# Q209

Risk Review

Defining great customer experience.


BMO Financial Group

Tom Flynn

Executive Vice President &
Chief Risk Officer

May 26, 2009

# 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.

Assumptions about our ability to operate successfully without re-staffing positions to be eliminated were material factors we considered when establishing our expectation that annual run-rate savings will exceed the severance costs incurred.

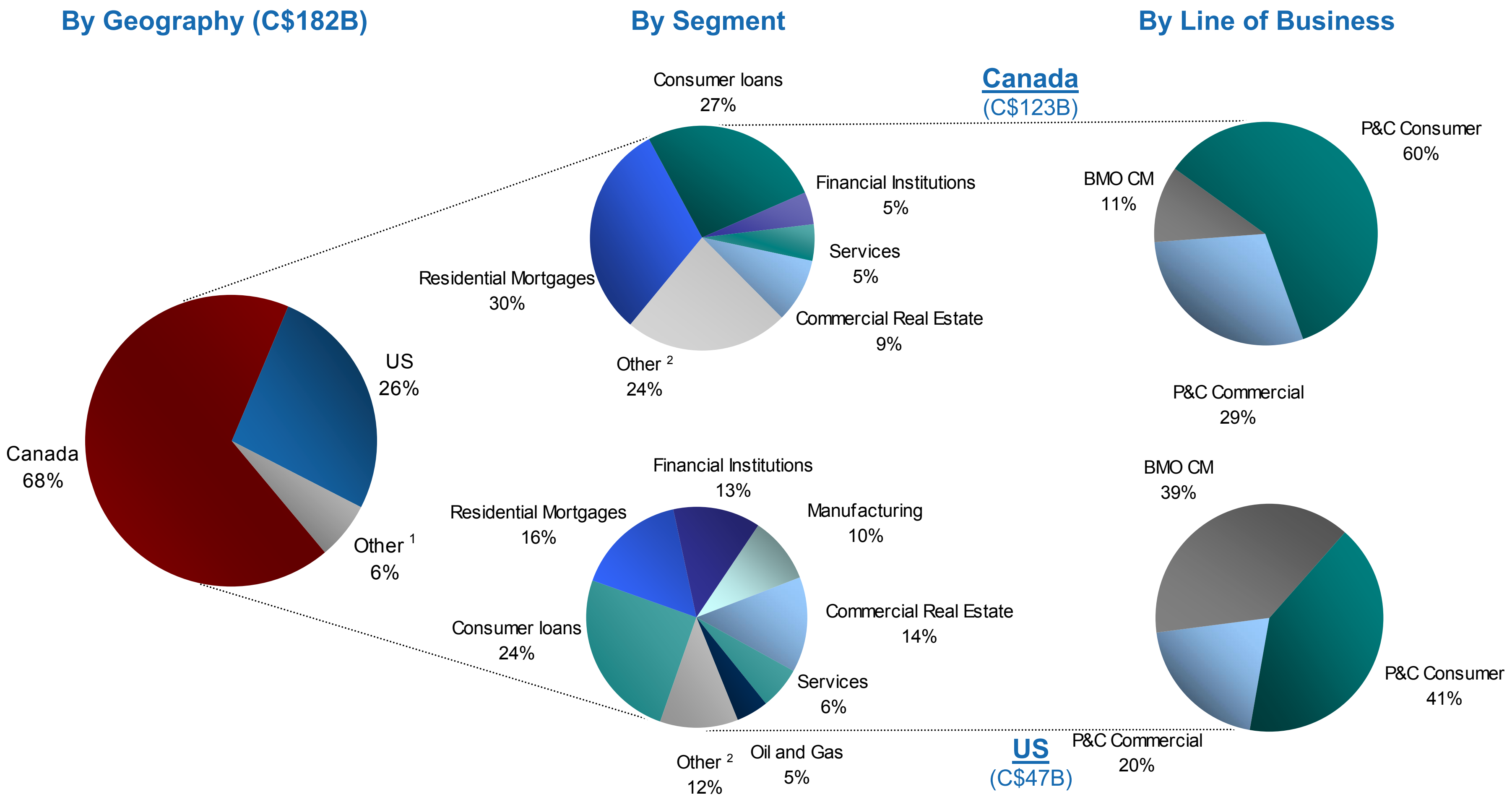
Assumptions about the level of asset sales, expected asset sale prices, net funding cost, credit quality and risk of default and losses on default of the underlying assets of the structured investment vehicles were material factors we considered when establishing our expectations regarding the structured 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 challenging market conditions continuing.

