

# Value Measures

## Highlights

- We met or surpassed all of our performance targets in 2004.
- Total Shareholder Return (TSR) – BMO investors have earned an average annual TSR of 18.9% over the past five years and earned 20.0% in 2004.
- Earnings per Share (EPS) Growth – EPS increased 29% in 2004 to a record \$4.42, following a 28% increase in the prior year.
- Return on Equity (ROE) – BMO's ROE was 19.4% in 2004, the highest since 1978, and BMO is the only major bank in North America to earn an ROE of more than 13% for 15 consecutive years.
- Net Economic Profit (NEP) – All operating groups contributed to our highest-ever NEP, with NEP in Private Client Group and Investment Banking Group growing strongly.
- The quarterly dividend on our common shares was raised twice during the year, increasing by a total of 26% from a year ago.

## Total Shareholder Return

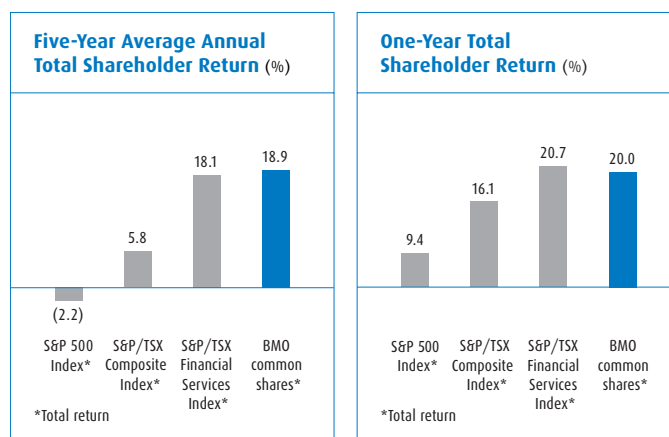
BMO's governing objective is to maximize the total return to our shareholders and generate, over time, first-quartile total shareholder return (TSR) relative to our Canadian and North American peer groups.

The five-year average annual TSR is a key measure of shareholder value and is the most important of our financial performance and condition measures, since it assesses our success in achieving our governing objective of maximizing return to shareholders. Over the past five years, shareholders have earned an average annual TSR of 18.9% on their investment in BMO's common shares. This compares favourably with an average annual return for the S&P/TSX Composite Total Return Index of 5.8% over the same period and was above the return for the S&P/TSX Financial Services Total Return Index of 18.1%. Dividends paid over the period and appreciation in BMO's share price are outlined in the table below. An investment of \$1,000 in Bank of Montreal common shares made at the beginning of fiscal 2000 would have been worth \$2,376 at October 31, 2004, assuming reinvestment of dividends, for a total return of 138%. Dividends paid over the five years have increased at an average annual rate of 10%. In 2004, the quarterly dividend on our common shares was raised twice, increasing by a total of 26% from the fourth quarter of 2003.

The average annual TSR of 18.9% for this most recent five-year period was up appreciably from the 12.9% average annual return for the five years ended October 31, 2003. The averages are affected by the yearly TSRs included in the calculations. The improvement reflected the removal of the negative 7.4% yearly return earned in 1999 from the averaging calculation and its replacement with the 20.0% return earned this year.

### The five-year average annual total shareholder return (TSR)

represents the average annual total return earned on an investment in BMO common shares made at the beginning of a five-year period. The return includes the change in share price and assumes that dividends received were reinvested in additional common shares. The one-year TSR also assumes that dividends were reinvested in shares.



Our strong returns to shareholders have outperformed market indices over five years.

Our one-year return of 20% was in line with the financial services index and above the market averages.

The 20.0% TSR earned in fiscal 2004 compared favourably with the 16.1% return of the S&P/TSX Composite Total Return Index. Our one-year TSR was slightly below the S&P/TSX Financial Services Total Return Index.

Pages 18 and 20 provide further comment on shareholder return and include peer group comparisons.

## Total Shareholder Return

For the year ended October 31	2004	2003	2002	2001	2000	Five-year CAGR (1)
Closing market price per common share (\$)	57.55	49.33	38.10	33.86	35.25	15.2%
Dividends paid (\$ per share)	1.50	1.29	1.18	1.09	0.99	10.1%
Dividends paid (%)	3.0	3.4	3.5	3.1	3.5	
Increase (decrease) in share price (%)	16.7	29.5	12.5	(3.9)	24.4	
Total annual shareholder return (%) (2)	20.0	33.4	16.2	(1.2)	29.0	

(1) Compound annual growth rate (CAGR).

