

CORPORATE PARTICIPANTS**Tom Flynn***CFO - Bank of Montreal***CONFERENCE CALL PARTICIPANTS****Gabriel Dechaine***Analyst - National Bank Financial***CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

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By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct, and that actual results may differ materially from such predictions, forecasts, conclusions or projections. We caution readers of this document not to place undue reliance on our forward-looking statements, as a number of factors – many of which are beyond our control and the effects of which can be difficult to predict – 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: general economic and market conditions in the countries in which we operate; weak, volatile or illiquid capital and/or credit markets; interest rate and currency value fluctuations; changes in monetary, fiscal, or economic policy and tax legislation and interpretation; the level of competition in the geographic and business areas in which we operate; changes in laws or in supervisory expectations or requirements, including capital, interest rate and liquidity requirements and guidance, and the effect of such changes on funding costs; judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; our ability to execute our strategic plans and to complete and integrate acquisitions, including obtaining regulatory approvals; critical accounting estimates and the effect of changes to accounting standards, rules and interpretations on these estimates; operational and infrastructure risks; changes to our credit ratings; political conditions, including changes relating to or affecting economic or trade matters; global capital markets activities; the possible effects on our business of war or terrorist activities; outbreaks of disease or illness that affect local, national or international economies; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; technological changes; information and cyber security, including the threat of hacking, identity theft and corporate espionage, as well as the possibility of denial of service resulting from efforts targeted at causing system failure and service disruption; and our ability to anticipate and effectively manage risks arising from all of the foregoing factors.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors and risks could adversely affect our results. For more information, please see the discussion in the Risks That May Affect Future Results section on page 79 of BMO's 2017 Annual MD&A, the sections related to credit and counterparty, market, insurance, liquidity and funding, operational, model, legal and regulatory, business, strategic, environmental and social, and reputation risk, which begin on page 86 of BMO's 2017 Annual MD&A, the discussion in the Critical Accounting Estimates – Income Taxes and Deferred Tax Assets section on page 114 of BMO's 2017 Annual MD&A, and the Risk Management section in this document, all of which outline certain key factors and risks that may affect Bank of Montreal's future results. Investors and others should carefully consider these factors and risks, 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 statements, whether written or oral, that may be made from time to time by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented, as well as our strategic priorities and objectives, and may not be appropriate for other purposes.

Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2017 Annual MD&A under the heading "Economic Developments and Outlook", as updated by the Economic Review and Outlook section set forth in this document. Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on our business, are material factors we consider when determining our strategic priorities, objectives and expectations for our business. In determining our expectations for economic growth, both broadly and in the financial services sector, we primarily consider historical economic data provided by governments, historical relationships between economic and financial variables, and the risks to the domestic and global economy. See the Economic Developments and Outlook section on page 32 of BMO's 2017 Annual MD&A.

Non-GAAP Measures

Bank of Montreal uses both GAAP and non-GAAP measures to assess performance. Readers are cautioned that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies. Reconciliations of GAAP to non-GAAP measures as well as the rationale for their use can be found on page 5 of BMO's First Quarter 2018 Report to Shareholders and on page 29 of BMO's 2017 Annual MD&A all of which are available on our website at www.bmo.com/investorrelations.

Examples of non-GAAP amounts or measures include: efficiency and leverage ratios; revenue and other measures presented on a taxable equivalent basis (teb); amounts presented net of applicable taxes; results and measures that exclude the impact of Canadian/U.S. dollar exchange rate movements, adjusted net income, revenues, non-interest expenses, earnings per share, effective tax rate, ROE, efficiency ratio, pre-provision pre-tax earnings, and other adjusted measures which exclude the impact of certain items such as, acquisition integration costs, amortization of acquisition-related intangible assets, decrease (increase) in collective allowance for credit losses, restructuring costs and revaluation of U.S. net deferred tax asset as a result of U.S. tax reform.

Bank of Montreal provides supplemental information on combined business segments to facilitate comparisons to peers.

PRESENTATION

Gabriel Dechaine National Bank Financial – Analyst

Without further ado, I'd like to welcome Mr. Tom Flynn to the stage. Tom is the Bank of Montréal's Chief Financial Officer. And has had that role since --?

Tom Flynn BMO Financial Group - CFO

2011.

Gabriel Dechaine National Bank Financial – Analyst

2011. And prior to that as well, right?

Tom Flynn BMO Financial Group - CFO

Briefly, and prior to that, I was CRO.

