RISK MANAGEMENT OVERVIEW
INVESTOR COMMUNITY BREAKFAST

BMO Financial Group

January 26 • 06
8:30 am EST

RISK MANAGEMENT OVERVIEW
INVESTOR COMMUNITY BREAKFAST

SUSAN A. PAYNE
Senior Vice President
Investor Relations
January 26 • 06

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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 presentation, 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 the United States Private Securities Litigation Reform Act of 1995 and of any applicable Canadian securities legislation. Forward-looking statements may include, but are not limited to, comments with respect to our objectives and priorities for 2006 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 presentation 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 conditions in the countries in which we operate; 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 affects 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 in our 2005 Annual Report concerning the effect certain key factors could have on actual 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.

Assumptions about the performance of the Canadian and U.S. economies in 2006 and how that will affect our businesses are material factors we consider when setting our strategic priorities and objectives, and in determining our financial targets, including provision for credit losses. Key assumptions include our assumption that the Canadian and U.S. economies will expand at a healthy pace in 2006 and that inflation will remain low. We also have assumed that interest rates will increase gradually in both countries in 2006 and that the Canadian dollar will hold onto its recent gains in value. 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. 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.

Good morning everyone and welcome to BMO Financial Group. We're delighted that so many of you could be here to join us in Toronto for the risk management breakfast. And for those of you who could not, we hope you enjoy today's webcast.

At this time, I would like to caution our listeners by stating the following on behalf of those speaking today.

Forward-looking statements may be made during this event, 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 forecasts or projections in the 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 this presentation or on our investor relations web site at BMO.com.

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KAREN MAIDMENT
Senior Executive Vice President and
Chief Financial Officer
January 26 • 06

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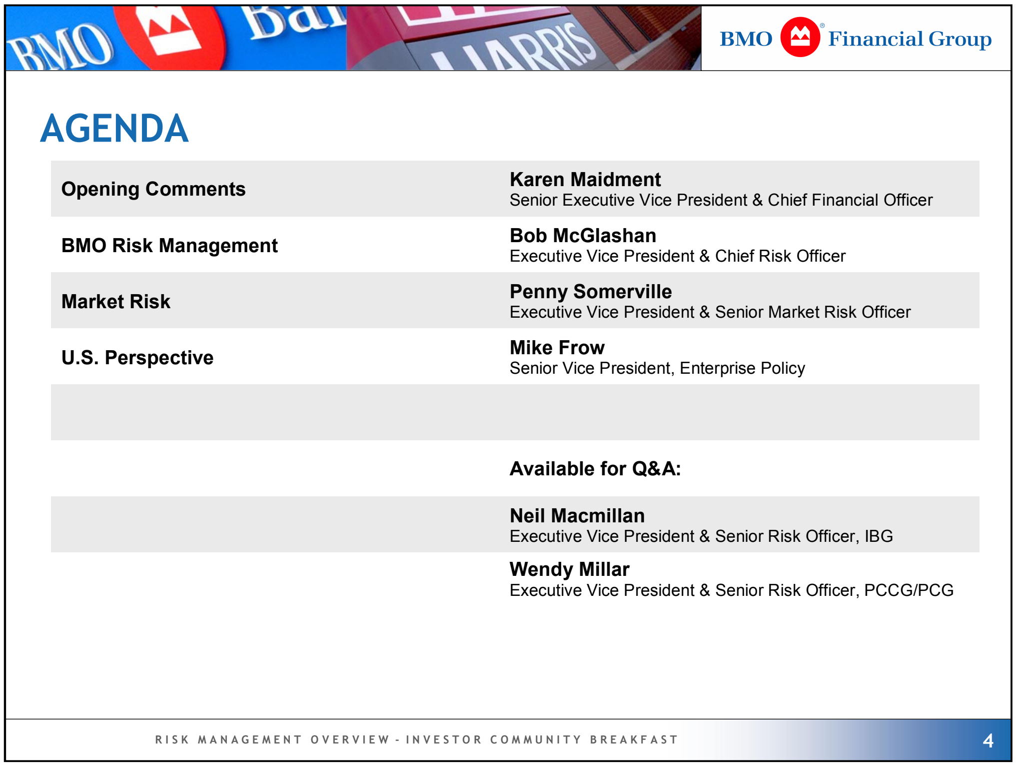
It is my pleasure to introduce Karen Maidment, who last week was appointed Chief Financial & Administrative Officer, BMO Financial Group, effective February 1, 2006.



As a leader who oversees both the risk management and the IR functions, I'm delighted to have the opportunity to host this session this morning. It's a real pleasure to have you all joining us here in person and those of you over the web cast.

Every year, as part of our business planning process, both the management committee at the bank and the Board of Directors take a good look at our risk management policies and practices. And I can tell you that both management and the board are very proud of risk management at BMO.

I think the key that you're going to see today is a theme of consistency. We believe managing consistently through the credit cycle gives us a significant competitive advantage. So much so that it actually provides a platform for growth going forward.

Experience shows that our consistent underwriting standards result in relative lower loan losses, but also that we pick up market share as our competitors pull back and tighten up during different parts of the cycle. So we believe this will become more apparent as the business environment changes.

One thing about BMO's competitive advantage is it's not just from the first rate tools and techniques that are available to everyone, but it's really about our combination of tools, processes, and people.

And it's really very much the people that make the difference.

So we're delighted to have the opportunity to showcase the people today who you're going to see are very experienced and long-term bankers and risk management experts.

Our first presenter will be Bob McGlashan, who is our Chief Risk Officer and a 34-year banker. And who's had lots of experience both in Canada and the United States on the personal and commercial side as well as the investment banking side. So he brings all that expertise to the table in this role.

And I think by the time Bob is finished today, you're going to have a good overview of how truly distinctive our approach to managing credit risk at BMO is as well as what we are doing to not only maintain but also to enhance that competitive advantage.

Next up is Penny Somerville, who has had a 21-year career at Bank of Montreal and has served in a number of leadership roles, many of them in the finance area. Penny looks after our market risk area.

And then we'll have Mike Frow, who brings 26 years of banking experience to the oversight of the risk function in the United States.

Following the presentations we'll open it up for Q&A. And we have 2 more people here, Wendy Millar and Neil Macmillan. Wendy is the Senior Risk Officer of the private client and the personal & commercial groups. And Neil is the Senior Risk Officer of our investment-banking group.

So welcome and I'll turn it over to Bob to kick things off. Thank you.

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BOB McGLASHAN
Executive Vice President and
Chief Risk Officer
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BMO RISK MANAGEMENT – OVERVIEW

