

Corporate Support

Group Description

Corporate Support includes the corporate units that provide expertise and governance support to BMO Financial Group in areas such as strategic planning, law, finance, internal audit, risk management, corporate communications, economics, human resources and learning. Our operating results include revenues and expenses associated with certain securitization activities, the hedging of foreign-source earnings, and activities related to the management of certain balance sheet positions and BMO's overall asset-liability structure.

Operating results for Technology and Solutions (T&S) are included with Corporate Support for reporting purposes. However, costs of T&S services are transferred to the three client operating groups, and only minor amounts are retained in T&S results. As such, results in this section largely reflect Corporate Support activities.

Financial Results

Corporate Support net income for the year was \$29 million, compared with \$265 million in 2004. The decline was driven by a significantly higher provision for credit losses, as well as reductions in net gains on investment securities and foreign exchange translation. Results in 2005 included a gain of \$29 million (\$19 million after tax) on the sale of First Canadian Centre in Calgary.

BMO's practice is to charge loss provisions to the client operating groups each year, using an expected loss provisioning methodology based on each group's share of expected credit losses over an economic cycle. Corporate Support is generally charged (or credited) with differences between expected loss provisions charged to the client operating groups and provisions

required under GAAP. However, in 2004 IBG was credited with a \$39 million recovery on a loan because the loss on the loan in 2001 was not subject to our expected loss provisioning methodology at the time.

Corporate Support, including Technology and Solutions

(\$ millions, except as noted)

Reported	As at or for the year ended October 31	2005	2004	2003	Change from 2004	
					\$	%
Net interest income (teb)		(197)	(208)	(204)	11	5
Non-interest revenue		162	200	252	(38)	(20)
Total revenue (teb)		(35)	(8)	48	(27)	(+100)
Provision for credit losses		(222)	(545)	(80)	323	59
Non-interest expense		188	171	162	17	10
Income before income taxes and non-controlling interest in subsidiaries		(1)	366	(34)	(367)	(+100)
Income taxes (teb)		(88)	85	(91)	(173)	(+100)
Non-controlling interest		58	16	18	42	+100
Net income		29	265	39	(236)	(89)
Full-time equivalent staff		8,343	8,577	8,953	(234)	(3)

U.S. Business Select Financial Data	For the year ended October 31	2005	2004	2003	Change from 2004	
					\$	%
Total revenue		(73)	(49)	80	(24)	(49)
Provision for (recovery of) credit losses		(74)	(99)	(8)	25	25
Non-interest expense		50	46	58	4	9
Net income		(12)	(3)	27	(9)	(+100)
Average assets		4,800	5,458	5,856	(658)	(12)

Financial Condition Review

Summary Balance Sheet (\$ millions)

As at October 31	2005	2004	2003	2002	2001
Assets					
Cash resources	20,721	18,045	19,860	19,305	17,656
Securities	57,256	50,472	54,790	43,715	37,676
Net loans and acceptances	174,337	156,248	146,156	149,596	144,765
Other assets	45,218	40,429	35,688	40,248	39,312
	297,532	265,194	256,494	252,864	239,409
Liabilities and Shareholders' Equity					
Deposits	193,793	175,190	171,551	161,838	154,290
Other liabilities	85,804	73,270	68,455	74,188	68,613
Subordinated debt	2,469	2,395	2,856	3,794	4,674
Preferred share liability	450	450	850	850	850
Capital trust securities	1,150	1,150	1,150	1,150	1,150
Shareholders' equity	13,866	12,739	11,632	11,044	9,842
	297,532	265,194	256,494	252,864	239,409

Total assets increased \$32.3 billion or 12% from last year to \$297.5 billion at October 31, 2005. There was a \$6.8 billion increase in securities, an \$18.1 billion increase in net loans and acceptances, a \$4.8 billion increase in other assets and a \$2.7 billion increase in cash resources.

Total liabilities and shareholders' equity increased \$32.3 billion or 12%. There was an \$18.6 billion increase in deposits, a \$12.5 billion increase in other liabilities and a \$1.1 billion increase in shareholders' equity.

