



Bank of Montreal  
Annual Meeting of Shareholders

Address delivered by

**William Downe**

Chief Executive Officer, BMO Financial Group

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## Thank you, Chairman, and good morning, everyone.

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The bank's bicentennial is an extraordinary moment in time. Only two other companies listed on the TSX have marked this milestone: the Hudson's Bay Company (1670) and Molson Coors, whose Canadian roots go back to 1786.

The Bank of Montreal is one of only 15 companies listed on the New York Stock Exchange to mark 200 years in business — a great Canadian company that has been serving customers for 200 years.

And I've been waiting quite some time to say these words of welcome to the annual shareholder meeting of the Bank of Montreal.

Within this morning's full agenda, I am going to take a few minutes to offer a perspective on the bank's recent performance and the key factors that are driving our future success.

BMO had a record year in 2016, with results that reflect the continued strong performance of all business groups:

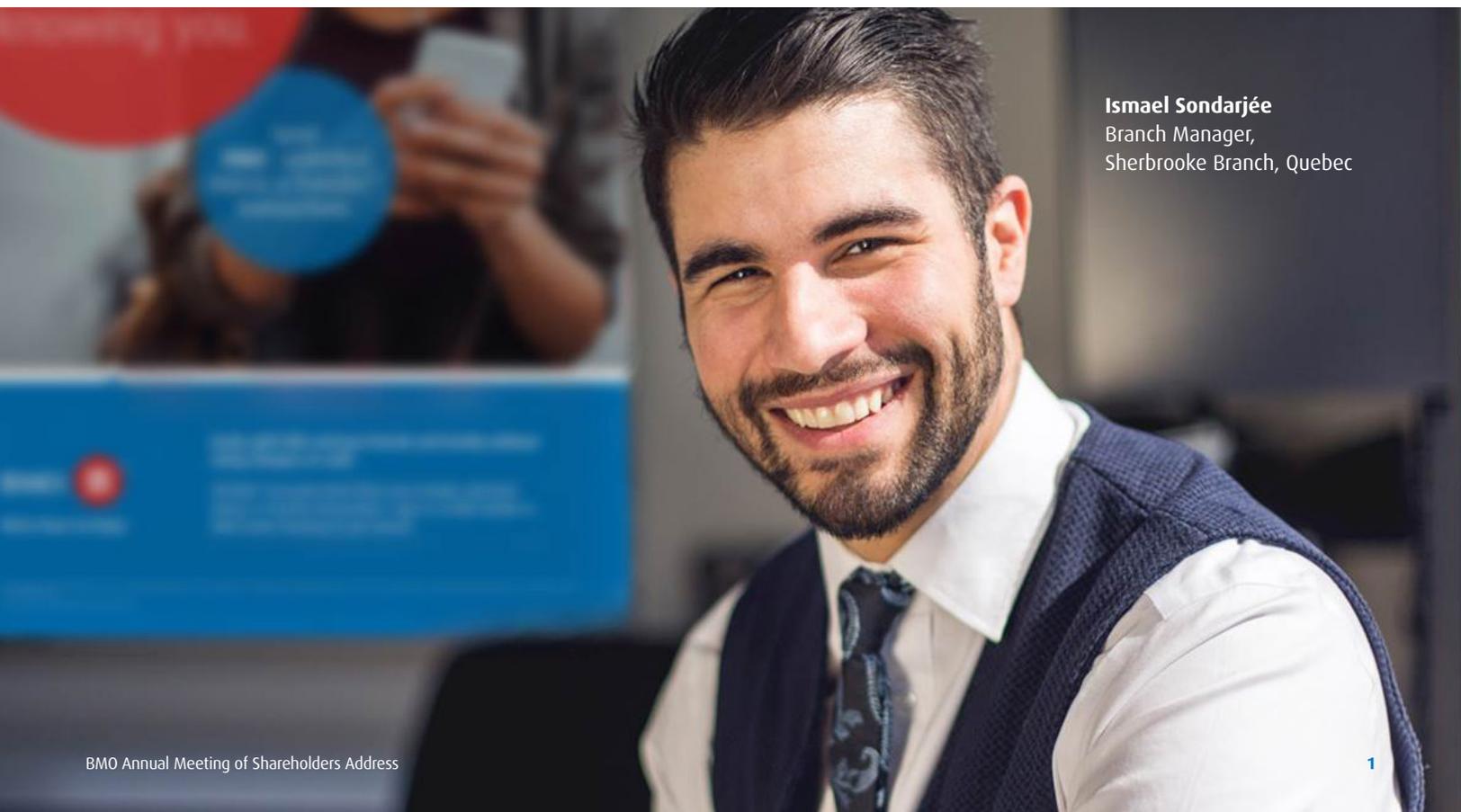
- Adjusted net income exceeded \$5 billion for the first time
- Earnings per share increased by 7% over the previous year
- We maintained our capital strength with a Common Equity Tier 1 Ratio of 10.1% — after funding internally the acquisition of our transportation finance business during the year
- Our adjusted return on equity was 13.1%

To place these results in their broader context: the global economy is accelerating after a period of expansion that has been the most gradual of the past century. In our home markets in Canada and the United States, the prospect of stronger growth in GDP and rising employment and wages continues to instill confidence.

