



Driven by Purpose

Darryl White
Chief Executive Officer

By intensifying our focus on areas of competitive strength, we continue to grow long-term value for all BMO stakeholders. It's how we drive the bank forward.

In 2019, BMO showed clear progress against our strategy. We delivered good revenue and income growth, reflecting the strength and quality of our diversified businesses. We finished the year with very strong performance and are well positioned to accelerate through the coming year.

Adjusted net income was \$6.2 billion, an increase of 4% over the previous year; return on equity was 13.7%. Adjusted earnings per share grew by 5% to \$9.43. And we increased the declared dividend by 7%, extending BMO's unbroken dividend record since 1829.

The bank's capital position remains strong. With a Common Equity Tier 1 Ratio of 11.4%, we're well positioned to support long-term performance in a changing economic environment, while staying alert to opportunities for growth.

In the past year, we intensified our customer focus, generating above-market growth in personal and commercial loans and deposits across our footprint. In our U.S. segment, we achieved double-digit growth, generating \$2.1 billion in net income after taxes. BMO is a top 15 U.S. bank by assets, as well as a top 10 commercial lender. In 2019, nearly 50% of our deposit growth came from outside the Illinois and Wisconsin markets where BMO has a dominant presence; this is 10 percentage points higher than the previous year.

Our U.S. operations now represent 34% of the bank's total net income; we've achieved this ahead of our expectations by making good strategic choices in a favourable environment. After a decade of balance sheet growth and consistent customer loyalty gains in each of our businesses, we've cemented our standing as a truly North American bank – 8th largest on the continent by assets.

Across the organization, we're investing in high-potential growth areas that enable market-leading customer experiences, deeper customer insights and world-class data security. At the same time, we're taking considered steps to ensure operational excellence in all aspects of our business. The excellent results in our Canadian

flagship business reflect this. Every change we make is intended to keep us nimble and better able to execute against our stated priorities.

By intensifying our focus on areas of competitive strength, we continue to grow long-term value for all BMO stakeholders.

It's how we drive the bank forward.

Our purpose inspires us to act decisively in the face of change. It attaches intention to our strategic priorities, grounds our actions in a set of shared values and gives direction to our growth.

BOLDLY GROW THE GOOD

IN BUSINESS AND LIFE

Our Strategic Priorities

1. Drive leading growth in priority areas by earning customer loyalty
2. Simplify, speed up, and improve productivity
3. Harness the power of digital and data to grow
4. Be leaders in taking and managing risk, consistent with our overall risk appetite
5. Activate a high-performance culture

Growing the good

Our progress in putting this strategy into action reflects the conviction behind it. Over the past 12 months, we came together as an organization to talk about the core beliefs that have driven our bank's success from the beginning. Many voices helped unlock a simple, powerful statement of purpose: to Boldly Grow the Good in business and life.

While the words are new, the spirit they convey is not. In fact, everything BMO does is grounded in our purpose. It attaches intention to our priorities and gives direction to our growth. It informs all of our efforts to accelerate positive change – for our customers, our employees and the communities where we do business. And it amplifies the unique strengths we bring to creating shared value with our stakeholders.

To underline this point, we've announced bold commitments to grow the good in three areas: a sustainable future, a thriving economy and an inclusive society. The initiatives we've undertaken range from mobilizing capital for sustainable investment, to doubling support for small business – particularly women-owned enterprises – to promoting even greater diversity in our own organization. And there's much more to come.

Focusing on efficiency gains

Our purpose also requires us to be disciplined as we drive BMO forward, building competitive strength by enabling operational excellence to deliver greater value to our customers.

We're making clear choices about where to focus the bank's resources in order to accelerate the execution of our strategy, deliver earnings resilience in various environments and continue growing our customer base. And as we maintain steady progress in improving the efficiency of our processes and systems, we uphold the strong risk controls that have always been foundational for BMO's continued growth.

