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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 refer to the discussion in the Risks That May Affect Future Results section, and the sections related to credit and counterparty, market, insurance, liquidity and funding, operational, legal and regulatory, strategic, environmental and social, and reputation risk, in the Enterprise-Wide Risk Management section that starts on page 73 of BMO's 2020 Annual Report, and the Risk Management section in BMO's First Quarter 2021 Report to Shareholders, all of which outline certain key factors and risks that may affect our 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. We do 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 Economic Developments and Outlook section on page 18 of BMO's 2020 Annual Report and updated in the Economic Review and Outlook section set forth in BMO's First Quarter 2021 Report to Shareholders, as well as in the Allowance for Credit Losses section on page 114 of BMO's 2020 Annual Report and the Allowance for Credit Losses section set forth in BMO's First Quarter 2021 Report to Shareholders. 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, we primarily consider historical economic data, past relationships between economic and financial variables, changes in government policies, and the risks to the domestic and global economy. Please refer to the Economic Review and Outlook and Allowance for Credit Losses sections in BMO's First Quarter 2021 Report to Shareholders.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Well, good afternoon, and I'd like to welcome the last presenter of one of my sessions today, Ernie Johannson, Group Head, North American P&C Banking for BMO, a job she's had since February 2018. And it's actually a first for me to do -- well, to have a one-on-one with Ernie. So it's a pleasure. You're also one of four P&C Heads, Canadian P&C heads, although your position is unique in that it straddles both Canada and the U.S. So I guess that's a good place to start. And from BMO, I've heard that having the cross-border P&C business, there are plenty of benefits of them. What can you give us or some examples we'll talk about in terms of the combined business in that sense that provides benefits to shareholders.

Ernie Johannson - *Bank of Montreal - Group Head of North American Personal & Business Banking*

Yes. It's a great question. Thanks, Gabe, for having me with you today. A couple of thoughts on these North American mandates. So the way to think about them is that we look for building the opportunities on a North American scale. And so Dave Casper will be running the North American commercial, and I'll run the North American P&BB. And that really provides both of us with an opportunity to take learnings from one country, bring it to another country, build scale on technological platforms. For example, we'll build something once, use it in two different locations.

And lastly, I would say, very specific to the retail side and the small business side is this opportunity to do test and learning, whether that be different ways to approach a market, different products, different positioning, branch strategies, data and analytics. It just allows us to have a bit of, I would say, competitive edge of learning in a different test market and bringing it to another market. So those are some of the ways that we leverage these North American roles.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Are there -- like in terms of shared resources, whether it's back office or risk or underwriting, whatever, like how many of those are truly shared?

Ernie Johannson - *Bank of Montreal - Group Head of North American Personal & Business Banking*

Yes. We share -- so the way we structured ourselves is we've taken our technology and operations and our marketing and our risk teams, and we've created them in a North American way. So that, again, like we said, we're getting scale. So whether it be in the operations side or the technology side, our data analytics teams, are shared, and that again allows us to do something, let me just say, you do it once and you get a benefit in two places as you create new programs or analytics, et cetera.

So it is an advantage for us. And also, I would say, it gives us scope of using talent in a different way. And as all of us are working in different ways now through the pandemic, we were ahead of the curve in terms of using people across the country -- across both countries, effectively in different areas of the organization.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

So the other obvious -- and it's, I guess, a debate from a spot checking standpoint, Canada versus the U.S., you've got your feet in both regions. From, let's just say, lending growth standpoint, the vaccines rollout in the U.S. is more advanced. Is that really something you see giving a big boost for sort of the time period in the U.S., and Canada, much slower to recover. There's other factors in these vaccines is stimulus checks that could suppress the demand and stuff like that. So I'll stop talking.

Ernie Johannson - *Bank of Montreal - Group Head of North American Personal & Business Banking*

You've hit the mark on a few fronts. So let me just start by saying, if I think about commercial lending growth and the consumer lending growth or just the two different markets, the way we think about them. On the commercial side, certainly, the advantage in the U.S. has been an accelerated rollout of vaccinations and different strategies in terms of lockdowns, et cetera. That's allowed a little bit more of the economy to start rolling a little bit faster. And I think you're going to see that more going forward. I think you're going to see the commercial side in our U.S. business grow at a slightly faster pace than you would in Canada.

