



## Investor Community Conference Call

## Risk Review

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**BMO**  **Financial Group**



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## 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; weak capital and/or credit markets; 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 28 and 29 of BMO's 2007 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.

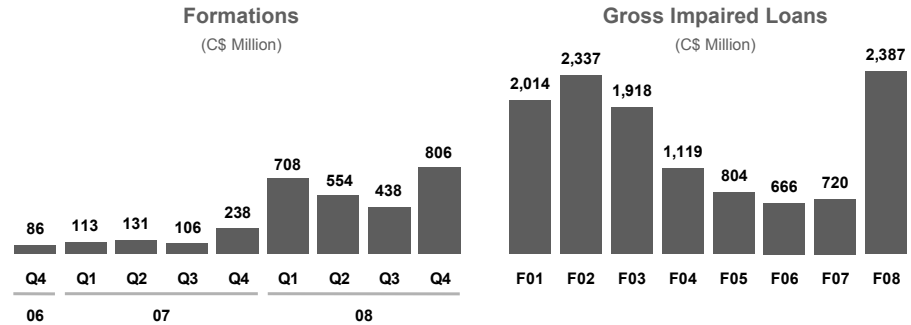
Assumptions about the level of asset sales, expected asset sale prices, net funding cost, credit quality and risk of default and losses on default of the underlying assets of the structured investment vehicles were material factors we considered when establishing our expectations regarding the structured 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, 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 which 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 that will 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 will contract in the first half of 2009, and that interest rates and inflation will remain low. We also assumed that housing markets in Canada will weaken in 2009 and strengthen in the second half of the year in the United States. We assumed that capital markets will improve somewhat in the second half of 2009 and that the Canadian dollar will 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.

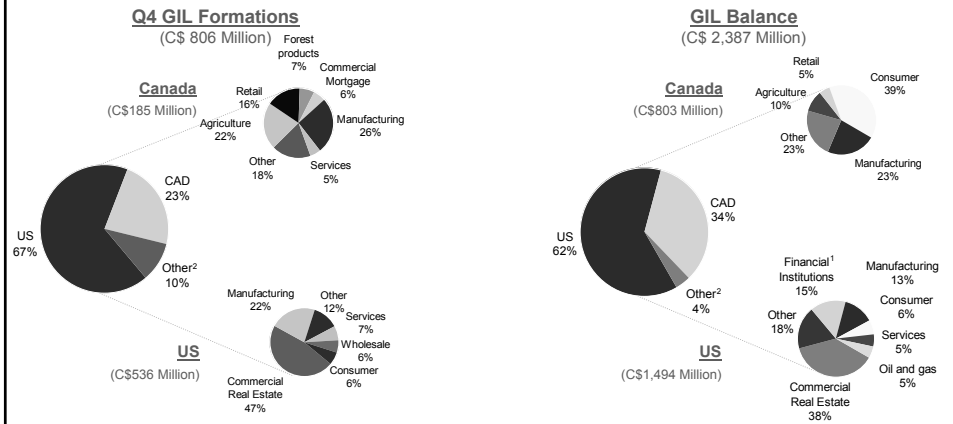
### Gross Impaired Loans (GIL)

- F2008 formations reflect US housing environment in early 2008, and a general weakening of the economy later in the year.



### Gross Impaired Loans – Geographic/Industry Overview

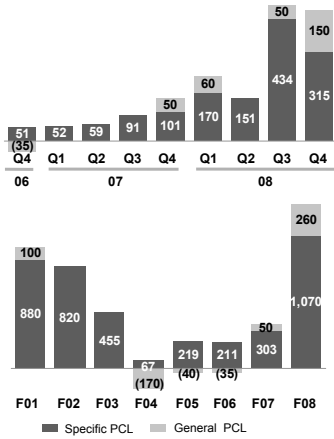
- US residential related exposures represented the majority of US GIL formations - 53% and 33% of US and Total GIL balance.
- Manufacturing sector represents largest component of Canadian commercial GILs.



