



**FINANCIAL RESULTS**  
FIRST QUARTER 2004

**KAREN MAIDMENT**

*Senior Executive Vice President & CFO*

Investor Community Conference Call  
February 24, 2004

EPS GROWTH  
**33.3%**

Annual Target 10 - 15%

ROE  
**18.3%**

Annual Target 16 – 18%

PCL  
**\$ 55 MM**

Annual Target < \$500MM

TIER 1 CAPITAL  
**9.65%**

Annual Target > 8.0%

CASH PRODUCTIVITY  
**63.9%**

Annual Target 150 –  
200 bps improvement

## Q1 2004 *Financial Highlights*

- **Net Income \$532 MM**  
- up 34% Y/Y and up 4% Q/Q
- **Cash Productivity Ratio 63.9%**  
- 270 bps improvement Y/Y; 80 bps higher Q/Q
- **PCL at \$55 MM**  
- \$55 MM specific provision net of \$40 MM reduction of general allowance (\$15 MM net)  
- reflects favourable credit environment
- **Annual Provision for Credit Losses** now anticipated to be \$300 MM or less, excluding reduction of general allowance
- **Operating Groups**  
- Y/Y growth in all Operating Groups

## Financial Summary Q1 2004

| Performance Measure           | Q1 2004 | Q1 2003 | Q4 2003 |
|-------------------------------|---------|---------|---------|
| Net Income (\$MM)             | 532     | 399     | 513     |
| Cash EPS – Diluted (\$/share) | 1.03    | 0.79    | 1.00    |
| EPS – Diluted (\$/share)      | 1.00    | 0.75    | 0.97    |
| Cash Return on Equity (%) *   | 19.0    | 15.1    | 18.5    |
| Return on Equity (%)*         | 18.3    | 14.3    | 17.9    |
| Revenue Growth – Y/Y (%)      | 3.6     | 5.1     | 5.4     |
| Expense Growth – Y/Y (%)      | (0.7)   | 7.5     | (3.6)   |
| Cash Productivity Ratio (%)   | 63.9    | 66.6    | 63.1    |
| Productivity Ratio (%)        | 65.0    | 67.9    | 64.0    |
| PCL/Avg. Loans Accept. (%)*   | 0.04    | 0.39    | 0.25    |
| Capital: Tier 1 Ratio (%)     | 9.65    | 9.05    | 9.55    |

\* Annualized

## Q1 2004 Items

| Item                                | Pre-Tax Impact (\$MM) | After-Tax Impact (\$MM) | EPS Impact (\$/share) |
|-------------------------------------|-----------------------|-------------------------|-----------------------|
| Mortgage Prepayment Fees            | 42                    | 27                      | 0.05                  |
| BMO Shares held by BMO subsidiaries | (26)                  | (16)                    | (0.03)                |
| Reduction of General Allowance      | 40                    | 26                      | 0.05                  |
| Future Income Tax Charge            | -                     | (19)                    | (0.04)                |
| <b>Net Impact</b>                   | <b>56</b>             | <b>18</b>               | <b>0.03</b>           |

## Q/Q Earnings Growth Drivers:

- Lower specific provision for credit losses
- Higher net gains on investment securities
- Improved volumes offset by lower net interest margin and reduced other income reflected in business growth

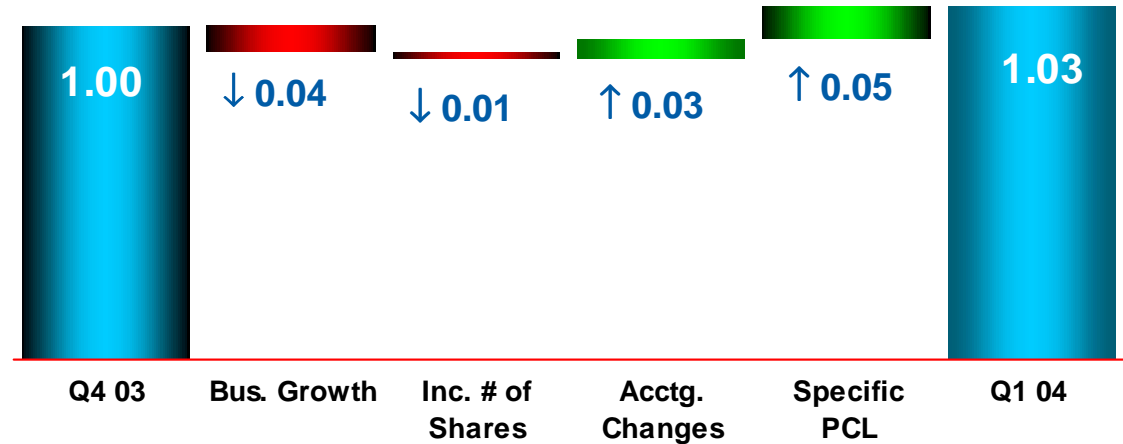
## Y/Y Earnings Growth Drivers:

- Lower specific provision for credit losses
- Improved overall operating group performance

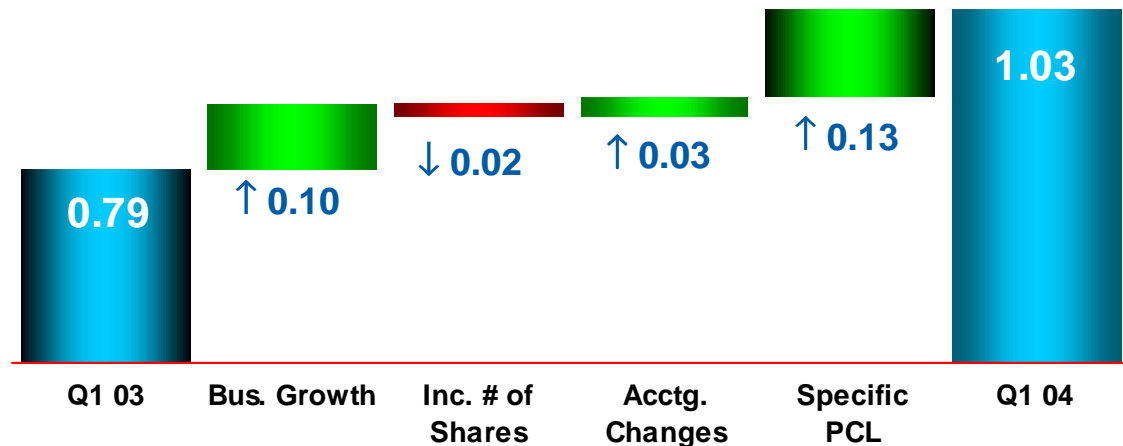
## Cash EPS Growth (\$/share)

Reflects improved credit environment

### Q1 '04 vs Q4 '03 (\$MM)



### Q1 '04 vs Q1 '03 (\$MM)



## Q/Q Business Growth

- Higher underwriting fees and trading revenue in IBG
- Higher market-driven revenue in PCG
- Improvements above offset by lower revenue in Corporate Support and lower net interest margins

