

# Q3 09

Defining great customer experience.



## Institutional Investor Presentation

**BMO**  **Financial Group**

## Forward Looking Statements

### Caution Regarding Forward-Looking Statements

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 harbour 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 2009 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.

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; 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 30 and 31 of the BMO 2008 Annual Report, which outlines in detail certain key factors that may affect our 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, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented and our strategic priorities and objectives, and may not be appropriate for other purposes.

Assumptions about the level of asset sales, expected asset sale prices, net funding cost, credit quality and risk of default and losses on default of the underlying assets of the structured investment vehicles were material factors we considered when establishing our expectations regarding the structured investment vehicles discussed in this document, including the amount to be drawn under the BMO liquidity facilities and the expectation that the first-loss protection provided by the subordinate capital notes will exceed future losses. Key assumptions included that assets would continue to be sold with a view to reducing the size of the structured investment vehicles, under various asset price scenarios, and that the level of defaults and losses will be consistent with the credit quality of the underlying assets and our current expectations regarding challenging market conditions continuing.

Assumptions about the level of defaults and losses on defaults were material factors we considered when establishing our expectation of the future performance of the transactions that Apex Trust has entered into. Key assumptions included that the level of defaults and losses on defaults would be consistent with historical experience. Material factors that were taken into account when establishing our expectations of the future risk of credit losses in Apex Trust included industry diversification in the portfolio, initial credit quality by portfolio and the first-loss protection incorporated into the structure.

Assumptions about the performance of the Canadian and U.S. economies as well as overall market conditions and their combined effect on the bank's business, including those described under the heading Economic Outlook in our Third Quarter 2009 Report to Shareholders, are material factors we consider when determining our strategic priorities, objectives and expectations for our business. In determining our expectations for economic growth, both broadly and in the financial services sector, we primarily consider historical economic data provided by the Canadian and U.S. governments and their agencies.

## Other Reporting Matters

### Caution Regarding 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 Third Quarter 2009 Report to Shareholders, MD&A and 2008 Annual Report to Shareholders all of which are available on our website at [www.bmo.com/investorrelations](http://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. In addition, results stated on a basis that excludes charges for certain trading and valuation adjustments, changes in the general allowance and restructuring charges are non-GAAP measures. Bank of Montreal provides supplemental information on combined business segments to facilitate comparisons to peers.

## Bank of Montreal (BMO Financial Group)

- 4<sup>th</sup> largest bank in Canada measured by total assets as at July 31, 2009
- 100% ownership of Chicago-based Harris Bank

<b>Listings</b> NYSE, TSX (Ticker: BMO)		<b>F2008 Average Assets</b> C\$398 billion (US\$386 <sup>1</sup> billion)
<b>Share Price</b> Oct 31/08: NYSE – US\$35.77 <small>(Fiscal Year-end)</small> TSX – C\$43.02 Jul 31/09: NYSE – US\$50.11 TSX – C\$54.02		<b>F2008 Net Income</b> C\$2.0 billion (US\$1.9 <sup>1</sup> billion)
<b>Market Cap</b> Oct 31/08: C\$22 billion (US\$18 billion) Jul 31/09: C\$30 billion (US\$27 billion)		<b>F2009 YTD Tier 1 Capital Ratio</b> 11.71%
		<b># of Employees</b> 36,500

<sup>1</sup> Balances reported in Canadian dollars.

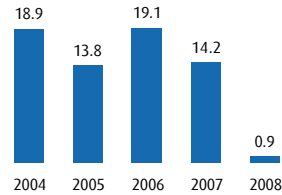
F2008 average exchange rate: Cdn/U.S. \$1.0321  
 As at October 31, 2008 the exchange rate: Cdn/U.S. \$1.2045

F2009 YTD average exchange rate: Cdn/U.S. \$1.1925  
 As at July 31, 2009 the exchange rate: Cdn/U.S. \$1.0775

## Benefits of Investment in BMO

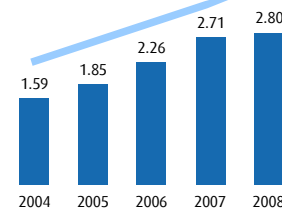
- Consistent and focused North American growth strategy:
  - ▶ A strong Canadian retail platform
  - ▶ An established franchise in the U.S. Midwest
- Strong and disciplined credit risk management capabilities and processes
- Balanced and prudent approach to capital management
- Tier 1 Capital Ratio of 11.71% at July 31, 2009
- Commitment to our medium-term financial objectives, with a focus on expense management
- Strong senior debt ratings
- Industry-leading targeted dividend payout ratio

Five Year Average Annual Total Shareholder Return (%)



Annual Dividend Declared (C\$/share)

CAGR = 15.9%



## Our Operating Philosophy

### Our Vision

To be the bank that defines great customer experience

### Our Governing Objective

To maximize the total return to BMO shareholders and generate, over time, top-quartile total shareholder return relative to our Canadian and North American peer groups

