Review of Fourth Quarter Performance

Net income in the fourth quarter of 2005 was a record $657 million, an increase of $106 million or 20% from the fourth quarter a year ago. Results for the fourth quarter and comparative quarters are outlined on page 77. Each of our client operating groups produced strong increases in net income, with business volumes up year-over-year. Operating results were up strongly, notwithstanding higher provisions for credit losses, even after excluding certain significant items that increased earnings.

Net income was increased by the $43 million after-tax net impact of the following significant items:

- A $49 million ($18 million after tax) gain on the sale of Harris*direct* recorded in Private Client Group;
- A $50 million ($32 million after tax) gain on the sale of common shares of the TSX, split equally between Private Client Group and Investment Banking Group;
- A $29 million ($19 million after tax) gain on the sale of our Calgary office tower recorded in Corporate Support; and
- A $40 million ($26 million after tax) adjustment that reduced Personal and Commercial Client Group's card fees revenue as a result of further refinements made to the methodology used to determine the liability associated with our customer loyalty rewards program.

Net income in the fourth quarter of 2004 was increased by the $24 million after-tax net impact of:

- A $50 million ($33 million after tax) reduction in the general allowance for credit losses reflected in Corporate Support; and
- A $14 million ($9 million after tax) adjustment that reduced Personal and Commercial Client Group's card fees revenue because of rising reward redemption rates associated with our customer loyalty rewards program.

Personal and Commercial Client Group net income in the fourth quarter rose $38 million or 14% from a year ago, driven by higher volumes in both Canada and the United States, stable margins in Canada and a lower effective tax rate. These factors were partially offset by lower card fees as a result of the foregoing loyalty rewards program adjustments. In the United States, higher volumes were attributable to acquisitions and loan growth. Private Client Group earnings increased $54 million or 103%. The increase was partly attributable to gains on the sale of Harris*direct* and TSX shares, while approximately $20 million or 38% was due to business growth and the benefit of ongoing expense management. Investment Banking Group net income increased $34 million or 18%, in large part due to increased capital markets activities and its gain on the sale of TSX common shares.

Revenue for the quarter increased $371 million or 16% from a year ago to $2,650 million. Adjusted for the impact of the weaker U.S. dollar, revenue increased $423 million or 19%. Personal and Commercial Client Group revenue increased $73 million due to higher volumes, partially offset by lower card fees and lower net interest margin in the United States. Acquired businesses in the United States contributed $13 million to revenue growth. Private Client Group revenue increased $128 million on growth in operating revenues across all of the group's lines of business, together with the gain of $74 million on its aforementioned asset sales. Revenue increased $103 million or 17% in Investment Banking Group due to increases in trading revenues, merger and acquisition fees and securities trading commissions. There were also increases in corporate loan volumes and investment securities gains, due to the $25 million gain on the sale of TSX common shares.

Net interest income was $1,224 million, an increase of $18 million from a year ago. Average assets were $43 billion higher, of which approximately two-thirds was attributable to growth of low-margin client-driven trading assets in Investment Banking Group and the remainder to Canadian and U.S. personal and commercial banking products. Net interest margin was 24 basis points lower than a year ago. Net interest margin increased in Canadian personal and commercial banking but continues to be affected by the shift in customer product preferences toward lower-spread products and increased competition in the sustained low interest rate environment. Net interest margin declined in U.S. retail and business banking due to competitive pressures limiting our ability to pass on higher short-term rates to loan customers, and to lower rates earned on longer-term deposits. Loan growth in excess of deposit growth also contributed to the decline. Investment Banking Group net interest margin declined due to lower trading net interest income, lower spreads on corporate loans in the competitive loan pricing environment in the United States and lower spreads in interest-rate-sensitive businesses in the rising interest rate environment.

Non-interest revenue was $1,426 million, an increase of $353 million or 33% from the fourth quarter of 2004. The increase was due in part to the gains on sales outlined above. There were significant increases in trading revenues due to high volatility in the energy sector and improved results in interest rate and equity trading. Net investment securities gains were up $42 million, primarily due to the $50 million gain on sale of TSX shares. There was also growth in mutual fund fees, securities commissions, and merger and acquisition fees. Securitization revenues declined as a portion of our credit card loan securitizations matured in the first quarter of 2005.