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 and credit market 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 68% of total, US 26%.
- P&C balances represent the majority of loans in Canada and the US.




1 Other (C$12B) not shown in Portfolio Segment & Line of Business graphs

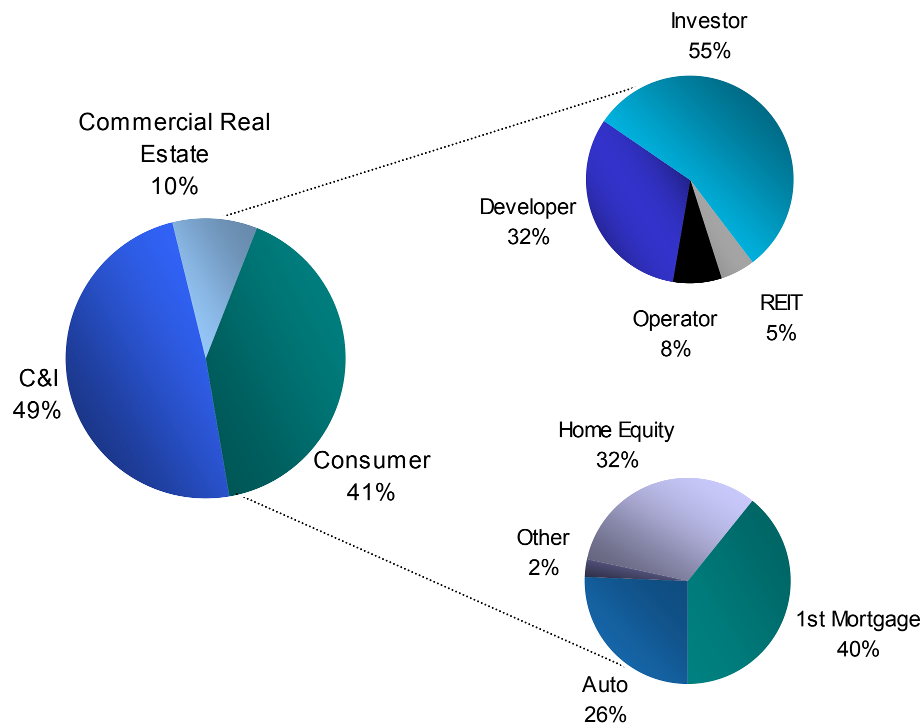
2 Other includes Portfolio Segments that are each <5% of the total

# US Portfolio Overview

- US Portfolio: 26% of BMO's total loans.

