

At BMO Financial Group, we believe that social responsibility begins with a commitment to ethical behaviour. By conducting our business and serving our customers and communities according to the principles of honesty, transparency and accountability, we earn the trust that is the foundation of our business.

BMO maintains a comprehensive code of conduct – *FirstPrinciples, Our Code of Business Conduct and Ethics* – and has established specific behavioural standards through FirstPrinciples and related policies, standards and guidelines.

We exercise the fundamental rule of good banking practice, “Know your customer,” in the course of all business dealings with customers and in the evaluation of prospective customers.

- We will not knowingly conduct any type of business with customers whose money is derived from illegal activities. Management considers the reputation, integrity and character of a counterparty and/or its management in deciding whether to conduct business with that counterparty.
- We will not complete any transaction of any type or operate any account for customers who fail to provide evidence of their identity, source of funds, or any other information we require to establish the good faith of a customer.

Furthermore, we avoid providing preferential treatment when entering into banking transactions with a political party, constituency association, candidate, leadership contestant or any other public official (including any such individual’s family and/or related business enterprises).

BMO adheres to the principles of confidentiality and privacy in customer relations. We follow applicable codes of conduct and legislation that protect and respect personal information and initiate fair and timely redress of customer complaints and concerns. We also maintain strict conflict of interest rules for employees, officers and directors.

In the development of foreign business, we consider ethical, political, social and economic factors in addition to other more traditional lending considerations. We do not knowingly lend, in North America or internationally, for purposes that support the suppression of basic individual freedoms, encourage racial discrimination or national hatreds, or promote the use of violence or repression.

We are committed to truthful and ethical practices in advertising.

We champion principles of inclusion through our diverse workforce and supportive and equitable workplace.

Quarterly Earnings Trends

BMO’s quarterly earnings, revenue and expense are modestly affected by seasonal factors. Since our second fiscal quarter has 89 days (90 days in a leap year) and other quarters have 92 days, second-quarter results are lower relative to other quarters because there are 3% fewer calendar days, and thus fewer business days. The months of July (third quarter) and August (fourth quarter) are typically characterized by lower levels of capital markets activity, which has an effect on results in Private Client Group and Investment Banking Group. The December holiday season also contributes to a slowdown in some activities; however, credit card purchases are particularly robust in that first quarter period, as well as in the back-to-school period that falls in our fourth quarter.

Quarterly results and statistics for the past eight quarters are outlined on page 69. The most compelling trend, albeit one that was not sustained in the last quarter of 2004, was that of increasing earnings. Net income had risen in nine consecutive quarters until then. Nonetheless, we continued to benefit from focusing on improving productivity and from superior credit management, and through the last quarter of 2004, we had achieved nine consecutive quarters of year-over-year quarterly earnings growth.

The most significant factor contributing to the trend of increasing earnings was a lowering of provisions for credit losses, although improvements were broadly based, with

earnings generally trending higher in all operating groups. The provision totalled \$150 million in the first quarter of fiscal 2003, but declined in each quarter, totalling only \$5 million in the second quarter of 2004 and improving to a net recovery in the third and fourth quarters. The improvements reflected improving credit quality that reduced the incidence of new problem loan formations and expected losses when they occur. Recoveries of allowances established in prior periods and of amounts previously written off also contributed to the improvement. These recoveries can be quite unpredictable and were particularly high in the third quarter of 2004. Improving credit quality and lower corporate loan balances also contributed to reductions of the general allowance for loan losses, which was reduced in each quarter of 2004 and by \$170 million for the year, the first time in more than 10 years that any portion of the general allowance had been released.

Other notable trends were the weakening of the U.S. dollar, which has reduced revenues and expenses, general improvements in the results of Private Client Group and Investment Banking Group, which benefited from more activity in capital markets and higher equity valuations, and higher earnings in Personal and Commercial Client Group related to higher volumes. Improved results in Corporate Support were largely due to lower provisions for credit losses.

Review of Fourth Quarter Performance

Net income for the fourth quarter of 2004 was \$563 million, an increase of \$50 million or 10% from the fourth quarter a year ago. The increase was attributable to a \$108 million (\$70 million after tax) improvement in the provision for credit losses. In addition, earnings were higher in each of the operating groups as higher volumes in our personal and commercial business drove increased earnings, while lower revenue in our capital markets businesses was more than offset by reduced performance-based compensation and effective cost containment. Corporate Support net income was affected by reduced revenue related to lower investment securities gains and lower investment earnings in the low interest rate environment.

Revenue for the quarter decreased \$99 million or 4.2% from a year ago. Both net interest income and non-interest revenue declined, in part due to the weaker U.S. dollar.

