

Note 28: Contingent Liabilities

(a) Legal Proceedings

In the bankruptcy of Adelphia Communications Corporation (“Adelphia”), the Official Committees of Unsecured Creditors and Equity Security Holders filed Complaints against Bank of Montreal, its indirect subsidiary BMO Capital Markets Corp. (previously Harris Nesbitt Corp.) and approximately 380 other financial institutions. The Complaints allege various federal statutory and common law claims and seek an unspecified amount of compensatory and punitive damages, along with equitable relief. The actions have now been withdrawn from the Bankruptcy Court and are pending before the United States District Court for the Southern District of New York. As a result of the confirmation of various Adelphia plans of reorganization, a special purpose entity, the Adelphia Recovery Trust (“ART”), has replaced the committees as the plaintiff in these actions.

In addition, Bank of Montreal and BMO Capital Markets Corp. are two of many financial institutions named in civil actions brought by investors in Adelphia securities. Defendants reached a settlement agreement in connection with the most significant of these actions, a consolidated class action brought by Adelphia security holders, which settlement was subsequently approved by the District Court. The settlement is currently being appealed by certain putative class members. Unless the appeal of the consolidated class action settlement is successful, that settlement bars all future civil actions against Bank of Montreal and BMO Capital Markets Corp. by Adelphia investors except for two actions brought by groups of plaintiffs who chose to opt out of the consolidated class action settlement. Actions by these two groups of plaintiffs, seeking unspecified damages, are currently pending before the District Court. Since the ART action is brought by Adelphia

and its creditors, as opposed to Adelphia’s investors, it is not affected by the class action settlement.

As these matters remain in various intermediate procedural stages, we are unable to determine the eventual outcome of these matters, but management believes that the Bank and BMO Capital Markets Corp. have strong defences to these claims and will vigorously defend against all such actions.

BMO Nesbitt Burns Inc., an indirect subsidiary of Bank of Montreal, has been named as a defendant in several individual actions and proposed class actions in Canada brought on behalf of shareholders of Bre-X Minerals Ltd. (“Bre-X”). Two of the proposed class actions in Canada have been dismissed as to BMO Nesbitt Burns Inc. A proposed U.S. class action was dismissed as against BMO Nesbitt Burns Inc. in October 2005. BMO Nesbitt Burns Inc., Bank of Montreal and BMO Capital Markets Corp. (previously Harris Nesbitt Corp.) are also defendants in an individual action in the United States.

Other defendants named in one or more of the actions referred to above include Bre-X, officers and directors of Bre-X, a mining consulting firm retained by Bre-X, Bre-X’s financial advisor, brokerage firms which sold Bre-X common stock and a major gold production company. These actions are largely based on allegations of negligence and negligent and/or fraudulent misrepresentation in connection with the sale of Bre-X securities.

As these matters are all in the early stages, we are unable to determine the eventual outcome of these matters, but management believes that BMO Nesbitt Burns Inc., the Bank and BMO Capital Markets Corp. have strong defences to these claims and will vigorously defend against all such actions.

Following our disclosures of mark-to-market losses in our commodities trading businesses on April 27, 2007 and May 17, 2007 aggregating \$680 million (pre-tax) as of April 30, 2007, the Bank has received inquiries, requests for documents or subpoenas pertaining to those trading losses from securities, commodities, banking and law enforcement authorities. The Bank is cooperating with all of these authorities.

The Bank and its subsidiaries are party to other legal proceedings, including regulatory investigations, in the ordinary course of their businesses. While there is inherent difficulty in predicting the outcome of these proceedings, management does not expect the outcome of any of these other proceedings, individually or in the aggregate, to have a material adverse effect on the consolidated financial position or results of the Bank's operations.

(b) Pledged Assets

In the normal course of our business, we pledge assets as security for various liabilities that we incur. The following tables summarize our pledged assets, to whom they are pledged and in relation to what activity:

(Canadian \$ in millions)	2007	2006
Cash resources	\$ 65	\$ 9
Securities		
Issued or guaranteed by Canada	8,758	5,999
Issued or guaranteed by a Canadian province, municipality or school corporation	3,648	2,234
Other securities	17,441	17,724
Securities borrowed or purchased under resale agreements and other	25,475	25,436
Total assets pledged	\$ 55,387	\$ 51,402

Excludes restricted cash resources disclosed in Note 2.

(Canadian \$ in millions)	2007	2006
Assets pledged to: (1)		
Clearing systems, payment systems and depositories	\$ 1,371	\$ 1,351
Bank of Canada	1,768	1,734
Foreign governments and central banks	1,381	3,247
Assets pledged in relation to:		
Obligations related to securities lent or sold under repurchase agreements	24,837	28,477
Securities borrowing and lending	19,435	11,709
Derivatives transactions	3,959	2,010
Other	2,636	2,874
Total	\$ 55,387	\$ 51,402

Certain comparative figures have been reclassified to conform with the current year's presentation.

Excludes cash pledged with central banks disclosed as restricted cash in Note 2.

(1) Includes assets pledged in order to participate in clearing and payment systems and depositories or to have access to the facilities of central banks in foreign jurisdictions.