to Ray who will talk about our growth efforts in business banking. Both are important to taking us forward.

Julie Curran ***- BMO Financial Group - SVP, District Executive, West***

Thank you, Ellen, and thank you all for the opportunity to share Harris Bank's retail operating model Winning Edge. I'm going to provide you with a brief background on the model itself, talk a little bit about our coaching and measurement discipline as well as talk about some of the lead indicators where we're seeing success.

We launched Winning Edge at the beginning of the fiscal year of 2007 to our entire retail banking community with the objective of increasing the intensity around our sales process, a process that drives accountability for key sales activities that lead to results and rewards success for delivering exceptional customer service.

Winning Edge is a set of prescribed tools that we use in all of our branch locations. They provide a clear mandate that drives activities that drive results, and field leadership that is very clear around what is expected of all of our managers in order to reach these goals.

This is not to say that these activities were not taking place prior to the launch, but what we were finding, it wasn't consistent across locations and it wasn't with the same level of discipline. Winning Edge pretty much brought everybody on to the same page, Our sales emphasis in identifying those opportunities through meaningful needs-based conversations with all of our customers and building a referral base that allows us to generate more wallet share across multiple product lines. That would include the wealth, small business, investment and mortgage markets.

Winning Edge is really about how we deliver our customer promise. And that promise is I will make you feel comfortable and respected, I will make it easier for you to do business with us and I will help you realize your financial goals, entirely grounded in a high-quality customer experience.

Our customer focus and sales performance allows us to hire and retain top talent. Our compensation plans allow for significant financial upside at all levels, beginning with our service representatives, our tellers, who drive a lot of our referrals, to a very competitive total compensation package for our top-performing bank managers. Compensation has a direct link to the employees' ability to impact business results. For example, our bank managers are compensated on how they manage their location, personnel, financials, the customer experience and risk.

Our branch scoreboards are a key measurement tool for daily activity tracking. They're highlighted in our weekly sales meetings and are a visible reminder of goals and accomplishments. And they're prominently displayed in every one of our break rooms. We closely track the following activities, teller referrals, outbound sales calls, customer needs assessment and cross-sell referral generation. And just as closely, we monitor deposit and loan growth, revenue, retention, new households and cross-sell activity.

The performance tracker is our link between behavior and sales performance against these goals through deposits, loans and referrals. The performance tracker provides key input to these one-on-one coaching sessions, which are critical, and address gaps in real time. It also feeds our monthly ranking reports. And because we're consistent in how we measure, track and report, I have meaningful comparison data of performance across all the locations in my market as well as the entire network.

We've also standardized our financial reporting packages at each management level. This facilitates a lot of P&L ownership and the branches, regions and districts are all tracked and measured and ranked on a monthly basis. And when these reports come out, I can tell you that, all the way through our channels this is probably the first group of reports everyone is looking at, how did I rank relative to my peer group in my district and in the community banking overall. These monthly also include the financial results of our segment partners and reinforce the teamwork that's required for us to achieve our financial goals.

I talked a bit about measurements, I'd like to turn now to sales coaching. We focus on customer experience moments of truth and this is done through a series of tool kits that cover a broad range of topics. And these topics include the Harris customer promise, which I've shared with you before, and sets the stage for our commitment to superior service, customer focused conversations that really get to the heart of our customers' needs and what they're looking for in their financial partners.

Our new customer welcome program, our cross-sell referral program known as One Harris, effective service resolution and helping customers through life-stage events. By helping our customers understand their financial alternatives at critical times in their life, we build life time value and loyalty.

These toolkits are reinforced through regular lunch-and-learn type sessions, branch sales meetings and the daily huddle that takes place in all of our locations. Our field leadership reinforces these training messages. And we have a supportive coaching staff in the fashion of retail sales managers, who partner with our regional presidents to support all of the sales messaging and coaching that takes place at the branch level.

These peer coach's report to Abby Fredrick, the head of Retail Sales. And together the sales managers and regional presidents conduct the weekly sales meetings, provide the one-on-one coaching and they work with the bank managers to close any gaps.

I'd also like now to point out another very important part of our coaching process and that is visible leadership in our branch network at all levels. Our CEO, our regional presidents and I all learn a great deal when we visit the branch. And our branch teams learn that what they do in the field and how they are generating activity for us gets noticed.

I tend to spend a lot of time in the branches in my district, I like to get a sense when I walk in how does it feel, what are the interactions that are taking place, what are the conversations that are taking place at the teller line, what is the chemistry in the team and what is the overall customer experience when they walk in and spend time with us.

Also during these visits I talk to bank managers about their goals, their progress, I view the scoreboard, I discuss their sales leadership style and also try to get a better sense of what can we continue to do to help make them more effective.

With exceptional customer service at the core, Winning Edge is an ongoing cycle. It's training, coaching, measurement and reward. And this reward also includes the sharing of success stories of the best practices across our entire network. These stories recognize our employees and encourage our teams to be more creative at finding ways to help serve our customers.

The emphasis on success, no matter how large or small, has been key to our employee engagement and the individual drive to raise the bar, as well as to raise the bar among the teams. We continue to enhance Winning Edge with new toolkits and our objective is to keep the customer experience message fresh, top of mind and dynamic to the changes in customer preference in how they want to do business with us.

Lead performance indicators demonstrate that Winning Edge is gaining traction and delivering results. Our experience in one region, Cary Huntley, that launched the model in pilot form six months in advance of the network, offers a proof point that consistent focus on customer experience, execution and measurement drives both a revenue payback as well as high employee engagement.

Loan and deposit growth in 2007 was 126% and 180% of P&C U.S. overall respectively, with stronger than network employee engagement of 80% in our 2007 annual employee survey. These results continue to improve as behaviors become more culturally engrained in all of our pilot branches.

For community banking overall, I'd like to point to the following lead indicators that demonstrate we're making progress. The service representatives are tellers, who are the face of the bank to many of our customers, now average five closed referrals per month, that's new business into the bank, with 90% of the staff providing two or more.

Household retention, excluding single-service CD households, has increased 0.6% in fiscal year 2007 to 91.3, and over 95% for our top-20% households. Our peer group average would be 85% retention.

Our Net Promoter Score of 41% in 2007 continues to exceed national competitors in our market, including Chase and BofA, and our scores continue to improve. In addition, the Net Promoter Score reporting will be expanded at the branch level in 2009, which will further increase the local ownership of this very important KPI.

Our closed One Harris referrals, and again that was our referral strategy, in deposit share of wallet is trending positive, including an upsurge in the One Harris referrals from non-frontline personnel who now have a greater sense of customer advocacy.

New customer acquisition will continue to be an area of focus for us and we're leveraging our marketing resource to create more voice in a period of significant market disruption in our footprint. This disruption has created a window of opportunity for us with thousands with disaffected households.

In closing, Winning Edge has been our journey not an event. We continue to evolve our model and build on the momentum to date, including the success of the Kerry Huntley pilot. We continue to make refinements in our line-of-sight reporting and we continue to focus on building share of wallet by delivering the entire bank through One Harris.