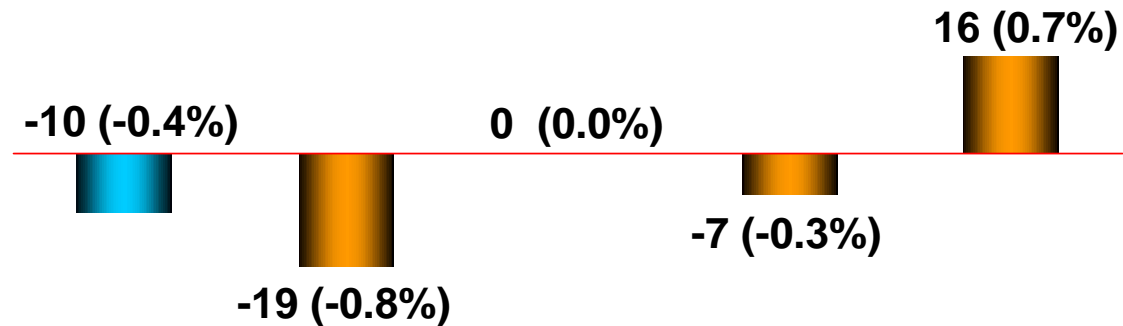
## Y/Y Business Growth

- Growth in mortgages, deposits and card services partially offset by lower margins
- Improved client transaction volumes in IBG and higher debt and equity origination fees
- Increased client trading volumes and higher managed asset values

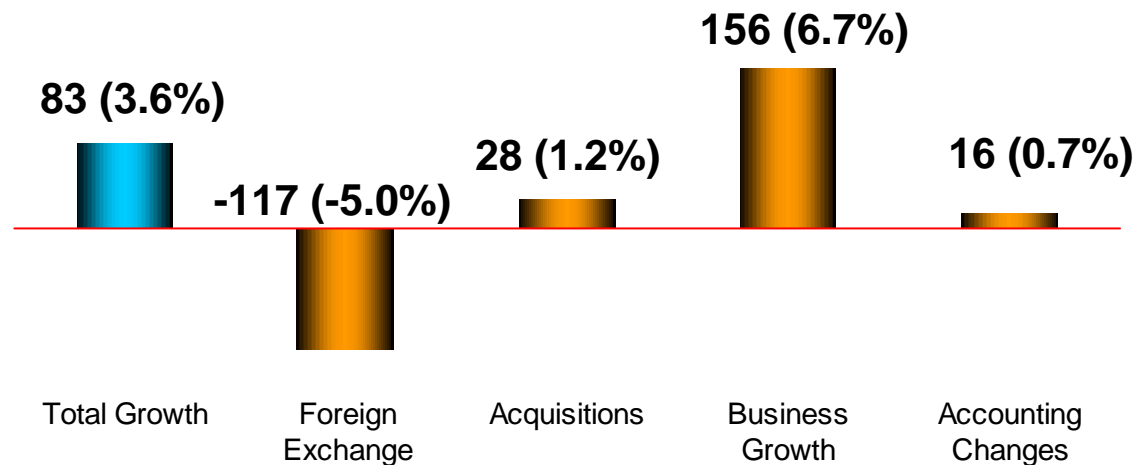
## Revenue Growth

Revenue stable Q/Q despite pressure on margins

### Q1 '04 vs Q4 '03 (\$MM)



### Q1 '04 vs Q1 '03 (\$MM)



## Q/Q NIM Changes

- Margins decreased due to:
  - Lower cash collections in IBG
  - Competitive pressures in P&C plus shifts in customer product preferences and declining market rates

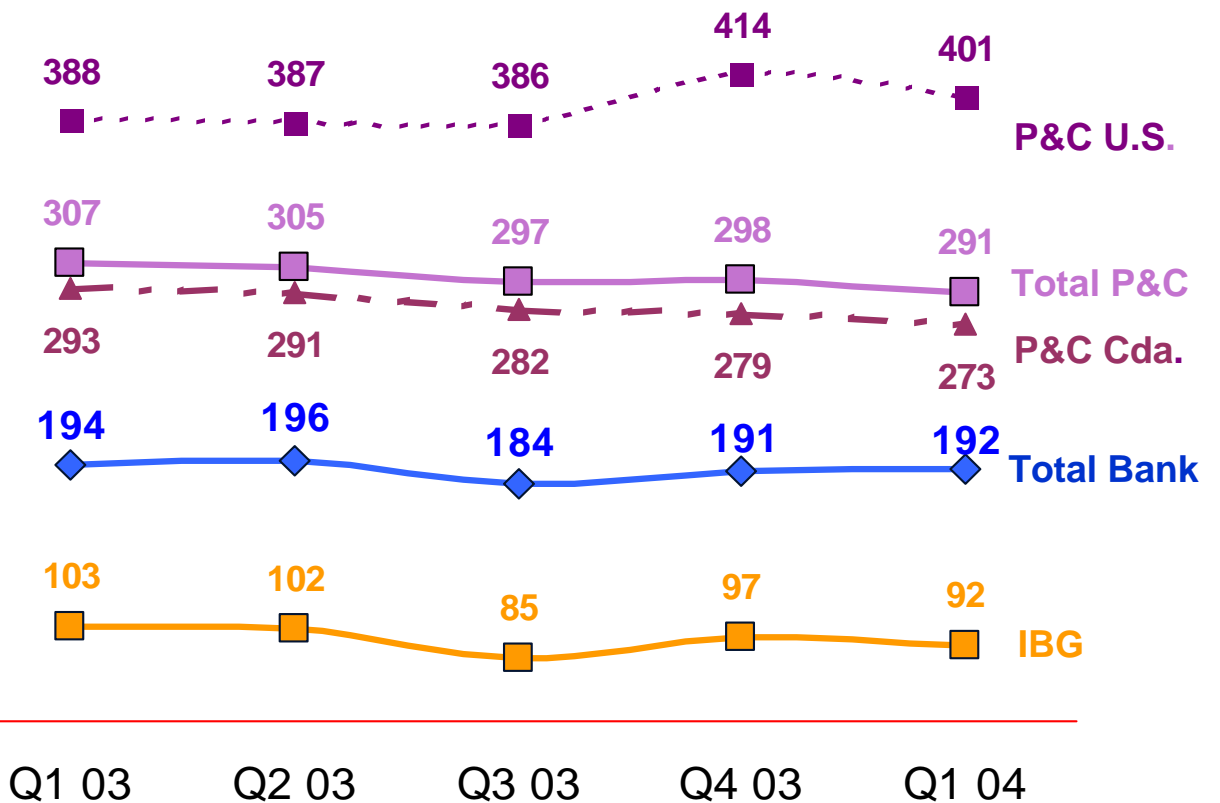
## Y/Y NIM Changes

- Margins decreased 8 bps (excluding accounting changes) due to:
  - Strong growth in low spread residential mortgages in P&C Canada plus competitive pressures and shifts in customer product preferences
  - Decrease in IBG mainly due to changes in asset mix

## Net Interest Margins

Margins declining both Q/Q and Y/Y

### Net Interest Margin (bps)



## Q/Q Business Growth

- Higher variable compensation (\$30MM) due to higher revenues in IBG and PCG
- Operating expense higher Q/Q primarily due to timing of accruals in 2003, offset by lower spending on initiatives

