

# Q4 05

## **RISK REVIEW**

*Investor Community  
Conference Call*

## **BOB McGLASHAN**

*Executive Vice-President and  
Chief Risk Officer*

NOVEMBER 29 • 05



# 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 harbor' provisions of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities legislation. Forward-looking statements may involve, 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 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 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; unexpected judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; our ability to complete and integrate acquisitions; 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 impacts on local, national or international economies, and disruptions to public infrastructure, such as transportation, communications, power or water supply disruptions; and technological changes.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors could adversely affect our 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 on how the U.S. and Canadian economies will perform in 2006 and how that impacts 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 Canadian and US 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 the Canadian dollar will hold onto its recent gains. 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.

## STRONG CREDIT PERFORMANCE for F2005

- BMO continues to maintain its historic, strong credit performance and Provision for Credit Losses (PCL) advantage over competitors
- F2005 PCL of \$179 million, comprised of Specific PCL of \$219 million and a \$40 million reduction in the General Allowance
- Relative to BMO's 15-year average of 38bps and Canadian competitor 14-year average of 62bps, F2005 PCLs are low at 13bps and expected to remain low
- Gross Impaired Loans (GILs) are at their lowest levels since F1998, down \$315 million for the year and \$128 million for the quarter
- Specific PCL for F2006 is estimated at \$400 million or less

### F2005

#### Credit And Counterparty Risk Highlights (Y/Y)

##### New Specific Provisions

\$408 million ↓ 20%

##### GIL Balance

\$804 million ↓ 28%

##### GIL Formations

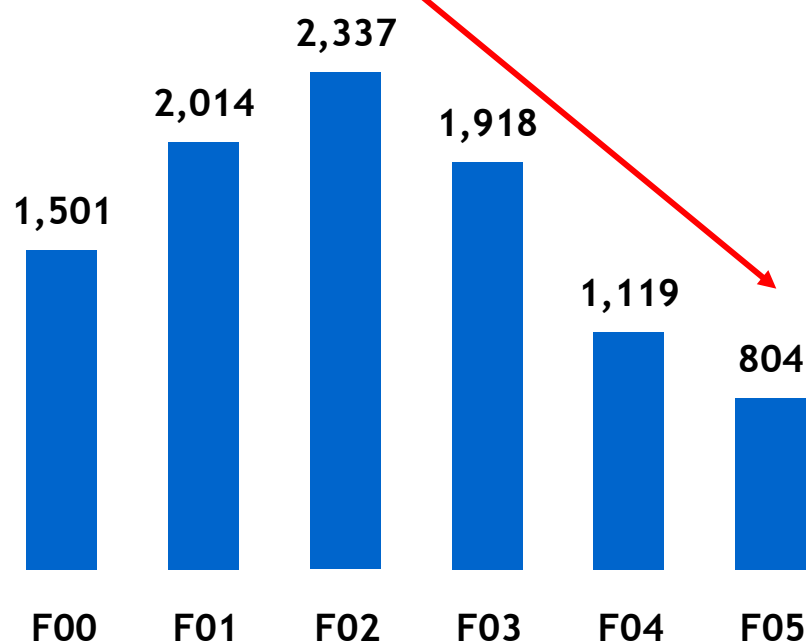
\$423 million ↓ 30%

## CREDIT QUALITY CONTINUES TO IMPROVE

Reflected in continued low GIL formations and declining GIL balances

### GROSS IMPAIRED LOANS

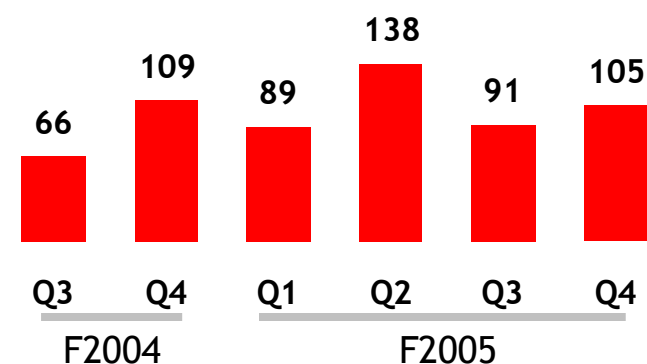
(C\$ Million)



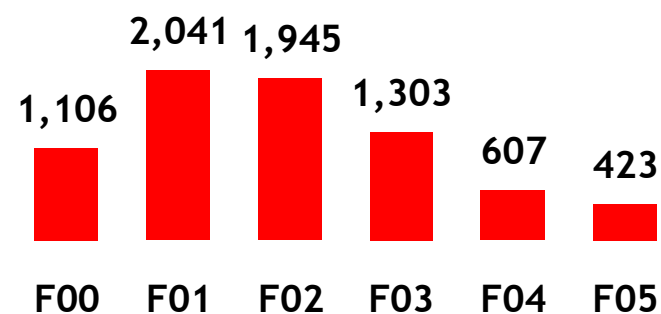
### GIL Formations

(C\$ Million)

