FINANCIAL PERFORMANCE REVIEW

GAAP and Related Non-GAAP Measures used in the MD&A

(Canadian $ in millions, except as noted)

	Q2-2006	Q1-2006	Q2-2005	YTD-2006	YTD-2005
Net interest income per financial statements (a)	**1,113**	1,182	1,181	**2,295**	2,379
Non-interest revenue	**1,360**	1,299	1,216	**2,659**	2,429
Revenue per financial statements (b)	**2,473**	2,481	2,397	**4,954**	4,808
Taxable equivalent basis (teb) adjustment (c)	**30**	31	31	**61**	59
Net interest income (teb) (a+c) (d) (1)	**1,143**	1,213	1,212	**2,356**	2,438
Non-interest revenue	**1,360**	1,299	1,216	**2,659**	2,429
Revenue (teb) (e) (1)	**2,503**	2,512	2,428	**5,015**	4,867
Provision for income taxes per financial statements	**173**	235	198	**408**	417
Taxable equivalent basis adjustment	**30**	31	31	**61**	59
Provision for income taxes (teb) (1)	**203**	266	229	**469**	476
Non-interest expense (f)	**1,571**	1,545	1,579	**3,116**	3,112
Amortization of intangible assets	**(12)**	(11)	(24)	**(23)**	(48)
Cash-based expense (g) (1)	**1,559**	1,534	1,555	**3,093**	3,064
Net income	**644**	630	600	**1,274**	1,202
Amortization of intangible assets, net of income taxes	**9**	9	21	**18**	40
Cash net income (1)	**653**	639	621	**1,292**	1,242
Preferred share dividends	**(8)**	(8)	(8)	**(16)**	(16)
Charge for capital (1)	**(350)**	(353)	(317)	**(703)**	(639)
Net economic profit (1)	**295**	278	296	**573**	587
Non-interest expense-to-revenue ratio (2) (%) ((f/b) x 100)	**63.5**	62.3	65.9	**62.9**	64.7
Non-interest expense-to-revenue (teb) ratio (1) (2) (%) ((f/e) x 100)	**62.7**	61.5	65.0	**62.1**	63.9
Cash non-interest expense-to-revenue (teb) ratio (1) (2) (%) ((g/e) x 100)	**62.3**	61.1	64.0	**61.7**	62.9
Net interest margin annualized (%) ((a/average assets) x 100)	**1.45**	1.54	1.56	**1.49**	1.58
Net interest margin (teb) annualized (1) (%) ((d/average assets) x 100)	**1.49**	1.58	1.60	**1.53**	1.62
EPS (uses net income) ($)	**1.24**	1.22	1.16	**2.46**	2.32
Cash EPS (1) (uses cash net income) ($)	**1.25**	1.24	1.21	**2.49**	2.40

(1) These are non-GAAP amounts or non-GAAP measures.

(2) Also referred to as productivity ratio and cash productivity ratio.

BMO uses both GAAP and certain non-GAAP measures to assess performance. Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies. The above table reconciles the non-GAAP measures, which management regularly monitors, to their GAAP counterparts.

Cash earnings and cash productivity measures may enhance comparisons between periods when there has been an acquisition, particularly because the purchase decision may not consider the amortization of intangible assets to be a relevant expense. Cash EPS measures are also disclosed because analysts often focus on this measure, and cash EPS is used by Thomson First Call to track third-party earnings estimates that are frequently reported in the media. Cash measures add the after-tax amortization of intangible assets to GAAP earnings to derive cash net income (and associated cash EPS) and deduct the amortization of intangible assets from non-interest expense to derive cash productivity measures.

BMO, like many banks, analyzes revenue, and ratios computed using revenue, on a taxable equivalent basis (teb). This basis includes an adjustment that increases GAAP revenues and the GAAP provision for income taxes by an amount that would raise revenues on certain tax-exempt securities to a level equivalent to amounts that would incur tax at the statutory rate. The effective income tax rate is also analyzed on a taxable equivalent basis for consistency of approach. Analysis on a taxable equivalent basis neutralizes the impact on ratios of investing in tax exempt or tax-advantaged securities rather than fully taxable securities with higher yields. It reduces distortions in ratios between periods and between institutions related to the choice of tax-advantaged and taxable investments. In this MD&A, all revenues and tax amounts and related ratios are stated on a taxable equivalent basis, unless indicated otherwise.

Net economic profit represents cash net income available to common shareholders, less a charge for capital, and is considered an effective measure of economic value added.

Foreign Exchange

The Canadian dollar equivalents of BMO's U.S.-dollar-denominated revenues, expenses, provision for credit losses, income taxes and net income in the first and second quarters of 2006 were lowered relative to the comparable periods by the weakening of the U.S. dollar. The following table indicates the relevant average Canadian/U.S. dollar exchange rates and the impact of changes in the rates. At the start of each quarter, BMO enters into hedging transactions that are expected to partially offset the pre-tax effects of exchange rate fluctuations in the quarter on our U.S. dollar net income for that quarter. As such, these activities partially mitigate the impact of exchange rate fluctuations within a single quarter.

The gain or loss from hedging transactions in future periods will be determined by both future currency fluctuations and the amount of underlying future hedging transactions, since the transactions are entered into each quarter in relation to expected U.S.-dollar-denominated net income for the next three months. The effect of currency fluctuations on our investments in foreign operations is discussed in the Income Taxes section.

Effects of U.S. dollar exchange rate fluctuations on BMO's results		Q2-2006		YTD-2006
(Canadian $ millions, except as noted)		vs. Q2-2005	vs. Q1-2006	vs. YTD-2005
Canadian/U.S. dollar exchange rate (average)	---Current period	1.1413	1.1413	1.1489
	---Prior period	1.2336	1.1562	1.2216
Reduced net interest income		(16)	(3)	(28)
Reduced non-interest revenue		(32)	(5)	(50)
Reduced total revenue		(48)	(8)	(78)
Reduced expense		32	5	50
Reduced provision for credit losses		-	-	1
Reduced income taxes		6	1	18
Reduced net income before hedging gains		(10)	(2)	(9)
Hedging gains		7	7	8
Income taxes thereon		(2)	(2)	(2)
Increased (reduced) net income		(5)	3	(3)

Value Measures

Annualized ROE was 19.1% for the quarter, compared with 19.5% a year ago and 18.5% in the first quarter. Year to date, annualized ROE was 18.8%, in line with our annual target of 17% to 19% ROE, but down from 19.5% a year ago, as a result of higher equity.

EPS of $1.24 increased $0.08 or 6.9% from the second quarter of 2005 and $0.02 or 1.6% from the first quarter. Year to date, EPS of $2.46 was up $0.14 or 6.0% from the comparable period a year ago. Excluding the reduction of the general allowance in 2005, EPS for the year-to-date period was up 8.4%, in line with our annual target of 5% to 10% EPS growth on that basis.

Net economic profit (NEP) was $295 million (see the Non-GAAP Measures section), compared with $296 million in the second quarter of 2005. Year to date, NEP was $573 million, down from $587 million in the first six months of 2005, again due to higher equity.

The total shareholder return (TSR) on an investment in BMO common shares was (4.6%) in the second quarter, following a return of 19.1% in the first quarter. BMO's TSR was 17.7% for the twelve months ended April 30, 2006, while BMO's average annual TSR for the five-year period ended April 30, 2006 was 16.4%, the fourth best of Canada's major banks and above the comparable S&P/TSX Composite average annual total return of 11.0%. The five-year average annual TSR is our primary measure of shareholder value and the most important of our financial performance and condition measures. Our governing objective is to maximize shareholder value and generate, over time, first quartile total shareholder returns relative to our Canadian and North American peer groups.

Net Income

Net income and variances in net income between periods were reviewed in the preceding Performance Overview. Net income by operating group is reviewed in more detail in the Review of Operating Group Performance that follows.

Net income from U.S.-based businesses totalled $112 million or 17.4% of BMO's net income in the quarter, compared with $129 million and 21.5% a year ago. U.S. results in the second quarter of 2005 included $29 million of the revenue from restructuring VIEs (and $29 million of related net income since the VIEs in the United States are non-taxable entities). Year to date, net income from U.S.-based businesses totalled $239 million or 18.8% of BMO's net income, compared with $285 million and 23.7% for the comparable period in 2005.

Revenue

As explained in the preceding Non-GAAP Measures section, BMO, like many banks, analyzes revenue on a taxable equivalent basis (teb) and all revenues and ratios computed using revenue in this MD&A are stated on that basis.

Total revenue and variances in total revenue were reviewed in the preceding Performance Overview section.

Net Interest Margin (teb) (in basis points)	**Q2-2006**	**Increase (Decrease) vs. Q2-2005**	**Increase (Decrease) vs. Q1-2006**	**YTD-2006**	**Increase (Decrease) vs. YTD-2005**
P&C Canada	**252**	(12)	(6)	**255**	(11)
P&C Chicagoland Banking	**345**	(10)	5	**342**	(15)
Personal and Commercial Client Group	**268**	(11)	(3)	**270**	(11)
Private Client Group	**882**	49	29	**867**	57
Investment Banking Group	**43**	(22)	(8)	**47**	(19)
Corporate Support, including Technology and Solutions (T&S)	**nm**	nm	nm	**nm**	nm
Total BMO	**149**	(11)	(9)	**153**	(9)

nm - not meaningful

Net interest income was $1,143 million, a decrease of $69 million from the second quarter of last year. Net interest margin was 1.49%, down 11 basis points from a year ago, or by 23 basis points excluding the impact of VIE assets as discussed in the following paragraph. Average assets rose $3.2 billion. Average assets of Personal and Commercial Client Group increased $10 billion largely due to residential mortgages, which have continued to grow strongly due to active housing markets. Investment Banking Group's average assets fell by $6 billion, but increased by $15 billion after adjusting for VIE assets as discussed in the following paragraph. The increase was attributable to higher derivative assets, trading securities, reverse repos and corporate loans.

BMO's net interest margin was lowered by approximately 12 basis points in the first and second quarters of 2005 because we were required to consolidate $21 billion of variable interest entity (VIE) assets in BMO's balance sheet in the first half of 2005. The VIE assets lowered Investment Banking Group's net interest margin by approximately 9 basis points in the first and second quarters of 2005. On April 29, 2005, we completed a restructuring of these VIEs; consequently, the VIE assets were no longer included in BMO's balance sheet as of that date.