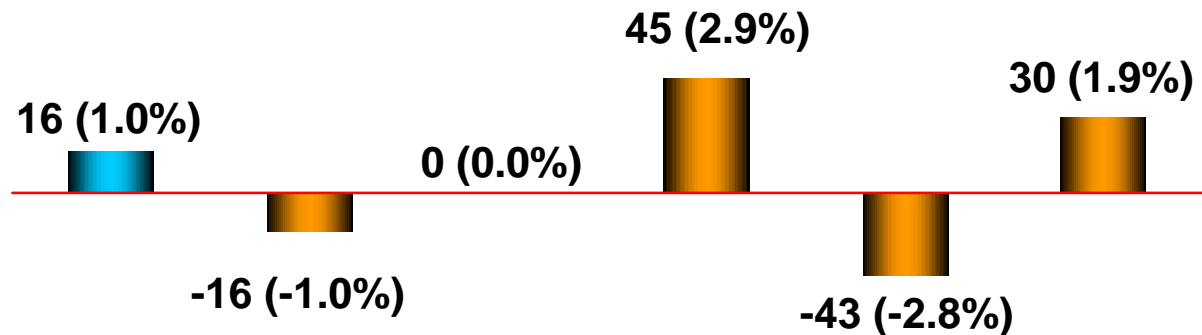
## Y/Y Business Growth

- Higher variable compensation (\$55MM) in line with improved operating group performance Y/Y
- Operating expenses up 1% Y/Y, offset by lower spending on initiatives
- Operating expense increase driven by higher pension cost and other benefit costs

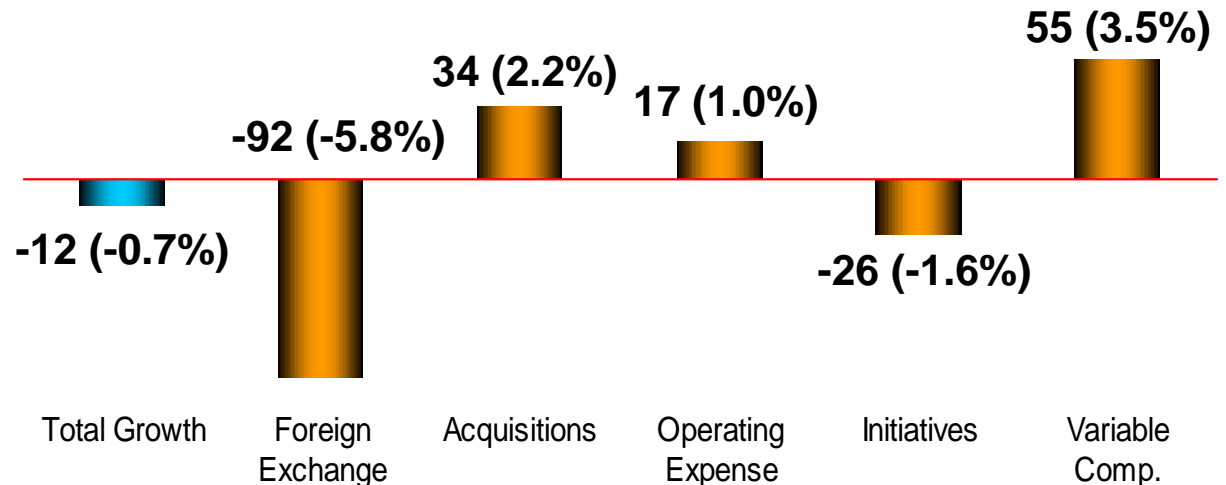
## Expense Growth

Continued control over expenses

### Q1 '04 vs Q4 '03 (\$MM)



### Q1 '04 vs Q1 '03 (\$MM)





## Expense Analysis (\$MM)

### Employee Compensation:

- Higher performance-based compensation ↑ 30
- Higher benefit costs ↑ 25
- Lower severance costs ↓ 26

### Premises & Equipment:

- Increased internal software development capitalization ↓ 12

### Other Expenses:

- Lower miscellaneous expenses in Q4'03 ↑ 46

### Employee Compensation:

- Higher performance-based compensation ↑ 55
- Higher benefit costs ↑ 16
- Lower severance costs ↓ 15
- Lower FTE & Other ↓ 25

### Premises & Equipment:

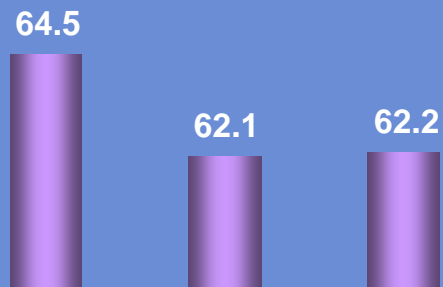
- Increased internal software development capitalization ↓ 12
- Other computer and equipment expenses ↓ 11

## Non-Interest Expense Analysis

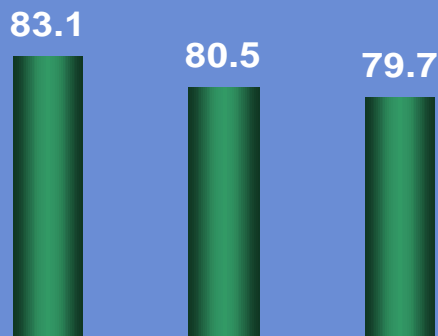
| Quarter-over-Quarter Q/Q          | Q1 2004      | Q4 2003      | B/(W)       |
|-----------------------------------|--------------|--------------|-------------|
| Employee Compensation             | 953          | 943          | (10)        |
| Premises & Equipment              | 302          | 321          | 19          |
| Communications                    | 36           | 41           | 5           |
| Other Expenses                    | 244          | 217          | (27)        |
| Amortization of Intangible Assets | 26           | 23           | (3)         |
| <b>Total Non-Interest Expense</b> | <b>1,561</b> | <b>1,545</b> | <b>(16)</b> |

| Year-over-Year Y/Y                | Q1 2004      | Q1 2003      | B/(W)     |
|-----------------------------------|--------------|--------------|-----------|
| Employee Compensation             | 953          | 922          | (31)      |
| Premises & Equipment              | 302          | 327          | 25        |
| Communications                    | 36           | 43           | 7         |
| Other Expenses                    | 244          | 251          | 7         |
| Amortization of Intangible Assets | 26           | 30           | 4         |
| <b>Total Non-Interest Expense</b> | <b>1,561</b> | <b>1,573</b> | <b>12</b> |