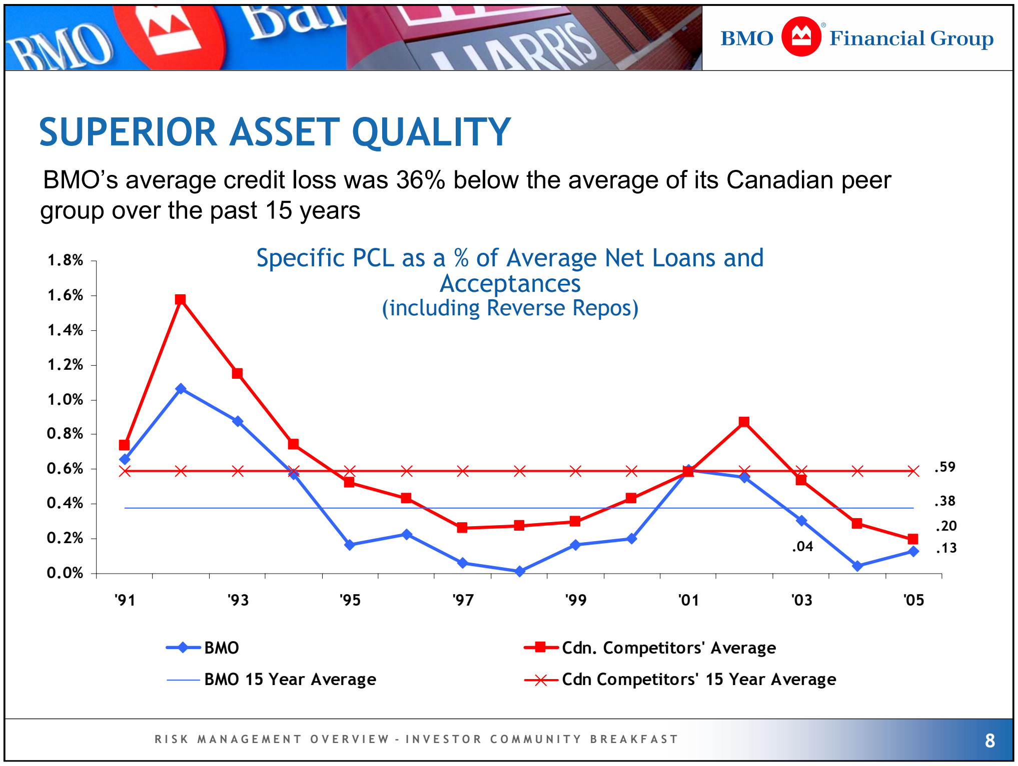
- Excellent credit performance
- Industry loan loss volatility should be more moderate
- BMO's unique approach to credit risk management
- We are not unduly exposed to sectors of concern

It goes without saying but we'll say it anyhow. We do have a pretty terrific track record in terms of our credit risk results over the years.

We're looking at a changing environment going forward and we'll get into why the loan loss volatility through the cycle, I think, is going to continue to be there. But I think the cycles may start to look a little less aggressive with the results of some things that are in fact different now than they've been in the past.

We do have a relatively unique approach. And as I talk about some of the differences then and now, I'll also talk about some of the differences in addition to that for BMO then and now.

And finally, and you've heard this time and again in the quarterly analyst's calls that we are not unduly exposed to any particular areas of concern at this point.



This makes the point. You've seen this slide before, of where BMO is relative to the industry in terms of loan loss experience. You can see about a 20 basis point positive spread there to the industry, the average as well as where we are in the cycle.

Sometimes we approach the industry here. Often it's because we recognize the losses a little bit earlier than the industry does.

Some of the things that are different, the credit derivative market is there now, it wasn't in prior cycles. Hedge funds are there now and they're absorbing some of that insurance for risk taking. They weren't there before.

There's a very liquid secondary market, which gives you an ability to opportunistically-- there's a way to deal with it badly, too. But to opportunistically move risk assets off and level the kind of volatility you might experience.

And there is now I think, in fact I know, a dramatically improved-- across the industry-- sensitivity to issues of reputation following events like Enron. And driven by a pretty litigious environment in the United States, where folks are coming after banks for perhaps participating in or encouraging a transaction that was kind of on the edge or in some cases over the edge. So I think that has heightened awareness and folks are going to think twice before more of this kind of activity is done.

There are advanced tools-- you've heard about this a lot-- that are different now, much better technology, KMV Moody's Risk Calc. On the lending decision engines, everyone has one and everyone will tell you that theirs is the best. They're wrong. Ours is actually the best.

And those decision engines are pretty amazing, what they're capable of doing in the consumer side of the business. You can actually isolate to neighborhoods and put a different risk score or risk pass score for a loan transaction in place for one community as opposed to a different community in a region, all kinds of variables like employment, occupation and so on. The ability to fine-tune whom you say yes to and why you said yes to them is hugely better than it has been in the past.

Risk adjusted capital, and you see right beneath that Basel, is also driving some more rational thought around what you underwrite, what the real cost of it is, and what the implications are for your balance sheet. So leveraging capital in a risk adjusted way as opposed to just leveraging it brings a whole new dimension of thought to what kind of risk we are going to take, how much are we going to take, what are the implications to our balance sheet at the bank level. It drives quite a different approach.

One of the things coming out of Basel is a much more granular risk rating system across the industry. And with more granularity and better definition against each one of those layers, what you get is a more consistent approach to classifying a transaction by risk. You're going to miss it or get it wrong less frequently is the expectation as a result of this.

There have been advances in operational risk science as well. This has nothing to do with lending, frankly, but Basel is going to continue to push us down that front as well. So there's lots of ways to lose money in the bank. The biggest one is loans. But there's lots of other ways as well including the nature of your operations, technology, all of those things. And so this brings a white-hot focus to it. It's not something that we've never done before but it is something that we're going to start to have to apply some science, go back in history, bring some data forward, and actually make sure we understand what the opportunity for loss is and how we're managing it. So that's a net new thing.

Broad based industry limits, there have always been industry limits for loan exposure. But typically it's just a few industries. It's real estate when real estate's in trouble. It's the communications sector when that's in trouble. What there is now as a result of Basel, is broad based industry limits across most industries and it's there all the time, so the probability of having a much more diversified portfolio and therefore not taking as big a hit is better. It's not perfect but better.

The second to last one here, fiscal policy is an interesting one. And what's not up there as well is sort of the corporate mentality that goes with this. Inflation is a different issue now than it has been in the past. It used to actually drive some pretty silly behavior. Folks were convinced that inflation would bail them out, so did bankers. And it did until it didn't. And then, of course, you get killed. So that the fiscal policy we've got now is really driven at making sure that we don't get this kind of volatility and inflation. So folks will remove that from their thinking. And now as they're looking at a transaction, they're thinking in terms of this thing better make sense because inflation isn't going to bail you out. That's a net positive I think as a result. And I think from what at least my view of the world is we're going to see that kind of policy hang in there for a pretty long time.

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Portfolio mix and hold limits, hold limits particularly across the industry. The monster transactions where you hold half a billion dollars or a billion dollars, those days are far behind us, far behind the industry. So all that means, it doesn't mean you won't lose money on a transaction but it means when one goes down; it's going to be a smaller sting than a monster transaction.

So those are some things that are different in the industry.

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WHAT DIFFERENTIATES BMO EXPERIENCE VS. TECHNICAL TOOLS

- Independence of credit
  - a second look
  - dual signature
- Independence of monitoring
- Decentralized and large discretionary limits
- Quality and experience – qualification / risk curriculum
- Active but prudent participation in CDS and hedge funds (originate to hold / sell)
- Balance of technical science and experience / process
- Early identification of deteriorating accounts
- Know your customer

CONSISTENCY THROUGH THE CYCLE

There are some things that you should understand about Bank of Montreal. And all those things I just mentioned are relevant for us as they are for any other player in the industry. But there are some things here that are quite different about the way we go about things.

The independence issue, we don't make a loan without 2 folks looking at it from 2 different perspectives. We have someone who is driving the business management relationship, representing the client (account manager). We also have someone who isn't, who has experience being the objective voice of reason. So you need both those people to be on side.

The objective voice of reason sounds easy, but there's a couple of things that need to also go along with it. Until recently, the last several years, the objective voice of reason also reported to the guy who ran the business. So while this was objective-- it was not really, really objective. So it doesn't anymore. The risk and those concurrence functions are completely independent of those businesses. And that's important.

