

# Clear Path Ahead

**SCOTIA CAPITAL**  
FINANCIALS SUMMIT  
2005

**TONY COMPER**  
*President and  
Chief Executive Officer*

SEPTEMBER 13 • 05

BMO  Financial Group





# 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 2005 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, communications, 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.



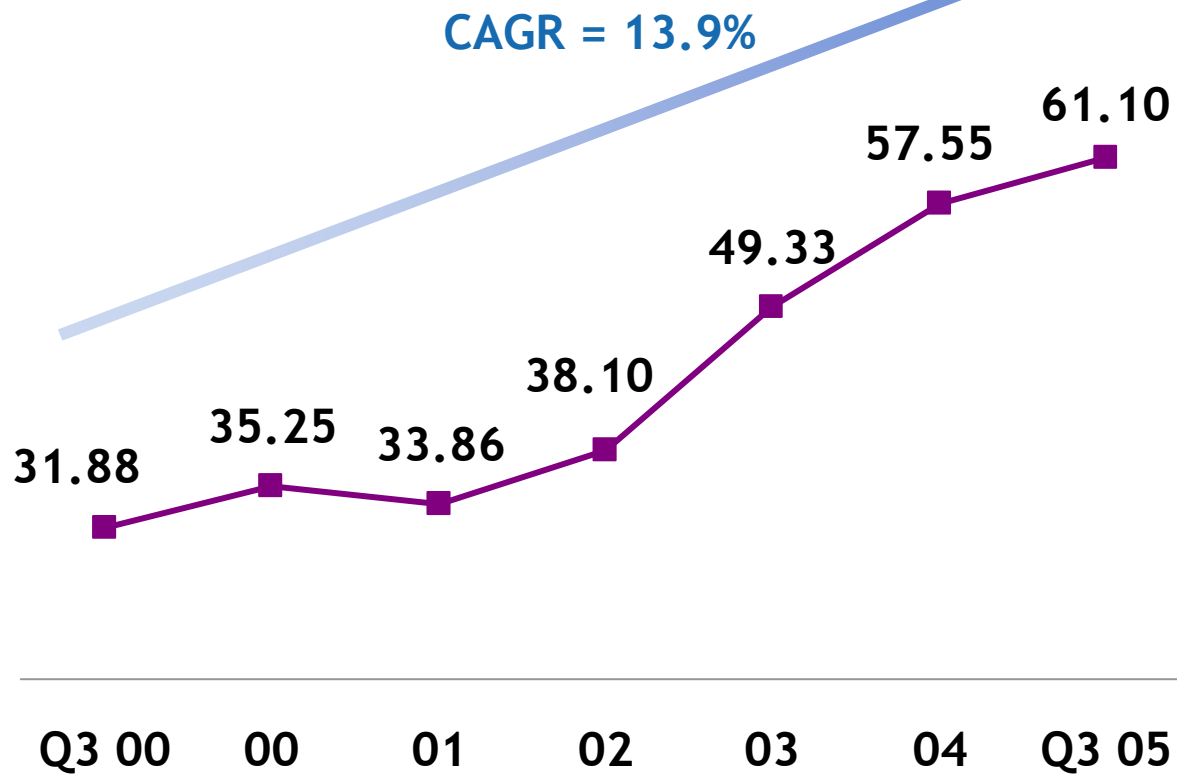
## WHY BUY / HOLD BMO?

- Consistent and focused North American growth strategy that is working
  - ▶ Proven capacity to achieve targeted growth from our existing solid U.S. platform and strong Harris brand
  - ▶ Strong franchise in some of the most lucrative markets in the U.S.
- Viewed as a high-return, low-risk stock
- Track record for stability, earnings consistency and strong dividend growth
- Commitment to ongoing productivity improvement
- Prudence and expertise in credit risk management
- Balanced approach to capital management
- Shareholder friendly compensation model

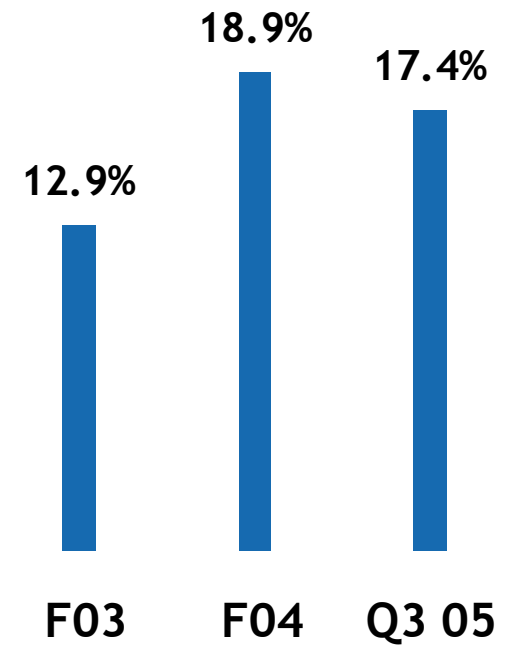


# STRONG RETURNS FOR SHAREHOLDERS

Share Price (\$)



