

Investment Banking Group

Group Description

Investment Banking Group (IBG) combines all of the businesses serving corporate, institutional and government clients. In Canada, operating under the BMO Nesbitt Burns brand, our client base comprises large corporations and institutions across a broad range of industry sectors. In the United States, operating under the Harris Nesbitt brand, we serve corporate and institutional clients in selected sectors. IBG also serves institutional and government clients in the United Kingdom, Europe and Asia.

We offer clients complete financial solutions across the entire balance sheet, including public and private debt and equity underwriting, corporate lending, securitization, cash management, foreign exchange and trade finance. The group also offers leading financial advisory services in mergers and acquisitions and restructurings, while providing investing clients with industry-leading research, sales and trading services.

Vision

To be recognized by clients and shareholders as the best and most disciplined integrated North American investment and corporate bank in our markets.



Yvan J.P. Bourdeau
President and Chief Operating Officer,
BMO Nesbitt Burns

Strategies

- Continue to reinforce our leading positions in Canada.
- Accelerate growth in the United States.
- Continuously improve the profitability of client relationships.

Our Lines of Business

Investment and Corporate Banking provides a full suite of financial products and services to our clients. Services include strategic advice on mergers and acquisitions, restructurings and recapitalizations, as well as providing valuation and fairness opinions. We provide capital-raising services through debt and equity underwriting. We also provide a full range of loan and debt products, balance sheet management solutions and cash management services.

Capital Markets provides integrated debt, currency, interest rate, credit and commodity solutions to targeted wholesale, commercial and retail clients. We also provide efficient funding and liquidity management to BMO Financial Group and its clients.

Securitization and Credit Investment Management offers issuers and investors products and services that use credit as a tool for asset management and funding alternatives.

Equity Division offers a comprehensive suite of Canadian equity products globally. These products are delivered through our top-tier research, sales and trading capabilities, and tailored to our clients' needs. We continue to maintain and enhance our leadership position in Canada, while selectively expanding our product base in the United States.

The **International** line of business provides trade finance and risk mitigation services to North American corporate and commercial clients in support of their international business activities. We also offer a wide range of banking and other operating services to international and domestic financial institutions.

Merchant Banking operates through BMO Halyard Partners and BMO Equity Partners. We source, structure and finance private equity investments, primarily in North America.

Strengths

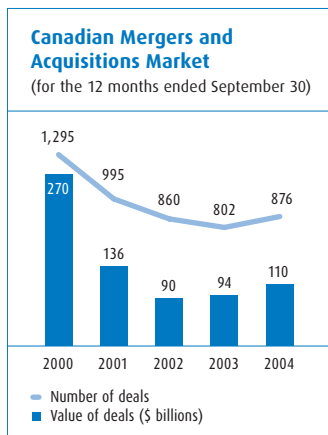
- Well-established franchise with a leadership position in certain industries and products and a reputation for quality advice.
- Top-tier Canadian equity research, sales and trading capabilities.
- Largest presence of any Canadian investment and corporate bank in the U.S. Midwest.
- Well-diversified product offerings that can enhance our clients' balance sheets.

Challenges

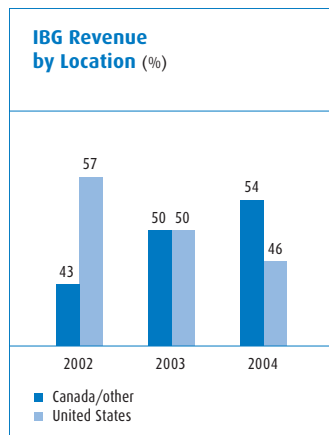
- Mature Canadian market.
- Investment banking revenues increasingly tied to providing financing to corporate clients.
- Improving our brand recognition outside the U.S. Midwest market.
- Rising interest rates, the strengthening Canadian dollar and high crude oil prices negatively affecting economic growth.

