

BMO  Bank of Montreal

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BMO  Mutual Funds

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**BMO**  **Financial Group**

**CHICAGOLAND BANKING**

**FRANK TECHAR**

*President & CEO*

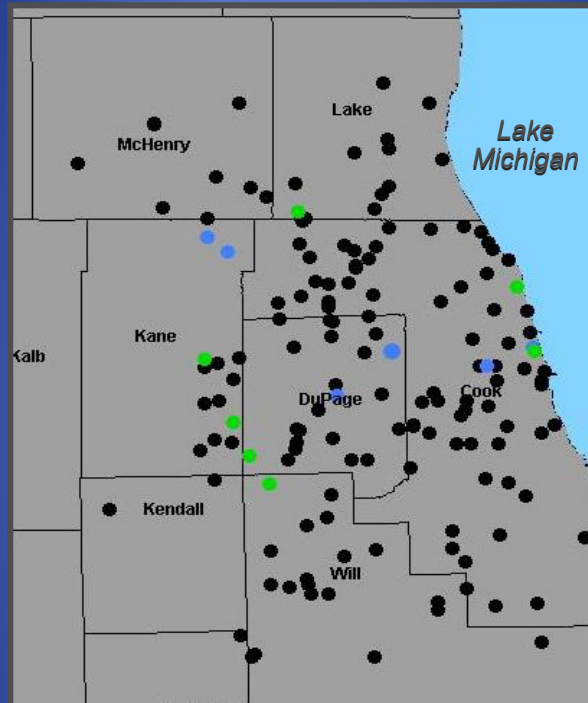
*Harris Bank*

*May 1 and 2, 2003*

## Harris Chicagoland Banking

# *The Goal* Is To Be The Best And Biggest Retail / Small Business Bank In Chicagoland

- Exploit successful community bank business model to sustain strong organic growth in core businesses
  - Deposit/investment services
  - Consumer lending
  - Business banking
- Achieve branch expansion in Chicagoland through acquisition and/or de novo branching, reaching 200 branches in the next three to five years
- Expand beyond Chicagoland
  - Consumer lending (indirect auto)
  - Strategic alliance opportunities
  - Acquisition in contiguous states and/or other high growth U.S. markets



### Branch Distribution Network

- 145 existing locations
- 7 opening in fiscal 2003
- 5 more locations already secured for 2004

A photograph of the Chicago skyline, featuring several prominent skyscrapers like the Willis Tower, viewed from across a body of water under a blue sky with light clouds.

# *Opportunities* In Large, Fragmented, Underserved Market

- 3rd largest metropolitan market in U.S.  
-- 8 million people
- Greater Chicago has GDP of approximately 35% of Canadian GDP
- Most fragmented market in U.S.  
-- with more than 250 banks
- Market “still up for grabs” -- top three banks combine for less than 30% market share of retail deposits\*

\* Based on a formula which seeks to isolate retail and small business deposits by backing out corporate deposits from published total FDIC deposit data as of June 2002.

# *Market Challenges* Resulting From Market Structure And Competitive Landscape, Sustain Pressure On Pricing

## ***Market Challenges***

- Large market entrants compete for market share with aggressive pricing and product offerings, unique distribution strategies, branch expansion plans and increased brand spend
- Start-up and smaller banks seek to retain business and accept below market returns
- Highly competitive bidding for core deposits



## ***Intensified Competitive Landscape***

- Incremental pressure on already competitive deposit and loan pricing
- Increasing pressure on client acquisition/retention
- Higher cost of attractive properties

# *Harris* Has A Defensible Position

New entrants to the market are expected to be formidable competitors. Continued progress and growth for Harris will result from:

- Premier existing physical locations in top communities that cannot be replicated at any price
- Established brand, leveraging our rich heritage in Chicago
- Strong relationships with over 1 million existing customers
- Deep bonds with local communities/businesses and their leaders forged over many years
- BMO's strong capital base for future acquisitions