5 year TSR



Share prices as at October 31



## ECONOMIC OUTLOOK

### Canada

- Growth will be sustained through 2006 by firm consumer spending and rising business investment. Exports will continue to adjust to the strong C\$
- Short-term interest rates, though expected to rise through 2006, will continue to stimulate the economy
- Long bond yields are expected to rise through 2006

### U.S.

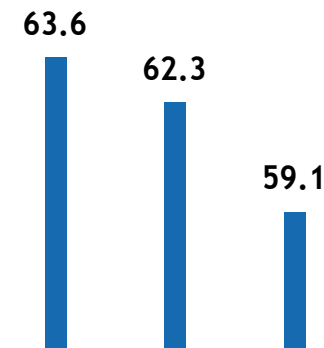
- Interest rate hikes will slow as the Fed assesses the impact of earlier tightening, high oil prices, and Hurricane Katrina
- Housing market will cool due to earlier rate increases, but strong capital spending will support business loans
- Consolidation will continue in response to deregulation



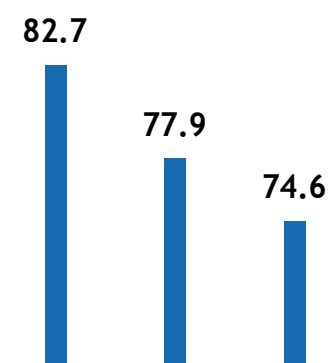
# FOCUSED ON ANNUAL TARGETS

Performance Measure	YTD 2005	F2005 Target
EPS Growth <sup>1</sup> (base of \$4.21)	3.4%	3-8%
Specific Provision for Credit Losses	\$162 MM	\$400 MM or less <i>Now estimated to be:</i> \$275 MM or less
Cash Productivity Ratio	40 bps improvement	150-200 bps improvement
Return On Equity	18.4%	17-18%
Tier 1 Capital	9.39%	Minimum 8%

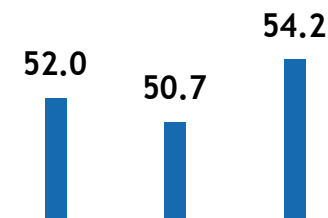
P&C Cash Productivity (%)



PCG Cash Productivity (%)



IBG Cash Productivity (%)

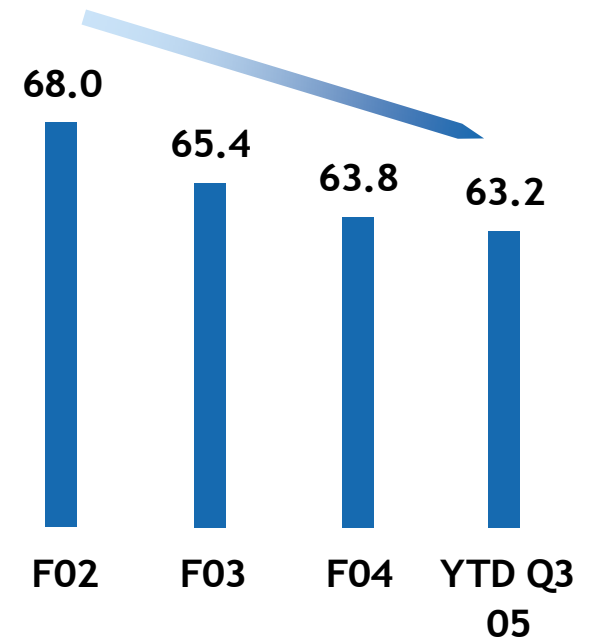


<sup>1</sup> Excluding changes in the general allowance

# EXCELLENT PROGRESS ON PRODUCTIVITY

- Improved approximately 420 bps from 2002 to the end of 2004
- Committed to improving 150-200 bps each year
- Improvement will be driven by revenue growth AND cost containment
- Compensation tied to success in achieving targets

Cash Productivity (%)





## 2005 STRATEGIC PRIORITIES

1. Achieve Financial Targets with a particular focus on productivity
2. Drive revenue growth by providing a superior client experience, earning a larger share of customers' business
3. Continue to improve U.S. performance
4. Accelerate growth in the U.S. both organically and through acquisitions
5. Grow Net Income in Canada through operational efficiency and improved market share, accelerating our growth in commercial banking and wealth management
6. Build a high-performance organization by developing our people, living our values and being an employer of choice
7. Maintain our world-class foundation of leading governance, sound risk management, productive systems and excellent after sales service