**Total U.S. Loans Outstanding**
**US $39.6B**
**(April 30, 2009)**

**Commercial Real Estate**
(US$3.8B)

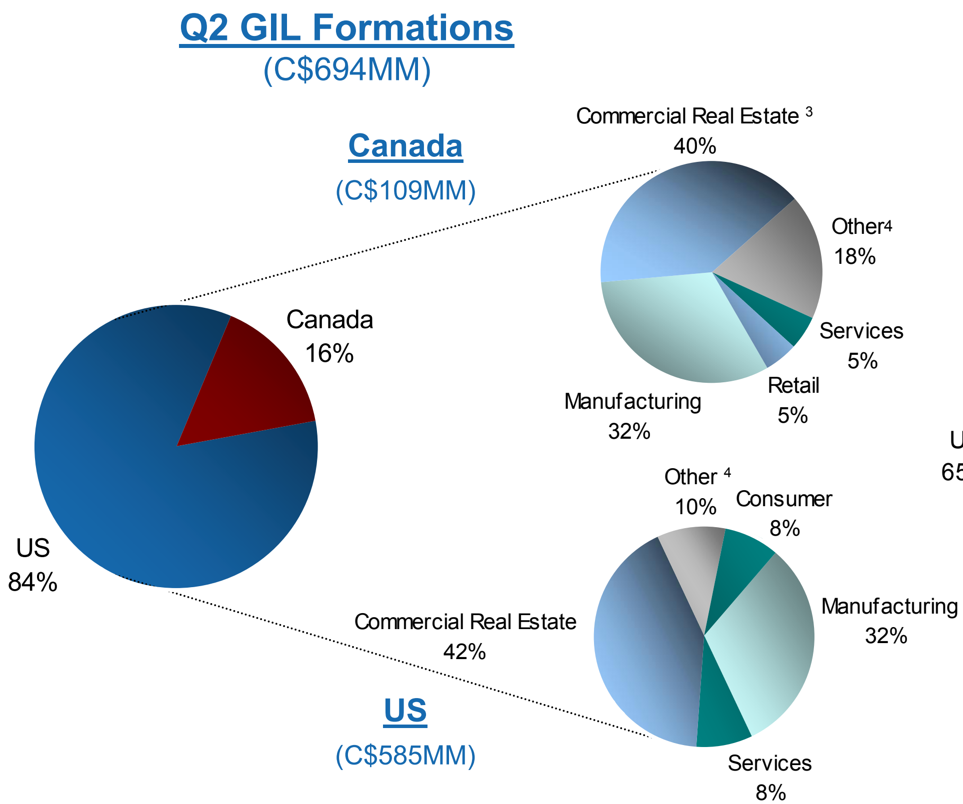


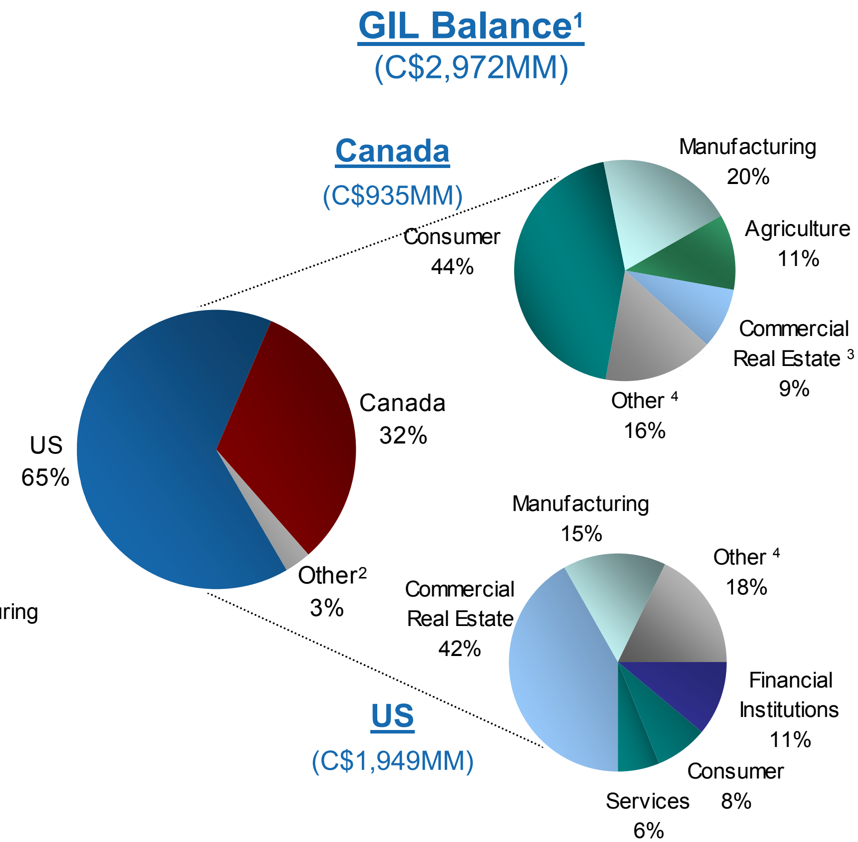

**Consumer**
(US$16.3B)

- Commercial Real Estate: $3.8B - Investor-owned mortgage $2.1B, Developer $1.2B and Other $0.5B.
  - The Investor-Owned mortgage portfolio predominantly in Illinois/Indiana/Wisconsin. 82% of the portfolio has loan to value ≤75%.
  - Developer loans less than 3% of U.S. portfolio (40% decrease year over year). The portfolio continues to experience weakness due to housing market conditions. Approximately 40% of the developer portfolio is classified impaired.
- Consumer portfolios $16.3B: 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%, $90MM.
    - Home Equity loans with origination FICO score <660 and LTV >80%, $302MM.
  - Credit Card portfolio is negligible.
  - Indirect Auto portfolio strong overall and relative to peer reflecting conservative underwriting practices.
- C&I portfolio: Financial $5.9B, Service $2.3B, Food & Beverage $2.1B, Oil & Gas $2.0B, Manufacturing $1.9B.