Net interest income fell \$40 million or 3.2% from the fourth quarter of last year to \$1,239 million. Volume-driven growth in Personal and Commercial Client Group was largely offset by lower net interest earnings in Investment Banking Group and Private Client Group. Investment Banking Group was affected by lower asset levels and higher short-term interest rates that increased funding costs. Private Client Group was affected by low interest rates that reduced spread and lowered demand for term investments. Net interest margin was 1.87% for the quarter, a decrease of 4 basis points from a year ago, and average assets fell \$1.9 billion to \$264 billion.

Non-interest revenue declined \$59 million from the fourth quarter of 2003 to \$1,073 million, in part due to the lower Canadian/U.S. dollar exchange rate. Higher mutual fund revenues, lending fees and investment securities gains were offset by lower trading and securitization revenue and lower card fees due to higher reward redemption rates. Non-interest revenue declined \$61 million in Corporate Support, primarily related to lower investment securities gains and lower securitization income, the impact of which was partly offset by higher net interest income on securitizations.

Non-interest expenses of \$1,493 million in the fourth quarter decreased \$52 million or 3.4% from the fourth quarter of last year. The decrease was attributable to the \$33 million impact of the lower Canadian/U.S. dollar exchange rate and a \$108 million reduction in performance-based compensation. These factors were partially offset by \$20 million of severance and certain other costs, including back-office consolidation expenses in Private Client Group, the incremental effects of acquired businesses and low miscellaneous expenses a year ago.

Our productivity ratio was 64.6% in the fourth quarter, compared with 64.0% a year ago. Our cash productivity ratio in the quarter increased 40 basis points from a year ago to 63.5%.

The fourth quarter 2004 provision for income taxes of \$253 million increased \$11 million from the fourth quarter a year ago.

BMO hedges the foreign exchange risk arising from its net investment in U.S. operations by funding the net investment in U.S. dollars. Hedging of the net investment in U.S. operations gave rise to an income tax charge of \$254 million in shareholders' equity for the year and a charge of \$287 million in the fourth quarter, which is explained on page 33.

In the fourth quarter of 2004, there was a net recovery of credit losses of \$13 million, consisting of \$37 million of specific provisions and a \$50 million reduction of the general allowance for credit losses. A year ago, results reflected a specific provision of \$95 million with no change in the general allowance. The fourth quarter 2004 specific provision of \$37 million represents an annualized 9 basis points of average net loans and acceptances, compared with 25 basis points a year ago.

The fourth quarter 2004 specific provisions of \$37 million consisted of \$107 million of new provisions, less \$45 million of reductions of previously established allowances and \$25 million of recoveries on loans previously written off. Specific provisions in the comparable period in 2003 were \$95 million. The improvement in 2004 resulted from lower new provisions, as reductions of previously established allowances were quite high in the fourth quarter a year ago.