Gabriel Dechaine National Bank Financial – Analyst

Always a pleasure to get to talk to Tom. We can go across a lot of topics. And where do I kick off? NIX ratio. BMO has a relatively high efficiency ratio. Can we go through some of the structural reasons why that might be? And where you see some areas of potential improvement?

Tom Flynn BMO Financial Group - CFO

Sure. Happy to take that question, and good to be here. Thank you for having us this morning.

Our efficiency ratio or NIX ratio is at the high end of the peer group. And there are a few reasons for that. Some we think are structural and some we think represent an opportunity for us to improve.

On the structural side, a few points. Firstly, our lowest efficiency business is our Canadian personal and commercial banking business. It has a 49% or a 50% efficiency ratio. And for us, that business represents the smallest percentage of our overall business of any of the big banks. So we have the smallest representation from the lowest efficiency business and that drives part of the delta to the peers.

Secondly, when you look at P&C Canada and you graph the efficiency ratio against revenue, you do see a correlation. And two of the banks are bigger, some of the costs in the business are fixed, and with that there is an advantage they've got simply on the ratio from a mathematical perspective. So relative to just a couple of the banks, that's a contributor to a part of the delta.

And then as well we've been investing in the US business that we've got, as people know. And we think we are a better bank, given the investments we are making in the US. We have a better growth profile, given those investments. And given the investments we've been making, we have had a higher efficiency ratio in the US, and it's coming down. So three years ago in 2015, our US efficiency ratio was in the high 70s. Last year, it was 70%. So it's improved by over 600 basis points over the last 3 years, given good expense management and, probably more importantly, good revenue growth. And the revenue growth is something that we can accommodate on the platforms we've built, given the investments we've made.

Then if you drill down a level, within capital markets, we've had really good progress. The efficiency ratio 3 years ago was in the low 80s. That reflected investments we were making in the platform. And last year it was down to about 70%. So very significant improvement in efficiency. And our US capital markets income has grown by 50% in each of the last 2 years. So we think that's a good trade-off: a little higher efficiency, which we do want to see come down through time. But with that, we've invested in growth potential and we are seeing that in the US performance.

Then away from those two reasons -- I will just briefly mention one more contributor, which is that in our wealth business we have a larger full-service brokerage business. It's a very good business, very profitable, very good ROE. But it's a high efficiency ratio business because you pay out a good portion of the revenue to the brokers. We are a little overweight in that business and that contributes to the delta.

Away from those structural reasons, which we think contribute in the order of half of the delta between us and peers rough-rough, we are working to improve the ratio. And that is a big focus within the bank.

We've set a target of having 2% operating leverage per year. We have hit that target in each of the last two years. And with that, the efficiency ratio is down 260 basis points over the last 2 years. And we are focused on achieving that target again this year. So it's a big target or a big focus within the bank. We have delivered on our target for the last two years and we think we will continue to work the ratio down over time.

Gabriel Dechaine National Bank Financial – Analyst

I guess that's the glass-half-full perspective when you critique it, but then it gives you more opportunity to improve. Do you expect that BMO could be one of the better efficiency improvement stories in the group over the next few years, given the starting position?

Tom Flynn BMO Financial Group - CFO

I would say that would be our objective. We are absolutely focused on improving the productivity. We have a statement of our top five or six strategic priorities. Efficiency improvement is one of the items on the list and has been for the last few years.

And so I would expect us to continue to drive 2%-ish operating leverage -- and when I say -ish, I'm thinking a little higher and not lower against a -- target of 2%. And with that, the efficiency ratio will come down.

And I should say we are doing that while we are investing in technology. Technology spend is a big expense category for us. It is for all of the banks. Last year, our tech spend was up by 13% year-over-year. We are making significant investments in that part of the business. That actually helps drive efficiency, obviously, in places because you are automating processes and it's good for the customers. So we are focused on making progress on that agenda in addition to working down the efficiency.

Gabriel Dechaine National Bank Financial – Analyst

So that is a good segue to the next question on technology and investing in technology. If I had maybe more of a product person here, they'd talk about Net Promoter Scores. But as a finance person, when you look at the technology investments, how are you assuring the shareholders that you are getting the right return on invested capital there? And the monitoring of those investments, how do you approach that?

Tom Flynn BMO Financial Group - CFO

I'd say a few things. We have a pretty disciplined process related to our technology investment. Overall, we spend around \$2 billion a year in technology and that's an all-in number.

When we look at our development budget, to me what we do is we basically auction the capacity we think we've got. So we go to our operating groups and our corporate functions and talk about the size of the spend envelope that we've got.

And people come forward with their ideas. And we rank order those ideas based on a set of financial metrics, including payback and IRR, and a set of customer and strategic dimensions. So how important is it to the customer and the things we are trying to do strategically.