Personal and Commercial Client Group net interest margin fell 11 basis points from a year ago. P&C Canada net interest margin was 12 basis points lower, due to personal loans growing faster than deposits, aggressive mortgage pricing in a competitive market and the interest rate environment. Rising interest rates caused narrower spreads on variable rate mortgage and loan products. In addition, the absolute low level of all interest rates contributed to the margin decline, mitigated by pricing actions in certain deposit categories. P&C Chicagoland Banking net interest margin was 10 basis points lower due to assets, primarily consumer loans, growing faster than deposits and competitive pressures on loan pricing. Investment Banking Group net interest margin fell 22 basis points due to lower trading net interest income and lower spreads on corporate loans in the competitive rate environment in the United States and in interest-rate-sensitive businesses in the rising interest rate environment. Excluding the impact of VIEs in 2005, the Group's net interest margin declined 31 basis points.

Net interest income includes interest earned on trading assets and the associated costs of funding those assets. The difference between these two amounts represents our trading net interest income. Most of the revenue related to these trading assets consists of mark-to-market gains. These gains are included in non-interest trading revenues and are significantly higher than trading net interest income. Trading net interest income was marginally negative this quarter, as compared to positive trading net interest income in the second quarter of last year and positive, but low, trading net interest income in the first quarter, due primarily to increased funding costs. The changes contributed to reductions in net interest margin in Investment Banking Group. Total interest and non-interest trading revenues were $179 million in the second quarter, up $48 million from the prior year but down $52 million from the record trading revenues of the first quarter.

Relative to the first quarter, net interest income fell $70 million, in part due to three fewer calendar days in the second quarter. Average assets rose $8.9 billion, of which approximately two-thirds was attributable to Investment Banking Group. Net interest margin fell 9 basis points to 1.49%. Two-thirds of the decline from the first quarter was attributable to the decline in Investment Banking Group. Net interest margin in Personal and Commercial Client Group fell 3 basis points. P&C Canada net interest margin fell 6 basis points due to pricing aggressively in the competitive mortgage market and total personal loans growing faster than deposits. P&C Chicagoland Banking net interest margin rose 5 basis points due to improved spread on deposits, partially offset by a decrease in loan spreads caused by competitive pressures. Net interest margin in Investment Banking Group fell 8 basis points due to lower trading net interest income and lower cash collections on previously impaired loans.

Year to date, net interest income decreased $82 million to $2,356 million. Average assets increased $6 billion but were $27 billion higher, adjusted for the VIE assets. Again, approximately two-thirds of the latter increase was attributable to Investment Banking Group. BMO's overall net interest margin was down 9 basis points or by 21 basis points excluding the impact of VIE assets, for reasons that are largely consistent with the second quarter decline relative to a year ago.

BMO's non-interest revenue in the second quarter increased $144 million or 12% from the prior year to $1,360 million, but increased $180 million or 15% excluding Harris*direct* and $224 million or 20% after also excluding VIE revenues. Investment Banking Group's revenue increased as equity, foreign exchange and particularly commodity derivatives trading revenues were up sharply due to favourable trading conditions and increased client activities associated with higher volatility in energy prices. Equity and debt underwriting activities rose sharply, while merger and acquisition and commission revenues also increased. Private Client Group's non-interest revenue was up strongly, after adjusting for the prior year's $36 million contribution from Harris*direct*. The increase was driven by improved trade volumes in direct investing and higher commission and fee-based revenue in full-service investing, including higher mutual fund fees. In P&C Canada, there were higher cards and insurance revenues and increased sales of term investment products and mutual funds. BMO's net investment securities gains were $30 million in the quarter, up from a relatively low $12 million of gains in the second quarter of 2005. However, securitization revenue declined $29 million from a year ago. There were gains on the sales of securitized assets in 2005 and losses in the current quarter. The gain/loss on a sale is largely related to the yield on securitized assets relative to market yields. The weaker U.S. dollar reduced the overall pace of growth in non-interest revenues.

Relative to the first quarter, non-interest revenue rose $61 million or 4.7%. There was strong growth in Private Client Group due primarily to higher commissions and fee-based revenue in full-service investing and increased client trade volumes in direct investing. Personal and Commercial Client Group's non-interest revenue also rose strongly, driven by increased investment securities gains, higher cards and insurance revenues and increased sales of term investment and mutual fund products, partially offset by lower securitization revenue. Investment Banking Group's non-interest revenue increased due to strong equity and debt underwriting and commissions revenues, partially offset by reductions in trading revenues and merger and acquisition fees. Overall growth in non-interest revenues was curtailed by three fewer calendar days in the current quarter and the impact of the weaker U.S. dollar.

Year to date, non-interest revenue increased $230 million or 9.4% to $2,659 million, but increased $305 million or 13% excluding Harris*direct* and $349 million or 15% after also excluding VIE revenues. Investment Banking Group's revenue was much higher as increased commodity derivatives and other trading revenues were up sharply due to favourable trading conditions and increased client activities associated with higher volatility in energy prices. Merger and acquisition revenue improved significantly, while securities commissions and debt and equity underwriting revenue also increased. BMO's investment securities gains were comparable to the prior period. Private Client Group's non-interest revenue was up strongly, after adjusting for the prior year's $75 million contribution from Harris*direct*. The growth was driven by increased managed assets levels in the mutual fund businesses and higher commission and fee-based revenue in our brokerage businesses. Personal and Commercial Client Group revenue also increased due to higher cards and insurance revenues and increased sales of term investment and mutual fund products, partially offset by lower securitization revenue. The weaker U.S. dollar reduced the overall pace of growth in non-interest revenues.

Non-Interest Expense

Non-interest expense in the second quarter of 2006 decreased $8 million or 0.5% from a year ago to $1,571 million, but increased $50 million or 3.3% excluding Harris*direct* and $75 million or 5.0% after also excluding last year's $25 million litigation provision. The weaker U.S. dollar lowered expense growth by $32 million or 2.0%. There were increased performance-based costs in Investment Banking Group and higher revenue-based costs in Private Client Group. In Canada, retail and business banking costs rose due to higher employee-related costs resulting from an expansion of both our retail and commercial sales forces and higher marketing costs. Costs of new branches and integrating acquired businesses increased expenses in Chicagoland Banking. Increased initiative expenditures in both Canada and the United States added to retail and business banking expenses.

Non-interest expense increased $26 million or 1.6% from the first quarter. There were increased marketing costs and higher expenses due to investing in our physical distribution network in Canadian retail and business banking. Acquisitions, increased credit origination and marketing expenses as well as branch technology initiatives added to costs in Chicagoland Banking. There were increases in revenue-based costs in Private Client Group, while Investment Banking Group's costs declined slightly, despite higher performance-based costs.

Year to date, non-interest expense was relatively unchanged at $3,116 million, but increased $119 million or 4.0% excluding Harris*direct* and $144 million or 4.9% after also excluding last year's litigation provision. The weaker U.S. dollar lowered expense growth by $50 million or 1.6%. The increase was primarily due to the same factors that contributed to higher expenses in the second quarter relative to a year ago.

The productivity ratio was 62.7% in the second quarter of 2006, compared with 65.0% a year ago. The cash productivity ratio improved 170 basis points to 62.3%, or by 117 basis points excluding Harris*direct* in the year-ago period. Our productivity and cash productivity ratios deteriorated 123 basis points from the first quarter. Year to date, our productivity ratio improved 180 basis points from a year ago while our cash productivity ratio improved by 125 basis points, the differing rates of change relating largely to the sale of Harris*direct* and the resulting reduction in the amortization of intangible assets, a non-cash charge.

Risk Management

Provisions for Credit Losses (PCL)

(Canadian $ in millions, except as noted)	Q2-2006	Q1-2006	Q2-2005	YTD-2006	YTD-2005
New specific provisions	**116**	89	108	**205**	201
Reversals of previously established allowances	**(15)**	(17)	(47)	**(32)**	(81)
Recoveries of loans previously written-off	**(35)**	(20)	(15)	**(55)**	(31)
Specific provision for credit losses	**66**	52	46	**118**	89
Reduction of the general allowance	**-**	-	(40)	**-**	(40)
Provision for (recovery of) credit losses	**66**	52	6	**118**	49
Specific PCL as a % of average net loans and acceptances (annualized)	0.14%	0.12%	0.11%	0.13%	0.11%
PCL as a % of average net loans and acceptances (annualized)	0.14%	0.12%	0.01%	0.13%	0.06%

Changes in Gross Impaired Loans and Acceptances (GIL)

GIL, Beginning of Period	**745**	804	1,089	**804**	1,119
Additions to impaired loans & acceptances	**173**	78	138	**251**	227
Reductions in impaired loans & acceptances	**(56)**	(66)	(68)	**(122)**	(115)
Write-offs	**(91)**	(71)	(107)	**(162)**	(179)
GIL, End of Period	**771**	745	1,052	**771**	1,052
GIL as a % of gross loans & acceptances	0.41%	0.41%	0.61%	0.41%	0.61%
GIL as a % of equity and allowances for credit losses	4.57%	4.47%	6.77%	4.57%	6.77%

The provision for credit losses totalled $66 million in the quarter, compared with $6 million in the second quarter of 2005 and $52 million in the first quarter of 2006. Year to date, the provision totalled $118 million, compared with $49 million a year ago. There was no reduction of the general allowance in the second quarter of 2006, compared with a $40 million reduction a year ago.

Although specific provisions increased slightly from the first quarter and a year ago, they continue at low levels, representing an annualized 14 basis points of average net loans and acceptances, including securities purchased under resale agreements. Specific provisions for the year to date represent an annualized 13 basis points of average net loans and acceptances, up slightly from a year ago but appreciably lower than the 33 basis points average of the past five fiscal years. The components of the specific provision are outlined in the Provisions for Credit Losses table above.