# *Consumer* Lending

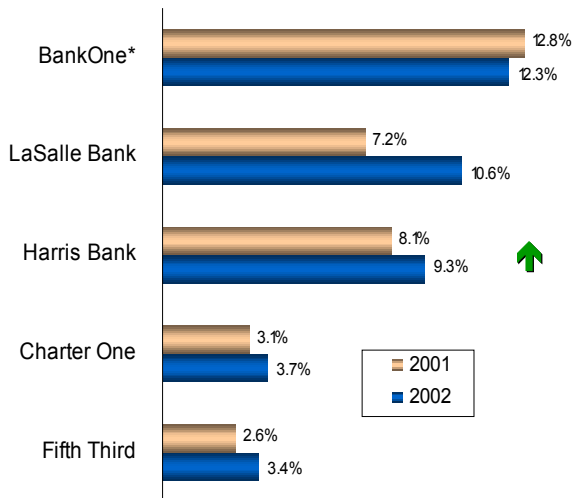
Strong growth and continued demand for consumer loans (Home Equity / Indirect Auto / Mortgage) has and will continue to drive financial improvements through higher loan to deposit ratio and higher overall loan yields.

- 1999-2002 - added \$2.4 Billion in Consumer Loans, CAGR 20%
- Fiscal 2003 Growth Target of 26%
- Indirect Auto Activity Now in 6 States, Good Yield/Low Loss
- Credit Performance (Excludes First Mortgage) Remains Very Solid – losses and delinquencies at one-third of the peer average

# Market Share – Consumer Lending

- Harris has strong share positions in key consumer credit products in Chicagoland.
- Relative to historic levels, share position is stable or improving.
- Harris is #1 and #2 in bank financed used and new auto loans, respectively.
- Mortgage shares are dramatically influenced by low margin “broker”/wholesale business, which Harris does not pursue.

## HOME EQUITY MARKET SHARE (Loans Originated \$)



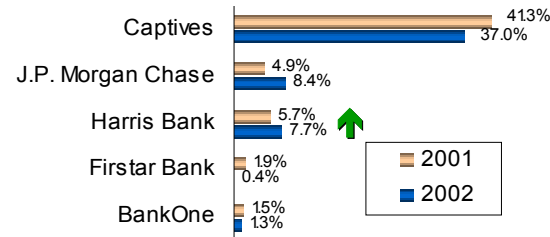
Note: 2002 market share through 2<sup>nd</sup> quarter.

\*BankOne figures include purchased loans until mid-year 2002.

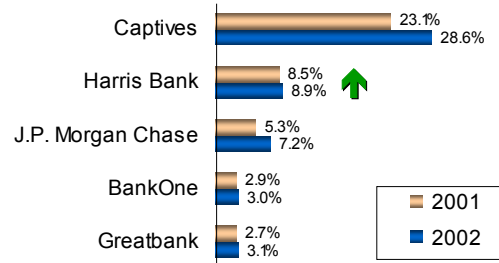
Source: CBA Home Equity Study; 2001/2002 DataQuick Share Data

## INDIRECT AUTO MARKET SHARE (Loans Originated \$)

### New Cars

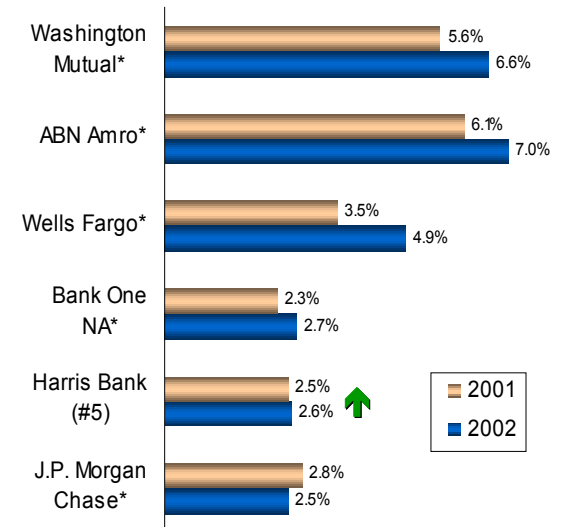


### Used Cars



Source: Market Analysis Reports (2001/2002)

## FIRST MORTGAGE MARKET SHARE (Loans Originated \$)



Note: 2002 market share through 2<sup>nd</sup> quarter. Based on recordings from 9-County Chicago Metropolitan area.