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We also have an independent monitoring system in both the retail businesses as well as the investment banking. That also is important. Those folks who are doing the monitoring are not measured and not paid based on revenue growth on that portfolio in isolation.

And so when they are monitoring on an ongoing basis, the health of the transactions, they're looking at them through unbiased eyes.

Decentralized and large discretionary limits-- so this is kind of counter intuitive. You would think that the bank that must lose the least has a superstar who makes fabulous decisions and that superstar is the one who makes all the decisions. That's called centralization. You'll find that in Canada, most banks operate that way. We actually, in fact the bank who does lose the least, operate with a very decentralized system. So how could that be? How could that make sense?

Well, we not only have a decentralized system, but we have very, very large discretionary limits in locations other than Toronto across the country-- Vancouver, Calgary, across the country. And it does a couple of things for you. The first is the people who are making the big decisions actually are living and working in the communities where the businesses work and they know what's going on there. So in a lot of cases, regional knowledge is extremely relevant to a transaction. And they bring it to the table. What does someone in Toronto know about what's going on in Shaugnessey in Vancouver? The answer typically is not much. So that's one thing it does.

The other thing it does is sustain the credit culture. In fact it is one of the building blocks. If you were to imagine this, you have one superstar in the bank in Toronto who makes all your credit decisions. Try and be an account manager out there in Vancouver. And how do you operate? And what's your motivation? And how do you carry on? And how do you develop your career?

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Well, you're not really thinking about making good credit decisions because someone else does all that anyhow. There's no one even locally to talk about it. So your motivation and your ability to get trained and informed about it is really weak. When you have a decentralized system, there is an onus and a set of responsibilities that goes with that for the individual in the region who's carrying it. And they take it seriously.

For any of you who have ever been in this kind of environment, you will have noticed on day one when you were given a discretionary limit that you kind of went, “whoa”! when you looked at your first transaction. I'm actually making the decision on this one, aren't I? It's actually going to be my fault if this one doesn't work out. It changes your mindset completely when you are managing a discretionary limit. So it enforces, better know what's going on. It enforces, I'm going to make sure I stay on top of this. It enforces, this is not just a decision for today because I've got a career and if this thing goes bad my name's on it. It enforces all of that behavior.

So the credit culture that you hear us talk about, this is the stuff we're talking about and it makes a massive difference. Quality and experience as a result you get what we have got. A very, very deep experience level in credit skills across the organization. Not just a couple of people who kind of get it and that is really important.

We also have a pretty well developed risk curriculum for not just credit, but for a vast array of risk professional capabilities and that is unique. That doesn't exist anywhere else. We do it jointly with Schulich.

Active but prudent participation of CDS hedge funds. The tools are there for everybody, but how you use them, really matters. Not every hedge fund is created equally. There are lots of different things you can do with a hedge fund. Lots of things you can do with a hedge fund that will get you killed and lots of things that you can do that won't. So how you use them and how you participate-- and we are pretty measured about the way we use credit derivatives.

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For example, typically for loan risk management, we are not selling insurance to others. We are not buying that risk. And for those who are, it is not dissimilar to buying a blind participation as a stuffee in a syndicated loan, where you have no relationship with the client. You have no opportunity for extensive and detailed knowledge of the transaction. And you've got to ask yourself how well you are getting paid to take that kind of risk. Historically, that has been a bad idea. So if you use this for that approach, this is just as bad an idea. The only difference here is you have got a little bit more liquidity on market that you can dump it.

It doesn't make the risk go away completely. So, there are a lot of things you can do with these tools to help. There is lots of things you can do with these tools that can get you into trouble.

This balance of technical science and experience, you are getting a sense of the experience and judgment piece and what part that plays. Everyone has got the tools, everyone has KMV, and if that's the thing that they believe differentiates them, it doesn't, it's a commodity. Everyone has access to it. Even then, having access to it doesn't necessarily give you any guarantee that you are going to get it right. Use the tool the wrong way, you have got a problem. So when you bring together the tools with the equally as important balance of experience, now you have got an engine that will run properly. If you try and do it with just one or just the other, you really end up with a problem.

And we live with-- have forever actually-- this is not new-- the concept of know your customers. It is off the foundation of know your customer; know what they are doing, that we build every loan transaction.

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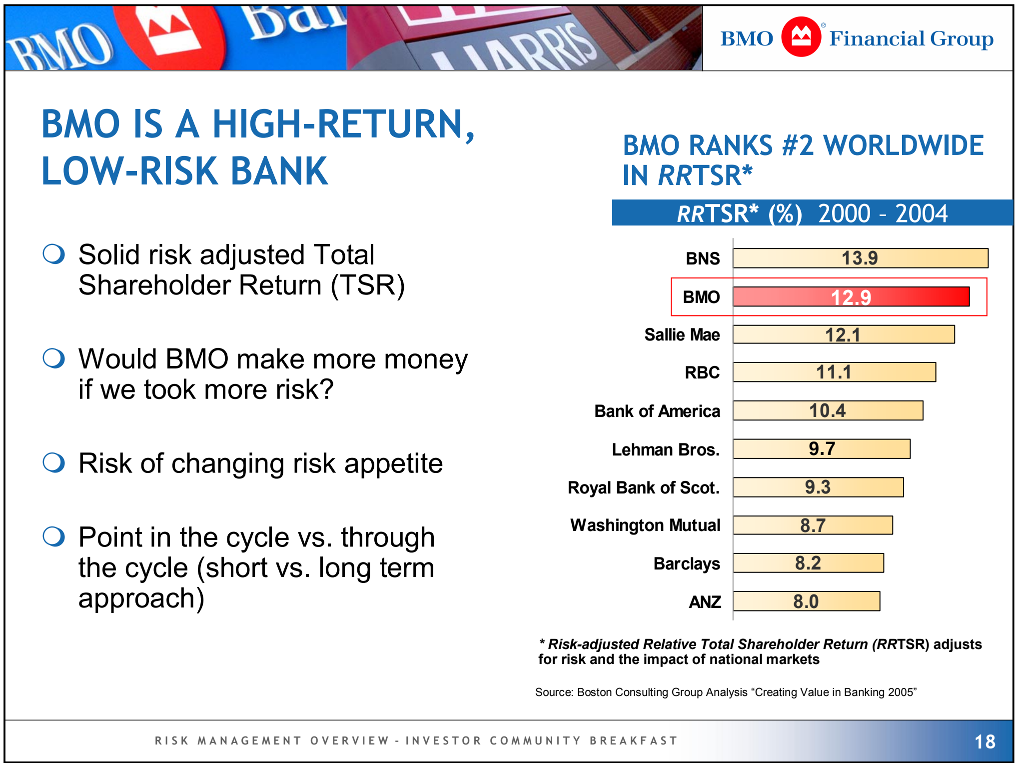
The last point there in bold, consistency through the cycle. Karen was mentioning it. This is really, really important. We have clients who choose to deal with us because of this. They know that when times are tough, we don't change our underwriting standards. They also know when the market, like it is now, gets a little crazy and starts loosening underwriting standards, we don't do that either.

A good deal is a good deal, here, no matter where you are in the cycle. We don't structure them dramatically differently. And as a result you don't see major spikes in our loan loss. We move with the economy. But we consistently outperform.

And the point of what happens to you as the other banks, the industry, pulls back in the real estate sector when the inevitable happens. In some other sector when it happens you have a great big portfolio of stuff that is killing you, because you loosened your credit terms to get it. Right now, all those loans are being booked. And when it hits you, you kind of close your doors and go “geez, don't do anymore of that”. And you wouldn't want to be a good customer, a good customer of one of those banks, in one of those industries, in a time when they are going yikes. So, we do historically, always, pick up market share, because we don't have to knee-jerk back.