While remaining at historically low levels, gross impaired loans and acceptances increased during the quarter to $771 million from $745 million in the first quarter, but were down from $1,052 million a year ago. Factors contributing to the changes are outlined in the preceding table. New impaired loan formations totalled $173 million, up from $78 million in the first quarter and $138 million a year earlier. BMO continues to benefit from effective loan realization practices, including cash collections and loan sales, which partially offset higher formations in the second quarter. During the quarter, loan sales totalled $39 million with resulting reversals and recoveries of $18 million, compared with loan sales of $31 million in the prior year with related reversals and recoveries of $10 million. There were no sales of impaired loans in the first quarter of the current year.

The total allowance for credit losses of $1,117 million at the end of the second quarter was comprised of a specific allowance of $178 million and a general allowance of $939 million. The specific allowance was up $8 million from the first quarter but down $76 million from a year ago. The decrease from a year ago was primarily due to the decline in impaired loans over the same period. The general allowance is maintained to absorb impairment in the existing credit portfolio that cannot yet be associated with specific credit assets. It is assessed on a quarterly basis and decreased $6 million from the first quarter due to the weaker U.S. dollar. We believe the total allowance for credit losses fully addresses impairment in BMO's credit portfolio.

BMO's loan book continues to be comprised largely of more stable consumer and commercial portfolios, which, excluding securities borrowed or purchased under resale agreements, represented 85.1% of the loan portfolio at the end of the second quarter, relatively unchanged from a year ago and the end of the first quarter.

We continue to closely monitor those industry sectors considered to be of most concern in today's economy, including airline, auto, forestry and those sectors considered to be particularly sensitive to high energy prices and the rising Canadian dollar. BMO's exposures to these sectors remains well within acceptable levels. We are also attentive to other factors that could affect credit quality in the consumer and corporate and commercial portfolios, including the potential impact of rising interest rates. Looking forward, short-term conditions should remain relatively stable, with potential weakness developing in the latter part of the year or early 2007. This outlook is supported by our expectation for continued low corporate default rates, moderate levels of impaired loan formations and stable economic conditions across North America. We continue to anticipate that specific provisions in fiscal 2006 will be $325 million or less, below the 2006 target of $400 million or less established at the beginning of the year.

BMO's market risk and liquidity and funding management practices and key measures are outlined on pages 70 to 73 of the 2005 Annual Report. Trading and underwriting Market Value Exposure and Earnings Volatility have been generally consistent quarter-over-quarter. Structural Market Value Exposure (MVE) declined in the first quarter of 2006 as a result of lower modelled interest rate volatility. Interest rate volatility is derived from 10 years of historical data, which, starting in fiscal 2006, excludes the high volatility associated with fiscal 1995. Otherwise, there have been no significant changes to levels of liquidity and funding risk or structural market risk since the end of fiscal 2005. There were no significant changes to market risk or liquidity and funding management practices during the quarter or since the end of last year.

Aggregate Market Value Exposure and Earnings Volatility
for Trading and Underwriting and Structural Positions ($ millions)*

(After-tax Canadian equivalent)		Market value exposure (MVE)			12-month earnings volatility	
	Apr. 30 2006	Jan. 31 2006	Oct. 31 2005	**Apr. 30 2006**	Jan. 31 2006	Oct. 31 2005
Trading and Underwriting	**(12.5)**	(13.9)	(11.6)	**(11.2)**	(11.6)	(9.1)
Structural	**(267.1)**	(260.2)	(326.3)	**(26.1)**	(29.7)	(28.1)
Total	**(279.6)**	(274.1)	(337.9)	**(37.3)**	(41.3)	(37.2)

* Measured at a 99% confidence interval
Losses are in brackets

Total Trading and Underwriting MVE Summary ($ millions)*

	For the quarter ended April 30, 2006				As at January 31, 2006	As at October 31, 2005
(Pre-tax Canadian equivalent)	Quarter-end	Average	High	Low	Quarter-end	Quarter-end
Commodity VaR	(5.7)	(4.5)	(6.6)	(2.4)	(7.1)	(3.2)
Equity VaR	(4.7)	(4.8)	(10.5)	(2.6)	(3.4)	(3.8)
Foreign exchange VaR	(0.5)	(0.5)	(1.9)	(0.1)	(0.6)	(0.4)
Interest rate VaR (Mark-to-Market)	(5.0)	(4.3)	(6.1)	(3.4)	(4.7)	(3.8)
Correlation	6.7	6.4	8.9	5.0	7.2	5.5
Comprehensive VaR	(9.2)	(7.7)	(13.3)	(5.3)	(8.6)	(5.7)
Interest rate VaR (accrual)	(5.7)	(7.3)	(8.5)	(5.7)	(8.3)	(8.0)
Issuer Risk	(4.3)	(4.8)	(8.3)	(3.6)	(4.6)	(4.1)
Total MVE	(19.2)	(19.8)	(25.2)	(17.2)	(21.5)	(17.8)

*One-day measure using a 99% confidence interval
Losses are in brackets and benefits are presented as positive numbers

Structural Balance Sheet Earnings and Value Sensitivity to Changes in Interest Rates
($ millions)*

(After-tax Canadian equivalent)			**Economic value sensitivity**			**Earnings sensitivity over the next 12 months**
	Apr. 30 2006	Jan. 31 2006	Oct. 31 2005	**Apr. 30 2006**	Jan. 31 2006	Oct. 31 2005
100 basis point increase	**(235.3)**	(234.3)	(228.8)	**20.4**	24.0	25.1
100 basis point decrease	**200.3**	188.7	191.9	**(19.9)**	(27.1)	(22.4)
200 basis point increase	**(487.3)**	(490.9)	(478.0)	**33.9**	42.2	44.1
200 basis point decrease	**351.7**	327.5	347.3	**(28.1)**	(43.5)	(45.8)

*Losses are in brackets and benefits are presented as positive numbers

Income Taxes

As explained in the Non-GAAP Measures section, BMO adjusts revenue to a taxable equivalent basis for analysis in this MD&A, with an offsetting adjustment to the provision for income taxes. As such, the provisions for income taxes and associated rates are stated on a taxable equivalent basis in the MD&A.

The provision for income taxes decreased $26 million from the second quarter a year ago and $63 million from the first quarter to $203 million.

Results in the year-ago period included a $20 million recovery of prior years' income taxes and $29 million of non-taxable revenue from restructuring VIEs. The effective tax rate for the quarter was 23.5%, compared with 29.0% in the first quarter and 27.2% (30.8% excluding the $20 million tax recovery and the $29 million of non-taxable revenue from restructuring VIEs) in the second quarter a year ago.

Year to date, the provision for income taxes declined $7 million to $469 million. There was a $52 million recovery of prior years' income taxes recorded in the first six months of 2005. The effective tax rate in the current year-to-date period was 26.4%, down from 27.9% (31.5% excluding the recovery of prior years' income taxes and the non-taxable revenue from restructuring VIEs) in the comparable period a year ago. We continue to consider the sustainable income tax rate to be 29% to 31%.

BMO hedges the foreign exchange risk arising from its investments in U.S. operations by funding the investments in U.S. dollars. Under this program, the gain or loss from hedging and the unrealized gain or loss from translation of the investments in U.S. operations are charged or credited to shareholders' equity. For income tax purposes, the gain or loss on the hedging activities attracts an income tax charge or credit in the current period, which is charged or credited to shareholders' equity, while the associated unrealized gain or loss on the investments in U.S. operations does not attract income taxes until the investments are liquidated. The income tax charge/benefit arising from a hedging gain/loss is a function of the fluctuation in U.S. rates from period to period. Hedging of the investments in U.S. operations has given rise to an income tax charge of $58 million in shareholders' equity for the quarter and $174 million for the year to date. Refer to the Consolidated Statement of Changes in Shareholders' Equity included in the unaudited interim consolidated financial statements for further details.

Summary Quarterly Results Trends

(Canadian $ in millions, except as noted)	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004
Total revenue (teb)	**2,503**	2,512	2,650	2,441	2,428	2,439	2,279	2,393
Provision for credit losses - specific	**66**	52	57	73	46	43	37	(70)
Provision for credit losses - general	**-**	-	-	-	(40)	-	(50)	(40)
Non-interest expense	**1,571**	1,545	1,636	1,579	1,579	1,533	1,493	1,538
Net income	**644**	630	657	541	600	602	551	643
Basic earnings per share ($)	**1.27**	1.24	1.30	1.07	1.19	1.18	1.08	1.27
Diluted earnings per share ($)	**1.24**	1.22	1.27	1.05	1.16	1.16	1.06	1.24
Net interest margin	**1.45**	1.54	1.54	1.61	1.56	1.61	1.77	1.82
Canadian/U.S. dollar exchange rate (average)	**1.14**	1.16	1.18	1.24	1.23	1.21	1.26	1.34
Operating group net income:								
P&C Canada	**259**	266	271	277	263	263	236	240
P&C Chicagoland Banking	**27**	34	34	30	30	31	31	28
Personal and Commercial Client Group	**286**	300	305	307	293	294	267	268
Private Client Group	**96**	94	107	63	77	73	53	58
Investment Banking Group	**245**	228	226	184	206	237	190	230
Corporate Support, including T&S	**17**	8	19	(13)	24	(2)	41	87
BMO Financial Group net income	**644**	630	657	541	600	602	551	643

BMO's quarterly earning trends were reviewed in detail on pages 76 and 77 of the 2005 Annual Report. The above table outlines summary results for the third quarter of fiscal 2004 through the second quarter of fiscal 2006. 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 significantly 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. Net interest margins have generally trended lower in the competitive, low interest rate environment. 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.

BMO's provision 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.

A significant factor affecting results in 2006 in the context of trend analysis was the fourth quarter of 2005 sale of Harris*direct*, which was contributing $50 to $60 million to BMO's quarterly revenues and expenses and a quarterly operating loss of about $5 million.

Balance Sheet
Total assets of $312.4 billion increased $14.9 billion from October 31, 2005. The increase primarily reflects growth in net loans and acceptances ($13.2 billion), securities ($1.7 billion) and other assets ($1.1 billion), partially offset by a $1.1 billion decrease in cash resources.

The $13.2 billion increase in net loans and acceptances was largely due to a $4.8 billion increase in securities borrowed or purchased under resale agreements, driven by customer demand, a $4.0 billion increase in loans to business and government, consistent with our strategy to grow our commercial business, and a $3.6 billion increase in residential mortgages and loans, driven by the low interest rate environment and the active housing market.

