



Ready for the Future

Darryl White
Chief Executive Officer

DURING THE PAST YEAR, the world has been tested by two extraordinary challenges: first, the coronavirus pandemic, whose scale and severity triggered a global health emergency; and then the resulting economic downturn, which has had a drastic impact on the lives and livelihoods of millions of people.

When the extent of the threat from COVID-19 became clear in early March, BMO took immediate action to protect the health of our employees – who in turn worked tirelessly to secure the well-being of our customers and communities. The support and advice we provided, and the relief programs we delivered on behalf of governments, underline the vital role a trusted financial institution plays in restoring stability after an economic shock. We'll continue to help lead these efforts as the world transitions from crisis to recovery.

The past year also saw dramatic social change across the U.S. and Canada, as incidents of racial injustice sparked larger conversations about the need to build a more equitable and inclusive society. Our bank is taking steps to address these issues as well – because we have a fundamental responsibility to be part of the solution.

Built for resilience

BMO had the benefit of strong operating momentum coming into this year. And as difficult as 2020 proved to be, we were well-positioned to provide a solid defence against uncertainty. Our bank is well-diversified in terms of geography, with our U.S. businesses accounting for approximately one-third of earnings. BMO also has a diverse business mix within and across personal and commercial banking, wealth management and capital markets. This strategic advantage, together with our active management of the bank's capabilities, helped sustain our fundamental resilience through the balance of 2020, as evidenced by our year-end results.

BMO delivered strong relative adjusted pre-provision, pre-tax earnings, generating \$9.4 billion, up 7% over the previous year. We continued to make progress against our efficiency commitments, driving our adjusted net expense-to-revenue ratio down another

160 basis points this year and achieving above-target adjusted net operating leverage of 2.7%. This strong performance was balanced by appropriate loan loss provisioning. With \$3.1 billion of allowances for possible credit losses on performing loans, we enter the current year ready for the future.

Adjusted return on equity was 10.3%, while adjusted earnings per share was \$7.71.

Foundational to BMO's resilience is our capital strength. With a Common Equity Tier 1 Ratio of 11.9%, up by 50 basis points compared to last year, we have the capacity to absorb the impacts of an uncertain environment while retaining the flexibility to invest and grow in areas of strategic importance. In addition, we've maintained the annual dividend our bank has issued every year since 1829.

BMO's deep sense of purpose is propelling our business forward. We're building a high-performance, digitally enabled bank that's ready for the future.

Despite the challenging environment, we remain focused on accelerating BMO's shift to greater digitization and our ability to create industry-leading experiences for all customers, across our retail, wealth, commercial and institutional banking franchises. We're speeding up structural cost improvements and making them permanent. We're adopting hybrid work models across the bank.

And importantly, we've continued to build stronger customer loyalty across our key businesses.

Our #1 ranking in the J.D. Power 2020 Canada Retail Banking Advice Satisfaction Study is just one among many markers of BMO's success in delivering great customer experiences. Our progress in making banking easier through digital innovation is also earning accolades – including a 2020 Artificial Intelligence Excellence Award from Business Intelligence Group for our use of AI to help customers spot and manage potential cash flow concerns.

In addition to these welcome recognitions, we're also achieving other goals. Even before COVID-19, we'd expected to face a more constrained revenue environment in 2020. This foresight proved invaluable, making BMO an industry leader in productivity gains this year. And it continues to guide us as we identify the right levers to further boost efficiency. We've done what we said we'd do – and we'll do more.

Strategically advantaged

As we publish this annual report, some uncertainty still clouds the economic outlook. When the world is grappling with the most significant crisis since the Great Depression, there are no quick fixes. But optimism is on the rise: we see it every day in the determination of our employees, our customers and our communities.

The pace of the recovery will be uneven, varying by region and sector. Some areas of the U.S. and Canadian economies may lag; others are regaining strength, and more should soon follow, reaffirming trends that were emerging before the pandemic. Here again we benefit from BMO's diversification, which ensures we're not unduly exposed in areas of greater vulnerability. Each of our businesses is backed by the resources and reach of a truly North American bank.

In commercial banking, for example, BMO is one of the continent's Top 10 lenders, combining regional and sector expertise with disciplined risk management. Our integrated Canada and U.S. teams generate about 30% of total revenues, delivering consistently strong returns. And our collaborative approach to client relationships, supported by a robust cross-border platform, extends opportunities across commercial and personal banking, wealth management and capital markets.

This integration of talent and capabilities gives us a unique competitive advantage as we help customers regain stability and move ahead. And guiding all of our decisions and actions are our strategic priorities (see box), which we've renewed in the past year to further intensify our focus on execution.

Looking ahead, we see opportunities to invest and grow – in areas of strategic importance, and in those with attractive financial prospects – as we pursue our longer-term strategic objectives.

