



**Q406**

## **RISK REVIEW**

Investor Community Conference Call

**BMO**  **Financial Group**

**BOB McGLASHAN**  
Executive Vice President and  
Chief Risk Officer  
November 28 • 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 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, and are intended to be forward-looking statements under, the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives and priorities for 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; 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 impacts on local, national or international economies, and disruptions to public infrastructure, such as transportation, communications, power or water supply; and technological changes.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors could adversely affect our results. For more information, please see the discussion on pages 29 and 30 of BMO's 2005 Annual Report, which outlines in detail certain key factors that may affect BMO's future results. When relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Bank of Montreal does not undertake to update any forward-looking statement, whether written or oral, that may be made, from time to time, by the organization or on its behalf.

Assumptions about the performance of the Canadian and U.S. economies in 2007 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 provisions for credit losses. Key assumptions include that the Canadian and U.S. economies will expand at a moderate pace in 2007 and that inflation will remain low. We have also assumed that interest rates in 2007 will remain little changed in Canada but decline in the United States and that the Canadian dollar will hold onto its recent gains in value relative to the U.S. dollar. 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.



## Fiscal 2006

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

#### GIL Balance

\$666 million ↓ 17%

#### GIL Formations

\$420 million ↓ 1%

#### Specific PCL

\$211 million ↓ 4%

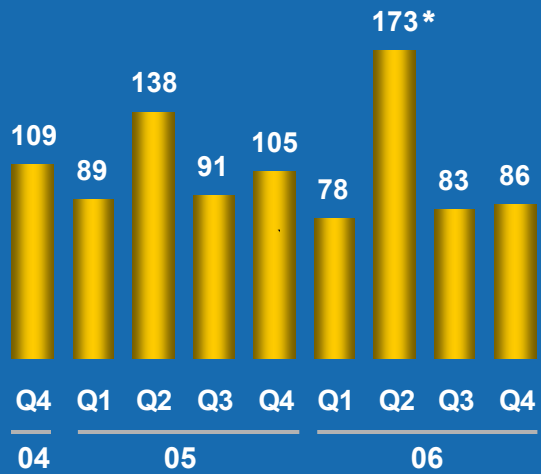
## CREDIT PERFORMANCE EXCEEDS EXPECTATIONS for Fiscal 2006

- BMO continues to maintain its historic strong credit performance and Provision for Credit Losses (PCL) advantage over competitors
- F2006 PCL is \$176 million, comprised of Specific PCL of \$211 million and a \$35 million reduction in the General Allowance
- F2006 Specific PCL at 11 bps is low relative to our 15-year average of 38 bps and the 59 bps average of the Canadian peer group
- Gross Impaired Loans (GILs) are at \$666 million and remain low relative to historical levels, while GIL Formations are comparable to F2005 levels
- Specific PCL for F2007 is estimated at \$400 million or less

