Q309

Risk Review

Defining great customer experience.

BMO Financial Group

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Executive Vice President &
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August 25, 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 harbour 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 the BMO 2008 Annual Report, which outlines in detail certain key factors that may affect our 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.

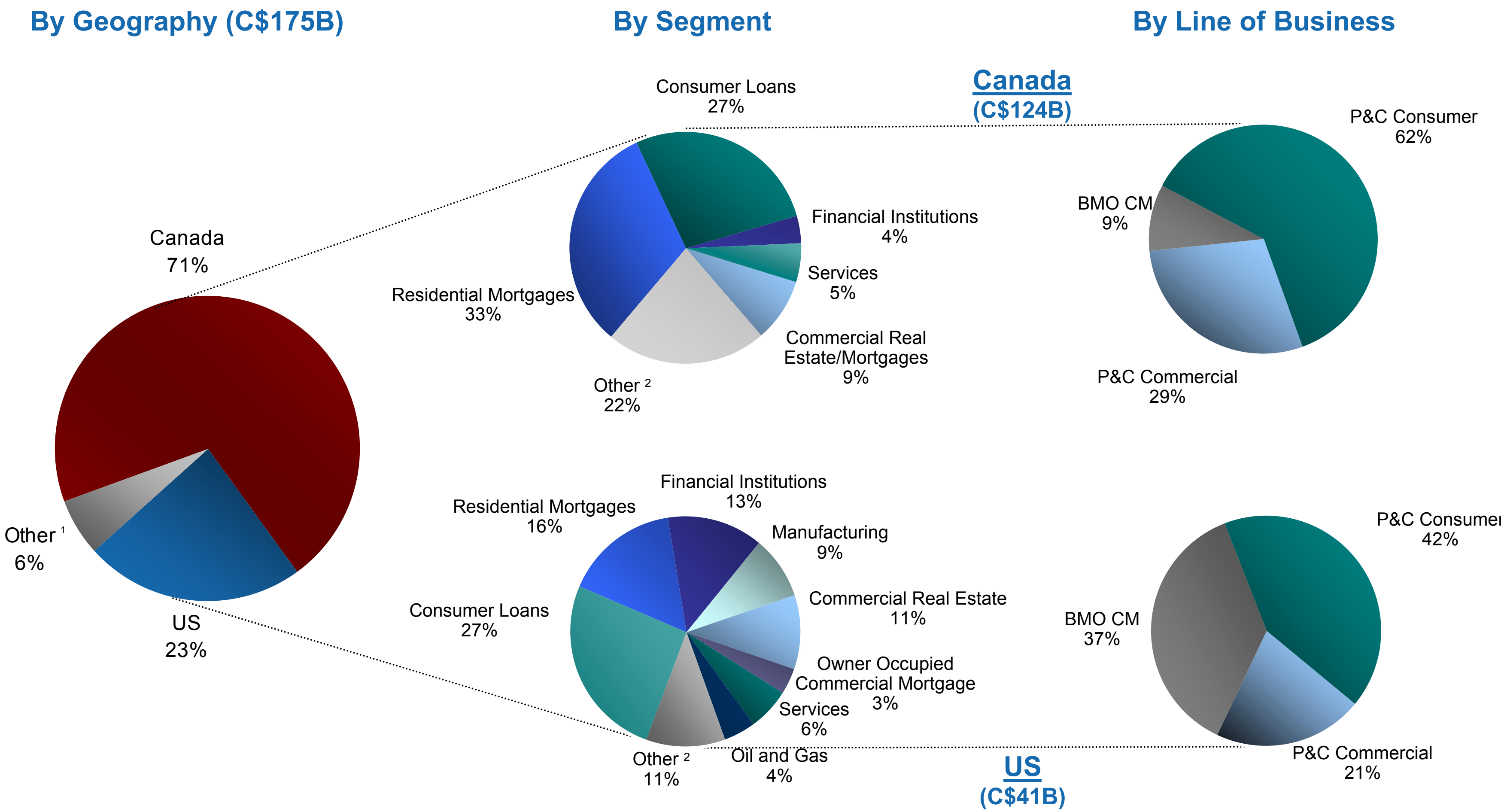
Assumptions about the level of asset sales, expected asset sale prices, net funding cost, credit quality and risk of default and losses on default of the underlying assets of the structured investment vehicles were material factors we considered when establishing our expectations regarding the structured 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, 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 as well as overall market conditions and their combined effect on the bank's business, including those described under the heading Economic Outlook in our Third Quarter 2009 Report to Shareholders, are material factors we consider when determining our strategic priorities, objectives and expectations for our business. 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.