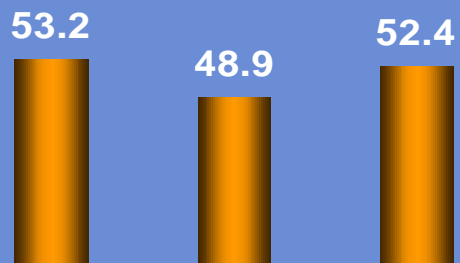
**Cash Productivity (%) P&C**



**PCG**



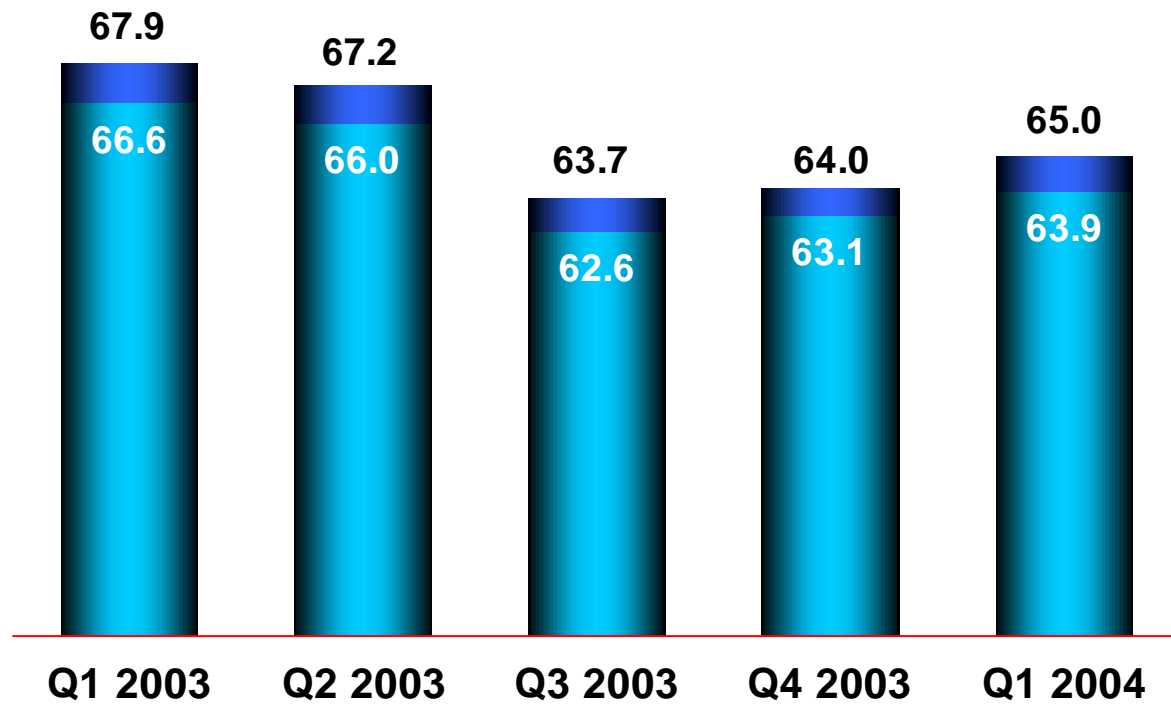
**IBG**



Q1 03      Q4 03      Q1 04

# Cash Productivity Ratio

*Continuing focus on cost management a priority*



**Cash**      **Accrual**

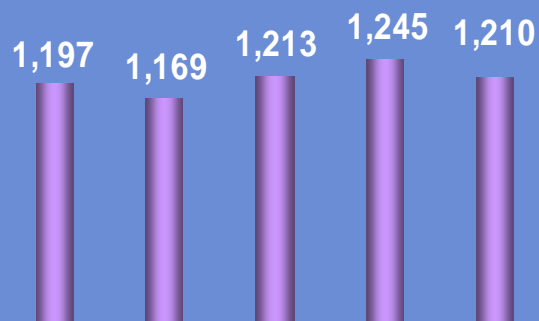
## *Fiscal 2004 Targets*

| Performance Measure         | F2004 Target                 | Q1 F2004 Actual      |
|-----------------------------|------------------------------|----------------------|
| EPS Growth                  | 10 – 15%                     | 33.3%                |
| ROE                         | 16 – 18%                     | 18.3%                |
| Provision for Credit Losses | \$500MM or less <sup>1</sup> | \$55 MM <sup>2</sup> |
| Tier 1 Capital              | Minimum 8%                   | 9.65%                |
| Cash Productivity Ratio     | 150 – 200 bps improvement    | 270 bps improvement  |

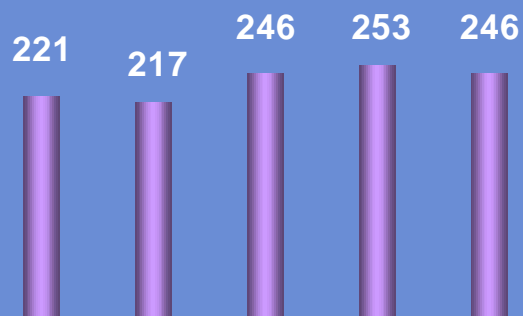
<sup>1</sup> F2004 annual provision for credit losses now anticipated to be \$300 MM or less, excluding the reduction of the general allowance.

<sup>2</sup> PCL as disclosed in the Q1 2004 financial statements comprised of \$55 MM specific provision net of \$40 MM reduction of the general allowance.

### Revenue (\$MM)



### Net Income (\$MM)



### Cash Productivity Ratio (%)



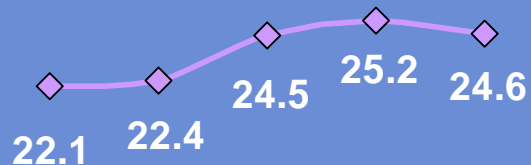
|          |          |          |          |          |
|----------|----------|----------|----------|----------|
| Q1<br>03 | Q2<br>03 | Q3<br>03 | Q4<br>03 | Q1<br>04 |
|----------|----------|----------|----------|----------|

## Personal & Commercial

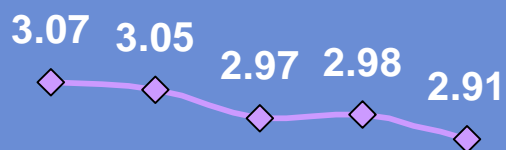
*Historically low interest rate environment impacting revenue growth while volume growth continues*

- Strong volume growth was offset by lower net interest margins in Canada resulting from competitive pressures, the historical low rate environment and shifting customer product preferences
- U.S. retail and business banking revenue declined slightly as a result of lower non-interest revenue and the impact of the weaker U.S. dollar
- Net income growth of 11% Y/Y driven by lower expenses
- Improvement of 230 bps in cash productivity Y/Y is driven by unusually high performance-based incentive costs in Q1'03

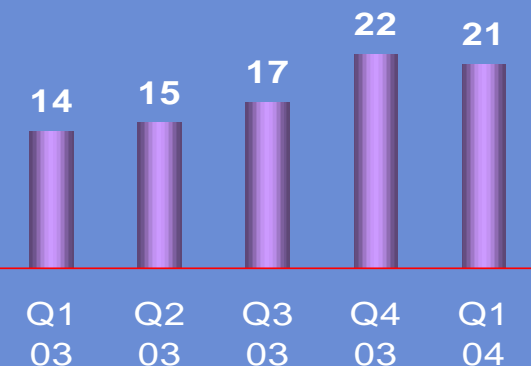
### Cash ROE (%)