Non-interest expense was $1,636 million, an increase of $143 million from a year ago, in part due to a $119 million increase in performance-based compensation costs. This latter increase was due to improved results and Investment Banking Group's reduction of performance-based costs in 2004, in line with results in that period. Expense growth was mitigated by the $33 million impact of the weaker U.S. dollar.

In the fourth quarter of 2005, the provision for credit losses totalled $57 million, compared with a $13 million net recovery in the fourth quarter of 2004. There were $37 million of specific provisions in the fourth quarter of 2004 and a $50 million reduction in the general allowance. The increase in specific provisions was attributable to lower levels of reversals and recoveries. There was no reduction in the general allowance in the fourth quarter of 2005.

Quarterly Earnings Trends

BMO's quarterly earnings, revenue and expense are modestly affected by seasonal factors. Since our second fiscal quarter has 89 days (90 days in a leap year) and other quarters have 92 days, second-quarter results are lower relative to other quarters because there are 3% fewer calendar days, and thus fewer business days. The months of July (third quarter) and August (fourth quarter) are typically characterized by lower levels of capital markets activity, which has an effect on results in Private Client Group and Investment Banking Group. The December holiday season also contributes to a slowdown in some activities; however, credit card purchases are particularly robust in that first-quarter period, as well as in the back-to-school period that falls in our fourth quarter.

Results and statistics for the past eight quarters are outlined on page 77. Quarterly provisions for credit losses have generally started to trend upward, affecting performance. In addition, quarterly results sometimes include significant items that affect the level of earnings and trend analysis. The net impact of such items increased earnings somewhat in the first and second quarters of 2004 and, to a greater degree, in the third quarter of 2004. The first, second and fourth quarters of 2005 were also affected by significant items. BMO's pattern of growing earnings in consecutive quarters was interrupted in the fourth quarter of 2004 and into 2005, largely because of provisioning trends and significant items affecting quarterly results. The weakening of the U.S. dollar has dampened revenue and expense growth over the past two years but has had a more modest impact on net income, in part due to our practice of hedging our currency exposure, which is explained on page 36.

Personal and Commercial Client Group earnings, broadly speaking, have been increasing steadily, excluding the impact of significant items. Strong volume growth with moderate increases in expenses has been partially offset by declining net interest margins due to shifts in customer preferences toward lower-spread products and competitive pressures in the low interest rate environment. The reduction in net interest margin has been more pronounced in P&C Chicagoland Banking because of competitive pressures on loan pricing and lower rates earned on longer-term liabilities. The net interest margin has also been affected by loan growth in excess of deposit growth. The group's results in the second and fourth quarters of 2004 and the fourth quarter of 2005 were affected by adjustments to credit card fees.

Private Client Group's results have benefited from steady growth in fee-based and managed asset businesses, improved net interest margin on term investment products and continued expense management, while also being subject to the variability of client trading activity. In 2005, the group's strengthening results were driven by improved performance in full-service investing, term investments and the mutual fund business. Performance in the fourth quarter of 2005 benefited from the inclusion of a combined $74 million of revenue ($34 million after tax) from the sales of Harris*direct* and the group's share of BMO's investment in TSX common shares.

Investment Banking Group results are more volatile than our other businesses because they are dependent in part on the level of capital markets activity. The group's net income was particularly high in the first and second quarters of 2004 because of extremely favourable capital markets conditions, and was high in the third quarter of 2004 because of very favourable credit performance, including high recoveries of principal and interest on loans that were previously written off. In 2005, the strong first quarter was aided by a $32 million recovery of prior years' income taxes and the $30 million ($20 million after tax) impact of adopting a change in accounting for merchant banking investments, while the second quarter benefited from $44 million ($37 million after tax) of revenue recognized on restructuring VIEs. Results in 2005 were affected by the interest rate environment, including the impact of rising short-term interest rates in the United States. Particularly strong trading revenue benefited results in the fourth quarter.