# Gross Impaired Loans

- Q209 Formations flat at $694MM.
- US related Formations represent the majority of total. Commercial Real Estate still significant, but Formations now becoming more broad based.
- Manufacturing sector second largest contributor to total Formations and GIL; diversified across a number of subsectors.
- Q209 US Commercial Real Estate and Manufacturing represent largest components of US GIL balances.

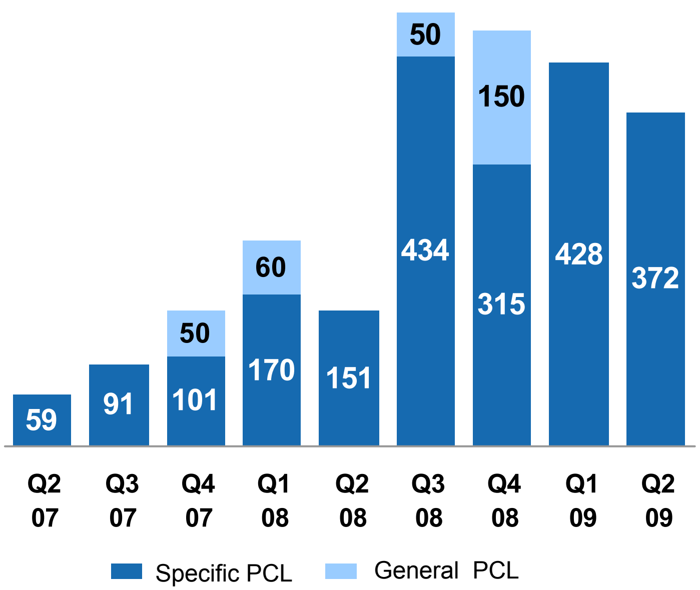



1 GIL Balance in Q109 was C$2,666MM
2 Other (C$88MM GIL Balance) not shown in portfolio segmentation graphs
3 Includes farm mortgages
4 Other includes Portfolio Segments that are each <5% of the total

# Total Provision for Credit Losses – Operating Group Segmentation

- Specific provisions of $372MM down from $428MM last quarter largely on lower P&C US Commercial provisions.
- P&C Canada portfolio performance continues to be strong.
- P&C US provisions driven by real estate related loans in Developer segment and Consumer Portfolio.
- Capital Markets provisions centered in the US Manufacturing portfolio.




| Portfolio Segment (C$ MM) | Q2 08 | Q1 09 | Q2 09 |
|---|---|---|---|
| Consumer – P&C Canada | 58 | 88 | 113[1] |
| Commercial – P&C Canada | 31 | 23 | 11 |
| **Total P&C Canada** | **89** | **111** | **124** |
| Consumer – P&C US | 10 | 44 | 62 |
| Commercial – P&C US | 7 | 148 | 81 |
| **Total P&C US** | **17** | **192** | **143** |
| Capital Markets Canada & Other | - | - | 3 |
| Capital Markets US | 45 | 125 | 102 |
| **Total Capital Markets** | **45** | **125** | **105** |
| **Specific Provisions** | **151** | **428** | **372** |
| Change in General Allowance | - | - | - |
| **Total PCL** | **151** | **428** | **372** |