In a world where you can apply technology to lots of opportunities, the best ideas surface and they are good ideas. And we are ticking boxes on typically customer, and strongly ticking on financial return. And a good portion of the budget is aligned to some of the strategic priorities we set, like for example digitizing our retail banking operation.

And so we've got a detailed process that we go through. People compete for the money, which to me is a form of creating discipline in the process because we are creating in a sense a market. And then we do track. We've got an operating committee at the bank that has representation from all of the groups across the business. And we have what we call a tracker. And people come in and tell the story of how they are doing against their plans for our bigger projects. And if things are on track, that's great; if they are off track, then we have a conversation about why that is and what we are going to do to remedy it.

So I'd say there's a lot of scrutiny around the biggest projects. And we make sure that they are hitting the return that we've set. And where they are not -- and not everything does -- we are learning from it and thinking about what we can do to mitigate it.

And then if you move away from that sort of internal discussion and you look at the financial results, I'd take you back to the operating leverage and the efficiency improvement. So we are spending at a double-digit rate on technology in terms of growth. It's a big expense item.

Overall, our expenses for the last two years in constant currency have grown at about 4%. And we've achieved a 2% operating leverage, and technology is growing at 13% last year and it will be double-digit this year. So we are investing in technology while producing good operating leverage and much lower, obviously, total expense growth. And that is in part because the technology investments are automating processes and driving efficiencies and driving revenues. We've got significantly more aggregated data now that enables us to identify what we call leads for our salespeople. So the leads are automated prompts for products or services that would fit with a particular customer, given their profile. And they are generated pretty much real-time for people in our call centre and in our branches off of the data that we've got. And so it is both a revenue play and a cost play, and all of that feeds into the operating leverage that you see in the consolidated numbers.

Gabriel Dechaine National Bank Financial – Analyst

That \$2 billion consists of hard stuff that you can put on the table and then people as well, right?

Tom Flynn BMO Financial Group - CFO

That's right. It's hardware, people, and amortization of the expense.

Gabriel Dechaine National Bank Financial – Analyst

Is it mostly people or --?

Tom Flynn BMO Financial Group - CFO

I don't think the majority would be people. So it's roughly split -- and this is rough-rough, it's not precise. But it is roughly split one-third new development, one-third maintenance of the system, and then one-third hardware and related expenses.

Gabriel Dechaine National Bank Financial – Analyst

All right. Moving to the US business. And the one thing that stood out and you'd guided to it in Q1 was the purchase of \$2 billion of mortgages from a third-party originator. What led to that decision? And is this something, like it will be an ad hoc strategy, or could it be more of a recurring thing from BMO as you explore this origination option?

Tom Flynn BMO Financial Group - CFO

The underlying thought is that in the US, and in part given technology, more consumer credit is being originated out of the banking system. And that's just because there are more tech-oriented ways to originate consumer credit. And so as a bank, kind of by definition, if you don't participate in the non-bank channel, your market share in consumer lending is being eroded. And so in order to counterbalance that outcome, we've decided that it makes sense to participate in other channels to put retail credit on our balance sheet.

And part of that just reflects the desire to grow the business and participate in the market more fully. And part of it reflects the fact that we've got a strong balance sheet from a capital and liquidity perspective and we want to put that balance sheet to work.

So on the Q4 earnings call, we talked a little bit about this as a new strategy. And in Q1, we had one transaction which was the roughly \$2 billion mortgage purchase. I would expect us to do other things over time in this space. We are working on it. We have got nothing to announce today, but we could have other purchases like the purchase we had in Q1. Although at \$2 billion, that would be at the upper end of what we would expect to do under this kind of a strategy.

Then as well, we are looking at some, what are called flow arrangements, where we would agree to take a certain amount of originated credit from a partner every month or quarter for a period of time. And so I would expect some growth in the retail credit portfolios coming from this kind of activity. And that should be helpful to the US banking results over this year and next.

Gabriel Dechaine National Bank Financial – Analyst

How competitive is that market? I'm not familiar with it. So a lot of other banks like yourselves are going after this type of stuff or --?

Tom Flynn BMO Financial Group - CFO

I would say it's competitive, but it's reasonable. For us, we will do the business if it has got a good financial return. So we are looking for a double-digit return on our capital. And it's a lower double-digit, not a high double-digit. But we are looking for a double-digit return and we think we can get that with this strategy.

Gabriel Dechaine National Bank Financial – Analyst

Your credit card business: are you happy with the progress it's made over the past few years? I think balances have been fairly flattish relative to some of the other banks. And then what can you say about your ability or willingness to partner with like, I don't know, a major Canadian airline, just to throw a random example out there.

