

# Personal and Commercial Banking U.S. (P&C U.S.)

## Who We Are

"We are here to help" – serving more than 1.2 million customers and working together with other Harris and BMO businesses in select U.S. Midwest markets. We respond to their needs in the way they prefer – online, in person or over the phone. Our emphasis on being an active part of the community allows us to use our local knowledge, specialized sales force and integrated distribution network of over 280 branches, our call centre, online banking and more than 640 automated banking machines to effectively deliver the highest level of service to our customers.



"We provide the help that enables our customers to have confidence in their financial decisions."

**ELLEN COSTELLO**  
PRESIDENT AND CHIEF EXECUTIVE OFFICER  
HARRIS FINANCIAL CORP.

### Strengths and Value Drivers

- A rich heritage of over 125 years across the U.S. Midwest with the established Harris brand and a commitment to service excellence.
- Strong market coverage, with over 280 branches conveniently located in communities in the Chicago area, Indiana and Wisconsin, allowing our customers to conduct transactions at any location as well as online and through our call centre.
- Deep relationships with local communities, businesses and leaders.
- A community banking business approach focused on delivering a differentiated customer experience, with competitive product offerings, an effective distribution network, including our call centre, online banking and ABMs, and strong sales management and marketing capabilities.
- Opportunity to leverage the capabilities and scale of BMO Financial Group while emphasizing local authority, accountability, knowledge and commitment.

### Challenges

- The economic environment is very difficult, with contracting credit markets, a changing regulatory environment and persistent uncertainty over the strength of the overall economy.
- Chicago-area market dynamics remain intensely competitive within a consolidating U.S. marketplace as banks compete aggressively on price to achieve deposit growth.

## Our Lines of Business

**P&C U.S.** offers a full range of products and services to consumers and businesses, including deposit and investment services, mortgages, consumer credit, business lending, cash management and other banking services.

### VISION

To be the bank that defines great customer experience.

### PATH TO DIFFERENTIATION

- A culture focused on being helpful to customers in unexpected ways and providing customers with the information and proactive guidance they need to make the right financial decisions and feel confident about choosing Harris as their financial services provider.
- Strong, dynamic leaders with the knowledge, relationships, skills and authority to act decisively and responsibly.
- Ongoing training and coaching philosophy that develops the capabilities of our front-line sales and service employees to exceed expectations.
- A disciplined and transparent performance management system, aligned with our objectives, that rewards top performers and motivates underperformers.
- Highly effective community outreach and targeted marketing that combines strong, centralized expertise with local market insight.

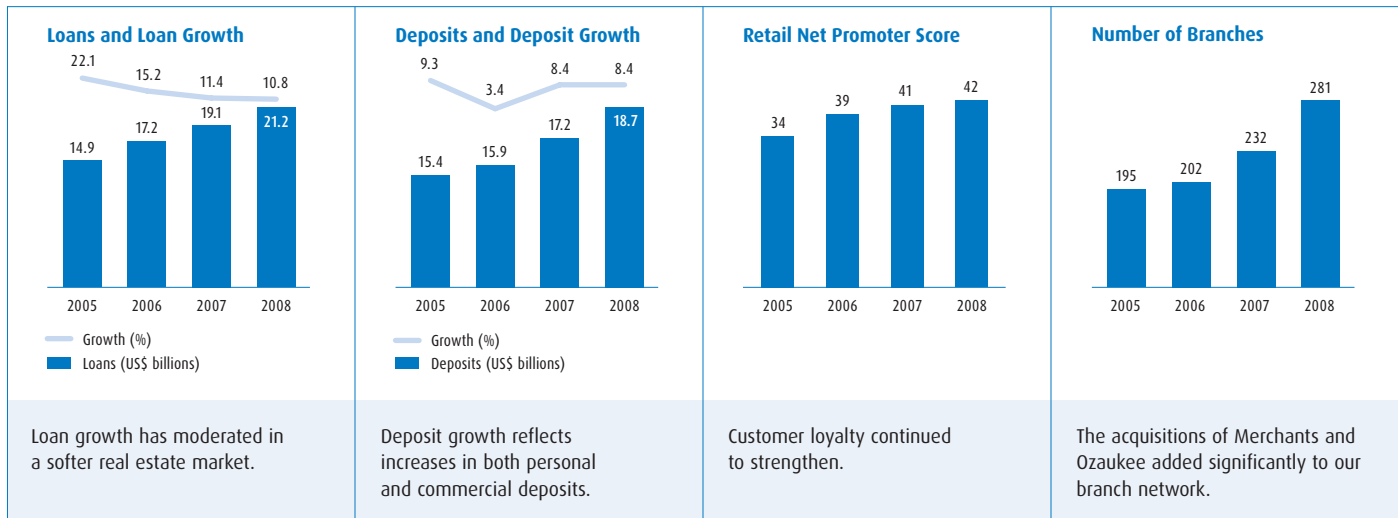
### STRATEGIES

- Deliver a differentiated customer experience, being helpful in unexpected ways and responsive to evolving customer needs and preferences.
- Deliver an integrated and differentiated experience for our customers with wealth management needs, in partnership with Private Client Group.
- Grow our commercial businesses and become the leading player in our markets through aggressively building our capabilities and strengthening our focus on this segment.
- Continue to expand our distribution network through a combination of acquisitions and organic expansion, taking advantage of recent market and industry events.
- Improve productivity through a performance-driven culture, putting the best people in key positions with clear accountabilities for results.