Securities (\$ millions)

As at October 31	2005	2004	2003	2002	2001
Investment securities	12,936	15,017	19,660	21,271	21,470
Trading securities	44,309	35,444	35,119	22,427	16,200
Loan substitute securities	11	11	11	17	6
	57,256	50,472	54,790	43,715	37,676

Investment securities decreased \$2.1 billion to \$12.9 billion due to maturing U.S. government securities that were not replaced in the rising interest rate environment. Trading securities increased \$8.9 billion to \$44.3 billion due to an increase in corporate debt securities related to growth in our credit derivatives business and an increase in holdings of Government of Canada issued paper. Note 3 on page 97 of the financial statements provides further details on securities.

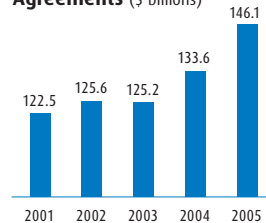
Net Loans and Acceptances (\$ millions)

As at October 31	2005	2004	2003	2002	2001
Residential mortgages	60,871	56,444	52,095	47,569	41,941
Consumer instalment and other personal loans	27,929	24,887	22,103	21,168	19,107
Credit cards	4,648	3,702	2,967	2,280	1,527
Businesses and governments	47,803	44,559	44,167	49,670	53,944
Acceptances	5,934	5,355	5,611	6,901	7,936
Securities borrowed or purchased under resale agreements	28,280	22,609	20,998	23,957	22,259
Gross loans and acceptances	175,465	157,556	147,941	151,545	146,714
Allowance for credit losses	(1,128)	(1,308)	(1,785)	(1,949)	(1,949)
Net loans and acceptances	174,337	156,248	146,156	149,596	144,765

Net loans and acceptances increased \$18.1 billion to \$174.3 billion. Residential mortgages increased \$4.4 billion, reflecting strong market demand in the low interest rate environment. Credit cards and consumer instalment and other personal loans increased \$4.0 billion in total, also reflecting healthy personal lending markets. The consumer portfolio remains well diversified, with a slightly higher proportion of U.S. loans than in 2004 due to strong organic loan growth in P&C Chicagoland Banking and the acquisition of Mercantile Bancorp. There was also strong growth in residential mortgages, consumer instalment and credit card loans in Canada in 2005. Loans to businesses and governments and related acceptances increased \$3.8 billion, reflecting stronger demand. Securities borrowed or purchased under resale agreements increased \$5.7 billion. The increase was due to higher interest rates and a steeper yield curve for these instruments, which are very short-term loans that are managed in conjunction with similarly short-term securities lent or sold under repurchase agreements and securities sold but not yet purchased.

Table 14 on page 86 provides a comparative summary of loans by geographic location and product. Table 16 on page 87 provides a comparative summary of net loans in Canada by province and industry. Loan quality is discussed on pages 40 and 69 and further details on loans are provided in Notes 4, 5 and 7 to the financial statements starting on page 100.

Net Loans – Excluding Securities Borrowed or Purchased under Resale Agreements (\$ billions)



There was strong growth in residential mortgages and personal loans.

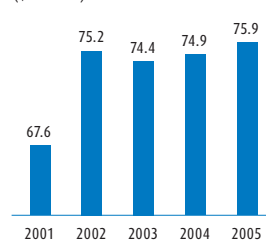
Portfolio Diversification – Gross Loans and Acceptances*



*Excluding securities borrowed or purchased under resale agreements

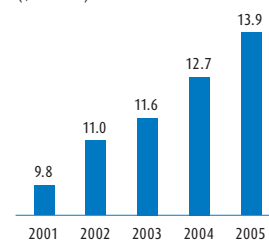
The portfolio remains well diversified, with corporate loans declining as a percentage of the portfolio.

Deposits from Individuals (\$ billions)



Deposits from individuals remained stable despite the lower Canadian/U.S. dollar exchange rate.

Shareholders' Equity (\$ billions)



Shareholders' equity has increased steadily since 2001 due to net income retained to support our businesses.

Other Assets

Other assets increased \$4.8 billion to \$45.2 billion, primarily due to higher values of commodity derivative financial instruments. Higher energy prices caused contract values to rise and the increased volatility promoted greater client activity.