From the point of do we have the risk return balance right? How do you know? Boston Consultants thinks we do. They have ranked us number two, here, in the world on a risk adjusted total shareholder return. As with anything there are pros and cons, but if you haven't seen the article and want to get into it, we can provide you a copy of it. So, we do have a track record of solid risk adjusted return. And we are looking at revenue growth and I'm sure that there will be a question at some point and time about this. When you are looking at revenue; you are looking at loan spread, don't forget to add the 20 basis points of positive PCL performance that we always have to our loan spread. And then look at that compared to the industry. It looks pretty good on that basis.

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Would we make more money if we took more risks? You know, you can only know what you have got. You can't know what you might get. And this is not an easy question to answer. And would you want to with this kind of performance, is another interesting question, maybe not. And the risk of changing risk appetites. I was giving you a sense of who we are, how we operate and the cultural issues. When you have something that is that pervasive through 30,000-plus in our organization; trying to change the direction of the Queen Mary is both difficult, time consuming and fraught with error. You will start to get all kinds of inconsistencies, & misinterpretations. So, it's not to say that you don't do it, but you do it very, very carefully. Very, very selectively, very targeted.

Point in cycle versus through the cycle as well. When we are talking about revenue you can get revenue any time. That is not hard to get. The question is what about quality; are you sacrificing or not. So, when you are looking at this, I would encourage you - - we certainly do, we look at how we perform through the cycle as opposed to how we perform at a given point in the cycle. We look at both, but to look at one in isolation doesn't tell you the whole story.

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GETTING MEASUREMENT RIGHT IS CRITICAL

- Drives desired behaviour
- Revenue
- Balances
- ROE
- Profit
- Provision for credit losses (GILs) – general allowance (performing portfolio)

Transaction vs. portfolio

Getting measurement right is critical. Any one of these things can drive you in isolation to a really, really silly place. If you measure revenue growth only, every deal that moves and rocks on the streets coming over the transom will give you great revenue growth. And then in 18 months, you'll get killed; because of all of the bad loans that you have underwritten.

If you are looking for balance growth, focus on market share in isolation, you get that too. And the same thing can happen to you. Return on equity is a little better. But again, in isolation, you can get a short term lift on return on equity in two years-- in our industry two years is kind of an interesting sort of gestation period. What we do today is going to show up in 18 to 24 months and we will know. Did we do a good job today or not? Profit as well for ROE at least incorporated your losses, but it doesn't tell you what the current risk in your portfolio is. So the point of all of these measures is these measures in isolation, without a quality component, is a bad way to go.

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Provision for Credit Losses. We have made this point a few times and I'll make it again. When you are looking at your coverage ratios, I would encourage you to think in these terms, the way we operate. The general allowance relates to the performing portion of the portfolio. That's how we determine how much it should be, that is the part of the portfolio that we look at in figuring that out. And that is what it is designed for. The PCLs, the provisions, relate to the gross impaired loans. That is what they are there for. So if you mash it all together, you get apples and oranges, and the coverage ratios kind of start to look a little wonky.

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WE ARE NOT UNDULY EXPOSED TO SECTORS OF CONCERN

- Credit cycle is turning – nature of market
- FX sensitivity
- Much higher energy cost baseline
- Hedge funds ⟶ retail investors
- Domestic automotive and suppliers
- Real Estate

I mentioned this earlier in terms of various degrees of exposure that we are not unduly exposed here. The credit cycle is turning. You'll ask me for a specific prediction; I won't give you one because I don't know. We all know that we are down here somewhere and it is still in there. How steep, how fast, when, what will your losses be next month? Well, we will all find out together.

So what we do know for sure, though-- and you'll hear this I'm sure consistently across the industry-- is we are on the way up as the economy ultimately will deteriorate. It is hard to imagine that there is a better place to be in the credit cycle than where we are right now. We are not losing any money, very little in any event.

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The nature of the market is critical, though, as I said earlier. This is as a result of this and the competitive drive for revenue growth and market share, the things you folks are looking at. All kinds of strangeness begins to happen, lots of money chasing few deals, structures start to stretch, repayment terms are paying it just to borrow the money. You really start to get some strange behaviors in the way deals are structured and so as a result, this is the time in the cycle, every cycle where the big losses get booked. Always. That is what is happening right now. It is where we are.

These other areas, foreign exchange sensitivity. Again, I mean, I could go through each one of them. But the bottom line here is that we don't really have a booming concern with respect to any of them. The hedge funds issue, though, is one that I am personally concerned about. And hedge funds in isolation, not all hedge funds are created equal. But most of them operate in the black box theory, and when you combine that with our fundamental premise of know your client, what they do and how they do it-- and they won't tell you-- that is a problem. You better be real careful with how you deal with those and who you deal with. And we are. We are very selective as a result of that.

And the compounding concern, because I suspect that this is a location of the next nuclear explosion. I could be wrong, but that is what I think. Somewhere hedge funds, there is going to be some big hedge fund losses. That in of itself isn't a big deal. But when combined with the fact that the hedge funds are reaching into the retail investment community. And you have got relatively less informed investors taking risks that they really don't understand and aren't being adequately informed of because of the nature of the thing they are running after a high yield. And thinking it is okay. They are going to find out at some point when one of these things explodes, that it isn't okay. That will elevate the nature of the concern here. That is what I'm expecting to occur.

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Domestic automotive as well, we all read what Bush had to say. But we know that that is an area of concern, obviously, so we manage it carefully. Again, we are not over exposed; we are pretty comfortable with where we stand there.

Real estate is coming. I've been saying that for years and years and years. And one of these years I'm actually going to be right. The cycle will deteriorate, again though it is important to understand that real estate, not all real estate is created equal. It is important to understand what kind of real estate does the bank do. Who has got all the empty office buildings when the cycle hits. It's a bad place to be. We don't. So again, we are very comfortable with that.

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PENNY SOMERVILLE
Executive Vice President and
Senior Market Risk Officer
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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 presentation, 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 the United States Private Securities Litigation Reform Act of 1995 and of any applicable Canadian securities legislation. Forward-looking statements may include, but are not limited to, comments with respect to our objectives and priorities for 2006 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 presentation 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 conditions in the countries in which we operate; 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 affects 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 in our 2005 Annual Report concerning the effect certain key factors could have on actual 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.

Assumptions about the performance of the Canadian and U.S. economies in 2006 and how that will affect our businesses are material factors we consider when setting our strategic priorities and objectives, and in determining our financial targets, including provision for credit losses. Key assumptions include our assumption that the Canadian and U.S. economies will expand at a healthy pace in 2006 and that inflation will remain low. We also have assumed that interest rates will increase gradually in both countries in 2006 and that the Canadian dollar will hold onto its recent gains in value. 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. 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.

MARKET RISK IN THE TRADING & UNDERWRITING PORTFOLIOS

- Key factors in market risk assessment
  - **Value at Risk (VaR)**
  - **Stress testing analysis**
  - **Variability in daily P&L returns**

My presentation today, will take quite a different slant from Bob's. I've been asked to talk briefly - - underscoring the word briefly - - about external disclosures concerning trading and underwriting market risk, how they can be used and what to watch out for. The primary disclosures around market risk are value at risk or VaR - - and I will probably use that acronym; some limited and I underscore in this one the word limited, stress testing information that is provided; and data on the variability of daily P&L returns.