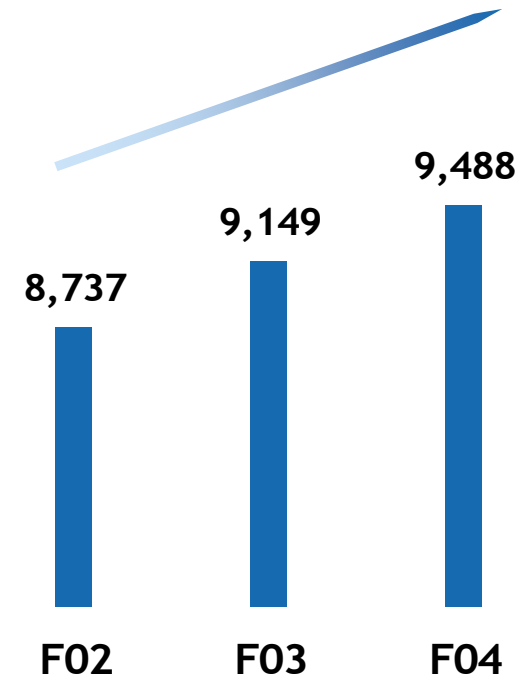




## FOCUSED ON DRIVING REVENUE GROWTH

- Total customer orientation
  - ▶ Investment in leading-edge technology in P&C
  - ▶ Incentive plans designed to reward strong orientation toward sales & service
- Customer-focused dedication to cross-business referrals
  - ▶ Sales Councils - Canada
  - ▶ One Harris - U.S.

Total Revenue (C\$MM)

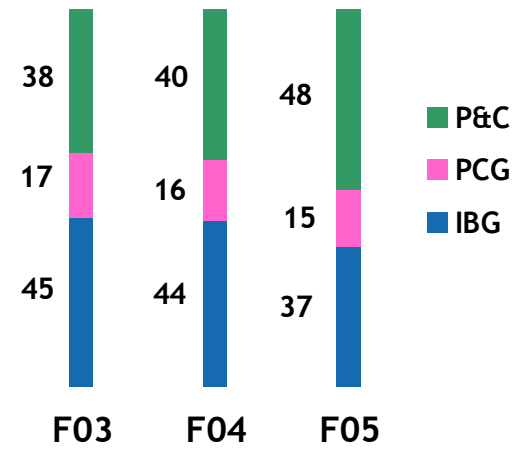




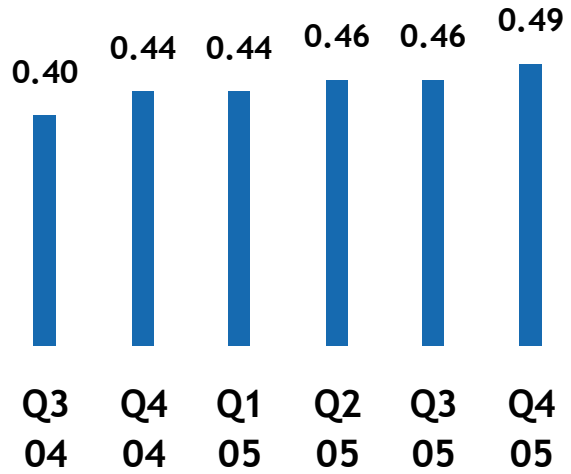
# PRIORITIES FOR CAPITAL DEPLOYMENT

- Fund organic growth
  - ▶ De novo branch construction in Chicago
  - ▶ Increased credit utilization
- Acquisitions
- Dividends and share buybacks

Allocated Capital By Line of Business (%)<sup>1</sup>



Quarterly Dividends per Share (C\$)

