

Management's Discussion and Analysis

Who We Are

BMO Financial Group is one of the largest financial services providers in North America, offering comprehensive retail banking, wealth management and investment banking products, services and solutions.

Canadian clients are served through BMO Bank of Montreal, our personal and commercial banking business, and BMO Nesbitt Burns, one of Canada's leading full-service investment and wealth management firms. In the United States, clients are served through Harris, a major Midwest financial services organization with a network of community banks in the Chicago area and wealth management offices across the United States, as well as Harris Nesbitt, a leading mid-market investment and corporate bank. Our financial service professionals can provide access to any services our customers require across the entire enterprise. BMO Financial Group comprises three client operating groups: Personal and Commercial Client Group, Private Client Group and Investment Banking Group.

Our Financial Targets

BMO has established an overall governing objective and medium-term financial objectives as set out in the adjacent chart. BMO also establishes annual financial targets for certain financial performance measures, which are also outlined in the chart. Our success in achieving our overall governing objective of first-quartile total shareholder return is dependent on achieving our minimum medium-term financial objectives and on the relative performance of our peer group.

Annual financial targets represent checkpoints in the achievement of our medium-term financial objectives. They reflect economic conditions prevailing at the time and may be influenced by results in base years used for comparison purposes. As such, in any particular year they may be higher or lower than the medium-term financial objectives.

Our operating philosophy is to increase revenues at higher rates than general economic growth rates, while limiting expense growth to achieve productivity improvements of 150 to 200 basis points per year, over time. In achieving efficiencies in expense management, we balance current profitability with the need to invest for future growth. When possible, expense efficiencies partially or totally fund the costs of investing for the future.

In 2004, as in 2003, we achieved all five of our financial targets.

Our targets for 2005 have been established in the context of our expectations for the economy in the year ahead, as detailed on page 22, and with regard to the strong results achieved in 2004.

Our Vision

To be the top-performing Canada-U.S. financial services company.

Our Governing Objective

To maximize the total return to BMO shareholders and generate, over time, first-quartile total shareholder return relative to our Canadian and North American peer groups.

Our Medium-Term Financial Objectives

To increase EPS by a minimum of 10% per year over time; to earn ROE of between 18% and 19% over time; and to maintain a strong regulatory capital position, consistent with our peers.

2004 Financial Targets	2004 Financial Performance	Target Met	2005 Financial Targets
10% to 15% EPS growth	EPS growth of 29% to \$4.42. Excluding a \$170 million reduction of the general allowance, EPS rose 22% to \$4.21.	✓	3% to 8% (1) EPS growth from a base of \$4.21 (excluding changes in the general allowance)
ROE of 16% to 18%	ROE of 19.4%	✓	ROE of 17% to 18%
Provision for credit losses of \$500 million or less	Specific provision for credit losses of \$67 million. We also reduced the general allowance by \$170 million.	✓	Specific provision for credit losses of \$400 million or less
Tier 1 Capital Ratio of at least 8.0%	Tier 1 Capital Ratio of 9.81%	✓	Tier 1 Capital Ratio of at least 8.0%
Improve cash productivity ratio by 150 to 200 bps	Cash productivity ratio improved by 155 bps	✓	Improve our cash productivity ratio by 150 to 200 bps

(1) The EPS growth target in 2005 is lower due to our expectation that provisions for credit losses will return to more normalized levels.

Regulatory Filings

Our continuous disclosure materials, including our interim filings, annual MD&A and audited consolidated financial statements, our Annual Information Form and the Notice of Annual Meeting of Shareholders and Proxy Circular are available on our web site at www.bmo.com, on the Canadian Securities Administrators' web site at www.sedar.com and on the EDGAR section of the SEC's web site at www.sec.gov. BMO's CEO and CFO each certify the appropriateness and fairness of BMO's annual and interim filings of continuous disclosure materials.

