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Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbor" provisions of, and are intended to be forward-looking statements under, the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives and priorities for 2012 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price, and the results of or outlook for our operations or for the Canadian and U.S. economies.

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We caution that the foregoing list is not exhaustive of all possible factors. Other factors could adversely affect our results. For more information, please see the discussion on pages 30 and 31 of BMO's 2011 annual MD&A, which outlines in detail certain key factors that may affect Bank of Montreal'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 statements, whether written or oral, that may be made from time to time by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented, as well as our strategic priorities and objectives, and may not be appropriate for other purposes.

In calculating the pro-forma impact of Basel III on our regulatory capital, risk-weighted assets (including Counterparty Credit Risk and Market Risk) and regulatory capital ratios, we have assumed that our interpretation of the proposed rules and proposals announced by the Basel Committee on Banking Supervision (BCBS) as of this date, and our models used to assess those requirements, are consistent with the final requirements that will be promulgated by the Office of the Superintendent of Financial Institutions Canada (OSFI). We have also assumed that the proposed changes affecting capital deductions, risk-weighted assets, the regulatory capital treatment for non-common share capital instruments (i.e. grandfathered capital instruments) and the minimum regulatory capital ratios are adopted by OSFI as proposed by BCBS, unless OSFI has expressly advised otherwise. We have also assumed that existing capital instruments that are non-Basel III compliant but are Basel II compliant can be fully included in the July 31, 2012, pro-forma calculations. The full impact of the Basel III proposals has been quantified based on our financial and risk positions at quarter end or as close to quarter end as was practical. In setting out the expectation that we will be able to refinance certain capital instruments in the future, as and when necessary to meet regulatory capital requirements, we have assumed that factors beyond our control, including the state of the economic and capital markets environment, will not impair our ability to do so.

Assumptions about the level of asset sales, expected asset sale prices, net funding cost, credit quality, risk of default and losses on default of the underlying assets of the structured investment vehicle were material factors we considered when establishing our expectations regarding the structured investment vehicle discussed in this interim MD&A, including the adequacy of first-loss protection. Key assumptions included that assets will continue to be sold with a view to reducing the size of the structured investment vehicle, under various asset price scenarios, and that the level of default and losses will be consistent with the credit quality of the underlying assets and our current expectations regarding continuing difficult market conditions.

Assumptions about the level of default and losses on default were material factors we considered when establishing our expectations regarding the future performance of the transactions into which our credit protection vehicle has entered. Among the key assumptions were that the level of default and losses on default will be consistent with historical experience. Material factors that were taken into account when establishing our expectations regarding the future risk of credit losses in our credit protection vehicle and risk of loss to BMO included industry diversification in the portfolio, initial credit quality by portfolio, the first-loss protection incorporated into the structure and the hedges that BMO has entered.

In determining the impact of reductions to interchange fees in the U.S. Regulatory Developments section, we have assumed that business volumes remain consistent with our expectations and that certain management actions are implemented that will modestly reduce the impact of the rules on our revenues.

Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on our business, are material factors we consider when determining our strategic priorities, objectives and expectations for our business. In determining our expectations for economic growth, both broadly and in the financial services sector, we primarily consider historical economic data provided by the Canadian and U.S. governments and their agencies. See the Economic Outlook and Review section of this interim MD&A.

Non-GAAP Measures

Bank of Montreal uses both GAAP and non-GAAP measures to assess performance. Readers are cautioned that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies. Reconciliations of GAAP to non-GAAP measures as well as the rationale for their use can be found in Bank of Montreal's Third Quarter 2012 Report to Shareholders and Bank of Montreal's 2011 Management's Discussion and Analysis, all of which are available on our website at www.bmo.com/investorrelations.

Examples of non-GAAP amounts or measures include: productivity and leverage ratios; revenue and other measures presented on a taxable equivalent basis (teb); amounts presented net of applicable taxes; adjusted net income, revenues, provision for credit losses, expenses, earnings per share, ROE, productivity ratio and other adjusted measures which exclude the impact of certain items such as credit-related items on the acquired M&I performing loans, run-off structured credit activities, hedge costs related to foreign currency risk on purchase of M&I, M&I integration costs, M&I acquisition-related costs, amortization of acquisition-related intangibles, decrease (increase) in collective allowance for credit losses and restructuring costs.