Quarterly



Annual



## STRONG PCL PERFORMANCE CONTINUES

Q4 results reflect the favourable credit environment

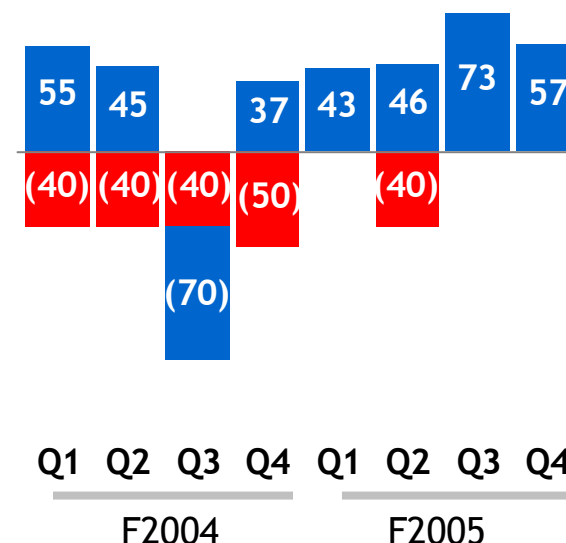
Portfolio Segment	Provision for Credit Losses (C\$ Million)		
	Q4 05	Q3 05	Q4 04
Consumer	44	49	42
Commercial	13	11	27
Corporate	-	13	(32)
Specific Provisions	57	73	37
Reduction of General Allowance	-	-	(50)
Total PCL	57	73	(13)

Specific PCL as a % of Avg Net Loans & Acceptances (incl. Reverse Repos)\* - annualized

13 bps      17 bps      9 bps

\* Versus 15 year average of 38 bps

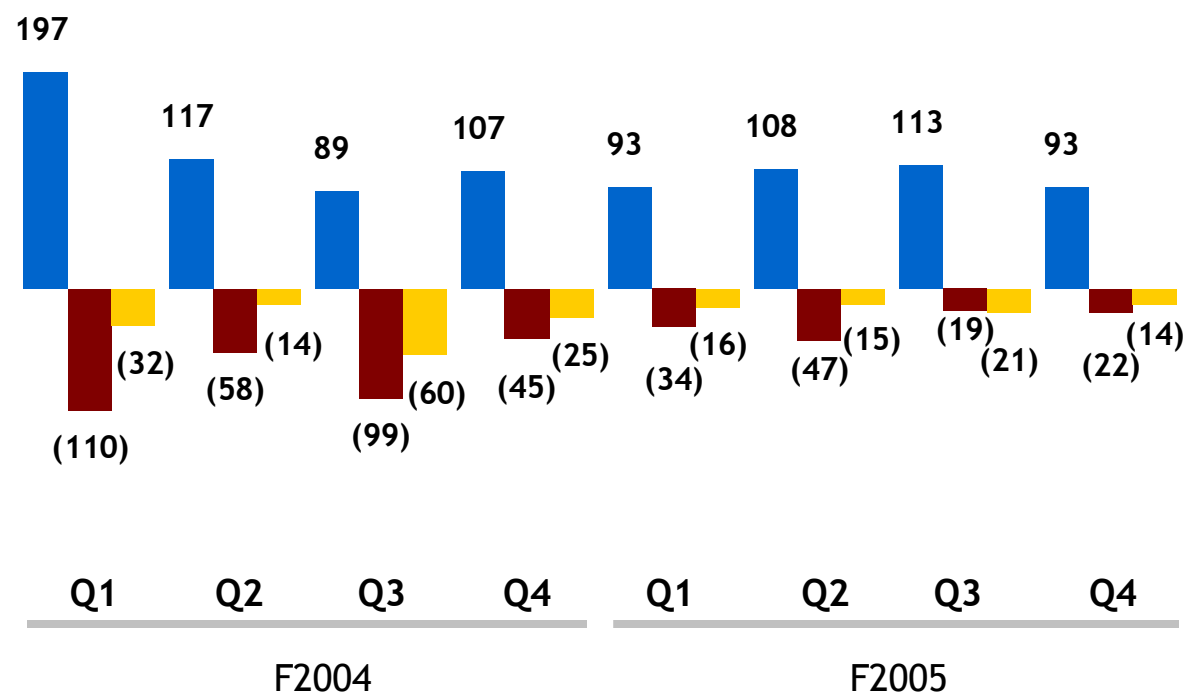
### Total Provision For Credit Losses (PCL) (C\$ Million) Quarterly



