

Personal and Commercial Client Group – Canada

Group Description

Personal and Commercial Client Group (P&C), working together with BMO's other businesses, assists more than seven and a half million Canadians with their financial services needs. We offer a full range of products and services through almost 1,000 BMO Bank of Montreal traditional and instore branches, telephone banking, online banking at bmo.com, and our network of 2,000 automated banking machines.

Our personal and commercial banking business is among the five largest in Canada, operating in a business environment that is increasingly competitive, particularly with the recent growth in the number of small players operating in niche segments.

Vision

Our goal is to be the only financial services provider our personal and commercial customers will ever need. We will reach this goal by providing exceptional transactional sales and service, and by delivering a buying experience that is proactive and advice-based. Our comprehensive and customized products and services will help our customers better manage all aspects of their financial affairs.



Robert W. Pearce

President and Chief Executive Officer,
Personal and Commercial Client Group – Canada

Strategies

- Continue to improve customer loyalty in both the personal and commercial segments by proactively providing value-added products and services to customers.
- Maintain market share in the increasingly competitive personal segment by providing competitive products and pricing, enhanced distribution capabilities and exceptional customer service.
- Be a leading provider of financial services to the commercial marketplace by providing a full suite of products and services tailored to customer needs.
- Further improve the alignment and capability of sales and service resources to better meet customers' needs.
- Continue to simplify sales and fulfilment processes to improve our customer experience, increase frontline capacity, and improve operational and sales effectiveness.

Our Lines of Business

Personal Banking provides solutions for customers' everyday banking, financing, investing and insurance needs.

We serve more than 20% of Canadian households.

Our national, fully coordinated, multi-channel distribution system offers customers convenience and choice in where, when and how they do their banking. We offer a full array of services at competitive prices and an exclusive Air Miles rewards program.

Commercial Banking includes both business and commercial mid-market clients. We provide our business clients – independent businesses, small and medium-sized enterprises, and lower mid-market banking clients – with a full range of banking products and services. These include cash management, loans and deposits provided through our branches and direct banking channels. For our commercial mid-market clients, our specialized sales force delivers a full suite of integrated commercial and capital markets products and financial advisory services. Through Moneris Solutions, we provide merchants with credit and debit card transaction processing services.

Strengths

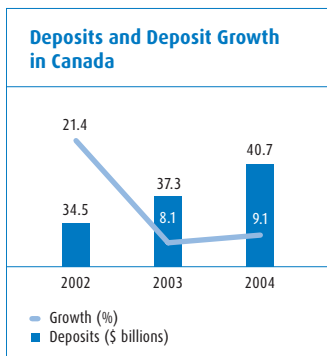
- Top-tier organizational effectiveness supported by our sales and service delivery model, with competitive multi-channel distribution capabilities.
- Solid customer data management capabilities and tailored offerings, including strong referrals both within the group and to Private Client Group and Investment Banking Group.
- Sound technology platform facilitating efficient sales and service across all channels.
- Ability to adapt to a challenging competitive environment through competitive pricing and continuous improvement to our services.
- Strong employee engagement, with a large and effective sales force and disciplined sales and service management processes.
- Superior risk management capabilities that utilize a consistent approach in all economic conditions.

Challenges

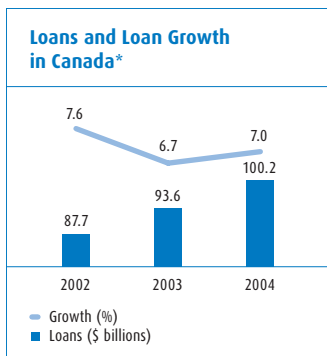
- Customer alternatives are expanding due to a growing number of competitors and easier access to competitors' products.
- Traditional competitors are refocusing their strategies on personal and commercial banking.
- Pressure on margins is increasing due to heightened price-based competition.
- Regulatory bodies are introducing new governance requirements that place greater demands on our resources.

Key Performance Drivers (%)	2004	2003	2002
Deposit growth	9.1	8.1	21.4
Loan growth*	7.0	6.7	7.6
Cash productivity ratio	60.1	61.0	62.3
Revenue growth	1.5	7.1	2.6

*Includes acceptances and securitized loans

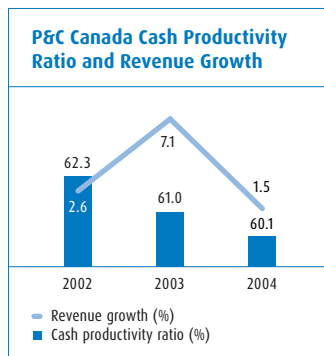


There was continued strong growth in deposits.