BMO's provisions for credit losses declined during 2004 as we moved into a particularly favourable span of the credit cycle. Provisions were especially low in the third quarter of 2004 as we recorded high levels of reversals of previous allowances and recoveries of earlier write-offs. These reversals and recoveries were a significant component of the high net income in Corporate Support in that quarter. In fact, the favourable credit performance in the third quarter of 2004 was so pronounced that in the third quarter of 2005, BMO's earnings decreased from the comparable quarter in the prior year, the only such occurrence in the past three fiscal years.

Summarized Statement of Income and Quarterly Financial Measures

($ millions)	Oct. 31 2005	July 31 2005	April 30 2005	Jan. 31 2005	Oct. 31 2004	July 31 2004	April 30 2004	Jan. 31 2004	2005	2004	2003
Net interest income (teb)	1,224	1,244	1,212	1,226	1,206	1,272	1,194	1,265	4,906	4,937	4,929
Non-interest revenue	1,426	1,197	1,216	1,213	1,073	1,121	1,251	1,106	5,052	4,551	4,220
Total revenue (teb)	2,650	2,441	2,428	2,439	2,279	2,393	2,445	2,371	9,958	9,488	9,149
Provision for credit losses – specific	57	73	46	43	37	(70)	45	55	219	67	455
Provision for credit losses – general	–	–	(40)	–	(50)	(40)	(40)	(40)	(40)	(170)	–
Non-interest expense	1,636	1,579	1,579	1,533	1,493	1,538	1,565	1,561	6,327	6,157	6,087
Income before provision for income taxes and non-controlling interest in subsidiaries	957	789	843	863	799	965	875	795	3,452	3,434	2,607
Provision for income taxes (teb)	284	234	229	247	243	318	280	270	994	1,111	804
Non-controlling interest in subsidiaries	16	14	14	14	5	4	4	4	58	17	22
Net income	657	541	600	602	551	643	591	521	2,400	2,306	1,781
Amortization of intangible assets, net of income taxes	17	17	21	19	19	21	19	19	74	78	79
Cash net income	674	558	621	621	570	664	610	540	2,474	2,384	1,860
Taxable equivalent basis adjustment (teb)	30	30	31	28	30	32	39	38	119	139	152
Reported revenue per financial statements	2,620	2,411	2,397	2,411	2,249	2,361	2,406	2,333	9,839	9,349	8,997
Operating group net income:											
Personal and Commercial Client Group	305	307	293	294	267	268	206	241	1,199	982	914
Private Client Group	107	63	77	73	53	58	63	53	320	227	137
Investment Banking Group	225	184	206	237	191	230	206	205	852	832	691
Corporate Support, including T&S	20	(13)	24	(2)	40	87	116	22	29	265	39
BMO Financial Group net income	657	541	600	602	551	643	591	521	2,400	2,306	1,781
Information per Common Share ($)											
Dividends declared	0.49	0.46	0.46	0.44	0.44	0.40	0.40	0.35	1.85	1.59	1.34
Earnings											
Basic	1.30	1.07	1.19	1.18	1.08	1.27	1.16	1.02	4.74	4.53	3.51
Diluted	1.27	1.05	1.16	1.16	1.06	1.24	1.12	1.00	4.64	4.42	3.44
Cash earnings											
Basic	1.34	1.10	1.23	1.22	1.13	1.30	1.20	1.06	4.89	4.69	3.67
Diluted	1.31	1.08	1.21	1.19	1.10	1.27	1.17	1.03	4.79	4.57	3.59
Book value	26.53	26.00	25.60	24.93	24.24	24.31	23.82	22.87	26.53	24.24	22.09
Market price											
High	62.44	62.05	57.13	58.59	59.63	55.50	58.74	59.65	62.44	59.65	50.26
Low	56.00	55.04	53.05	54.38	52.05	49.50	50.88	49.28	53.05	49.28	37.79
Close	57.81	61.10	56.65	55.28	57.55	55.40	51.90	57.79	57.81	57.55	49.33
Financial Measures (%)											
Five-year average annual total shareholder return	13.8	17.4	19.6	21.8	18.9	18.7	14.8	15.2	13.8	18.9	12.9
Dividend yield	3.4	3.0	3.2	3.2	3.1	2.9	3.1	2.4	3.2	2.8	2.7
Diluted earnings per share growth	19.8	(15.3)	3.6	16.0	9.3	30.5	45.5	33.3	5.0	28.5	28.4
Diluted cash earnings per share growth	19.1	(15.0)	3.4	15.5	10.0	28.3	44.4	30.4	4.8	27.3	26.9
Return on equity	19.8	16.5	19.5	19.4	17.8	21.0	20.4	18.3	18.8	19.4	16.4
Cash return on equity	20.3	17.1	20.2	20.0	18.5	21.7	21.1	19.0	19.4	20.1	17.1
Net economic profit growth	31.8	(37.4)	(2.1)	22.0	10.3	53.7	100+	94.9	(0.3)	59.6	91.8
Net income growth	19.5	(16.0)	1.6	15.4	9.5	30.6	48.1	34.5	4.1	29.4	29.7
Revenue growth	16.5	2.1	(0.4)	3.4	(3.9)	3.8	12.7	3.8	5.2	3.9	4.2
Revenue growth (teb)	16.3	2.0	(0.7)	2.9	(4.3)	4.0	12.2	3.7	5.0	3.7	4.7
Net interest margin	1.54	1.61	1.56	1.61	1.77	1.82	1.70	1.82	1.58	1.78	1.81
Net interest margin (teb)	1.58	1.65	1.60	1.64	1.82	1.87	1.75	1.88	1.62	1.83	1.87
Non-interest expense-to-revenue ratio	62.4	65.5	65.9	63.6	66.4	65.2	65.0	66.9	64.3	65.9	67.7
Non-interest expense-to-revenue ratio (teb)	61.7	64.7	65.0	62.9	65.5	64.3	64.0	65.9	63.5	64.9	66.5
Cash non-interest expense-to-revenue ratio (teb)	60.9	63.8	64.0	61.9	64.4	63.2	62.9	64.7	62.6	63.8	65.4
Provision for credit losses as a % of average net loans and acceptances	0.13	0.17	0.01	0.11	(0.03)	(0.28)	0.01	0.04	0.11	(0.07)	0.30
Canadian/U.S. dollar average exchange rate ($)	1.177	1.235	1.234	1.210	1.264	1.342	1.339	1.307	1.214	1.313	1.435
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	4.91	5.92	6.77	7.10	7.47	8.90	10.28	12.58	4.91	7.47	13.91
Cash and securities-to-total assets	26.2	26.8	27.6	25.0	25.8	27.3	29.2	29.1	26.2	25.8	29.1
Tier 1 Capital Ratio	10.25	9.39	9.38	9.72	9.81	9.44	9.67	9.65	10.25	9.81	9.55