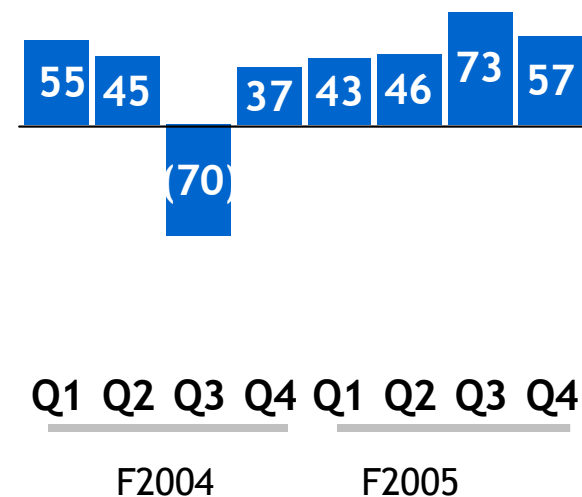
Specific PCL ■ General PCL ■

## NEW SPECIFIC PROVISIONS REMAIN LOW

Reversals and recoveries remained low compared to F2004 levels



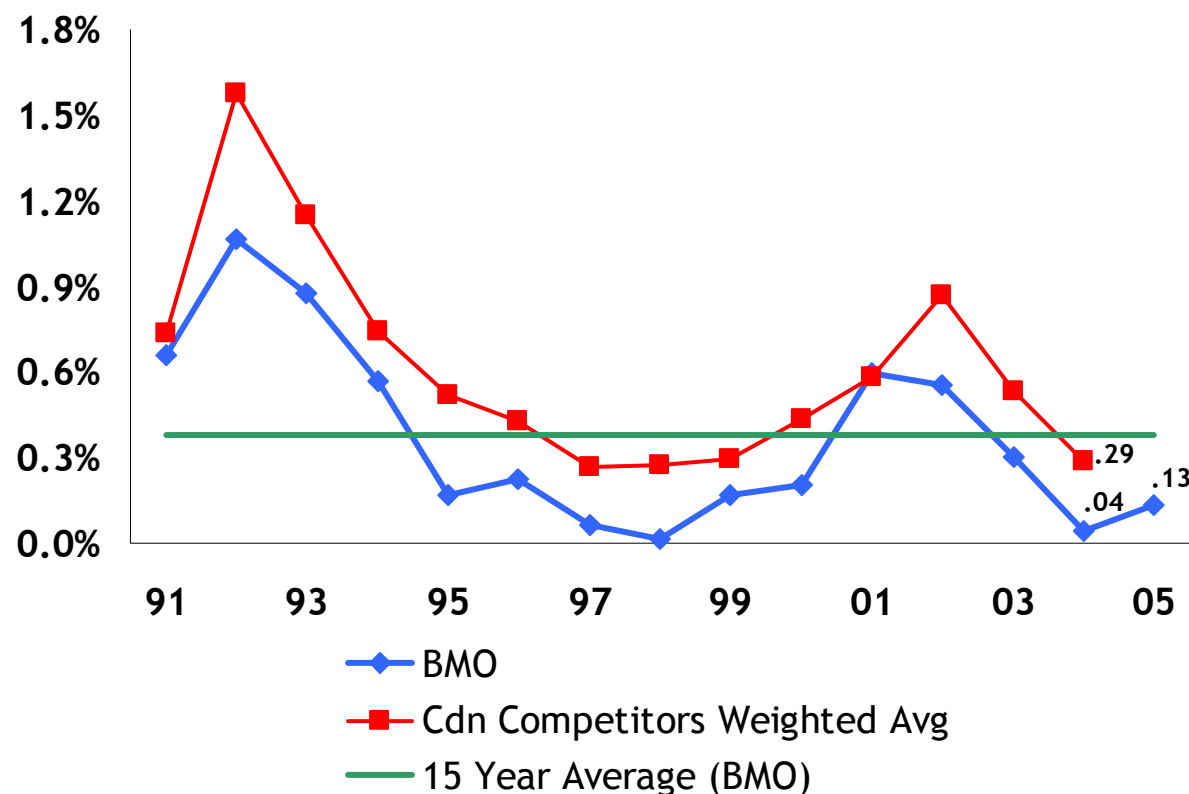
### Specific PCL (C\$ Million) Quarterly



■ New Specific Provisions ■ Reversals ■ Recoveries

# CREDIT PERFORMANCE MEASURE

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



## Specific Provision For Credit Losses

%	BMO	Canadian Competitors
F2004	.04	.29
Q3/05	.17	.24
Q4/05	.13	N/A
F2005	.13	N/A
15 yr avg.	.38	.62*

BMO's Canadian competitors include: RBC, BNS, CIBC, TD and National

15-yr average - 1991 to 2005

\* (Cdn Competitors represents a 14-yr average - 1991 to 2004)