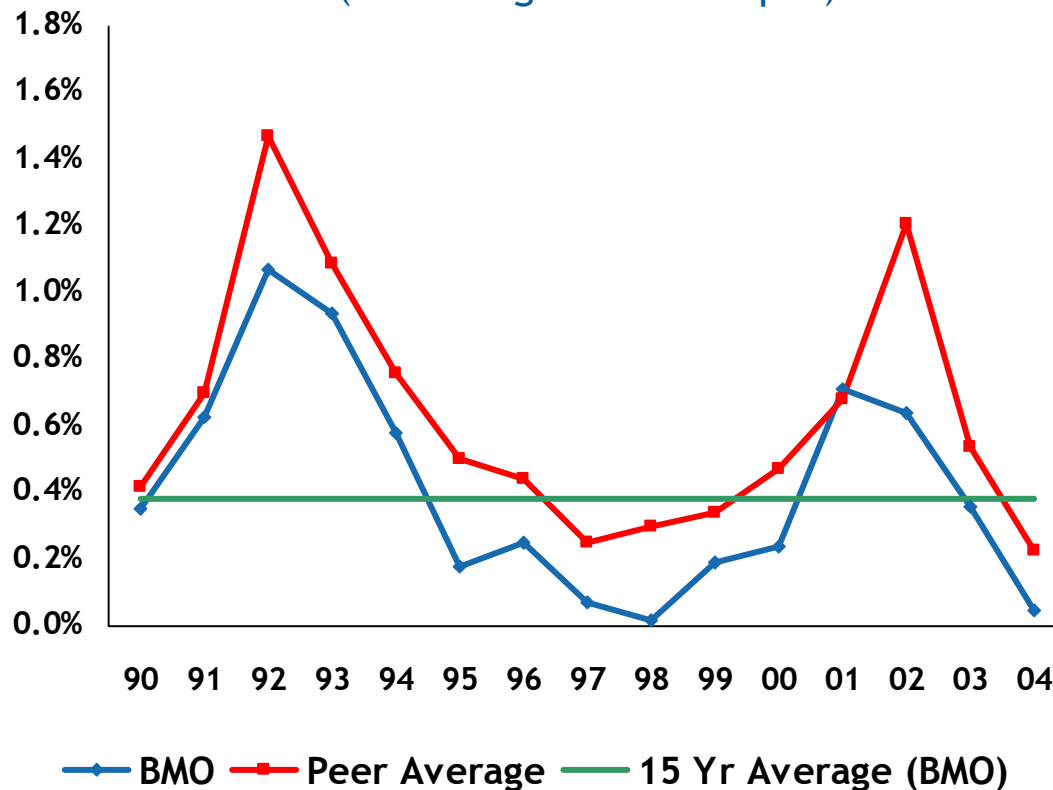


<sup>1</sup> Difference between Total and Allocated Capital booked in Corporate Areas



# INGRAINED CREDIT CULTURE & SUPERIOR ASSET QUALITY

Specific PCL as a % of Loans and Acceptances\* (excluding Reverse Repos)



15 year average	BMO	Cdn. Peers
Specific PCL as a % of Loans and Acceptances (ex. Reverse Repos) (%)	0.38	0.60
Specific PCL as % of Retail / Consumer Portfolio (%)	0.24	0.36
Specific PCL as % of Commercial / Corporate Portfolio (%)	0.52	0.89

BMO's Canadian peers include: RBC, BNS, CIBC and TD

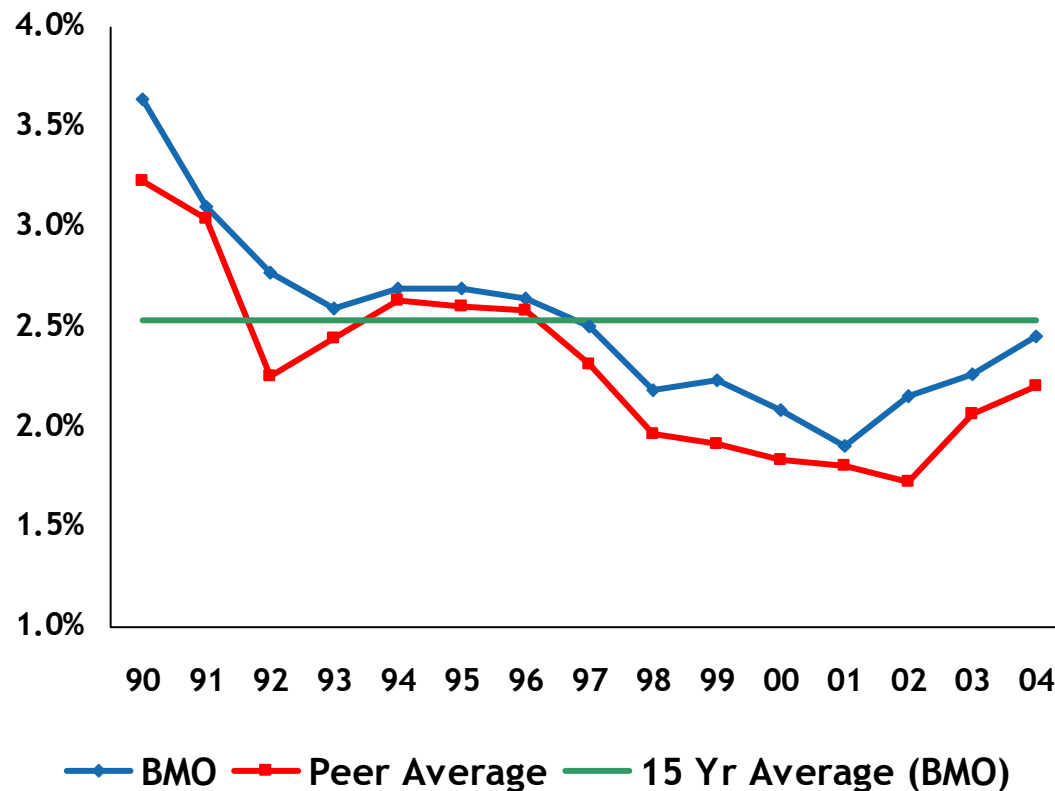
\* Loans and Acceptances as at October 31