The $1.7 billion increase in securities was largely attributable to a $1.5 billion increase in trading securities. The increase was primarily due to higher corporate debt and equity trading securities resulting from normal trading activity. The excess of investment securities' book value over market value increased $43 million from October 31, 2005, to $46 million, mainly reflecting higher unrealized losses on fixed income investments in the rising interest rate environment.

The $1.1 billion increase in other assets was mainly due to pending trade settlements, and the $1.1 billion decrease in cash resources was primarily due to lower interest bearing deposits with other banks, resulting from an interest rate environment unfavourable for reinvestment.

Liabilities and shareholders' equity increased $14.9 billion from October 31, 2005, reflecting increases in deposits ($0.7 billion), other liabilities ($13.6 billion) and shareholders equity ($0.6 billion).

Deposits by banks, which account for 12% of total deposits, decreased $2.1 billion as they were replaced by securities lent or sold under repurchase agreements. Deposits by businesses and governments, which account for 48% of total deposits, increased $1.8 billion and were used to fund growth in loans. Deposits from individuals, which account for 40% of total deposits, increased $1.0 billion and were also used to fund growth in loans.

The $8.8 billion increase in securities lent or sold under repurchase agreements was used to fund growth in trading securities and securities borrowed or purchased under resale agreements and to reduce borrowings from banks. The $2.5 billion increase in other liabilities was primarily due to higher balances owing to clients and brokers, resulting from pending trade settlements, and the $1.5 billion change in derivative financial instruments reflected increased client activity as well as volatility in commodity prices.

Contractual obligations by year of maturity were outlined in Table 8 on page 81 of BMO's 2005 Annual Report. There have been no material changes to contractual obligations that are outside the ordinary course of our business.

Capital Management
BMO's Tier 1 capital ratio was 10.17%, down from 10.38% at the end of the first quarter and 10.25% at the end of 2005, but well above our minimum target of 8.0%. The decreases were primarily attributable to increases in risk-weighted assets, largely due to loan growth in Personal and Commercial Client Group and Investment Banking Group.

The total capital ratio was 11.72%, compared with 11.84% at the end of the first quarter and 11.76% at the end of last year. Again, the decreases were primarily due to risk-weighted asset growth.

On May 24, BMO announced that it was increasing its target dividend payout range to 45-55% of net income available to common shareholders. The increase, from 35-45%, is reflective of our confidence in our continued ability to generate earnings and our strong capital position. Our disciplined approach to capital management will allow us to continue to execute our attractive growth strategies and continue our longstanding commitment to enhancing shareholder value.

In keeping with the new payout target, BMO also announced a 17% increase in its third quarter dividend to common shareholders, which will grow by $0.09 from $0.53 to $0.62 per common share, up 35% from $0.46 a year ago.

During the quarter, BMO raised $700 million of subordinated debt through the issue of 5.10% Series D Medium-Term Notes, First Tranche, due April 2021, under our Canadian Medium-Term Note Program. The issue, which closed on April 21, adds to BMO's Tier 2 capital base. The net proceeds of the offering will be used for general corporate purposes.

On March 14, 2006, Bank of Montreal redeemed its $125 million of 7.40% Debentures, Series 19, due 2011. The redemption was prompted by the high yield relative to current market rates and lowered BMO's total capital ratio by approximately 8 basis points.

On March 29, 2006, Bank of Montreal announced its intention to, and on May 9, 2006 did redeem its $300 million of 8.15% Debentures, Series 21, due 2011. The announcement of the redemption, which was prompted by the high yield relative to current market rates, required us to exclude the debentures in calculating our capital ratio in the second quarter and lowered BMO's total capital ratio by approximately 20 basis points.

During the quarter, we repurchased 1,861,300 Bank of Montreal common shares under our common share repurchase program at an average cost of $65.63 per share, for a total cost of $122 million. Year to date, we repurchased 2,399,500 common shares at an average cost of $64.45 per share, for a total cost of $154 million. There have been 3,215,800 common shares repurchased under the existing normal-course issuer bid that expires on September 5, 2006 and pursuant to which BMO is permitted to repurchase for cancellation up to 15 million Bank of Montreal common shares, representing approximately 3% of BMO's public float. Our common share repurchase program is primarily intended to offset, over time, the impact of dilution caused by the exercise of stock options, our dividend reinvestment plan and the conversion of convertible shares.

Outstanding Shares and Securities Convertible into Common Shares

As of May 17, 2006	Number of shares or Canadian dollar amount
Common shares	501,116,000
Class B Preferred Shares	
Series 5	$200,000,000
Convertible into common shares:	
Class B Preferred Shares	
Series 4	$200,000,000
Series 6	$250,000,000
Series 10	$396,000,000
Stock options	
- vested	21,249,000
- non-vested	3,746,000

Notes 20 and 21 to the audited financial statements on pages 118 and 119 and the table on page 60 in the Annual MD&A included in the 2005 Annual Report provide details on share capital.

Credit Rating

BMO's credit rating, as measured by Standard & Poor's (S&P) senior debt ratings, remains unchanged at AA- with a stable outlook, the best, together with two of our competitors, of the six major Canadian banks. Our credit rating, as measured by Moody's senior debt ratings, remains unchanged at Aa3 with a stable outlook, below only one of the six major Canadian banks. Both credit ratings are indicative of high grade, high quality issues.

Transactions with Related Parties

In the ordinary course of business, we provide banking services to our joint venture and equity accounted investments on the same terms that we offer our customers. A select suite of customer loan and mortgage products is offered to employees at rates normally available only to preferred customers.

Preferred rate loan agreements were discussed in Note 26 of the audited consolidated financial statements on page 128 of the 2005 Annual Report. There have been no amounts advanced under these preferred rate loan agreements in fiscal 2006, except for mortgage loans related to staff transfers we initiated.

Off-Balance Sheet Arrangements

BMO enters into a number of off-balance sheet arrangements in the normal course of operations. The most significant off-balance sheet arrangements that we enter into are credit instruments, derivatives, and VIEs, which were described on page 61 of the 2005 Annual Report. There were no significant changes to these off-balance sheet arrangements during the six months ended April 30, 2006.

Accounting Policies and Critical Accounting Estimates

The notes to BMO's October 31, 2005 audited consolidated financial statements outline our significant accounting policies. There have been no changes to our significant accounting policies in fiscal 2006.

Pages 63 to 65 of the 2005 Annual Report contain a discussion of certain accounting estimates that are considered particularly important, as they require management to make significant judgments, some of which relate to matters that are inherently uncertain. Readers are encouraged to refer to the Annual Report to review that discussion.

Future Accounting Changes

Financial Instruments, Hedges and Comprehensive Income

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting rules on financial instruments, hedges and comprehensive income that will require us to account for all of our investment securities and hedging derivatives at fair value. When we adopt the new rules, on November 1, 2006, we will re-measure our securities and derivatives, as appropriate, and report a new section of shareholders' equity called other comprehensive income. The impact of recording these assets and liabilities at fair value will be recognized in opening equity and results for prior periods will not be restated. We cannot determine the impact that these rules will have on our consolidated financial statements, as this will be dependent on fair values at the time of adoption.

Earnings per Share

The CICA has issued new rules that will require BMO to include the potential conversion of certain of our preferred shares and capital trust securities to common shares in the calculation of diluted earnings per share. The effective date has not been finalized; however, we expect to adopt these new rules in the year ended October 31, 2006. Diluted earnings per share of prior periods will be restated upon adoption. Under the new standard, our diluted earnings per share for the years ended October 31, 2005, 2004 and 2003 would be reduced by approximately $0.07, $0.09 and $0.11, respectively.

Stock-based Compensation

The CICA has issued draft new guidance on stock-based compensation that will require us to immediately expense stock-based awards to employees who are eligible to retire at the time of the grant. Currently, these awards are expensed over the vesting period. The effective date has not been finalized; however, we expect to adopt these new rules in the year ended October 31, 2006, on a retroactive basis. We do not expect the impact to be material on an annual basis. However, since most stock compensation awards are granted in the first quarter of each year, this change will result in increased compensation expense in the first quarter of each year and decreased compensation expense for the remainder of the year.

REVIEW OF OPERATING GROUPS' PERFORMANCE

The following sections review the financial results of each of our operating segments and operating groups for the second quarter of 2006, and outline some of their business achievements in the quarter.

Periodically, certain business lines and units within the business lines are transferred between client groups to more closely align BMO's organizational structure and its strategic priorities. All comparative figures are reclassified to reflect these transfers.

Note 10 to the attached unaudited interim consolidated financial statements outlines how income statement items requiring allocation are distributed among the operating groups, including the allocation of the provision for credit losses. Corporate Support is generally charged (or credited) with differences between the periodic provisions for credit losses charged to the client groups under our expected loss provisioning methodology and the periodic provisions required under GAAP.