Finally, we will expand customer experience points of differentiation across all of our customer touch points, online, call center, ATM and mobile, through our enhanced multi-channel delivery. We want to take full advantage of the sales and service success that we've experienced in our branches through Winning Edge and we're off to a great start.

With that I want to thank you and I'd like to turn the presentation over to Ray Whitacre.

Ray Whitacre *- BMO Financial Group - SVP and Market Executive, Commercial Mid-Market*

Great. Thanks, Julie. To begin, let me provide a quick overview of the overall Business Banking segment at Harris. The business is comprised of the micro, small, commercial real estate and middle market segments. We serve 70,000 households equating to 130,000 accounts that are supported by approximately 550 employees, of which 230 are relationship managers. Today I will speak to the middle market specifically.

This business focuses on institutional and commercial clients located in the following states, Illinois which is primarily Chicagoland, Indiana, Wisconsin and Arizona. Our institutional clients include units of government, higher education and private K-through-12 schools and tax exempt institutions.

Our commercial clients consistent of manufacturers, distributors and service businesses that are focused in a variety of industries. Our business complements the bank's existing broad retail branch network while enhancing our institutional commitment to those communities.

We offer a broad range of financing and advisory services tailored to businesses with revenues from 15 million to approximately 250 million. And we work in partnership with BMO Capital Markets to provide these companies access to capital market products and advise. We typically are the lead or sole bank to our clients.

Because the vast majority of our clients are privately held, we work closely with our colleagues in the private-client group to meet the complex needs of these business owners. Important to make a point is, our business is people centric. We operate a relationship manager-driven model where we strive to be a value-added advisor to our clients.

Our relationship managers average 20 years of banking experience with many of those years at Harris. And I strongly believe that this provides us an invaluable edge in the competitive marketplace. To summarize, our business is built on a foundation of experience, financial knowledge and relationships.

Some facts to consider which prove my point is our Net Promoter Score index of 52% is 1.5 times greater than that of our network banks and our secure customer index of 48% is almost 2 times greater than our network bank peers. Overall, we have a 91% client retention rate, which compares favorably to the market average of 83%. And as defined by customers who do business with us, we maintain a number three market share in Chicagoland.

Not unlike our retail Winning Edge program, we have an active sales and performance management culture as well. My direct reports and I meet biweekly to review our pipeline activity, to share best practices related to customer solutions, to discuss competitive positioning and to focus our collective energies on profitable revenue producing opportunities.

In the future, we will generate growth from three areas. The first area of growth relates to our existing markets. We are taking advantage of a unique and unprecedented time in the Chicagoland banking environment, allowing us to grow our revenues, our client base as well as hire talented relationship managers.

Because of the marketplace disruption, we have been able to hire a number of highly skilled experience bankers and since the beginning of fiscal 2007 we have hired 25 bankers and ten of those since January, 2008. We believe, with the ongoing market disruption, we have the opportunity to add at least 15 more high-quality bankers over the next several months.

Now I would like to provide you with some additional examples of our success in relation to this market opportunity. Now for fiscal 2008, year to date, including deals that we will close this month, we will have added as many new clients to the group as we did for all of fiscal 2007. As an example of our cross-selling initiatives, fiscal year to date we have generated more interest rate hedging revenue than in all of fiscal 2007 and our referral activity to PCG exceeds plan by 3 times.

Furthermore, through March we have grown deposits by over 30% relative to the prior year. Now the even better news is that we expect this trend to continue as our pipeline of new activities remains robust. Since the end of September our new pitched opportunities have increased by 67%.

Our engaged loans scheduled to close has increased by 340%. Our fees pitched has increased 190% and our engaged fees scheduled to close has doubled. All of this has been accomplished despite a slowing economy and all the while we have maintained our underwriting standards and lending process oversights.

The second area of growth is to take advantage of our recent acquisitions in Wisconsin and Indiana. These acquisitions expand our geographic footprint, demonstrate institutional commitment to these communities and further attract talented bankers. And finally, we are currently looking to expand our office locations into surrounding Midwestern States.

Because of the above initiatives and opportunities, we believe that the commercial middle market revenues will grow over 20% compounded annually over the next three years. Now at this rate we would nearly double the business by the end of fiscal 2010. Simply stated, our goal is to become the leading commercial mid-market bank in the Midwest while maintaining our best-in-class customer satisfaction and customer retention.

Ellen Costello *- BMO Financial Group - CEO, Harris Bancorp, Inc.*

Thank you, Julie and Ray. You heard from us this morning we have excellent opportunities across our Personal Wealth and Commercial businesses. We know what they are and how we are going after them. We have a strong brand with a clearly defined value proposition. We are here to help and we help our customers make smart decisions and we help our communities grow and prosper.

We will continue to grow through acquisitions and we will aggressively pursue organic growth across all of our channels by leveraging our leadership in customer service, by collaborating with our partners in the private bank. Both will build deeper relationships with our clients and bring us new ones and most importantly drive bottom-line results.

Now I'd like to open it up for questions.

QUESTION AND ANSWER

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

There's a question up front here.

Unidentified Audience Member

Can you comment on recent trends in credit in both your consumer and commercial portfolio? And on the other hand, you're getting a lot of loans in your commercial portfolio, why are the rest of the 258 banks giving up all these good customers? What has changed over the last nine months?

Ellen Costello *- BMO Financial Group - CEO, Harris Bancorp, Inc.*

Okay I'll briefly touch on these, and then I may ask Ray and Pam to talk about them. On those two slides that I covered you can see that our really very strong position heading into the recession that we're actually in on both the consumer and business banking side. The one weak point, I think as many of you know, is the real estate construction side which is suffering the most, but we haven't really seen the fall out in the rest of the commercial sectors.

In terms of why are banks giving up these great opportunities, some of them are troubled, some of them are preoccupied with other issues such as integration and change management. And some of them are customers looking for certainty around their banking relationship.

So all of those things present opportunities for us that really are unprecedented, as Ray said, and we're trying to take full advantage of those in every aspect of the business, retail, wealth, as well as business banking.

Pam, why don't you cover some of the trends on the credit side?

Pam Salaway *- BMO Financial Group - SVP and CRO*

Absolutely. As Ellen mentioned, the P&C U.S. is very well positioned to withstand a recession. You will note in the slides that 70% of the portfolio is in consumer credit, it's a very conservative portfolio. That's because we have strong borrowers and we have a very, very strong loan-to-value stratification on those portfolios.

For the last five years I've been asked why, by various constituencies, why we did not take more risk, why we would not go into the exotic products. We did not do that and that was a good decision on our part. We did take some risk return initiatives that wound up to be very good for us, but we didn't go along with the rest of the banking industry into the most exotic products.

Now is really our time. We are seeing customers flock to the bank for consumer credit. That is because the bank is conservatively positioned and everyone in Chicagoland knows we're conservatively positioned. So we are actually seeing some very, very high quality customers come to the organization.

You saw in the slides we put in our actual charge off information historically so that you could see how strong we are performing. Now given the market dynamics that we have in the industry today, our losses are inching up. They are every bit as we would expect in a recession. This is a business that is cyclical so we did expect an inch up of our loss rates. But we are well, well peer and we feel very, very good about how we're performing.

