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Private Client Group

Group Description

Private Client Group (PCG) brings together all of BMO Financial Group's wealth management businesses. Operating under the BMO brand in Canada and Harris in the United States, PCG serves a full range of North American client segments, from mainstream to ultra-high net worth, as well as select institutional market segments. We offer our clients a broad range of wealth management products and services, including full-service and direct investing, private banking and investment products.

Vision

To be a provider of leading wealth management solutions in select North American markets, helping our clients to accumulate, protect and grow their assets.

Gilles G. Ouellette
President and Chief Executive Officer,
Private Client Group, BMO Financial Group
and Deputy Chair, BMO Nesbitt Burns

Strategies

- Deliver exceptional service and integrated wealth management solutions to our clients.
- Grow organically by providing integrated services to BMO's banking clients and leveraging its broad distribution network.
- Invest selectively in businesses where we can create incremental value.
- Drive continuous business optimization in support of sustainable productivity improvements.

Our Lines of Business

Full-Service Investing offers a full range of investing and wealth advisory services through BMO Nesbitt Burns. Our strategy is focused on providing our clients with the highest standard of customized advice.

North American Direct Investing operates as BMO InvestorLine in Canada and Harris*direct* in the United States, providing a self-guided investment experience for the informed long-term investor. We work with our partners in BMO Financial Group to enhance overall client relationships.

North American Private Banking offers integrated banking, trust and investment management services to high and ultra-high net worth clients in Canada and the United States. We use a client-driven model to deliver a complete range of financial products through an advisory approach.

Investment Products includes BMO Mutual Funds, Guardian Group of Funds, Harris Insight Funds and BMO Term Investments. We assist retail and commercial clients with investment and retirement planning by providing well-diversified investment products and solutions through multiple distribution channels. Investment Products also provides institutional money management services to external and internal clients through Jones Heward Investment Counsel and Harris Investment Management.

Strengths

- Award-winning product offerings and industry-recognized leadership in client service.
- Strategic foothold in selected high-growth wealth markets in the United States.
- Access to BMO's broad client base both in Canada and the United States.
- Prestige, recognition and trust of the BMO, BMO Nesbitt Burns and Guardian brands in Canada and the Harris brand in the United States.

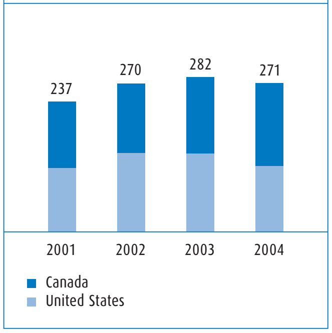
Challenges

- Continuing to enhance our operational efficiencies in both Canada and the United States.
- Improving profitability in U.S. businesses.
- Sustaining revenue growth amid economic and political uncertainty that affects market conditions and investor confidence levels.

Key Performance Drivers	2004	2003	2002
Increase in assets under management (%) (1)	**9.8**	11.7	4.0
Increase in assets under management and administration and term deposits (%) (1) (2)	**4.1**	14.7	16.2
Direct brokerage average daily trades	**21,518**	18,367	14,046

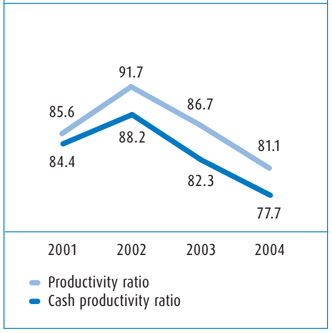
(1) Excludes the impact of changes in the Canadian/U.S. dollar exchange rate.
(2) Excludes exit of sub-custodial assets having minimal revenue.

Assets under Management and Administration including Term Deposits ($ billions)



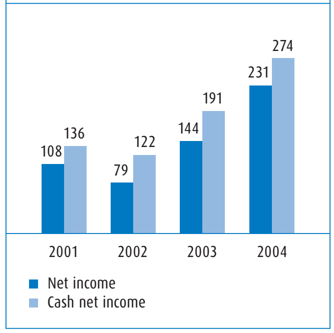
Assets declined, but continued to grow excluding the effects of the lower Canadian/U.S. dollar exchange rate.

