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BMO  Harris Private Banking

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**BMO**  **Financial Group**

## **Financial Results Second Quarter 2003**

**Karen Maidment**  
*EVP & CFO*

Quarterly Investor Presentation  
May 27, 2003

EPS GROWTH

**35.1%**

Annual Target

10 – 15%

ROE

**15.2%**

Annual Target

14 – 15%

PCL

**\$120 MM**

Annual Target

< \$820MM

TIER 1 CAPITAL

**9.10%**

Annual Target

> 8.0%

## *Q2 2003* Financial Highlights

- **Net income \$409MM,**  
- up 36% from \$301MM in Q2 2002
- **Cash productivity ratio 66.0%**  
- best level in four quarters, but continued management focus to reduce
- **PCL at \$120MM**  
- reflects improved credit performance
- **Personal & Commercial**  
- 6% revenue growth Y/Y, offset by weak revenue in PCG & IBG
- **Positioned to achieve annual operating targets** despite economic challenges

## Q2 2003 Financial Summary

	Q2 2003	Q2 2002	Q1 2003
Net Income (\$MM)	<b>409</b>	301	399
Cash EPS – Diluted (\$/share)	<b>0.81</b>	0.59	0.79
EPS – Diluted (\$/share)	<b>0.77</b>	0.57	0.75
Cash Return on Equity (%) <sup>*</sup>	<b>15.9</b>	12.2	15.1
Return on Equity (%) <sup>*</sup>	<b>15.2</b>	11.6	14.3
Revenue Growth (%)	<b>(0.6)</b>	1.2	5.1
Expense Growth (%)	<b>0.5</b>	5.2	7.5
Cash Productivity Ratio (%)	<b>66.0</b>	65.7	66.6
Productivity Ratio (%)	<b>67.2</b>	66.4	67.9
PCL/Avg. Loans Accept. (%) <sup>*</sup>	<b>0.32</b>	0.87	0.39
Capital: Tier 1 Ratio (%)	<b>9.10</b>	8.61	9.05

\* Annualized

## Special Purpose Vehicles (FIN46)

- We will be required to adopt a new Canadian accounting standard on Consolidation of Variable Interest Entities (formerly referred to as Special Purpose Entities) in Q2 2004

## U.S./Canadian Exchange Rate

- No earnings impact despite large variances in revenue and expense
- One cent change in the CDN/U.S. exchange rate changes quarterly earnings by approximately \$1MM pre-tax, excluding hedging
- Quarterly hedging program reduces volatility of quarterly earnings

## Q2 2003 Issues

- VIEs are being analysed to determine if consolidation will be required
- Exploring range of restructuring options to ensure VIEs continue to meet non-consolidation requirements

**\$MM**

**Q/Q**

Decreased Revenue (42)

Provision for Credit Losses 4

Decreased Expense 31

Hedging Gain 7

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**Total Pre-tax Impact -**

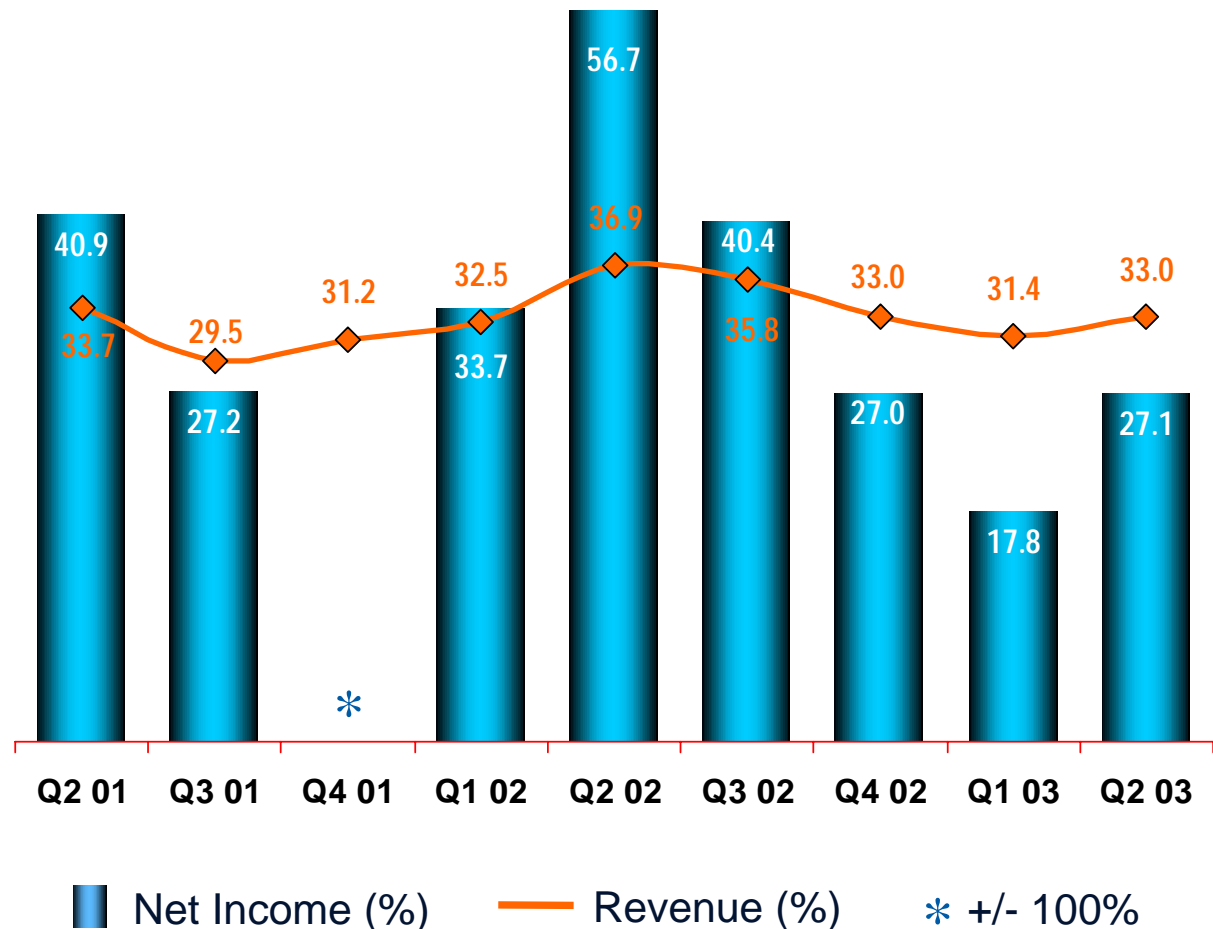
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## U.S. to North American Revenue & Net Income

- Revenue contribution from US-based business stable around 30%
- Net income from U.S.-based business \$103MM or 27%
- Weaker US dollar contributed to Y/Y decline

## *U.S. Results*

Improving contribution from U.S. segment, offset by strengthening Canadian dollar



## Q/Q Business Growth

- 3 fewer days in Q2
- Higher investment write-downs in Q2 (\$29MM in the non-core portfolio), offset by higher non-interest trading revenue related to commodities derivatives
- TSX gain increased Q1 revenue by \$32MM
- Improved volumes and margins