15 year average - 1990 to 2004



# CREDIT PERFORMANCE DRIVES EARNING POWER

Net Interest Margin  
Excluding PCL On Average Earning Assets \*



15 year average	BMO	BMO Rank	Cdn. Peers
NIM ex. PCL on Average Earning Assets (%)	2.53	#1	2.31

BMO's Canadian peers include: RBC, BNS, CIBC, TD and National.

15 year average - 1990 to 2004

\* As reported. Earning Assets defined as Securities, Net Loans and Acceptances



## LEADER IN CORPORATE GOVERNANCE AND FINANCIAL DISCLOSURE

- Corporate governance and financial disclosure a priority
- Senior Management and Board committees fully informed of scope and extent of risk taking

### CANADIAN BUSINESS

- #1 Ranking in annual corporate governance survey

### Corporate Knights.ca

- Named Canada's best corporate citizen for 2005



### What's Next?

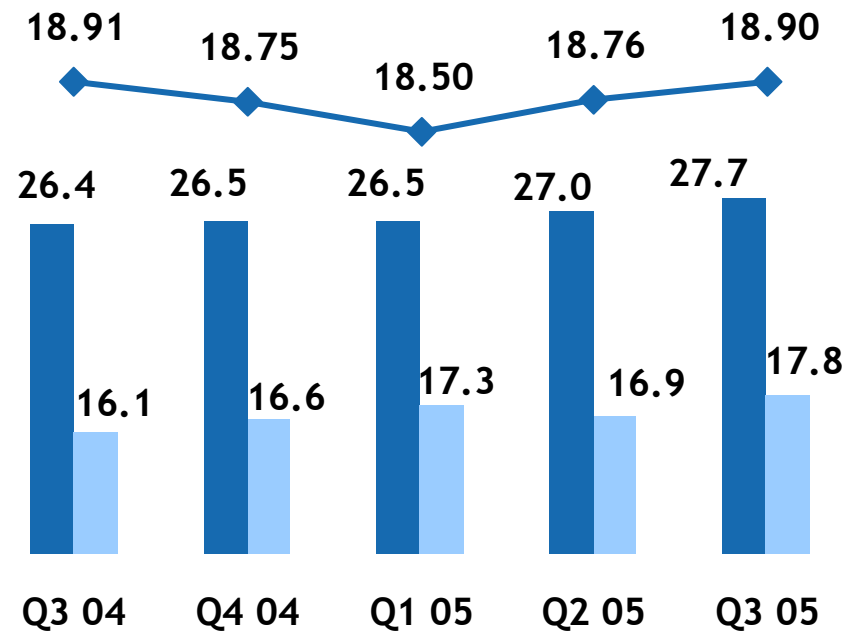
187th Annual Report 2004

- Annual Report ranked #1 globally in Financial and Performance Reporting category by *e.com*



# GROWTH POTENTIAL IN CANADIAN COMMERCIAL

- BMO continued to rank 2<sup>nd</sup> in business banking market share for business loans \$5MM and below
- Q3 05 strong volume and market share performance in all three market segments: independent business, small and medium sized enterprises and the mid-market segments



**Note**

Business loans (Banks) are issued by CBA on a one calendar quarter lag basis. (Q3 05: March 2005)

Market share restated to reflect the latest CBA data

■ Commercial Loans & Acceptances (\$B)  
 ■ Commercial Deposits (\$B)  
 ◆ Business Banking Loans (\$0-5MM) Market Share (%)



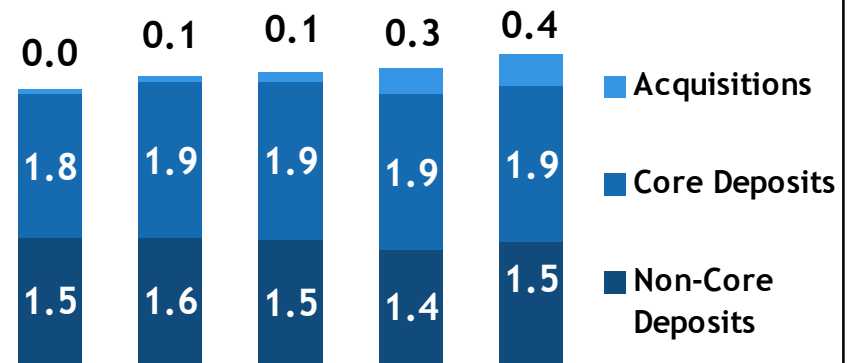
# GROWTH POTENTIAL IN HARRIS COMMERCIAL

- Good volume growth including and excluding acquisitions
- Recent research shows Harris market share in Small Business and Micro segments virtually the same as other top 2 banks, with Commercial Mid-Market share growing