Productivity Ratio and Cash Productivity Ratio (%)



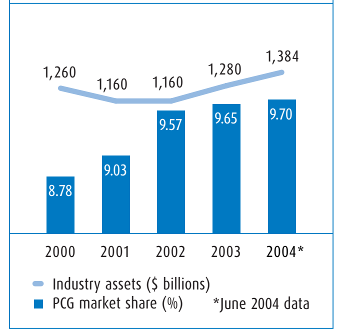
Productivity improved sharply in 2004 and 2003.

Net Income and Cash Net Income ($ millions)



Net income reached record levels in 2004.

Canadian Wealth Management Market Share (where available)



Market share increased each year.

2004 Objectives and Achievements

Pursue opportunities that focus on deepening client relationships and building momentum in the high-growth affluent market segment.

- Award-winning leadership in client services:
  - BMO InvestorLine was ranked the top online brokerage for the fifth consecutive year by Watchfire GómezPro and was *The Globe and Mail*'s choice as best online broker for the third consecutive year.
  - Harris*direct* was rated the best in customer service by *SmartMoney* and was awarded a four-star rating in *Barron's* annual online brokerage survey. In addition, Watchfire GómezPro rated Harris*direct*'s services in the top quartile for the fourth consecutive time.
  - BMO Harris Private Banking was selected Best Private Bank in Canada in *Euromoney Magazine*'s survey of private banking services.

Improve our cash productivity ratio by 150 to 200 bps.

- Improved cash productivity ratio by 460 bps, driven by sustainable cost containment initiatives and revenue growth.
- U.S. cash productivity ratio also improved by 460 bps.

Enhance our business model by continuing to improve productivity and invest in our high-growth wealth management businesses.

- Streamlined operations, which contributed to net income growth of 60% and improved cash productivity.
- Continued to optimize the Harris*direct* business model to maximize the benefits of future market improvements, while improving our ability to endure downturns in market cycles.

Focus on delivering the highest levels of service and integrated offerings to our clients by leveraging partnerships within PCG and across BMO Financial Group.

- Built on the solid progress made in previous years by continuing to increase referral activity within PCG and between PCG and our retail partner, Personal and Commercial Client Group (P&C). Referral activity with P&C increased by nearly one-third over last year.
- Integrated the unique service offerings of myCFO, Inc. and Sullivan, Bruyette, Speros & Blayney Inc. to further develop Harris Private Bank as a provider of comprehensive wealth management solutions.

Other Achievements

- The performance of our proprietary investment products exceeded the industry average.
  - Guardian Group of Funds mutual funds achieved a 12% average annual return on an asset-weighted basis for the three-year period ended October 31, 2004, compared with 5% for the Canadian mutual fund industry as a whole.
  - BMO Mutual Funds achieved the highest percentage growth in market share among the five largest Canadian banks over the past two years.
- Established a Wealth Advisory practice within Full-Service Investing for clients with diverse individual and family financial management needs.
- Increased ownership interest in Fullgoal Fund Management Company Ltd. to 27.8%, better positioning BMO to take advantage of growth opportunities in the Chinese investment market. Fullgoal is a creator and distributor of proprietary mutual fund products in China.

What's Next? Priorities for 2005

- Continue to enhance client offerings and deepen client relationships.
- Optimize our business model through specific revenue-generating initiatives and ongoing expense management.
- Continue to focus on the effectiveness of our sales force.
- Improve our cash productivity ratio by at least 150 bps.

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Business Environment and Outlook

The investment climate was generally favourable in 2004; however, heightened investor uncertainty in the latter half of the year affected trading activity. As a result, the increased client trading activity experienced in the first half of the year was followed by a moderate decrease in the second half. Nevertheless, trading activity overall remained higher than in 2003. Increased managed asset balances drove strong fee-based revenue growth for the year, but the low interest rate environment affected both investor demand and the net interest margin on term investments.