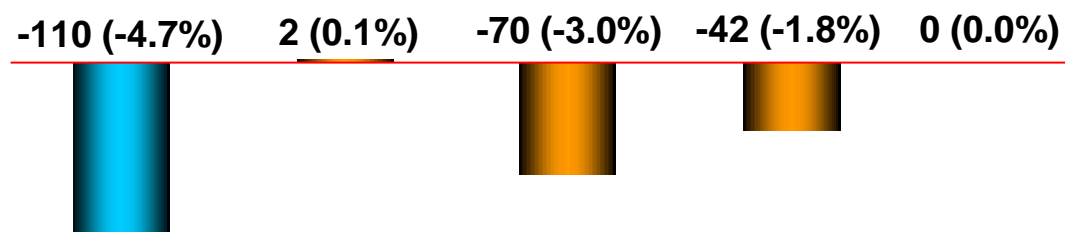
## Y/Y Business Growth

- Lower securitization revenues
- Higher trading revenue
- Improved volumes offset by lower margins

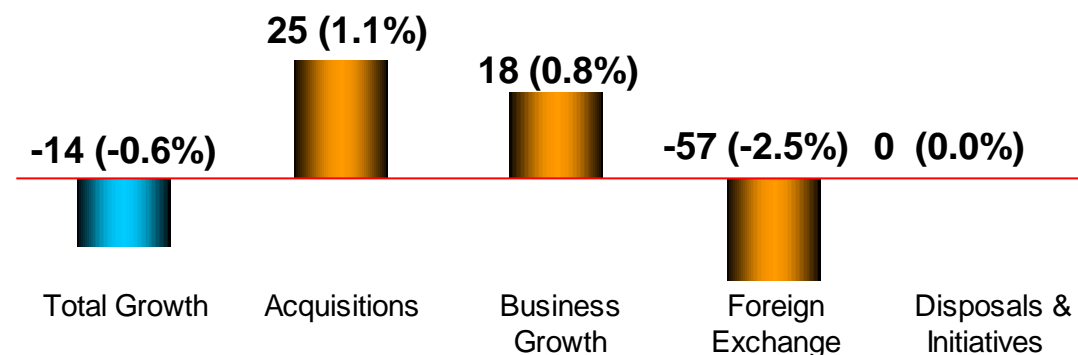
## Revenue Growth

Continues to be a challenge in current market conditions

### Q2 '03 vs Q1 '03 (\$MM)



### Q2 '03 vs Q2 '02 (\$MM)



## Q/Q NIM Changes

- Total bank margins were relatively stable quarter-over-quarter

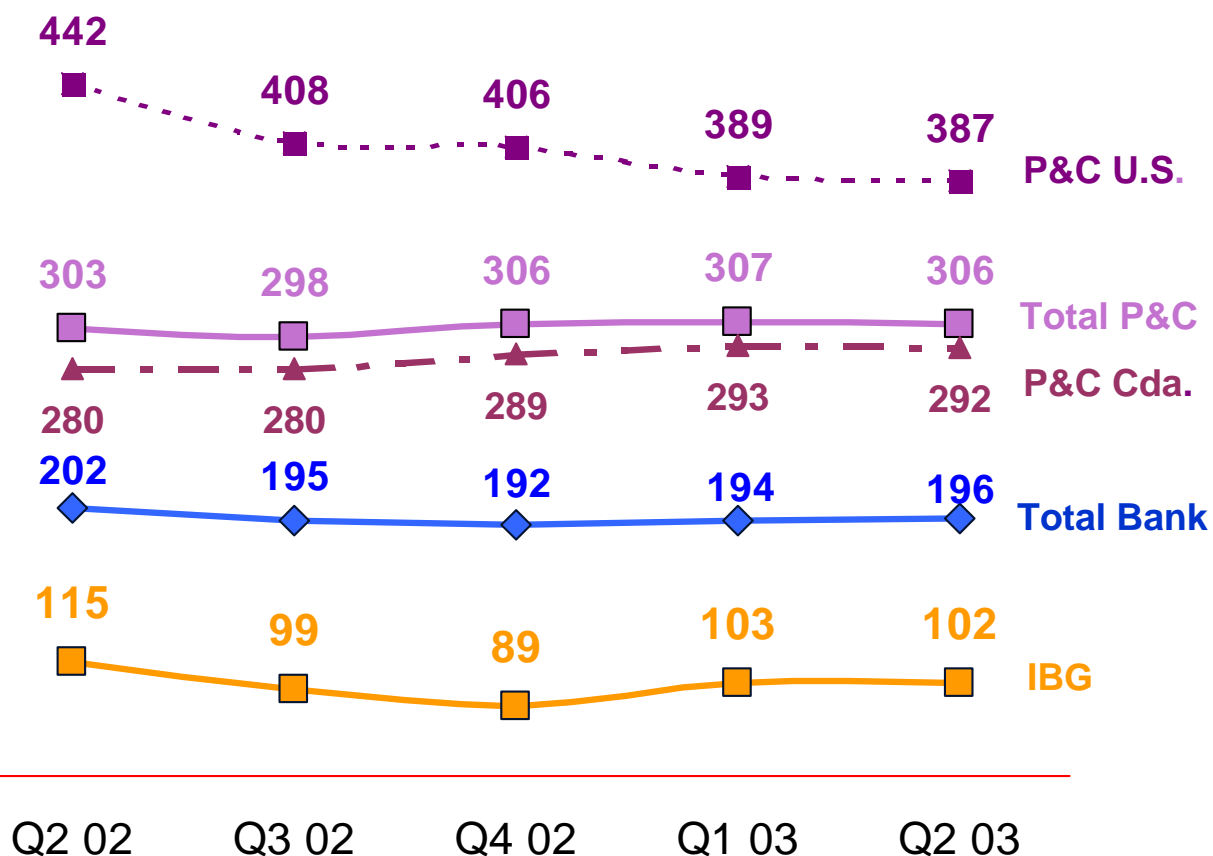
## Y/Y NIM Changes

- Margins declined due to:
  - Lower IBG spreads as a result of changes in business mix
  - Offset by positive contribution from P&C, despite significant margin compression in the U.S.

# Net Interest Margins

Stable quarter-over-quarter

## Net Interest Margin (bps)





## Q/Q Business Growth

- Lower variable compensation in line with lower revenues (\$18MM)
- Lower stock-based mid-term incentive program (MTIP) compensation costs
- 3 fewer days in Q2
- Effective cost management

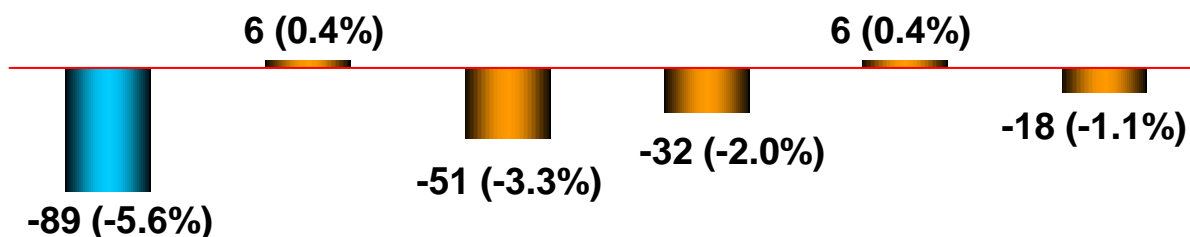
## Y/Y Business Growth

- Higher pension and employee benefit costs
- Higher mid-term incentive program (MTIP) costs