### Our Medium-Term Financial Objectives

- Over time:
- Increase EPS by an average of 10% per year
  - Earn average annual ROE of between 17% and 20%
  - Achieve average annual cash operating leverage of at least 2%
  - Maintain a strong regulatory capital position

## How BMO is Differentiating to Drive Performance & Growth

### Our Customer Culture

- Streamlining processes to ensure we deliver extraordinary value to our customers and take away complexity
- Brand is compelling because it promises a differentiated experience

### Excellence in Performance

- Managing our people, processes and assets across the enterprise for productivity
- Our culture emphasizes results, customer focus, accountability and leadership development

### Building Leadership in Risk Management

- Making investments in our risk management capabilities, assessing performance based on risk-adjusted returns to ensure that the risks we assume are being appropriately rewarded and are generating shareholder returns.



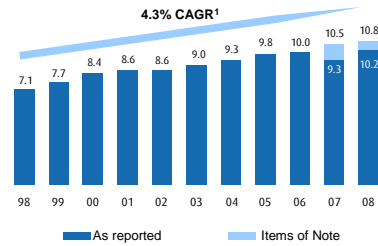
## BMO's North American Growth Strategy

	<b>Build a superior Canadian personal banking business</b>
	<b>Further strengthen commercial banking businesses to continue being a leading player</b>
	<b>Grow our wealth management businesses and capture increasing market share</b>
	<b>Deliver strong, stable returns in BMO Capital Markets</b>
	<b>Improve our performance and expand our network in the U.S. to lead in the U.S. Midwest</b>
	<b>Build a high-performing, customer-focused organization</b>

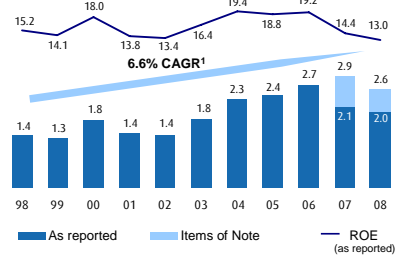
## Long-Term Financial Trends

- BMO has delivered positive financial results over the last ten years, with compounded annual Net Income growth of 6.6%<sup>1</sup>

### Revenue (\$B)



### Net Income (\$B) & Return on Equity (%)

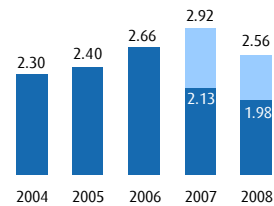


<sup>1</sup> Excluding items of note  
As reported results:  
Revenue CAGR of 3.8%  
Net Income CAGR of 4.6%

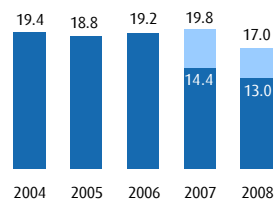
## Fiscal 2008 Financial Highlights

- Net Income \$2.0 billion, ROE 13.0% (as reported)
- Excluding items of note<sup>1</sup>
  - Net Income \$2.6 billion
  - ROE 17.0%
- Results reflect strength and diversity of core business in challenging market
- ROE 13% or over for 19th consecutive year on a reported basis

### Net Income (\$B)



### ROE (%)



<sup>1</sup> Items of note include:  
F2007: Commodities losses, capital markets environment charges, increase to the general allowance, and restructuring charges  
F2008: Capital markets environment charges and increase to the general allowance

## Operating Groups

### Personal & Commercial Banking (P&C)

- Over 8 million customers across Canada & the U.S.
- Almost 1,200 branches in Canada & the U.S.
- Access to over 2,600 automated banking machines in Canada and the U.S.

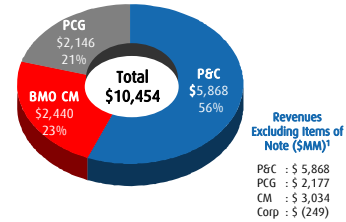
### Private Client Group (PCG)

- Full-service and direct investing, private banking, investment products
- BMO Life Insurance

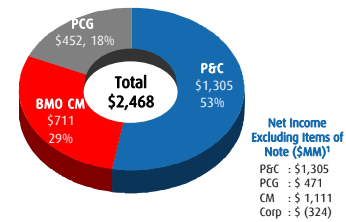
### BMO Capital Markets (BMO CM)

- Bulge bracket firm in Canada, mid-market niche player in the U.S.
- Capital raising, M&A and restructuring advisory services
- Industry leading research, sales and trading capability

F2008 Revenue by Operating Group (C\$MM)



F2008 Net Income by Operating Group (C\$MM)

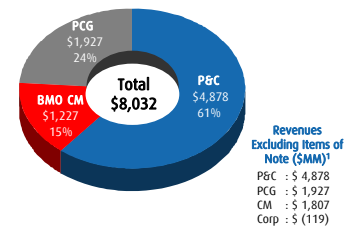


<sup>1</sup> Items of note include capital markets environment charges in BMO CM and PCG as well as an increase to the general allowance in the corporate segment

