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# Q1 09

Risk Review



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Executive Vice President &  
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March 3, 2009

BMO  Financial Group

## 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 2009 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 and market 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; 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 30 and 31 of BMO's 2008 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, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented and our strategic priorities and objectives, and may not be appropriate for other purposes.

In determining that the acquisition of American International Group, Inc.'s Canadian life insurance business is expected to close by June 1, 2009, subject to regulatory approval, we have assumed that our joint plans for the completion of pre-closing activities proceed according to the mutually agreed schedule and that the results of our pre-closing activities are consistent with our expectations. In determining that the acquisition is expected to reduce our Tier 1 and Total Capital Ratios by less than 15 and 25 basis points, respectively, we have assumed that the purchase price will approximate \$375 million.

In concluding that mark-to-market adjustments to derivative hedges that do not qualify for hedge accounting are expected to reverse over the life of the hedges with no economic loss, we have assumed that we will hold the derivative instruments until their expiry.

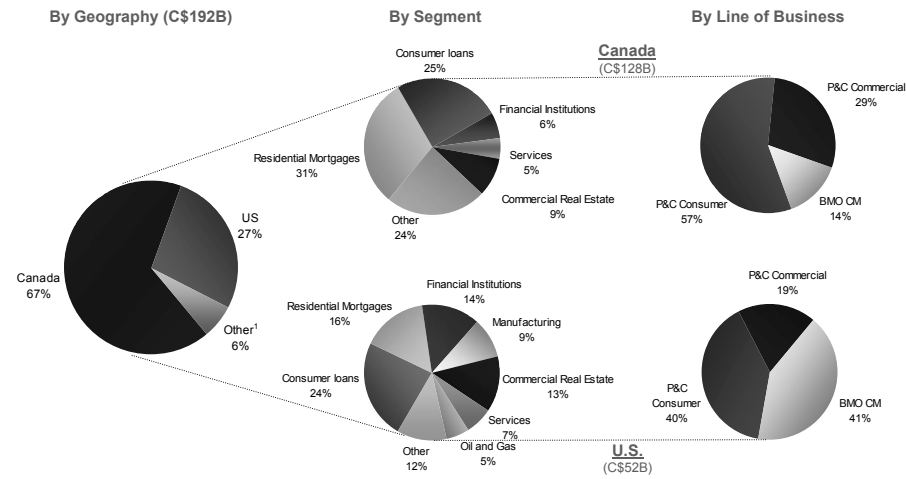
Assumptions about the level of asset sales, expected asset sale prices, net funding cost, credit quality and risk of default and losses on default of the underlying assets of the structured investment vehicles were material factors we considered when establishing our expectations regarding the structured investment vehicles discussed in this document, including the amount to be drawn under the BMO liquidity facilities and the expectation that the first-loss protection provided by the subordinate capital notes will exceed future losses. Key assumptions included that assets would continue to be sold with a view to reducing the size of the structured investment vehicles, under various asset price scenarios, and that the level of defaults and losses will be consistent with the credit quality of the underlying assets and our current expectations regarding continuing difficult market conditions.

Assumptions about the level of defaults and losses on defaults were material factors we considered when establishing our expectation of the future performance of the transactions that Apex Trust has entered into. Key assumptions included that the level of defaults and losses on defaults would be consistent with historical experience. Material factors that were taken into account when establishing our expectations of the future risk of credit losses in Apex Trust included industry diversification in the portfolio, initial credit quality by portfolio and the first-loss protection incorporated into the structure.

Assumptions about the performance of the Canadian and U.S. economies in 2009 and how it would affect our businesses were material factors we considered when setting our strategic priorities and objectives and our outlook for our businesses. Key assumptions included that the Canadian and the U.S. economies would contract in the first half of 2009, and that interest rates and inflation would remain low. Our current expectations are for weaker economic conditions and lower interest rates than we anticipated at the end of fiscal 2008. We also assumed that housing markets in Canada would weaken in 2009 and strengthen in the second half of the year in the United States. We assumed that capital markets would improve somewhat in the second half of 2009 and that the Canadian dollar would strengthen modestly 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.

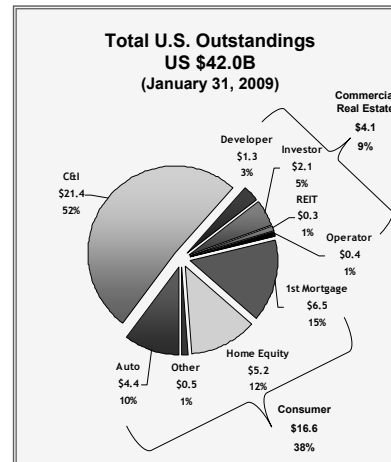
## Portfolio Overview

- Canadian and US portfolios well diversified. Canadian portfolio 67% of total, US 27%.
- P&C balances represent the majority of loans in Canada and the US.



