

Here and Now



We're using technology to create new business models – and to unlock new sources of value for our customers and shareholders. Because in our experience, a changing landscape conveys advantage to those who are willing to disrupt, accept some degree of trial and error, and try again.

The strategy of BMO Financial Group is summed up in a set of clear, concise statements that frame our decision-making and guide how we execute our business activities. These strategic priorities take a long-term perspective, providing a touchstone we can return to regularly as we gauge our progress and define new areas of focus. While remaining consistent at the core, they have evolved to reflect the changing business environment and our response to it.

As we publish this 2015 Annual Report, with the 2016 fiscal year already well underway, these are BMO's strategic priorities:

1. Achieve industry-leading customer loyalty by delivering on our brand promise
2. Enhance productivity to drive performance and shareholder value
3. Accelerate deployment of digital technology to transform our business
4. Leverage our consolidated North American platform and expand strategically in select global markets to deliver growth
5. Ensure our strength in risk management underpins everything we do for our customers

Our priorities have been refined to highlight the investments we've been making in the underlying architecture of the bank's technology platform (as detailed on pages 4-5), and to recognize technology's potential to transform the business of banking. Of course, technology has played an important role in our thinking for decades; this year we're bringing it to the forefront as a fundamental element of our strategy.

The tremendous opportunities we see to enhance proven business models – and replace inefficient ones – are evident throughout this introductory section of the annual report, which sets BMO's recent performance in the context of our longer-term view. The record results we achieved in 2015 (detailed in the Management's Discussion and Analysis section) are key indicators of progress. From the bank's perspective, they are underscored by our sense of purpose.

Our success lies in earning the trust of our customers, ensuring that any actions we take to help them reach their goals are anchored by integrity and a shared set of values. And we're differentiated by our deep desire to connect with customers: in making banking more personal, we're

forging relationships that represent sustainable value. This mindset shapes how we think about the role technology should play in deepening customer loyalty, driving profitability and rewarding our shareholders.

Technology is part of our strategy

Without question, 2015 confirmed how much our substantial – and forward-looking – investment in technology transformation has been reshaping the bank. Over the past five years, we've reengineered our systems to enable a clear, relationship-based view of all relevant information with a bank-wide data aggregation platform and distributed analytic capabilities. We're making it easy for customers and their bankers to access a wealth of knowledge as they explore options and make better decisions. And through what can only be described as a passion for deepening customers' sense of control over their own finances, we're also giving them confidence that we'll uphold our promise to protect their interests while keeping their information secure and managing risk.

As we integrate advanced digital and mobile capabilities into all of our businesses – from our award-winning smartphone

and tablet apps to BMO SmartFolio, our automated investment portfolio – each new solution is built on the powerful platform we've put in place. Our highly reliable core systems have been configured to efficiently meet the competing demands of multiple stakeholders – the most fundamental of which is customers' anticipation that their needs will be perfectly met. Equally important is the expectation that BMO's various businesses will deliver services as one bank, and our employees' corresponding need to have a single view of every customer. And right alongside is the drive to adopt more agile work processes, with faster release cycles for new products and services; the rigour we've brought to strengthening compliance disciplines such as anti-money laundering; and our continued vigilance around issues of privacy, information security and consumer protection.

To simultaneously address these interrelated goals, achieving each without compromising the others, has required an unprecedented investment of time, energy, capital and creativity. We've been listening closely to customers' feedback, and sharpening our analytics to better understand their priorities and behaviours, as we expand and rethink the banking experience. Expectations around response times in a mobile, connected world have dramatically increased the speed at which innovation

Our strategic priorities*

* Updated fiscal 2016

1

Achieve industry-leading **customer loyalty** by delivering on our brand promise

2

Enhance **productivity** to drive performance and shareholder value

needs to happen. And because our work calls for new knowledge and skills, we're developing and recruiting people with the specialized expertise to find alternative solutions and reinvent existing models – including our own.