Loan Portfolio Overview

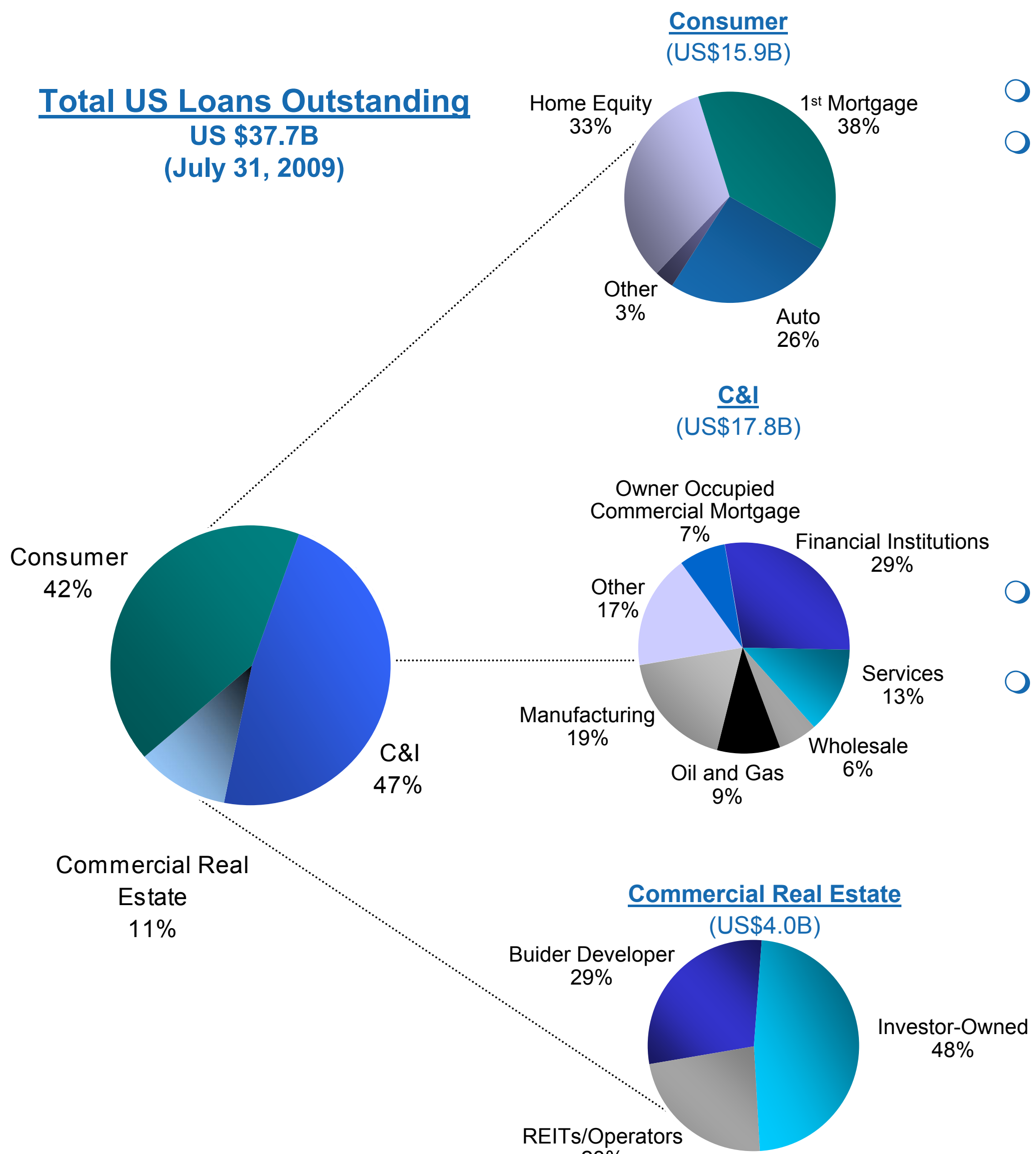
- Canadian and US portfolios well diversified. Canadian portfolio 71% of total, US 23%.
- P&C banking business represents the majority of loans in Canada and the US.