Tom Flynn BMO Financial Group - CFO

So I would say a few things on credit cards. Number one; the balances have been flattish. They are up a little bit over three years, but flattish. I would say we believe we can do better and more. And that is what the objective is.

We expect revenue growth in that business this year to be in the mid- to slightly lower single-digit zone. So we are focused on having a little higher revenue growth this year than we've had for the last couple. And then balances would follow.

We've got a series of initiatives in the business, as you would expect. We've introduced a cashback card, which has had some success. We have a very competitive high-end travel-oriented card called the World Elite Card, which really does have -- and for those of you in the audience who don't yet have it -- a really great and very competitive value proposition.

Gabriel Dechaine National Bank Financial – Analyst

It's a 2% travel reward card, right?

Tom Flynn BMO Financial Group - CFO

I'm not sure if it's 2%, but I've seen the benchmarking and it does score very well. So it's an attractive value proposition for our clients and it's easy to use from a reward redemption perspective. So we feel good about that card. We have invested in it.

And then of course, we've got the Air Miles relationship, which is more of a mass-market card which has been a really good long-standing relationship for us. So we are doing different things with the business. We are focused on growing it.

And as opportunities come up in the market, our attitude is we want to explore them. So won't and can't comment on any specific things, but the credit card market is a dynamic one. There are always different things going on and we want to continue to evolve our business as that occurs.

Gabriel Dechaine National Bank Financial – Analyst

The mortgage business is always topical, and you're signaling that the mortgage growth in Canada might be below the peer group because you've got the 15% or so of your book which consists of mortgages you acquired from third-party originators.

That one was a little bit higher than I thought because of your decision 10 or 12 years ago to back out of the broker channel. So how did that 15% come into existence?

Tom Flynn BMO Financial Group - CFO

Sure. So around a dozen years ago, and it was about 12 years ago, we decided to, as part of a repositioning of really the Canadian P&C banking business, to focus intensely on our core customers. And one secondary decision that fell out of that focus was a decision to exit the brokered mortgage market. So we made that decision 12 years ago, and with that, the brokered mortgage portfolio ran down over a period of time.

And then in the intervening years, and probably starting, I don't know, six years ago or something like that, six, seven years ago, we decided to leverage three or four relationships we had with larger non-bank participants in the mortgage market. And we were taking some of the volumes they were originating.

And so rather than being a mass broker strategy, it was a focused strategy through the largest three or four non-bank mortgage originators in the country. That portfolio moved up to about 15% of the total portfolio. And we talked about on the Q4 call having less growth from that portfolio this year. And less growth means negative growth, so we are expecting negative growth in that part of the portfolio. Overall for the mortgage business, probably 2% or 3% growth versus the market at maybe 4%.

The revenue impacts will be much smaller because the third-party mortgages have a very low spread. The spread is about half of the spread of our branch-originated mortgages and they represent the lowest funded loan spread we have on our balance sheet.

And to us, as we looked at our balance sheet capital allocation, liquidity allocation, we made the decision that at this point in time the returns weren't attractive enough in that part of the market to allocate the balance sheet capacity. And really the revenue and income impact isn't significant, given the low spread nature of the business.

So it will be visible, given that people do focus on mortgage growth and you will see it in that line. I don't think it will be an issue when you look at the overall P&C Canada revenue growth line, given the low spreads. It was mainly just a balance sheet allocation decision, which you make from time to time as a bank.

Gabriel Dechaine National Bank Financial – Analyst

So if you are saying it's going to be shrinking, the \$15 billion or so, is it somewhat of a runoff business? And if it is, where do you reallocate the funding? Is that a source of margin upside that might be underappreciated?

Tom Flynn BMO Financial Group - CFO

So I wouldn't say it's a runoff portfolio. We will continue to be in the business. We have kept some of the relationships. We have just rationalized the amount of available capacity. So we will have some negative growth, but it won't go to zero.

And then in terms of allocation of the capacity, we are seeing very good growth in other parts of the balance sheet. So as examples, our Canadian commercial loan growth was 8% in the quarter. It's been running at about 8%. We actually expect a slightly higher level of growth over the balance of the year.

The returns in that business are very strong. The spreads are many multiples, like many, many multiples of the spread on the third-party mortgage business. So we feel good about the outlook for that business.

And as you know, we are strong in commercial banking in Canada with a number two enterprise-wide 19% share position. And the same is true in the US commercial business. We had 7% or 8% growth in the first quarter. That followed 7% or 8% last year and the outlook is for similar growth over the balance of the year. And again there, the spreads are higher, the returns are higher, and we feel good about our ability to compete and to grow the business.