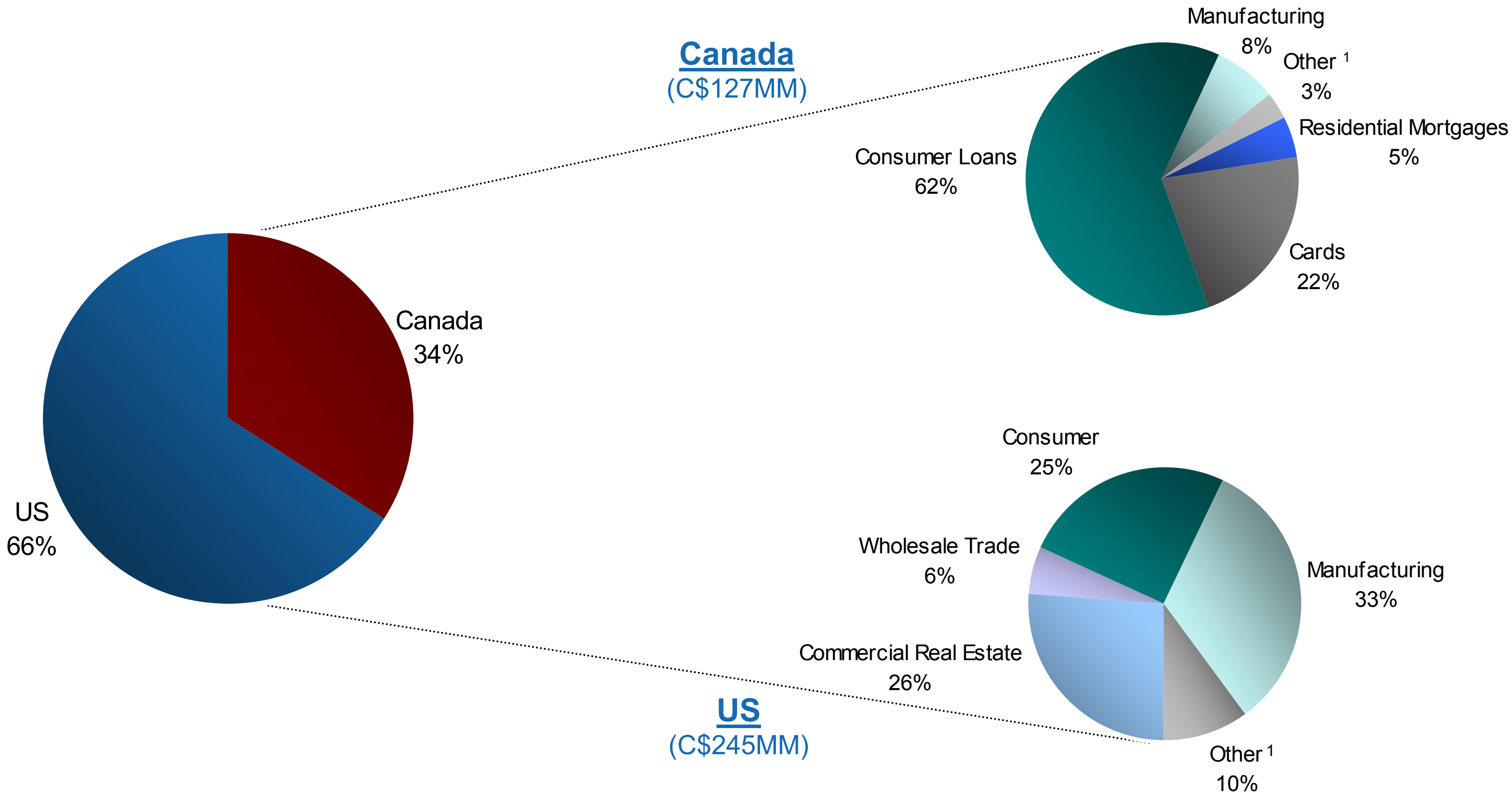
1 Includes a one time increase of $41MM representing a change in the provisioning approach for Canadian consumer loans.

# Specific Provision for Credit Losses – Geographic/Industry Segmentation

- US portfolio accounted for majority (66%) of Q2 provisions; US Commercial Real Estate (mainly Developer) and Manufacturing largest segments.
- Canadian Commercial and Capital Markets provisions continue to be low.
- Manufacturing provisions diversified across subsectors.

