

Bank of Montreal Annual General Meeting of Shareholders

Address delivered by

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Bonjour à tous. Thank you, Chairman, and good morning, everyone.

It is a pleasure, within the crowded agenda of our annual shareholder meeting, to have a few minutes to speak about the actions we're taking to continue growing the business of the bank and the earnings that accrue to our shareholders.

We're meeting this morning in a place that embodies our focus on the future, through our highly visible commitment to continuing education and leadership development.

The BMO Institute for Learning, as much as it makes a compelling architectural statement, is first and foremost an investment in our people. And increasingly, it reflects our resolve to push the boundaries of technology as a competitive differentiator and a driver of innovation.

This campus has conventional classrooms. But it's also a hub for remote knowledge sharing — enabled by technology, and operating on a scale far beyond this physical space. Our online audience is experiencing a version of that firsthand today, as many more of you than are present in this room are joining us on your personal devices.



But if this kind of digital technology has become commonplace, its full impact on commerce — and particularly on banking — is just starting to take shape.

This is what I hope you'll take away from our meeting this morning: our bank is positioned — not just to hold its own in a world transformed by technology — but positioned to reinforce the brand advantage we have been working so hard to build.

As we've left the Great Recession behind, and as the largest emerging markets adjust and mature, much of the economy is in the midst of a major structural shift. And inevitably, so is our industry.

Regulatory reform has changed banking on every level — and changed it for the better. Just as significantly, our industry is being reshaped by the digital economy, which is changing how all products and services are produced, distributed and consumed.

Five years ago, we began investing much more heavily in the bank's IT architecture in order to harness the immediately scalable power of the big systems we've built.

We've been implementing agile production practices — enhancing our ability to push out incremental changes rather than holding them until the date of the next major release.

And as a result, we're accelerating our speed to market: keeping pace with our customers' lives, enabling more personalized interactions, and showing that we value their time.

The systems that make all of this possible are complex. But what we're ultimately trying to achieve is not. We're simply trying to delight — in a manner consistent with our brand — the maximum number of people at the lowest cost to serve.

By grounding BMO's technology leadership in the vision — *To be the bank that defines great customer experience* — we're deepening the loyalty of existing customers while attracting new ones, because this is what drives quality business growth and delivers value to shareholders.

This morning I'd like to take you through the **key points of technology-driven transformation**, talk about **how it fits into our overall customer-focused strategy**, and briefly examine the impact on the bank's **current and future performance**.

But first, let's place this entire discussion in its broader context.

In particular, I'd like to address a sentiment that's prevailed since last year. Analysts and the financial media have been singularly focused on the impact of lower oil and gas prices — and commodity prices generally — on our bank and the interconnected regional economies that define our North American footprint.

The level of apprehension about markets has been disproportionate to the evidence — largely, I think, because we've all become captives to the 24-hour news cycle. When everyone is continuously connected, it seems that news, to be interesting, has to feel lightning fast — often too fast, in fact, for the rate at which things actually happen.

Real insight takes time to emerge in order to be processed and understood. And when information is speeding across the world in terabits per second, updates every few minutes can become a repetitive blur. To the purveyors of news, or at least some, wrapping each new perspective in the cloak of catastrophe is often the only way to keep our attention.

A case in point: the cost of energy.

As demand increases and the replacement of current production declines, it will ultimately lead to higher prices. But in the interim, in some areas of the country, we are seeing a significant negative impact on employment and consumer spending. This has caused understandable distress, both to energy-related businesses and to people who depend on the sector for their livelihoods.

Within the bank, we're anticipating that loan-loss provisions will rise from a very low level to one more consistent with this point in the commodity cycle. The direct impact on the performance of the bank will be moderated by the experience we have in the sector and the relatively low concentration in a diversified portfolio: just 2% of our outstanding loans.

At the same time, our institutional memory allows us to take in the full course of the cycle. And what we know with confidence is that Canada's resource wealth has not gone away. A market price correction does not mean that an enviable national asset has suddenly become a liability. But if it encourages Canadians to rethink how much we should be dependent on natural resources for our wealth, and that spurs a further diversification of the economy, it will be a good outcome.

Clearly, no one has a crystal ball. But our forecasts aren't meant to be prophecies. We establish a hierarchy of choices against potential rates of change — and then, having narrowed down the most likely future scenarios, we determine how best to protect the capital of the bank and position it to grow with our customers.