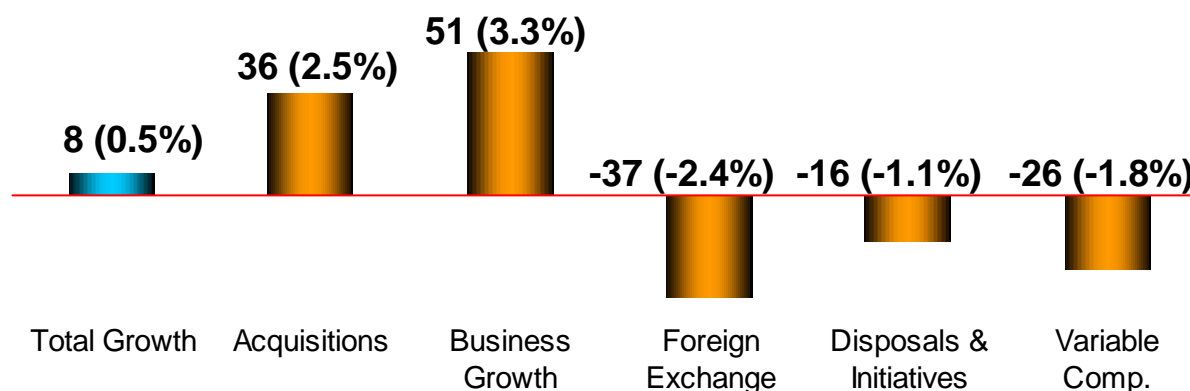
## Expense Growth

6.0% decline from Q1 and 2.0% decline from Q2'02, excluding acquisitions

### Q2 '03 vs Q1 '03 (\$MM)



### Q2 '03 vs Q2 '02 (\$MM)





## Expense Analysis (\$MM)

### Employee Compensation:

- Lower MTIP ↓ 28
- Lower Variable Comp. ↓ 18
- Fewer days, FTE Reduction, other ↓ 32

### Premises & Equipment:

- Computer costs lower – acquisition integration ↓ 14

### Other Expenses:

- Professional Fees ↑ 6

### Employee Compensation:

- Pension/Benefits ↑ 23
- Higher MTIP ↑ 11
- Expense/FTE Reduction ↓ 38

### Premises & Equipment:

- Computer costs higher (acquisition integration) ↑ 22

### Other Expenses:

- Professional Fees ↓ 7

### Amortization:

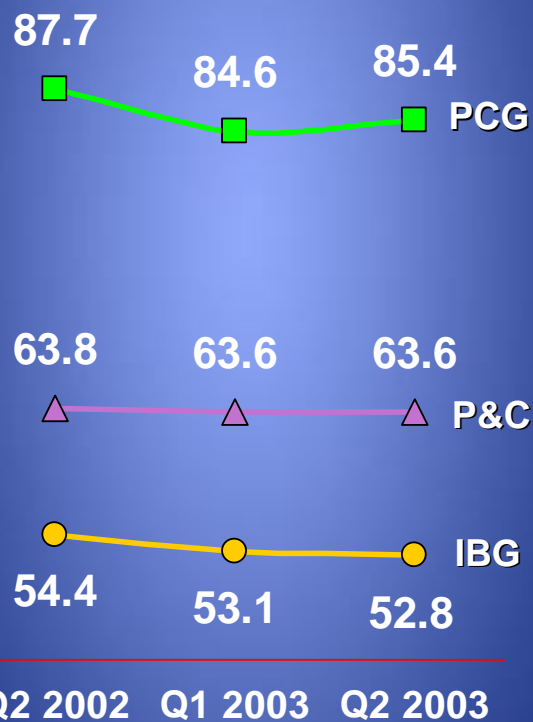
- Acquisitions ↑ 11

## *Non-Interest Expense Analysis*

Quarter-over-Quarter Q/Q	Q2 2003	Q1 2003	B/(W)
Employee Compensation	844	922	78
Premises & Equipment	315	327	12
Communications	39	43	4
Other Expenses	260	251	(9)
Amortization of Intangible Assets	26	30	4
<b>Total Non-Interest Expense</b>	<b>1,484</b>	<b>1,573</b>	<b>89</b>

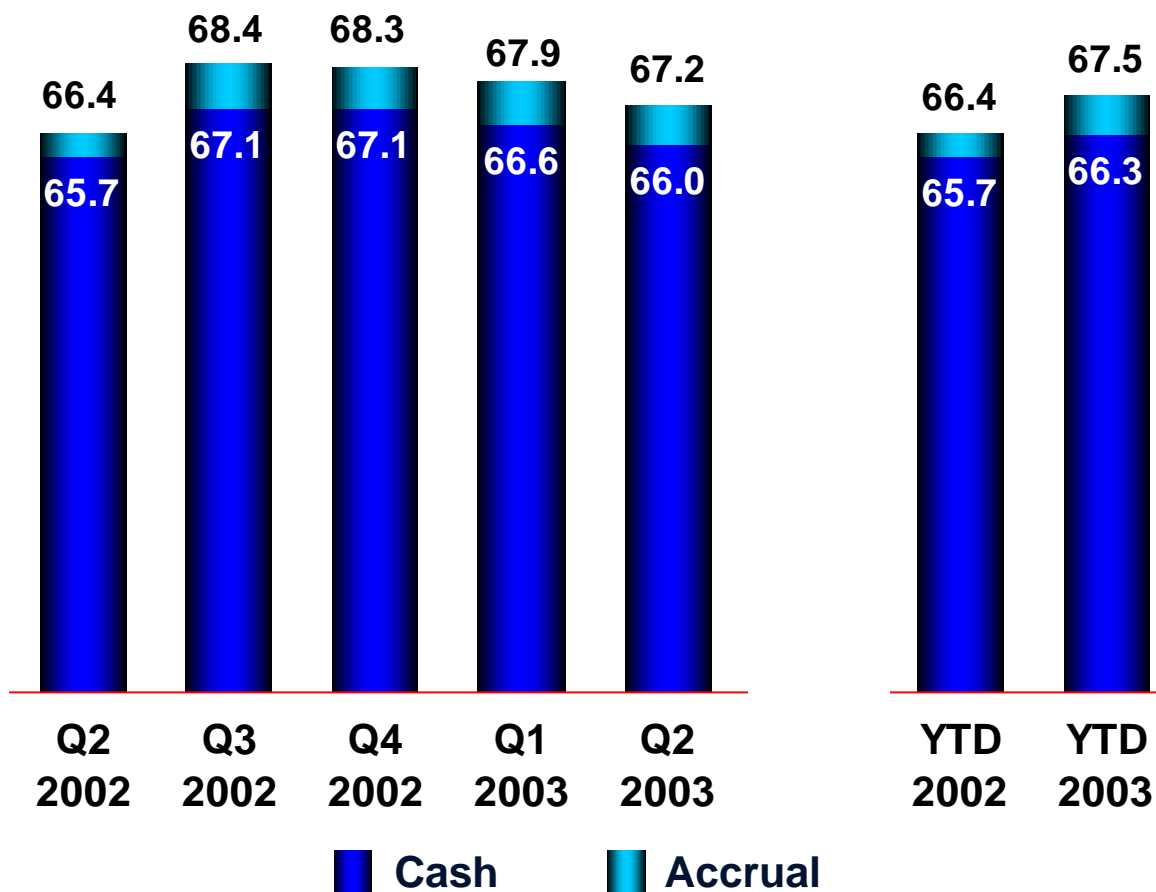
Year-over-Year Y/Y	Q2 2003	Q2 2002	B/(W)
Employee Compensation	844	848	4
Premises & Equipment	315	294	(21)
Communications	39	48	9
Other Expenses	260	271	11
Amortization of Intangible Assets	26	15	(11)
<b>Total Non-Interest Expense</b>	<b>1,484</b>	<b>1,476</b>	<b>(8)</b>