1 Other (C$11B) not shown in Portfolio Segmentation & Line of Business graphs

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

Overview of US Exposure



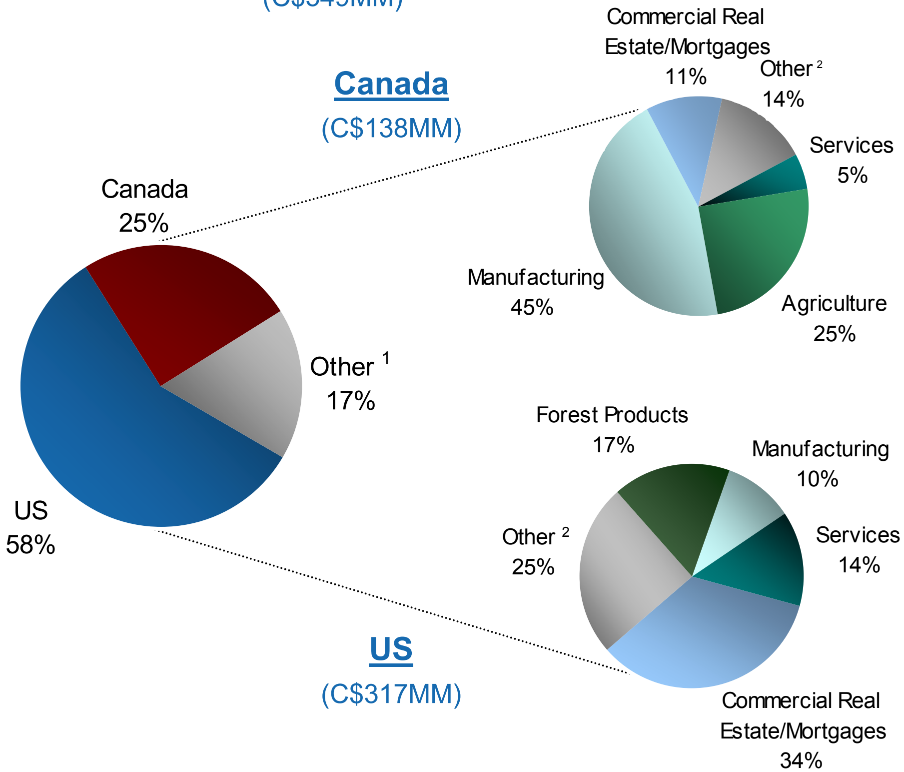
- US Portfolio represents 23% of total loans.
- Consumer portfolios: $15.9B performing better than US peer group although impacted by environment.
  - Highest risk component of residential real estate portfolio is not outsized:
    - Residential mortgage with origination FICO score <660 and LTV >80% only $90MM.
    - Home Equity loans with origination FICO score <660 and LTV >80%, $299MM.
  - Indirect Auto portfolio strong overall and relative to peers reflecting conservative underwriting.
- C&I portfolio: well diversified, experiencing migration given environment.
- Commercial Real Estate: $4.0B - Investor-owned mortgage $1.9B, Developer $1.2B and Other $0.9B.
  - The Investor-Owned mortgage portfolio predominantly in Illinois/Indiana/Wisconsin footprint. Maintained prudent underwriting and portfolio well diversified.
  - Developer loans approximately 3% of total US portfolio (23% decrease year to date). The portfolio continues to experience weakness due to housing market conditions.