In the opinion of Bank of Montreal management, information that is derived from unaudited financial information, including information as at and for interim periods, includes all adjustments necessary for a fair presentation of such information. All such adjustments are of a normal and recurring nature. Financial ratios for interim periods are stated on an annualized basis where appropriate, and all growth rates represent year-over-year growth. Ratios, as well as interim operating results, are not necessarily indicative of actual results for the full fiscal year.

2004 Financial Performance Review

Earnings

Net income increased $525 million or 29% to $2,306 million in fiscal 2004 and earnings per share rose $0.98 or 29% to a then-record $4.42. Two-thirds of the increase was attributable to improved credit performance and the balance to strong operating group results. All three client operating groups improved their productivity and earned record net income in 2004. Return on equity was 19.4%, up from 16.4% in 2003.

Revenue

Revenue on a taxable equivalent basis rose $339 million or 3.7% in 2004 to $9,488 million, driven by growth in all operating groups. The weaker U.S. dollar reduced revenue growth in each of the operating groups and lowered BMO's overall revenue growth by $243 million or 2.7 percentage points, while the incremental effects of acquired businesses added $91 million or 1.0 percentage points to revenue growth. The $339 million increase in revenue was almost entirely due to increased non-interest revenue, as higher net interest income in personal and commercial banking was largely offset by declines in Investment Banking Group and Private Client Group.