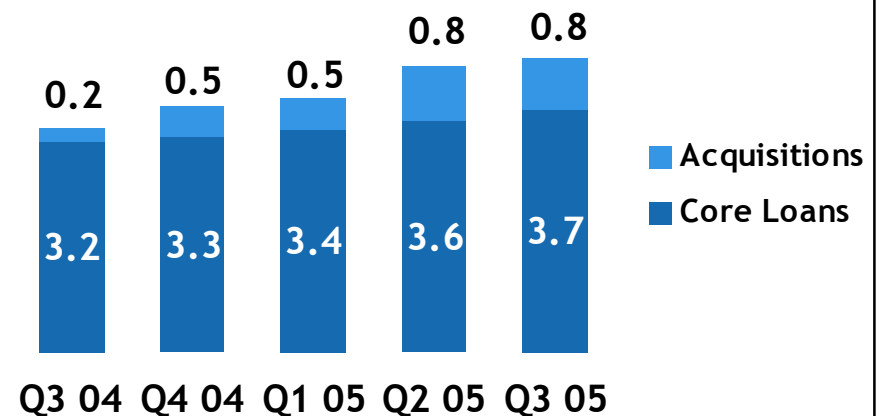
P&C Chicagoland <sup>1</sup>	Ranking
Commercial Mid-Market (revenues \$10 - \$75 MM USD)	Top 3
Small Business Segment (revenues \$1 - \$10 MM USD)	Top 3 (Top 3 Banks have virtually same share)
Micro Segment (revenues < \$1 MM USD)	Top 3 (Top 3 Banks have virtually same share)

<sup>1</sup> Source: Study by External Consultant August, 2005 based on Chicagoland competitors

Deposits (\$MM USD)



Loans (\$MM USD)







# EXCEPTIONAL U.S. PLATFORM FOR GROWTH

C\$ Million

**Total Invested**

1984-2004: C\$3.8 Billion\*

2000-2004: C\$2.2 Billion

*\*includes Harris purchase*

Mercantile Bancorp \$194  
 New Lenox State Bank \$314  
 Lakeland Community Bank \$49

Sullivan, Bruyette, Speros & Blayney \$20  
 Gerard Klauer Mattison \$40

myCFO \$61  
 Morgan Stanley self-directed accounts \$153  
 Northwestern Trust \$19  
 CSFBdirect \$854