<sup>1</sup> A single entity represents the US Financial Institutions sector provision. The firm's assets are US residential mortgages.  
<sup>2</sup> Other (C\$85MM Formations & C\$90MM GIL Balance) not shown in Portfolio Segmentation graphs.

### Total Provision for Credit Losses (C\$ Million)

- Canadian P&C portfolio performance remains solid.
- US P&C Consumer & Commercial portfolio provisions elevated given housing market conditions.
- Expect provisions to continue to be elevated given environment.
- Retail credit performance continues to be better than peers.
- General Allowance increase reflects current market conditions.

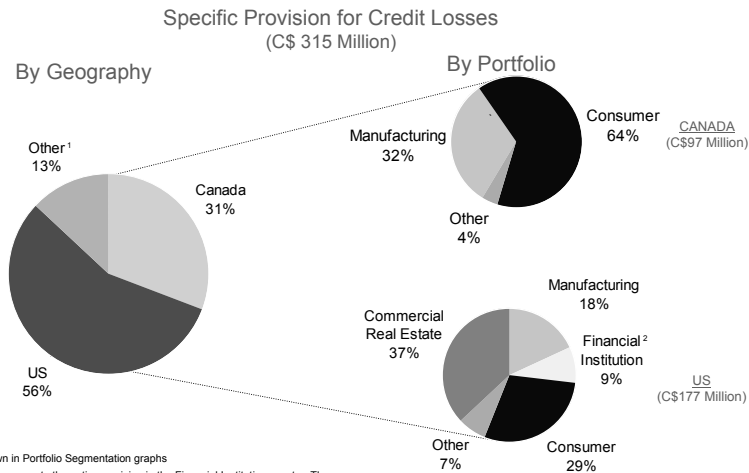


Portfolio Segment	Q4 07	F07	Q3 08	Q4 08	F08
Consumer – P&C Canada	44	203	64	64	246
Consumer – P&C US	9	26	21	51	91
<b>Total Consumer</b>	<b>53</b>	<b>229</b>	<b>85</b>	<b>115</b>	<b>337</b>
Commercial – P&C Canada	0	24	23	35	99
Commercial – P&C US	15	19	16	45	89
<b>Total Commercial</b>	<b>15</b>	<b>43</b>	<b>39</b>	<b>80</b>	<b>188</b>
BMO CM/Corporate – Canada & Other	-	(1)	-	39	51
BMO CM/Corporate – US	33	32	310 <sup>1</sup>	81	494
<b>Total BMO CM/Corporate</b>	<b>33</b>	<b>31</b>	<b>310</b>	<b>120</b>	<b>545</b>
<b>Specific Provisions</b>	<b>101</b>	<b>303</b>	<b>434</b>	<b>315</b>	<b>1,070</b>
Change in General Allowance	50	50	50	150	260
<b>Total PCL</b>	<b>151</b>	<b>353</b>	<b>484</b>	<b>465</b>	<b>1,330</b>

<sup>1</sup> Includes \$247MM for two US housing related exposures.

### Specific Provision for Credit Losses - Geographic/Industry Overview

- US portfolio accounted for majority of Q4 provisions; builder, mortgages and home equity related provisions accounted for 64% of US provisions and 36% of total provisions.
- Canadian consumer losses unchanged quarter over quarter.
- Manufacturing sector showing some softness.

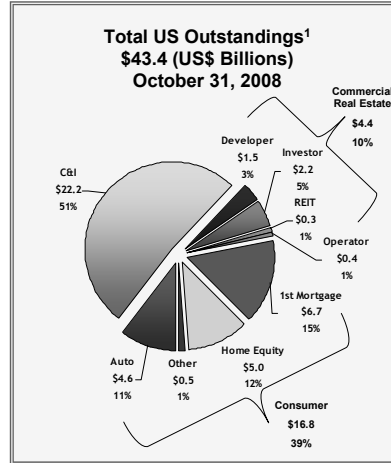


<sup>1</sup> Other (C\$41MM) not shown in Portfolio Segmentation graphs

<sup>2</sup> A single enterprise group represents the entire provision in the Financial Institutions sector. The assets of this enterprise are US residential mortgages.

