

# Intense customer focus, unlimited growth potential

Every day and in every way, my colleagues and I are aligning our hopes and ambitions for business success with our customers' financial hopes and ambitions.

**Tony Comper**  
President and Chief Executive Officer

**"Investors look to BMO for relatively high returns at relatively low risk."**



As the customer stories featured in this report so vividly illustrate, at BMO Financial Group we are dedicated to the proposition that the surest route to strong returns for our shareholders is to deliver, first and foremost, truly exceptional service to our customers – exceeding their expectations and meeting more of their needs. This intense focus on developing lasting customer relationships requires disciplined execution of every task by every colleague every day.

Investors look to BMO for relatively high returns at relatively low risk. Stable, consistent and reliable returns. We are working hard to live up to our reputation, building on the distinctive BMO strengths highlighted in this report, notably credit and commercial leadership and our unparalleled U.S. operations.

We increased earnings per share by 9% in 2005 (excluding changes in the general allowance), bringing BMO's three-year annual EPS growth rate to an outstanding 20%. Return on equity was 18.8%. We also raised dividends twice as the value of dividends declared rose 16% from 2004 to \$1.85 per share. Overall we surpassed four of our five financial targets for the year (see page 3), falling short on our aggressive productivity target while still delivering the second-best productivity ratio in our Canadian peer group. We have improved the cash productivity ratio by a total of 540 basis points over the past three years, creating a strong culture of cost discipline that will serve BMO well for years to come.

We are also aware that revenue growth is the primary driver of shareholder value creation for top-performing companies, and we are determined to continue to improve productivity in 2006 through a stronger emphasis on increasing revenues. While preserving BMO's hard-won achievements in productivity improvement, we will seek opportunities to accelerate revenue growth both organically and through acquisitions.

Our financial targets for the year ahead (see next page) reflect the management team's continuing confidence in BMO's enterprise growth strategy, which is to grow our core Canadian businesses and accelerate our expansion in the United States. The targets also reflect our assessment of economic and market conditions in 2006. An ongoing challenge for BMO and our entire industry is the narrowing of the spread between lending and borrowing rates. Nonetheless, our domestic bank has done a good job of maintaining margins and we are encouraged by the favourable relative performance of our Canadian personal and commercial and private client businesses. In the United States, where relative performance was also very good after factoring out the impact of acquisition costs, we continue our hunt for personal and commercial acquisitions that will accelerate progress toward our goal to transform Harris into a "super-regional" player as the leading personal and commercial bank in the U.S. Midwest.

We are not content to see ourselves as one of the big Canadian banks with a niche play in the U.S. market. We want to be acknowledged as #1 in the markets where we have chosen to compete. And we want to be seen for what we are: the most successful Canadian bank in the United States.

Management is confident in the strategic course we have set. In its five-year global ranking of large cap financial services companies published in May 2005, The Boston Consulting Group ranks BMO *second in the world* with an average Risk-adjusted Relative Total Shareholder Return of 12.9%. We believe our consistent and disciplined approach, in combination with BMO's differentiating strengths, will enable us to continue to outperform globally, propelling BMO closer to our long-term vision to become the top-performing financial services organization in North America.

BMO has led the Canadian banking industry in credit performance in 14 of the past 15 years. The only exception was 2001, when our advanced credit culture led us to be early recognizers of emerging problems that hit our peers' results harder the following year. We believe this strength will increasingly differentiate BMO as the credit cycle progresses and investors

recognize the value of our ability to maintain consistent underwriting standards through good and bad times. There is good alignment of BMO values with the values and needs of our customers. They know they can count on BMO.

While we are using our credit expertise to drive growth in all our businesses, we believe it will be particularly helpful in extending our existing leadership in commercial banking in North America. Even in an increasingly competitive Canadian market where others are re-focusing on their personal and commercial businesses, BMO's relationship-building approach has enabled us to gain and maintain a market leadership position over time. And we are a leading commercial player in our chosen U.S. markets, through both Harris' increasing business banking operations in the greater Chicago area and Harris Nesbitt's well-entrenched mid-market client base in the Midwest.

9.0%

Earnings per Share Growth  
(excluding changes in the general allowance)

18.8%

Return on Equity

\$219 million

Specific Provision for Credit Losses

10.25%

Tier 1 Capital Ratio

120 basis points

Improvement in  
Cash Productivity Ratio

**Targets for 2006**

5% to 10% EPS growth from a base of \$4.59 (excluding changes in the general allowance)

ROE of 17% to 19%

Specific provision for credit losses of \$400 million or less

Tier 1 Capital Ratio of at least 8.0%

Improve our cash productivity ratio by 100 to 150 bps

BMO's most important differentiating strength is the quality of our people, whose expertise, dedication and sheer enthusiasm are unsurpassed in our industry. It is great to see my colleagues rising to the challenge of creating a peak-condition, higher-performing organization.

Given all the work under way to meet more of our customers' needs, our commercial clients provide an excellent pipeline to expand our personal banking and wealth management businesses. And we are gathering evidence of a new growth opportunity: seamless solutions for customers with financial interests in *both* Canada and the United States. None of our competitors is as well positioned as we are to fill this growing need.

A singular strength in this regard is our well-established, integrated U.S. operations. Including our acquisition of Harris in 1984, we have invested \$2.4 billion in U.S. retail acquisitions, transforming a handful of private Chicago banks into a community banking network of nearly 200 branches in the Chicago area and Northwest Indiana. A highlight of 2005 was the successful consolidation of the Harris bank charters into one national charter with no disruption to customer service – the latest in a series of major investments to create a highly efficient back office while maintaining the best of the Harris community banking heritage. These investments, plus the invaluable experience we have gained from our acquisitions to date, position us well to increase revenues while managing costs as we continue the expansion of our Harris personal and commercial operations beyond the Chicago area and Northwest Indiana in the Midwest. We are now aiming to double our network to 350 to 400 branches over the next five years.

What will it take for Harris to become the leading personal and commercial bank in the U.S. Midwest? We need to grow faster from a core business perspective

than our competitors, lead the market in customer service scores, continue to improve productivity and profitability, and acquire suitable properties as they become available. And this is what we intend to do. We are not content to see ourselves as one of the big Canadian banks with a niche play in the U.S. market. We want to be acknowledged as #1 in the markets where we have chosen to compete. And we want to be seen for what we are: the most successful Canadian bank in the United States.

In my message to shareholders last year I explained that we have set our sights on becoming our industry's top performer because we should (we need to reach for the top in order to get there); and because we can. I continue to believe that BMO's most important differentiating strength is the quality of our people, whose expertise, dedication and sheer enthusiasm are unsurpassed in our industry. It is great to see my colleagues rising to the challenge of creating a peak-condition, higher-performing organization.

Despite the growing complexity of financial services – perhaps because of it – our fundamental job has never been simpler. We come to work each day to help our customers achieve their financial hopes and ambitions. If we keep this top of mind, there is no limit to BMO's potential for growth.



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