(2) Total annual shareholder return assumes reinvestment of quarterly dividends and therefore does not equal the sum of dividend and share price returns in the table.

## Earnings per Share Growth

The year-over-year percentage change in earnings per share (EPS) is our key measure for analyzing earnings growth. All references to EPS are to diluted EPS, unless indicated otherwise.

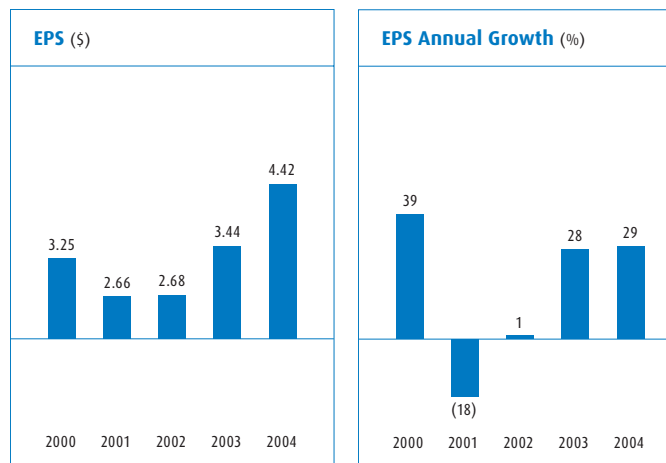
EPS was a record \$4.42, up 29% from a then-record \$3.44 in 2003. Cash EPS was \$4.57, up 27% from \$3.59 a year ago. EPS growth exceeded our annual target of 10% to 15%. Excluding a \$170 million reduction of the general allowance for credit losses in 2004, EPS rose 22% to \$4.21. In 2005, we are targeting EPS growth of 3% to 8% from this base of \$4.21, excluding any change in the general allowance. Our EPS growth target for 2005 is lower than both our 2004 growth target and 2004 performance because we expect provisions for credit losses to increase in 2005 from unusually low levels in 2004 as new provisions, recoveries and reversals are anticipated to return to more normal levels. Our targets for 2005 have also been established in the context of our expectations for the economy, as set out in our economic outlook for 2005, which is outlined on page 22.

Our five-year compound average annual EPS growth rate was 13.6%, above our medium-term financial objective of 10%, as EPS increased to \$4.42 in 2004 from \$2.34 in 1999. Improved credit performance in 2003 and 2004 were significant contributors to high average annual EPS growth.

Net income was \$2,351 million, up 29% from \$1,825 million a year ago. The \$526 million increase in net income was largely attributable to a \$558 million (\$363 million after tax) improvement in credit performance, which represented approximately two-thirds of the 29% increase in net income, and to strong operating group results. All three client operating groups improved their productivity and earned record net income in 2004. Personal and Commercial Client Group net income rose \$66 million or 7% from a year ago, as strong volume growth more than offset the impact of reduced card fees and lower net interest margin in the competitive low interest rate environment. Private Client Group net income was up \$87 million or 60%, and Investment Banking Group net income rose \$135 million or 19%. Both groups benefited from the more favourable capital markets environment, particularly in the first half of the year. Earnings in Corporate Support rose \$238 million, as the benefits of BMO's improved credit performance are largely reflected in results of Corporate Support under our expected loss provisioning methodology, which is explained in the Corporate Support section on page 49.

Revenue on a taxable equivalent basis, which is explained on pages 26 and 28, increased \$341 million or 4% to \$9,612 million. Revenue grew in each of our three client operating groups, with Personal and Commercial Client Group growing 2%, and Investment Banking Group and Private Client Group both growing 7%. Personal and Commercial Client Group revenue rose on higher volumes and the inclusion of businesses acquired in the United States, partially offset by the impact of lower net interest margins and lower card fees. Private Client

**Earnings per share (EPS)** is calculated by dividing net income, after deduction of preferred dividends, by the average number of common shares outstanding. Diluted EPS, which is our basis for measuring performance, adjusts for possible conversions of financial instruments into common shares if those conversions would lower EPS, and is more fully explained in Note 22 on page 115 of the financial statements.



EPS in 2004 rose 29% from a then-record \$3.44 in 2003.

Improved credit performance and business growth have driven two years of strong earnings growth.

