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Year in Review

2004 was an extremely successful year for BMO Financial Group. We attribute our achievements to our superior credit management, our ongoing focus on improving productivity and our growth strategy.

\$2,351 million
net income –
an increase of **29%**

20%
total shareholder return

\$4.42
EPS – up **29%**

19.4%
ROE – up from 16.4%
in 2003

At BMO, we are committed to providing our shareholders with an attractive long-term return on their investment by achieving superior financial performance while managing risk effectively. In 2004, we not only achieved our cash productivity target, but we also surpassed each of our other financial targets. Our total shareholder return (TSR) for the year was 20%, and over the past 20 years, our average annual TSR was 17.5%.

Record net income of \$2,351 million was realized in 2004, up \$526 million from a year ago. Earnings per share (EPS) rose 29% to \$4.42. Cash net income was \$2,429 million and cash EPS was \$4.57.

Improved Credit

BMO's top-tier credit management distinguishes us from our peers. Improved credit performance as well as a favourable credit environment contributed significantly to our strong

| 2004 Canadian Bank Scorecard (%) | | | | | | |
|--|--------|-------|------|--------|--------|----------|
| | BMO | RBC | CIBC | Scotia | TD | National |
| Average annual total shareholder return (five-year) | 18.9 | 18.2 | 22.2 | 22.2 | 11.0 | 26.2 |
| EPS growth | 28.5 | (3.6) | 6.8 | 20.5 | 124.5 | 21.3 |
| Return on equity | 19.4 | 15.6 | 18.7 | 19.9 | 18.5 | 18.8 |
| Net economic profit growth ² | 59.6 | 0.1 | 30.5 | 38.6 | 2332 | 41.4 |
| Revenue growth ^{1,2} | 3.7 | 1.7 | 2.8 | 0.2 | 8.2 | 5.7 |
| Cash productivity ratio ² | 63.0 | 70.2 | 68.4 | 55.8 | 66.4 | 65.4 |
| Provision for credit losses (% of average net loans and acceptances) | (0.07) | 0.15 | 0.39 | 0.22 | (0.25) | 0.19 |

1. On a taxable equivalent basis.
2. Non-GAAP measure. See page 26.

Legend: BMO better than other bank (25/35)
 BMO worse than other bank (10/35)

results. Our earnings included \$67 million of specific provisions for credit losses, a reduction from \$455 million in fiscal 2003. In addition, we recorded a reduction of \$170 million in the general allowance for credit losses, adding up to a total net recovery of credit losses of \$103 million in 2004, an improvement of \$558 million from 2003.

Operating Groups

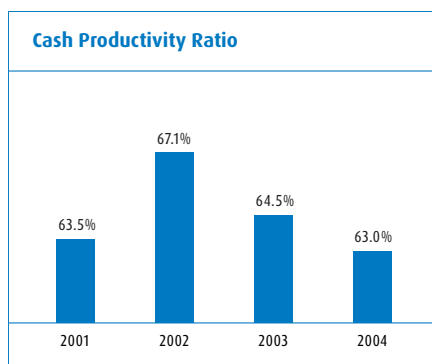
Our operating groups contributed significantly to our success: each group improved its productivity and also earned record net income. Personal and Commercial Client Group earned net income of just over \$1 billion, up \$66 million or 7% from a year ago. Private Client Group earned \$231 million, up \$87 million or 60% from 2003, and Investment Banking Group earned \$856 million, up \$135 million or 19%.

Increased Revenue...

Revenue increased \$341 million or 3.7% in fiscal 2004, with all operating groups contributing to this growth. Personal and Commercial Client Group revenue rose \$90 million or 1.9% on higher volumes and the inclusion of revenues from acquired businesses, partially offset by the impact of declining margins and lower card fees. Investment Banking Group revenues rose \$176 million or 6.6%, due to higher securities trading commissions and underwriting fees, higher net investment securities gains and the inclusion of revenues from Harris Nesbitt Gerard. Private Client Group revenue increased \$113 million or 6.5%, driven by higher commission and fee-based revenues from successful revenue-generating initiatives and improved market fundamentals.

... Plus Aggressive Expense Management Drive Productivity Improvement

Cash productivity, a key driver in enhancing shareholder value, continues to be our number one priority at BMO. In 2004, we achieved our objective of improving our cash productivity ratio by 150 to 200 basis points. The cash productivity ratio was 63.0% in 2004,



compared with 64.5% in 2003, an improvement of 155 basis points.

While the productivity ratio measures expenses as a percentage of revenues – or how much we must spend to earn a dollar of revenue – the cash productivity ratio is calculated by removing the amortization of intangible assets from expenses. This enhances comparisons between periods when there has been an acquisition, and therefore provides a more accurate measure of our performance improvement year over year.

Foreign Exchange

The weaker U.S. dollar lowered revenue growth by \$243 million or 2.6 percentage points, and reduced expenses by \$177 million or 2.8 percentage points. The net effect on the bottom line was a reduction of net income of \$35 million. We manage the effects of foreign exchange fluctuations through a relatively well-matched U.S.-dollar-denominated balance sheet as well as a program to hedge our expected U.S.-dollar-denominated earnings at the beginning of each quarter. As a result, we have been able to reduce the impact of the sharp decline in the U.S. dollar on our bottom line.

Capital

Our capital is actively managed. Capital is used to support our business units and U.S. acquisitions, to increase dividends and for a share repurchase program. Our capital remains above our target range. In 2004, BMO's Tier 1 Capital Ratio increased to 9.81% from 9.55% at the end of 2003, and was well above our minimum target of 8%.

At BMO, we look to the future with optimism, confident that our commitment to strong growth, top-tier credit management and ongoing improvements in productivity is the right strategy – one that will enable us to embrace opportunities, deal with challenges and achieve continued success for our business and our shareholders.

9.81%

Tier 1 Capital Ratio – up from 9.55%

155

basis points
cash productivity ratio
improvement

2005 Target: improve cash productivity ratio by

150–200

basis points