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RISK DISCLOSURE BY CANADIAN BANKS

- VaR is the key risk variable disclosed by Canadian Banks
- A breakdown of VaR exposures by risk category can identify any risk concentrations within the overall portfolio
- Direct comparison of risks between banks is not always possible, as published information may not be presented consistently between banks

FY Average VaR (CAD MM)	BMO		TD		RBC		BNS		CIBC	
	FY 05	FY 04	FY 05	FY 04	FY 05	FY 04	FY 05	FY 04	FY 05	FY 04
Equities	4.9	4.4	5.4	5.3	6.0	8.0	3.9	4.3	6.0	5.2
Commodities	4.2	1.3	0.8	0.8	1.0	-	1.0	0.8	1.3	1.5
Foreign Exchange	0.6	1.4	2.8	2.6	2.0	2.0	2.0	1.4	0.3	0.7
Interest Rate: MTM	4.4	5.2	8.0	9.1	10.0	9.0	6.0	7.9	4.3	4.4
Interest Rate: Accrual	8.5	7.5								
Credit Spread	3.9	4.5	-	-	-	-	-	-	2.7	2.7
Debt Specific	-	-	-	-	2.0	1.0	-	-	-	-
Correlation	-6.6	-5.4	-7.3	-6.9	-9.0	-7.0	-5.3	-5.6	-6.7	-7.2
Total	19.9	18.9	9.7	10.9	12.0	13.0	7.6	8.8	7.9	7.3

The table above is prepared based on available published information.

The primary risk metric disclosed by banks is “at VaR”, based on positions at a point in time. The data on this slide is average VaR over the year, which we actually extracted from the various banks’ annual reports. It is generally broken down by risk category: equity; interest rates; foreign exchange, commodities; et cetera. Although the categories may definitely vary bank to bank, the breakdown is very useful. It allows the reader to identify any risk concentrations within a bank’s overall portfolio or changes in those concentrations over time. For example, looking at ours; commodities is a risk category in which our exposure increased from 2004 to 2005. And relative to the other risk categories that we provide. The increase frankly, was in response to volatility in the crude and NG (natural gas) markets and the associated customer flow that volatility generated. And it turned out to be a very useful use of our risk appetite.

So VaR is actually quite useful when you look at it one bank over time and by risk category. However, and this is where the caution comes in, direct comparisons of VaR between different banks are quite risky for a variety of reasons.

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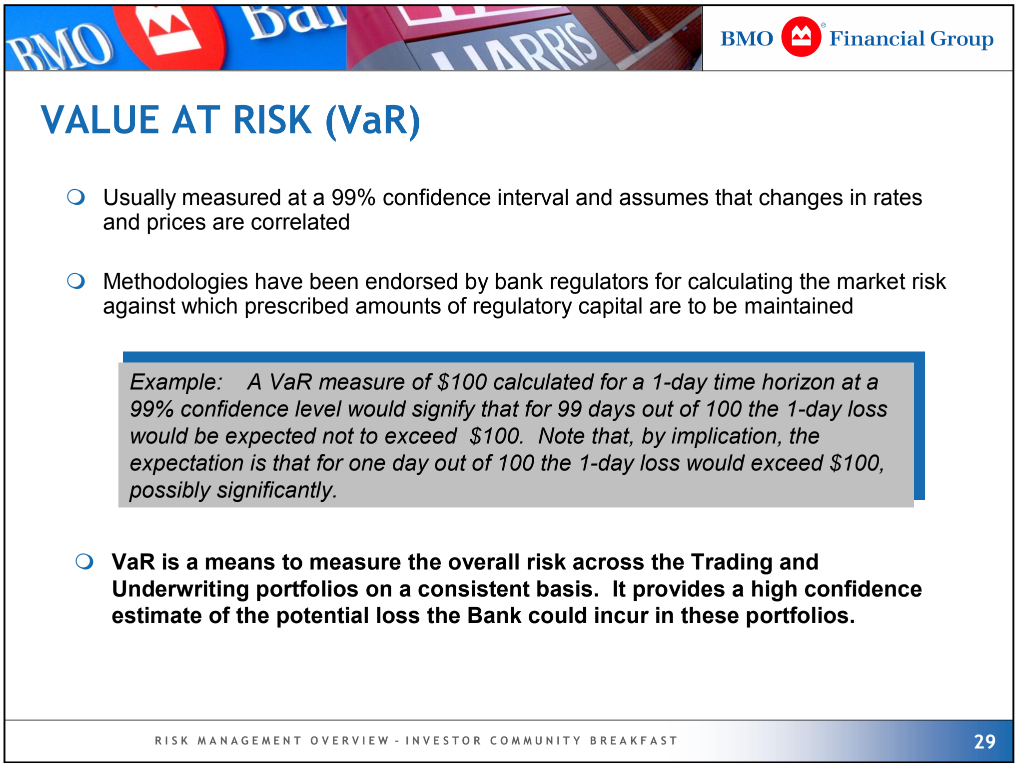
First, not all banks report the same exposures in their measure of VaR. For example, in BMO's case we include our accrual Money Market books and we disclose it as such. Other banks may very well have similar investment type portfolios which aren't included.

Second, the models used to generate the numbers can vary as well. We use a Monte Carlo simulation model, while most of the other banks use historical simulation. And I'll refer to some of the differences between the various approaches in just a moment, hopefully avoiding some of the details of the complex math that underlie all of them.

Third, and perhaps the least significant of the reasons, but still a cause of possible difference, is the market data that goes into these models. Versions of the data may differ, Bloomberg versus Reuters versus other external sources. And for some of the more complex products, the markets are thinner and the prices can be different, things like out of the money natural gas options for example.

So one of my key messages today is be cautious when you are comparing VaR results between banks. And frankly, remember that VaR is a calculation that doesn't anticipate any trader intervention. So it's a worst case scenario assuming no action is taken by the trader, regardless of the bank you are looking at.



Like the other banks, we measure VaR at a 99% confidence level. So as we indicate a VaR measure of $100 calculated for a one day time horizon at a 99% confidence level indicates that for 99 days out of 100, the one day loss from the positions in the book that day would be less than $100. Or said another way, one day out of 100 the loss could exceed 100. So the key elements to understanding VaR are the holding period, generally one day, and the confidence level, generally 99%.

As I mentioned earlier, we use Monte Carlo simulation to calculate our VaR numbers. This involves using market data for the last year, 250 to 300 days worth of trading data, to create a statistical distribution that takes into account the relationship or co-variability between observed changes in interest rates, equities, commodities, other market prices that are used in the calculation. That distribution is used to create 20,000 sets of price changes which are applied against the end of day position. The 20,000 outputs that come out of that one create a distribution P&L and then we merely calculate where the 99% level comes off of that distribution. It is a lot of computer time every night.

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Another common approach that is also used in the industry is historical simulation. This approach uses actual price changes in the past year and applies them to the end of day positions to generate similarly 250 to 300 P&Ls, which in turn generate a distribution from which the 99% level is determined. There are pros and cons to both approaches. And I would be happy, at another time, supported by a lot of my quantitative colleagues, to go through some of the differences and the underlying math.

But suffice to say, both approaches are defensible. Both generate substantive results. But they can generate different results if they were applied to the same positions.

So yet again, comparing one VaR to another won't always be measuring apples to apples simply because of our underlying methodology differences. So having said that, VaR is definitely a useful tool for management, for the regulators, and for you to compare the relative riskiness within our portfolio. It provides a consistent measure of risk across our different asset classes and businesses in the trading room thus permitting meaningful comparisons. And so we do measure, monitor, report against limits every day.