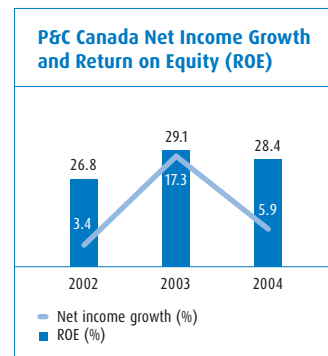


Loan growth was solid and consistent.

*Includes acceptances and securitized loans



There were further productivity improvements as revenue increased and expenses were contained.



Net income growth was solid, with consistently strong ROE.

2004 Objectives and Achievements

Continue to focus on revenue growth and improving operational efficiency, while building our distribution capabilities, in order to drive improvements in productivity. We set a target to improve our cash productivity ratio by 150 to 200 bps in 2004.

- Revenue grew 1.5% and cash productivity improved by 90 bps. Revenue was reduced by a \$65 million adjustment to credit card fees associated with rising reward redemption rates in our customer loyalty rewards program. Excluding that adjustment, revenue would have increased 3.1% and cash productivity would have improved by 190 bps.
- Revenue growth was affected by lower margins, driven by the low interest rate environment and competitive pressures. However, our focus on increasing revenues resulted in strong balance sheet growth. Loans and acceptances, after adding back the effects of securitizations, increased \$6.6 billion or 7.0% from 2003 and personal and commercial deposits grew \$3.4 billion or 9.1%.

Improve customer loyalty in both the personal and commercial banking segments.

- Our customer loyalty scores, as measured by independent research firms, improved in personal banking but were unchanged in commercial banking in 2004 after improving

steadily since 1999. Our service teams are now better able to consistently address customer needs across all channels. This was accomplished with the help of our customer relationship management capabilities and Optimizer, the leading-edge workflow management tool we released to our personal banking sales and service staff in 2004.

Increase our business banking market share at a higher rate than our major competitors and reduce the gap relative to the market leader.⁽¹⁾

- We continued to rank second in business banking market share for business loans less than \$5 million. However, our business banking market share decreased 45 bps to 19.15% and the gap relative to the leader increased. This is an important business that we are focused on continuing to develop.

Increase our personal banking market share relative to our major competitors.⁽¹⁾

- Personal banking market share decreased 20 bps to 13.19%. This was primarily due to a decline in market share in our personal loan segment, despite 7.8% loan growth.*

⁽¹⁾ Year-over-year comparisons have been affected by competitor reclassifications in 2004.

*Includes securitized loans.

Other Achievements

During the year we created and enhanced various products:

- A number of simple and easy-to-purchase insurance offerings, including accident and sickness, term life and commercial loan life insurance.
- A new Canadian Tire® Commercial MasterCard for commercial customers.
- Our Homeowner ReadILine personal line of credit that provides customers with easier access to credit.

- The attractiveness of our personal banking and credit card offerings with the introduction of our Mosaik WestJet Air Miles MasterCard. Gold card customers can deduct their \$70 annual fee from their personal banking service charges.
- A redesigned, fully integrated online banking web site to make online banking easier and faster for our customers. The new site provides a single point of entry and one convenient menu that lets customers conduct transactions, obtain product and rate information and access all our other online services.

What's Next? Priorities for 2005

- Continue to focus on revenue growth while building our distribution capabilities.
- Improve our cash productivity ratio by at least 150 bps.
- Improve customer loyalty in both the personal and commercial banking segments.
- Maintain our personal banking market share and increase our business banking market share relative to our major competitors.
- Introduce further enhancements to our sales and service delivery model to better meet the needs of our customers.

Chicagoland Banking

Group Description

Chicagoland Banking serves personal and business clients with a full suite of financial products and services. We do this through an effective community banking model that emphasizes local knowledge and commitment. We strive to excel at customer service, supported by a premier network of convenient, attractive branches, an effective distribution network and disciplined sales management.

Vision

To be a top-tier U.S. Midwest personal and business bank by combining local community banking with the support and resources of a major North American financial services company.



Frank J. Techar
President and Chief Executive Officer, Harris Bankcorp

Strategies

- Continue to improve our top-tier customer service, leading to deeper customer relationships.
- Expand our distribution network by opening new branches and continuing to pursue attractive acquisitions in Illinois, surrounding states and other high-growth markets across the United States.
- Improve productivity by increasing operational efficiency and optimizing our sales effectiveness.