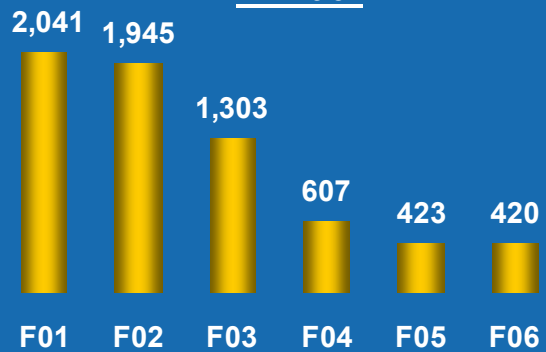


### GIL Formations (C\$ Million)

#### Quarterly



#### Annual

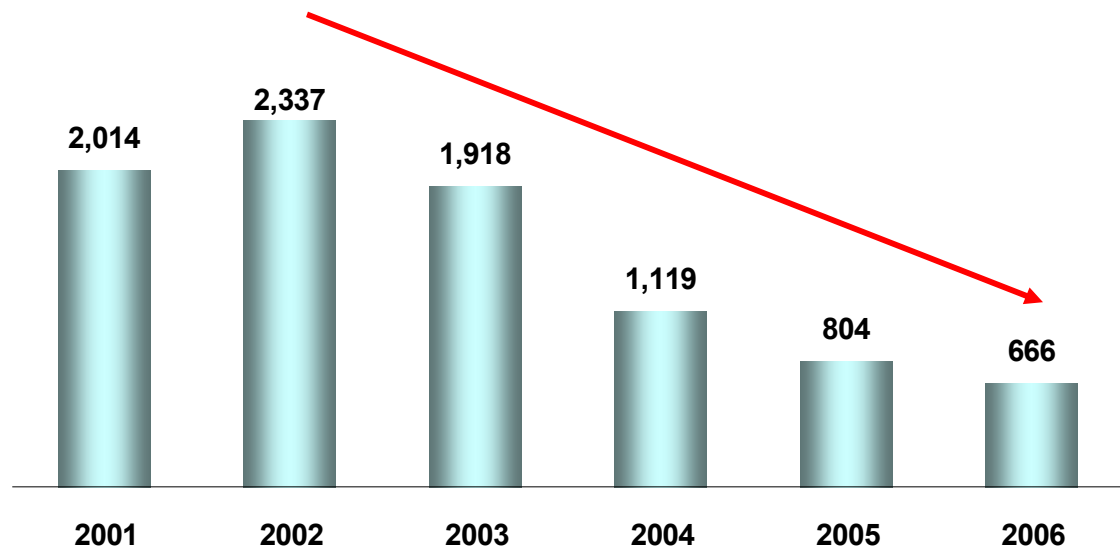


\* A single enterprise group represented \$71 million in formations in Q206, which were subsequently fully repaid in Q306

## CREDIT QUALITY REMAINS STRONG

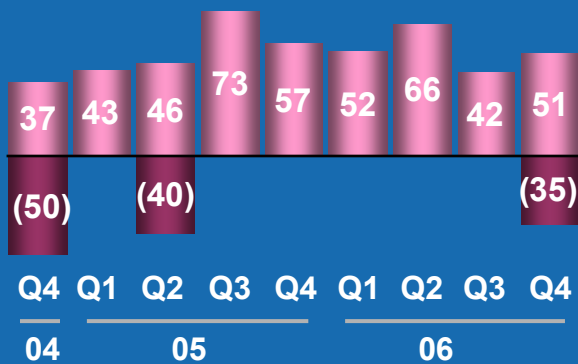
GIL balances continue at historical lows with GIL formations in the quarter remaining at low levels

### Gross Impaired Loans (C\$ Million)





**Total PCL**  
Quarterly  
(C\$ Million)



Specific PCL  General PCL 

## TOTAL PROVISION FOR CREDIT LOSSES

reflects the ongoing stable credit environment and another favourable quarter from the corporate portfolio

Provision for Credit Losses (C\$ Million)

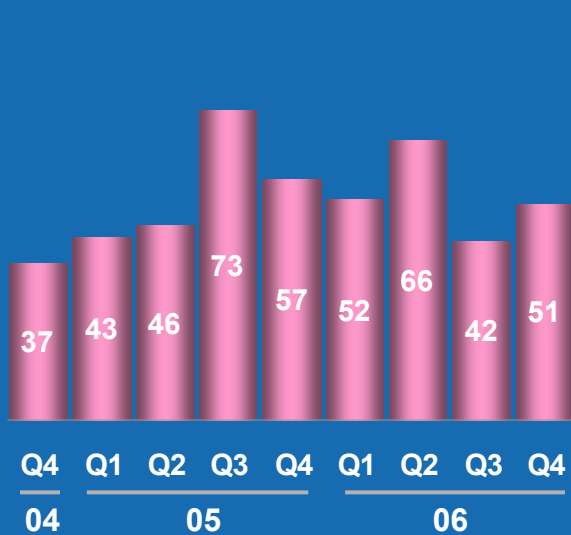
<u>Portfolio Segment</u>	<u>Q4 06</u>	<u>Q3 06</u>	<u>Q4 05</u>
Consumer	54	48	44
Commercial	12	12	13
Corporate	(15)	(18)	-
Specific Provisions	<u>51</u>	<u>42</u>	<u>57</u>
Reduction of General Allowance	(35)	-	-
<b>Total PCL</b>	<b><u>16</u></b>	<b><u>42</u></b>	<b><u>57</u></b>

Specific PCL as a % of Avg Net Loans & Acceptances (incl. Reverse Repos) \*      11 bps      9 bps      13 bps