### Net Interest Margin (%)



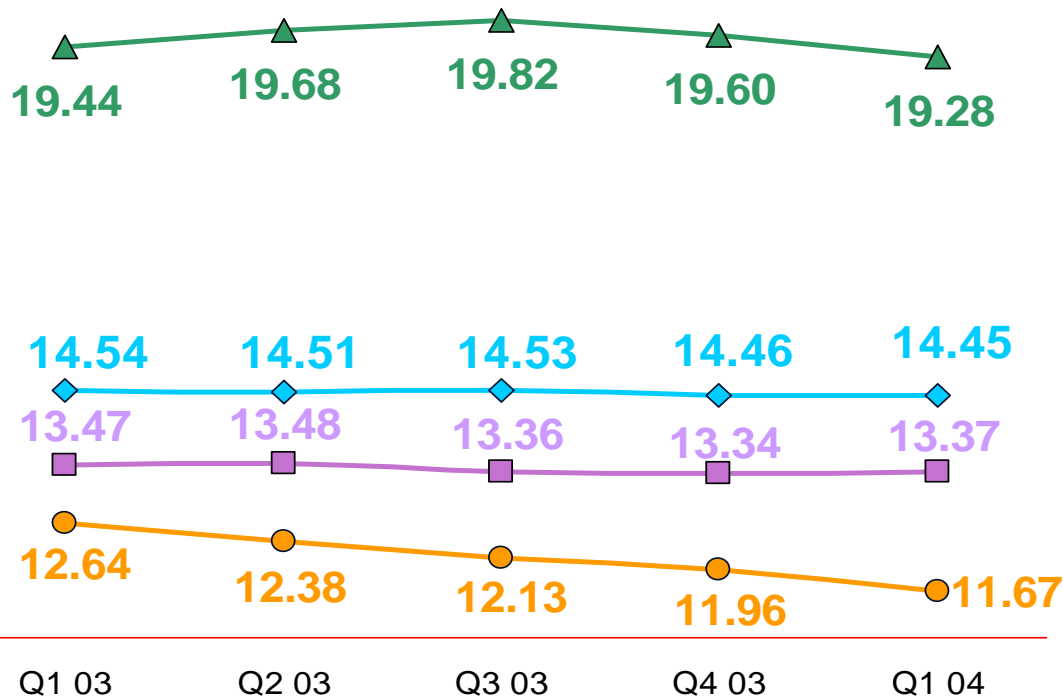
### U.S. Net Income (\$MM USE)



## Personal & Commercial

Competitive pressures on Personal market share and Business Banking market share

### Canadian Market Share (%): Banks\*



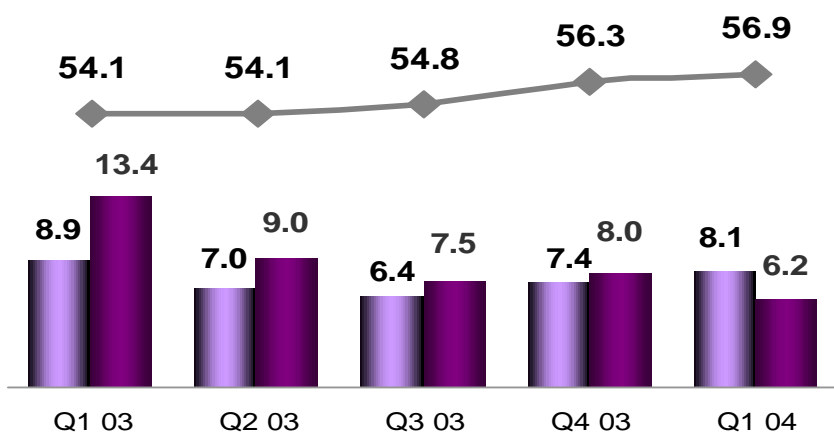
◆ Residential Mortgages (incl. 3rd party)   
 ● Personal Loans (ex. Cards)  
■ Personal Deposits   
 ▲ Business Banking Loans (\$0-5MM)




\* Market Share trends versus all FI's are consistent with the Banks share information presented above.  
 Business Loans (Banks) are issued by CBA on a calendar quarter and 3-month lag basis.  
 Q1 04 represents December share statistics.

# Personal & Commercial

Y/Y volume growth continues to perform well

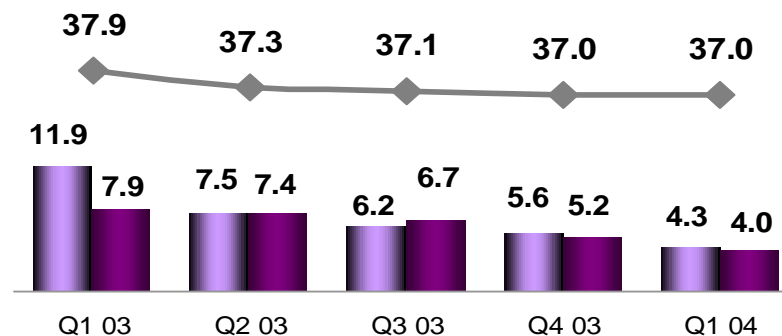
## Residential Mortgages<sup>1</sup>



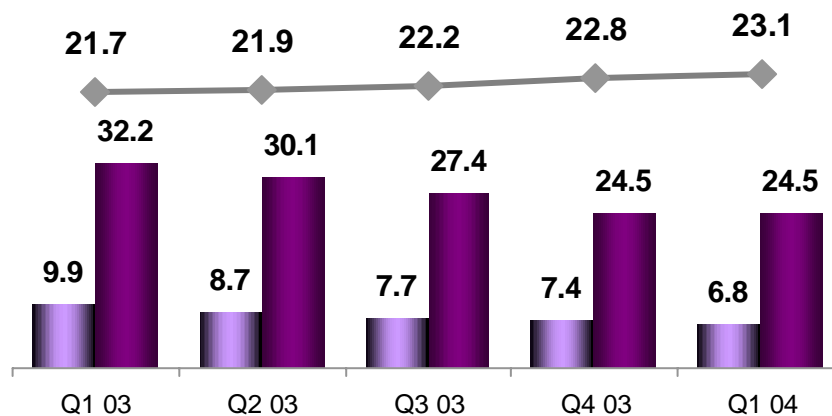
 Cdn \$ Yr / Yr Growth (%)  
 US \$ Yr / Yr Growth (%)  
 Average Balances (\$B CDE)

<sup>1</sup> Includes securitized balances

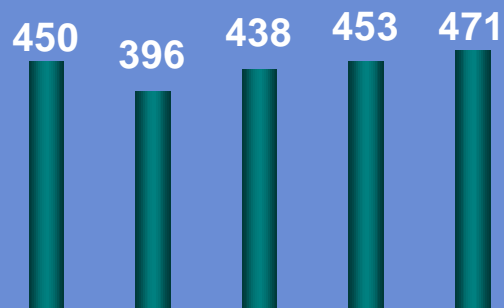
## Personal Deposits



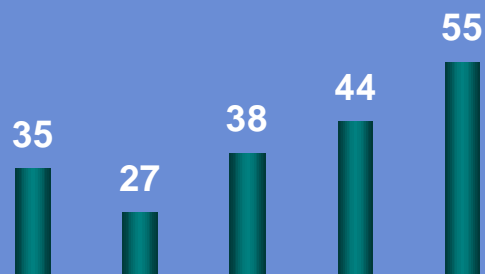
## Personal Loans<sup>1</sup>



### Revenue (\$MM)



### Net Income (\$MM)



### Cash Productivity Ratio (%)



Q1 03    Q2 03    Q3 03    Q4 03    Q1 04

## Private Client Group

*Earnings up \$20 MM or 55% Y/Y while achieving a 340 bps cash productivity improvement*