On the commercial side the C&I portfolio is actually performing without a glitch. If there is a housing related C&I portfolio, that of course has suffered a little bit more. But outside of housing C&I we are performing without a glitch and that portfolio is growing.

On the commercial mortgage side you are hearing information in the industry in terms of the CMBS market. What needs to be understood is this portfolio is a community bank commercial portfolio that we underwrote to hold, not to sell. So we paid attention to our underwriting guidelines from that standpoint.

Up until present we are not experiencing issues in our commercial mortgage portfolio. We don't have our heads in the sand. I mean that could happen as the recession occurs, if it does happen I think we're very well positioned from the commercial mortgage portfolio as well. We have a good diversification by product, we also have a very good loan-to-value stratification there as well, which is very important when it comes to loss rates.

Also, we actually have a good chunk of that portfolio in apartment buildings, which are counter cyclical, as well as community development is a big piece of our commercial portfolio. And those tend to perform pretty well. As Ellen mentioned, the last component is the construction portfolio and there is no doubt that that is the area where there is softness in the portfolio today, our portfolio as well everyone else's.

As Wendy Millar mentioned in the P&C Canada presentation, we have tended to have very conservative underwriting guidelines, as well as P&C Canada. So we did maintain our underwriting guidelines in the construction portfolio, which were a degree more conservative than others.

But we also were early detectors of the deterioration and we did ratchet back on underwriting, as the presentation indicated, to meet the difference supply-demand characteristics that are now in the market.

So the supply and demand characteristics changed, we changed our underwriting standards so that, going forward, we can still do some good deals but we avoid some of the more troublesome deals. And believe it or not, there are still some banks out there that are lending at more aggressive underwriting guidelines, but we have pulled back a little bit.

Unidentified Audience Member

In personal portfolio have you seen any significant deterrent over the last four to five months in any specific buckets? Or, are you seeing delinquency increasing?

Pam Salaway *- BMO Financial Group - SVP and CRO*

Yes. We have three primary portfolios, we have first mortgage portfolio and just to give you a feel in our first mortgage portfolio, we've lost zero in the last several years. So this year, we lost $114,000 in one quarter. So that gives you a feel for how conservative that portfolio is.

Yes, we have experienced increased delinquencies in the first mortgage portfolio, but the loss rates have been very low because we maintain our strong borrower and loan to value, most importantly, characteristics of that portfolio.

Home equity, the delinquency rates have risen along with the rest of the home equity portfolios in the U.S. The reason is that individuals are experiencing their same life events, they are experiencing divorce, medical issues, all of those types of things, which is increasing the delinquency. But again, because the portfolio -- they used to be able to tap into home equity very quickly. So now what you're seeing is a little bit more of a delinquency increase.

However, on our home equity portfolio as well it's a conservative portfolio. The loan-to-value stratification is pretty good. Now on home equity we did take some risk return initiatives, we have a very small component that's high loan to value. That would be between the 90% and 100%, it's a very small component.

Those are the portfolios that are losing money today in the industry across. Other institutions I would imagine, our peer banks, because their loss rates are so much higher than ours, have a larger component of that high loan to value.

Indirect auto, the delinquency and loss is up somewhat from the weaker consumer overall, but some of that is due to risk return initiatives that we consciously implemented. So we were actually returning more on that portfolio in return for some of that delinquency and loss. So it's the two components.

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

Great. Thank you, Pam. Another question? One right here?

Sumit Malhotra *- Merrill Lynch - Analyst*

Sumit Malhotra, Merrill Lynch, three hopefully quick ones. Ellen, Frank talked about 3% operating leverage medium-term goal in his segment. Do you have one for U.S. P&C? For Pam, number two, you talked about in the commercial mortgage book you underwrite this to hold the portfolio maturity, how about the portfolio as a whole?

Is the fact that securitization in the U.S. is not quite as readily available as it used to be, how is this affecting you on the funding side? And number three, with the Fed bringing rates down as fast as it has, does this benefit you on the NIM side? Or, is your book predominantly variable rate and we're going to see some more pressure on margins going forward?

Ellen Costello *- BMO Financial Group - CEO, Harris Bancorp, Inc.*

Just going to the first one, we work with the same objectives that Frank does on operating leverage. The biggest challenge that we have had is that we've had significant margin compression. Just look at, just to give you a sense of how much of an impact it had last year, if we had maintained the same NIM levels in 2006 with the volume that we generated in 2007, it would have made over 50 million in revenue higher and that would have gone right to the bottom line.

So that is our biggest constraint. Certainly we do think there's going to be some pricing opportunity here. We've already seen a little bit of that in indirect auto and on the mortgage book and also in business banking. And we're hoping that will give us some expansion on the NIM.

We did have some stability towards the end of last year, but the first quarter was tough. The core was about 15 basis points or so lower so it is something we're still dealing with. A lot of it is loan spreads and certainly some of it is relating to deposit shifts from core to non-core, which I think many banks are experiencing. We're not alone in that.

The last one, and maybe, Pam, you can jump in on this, was about the NIM, the Fed cuts. Some of our products, like the indirect auto, as rates go down the spreads stay a little bit wider so we do get some benefit from that. And certainly there's some truth in that on the mortgage side as well. And I touched on the business banking.

Sumit Malhotra *- Merrill Lynch - Analyst*

And securitization?

Ellen Costello *- BMO Financial Group - CEO, Harris Bancorp, Inc.*

That's really around our ability to lay off. We tend to lay off our 30-year mortgages. Certainly the number of buyers for that, the jumbos, has diminished so that does present some challenges. And we look for ways to put those on the balance sheet while at the same time maintaining a conservative interest rate profile. We do see an interesting mix of the jumbos are sometimes floating so it's not always a fixed-rate situation.

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

Great thank you. I think there was a question here.

Mario Mendonca *- Genuity Capital Markets - Analyst*

Mario Mendonca, Genuity Capital Markets. Pam, you referred to the increase in defaults and just perhaps delinquencies, rather, and the increase in PCLs as being expected, you're not surprised at what you're seeing so far.

I found that one interesting, it's important from my perspective because if it's expected then you've priced for it and you're okay with seeing a loss. The reason I found that one interesting is, in the quarter, Q1 '08, the bank increased its PCLs forecast really dramatically so it's sort of counter, those two don't jive for me. Could you reconcile those?

Ellen Costello *- BMO Financial Group - CEO, Harris Bancorp, Inc.*

Should Pam take that?

Mario Mendonca *- Genuity Capital Markets - Analyst*

Well the higher PCLs pretty much all happen in that division, that's why I thought it might be helpful to ask.

Pam Salaway *- BMO Financial Group - SVP and CRO*

I'm happy to take it or do you have someone else?

Ellen Costello *- BMO Financial Group - CEO, Harris Bancorp, Inc.*

Sure, go ahead.

Pam Salaway - ***BMO Financial Group - SVP and CRO***

All right. The numbers that we're showing you in the presentation are the P&C U.S. numbers. The PCL information that we report is legal entity U.S. PCL numbers that spread across the three lines of business. So the loss rates are not always equivalent to the PCL.

