

# Meeting Your Expectations

Investors have long looked to BMO to provide consistent, high-quality returns on investment. In 2006, we delivered record results, earning \$2,663 million, up \$267 million from a year ago. This was attributable to record net income in each of the operating groups, low and stable credit losses and a more favourable tax rate. The one-year total return on BMO common shares was 24.1%, and over the past five years, our shareholders have earned an average annual total return of 19.1%. In 2006, shareholders also saw their quarterly dividend paid increase by 16 cents or 35% from the fourth quarter last year.

**\$2,663**  
million  
Net Income – up 11%

**19.1%**  
Average annual shareholder  
return over five years

## Achieving Our Targets

BMO achieved or surpassed four of its five financial performance targets for 2006. Our earnings per share (EPS) rose 11.6% to \$5.11, excluding the reduction in the general allowance, exceeding our target of 5% to 10%. We also topped our return on equity (ROE) target, achieving a return of 19.2%. Specific provisions for credit losses of \$211 million in 2006 were better than our performance target of \$400 million or less. As well, our Tier 1 Capital Ratio was 10.22%, meeting our target of at least 8%. Our cash productivity ratio improved by 25 basis points, falling short of our target improvement primarily due to the mix of business in Investment Banking Group and continued investment in Personal and Commercial Banking businesses.

## Operating Groups

For the second consecutive year, each of our three operating groups contributed significantly to our success by delivering record results. Personal and Commercial Banking group (P&C) earned \$1,256 million, up \$57 million or 4.8% from the previous year, Private Client Group (PCG) earned \$360 million, up \$40 million or 13%, and Investment Banking Group (IBG) earned \$860 million, up a modest \$7 million or 0.9%.

## 2006 Canadian Bank Scorecard

Reported basis, including one-time/special items (%)

	BMO	RBC	CIBC	Scotia	TD	National
Average annual total shareholder return (five-year)	19.1	19.8	16.2	21.2	16.1	24.1
EPS growth	11.2	39.7	1715	12.7	98.1	4.7
Return on equity	19.2	23.5	27.9	22.1	25.5	20.1
Net economic profit growth <sup>2</sup>	10.3	79.8	340.6	18.1	23.3	(0.5)
Revenue growth <sup>1,2</sup>	1.5	10.0	(8.7)	8.6	23.9	5.0
Cash productivity ratio <sup>1,2</sup>	62.4	62.3	64.4	55.0	54.3	64.0
PCL as a % of average net loans and acceptances	0.09	0.16	0.33	0.10	0.21	0.14

1. On a taxable equivalent basis.

2. Non-GAAP measure. See page 34.



Karen E. Maidment  
Chief Financial and  
Administrative Officer

### Revenue Growth

BMO's revenue continued to grow in 2006, reaching \$10.1 billion, an increase of 1.5% or \$154 million. Excluding the impact of having sold *Harrisdirect* in 2005, our former U.S. direct investing business, and the weaker U.S. dollar, revenue increased 5.9% or \$577 million. P&C Canada revenue increased 6.0%, buoyed by strong volume growth in personal and commercial products, partially offset by lower net interest margins. P&C U.S. revenue growth was 8.1%, adjusted for the weaker U.S. dollar, on strong loan growth, acquisitions and new branches. PCG revenue decreased but excluding *Harrisdirect* and the weaker U.S. dollar, revenue increased 7.1% reflecting growth in fee-based revenues as well as higher net interest income from our term deposits business. IBG reported increased revenues of 4.9%, adjusted for the weaker U.S. dollar, the result of higher trading revenues and increases in commissions and merger and acquisition fees.

### Improving Productivity

Expenses increased by 0.3% on a reported basis or 6.1% excluding the impact of the sale of *Harrisdirect* and the weaker U.S. dollar. This was a result of growth in businesses with higher variable costs, such as our trading business in Investment Banking Group, and our conscious decision to invest in our P&C businesses, in both Canada and the United States. As a result, our productivity ratio improved by 77 basis points, while our cash productivity ratio improved by 25 basis points, below our target. Improving cash productivity continues to be a top priority at BMO.

### Managing Risk

BMO's record of excellence in credit risk management, of benefit to both our customers and our shareholders, continues unabated. Provisions for credit losses totalled \$176 million in 2006, consisting of \$211 million of specific provisions and a \$35 million reduction in the general allowance. Specific provisions for credit losses were better than our performance target of \$400 million or less.

**\$5.15\***

Earnings per share  
— up 11.2%

\*Excluding the reduction in general allowance, EPS was \$5.11

**\$10.1**  
billion

Revenue — up 1.5%, but  
up 5.9% excluding *Harrisdirect*  
and the weaker U.S. dollar

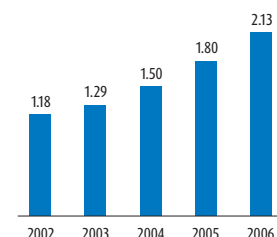
### Your Dividends

Last May, we increased our target dividend payout range to an industry-leading 45% to 55% of net income available to common shareholders. Overall, our total dividends paid in 2006 increased 18% from the previous year to \$2.13 per share.

The increase was made possible by our strong capital position and reflects our confidence in our continued ability to grow earnings. Our excess Tier 1 capital gives us the flexibility to invest in business growth both organically and, where opportunity presents, through acquisition, while also paying significant dividends to our shareholders.

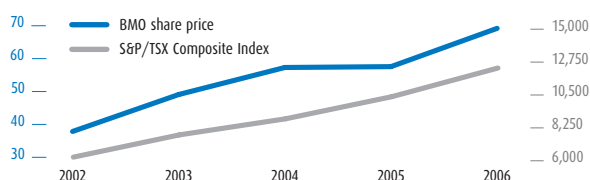
Ultimately, we believe that a high dividend payout range is good for our shareholders — and our company.

**Dividends Paid per Share (\$ Cdn)**



Dividends paid have increased at an average annual rate of 14.3% over the past five years.

**BMO Share Price (\$ Cdn) vs. S&P/TSX Composite Index**



BMO's share price has increased at an average annual rate of 15.5% over the past five years, compared with 12.4% for the S&P/TSX Composite Index.

### Foreign Exchange

By entering into hedging transactions at the beginning of each quarter, BMO mitigates the negative impact of foreign exchange fluctuations related to the Canadian and U.S. currencies. The weaker U.S. dollar reduced our net income by \$24 million in the year.

### Capital

Our Tier 1 Capital Ratio of 10.22% reflects strong earnings performance and continued growth in assets.

### Summary

BMO's continued strong financial performance serves as testament to the strength and diversification of our overall company. We will continue to invest strategically in our business to both meet our customers' needs and grow revenues, while maintaining our strong capital base and returning strong dividends to our shareholders.