## F2006 SPECIFIC PCL is estimated at \$400 million or less

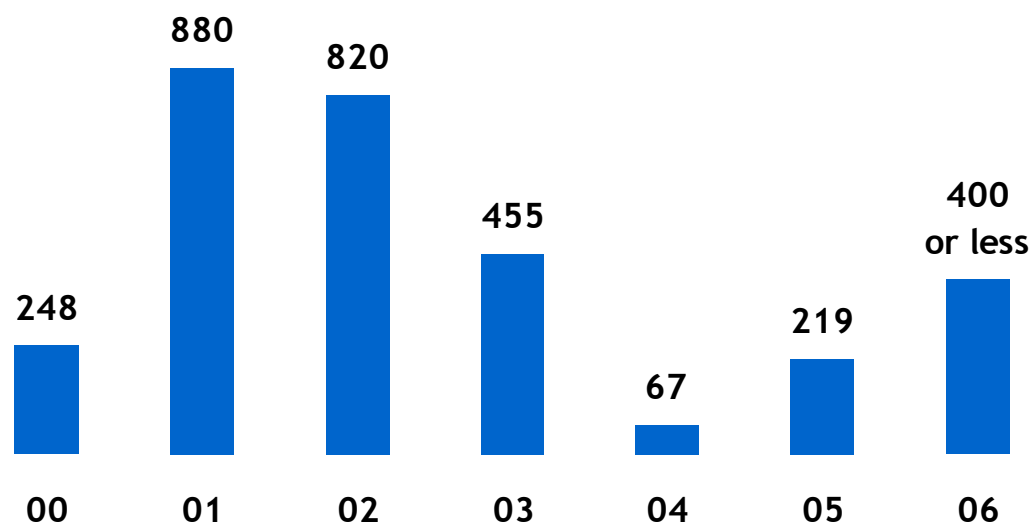
### F2006 Specific PCL Estimate

Credit quality anticipated to remain stable for F2006

### We anticipate ...

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

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



BPS 17 60 56 30 4 13 22



## AUTO MANUFACTURING AND SUPPLY

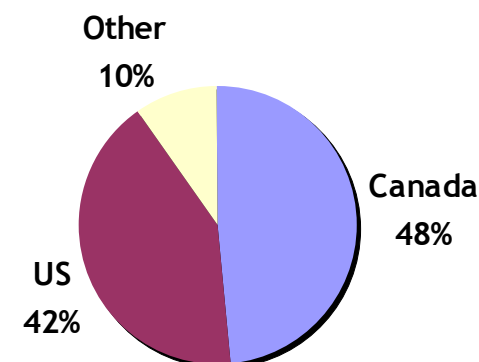
C\$ Million as at October 31, 2005

	Total Gross Loans & BA's	Gross Impaired	Net Impaired	Performing Portfolio	
				"Investment Grade"	"Non- Investment Grade"
Suppliers	493	38	27	303	152
Motor Vehicle Manufacturing	58	-	-	23	35
Total	551*	38 **	27	326	187

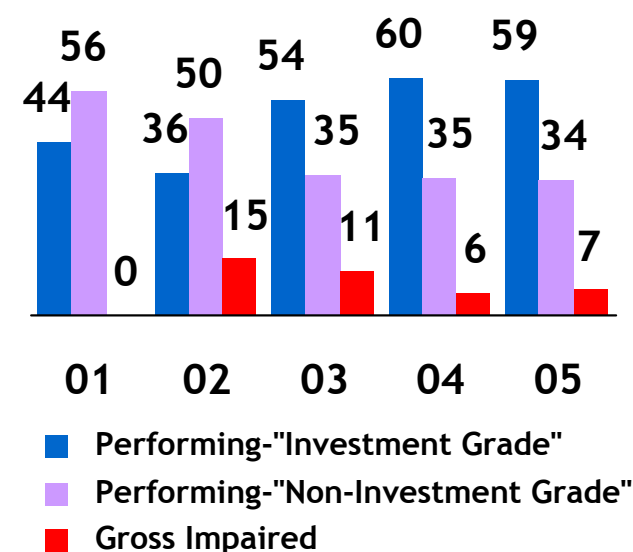
\* Represents 0.4% of the total loan portfolio (excluding reverse repos)  
Refer to the Supplementary Financial Package pages 26, 29 and 30

