



**Q106**

## **RISK REVIEW**

Investor Community Conference Call

**BMO**  **Financial Group**

**BOB McGLASHAN**  
Executive Vice President and  
Chief Risk Officer  
March 02 • 06



## 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.



Q1 2006

## Credit and Counterparty Risk Highlights

### GIL Balance

\$745 million ↓ 7%\*

### Specific PCL

\$ 52 million ↓ 9%\*

### GIL Formations

\$ 78 million ↓ 26%\*

\* Change from prior quarter

## STRONG CREDIT PERFORMANCE

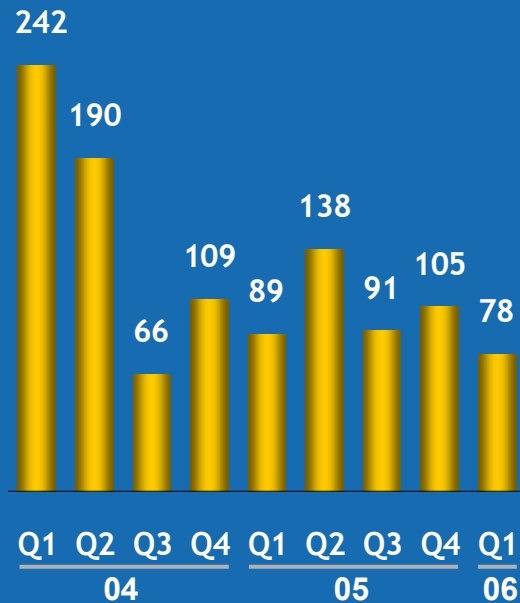
for Q1 2006

- Gross Impaired Loans (GILs) are down \$59 million for the quarter and are at their lowest level in more than two decades
- GIL Formations continue to remain low, down \$27 million for the quarter
- Q1 Provision for Credit Losses (PCL) of \$52 million with no reduction in the General Allowance, down \$5 million from Q4 2005
- Revised Specific PCL target for F2006 of \$325 million or less, reflecting favourable Q1 results with some deterioration in the credit cycle expected in the latter part of the year



### GIL Formations

Quarterly  
(C\$ Million)

