

# Enterprise-Wide Strategy



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## Vision

To be the top-performing financial services company in North America.

## Enterprise Strategy

- Increase profits in our broad-based Canadian franchise and accelerate our U.S. expansion through disciplined organic growth and acquisitions; build deep, lasting relationships with

our clients in all of our businesses by delivering exceptional service; consistently improve our productivity while providing a superior customer experience by focusing on what matters to them, by aggressively pursuing revenue growth opportunities and by streamlining our processes and eliminating bureaucracy.

- In Canada, improve service to our personal and commercial banking customers to strengthen our relationships, gain market share in the rapidly growing high net worth market and increase our share of our clients' investment banking business.
- In the United States, become the leading personal and commercial bank in the Midwest. We will strive to accelerate banking growth, capture wealth management opportunities within the Chicagoland market and deepen our penetration of mid-market investment banking business sectors.

### We will leverage our foundational strengths in executing our strategy by:

- Building a high-performance organization by effectively developing our people and their capabilities.

- Developing, implementing and maintaining high-quality, low-cost business systems.
- Applying our credit management expertise to find creative solutions for clients.
- Maintaining excellence in governance and risk management.

## Progress in Relation to our 2005 Strategic Priorities

### Achieve financial targets with a particular focus on productivity:

- Annual financial targets for EPS growth, ROE, credit losses and Tier 1 capital were achieved. Cash productivity improved by 120 basis points but was below target because of weaker than expected performance in interest-rate-sensitive businesses in Investment Banking Group.

### Drive revenue growth:

- Our Personal and Commercial Client Group and Private Client Group drove BMO's revenue growth of 5.0% (7.2% excluding the impact of the weaker U.S. dollar).

### Grow net income in Canada:

- Our Personal and Commercial Client Group and Private Client Group grew earnings in Canada by 23% and 29%, respectively. BMO's overall earnings in Canada were relatively unchanged at \$1,678 million, as growth was limited by higher provisions for credit losses in Corporate Support.

### Continue to improve U.S. performance:

- U.S. revenues increased US\$148 million or 74% and net income improved by US\$62 million or 19%, as both loan and deposit growth contributed to higher volumes.

### Accelerate growth in the United States:

- U.S. net income as a percentage of North American net income grew 1.4 percentage points to 21.9%.
- Acquired businesses contributed US\$63 million to revenue growth, and organic revenue growth was US\$85 million.
- We acquired Mercantile Bancorp, Inc., agreed to purchase Edville Bankcorp, Inc. and its subsidiary Villa Park Trust and Savings Bank and sold Harris*direct* LLC, our online brokerage platform.

### Build a high-performance organization:

- For the fourth year in a row, BMO was the only major Canadian bank to be included in the prestigious list of Canada's "Top 100 Employers." BMO was also the top-ranked Canadian firm in the "Training Top 100."

### Maintain our world-class foundational strengths:

- We continued to implement enterprise-wide service quality initiatives that will contribute significantly to superior customer experiences and after-sales service.
- The successful consolidation of 26 of our U.S. bank charters into one charter, Harris N.A., provides customers with more convenient access and improved service.

## Priorities for 2006

- Achieve our financial targets, with a particular focus on revenue growth to improve productivity.
- Drive revenue growth by providing a superior client experience and earning a larger share of customers' business.
- Continue to improve U.S. performance.
- Accelerate growth in the United States, both organically and through acquisitions.
- Grow net income in Canada through operational efficiency and improved market share, accelerating our growth in commercial banking and wealth management.
- Build a high-performance organization by developing our people, living our values and being an employer of choice.
- Maintain our world-class foundation of leading governance, sound risk management, productive systems and excellent after-sales service.

### 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 Annual Report, 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 harbor" provisions of the United States Private Securities Litigation Reform Act of 1995 and of any applicable Canadian securities legislation. Forward-looking statements may include, but are not limited to, comments with respect to our objectives and priorities for 2006 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 Annual Report 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 conditions in the countries in which we operate; 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 affects 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 below concerning the effect certain key factors could have on actual 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.

Assumptions about the performance of the Canadian and U.S. economies in 2006 and how that will affect our businesses are material factors we consider when setting our strategic priorities and objectives, and in determining our financial targets, including provision for credit losses. Key assumptions include our assumption that the Canadian and U.S. economies will expand at a healthy pace in 2006 and that inflation will remain low. We also have assumed that interest rates will increase gradually in both countries in 2006 and that the Canadian dollar will hold onto its recent gains in value. 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. Tax laws in the countries in which we operate, primarily Canada and the United States, are material factors we consider when determining our sustainable effective tax rate.

## Factors That May Affect Future Results

As noted in the above Caution Regarding Forward-Looking Statements, all forward-looking statements and information, by their nature, are subject to inherent risks and uncertainties, general and specific, which may cause our actual results to differ materially from the expectations expressed in the forward-looking statements. Some of these risks and uncertainties are discussed in this section.

### *General Economic and Business Conditions in the Countries in which We Conduct Business*

We conduct business in Canada, the United States and other countries. Factors such as interest rates, foreign exchange rates, consumer spending, business investment, government spending, the health of capital markets, the rate of inflation and the threat of terrorism affect the business and economic environments in which we operate. Therefore, the amount of business we conduct in a specific geographic region and the local economic and business conditions may have an effect on our revenues and earnings. For example, a regional economic decline may result in an increase in credit losses, a decrease in loan growth and reduced capital markets activity.