Deposits (\$ millions)

As at October 31	2005	2004	2003	2002	2001
Banks	25,473	20,654	24,755	15,273	20,539
Businesses and governments	92,437	79,614	72,405	71,411	66,132
Individuals	75,883	74,922	74,391	75,154	67,619
	193,793	175,190	171,551	161,838	154,290

Deposits increased \$18.6 billion to \$193.8 billion. Deposits from businesses and governments, which account for 48% of total deposits, increased \$12.8 billion and deposits from individuals, which account for 39% of total deposits, increased \$1.0 billion. The increase in deposits was used to fund growth in loans and securities. Deposits by banks, which account for 13% of total deposits, increased \$4.8 billion. The increase reflects the growth in deposits with other banks due to trading activity. The weakness of the U.S. dollar and other currencies reduced deposit growth by \$2.8 billion.

Further details on the composition of deposits are provided in Note 15 on page 114 of the financial statements and in the Liquidity and Funding Risk section on page 72.

Other Liabilities

Other liabilities increased \$12.5 billion to \$85.8 billion. Derivative-related liabilities increased \$4.9 billion due to the same factors that drove the increase in derivative-related assets. Securities lent or sold under repurchase agreements increased \$1.3 billion, while there was a \$5.7 billion increase in securities sold but not yet purchased. Further details on the composition of other liabilities are provided in Note 16 on page 114 of the financial statements.

Subordinated Debt

Subordinated debt increased \$0.1 billion to \$2.5 billion. There were three redemptions or maturities and two new

issues in 2005, as detailed in Note 17 on page 115 of the financial statements.

Shareholders' Equity

Shareholders' equity increased \$1.1 billion to \$13.9 billion. The increase was largely related to higher retained earnings.

BMO's Consolidated Statement of Changes in Shareholders' Equity on page 94 provides a summary of items that increase or reduce shareholders' equity, while Note 20 on page 118 of the financial statements provides details on the components of and changes in share capital. Details of our enterprise-wide capital management practices and strategies can be found below.

Enterprise-Wide Capital Management

Strategy and Approach

Our Capital Management Framework is designed to maintain an optimum level of capital in a cost-effective structure that: meets our target regulatory ratios; supports our internal assessments of required capital; results in targeted credit ratings; funds our operating groups' business strategies; and builds long-term shareholder value. Our approach includes establishing limits, goals and performance measures for management of balance sheet positions, risk levels and minimum capital amounts, as well as issuing and redeeming capital instruments to obtain the most cost-effective capital structure possible. These are approved by the Board of Directors pursuant to its annual review of our capital management corporate policy and capital plan.

At the consolidated enterprise level, our targeted capital levels are set in support of our risk tolerance, while still satisfying regulatory and legal requirements. At the line of business level, performance measurement is assessed relative to allocated capital, which is based primarily on the assessment and measurement of the line's capital at risk requirements, as outlined on page 68, and regulatory capital requirements. By allocating capital to operating units and measuring their performance with respect to the capital necessary to support the risks in their business, we maximize our risk-adjusted returns. We also ensure that we maintain a well-capitalized position to protect our stakeholders from the risks inherent in our various businesses, while still allowing the flexibility to deploy resources in the high-return or strategic growth activities of our operating groups in order to meet or exceed established enterprise targets.

Generally, BMO generates earnings that are sufficient to meet new capital requirements. As such, management's primary challenge is achieving the most cost-effective capital structure, rather than procuring sufficient capital to fund expansion initiatives.

Dividends are generally increased in line with long-term trends in earnings per share growth, while sufficient earnings are retained to support anticipated business growth, fund strategic investments and provide continued support for depositors. BMO's policy is to have a dividend payout ratio of 35% to 45% of net income available to common shareholders, over time.

The **Tier 1 Capital Ratio** is our key measure of capital adequacy. It is defined as Tier 1 capital divided by risk-weighted assets.