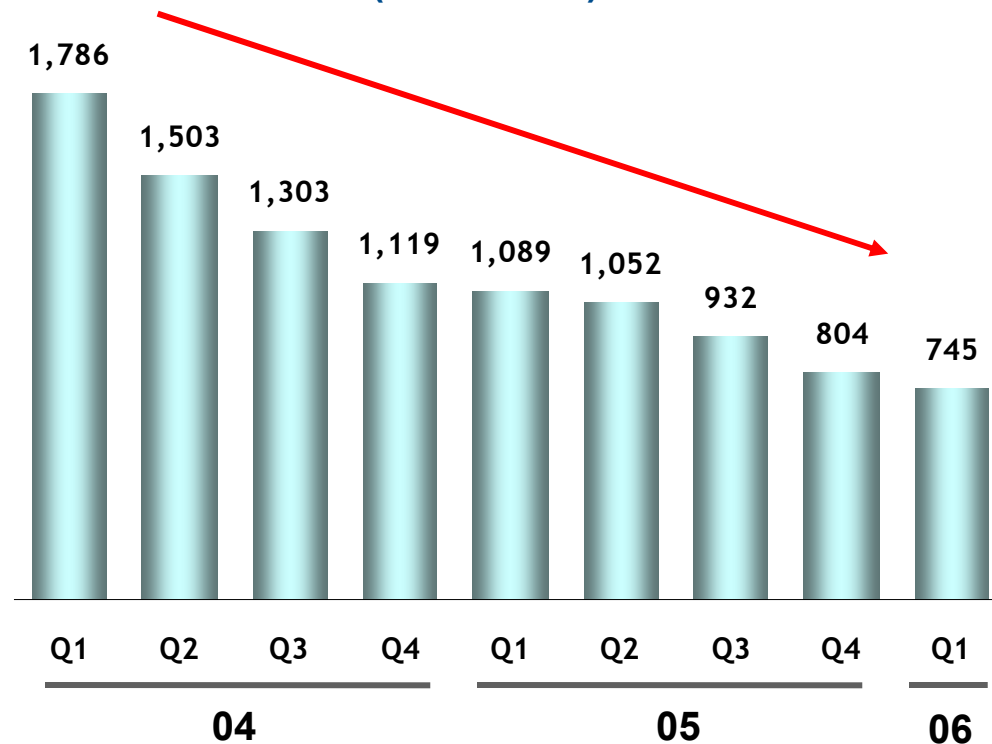


## CREDIT QUALITY CONTINUES TO IMPROVE

Reflected in continued low GIL formations and declining GIL balances

### Gross Impaired Loans

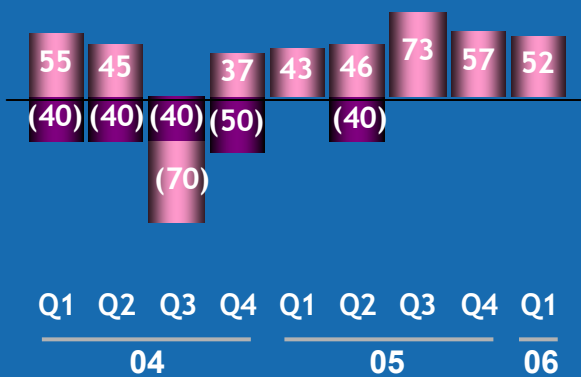
(C\$ Million)





**Total PCL**

Quarterly  
(C\$ Million)



Specific PCL  General PCL 

**POSITIVE PCL PERFORMANCE CONTINUES**  
Q1 results reflect the stable credit environment

Portfolio Segment

	<u>Q1 06</u>	<u>Q4 05</u>	<u>Q1 05</u>
Consumer	46	44	40
Commercial	6	13	14
Corporate	-	-	(11)
Specific PCL	<u>52</u>	<u>57</u>	<u>43</u>
Reduction of General Allowance	-	-	-
Total PCL	<u><u>52</u></u>	<u><u>57</u></u>	<u><u>43</u></u>
Specific PCL as a % of Avg Net Loans & Acceptances (incl. Reverse Repos)* †	12 bps	13 bps	11 bps