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

## PRESENTATION

**John Aiken - *Barclays Capital - Analyst***

Okay, ladies and gentlemen, we'll get started. Very pleased to have Tom Flynn, EVP and Chief Financial Officer of BMO, and, prior to this, was Chief Risk Officer. So I think that, when you got the promotion, I asked you who on the board you upset to have the transition to there.

But, Tom will take the occasion to make a few prepared remarks, and then we'll revert back into the Q&A session. So, Tom, welcome.

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

Thank you, John. It's good to be here in New York. I'll make a brief presentation. I'll take about seven minutes, and then I'm happy to take your questions.

Before I begin, please, note the caution regarding forward-looking statements on slide 2. You'll find additional details in the public filings of BMO Financial Group.

I'll make some brief comments about the bank, highlighting reasons why we think BMO is an attractive investment. And then we can move to the general Q&A session.

Bank of Montreal is a North American, universal bank serving over 12 million customers. We're the eighth-largest bank in North America by assets and the ninth largest by market cap.

Year to date, approximately two-thirds of our revenues were generated in Canada and the other third in the US.

BMO is well diversified with a retail-focused business mix. We have strong retail businesses in Canada and the US Midwest, with nearly $200 billion of customer deposits and 1,600 branches, 925 in Canada and 650 in the US. Retail banking is the largest contributor to total bank net income. Within this segment, commercial banking is a strength, we rank second in commercial loan share in Canada, and, in personal banking, we have a lending share of approximately 11%.

In the US, we have strong deposit market share positions, number three in Wisconsin [sic], number two in Chicago, and number three across our Midwest markets. Our commercial business is strong, and we're well positioned for a business-led recovery.

Our Private Client Group manages and administers total assets of $445 billion. This business provides a broad offering of wealth management and insurance to a range of client segments, from mainstream to ultra-high net worth and institutional clients.

Over 75% of the bank's operating group adjusted revenues and income come from these retail businesses.

Our fourth business group, BMO Capital Markets, provides products and services to corporate, institutional, and government clients. We operate in Canada as a bulge-bracket firm and with a midmarket focus in the US.

Moving now to a few comments on strategy and areas of focus.

We are pleased with the benefits from our acquisition of Marshall and Ilsley a year ago. This expansion of our North American footprint occurred at the right time, at the right price, and in the right place. Integration is progressing, as we noted in our investor day a few months ago. And synergies are expected to be $400 million; higher than what we expected at the time that the transaction was announced.

We have also been growing our wealth management businesses with a number of individually smaller, strategic acquisitions over the past few years.

The importance we have placed on giving customers increased advice and confidence has helped us to carve out a distinctive position in the marketplace and is a key to accelerating our profitable growth.

Our brand strategy places the customer front and center of what we do. BMO's vision is to be the bank that defines great customer experience.

We also have an ongoing initiative related to improving productivity, and we're targeting productivity on both the revenue and the expense side of the equation. A few examples include using new, smaller-format branches, which have lower capital investment requirements and lower operating expenses, but higher net promoter scores, and faster break-evens; expanded online banking platforms that have received high marks from both customers and analysts; eliminating layers of management between senior management levels and our customers; and automating and leaning out core processes.

We're making good progress on this front. In the third quarter, BMO's adjusted expenses declined sequentially, and year-to-date expenses over the first three quarters of the fiscal year increased by a modest 0.9% after adjusting for acquisitions and the impact of a stronger US dollar.

Moving to a few comments on our Q3 results, Bank of Montreal had a strong Q3. Net income was $970 million, and adjusted income[1] was $1 billion, up 18% from last year. And adjusted EPS[1] was up 11% to $1.49. Return on equity was 15%. And the capital position is strong with a Basel III common equity ratio of 8.3%.

We recently increased BMO's quarterly dividend to $0.72 per share. This increase reflects our strong capital position, confidence in our continued ability to generate sustained earnings growth as well. We also moved our target dividend payout ratio to between 40% and 50%. This change is consistent with our objective of maintaining capital flexibility and also reflects a balanced approach to capital management within a BIII operating environment.

