

# In more challenging times, we continue to perform well

In 2005, BMO once again achieved record results. We attribute our success to our focus every day on revenue growth, continued productivity improvement and superior credit management.



**Karen Maidment**  
Senior Executive Vice-President and Chief Financial Officer

“Over the past five years, shareholders have earned an average annual total return of nearly 14%.”

Every day at BMO Financial Group, our goal is to ensure that we grow and protect the long-term value of our shareholders' investments. While in 2005 we produced a total shareholder return for the year of 4%, over the past five years shareholders have earned an average annual total return of nearly 14%. This compared to the S&P/TSX Composite average annual total return of 3% over the same period. Net Economic Profit (NEP), another key value measure, remained high at \$1,120 million, just below last year's record level, despite higher capital, as each operating group's NEP rose.

We surpassed four of the five financial targets we set for the year, including targets for earnings growth and return on

equity. Our productivity ratio improved significantly by 120 basis points, but was short of our target in a challenging revenue environment. We earned record net income of \$2,400 million for the fiscal year, an increase of \$94 million or 4% from our extremely successful result in 2004. Our earnings per share (EPS) rose 5% to \$4.64, representing an annual compound EPS growth rate of 20% over the last three years, and cash EPS was \$4.79, also up 5%.

## Operating Groups

Each of our client operating groups delivered record results with our retail and business banking and wealth management businesses contributing significantly to our success. Our Personal and Commercial Client Group (P&C) earned net income of \$1,199 million, up \$217 million or 22% from a year ago. Our Private Client Group (PCG), meanwhile, earned net income of \$320 million, up \$93 million or 41%. Investment Banking Group (IBG) earned net income of \$852 million, up \$20 million or 3% from 2004.

## Increased Revenue

Revenue continued to grow, increasing \$470 million or 5% to \$9,958 million. There was strong growth in P&C, which benefited from higher product volumes, insurance and card fee revenues. There was also growth in PCG full-service investing, mutual fund and term investment product revenues. Not surprisingly, revenue declined in IBG as increased trading revenues and advisory fees were more than offset by reduced revenues from interest-rate-sensitive businesses, which were adversely affected by a flatter yield curve and competitive market conditions.

2005 Canadian Bank Scorecard (%)						
	BMO	RBC	CIBC	Scotia	TD	National
Average annual total shareholder return (5-year)	13.8	14.8	11.9	18.1	91	22.5
EPS growth	5.0	21.3	(108.3)	11.7	(5.6)	21.0
Return on equity	18.8	18.0	(1.6)	20.9	15.3	20.7
Net economic profit growth <sup>2</sup>	(0.3)	30.3	(162.2)	16.3	(29.7)	31.9
Revenue growth <sup>1,2</sup>	5.0	6.1	6.2	4.2	11.7	5.5
Cash productivity ratio <sup>2</sup>	62.6	68.2	85.5	56.1	67.4	64.9
PCL as a % of average net loans and acceptances	0.11	0.20	0.43	0.12	0.03	0.06

■ BMO equal to or better than other bank (17/35)  
■ BMO worse than other bank (18/35)

1. On a taxable equivalent basis.

2. Non-GAAP measure. See page 35.

### Productivity Improvement

Improving cash productivity, particularly through top-line revenue growth, is a key component of enhanced shareholder value and continues to be a top priority at BMO. Over the last three years, we have improved our productivity ratio by 540 basis points – while continuing to invest in our business. In 2005, our cash productivity ratio was 62.6%, a 120 basis point improvement from 2004. Both P&C and PCG made significant improvements in productivity, driven by strong revenue growth, but IBG's productivity worsened in the challenging interest rate environment described above. Although we fell short of our target to improve our productivity ratio by 150 to 200 basis points in 2005, we remain encouraged by our significant and steady progress in recent years.

### Credit Risk Management

In 2005, provisions for credit losses increased by \$282 million, mostly due to lower reversals and recoveries and a lower reduction in the general allowance this year. The provision in 2005 was \$179 million, consisting of \$219 million of specific provisions and a \$40 million reduction in the general allowance for credit losses. Although in marked contrast to a \$103 million net recovery of credit losses in 2004, which included specific provisions of \$67 million and a \$170 million reduction in the general allowance, our provisions in 2005 were actually lower than the targets we established at the beginning of the year when we anticipated a weaker credit environment. BMO's top-tier credit management continues to distinguish us from our peers.

### Foreign Exchange

Although the Canadian dollar continued to strengthen in 2005, we managed the effects of foreign exchange fluctuations effectively, holding the negative impact on our bottom line to \$42 million.

### Capital

In 2005, our Tier 1 Capital Ratio increased to 10.25%, up from 9.81% a year ago and well above our target. It's a result that mirrors our strong earnings, particularly in the fourth quarter

## 2005 Economic Climate: Weathering the Storms

### Flatter Yield Curve

The flattening of the yield curve – the narrowing gap between long and short-term interest rates – caused some investors to worry about a potential market slowdown. The flatter curve also had a significant impact on our industry, resulting in lower net interest margins which reduced revenue growth, particularly in wholesale businesses.

### Dollars Up and Down

In Canada, exporters were negatively affected as the Canadian dollar rose to its highest levels in 13 years. Meanwhile, businesses and consumers in the United States grappled with the downside of a falling dollar.

### Soaring Oil Prices

Canadians and Americans also found themselves coping with higher prices for gasoline, home heating oil and natural gas as energy prices soared. Although oil production and refining operations located along the U.S. Gulf Coast did not suffer the full force of hurricanes Katrina and Rita,

there's no question that the damage caused by the great storms put upward pressure on already high oil and natural gas prices.

### Consumer Confidence

As the year moved into the third quarter, it's perhaps not surprising that the combination of currency fluctuations, higher commodity prices and natural disasters caused a drop in consumer confidence on both sides of the border.

### Fundamental Strength

In spite of these developments, the Canadian and American economies remained fundamentally strong. In 2005, the U.S. economy is estimated to have expanded at an above-potential pace while the Canadian economy recorded a respectable, albeit more moderate advance. Meanwhile, on both sides of the border, consumers continued to spend and take advantage of the still-low interest rate environment to buy homes and other goods. For its part, business ramped up investment spending.

of the year when our net income increased by 20%, and also reflects the sale of *Harrisdirect*.

We have the right strategy to grow our business and best serve our shareholders. BMO's differentiating strengths, our focus on growing revenues to improve our productivity as well as our strong capital base position us well for the future.

**\$2,400**  
million

Net income – up 4%

**\$4.64**

Earnings per share – up 5%

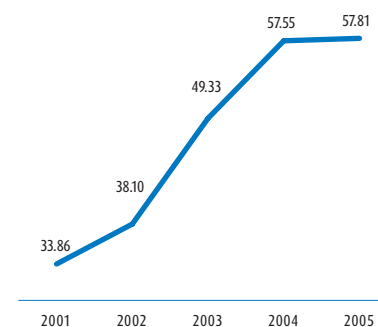
**\$9,958**  
million

Revenue (teb) – up 5%

**13.8%**

Average annual total shareholder return (5-year)

**BMO Share Price (\$)**  
Last Trading Day of Fiscal Year (2001–2005)



Over the last five years, our average annual Total Shareholder Return was 13.8%.