Key Performance Metrics and Drivers	2008	2007	2006
Average US\$ loan growth (%)	<b>10.8</b>	11.4	15.2
Average US\$ deposit growth (%)	<b>8.4</b>	8.4	3.4
Cash operating leverage (%)	<b>(7.0)</b>	(1.7)	(2.4)
Number of branches	<b>281</b>	232	202
Employee engagement index (1)	<b>74</b>	72	69
Retail Net Promoter Score (2)	<b>42</b>	41	39

(1) Source: BMO's Annual Employee Survey, conducted by Burke Inc., an independent research company.

(2) A measure of the strength of customer loyalty.



## 2008 Group Objectives and Achievements

### Improve financial performance by growing revenue and effectively managing costs.

- Revenues increased by 15%; however, cash productivity excluding integration costs deteriorated 370 bps, reflecting the challenging economic and competitive environment.

### Continue to refine our customer experience, providing excellent service to retain existing customers, expand our relationships and attract new business.

- Continued to increase our retail Net Promoter Score, from 41 to 42, while the average scores of both network banks and community banks declined.
- Increased referral volumes by 27% under One Harris, a program to encourage the sale of products across all lines of business.
- Launched customer experience standards to better define and deliver great customer experience.

### Improve sales force productivity across all our lines of business.

- Internal referrals per service representative increased 21% year over year.
- Commercial mid-market closed loans increased 62% year over year.

### Expand our commercial sales force in Chicago and surrounding areas.

- Added more than 40 new hires to business banking.
- Grew our commercial mid-market client count by 6% in a flat market.

### Continue our expansion in the U.S. Midwest.

- Completed the integration of our Wisconsin acquisitions, increasing our branch count to over 280.
- Both one-time integration costs and operating expense efficiencies expected to be superior to original business case.

### 2009 Group Objectives

- Improve financial performance by growing revenue and effectively managing costs.
- Continue to leverage our leadership position in the Chicago area and increase our presence and visibility in all other markets where we compete.
- Deliver a differentiated customer experience that fosters customer advocacy, as measured by our retail Net Promoter Score.

## U.S. Business Environment and Outlook

Chicago's financial services marketplace remains one of the most fragmented in the United States, encompassing more than 250 banks. Harris and the two other largest banks have together held 25% to 30% of the personal and commercial deposit market since 1997. The Chicago area remains a highly contested market because of its fragmentation and the growth opportunities it presents. Competitors are attempting to capture market share through acquisitions, aggressive pricing and significantly increased brand marketing. Bank of America's acquisition of LaSalle Bank, J.P. Morgan Chase's acquisition of Washington Mutual and PNC's acquisition of National City will shift the competitive dynamic by further consolidating the market.

We expect the local Chicago economy and credit markets to remain weak in 2009, consistent with the broader U.S. economy. The implementation of tighter lending practices and declining home prices will likely continue to dampen demand for residential mortgages and home equity loans. The level of consumer spending remains low and is at risk of weakening further if home prices continue to decline.

In 2009, we plan to continue to grow our distribution network through organic expansion and possible acquisitions, opportunistically taking advantage of the current market disruption. We will strive to improve our financial performance by focusing on revenue growth and effectively managing costs. By building our business around enduring client relationships, we expect to continue to enhance our reputation as a high-quality, client-focused bank.

## P&C U.S. Financial Results

P&C U.S. net income was \$96 million in 2008, a \$20 million or 17% decline from 2007. On a U.S. dollar basis, net income decreased \$12 million or 11%. The remainder of this discussion is on a U.S. dollar basis.

Revenue increased \$126 million or 15% to \$959 million. The increase was largely driven by acquisitions (\$51 million) and the gain on sale of a portion of our investment in Visa upon its successful initial public offering (IPO) (\$38 million). The remaining increase reflected volume and deposit spread improvement as well as stronger fee revenues, partially offset by the impact of difficulties in credit markets.

Net interest margin fell 37 basis points, largely due to the 22 basis point impact of a transfer of a portfolio from Corporate Services, higher levels of non-performing loans and the highly competitive environment. The overall decline in net interest margin was mitigated by pricing actions in certain loan and deposit categories.

Non-interest expense increased \$139 million or 22% to \$773 million. Excluding a Visa litigation reserve of \$24 million related to the IPO and operating and integration costs of acquired businesses of \$55 million, expense increased \$60 million or 9.5%. The remaining increase reflected our continued targeted investment and expansion efforts, including the cost of previously committed new branches, sales force expansion and advertising, increased costs related to the difficult credit market environment and costs associated with higher business volumes. These factors were partially offset by the impact of our expense management initiatives.

The P&C U.S. cash productivity ratio deteriorated by 470 basis points to 77.5%. Excluding acquisition integration costs of \$23 million, the cash productivity ratio was 75.1%.