\* Annualized

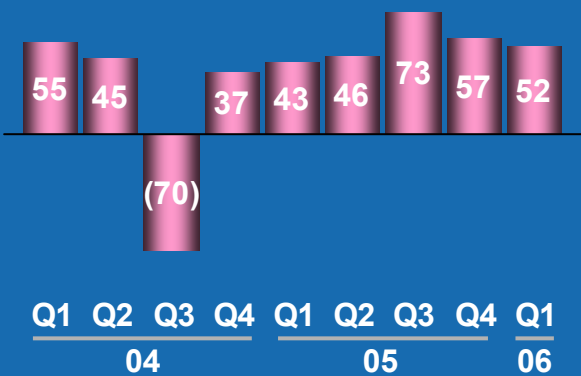
† Versus 15 year average of 38 bps





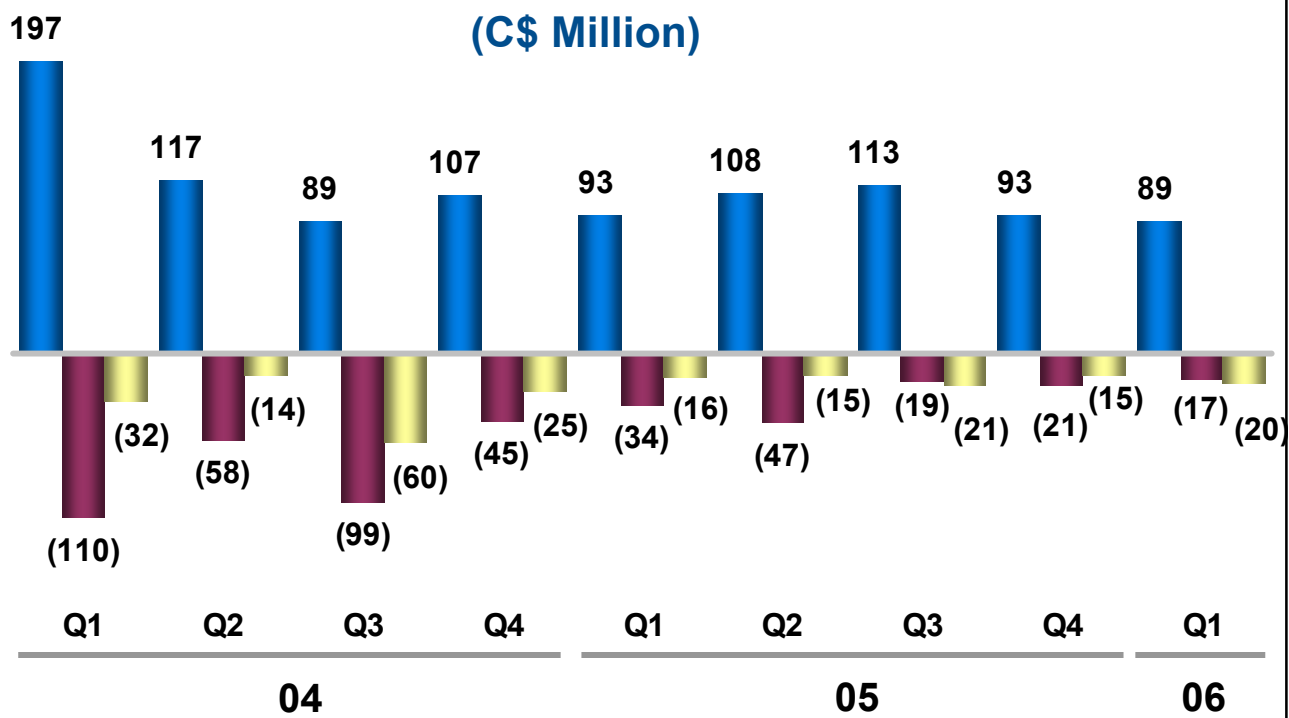
Specific PCL




Quarterly  
(C\$ Million)



## NEW SPECIFIC PROVISIONS REMAIN LOW


Reversals and recoveries are down from 2005 levels



-  New specific provisions
-  Reversals of previously established allowances
-  Recoveries of loans previously written off



**Specific PCL as a % of Average Net Loans and Acceptances (including Reverse Repos)**

%	BMO	 Cdn. Competitors
Q1 / 06	.12	N/A
Q4 / 05	.13	.19
Q1 / 05	.11	.19
F2005	.13	.20
15 yr avg	.38	.59

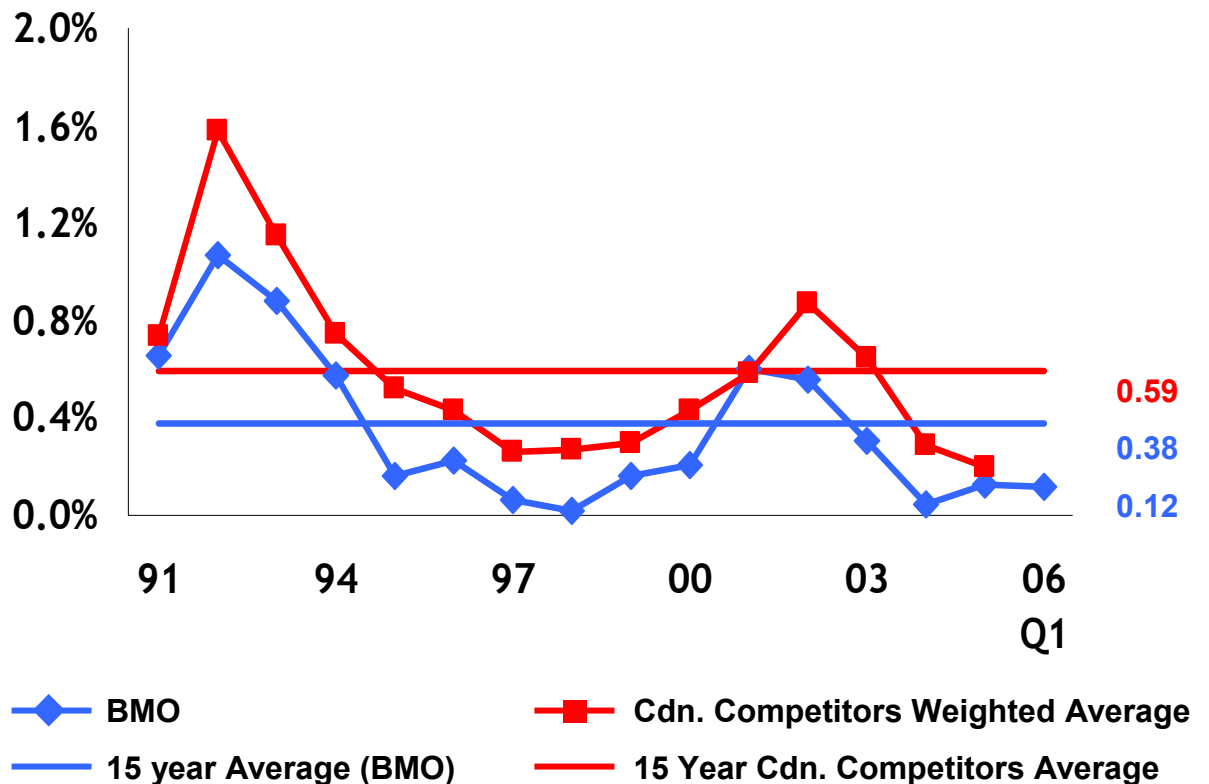
BMO's Canadian competitors include: Royal, Scotiabank, CIBC, TD and National