## Specific Provision for Credit Losses
(C$372MM)

By Geography | By Portfolio



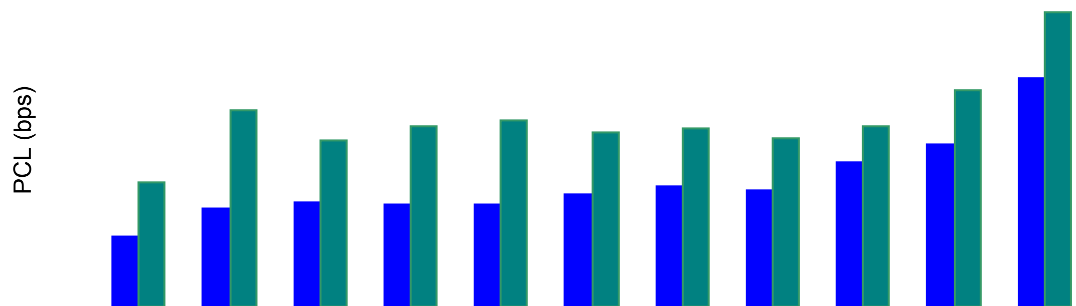

1 Other includes Portfolio Segments that are each <5% of the total

# Canadian Consumer Credit Performance

- BMO has consistently maintained loss ratios below peers across Consumer Lending and Card Products. Reflects a disciplined approach to lending.
- 85% of the Retail portfolio is secured and 88% excluding credit cards.
- Mortgage losses have been 3 bps or less over the past 20 years – on par with our peers.

## Leading Consumer Credit Performance

| Asset[1] | Portfolio Size (C$B) | Year to Date Loss bps | BMO Rank vs. Peer Q109 |
|---|---|---|---|
| **Personal[2] Loans** | 27.3 | 27 | 1st |
| **Cards[3,4]** | 7.5 | 303 | Significantly better than industry avg. |
| **Mortgages[5]** | 65.2 | 3 | par |



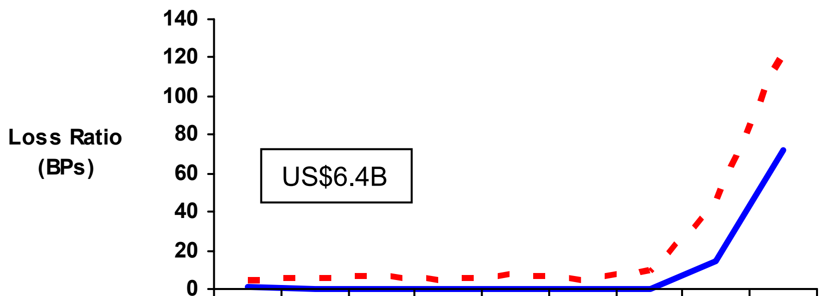

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Q1 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| BMO | 14 | 20 | 21 | 21 | 21 | 23 | 25 | 24 | 30 | 33 | 47 |
| Peer[6] | 26 | 41 | 34 | 37 | 38 | 36 | 37 | 35 | 37 | 45 | 62 |

1 Figures represent April 2009 data.
2 Loss bps exclude one-time increase of $41MM representing a change in the provisioning approach for Canadian consumer loans.
3 Including securitized assets, excluding losses due to fraud-consistent with industry comparative reporting practices.
4 More than 100bps better than peer average and gap is widening. Peer group includes all Canadian Credit Card issuers.
5 Including securitized assets.
6 Peers are RBC, TD, CIBC & BNS.

# US Consumer Credit Performance

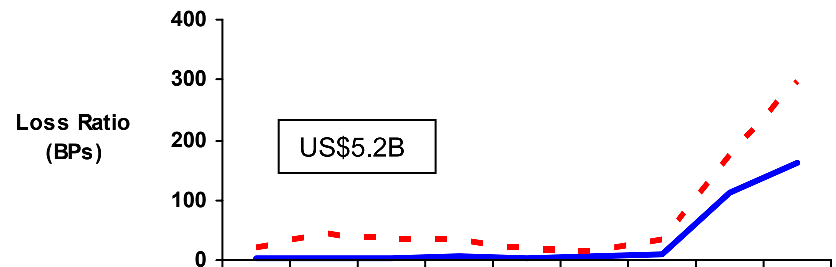
- US Retail credit loss better than peer average although elevated given conditions.