First National Bank of Joliet \$337

Century Bank \$24  
 Freeman Welwood \$140  
 Village Bank of Naples \$19

Burke, Christensen & Lewis \$59

Household International \$378

Suburban \$300

Frankfort Bancshares \$20

Libertyville Federal Savings & Loan \$7

State Bank of St.Charles & First National Bank of Batavia \$31

Commercial State Bank (Phoenix) \$3

First National Bank of Barrington \$43

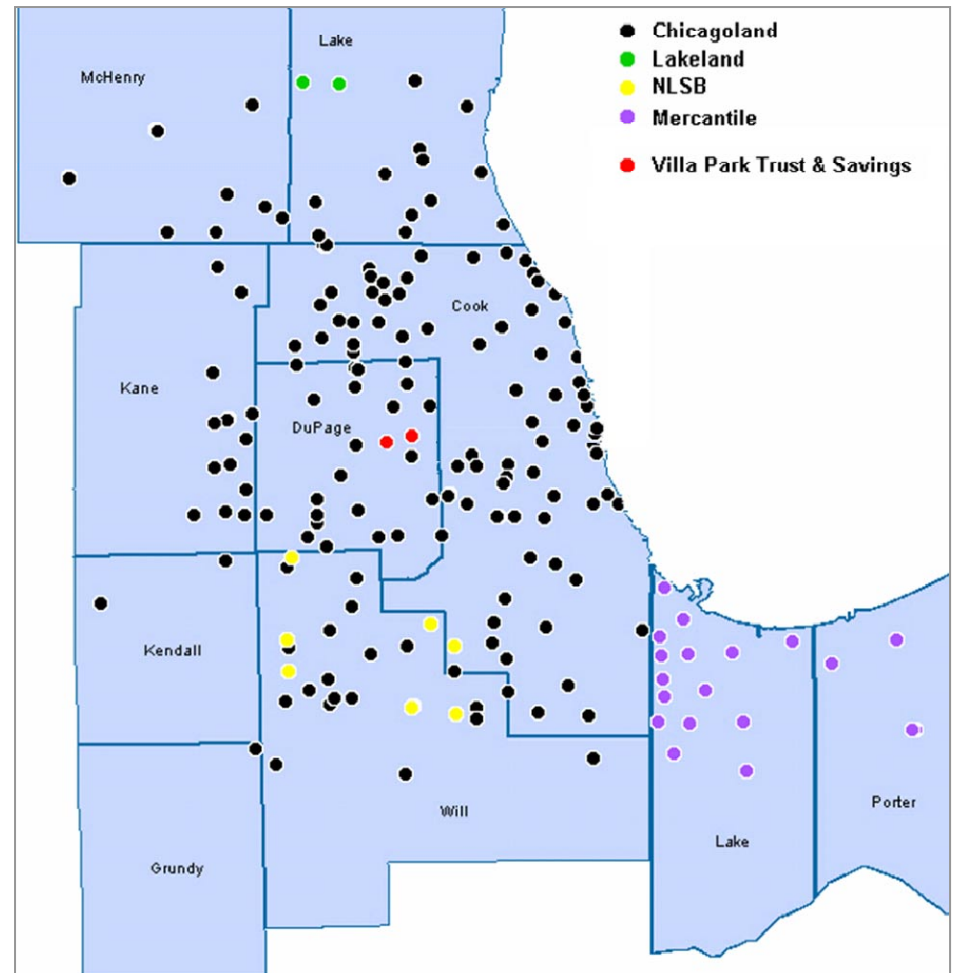
Harris Bank \$718

1984 1985 1987 1988 1990 1994 1996 1999 2000 2001 2002 2003 2004



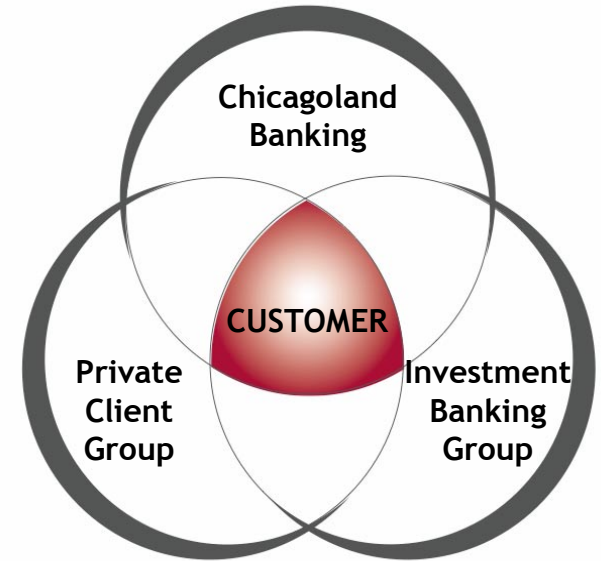
# CHICAGOLAND BANKING DISTRIBUTION NETWORK

- Harris is well positioned:
  - ▶ Strong physical presence; 190 branches in Illinois and NW Indiana
  - ▶ Community bank model
- Future expansion from:
  - ▶ Targeted de novo branch expansion
  - ▶ Acquisitions in the Midwest

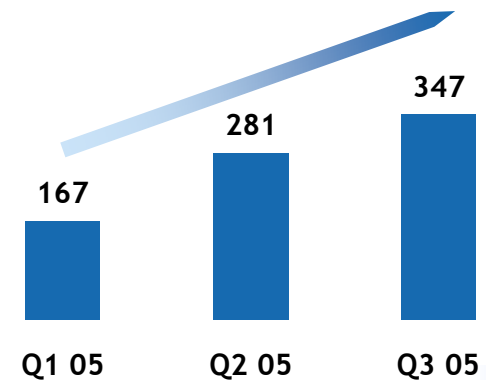


# ONE HARRIS

- Provide exceptional customer service by leveraging the full capabilities of the organization to meet a broad range of customer needs
- Earn a larger share-of-wallet and drive revenue growth through increased referrals and cross-sell
- Established targets, incentives and performance tracking mechanisms



**One Harris  
Total Intergroup  
Cross-Sell  
(Balances, US \$MM)**





# 2004 ACQUISITIONS - SYNERGY CAPTURE

- Key expense synergies captured
  - ▶ Transition bank leadership into the Harris management model
  - ▶ Consolidate duplicative head office functional areas (e.g., credit, compliance, audit)
  - ▶ Divest and/or exit non-core businesses
  - ▶ Rationalize vendor contracts
- On pace to fully realize business case targets for NLSB and MNB
  - ▶ Centralize operations, item processing and other back office activities