Summarized Statement of Income and Quarterly Financial Measures

(\$ millions)	Oct. 31 2004	July 31 2004	April 30 2004	Jan. 31 2004	Oct. 31 2003	July 31 2003	April 30 2003	Jan. 31 2003	2004	2003	2002
Net interest income (teb)	1,239	1,302	1,225	1,295	1,279	1,250	1,251	1,271	5,061	5,051	4,935
Non-interest revenue	1,073	1,121	1,251	1,106	1,132	1,084	957	1,047	4,551	4,220	3,924
Total revenue (teb)	2,312	2,423	2,476	2,401	2,411	2,334	2,208	2,318	9,612	9,271	8,859
Provision for credit losses	(13)	(110)	5	15	95	90	120	150	(103)	455	820
Non-interest expense	1,493	1,538	1,565	1,561	1,545	1,485	1,484	1,573	6,157	6,087	6,030
Income before provision for income taxes and non-controlling interest in subsidiaries	832	995	906	825	771	759	604	595	3,558	2,729	2,009
Provision for income taxes (teb)	253	327	289	278	242	239	179	180	1,147	840	530
Non-controlling interest in subsidiaries	16	14	15	15	16	16	16	16	60	64	62
Net income	563	654	602	532	513	504	409	399	2,351	1,825	1,417
Amortization of intangible assets, net of income taxes	19	21	19	19	18	19	20	22	78	79	75
Cash net income	582	675	621	551	531	523	429	421	2,429	1,904	1,492
Taxable equivalent basis adjustment (teb)	30	32	39	38	42	27	44	39	139	152	106
Reported revenue per financial statements	2,282	2,391	2,437	2,363	2,369	2,307	2,164	2,279	9,473	9,119	8,753
Operating group net income:											
Personal and Commercial Client Group	275	272	210	246	253	246	217	221	1,003	937	807
Private Client Group	54	59	63	55	44	39	27	34	231	144	79
Investment Banking Group	197	236	212	211	187	188	165	181	856	721	601
Corporate Support, including T&S	37	87	117	20	29	31	–	(37)	261	23	(70)
BMO Financial Group net income	563	654	602	532	513	504	409	399	2,351	1,825	1,417
Information per Common Share (\$)											
Dividends declared	0.44	0.40	0.40	0.35	0.35	0.33	0.33	0.33	1.59	1.34	1.20
Earnings											
Basic	1.08	1.27	1.16	1.02	0.99	0.97	0.78	0.77	4.53	3.51	2.73
Diluted	1.06	1.24	1.12	1.00	0.97	0.95	0.77	0.75	4.42	3.44	2.68
Cash earnings											
Basic	1.13	1.30	1.20	1.06	1.02	1.01	0.83	0.81	4.69	3.67	2.88
Diluted	1.10	1.27	1.17	1.03	1.00	0.99	0.81	0.79	4.57	3.59	2.83
Book value	24.24	24.31	23.82	22.87	22.09	21.92	21.34	21.33	24.24	22.09	21.07
Market price											
High	59.63	55.50	58.74	59.65	50.26	45.00	43.39	43.40	59.65	50.26	40.65
Low	52.05	49.50	50.88	49.28	41.88	39.44	39.30	37.79	49.28	37.79	31.00
Close	57.55	55.40	51.90	57.79	49.33	44.65	40.10	41.30	57.55	49.33	38.10
Financial Measures (%) (1)											
Five-year average annual total shareholder return	18.9	18.7	14.8	15.2	12.9	7.3	3.8	7.5	18.9	12.9	7.9
Dividend yield	3.1	2.9	3.1	2.4	2.8	3.0	3.3	3.2	2.8	2.7	3.1
Diluted earnings per share growth	9.3	30.5	45.5	33.3	29.3	46.2	35.1	5.6	28.5	28.4	0.8
Diluted cash earnings per share growth	10.0	28.3	44.4	30.4	26.6	41.4	37.3	5.3	27.3	26.9	(1.0)
Return on equity	17.8	21.0	20.4	18.3	17.9	18.0	15.2	14.3	19.4	16.4	13.4
Cash return on equity	18.5	21.7	21.1	19.0	18.5	18.8	15.9	15.1	20.1	17.1	14.2
Net economic profit growth	10.3	53.7	100+	94.9	74.1	100+	100+	6.7	59.6	91.8	(15.2)
Net income growth	9.7	29.9	46.9	33.6	28.9	45.6	36.1	7.1	28.8	28.8	(3.7)
Revenue growth	(3.8)	3.7	12.6	3.7	4.7	8.9	(1.3)	4.6	3.9	4.2	0.4
Revenue growth (teb)	(4.2)	3.9	12.1	3.6	5.4	8.9	(0.6)	5.1	3.7	4.7	–
Net interest margin	1.82	1.87	1.74	1.87	1.85	1.81	1.89	1.88	1.82	1.86	1.95
Net interest margin (teb)	1.87	1.92	1.80	1.92	1.91	1.84	1.96	1.94	1.88	1.91	1.99
Non-interest expense-to-revenue ratio	65.4	64.3	64.2	66.1	65.2	64.4	68.6	69.0	65.0	66.7	68.9
Non-interest expense-to-revenue ratio (teb)	64.6	63.5	63.2	65.0	64.0	63.7	67.2	67.9	64.1	65.7	68.1
Cash non-interest expense-to-revenue ratio (teb)	63.5	62.4	62.2	63.9	63.1	62.6	66.0	66.6	63.0	64.5	67.1
Provision for credit losses as a % of average net loans and acceptances	(0.03)	(0.28)	0.01	0.04	0.25	0.24	0.32	0.39	(0.07)	0.30	0.56
Canadian/U.S. dollar average exchange rate (\$)	1.264	1.342	1.339	1.307	1.351	1.374	1.462	1.555	1.313	1.435	1.571
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	6.75	7.83	9.04	11.03	12.15	12.91	14.88	14.66	6.75	12.15	15.16
Cash and securities-to-total assets	25.8	27.3	29.2	29.1	29.1	28.6	26.3	25.4	25.8	29.1	24.9
Tier 1 Capital Ratio	9.81	9.44	9.67	9.65	9.55	9.21	9.10	9.05	9.81	9.55	8.80

(1) All quarterly ratios have been annualized and all growth rates represent year-over-year growth.

In the opinion of Bank of Montreal management, information that is derived from unaudited financial information, including information as at and for interim periods, includes all adjustments necessary for a fair presentation of such information. All such adjustments are of a normal and recurring nature. Financial ratios for interim periods are stated on an annualized basis where appropriate, and the ratios, as well as interim operating results, are not necessarily indicative of actual results for the full fiscal year.