\* Annualized; versus BMO's 15 year average of 38 bps

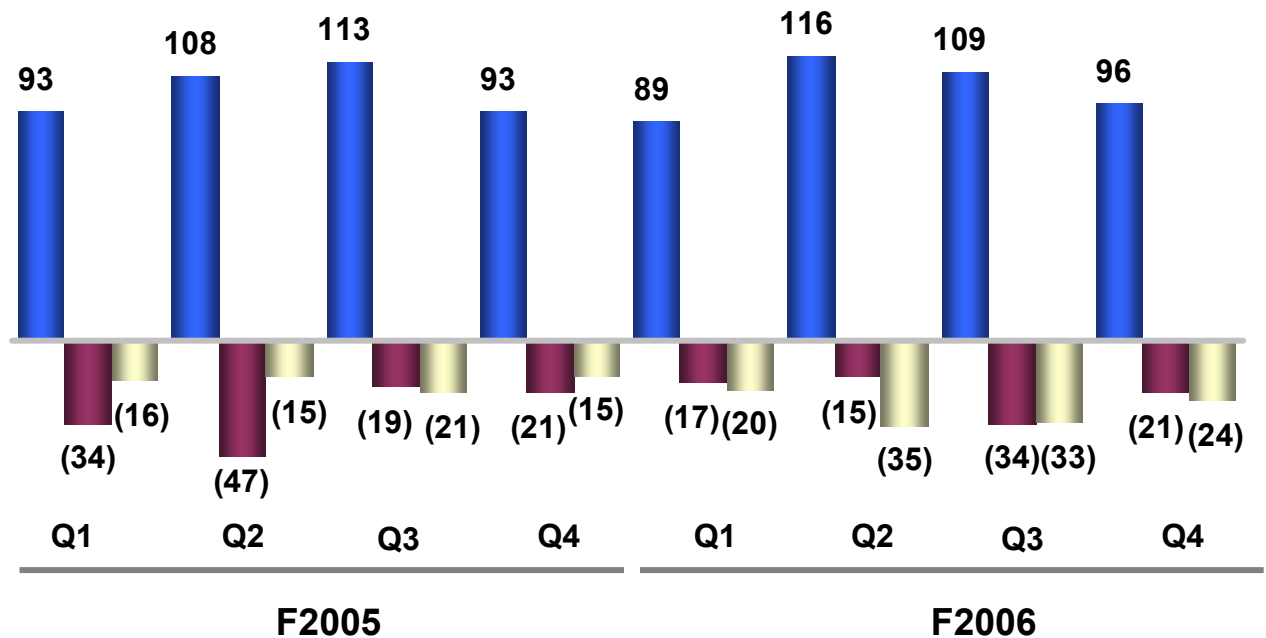
Specific PCL

Quarterly  
(C\$ Million)



## NEW SPECIFIC PROVISIONS REMAIN LOW


2006 reversals and recoveries are comparable to 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
F2006	.11	N/A
Q4 / 06	.11	N/A
Q3 / 06	.09	.20
F2005	.13	.20
15 yr avg *	.38	.59

BMO's Canadian competitors include: RY, BNS, CM, TD and NA

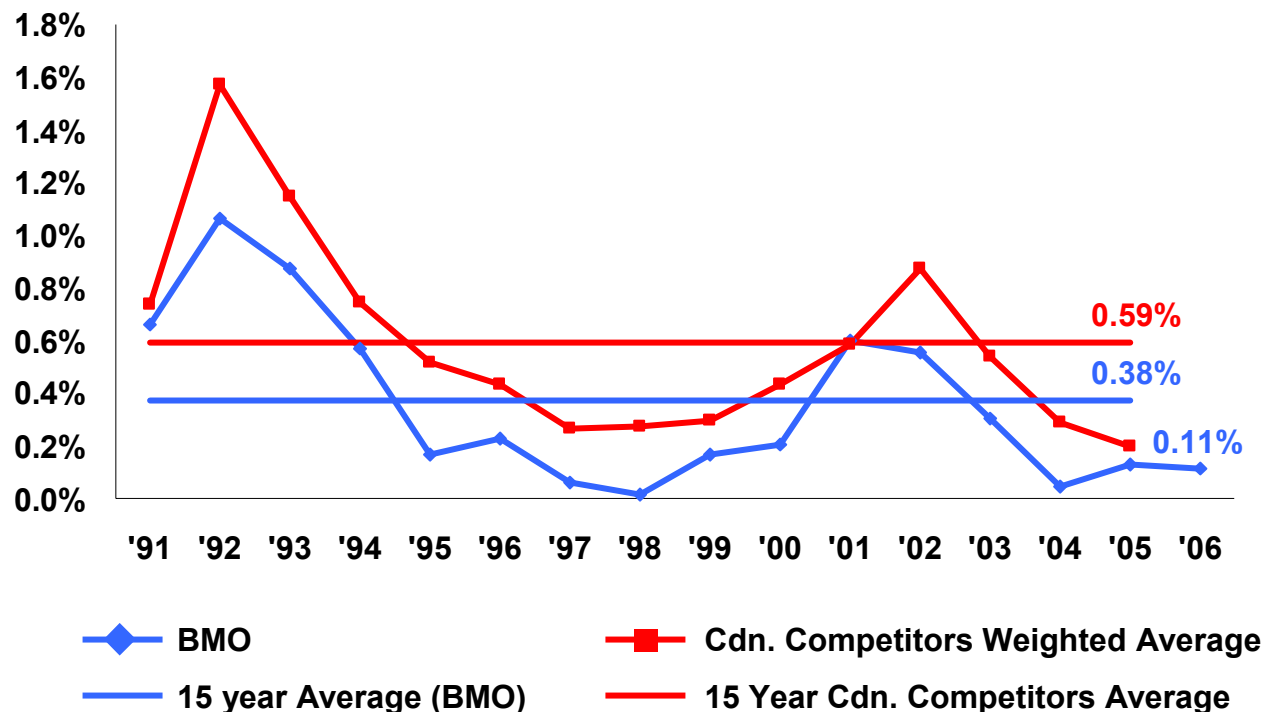
Competitor average excludes the impact of TD's sectoral provisions