### *Currency Rates*

The Canadian dollar equivalent of our revenues and expenses denominated in currencies other than the Canadian dollar is subject to fluctuations in the value of the Canadian dollar relative to such currencies. Such fluctuations may affect our overall business and financial results. Our most significant exposure is to fluctuation in the value of the Canadian dollar relative to the U.S. dollar due to the size of our operations in the United States. The recent increase in value of the Canadian dollar relative to the U.S. dollar has affected our results in the past two years. Further appreciation of the Canadian dollar relative to the U.S. dollar would reduce the translated value

of U.S.-dollar-denominated revenues, expenses and earnings relative to prior periods. Refer to the Foreign Exchange section on page 36 and the discussion of Market Risk on pages 70 to 72 for a more complete discussion of our foreign exchange risk exposures.

### *Monetary Policy*

Bond and money market expectations about inflation and central bank monetary policy have an impact on the level of interest rates. Changes in market expectations and monetary policy are difficult to anticipate and predict. Fluctuations in interest rates that result from these changes can have an impact on our earnings. Refer to the discussion of Market Risk on pages 70 to 72 for a more complete discussion of our interest rate risk exposures.

### *Level of Competition*

The level of competition among financial services companies is high. Furthermore, non-financial companies are increasingly offering services traditionally provided by banks. Customer loyalty and retention can be influenced by a number of factors, including service levels, prices for products or services, our reputation and the actions of our competitors. Loss of market share would adversely affect our earnings.

### *Changes in Laws and Regulations*

Regulations are in place to protect our clients, investors and the public interest. Changes in laws and regulations, including how they are interpreted and enforced, could adversely affect our earnings by allowing more competition for our products and services and by increasing the costs of compliance. In addition, our failure to comply with laws and regulations could result in sanctions and financial penalties that could adversely affect our reputation and earnings.

*Judicial or Regulatory Judgments and Legal Proceedings*

We take what we believe to be reasonable measures designed to ensure compliance with the laws and regulations of the jurisdictions in which we conduct business. However, there can be no assurance that we will always be in compliance or be deemed to be in compliance. As a result, it is possible that we could receive a judicial or regulatory judgment or decision which results in fines, damages or other costs that would have a negative impact on earnings and damage our reputation. We are also subject to litigation arising in the ordinary course of our business. The unfavourable resolution of any litigation could have a material adverse effect on our financial results. Damage to our reputation could also result, harming our future business prospects. Information about legal proceedings we currently face is provided in Note 27 on page 128 of the financial statements.

*Accuracy and Completeness of Customer and Counterparty Information*

When deciding to extend credit or enter into other transactions with customers and counterparties, we may rely on information provided by or on behalf of those customers and counterparties, including audited financial statements and other financial information. We also may rely on representations made by customers and counterparties that the information they provide is accurate and complete. Our financial results could be adversely affected if the financial statements and other financial information provided by customers and counterparties are materially misleading.

*Execution of Strategic Plans*

Our financial performance is influenced by our ability to execute strategic plans developed by management. If these strategic plans do not meet with success or there is a change in strategic plans, our earnings could grow more slowly or decline.

*Acquisitions*

We perform thorough due diligence before completing an acquisition. However, it is possible that we might make an acquisition that does not achieve our financial or strategic objectives. High integration costs and failure to realize expected cost savings could adversely affect our earnings after an acquisition. Our post-acquisition performance is also contingent on retaining the clients and key employees of acquired companies, and there can be no assurance that we will always succeed in doing so.

*Critical Accounting Estimates*

We prepare our financial statements in accordance with Canadian generally accepted accounting principles (GAAP). The application of GAAP requires that management make significant judgments and estimates that can affect when certain assets, liabilities, revenues and expenses are recorded in our financial statements and their recorded values. In making these estimates and judgments, we rely on the best information available at the time. However, it is possible that circumstances may change or that new information may become available. Our financial results would be affected in the period in which the new circumstances or information became apparent, and the amount of the impact could be significant. More information is included in the discussion of Critical Accounting Estimates on page 63.

*Operational and Infrastructure Risks*

We are exposed to many types of operational risk that affect all large corporations. Such risks include the risk of fraud by employees or others, unauthorized transactions by employees, and operational or human error. We also face the risk that computer or telecommunications systems could fail, despite our efforts to maintain these systems in good working order. Given the high volume of transactions we process on a daily basis, certain errors may be repeated or compounded before they are discovered and successfully rectified. Shortcomings or failures of our internal processes, employees or systems, including any of our financial, accounting or other data processing systems, could lead to financial loss and damage our reputation. In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our operations and the communities in which we do business.

*Other Factors*

Other factors beyond our control that may affect our future results are noted in the Caution Regarding Forward-Looking Statements on page 29. Additional factors, including credit and counterparty, market, liquidity and funding, operational, business reputation and other risks, are discussed in the Enterprise-Wide Risk Management section starting on page 67.

We caution that the preceding discussion of factors that may affect future results is not exhaustive. When relying on forward-looking statements to make decisions with respect to BMO, investors and others should carefully consider these factors, as well as other uncertainties, potential events and industry and company-specific factors that may adversely affect future results. We do not undertake to update any forward-looking statements, written or oral, that may be made from time to time by us or on our behalf.