Performance Review

The Tier 1 Capital Ratio rose to 10.25% from 9.81% a year ago. Tier 1 capital, representing more permanent forms of capital, increased \$2.0 billion during the year to \$15.5 billion, as outlined in the table on page 60. Net income, the BMO BOaTS® Series E issuance and a lower deduction for goodwill following the sale of *Harrisdirect* were the primary drivers of the increase. At year-end, we had \$3.4 billion of excess Tier 1 capital relative to our minimum targeted Tier 1 Capital Ratio of 8.0%, an increase of \$0.9 billion from a year ago. The components of regulatory capital and the measures we monitor are outlined in Tables 23 and 24 on page 90.

Our Total Capital Ratio, which is defined as total regulatory capital divided by risk-weighted assets, rose to 11.76% from 11.31% a year ago. The increase was driven by net income, the BMO BOaTS Series E and subordinated debt issuances and a lower deduction for goodwill following the sale of *Harrisdirect*, partially offset by redemptions of subordinated debt during the year. Both our Tier 1 and Total Capital Ratios remain well above the minimum regulatory targets of 7% and 10%, respectively.

Risk-weighted assets increased \$13.5 billion to \$151 billion, due primarily to strong personal and commercial mortgage and loan growth in Personal and Commercial Client Group in both Canada and the United States, including the impact of the Mercantile Bancorp, Inc. acquisition, and loan and commitment growth in Investment Banking Group. In 2006, we anticipate continuing controlled growth in risk-weighted assets and deployment of capital to strategically advantaged businesses.

The assets-to-capital multiple is calculated by dividing total assets, including specified off-balance sheet items net of other specified deductions, by total regulatory capital. BMO's assets-to-capital multiple improved to 16.4 from 17.0 in 2004, due primarily to growth in capital. The multiple remains well below the maximum of 23.0 permitted by our regulator.

On November 1, 2004, we commenced consolidating certain VIEs as a result of new accounting rules issued by the CICA. On April 29, 2005, we completed the restructuring of the VIEs and approximately \$21 billion of assets and liabilities relating to VIEs were no longer included in BMO's balance sheet as of that date. The consolidation had no impact on our Tier 1 and Total Capital Ratios as the Office of the Superintendent of Financial Institutions Canada (OSFI), on an interim basis, had permitted the exclusion of VIE assets from the determination of these capital ratios. The consolidation contributed to an increase in our assets-to-capital multiple in the first quarter of the year.

As part of our efforts to maintain an appropriate capital structure, we issued \$450 million of Trust Capital Securities, Series E (BOaTS), and a total of \$1 billion of Series C Medium-Term Notes, Tranches 1 and 2. We redeemed our \$300 million Series B Medium-Term Notes as well as our \$250 million Debentures, Series 18, and our US\$300 million 6.10% Notes matured during the year.

Dividends declared per common share in 2005 totalled \$1.85, up from \$1.59 in 2004. This represented a 39% payout ratio, which was in the middle of our longer-range goal of paying out between 35% and 45%. BMO increased its quarterly dividend twice during the year, as the quarterly dividend rose to \$0.49 per share in the fourth quarter, up 11.4% from \$0.44 in the fourth quarter of 2004. At year-end, BMO's common shares provided a 3.39% annual dividend yield based on the closing share price.

On September 1, 2005, BMO announced a new normal course issuer bid, commencing September 7, 2005 and ending September 5, 2006, under which BMO may repurchase for cancellation up to 15 million common shares. Under our previous 12-month normal course issuer bid, which expired on August 6, 2005, 7,520,900 shares were repurchased at a total cost of \$417.5 million. In 2005, BMO repurchased a total of 6,958,000 shares under our common share repurchase programs at a cost of \$390 million. The repurchases offset the 6,280,000 shares that were issued during 2005 due to the exercise of stock options, exchangeable shares and the dividend reinvestment plan.

BMO's credit rating, as measured by Standard & Poor's (S&P) senior debt ratings, remained unchanged at AA-, the highest, along with two of our competitors, of the six major Canadian banks. Our rating, as measured by Moody's senior debt ratings, was unchanged at Aa3, slightly below only one of the six major Canadian banks. Both agencies maintained a stable ratings outlook during the year. These ratings represent a high-grade, high-quality rating.