In our open economies, prices are always adjusting. If the swings are wide in commodity markets, there can be short-term job losses and dislocation until a more typical cadence of supply and demand returns. And it bears repeating that the economic fundamentals remain positive — in Canada, as well as the United States.

Consumer spending is strong in most regions, thanks to low interest rates, steady job growth and cheaper fuel prices. We continue to believe that we'll experience positive GDP growth of close to 2% in Canada and above 2% in the U.S. for the full year.

But in the same way that a sudden change in the structure of global commodity markets is impacting the resource sector, the broader economy is also experiencing discontinuity. In every sector, innovative technology and breakthrough research point the way to the disruption of the status quo — to unprecedented cost-efficiency and to enriched customer relationships. This is the most promising dimension of the North American economy, where both public and private investment should be directed.

And that investment is happening. We see many customers of this bank taking the lead to make their industries more globally competitive. The best-managed companies will emerge from this transition with lower expenses, cleaner operations and more sustainable business models. And they're embracing the rapid, technology-driven innovation that is benefiting even the most basic industries.

As the digital economy continues to gain momentum, we're seeing new kinds of companies and entire industries rising alongside older ones — not necessarily to replace them, but to complement and extend their scope.

A lot has been said about disruptors like Uber — but we shouldn't overlook the fact that Uber's biggest rival, Lyft, recently received a \$500 million investment from one of the Big Three auto makers, which has launched its own car-sharing service. And the same firm has just announced the \$1-billion acquisition of a California startup that develops driverless cars.

It's hard to predict the outcome for one company, but this is a telling example of an incumbent recognizing valuable innovation and taking it on board to challenge its own business model.

A central paradox of the banking industry is that incumbents are seen as powerful economic players whose key role in the financial system demands that they be subject to oversight — but at the same time, some of these old-guard businesses are judged to be operating at a disadvantage to new, unregulated entrants to the industry.

The fact is, the pace of change is challenging to all incumbents.

The future will be won by those who don't just keep up with — but stay several steps ahead of — constantly rising expectations. It will be won by companies that challenge their own business models to be dramatically more efficient while delivering ever-increasing value to the customer.

Expressed another way, our bank's transformation agenda is defined by the same closely aligned dimensions: **customer experience** and **efficiency**. And what makes it possible to bring those parallel goals together is the same critical factor that drives all of the change we see accelerating around us: **information technology**.

This is not so new. Technology has long been a key enabler of BMO's success — from our pioneering use of automated cheque processing, to the first real-time network connecting branches across Canada, to mbanx — our early move into virtual banking in the first days of the Internet. We didn't recently awaken to the power of organized, readily available information — it has been core to our operating discipline.

Today we continue to lead with innovations that make life easier for our customers — whether it's award-winning mobile apps, digitally-enabled Smart Branches, or our new corporate MasterCard with biometric security features — a first in North America.

BMO Harris Smart Branch

Chicago, IL



But our investment in technology goes even deeper. We're introducing new business models and re-energizing older ones. We're redeploying unused capacity across the bank. And as a result of all this, we're unlocking new sources of value for our customers and for our shareholders.

This transformation extends to every line of business and is integral to the fulfillment of our long-term strategy.

In fact, technology plays such a crucial role in driving overall performance that in the latest refinement of our strategic priorities, we've brought it to the foreground — making it a priority in its own right.

And I'd like to take a moment to review some of the foundational elements of our technology transformation.

First, our new architecture integrates more than 1,400 applications that previously operated independent of each other or were difficult to connect.

It also enables us to create new applications quickly and easily — not one-off apps designed to solve specific problems, but adaptable software services we can use again and again.

And perhaps most importantly, this framework makes it possible to gather data from all areas of the bank and conduct detailed analytics of everything from risk management to the effectiveness of marketing programs.

We've reengineered our systems to allow a single, relationship-based view of every customer. Our various businesses can perform as one bank, coordinating the delivery of diverse products and services. And it's now far easier for customers and their bankers to access a wealth of knowledge as they explore options and arrive at the best decisions.

The result is a more personal bank for a digital world.

