

Corporate Support, including Technology and Solutions

Technology and Solutions

Group Description

Technology and Solutions (T&S) manages and maintains information technology, processing, real estate and sourcing for BMO Financial Group. We provide governance in these four areas, focusing on enterprise-wide priorities that improve service quality and efficiency to deliver an excellent customer experience.

Vision

To be a top-tier service provider and a superior contributor to shareholder value for BMO Financial Group.



Lloyd F. Darlington
President and Chief Executive Officer,
Technology and Solutions

2004 Objectives and Achievements

Continue to realize improvements in productivity, standards, efficiency and year-over-year performance in alignment with BMO's strategy.

- In addition to the delivery of productivity-enhancing IT products and services to the enterprise as reported elsewhere in this MD&A, T&S:
 - Maintained high levels of service availability while reducing operating expenses by 3.2% from 2003.
 - Relocated a significant portion of our computer processing from Chicago to Toronto to reduce overall costs. Concurrent with this relocation, we announced plans to build a new computing centre in the city of Barrie, north of Toronto, that will provide 50% of our computing services. Initial processing will commence mid-2006 and the centre will be fully operational in 2008.
- We continue to advance our professional IT standards by embedding internationally accepted standards such as ISO 9001, CMM/CMMI and ITIL into our practices. These standards complement each other and provide competitive service and products, resulting in comprehensive high-quality solutions.
- We achieved recognition as a world-class information technology group in several industry-related programs and were the first Canadian financial institution to:
 - Achieve Level 4 certification in our development areas for the Software Engineering Institute Capability Maturity Model (SEI/CMM).
 - Acquire a specific ISO 9001 certification for project management in 2001. In 2004, our project management practice was successfully reassessed as ISO 9001 compliant.

What's Next? Priorities for 2005

- Continue to realize improvements in service quality and efficiency in alignment with BMO's strategy.

Corporate Support

Group Description

Corporate Support includes the corporate units that provide expertise and governance support to BMO Financial Group in areas such as strategic planning, law, finance, internal audit, risk management, corporate communications, economics, human resources and learning. Our operating results include revenues and expenses associated with certain securitization activities, the hedging of foreign-source earnings, and activities related to the management of certain balance sheet positions and BMO's overall asset-liability structure.

Operating results for Technology and Solutions (T&S) are included with Corporate Support for reporting purposes. However, costs of T&S services are transferred to the three client operating groups, and only minor amounts are retained in T&S results. As such, results in this section largely reflect Corporate Support activities.

Financial Results

Net income for the year was \$261 million, compared with \$23 million in 2003. The improvement was driven by a significantly lower provision for credit losses, as well as higher net gains on investment securities and foreign exchange translation, partially offset by lower net investment earnings in the sustained low interest rate environment and proportionately lower tax benefits in 2004.

Corporate Support is generally charged (or credited) with differences between the periodic provisions for credit losses charged to the client operating groups under our expected loss

provisioning methodology and the required periodic provisions charged by the consolidated organization under GAAP. However, during the third quarter of 2004, Investment Banking Group was credited with a \$39 million reduction in its provision for credit losses in respect of a recovery on a loan that was written off in 2001. The original specific provision for credit losses on this loan was charged to Investment Banking Group and was not subject to our expected loss provisioning methodology at the time.

Corporate Support, including Technology and Solutions

(\$ millions, except as noted)

Reported				Change from 2003	
	As at or for the year ended October 31	2004	2003	2002	\$ %
Net interest income (teb)	(187)	(201)	(160)	14	7
Non-interest revenue	203	255	287	(52)	(20)
Total revenue (teb)	16	54	127	(38)	(69)
Provision for credit losses	(545)	(79)	312	(466)	(+100)
Non-interest expense	143	138	143	5	3
Income before income taxes and non-controlling interest in subsidiaries	418	(5)	(328)	423	+100
Income taxes (teb)	98	(88)	(318)	186	+100
Non-controlling interest	59	60	60	(1)	(2)
Net income	261	23	(70)	238	+100
Full-time equivalent staff	6,641	6,893	7,301	(252)	(4)

Financial Condition Review

Balance Sheet

Summary Balance Sheet (\$ millions)

As at October 31	2004	2003	2002	2001	2000
Assets					
Cash resources	18,045	19,860	19,305	17,656	18,508
Securities	50,472	54,790	43,715	37,676	46,463
Net loans and acceptances	156,248	146,156	149,596	144,765	142,447
Other assets	40,429	35,688	40,248	39,312	25,978
	265,194	256,494	252,864	239,409	233,396
Liabilities and Shareholders' Equity					
Deposits	175,190	171,551	161,838	154,290	156,697
Other liabilities	74,420	69,605	75,338	69,763	59,847
Subordinated debt	2,395	2,856	3,794	4,674	4,911
Shareholders' equity	13,189	12,482	11,894	10,682	11,941
	265,194	256,494	252,864	239,409	233,396

Total assets increased \$8.7 billion or 3% from last year to \$265.2 billion at October 31, 2004, even though the weaker U.S. dollar reduced assets by \$5.4 billion. There was a \$10.1 billion increase in net loans and acceptances and a \$4.7 billion increase in other assets. These were partially offset by a \$4.3 billion reduction in securities and a \$1.8 billion decline in cash resources.