\* 15 yr average: 1991 to 2005

## CREDIT PERFORMANCE MEASURE

Historical Specific PCL average reveals a 21 bps advantage

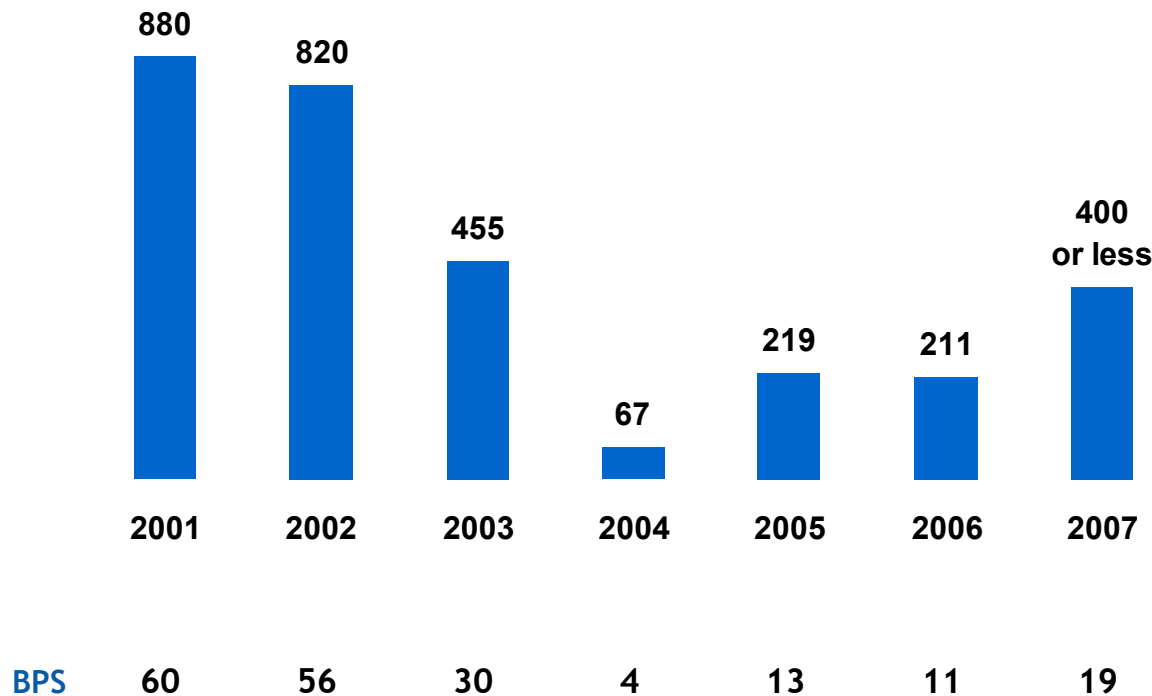
**Specific PCL as a % of Average Net Loans and Acceptances (including Reverse Repos)**





## F2007 SPECIFIC PCL is estimated at \$400 million or less

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



### F2007 Specific PCL Estimate

We expect a modest deterioration in the credit environment in 2007

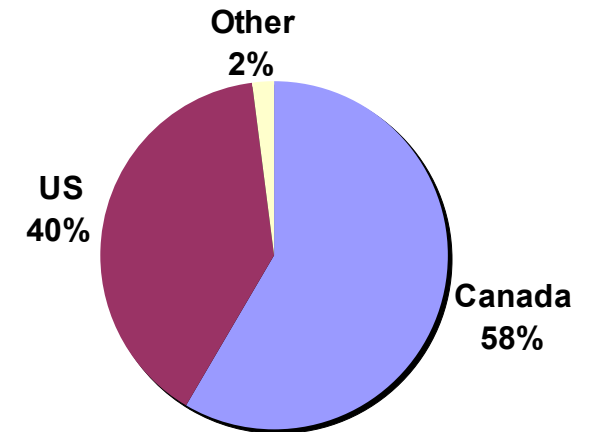
### We anticipate ...

