



Montgomery Street Income Securities, Inc.

TAX GUIDE 2011

The information presented in this guide should not be considered a substitute for legal or tax advice. This information cannot be used for the purpose of avoiding penalties that may be imposed on a taxpayer. The rules governing the taxation of mutual fund distributions can be complex. Please consult your tax adviser regarding the proper characterization and reporting of the fund's distributions.



This guide is intended to help you better organize and understand the portion of your income tax return that involves your investment in Montgomery Street Income Securities, Inc. (the “Fund”). If you need more assistance, please speak with your tax adviser or refer to relevant publications from the Internal Revenue Service (“IRS”).

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WHAT INVESTORS SHOULD KNOW

Cost Basis Information

On October 3, 2008, the Emergency Economic Stabilization Act, HR 1424, was signed into law requiring mutual funds (including closed-end funds) to provide cost basis reporting information to their customers and the IRS.

Computershare or the broker you purchased your shares from will be required to provide cost basis information to you and the IRS for shares purchased on and after January 1, 2012 (covered shares) using the IRS Tax Form 1099-B.

Qualified Dividend Income (QDI)

The tax rate on certain ordinary dividends is 15% (0% for those in the 10% and 15% income tax brackets.) This rate applies to dividends received from domestic corporations and certain foreign corporations (referred to as qualified dividend income). Your Form 1099-DIV will show the amount of qualified dividend income that may be eligible for the reduced tax rate.

Note: Although the Form 1099-DIV shows the amount of dividends that may be eligible for the reduced tax rate, you must meet the holding period requirements for the shares you own to qualify for the reduced rate. Generally, to qualify for the reduced rate, you must have held your shares for at least 61 days during the 121-day period beginning 60 days before the Fund's ex-dividend date. Other special rules and considerations may apply. Refer to the instructions for line 9b "Qualified Dividends," on Form 1040 or Form 1040A and/or consult your tax adviser to determine the amount of dividends you received that qualify for the reduced rate.

Capital Gains

The maximum tax rate on long-term capital gains is 15% for most taxpayers and 0% for taxpayers in the 10% and 15% income tax brackets.

These rates apply only to shares you sold that were held for more than one year. Fund shares you sold that were held for one year or less are considered short-term capital gains.

Any long-term capital gain distributions paid by the Fund are taxed at the maximum long-term rate regardless of how long you held your shares.



2011 TAX FORMS

Form 1099-DIV

You will receive a Form 1099-DIV for any ordinary income and/or capital gain distributions you received or if federal income tax has been withheld from your account as required by the IRS. All distributions paid in 2011 must be reported on your federal income tax return, regardless of whether they were paid in cash or reinvested.

Please refer to the instructions to Form 1099-DIV for information regarding the amounts reported on this form.

Form 1099-B

If you sold shares of the Fund in 2011, a Form 1099-B will be sent to you. Form 1099-B is used to report gross proceeds from the sale of shares of the Fund.

Please refer to the instructions to Form 1099-B for information regarding the amounts reported on this form.

Note: Form 1099-DIV and Form 1099-B are not issued for certain accounts, including those registered in the names of corporations, nonresident aliens, certain tax-exempt organizations and certain financial institutions.



FREQUENTLY ASKED QUESTIONS

Here are some of the most frequently asked stockholder tax questions and their answers.

What forms and other tax information might I receive and when can I expect them?

Type of Communication	What it Reports	Who Receives It*	Mail Date
FORM 1099-DIV	Taxable distributions of capital gains and/or ordinary income, and any federal income tax withheld	All Fund stockholders* who receive taxable distributions	Late January
Form 1099-B	Gross proceeds from the sale of shares and any federal income tax withheld	All Fund stockholders* who sold shares in 2011	February 15
2011 Tax Information Letter	Important federal and state tax information	All Fund stockholders	Late January [#]

*Form 1099-DIV and Form 1099-B are not issued for certain accounts, including those registered in the names of corporations, nonresident aliens, certain tax-exempt organizations and certain financial institutions.

[#]The 2011 Tax Information Letter will also be posted on the Fund's website (www.montgomerystreetincome.com) in late January.

I misplaced my Form 1099. Can I get a duplicate?

Yes. If you have an account with the Fund's transfer agent, Computershare, you may obtain a copy by accessing your online account at www.bnymellon.com/shareowner/equityaccess. You will need your 12-digit investor ID and PIN to access your accounts. You can also obtain a copy by calling Computershare toll free at 1-877-437-3938.

If a financial adviser other than the Fund's transfer agent, Computershare, issued the Form 1099, you must call that financial adviser directly.

What is qualified dividend income (QDI) and how do I find out how much qualified dividend income I received from my Fund in 2011?