\*\* U.S. 100%

### Gross Auto Loans & Acceptances By Geography



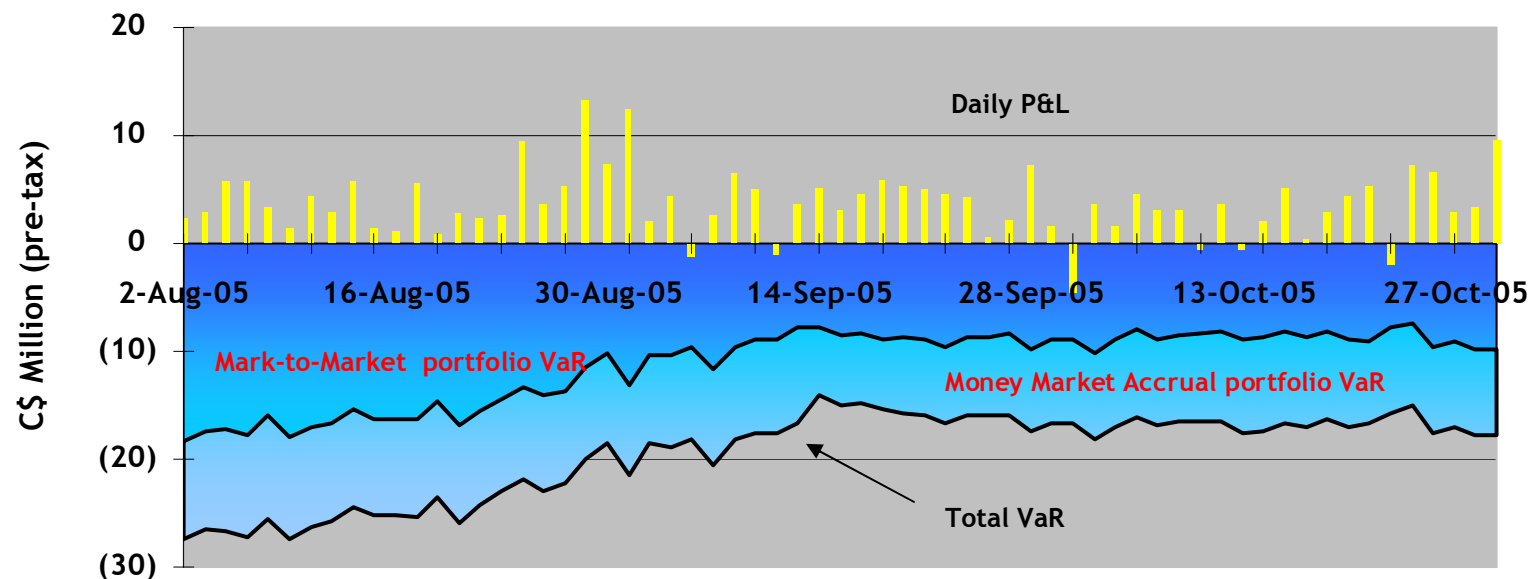
### Portfolio Migration %



# TRADING AND UNDERWRITING

Stable and profitable performance during the quarter

**DAILY P&L versus VALUE AT RISK (VaR)**  
 August 1, 2005 TO October 31, 2005  
 (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)

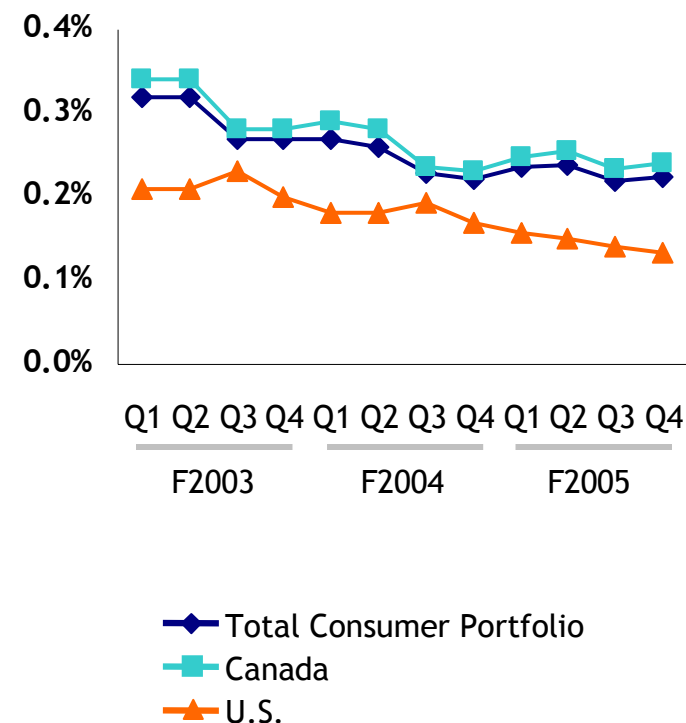
As at October 31, 2005

	Canada	U.S.	Other	Total	
Consumer					
Residential Mortgages	51	6	-	57	39%
Consumer Loans	19	9	-	28	19%
Cards	5	-	-	5	3%
Total Consumer **	75	15	-	90	61%
Commercial	30	6	-	36	25%
Corporate	7	12	2	21	14%
Total	112	33	2	147	100%

\* Excludes reverse repos

\*\* Secured consumer loans account for approximately 90% of BMO's total consumer loans portfolio

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



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

(Refer to the Supplementary Financial Package page 24)