Key Performance Drivers	2004	2003	2002
Equity value block trading ranking	#1	#1	#1
Equity research ranking (Brendan Wood International)	#1	#1	#1
Canadian securitization* ranking	#1	#1	#1

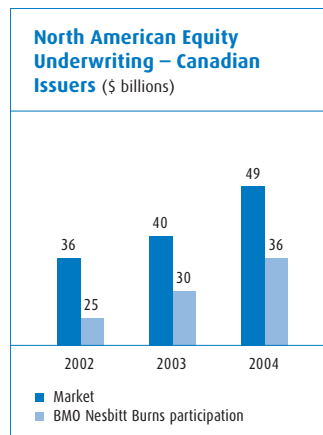
*Asset-backed commercial paper conduit outstandings as at September 30, 2004.



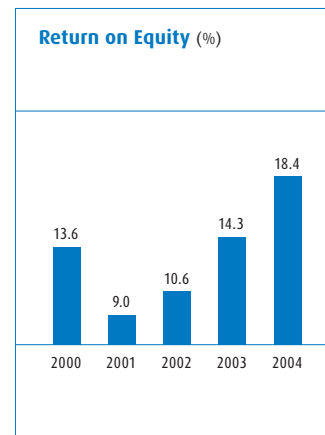
The mergers and acquisitions environment has been improving.



U.S. growth has softened but remains a priority.



High participation in equity underwriting continues.



Return on equity increased for the third consecutive year.

2004 Objectives and Achievements

Maintain Canadian leadership in the high-return fee businesses of mergers and acquisitions, equity and debt underwriting, and securitization.

- Participated in 374 Canadian corporate debt and equity transactions that raised \$61 billion.
- Advised on \$10.6 billion of completed Canadian mergers and acquisitions.
- Ranked Top Overall Research Team in the Brendan Wood International Survey of institutional investors for the 24th consecutive year, and ranked first for Overall Quality of Sales Service.
- Canadian Securitization unit ranked first in market share of asset-backed commercial paper conduit outstandings.
- Ranked first in Canadian equity block trading.

Continue a disciplined approach to capital and cost management, and improve our cash productivity ratio.

- Improved our cash productivity ratio by 110 bps.
- Improved our return on equity to 18.4% from 14.3%.

Accelerate growth through further integration of our U.S. operations, with a focus on increasing the proportion of fee-based revenue.

- Expanded and upgraded IBG's U.S. team through a number of key hires at senior levels, including head of Mergers and Acquisitions and head of U.S. Equity Capital Markets.
- Aligned nationwide client relationship and product coverage with 10 priority industry sectors.

Deepen and broaden relationships with target clients by leveraging the full range of our cross-border capabilities, including enhancing our product offering through the full integration of Harris Nesbitt Gerard.

- Completed the integration of Gerard Klauer Mattison into Harris Nesbitt, providing an enhanced integrated service offering.
- Leveraged the cross-border capabilities of BMO Nesbitt Burns and Harris Nesbitt in all product areas to deliver unique, effective solutions to clients.

Other Achievements

- Record net income in 2004.
- First Canadian bank authorized to sell derivatives in China.
- Expansion of the U.S. Securitization team with the addition of a team of term asset securitization specialists in Dallas.

What's Next? Priorities for 2005

- Improve client alignment to realize all revenue opportunities.
- Optimize risk-taking to maximize returns.
- Drive new product development.
- Improve our cash productivity ratio by at least 150 bps.

Business Environment and Outlook

Investment Banking Group operated in a robust investment climate in the first half of 2004. This resulted in strong equity and debt origination activity and improved commission revenues. An improving credit cycle also had a positive impact on results for the year. The markets softened somewhat in the second half of the year in response to rising interest rates, lower volatility, the strengthening Canadian dollar and record crude oil prices. Commercial and industrial loan demand continued to lag 2003 levels, particularly in the United States. In Canada, loan volume improved as business investment increased.

Looking forward, further customer consolidation and new trading technologies are expected to continue to put downward pressure on Canadian equity trading commissions. Rising interest rates and a flatter yield curve are making it more difficult to maintain previous revenue levels in our interest-rate-sensitive businesses. The low interest rate environment of the past few years has prompted many companies to provide for many of their future borrowing requirements in advance, which is expected to cause a decrease in debt origination activities. Therefore a shift in revenue from fixed income to advisory and equity lines of business is expected.