## Acquisition Performance

	<u>Lakeland</u>	<u>NLSB</u>	<u>Mercantile</u>
Pre-Acquisition Productivity Ratio	53%	57%	70%
Business Case Synergy as % of Operating NIX by Year 3	16%	15%	19%
Synergies Captured to Date vs. Business Case	100%	44%	60%
Projected Synergy Capture by Year 3	Plan	Plan	41% Over Plan



## PROGRESS ON U.S. EXPANSION

### PRIORITIES

- Continue to improve U.S. performance
- Accelerate growth in the U.S. both organically and through acquisitions

### ACTIONS

- Opened a new branch in Mount Prospect, with three more branches scheduled to open in Q4
- Successful Harris charter consolidation
- Announced definitive agreement to purchase Edville Bankcorp, Inc. and its subsidiary Villa Park Trust and Savings Bank
- Announced definitive agreement to sell *Harrisdirect*



# ACQUISITION STRATEGY

- Target banks in Chicago area and the Midwest, however broader geographic area ranges from west of the Mississippi to the Rocky Mountain range
- Advantages include deep market knowledge and Harris brand
- Three key questions:
  - ✓ *Is it a good strategic fit?*
  - ✓ *Is it a good cultural fit?*
  - ✓ *Is it a good financial fit?*

## Recent Acquisitions

- 2005 Edville Bankcorp, Inc. (scheduled to close Fall 2005)
- 2004 Mercantile National Bank  
New Lenox State Bank  
Lakeland Community Bank
- 2001 First National Bank of Joliet





## DE NOVO BRANCH EXPANSION

- Strong market coverage
  - ▶ Opened 22 de novo branches in Chicago area in last 3 years
  - ▶ 2<sup>nd</sup> largest branch distribution network in Chicago area
- Maintain focused strategy
  - ▶ De novo branch performance in line with expectations; ongoing focus on managing new branch performance
  - ▶ 3 additional de novo branches planned to open in Q4
  - ▶ 8 sites secured for expansion in F2006 and F2007

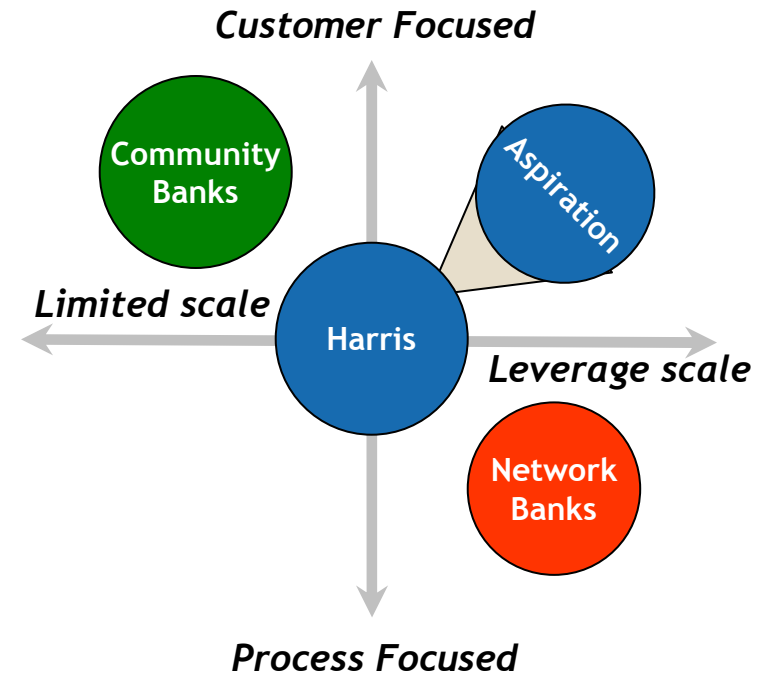


### New Branch Performance Indicators

- Deposit balances exceed business case by \$100MM
- Aggregate net income for branches achieves business case expectations

## BECOMING THE LEADING P&C BANK IN THE U.S. MIDWEST

- Leading player in growing Chicago area retail banking market
- Customer-focused, community-based business model
- Strong heritage and brand equity
- Growth trajectory to be the #1 Midwest P&C bank:
  - ▶ Grow faster than the market
  - ▶ Top-tier customer service scores
  - ▶ Improve productivity and profitability
  - ▶ Execute acquisition strategy





SCOTIA CAPITAL - FINANCIALS SUMMIT 2005

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## INVESTOR RELATIONS

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# Clear

# Path Ahead

**QUESTION &  
ANSWER**

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