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

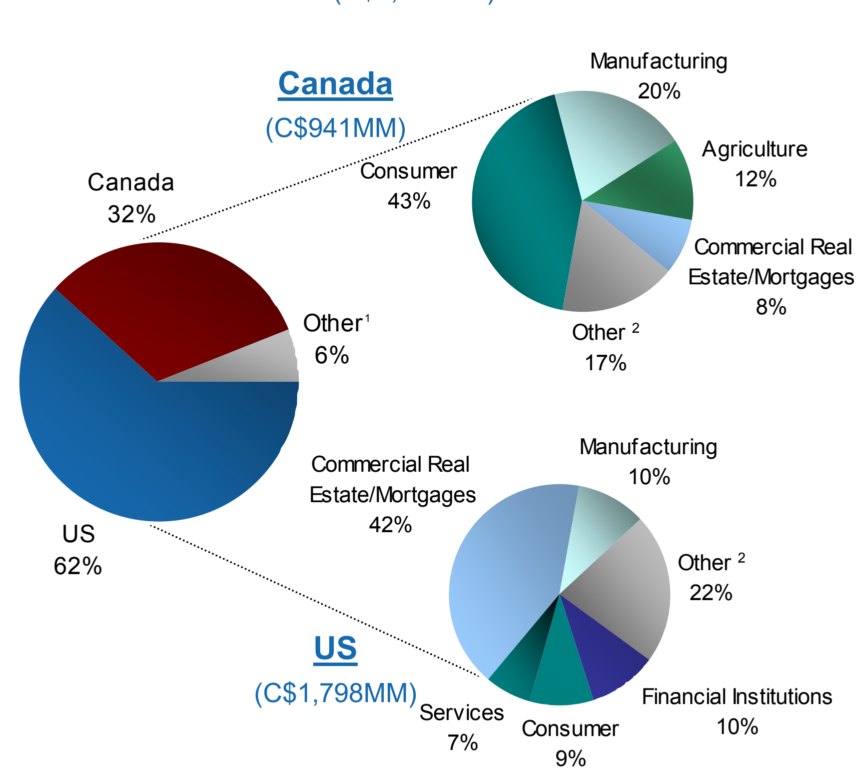
Gross Impaired Loans

- Q309 Formations decreased to $549MM (Q2: $694MM, Q1: $712MM).
- US related Formations also down quarter over quarter at $317MM (Q2: $585MM, Q1: $640MM).
- Formations diversified across sectors.
- Gross Impaired Loans (GIL) flat quarter over quarter at $2.9B (Q2: $3.0B, Q1: $2.7B) due to slowing Formations and aggressive write downs.
- Commercial Real Estate/Mortgages and Manufacturing represent largest components of Non-Consumer GIL balances.

GIL Formations
(C$549MM)



GIL Balance
(C$2,913MM)

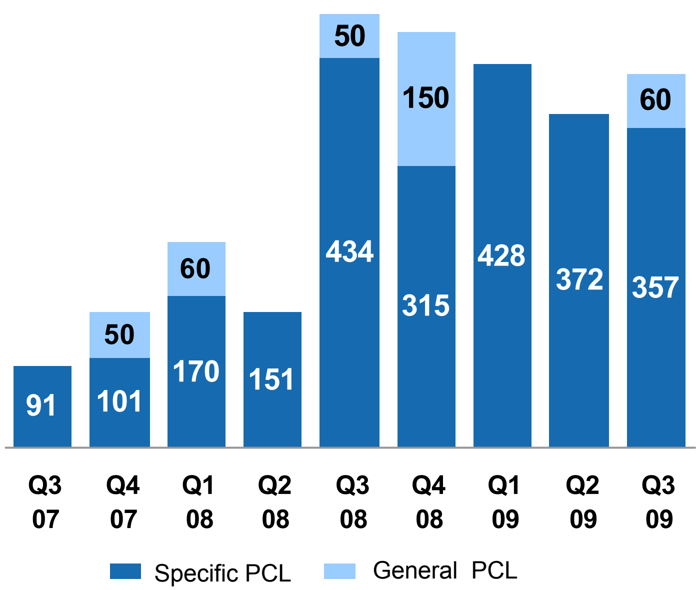


1 Other (C$94MM GIL Formations, C$174MM GIL Balance) not shown in Portfolio Segmentation graphs.

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

Total Provision for Credit Losses – Business Unit Segmentation

- Specific provisions of $357MM down from $372MM last quarter.
- P&C Canada increase reflects higher credit card provisions and the low levels of commercial provisions last quarter.
- US P&C provisions were flat quarter over quarter and remain elevated, but pace of migration is showing signs of moderating.
- General Allowance increase reflects the continuing weak economic environment.