Now that the PCL that you see in the supp pack for the P&C U.S. line of business is actually an expected loss number, which is our loss numbers, so comparable to what you saw in this presentation, that are more smoothed out over the cycle. And for the last five/seven years our actual loss rates have been lower than the expected loss, which is again what you see in that supp pack. That's the reason that we wanted to show you our actual loss rates to show that they're lower.

But the PCL that we booked in the fourth quarter was a legal entity Harris Financial Corp and then U.S. operations PCL that did spread across the three lines of business. So I don't know if anybody wants to expand further.

Mario Mendonca - ***Genuity Capital Markets - Analyst***

I'm familiar with BMO convention.

Pam Salaway - ***BMO Financial Group - SVP and CRO***

I'm sorry?

Mario Mendonca - ***Genuity Capital Markets - Analyst***

I'm familiar with that convention, the approach BMO uses to record PCLs. But maybe it is more a question for the bank as a whole then. If it was expected, I suppose, from a bank perspective, why the big increase in the PCLs forecast?

Viki Lazaris - ***Bank of Montreal - SVP - Investor Relations***

Yes actually why don't we take that at lunch. Tom and Bill will take some questions and we'll take the bank PCL question right up front.

Mario Mendonca - ***Genuity Capital Markets - Analyst***

Okay. A follow-up question then, on page four of the presentation, it would help to understand it, home equity loss ratio analysis and the indirect auto loss ratio analysis. In both cases it looks like the industry, while rising abruptly, seems to remain below its 2002 peak.

And BMO's case, in 2008 and maybe even by late 2007 the bank had already breached 2002. So what I'm trying to understand a little more is how had BMO changed relative to the peer group such that BMO can sort of breach through that 2002 peak now and maybe the industry as a whole hasn't.

Pam Salaway - ***BMO Financial Group - SVP and CRO***

The 2002 peer that you're looking at for home equity?

Mario Mendonca - ***Genuity Capital Markets - Analyst***

Home equity and indirect auto.

Pam Salaway *- BMO Financial Group - SVP and CRO*

Well I'll take home equity first. The peer group that we use is Risk Management Association and the peer group is not static throughout the period. So in 2002 we believe that this was either somewhat of a misreport or an addition, and most likely an addition, of a participant into the peer group. So we have had a lot of mergers and acquisitions and that type of thing happen.

We've also had a lot of banks get in and out of different types of business, I was going to name a competitor but I won't. One bank has been in and out of home equity quite a bit that actually does report here. So I think you need to take a look at the trend more than anything and the trend that I think is the most important is we did have kind of a low here in that 2004/2005 time frame. The 2001/2002 was the recessionary period of course, but we also think that there was a peer group issue in that time frame.

The other important thing to take into consideration here is how low our loss rates were during that recessionary period. And again that's because of the high quality that we got. Now the increase is happening because this is more of a recession that's really hitting the consumer much more so than the 2001/2003 recession. And we have a little bit more, like I said, of the higher loan-to-value component in our portfolio today, although it's very small. And again, I believe that the competitors have even a higher loan to value. So we're trending up but we're trending up in the same way.

Mario Mendonca *- Genuity Capital Markets - Analyst*

I think the point you made there, the one that made the most sense to me then, was that this time's just a little different from 2001/2002.

Pam Salaway *- BMO Financial Group - SVP and CRO*

Very different. Very different for us in particular because you'll see, even on indirect auto, we spiked up a little bit in 2002 and, I was there at the time, the 2001 pools of indirect auto that were created were the kind of hay day of lending. So everybody who qualified for loans were getting them all the way through 2001, 2002 for the industry as a whole. You had many more loans that probably shouldn't have been made so in the 2002 time frame you did have a little bit of a spike up in loss.

We also were doing a little bit more in the used than the new at that time. But again, the same point that you referenced is true, it's different this time. The consumer is having a little bit more trouble this time. But also when I said these portfolios are performing as expected, what I meant is they're performing as expected through a cycle.

So when the consumer's not having problems I expect these low loss rates. If the consumer is having a problem I expect my loss rates to go up but I expect exactly this, that my loss rates are going up here whereas the peer group is going up here. Because I know the high-risk components of my portfolio are small and the low risks are larger. So that's how it should work.

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

Great thanks. We have time for one more question. Michael?

Michael Goldberg *- Desjardins Securities - Analyst*

Thanks. Michael Goldberg, Desjardins Securities. With the acquisition of MAF Banc last September National City became a big player in Chicago and Milwaukee markets. How are you able to take advantage of their problems? Does it pose a bigger opportunity to you? And why aren't we hearing about Harris as a potential participant in fixing National City?

Ellen Costello *- BMO Financial Group - CEO, Harris Bancorp, Inc.*

Certainly when I touched on in my comments about the market opportunity I talked about both BofA as well as National City and Mid-America. Both of them have presented us opportunities both on the talent front as well as the customer front, so I wouldn't exclude them from that. I think further exacerbated has probably been the fact that National City's had some challenges. And as I mentioned earlier, when customers have uncertainty as to talent, people start to think about other opportunities. And so that has been something we've been able to benefit from.

I probably would prefer not to comment, unless Bill would like to, on our role on fixing National City. I think there are a number of banks that are in discussions there but it's not something we would normally comment on.

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

Yes I don't think we can speak specifically about another bank. There's obviously plenty of rumors in the market but, Michael, you know what our track record is with respect to acquisitions, high quality, a lot of due diligence. And if we make an acquisition of any bank you'll probably hear about it when we announce it.

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

Thank you Ellen and the rest of the team.

Ellen Costello *- BMO Financial Group - CEO, Harris Bancorp, Inc.*

Thank you.

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

Okay well our last presentation will be up now. I'd like to introduce our new Chief Risk officer, Tom Flynn. And just a reminder, after Tom's presentation we're going to move over to the other side of the floor where we're going to have lunch. And Tom will be able to take some questions there, where Bill will do a wrap up and the rest of our executive leadership team will be available for questions. Thank you.

Tom Flynn *- BMO Financial Group - EVP and CRO*

Thank you, Viki. I'm happy to be here just before lunch to talk about risk management. I'm new in the role of CRO but have been involved in a number of the issues that we've been dealing with over the last of number of months, first as treasurer and lastly as acting CFO. So the issues are not new to me in many cases.

I think this is a really interesting time to be a part of risk management. To me the events of the last three quarters have made it clear the financial services industry can do a better job of identifying its risks and managing its risks. And I expect that you'll see firms looking to invest in risk management over the quarters ahead.

You're also starting to see talk about system level change through a number of papers that have been published about the disruption that we've seen in the market. And at BMO we think that we've got a head start on some of this based on work that we did last year reviewing our risk management approaches and plans that we've got to implement some changes. And I'll talk about that in a minute.

The presentation that I've got will talk about my mandate, a risk evolution project that we've got and lastly items that are of focus right now. This slide lays out the mandate that I've been given in simple terms. We have a long and proud tradition of strong risk management at Bank of Montreal and want to be a leader in risk management. We intend to build on our strengths to occupy that position.