\*Includes business originated through brokers (wholesale)



## *Strong U.S. Operating Leverage* Indirect Auto Lending

- Proven business model
- Only "A" paper (no leasing or floor plans)
- Expanding business model through mid-western states
- 40% increase in loan balances in each of the last 2 years to US\$2.2 billion



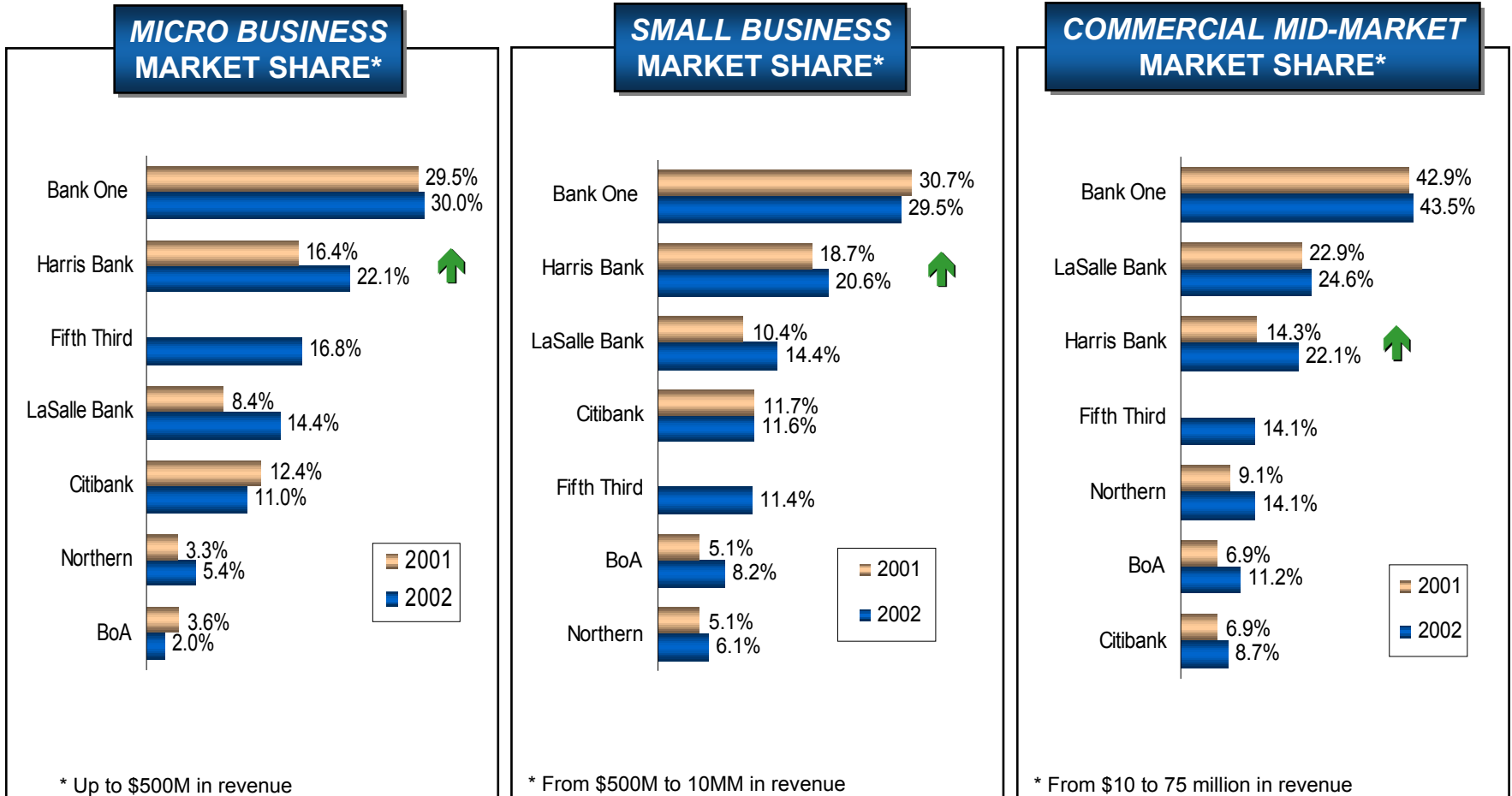
# *Business* Banking

Strong momentum in a difficult economic environment combined with realized efficiencies position Harris well for more robust market conditions:

- 1999-2002:
  - added \$700 million in business banking loans, CAGR 11%
  - added \$600 million in business banking deposits, CAGR 9%
- Strong brand awareness, sales discipline and distributed expertise resulted in market share and customer satisfaction gains
- Simplification and automation of internal processes enhanced customer service quality and responsiveness while improving productivity
- Solid underwriting standards and lending processes enable stable earnings growth

# Market Share – Business Banking

- Harris has a strong #2 or #3 position in all three market segments and is closing the gap to the market leaders



Source (All Charts): Market Focus, Evanston, IL, Harris primary research  
 Market Share defined as share of companies "doing business with" identified banks



## *Strong U.S. Operating Leverage* Micro Business

- Revenue under US\$500,000 per annum
- Represent about 80% of all companies in Chicagoland
- 350,000 micro businesses within a three-mile radius of our existing branch network