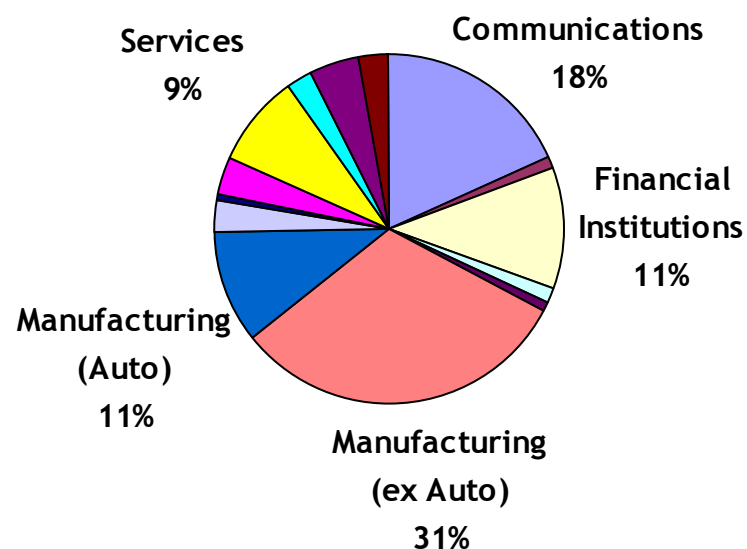
## CREDIT DERIVATIVES ARE USED TO ASSIST IN THE PORTFOLIO MANAGEMENT OF OUR LOAN BOOK

### Credit Protection Portfolio (C\$ Millions)

October 31, 2005

	Single Name Hedge	Index Hedge	Total Hedge
Communications	174	59	233
Construction	0	15	15
Financial Institutions	29	114	143
Forest Products	0	15	15
Government	0	10	10
Manufacturing (excl Auto)	249	151	400
Manufacturing (Auto)	118	17	135
Oil and Gas	0	35	35
Real Estate	0	10	10
Retail	6	37	43
Services	54	57	111
Transportation	0	30	30
Utilities	24	35	59
Wholesale	0	35	35
<b>Total at Q4 05</b>	<b>654</b>	<b>620</b>	<b>1,274</b>
<b>Total at Q3 05</b>	<b>659</b>	<b>642</b>	<b>1,301</b>