To help get there we have a change program to implement that we're calling a risk evolution. I'll talk about this as well in a few minutes. Lastly, we want our risk group to be a partner with the business when it comes to risk transparency and optimizing risk returns, while at the same time, and maybe more importantly, maintaining true independent risk judgment and oversight.

This slide talks a little bit about a risk evolution program that we've got. And the program builds on a review that we conducted last year of our risk management practices. In the review we compared our approaches in risk management to best practices and emerging trends and, as you would expect, out of this came up with a number of areas of strength and a number of areas where we've got room for improvement.

This slide summarizes four key themes that we will be working on as part of this effort. In the area of ownership and accountability we want to ensure that we have clear accountabilities in both the businesses and risk, and that people feel a sense of ownership for these accountabilities. Risk transparency from a bottoms-up perspective refers to ensuring that risks are identified, properly monitored and reported in a way that allows for timely decision making.

For example, in our trading operations teams from the business and risk are reviewing our trading books to ensure that we're doing this. For more of a top-down perspective, we will be focusing on our process around the identification and management of emerging risks. We see opportunity in the area of risk return optimization. These include assessing performance based on risk adjusted returns in a more broad-based way and reviewing certain of our activities to ensure that the risk that we are taking is being appropriately rewarded.

Lastly, we want to have a sense of openness and partnership between risk and the business as a general matter, and specifically in the areas of risk transparency and risk return optimization. This partnership approach will not compromise the strong independent role that risk has to play in exercising risk judgment and risk oversight. The Board of Directors is fully supportive of our plans in this area.

Turning now to our near-term focus there are three priorities, first, managing risk in the current environment. As we talked about at the annual meeting and on the Q1 conference call, this includes taking steps to lower volatility in trading, reducing structured credit and securitization activities and reviewing certain of our U.S. loan portfolios to ensure that we are earning an adequate return on the capital that we are deploying. We are also managing credit in an active way given the environment.

Second, we are working on strengthening foundational capabilities. This includes looking at organizational structure which will be done over the next 90 days, we will spend more time on risk education programs, both for our business and for the risk group, and aspects of work continue on Basel II. Thirdly, we are starting to implement our plans around the risk evolution. The current focus here is largely on risk transparency and reporting.

I'd like to take a few minutes to touch on some of the areas that have been topical in recent quarters. First of all, we continue to be comfortable with the performance of our asset-backed commercial paper programs, both in Canada and in the United States. In the non-bank part of the asset-backed commercial paper market we remain supportive of the Montreal Accord and our exposure to this market is relatively small.

On Links & Parkland we continue to manage the programs down in size in a balanced way. The support arrangement for the senior funding of Links & Parkland is now under 9 billion for Links and EUR$750 million for Parkland. At present no amounts have been funded by BMO given ongoing asset sales in the two vehicles. Lastly, we are working on closing the recently announced restructuring of Apex and Sitka Trusts with the other parties that are involved in the restructuring. In closing I'd like to say that we remain comfortable with the credit quality in all of the BMO programs that I've mentioned here.

This slide shows our PCL performance. PCLs, as you know, have been trending up in recent quarters in part due to weakness in the U.S. real estate sector. A single U.S. real estate related transaction accounted for 38 million of the PCL in the first quarter. Our exposure to U.S. developer, investor and investor-owned real estate is well below the peer group, which should help us as we move through the cycle.

As we said on the Q1 conference call, given the weakness in the economy we expect that the level of PCLs experienced in Q1 to be indicative of the level that we will see through the year. As you would expect in this environment, we are paying close attention to loan performance. And maybe I'll just touch on the question that was raised in the last session about expected PCLs on this slide.

The last presentation really focused on our P&C U.S. business and their performance is largely in line with expectations. Generally and given where we are in the cycle, we did increase our guidance for PCLs in the quarterly call that we had and said that we expect the level of PCLs to be in line with the level that we experienced in the first quarter. The reason for the up tick from the target that we gave at the end of Q4 really relates to the accelerated deterioration that we've seen in parts of the U.S. economy and specifically in the real estate part of the economy. And the lumpiness that we had in the first quarter related to that area shows up in capital markets rather than in our P&C U.S. business and that contributes meaningfully to the up tick in the provisions.

The next slide shows our long-term PCL performance. The performance here is shown over a 16-year period, a period that includes two down turns. And the slide shows that over this period BMO has outperformed the peers by a healthy margin and we've talked about this in earlier sessions. We have no reason to expect that this record of out performance will stop and we expect to benefit from it as we head into what looks like a tougher environment.

In closing, we expect to get more clarity about the outlook for the capital markets in the economy over the quarters that are ahead, probably the next one to two quarters. At present we're focused on growing our business, both organically and on managing through the current environment. Looking ahead into later this year and next year, we're hopeful that the difficult operating environment will lead us to additional opportunities to grow our business.

And with that I'll hand things back over to Viki.

Viki Lazaris *- Bank of Montreal - SVP - Investor Relations*

Thanks Tom and we'll just move over to the next room for lunch and Bill will do a wrap up and we'll have some more time for questions with Bill and the rest of the team. For those on the phone, we'll just take a 10-minute break and we'll be back on the phone in the other room. Thank you.

(BREAK)

PRESENTATION

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

Since everyone has had a chance to get a plate and because we have people still on the conference call, we'd like to get started with more of an open session. And I want to thank everybody who participated this morning here and everybody on the line. I hope that you all found this to be a productive session. It's no coincidence that we focused on personal and commercial banking. It's going to be a faster growing part of the organization and together with wealth, will be contributing a great deal more to our bottom line going forward.

The recession in the U.S. is going to end at some point. The thing about recessions is that you're well into them before you realize it. And quite often you're on your way out and people are worried that it's still deepening.

I think, candidly, it's probably true that Ontario and Quebec are in a recession as well. And these cycles are productive. The last downturn in 2000, from my perspective, probably didn't have the cleansing effect of a recession. It was really so heavily weighted to media and telecom. But I think the presentations today, the focus of what we've talked about, is really looking beyond the very immediate term, building the franchise of the bank, building the competitive strength of the bank and made it clear that we have expectations of our personal and commercial banking business in Canada, in the United States, that they will show superior rates of return and higher levels of growth.

We've been reinvesting in people, in facilities. I think you know how obsessed we are with the customer. When Frank talked about the metrics around customer, I hope it demonstrated how determined we are to be number one in customer loyalty. We turned the corner on consumer loans and deposits in this market and it's an objective that defines all of the businesses in the BMO Financial Group.

We've put in place tools to improve branch performance, as Alex discussed, and I think you should think about these two themes, the session with the customer and the management of performance is the two things that are going to drive the performance of all parts of the Company. We're bringing insights around to the customer to the market faster and we're focusing our offers on things that customers want, not what we want or what we might think they want.

Gilles's team is focused on ensuring that the wealth management business lines up with our distribution. We have very high-quality offerings in wealth management. There isn't a part of the business that I would say I'm not extremely proud of the investment performance, the quality of the advice and it grows very well on the back of broader distribution.