BMO's Renewed Strategic Priorities

The fundamentals of BMO's strategy remain consistent. We have renewed the bank's priorities for 2021 to reflect our strong momentum and the changing environment.

- > **World-class** client loyalty and growth
- > **Winning culture** driven by alignment, empowerment and recognition
- > **Digital first** for speed, efficiency and scale
- > **Simplify** work and **eliminate complexity**
- > **Superior management of risk** and **capital** performance

Driven by Purpose

Boldly Grow the Good *in business and life* – this is the Purpose that underpins everything we do at BMO. Our commitment to doing what's right, for our stakeholders and all of society, has helped us take on the pandemic's social and economic challenges. And our Purpose has only been strengthened by calls to address longstanding issues around racial inequality.

In working to advance economic recovery, we're acutely aware that progress is only sustainable if every member of society has equal access to opportunity. That's why we've launched a landmark initiative called Zero Barriers to Inclusion 2025. Building on our history of championing diversity – and inspired by frank conversations across the bank – we're taking action to advance racial equality among our key stakeholder groups.

Within BMO, we've broadened measures to attract and develop diverse talent while eliminating barriers to career advancement and setting clear targets for measuring progress. Among our customers, we're providing more capital for minority-owned businesses and opening doors to other sources of long-term financing. And in our communities, we continue to champion the kind of inclusive local economic initiatives exemplified by our multi-million-dollar investments in Chicago and Toronto.



^ Luna Guha, Senior Manager, Strategy and Business Operations, Wealth Management. We continue our disciplined focus on improving the bank's efficiency and return profile, building on efforts that began before the pandemic.

These efforts to remove the barriers that have held so many people back are framed by BMO's overall commitment to sustainability. Our bank is a leader in sustainable finance and other innovative strategies to support the global response to climate change – because we know that social well-being can't fully take root as long as the planet is under threat. It's an issue that has only grown more urgent over the past year, as many of our communities were hit hard by storms, floods, wildfires and other extreme weather events.

We were proud to have our work in this area recognized by *The Wall Street Journal*, which placed BMO first among all banks and #15 among 5,500 global companies in its 2020 rankings of the 100 Most Sustainably Managed Companies in the World. (Our 2020 Sustainability Report and 2020 Climate Report provide comprehensive updates on recent progress.)

Our bold ambition

BMO's deep sense of Purpose is propelling our business forward. Leveraging our pre-crisis strength and momentum, we're building a high-performance, digitally enabled bank that's ready for the future. In digital sales of products and services, for example, we're already top-tier among Canadian retail banks, and are always looking ahead. We're able to sustain this speed and agility because BMO's transformation is about more than channels and platforms: we're creating digital operating models that extend to every area, driving efficiency, supporting innovative ways of working and delivering the speed, simplicity and flexibility that customers expect. A case in point is our rapid response to the pandemic, which saw some 30,000 BMO employees transition almost overnight to working from home, backed by the resilience and adaptability of our technology infrastructure.

BMO's ambition is defined by strategic initiatives that will cement our leadership position among our North American peers. More fundamentally, our plan is grounded in the strength of our people – their high engagement, personal integrity, sense of responsibility and customer focus. Aligned in our values and goals, and applying the insights we've gained into what inspires customers and increases their loyalty, we're driving innovation and performance from the bottom up.

We're being bolder about BMO's strategic agenda, focusing our resources where our businesses have competitive market share and are well-positioned to deliver strong returns – now, and in the future.

Our ability to act strategically and decisively in times of disruptive change runs deep: it's what BMO has always done. We've been nimble in how we respond and adjust to drive change, both within the bank and as we keep pace with a fast-moving world. This has fuelled our response to COVID-19, as everyone at BMO has embraced the critical front-line role that bankers play in ensuring communities' economic health. In particular, I want to take this opportunity to salute the thousands of employees who've worked with empathy, adaptability and resolve in our branches, contact centres and other areas that deliver core banking services. On behalf of your colleagues and the bank's shareholders, thank you for your dedication to supporting our customers today – and helping them prepare for a better tomorrow.

Here's what gives us confidence: BMO's proven strengths – our operating momentum, our intense customer focus, our industry-leading digital capabilities, our push for greater efficiency and higher return on equity – and as always, our strong capital position and superior management of risk. Building on these advantages, we're transforming BMO into a stronger, even more competitive bank.

While the road to recovery is still being mapped, there's no doubt as to the ultimate destination. And we know that our bank, as a catalyst and accelerator of growth, will navigate the challenges ahead, seizing opportunities to lead in the post-pandemic world. Because at our core, we're led by our customers – all 12 million of them – whose resilience reinforces our own.

Darryl White