## U.S. Portfolio Overview

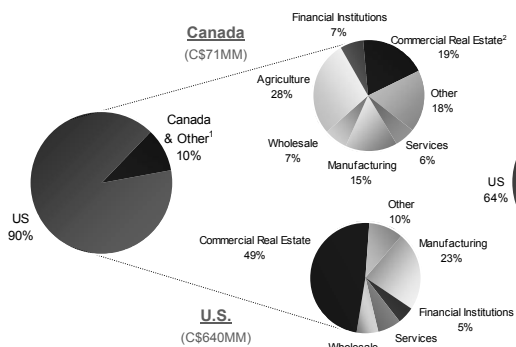
- U.S. Portfolio: 27% of BMO's total loans
- C&I portfolio: Financial \$6.3B, Service \$1.2B, Oil & Gas \$2.4B, Manufacturing \$2.0B, Food & Beverage \$2.2B.
- Commercial Real Estate: \$4.1B - Investor-owned mortgage \$2.1B, Developer \$1.3B and Other \$0.7B.
  - ▶ The investor-owned mortgage portfolio located in Illinois/Indiana/Wisconsin continues to perform.
  - ▶ Developer loans less than 5% of U.S. portfolio (down 7% from the previous quarter). The portfolio is experiencing weakness given the state of the housing market.
- Consumer portfolios \$16.6B: Performing better than U.S. peer group.
  - ▶ Highest risk component of residential real estate portfolio is small:
    - Residential mortgage with origination FICO score <660 and LTV >80% only \$90MM.
    - Home Equity loans with origination FICO score <660 and LTV >80% only \$306MM.



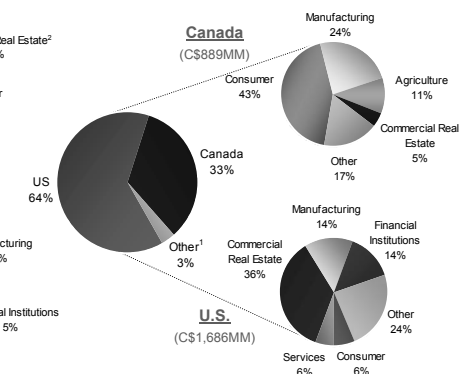
## Gross Impaired Loans

- Q109 Formations of \$712MM down from \$806MM last quarter based on lower domestic formations.
- US related formations, majority of total, with Developer related formations representing 35% of US formations, and 31% of the total GIL formations.
- Manufacturing sector second largest contributor to total formations and GIL.

**Q1 GIL Formations**  
(C\$712MM)



**GIL Balance**  
(C\$2,666MM)

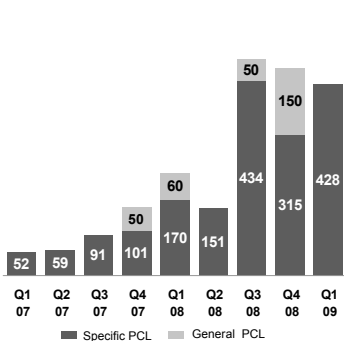


<sup>1</sup> Other (C\$1MM Formations & C\$91MM GIL Balance) not shown in portfolio segmentation graphs.

<sup>2</sup> Includes farm mortgages

## Total Provision for Credit Losses

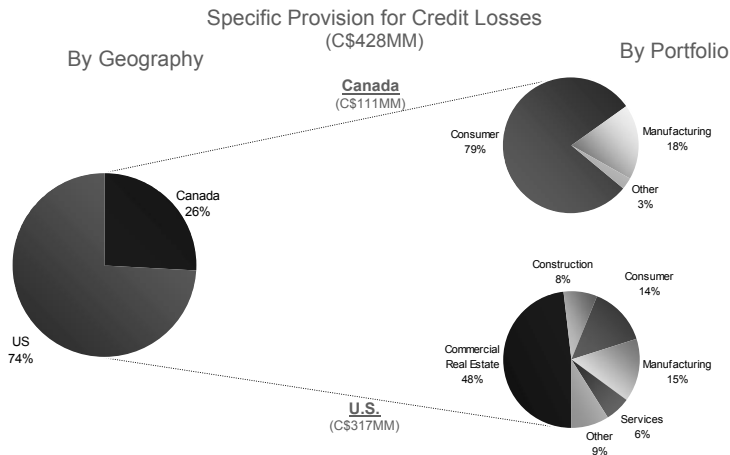
- Higher Consumer losses in Canada attributable to a credit card fraud event that impacted banks in many countries.
- Commercial P&C Canada portfolio performance remains solid.
- Commercial P&C US provisions driven by Developer segment.
- Capital Markets provisions were centered in manufacturing (~39%) and commercial real estate (~26%) portfolios.