Group revenue growth was due to higher commission and fee-based revenues, driven by successful revenue-generating initiatives and improved market fundamentals. Investment Banking Group revenue growth was attributable to higher securities trading commissions, underwriting fees, net gains on investment securities and the inclusion of revenues from Harris Nesbitt Gerard. Corporate Support revenue decreased largely due to lower net investment earnings in the low interest rate environment. Revenue was reduced \$243 million by the weaker U.S. dollar. Revenue is discussed further on page 28.

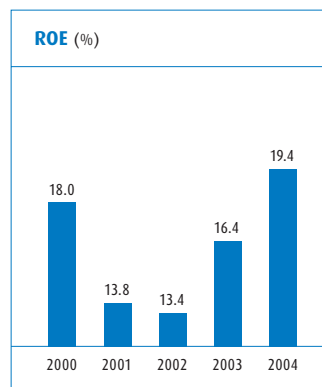
There was a net recovery of credit losses of \$103 million, consisting of \$67 million of specific provisions and a \$170 million reduction of the general allowance for credit losses. A year ago, results reflected a specific provision of \$455 million with no change in the general allowance. The lower provision was attributable to improved credit performance experienced over the year. The provision for credit losses is discussed further on page 31.

Non-interest expense increased \$70 million or 1% to \$6,157 million, reflecting effective cost management. Expenses were also affected by higher performance-based compensation costs and the impact of acquired businesses, partially offset by the impact of the weaker U.S. dollar. Non-interest expense is discussed further on page 32.

## Return on Equity

Return on equity (ROE) is another key value measure. We achieved an ROE of 19.4% in 2004, up from 16.4% in 2003. BMO has now generated an ROE of more than 13% in each of the past 15 years, and is the only major North American bank to meet this test of earnings consistency. The 19.4% return was above our annual target of 16% to 18% because of higher net income earned in the year. The return in 2004 was also higher than our medium-term financial objective of 18% to 19% ROE, over time.

Table 3 on page 71 contains ROE statistics for the past 10 years. Pages 18 and 20 provide further comment on ROE and include peer group comparisons.



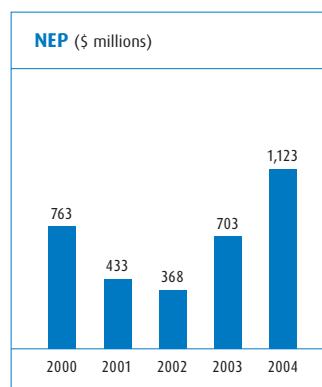
Our ROE in 2004 was the highest since 1978.

**Return on common shareholders' equity (ROE)** is calculated as net income, less preferred dividends, as a percentage of average common shareholders' equity. Common shareholders' equity is comprised of common share capital, contributed surplus, net unrealized foreign exchange gain (loss) and retained earnings.

## Net Economic Profit Growth

The last of our four key value measures is net economic profit (NEP) growth. NEP increased 60% to \$1,123 million, as cash net income was substantially higher in 2004 than in the previous year. The solid growth of NEP in 2004 follows growth of 92% in 2003. All three client operating groups contributed to the growth. Slightly more than half of BMO's NEP was attributable to Personal and Commercial Client Group. Investment Banking Group's NEP almost doubled from 2003 and Private Client Group contributed more than \$100 million of NEP, compared with \$7 million in 2003.

Pages 18 and 20 provide further comment on NEP growth and include peer group comparisons.



Our NEP in 2004 was our highest ever.

**Net economic profit (NEP)** represents cash net income available to common shareholders, less a charge for capital. NEP is an effective measure of economic value added. NEP is a non-GAAP measure. See page 26.

### Net Economic Profit (\$ millions, except as noted)

For the year ended October 31	2004	2003	2002	2001	2000
Net income available to common shareholders	2,275	1,743	1,338	1,391	1,756
After-tax impact of the amortization of goodwill and other valuation intangibles	78	79	75	101	74
Cash net income available to common shareholders	2,353	1,822	1,413	1,492	1,830
Charge for capital*	(1,230)	(1,119)	(1,045)	(1,059)	(1,067)
Net economic profit	1,123	703	368	433	763
Net economic profit growth (%)	60	92	(15)	(43)	90
*Charge for capital					
Average common shareholders' equity	11,720	10,646	9,973	10,100	9,745
Cost of capital (%)	10.5	10.5	10.5	10.5	11.0
Charge for capital	(1,230)	(1,119)	(1,045)	(1,059)	(1,067)