Generally, qualified dividend income consists of dividends your Fund received in 2011 from domestic and certain foreign corporations. These dividends are eligible for a lower tax rate than other ordinary income and are generally reported in Box 1b of Form 1099-DIV.

NOTE: The amount reported in Box 1b represents the amount of dividends that may be eligible for the lower tax rate. To qualify for the lower tax rate you must have held your shares for at least 61 days during the 121-day period beginning 60 days before the Fund's ex-dividend date. In addition, other special rules and considerations may apply. Refer to the instructions for line 9b "Qualified Dividends," on Form 1040 or 1040A and/or consult your tax adviser to determine the amount of dividends you received that qualify for the reduced rate.

Form 1099-DIV reports ordinary dividends. What does this amount represent and where should it be reported?

Ordinary dividends may result from taxable income earned from securities, market discount realized upon the sale or maturity of certain securities, and/or amounts realized upon the sale of securities held by your Fund for one year or less (short-term capital gains). These amounts should be reported on Form 1040 or Form 1040A, on line 9a (and Schedule B of Form 1040 or Form 1040A, if required).

Why did I receive more than one Form 1099?

Form 1099s are issued for each stockholder account. Therefore, if you have more than one account, you will receive more than one 1099.

You also may receive more than one Form 1099 if you re-registered your shares with the Fund's transfer agent due to a name change. Distributions are reported to the holder of record at the time of each payment. When an account is re-registered, the year-to-date monies do not get transferred to the new registration.

My Form 1099 indicates that federal income tax was withheld from my Fund's distribution. Why? How can I avoid this in the future?

Under federal law, there is a requirement to withhold 28% of federally taxable dividends, capital gain distributions and proceeds from the sale of shares if you have not provided a correct and certified Social Security or Taxpayer Identification Number, or if the IRS has deemed you are subject to backup withholding for other reasons.

If you purchased your shares through the Fund's transfer agent you can register your correct Social Security Number or Taxpayer Identification Number with Computershare by providing a completed W-9 Form.

If a financial adviser other than the Fund's transfer agent, Computershare, issued the Form 1099, you must call that financial adviser directly.

I sold shares in 2011. How do I determine the amount of a capital gain or loss?

The amount of gain or loss is the difference between the amount you "realize" and your "cost basis." If you realize more than your cost basis, you have a capital gain. If you realize less than your cost basis, you have a capital loss. The amount you realize is usually the money you receive for the shares, minus any expenses paid on the sale. It is reported on your Form 1099-B.

The cost basis of any shares sold is usually the original price you paid for the shares, including any purchase cost and sales commissions you incurred. If you elected to have any of your dividends reinvested, be sure the cost basis of your shares has been properly adjusted to reflect dividend reinvestments prior to calculating the taxable gain or loss on the sale of your shares. You may wish to consult your tax adviser or IRS Publication 550, "Investment Income and Expenses," for assistance in calculating the cost basis of your shares.

What is a wash sale?

A wash sale occurs when shares are sold at a loss and shares of the same fund are purchased within a 61-day period beginning 30 days before the sale and ending 30 days after the sale. These losses are not currently deductible. These losses must be deferred by adding the amount of the loss to the cost basis of the new shares acquired.

Am I taxed on reinvested amounts of income and/or capital gain dividends?

Yes. All ordinary income and capital gain distributions are taxable, regardless of whether you receive them in cash or reinvest them in additional Fund shares.

You should keep a record of the amount of ordinary income and capital gain dividends reinvested because this will increase your cost basis in the Fund's shares. By keeping track of reinvested ordinary income and capital gain dividends, you'll be able to determine the correct taxable gain or loss when you sell your Fund shares.



IF YOU NEED MORE INFORMATION

If you have an account with the Fund's transfer agent, Computershare, representatives are available to answer questions about your account Monday through Friday from 8:00a.m. to 8:00p.m. EST at 1-877-437-3938. You can also visit Computershare's website at www.bnymellon.com/shareowner/equityaccess.

Financial Professionals

Your financial adviser or tax professional also may be able to assist you. Your financial adviser can help you plan a sound investment tax strategy, while your tax professional can answer your tax questions and help prepare your income tax return.

Internal Revenue Service

IRS representatives are available all year to answer your questions. Call 1-800-829-1040 during normal business hours in your time zone to speak with an IRS representative. If you prefer to speak with someone in person, you can visit your local IRS office.

The IRS publishes free pamphlets on various subjects including Publication 550, "Investment Income and Expenses." For a complete list of these publications and information on other free IRS services, call 1-800-829-3676 and ask for Publication 910, "IRS Guide to Free Tax Services." This information is also available online at www.irs.gov. In addition, many public libraries have copies of most IRS forms and publications.