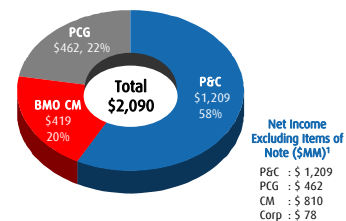
## Highlights of BMO in Canada

- Large, full service universal bank
- BMO continues to rank 2<sup>nd</sup> in business banking market share for business loans \$5MM and below
- Strong performance in combined Personal & Commercial (P&C) / Private Client Group (PCG) businesses
- BMO Capital Markets (BMO CM) Ranked Top Overall Equity Research Team in Canada for the 28<sup>th</sup> consecutive year
- BMO InvestorLine was recognized as Canada's fastest online brokerage website by Gómez Canada and was named the number one bank-owned online brokerage in *The Globe and Mail's* 10<sup>th</sup> annual online brokerage ranking

F2008 Non-U.S. Operating Group Revenue (C\$MM)



F2008 Non-U.S. Operating Group Net Income (C\$MM)



<sup>1</sup> Items of note include capital markets environment charges in BMO CM and PCG as well as an increase to the general allowance in the corporate segment

## Our Presence in the U.S.



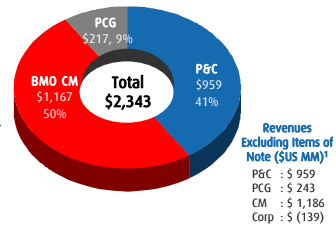
### Personal & Commercial (P&C)

- Brand image and reputation
- Well-positioned branch distribution and access
- Strong sales management & marketing capabilities
- Superior risk management capabilities
- Strong customer orientation and culture

### Private Client Group (PCG)

- Industry-recognized leadership in client service
- High retention, strong product offering
- Strategic presence in select high-growth wealth management markets
- Harris distribution and brand

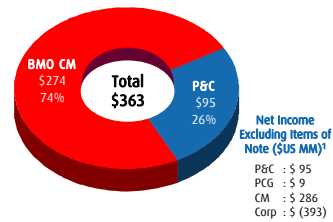
### F2008 U.S. Operating Group Revenue (US\$MM)



### BMO Capital Markets (BMO CM)

- Attractive client base, strong long-term relationships
- Primary focus on Mid-market
- Full service, integrated investment & corporate bank
- Cross-border capabilities
- Sector specialties
- Top-tier equity research capabilities
- Strong position in the municipal bond market

### F2008 U.S. Operating Group Net Income<sup>2</sup> (US\$MM)



<sup>1</sup> Items of note includes deterioration in the capital markets environment in BMO CM and PCG as well as an increase to the general allowance in the corporate segment

<sup>2</sup> PCG had a net loss of \$6MM as reported for F2008

## Financial Highlights

	Net Income	EPS	Y/Y EPS Growth	Cash EPS	ROE	Cash Operating Leverage	Specific PCL	General Allowance	Tier 1 Capital Ratio (Basel II)
Q3 09	\$557MM	\$0.97	(1.0)%	\$0.98	12.1%	3.2%	\$357MM	\$60MM	11.71%
F2009 YTD	\$1,140MM	\$1.97	(27.0)%	\$2.01	8.5%	(1.2)%	\$1,157MM	\$60MM	11.71%

- Q3 09 adjusted cash EPS of \$1.05 excluding an increase in the general allowance (\$0.07/share)
- F2009 YTD adjusted cash EPS of \$3.07 excluding the negative impact of trading and valuation adjustments (\$0.84/share), severance costs (\$0.15/share) and an increase in the general allowance (\$0.07/share)

### Strengths

- Record revenues
- P&C Canada momentum continues with strong net income growth of 13% and very strong commercial revenue growth of 17%
- Good performance from BMO CM, capitalizing on business opportunities with strong returns
- PCG results reflect insurance results and improving equity markets
- P&C U.S. results reflect continued customer focus with strong loyalty scores and deposit retention
- Tier 1 capital ratio remains strong

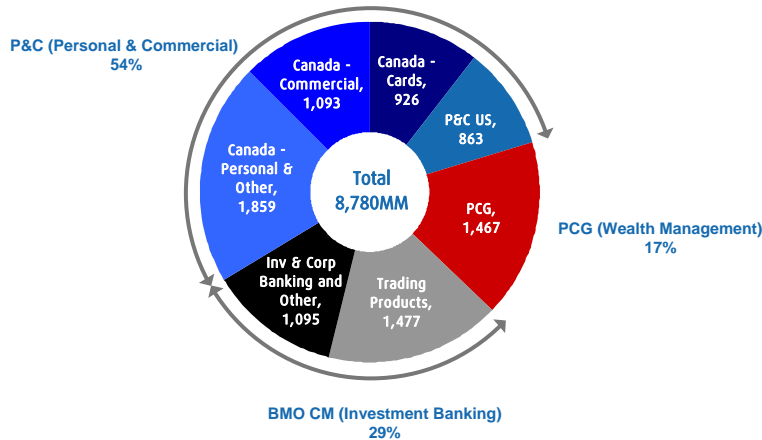
### Challenges

- Loan portfolio continues to be impacted by negative credit risk migration as expected, but at a slowing pace in a number of areas
- Continued market environment pressures