Reading the MD&A

Description, vision and strategy	Personal and Commercial Client Group - Canada
Lead executive	Financial Performance and Condition at a Glance
Achievements	Enterprise-Wide Strategy and Economic Developments
Supporting information and data	Value Measures

BMO's President and Chief Executive Officer and Chief Financial Officer have both signed a statement outlining management's responsibility for financial information in this Annual Report. The statement, which can be found on page 82, also explains the roles of the Audit Committee and Board of Directors in respect of financial information in the Annual Report.

Management's Discussion and Analysis comments on BMO's operations and financial condition for the years ended October 31, 2004 and 2003. The commentary is as of November 23, 2004, except for peer group comparisons, which are as of December 2, 2004. Unless otherwise indicated, all amounts are in Canadian dollars and have been derived from financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP).

Management's review of 2004 performance and what's next.

Index	
16 Introduction	←
17 Index	
18 Financial Performance and Condition at a Glance	←
Enterprise-Wide Strategy and Economic Developments	←
21 Enterprise-Wide Strategy	
22 Economic Developments	
Value Measures	←
23 Total Shareholder Return	
24 Earnings per Share Growth	
25 Return on Equity	
25 Net Economic Profit Growth	
Financial Performance Review	
Enterprise-Wide Review	←
26 Review of 2004	
34 Review of 2003	
Operating Group Review	←
35 Summary	
36 Personal and Commercial Client Group	
42 Private Client Group	
45 Investment Banking Group	
48 Corporate Support, including Technology and Solutions	
Financial Condition Review	←
49 Balance Sheet	
51 Enterprise-Wide Capital Management	
53 Off-Balance Sheet Arrangements	
54 Financial Instruments	
Accounting Estimates and Policies	←
55 Critical Accounting Estimates	
57 Changes in Accounting Policies in 2004	
57 Changes in Accounting Policies in 2005	
58 Enterprise-Wide Risk Management	←
67 Quarterly Earnings Trends and Review of Fourth Quarter Performance	
70 Supplemental Information	←

The **Introduction** provides a brief overview of BMO Financial Group and explains the link between our annual targets and our overall vision.

Financial Performance and Condition at a Glance provides an at-a-glance snapshot of our results on 11 key financial performance and condition measures used by management to monitor performance relative to our peer groups.

Enterprise-Wide Strategy and Economic Developments outlines our major strategy at the enterprise level together with progress in relation to our 2004 strategic priorities. It also includes commentary on the impact of economic developments on our businesses in 2004 and expectations for the economy in 2005.

Value Measures reviews financial performance on the four key measures that assess or most directly influence shareholder return.

Enterprise-Wide Financial Performance Review provides a detailed review of BMO's consolidated financial performance by major income statement category. It also includes explanations of the use of non-GAAP measures and the impacts of changes in foreign exchange rates and acquired businesses.

Operating Group Financial Performance Review outlines the vision, strategies and major business risks facing our operating groups, and the strengths and competencies that help them execute their strategies in support of their visions. It also includes a summary of their achievements in 2004, priorities for 2005 and a review of their financial performance for the year.

Financial Condition Review discusses our assets and liabilities by major balance sheet category. It reviews our capital adequacy and our approach to ensuring we optimize our capital position to support our business strategies and maximize returns to shareholders. It also discusses off-balance sheet arrangements and financial instruments.

Accounting Estimates and Policies reviews critical accounting estimates and changes in accounting policies in 2004 and 2005.

Enterprise-Wide Risk Management outlines our approach to managing the key financial and related risks we face.

Supplemental Information presents many useful financial tables and provides more historical detail.

Caution Regarding Forward-Looking Statements

Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this Annual Report, and may be included in filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives for 2005 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price, and the results of or outlook for our operations or for the Canadian and U.S. economies.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: global capital market activities; interest rate and currency value fluctuations; the effects of war or terrorist activities; the effects of disease or illness on local, national or international economies; the effects of disruptions to public infrastructure, such as transportation, communications, power or water supply; industry and worldwide economic and political conditions; regulatory and statutory developments; the effects of competition in the geographic and business areas in which we operate; management actions; and technological changes. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Bank of Montreal does not undertake to update any forward-looking statement, whether written or oral, that may be made, from time to time, by the organization or on its behalf.