Looking quickly at operating group results, Personal and Commercial banking net income of $453 million was up 5%. There was good loan growth, with personal lending up 6.3%. And we had market share gains in all loan and deposit categories.

Personal and Commercial US adjusted net income[1] was US$143 million, up 37% year over year and 4% sequentially. We're seeing good growth in core C&I loans with volumes up 10% since the beginning of this fiscal year and a good pipeline.

Private client group adjusted net income[1] was $115 million, an increase of 8% year over year.

And BMO Capital Markets delivered good income of $232 million in the quarter, up 3% quarter over quarter, showing the benefit of a diversified business mix.

We continue to feel good about our business and differentiated levers for growth. There's upside in our US business. We have continuing benefits from our acquired businesses in P&C US and PCG. The acquisition has added significant scale and gives us strong market share positions. We have also invested in our capital market businesses in the US and expect to see stronger returns in this business over the next few years.

We have a strength in commercial banking north and south of the border. Our strong commercial banking share provides leverage in a business-led recovery and reduces exposure to consumer deleveraging.

We're confident in our ability to perform strongly against peers and the continued success of our large P&C Canada business. We're zeroing in on productivity and are focusing on becoming a more efficient bank.

And, lastly, we have a strong capital position.

And, with that, I'd be happy to take your questions.

1 - Reported Q3 Net Income of $970MM was up 37% from last year; Reported EPS was up 30% to $1.42; P&C US reported net income of US$127MM, up 34% Y/Y and 5% Q/Q; PCG reported Net Income was $109MM, an increase of 6% Y/Y

**John Aiken - *Barclays Capital - Analyst***

Great. Thanks, Tom. I think that, again, I'll be selfish and kick this off.

One of the historical knocks, rightfully or wrongfully, against BMO had been the lack of growth in Harris. And I know that's a market perception. But the acquisition of M&I really was a very significant game-changer. As you're progressing along with the integration at this stage in the game, what's the outlook for additional acquisitions in the US or additional acquisitions in the greater platform?

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

Job one in the US is to finish the integration of M&I. We closed the acquisition last July. We're very pleased with how things are going on the integration side, and performance to date is ahead of our business case. So we're happy with the financial results, happy with the business results, and still working hard at completing the acquisition. And we're on track for that.

Looking ahead into next year, we want to continue to grow the business, focused, firstly, on organic growth. And, secondly, as we talked about at our investor day, we'll consider smaller, bolt-on type acquisitions in the markets that we're in where we're not number one or number two or number three in the market. And, right now, we're number one in the Wisconsin market, number three in deposit share in the greater Midwest area, and number two in Chicago. So we've got very strong positions. And what we'd like to do through time is to add into the markets where we're smaller.

We don't see a need at this point to do another large acquisition like M&I was for us, and we're not really focused on that. We're very happy with the transaction, which, basically, doubled the size of the US bank, added significant scale to it and, with that, we think, will result in stronger returns and a better efficiency ratio in the business. So couldn't be happier with the deal to date. But, with the bigger, stronger platform, the focus going forward for the foreseeable future will be on smaller transactions.

**John Aiken - *Barclays Capital - Analyst***

And then, with M&I specifically, it was a positive lift in terms of your expense synergy targets. My understanding is the systems integration is taking place this month, but looking at M&I specifically, what are the broad levers for growth? The expense reductions are definitely going to benefit. But where is BMO looking for growth in the various avenues that you have on the US platform?

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

So, I'll talk generally about the US platform. We do think we've got good opportunity to grow in the US. So, in the Personal and Commercial banking business in the US, we do expect to get a lift on the income side from the cost savings that will come in. And we're ahead of schedule on realizing synergies, and there's more to come once we're finished with the conversion.

A second area of focus for growth would be core commercial lending. Both Harris and M&I had a strong midmarket commercial lending business, and we've seen good growth in that business year to date with 10% growth. Pipelines are good. And there's no particular focus for the growth. We're generally covering the midmarket space, although we have increased our business in asset-based lending and in auto lending, and we're seeing good results there.