An increase in new specific provisions, and lower reversals and recoveries compared to F2006 levels





## Gross Auto Loans & Acceptances By Geography

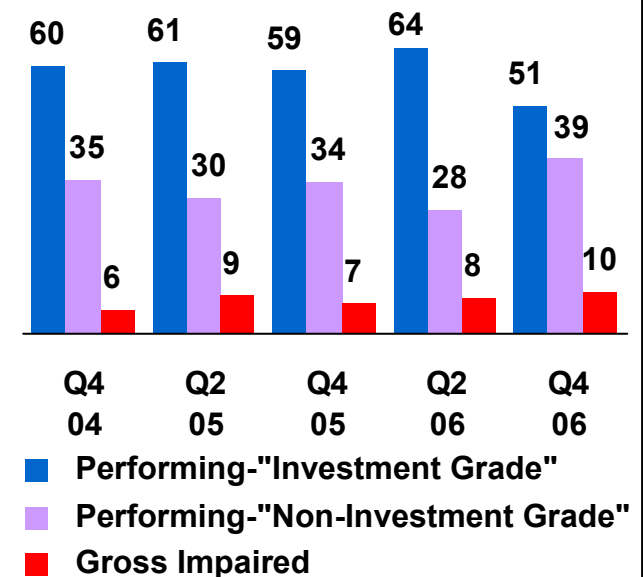


## AUTO MANUFACTURING AND SUPPLY

C\$ Million as at October 31, 2006

	Total Gross Loans & BA's	Gross Impaired	Net Impaired	Performing Portfolio	
				"Investment Grade"	"Non- Investment Grade"
Suppliers	434	44	31	224	166
Motor Vehicle Manufacturing	24	-	-	10	14
<b>Total</b>	<b>458 *</b>	<b>44 **</b>	<b>31</b>	<b>234</b>	<b>180</b>

## Portfolio Migration %



\* Represents 0.3% of the total loan portfolio (excluding reverse repos)

\*\* Canada 39%, U.S. 61%

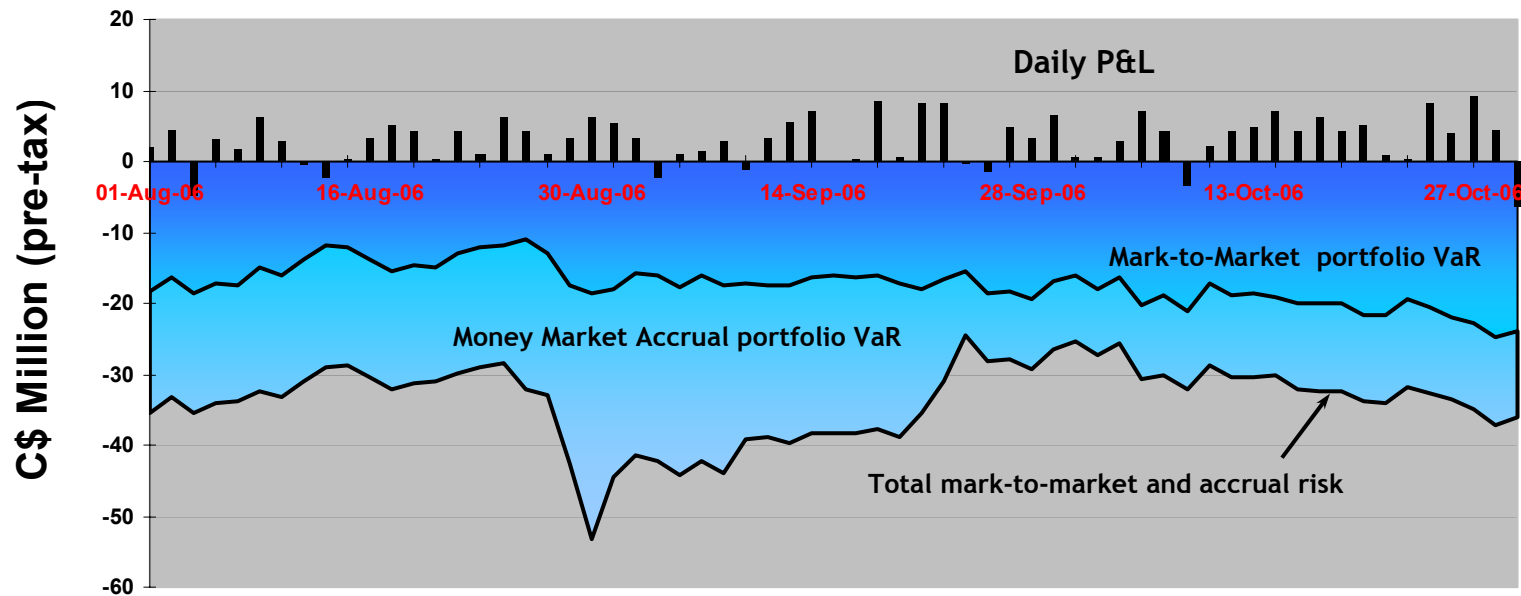
(Refer to the Supplementary Financial Information Package pages 26, 29 and 30)