- Revenue growth across all major lines of businesses, as improved market fundamentals and revenue initiatives drove higher fee-based revenues and client trading volumes
- Revenue growth of \$46 MM or 10% excluding foreign exchange impact on U.S. revenues
- Positive cash productivity trend driven by revenue growth and sustained cost containment

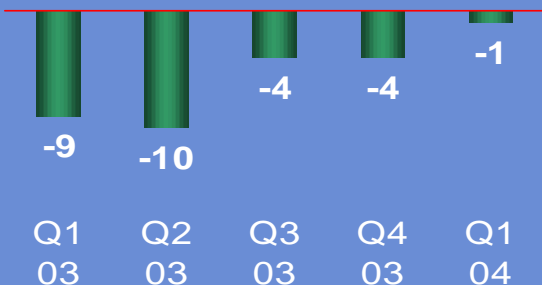
### Cash ROE (%)



### AUA / AUM (\$B)



### U.S. Net Income (\$MM USE)



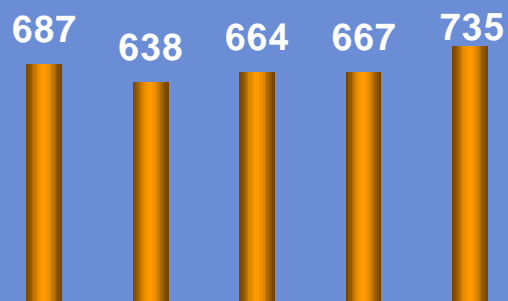
## Private Client Group

Significant gains achieved in Cash ROE

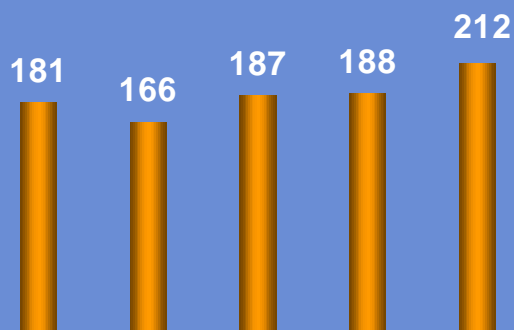
- Cash ROE improved by 5.5% Y/Y and 4.4% Q/Q from strong earnings growth of 55% Y/Y and 25% Q/Q
- Strong Y/Y asset growth of 12%, excluding the foreign exchange impact on U.S. assets and the exit of assets associated with a sub-custodial client relationship that was discontinued during the quarter (minimal revenue impact)
- Significant improvement in U.S. results driven by strong revenue growth, while expenses held flat



### Revenue (\$MM)



### Net Income (\$MM)



### Cash Productivity Ratio (%)



|    |    |    |    |    |
|----|----|----|----|----|
| Q1 | Q2 | Q3 | Q4 | Q1 |
| 03 | 03 | 03 | 03 | 04 |

## Investment Banking Group

### Solid Earnings Momentum

- Record quarterly net income
- Client transaction volumes have increased reflecting strong equity markets and improved economic activity in the U.S.
- Improved net income reflects revenue growth and an improving credit cycle
- Broadly based improvement with notable increases in equity financings, net investment security gains and trading revenue
- Depressed lending volumes and a weak U.S. dollar continue to negatively affect performance
- Productivity improved compared to the prior year notwithstanding the negative impact of HNG

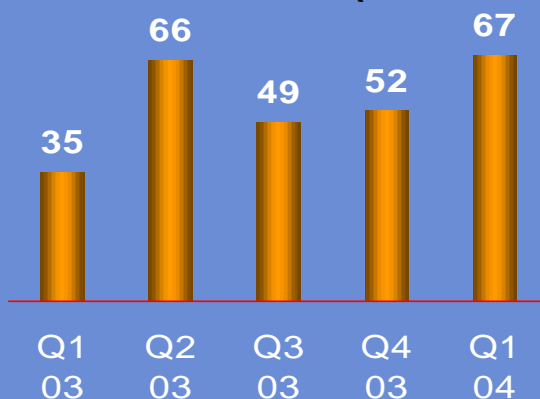
### Cash ROE (%)



### Net Interest Margin (%)



### U.S. Net Income (\$MM USE)

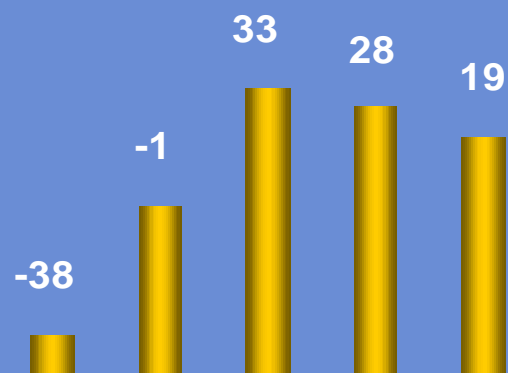


## Investment Banking Group

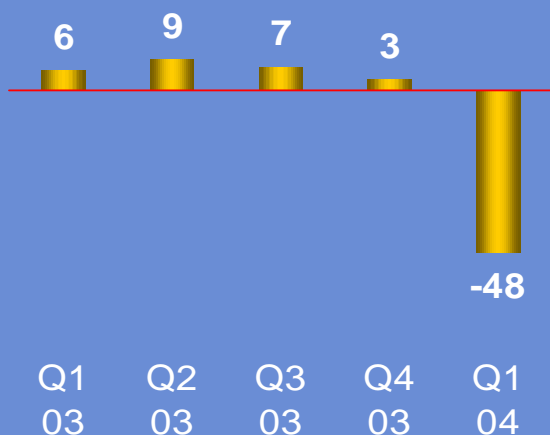
### Significant ROE Improvement

- ROE continues to trend upwards, as we continue to realize the benefits from our re-positioning in the North American Market
- Aggressively managed down capital by reducing risk weighted assets, including lower non-core lending assets Y/Y
- Overall margins, including lending margins, decreased Y/Y and Q/Q
- U.S. net income is trending favourably due to higher trading activity, solid origination, the inclusion of HNG and improving PLL