## Well-Diversified Business

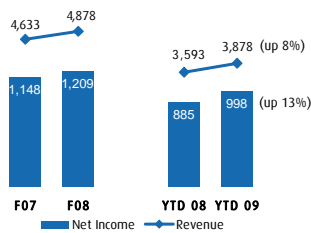
Over 70% of revenues from retail businesses in Canada and the US (P&C and PCG)

F2009 YTD Revenue by Operating Group  
(C\$MM)

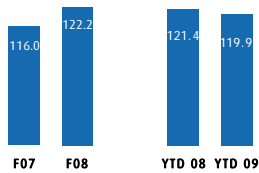


## Personal & Commercial Banking – Canada

Revenue / Net Income (C\$MM)



Average Loans and Acceptances (C\$B)

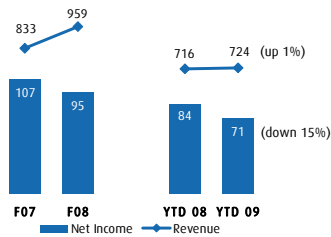


### 2009 OBJECTIVES

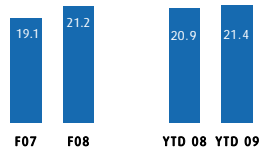
- Continue to enhance the customer experience and create a differentiated position in the Canadian market
- Leverage improvements in our performance management system to deliver stronger revenue growth and greater customer loyalty
- Launch attractive and compelling new offerings that drive results
- Improve productivity of our sales and distribution network
- Redesign core processes and technologies to achieve a high-quality customer experience, create capacity for customer-facing employees and reduce costs

## Personal & Commercial Banking – U.S.

Revenue / Net Income (US\$MM)



Average Loans and Acceptances (US\$B)

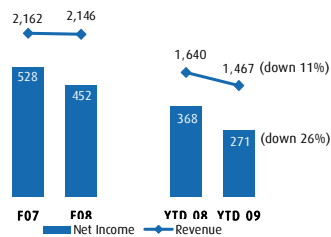


### 2009 OBJECTIVES

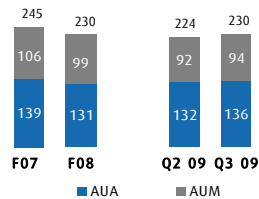
- **Improve financial performance** by growing revenue and effectively managing costs
- **Continue to leverage our leadership position in the Chicago area** and increase our presence and visibility in all other markets where we compete
- **Deliver a differentiated customer experience** that fosters customer advocacy, as measured by our retail Net Promoter Score

## Private Client Group

Revenue<sup>1</sup> / Net Income<sup>1</sup> (C\$MM)



AUA / AUM<sup>2</sup> (C\$B)



### 2009 OBJECTIVES

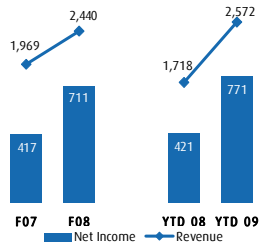
- **Satisfy our clients' needs** by continuing our high level of internal collaboration and referrals
- **Expand our sales force and improve its productivity** to drive revenue growth
- **Innovate within sales channels** and enhance products and solutions to satisfy clients' needs

<sup>1</sup> BMO Life Assurance acquisition added \$37MM of revenue and \$7MM net income in F09. Results in F09 benefitted from a \$23MM recovery of prior years' income taxes. Charges associated with actions taken to support U.S. clients in the weaker capital market environment impacted results in Q1 09 by \$17MM (\$11MM after-tax) and Q4 08 by \$31MM (\$19MM after-tax).

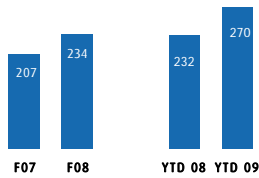
<sup>2</sup> Assets in source currency improved by 6.5% in Q3 F09 versus Q2 F09.

## BMO Capital Markets

Revenue<sup>1</sup> / Net Income<sup>1</sup> (C\$MM)



Average Assets (C\$B)



### 2009 OBJECTIVES

- Increase our focus on core profitable clients
- Optimize our capital
- Improve our risk-return profile
- Improve our return on equity while securing our future growth

<sup>1</sup> Results were impacted by:  
 F2007: Commodities losses – \$(853)MM or \$(440)MM net of taxes and variable compensation  
 Capital market environment charges of \$(318)MM or \$(211) net of taxes  
 F2008: Capital market environment charges of \$(694)MM or \$(400)MM net of taxes  
 YTD 08: Capital market environment charges of \$(680)MM or \$(392)MM net of taxes  
 YTD 09: Capital market environment charges of \$(628)MM or \$(428)MM net of taxes