We have an indirect auto portfolio, which has done very well from a credit risk perspective. And we're increasing the number of firms that we do business with there and think that we'll see some upside on the revenue side, although pressure likely on the spread side.

And then leveraging some capability that we've built on the technology side, we think we can do more on the treasury management and deposit side for our core commercial clients. And we've got a good technology platform supporting what we call treasury management products, which is basically cash management for our commercial clients. And we're putting energy into helping our customers in that area and think we've got a very competitive offer.

And, in general, we tend to be stronger on the loan side from the share perspective than the deposit side, and so we're trying to leverage our relationships to get more of the deposit business off of the back of a good lending relationship.

On the wealth management side, as we talked about at our investor day in Chicago a little while ago, we're focused, amongst other things, on leveraging the higher-net-worth and mass-affluent customers in our branch banking business by selling them more wealth management products. And both Harris and M&I had good, solid wealth capabilities. And we're doing a better job of, basically, marrying up the wealth products and capabilities that we've got with the customer base that we have on the banking side.

And, if you look at the segmentation of our customer base, in Harris and also, although to a slightly lesser degree, M&I, the customers are of above-average affluence, and so it's sort of a customer-rich body to look to sell wealth products into. And we've been developing some new products that have had very good, early success, and we're going to roll out some capabilities that we think will do well across the network.

More generally, in the US, I'd mention our capital market business as well. And we've been investing in our capital market business over the last three or four years in terms of adding people and strengthening the degree of alignment between origination and research and sales and distribution. And we're in a position now where we've got a team in place that we think is a good team. We strengthened the alignment across the different parts of the organization. And we think that we'll get some upside next year and beyond as we basically see the payoff from the investment that we've made, with that coming as a result of the teams having been together for a longer period of time and sort of gelling as teams and also, hopefully, a bit of a lift in the markets.

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**John Aiken - *Barclays Capital - Analyst***

Any questions from the floor?

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**Unidentified Audience Member**

Tom, focusing on loan growth in the US, it seems like loan growth is probably ahead of expectations at this point, given what you might have expected a year ago. I guess, (a), is that your view as well? And, (b), if it is, does that change the expectations for the US operation over the next 12 months or so?

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

Okay. So, the loan growth story is a bit of a complicated one in the US because we've got parts of the portfolio that we want to grow and are growing, and we've got parts of the portfolio that we want to run off and we're running those off.

And so we're pleased with the growth that we've had in the core, commercial part of the portfolio. We're up 10% year to date, as I talked about, and feel good about the pipelines and really do think that we've got a strong capability in that part of the portfolio. And we're ahead of where we thought we would be a year ago in that part of the portfolio.

We're also ahead of where we thought we'd be in running off some commercial real-estate-related portfolios. So that's kind of a good news/bad news situation. The good news is we wanted to run parts of that portfolio down. We're doing that because we think, from a portfolio mix perspective, the M&I portfolio was somewhat overweight commercial real estate, and so we wanted to reduce the percentage. So the good news is that we're remixing the portfolio in the way that we want, the bad news is that the runoff has come a little more quickly, and, with that, the revenues have been slightly impacted.

But, overall, we're very pleased with the performance of the portfolio and are expecting basically more of the same. We think we've got a good ability to compete on the commercial side and we're very focused on that.

Personal growth is tougher, just given the environment. It feels like we're holding our own, but with consumers deleveraging, its a difficult environment to grow in. And, on the commercial real estate side, we'll continue to reduce the parts of the portfolio that we want to reduce, although there is a core, commercial real estate part of the portfolio that will continue.

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**Unidentified Audience Member**

And, separately, you mentioned kind of the market share on the low-end deposit side of things. I'm kind of curious more on the trends in market share in the US here. You know, a year-plus into the integration here, are you gaining share, stabilizing, losing share?

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

I'd say it's hard to tell. And I quoted market share numbers on the deposit side. And, there, we've been gaining. So we used to be number three in the Chicago market from a share perspective, and we've moved that up to number two, which we're very pleased with. And that reflects good, hard work and focus in the business.

Harder to get, you know, reliable loan share numbers that I can speak to. I have not seen those for our business.

And so I'd say we feel good about the portfolio, feel good about the growth. But I can't quote hard share numbers for you.

