

Putting Our Customers First

Throughout the past year, I have spent my time talking with our customers, employees and shareholders about how our company can achieve the kind of performance that will move us closer to the vision and goals we have set for BMO Financial Group.

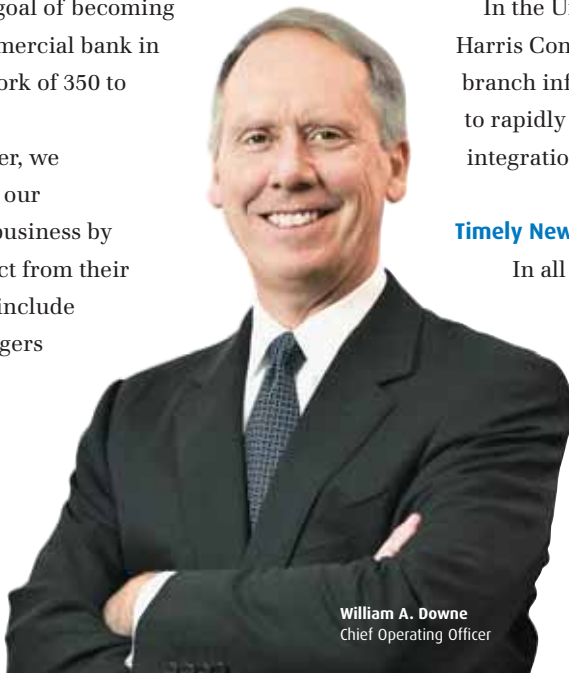
One thing is clear: putting our customers' needs first is fundamental to growing this company and achieving top-tier returns for our shareholders... and we are making progress.

Acquisition and Expansion

In 2006 we acquired bcpbank Canada, which will increase our presence in growing multicultural markets in the Toronto area and affirms our commitment to invest in our core Canadian retail banking franchise. We also continued to expand our branch network to meet our customers' needs in high-growth markets such as Alberta and British Columbia.

In the United States, we signed a definitive agreement to purchase First National Bank & Trust in Indiana. The acquisition will add scale, increasing the number of Harris branches to 234 – up from 145 branches four years ago – and will provide a base from which to extend the customer-focused Harris community banking network into the Indianapolis market. This will expand our footprint outside the Chicago area, moving us closer to our goal of becoming the leading personal and commercial bank in the U.S. Midwest, with a network of 350 to 400 branches.

On both sides of the border, we continue to take steps to grow our leading commercial banking business by focusing on what clients expect from their business bank. Our strengths include specialized relationship managers and concurrence officers who work together locally to speed up response times for customers.



William A. Downe
Chief Operating Officer

Investing in People and Technology

Our commitment to customer service means investments in people and technology. To provide a higher level of service for our Canadian customers, we have recruited and successfully added more than 700 additional people since the end of 2005, we replaced virtually all of our automated banking machines in Canada to make them more user-friendly and secure, and we refreshed almost all of our BMO Bank of Montreal branches.

Putting the needs of our customers first is fundamental to growing this company and achieving top-tier returns for our shareholders.

In July 2006, we officially opened the BMO Barrie Computer Centre, the first facility of its kind in Canada to achieve Tier IV status, which indicates the highest level of systems survivability. This centre has the infrastructure, staff and support essential to providing full processing for our clients and our business at all times.

In the United States, we completed deployment of our Harris Connect technology platform to replace existing branch infrastructure, enabling our sales and service staff to rapidly respond to our customers' needs and facilitate integration of newly acquired properties.

Timely New Products and Services

In all of our businesses, we continued to focus on providing innovative products and services.

Wealth management is the most dynamically growing segment in financial services today. Our Private Client Group is committed to helping our clients accumulate, protect and grow their assets. In support of that commitment, we introduced an innovative focus on the retirement

market, through our Regeneration™ initiative, designed to help our clients plan for the next phase of their lives as they approach retirement. Baby boomers' attitudes and views about retirement are distinct from those of earlier generations and, as a result, we are providing new financial and non-financial solutions for their transition to retirement.

Ambition, Meet Execution.™

In 2006, we unified our corporate, government and institutional businesses under the distinctive brand of BMO Capital Markets. This signifies our commitment to provide complete financial solutions for our investment banking clients in North America and key international markets.

Institutional investors ranked our Equity Research team #1 for the 26th consecutive year.

We retained our Canadian leadership position in a number of key, independent research studies and league tables. Institutional investors ranked our Equity Research team number one for the 26th consecutive year and our Fixed Income Sales team number one for overall service quality. We were also ranked second in corporate debt issuance for the year.



BMO Capital Markets is the unifying brand for our investment banking functions, and signifies a commitment to provide a full range of services to clients. In support of this renaming, BMO Capital Markets launched an advertising campaign using the tagline "Ambition, meet execution." to address the business ambitions of its target market.

A Passion for Winning

Looking ahead, we will pursue our strategic priorities, strengthen our capabilities, remain highly responsive to our customers' needs, and create value for our shareholders.

Tony Comper has been a superb steward of BMO's legacy with a keen sense of where this company came from and where it is going. When I assume my new role as CEO next March, I will be proud and honoured to take over from a leader of his stature. I am energized by the prospect of leading this company and by our passion for winning.

In all of our businesses, you can expect a firm commitment to our customers' success and to growing our company with the discipline that has served our shareholders well for more than 189 years.

Operational Highlights

Enhancing the experience of our customers is the goal of each of BMO's operational groups. Here are some highlights of our activities in 2006:

- Completed the acquisition of bcpbank Canada in December 2006, an eight-branch bank with an excellent reputation and track record in serving the Portuguese-Canadian community in the Greater Toronto Area and Hamilton, increasing our presence in these expanding multicultural markets and affirming our commitment to invest in our core Canadian retail banking franchise.
- Signed a definitive agreement to acquire First National Bank & Trust in Indiana, moving us closer to our goal of becoming the leading personal and commercial bank in the U.S. Midwest, with a network of 350 to 400 branches.
- Added more than 700 new employees, replaced virtually all of our automated banking machines and refreshed almost all of our BMO Bank of Montreal branches to provide a higher level of service for our Canadian customers.
- Completed our Harris Connect technology platform, enabling our branch sales and service staff to rapidly respond to our customers' needs.
- Created BMO Connect Release 2, an integrated application that provides our employees with easy access to sales and service tools and product information to provide customers with better service and advice.
- Introduced a new everyday banking plan at BMO Bank of Montreal that can deliver significant savings to customers who conduct many transactions using more than one account.
- Introduced our Regeneration initiative, designed to help our clients who are approaching retirement to invest and plan for the new realities of retirement.
- Launched innovative wealth management solutions such as BMO Nesbitt Burns' Retirement Income Management Account, BMO Income Generator, first of its kind in Canada, and new income funds from GGOF to meet evolving client needs.
- Unveiled BMO Capital Markets, the new name that unites our global investment banking capabilities.
- Opened a BMO Capital Markets representative office in Beijing to better serve China's business leaders.
- Opened the BMO Barrie Computer Centre, a facility with all the support functions essential to providing full processing for our clients at all times.