## Group Net Income

As Reported (\$MM)	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q/Q B/(W)	Y/Y B/(W)
<b>P&amp;C Canada</b>	315	324	308	334	<b>356</b>	6%	13%
<b>P&amp;C U.S.</b>	28	12	34	25	<b>25</b>	-%	(8)%
<b>Total P&amp;C</b>	343	336	342	359	<b>381</b>	6%	11%
<b>PCG</b>	125	84	73	78	<b>120</b>	54%	(4)%
<b>BMO Capital Markets</b>	263	290	179	249	<b>343</b>	38%	30%
<b>Corporate Services</b>	(210)	(150)	(369)	(328)	<b>(287)</b>	12%	(36)%
<b>Total Bank</b>	521	560	225	358	<b>557</b>	56%	7%

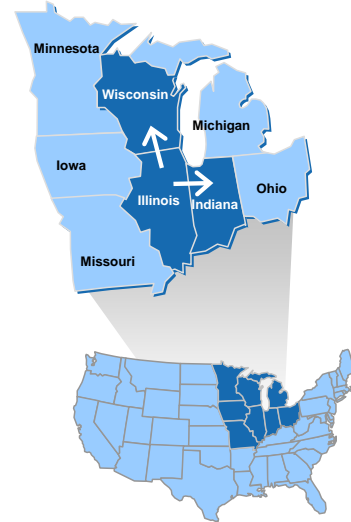
  

Excluding Items of Note (\$MM)	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q/Q B/(W)	Y/Y B/(W)
<b>P&amp;C Canada</b>	315	324	308	334	<b>356</b>	6%	13%
<b>P&amp;C U.S.</b>	28	12	34	25	<b>25</b>	-%	(8)%
<b>Total P&amp;C</b>	343	336	342	359	<b>381</b>	6%	11%
<b>PCG</b>	125	103	84	78	<b>120</b>	54%	(4)%
<b>BMO Capital Markets</b>	359	298	527	329	<b>343</b>	4%	(4)%
<b>Corporate Services</b>	(180)	(52)	(369)	(248)	<b>(248)<sup>1</sup></b>	-	(37)%
<b>Total Bank</b>	647	685	584	518	<b>596</b>	15%	(8)%

<sup>1</sup> Q3 09 has been adjusted for the impact to the general allowance of \$60MM (\$39MM after tax)  
 nm – not meaningful

## U.S. Growth Potential

- Chicago is the hub of Midwest region
  - ▶ Population base of 60 million people, almost double that of Canada's population
  - ▶ GDP of \$2.6 trillion U.S.
- Harris is a well known brand in the attractive U.S. Midwest market
- Uniquely positioned between smaller community banks and larger network banks
- New opportunities for organic growth due to the erosion of big network banks in the Midwest
- Current market conditions may provide opportunities



## Acquisition History

### Harris Bank

- Recognized and respected bank, in business for 125 years
- Established strengths in both personal and commercial businesses, serving over 1 million customers

### Distribution network

- 280 branches
  - ▶ 188 in Illinois
  - ▶ 40 in Wisconsin
  - ▶ 52 in Indiana
- 638 ATM's
- Internet & telephone banking

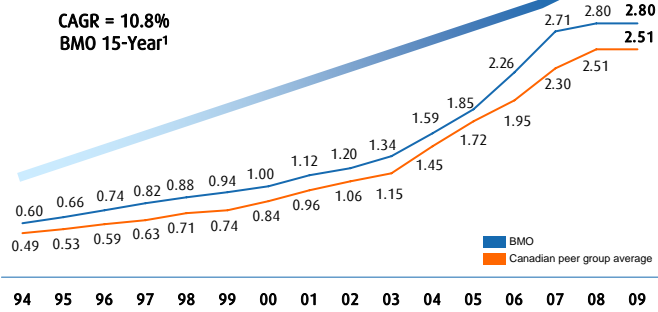
### Chicago

- Solid growth in population and median household incomes
- Highly diversified economy
- Banking industry still fragmented

U.S. Retail Acquisitions	Year	Amount (US \$MM)
Harris Bank	1984	547
Barrington	1985	32
St. Charles & Batavia	1988	26
Libertyville	1990	6
Frankfort	1990	17
Suburban Bancorp	1994	222
Household Int'l	1996	277
Joliet	2001	221
Lakeland	2004	37
New Lenox State Bank (NLSB)	2004	235
Mercantile	2004	161
Edville (Villa Park)	2005	66
First National Bank and Trust	2006	290
Merchants & Manufacturers	2008	135
Ozaukee	2008	180
<b>Total</b>		<b>2,452</b>