As we accelerate these efforts, we're alert to the potential in collaborating with third parties who are using technology in new and interesting ways that complement our own thinking. We've long seen the value of working with external specialists in the service of our customers. BMO was a founding partner of the 10-million-member AIR MILES rewards program. We work closely with companies such as Shell Canada to offer more rewards to BMO MasterCard customers. And in the past year we announced relationships with two providers of specialized services to small businesses: FreshBooks for financial management tools, and e8ight Business Services Inc. for help managing online and social media presence. Collaboration makes sense when we can see the opportunity to speed up change at an advantageous cost.

Technology is one part of innovation

It's sometimes suggested that banks themselves need to become technology companies. In BMO's case, we have a

legacy of technological innovation dating from initial signs of digitization in the 1970s, when we were the first Canadian bank to connect our branches nationwide across a real-time network. From the earliest fully automated cheque-processing systems in the United States to ABM cash withdrawals requiring only a smartphone, we have a long history of combining breakthrough thinking with continuous experimentation to make banking better for our customers.

What's different today is that instead of simply finding faster, smarter ways of doing what banks have always done, we're using technology to unlock new sources of value for our customers and shareholders. Because in our experience, a changing landscape conveys advantage to those who are willing to disrupt, accept some degree of trial and error, and try again.

Our bank has an advantage that would be challenging for a startup to duplicate: more than 12 million customers who are ready to try new solutions and provide invaluable input as we refine and enhance them. We're able to assess the impact of smart ideas quickly, and we can spread the investment over a diverse, established base. Above all, we know that unless a new development yields tangible

3

Accelerate deployment of **digital technology** to transform our business

4

Leverage our consolidated **North American platform** and expand strategically in select global markets to deliver growth

5

Ensure our strength in **risk management** underpins everything we do for our customers

Our bank has important strategic advantages – technology expertise, a wealth of customer data, deep capital strength, a well-established brand, a solid record of regulatory compliance and a prudent, disciplined approach to risk.

benefits in both customer satisfaction and return on investment, it's not sustainable. We never lose sight of our ultimate objective: to delight the maximum number of people at the lowest cost consistent with our brand.

Technology is helping us reduce operating costs and eliminate work that doesn't add value. It's allowing us to approach tasks differently and execute them more quickly. And as we meet the demand for increasingly sophisticated digital capabilities, especially through the mobile channel, we're attracting and retaining more customers – and in the process, earning higher revenue with less expense. Becoming more connected to our customers and delivering services more cost-effectively are not mutually exclusive goals.

The fact is our bank has many strategic advantages – technology expertise, a wealth of customer data, deep capital strength, a well-established brand, a solid record of regulatory compliance and a prudent, disciplined approach to risk – that enable us to compete successfully with disruptors and traditional players alike. And the single thread tying together all of these competitive advantages is *trust*.

Trust remains the foundation of loyalty

You can create an app in an instant – and it can take about the same amount of time to erode trust that has

required years to build. You can't attract trust with features or purchase it with rewards. Trust must be earned. Even as the pace of change continues to accelerate – in fact, precisely because the world has become so complex and fast-moving – we see that our customers sense what BMO stands for: that we act responsibly, not only in our interactions with them, but in everything we do.

In the downturn of 2008–2009, after having declared dividends to shareholders every year since 1829 – a payout record unequalled by any other Canadian company – we took steps to protect that dividend because we knew how important it was to individual shareholders. The bank has a history spanning generations of social change and evolving expectations. We understand that trust can only be built over time, through the accumulation of consistent actions by everyone at BMO. We're rightly judged not by what we say, but by what we do.

It's relevant to all of our stakeholders that we act with integrity, transparency and accountability. We earn trust by managing our business responsibly and upholding the highest standards of governance. We reinforce it by giving back to the communities where we live and work – and by fostering an inclusive, socially conscious culture in which employees feel empowered to show their own remarkable generosity. None of these things can be accomplished by technology alone.

Customers remain the key to value creation

Our business is built on relationships. We base our brand promise on the recognition that money is personal, and the investment we're making in technology is entirely focused on that belief. We're creating tools that empower our customers while helping us understand their preferences and priorities. And we're blending virtual and face-to-face conversations to ensure we're delivering value at every touch point, providing customers with quick, clear, knowledgeable support – and more, when that's what they're looking for.