Operating Groups' Summary Income Statements and Statistics for Q2–2006

					Q2-2006					YTD-2006
(Canadian $ in millions, except as noted)	P&C	PCG	IBG	Corp. incl. T&S	Total BMO	P&C	PCG	IBG	Corp. incl. T&S	Total BMO
Net interest income (teb)	887	138	174	(56)	1,143	1,798	276	381	(99)	2,356
Non-interest revenue	437	349	552	22	1,360	847	675	1,088	49	2,659
Total revenue (teb)	1,324	487	726	(34)	2,503	2,645	951	1,469	(50)	5,015
Provision for (recovery of) credit losses	86	-	20	(40)	66	172	1	40	(95)	118
Non-interest expense	802	337	409	23	1,571	1,580	659	820	57	3,116
Income before income taxes and non-controlling interest in subsidiaries	436	150	297	(17)	866	893	291	609	(12)	1,781
Income taxes (teb)	150	54	52	(53)	203	307	101	136	(75)	469
Non-controlling interest in subsidiaries	-	-	-	19	19	-	-	-	38	38
Net income Q2-2006	286	96	245	17	644	586	190	473	25	1,274
Net income Q1-2006	300	94	228	8	630					
Net income Q2-2005	293	77	206	24	600	587	150	443	22	1,202
Other statistics										
Net economic profit	134	67	125	(31)	295	277	131	229	(64)	573
Return on equity	19.1%	34.1%	21.9%	nm	19.1%	19.2%	33.1%	20.8%	nm	18.8%
Cash return on equity	19.6%	34.5%	21.9%	nm	19.3%	19.8%	33.5%	20.8%	nm	19.0%
Non-interest expense-to-revenue ratio (teb)	60.6%	69.2%	56.3%	nm	62.7%	59.7%	69.3%	55.8%	nm	62.1%
Cash non-interest expense-to-revenue ratio (teb)	59.9%	68.8%	56.2%	nm	62.3%	59.0%	69.0%	55.8%	nm	61.7%
Net interest margin (teb)	2.68%	8.82%	0.43%	nm	1.49%	2.70%	8.67%	0.47%	nm	1.53%
Average common equity	6,007	1,148	4,482	2,040	13,677	6,005	1,148	4,481	1,893	13,527
Average assets ($ billions)	135.8	6.4	167.1	4.8	314.1	134.4	6.4	164.0	4.7	309.5
Full-time equivalent staff	19,145	4,155	2,114	8,929	34,343					

nm - not meaningful

PERSONAL AND COMMERCIAL CLIENT GROUP (P&C)

(Canadian $ in millions, except as noted)	Q2-2006	Increase (Decrease) vs. Q2-2005		Increase (Decrease) vs. Q1-2006		YTD-2006	Increase (Decrease) vs. YTD-2005	
Net interest income (teb)	**887**	30	4%	(24)	(3%)	**1,798**	68	4%
Non-interest revenue	**437**	23	5%	27	7%	**847**	21	3%
Total revenue (teb)	**1,324**	53	4%	3	-	**2,645**	89	4%
Provision for credit losses	**86**	10	14%	-	-	**172**	22	15%
Non-interest expense	**802**	21	3%	24	3%	**1,580**	37	2%
Income before income taxes and non-controlling interest in subsidiaries	**436**	22	5%	(21)	(5%)	**893**	30	3%
Income taxes (teb)	**150**	29	22%	(7)	(5%)	**307**	31	10%
Non-controlling interest in subsidiaries	**-**	-	-	-	-	**-**	-	-
Net income	**286**	(7)	(2%)	(14)	(5%)	**586**	(1)	-
Amortization of intangible assets (after tax)	**8**	(1)	(16%)	-	-	**16**	(1)	(11%)
Cash net income	**294**	(8)	(3%)	(14)	(5%)	**602**	(2)	-
Return on equity	**19.1%**		(3.7%)		(0.3%)	**19.2%**		(3.2%)
Cash return on equity	**19.6%**		(3.9%)		(0.3%)	**19.8%**		(3.3%)
Non-interest expense-to-revenue ratio (teb)	**60.6%**		(0.8%)		1.7%	**59.7%**		(0.6%)
Cash non-interest expense-to-revenue ratio (teb)	**59.9%**		(0.7%)		1.7%	**59.0%**		(0.5%)
Net interest margin (teb)	**2.68%**		(0.11%)		(0.03%)	**2.70%**		(0.11%)
Average assets	**135,814**	10,119	8%	2,722	2%	**134,431**	10,137	8%

Financial Performance Review

Personal and Commercial Client Group represents the sum of our two retail and business banking operating segments, Personal and Commercial Client Group – Canada (P&C Canada) and Personal and Commercial Client Group – Chicagoland Banking (P&C Chicagoland Banking). These operating segments are reviewed separately in the sections that follow.

Personal and Commercial Client Group net income was $286 million for the second quarter of 2006, down $7 million or 2.4% from the second quarter a year ago and $14 million or 4.7% from the first quarter. Net income for the year to date was $586 million, down $1 million from a year ago. The second quarter of 2005 benefited from a $20 million recovery of prior years' income taxes. Excluding the tax recovery, net income for the second quarter rose $13 million or 4.7% from a year ago and net income for the year to date increased $19 million or 3.4%.

Personal and Commercial Client Group's productivity ratio for the quarter improved by 82 basis points from a year ago but deteriorated 175 basis points from the first quarter to 60.6%, due primarily to three fewer days in the current quarter and higher expenses in both the United States and Canada.

P&C - Canada

(Canadian $ in millions, except as noted)	Q2-2006	Increase (Decrease) vs. Q2-2005		Increase (Decrease) vs. Q1-2006		YTD-2006	Increase (Decrease) vs. YTD-2005	
Net interest income (teb)	**700**	28	4%	(26)	(3%)	**1,426**	55	4%
Non-interest revenue	**397**	26	7%	27	7%	**767**	26	3%
Total revenue (teb)	**1,097**	54	5%	1	-	**2,193**	81	4%
Provision for credit losses	**79**	11	16%	1	-	**157**	22	16%
Non-interest expense	**628**	17	3%	10	2%	**1,246**	29	2%
Income before income taxes and non-controlling interest in subsidiaries	**390**	26	7%	(10)	(3%)	**790**	30	4%
Income taxes (teb)	**131**	30	27%	(3)	(3%)	**265**	31	12%
Non-controlling interest in subsidiaries	**-**	-	-	-	-	**-**	-	-
Net income	**259**	(4)	(1%)	(7)	(3%)	**525**	(1)	-
Amortization of intangible assets (after tax)	**2**	-	-	(1)	(11%)	**5**	-	-
Cash net income	**261**	(4)	(1%)	(8)	(3%)	**530**	(1)	-
Non-interest expense-to-revenue ratio (teb)	**57.3%**		(1.2%)		0.9%	**56.8%**		(0.8%)
Cash non-interest expense-to-revenue ratio (teb)	**57.1%**		(1.2%)		0.9%	**56.7%**		(0.6%)
Net interest margin (teb)	**2.52%**		(0.12%)		(0.06%)	**2.55%**		(0.11%)
Average assets	**113,878**	9,470	9%	2,411	2%	**112,653**	8,652	8%

Financial Performance Review

P&C Canada's net income of $259 million for the second quarter of 2006 was down $4 million or 1.3% from the second quarter of 2005. The second quarter of 2005 benefited from a $20 million recovery of prior years' income taxes. Excluding that recovery, net income for the second quarter rose $16 million or 6.9% from a year ago driven by strong volume growth, partially offset by lower net interest margins, higher provisions for credit losses and increased expenses. Although there was both strong non-interest revenue and volume growth, net income was down $7 million or 2.5% from the first quarter, due largely to the impact of three fewer calendar days in the second quarter, lower net interest margin and higher expenses.

Year to date, net income of $525 million was down $1 million from the comparable period of 2005. Excluding the $20 million tax recovery in the comparable period, net income rose $19 million or 3.9%, driven by strong volume growth, partially offset by the impact of lower net interest margin, higher provisions for credit losses and increased expenses.

Revenue for the quarter rose $54 million or 5.1% from the second quarter of 2005 to $1,097 million. There was strong volume growth in both personal and commercial products, higher cards and insurance revenue and increased sales of term investment products and mutual funds, partially offset by lower securitization revenue. There was a decline in net interest margin due to total personal loans growing faster than deposits, aggressive mortgage pricing in a competitive market and the interest rate environment. Rising interest rates caused narrower spreads on variable rate mortgage and loan products. In addition, the absolute low level of all interest rates contributed to the margin decline, mitigated by pricing actions in certain deposit categories.

Relative to the first quarter, revenue was basically unchanged. Increased sales of term investment and mutual funds products, higher insurance and cards revenue and higher investment securities gains were offset by the impacts of three fewer calendar days in the second quarter and lower net interest margin. The decline in net interest margin was due to pricing aggressively in the competitive mortgage market and total personal loans growing faster than deposits.

Year to date, revenue increased $81 million or 3.8% to $2,193 million. The factors contributing to the increase were largely consistent with those responsible for the year-over-year increase for the quarter.

The provision for credit losses was $79 million, up $11 million from a year ago but consistent with the first quarter. Year to date, the provision for credit losses was $157 million, up $22 million from a year ago. The increases from a year ago were due to higher lending volumes and better commercial credit information as a consequence of the improved risk management framework that results from our Basel initiative. BMO's practice is to charge loss provisions to the client operating groups each year using an expected loss provision methodology based on each group's share of expected credit losses over an economic cycle.

Non-interest expense of $628 million in the second quarter was up $17 million or 2.9% from a year ago. The increase was attributable to higher employee-related costs resulting from an expansion of both our retail and commercial sales forces as well as increased marketing expenditures.

Relative to the first quarter, non-interest expense increased $10 million or 1.7%, due to higher marketing expenses and investments in our distribution network including the expansion of our sales forces, partially offset by the impact of three fewer calendar days in the second quarter. Year to date, non-interest expense was $29 million or 2.4% higher than in the comparable period of 2005, due to the expansion of the sales forces, increased marketing expenses and other initiatives. Initiatives underway in 2006 include further investment in our physical distribution network, including the replacement of our ABM network and enhancement of technology for front-line sales and service representatives to increase capacity and improve customer service.

P&C Canada's productivity ratio in the quarter improved 122 basis points from a year ago to 57.3%, but slipped 95 basis points from the first quarter, due primarily to three fewer days in the second quarter and higher marketing and initiative expenses. Year to date, the productivity ratio improved by 75 basis points to 56.8% and the cash productivity ratio improved by 66 basis points to 56.7%.

Bank of Montreal has an equity ownership interest in MasterCard Incorporated. On May 5, 2006, MasterCard filed a preliminary prospectus in connection with a proposed initial public offering in the United States. A portion of Bank of Montreal's interest in MasterCard is expected to be redeemed as part of the initial public offering process. If the transaction is completed on the terms outlined in the preliminary prospectus, BMO could realize an after-tax gain of approximately CDN$20-$30 million on our redeemed interest. The actual gain will vary depending on the pricing and expenses of the offering, the gross proceeds realized by MasterCard, the number of shares actually redeemed and exchange rates.

Business Developments and Achievements

P&C Canada's priorities for fiscal 2006 are outlined on page 45 of BMO's 2005 Annual Report. Notable business developments and achievements in the second quarter in support of our 2006 priorities are listed below.