## Annual Dividend

### Annual Dividends Declared Per Share (C\$)



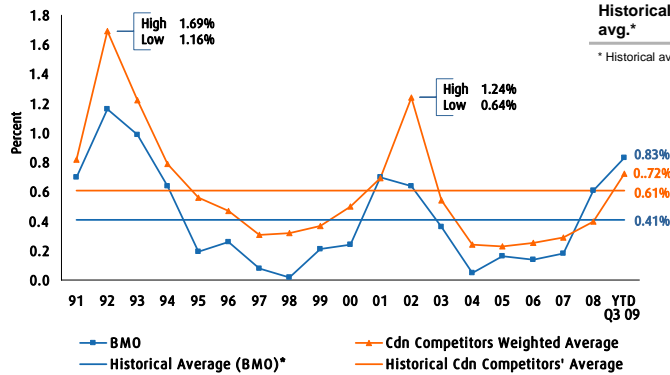
**Target Payout Ratio**  
**45% - 55%**

<sup>1</sup>CAGR based on dividends paid 1995 - 2009

## Credit Performance Measure

### Historical Specific PCL average

#### Specific PCL as a % of Average Net Loans and Acceptances (excluding Reverse Repos)



	BMO	Canadian Competitors
F2009 YTD	0.83	0.72
F2008	0.61	0.40
Historical avg.*	0.41	0.61

\* Historical avg.: 1991 to 2008

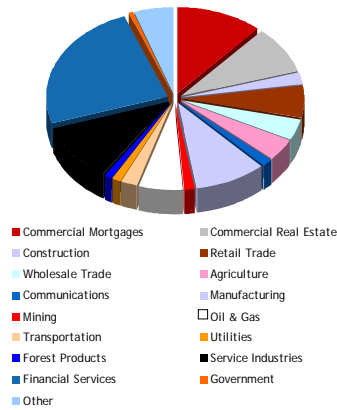
○ BMO's Canadian competitors include: BNS, CM, NA, RY, TD  
○ Competitor average excludes the impact of TD's sectoral provisions

## Loan Portfolio Distribution

### Total Gross Loans and Acceptances As at July 31, 2009

(\$B)	Canada	U.S.	Other	Total	
<b>Consumer</b>					
Residential Mortgage	40	7	-	47	27%
Consumer Loans	34	10	-	44	25%
Cards	2	-	-	2	1%
<b>Total Consumer</b>	<b>76</b>	<b>17</b>	<b>-</b>	<b>93</b>	<b>53%</b>
<b>Commercial</b>	<b>36</b>	<b>8</b>	<b>-</b>	<b>44</b>	<b>25%</b>
<b>Corporate</b>	<b>12</b>	<b>15</b>	<b>11</b>	<b>38</b>	<b>22%</b>
<b>Total</b>	<b>124</b>	<b>40</b>	<b>11</b>	<b>175</b>	<b>100%</b>

### Commercial and Corporate Gross Loans and Acceptances by Industry (\$B) As at July 31, 2009



## Credit Protection & Structured Investment Vehicles Update

PORTFOLIO	COMMENTARY
<b>Credit Protection Vehicle (Apex)</b>	<p><b>Low risk of loss given hedges on position, quality of underlying portfolio and the first loss protection in structure.</b></p> <ul style="list-style-type: none"> <li>Vehicle provides credit protection on twelve largely investment grade corporate credit portfolios with exposure to realized credit loss protected by generally sizeable first loss cushions.</li> <li>CS\$815MM (carrying value C\$423MM) Medium Term Note position, hedged subsequent to quarter end. Total Notes outstanding are \$2.2B. BMO participation in C\$1.13B senior funding facility is C\$1.03B (hedged up to the first C\$515MM of losses) and credit exposure for balance of notional. Collateral requirements are effectively capped.</li> <li>Risk of future loss is considered very low as expected loss on underlying exposures is well below size of Notes, and hedges provide protection in excess of BMO's Note position.</li> <li>Two weakest tranches have first loss protection of under 10.5%. Other ten tranches have strong first loss protection levels ranging from 13.0% to 29.4% with a weighted average of 23.6%.</li> <li>The underlying pool of corporate credit risk is well diversified and majority (70%) is investment grade rated.</li> </ul>
<b>Structured Investment Vehicles</b>	<p><b>BMO Senior Funding Facility well protected by subordinate capital notes.</b></p> <ul style="list-style-type: none"> <li>Senior ranked liquidity facility to facilitate orderly wind-down of vehicles provided. Links US\$6.6B (US\$6.4B drawn Q3'09) and Parkland €650MM (€622MM drawn as at end of Q3'09).</li> <li>Book value of subordinated capital notes that protects BMO senior funding US\$935MM / €154MM. Subordinate to BMO's senior liquidity facility. Viewed as sufficient to protect BMO's position from loss.</li> <li>Market value of Links/Parkland assets US\$5.6B/€598MM (US\$5.2B/€551MM at Q2/09) - asset sales and maturities generated cash of US\$387MM/€23MM for Links/Parkland in the quarter; continues to be impacted by market illiquidity.</li> <li>Links/Parkland asset quality remains strong with at least 92%/93% assets rated investment grade by Moody's/S&amp;P; 55% rated Aa3 or better by Moody's; 49% rated AA- or better by S&amp;P, by market value.</li> <li>Strategy to reduce size of entities via asset maturities, and asset sales as appropriate given market conditions.</li> </ul>