Competitor average excludes the impact of TD's sectoral provisions

15 yr average - 1991 to 2005

## CREDIT PERFORMANCE MEASURE

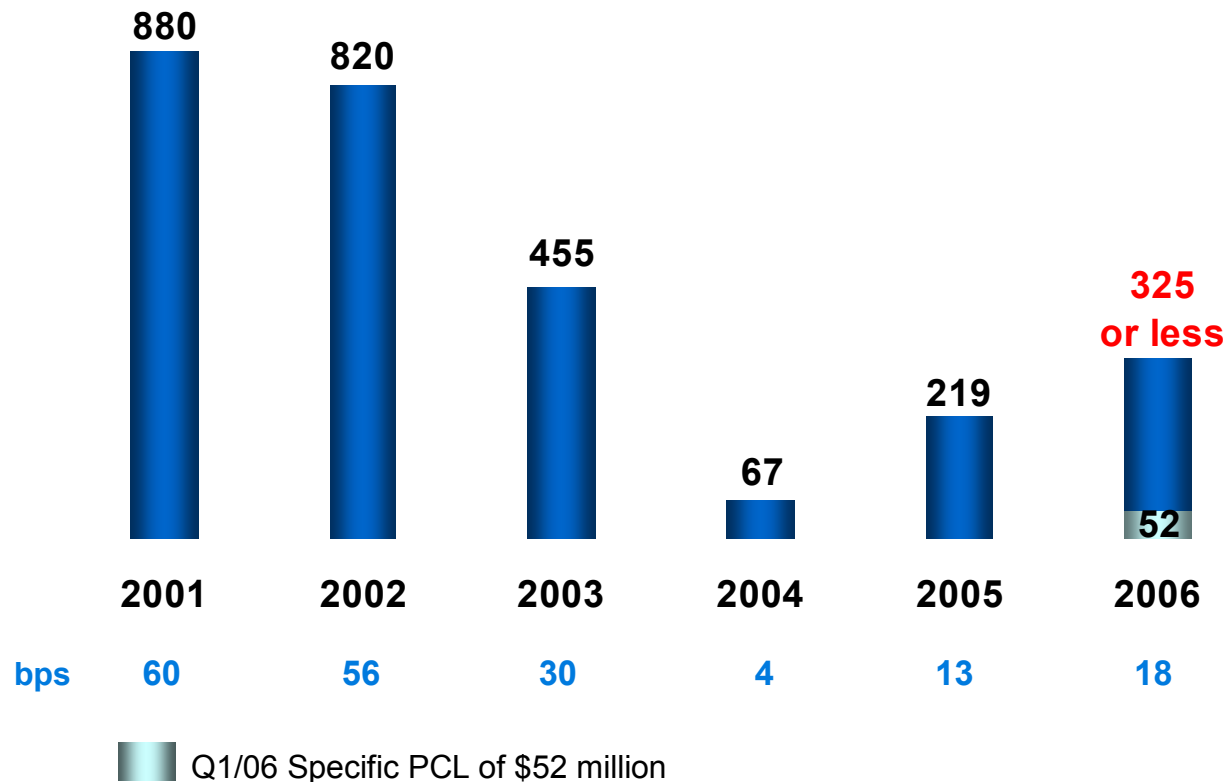
**Specific PCL as a % of Average Net Loans and Acceptances (including Reverse Repos)**





**F2006 SPECIFIC PCL** is now estimated at \$325 million or less

**SPECIFIC PCL AS % OF LOANS AND ACCEPTANCES**  
(C\$ Million)



**F2006 Specific PCL Estimate**

Favourable results for Q1 resulting from a continued stable credit environment

**We continue to anticipate ...**

A modest increase in new specific provisions and lower reversals and recoveries from F2005 levels



