OBJECTIVES, MEASURES AND TARGETS

The following diagram illustrates the relationship between objectives, measures and targets at BMO Financial Group.

Governing Objective To maximize the total return to BMO shareholders and generate, over time, first-quartile total shareholder returns relative to our Canadian and North American peer groups. **Financial Performance and Condition Objectives** Our performance objectives are to grow EPS¹ by a minimum of 10% per year over time and to increase cash ROE² to between 19% and 20% over time. Our condition objective is to maintain a strong regulatory capital position consistent with our peers. All targets exclude the effects of non-recurring items.² **2002 Financial Performance Targets** 2002 Financial Performance To achieve 8% to 12% cash EPS² growth Cash EPS growth of 8.6% To increase cash ROE to between 14% and 15%

2002 Financial Condition Targets

2003 targets are based on the economic outlook discussed below.

To maintain a Tier 1 Capital Ratio of at least 8.0% Tier 1 Capital Ratio of 8.80%

2003 Financial Performance Targets

To achieve 10% to 15% EPS growth (10% to 15% cash EPS growth)

Provision for credit losses in the range of 40 to 50 basis points

- To increase ROE to between 14% and 15% (cash ROE to between 15% and 16%)
- To maintain a provision for credit losses at or below the 2002 level (\$820 million)

- Cash ROE of 14.6%
- Provision for credit losses of \$820 million or 56 basis points, consistent with our updated estimate of April 2002

2002 Financial Condition

2003 Financial Condition Target

To maintain a Tier 1 Capital Ratio of at least 8.0%

- 1 All EPS figures in this MD&A refer to diluted EPS, unless indicated otherwise.
- 2 Adjustments to GAAP results to derive cash results and results excluding non-recurring items are outlined on page 18, along with comments on the use of these measures.

Financial Performance Measures, Objectives and Targets

The most significant of our financial performance measures are referred to as "primary measures", while the less significant, which tend to influence the primary measures, are referred to as "secondary measures". The most fundamental primary measure is the five-year total shareholder return. When compared to peer group performance, it assesses our success in achieving our governing objective.

We establish annual targets for certain of the performance and condition measures. We also establish financial performance objectives, which represent longer-term average annual minimum levels of achievement. Our success in achieving our governing objective of first-quartile total shareholder returns will depend on our degree of success in surpassing our minimum financial performance objectives and the performance of our peer group.

Because financial targets represent annual checkpoints in the achievement of financial objectives, they reflect variable economic conditions and may be higher or lower than the financial objectives in any particular year.

Our operating philosophy is to increase revenues at a rate higher than general economic growth rates and limit expense growth to equal to or less than revenue growth, over time. We strive for efficiencies in expense management and a balance between current profitability and the need to invest for future growth. When possible, expense efficiencies partially or totally fund the costs of investing for the future. However, the relationship between revenues and expenses in any year is affected by economic conditions.

Much of the analysis of performance in the MD&A is framed in the context of the primary and secondary measures discussed above, which are used by management in assessing performance. The measures are considered most relevant when they exclude the effects of non-recurring items, as further discussed and detailed on page 18. Financial performance targets outlined above are stated on that basis. Cash earnings measures are also provided at times because they can be informative, as explained on page 16.

Our targets for 2003 are established in the context of our expectations for the economy in the year ahead, as detailed on page 51. We anticipate that the economic factors that influence our businesses will be similar in Canada and the United States. GDP growth of 3.8% is expected in Canada, with growth of approximately 3.2% in the United States. The jobless rate is expected to trend lower and interest rates are expected to rise steadily later in the year. Consumer and business credit are expected to pick up. Mortgage growth should remain high in Canada but may moderate somewhat from record highs in the United States. We remain cautious about the near-term prospects for capital and credit markets.

Prior Year Targets

In 2001, BMO achieved three of its nine financial targets, as expense growth outstripped revenue growth and provisions for credit losses increased significantly. In 2000, we achieved all three of our financial targets.