And the bank's positive numbers for the first quarter of this year reflected continuing momentum.

Our competitive advantage rests on a solid foundation that starts, as always, with the customer. We're well positioned to grow our business in a way that outpaces the market, to keep expanding our footprint and customer base, and to maintain and grow the profitability of all our businesses. We're generating strong returns for our shareholders and creating opportunities for everyone who works at the bank.

The markers that define the business objectives we set are on the screen behind me: our strategic priorities. These five statements are not aspirations — they're commitments. As we review our priorities every year, they may evolve slightly to reflect the changing business environment. But they consistently point to the same goal: to serve our customers in ways that create lasting value for shareholders.



**Ismael Sondarjée**  
Branch Manager,  
Sherbrooke Branch, Quebec

Our priorities provide a touchstone for gauging progress. And they map out what we intend to do next. Because as much as our results confirm we're on track, the fact is we're just partway to achieving the bank's full potential. So this morning I'd like to speak about where we're focusing our efforts, in order to sustain the current momentum.

There are two main observations I'd like to share.

First, our industry, like the rest of the world, is being transformed by digital technology. But it isn't really technology that's shaping how we deliver our services, or how our people do their work. It's customers' changing priorities around how *they* prefer to manage their financial lives, and how *they* want to do business with us.

In all the dimensions of change we're managing across our bank, everything begins and ends with the customer.

Second, at a time when there's no shortage of uncertainty — over impediments to global trade, geopolitical tensions, environmental degradation, even the basic functioning of civil society — we see firsthand what our customers and other stakeholders also see: that responsible, well-run companies can continue to thrive and *will* contribute to the overall good.

What's critical for us, in this context, is to say: What are the underlying values that define our bank? Alongside the strategic priorities that guide our business decision-making, there is an equally clear set of principles explaining how we see corporate responsibility and our commitment to sustainability.

I'm going to review how we've blocked out those principles, which in fact have governed us for decades. But let me begin with the cornerstone of our advantaged position — a deep understanding of customers.

## **A relentless focus on the customer has shaped BMO's purpose.**

And it's at the heart of our first strategic priority — *to achieve industry-leading customer loyalty*.

We've built our reputation — and our success — on listening closely to customers, understanding their financial goals, and providing the right products and services to help them be confident in the future — for themselves and those closest to them and for the businesses they build and lead.

And today, what enables us to do all of that, better than ever, is technology.

Last year we elevated the deployment of digital technology to stand alongside the bank's other strategic priorities. The underlying technology of the bank — at the end of five years of heavy

investment — has been repositioned. We are unencumbered by the limitations inherent in legacy systems. We've made processes more flexible and cost-efficient, and can deliver the fast, easy, intuitive service our customers are looking for.

This digital transformation is supporting deeper relationships. When a customer chooses to speak with a banker for help or guidance in the moment, or to a relationship manager in a longer conversation, these points of connection are informed by an array of instantly available data and analytics. The information is visible to both the banker and the customer, and the insights we share are personalized and relevant.

Every customer wants to be recognized as an individual. What people value is our bank's ability to understand them — and this inspires their advocacy. By building our capabilities, we're strengthening the BMO brand. And that, with the underlying technology, is what drives our bank forward.

BMO has evolved through two centuries — and grown and prospered — precisely because we've always looked to the future. As with any long-lived company, our story is one of continuous adaptation.

Learn, adapt, change — the result is a unique set of competitive advantages that are driving the bank's continued growth:

- Diversification in our business mix, geographical footprint, and customer segments
- A strong balance sheet and capital position
- A consistent and disciplined approach to managing risk
- An unwavering commitment to regulatory compliance
- And most importantly, a workforce of engaged, dedicated, talented people — all of whom I would like to praise today — who are delivering our services through new channels and new ways of working

## **In every area of the bank, we're investing in the development of employees' knowledge and skills as traditional roles change and new ones emerge.**

The evolution of our workforce, like our technology transformation, reflects a more fundamental shift — not just in the bank's business model, but in our entire industry — and in society generally.

Also, people have vast amounts of information at their fingertips — they're more mobile than ever.