And I'd also say there's factors of government rollout programs, like you said, that have influenced both of those economies differently. We've had our second round in the U.S. That's going to have an impact as well. Obviously, Canada is still in a different state of lockdowns and such. But I would say, on the consumer side, what we're seeing is we're seeing credit card spend basically keep in check between the two countries as we see consumers looking at the economy opening up and spending again. The Canadian market has benefited a little differently from a mortgage market. The mortgage market here has been very robust as a result of, again, the economy being in the spotlight, pandemic workers wanting to find a larger home to work in, the lower interest rate environment. Those have all been stimulus that we've seen a little bit more, particularly in our footprint here in Canada than we have in the U.S. right now.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Now, the credit card business, that's near and dear to my heart. We saw the big dip in balances across the industry. We -- and there's a lot of talk of as things reopen, spending starts up again. But there's offsetting of factors there, especially with stimulus cheques rolling out in Canada, the government's support programs. In your view, do you think the balances are nearly flat out here or growing in Canada because it's a bigger business for you, I guess?

Ernie Johannson - *Bank of Montreal - Group Head of North American Personal & Business Banking*

For sure. In Canada, here's how I think this is playing out. We watch it. As soon as you see a market open up, you start to see the credit card spend happen. And so credit card spend will happen first. And we're seeing clearly a K recovery. And if I look at the more affluent segments of our customer base and our credit card business, we're seeing them -- their spending increase faster than I would say, let's say, a more mass market population.

So as the economy opens up, we see the credit card spend happen. And that spend happens first. And then once spend happens, you'll then start to see the outstandings grow. But there's going to be a delay factor, Gabe, about two to three months, you're going to have to wait to see that then translate itself out. And I think we're missing a very, very big category across the country, which is travel and tourism and really true entertainment and large-scale concerts, et cetera. So those are big categories, particularly in the travel and tourism, really impacting credit card spend. It's really slowed down. We can only do so much in other categories. But we're starting to see actually on that front, people starting to book vacations and travel for literally a year from now or six or seven months from now. So it's starting to come.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Well, in a similar vein, there's the wait and see for things to come back. But in the interim, you're looking at your product lineup, thinking customer needs are evolving really fast. We've got to tweak the product, introduce this new product, a whole host of things. Are there any product initiatives you'd like to highlight that really kind of match up to that description in terms of here's a new need or an evolving need, and this is what we've done to step in to fill that need.

Ernie Johannson - *Bank of Montreal - Group Head of North American Personal & Business Banking*

Great example. Yes, I'll start with credit cards, and I'll go to deposit accounts, and then I'll go to some digital capabilities, servicing capability and just capabilities of guidance delivery online, let me use that language.

So we've launched recently our Visa Eclipse product, which is really focused in on the segment of younger millennials looking for instant redemption rewards, less on the travel side, more on how do I have lifestyle benefits. And that's been very successful from our launch perspective. The timing was excellent, and we had not assumed that we would be sitting in a marketplace time frame right now where travel wasn't as interesting. But all these other categories of dining out, et cetera, were really, really important.

So that's been very good for us and very effective.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

(inaudible) Visa?

Ernie Johannson - *Bank of Montreal - Group Head of North American Personal & Business Banking*

Our Visa Eclipse credit cards. We launched our...

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Infinite?

Ernie Johannson - *Bank of Montreal - Group Head of North American Personal & Business Banking*

Just recently. Yes. And those products are really focused in on lifestyle versus travel and really important products for a younger profile who's looking for digital capability.

Then I would say the second sort of product suite that we've launched out as a result of just the changing dynamics in the marketplace has really been our family bundle around our savings accounts. So literally, customers can, as a family, similar to the way you think about a cellular program or a WiFi, a family bundle, the idea of being able to share in one plan, obviously have privacy, et cetera, on your account, but being able to have that same one monthly fee idea.

And then I would say the other aspect of the changing consumer dynamic has really been about what we want to do on our digital and our mobile capabilities. So we've been building more guidance, delivery capability on your mobile phone to be able to get alerts and insights on what's happening with your finances so that you can track your cash and understand when you might be running out of cash, how to move money between accounts and just really being proactive around delivering guidance.