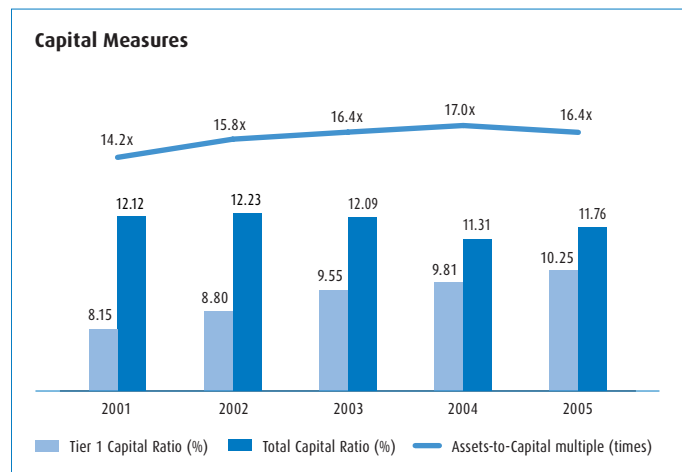
As described on page 68 in the Enterprise-Wide Risk Management section of the MD&A, the Basel II framework has been finalized. In parallel with the process of developing the risk management models and systems to calculate regulatory capital, we will review our process for assessing overall capital adequacy in relation to our risk profile. This assessment will be subject to review by our regulator, OSFI.

Tier 1 Capital (\$ millions)

	2005	2004
Beginning of year	13,471	12,337
Net income	2,400	2,306
Dividends	(955)	(828)
Goodwill and excess intangible assets	416	(173)
Issuance of common shares	219	242
Repurchase of common shares	(390)	(333)
Other issues net of redemptions	447	195
Translation and other	(154)	(275)
End of year	15,454	13,471

Risk-Weighted Assets (\$ millions)

	2005	2004
Beginning of year	137,323	129,163
Increases (decreases)		
Personal and Commercial Client Group	8,170	5,832
Private Client Group	(1,192)	(173)
Investment Banking Group	6,871	(9)
Corporate Support	(353)	2,510
End of year	150,819	137,323



Outstanding Shares and Securities Convertible into Common Shares

As of November 29, 2005	Number of shares or dollar amount	Dividends declared per share		
		2005	2004	2003
Common shares	500,119,000	\$1.85	\$1.59	\$1.34
Class B Preferred Shares				
Series 5	\$200,000,000	\$1.33	\$1.33	\$1.33
Convertible into common shares:				
Class B Preferred Shares (1)				
Series 4	\$200,000,000	\$1.20	\$1.20	\$1.20
Series 6	\$250,000,000	\$1.19	\$1.19	\$1.19
Series 10	US\$300,000,000	US\$1.49	US\$1.49	US\$1.49
Stock options				
– vested	21,365,000			
– non-vested	5,289,000			

(1) Convertible preferred shares may be exchanged for common shares in future years on a pro-rata basis based on 95% of the average trading price of common shares for 20 days ending four days prior to the exchange date.

Note 20 on page 118 of the financial statements includes details on share capital.

Off-Balance Sheet Arrangements

BMO enters into a number of off-balance sheet arrangements in the normal course of operations. The discussion that follows addresses the more significant types of off-balance sheet arrangements.

Credit Instruments

In order to meet the financing needs of our clients, we use a variety of off-balance sheet credit instruments. These include guarantees and standby letters of credit, which represent our obligation to make payments to third parties on behalf of a customer if the customer is unable to make the required payment or meet other contractual requirements. We also engage in securities lending where we lend either our securities or our customers' securities to third parties. This exposes us to credit risk, as a third party may not return the securities as agreed. We also write documentary and commercial letters of credit, which represent our agreement to honour drafts presented by a third party upon completion of specified activities. Commitments to extend credit are off-balance sheet arrangements that represent our commitment to customers to grant them credit in the form of loans or other financings for specific amounts and maturities, subject to meeting certain conditions.

There are a significant number of instruments outstanding at any time. Our customers are broadly diversified and we do not anticipate events or conditions that would lead a significant number of our customers to fail to perform in accordance with the terms of the contracts. We use our credit adjudication process in deciding whether to enter into these agreements, just as we do when extending credit in the form of a loan. We monitor off-balance sheet instruments to ensure that there are no undue concentrations in any geographic region or industry.