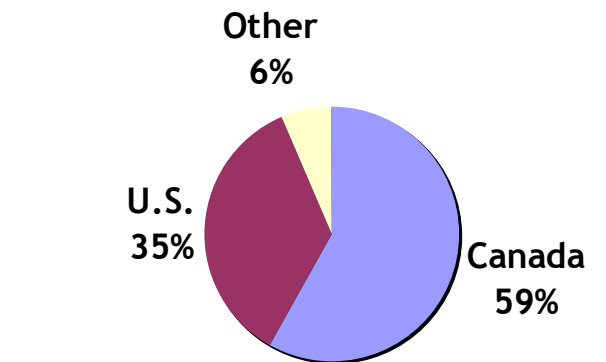


# AUTO MANUFACTURING AND SUPPLY

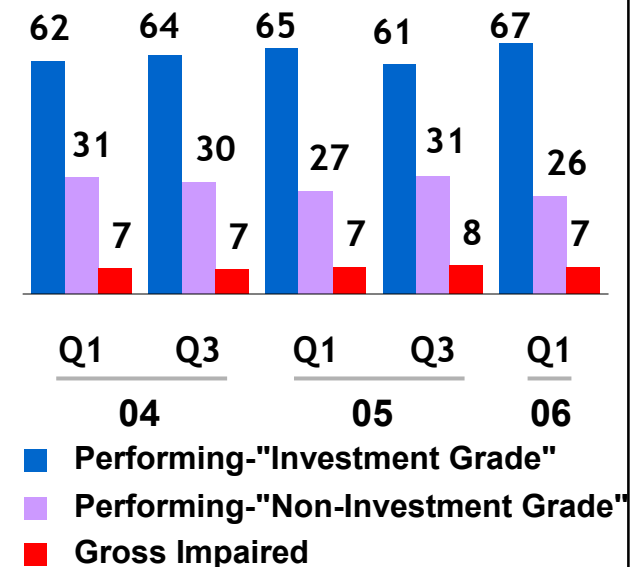
## Gross Auto Loans & Acceptances By Geography

C\$ Million as at January 31, 2006

	Total Gross Loans & BA's	Gross Impaired	Net Impaired	Performing Portfolio	
				"Investment Grade"	"Non-Investment Grade"
Suppliers	414	32	26	277	105
Motor Vehicle Manufacturing	33	-	-	21	12
<b>Total</b>	<b>447*</b>	<b>32**</b>	<b>26</b>	<b>298</b>	<b>117</b>



## Portfolio Migration %



\* Represents 0.3% of the total loan portfolio (excluding reverse repos)  
Refer to the Supplementary Financial Package pages 26, 29 and 30