Our Lines of Business

Chicagoland Banking offers a full range of consumer loan and deposit products, including deposit and investment services, mortgages, consumer credit, business lending, cash management and other services.

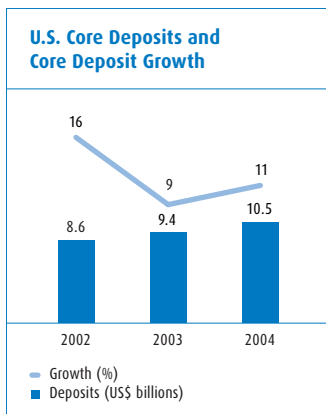
Strengths

- A rich heritage of more than 120 years in the Chicago area, with the established Harris brand and a strong customer service orientation.
- 168 premier branch locations in communities in the Chicago area.
- Deep relationships with local communities, businesses and their leaders that have been forged over many years.
- A community banking business model providing superior customer care, competitive product offerings and strong sales management and marketing capabilities.
- Ability to leverage the capabilities and scale of BMO Financial Group.

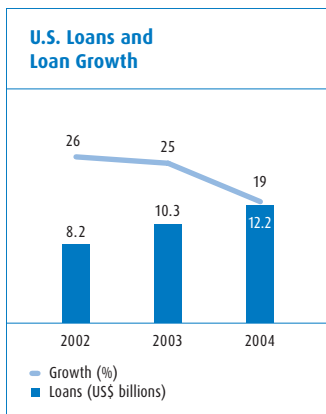
Challenges

- Slowing mortgage demand in a rising rate environment.
- Continuing pressure on net interest margins.
- New competitors aggressively entering our markets.
- Limited availability of attractive acquisition targets and quality locations for expansion at a reasonable cost.

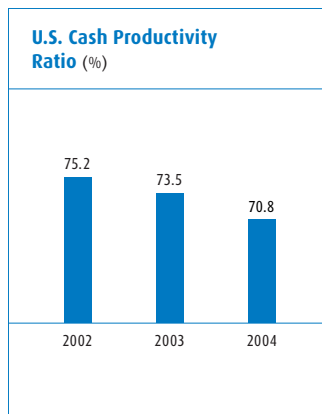
Key Performance Drivers	2004	2003	2002
Core deposit growth (%)	11	9	16
Loan growth (%)	19	25	26
Cash productivity ratio (%)	70.8	73.5	75.2
Number of branches	168	153	145



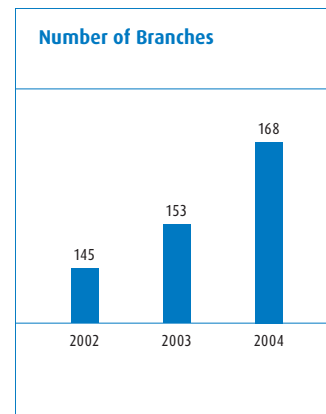
Solid core deposit growth continued.



There was continued strong loan growth of US\$2 billion per year.



Productivity improved significantly in the past two years.



Our branch expansion continued.

2004 Objectives and Achievements

Improve our cash productivity ratio by 150 to 200 bps.

- We exceeded our target, improving our cash productivity ratio by 270 bps.

Continue to target a US\$1 billion increase in retail and small business loans.

- Loans increased \$1.9 billion or 19% from a year ago, based on the strength of consumer loan growth of 20% in a highly competitive market and small business loan growth of 16% in a soft market.

Migrate to a single commercial deposit processing system to simplify customer transaction processing.

- In November 2003, we successfully implemented a single system that has allowed us to consolidate our back-office processes, provide improved functionality for customers and offer a common platform for all business markets.

Expand the reach of our branch banking franchise by adding 10 branch locations to our network, while also pursuing in-market and out-of-market acquisitions in contiguous states and/or other high-growth markets. We set a target of 165 locations at the end of fiscal 2004, growing to 200 by 2007.

- We completed the acquisitions of Lakeland Community Bank, with two locations, and New Lenox State Bank, with eight locations. We opened nine new branches and closed four, increasing our Harris community banking network to 168 locations at the end of the year, surpassing our target. We also announced the acquisition of Mercantile Bancorp, Inc., located in northwest Indiana, which is anticipated to close in early 2005, adding another 19 locations.