## Cash Productivity Ratio %

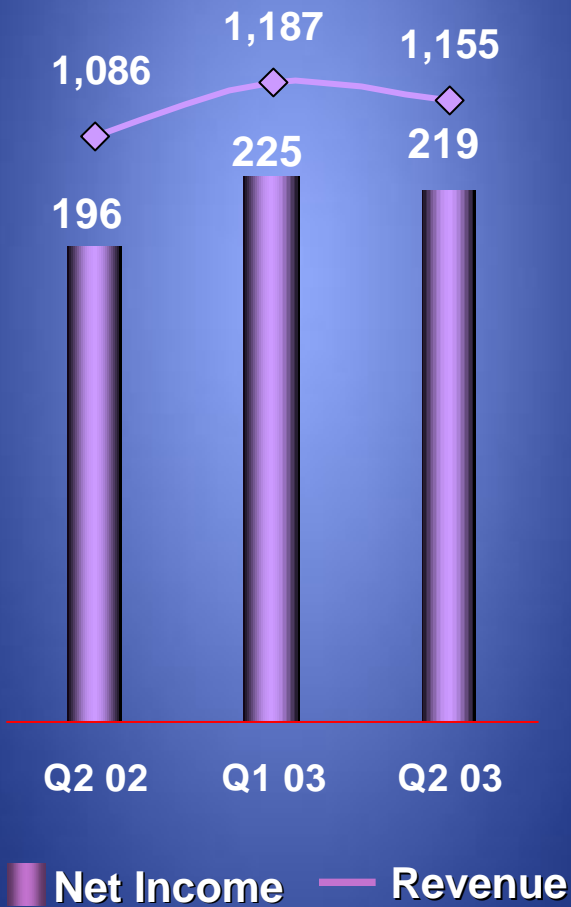


## Cash Productivity Ratio

Improvement continues to be a challenge in current revenue environment



## Revenue & Net Income \$MM



## *Personal & Commercial*

Significant improvement over prior year

- Volume growth in Canada and U.S.
- Higher net interest margins in Canada while U.S. margins declined in low interest rate environment
- U.S. earnings affected by weakening U.S. dollar
- Higher pension, benefit and performance-based compensation costs
- Attentive cost management and revenue growth drive improved productivity ratio over prior year
- Decline from Q1 reflects impact of 3 fewer days in current quarter

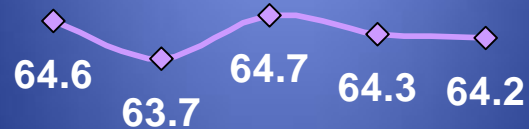
### Cash ROE



### Net Interest Margin



### Productivity Ratio

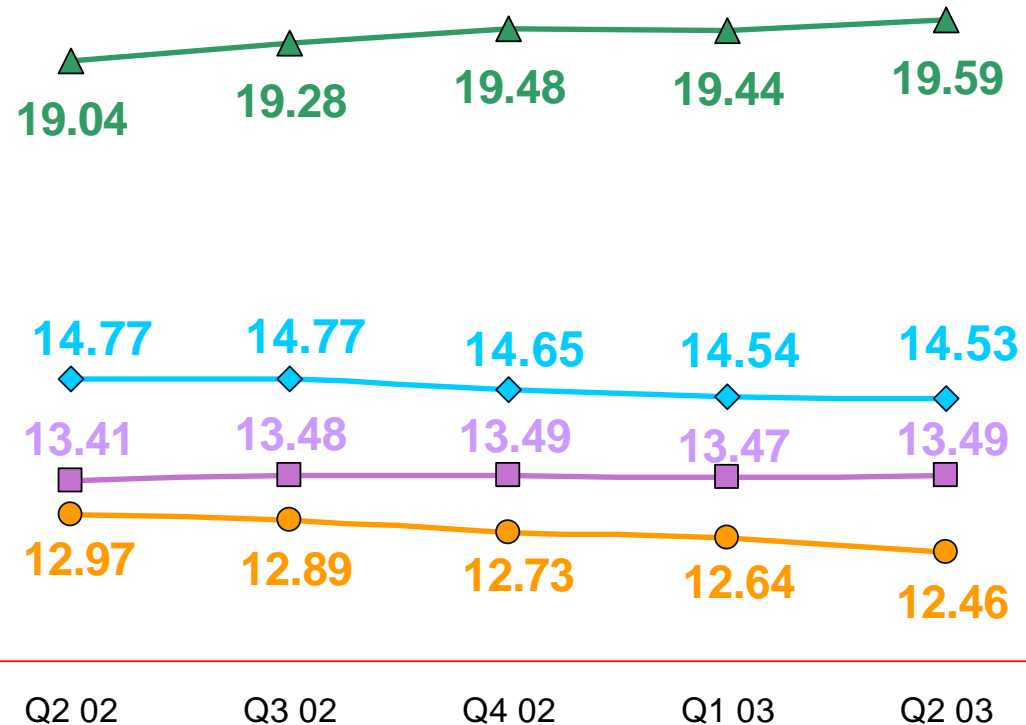


Q2 02	Q3 02	Q4 02	Q1 03	Q2 03
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## Personal & Commercial

Market Share reflects competitive environment

### Market Share (%)

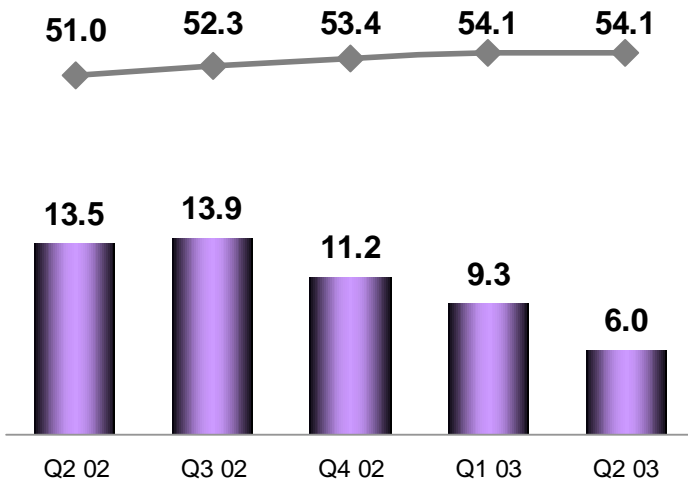


- ◆ Residential Mortgages (incl. 3rd party)
  - Personal Loans (ex. Cards)
  - Personal Deposits
  - ▲ Small Business Loans (\$0-5MM)<sup>1</sup>
- <sup>1</sup> Small Business Loans are on a calendar quarter and 3 month lag basis.