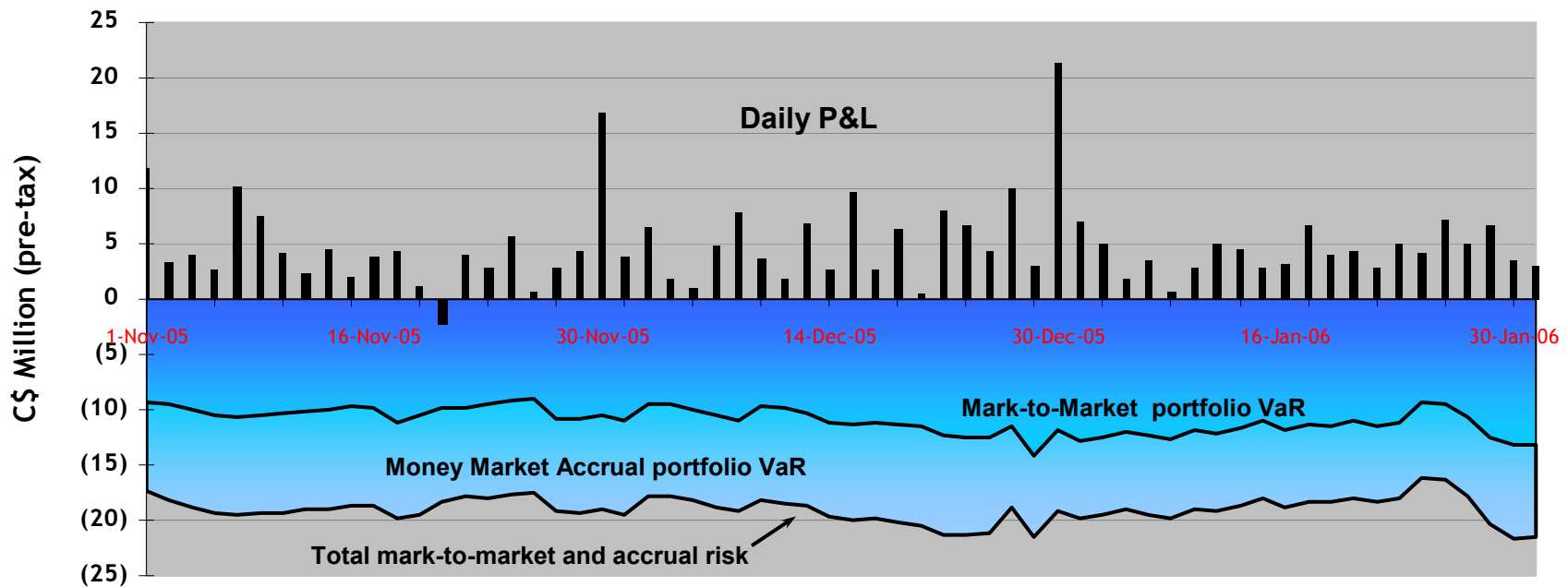
\*\* Canada 9%, U.S. 91%



# TRADING AND UNDERWRITING

Stable and profitable during the quarter

**DAILY P&L VERSUS VALUE AT RISK (VaR)**  
November 1, 2005 to January 31, 2006  
(Presented on a Pre-Tax Basis)



(Refer to Supplementary Financial Package page 34 for risk data – presented on an after tax basis.)



# APPENDIX



# LOAN PORTFOLIO DISTRIBUTION

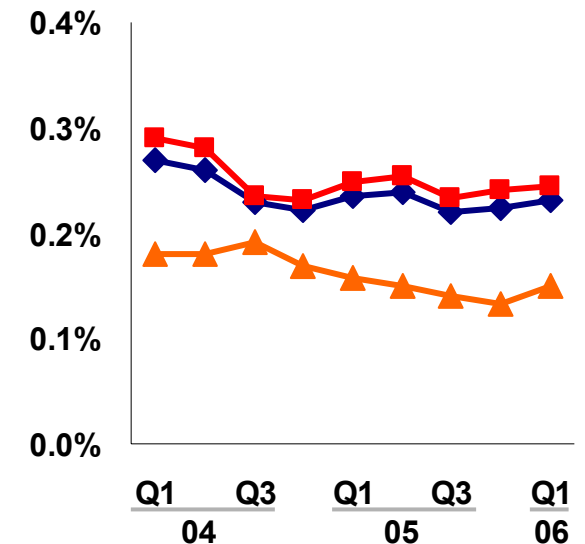
## Consumer/Commercial/Corporate

**Total Gross Loans and Acceptances\* (C\$ Billion)**  
As at January 31, 2006

	Canada	U.S.	Other	Total	
Consumer					
Residential Mortgages	53	6	-	59	40%
Consumer Loans	19	9	-	28	19%
Cards	5	-	-	5	3%
<b>Total Consumer</b>	<b>77</b>	<b>15</b>	<b>-</b>	<b>92</b>	<b>62%</b>
Commercial	31	6	-	37	25%
Corporate	7	11	2	20	13%
<b>Total</b>	<b>115</b>	<b>32</b>	<b>2</b>	<b>149</b>	<b>100%</b>

\* Excludes reverse repos

### Consumer Portfolio Delinquency Ratio (%)\*\*



◆ Total Consumer Portfolio  
 ■ Canada  
 ▲ U.S.

\*\* % of portfolio which is 90 days or more past due

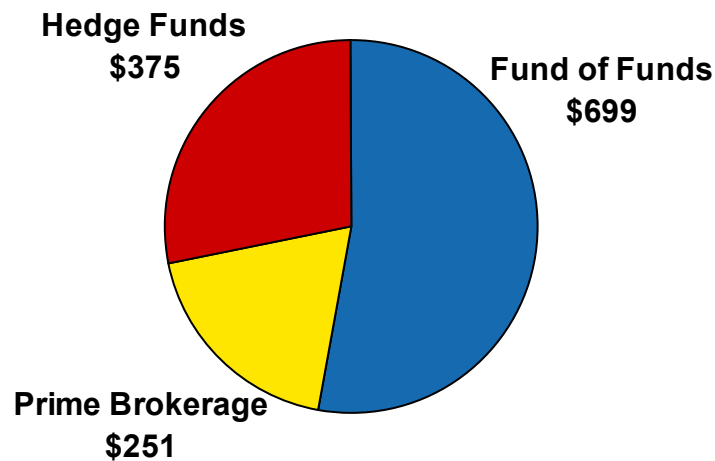
(Refer to the Supplementary Financial Package page 24)