What's Next? Priorities for 2005

- Improve our cash productivity by at least 150 bps.
- Expand our branch network by opening five new branches and continuing to pursue acquisitions in Chicago, surrounding states and other high-growth markets. We are targeting 192 locations by the end of fiscal 2005, with a goal of 200 branches in Chicago by 2007.
- Provide more seamless customer service and achieve cost efficiencies through the consolidation of our bank charter structure.

U.S. Business Environment and Outlook

Chicagoland is unique among U.S. financial services markets, and remains one of the most fragmented, with more than 250 banks. Harris and the two other largest banks together hold approximately 30% of the market – unchanged from 1997. Chicago is the second-largest market in the United States; new banks continue to enter this market, and many others have begun to roll out significant branch expansions. Others are using unique distribution offers or are significantly increasing brand marketing in attempts to capture market share.

Chicagoland is a hotly contested market because of the growth opportunities it presents. While the region has attracted some significant competitors, we are committed to defending our growing business, and therefore expect some margin pressure through the next year. In the longer term, competitive pressures should subside and profitability should improve. We expect the larger players to reap the benefits of these developments and we intend to be one of those players.

We continue to expect the Chicagoland market to experience growth on par with the overall U.S. economy. Demand for consumer credit should continue to generate healthy profits and the banking needs of small business clients should increase with an expanding economy, growing in volume and complexity and creating new opportunities.

In 2005, we will continue to put heavy emphasis on expanding in the Chicago area through a combination of organic growth and acquisitions. In addition, we will continue to improve our efficiency by streamlining operating platforms and reducing overhead costs. Finally, by building our business around enduring client relationships, we will continue to enhance our reputation as a high-quality, client-focused bank.

U.S. Operations Financial Results

Net income from U.S. operations represented 11% of total Personal and Commercial Client Group net income for the year, compared with 10% for fiscal 2003. BMO's corporate banking operations in the United States are concentrated among mid-market corporate clients, which BMO manages and reports in our Investment Banking Group operations because of the enhanced opportunities to cross-sell products. BMO's North American peers typically include similar businesses in their personal and commercial banking units. The table below shows the effects of including this U.S.-based mid-market business in Personal and Commercial Client Group on a pro-forma basis and provides more geographic detail on results. The table reflects the inclusion of \$545 million (\$574 million in 2003) of corporate mid-market revenue and \$197 million (\$215 million in 2003) of net income in U.S. results for the year.

If results of the U.S. mid-market banking unit were included in Personal and Commercial Client Group results, net income from U.S. operations would represent 26% of the group's earnings in the year, compared with 11% as currently reported. Revenue, after including the U.S. mid-market banking unit, would be 26% of the group's revenue, compared with 17% as currently reported. The non-interest expense-to-revenue ratio would be 59.8%, compared with the 62.8% currently reported.

Personal and Commercial Client Group adjusted to include U.S.-Based Mid-Market Business

(Canadian \$ in millions, except as noted)

For the year ended October 31	2004	2003	2002	Change from 2003	
				\$	%
Canada – revenue	4,055	3,995	3,732	60	1
United States – revenue	1,404	1,403	1,417	1	–
Total revenue (teb)	5,459	5,398	5,149	61	1
Canada – net income	889	839	715	50	6
United States – net income	311	313	288	(2)	–
Total net income	1,200	1,152	1,003	48	4
Canada – return on equity (%)	28.5	29.1	26.8		(0.6)
United States – return on equity (%)	17.3	13.8	11.5		3.5
Total return on equity (%)	24.4	22.4	19.5		2.0
Canada – non-interest expense-to-revenue ratio (%)	60.4	61.1	62.5		(0.7)
United States – non-interest expense-to-revenue ratio (%)	58.0	57.7	59.1		0.3
Total non-interest expense-to-revenue ratio (%)	59.8	60.2	61.6		(0.4)

Canadian Business Environment and Outlook

The personal and commercial banking environment was challenging in 2004, with intense price competition, low interest rates and the continuing growth of non-traditional competitors. Historically-low interest rates, rising home prices and employment growth, however, supported strong home sales and consumer demand for mortgages throughout the year, improving on an already impressive performance in 2003. Commercial loan growth was lower than forecast, but commercial deposit growth was strong.

Looking to 2005, demand for personal and commercial products and services is forecast to again grow at double the rate of GDP growth. We anticipate that short-term interest rates will rise over the course of the year. While this may provide some relief from spread compression on personal and commercial deposits, increased competition could offset this benefit. Personal deposits and mutual fund balances are expected to grow 5%, while market growth in residential mortgages and consumer loans is anticipated to moderate from 2004 levels but remain relatively strong at nearly 7%. Growth in commercial deposits is expected to be lower than in 2004, as business spending accelerates, but increased business investment should produce commercial loan growth of more than 5%.