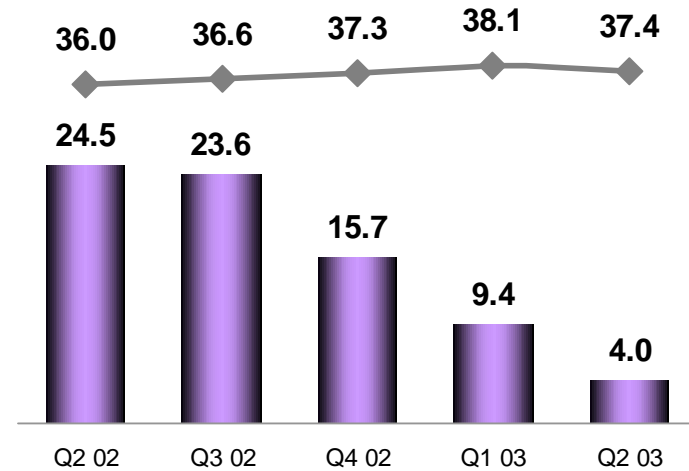
# Personal & Commercial

Volume growth masked by strengthening Canadian dollar

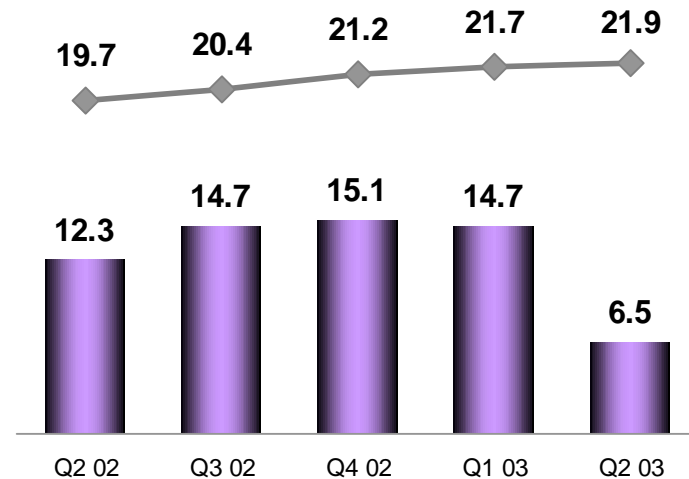
## Residential Mortgages<sup>1</sup>





## Personal Deposits



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



 Yr./Yr. Growth (%)  
 Average Balances (\$B)  
<sup>1</sup> Includes securitized balances

U.S. P&C and Harris Mid-market

Net Income



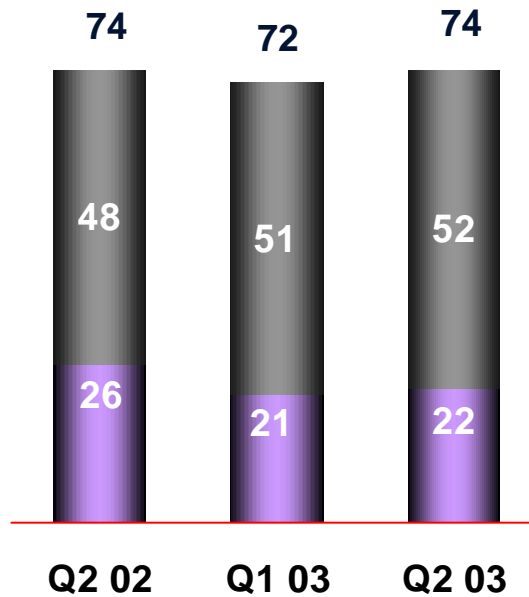
Revenue



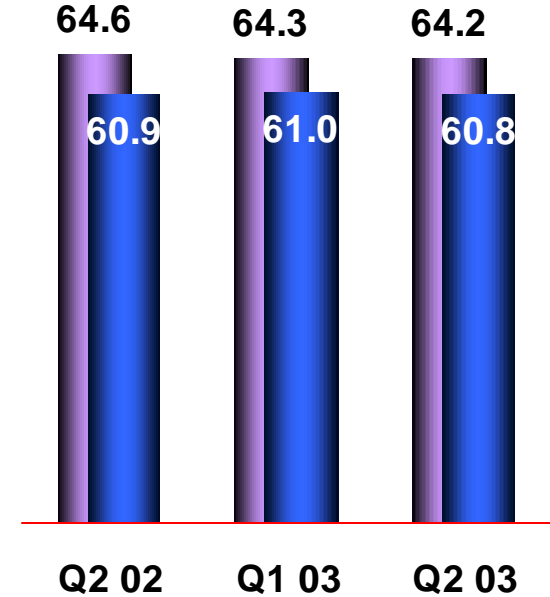
*U.S. Retail And Mid-Market*

Operations represent 72% of U.S. net income in Q2 2003

Net Income (C\$MM)

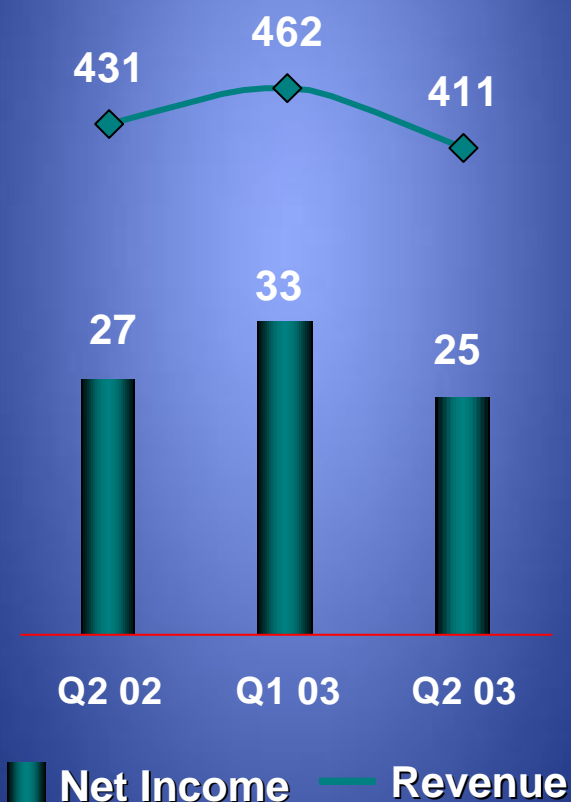


Productivity Ratio (%)



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

## Revenue & Net Income \$MM



## *Private Client Group*

Market-driven businesses impacted by continuing weak equity markets

- **Revenue declined 11% Q/Q** due to:
  - Client trading volumes declined and Q1 included \$16MM TSX gain
  - Y/Y improved Term results partially offset weak markets (TSX and S&P down 14% & 26%)
- **Net income increased** by \$5MM Y/Y excluding acquisitions - a positive result given market pressures on revenues
- **Productivity ratio improved** by 3.8% Y/Y, excluding acquired businesses.