As we work to deepen our relationships with existing customers, the best measure of our strategy's success is the growth of the bank through our ability to attract new business – which translates into top-line revenue growth. This is why we so closely measure both net new customers and product categories per customer in every business. Our progress over the past year is reflected in the bank's adjusted annual net revenue growth of 8%, to \$18.1 billion. Adjusted net income for 2015 was \$4.7 billion, or \$7.00 in earnings per share, an increase of 6% over the previous year.

A relevant strategy drives results

Critical to achieving the strategic priorities that ultimately drive BMO's performance are our principal areas of operating focus: extending the digital experience across all channels; leveraging data to manage our business and serve customers better; simplifying and automating for greater efficiency; and elevating the brand of the bank. Results from our principal operating groups show that this consistent strategic focus is paying off:

In 2015, adjusted annual net income grew by 4% year over year in Canadian Personal and Commercial Banking, by 9% (on a U.S. dollar basis) in U.S. Personal and Commercial

Banking and by 13% in Wealth Management, while BMO Capital Markets earned over \$1 billion for the third consecutive year.

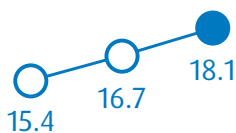
These results underline the importance of BMO's diversified business mix in driving growth. In the past year, we surpassed the ambitious goal we set in 2011 to generate more than \$1 billion of after-tax earnings from our Personal and Commercial Banking and Wealth Management businesses in the United States. Performance measures for all of our businesses confirm that the clear priorities we've mapped out are delivering sustainable value.

Based on these positive results, we raised the bank's dividend by \$0.16 per share, a year-over-year increase of 5%. Our one-year total shareholder return (TSR), although negative 3%, was better than the average of our Canadian bank peer group and the overall market return in Canada. Moreover, our three-year TSR was also better than peer average at positive 13.5%. At the same time, our success in further strengthening our capital position was reflected in a Common Equity Tier 1 Ratio of 10.7% at year-end.

BMO's market leadership in commercial banking in the United States and Canada was further strengthened with the announcement, in September 2015, of our planned acquisition of the Transportation Finance division of General

Adjusted Net Revenue

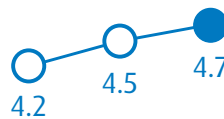
(C\$ billions)



2013 2014 2015

Adjusted Net Income

(C\$ billions)



2013 2014 2015

Basel III Common Equity Tier 1 Ratio

(%)



2013 2014 2015

Electric Capital Corporation – North America's largest provider of truck and trailer financing. This extends our reach across the entire transportation supply chain – including original equipment manufacturers, dealers and end users – and positions us well in the context of improving economic conditions. The purchase closed on December 1, 2015.

The here and now

We aren't waiting for the future to come to us – we're on it. As technology opens up new opportunities, BMO's 47,000 bankers understand that working together more productively not only yields higher returns for our shareholders, but also leads to more meaningful work and greater prospects for personal growth. Together, we're eliminating geographical boundaries and those between lines of business. We're using the knowledge we've gained – from our belief in rigorous risk management and a level of regulatory engagement that once seemed a daunting

challenge – to be more proactive and adaptive in everything we do. And above all, we're leveraging technology to understand our customers better, to make their banking experience more personal and intuitive.

Propelled forward by the momentum of growth, we're meeting customers' changing priorities in ways that reinforce our brand and resonate in the digital marketplace. And after multiple consecutive years of investment, we're confidently executing on our strategy in a world that reveals new potential – and becomes more interesting – every day.



William A. Downe
Chief Executive Officer,
BMO Financial Group

Executive Committee*

William A. Downe
Chief Executive Officer,
BMO Financial Group

Frank Techar
Chief Operating Officer,
BMO Financial Group

Jean-Michel Arès
Chief Technology
& Operations Officer,
BMO Financial Group

Christopher Begy
U.S. Country Head &
Chief Executive Officer,
BMO Financial Corp.

David R. Casper
President & Chief Executive Officer,
BMO Harris Bank N.A. and Group
Head, Commercial Banking

Alexandra Dousmanis-Curtis
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*As at January 5, 2016.