## Net Income Consolidated (\$MM)



## U.S. Net Income (\$MM USE)



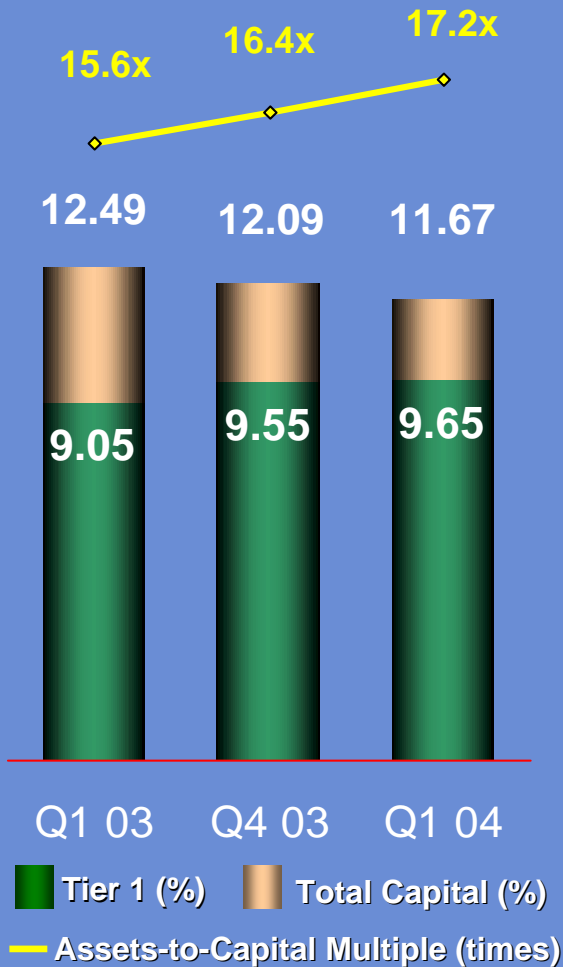
## Corporate Support, including Technology and Solutions

*Decreased contribution Q/Q and increase Y/Y*

- Q1 2004 down compared to Q4 2003 driven by higher securities gains in Q4 and timing of earnings from certain U.S. subsidiaries
- Q1 2004 improvement over Q1 2003 driven by lower specific provision for credit losses and accounting changes recorded in Q1 2004
- U.S. results impacted by \$19 MM (CDE) future tax adjustment related to U.S. real estate, lower net investment income in the sustained low interest rate environment and timing of earnings from certain U.S. subsidiaries

# Appendix

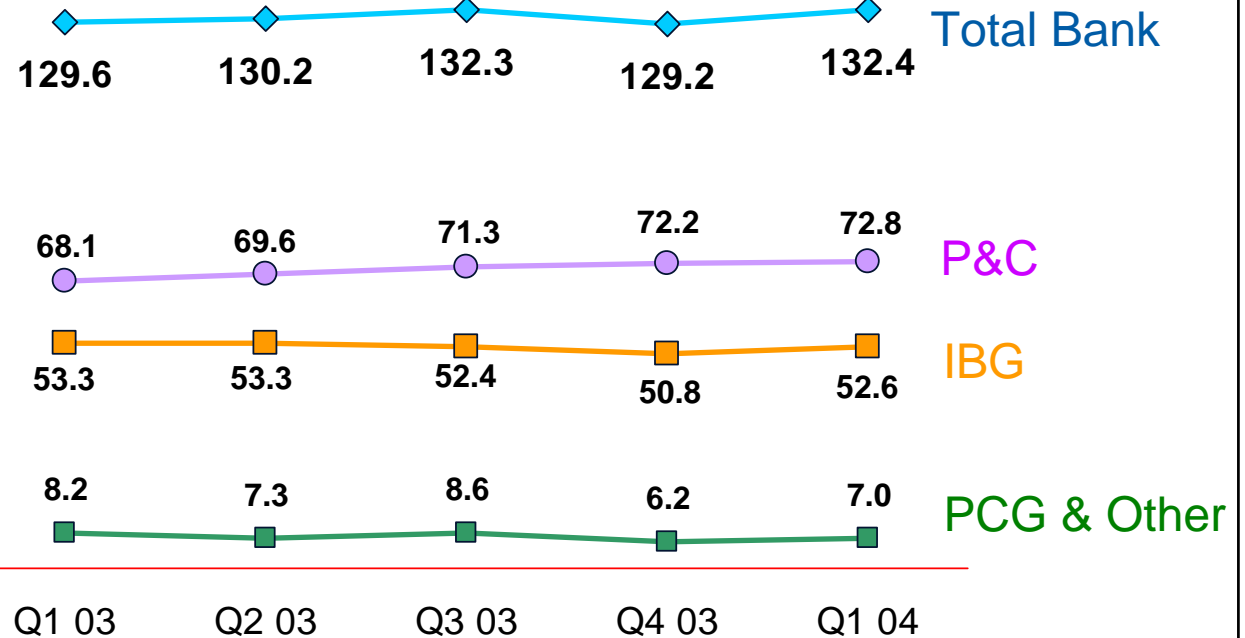
## Enterprise-Wide Capital Management



## Capital & Risk Weighted Assets

Tier 1 capital ratio increased due to internal capital generation

### Risk Weighted Assets (\$B)



## North American Direct Investing <sup>1</sup>

Higher client trade volumes and asset growth driven by an enhanced client offering and rising investor confidence

| Measure                            | Q1 2003 | Q4 2003 | Q1 2004 | Y/Y Change |
|------------------------------------|---------|---------|---------|------------|
| Trades / Day (000)                 | 18      | 22      | 25      | 42%        |
| Customer Assets (\$B)              | 44      | 47      | 52      | 18%        |
| Active Accounts (000) <sup>2</sup> | 825     | 772     | 765     | (7%)       |
| New Accounts (000)                 | 15      | 14      | 19      | 20%        |

<sup>1</sup> North American Direct Investing includes Harrisdirect and BMO InvestorLine

