

Value Measures

MD&A

Highlights

- We surpassed four of our five performance targets in 2005, after meeting or surpassing all five in 2004 and 2003.
- Total Shareholder Return (TSR) – BMO investors have earned an average annual return of 13.8% over the past five years and earned 3.7% in 2005, after three consecutive years of double-digit returns.
- Earnings per share (EPS) growth – EPS increased 5% to a record \$4.64 in 2005, but increased 9% excluding changes in the general allowance for credit losses. EPS increased 28% and 29% in the two prior years, for a three-year average annual compound growth rate of 20%.
- Net income increased 4.1% to \$2,400 million. The \$94 million increase in net income was attributable to the \$155 million (6.8%) impact of business growth and the \$122 million (5.3%) impact of a lower effective tax rate,

offset in part by the \$183 million (-8.0%) after-tax impact of a \$282 million increase in provisions for credit losses.

- Return on Equity (ROE) – BMO's ROE was 18.8% in 2005, the second-highest in the past 20 years, and BMO is the only major bank in North America to earn an ROE of more than 13% for 16 consecutive years.
- Net Economic Profit (NEP) Growth – NEP was high in 2005, just below the record levels of 2004, despite higher capital, as each of the client operating groups contributed higher NEP.
- The quarterly dividend on our common shares was raised twice during the year, increasing by a total of 11% from a year ago to \$0.49 per share, after increasing 26% in 2004.

Total Shareholder Return

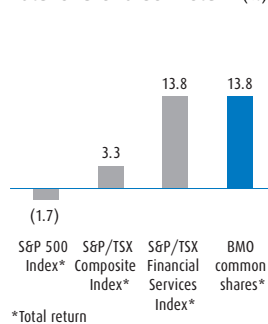
BMO's governing objective is to maximize the total return to our shareholders and generate, over time, first-quartile total shareholder return (TSR) relative to our Canadian and North American peer groups.

The five-year average annual TSR is a key measure of shareholder value and is the most important of our financial performance and condition measures, since it assesses our success in achieving our governing objective of maximizing return to shareholders. Over the past five years, shareholders have earned an average annual TSR of 13.8% on their investment in BMO's common shares. This compares favourably with an average annual return for the S&P/TSX Composite Total Return Index of 3.3% over the same period and was consistent with the return for the S&P/TSX Financial Services Total Return Index. Dividends paid over the period and appreciation in BMO's share price are outlined in the table below. An investment of \$1,000 in Bank of Montreal common shares made at the beginning of fiscal 2001 would have been worth \$1,907 at October 31, 2005, assuming reinvestment of dividends, for a total return of 91%. Dividends paid over the five-year period have increased at an average annual compound rate of 13%. In 2005, the stated quarterly dividend on our common shares was raised twice, increasing by a total of 11% from the fourth quarter of 2004 to \$0.49 per share. Dividends paid on each common share increased 20% in 2005 to \$1.80.

The average annual TSR of 13.8% for this most recent five-year period declined from the 18.9% average annual return for the five years ended October 31, 2004. The averages are affected by the one-year TSRs included in the calculations. The deterioration reflected the removal of the 29% return earned in 2000 from the averaging calculation and its replacement with the 3.7% return earned this year.

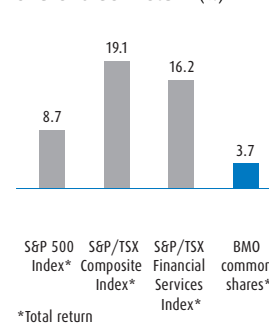
The **five-year average annual total shareholder return (TSR)** represents the average annual total return earned on an investment in BMO common shares made at the beginning of a five-year period. The return includes the change in share price and assumes that dividends received were reinvested in additional common shares. The one-year TSR also assumes that dividends were reinvested in shares.

Five-Year Average Annual Total Shareholder Return (%)



Our strong returns to shareholders have outperformed the broad market indices over five years.

One-Year Total Shareholder Return (%)



Our one-year return of 3.7% was low, but follows three years of strong returns.

The 3.7% TSR earned in fiscal 2005 was lower than the returns on comparable market indices, after three consecutive years of strong returns. The S&P/TSX Composite Total Return Index was boosted by particularly strong returns in the energy sector.

Pages 24 and 26 provide further comment on total shareholder return and include peer group comparisons.

Total Shareholder Return

For the year ended October 31	2005	2004	2003	2002	2001	Five-year CAGR (1)
Closing market price per common share (\$)	57.81	57.55	49.33	38.10	33.86	10.4%
Dividends paid (\$ per share)	1.80	1.50	1.29	1.18	1.09	12.7%
Dividends paid (%)	3.1	3.0	3.4	3.5	3.1	
Increase (decrease) in share price (%)	0.5	16.7	29.5	12.5	(3.9)	
Total annual shareholder return (%)	3.7	20.0	33.4	16.2	(1.2)	

Total annual shareholder return assumes reinvestment of quarterly dividends and therefore does not equal the sum of dividend and share price returns in the table.