Our bank is in motion, adjusting proactively to changing market realities – and that means working harder than ever to realize the full benefits of our technology architecture. The result includes success stories like BMO Business Xpress, our lending platform for small business, which takes an approval process that once required up to 30 days and shrinks it to 30 minutes. Or the mortgage program we've launched in partnership with digital lender Blend, which helped double the number of home equity applications while saving 100,000 hours of processing time annually. Or the fact that we now have customers opening online accounts in all 50 U.S. states, leveraging both our digital capabilities and our ability to attract new customers through our North American scale and the strength of the BMO brand.



^ Juanita Hardin, Treasury & Payments Solutions (TPS). Our TPS group offers award-winning solutions that integrate into our customers' day-to-day lives and work. TPS operates the bank's primary payment systems, making their work critical to our clients – and to BMO.

These are just three examples of meaningful new outcomes across BMO that enhance productivity while building customer loyalty – and therefore revenue. We've committed to lowering the bank's adjusted net expense-to-revenue ratio, a key metric of efficiency. Progress has been steady, with an above-average cumulative improvement since 2015. In the final quarter of fiscal 2019, we reached 60% – and we're accelerating.

Efficiency is just one marker in a strategy that requires us to be disciplined in all aspects of building competitive strength. Another is our ability to cross-leverage our North American platform. BMO is recognized as a leading North American bank for business – #2 in Canada, top 10 in the U.S. – and this is a true differentiator. We have broad reach and incomparable experience in serving North American companies, with the scale to be a dominant player on both sides of the border.

Digitizing BMO

Integral to BMO's efficiency goals and broader growth ambitions is our investment in technology. The powerful platform we've built gives us the resilience and scalability to sustain critical services and keep pace with customers' changing needs. And as new opportunities arise, we're ready to respond quickly, leveraging artificial intelligence, robotics and the cloud.

It's rewarding to see BMO's digital and mobile offerings earn top marks from customers, along with recognition from standard-setters like Gartner and Forrester. And as customers entrust us with the data we need to make banking simpler and more personal, we're intensifying vigilance in cyber security and fraud protection. In 2019, we integrated the bank's defensive capabilities

into a central function, the Financial Crimes Unit, with a mandate to protect against threats and strengthen the trust that customers place in us. The unit's state-of-the-art security management hub, the BMO Fusion Centre, brings together experts from security, the businesses and business functions, making it unique in our industry.

Creating shared value

The achievements outlined here, and throughout this annual report, contribute to our momentum. But for a purpose-driven bank, the real question is how these efforts come together and add up to something more. And that's where BMO's employees set us apart.

Together, we've built an inclusive, collaborative culture anchored by shared values and a level of engagement that ranks us among leading global companies. We celebrate diversity and its power to inspire innovative thinking and bolder decision-making. And we hold ourselves to the highest ethical standards, because doing what's right – always, even when it's not the easy choice – creates loyal customers, stronger communities and a more equitable society. Success can – and must – be mutual.

Those values are exemplified by Rob Prichard, who will retire on March 31, 2020, after serving since 2012 as Chair of the Board. An independent director for the past 20 years, Rob helped guide BMO through a period of extraordinary change and growth, from the 2008 financial crisis, through the revolution in digital technology, to multiple acquisitions and the economic shifts that have helped accelerate our growth into a leading North American bank. On behalf of the senior management team and everyone at BMO, I want to thank Rob for his consistently astute judgment, wise counsel and principled governance. And I'm pleased to welcome his designated successor as Chair, George Cope, who has served on our board since 2006. One of Canada's most respected business leaders – notably as President and CEO of BCE Inc. and Bell Canada – George brings a clear understanding of how BMO can take advantage of the opportunities ahead to continue growing.

We've set our priorities. We have energy, resilience and focus. We see growth potential across all of our businesses. We know where we're heading and are accelerating how we'll get there. And importantly, we know *why* we come to work every day. Our customers and all of our stakeholders count on us to act decisively in the face of change, and to do something bigger. As we continue doing our part to move things forward, BMO's deep sense of purpose fuels our collective ambition – and drives our shared success.

Darryl White