### Sector of Concentrations Of Credit Default Swaps October 31, 2005

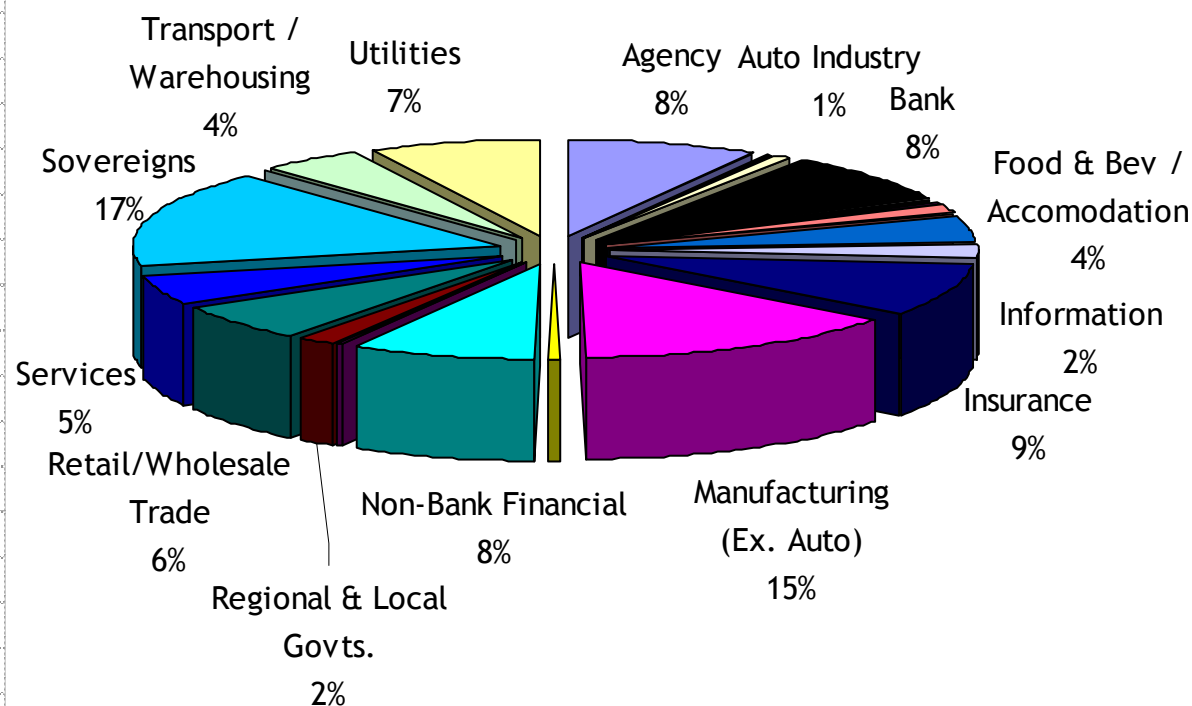


# TRADING & UNDERWRITING CDS EXPOSURES INCLUDING HEDGES ARE WELL DIVERSIFIED

Industry	Market Value in MM - CDE
Agency	(\$189)
Agriculture/Forestry	(\$4)
Auto Industry	\$19
Bank	\$188
Cable/Broadcasting	\$8
Construction	\$30
Food&Bev / Accomodation	(\$100)
Information	(\$52)
Insurance	\$194
Manufacturing (Ex. Auto)	(\$327)
Mining/Oil/Gas	(\$11)
Non-Bank Financial	\$178
Real Estate/Rent/Leasing	\$4
Regional & Local Govts.	(\$41)
Retail/Wholesale Trade	(\$142)
Services	(\$108)
Sovereigns	(\$369)
Telecommunications	\$1
Transport/Warehousing	(\$99)
Utilities	(\$165)
<b>Total</b>	<b>(\$985)</b>

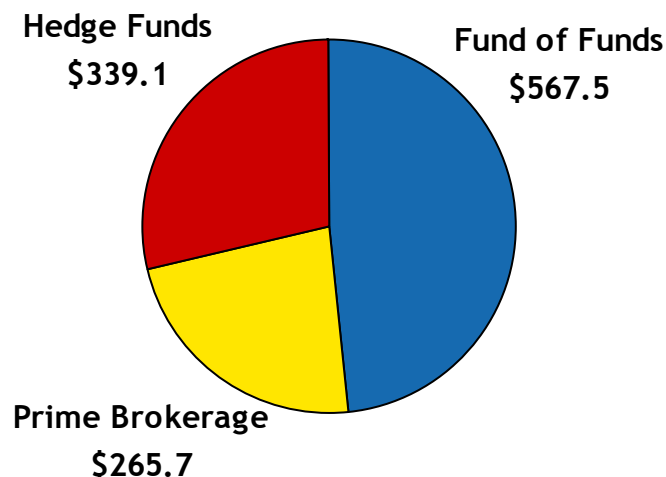
## EXPOSURE BY INDUSTRY

OCTOBER 31, 2005



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

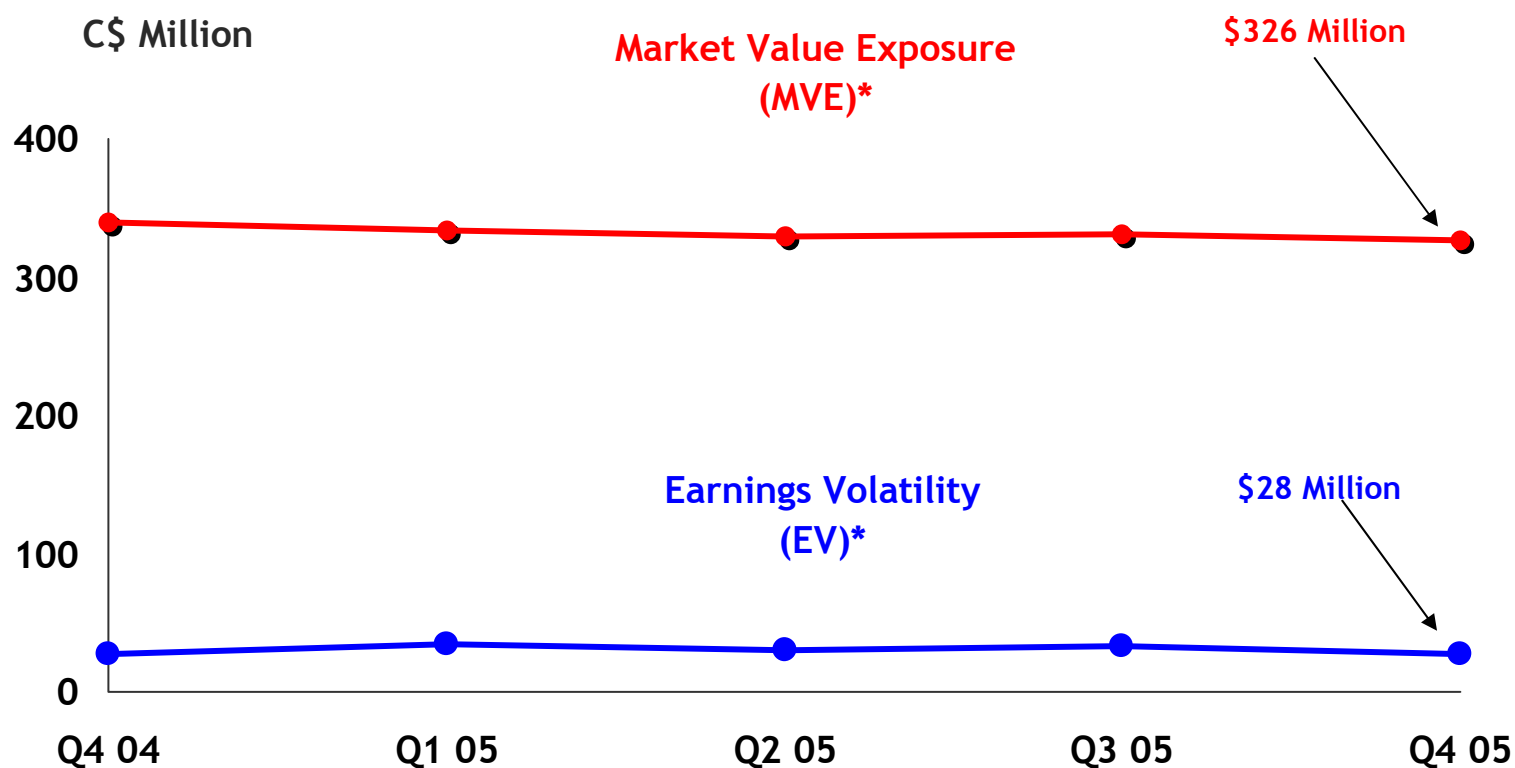
Hedge Funds - Utilized  
US\$ Million  
October 31, 2005