## Residential Mortgage Loan Loss



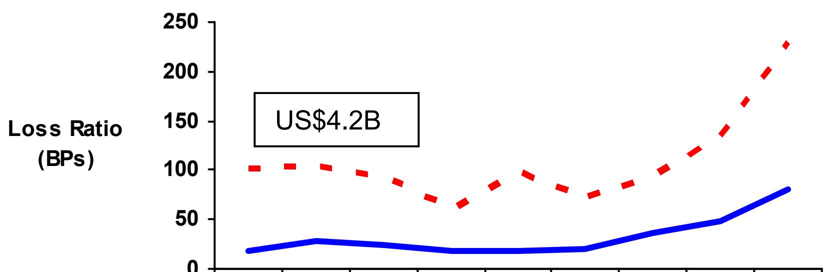

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009* |
|---|---|---|---|---|---|---|---|---|---|
| BMO | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 14 | 72 |
| RMA Peer | 4 | 5 | 6 | 4 | 7 | 4 | 9 | 44 | 123 |

## Home Equity Loan Loss




| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009* |
|---|---|---|---|---|---|---|---|---|---|
| BMO | 4 | 2 | 2 | 5 | 2 | 8 | 11 | 111 | 163 |
| RMA Peer | 20 | 43 | 32 | 32 | 15 | 13 | 33 | 175 | 298 |

## Indirect Auto Loan Loss




| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009* |
|---|---|---|---|---|---|---|---|---|---|
| BMO | 17 | 29 | 24 | 19 | 18 | 21 | 36 | 48 | 81 |
| RMA Peer | 101 | 103 | 93 | 61 | 97 | 71 | 92 | 136 | 229 |

## Comments

- First Mortgage and Indirect Auto portfolio performance has been strong relative to peers, owing to traditionally conservative underwriting practices in terms of LTV and borrower risk profile.
- Home Equity portfolios experiencing the most stress due to the second lien nature of the portfolio, but underwriting changes and line management strategies have been implemented to manage the risk.

*RMA Peer 5 months annualized through February, 2009; Harris 2009 6 months annualized through 3/31/09

# Credit Protection and Structured Investment Vehicles Update

| PORTFOLIO | COMMENTARY |
|---|---|
| **Credit Protection Vehicle (Apex)** | **Low risk of realized loss beyond MTM charges given the first loss protection and quality of underlying portfolio.**<br>• Apex provides credit protection on twelve largely investment grade corporate credit portfolios with exposure to realized credit loss protected by generally sizeable first loss cushions.<br>• BMO exposure is C$815MM (carrying value C$407MM) participation in C$2.2B of Medium Term Notes; 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. Collateral requirements are effectively capped.<br>• The two weakest tranches have first loss protection of 2.9% and 10.4% and are rated CCC and BB (low). BMO gross exposure to these tranches effectively C$450MM (before considering mark to market charges of C$408MM taken).<br>• Other ten tranches have strong first loss protection levels ranging from 13.5% to 29.4% with a weighted average of 23.7%. Seven of the 10 remaining tranches are rated AAA, two are AA (low) and one is A (low).<br>• The underlying pool of corporate credit risk is well diversified and majority (71%) is investment grade rated (25% above BBB and 46% BBB or equivalent). A number of credits are under review for possible downgrade or have negative outlook.<br>• Valuation charges on notes are a function of market credit spreads, credit migration in portfolios and in Q2 the total return swap transaction. |
| **Structured Investment Vehicles** | **Senior Funding Facility well protected by subordinate capital notes.**<br>• Senior ranked liquidity facility to facilitate orderly wind-down of vehicle of US$7.0B (US$5.6B drawn Q2'09) and €633MM (€458MM drawn Q2'09) provided.<br>• Book value of subordinated capital notes (US$1.1B / €157MM) subordinate to BMO's senior liquidity facility viewed as sufficient to protect BMO's position from loss.<br>• Par value of Links/Parkland assets US$8.2B / €794MM (down 59% / 72% from Q4 '07).<br>• Market value of Links/Parkland assets US$5.2B / €551MM – impacted by market illiquidity.<br>• Asset quality remains strong. 92%/96% of assets rated investment grade by Moody's/S&P. 54% rated AA- or better by S&P; 58% rated Aa3 or better by Moody's. No US subprime in RMBS.<br>• Strategy to reduce size of entities as appropriate given market conditions. Asset sales reduced given illiquid market.<br>• Assuming no further asset sales, the outstanding funded amounts would peak at US$6.6B in August 2009 for Links and €620MM in July 2009 and for Parkland and decline thereafter. |

(As at April 30, 2009 unless otherwise stated)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