Portfolio Segment (C\$ MM)	Q1 08	Q4 08	Q1 09
Consumer – P&C Canada	60	64	88
Consumer – P&C US	9	51	44
<b>Total Consumer</b>	<b>69</b>	<b>115</b>	<b>132</b>
Commercial – P&C Canada	10	35	23
Commercial – P&C US	21	45	148
<b>Total Commercial</b>	<b>31</b>	<b>80</b>	<b>171</b>
Corporate – CM Canada & Other	12	39	-
Corporate – CM US	58	81	125
<b>Total Corporate</b>	<b>70</b>	<b>120</b>	<b>125</b>
<b>Specific Provisions</b>	<b>170</b>	<b>315</b>	<b>428</b>
Change in General Allowance	60	150	-
<b>Total PCL</b>	<b>230</b>	<b>465</b>	<b>428</b>

## Specific Provision for Credit Losses

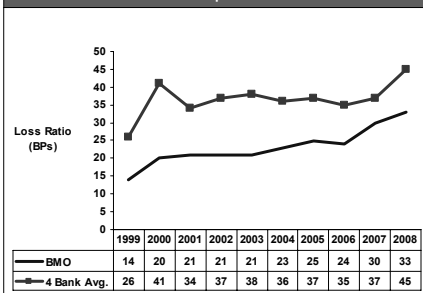
- US portfolio accounted for majority of Q1 provisions; US Developer provisions accounted for ~ 40% of US provisions and 30% of total provisions. Under some pressure, but US Developer portfolio represents just US\$1.3B (Q408 US\$1.5B) or <1% of total loans.
- Canadian consumer provisions remain relatively stable.
- Manufacturing provisions diversified across subsectors.



## Canadian Consumer Credit Performance

- BMO has consistently maintained loss ratios below peer across Consumer Lending and Card Products. Reflects a disciplined approach to lending.
- 85% of the retail portfolio is secured (88% excluding Credit Cards).
- Mortgage losses have ranged from 0 to 2 bps over the past 20 years - on par with our peers.

Consumer Loan Loss Peer Comparison<sup>1</sup>



<sup>1</sup>Source: Annual Reports

Figures represent fiscal year averages.

Includes Residential Mortgages, Conditional Sales Contracts, Personal Lines of Credit, Personal Loan Plans & Cards, and excludes related securitized assets.

Consumer Portfolio Highlights

Asset <sup>1</sup>	2008		
	Portfolio Size (C\$B)	Loss Bps	BMO Rank vs. Peer
Personal Line of Credit	18.6	14	1 <sup>st</sup>
Personal Loan Plan	5.6	15	1 <sup>st</sup>
Conditional Sales Contract	5.1	38	1 <sup>st</sup>
Cards <sup>2</sup>	7.6	241	1 <sup>st</sup>
Mortgage <sup>3</sup>	66.5	1	par

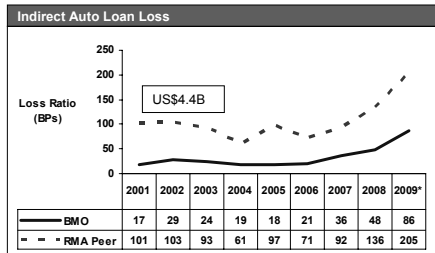
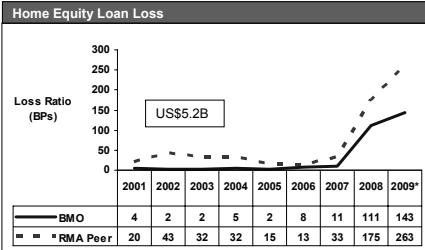
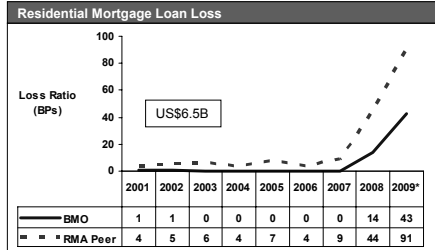
<sup>1</sup> Figures represent 2008 year end data

<sup>2</sup> Including securitized assets, excluding losses due to fraud

<sup>3</sup> Including securitized assets.

# US Consumer Credit Performance

- US Retail portfolio credit loss rates better than peers, although elevated given environment.