## TRADING AND UNDERWRITING

Stable and profitable during the quarter

Trading and Underwriting Net Revenues Versus Market Value Exposure  
August 1, 2006 to October 31, 2006 (C\$ millions)  
(Presented on a Pre-Tax Basis)



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



# APPENDIX



# LOAN PORTFOLIO DISTRIBUTION

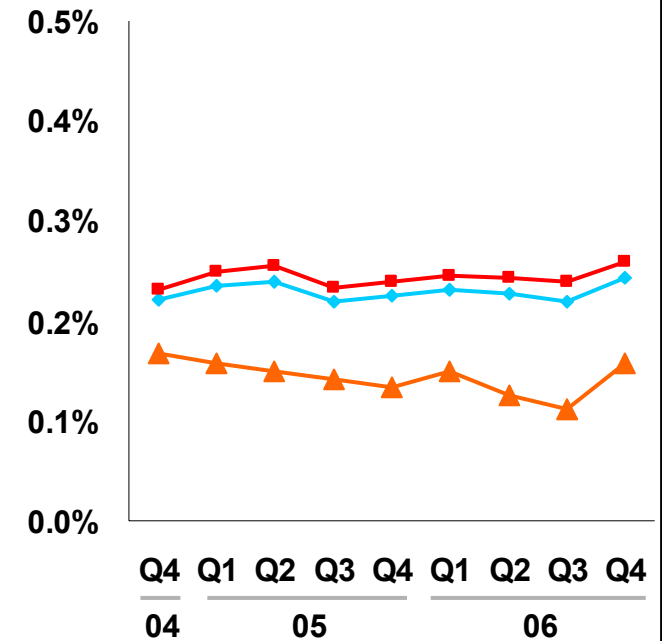
## Consumer/Commercial/Corporate

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

	Canada	U.S.	Other	Total	
Consumer					
Residential Mortgages	54	6	-	60	38%
Consumer Loans	20	10	-	30	19%
Cards	4	-	-	4	2%
<b>Total Consumer</b>	<b>78</b>	<b>16</b>	<b>-</b>	<b>94</b>	<b>59%</b>
Commercial	33	6	-	39	24%
Corporate	9	15	3	27	17%
<b>Total</b>	<b>120</b>	<b>37</b>	<b>3</b>	<b>160</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 Information Package page 24)



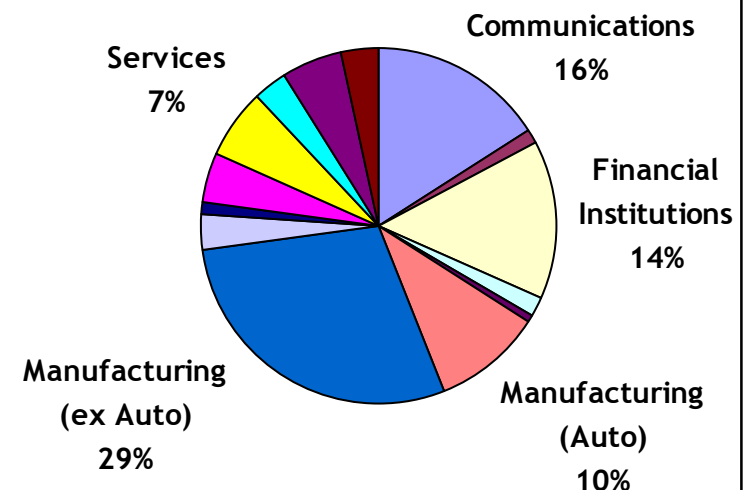
## CREDIT DERIVATIVES ARE USED TO ASSIST IN THE PORTFOLIO MANAGEMENT OF OUR LOAN BOOK

**Credit Portfolio Management Activity (C\$ Millions)**

**October 31, 2006**

	Single Name	Index	Total
Communications	113	59	172
Construction	0	16	16
Financial Institutions	28	127	155
Forest Products	0	17	17
Government	0	11	11
Manufacturing (Auto)	96	9	105
Manufacturing (ex Auto)	146	166	312
Oil and Gas	0	37	37
Real Estate	0	11	11
Retail	6	42	48
Services	2	69	71
Transportation	0	32	32
Utilities	22	38	60
Wholesale	0	37	37
<b>Total at Q4 06</b>	<b>413</b>	<b>671</b>	<b>1,084</b>
<b>Total at Q3 06</b>	<b>553</b>	<b>591</b>	<b>1,144</b>