Empowered by these two factors, they want to have a greater sense of control over their finances and to take action. Whenever and wherever, consumers value autonomy.

This is changing how customers purchase and use the services of the bank. And our interactions with them fall into two categories:

There are everyday transactions within services they've previously arranged: paying a bill, moving money between accounts, sending an e-transfer to a family member. Most people prefer doing these kinds of things themselves, and we've put in place the technology to make that possible — quickly, intuitively, and reliably. Last year, our customers completed more than a billion of these transactions.

The second type of interaction goes beyond the transactional. It's when a customer arranges a new service, such as a mortgage or an investment account — or the enhancement of an existing service, such as increasing a line of credit or raising the limit on a credit card. Last year, we had more than 7 million interactions like these.

In most cases, the customer initiates the conversation, surfacing a need for which we can provide support and guidance. In some instances, we initiate the conversation.

This is the heart of our business model that *hasn't* changed. We're here to **listen** to customers, **understand** their needs, and **make sense** of the various choices they face in deciding how best to achieve their goals. And any advice we offer on how to get there is grounded in the time-tested fundamentals of banking — our best suggestions on how to control their spending, to grow their savings, to borrow smartly, and to invest wisely.

In fact, while millions of everyday transactions have shifted to mobile and online, the vast majority of changes to any type of account — even if they begin on a digital channel — are still concluded with a conversation.

When in doubt, default to a human.

Branches themselves are evolving, as we use video links to assist with remote transactions while bankers provide answers to more complex needs. And additional avenues are no doubt just around the corner. But the underlying purpose of those interactions won't change. We provide support and guidance — and once customers have decided on the best path, we help them along the way.

We also invest directly in consumer education. We've done a great deal in this area, and we expect to do more, because it's good for all our customers, including Millennials. Their financial literacy is important to the financial health of the nation.

Last year — right here at the BMO Institute for Learning, by way of example — we hosted curriculum directors from education ministries from across Canada, so they could have the opportunity to work together and share knowledge to expand and improve financial literacy education in Canada. It is good to be a partner in these ongoing efforts.

With respect to our bankers, I have confidence that they know we're not in business to push products. We guide our customers in picking services that best meet their needs. The validity — and the value — of what they purchase is measured by how well it fulfills the promise: *We're here to help.*

But we also have in place a robust set of disciplines to ensure that what we believe is occurring in our system can be confirmed by management controls:

- Our performance scorecard weights customer satisfaction equally with customer purchases
- When a new service is purchased by a customer, it only satisfies a banker's objectives if it's used
- Any account cancelled soon after opening is scrutinized — the incidence of this is very low
- Each of our businesses has a clear, easy-to-access process for customers or employees to escalate concerns not resolved at the first level
- On issues that cannot be resolved by a bank officer, our Ombudsman can conduct a confidential, impartial review
- And lastly, there is a clear path to the independent Ombudsman for Banking Services and Investments

The rigour with which we safeguard our policies and processes reinforces our confidence in the integrity of the bank's practices. And we have fostered a culture where we are all protected from retaliation. Everyone at BMO can voice concerns without fear.

Most importantly — we continuously invest in our employees to ensure they have the knowledge and skills to help them work effectively to meet customers' expectations.

We're here this morning at the BMO Institute for Learning. This place embodies our belief in **human** investment, which is the only way to be assured we have the quality of talent we need to succeed.

Last year, the bank invested \$78 million in education, delivering nearly 27 hours of training per full-time employee. This scale of investment has been a BMO hallmark for decades: we see the return in the calibre of highly skilled people we're attracting and developing across the organization.



**Jessica**  
BMO's Chief Allowance Officer (CAO), helps teach kids about the basics of money for Financial Literacy Month

And we encourage the free exchange of knowledge — a creative blending and collision of ideas — here, and throughout every area of the bank. Our people are empowered to explore alternatives, reinvent processes, and replace existing models with smarter, more cost-efficient solutions.

**And this critical investment in the bank's human capital affirms our fundamental belief that the value we create is not determined by financial performance alone.**

That's never been the case — and it's certainly not true today.

Which brings me to the second major point I want to underline this morning:

Just as our customers expect responsive, empathetic support in achieving their financial goals — *all* of our stakeholders expect thoughtful, responsible behaviour from our bank, and from the other institutions that affect their lives.

For us, thinking about long-term responsibility is not an afterthought or a sidebar — it's central to who we are. That's why we've codified our commitment in a set of sustainability principles — which, as you can see, are paired with our strategic priorities.

## Sustainability Principles

The guidelines we follow as a responsibly managed bank consider social, economic and environmental impacts as we pursue sustainable growth.