Gabriel Dechaine National Bank Financial – Analyst

Speaking of commercial borrowers, LIBOR spread widening. You've got an asset exposure, you've got some borrowers LIBOR-based, and then you have got some component of your funding structure that's LIBOR-based as well. What is your net position, I guess?

Tom Flynn BMO Financial Group - CFO

Yes, so as people know, LIBOR has moved up. We don't think that reflects any real concerns around credit. We think it is due to a number of technical factors in the money market, including US money market reform, repatriation of offshore US dollars, given tax reform, and higher levels of T-bill issuance by the Treasury. So those things have in effect taken away capacity for the bank-funding market, which has moved LIBOR up.

For us, there are puts and takes and how they net out actually remains to be seen. So in the capital markets trading businesses, the cost of carrying our inventory will be higher, all else equal, because LIBOR is up. So that will put a bit of pressure on the trading spread.

And on the flipside, we have LIBOR-based commercial and corporate loans, a portion of which are funded by customer deposits. And so there, we will benefit from higher spreads on the loans without having a higher cost of funds. And so we will have a positive on the loan side, a bit of pressure on the trading side, and we will really have to see how this plays out to get a full picture of the net.

Gabriel Dechaine National Bank Financial – Analyst

On the tax reform in the US, do you think it's pretty sticky, the benefit? Because there is some cautionary language around how you interpret the codes, base erosion, and maybe some of the benefits being competed away. How do you see that?

Tom Flynn BMO Financial Group - CFO

We think it's a big deal, firstly. We think tax reform is a very significant change in tax in the US. It's stimulative, for sure, to the economy and positive to corporate earnings.

For us, we've said the benefit this year is around USD100 million and that reflects 10 months of benefit, given our year-end. So next year, all else equal, it will be a little higher. And we expect -- the USD100 million is a net number. So we are expecting the benefit to largely flow to the bottom line.

We accelerated some of the things we were looking at doing around compensation for some of our employees who are comped at the low end of our pay scale, as other companies have done. And felt good about doing that. And I think that was a healthy thing for the broader economy and messaging, to have companies doing some things on the compensation side.

And I would say at this point it's early days, but we are not seeing signs of benefits being competed away. Maybe there will be a bit of pressure there, but early days, we haven't seen it and we hope not and it doesn't feel like it to this point.

And then in terms of interpretation and the BEAT tax, for us, we don't think the BEAT tax will be a consequential item. We'll potentially have a little bit of BEAT tax that we will pay over the next few years. That is reflected in our comments about impact, but it's not a big item for us.

And there may be some interpretation issues that come out over the next few months related to tax reform. From our perspective, we are not expecting anything that is really impactful. And on the margin, we would expect any changes to be positive, not negative.

Gabriel Dechaine National Bank Financial – Analyst

Okay. Just to wrap up on capital deployment strategies, and M&A, which is always an area of interest for the banks and for BMO. If I look at your track record and I had to pick an adjective to describe it, I would say opportunistic. M&I stands out definitely. The messaging is subtly shifting to becoming, okay, we're back in maybe M&A mode now. Why would today be opportunistic or over the next few months be considered opportunistic? Or is it a different view altogether?

Tom Flynn BMO Financial Group - CFO

So I think the comments you are making in part relate to some comments we made around a year ago relating to valuation. And to us, a year-ish ago, bank valuations in particular were high and bank stocks had a big bump post US election that was based on an expectation around higher economic growth, higher interest rates, and lower taxes.

And to us, there was upside on those dimensions, but we were reluctant to pay a big M&A price on the potential for those higher earnings coming through. You might buy stock on the potential, but that's different than doing an acquisition where you are putting out a larger amount of capital.

So the value was high and that made us more cautious. And so we said with that, the bar is higher on M&A. That was really a value view, I would say. Fundamentally over the longer term, we do want to continue to grow our US banking business, both organically and through acquisitions. And we've also grown our wealth business organically and through acquisitions. So we would look to continue to do that over time.

And what we try to do is balance strategic intent and desire, which is to grow in the way I've described, with good financial discipline. And we do think value matters. And so in any transaction, we balance the strategic fit with the financial fit and we look to hit return thresholds that we think are reasonable. But over time, we have grown through acquisition and that will be a part of our strategy going forward.

Gabriel Dechaine *National Bank Financial – Analyst*

On that note, I think we can wrap it up. Tom, always a pleasure.

Tom Flynn *BMO Financial Group - CFO*

Thank you very much.