### U.S. Portfolio Overview

- Portfolio represents 28% of BMO's total loans, (US Consumer 11%, Commercial 17%).
- C&I portfolio primarily Financial \$6.7B, Service \$2.8B, Oil & Gas \$2.3B, Manufacturing \$2.0B, Food & Beverage \$1.9B and Trade Finance \$1.3B.
- Commercial Real Estate outstandings \$4.4B – Investor-owned mortgage \$2.2B, Developer \$1.5B and Other \$0.7B.
  - Developer loans represent less than 5% of the US outstandings and decreased approximately 12% from the previous quarter to \$1.5B. The portfolio continues to experience weakness, but is not large in the context of the bank.
- Consumer portfolios \$16.8B: Elevated losses but performing better than US peer group.
  - Highest risk component of residential real estate portfolio is relatively small:
    - Residential mortgage with origination FICO score <660 and LTV >80% only \$88MM.
    - Home Equity loans with origination FICO score <660 and LTV >80% only \$304MM or 6% of home equity portfolio.

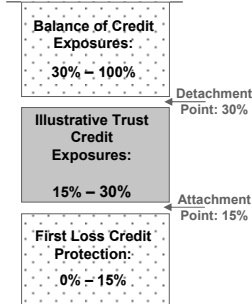


¹ As At basis excluding reverse repos

### Apex – Credit Quality Remains Strong

- The Trust has 12 tranches, or positions, each of which:
  - Has credit exposures to diversified credit pools with the majority of the underlying credits being investment grade rated.
  - Is protected from loss by substantial first loss protection.
- Investors in the Trust will only experience credit losses if realized credit losses on the exposures within each tranche exceed the first loss protection amount.
- As an example, a tranche with 100 credits with equal weighting and a 15% first-loss protection, would require the default on 25% of the portfolio before a loss is incurred (assuming a 40% recovery). This is considered unlikely as it would be a default rate well in excess of historical default rates for portfolios of Apex's quality.
- As context, the highest recorded 5 year cumulative default rate for Baa credits (1983-2007) is 5.8%.
- Average first loss protection level is 17%. Only two tranches below 11.2% - BMO's credit exposure to these two tranches through senior notes is effectively \$450MM.
- BMO's participation:
  - Medium Term Notes: \$815MM par value (out of a total \$2.2B)/\$625MM carrying value.
  - Senior funding facility: \$1.03B (out of a total \$1.13B).
- Collateral requirements are effectively capped at the above amounts.

#### Diversified Credit Pool (100%)



Group 1,4	Maturity Date (mm/yy)	# of Credits in Pool	Net Notional (MM)	First Loss Protection		Approximate Detachment Point (long)	% Current Investment Grade in Portfolio (Moody's) <sup>2</sup>	% Current Investment Grade in Portfolio (S&P) <sup>3</sup>	Tranche Rating (DBRS)
				Original Attachment Point	Approximate Attachment Point				
1 - [1 Tranche]	6/12	120	875	9.5%	7.0%	8.1%	81%	84%	A/High
2 - [1 Tranche]	9/13	105	342	12.0%	11.2%	21.3%	74%	72%	A
3 - [7 Tranches]	9/12 - 12/13	96-150	8,030	15.0%	14.4% - 15.0%	29.6% - 50.3%	70% - 77%	70% - 80%	AAA
4 - [3 Tranches]	9/12 - 9/16 <sup>2</sup>	96-124	12,050	25.0% - 30.0%	24.8% - 30.3%	35.2% - 69.8%	75% - 83%	77% - 84%	AAA

<sup>1</sup> Corporate defaults in Q4 modestly lowered the first loss cushion/attachment point on certain tranches.