<sup>1</sup> As at July 31, 2009 unless noted otherwise

## Systemic Differences Between Canadian & U.S. Banks

### Canada

- Mature oligopoly: 6 chartered banks
- Single regulator – OSFI
- Almost no subprime in this market
- Governed by the Bank Act
- Foreign ownership limits in place
- Integrated business model: customers purchase multiple products from one institution
- Residential mortgages are lower risk due to:
  - ▶ No lending with loan to value above 80% without government backed insurance
  - ▶ Shorter terms
  - ▶ Prepayment penalties borne by the individual
  - ▶ Lack of interest deductibility from income taxes
  - ▶ Significant portion of mortgages generally retained on balance sheet
- Current government not permitting bank mergers amongst big banks

### U.S.

- Fragmented market
- Multiple regulators
- Choice of State vs. National Charter allows flexibility in choosing regulatory environment and structuring operations
- Bank Holding Companies provide flexibility in structuring business activities
- Branch restrictions in U.S. and various limits on interstate expansion
- More likely to securitize residential mortgages as prepayment penalties borne by the bank
- Consolidation continues

## Performance ... Canadian versus U.S. Banks

- Canada has the “soundest and healthiest” banking system in the world based on a recent survey by the World Economic Forum
- For F2008 Canadian banks (except CIBC) were able to maintain positive EPS, despite the changes in market conditions
- No bailouts by the Canadian government have been needed in the downturn
- Canadian banks remain among the best capitalized banks in the world
- The market for residential secured borrowing in Canada is typically of high quality. Approximately 5% of mortgage borrowers are considered to be non-prime and the large banks are generally not significant players in this space
- Exposures to U.S. subprime lending by Canadian banks are not material
- Canadian banks are more diversified by product and client type, business line and geography
- Canadian bank ROEs have been materially higher than U.S. bank ROEs in recent years
- The 5 big Canadian banks were ranked in the top 10 for market cap in North America as of September 1, 2009

## Economic Outlook

### Canada

- The economy is turning up after a three-quarter recession. Record-low interest rates and unprecedented fiscal stimulus is fostering the recovery. We expect the expansion to gain traction in the year ahead.
- The housing market continues to strengthen due to improved affordability, and should remain healthy well into next year owing to expected low interest rates.
- Consumer spending is improving, and business investment should follow later this year.
- The Bank of Canada is expected to keep interest rates near zero until the middle of 2010 because of low inflation and relatively high unemployment.
- The Canadian dollar is expected to strengthen towards parity with the U.S. dollar in 2010 as a result of firmer commodity prices.

### U.S.

- The economy is turning up after the worst recession in seven decades, helped by aggressive monetary policy and fiscal stimulus programs. The recovery is expected to continue in 2010, albeit at a subdued rate as consumers rebuild savings.
- The housing market is recovering and prices are stabilizing after a three-year slump.
- The Fed is expected to keep rates near zero until next summer to encourage a durable recovery.

\* Outlook as at September 25, 2009

## Economy ... Recession Over

Economic Indicators (%)	Canada			United States			Eurozone		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
GDP Growth	0.4	(2.3)	2.6	0.4	(2.5)	2.5	0.6	(3.7)	1.7
Inflation	2.4	0.3	1.5	3.8	(0.4)	2.1	3.3	0.3	1.6
Private Consumption Growth	3.0	(0.1)	2.6	(0.2)	(0.8)	0.9	0.3		
Interest Rate (3mth Tbills) <sup>1</sup>	2.3	0.3	0.8	1.4	0.2	0.3	4.6	1.3	1.4
Unemployment Rate	6.1	8.5	9.0	5.8	9.2	9.9	7.6	9.4	10.6
Current Account Balance / GDP	0.5	(2.6)	(2.8)	(4.9)	(2.8)	(2.5)			
Budget Surplus / GDP	(0.2)	(3.1)	(1.8)	(3.2)	(11.2)	(9.6)			

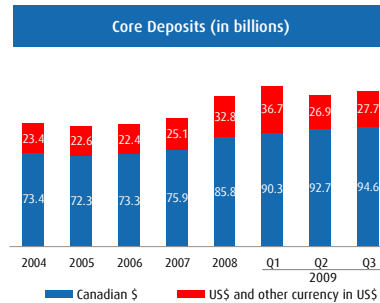
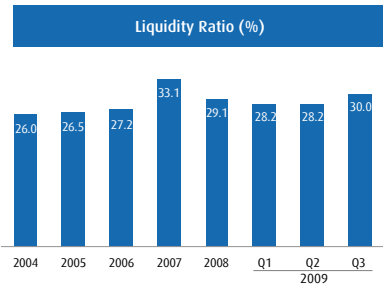
Sources: BMO Economics, Haver Analytics

<sup>1</sup>Annual average

\*Forecasts as of September 25, 2009

## Liquidity and Funding Strategy

- BMO's large base of core and customer deposits, along with our strong capital base, reduces reliance on wholesale funding
- Our wholesale funding principles seek to match the term of assets with the term of funding (e.g. to fund loans with longer term funds). In addition, we diversify our sources of funding by market, instrument and term