Provision for Credit Losses

There was a net recovery of credit losses of $103 million in 2004, consisting of $67 million of specific provisions and a $170 million reduction of the general allowance for credit losses. In 2003, results reflected specific provisions of $455 million with no change in the general allowance. The lower provision in 2004 was attributable to improved credit performance experienced over the year. New impaired loan formations were at half the levels of 2003 and at only a third of the levels of 2001 and 2002. As such, new specific provisions in 2004 totalled approximately half the amounts in the 2001 to 2002 period and, in addition, reversals and recoveries were high. Provisions in 2004 were lower than at any other point in the credit cycle.

Non-Interest Expense

Non-interest expense increased $70 million or 1.1% to $6,157 million, reflecting effective cost management. The incremental effects of acquired businesses increased expenses by $106 million (1.7%) while the weaker U.S. dollar reduced costs by $177 million (–2.9%). Higher performance-based compensation costs, associated with BMO's 29% increase in net income, increased expenses by $90 million (1.5%) and higher pension costs increased expenses by $30 million (0.5%). Other expenses increased by only $21 million or 0.3%, as a change in accounting policy to capitalize costs of certain internally developed software in 2004 reduced expenses by $47 million.

Operating Groups Results

Personal and Commercial Client Group net income rose $68 million or 7% to $982 million, due to higher revenue, cost containment and a lower effective tax rate. Revenue increased $98 million or 2%, driven by strong volume growth in both Canadian and U.S. operations and the $20 million impact of U.S. acquisitions. The growth rate was mitigated by the $82 million impact of the weaker U.S. dollar, lower net interest margin and a $65 million ($42 million after tax) card fees adjustment. Excluding this adjustment, net income rose $110 million or 12%. Non-interest expense rose $7 million to $3,077 million, as the weaker U.S. dollar reduced costs by $58 million.

Private Client Group net income reached a then-record $227 million in 2004, an increase of $90 million or 7%. Revenue grew $117 million or 7% to $1,851 million. Revenue-generating initiatives and improved market conditions drove higher commission and fee-based revenue growth, particularly in full-service investing and the mutual fund businesses. Net interest income declined as the low interest rate environment affected net interest margin in term investment products. Non-interest expense fell $6 million to $1,504 million, contrasting favourably with growth of 12% in non-interest revenue and reflecting the group's success in reducing non-revenue-based expenses. The weaker U.S. dollar reduced revenue growth by $48 million and expense growth by $53 million.

Investment Banking Group net income rose $141 million or 20% to a then-record $832 million, driven by higher revenue and a lower provision for credit losses. Revenue increased $180 million or 7%. There was a $189 million improvement in net investment securities gains, which was partially offset by $44 million of interest expense related to unwinding hedges associated with certain of the securities that were sold. The inclusion of Harris Nesbitt Gerard (HNG) results for the full year added $69 million of commissions and fees while equity and debt underwriting fees rose strongly. Interest income was affected by lower corporate loan balances and by compressed spreads in interest-rate-sensitive businesses, due to rising short-term interest rates. There was lower trading revenue, as commodity and interest rate trading revenue declined, while equity trading revenue increased. The weaker U.S. dollar reduced revenue by $124 million. The provision for credit losses declined $93 million due to an improved credit environment and a $39 million recovery on a loan that was previously written off. Non-interest expense increased $60 million or 4% as the $87 million incremental impact of the inclusion of HNG expenses and an increase in performance-based compensation were partially offset by the $58 million impact of the weaker U.S. dollar.

Corporate Support net income was $265 million, compared with $39 million in 2003. The improvement was attributable to a significantly lower provision for credit losses and higher net gains on investment securities and foreign exchange. These were partially offset by reduced net investment earnings in the lower interest rate environment and proportionately lower income tax benefits.