Because we know that this combination of digital and humanity is really important. Our customers perceive us as being a very trusted entity to get guidance from. We're the winner of the J.D. Power guidance study in Canada. And that's really key because we know Canadians want, and Americans for that matter, want to have digital capabilities, but there are moments when they want to have a dialogue with someone on either a financial plan, it could be a mortgage product. And so we need to be on both sides of that equation and being as brilliant in both spaces and connecting the dots for customers between these different channels.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

I do have a question on deposits, but I want to get -- your answer makes me think of expenses. And I mean that's a boring topic, but last year was about tightening and negative expense growth and really ratcheting down. And now -- and BMO is actually at a consolidated level in the Canadian banking, and U.S. banking for that matter, has been successful when driving down expenses. Are there any reasons to expect maybe a quicker than expected return to normal spending patterns because you see the growth -- the light at the end of the tunnel or you don't want to be missing the growth wave, whether it's this year or next year? Like how would you frame the expense outlook for investors in the next six to twelve months?

Ernie Johannson - *Bank of Montreal - Group Head of North American Personal & Business Banking*

Yes. Well, let me frame it, Gabe, from 2 angles. One is, I think, if we go back to our Investor Day, we made commitments around our efficiency ratio for both P&C businesses, the U.S. and Canada. And the Canadian one was a 45% efficiency ratio and then the mid-50s in the U.S. And if you look at Q1, we're there on both of those places. And that was done on the focus of saying, we were looking at our cost structure to be able to optimize where we invest money and how we spend our investment dollars. And we were doing that before COVID.

So we have made some significant structural reductions. So if you look right now at our efficiency improvements in Canada, in particular, 2/3 of that are really structural changes. Those are changes where we have used digital capabilities to take out costs in our system. How we've optimized the number of sales to service FTE, or people in our organization, stripping out those costs out of the base that really allow us to then take our dollars that we have and invest them. So during this time frame, this hasn't been about stripping out pure cost without the investment. We've been investing in marketing, data analytics, in digital and technology capabilities, which are core to, again, as I would like to say, keep that flywheel going on being very efficient. And so our commitment around efficiency is embedded in our strategy. And also embedded in our strategy is positive operating leverage.

And so that requires us to take every dollar that we have and utilize it to its utmost benefit to the organization and to our customers. And that's clearly our pathway. And as I said, we've been doing that in the U.S. as well as in Canada. And you see those numbers coming through.

So I would say, going forward, they're going to consistently see us focused on being very efficient, but growing, if I can use that terminology. This is about growth and being very cost effective. So a positive operating leverage and a very strong efficiency is our program here.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

I expect for the industry, and BMO included in that, of course, in the retail P&C businesses, the revenue line is going to be pretty flat this year, maybe a pick up in the second half. But there's no reason to expect like a little spike in expenses because you're eyeing 2022 and this year might be less of an operating leverage year, you're still committed to positive operating leverage this year.

Ernie Johannson - *Bank of Montreal - Group Head of North American Personal & Business Banking*

You're going to see us -- obviously, our mix is going to change with our expense base. Let me keep talking a little bit about that. It's about the investment that we're making in our front footedness in our sales forces. We are expanding our sales forces, whether that be in our financial planners, our mortgage specialists, investing more in marketing and data analytics. Those are places where the investment is accretive, obviously, to our revenue. But it's being built or put upon a more cost-effective engine, if I can use that terminology. How we've retooled our underlying capabilities allows us to get more revenue out of that expense as well. So that's really important for us going forward.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. So going back to the deposit question I had -- well, I didn't ask, but I'll have a Canadian and the U.S. one, and they're kind of similar. But in Canada, like all banks, massive uptick in deposits, is it wrong for me to assume that, that's going to be a big impediment to loan growth because of the simple fact that borrowers are not so much in the savings, like they don't need to borrow to buy stuff other than mortgage, obviously.

Ernie Johannson - *Bank of Montreal - Group Head of North American Personal & Business Banking*

Yes. I'll talk about it from a commercial and from a retail perspective, if that gives you a little bit of a flavour. So because on the commercial side, we would say, the commercial teams would say that our businesses right now are going to be moving, obviously, into more of an investment play as they invest in their business as more demand is coming forward. And so what we're going to see is likely yes, some decline in the deposits for our commercial clients. But at the same time, they're going to start utilizing their loans. This is what we're expecting. We see it kind of happening at the same time.