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



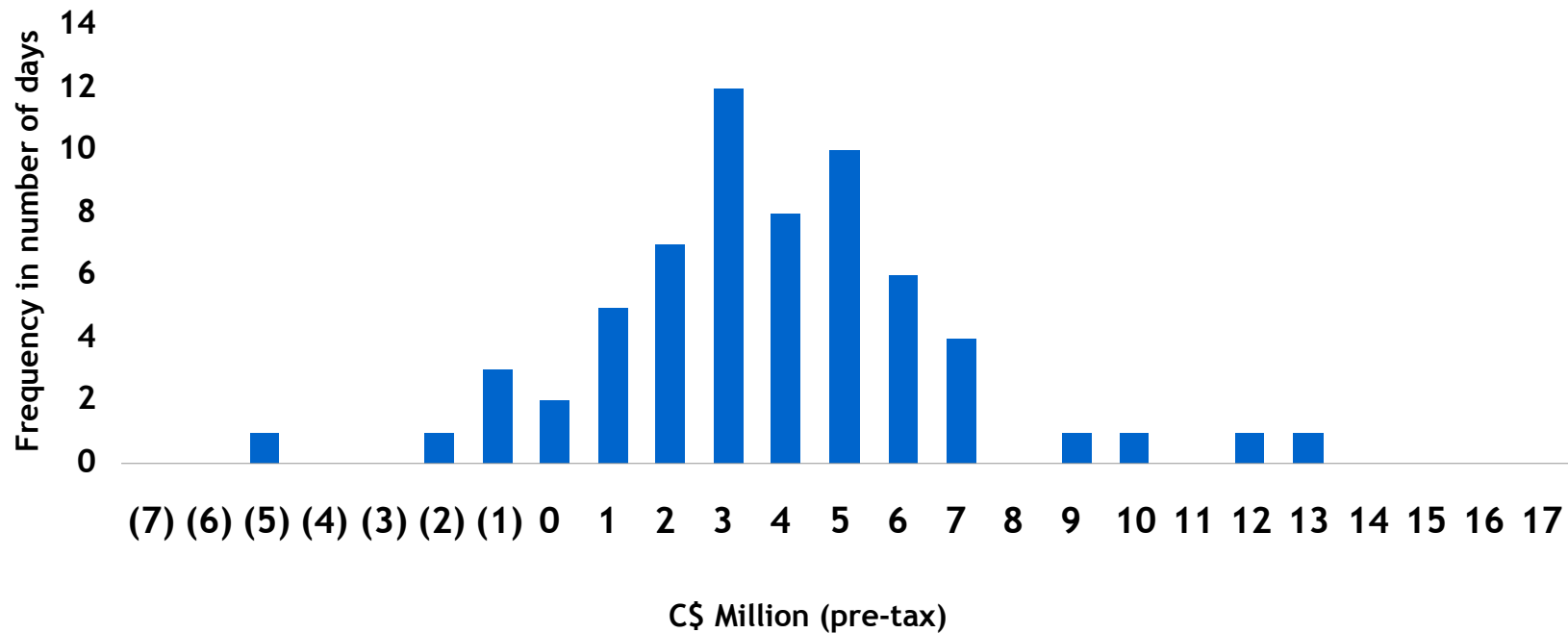
\* Refer to definitions on page 34 of the Supplementary Financial Information package





## FREQUENCY DISTRIBUTION OF DAILY TRADING AND UNDERWRITING P&L

FREQUENCY DISTRIBUTION OF DAILY P&L  
FOR TRADING AND UNDERWRITING  
August 01, 2005 TO October 31, 2005





RISK REVIEW - FOURTH QUARTER 2005



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