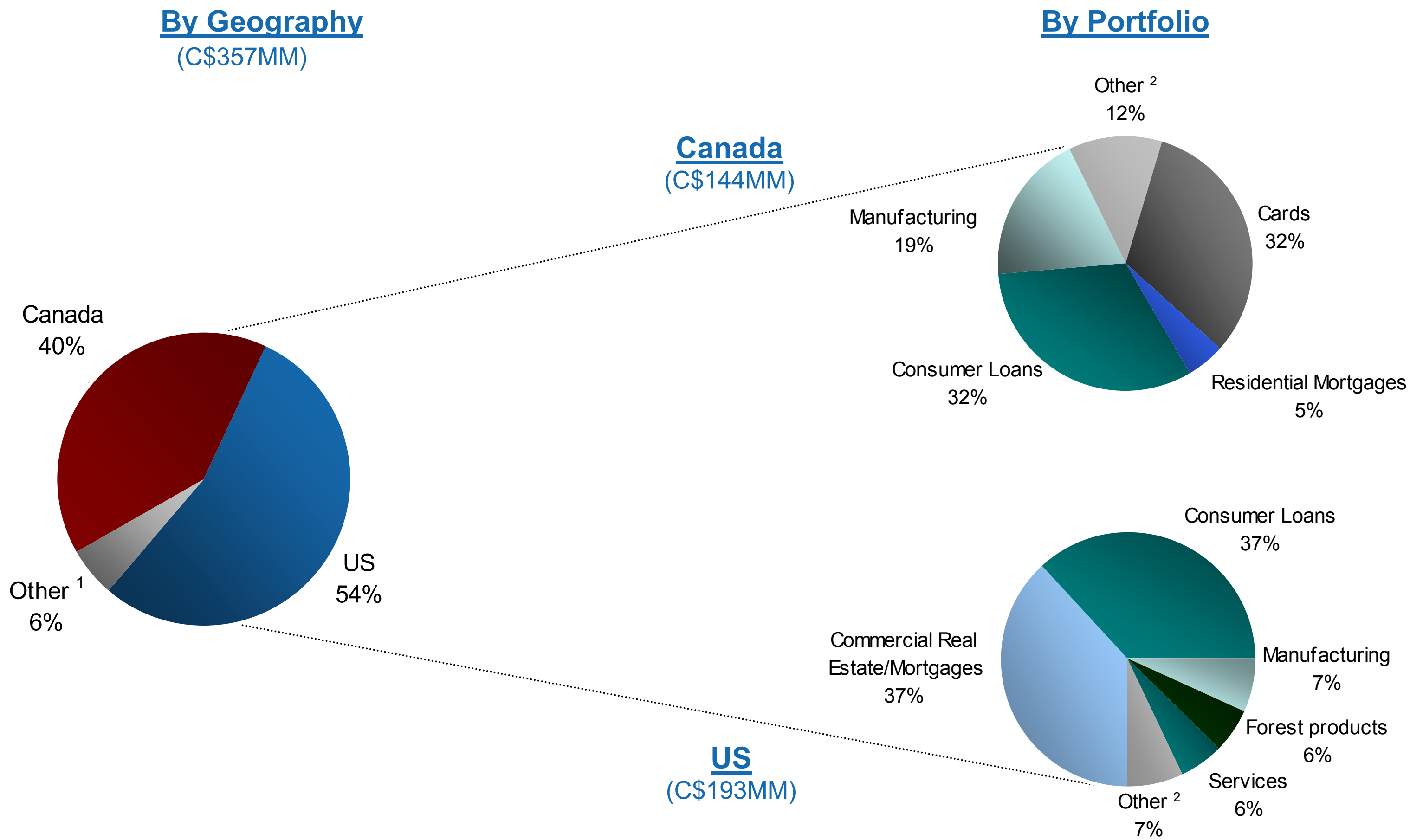


Business Segment (C$ MM)	Q3 08	Q2 09	Q3 09
Consumer – P&C Canada	64	113[1]	100
Commercial – P&C Canada	23	11	32
Total P&C Canada	**87**	**124**	**132**
Consumer – P&C US	21	62	71
Commercial – P&C US	16	81	69
Total P&C US	**37**	**143**	**140**
Capital Markets Canada & Other	-	3	32
Capital Markets US	310	102	53
Total Capital Markets	**310**	**105**	**85**
Specific Provisions	**434**	**372**	**357**
Change in General Allowance	50	-	60
Total PCL	**484**	**372**	**417**