<sup>2</sup> Maturities are 53% 9/16, 18% 9/12, 29% 6/13.

<sup>3</sup> Approximately 50% are Baa rated, 25% rated Ba or lower with the balance rated A or higher, roughly 1/3 of the ratings are under review for downgrade.

<sup>4</sup> The 5 largest industry segments: Consumer Cyclical (25%), Financial (17%), Communications (16%), Consumer Non-cyclical (13%) & Basic Materials (10%) and asset domicile is 89% US, 34% Europe and 17% Other.

### SIV – Links / Parkland - Asset Quality Strong

- Asset quality remains strong – 98% investment grade and approximately 70% AA.
- Senior ranked BMO liquidity facility well secured – has benefit of asset quality and significant subordinated capital beneath it - \$1.17B (13% of assets) for Links and higher for Parkland.
- Fair value of assets impacted by market illiquidity.
- Strategy to sell assets in an "orderly" manner unchanged – actual sales slowed given illiquid market conditions.

As of Oct 31, 2008	LINKS	PARKLAND
Fair Value of Assets	US\$6.8B	€698MM
Book Value of Subordinate Capital Notes	US\$1.17B	€158MM
Senior Ranked Liquidity Facility	US\$7.7B (US\$3.7B funded)	€672MM (€477MM funded)
Rating of Assets in Vehicles	98% investment grade. (84% / 73% rated AA or better by Moody's / S&P)	100% investment grade. (85% / 68% rated AA or better by Moody's / S&P)
Agency Ratings on Senior Notes	AA-/Aaa (neg watch)	AA-/Aaa

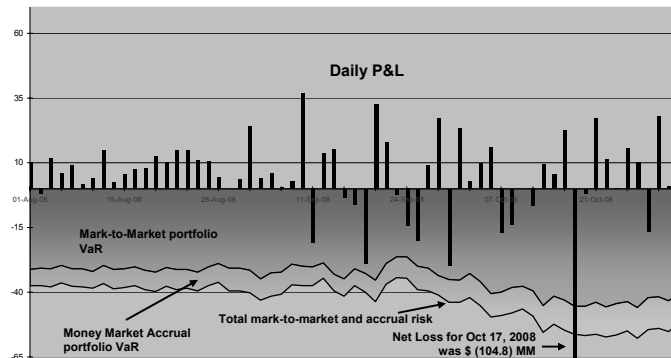
Oct 31, 2008 Asset Types	Links	Parkland
CBO/CLO	20.5%	23.1%
CMBS	6.4%	11.9%
Commercial Bank – Senior	4.2%	10.8%
Commercial Bank – Subordinated	29.2%	26.2%
Assets wrapped by Monolines	10.0%	3.6%
RMBS	13.7%	13.5%
Other <sup>1</sup>	16.0%	10.9%

<sup>1</sup> Other includes numerous asset types, none of which exceeds 6% of the total.

- No US subprime in RMBS. Under 2% indirect exposure in ABS.
- CBO/CLO –backed by asset backed securities, commercial real estate assets and bank issued trust preferreds. Well diversified - 80 total trades. Over 90% of trades rated AAA/Aaa.
- Senior Commercial Bank exposure comprised of 15 banks (2 Can, 8 US and 5 European) primarily rated AA-.
- Subordinated Commercial Bank exposure is 72% European, 26% NA and 2% Asian. 90% rated A or higher.