**Comments**

- Performance within the First Mortgage and Indirect Auto portfolios has been strong relative to peer, owing to traditionally conservative underwriting standards in terms of LTV and borrower risk profile.
- The Home Equity portfolio has experienced increased stress recently, but underwriting changes and line management strategies have been implemented to manage the risk.

\*Peer through November, 2008. Harris 2009 as of 12/31/08. Wisconsin Balances and losses included since September 2008.

# Summary of Topical Issues

PORTFOLIO	COMMENTARY
<b>U.S. sub-prime mortgages</b>	<p><b>Modest exposure to US sub-prime mortgages</b></p> <ul style="list-style-type: none"> <li>• Only US\$579MM of consumer mortgages &amp; home equity with original FICO score &lt; 620; 90+ days arrears on these is a modest 1.9%. Less than 33% have LTV over 80%.</li> <li>• Single commercial exposure of net US\$140MM in impaired loans; includes some subprime.</li> </ul>
<b>BMO US Securitization Conduit</b>	<p><b>Vehicle being managed down; credit performing in line with expectations</b></p> <ul style="list-style-type: none"> <li>• Outstanding ABCP at US\$6.0B (down 26% Q4'07). Liquidity lines to US conduit at US\$7.5B (down 34% from Q4'07).</li> <li>• Commercial paper continues to roll; pricing consistent with top tier US ABCP vehicles. No draws under the liquidity facilities.</li> <li>• No new securitization loans booked. Structure and pricing for existing programs tightened or run off where appropriate.</li> <li>• No transfers to BMO since Q2/08.</li> </ul>
<b>Credit Protection Vehicle (Apex)</b>	<p><b>Low risk of realized loss beyond MTM charges given the first loss protection and quality of underlying portfolio.</b></p> <ul style="list-style-type: none"> <li>• Apex provides credit protection on largely investment grade corporate credit portfolios with exposure to realized credit loss protected by generally sizeable first loss cushions.</li> <li>• BMO exposure is C\$815MM participation in C\$2.2B of medium term notes (MTM ~ C\$448MM); C\$1.03B participation in C\$1.13B senior funding facility – funds collateral calls and ranks senior to notes; and credit exposure for balance of notional.</li> <li>• The two weakest tranches have first loss protection of 5.7% and 10.4% and are rated BB (high) and BBB. BMO exposure to these tranches effectively limited to C\$450MM gross (i.e. before considering mark to market charges taken).</li> <li>• Other ten tranches have strong first loss protection levels ranging from 13.5% to 29.7% and averaging 23.2% and are rated AAA.</li> <li>• The underlying pool of corporate credit risk is well diversified and majority (73%) is investment grade rated, of which 62% rated BBB or equivalent. A number of credits are under review for possible downgrade or have negative outlook.</li> <li>• MTM amounts are a function of wide market credit spreads and credit migration in portfolios / downgrades of tranches.</li> </ul>
<b>Structured Investment Vehicles</b>	<p><b>Senior Funding Facility well protected by subordinate capital notes</b></p> <ul style="list-style-type: none"> <li>• Par value of Links/Parkland assets US\$8.4B / €804MM (down 58% / 72% from Q4 '07).</li> <li>• Book value of capital notes (US\$1.1B / €158MM) subordinate to BMO's senior liquidity facility is sufficient to absorb expected credit losses.</li> <li>• Senior ranked liquidity facility of US\$7.1B (US\$4.9B drawn Q1'09) and €641MM (€447MM drawn Q1'09) provided.</li> <li>• Market value of Links/Parkland assets US\$5.6B / €616MM – impacted by market illiquidity.</li> <li>• Strategy is to reduce size of entities as appropriate given market conditions. Asset sales reduced given illiquid market.</li> <li>• Asset quality remains strong. 98% of assets rated investment grade. 60% rated AA- or better by S&amp;P; 69% rated Aa3 or better by Moody's.</li> <li>• No US subprime in RMBS.</li> <li>• Assuming no further asset sales, the outstanding amounts would peak at US\$6.5B in August 2009 for Links and €620MM in July 2009 and for Parkland and decline thereafter.</li> </ul>
<b>Monolines</b>	<p><b>Moderate monoline / credit derivative product company exposures and sound underlying insured assets.</b></p> <ul style="list-style-type: none"> <li>• Direct exposures of C\$719MM of MTM value of counterparty derivatives on direct notionals of ~ C\$4.3B, 91% related to counterparties rated A or better and 83% rated AA or better.</li> <li>• Indirect exposures consist of wrapped securities (C\$3.6B notional).</li> </ul>

(As at January 31, 2009 unless otherwise stated)



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