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 (54%) of Q3 provisions (Q2: 66%, Q1: 74%).
- US Commercial Real Estate/Mortgages (mainly Developer) and Consumer related items are largest segments.
- Manufacturing provisions are diversified across subsectors.



1 Other (C$20MM) not shown in Portfolio Segmentation graphs.

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

Consumer Credit Performance

- Canadian performance remains strong relative to peers.
  - #1 performance in loan loss rates for personal products based on Q209 YTD peer comparison[1].
  - Credit Card losses YTD 335bps are significantly better than industry average[2].
  - Mortgage losses currently at 3bps YTD, have been 3bps or less over the past 20 years – on par with peers.
- 85% of the Canadian Retail portfolio is secured; 88% excluding credit cards.

- US Retail portfolio outperforming RMA peers, although losses are elevated given conditions[3].
  - Residential Mortgages loan losses YTD 93bps vs. RMA peer group loan losses of 155bps.
  - Home Equity YTD losses of 193bps vs. 350bps for RMA peers.
  - Indirect Auto loan losses YTD 78bps vs. 195bps for RMA peers.
  - No US Consumer credit cards.
- 98% of the US Retail portfolio is secured.

1 Based on public disclosure of major Canadian peer banks. Q209 excludes BMO one-time adjustment of $41MM.

2 Including securitized assets, excluding losses due to fraud-consistent with industry comparative reporting practices. More than 100bps better than peer average. Peer group includes all Canadian Credit Card issuers.

3 RMA Peer 8 months annualized through May 2009; Harris 9 months annualized through 6/30/09.

Credit Protection and Structured Investment Vehicles Update

PORTFOLIO	COMMENTARY
Credit Protection Vehicle (Apex)	**Low risk of loss given hedges on position, quality of underlying portfolio and the first loss protection in structure.** • Vehicle provides credit protection on twelve largely investment grade corporate credit portfolios with exposure to realized credit loss protected by generally sizeable first loss cushions. • C$815MM (carrying value C$423MM) Medium Term Note position, hedged subsequent to quarter end. Total Notes outstanding are $2.2B. BMO participation in C$1.13B senior funding facility is C$1.03B (hedged up to the first C$515MM of losses) and credit exposure for balance of notional. Collateral requirements are effectively capped. • Risk of future loss is considered very low as expected loss on underlying exposures is well below size of Notes, and hedges provide protection in excess of BMO’s Note position. • Two weakest tranches have first loss protection of under 10.5%. Other ten tranches have strong first loss protection levels ranging from 13.0% to 29.4% with a weighted average of 23.6%. • The underlying pool of corporate credit risk is well diversified and majority (70%) is investment grade rated.
Structured Investment Vehicles	**BMO Senior Funding Facility well protected by subordinate capital notes.** • Senior ranked liquidity facility to facilitate orderly wind-down of vehicles provided. Links US$6.6B (US$6.4B drawn Q3’09) and Parkland €650MM (€622MM drawn as at end of Q3’09). • Book value of subordinated capital notes that protects BMO senior funding US$935MM / €154MM. Subordinate to BMO’s senior liquidity facility. Viewed as sufficient to protect BMO’s position from loss. • Market value of Links/Parkland assets US$5.6B/€598MM (US$5.2B/ €551MM at Q2/09) - asset sales and maturities generated cash of US$387MM/€23MM for Links/Parkland in the quarter; continues to be impacted by market illiquidity. • Links/Parkland asset quality remains strong with at least 92%/93% assets rated investment grade by Moody’s/S&P; 55% rated Aa3 or better by Moody’s; 49% rated AA- or better by S&P, by market value. • Strategy to reduce size of entities via asset maturities, and asset sales as appropriate given market conditions.

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