Earnings volatility is another disclosure we provide, and it's calculated using the same underlying methodology. And consequently it's affected by exactly the same factors. Sometimes I think we confuse you with that disclosure because in fact the EV for the mark to market books is simply the after tax amount of VaR. It's as straight forward as that.

For the accrual books, though-- and this is the twist-- it's the after tax amount of VaR that would be recognized for accounting purposes in the first 12 months of the year. The risk calculation is the same, the amount of the number is determined by how much we would normally recognize in a year.

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As I mentioned, VaR is only 1 tool that we use to manage and monitor market risk. It's supplemented by an array of other diagnostics that help to both identify and control risk. These measures are used by traders and risk management personnel alike, include measures of sensitivity of positions to price changes, more commonly called Delta in the room, as well as measures of sensitivity of positions to changes in the rate of price change. Gamma.

Vega measures the change in value from changes in implied volatility. These including Theta or time decay are the Greeks, the 4 Greeks you hear about from time to time, and are key metrics that we use to oversee and manage the risks in the trading books. So when we talk to you about VaR, there's a myriad of other things going on day to day that we use with the traders to monitor what they're doing.

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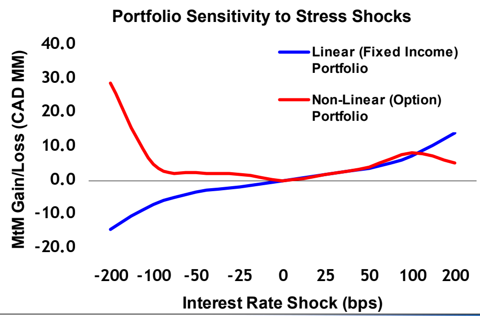
STRESS TESTING ANALYSIS

- Stress tests are intended to identify exposures that may exist under much larger market and credit shocks than those embodied in the VaR measures
- Unlike VaR, Stress is not reported at a consistent confidence interval by Canadian banks. The choice of stress methodology and scenario selection may also differ across banks.
- On-going review and development of stress test methodologies by many of the banks may result in greater consistency of reporting in the future
- Portfolios with option-type exposures may exhibit risk characteristics more readily seen under stress rather than VaR measures



Stress testing analysis is performed to identify exposures that may exist under many larger market and credit shocks than those used in the VaR measure. Using the example on the slide, the risk associated with some portfolios using stress shock, particularly option type exposures, was quite different from the risks for more normal market movements because they're not linear. For the mathematicians in the room, they have a quadratic type of behavior. Stress testing reveals these types of disconnects.

So that's why stress testing is important, so we better understand the underlying risk associated with the business. The how, however, is much less well-defined. There, again, lay 3 categories of stress testing that are done-- probabilistic, which is much like VaR but with a higher confidence level, historical scenarios and event scenarios.

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At BMO, we do all 3. For our probabilistic scenarios, which are run daily and monitor against limits, we use a 99.95 confidence level as opposed to the 99 that's for the VaR numbers that we report. There's no consensus on a specific confidence level that you should use, but by and large from talking to some of our peers, we all tend to use a 99.9 or 99.5 level. We supplement these scenarios with historical and event scenarios.

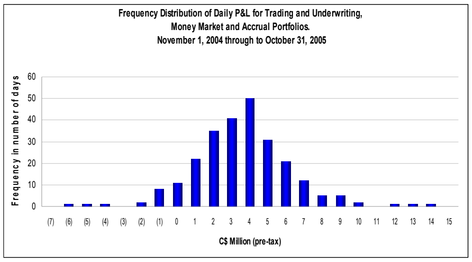
Historical scenarios include past events like the '87 crash and September 11th. And the event scenarios are based on possible events. Kind of blue-sky events that we dream up based on what's going on in the market, business and politics of the time. Things like the possibility of another war in the Middle East, or oil going to $105, those types of things.

Stress testing is probably the newest field of risk measurement, not that it's a babe in arms, but it's not as well developed as VaR. And practice varies accordingly across the industry. As a result, numbers aren't made public. We talk about it in qualitative as opposed to quantitative language in our annual reports.

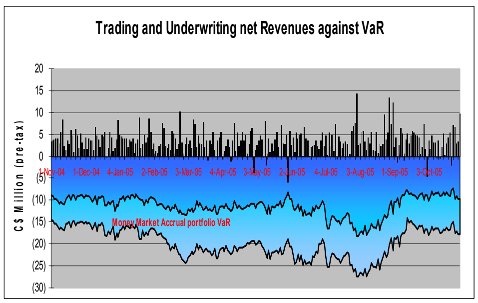
Why is that? Well we don't have any industry agreement yet on what is the best approach, let alone the detailed mechanics and inputs. Accordingly there is a risk that any disclosure that would be given without substantive amount of dialogue around it could provide more confusion than clarity. However, I know we will be spending a hugely larger amount of time on stress testing as we go forward because this seems to be the next barer of risk management in the trading room.

I expect that this will be occurring at other banks and as a result over time, and it may be longer than the next 18 months, we may see more additional disclosures.

THE VaR MEASURE HAS IMPLICATIONS FOR DAILY TRADING P&L



- A larger VaR would normally be associated with a broader distribution of daily trading gains and losses
- Conversely, a small VaR implies little variation in expected daily P&L



- A 99% confidence VaR number would imply 2-3 daily trading losses every year in excess of the VaR level
- In practice this frequency is less as a result of non-risk income and trader intervention, a characteristic shared with other Canadian banks

These are 2 graphs that you've probably seen in most of the Canadian bank's disclosure packages. The fundamental question is what are they trying to tell you with these graphs? The bar graph at the top plots daily P&L and the X-axis against the frequency, the number of days, in the y-axis. This visual provides another window into the risk of the portfolio. A broad distribution of returns over a period of time, generally, and I underscore the word generally, would indicate a higher risk profile.

Conversely, a tight distribution, with little variation in expected PNL would imply a smaller VaR. And the reason I use words like generally or implies, clearly these numbers are informed by trader activity and the skill of the trader has some implications as to where some of these numbers end up.

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This is the way to gain some insight into the relative riskiness of the bank portfolio. If you did this comparison, if you compared this distribution of BMO with all of the other banks, you'd find there is very little distribution difference between us and the other banks and in fact, I think our distribution is tighter than some of the others. Despite the fact when you look at our VaR numbers they seem higher.

The chart at the bottom graphs both revenue and VaR. You will note that during the past year we didn't have any trading losses that exceeded our VaR. And, based on what I said earlier, on the face of it, this outcome doesn't make sense, you'd think we'd have 2 to 3 based on a 99% confidence level. However, VaR doesn't anticipate trader intervention, as well as the inclusion in trading income of some non-risk revenue (fees, commissions, etc.), which would cause us not to breach it. And I think that type of visual is consistent with most of the other banks. Very few of us would have had any breaches. And again, because of trader intervention and what's in trading revenue.

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SUMMARY

- VaR comparisons across Banks are difficult given the non-uniform disclosure of detailed information and the variability in methodologies
- While VaR is a useful tool in assessing risk, a broader set of risk measures and controls is essential for sound risk management across Trading and Underwriting portfolios
- Governance and sound risk management is in place to accommodate growth in risk

So, in closing, I've tried to give you and I hope I've succeeded some insights into the strengths and the limitations of the VaR measure. VaR is useful but it's not the only tool that we use. We use many more to control and manage our risk. So be cautious in making cross industry VaR comparisons. Use it primarily just to look at trends within each bank and remember what it is, a point in time measure that doesn't anticipate any trader intervention.