# EXPOSURES TO HEDGE FUNDS ARE MONITORED CLOSELY AND ARE SUBJECT TO TIGHT CONTROLS

Hedge Funds – Utilized  
US\$ Million  
January 31, 2006

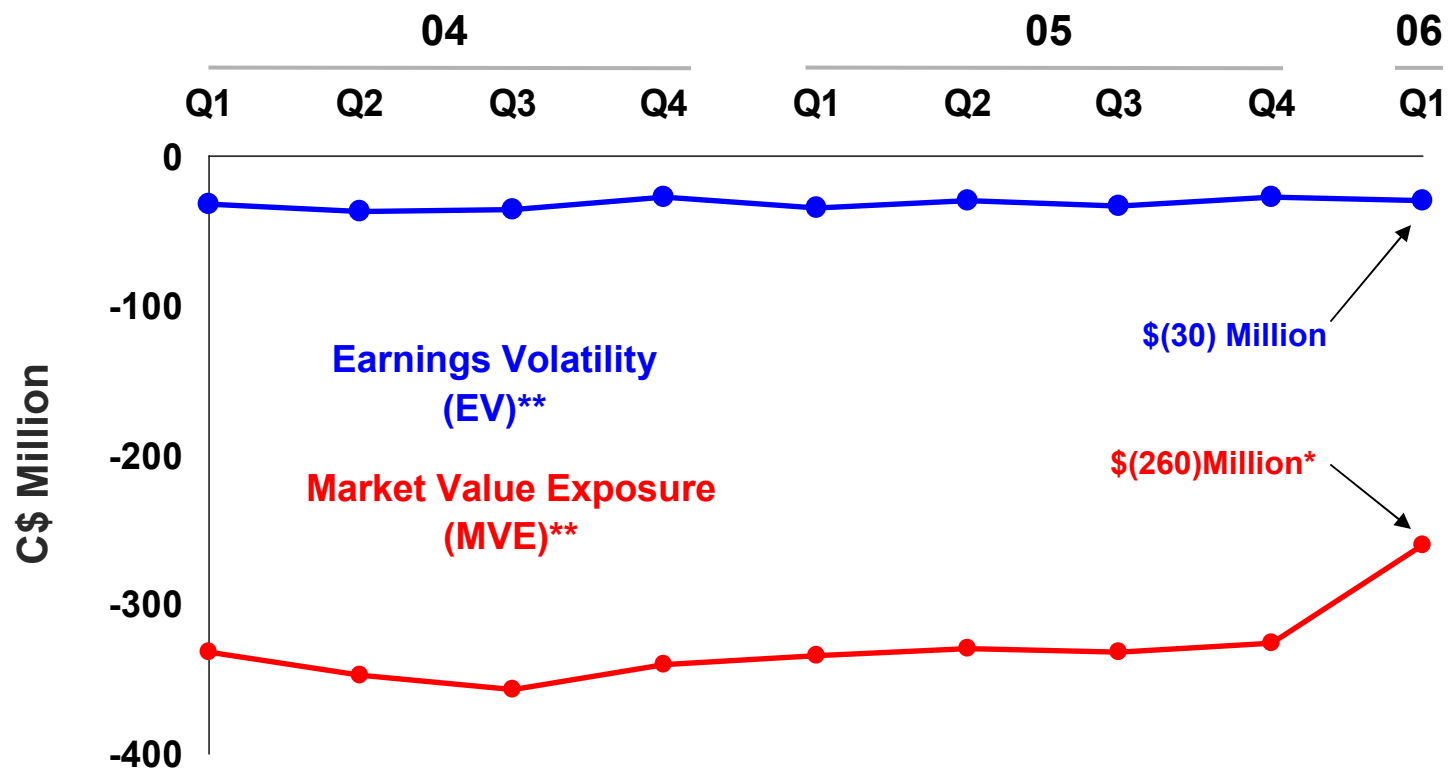
Exposures to these sectors are subject to limits which are approved by and reported to the Board



Exposure	Nature of Risk
Hedge Funds	Replacement risk associated with capital markets trading
Prime Brokerage	Secured lending transactions
Fund of Funds	Short-term, working capital loans



**STRUCTURAL EARNINGS VOLATILITY** remains low; **STRUCTURAL MARKET VALUE EXPOSURE** remains within the target range



\* Structural Market Value Exposure (MVE) declined in the first quarter of 2006 as a result of lower modelled interest rate volatility. Interest rate volatility is derived from 10 years of historical data, which, starting in fiscal 2006, excludes the high volatility associated with fiscal 1995.