**Sector Distribution  
October 31, 2006**

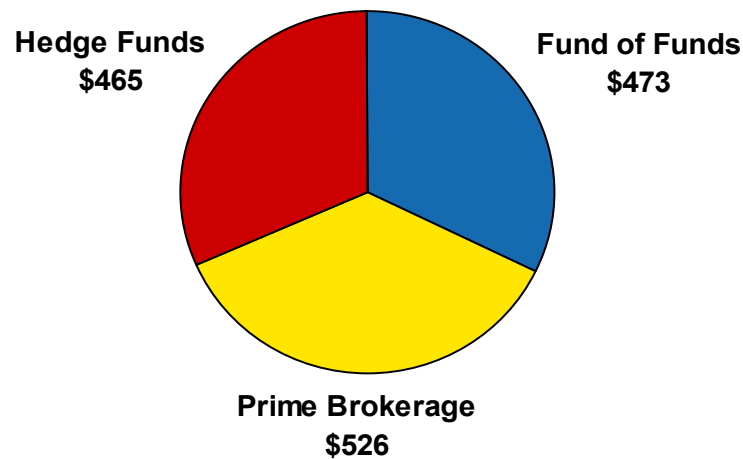




## EXPOSURES TO HEDGE FUNDS ARE MONITORED CLOSELY AND ARE SUBJECT TO TIGHT CONTROLS

**Hedge Funds – Utilized  
US\$ Million  
October 31, 2006**

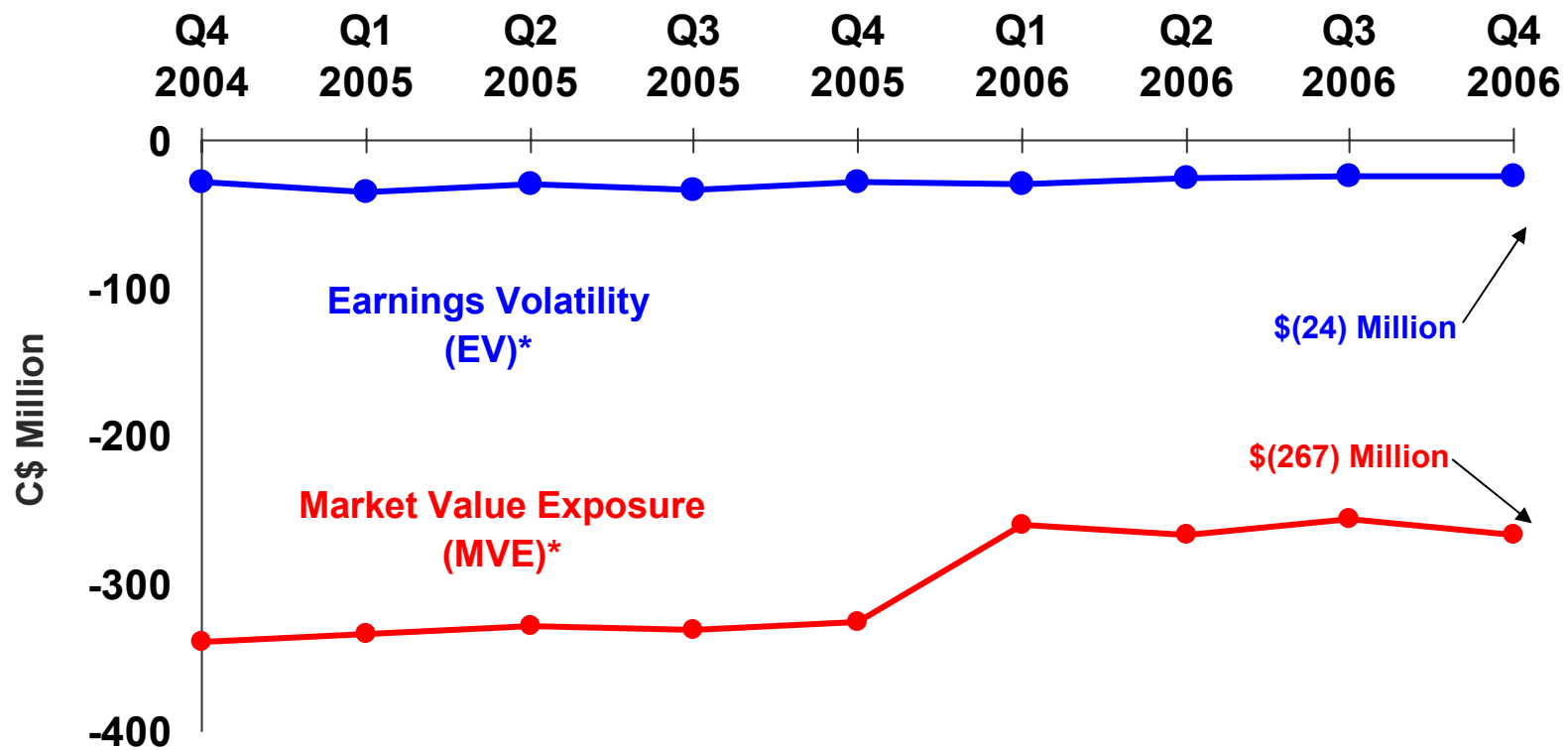
**Exposures to these sectors are subject  
to limits which are approved by and  
reported to the Board**