I would say on the retail side, you're going to see something similar, but I think you're going to see further deterioration in the deposit side, as we start to see the pickup in the lending side, outside of mortgages, as you've already mentioned. So the way we see it is I believe that there'll be some sort of stability in the deposit side on the retail. I think Canadians and, to some degree, Americans are going to be reserving some of this surge that they have of deposits in their system.

But they're going to start spending on their credit cards again. And as that spend starts happening, they're going to use some of their deposits to pay that off. But at some point in this journey, there's going to be that tipping point, and I think that will happen in this fiscal year, where we're going to start to see the balances on the credit card hold because those customers are now in their normal behaviour patterns, and you'll have some outstandings growth in the card business. And also seeing that over time, happen on unsecured lending products, et cetera. So this is -- this will be -- we're going to be watching that as we go forward. But the pattern will be a reduction in deposits, spend on credit cards, and that translates into outstandings, then you'll see unsecured lending come alongside at the end of that.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. The U.S. deposit question I have is more one of like the funding mix here. Before COVID, your loans to deposit ratio in the U.S. was over 100%. And today, it's 85% because of the big deposit growth largely. A, do you think that, that position holds? Maybe you don't want it to be that low, but below 100. And if it does stay below 100, what sort of advantages does that bring you from either a margin standpoint or an NSFR standpoint, anything? Do those -- should those numbers matter to me, I guess, is what I'm asking.

Ernie Johannson - *Bank of Montreal - Group Head of North American Personal & Business Banking*

Yes. I think they should matter, and they matter to us. And so I would say, we've had a very, very conscious strategy about ensuring that we drive deposits against our lending business. We have a very strong commercial business, as you know, in the U.S. And the retail side has been part of the formula in conjunction with our -- with the commercial business to be able to go after deposits in a more strategic, systematic manner.

And on the commercial side, that's been about acquiring deposits from our customers largely through also our treasury payment systems capability, which is very world-class. And our investments there have helped us attract more deposits in the commercial side.

On the retail side, our strategy has been to, what I would call, punch above our branch weight. And so when we launched out our digital deposit-taking capability in the U.S., where we attract deposits across 50 states outside of our core footprint, that's allowed us to bring in very cost-effective deposits to the overall P&C and to the overall U.S. franchise. That's a key differentiator, clearly for the fact that it's very cost-effective funding source versus going to the wholesale market.

And we also have the sophistication and knowledge of how to grow that business. So this is not going to shift. We are going to be very much more in balance than we've ever been between deposits and lending because we have the capabilities, because we have those customer relationships and it's at the forefront of our strategy.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. So just to put a finer point on that, the -- I guess, is it a target of yours to have a certain ratio of loans to deposits? And why?

Ernie Johannson - *Bank of Montreal - Group Head of North American Personal & Business Banking*

Yes. Our target is to be in balance. And obviously, deposit-rich is important because of the cost of the funding side of it. So that is our strategy to be more in balance, and I keep using that terminology. And that is important for us going forward for a whole bunch of reasons. It allows us, obviously, to expand our lending capability, which we can do more of in the U.S. as we -- as the economy continues to open and our commercial bank grows as well as the retail side. The focus on, again, growing some retail lending is important to our overall mix as well.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

So I'll bring in the margin. This is like too much of a good thing almost because the last quarter, and I think the prior one as well, but especially last quarter, you had margin expansion in Canada, you had margin expansion in the U.S. A lot of investors I talked to are, wow, that's a great outcome, but they're also scratching their heads. Why is this happening to BMO? And we're not seeing the same, especially in Canada, I'm not seeing the same outcomes for some other banks. Can you give me a bit more insight on how that happened? And maybe just refine the guidance a bit on where you expect margins to, how you expect margins to perform the rest of the year?

Ernie Johannson - *Bank of Montreal - Group Head of North American Personal & Business Banking*

Great question. I'm glad you asked that because, certainly, it's one that's important to us. And so if I think about the Canadian first, I'll go Canada, and then I'll do the U.S. side. So Canada, we had a significant, obviously, quarter-over-quarter improvement on NIM, which is about 6 points. And that was really a function of 3 things. One was certainly the fact that we are doing more on our deposit side. And that, really, shifting that mix of deposits into the core deposits, operating accounts, savings accounts, that was important.