**Social change:** Helping people adapt and thrive as society evolves — tailoring our products and services to reflect changing expectations, and embracing diversity and inclusion in our workplace and the communities where we do business.

**Financial resilience:** Supporting customers' needs and goals, while gauging appropriate levels of risk, as they shape their financial futures. And providing members of underserved communities with access to guidance and support that helps them and enables them to do better.

**Community-building:** Fostering social and economic well-being in the communities where we live and work by financing new enterprises, facilitating public investment, paying our fair share of taxes and, together with our employees, providing support through charitable donations, sponsorships and volunteer activities.

**Environmental impact:** Reducing our environmental footprint while considering the impacts of our business activities as we work with stakeholders who share our commitment to sustainability.

Social change, financial resilience, community-building, environmental impact — these are issues that affect our collective well-being — and therefore they cannot be separated from the bank's strategic agenda.

As we all reflect on the role of companies in the pursuit of sustainability, it's inevitable that investors will discriminate and reweight their portfolios. The most responsive companies will earn premium valuations. And we expect BMO to earn a premium valuation.

The sustainability principles are a new addition to our guiding framework, but only in the sense that we're now stating overtly what was implicit in our actions as a responsible company. And these, too, are not aspirations. They describe both how we act and who we are — as a business, and as a group of like-minded people.

This goes far beyond simply following the rules better than other companies.

**It's our commitment — with or without a rulebook — to consistently do the right thing.**

Because we believe this is only way to do business.

BMO's bicentennial has been an opportunity for us to reflect on the values that have shaped us — that haven't changed, even in changing times — recognizing it's these same values that continue to drive our success. Our commitment to transparency in every aspect of our business — to treating customers, employees, and other stakeholders with fairness and respect to leading by example — these are significant contributors to the trust that others place in our bank.

So too are our efforts to foster diversity and inclusion. We've long believed that everyone in our organization — as well as everyone we do business with, or partner with, or interact with — should be valued for who they are. This conviction is embedded in the bank's leadership, talent development, and culture in ways that reflect the aims and beliefs of our employees, our customers — all of our stakeholders.

What's more, it's a commitment that will only gain relevance and value over the long term. For every key leadership role in the bank today, we've identified at least three qualified successors, drawing from a diverse field of candidates who represent the organization of the future.

And as we weave our diversity and inclusion practices into the bank's business strategy, it yields better decisions, grows the business faster and builds stronger, more meaningful and more profitable relationships. This is why we continue to set new targets, measure impact and hold ourselves accountable for positive change — within the bank and in our relationships with customers.

A case in point is our recent initiative to connect with women investors and women entrepreneurs, who often feel underserved by financial institutions. Understanding that these clients have unique expectations, we use those insights across our businesses to develop deeper relationships based on how women prefer to interact with us.

With *all* of the bank's customers, our job is to listen, understand people's goals, and respond — respectfully, fairly, and transparently — with services designed to help them get to where they want to go.

So let me recap.

Our confidence in the future of the Bank of Montreal reflects the continuing momentum evident in our results, backed by the readiness of all business groups to capitalize on the advantages we've built. But the foundation of our confidence goes much deeper than that.

The cornerstone, as I said, is our ability to understand customers and provide the kinds of services that will help them meet today's needs and reach their long-term goals. To do that effectively, and in ways that match their priorities, we use technology.

**But it's not technology alone that's shaping what we offer and how we work. It's customers.**

At the same time, we have a responsibility to ensure what we do as bankers is grounded in the values we hold in common with all of our stakeholders. Their investment in us is based not simply on what we can do for them, but on who we are, and what we stand for.

Affirming our sustainability principles independently of our strategic priorities would be pointless. And the reverse is equally true. No enterprise can prosper over the long term without embracing all dimensions of corporate responsibility: social, economic, environmental, and governance.

Whether it's financial regulation and higher capital reserves for banks, or the pursuit of energy alternatives and a reduced carbon footprint for all companies, upholding such principles helps to build resiliency in the face of potential risks. And that translates into long-term value for shareholders.

Customers expect us to understand them and respond to their needs with smart thinking and innovative services. Equally important, they also expect us to be accurate, transparent, and reliable while securing their information and protecting their privacy.

This is what a company must do — must *be* — in order to double its revenues, as our bank has done over the past decade. And it's what will enable us to double our business again, as we deepen our relevance to customers and continue to earn their loyalty — the key to lasting, profitable growth.

Our bank is looking to the future through the lens of sustainable competitive advantage — as always, meeting our mid-term commitments while benefiting from a long-term perspective. And as we tackle the opportunities ahead, we're doing so with a confidence that can be summed up in one word: **forward**.

**Thank you.**