### Trading and Underwriting Q4 2008

Trading and Underwriting Net Revenues Versus Market Value Exposure  
 Aug 1, 2008 to Oct 31, 2008 (C\$ millions)  
 (Presented on a Pre-Tax Basis)



- 1) The largest daily P&L gains for the quarter on Sept 10 was CAD \$36.8MM, Sept 19 CAD \$32.4MM and Oct 29 CAD \$28MM, all gains primarily reflect recognition of revenue from normal trading activities.
- 2) The largest daily P&L losses for the quarter on Oct 17 was CAD \$(104.8) MM and Sept 30 CAD \$(29.8) MM.
  - **Oct 17<sup>th</sup>** Primarily reflects mid-month credit valuation adjustments due to widening credit spreads, however adjustments to the spread due to distressed markets and refinements in the methodology were made at month-end reducing the impact.
  - **Sept 30<sup>th</sup>** Primarily reflects month-end credit valuation adjustments.

## Areas of Continued Focus

PORTFOLIO	COMMENTARY
<b>U.S. sub-prime mortgages exposure</b>	<ul style="list-style-type: none"> <li>Modest exposure (US\$602MM) of consumer mortgages and home equity with original FICO score of less than 620; arrears beyond 90 days for the combined portfolios represents 1.4%. Less than 30% have LTV over 80%.</li> <li>Single commercial exposure of net US\$159MM in impaired loans; includes some subprime.</li> </ul>
<b>BMO Canadian sponsored asset-backed conduits with liquidity support</b>	<ul style="list-style-type: none"> <li>C\$16.1B liquidity lines to Canadian conduits (down 39% from C\$26.3B at Q4'07).</li> <li>C\$15.5B outstanding ABCP (down 28% from C\$21.4B at Q4'07).</li> <li>C\$2.9B in trading inventory (down 53% from C\$6.2B at Q4'07).</li> <li>The structure and pricing for existing programs is being tightened where possible and programs are being reduced.</li> </ul>
<b>BMO US Securitization Conduit</b>	<ul style="list-style-type: none"> <li>US\$8.2B liquidity lines to US conduit (down 28% from US\$11.4B at Q4'07).</li> <li>US\$6.5B outstanding ABCP (down 20% from US\$8.1B at Q4'07).</li> <li>No new securitization loans booked. The structure and pricing for existing programs being tightened and run off where appropriate.</li> </ul>
<b>Apex Trust</b>	<ul style="list-style-type: none"> <li>Restructured in 2008.</li> <li>Substantial first-loss protection relative to credit quality of underlying assets in place.</li> <li>C\$815MM participation in medium term notes and C\$1.03B in senior funding facility.</li> <li>Collateral requirements are effectively capped.</li> </ul>
<b>Structured Investment Vehicles (Links and Parkland)</b>	<ul style="list-style-type: none"> <li>Par value of Links/Parkland assets US\$9.0B and €833MM (down 55% / 71% from Q4'07).</li> <li>98% of the assets are rated investment grade. 70% rated AA or better by Moody's and S&amp;P.</li> <li>Senior ranked liquidity facility of US\$7.7B and €672MM provided.</li> <li>Book value of capital notes (US\$1.17B and €158MM) subordinate to BMO's senior liquidity facility sufficient to absorb expected credit losses.</li> </ul>
<b>Monolines</b>	<ul style="list-style-type: none"> <li>Mark-to-market exposures are C\$592MM on direct notionals of approximately C\$4.5B.</li> <li>Indirect exposures consist of wrapped securities, (C\$3.8B notionals). Quality of underlying assets is generally sound.</li> </ul>
<b>Auction Rate Securities (ARS)</b>	<ul style="list-style-type: none"> <li>There are no BMO-sponsored ARS programs. BMO offered to purchase US\$143MM from client accounts.</li> </ul>
<b>Financial Institutions</b>	<ul style="list-style-type: none"> <li>Exposures to financial institutions have been proactively managed.</li> <li>Losses of note limited to Lehman (C\$32MM pre-tax) and an Icelandic bank (C\$36MM).</li> </ul>
<b>Auto Related</b>	<ul style="list-style-type: none"> <li>Direct exposure to the big three auto manufacturers is modest (under C\$200MM).</li> <li>Auto purchase financing well secured.</li> </ul>



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