RISK MANAGEMENT OVERVIEW
INVESTOR COMMUNITY BREAKFAST

MIKE FROW
Senior Vice President
Enterprise Policy
January 26 • 06

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STRONG BANKING ENVIRONMENT IN THE U.S.

- Solid asset quality
  - Federal Reserve 7th District (including Chicagoland) key asset quality indicators are at or near seven year lows. Relative to one year ago, nonperforming loans, past dues, and net charge-offs have improved between 10-15 basis points.
  - Positive NPL trend is noted in all major loan categories
  - The banking environment is highly competitive being driven by new entrants to Chicago, de novo expansion and increased competition from non-bank lenders
- Areas of regulatory focus
  - Non-traditional mortgage lending
  - Commercial Real Estate
  - Generally raised regulatory expectations (e.g. operational risks)

Source: Federal Reserve Board.

I'm going to start by just making a few observations about the US banking market in comparison with the Canadian market and the Chicagoland market in particular.

Similar to Canada, the asset quality in the US at the moment is generally very strong in the banking system and the Federal Reserve 7th district, which is the primary district in which we operate, the key asset quality measures are at their best levels in about 7 years. With the tailwind of lower credit charges and a good level of recovery, profitability in the banking system has also been very strong.

Competition is very strong, particularly in our market place, we have - coming really from 3 directions, we have major players entering the market, banks like Bank of America, de novo expansion, and the non-bank lenders.

The fierce competition, good profitability and high credit quality, market discipline in terms of pricing, structure, collateral and coverage continues to erode. And this is true across really all markets, so be it commercial, corporate or consumer.

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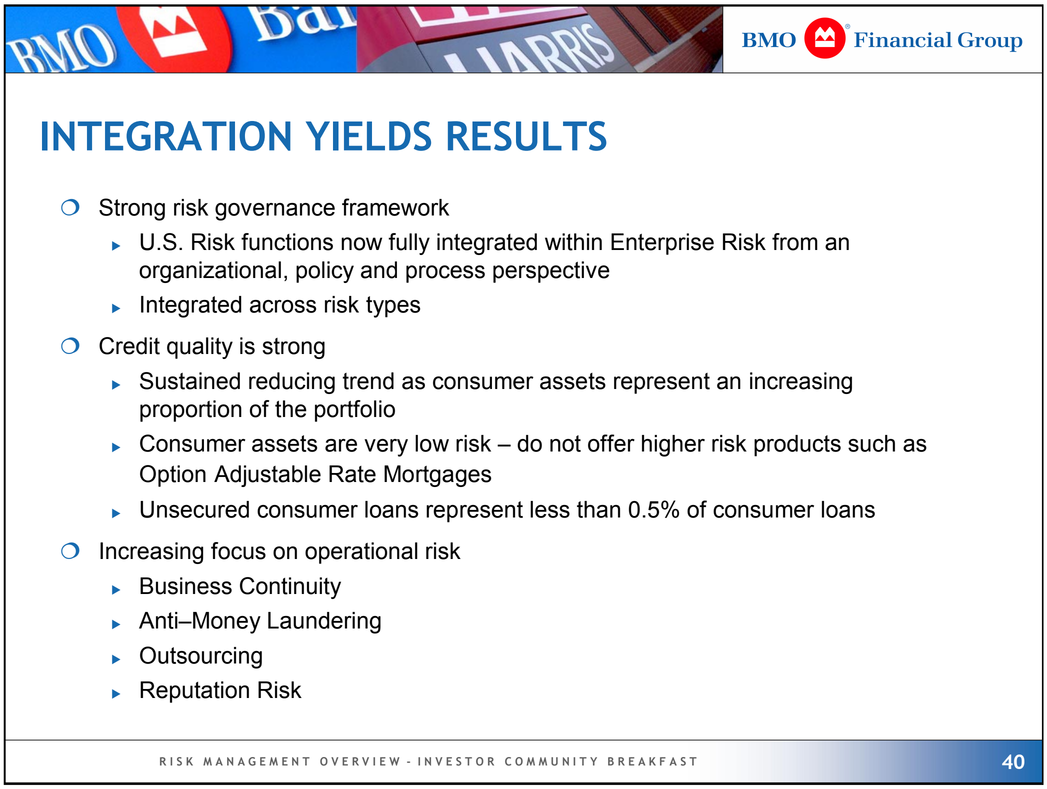
In the consumer markets you've seen a very marked deterioration in terms of discipline with a fairly rapid introduction with things like negative amortization in mortgages, etc.

We're going to talk a little bit more about those tagged as affordability products, if you see the term affordability products in the consumer market, those are, by the regulators at the moment, are often termed the affordability products.

Some current areas of regulatory focus in the US, from a creditor perspective there are 2. 1 is the nontraditional mortgage lending, those are the affordability type products and the impact that they could have to the economy and the banking system. And secondly, commercial real estate.

In both of these areas, over the past couple of months, interagency guidance has been issued to banks to actually ramp up the risk management around these 2 particular sectors.

The third area of regulatory focus is just generally across the broad spectrum of operational risk. Money laundering, business continuity, reputation risk, outsourcing, etc. There's been a significant ramp up generally in terms of regulatory expectations.



So, against this background, what have we been doing, and probably also importantly, what have we not been doing as well?

A few years ago the risk management structures within the Harris organization, & the BMO organization were completely different. There was actually very little linkage between the 2. Over the past couple of years we've completely integrated the 2 functions and now there's only 1 and that's true from an organizational perspective, from a policy perspective and also from a process perspective as well. And this has materially improved the overall risk governance within the US.

Our product quality, like that of our peers is extremely strong at the moment and I would say it's extremely strong not by absolutely but relative to our peers as well. The consumer book is growing faster than our commercial and corporate book. It has a very low risk profile and so it's bringing down the risk profile of the overall balance sheet in the US.

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With lower maintenance that we've had to perform in terms of the credit portfolios, as you can guess we've been focusing on a lot of the issues following 9/11, like money laundering, business continuity, etc. The operational risk aspects that the regulators are focused on, keeping abreast of their rising expectations. Plus from an organizational perspective is that many of those areas are more advanced of the expectations that tend to be a little bit higher in the US than they are in Canada and we're able to take some of the experience that we gain in the US and bring that north of the border, kind of as the expectations rise here as well. Probably one of the few times over recent years where the US has actually been shipping expertise north.

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BROADLY DIVERSIFIED PORTFOLIO

- Portfolio remains well diversified with strong growth in lower risk consumer assets
- Acquisition activity and a strengthening economy have driven commercial loan growth over the past twelve months
- Commercial Loan Portfolio is broadly diversified with no material risk concentrations

As noted, our portfolio remains extremely well diversified. With probably one exception, is of course, we do have a geographical concentration in the Midwest and I would say that's probably a plus. When you look at, particularly the consumer markets, the housing markets on the east and west coast, they tend to be more volatile, quite a bit more volatile than the Midwest. So it's a concentration I'm actually very happy with.

We've experienced very strong, primarily organic growth within the consumer markets, which as we noted earlier, tends to reduce the overall risk within the balance sheet. On the commercial side it's a little bit of a different story. I mean over the past few years we've had some areas - some times where the portfolio has grown a bit and sometimes where it has actually shrunk a bit. And really that represents the degree of competition that's out there in the market and our inability to find, or to sustain very high growth rates with the quality of transactions that we want to book.

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It also, I think, reflects the fact that many of our good clients are still actually very cautious about taking on incremental debt. Utilization rates have remained actually very low relative to the strength of the economy at the moment. And then I think the last factor in the US is the growth of the investor markets for credit and a lot of the core debt and term debt is actually going into the investor markets rather than into the banking markets. It's true for us, it's true for all of our competitors as well.