### Cash ROE



**TSX and S&P  
500 down  
14% and 26%  
respectively**

### Productivity Ratio

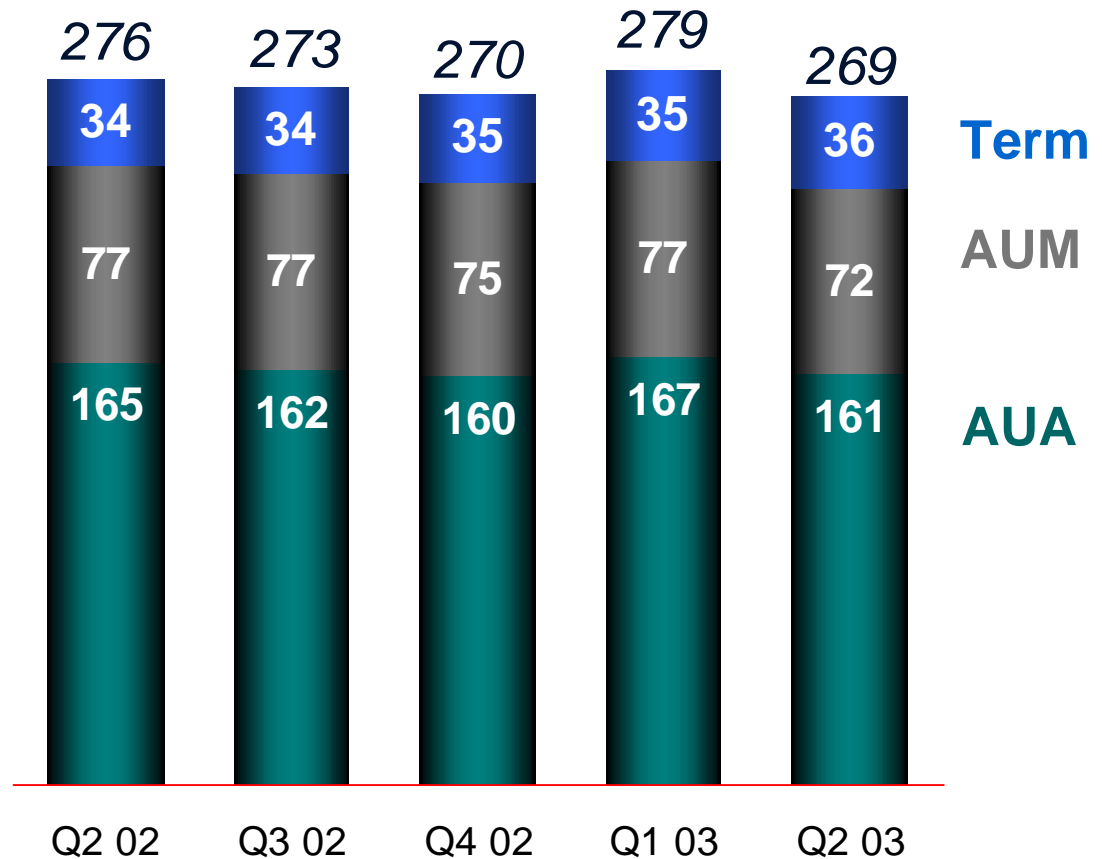


Q2 02	Q3 02	Q4 02	Q1 03	Q2 03
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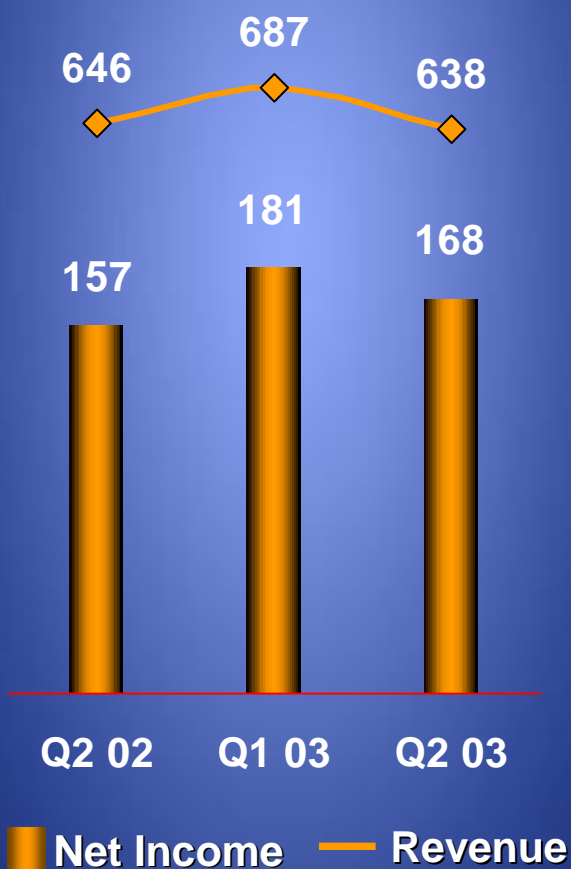
## Private Client Group

AUA/AUM declined \$7B or 3% Y/Y

### AUA / AUM (\$B)



## Revenue & Net Income \$MM



## *Investment Banking Group*

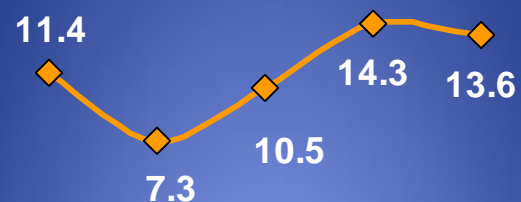
Challenging market environment continues

- Improved fee based revenue Y/Y offset by lower net interest income
- Revenue decreased from a solid performance in Q1, which benefited from the gain on the TSX IPO and strong M&A fees
- Expenses lower Y/Y and compared to Q1 as a result of cost containment measures, including lower performance-based compensation
- Improvement in Canadian operations compared to the prior year more than offset a decline in U.S. operations

# *Investment Banking Group*

Productivity ratio is trending lower

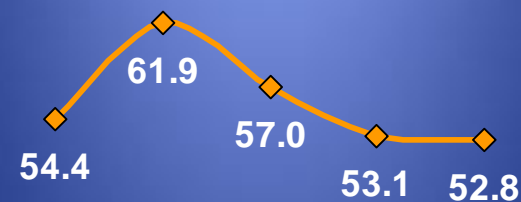
### Cash ROE



### Net Interest Margin



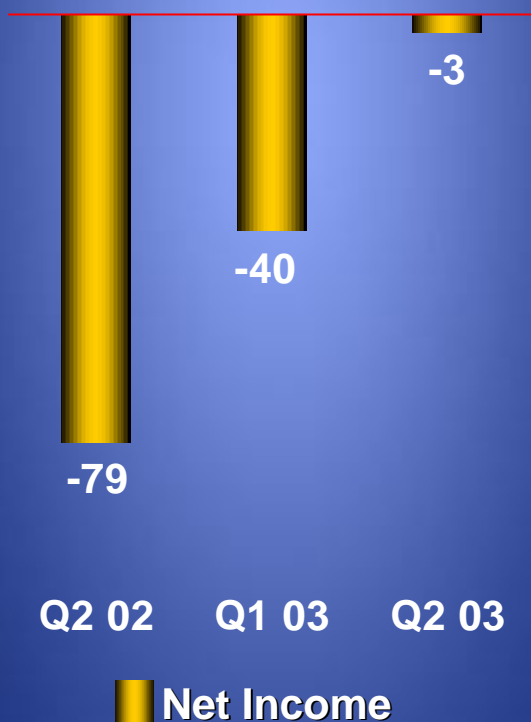
### Productivity Ratio



Q2	Q3	Q4	Q1	Q2
02	02	02	03	03

- Overall margin decreased Y/Y mainly due to narrowing spreads in capital markets businesses and corporate lending
- Risk weighted assets consistent with Q1 level
- Productivity ratio decreased compared to Q1 as expense savings outpaced revenue declines