- There was strong growth in average loans and acceptances, which increased $10.9 billion or 10.5% from the second quarter of 2005 and $2.7 billion or 2.4% from the first quarter, after adding back the effects of securitizations. Personal and commercial deposits grew $2.0 billion or 4.7% from a year ago and declined $0.5 billion or 1.2% from the first quarter, partially due to seasonality.

- The most recently available data (December 2005) indicates that BMO continued to rank second in Canadian business banking market share for business loans $5 million and below. Business banking market share declined 6 basis points from the prior year but improved 14 basis points from the preceding quarter to 18.66%. Total commercial loans and acceptances increased by $1.8 billion or 6.8% from the second quarter of 2005 and total deposits grew by $1.4 billion or 8.0%. The Canadian Bankers Association (CBA) issues business banking market share statistics on a one-calendar quarter lag basis.

- The most recently available data indicates that our total share of the Canadian banking industry's personal market business was 13.15%, an increase of 3 basis points from the previous quarter and 15 basis points from a year ago. Strong growth in mortgages and mutual funds were the largest contributors to the increases. Personal market share statistics are issued by the CBA on a one-month lag basis.

- In 2006, we began an initiative to replace our entire ABM network, in part to provide enhanced security features to protect customer information. Through the end of the second quarter, we have replaced more than half of the machines and are on track to replace the entire network by the end of the year.

- In line with our strategy to make our personal deposit products and everyday banking plans as convenient and easy to understand as possible and more effectively identify our customer needs, we have consolidated and simplified our product offer. Effective May 1, 2006, we moved to three accounts and four plans, which will dramatically reduce complexity for both customers and employees. Previously, there were more than 180 possible combinations of accounts and plans.

P&C – Chicagoland Banking

(Canadian $ in millions, except as noted)	Q2-2006	Increase (Decrease) vs. Q2-2005		Increase (Decrease) vs. Q1-2006		YTD-2006	Increase (Decrease) vs. YTD-2005	
Net interest income (teb)	**187**	2	1%	2	1%	**372**	13	4%
Non-interest revenue	**40**	(3)	(7%)	-	4%	**80**	(5)	(6%)
Total revenue (teb)	**227**	(1)	-	2	1%	**452**	8	2%
Provision for credit losses	**7**	(1)	-	(1)	-	**15**	-	4%
Non-interest expense	**174**	4	2%	14	9%	**334**	8	2%
Income before income taxes and non-controlling interest in subsidiaries	**46**	(4)	(9%)	(11)	(20%)	**103**	-	-
Income taxes (teb)	**19**	(1)	(3%)	(4)	(19%)	**42**	-	-
Non-controlling interest in subsidiaries	**-**	-	-	-	-	**-**	-	-
Net income	**27**	(3)	(12%)	(7)	(21%)	**61**	-	-
Amortization of intangible assets (after tax)	**6**	(1)	(11%)	1	4%	**11**	(1)	(3%)
Cash net income	**33**	(4)	(12%)	(6)	(19%)	**72**	(1)	(1%)
Non-interest expense-to-revenue ratio (teb)	**76.6%**		1.9%		5.5%	**73.9%**		0.4%
Cash non-interest expense-to-revenue ratio (teb)	**73.4%**		2.2%		5.6%	**70.6%**		0.6%
Net interest margin (teb)	**3.45%**		(0.10%)		0.05%	**3.42%**		(0.15%)
Average assets	**21,936**	649	3%	311	1%	**21,778**	1,485	7%
P&C - Chicagoland Banking Select Financial Data (U.S. $ in millions)								
Net interest income (teb)	**164**	14	9%	4	3%	**324**	30	10%
Non-interest revenue	**36**	-	-	2	6%	**70**	-	-
Total revenue (teb)	**200**	14	8%	6	3%	**394**	30	8%
Non-interest expense	**153**	15	11%	15	11%	**291**	24	9%
Net Income	**24**	(2)	(8%)	(5)	(17%)	**53**	3	6%
Average assets	**19,222**	1,968	11%	515	3%	**18,960**	2,357	14%

Financial Performance Review

P&C Chicagoland Banking's net income of $27 million for the second quarter of 2006 was down $3 million or 12% from the second quarter of 2005 and $7 million or 21% from the first quarter of 2006. The decreases were due to increased costs associated primarily with acquisitions, new branches and enhancements to our branch technology platform. Year to date, net income of $61 million was unchanged from a year ago, as revenue growth offset increased expenses.

Revenue for the quarter decreased $1 million or 0.4% from the same quarter a year ago to $227 million, but increased $18 million or 7.7% excluding the impact of the weaker U.S. dollar. The increase was driven by loan growth (both commercial and consumer), improved deposit spread and the impact of the acquisition of Villa Park Bank and new branches, partially offset by the effect of lower loan spreads. Net interest margin decreased by 10 basis points as assets, primarily consumer loans, grew faster than deposits. Other contributing factors were competitive pressures on loan pricing and the impact of lower investment rates earned on longer-term deposits, mitigated by pricing actions in certain deposit categories. BMO's operating groups earn a spread on both their loans and deposits; however, net interest margin represents net interest income as a percentage of assets. Since P&C Chicagoland Banking's loan growth has surpassed its deposit growth over time, its net interest margin has been negatively affected.

Revenue increased $2 million or 1.2% from the first quarter primarily due to loan growth, improved deposit spread and the acquisition of Villa Park Bank. Net interest margin rose 5 basis points due to improved deposit spread, partially offset by a decrease in loan spreads caused by competitive pressures. Year to date, revenue increased $8 million or 1.8% to $452 million, but increased $37 million or 8.2% excluding the impact of the weaker U.S. dollar. The increase was due to strong loan growth, improved deposit spread, acquisitions and new branches, partially offset by the impact of lower loan spreads.

Non-interest expense of $174 million in the second quarter was up $4 million or 2.1% from a year ago, but increased $18 million or 10% excluding the impact of the weaker U.S. dollar. Expenses increased $14 million or 9.0% from the first quarter. Year to date, non-interest expense was up $8 million or 2.3% to $334 million, but increased $29 million or 8.7% excluding the impact of the weaker U.S. dollar. These increases were primarily due to acquisitions and associated integration costs, new branches, increased credit origination and marketing expenses and costs associated with Harris Connect, our initiative to enhance our branch technology platform.

P&C Chicagoland Banking's productivity ratio in the quarter deteriorated 184 basis points from a year ago and 548 basis points from the first quarter to 76.6%, due primarily to increased expenses. Year to date, the productivity ratio deteriorated by 40 basis points to 73.9% and the cash productivity ratio deteriorated by 61 basis points to 70.6% for the same reason.

P&C Chicagoland Banking's net income represented 9.4% of total Personal and Commercial Client Group net income in the second quarter of 2006, compared with 10.6% in the prior year and 11.3% in the first quarter. Year to date, P&C Chicagoland Banking's earnings represented 10.4% of the Group's net income, compared with 10.6% in the comparable period of 2005.

BMO's corporate banking operations in the United States are concentrated among mid-market corporate clients, which BMO manages and reports in its Investment Banking Group operations because of the enhanced opportunities to cross-sell products. BMO's North American peer group typically includes similar businesses in their personal and commercial banking units. The following table shows the effect of including this U.S.-based mid-market business in P&C Chicagoland Banking on a pro-forma basis. The table reflects the inclusion of $102 million of corporate mid-market revenue and $31 million of net income in P&C Chicagoland Banking's results for the quarter and $209 million of revenue and $62 million of net income for the year to date.

If results of the U.S. mid-market banking unit were included in P&C Chicagoland Banking's results, P&C Chicagoland Banking's non-interest expense-to-revenue ratio for this quarter would be 66.4%, compared with 76.6% as currently reported. On a similarly-adjusted basis, net income from U.S. operations would represent 18.0% of Personal and Commercial Client Group's earnings for the quarter, compared with 9.4% as currently reported, while revenue from U.S. operations would represent 23.1% of the Group's revenue for the quarter, compared with 17.2% as currently reported.

P&C Chicagoland Banking adjusted to include U.S.-based mid-market business (Canadian $ in millions, except as noted)	**Q2-2006**	**Increase (Decrease) vs. Q2-2005**		**Increase (Decrease) vs. Q1-2006**		**YTD-2006**	**Increase (Decrease) vs. YTD-2005**	
Revenue (teb)	**329**	(12)	(3%)	(3)	(1%)	**661**	(11)	(2%)
Net income	**58**	(7)	(13%)	(7)	(13%)	**123**	(12)	(9%)
Non-interest expense-to-revenue ratio	**66.4%**		3.0%		3.9%	**64.4%**		3.1%

Business Developments and Achievements

P&C Chicagoland Banking's priorities for fiscal 2006 are outlined on page 47 of BMO's 2005 Annual Report. Notable business developments and achievements in the second quarter in support of our 2006 priorities are listed below.

- Loans increased US$2.4 billion or 16.0% from a year ago. Consumer loans grew 17.8% in a highly competitive market, while small business loans grew 11.9%.
- Harris and New Lenox State Bank (NLSB) successfully completed the conversion of systems, data and operations to the Harris environment and business model. This conversion marks the full integration of NLSB onto the new Harris Connect teller application and network. As a result of the simultaneous implementation of these conversion projects, former NLSB customers now have access to all Harris locations, ATMs, Online Banking, the Client Contact Center and all Harris products and services.
- We opened another new branch in the quarter, increasing our Harris community banking network to a milestone 200 locations in Chicago and Northwest Indiana. Our goal is to expand our network beyond the Chicago area and Northwest Indiana into the other Midwest states and double our network to 350 to 400 branches over the next 3 to 5 years.
- Our Net Promoter Score, a measure of the intensity of customer loyalty, has increased to 35 from 34 in 2005, while our Retail Secure Customer Index has remained at 42.