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**Unidentified Audience Member**

Following up on that question about market share, I thought M&I was the number-one deposit market share in Wisconsin, and I thought you said number three. So is there some loss of market share in the M&I territory?

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

If I said three, I misspoke. We're number one in the state of Wisconsin, number two in the Chicago market, and number three in the Midwest markets, generally, where we compete. So that -- the number-three position includes other states where we're active.

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**Unidentified Audience Member**

Okay. And can you also give us an update on the Phoenix and Florida markets, where M&I had had some issues in commercial real estate, and how you view those markets now?

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

Sure. I'll take that in two parts; one on the commercial real estate and then secondly on the business.

On the commercial real estate side, I'd say we feel comfortable with the risk. M&I had done a good job working those portfolios down pre-transaction. And we've continued that and took a prudent credit mark at the time that we closed the transaction. And in general, the credit experience since we've closed has been positive generally in the portfolios and in the P&L, which you've seen.

And so there's work to do, but it's progressing. We're ahead of schedule. And we feel very comfortable with the situation.

In terms of the business, both of those markets have had tough downturns, given what's happened in the economy and in the housing markets. And we're giving the businesses time to establish themselves under the Bank of Montreal umbrella and under the BMO Harris brand. And we'll see how it goes, and we're watching their ability to compete in the local markets.

**Unidentified Audience Member**

I was just wondering if you could give us some information on the wealth management group and maybe in response to -- do you have a goal for a percent of revenues that you'd like that to be or think that that would be a proper level? Obviously, there's been a lot of changeover and integration going on with the managements of the investment teams. Do you have anything that you could talk about for retention of business, new flows that might be coming in there?

And then, along with that same thing is -- how is the integration of Milwaukee and Chicago coming together and the plans for further integration of those investment groups?

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

Sure. So, on the wealth side, the wealth business is now a little under 20% of our total revenue, and we are targeting for that business to grow at a faster rate than the bank overall and expect to achieve that through organic growth, where, naturally, the growth rates in wealth are higher than in banking in this environment, and also through allocating acquisition dollars to the wealth side.

So, we like the business. We do well in it, and we want to continue to grow it.

Our wealth business is quite broad based. In Canada, we've got one of the largest brokerage businesses with about 1,500 brokers across the country. We've got one of the leading direct brokerages. We've got a large mutual fund business, and ETF business that we started from scratch about three years ago and now has $7 billion in assets under management and has had just tremendous growth and tremendous capture of the new flows into the ETF space in Canada.

And private banking -- in the US, the focus was more private banking and asset management and, then, dealing with the mass-affluent through the M&I and Harris banking businesses, as I talked about.

So we like the business and feel good about our ability to compete. And we're doing, we think, a good job and will look for continued growth.

In terms of impact of integration, the integration is going well on the wealth side. We've made the kinds of changes that you would expect in the context of an acquisition. I haven't had, that I'm aware of, significant turnover on the asset management side itself and, from a flow perspective, have seen sort of a normal kind of a flow pattern in the business.

So I'd say we're pleased with the effort that we've had underway to put the businesses together. I think we've got a stronger business as a result. And we aren't seeing any negative consequence from that.

And our wealth business is concentrated in North America, but we have over the last couple of years bought some businesses outside of North America. And we bought an asset manager in Hong Kong a couple of years ago called Lloyd George Asset Management. They managed emerging market equities. And we bought a firm called Pyrford, which is based in London, three or four years ago and earlier this year acquired a small, private banking business in Hong Kong.

And the basic idea behind those acquisitions is to try to increase our manufacturing capability and to leverage our distribution. And so we've got good wealth distribution flows as a result of our distribution systems in North America. And we're trying to capture some more of the manufacturing margin by rounding out our distribution capabilities through these acquisitions, which aren't significant individually, financially. But we've generally been pleased with the results that we're getting from them.

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**Unidentified Audience Member**

Can you comment on the housing market in the Midwest and also in your Canadian markets? Thanks.