## Net Income \$MM



## *Corporate Support, including Technology & Solutions*

Improvement driven by lower PCL

- Q2 2003 improvement over Q1 2003 as a result of:
  - Improved corporate revenue
  - Lower PCL
- Q2 2003 improvement over Q2 2002 as a result of:
  - \$205MM reduction in PCL primarily related to Teleglobe
  - Higher benefits costs
  - Lower securitization revenue

# Appendix

EPS GROWTH

**18.8%**

Annual Target

10 – 15%

ROE

**14.7%**

Annual Target

14 – 15%

PCL

**\$270 MM**

Annual Target

< \$820MM

TIER 1 CAPITAL

**9.10%**

Annual Target

> 8.0%

## *YTD 2003* Financial Highlights

- **Positioned to achieve all targets**
- **Cash productivity ratio of 66.3% up from 65.7% YTD 2002**
- **Revenue growth in P&C offset by weak growth in IBG & PCG**
- **PCL declined to \$270MM from \$500MM YTD 2002**
- **Annual target for PCL revised to at or below \$600MM**

## ***YTD 2003*** Financial Summary

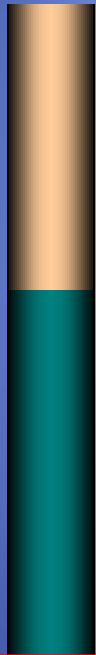
	<b>YTD 2003</b>	YTD 2002
Net Income (\$MM)	<b>808</b>	673
Cash EPS – Diluted (\$/share)	<b>1.60</b>	1.34
EPS – Diluted (\$/share)	<b>1.52</b>	1.28
Cash Return on Equity (%) <sup>*</sup>	<b>15.5</b>	13.7
Return on Equity (%) <sup>*</sup>	<b>14.7</b>	13.1
Revenue Growth (%)	<b>2.2</b>	1.9
Expense Growth (%)	<b>4.0</b>	4.9
Cash Productivity Ratio (%)	<b>66.3</b>	65.7
Productivity Ratio (%)	<b>67.5</b>	66.4
PCL/Avg. Loans Accept. (%) <sup>*</sup>	<b>0.36</b>	0.68
Capital: Tier 1 Ratio (%)	<b>9.10</b>	8.61

<sup>\*</sup> Annualized

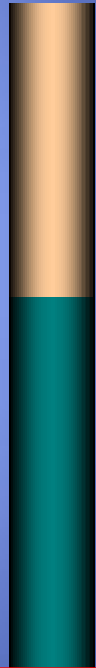


**Total Revenue  
\$MM**

4,427



4,526



YTD 2002

YTD 2003

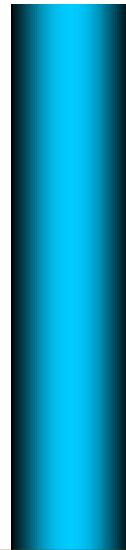
Net Interest  
Income

Non-Interest  
Revenue

***Year-to-Date Revenue Growth***

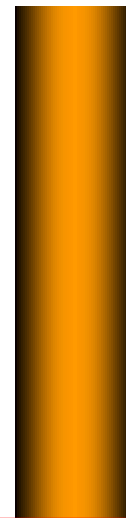
**YTD 2003 vs YTD 2002  
(\$MM)**

99 (2.2%)



Total Growth

93 (2.1%)



Acquisitions

11 (0.2%)



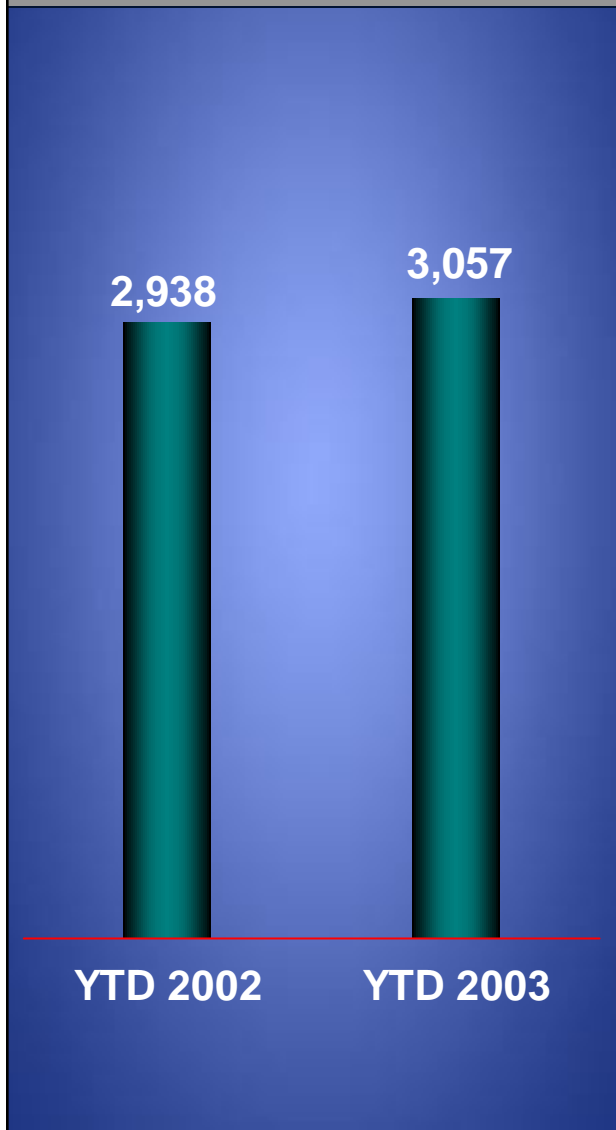
Business Growth

-5 (-0.1%)