- Rolled out new strategy to two-thirds of Chicagoland locations
  - Simplified new account opening process
  - Special training of branch staff
  - Attractive on-line banking offer
  - Dedicated call center staff

# *Valuable* Competitive Advantages Fuel Above-Market Growth

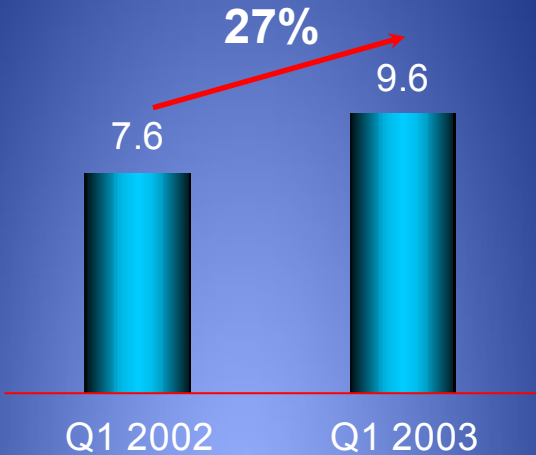
- Brand image and reputation
- Well positioned branch distribution serving 1 in 5 Chicagoland households
- Community banking model and market leader over large competitors in client satisfaction
- Retail/small business deposit funding base now U.S. \$13 billion -- with low 72% loan-to-deposit ratio (Q1 2003) provides opportunity to be leveraged substantially
- Strong niche capability in indirect auto lending



# *Improving* Key Financial Performance Measures

- Deposit Growth -- 5-6% organic growth per annum (exceeding past four year market average)
  - Expanding distribution
  - Consistency of pricing strategy
  - Operating stability and service quality
  - Early to market with money market substitute
  - Continual improvements in sales culture
- Loan Growth -- approximately 15% (\$1 billion) organic growth per annum for the last two years and 27% in Q1 2003
  - More effective sales culture -- effected through training and sales management
  - Expanded sales force
  - Indirect auto growth, including expansion into new Midwest markets
- Business Banking -- 25% increase in households over the last 3 to 4 years, in a consolidating market
  - Community bank model
  - Expanded distribution (locations and sales force)

Loans (US\$B)



Deposits (US\$B)