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

Sure. In the Midwest I think we're seeing housing stabilize. And we've all seen the housing market data that's been coming out month to month. The recovery in the US Midwest hasn't been as sharp as it has in some of the other markets. But it does feel to us like it's bottoming. And, in some of the Midwest markets, the downturn wasn't as severe. So Wisconsin, as an example, didn't have the highs, and it didn't have the lows. And it sort of made its way through the downturn without a whole lot of disruption.

The Chicago market was sort of a late entrant into the downturn, but then had average-sized downturn, give or take, relative to the rest of the US - a little slower recovering than some of the markets. But it looks like it's forming a base here, and our expectation is that we're not going to bounce up quickly from where we are but that we've got a solid base that has been established. And we'll sort of work our way out of it over time. So it's feeling better than it has for some time.

In the Canadian market, the market hasn't had a downturn, as people generally know. House prices have been firm and trending up. The government has taken steps to cool the housing market, which we as a bank and the industry generally have been supportive of.

And our expectation is that mortgage growth will slow over the next few years relative to what we've had over the last three to five years as the market cools, but that we won't have a significant correction in price. And, from a supply-to-demand perspective, we think most of the markets are in pretty good supply.

So, we haven't had a situation in Canada, as far as we can tell, and we've looked at it a lot, where a lot of supply has been built on spec. We think there's pretty good balance between the markets.

So, absent a very significant downturn in the economy or a significant spike in rates, both of which we think are unlikely, we think we're into a situation where prices will stabilize. We think that's a good thing for the market. And activity levels will decrease somewhat, which we also think will be a good thing for the market. And credit will be fine.

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**Unidentified Audience Member**

So if credit, theoretically, is going to be fine in Canada, even if you do have a bit of a downturn here, I would suspect that there would be a negative impact on the top line just from if prices go down, essentially, mortgage production could grind to a halt, and you'd actually have negative growth in mortgages so lose out on some net interest income there.

What levers does BMO and, I guess, the industry in general have to pull in that revenue environment on the expense side of things? How quickly can you pull back on expenses to kind of offset that revenue challenge environment?

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

Our base-case expectation on the revenue side is that we'll continue to have sort of a 2% to 3% low-growth recovery. Rates will stay low. And growth will slow in the mortgage market, but we'll still have some growth; so, 5% maybe, if we're lucky, maybe a little less in the mortgage market. And in that kind of a scenario or the scenario you painted, which would be a more negative scenario, we're focused on productivity. And, really, as we see things at Bank of Montreal, independent of whether mortgage growth is zero or 5%, it's going to be lower than it has been over the last five years. And, to drive the bottom line, we need to look at productivity.

And so, across our bank, we're looking at expense management and productivity generally, which includes looking for other sources of revenue growth. And, across the organization, we're looking at our management layers and what we call spans and layers and looking to make sure that we don't have too many layers of management relative to the businesses that we're running. We're looking at where we've got expenses against the revenue opportunities that we've got and where we've got more expense than we think we need given the revenue opportunity, we're looking to reduce our expenses.

We're looking at what we call our core processes. And, between our technology and operations group and our business groups, we've identified ten big processes in the organization -- so, as an example, our mortgage servicing and on-boarding process, which would be a big process in the Canadian business. And we've got teams focused on looking at those processes to make them more lean and more automated to reduce costs. And we've got a program to roll through those big processes over the next few years. And you don't pull that lever in a short period of time, but we're focused on being very deliberate about pulling out process by process over the next couple of years.

Expense management is also being used in what we call procurement and real estate. So, on the real estate side, we're using more, smaller branches, which have better economics. And customers like them because they've got higher energy levels, and they're sort of a friendlier environment for some people to do business in urban environments.

We're looking at increasing the density within our offices using a new format that includes using more remote worksite locations. So we've got, basically, shared space for people who are traveling or don't need to be in the office all the time. And we've got a program to roll out basically, an increase in density in our office tower footprints. And we're managing our procured expenses, generally, in a tighter way.

So you don't pull any of those levers in a way that results in abrupt change in a big, complicated organization. But we're focused on, I would say, all of those levers in an organized way, across the bank and in a formal kind of a way that we've said to ourselves will be in place as a formal program for a three-year time horizon.

And we do think that you saw some of the benefits of that in the expense numbers in Q3 and also Q2, with expenses down by a snick quarter over quarter and, basically, flat year over year, which we think is good.