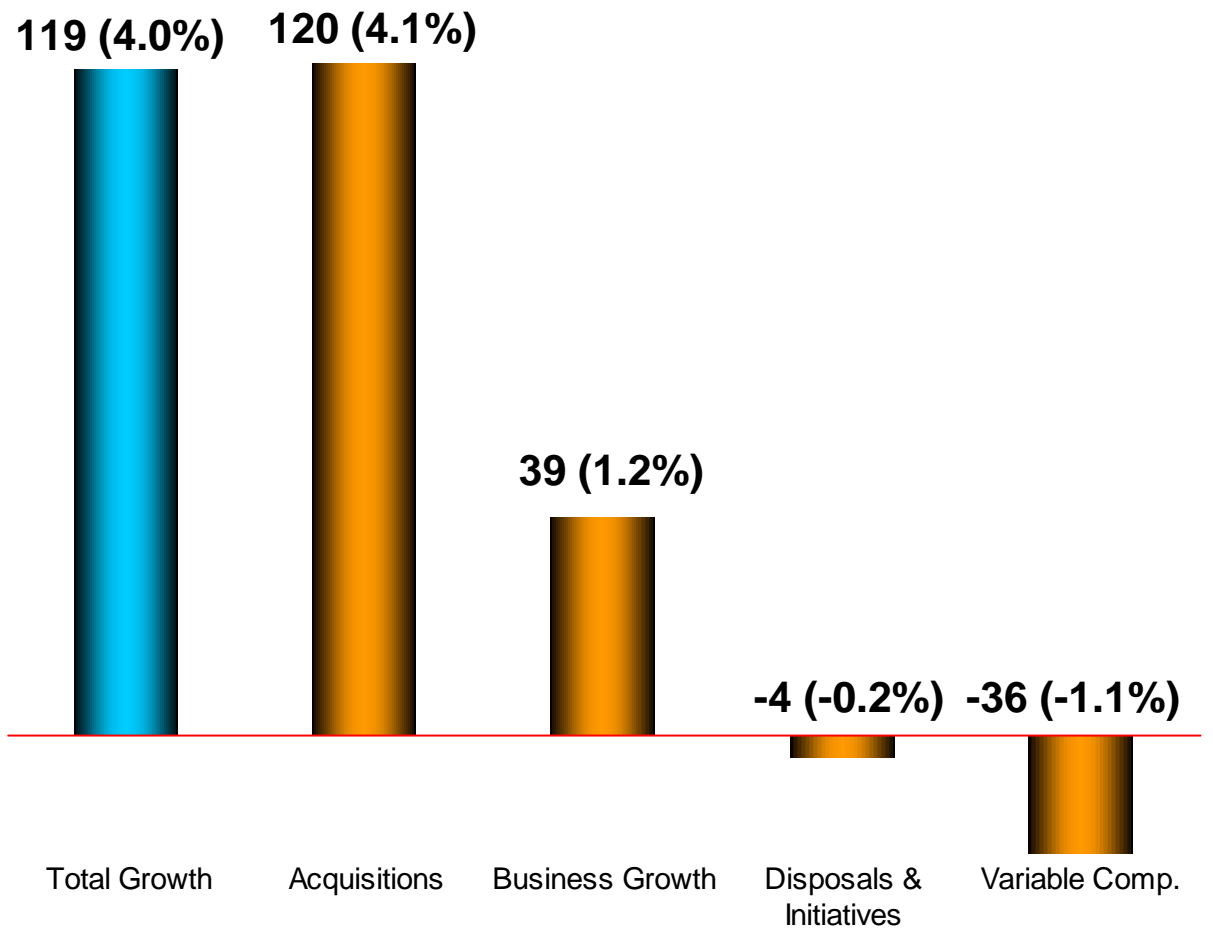
Disposals &  
Initiatives

**Non-interest Expense  
\$MM**

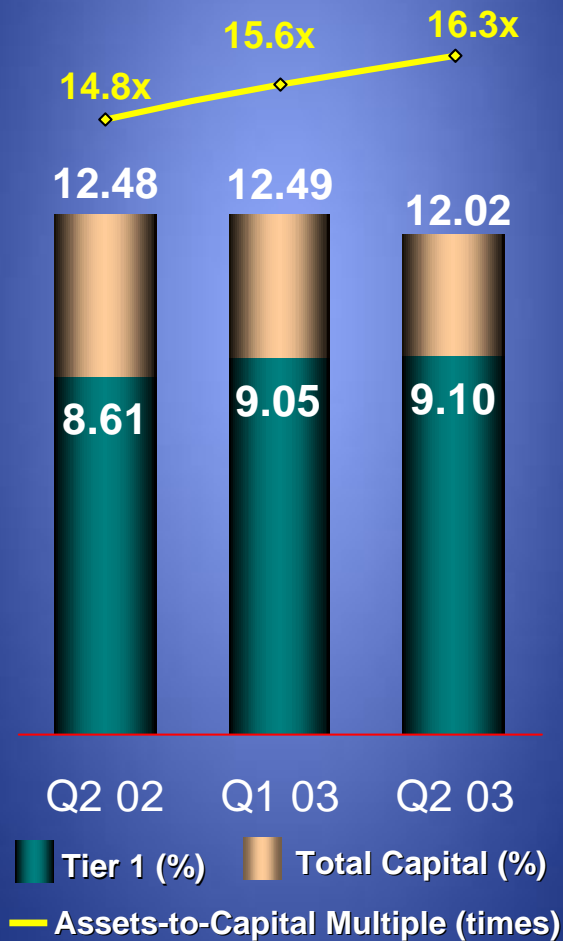


***Year-to-Date Expense Growth***

**YTD 2003 vs YTD 2002  
(\$MM)**



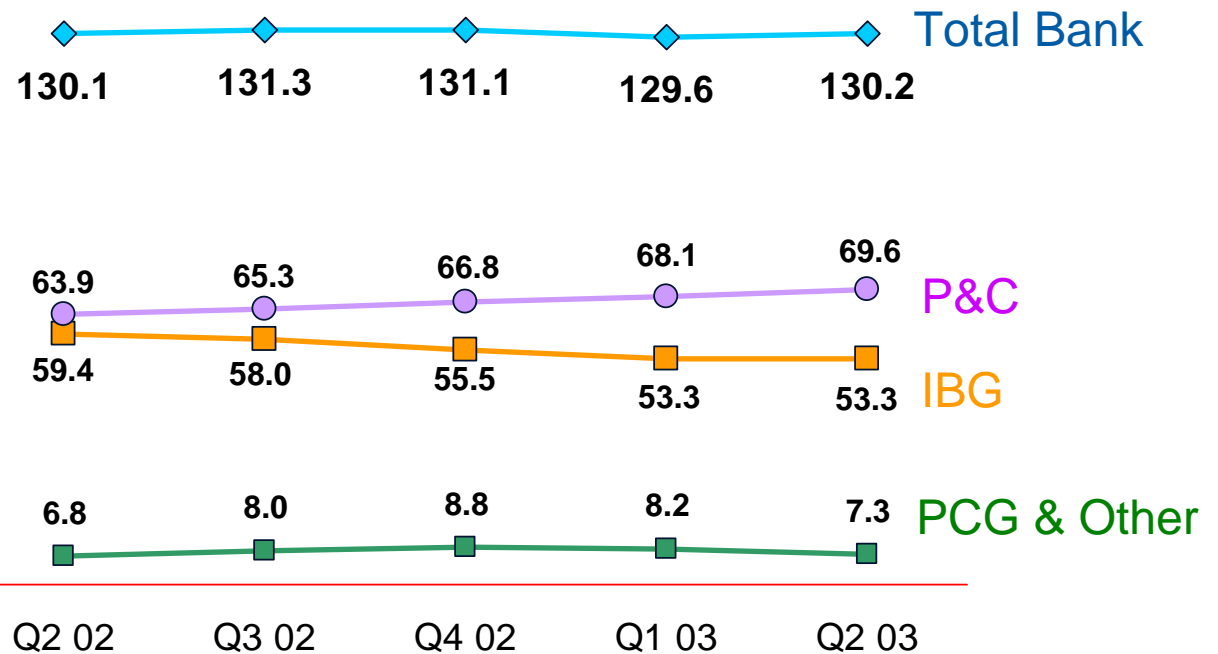
## Enterprise-Wide Capital Management



## Capital & Risk-Weighted Assets

Tier 1 capital increased due to internal capital generation partially offset by modest RWA growth

### Risk – Weighted Assets (\$B)



## *Direct Investing*

Impacted by weak equity market conditions

	<b>Q2 2003</b>	Q2 2002	Q1 2003	Yr / Yr Change
Active Accounts (000) <sup>1</sup>	<b>793</b>	732	815	8%
New Accounts (000) <sup>2</sup>	<b>16</b>	20	15	-20%
Trades / Day (000)	<b>15</b>	20	17	-27%
Customer Assets (\$B Cdn)	<b>41</b>	49	43	-15%

<sup>1</sup> Active accounts are defined as “accounts with balances or stock positions or trading activity in the last 12 months”

<sup>2</sup> Gross active new accounts estimated

# *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, press releases 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 2003 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 and international economies; 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.*

### **Investor Relations Contacts**

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