The maximum amount payable by BMO in relation to these instruments was approximately \$110 billion at October 31, 2005 (\$100 billion at October 31, 2004). However, this amount is not representative of our likely credit exposure or liquidity requirements for these instruments as it does not take into account any amounts that could possibly be recovered under recourse or collateralization provisions. In addition, a large majority of these commitments expire without being drawn upon. Further information on these instruments can be found in Note 5 on page 102 of the financial statements.

Derivatives

Derivative financial instruments are contracts that require the exchange of, or provide the opportunity to exchange, cash flows determined by applying certain rates, indices or changes therein to notional contract amounts.

We structure and market derivative products to customers to enable them to transfer, modify or reduce current or expected risks. We may also take proprietary trading positions in various capital markets instruments and derivatives that, taken together, are designed to profit from anticipated changes in market factors. We also use derivatives as hedges of our own positions.

We enter into derivatives contracts with many different counterparties. Note 9 on page 111 of the financial statements details the classification of our counterparties by industry for each category of derivative contract. The geographic locations in which our counterparties operate are detailed on page 110 of the financial statements.

The amount that we are required to pay, if any, under a derivative contract depends on the nature of the derivative. For instance, if we enter into an interest rate swap that requires us to pay a fixed interest rate and the counterparty to pay a floating interest rate, the amount that we would be required to pay would depend on the difference between the fixed and floating rates. If the floating rate is higher than the fixed rate, the counterparty would be required to pay us the difference between the floating and fixed rates applied to the notional amount of the swap. However, if the fixed rate exceeds the floating rate, we would be required to pay the counterparty the difference.

In most cases, we act as an intermediary. As a result, for each derivative liability we usually have an offsetting derivative asset. Therefore, at any point in time, our net derivative assets together with associated capital markets instruments are not significant.

Trading derivatives are fully recognized on our Consolidated Balance Sheet at their fair values. These trading derivatives represent over 97% of our total outstanding derivatives, based on notional amounts.

Only our interest rate hedging derivatives represent off-balance sheet items, since these derivatives are not recorded at fair value on our Consolidated Balance Sheet. We follow accrual accounting for these derivatives, since they are expected to be highly effective in hedging certain risks associated with on-balance sheet financial instruments or future cash flows. Any ineffectiveness in a hedging derivative is recognized in income over the term of the derivative contract. The fair value of our hedging derivatives was an asset of \$316 million and a liability of \$160 million at October 31, 2005 (\$867 million and \$462 million at October 31, 2004).

In the event we terminated any of our trading or hedging derivatives contracts, we would be required to settle with the respective derivative counterparty at the current fair value of the derivative.

Variable Interest Entities (VIEs)

Customer Securitization Vehicles

Customer securitization vehicles (referred to as multi-seller conduits) assist our customers with the securitization of their assets to provide them with alternate sources of funding. These vehicles provide clients with access to liquidity in the commercial paper markets by allowing them to sell their assets into these vehicles, which then issue commercial paper to investors to fund the vehicles' purchases of the assets. The customers continue to service the transferred assets and are first to absorb any losses on the assets. We earn fees for providing structuring advice related to the securitizations, as well as liquidity, distribution and administrative fees for supporting the ongoing operations of the vehicles. For the years ended October 31, 2005 and 2004, these fees totalled approximately \$84 million and \$96 million, respectively.

In general, investors in the commercial paper have recourse only to the assets of the related VIE, unless BMO has provided credit support for the investors or entered into a derivative transaction involving the VIE. We provide liquidity and credit

support to these vehicles either through backstop liquidity facilities or in the form of letters of credit and other guarantees. The total contractual amount of this support was \$28,125 million as at October 31, 2005, of which only \$567 million related to credit support (\$27,019 million and \$400 million, respectively, at October 31, 2004). None of these facilities were drawn upon at year-end.

BMO sometimes enters into derivatives contracts with these vehicles to enable them to manage their exposures to interest rate and foreign exchange rate fluctuations. The fair value of such contracts at October 31, 2005 was \$6 million, which was recorded as a derivative asset in our Consolidated Balance Sheet (\$52 million at October 31, 2004).