PRIVATE CLIENT GROUP (PCG)

(Canadian $ in millions, except as noted)	Q2-2006	Increase (Decrease) vs. Q2-2005		Increase (Decrease) vs. Q1-2006		YTD-2006	Increase (Decrease) vs. YTD-2005	
Net interest income (teb)	**138**	(5)	(4%)	-	-	**276**	(7)	(2%)
Non-interest revenue	**349**	(11)	(3%)	23	7%	**675**	(27)	(4%)
Total revenue (teb)	**487**	(16)	(3%)	23	5%	**951**	(34)	(4%)
Provision for credit losses	**-**	(1)	(39%)	(1)	-	**1**	(1)	(39%)
Non-interest expense	**337**	(45)	(12%)	15	5%	**659**	(91)	(12%)
Income before income taxes	**150**	30	24%	9	6%	**291**	58	25%
Income taxes (teb)	**54**	11	22%	7	12%	**101**	18	21%
Net income	**96**	19	25%	2	3%	**190**	40	27%
Amortization of intangible assets (after tax)	**2**	(8)	(88%)	1	nm	**3**	(17)	(88%)
Cash net income	**98**	11	11%	3	3%	**193**	23	13%
Return on equity	**34.1%**		14.2%		1.9%	**33.1%**		14.2%
Cash return on equity	**34.5%**		12.0%		1.9%	**33.5%**		12.0%
Non-interest expense-to-revenue ratio (teb)	**69.2%**		(6.6%)		(0.2%)	**69.3%**		(6.8%)
Cash non-interest expense-to-revenue ratio (teb)	**68.8%**		(4.5%)		(0.3%)	**69.0%**		(4.4%)
Net interest margin (teb)	**8.82%**		0.49%		0.29%	**8.67%**		0.57%
Average assets	**6,428**	(640)	(9%)	-	-	**6,428**	(627)	(9%)
PCG U.S. Business Select Financial Data (U.S. $ in millions)								
Total revenue	**58**	(45)	(44%)	(5)	(8%)	**121**	(87)	(42%)
Non-interest expense	**57**	(43)	(43%)	(2)	(3%)	**116**	(84)	(42%)
Net Income	**1**	(1)	(50%)	(3)	(75%)	**5**	-	-
Cash net income	**2**	(8)	(80%)	(2)	(50%)	**6**	(14)	(70%)
Average assets	**2,102**	(639)	(23%)	(43)	(2%)	**2,124**	(679)	(24%)

nm - not meaningful

Financial Performance Review

Net income in the second quarter increased $19 million or 25% from a year ago to $96 million. Earnings growth was achieved by increasing operating revenue across all the Group's lines of business, adjusting for the impact of the sale of Harris*direct*. Relative to the first quarter, net income increased $2 million or 2.5%, and on a year-to-date basis, net income improved $40 million or 27% from the comparable period in 2005 to $190 million.

Revenue of $487 million in the second quarter declined $16 million from a year ago, but increased $37 million or 8.1% excluding the operating results of Harris*direct* and by $43 million or 9.4% after also excluding the impact of the weaker U.S. dollar. Strong revenue growth was driven by increased client trade volumes in direct investing and higher commission and fee-based revenue in full-service investing. The mutual fund businesses continue to grow revenue through positive net sales and increasing managed asset levels. Higher deposit spreads and moderate balance growth also contributed to increased revenues. Investment securities gains in the current quarter included a $6 million ($4 million after tax) gain on the redemption of seed capital in our mutual fund businesses; however, this impact was offset by $8 million ($5 million after tax) of incremental expenses associated with Harris Insight Funds incurred prior to our alliance with The Phoenix Companies, Inc.

Relative to the first quarter, revenue increased $23 million or 4.9%, due primarily to higher commission and fee-based revenue in full-service investing and increased client trade volumes in direct investing. Year to date, revenue declined $34 million from the comparable period in 2005, but increased $74 million or 8.4% excluding the operating results of Harrisdirect and by $84 million or 9.6% after also excluding the impact of the weaker U.S. dollar. The Group's focus on revenue growth and enhancing product offerings, combined with favourable market fundamentals, drove higher operating revenue across all lines of business.

Non-interest expense of $337 million in the second quarter declined $45 million from a year ago, but increased $13 million or 3.9% excluding Harris*direct* and by $18 million or 5.5% after also excluding the impact of the weaker U.S. dollar. Higher expense levels were primarily attributable to increased revenue-based costs. Our productivity ratio improved 665 basis points from a year ago, or by 277 basis points excluding Harris*direct*. Relative to the first quarter, expenses grew $15 million or 4.6% due to higher revenue-based costs and increased investment in our businesses to drive future revenue growth. Year to date, expenses decreased $91 million from the comparable period in 2005, but increased $24 million, in line with revenue, excluding the operating results of Harris*direct* and by $32 million or 5.1% after also excluding the impact of the weaker U.S. dollar.

All amounts in this paragraph discussing U.S. operations are stated in U.S. dollars. Our U.S. operations are comprised of private banking, investment management and mutual funds. Excluding Harris*direct*, revenue decreased $3 million from the prior year due to the $7 million reimbursement of a portion of administration fees related to the Harris Insight Funds, partially offset by moderate revenue growth in private banking. Excluding Harris*direct*, net income declined $3 million from the prior year, primarily due to the incremental expenses associated with Harris Insight Funds and increased investment in our investment management business.

Business Developments and Achievements

The Group's priorities for fiscal 2006 are outlined on page 51 of BMO's 2005 Annual Report. Notable business developments and achievements in the second quarter in support of the Group's 2006 objectives are listed below.

- The Group's $273 billion of assets under management and administration, including term deposits, declined $17 billion or 6.0% year-over-year. Assets under management increased 16.1% and assets under administration increased 15.8%, excluding the effect of the weaker U.S. dollar and the sale of Harris*direct* (including a final transfer of assets completed this quarter). Term investment products were relatively unchanged.

- BMO Mutual Funds continued to outperform the mutual fund industry in quarterly net sales and our asset growth exceeded the average of the industry and the other major Canadian banks. In the past three years, BMO Mutual Funds' assets have grown by over 85%.

- Guardian Group of Funds launched two new funds in the quarter, the Small Cap Growth & Income Fund and the Global Diversified Fund.

- BMO Investorline was ranked the number one broker in The Globe and Mail's 2006 RRSP ranking for the fifth consecutive year. BMO Investorline was described as "a top choice for anyone, but especially those looking for a little direction," with online access to bonds and GIC's, commission-free mutual funds and useful tools for designing RRSP portfolios.

- Harris Investment Management, Inc. announced the approval of its strategic alliance in which The Phoenix Companies, Inc. become the investment adviser, distributor and administrator of the Harris Insight Funds. However, Harris Investment Management continues to manage the majority of the Insight Funds as sub-adviser and becomes the sub-adviser to several existing Phoenix Funds.

INVESTMENT BANKING GROUP (IBG)

(Canadian $ in millions, except as noted)	Q2-2006	Increase (Decrease) vs. Q2-2005		Increase (Decrease) vs. Q1-2006		YTD-2006	Increase (Decrease) vs. YTD-2005	
Net interest income (teb)	**174**	(98)	(36%)	(33)	(16%)	**381**	(167)	(30%)
Non-interest revenue	**552**	144	36%	16	3%	**1,088**	248	30%
Total revenue (teb)	**726**	46	7%	(17)	(2%)	**1,469**	81	6%
Provision for credit losses	**20**	(5)	(21%)	-	-	**40**	(10)	(20%)
Non-interest expense	**409**	50	14%	(2)	(1%)	**820**	89	12%
Income before income taxes	**297**	1	1%	(15)	(5%)	**609**	2	1%
Income taxes (teb)	**52**	(38)	(41%)	(32)	(37%)	**136**	(28)	(17%)
Net income	**245**	39	19%	17	7%	**473**	30	7%
Amortization of intangible assets (after tax)	**-**	(1)	nm	(1)	nm	**1**	-	-
Cash net income	**245**	38	19%	16	7%	**474**	30	7%
Return on equity	**21.9%**		1.0%		2.2%	**20.8%**		(1.3%)
Cash return on equity	**21.9%**		1.0%		2.2%	**20.8%**		(1.3%)
Non-interest expense-to-revenue ratio (teb)	**56.3%**		3.4%		1.0%	**55.8%**		3.1%
Cash non-interest expense-to-revenue ratio (teb)	**56.2%**		3.4%		0.9%	**55.8%**		3.1%
Net interest margin (teb)	**0.43%**		(0.22%)		(0.08%)	**0.47%**		(0.19%)
Average assets	**167,056**	(5,921)	(3%)	5,956	4%	**164,029**	(2,932)	(2%)
IBG U.S. Business Select Financial Data (U.S. $ in millions)								
Revenue	**297**	31	12%	(10)	(3%)	**604**	66	12%
Non-interest expense	**153**	25	20%	(13)	(8%)	**319**	85	36%
Net income	**79**	(3)	(4%)	-	-	**158**	(16)	(9%)
Average assets	**42,106**	5,473	15%	(1,348)	(3%)	**42,791**	6,958	19%

nm - not meaningful

Financial Performance Review

Net income for the second quarter of 2006 of $245 million increased $39 million or 19% from the second quarter of 2005, and $17 million or 7.3% from the first quarter. Year to date, net income was $473 million, an increase of $30 million or 6.8%. The second quarter of 2005 benefited from $44 million ($37 million after tax) of revenue recognized on the restructuring of VIEs. Excluding this item, net income in the current quarter increased $76 million or 45% from a year ago, as the benefits of increased revenues and a low effective tax rate were only partially offset by higher expenses. Excluding the VIE revenue, net income for the current year to date increased $67 million or 17%.

Revenue for the second quarter of 2006 increased $46 million or 6.8% from a year ago, but increased $90 million or 14% excluding the VIE revenue recognized last year and by $117 million or 18% after also excluding the impact of the weaker U.S. dollar. The revenue mix changed from a year ago, as lower net interest income was more than offset by considerably higher non-interest revenue due to increased commodity, equity and foreign exchange trading revenues. Strong debt and equity underwriting contributed to the revenue increase, while mergers and acquisitions fees and commission revenue also rose. Net investment securities gains were $19 million in the quarter, up from a relatively low $10 million of gains in the second quarter of 2005. There was continued growth in corporate loans, but its impact was more than offset by reductions in spreads due to competitive market conditions, while spreads were also lower in some of our interest-rate-sensitive businesses. There were lower cash collections on previously impaired loans and further reductions in non-core assets.