Investment Banking Group Financial Results

Investment Banking Group net income rose \$135 million to a record \$856 million. The 19% improvement was attributable to higher revenue and a lower provision for credit losses.

Revenue increased \$176 million or 7%. There was a \$189 million improvement in net investment securities gains, which was partially offset by \$58 million of interest expense related to unwinding hedges associated with certain of the securities that were sold. The inclusion of Harris Nesbitt Gerard (HNG) results for the full year added \$69 million of revenue relative to a year ago. The lower Canadian/U.S. dollar exchange rate reduced revenue by \$124 million.

Equity and debt underwriting fees rose strongly, while securities commissions and fees increased in line with the added revenue from HNG and stronger equity markets. Interest income was affected by lower corporate loan balances, due to weak demand and our strategy of exiting certain non-core relationships, and by compressed spreads in interest-rate-sensitive businesses, due to rising short-term interest rates. There was lower trading revenue, as commodity and interest rate trading revenue declined, while equity trading revenue increased. In 2003, commodity trading income included a gain on termination of a relationship with a counterparty.

The provision for credit losses was reduced by \$93 million due to an improved credit environment and a \$39 million recovery on a loan that was previously written off. 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. Corporate Support is generally charged (or credited) with differences between expected loss provisions charged to the client operating groups and provisions required under GAAP. However, IBG was credited with this recovery in 2004 because the loss on the loan in 2001 was not subject to our expected loss provisioning methodology at the time.

Investment Banking Group (\$ millions, except as noted)

Reported				Change from 2003		
	As at or for the year ended October 31	2004	2003	2002	\$	%
Net interest income (teb)		1,305	1,393	1,478	(88)	(6)
Non-interest revenue		1,527	1,263	1,068	264	21
Total revenue (teb)		2,832	2,656	2,546	176	7
Provision for credit losses		138	231	227	(93)	(40)
Non-interest expense		1,430	1,369	1,413	61	4
Income before income taxes and non-controlling interest in subsidiaries		1,264	1,056	906	208	20
Income taxes (teb)		408	335	305	73	21
Net income		856	721	601	135	19
Amortization of intangible assets (after tax)		3	(1)	1	4	+100
Cash net income		859	720	602	139	19
Net economic profit		347	178	5	169	95
Return on equity (%)		18.4	14.3	10.6		4.1
Cash return on equity (%)		18.4	14.3	10.6		4.1
Non-interest expense-to-revenue ratio (%)		50.5	51.5	55.5		(1.0)
Cash non-interest expense-to-revenue ratio (%)		50.4	51.5	55.5		(1.1)
Average net interest margin (%)		0.92	0.96	1.08		(0.04)
Average common equity		4,382	4,637	5,112	(255)	(5)
Average assets		141,691	144,418	136,451	(2,727)	(2)
Total risk-weighted assets		50,814	50,823	55,493	(9)	-
Average loans and acceptances		43,485	48,225	55,372	(4,740)	(10)
Average deposits		67,369	59,136	57,719	8,233	14
Assets under administration		58,026	71,098	71,833	(13,072)	(18)
Assets under management		18,761	20,013	20,283	(1,252)	(6)
Full-time equivalent staff		2,129	2,141	2,071	(12)	(1)

Non-interest expense increased \$61 million or 4%. The increase was attributable to the \$87 million incremental impact of the inclusion of HNG expenses and an increase in performance-based compensation associated with improved results. These factors were partially offset by the \$58 million impact of the lower Canadian/U.S. dollar exchange rate.

The group's productivity ratio improved by 100 basis points to 50.5%, as revenue growth exceeded expense growth.

Net income from U.S. operations represented 40% of IBG's net income in 2004, consistent with a year ago. Our U.S. investment banking operations are primarily directed at mid-market corporations with revenues that range from US\$50 million to US\$1 billion. Such activities are often 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 Personal and Commercial Client Group, are included on page 40.