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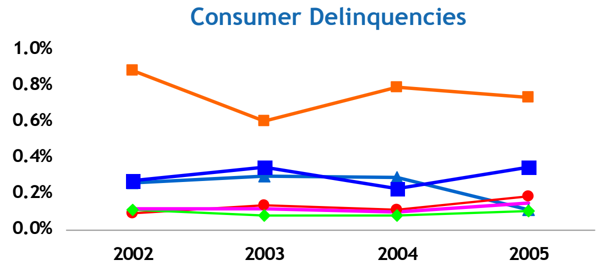
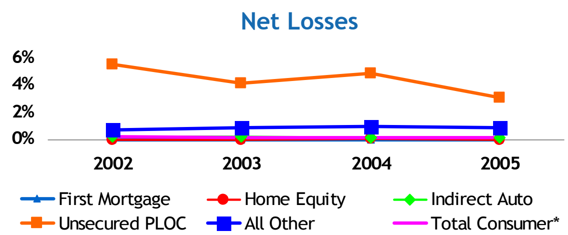
LOW OVERALL CONSUMER NET LOSSES

- Overall 91+ day consumer delinquency is low and has remained relatively stable over the past 3 years, reflecting strong borrower risk profile and strong economic conditions



- Overall consumer net losses are low and have remained relatively stable over the past 6 years



*Excludes First Mortgage Portfolio

We'll spend a couple of minutes just talking about the consumer portfolios because this is the highest growth portfolio within the bank. Our consumer portfolio is a little bit different from many of the other banks that you would see down in the US. It's composed primarily of first mortgages, home equity loans and auto finance.

We provide creditor cards for example through white labeling. We do not take that risk onto our balance sheet. Unsecured lending on the personal side is a very small component of our lending, in fact it's less than 1 half of 1% of our lending.

The consumer finance as well is also focused on repayment ability and the quality of the individual, not just the value of the underlying security. So we really only participate at the high end of the consumer market.

As you can see from the graphs here, our losses in terms of our primary products have been stable. I think we've got 4 years there. It's actually been for a longer period of time than that, and as you can see they're extraordinary low levels.

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One of the things we don't do, is participate in things like option arms, or negative amortization mortgages and even in terms of products like interest only, we tend typically to focus primarily more on the more affluent, more creditworthy borrowers.

Probably you've read some of the recent reports from other banks in terms of the impact of the changes in the bankruptcy law that came into effect in October in the US. It might be an idea just to spend a couple minutes talking about those.

We were impacted by that as well, primarily in the auto portfolios. And we actually saw, about a doubling in terms of the number of bankruptcies in that portfolio during the months of October and November. This is really a one-time event following the introduction of the new requirements.

To give you an idea of the magnitude of that, I'll use the auto portfolio, which is the area that was most impacted. We peaked at about 1.72 bankruptcies per 1,000 contracts. And it's dropped down already to about 0.82, which is a more normal level in December.

Because they are secured portfolios, our losses on those portfolios, when we have a bankruptcy, are typically in the order of about 10 to 15%. So the net losses as a result of the increase in the bankruptcy law were very small and they were in fact more than covered by better than expected performance in other parts of our consumer portfolio. So there was really no impact that you're going to see in terms of P&L as a result of the changes in the bankruptcy law in the US.

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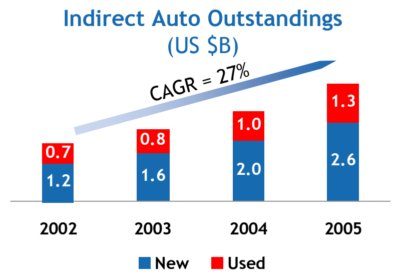
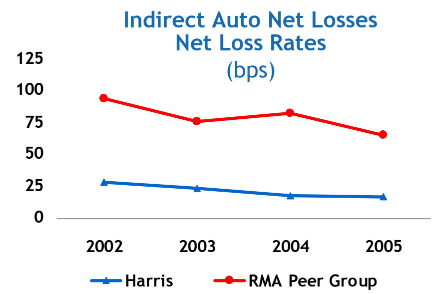
INDIRECT AUTO LENDING

Continued profitable growth and expansion

- The indirect auto portfolio remains a strong performer, with low losses that continue to compare favorably to peers
- Loan losses have been 75% below the industry average
- High quality A paper; no dealer floor plans, no leasing





As we mentioned, the highest risk portion of the portfolio is the indirect auto lending, and here you can see a very high growth rate. And this is the area when the rating agencies come through that they're particularly interested in looking at to see how we're managing this portfolio here.

As you can see, we've managed to sustain over the past 4 years a compound growth rate of 27%. But if you look at the loan losses from that portfolio, they're about 75% less than the industry. And that's, again, as a result of a focus on the repayment ability of the borrower as opposed really to looking at the underlying asset. The value of the asset is a secondary consideration. We do not do dealer floor plans or leasing.

BMO Financial Group

CONSISTENT APPROACH TO ACQUISITION INTEGRATION

- Due diligence processes include a review of the acquired bank portfolio, credit practices and overall risk culture
- Thorough review of loan assets and adoption of BMO Financial Group loan evaluation and valuation standards. Senior credit oversight from day one.
- The transition to the Commercial Lending Process (CLP) commences at the legal closing of the deal including Lending Transaction Summary (LTS) preparation
- On-going monitoring occurs to ensure timely and complete transition to BMO/Harris Polices and Standards
- Operational risk controlled by employing Project Management discipline and careful coordination of opportunities, activities and resolution

Recent Acquisitions

2005 Edville Bankcorp, Inc. (Villa Park Bank)

2004 Mercantile National Bank

New Lenox State Bank

Lakeland Community Bank

2001 First National Bank of Joliet

One of the other areas that we've had to become pretty good at is acquisition management. We've developed a pretty consistent approach to acquisition management. I'm not going to go through the various steps here, but suffice it to say that with the experience that we've developed over the past few years, the process of acquisition is well-understood and the risks of future acquisitions accordingly are justified.

BMO Financial Group

SUMMARY

- Benign credit conditions, corporate and personal but not sustainable
- Economy remains relatively strong but …
  - Higher energy prices
  - Slowing real estate appreciation
  - Re-pricing of “affordability products”
  - Higher interest rates
- Rising regulatory expectations/costs

The primary takeaways from the US are not materially different from those already outlined by Bob.

While there are rising regulatory expectations and associated costs in Canada there are incremental challenges and costs in our US operations. These however are not unique to the Bank but faced by all of our US competitors, and all of us are just getting on with the job of meeting those expectations.

As in Canada, we currently benefit from very benign credit conditions and they're not sustainable, as Bob has indicated in the longer run. The economy in the US remains relatively robust, with in fact many of the same risk factors as in Canada. I think one area in the US where the risks are higher, particularly in the banking industry is kind of the element of the non-traditional mortgage financing which is a big component in a number of the bank's balance sheets and particularly as those transactions come up for repricing, and in an environment where you don't see house price appreciation of the kind we've seen in the past, that, I think is one of the concerns of the regulators in the US as well and one of the reasons for the publication of the interagency guidance in December.

Continued on next page…

However, our portfolios, because of what we do and what we don't do are very well positioned to sustain the return either to more normal conditions or stressed conditions going forward. It's particularly true on a peer and comparative basis. And as Bob indicated, position us very well, I think to benefit and support our clients when conditions do change.

Q & A

BMO Financial Group

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