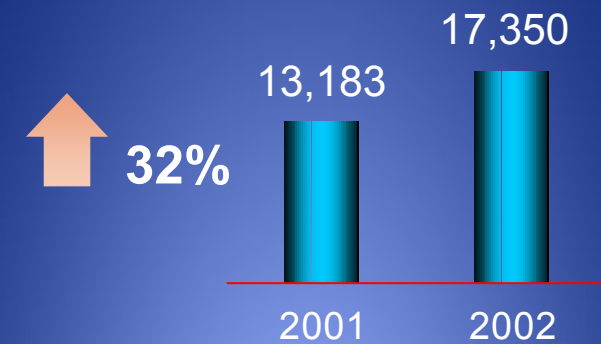
# *Strong Momentum* In U.S. Retail And Business Banking

<i>Customers Very Satisfied*</i>	2001	2002
<i>Retail</i>		
Harris	59%	62%
Large Competitors	46%	51%
Small Banks	65%	70%
<i>Small Business</i>		
Harris	62%	66%
Large Competitors	46%	55%
Small Banks	63%	63%

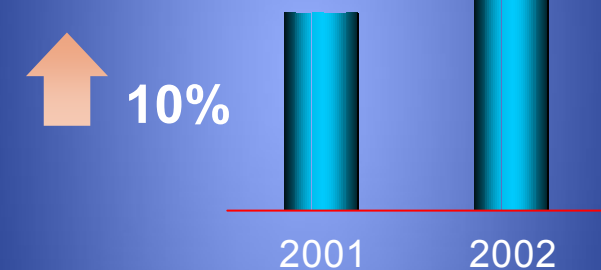
- Strong Harris brand reputation in Chicagoland
- Adding 50 branches to well-entrenched, well-located distribution network

\* Source: Burke Annual Survey

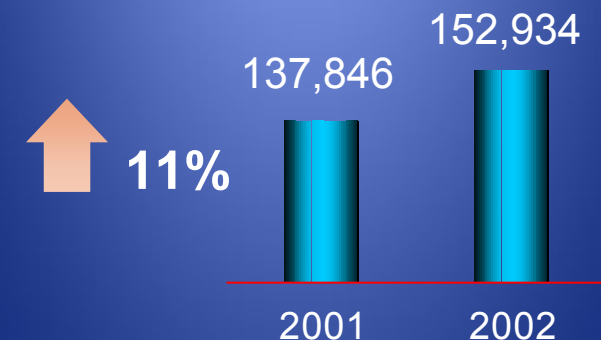
## Home Equity Loans\*



## Small Business Loans\*



## Consumer Deposits\*\*



## *Strong U.S. Operating Leverage* Sales Management

- Specific sales targets, measured monthly or quarterly, exist for all retail and business bankers
- Client behaviors generate automated “triggers”, resulting in timely and high impact client contact, generating higher sales productivity and customer retention
- Variable pay (based on sales) is 26% of overall personal banker compensation vs. an industry average of 15%

	<u>2001</u>	<u>2002</u>	<u>Q1/03</u>	<u>Q2/03</u>
Sales/FTE	23,908	25,563	6,405	8,096
<b>Consumer Retention (Retail)</b>				
Top 2 Deciles	94%	95%	99%	98%

\* Number of loans originated by branch personnel

\*\* Number of new accounts

# *Expanding Chicagoland Distribution,* Marketing, Process And Product Foundation

## *Fiscal 2003 Top Chicagoland Banking Priorities*

### ***Distribution***

- Open 7 new branches, expected to break even within three years.
- Look for in-market acquisitions that expand market share and/or provide enhanced distribution

### ***Marketing***

- Increase marketing spend by 25% to:
  - improve frequency and reach of brand and product promotion campaigns
  - further develop proactive, customer information driven marketing