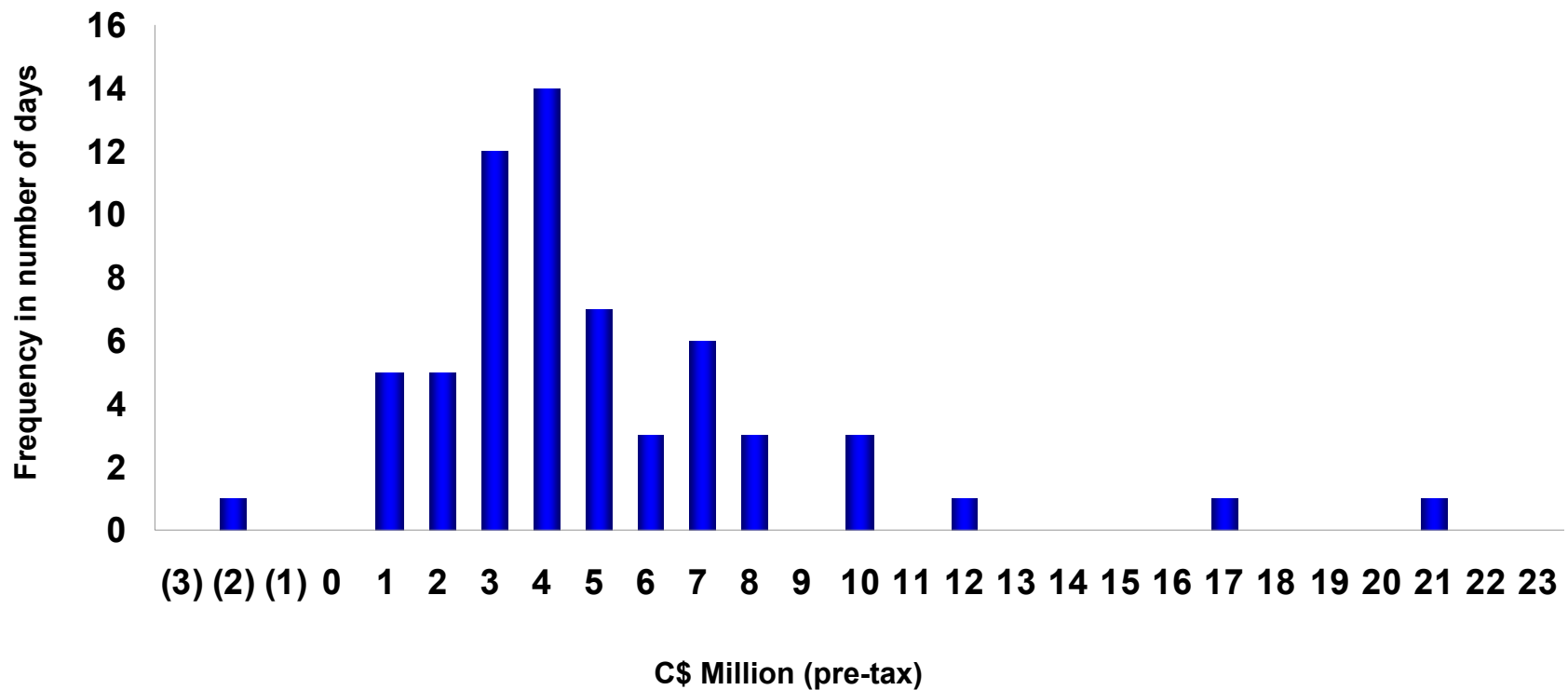
\*\* Refer to definitions on page 34 of the Supplementary Financial Information package





# FREQUENCY DISTRIBUTION OF DAILY TRADING AND UNDERWRITING P&L

FREQUENCY DISTRIBUTION OF DAILY P&L FOR TRADING AND UNDERWRITING  
November 1, 2005 to January 31, 2006





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