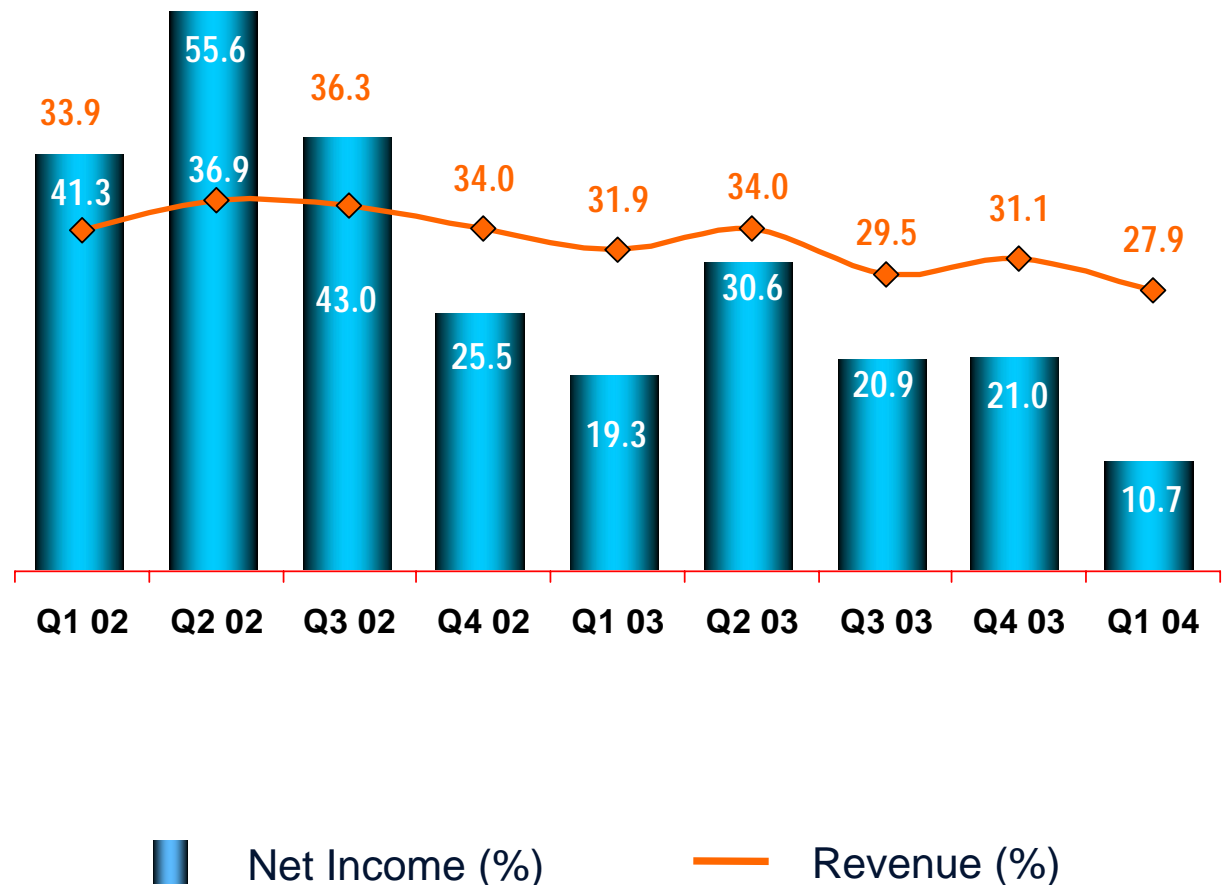
<sup>2</sup> Active accounts declined Y/Y, in line with industry peer group

## U.S. to North American Revenue & Net Income

- Revenue contribution from U.S.-based business remains within 25 – 35% range
- Net income from U.S.-based business \$51MM or 11%
- Weaker U.S. dollar and improved performance of Canadian operations contributed to Y/Y decline

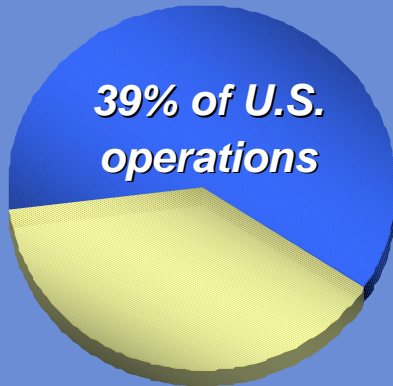
## U.S. Results

*Reduced U.S. contribution – driven primarily by weaker U.S. dollar and improved performance from Canadian operations*



## U.S. P&C and Harris Mid-Market

### Revenue



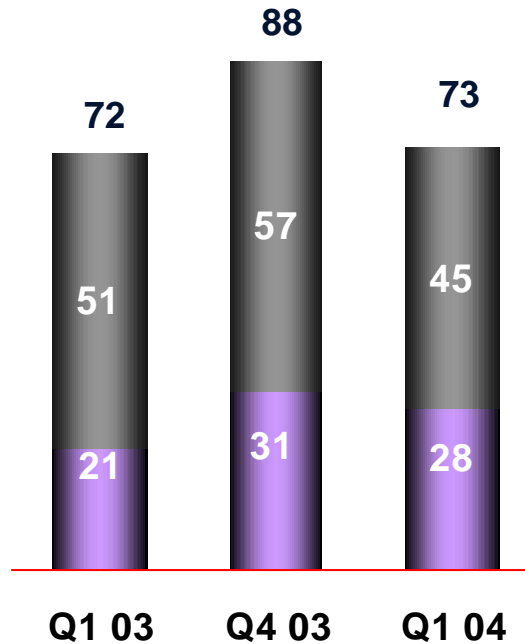
### Expense



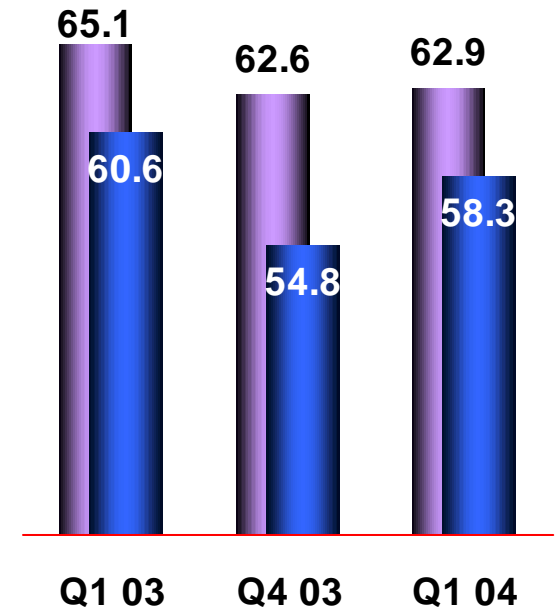
## U.S. Retail And Mid-Market

Operations represent 39% of U.S. revenue and 23% of U.S. expenses in Q1 2004

### Net Income (C\$MM)



### Productivity Ratio (%)



■ P&C U.S. Reported   
 ■ U.S. Mid-Market

■ Total P&C Reported   
 ■ Total P&C U.S. Including U.S. Mid-Market



## U.S./Canadian Exchange Rate

- \$1MM pre-tax earnings reduction Q/Q and \$14 MM reduction Y/Y
- Excluding hedging, a one cent change in the CDN/U.S. exchange rate changes quarterly earnings by approximately \$1MM pre-tax

## U.S./Canadian Exchange

| \$MM                                | Q/Q        |
|-------------------------------------|------------|
| Reduced Revenue                     | (22)       |
| Reduced Expense                     | 16         |
| Reduced Provision for Credit Losses | 3          |
| Hedging gains                       | 2          |
| <b>Total Pre-tax Impact</b>         | <b>(1)</b> |

| \$MM                                | Y/Y         |
|-------------------------------------|-------------|
| Reduced Revenue                     | (120)       |
| Reduced Expense                     | 90          |
| Reduced Provision for Credit Losses | 14          |
| Hedging gains                       | 2           |
| <b>Total Pre-tax Impact</b>         | <b>(14)</b> |

# Forward-looking Statements

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

*Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this presentation, and may be included in filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the 'safe harbor' provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives for 2004 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price, and the results of or outlook for our operations or for the Canadian and U.S. economies.*

*By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.*

*The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: global capital market activities; interest rate and currency value fluctuations; the effects of war or terrorist activities; the effects of disease or illness that impact on local, national or international economies; the effects of disruptions to public infrastructure, such as transportation, communication, power or water supply disruptions; industry and worldwide economic and political conditions; regulatory and statutory developments; the effects of competition in the geographic and business areas in which we operate; management actions; and technological changes. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Bank of Montreal does not undertake to update any forward-looking statement, whether written or oral, that may be made, from time to time, by the organization or on its behalf.*

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