Net interest income includes interest earned on trading assets and the associated costs of funding those assets. The difference between these two amounts represents our trading net interest income. Most of the revenue related to these trading assets consists of mark-to-market gains. These gains are included in non-interest trading revenues and are significantly higher than trading net interest income. Trading net interest income was marginally negative this quarter, as compared to positive trading net interest income in the second quarter of last year and positive, but low, trading net interest income in the first quarter, due primarily to increased funding costs. The changes contributed to reductions in the Group's net interest margin. Total trading revenues were very strong in the second quarter, with results up from the prior year but down from the record trading revenue of the first quarter.

Net interest income in the second quarter and for the year to date declined from the comparable periods in 2005 due to lower trading net interest income, the continuing effect of compressed spreads in interest-rate-sensitive businesses, the run-off of non-core assets and reduced spreads on corporate loans in the competitive environment. These factors also contributed to a decline in net interest margin. The Group's net interest margin was lowered by 9 basis points in the second quarter of 2005 and in the first six months of 2005 because of the inclusion of $21 billion of VIE assets in IBG's balance sheet. As such, excluding the impact of VIE assets, the Group's net interest margin for the quarter was 31 basis points lower than in the second quarter of 2005 and the net interest margin for the year to date was 28 basis points lower than in the comparable period last year.

Revenue declined $17 million or 2.3% from the first quarter, reflecting reductions in trading revenues, mergers and acquisitions fees and cash collections on previously impaired loans. There were increases in equity and debt underwriting fees and securities commissions.

Year to date, revenue increased $81 million or 5.9%, but increased $125 million or 9.4% from the comparable period a year ago excluding the VIE revenue and by $171 million or 13% after also excluding the impact of the weaker U.S. dollar. Trading revenues were appreciably higher than in 2005, particularly commodity derivatives trading revenues, which have benefited from favourable trading conditions and increased client activities associated with high volatility in energy prices. Significantly higher mergers and acquisitions fees and improved commission revenue and equity and debt underwriting contributed to the revenue increase. Strong corporate loan growth was more than offset by reductions in spreads, while investment securities gains were lower and there were further reductions in non-core assets, as planned.

Non-interest expense of $409 million in the second quarter increased $50 million or 14% relative to a year ago, but increased $61 million or 17% excluding the impact of the weaker U.S. dollar. The increase was primarily due to higher performance-based compensation costs. Relative to the first quarter, expenses declined $2 million or 1%, due to reduced salaries and benefits costs. Year to date, non-interest expense was $820 million, up $89 million or 12% from a year ago and up $108 million or 15% excluding the impact of the weaker U.S. dollar. The increase was largely due to higher performance-based costs. Stronger revenues in 2006 were concentrated in businesses with relatively higher variable costs.

The Group's productivity ratio for the quarter deteriorated by 342 basis points from a year ago and by 93 basis points from the first quarter to 56.3%. Year to date, the Group's productivity ratio deteriorated by 310 basis points to 55.8%.

Net income from U.S. operations of US$79 million was US$3 million lower than in the prior year. Excluding the US$23 million of net income recognized in U.S. results on the restructuring of VIEs in the prior year, net income improved US$20 million as increased trading revenues were only partially offset by higher expenses. Net income from U.S. operations was unchanged from the first quarter, as improved commission revenues and lower expenses were offset by lower commodity derivatives trading revenues. Net income from U.S. operations represented 36% of Group net income this quarter, compared with 49% a year ago and 40% in the first quarter.

Our U.S. investment banking operations are primarily directed at mid-market corporations having revenues that range from US$50 million to US$1 billion. In the quarter, the revenue from our mid-market portfolio represented 14% of total Group revenue and 30% of our U.S. revenue. Often such activities are included in personal and commercial banking units by our North American peers. Pro-forma results reflecting our U.S.-based mid-market business as part of P&C Chicagoland Banking's business are included in that operating segment's section of the MD&A.

Business Developments and Achievements

The Group's priorities for fiscal 2006 are outlined on page 54 of BMO's 2005 Annual Report. Notable business developments and achievements in the second quarter in support of the Group's 2006 priorities are listed below.

- During the quarter, BMO Nesbitt Burns participated in 140 new issues that raised a total of $36.3 billion. They included 40 corporate debt deals, five issues of preferred shares, 77 common equity transactions and 18 government debt issues.

- BMO Nesbitt Burns was one of six firms, and the only Canadian investment bank, awarded a mandate to lead a $10 billion IPO for Bank of China, that country's second biggest financial institution. BMO plans to open an investment banking office in Beijing in June and intends to compete for more underwriting mandates. The assignment is a strong signal that BMO is recognized as a firm that can deliver globally and help Chinese institutions.

- M&A transactions of note that were announced in the quarter included Penn West Energy Trust's acquisition of Petrofund Energy Trust for $2,966 million and Vincor International's sale to Constellation Brands for $1,279 million.

- Harris Nesbitt served as lead arranger and administrative agent for a $450 million syndicated unsecured revolving credit facility with a $100 million multi-currency carve-out supporting Jones Lang LaSalle, the world's leading real estate service and money management firm. The facility was expanded from $325 million to $450 million with a highly flexible covenant package.

- Harris Nesbitt served as sole provider for $180 million of export letter of credit, advising and documentary collection services for Gold Kist Inc. Trade Finance's Tradevenue Direct allowed Gold Kist to automate its processes and accommodate growing international sales. They have chosen Harris Nesbitt to process their documents and effect payment to them for all foreign sales.

- Harris Nesbitt served as the advisor on the sale of JLG's Gradall Excavator Product Line to Alamo Group, Inc.

- Financially, the second quarter was the U.S. Securitization Group's best revenue-generating quarter ever. The group closed ten conduit transactions during the quarter (adding five new clients) and completed two balance sheet loans and five term transactions, acting as co-manager on all.

- Harris Nesbitt's U.S. Securitization group and Private Placements group acted as sole agent in raising $80 million of private equity for Flagship Credit Corporation. Flagship is a new automotive finance company based in Chadds Ford, PA that focuses on non-prime customers.

CORPORATE SUPPORT, INCLUDING TECHNOLOGY AND SOLUTIONS

(Canadian $ in millions, except as noted)	Q2-2006	Increase (Decrease) vs. Q2-2005		Increase (Decrease) vs. Q1-2006		YTD-2006	Increase (Decrease) vs. YTD-2005	
Net interest income (teb)	**(56)**	4	6%	(13)	(33%)	**(99)**	24	19%
Non-interest revenue	**22**	(12)	(35%)	(5)	(18%)	**49**	(12)	(20%)
Total revenue (teb)	**(34)**	(8)	(31%)	(18)	(+100%)	**(50)**	12	17%
Provision for (recovery of) credit losses	**(40)**	56	58%	15	26%	**(95)**	58	38%
Non-interest expense	**23**	(34)	(60%)	(11)	(36%)	**57**	(31)	(35%)
Income before taxes and non-controlling interest in subsidiaries	**(17)**	(30)	(+100%)	(22)	(+100%)	**(12)**	(15)	(+100%)
Income taxes (teb)	**(53)**	(28)	(+100%)	(31)	(+100%)	**(75)**	(28)	(57%)
Non-controlling interest in subsidiaries	**19**	5	35%	-	-	**38**	10	35%
Net income (loss)	**17**	(7)	(33%)	9	+100%	**25**	3	6%
Corporate Support U.S. Business Select Financial Data								
(U.S. $ in millions)								
Revenue	**(13)**	9	41%	13	50%	**(39)**	7	15%
Provision for credit losses	**(9)**	27	75%	9	50%	**(27)**	32	54%
Non-interest expense	**3**	(28)	(90%)	1	50%	**5**	(36)	(88%)
Income taxes	**(7)**	10	59%	5	42%	**(19)**	21	53%
Net income (loss)	**(4)**	-	-	(1)	(33%)	**(7)**	(10)	(+100%)
Average assets	**4,505**	(107)	(2%)	16	-	**4,497**	(300)	(6%)

Corporate Support
Corporate Support includes the corporate units that provide expertise and governance support to BMO Financial Group in areas such as strategic planning, law, finance, internal audit, risk management, corporate communications, economics, human resources and learning. Operating results include revenues and expenses associated with certain securitization activities, the hedging of foreign-source earnings, and activities related to the management of certain balance sheet positions and BMO's overall asset-liability structure.

Technology and Solutions
Technology and Solutions (T&S) manages, maintains and provides governance over information technology, operations services, real estate and sourcing for BMO Financial Group. The Group focuses on enterprise-wide priorities that improve service quality and efficiency to deliver an excellent customer experience.

Financial Performance Review
Technology and Solutions' operating results are included with Corporate Support for reporting purposes. Costs of its services are transferred to the client groups (P&C, PCG and IBG) and only relatively minor variance amounts are retained within Technology and Solutions. As such, results in this section largely reflect Corporate Support activities.

Net income for the quarter was $17 million, compared with $24 million in the second quarter of 2005. Results improved by $3 million excluding the prior year's $10 million net impact of a $40 million ($26 million after tax) reduction in the general allowance for credit losses and a $25 million ($16 million after tax) litigation provision. The $3 million increase was attributable to higher tax benefits and reduced expenses, partially offset by a reduced recovery of credit losses.

Relative to the first quarter, net income increased $9 million due to BMO's low tax rate and reduced expenses. For the year to date, net income increased $3 million to $25 million, but increased $13 million excluding the $10 million of significant items that increased earnings in 2005. The increase was due to the factors that contributed to the second quarter increase relative to a year ago as well as higher net interest income.

Corporate Support is generally charged (or credited) with differences between the periodic provisions for credit losses charged to the client groups under our expected loss provisioning methodology and the required periodic provisions charged by the consolidated organization under GAAP.

Business Developments and Achievements

T&S focuses on improving profitability by applying the most efficient and effective technology and processes for BMO. The following notable business development was supported by T&S in the second quarter of 2006.

- BMO's new state-of-the-art data centre and office building, the Barrie Computer Centre, is on schedule for occupancy in the summer of 2006. This facility will enhance BMO's highly efficient processing infrastructure, providing technological advancements in a geographically separated, dual processing-site with split operations. It will also enable BMO to rapidly adapt and respond to risks and opportunities while maintaining continuous business operations.