In 2005, GDP growth is anticipated to be 3.2% in Canada, a modest improvement over the 2004 growth rate. U.S. GDP is projected to grow 3.7%, a slightly slower pace than in 2004. The Federal Reserve started raising interest rates in 2004, but future increases should be quite gradual. It is anticipated that equity market values and activity levels will remain solid, which should translate into healthy client trading activity and relatively stable managed asset balances. Long-term demographic trends remain favourable for wealth management services. These trends should continue to drive improvements in the group's results.

Private Client Group Financial Results

Private Client Group net income reached a record $231 million, an increase of $87 million over 2003. All four lines of business made solid contributions to earnings growth with higher non-interest revenue and the benefits of cost reduction initiatives. Net interest income declined, primarily due to lower net interest margin earned in term investment products.

Cost reduction initiatives, combined with lower acquisition-related expenses, were significant contributors to the group's net income growth rates of 60% in 2004 and 82% in 2003. Going forward, continuous business optimization is expected to provide additional expense reductions. However, future net income growth will depend primarily on increasing revenues.

Revenue grew $113 million or 7% to $1,850 million. Commission and fee-based revenue growth across all the group's businesses was driven by revenue-generating initiatives and an overall improvement in market conditions. Full-Service Investing and the mutual fund businesses experienced strong revenue growth. The prolonged low interest rate environment, which affected the net interest margin earned in term investment products, resulted in a decline in net interest income. The lower Canadian/U.S. dollar exchange rate reduced revenue growth by $48 million, particularly in the group's direct investing and global private banking businesses.

Non-interest expense decreased to $1,500 million. The small expense reduction contrasted favourably with growth of 13% in non-interest revenue, reflecting the group's success in reducing non-revenue-based expenses. The group's productivity ratio improved by 560 basis points from a year ago to 81.1%. The lower Canadian/U.S. dollar exchange rate reduced expenses by $53 million.

Private Client Group ($ millions, except as noted)

Reported As at or for the year ended October 31	2004	2003	2002	Change from 2003 $	Change from 2003 %
Net interest income (teb)	499	541	518	(42)	(8)
Non-interest revenue	1,351	1,196	1,106	155	13
Total revenue (teb)	1,850	1,737	1,624	113	7
Provision for credit losses	2	2	1	–	–
Non-interest expense	1,500	1,505	1,490	(5)	–
Income before income taxes and non-controlling interest in subsidiaries	348	230	133	118	52
Income taxes (teb)	117	86	54	31	38
Net income	231	144	79	87	60
Amortization of intangible assets (after tax)	43	47	43	(4)	(8)
Cash net income	274	191	122	83	43
Net economic profit	105	7	(23)	98	+100
Return on equity (%)	14.5	8.1	5.4		6.4
Cash return on equity (%)	17.3	10.9	8.7		6.4
Non-interest expense-to-revenue ratio (%)	81.1	86.7	91.7		(5.6)
Cash non-interest expense-to-revenue ratio (%)	77.7	82.3	88.2		(4.6)
Average net interest margin (%)	9.37	10.22	9.49		(0.85)
Average common equity	1,536	1,667	1,315	(131)	(8)
Average assets	5,326	5,292	5,453	34	1
Total risk-weighted assets	4,280	4,557	5,182	(277)	(6)
Average loans and acceptances	2,843	2,686	3,061	157	6
Average deposits	42,088	41,575	39,720	513	1
Assets under administration	156,650	170,255	160,210	(13,605)	(8)
Assets under management	79,939	75,900	74,981	4,039	5
Full-time equivalent staff	5,268	5,469	5,942	(201)	(4)

There was a net loss in U.S. operations of $15 million in 2004, an improvement of $27 million from 2003. Cash net income was $26 million. Revenue of $560 million decreased $15 million, but would have improved by $33 million if the Canadian/U.S. dollar exchange rate had remained unchanged. Successful revenue-generating initiatives, combined with an overall improvement in market conditions, drove the increase. Non-interest expense decreased $53 million, but would have remained relatively unchanged if the Canadian/U.S. dollar exchange rate had remained unchanged. Successful cost reduction initiatives offset higher revenue-based expenses and severance and other business optimization costs incurred in the fourth quarter. The U.S. operations' productivity ratio improved by 670 basis points.