Clearly building a bigger branch footprint, more depositors in Canada, building a bigger presence in the United States enables the wealth management business to grow much faster. And I think that you'll see that it becomes, as Gilles said, a growing proportion of the whole company.

Actually, as we look forward to our business plan for the next year, I was taking some notes down from Gilles's presentation and I know he's already offered to make a bigger commitment to 2009 than anyone had ever imagined, except him. There are incredible cross-sell opportunities within the organization and we are doing it differently. Frank alluded to that.

The way that we have put our businesses together allows us to have partnerships around clients to work in teams. We have commercial banking and private banking centers now across the country, where entrepreneurs are served by a team that handle both their business requirements, their trust and estate succession and their personal investment objectives. We've got investment advisors in bank branches and we have wealth advisors sitting in investment banking that work on deal teams.

And we've broken down within the organization a lot of the old pillars that exist between the brokerage business and the banking business and the personal business. And we can see that it's paying off.

The U.S. business is going to continue to grow. I think you should take note of the discussion around business banking because business banking actually is a larger proportion of our personal and commercial business in Canada and yet in the United States, because of the pattern of acquisitions, largely retail banks, we still have a tremendous opportunity to grow that commercial business across that footprint and looking to -- we're looking to Ray and the leaders of that business to move commercial banking to as much as 50% our U.S. business.

We're going to continue to make acquisitions in the U.S. I was asked a question this morning about the environment and did we think it was time to start making acquisitions? Well, we've been making acquisitions consistently over the last decade. We've been very careful with each acquisition we made that we paid the right price. We have been at the table at virtually every opportunity that came up in the market.

There were some that we just chose not to dig that deep in our wallet because when you put the capital in, then you have to earn a return on it. But in the coming months, and I would say realistically it's in the coming 12 months, there are going to be more opportunities in the marketplace. There's 8,000 banks in the United States and there's going to be considerable consolidation. Some of those banks will be good fits with the business that we have and we'll be in the discussions when that happens.

Credit markets will ultimately stabilize. There's going to be a shakeout in the process. That's creating opportunities for us. Clearly in the Chicago market, the overhang of new branch building that was very apparent just a couple of years ago has actually been reversed.

Some of the new entrants to the market have had to pull back very dramatically, the most visible of them actually closing branches at an exceptional rate and there is consolidation in the market and in consolidation, we have the opportunity to recruit very senior bankers from some of our competitors, which Ray outlined. And these bankers are able to bring portfolios of business with them. It's a moment in time, really, when you can recruit bankers in this segment and be confident that some of their clients will come with you.

So with that, we can open it up again to questions. Tom Flynn is back in that corner, Ellen and Gilles are in the middle and Frank is over here and I'll call on them as I consider it to be necessary or if you have other questions that we didn't cover this morning. There's a microphone that could be delivered to your place or we could check with you online.

QUESTION AND ANSWER

Operator

Thank you.

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

And you can continue to eat, for those of you that haven't finished what's on your plate. A few of you haven't eaten your greens.

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

You can start.

Michael Goldberg *- Desjardins Securities - Analyst*

Okay. Michael Goldberg, Desjardins Securities. And my question is from Tom Flynn. In the first quarter, BMO had about $685 million of net formations. Much, much higher than the $230 million of provisions during the quarter. And a lot of formations came from that loan that was taken out of the Fairway classified and provided for. Can you talk about the current prospects for credit migration? And to what extent you would think that the formations might either be in line with or greater than the type of provisioning that you're guiding us to this year?

Tom Flynn *- BMO Financial Group - EVP and CRO*

Sure. I guess the sharpest answer to your question would take us back to the guidance that we gave around the provision for the year and we increased that guidance, as you know, on our Q1 call. And if you back the provision that we took in the first quarter for that one loan out of the guidance, you end up with an assumption really that the coming quarters will see additional provisions coming from diversified exposures that will, in a sense, substitute for the one lumpy provision that we took in the first quarter for the credit that came out of the securitization conduit.

And we're not seeing formations at the current time building in a way that would lead us to question the guidance that we gave in the last quarter. The guidance reflected what we were seeing and what we expected to see in the portfolio, given what's going on in the economy.

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

That's a good answer and I might also add that we have good visibility. Because of the strength of our workout business and the fact that we have a very established special assets unit. We're moving watch list credits into that unit very early in the cycle and we're working them very hard. And that gives us a pretty granular sense of where in both the Canadian and the U.S. portfolio we're liable to see issues emerge.

Don Hadwin *- CI - Analyst*

Don Hadwin, CI, just curious how big your workout unit is and you've reminded us today that historically you've been very good at avoiding too much credit risk. Yet any significant acquisition opportunities that are going to come up this year will probably have very scary loan portfolios. So I'm just wondering if you have the right people to tackle something that's historically not -- an area you've avoided?

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

The core of our corporate institutional workout group is about 12 professionals and a good number of them have been through two cycles. So the hard core capability we've kept in place and Wendy -- I don't know how many workout people we have in commercial banking?

So there's over 100 in commercial banking and that's a pretty accurate number. That -- the trick with special asset units is not to disband them in the good parts of the cycle and we've been served very well by that. There's lots of work of a project nature that they can do in between the cycles, but retaining that talent is important. It's impossible to recruit it in a downturn. There's just a real shortage of that kind of talent.

And typically they get loaded pretty heavily at the beginning of a cycle because they're really sorting -- they're part of the process of sorting through the portfolio, looking for potential weakness.

With the most recent acquisitions we made in Wisconsin, I wouldn't say that the loan portfolios were scary, but we were very vigilant with the larger of the two acquisitions and we did detailed analysis of the portfolio, file by file, and assigned a number of accounts that were being acquired to the special assets unit right away. And so they've been able to take that on.

Obviously a larger transaction, part of what you have to evaluate is the strength of the people in that company and if they have credit depth and they have workout people in place.

There also is the opportunity -- it's a great training experience for lenders to spend time in special assets. I think virtually all of us who were lenders at some point in our career did at least a year or maybe two years of duty in that area and it used to be you had to work out your own transactions. But that is good experience too. So I -- the brief answer is I think we've got the depth and we have the leadership to be able to supplement it if we want to.

Ian De Verteuil – *BMO Capital Markets*

I remember a few years ago being down in Chicago at a Harris day and one of the big focuses, one of the big items of focus, was the consolidation of the charters. I was struck today that there was very little of that discussion, presumably because you're so far along in it. But I wondered, to be polite, Peter McNitt and a variety of people who were there, those -- maybe you could talk to what benefits came from that and what sort of drawbacks came from moving to the single charter out of Harris?

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

I think that would be good for a first-person response. It clearly is behind us Ian, it was a major airlift for the Company because it drew most of our technology investment resources for more than a year. And there was a lot of customer conversion.

There is just incredibly minute details that emerge when you do something like that, where people have started assigning account numbers with the same numbers in four or five different locations. When you do a conversion, it means that three or four customers have to give up their account number and if you don't want to lose the account in the process, you actually have to do basically first-person intervention with those clients. So it did take almost full-time a year of a lot of people's time and attention.