- BMO's has access to diversified funding sources, including:

**Programs:**

- ▶ EMTN Program: US\$20bn
- ▶ Canadian MTN Program: \$6bn
- ▶ Covered Bond Program: €7bn
- ▶ US Program: US\$6bn

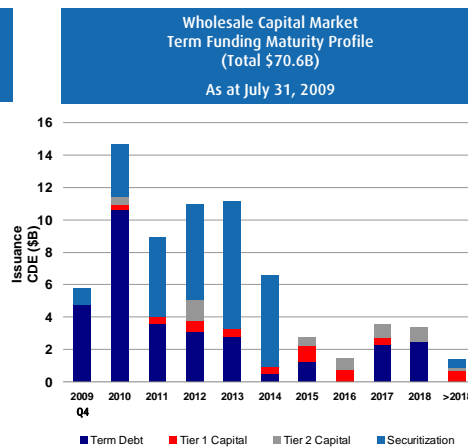
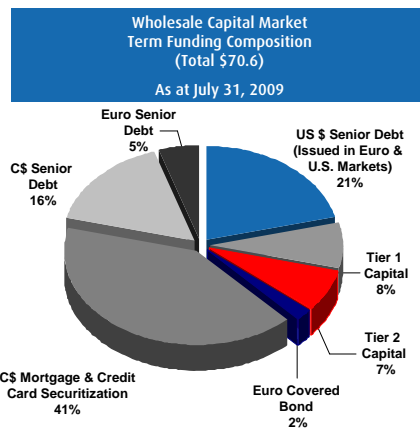
**Current program size:**

**Additional Sources:**

- ▶ Securitization: Mortgages (Canada Mortgage Bond participation and MBS) and Credit Card ABS (\$3bn shelf)
- ▶ Canadian & US Senior (unsecured) deposits

## Diversified Wholesale Term Funding Mix

- Wholesale funding principles seek to match the term of assets with the term of funding. Loans for example are largely funded with customer deposits and capital, with the difference provided by longer-term wholesale funding.
- BMO has a well diversified wholesale funding platform across markets, products, terms, currencies and maturities.
- All fiscal 2009 term-funding requirements have now been met as has a good portion of 2010.
- Liquidity position remains sound as reflected by cash and securities to total asset ratio and level of core deposits.



## Corporate Governance

- Comprehensive code of business conduct and ethics provides a framework for directors, officers and employees on the conduct and ethical decision-making integral to their work
- Governance practices are consistent with, and in many cases exceed, requirements of the TSX and NYSE. The Bank is also in compliance with applicable rules adopted by the Canadian Securities Administrators (CSA) and the U.S. Securities and Exchange Commission (SEC) to give effect to the provisions of the *Sarbanes-Oxley Act*.
- To ensure non-employee directors' compensation is aligned with shareholder interests, at least 50% of the annual retainer must be paid in Common Shares of the Bank or Deferred Share Units
- *The Globe and Mail's Board Games 2008* annual review of corporate governance practices ranked BMO 7<sup>th</sup> overall among 180 Canadian reporting issuers

## Corporate Responsibility : Focused on the Environment

BMO's approach to Corporate Responsibility involves:

- Delivering value to our customers
- Creating opportunities for our employees
- Generating greater rewards for our shareholders
- Contributing to the well-being of the communities where we do business
- Integrating respect for the environment into our business growth strategies and practices.

In 2008 our BMO ECO<sup>5</sup> Strategy was designed to manage the environmental impact of our operations.

The strategy covers five key areas:

- Energy Consumption
- Transportation
- Material Consumption
- Waste Generation
- Procurement



### PROGRESS REPORT

2007 PRIORITIES	2008 PROGRESS
Reduce our operational impact.	○ As part of our Clear Blue Skies Initiative introduced BMO ECO <sup>5</sup> Strategy.
Maintain responsible lending practices.	○ Updated our lending guidelines in 2008, introducing specific due diligence questions related to climate change.
Work with stakeholder to deepen our understanding of current environmental issues.	○ Engage in dialogue with a number of stakeholders representing non-governmental organizations, industry associations and not-for-profits. ○ Various stakeholder groups reviewed and commented on the drafting of our updated Environmental Policy.

## Engaged with Stakeholders

- BMO supports various international environmental initiatives:
  - ▶ Signatory to the United Nations' *UNEP Statement by Financial Institutions on the Environment & Sustainable Development*, the *Carbon Disclosure Project* and *The Equator Principles*
- External recognition for our sustainability efforts:
  - ▶ Included in indices that recognize the sustainability performance of companies across economic, social and environmental dimensions (e.g. *FTSE4Good Index*, *Dow Jones Sustainability North America Index* and *Jantzi Social Index*)
  - ▶ Named as one of the highest scoring companies in the world and the only Canadian bank in the *Global 500 Carbon Disclosure Leadership Index* for 2009.



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