(1) Compound annual growth rate (CAGR).

Earnings per Share Growth

The year-over-year percentage change in earnings per share (EPS) is our key measure for analyzing earnings growth. All references to EPS are to diluted EPS, unless indicated otherwise.

EPS was a record \$4.64, up 5% from a then-record \$4.42 in 2004. Cash EPS was \$4.79, up 5% from \$4.57 a year ago. Excluding a \$40 million reduction in the general allowance for credit losses in 2005 and a \$170 million reduction in 2004, EPS rose 9% from \$4.21 to \$4.59. The 9% growth rate exceeded our annual target of 3% to 8% from a base of \$4.21. In 2006, we are targeting EPS growth of 5% to 10% from this base of \$4.59, excluding any change in the general allowance. Our EPS growth target for 2006 is higher than our 2005 growth target because we anticipate improved operating performance and because, although we expect an increased level of specific provisions for credit losses, that increase is less pronounced than the increase we expected when we set our 2005 targets. Our targets for 2006 have also been established in the context of our expectations for the economy, as outlined in our economic outlook for 2006 on page 31.

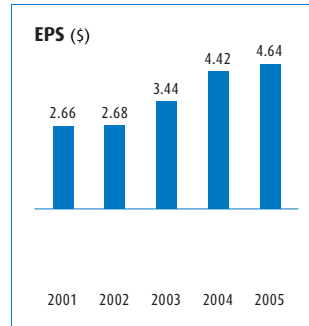
Our five-year compound average annual EPS growth rate was 7%, below our medium-term financial objective of 10%, as EPS increased to \$4.64 in 2005 from \$3.25 in 2000. In 2000, certain asset sales produced a large gain on sale that inflated our EPS relative to our normal earning capacity. Our four-year compound average annual EPS growth rate was 15%.

Net income was \$2,400 million, up 4.1% from \$2,306 million a year ago. The \$94 million increase in net income was attributable to the \$155 million (6.8%) impact of business growth and the \$122 million (5.3%) impact of a lower effective tax rate, offset in part by the \$183 million (-8.0%) after-tax impact of a \$282 million increase in provisions for credit losses.

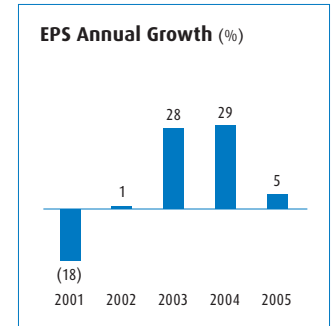
All of our client operating groups earned record net income and two of the three significantly improved their productivity in 2005. Personal and Commercial Client Group (P&C) net income rose \$217 million or 22% from a year ago; excluding significant items that increased earnings, which are discussed in the operating group review on page 49, P&C's net income for 2005 rose \$167 million or 16%. The improvement was driven by strong volume growth and effective cost management, partially offset by lower net interest margin in the United States.

Private Client Group (PCG) net income was up \$93 million or 41%. PCG's results also benefited from certain items, including gains on the sales of *Harrisdirect* and an investment in TSX common shares, which are explained in the operating group review on page 52. Adjusted for the impact of those items, net income increased \$59 million or 26% from the then-record results in 2004. Investment Banking Group (IBG) net income rose \$20 million or 3%. IBG's results also benefited from significant items, which are explained in the operating group review on page 55. Excluding those items in both years, IBG's net income declined \$40 million due to lower earnings in interest-rate-sensitive businesses. Earnings in Corporate Support fell \$236 million, primarily due to higher provisions for credit losses, largely recorded in Corporate Support under BMO's expected loss provisioning methodology, which is explained in the operating group review on page 57.

Earnings per share (EPS) is calculated by dividing net income, after deduction of preferred dividends, by the average number of common shares outstanding. Diluted EPS, which is our basis for measuring performance, adjusts for possible conversions of financial instruments into common shares if those conversions would lower EPS, and is more fully explained in Note 24 on page 125 of the financial statements.



EPS in 2005 rose 5% from a then-record \$4.42 in 2004.



Less favourable credit performance limited EPS growth after two years of strong growth.

Revenue on a taxable equivalent basis, which is explained on pages 35 and 37, increased \$470 million or 5% to \$9,958 million. Revenue grew in two of the three client operating groups, as P&C revenues increased 7%, PCG revenues increased 10% and IBG revenues declined modestly. In P&C Canada, there was strong volume growth across most products, including revenue from the sale of term investment products, mutual funds and securitization activities. In the United States, higher revenues were due to robust consumer and small business loan growth and acquisitions, partially offset by the impact of lower net interest margin. In PCG, successful revenue-generating initiatives and favourable market conditions drove higher non-interest revenue in the full-service investing and mutual fund businesses, while improved margins drove improved revenues in term investment products. The sales of *Harrisdirect* and TSX shares contributed \$74 million to revenue growth.