In the event we chose to or were required to terminate our relationship with a customer securitization vehicle, we would be obligated to hold any derivatives until their maturity. We would no longer receive structuring fees and might no longer receive liquidity, distribution and administrative fees.

Interests in Bank Securitization Vehicles

Periodically, we sell loans to off-balance sheet entities or trusts, either for capital management purposes or to obtain alternate sources of funding. Gains on sales to the securitization vehicles as well as revenues paid to us for servicing the loans sold are recognized in income. The impact of securitization activities on our revenues and expenses is outlined in Note 7 on page 104 of the financial statements.

BMO has retained interests in these off-balance sheet entities, as we are sometimes required to purchase subordinated interests or maintain cash deposits in the entities to provide credit support for the vehicle. Retained interests recorded as assets in our Consolidated Balance Sheet as at October 31, 2005 and 2004 were \$39 million. In the event that there are defaults in the assets held by the vehicles, retained interests may not be recoverable and would then be written down. During the year ended October 31, 2005, we wrote down retained interests in securitization vehicles by a total of \$3 million (\$19 million in 2004).

In addition to retained interests at October 31, 2005 and 2004, BMO has recorded \$216 million and \$143 million, respectively, of deferred purchase price amounts related to securitizations in our Consolidated Balance Sheet. This represents the amount of gain on sales to securitization vehicles that has not been received in cash. Further information on the impact of securitization activities on the Consolidated Balance Sheet is outlined in Note 7 on page 104 of the financial statements.

We provide further liquidity to our securitization vehicles in the form of standby letters of credit and guarantees for up to 100% of the asset value transferred. The contractual amount of standby letters of credit and guarantees to VIEs at October 31, 2005 and 2004 was \$5,000 million and \$3,750 million, respectively. This amount comprised part of other credit instruments outlined in Note 5 on page 102 of the financial statements. No amounts were drawn upon at year-end.

In the event we chose to terminate our relationship with a bank securitization vehicle, we would be required to settle any associated derivatives at their fair value. Any deferred purchase price recorded on the balance sheet would continue to be collected from the trust over time; however, no additional loans would be sold to the trust.

Credit Investment Management Vehicles

Credit investment management vehicles provide investors with investment opportunities in customized, diversified debt portfolios in a variety of asset and rating classes. We earned investment management fees of \$31 million in 2005 and 2004 for managing these portfolios.

We hold an interest in High Grade Structured Investment Vehicles (SIVs). Our exposure to loss relates to both our investments to sponsor these vehicles and to derivative contracts we have entered into with the vehicles. Our investment in SIVs was \$146 million as at October 31, 2005 (\$128 million at October 31, 2004) and was recorded as investment securities in our Consolidated Balance Sheet. The fair value of our derivative contracts outstanding with the SIVs as at October 31, 2005 was recorded in our Consolidated Balance Sheet as a derivative liability of \$24 million (\$37 million derivative asset at October 31, 2004). In order to ensure that these vehicles receive an investment grade rating, we provide liquidity support to the vehicles through standby letters of credit and/or commitments to extend credit. The total contractual amount of these standby letters of credit and commitments to extend credit as at October 31, 2005 and 2004 was \$189 million and \$200 million, respectively. This amount comprised part of other credit instruments outlined in Note 5 on page 102 of the financial statements. No amounts were drawn upon at year-end.

In the event we chose to terminate our relationship with a vehicle, outstanding derivatives would be settled at their fair value and we would no longer receive administrative fees from the vehicle. We would also sell our investment in the SIV at fair value, which might differ from its carrying value.

Financial Instruments

As a financial institution, most of BMO's balance sheet is comprised of financial instruments and the majority of our net income results from gains, losses, income and expenses related to financial instruments. As a result, this MD&A is largely concerned with how we use financial instruments to earn income and manage risks.

Our use of financial instruments exposes us to credit and counterparty risk and various market risks, including equity price risk, interest rate risk and foreign currency risk.

A discussion of how we manage these and other risks as well as structural interest rate sensitivities can be found in the Enterprise-Wide Risk Management section on pages 67 to 74 of this MD&A.

Further information on how we determine the fair value of financial instruments is included in the Financial Instruments Measured at Fair Value discussion in the Critical Accounting Estimates section of the MD&A that follows.