Personal and Commercial Client Group Financial Results

Personal and Commercial Client Group net income rose \$66 million to \$1,003 million. The 7% increase was due to higher revenue, cost containment and a lower effective tax rate. Those factors were partially offset by the impact of lower net interest margin in the competitive low interest rate environment and by reduced card fees. Card fees were reduced by a \$65 million (\$42 million after tax) increase to the recorded liability associated with our customer loyalty rewards program due to rising reward redemption rates. Excluding this adjustment, net income rose \$108 million or 12%.

Revenue increased \$90 million or 2%, driven by strong volume growth in both Canadian and U.S. operations. The growth rate was mitigated by a reduction in revenue of \$82 million resulting from the lower Canadian/U.S. dollar exchange rate, the effect of lower net interest margin and the card fees adjustment. U.S. acquisitions contributed \$20 million of incremental revenue in 2004. We continue to benefit from higher inter-group referrals and our focus on initiatives to improve our sales and service capabilities, thereby improving our customer experience. Both the Canadian and U.S. markets are, however, becoming increasingly competitive.

In Canada, the commercial banking segment posted strong revenue gains resulting from loan growth and particularly strong deposit growth. In 2003, the commercial segment was affected by the SARS outbreak, the Ontario power outage, hurricanes and forest fires, and continues to be affected by a ban on beef exports. In the personal segment, strong volume growth was offset by lower net interest margins and reduced card fees. Residential mortgage revenues rose strongly, supported by Canada's robust housing market, but strong volume growth in consumer loans and deposits was offset by the impact of lower net interest margins. In the United States, revenue growth was driven by robust consumer and small business loan growth.

Personal and Commercial Client 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)		3,444	3,318	3,099	126	4
Non-interest revenue		1,470	1,506	1,463	(36)	(2)
Total revenue (teb)		4,914	4,824	4,562	90	2
Provision for credit losses		302	301	280	1	—
Non-interest expense		3,084	3,075	2,984	9	—
Income before income taxes and non-controlling interest in subsidiaries		1,528	1,448	1,298	80	6
Income taxes (teb)		524	507	489	17	3
Non-controlling interest in subsidiaries		1	4	2	(3)	(75)
Net income		1,003	937	807	66	7
Amortization of intangible assets (after tax)		32	30	32	2	8
Cash net income		1,035	967	839	68	7
Net economic profit		581	515	406	66	13
Return on equity (%)		24.4	22.8	20.4		1.6
Cash return on equity (%)		25.3	23.5	21.2		1.8
Non-interest expense-to-revenue ratio (%)		62.8	63.8	65.4		(1.0)
Cash non-interest expense-to-revenue ratio (%)		62.0	63.1	64.7		(1.1)
Average net interest margin (%)		2.89	3.02	3.04		(0.13)
Average common equity		3,934	3,944	3,780	(10)	—
Average assets		119,089	109,909	102,049	9,180	8
Total risk-weighted assets		78,122	72,188	66,791	5,934	8
Average loans and acceptances		114,318	105,855	97,426	8,463	8
Average deposits		59,125	56,473	54,168	2,652	5
Assets under administration		10,955	11,295	14,452	(340)	(3)
Assets under management		—	—	371	—	—
Full-time equivalent staff		19,555	19,490	19,254	65	—

Net interest margin declined 13 basis points, falling comparably in both Canada and the United States as both were affected by the competitive low interest rate environment. In Canada, net interest margin was further reduced by a shift in customer preferences toward lower spread products, including residential mortgages, the popularity of our premium rate savings plans and borrowers switching to lines of credit. In the United States, in addition to the effect of the low interest rate environment, lower net interest margin was partly attributable to the addition of lower-yielding assets.

Non-interest expense rose \$9 million to \$3,084 million. Expenses were reduced \$58 million by the lower Canadian/U.S. dollar exchange rate. In Canada, higher employee-related costs and expenditures on certain initiatives were largely offset by the effects of a change in policy to capitalize certain costs of internally-developed software in 2004. In the United States, employee-related costs and acquisition and new branch opening costs were partially offset by the effects of the lower exchange rate. The group's productivity ratio improved 100 basis points to 62.8%; however, excluding the card fees adjustment, the productivity ratio improved 190 bps.