Now that it's behind us, it seems like it was simple, doesn't it, Peter? Maybe you could speak to -- a little bit to some of the benefits?

Peter McNitt *- Harris Bankcorp - Vice-Chair*

Well I'm not sure any of my colleagues would say it was simple. As Bill suggested, it was a real undertaking and it does get you a bit focused on getting the conversion done versus some of the things that we obviously wanted to do in the marketplace and we tried not to lose our footing as we were doing that.

But having it done has been a big benefit. I think one of the things we tried to get out of the whole conversion and charter collapse was a uniform approach across our entire network and a consistency in driving customer experience and ability to allow that network of branches to actually serve the customers from north to south in terms of our footprint. And so I think that was a very big benefit.

I think the other thing it did, certainly from a business banking standpoint, it allowed us to start to focus on segment approaches. And so we now have a very focused strategy in each of our business segments and it's allowed us then to get into performance management and expand some of our talent and do some of the things that have been talked about today. So again, overall, I think it was a very positive benefit. We're still working to make sure we optimize on all the things that we need to do, but good progress.

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

Yes. And I think with respect to acquisition integration, if there's one thing that was standing in our way, it was that disparity of platform. The ability to quickly migrate clients onto a common platform reduces the risk of customer attrition when you make an acquisition and it enormously reduces the costs. And as Ellen said, our most recent integration came in way below the cost that we had budgeted and I think that's one of the dividends that flowed from that platform consolidation.

Hugh and then Michael. Michael's already had one. Is that okay, Michael?

HUGH BROWN - *BMO Capital Markets*

Bill, I'd be interested to kind of stress that with the risked asset growth of the bank far exceeding its growth in core deposits, how it's doing on the liquidity front and are we finding ways of maintaining that growth, given everything that's going on?

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

Yes. The liquidity in the market is interesting in that it has tightened up and loosened and tightened up a couple of times in the last six months, I think to our credit. And I will give credit to Tom Flynn, who's been our Treasurer, was our Treasurer the last four years. That starting in the summer of 2006, we really began to take measures to strengthen the liquidity of the bank and make certain that if we did see a period of liquidity tightening, that we would be well positioned and that certainly paid off.

And even in a difficult market, we've continued to build liquidity and strengthen the balance sheet because you don't really know where the end of the disarray, if that's what you'd like to call, in the market is. But from the most difficult periods, spreads have come in and the market is funding well.

It's periods like this where you're looking at quarter-ends of banks that may have surprising disclosures, that you see a little choppiness in the market and I guess I would anticipate between now and the end of the month, there will be continued choppiness.

I think there's a couple of, it's been alluded to, there's been rumors in the market, there's a couple of emerging transactions likely to occur in the United States that will either involve significant recapitalization or a combination of two or more institutions.

But beyond that, each one of these waves that we've come through since the beginning of August, the number of potential issues has been reduced and I think it's a little bit like a list of problems. You can't knock all of the items off a list of problems at once, you have to start at the top and global markets have basically been working their way down that list, knocking them off one at a time. And as you progress down the list, the risk from the remaining items becomes less and less and the capacity to absorb.

There's no question that the intervention by the central banks has been extremely helpful and the fact that there's unified action by the central banks, the meeting of the G7 ministers and bank governors this weekend in Washington, I think, is really exemplary behavior, where they're really focused on global stability. Not bailing anybody out, not running into moral hazard issues, but making certain that the market continues to function well and I think it has.

Michael Goldberg *- Desjardins Securities - Analyst*

Bill if I understand your definition of NPS, I guess I could interpret it as satisfied customers minus dissatisfied customers. Is that correct?

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

That is correct.

Michael Goldberg *- Desjardins Securities - Analyst*

Okay. So if we look at the improvement in Canadian P&C, where has the improvement come more from? Has it been from an increase in satisfied customers? Or a decrease in dissatisfied customers? And what should we take away from the trend in these two different components?

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

It's an interesting question. I think my first conclusion on that question is that a dissatisfied customer is when you make changes will be the first place where you see a change. And I would say that in the last 24 months, the frequency and nature of customer complaints that I look at has shown significant improvement.

I take phone calls, emails, letters, on a regular basis, and you can understand with 7 million clients, there is a potential for a few of those to be originated. And my experience over the last 24 months is we've seen a much larger incidence of problems being resolved right at the front line level. At the call center or in the branches. And I think that has an enormous amount to do with the attitude of our front-line people who really have embraced this program around the customer.

And Frank and the team have been very specific about behaviors that I think are really important in dealing with customers who are potentially dissatisfied, and that is just making access so much easier. Having more people available on the front line, able to deal with the customer complaint immediately. People in the branches, who understand that returning phone calls promptly is extremely important.

I got an email yesterday from one of our top producers and she attached a letter from a client or an email from a client, who just moved a significant piece of business to us and in that email he specifically said, when I call your office, I get a phone call back within an hour. And that tells me my relationship is important.

So I think a lot of these behaviors, Michael, have gone directly to dissatisfaction. And I would say my conclusion is that it's not dissatisfaction with BMO or the Bank of Montreal. I think it's symptomatic of an industry that has to struggle to keep up with its customers, who it isn't really focused on.

I think the increase in satisfied customers is coming. And I think that goes to the quality of the offers, the frequency the office offers, how focused they are on customer needs and Sandra was talking about AIR MILES for debit card.

I've talked to a lot of front-line employees, customer service representatives or tellers, as they were known at one time, and they will tell you that it's a source of enormous pride to them that they have something that they can offer to customers that is of enormous value to them. They actually introduced them to the product as a benefit.

And if you can get your front-line people thinking about their interactions with your customers as an opportunity to draw a benefit out of that, then you'll get an up tick in the positive.

So, Frank, you might have a view about the negative versus positive? I've given it from my seat.

Frank Techar *- Bank of Montreal - President and CEO - Personal & Commercial Banking Canada*

I don't think I can add anything to that Bill

Michael Goldberg *- Desjardins Securities - Analyst*

Maybe I'll follow up on the question further. Did you have -- were you further behind in terms of dissatisfied customers than satisfied customers? That's the impression for one reason or another that I seem to --

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

Well that's an impression we'd like to say has been eliminated.

Frank Techar *- Bank of Montreal - President and CEO - Personal & Commercial Banking Canada*

Just maybe one or two more points on this one. I'll start with the score, because there appears to be a little bit of confusion around the score. It's a five-point score. We ask one question, How likely are you to recommend? And it's a five-point score, five being the best, one being the worst. And the way the score works is all the fives minus the ones, twos and threes.

So if someone says they would probably recommend, their score would be a four and our score would be zero. Fours don't count. So the -- what we're looking for is strong advocacy at the end of the day, which is why it's such a tough measure.

I think if you look at our performance versus the others in the marketplace, we have a gap in both of those. We have a gap in the fives and we have a gap in the ones, twos and threes, which Bill has addressed. And so for us, it's both. It's how do we deal with those dissatisfied customers and we've got a long way to go to move them from a one, two or three to make them a five.

Or more importantly, change the fours into fives. Because that's really where the win is because even though your customers will say I would probably recommend, the experience that we've had and others have had is they won't.