### ***Business Processes***

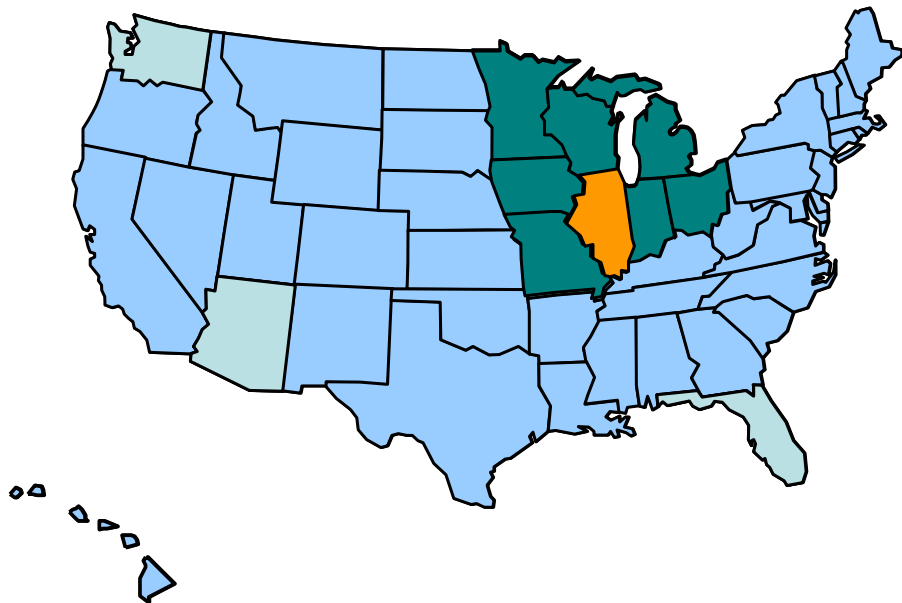
- Migration to Single Deposit Platform to simplify customer transaction processing
- Improve credit adjudication and processing effectiveness and efficiency

### ***Product Enhancements***

- Enhancing/filling in product and service capabilities to ensure a fully competitive line up (micro-business, internet, small volume lockbox)



# *Options Exist* for Leveraging our Infrastructure and Business Model



- Expand branch network within Chicago metropolitan area
- Stepping out from Illinois to expand throughout Midwest
- Expand into high-growth areas that may be more geographically removed
- Acquisitions must be a good strategic and cultural fit and meet two key investment objectives:
  - IRR of at least 15%
  - Accretive to cash EPS within 2-3 years

# *Active Approach* to Acquisitions

## Acquisition Strategy

- Build relationships with, and aggressively pursue, key targets in Chicagoland and in priority markets throughout the Midwest in order to achieve:
  - A branch network that maximizes the growth and profit potential of the Chicago market
  - Extension of our personal, business and wealth franchises throughout the Midwest

## Acquisition Environment

### Chicago

- Potential acquisition pool of 220 “independent” banks, most “not for sale”
- Competitors have announced expansion plans totaling over 400 new branches – impossible without acquisitions

### Midwest

- Consolidation has occurred, but fragmented markets with attractive demographics exist
- Targets can serve as springboards into adjacent markets where the demographics are stronger than the Midwest and we have, or are targeting, a Private Client presence

## Acquisition Approach

- Dedicated, experienced acquisition team
- 250+ targets assessed in last six months against defined criteria (e.g., distribution attractiveness, financial opportunity, management quality, business mix, culture)
- Actively pursuing a number of targets (with market capitalization up to US\$1.5Bn)

# Forward-Looking Statements

## *Caution Regarding Forward-looking Statements*

*This financial presentation includes forward-looking statements, which are made pursuant to the ‘safe harbor’ provisions of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, comments with respect to our objectives, targets, strategies, financial condition, the results of our operations and our businesses, our outlook for our businesses and for the Canadian and U.S. economies, and risk management.*

*By their very nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this report not to place undue reliance on these forward-looking statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, targets, expectations, estimates and intentions expressed in such forward-looking statements.*

*The future outcomes that relate to forward-looking statements may be influenced by the following factors: fluctuations in interest rates and currency values; regulatory developments; statutory changes; the effects of competition in the geographic and business areas in which we operate, including continued pricing pressure on loan and deposit products; and changes in political and economic conditions including, among other things, inflation and technological changes. We caution that the foregoing list of important 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 the foregoing factors as well as other uncertainties and potential events. The Bank does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Bank.*

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