Exposure	Primary 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

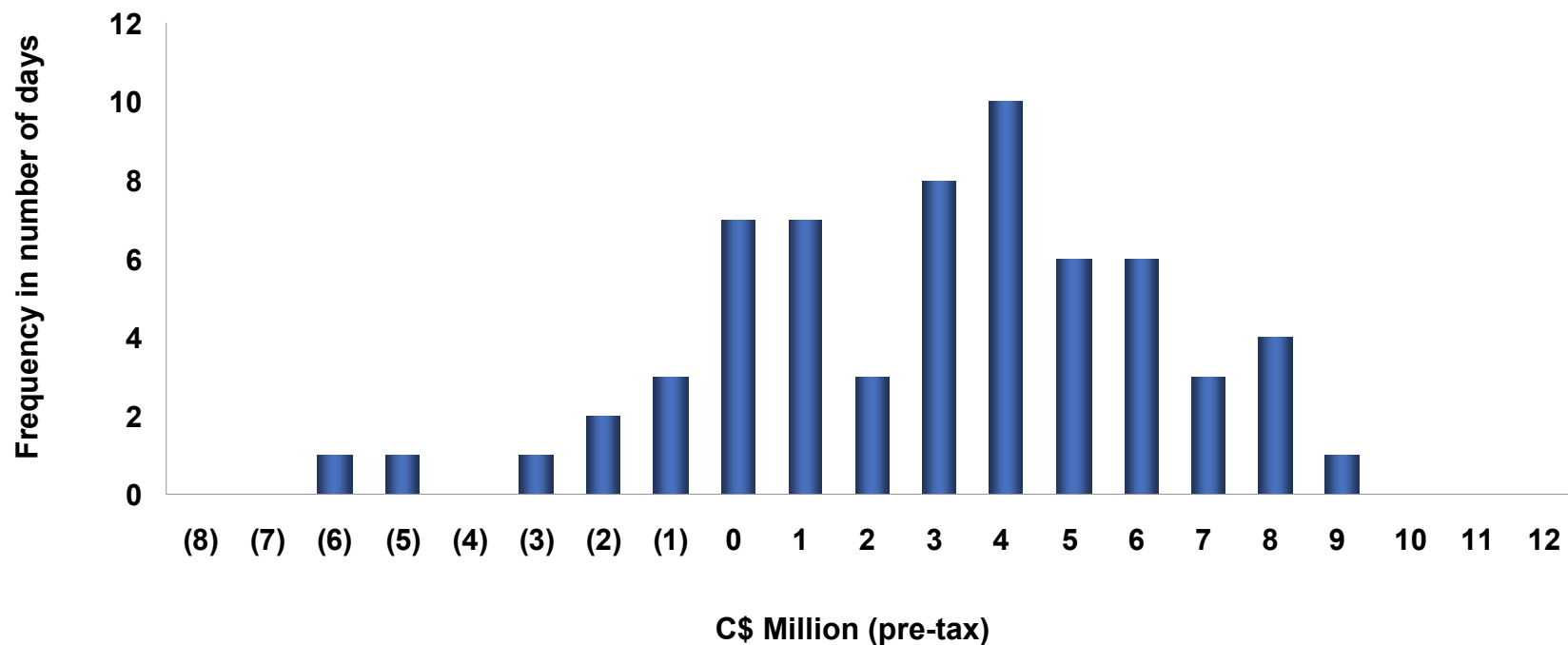


\* Refer to definitions on page 34 of the Supplementary Financial Information Package



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

FREQUENCY DISTRIBUTION OF DAILY P&L FOR TRADING AND UNDERWRITING  
August 1, 2006 to October 31, 2006







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