IBG revenues declined as increased non-interest revenue, particularly in trading revenues and revenue recognized on restructuring variable interest entities (VIEs), was offset by reduced net interest income in a challenging interest rate environment. Revenue was reduced \$213 million by the weaker U.S. dollar. Total revenue growth is discussed further on page 37.

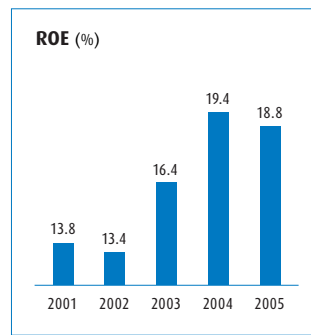
There was a provision for credit losses of \$179 million, consisting of \$219 million of specific provisions and a \$40 million reduction in the general allowance for credit losses. A year ago, there was a net recovery of credit losses of \$103 million, consisting of \$67 million of specific provisions and a \$170 million reduction in the general allowance. The provision for credit losses is discussed further on page 40.

Non-interest expense increased \$170 million or 3% to \$6,327 million. Expenses were affected by higher performance-based compensation costs, in line with improved results in particular businesses, and the impact of acquired businesses, partially offset by the effects of the weaker U.S. dollar. Non-interest expense is discussed further on page 41.

Return on Equity

Return on equity (ROE) is another key value measure. We achieved an ROE of 18.8% in 2005, down from 19.4% in 2004. The decline was attributable to a \$0.9 billion increase in average common shareholders' equity, as net income available to common shareholders rose by \$95 million. BMO has now generated an ROE of more than 13% in each of the past 16 years, and is the only major North American bank to meet this test of earnings consistency. The 18.8% return was above our annual target of 17% to 18% because of higher net income earned in the year, but was consistent with our medium-term financial objective of achieving an average annual 18% to 19% ROE, over time.

Table 3 on page 80 includes ROE statistics for the past 10 years. Pages 24 and 26 provide further comment on ROE and include peer group comparisons.



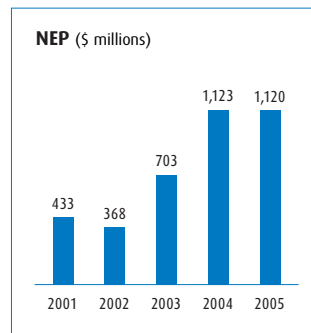
Our ROE in 2005 exceeded our 17% to 18% target but declined, despite record earnings, due to higher capital.

Return on common shareholders' equity (ROE)

is calculated as net income, less preferred dividends, as a percentage of average common shareholders' equity. Common shareholders' equity is comprised of common share capital, contributed surplus, net unrealized foreign exchange gain (loss) and retained earnings.

Net Economic Profit Growth

The last of our four key value measures is net economic profit (NEP) growth. NEP of \$1,120 million was relatively unchanged from 2004. Higher cash net income was offset by a higher charge for capital in 2005 than in the previous year, as our average capital rose strongly in 2005. The consistently high NEP earned in 2005 follows record NEP earned in 2004, resulting in growth of -0.3% in 2005. This follows growth of 92% and 60% in 2003 and 2004, respectively. Each of the three client operating groups earned significantly higher NEP than in the previous year, but this growth was offset by the impact of higher provisions for credit losses charged to Corporate Support in 2005. Pages 24 and 26 provide further comment on NEP growth and include peer group comparisons.



Our NEP in 2005 was relatively unchanged from the record level of 2004.

Net economic profit (NEP)

represents cash net income available to common shareholders, less a charge for capital. NEP is an effective measure of economic value added. NEP is a non-GAAP measure. See page 35.

Net Economic Profit (\$ millions, except as noted)

For the year ended October 31	2005	2004	2003	2002	2001
Net income available to common shareholders	2,370	2,275	1,743	1,338	1,391
After-tax impact of the amortization of goodwill and other valuation intangibles	74	78	79	75	101
Cash net income available to common shareholders	2,444	2,353	1,822	1,413	1,492
Charge for capital*	(1,324)	(1,230)	(1,119)	(1,045)	(1,059)
Net economic profit	1,120	1,123	703	368	433
Net economic profit growth (%)	(0.3)	60	92	(15)	(43)
*Charge for capital					
Average common shareholders' equity	12,609	11,720	10,646	9,973	10,100
Cost of capital (%)	10.5	10.5	10.5	10.5	10.5
Charge for capital	(1,324)	(1,230)	(1,119)	(1,045)	(1,059)