The second element of it was a very disciplined approach around our lending business as well. That came through in our NIM this quarter. And lastly, was just the unusually high levels of mortgage refinancing that also supported the NIM. As we think about that comparator to the U.S. now, and the U.S. was up about 17 basis points quarter-over-quarter. And that, again, was a function of a couple things. One was the fact that we had the -- Paycheck Protection Program, PPP, and when you accelerate the forgiveness, that came through our NIMs. So about 1/3 of it was that.

We also had the same improvement on pricing, on lending pricing was in that NIM growth as well. And lastly, but certainly not least is the deposit improvement, that core mix. Overall, I would say you're going to see some NIM compression as you see the rates movement come through. And we're also obviously going to be seeing a decline in deposits versus the lending side. That's all going to have a bit of a compression to the NIM going forward.

But as that NIM compresses, that's obviously not -- as you think about the revenues that we're going to be generating, that NIM compression is going to be a function of lending growth. It's going to be a function of other things that are going to drive our revenue and our commitment to positive operating leverage. So those are the factors behind it. As we think about the U.S., there may be some movement there as we see the rest of the PPP come through in the next couple of quarters.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. The deposit -- back to the deposit thing, actually. And I think of it as the -- oh, here's money that's going to come out of deposits and loan growth is going to ensue. But it's also a big source of wealth product sales potential. Like what are you working on with your wealth colleagues these days to kind of capture that opportunity?

Ernie Johannson - *Bank of Montreal - Group Head of North American Personal & Business Banking*

Yes, definitely. And I think one of the things of being in a pandemic is a lot of Canadians and Americans are thinking about their longer-term strategies with deposits, and they're also thinking about their financial plans a little bit more. So the focus has been really about having these good conversations with our retail customers and having those conversations now and when they're thinking about it and promoting and guiding them into developing financial plans.

And so that's been a core focus. We've done hundreds of thousands of phone calls with our customers in Canada and in the U.S., and that's been helpful for us to provide guidance in that round of investments, being able to advise them to potentially move into a different model, so move into our wealth business, taking their investments and going into those programs. Also InvestorLine. Those that are more self-sufficient are going into those -- into our InvestorLine products. So we're constantly in conversations with our retail customers and are, I would say, linked up as "One bank" as we talk about at BMO, that there's no separation between the wealth and the retail business on providing a holistic conversation with our customers and guiding them to the right solutions.

So that has been our strategy historically, and it continues to be what we do quite well. We do that with our commercial clients as well, taking our commercial clients and bringing in our private bank and wealth colleagues into those companies and having those conversations around whatever it might be, value transitions into their own personal lives, et cetera, we're handling those on those one-off conversations as "One bank".

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. I just want to wrap up, we're into overtime soon. But whenever revenue generation has been challenging in the past, in my history of covering the sector, there's always been a little bit of a trend in the Canadian bank, especially of toggling your fees, increasing them. Is it still as easy to increase banking fees as it was 5, 6, 7 years ago? And B, even if it's not, or is, or whatever, do you still have the same philosophy about it? And I heard from one of your peers this morning talking about, well, we're going to introduce product that waives the first overdraft fee because they want to improve the customer experience. What are your views on this item?

Ernie Johannson - *Bank of Montreal - Group Head of North American Personal & Business Banking*

Yes. For us at BMO, it's really around that share of wallet with our customers and driving that primary relationship. That's the focus for what we do and how we go about our conversations with customers. So as you think about fee revenue, fee revenue is something that we think of as a service in the sense of does it create value? Does it not create value? And I think, as an industry and as an organization, we look at it that way. I think about it that way. But my primary focus is always about -- it's about the full relationship of a customer versus fees being the first primary objective of this opportunity.
It's about share of wallet. That's how we view the value that we can provide to our customers.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. Well, that wraps it up. Great talking to you, and I hope the rest of your meetings go well today -- that's about it. Have a good day.

Ernie Johannson - *Bank of Montreal - Group Head of North American Personal & Business Banking*

Thanks for hosting.