**Unidentified Audience Member**

I haven't looked at this, but I'm going to throw this out there, because I asked TD this one time, and they didn't have an answer.

On your purchase of M&I, obviously, M&I had about a 75% RWA prior to their purchase by you. Most Canadian banks, I think, are in around more in the 30-35% kind of RWA to total assets. And TD, after making their purchase in the US, didn't have a change in their RWA percentage, when you would have thought that, with that large addition of the US Bank would have had a big increase. What has been the impact of M&I's assets on your RWA at your company?

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

Directionally, it would be consistent with the premise behind your question. I don't have the exact numbers. I think, at the time we closed the M&I deal, the RWA was about $45 billion. And our total RWA is around $200 billion. And the weighting of RWA to assets would have absolutely been higher for M&I than it is for the overall bank. So it would have been an increase in sort of that ratio but would not have been that significant. It might have moved up by 3 points or something like that. So, not a significant item.

We do think, through time, that there's a lift that we'll get on the M&I RWA, and that's because a portion of the portfolio is higher risk. And that's why we took a big credit mark, and that's why we're working parts of the portfolio off. And so those higher-risk assets attract a higher risk weighting, a higher than one risk weighting, and so, through time, we'll reduce those assets, which will provide some RWA relief. It won't be dramatic in any period, but it's a tailwind from an RWA and a capital growth perspective.

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**Unidentified Audience Member**

Tom, following along on that question, BMO has done very well, obviously, in the Basel III profile and the Basel III capital ratio, from the internal generation of capital. But, as well as management of the risk-weighted assets and, very prudently, trying to reduce where you can, is there much more room available, or have we seen the rationalization of the RWAs about as far as we can go?

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

I would say that we've been very happy with the progress that we've had on the capital ratio and with RWA. And there is some upside that remains.

So, after we announced the M&I acquisition, the Basel III fully loaded common equity ratio was 6.6%, and we're now at 8.3%. And so a very significant increase in the ratio over about five quarters and a more significant increase in the ratio than you could extrapolate off of. And that's come from good earnings, some reductions in RWA, and some capital management actions that we've taken.

Going forward, I would say the big levers for RWA reduction will relate to counterparty credit risk under Basel III. And, under the Basel III rules, we have about $12 bill of RWA for counterparty credit risk. And that's reflected in our 8.3% common equity ratio. Through time, that RWA will come down significantly, and it will take time. But it -- we'll work it down as we move some of the derivative business that we do to exchanges and clearing houses and also as we increase the amount of collateral that we're holding with counterparties against exposures that we've got. So there's lift in that area. That will be meaningful but not dramatic, I would say.

And then, on the RWA side, we still do have some higher risk-weighted assets tied to some parts of the loan portfolio that are being worked out, and I talked about that earlier. But there's a source of lift from that that we'll get as well.

So we expect the ratio to continue to improve. But the improvement won't be as dramatic as we've seen over the last five quarters.

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**John Aiken - *Barclays Capital - Analyst***

I think we'll wrap up with one final question.

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**Unidentified Audience Member**

I guess, just going back to Arizona for a second, given that housing prices have improved pretty significantly in the Phoenix market specifically, I'm just wondering if the loss content has come in significantly better than you had expected at the outset of the M&I deal.

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

I would say the answer to the question is yes. We took a prudent mark initially in December 2010, when we did our due diligence. We refreshed the mark on close in July of 2011. And, since closing, the credit performance has been meaningfully better than forecast. And, in the last two quarters, we've had income of about $118 million, pretax, coming from better performance in the M&I impaired portfolios. And we're basically marking to market the impaired portfolio and good solid contributions to income coming from better performance and people working hard to work out the portfolios.

And then, as well, on the M&I performing portfolio, where the accounting is kind of complicated but you have to amortize the credit mark and then you take provisions as they come, we've had positive income coming into the income statement but not in our adjusted income, every quarter since we closed. So we're meaningfully ahead of the game on credit from the time that we closed the transaction and feel very comfortable with the position we're in.

**John Aiken - *Barclays Capital - Analyst***

Great. Well, Tom, thank you very much. We appreciate it.

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

Thank you.