



Tony Comper
President and Chief Executive Officer

Fellow Shareholders:

What's next for BMO Financial Group is a disciplined reach for the top, to become nothing less than *the* top performer across the North American financial services industry. We are setting the bar this high because, quite simply, it is our surest way of securing this organization's future.

And, quite frankly, because we can: We have never been more ready for this next phase in our evolution nor better prepared on all fronts – starting with the new heights of performance we have already begun to achieve.

BMO increased earnings per share by 29% in 2004, placing second in our Canadian peer group. Indeed, as the accompanying chart shows, we performed remarkably well against *all* of our financial targets for the year. As detailed on page 6, we also surpassed our major Canadian competitors in 71% of the key performance measures, a very significant improvement from the previous year. And, in a vote of confidence in our ability to sustain healthy growth, we announced not one but two dividend increases during the year, for an overall dividend increase of 26%. What is more, we have delivered an average total shareholder return of 18.9% a year over the past five years.

None of these successes happened “overnight,” of course. They trace their roots back to the hard decisions this leadership took back in 1999, exiting businesses where we lacked scale, selling off lower-profit properties and sacrificing substantial revenues

for several years as we rebuilt BMO into an organization that is now ready to make a serious run at becoming the best performer in the industry. “Best” is another word, along with “top,” that has begun to fit nicely into our day-to-day vocabulary. By having the *best* people and talent management, and the *best* enabling systems and processes, we will deliver the *best* client experience of all of our peers, and by so doing, put up the *best* financial performance, resulting in the *best* returns for shareholders.

When I speak of delivering the best client experience, I'm talking about developing relationships with customers that will flourish over a lifetime. As I have stated in past annual reports, in a mature, highly competitive financial services marketplace like Canada, exceptional customer service is the only sure way to grow. Accordingly we have been preparing ourselves for this challenge for five years now, investing as never before in customer-focused technology and training, and developing the kind of enterprise-wide mindset that will result in top performance.

Given that our number-one priority for the past two years has been to improve productivity, I am pleased to report that in 2004 we moved up to second

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2004 Targets		2004 Performance	Targets for 2005
10% to 15% EPS growth	✓	29% (see page 24)	3% to 8% EPS growth from a base of \$4.21 (excluding changes in the general allowance)
ROE of 16% to 18%	✓	19.4% (see page 25)	ROE of 17% to 18%
Provision for credit losses of \$500 million or less	✓	\$67 million before the reduction of \$170 million of general allowance (see page 31)	Specific provision for credit losses of \$400 million or less
Tier 1 capital ratio of at least 8%	✓	9.81% (see page 51)	Tier 1 capital ratio of at least 8%
Improve cash productivity ratio by 150 to 200 bps	✓	155 bps improvement (see page 32)	Improve our cash productivity ratio by 150 to 200 bps

in the Canadian industry for this important performance measure. My leadership team and colleagues across the enterprise now accept the notion that of all the things we need to achieve in order to achieve top performance, the single most effective one is improving productivity, which remains at the top of our priority list for 2005. Lest anyone equate productivity improvement with cost-cutting alone, however, be assured that we will continue to work not just the expense side of the ledger but the revenue side as well – largely by way of our heightened customer focus. There have not been nor will there be any costs cut at the expense of customer service.

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workforce. We can already lay claim to more than our share of thoughtful, talented, customer-focused colleagues operating at all levels; and to a number of lines of business where we enjoy top-performer status. What is developing in our organization right now is a sense of “If they can do it, why can’t we all?”

Acting on the advice of top-performing individuals within our organization – and taking careful note of the success stories of existing top-performing enterprises worldwide – we are systematically reforming all business practices that impede our ability to improve service to clients and generate revenues. Some kinds of red tape, alas, are more resilient than others, but I can say with confidence that the customer-focused, sales-and-service mindset is taking hold across BMO Financial Group, and with it the growing conviction that

we can indeed be at the top of our class. After all, most of our current workforce has already seen us through five years of momentous change and major redefinition, so the appetite for more change has already been whetted.

the priorities are to continue our intense focus on improving business performance, and to accelerate growth through operational improvements, organic growth, new branch openings, our mid-market expertise, and continued retail banking acquisitions.

Our growth strategy is working as intended, our transformation into a customer-driven sales-and-service organization is well advanced, our short-term targets are realistic and, as our strong performance in 2004 attests, BMO Financial Group is on the way up.

In acknowledging people who have put BMO in contention for top performer, I should also include those responsible for our industry-pacing corporate governance practices. As I hope stakeholders noticed, we tied for second in *The Globe and Mail's* annual governance survey, only one point behind the winner and ahead of all our Canadian bank peers. Rest assured that we will continue to take leadership in all matters of governance, just as we will hold firm to the low-risk high-return management philosophy of recent years, as illustrated in particular by our unsurpassed capabilities in credit risk management, which played a significant role in our strong performance in 2004.

That I can write with such confidence about What's Next for BMO in this annual report message speaks volumes about the success of our Canada-U.S. growth strategy. We continue to strengthen the established businesses in our core Canadian franchise, and to improve and selectively expand our U.S. franchise in personal and business, mid-market and individual investing markets.

We anticipate that earnings growth throughout the Canadian financial services industry will moderate in 2005 from the high levels of 2004 as we move past the peak in credit recoveries toward a more normal stage of the credit cycle. We have therefore set a realistic earnings-per-share growth target for 2005 of 3% to 8% off a base of \$4.21 per share, which excludes the gain of 21 cents per share in 2004 related to reductions in the general allowance for credit losses.

In Canada, the strategic priority in 2005 is to build on existing strengths such as our leadership in commercial banking and investment banking in order to improve productivity through operational efficiency and increased market share. In the United States,

In fiscal 2004, we agreed to invest \$560 million in the acquisition of three community banks in the greater Chicago area, moving us closer to our goal of becoming the leading personal and business bank in the U.S. Midwest. The most recent of these perfect-fit purchases, Mercantile Bancorp in northwest Indiana, was scheduled to close by early 2005. We are starting to deliver on our promise to expand the Harris branch network into the states surrounding Illinois, and we intend to continue delivering on this promise.

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