So they check the box number four, but they actually will not recommend. You need them to get to that top level in order to have that strong loyalty, which builds business for us over time. So we've got a gap in both places, Michael.

Ohad Lederer – *Vice President – Veritas Investment Research*

Ohad Lederer, Veritas. I just wanted to ask a couple of questions about Fairway. We talked very quickly in the other session. To what extent are there structured asset-backed securities in Fairway? And I understand that the ones that are there are highly rated. Has there been any migration downwards in terms of the ratings and the quality? And then also, in terms of the bank's either legal or moral obligations to support them if those assets stop to perform?

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

Yes, the commercial paper backup lines that are behind the programs provide liquidity to the programs and we expect the performance of assets in Fairway to mirror the performance of the bank's balance sheet. So we underwrite to the same underwriting standards of the assets that go into the conduit, we supervise the assets in the same way and in the case of the assets that we took out of Fairway, our objective was to put it in special assets in order to ensure that it was properly supervised.

I think that the reality is with the programs, when you provide 100% commercial paper backstop, in the absence of a default, which happens out of no place, a disaster, the best strategy is to work the credits and to manage them and make certain that the programs continue to function in an orderly way. But they're not absolute, they're certainly not absolute guarantees of the paper in those conduits. And they shouldn't be viewed that way.

Jim Bantis *- Credit Suisse - Analyst*

Jim Bantis, Credit Suisse. Just a question, Bill, on the wholesale side. What do you think of the wholesale bank? I mean this past year's been a challenging part in the context of the trading losses and then obviously on the structured products. Tom talked about reducing the size of the corporate loan book in terms of non-core relationships.

Obviously the securitization business is not what it's going to be going forward. What do you think the wholesale as a percentage of earnings, the importance of the business, limiting long-tailed term lift like, let's say, TD has. Do you see you becoming more of a plain vanilla wholesale bank going forward? And what percentage of earnings would be an appropriate size, maybe three years out?

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

Jim, I think that's an important question because it really goes to the strength of the wholesale business that we have. The strongest parts of the wholesale business are really client-related businesses. What our brand is best known for is the quality of our research, it ties into our equity and debt underwriting business.

And the business model that we have in Canada has done a good job of combining using the balance sheet and operating services with the quality of our bankers. And in the link tables, you'll see that we rank very high in the link tables in terms of number of transactions done and that speaks to the breadth of the client relationships.

So I think the business has a permanent place as part of our portfolio and the most valuable thing, it's like every other business we talked about today, is the people that -- the professionals that work in that business.

In the United States, the growth opportunity really is that we also have a very large customer base that's heavily weighted to lending and operating services right now and we're just taking the research capability that we've built in the United States and the equity and debt underwriting capability and bringing it up to a proportionate level for the Canadian business.

So, I think there are still tremendous opportunities to grow the core customer businesses, and reducing some of the capital, if you like, that is associated with the trading businesses. It's a logical thing to do in the environment that we're in because the risk return opportunities aren't there, and it allows us to be a little bit more disciplined in the allocation of capital.

In terms of earnings, I think what I said at the end of Q1 is probably the best guideline that I could give and that is that I think the wholesale business at 30% of -- using about 30% of the capital at the bank is probably the right proportion. And at that level, I would expect it to be a strong return business. I would expect it to continue to grow. But most importantly, it has to be attached to clients and client relationships that we can identify.

Jim Bantis *- Credit Suisse - Analyst*

How do you balance when you think that the 30% would be at the higher end of some of your peers. The market wants to reward people with less capital to wholesale.

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

Well, we'll have to wait and see what happens to the capital allocations of banks through the cycle. There's some subjectivity that has gone into capital allocation in the past and so I don't have a lot of confidence in some of those proportionate weightings.

The underlying BASIL are some assumptions around capital allocation that will also change between banks. So I don't think you'll see us a significant outlier in that regard.

Jim Bantis *- Credit Suisse - Analyst*

Thank you.

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

One more, and then I think it's time for dessert.

Darko Mihelic *- CIBC World Markets - Analyst*

Bill, Darko from CIBC World Markets. Bill, just a question, a little off topic. I wonder if you can reflect on capital level at the bank? Where do you think you'll be out a year from now, risk-weighted asset growth sort of creeping in? And what would be, I guess, your order of preference for usage of capital going forward relative to buy-backs, dividends, acquisitions. Maybe touch on that if you could please.

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

Yes. I think the capital level of the bank and in the range of 9% to 9.5% is a good place to be, given what's going on in the external environment. We are, as Tom said, we're putting behind us a number of issues around asset securitization. And as we do that, I think that the available free capital starts to look like it's much stronger. Apex should be put to bed in the next few weeks.

Links and Parkland have continued to come down. The size of the overall asset securitization business in Canada and in the United States has been contracting a little bit. I think smaller businesses will, in that area, will have higher returns because we're going to certainly charge more for liquidity and for management of programs where our brand and our name is behind them. And that will squeeze some participants out of the multi-contributor conduit market.

So I think that range of 9% to 9.5%, as you go into the year, will start to look like quite a bit more excess capital and I think people who have that dry powder really ought to be focused on what's available in the acquisition market. Because the combination of a strong operating foundation of the bank, good underlying earnings, the ability to go in and make acquisitions that are accretive relatively quickly could be a -- would be a very positive creator of value.

We remain committed to the dividend. I think we've paid dividends uninterrupted for 180 years? I think that's obviously an important thing to bear in mind. But I think that the reinvestment opportunities, as we come out of this very tight cycle in the market, is going to be there for awhile.

This is not something where you have to make an acquisition in the next 30 days because the opportunities will all be gone. I think realistically, it's really a 12-month period that you can look out and say there will be good opportunities to make acquisitions.

Darko Mihelic *- CIBC World Markets - Analyst*

- Inaudible -

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

It really depends on the opportunity, I guess.

Darko Mihelic *- CIBC World Markets - Analyst*

What’s your limiting factor?

Bill Downe *- Bank of Montreal - President and CEO - BMO Financial Group*

Courage. Okay. Well, thanks very much for your questions. We really appreciate the time that you've spent with us. I want you to take away from this day the focus that we have on the customer in this company, and the focus that we have on the management of performance in every one of our businesses. You should remember that we are a very strong commercial bank everywhere that we operate and we intend to continue to grow the business, grow share and be a leader in the market.

We've been growing our share in personal loans, and we've been able to do that and still maintain what Wendy spoke of as the number one position in loan losses, and we think that's really important to having a sustainable model and the ability to continue to serve our customers when they need us.

We have businesses like full-service brokerage that are the most profitable in the Canadian industry, that our online brokerage business has the highest quality with respect to customer satisfaction and loyalty, that we do have a focus on making wealth products work for our personal clients and for our commercial clients. And to finish on one of Sandra's points, we have the best loyalty reward programs, bar none, in the industry and we think they're important to cementing client relationships.

Thanks very much for the time. And I don't know, do you have any further comments? Viki? Okay. Thanks very much, and we appreciate the time you spent with us today.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time. We thank you for your participation.