A good example of this evolution is BMO SmartFolio, one of the best investment experiences in the personal wealth market. Unique in the North American marketplace, it was designed, developed, built and launched in only six months — a fraction of the time it would have taken just a couple of years ago. In the same way as adviceDirect took the guesswork out of self-directed stock picking, SmartFolio, based on our proprietary family of ETFs, helps customers build a personalized portfolio in moments — and build their savings through a smarter experience. If you haven't had a chance to try it, I highly recommend it.

Our overall digital channels strategy is unfolding at the same rapid pace. In the next few years, we expect to see a further migration of personal service interactions — as much as 50% — from the branch and contact centre to our mobile channels. Customers who prefer to connect with us this way get the quick, satisfying answers and on-the-go self-service tools they're looking for — with the knowledge that a banker is always there, when they need anything.

A more
personal
bank for
a **digital**
world.

Integrate everything

A sophisticated connector grid brings together more than 1,400 applications across the bank.



Build once

Over 1,000 reusable software-based services can be employed to create applications quickly and easily.



Understand more

Bank-wide data aggregation and distributed platforms enable detailed analytics of everything from risk to sales and marketing.



Sensing and responding to customers' needs.

Intuitive, consistent experience across all channels.

Boosted productivity and fast speed to market.

We're also using technology-driven insights to improve the banking experience in areas less visible to customers, such as risk and compliance. Streamlined processes and advanced technology have allowed us to reach key anti-money laundering milestones more quickly, and at a lower cost, than we initially estimated. And just as importantly, the work is yielding deep knowledge about how all of our customers do their banking — and how we can serve them better.

In these examples I've highlighted, and many more I could add, the ultimate purpose of technology innovation — and the test of its success — is an enhanced customer experience.

By digitizing our business processes, we enable faster, smoother transactions at a lower cost. But the real goal is to make things easier for our customers: to give them more direct control over the choices they want to make for themselves and to show them that we understand and respect what they value most — their own time.

This isn't about launching apps and adding convenient features. It's about saying to customers: "We're ready to meet you where you are, and when it suits you best, with new tools designed to help you manage your financial life on your terms."

We all know that our smartphones and tablets are amazing pieces of technology. But for most of us, they're also an extension of ourselves. They're how we connect with people we care about, find and purchase things we need, figure out how to get somewhere, and watch everything from last night's game highlights to a video of the new baby.

And banking belongs there, too.

In helping people to connect with our bank in different ways, we're more supportive and engaged. And that's the point I want to underline this morning: our goal in empowering customers through technology is not to avoid having conversations with them. It's to have **more conversations**.

In our digitally transformed bank, branches matter. But the transactions that bring customers into our physical spaces are changing — as are the skillsets of the people who are there to serve them.

You may begin a transaction using your phone, then ask a question and get a response via video chat with a real person. Or there may be a banker next to you, tablet in hand, to see if you need help, and then either show you how to complete the transaction on your mobile device or introduce you to someone else — a mortgage specialist, an investment advisor — for a more in-depth discussion with whoever can provide the guidance you need.

Our 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

We're evolving the roles that our frontline employees play — along with the physical footprint of the bank — to complement what can now be delivered to our customers in a more contemporary way, on their favourite device.

And as always, it's customers who are setting the pace.

We can provide the products and services they need as quickly as they're ready to adopt them — and as changes in the broader environment, like more available bandwidth, pave the way for further innovation. Because advancing our capabilities with optimal speed does not mean doing things in a tearing rush.

As we enrich the customer experience — and as we limit effort or expense that doesn't add to that experience — it's changing how we structure our organization, how we design our branches and offices, and how we do our jobs as bankers.

We're evolving from linear, sequential tasks to faster, more adaptive processes — and from vertically integrated teams to cross-team collaboration. This creates more meaningful work and greater prospects for personal growth.

We're also tapping into partnerships with third parties, if they're using technology in interesting ways that complement our own thinking. Collaboration makes sense when we can see the opportunity to speed up change at an advantageous cost.

And a final thought on the work of innovation: it's anchored by a fundamental attribute of the bank that cannot be invented or bought, and that's trust.

Even in a fast-moving world — in fact, precisely because things are changing so fast — all of our stakeholders expect us to manage our business responsibly, to act with integrity and transparency, to be accountable for our actions, and to give back to the communities where we live and work.

To reflect the values of the people you serve, you start by holding a mirror up to yourself. Because we know we only earn the right to manage people's money through the confidence we inspire.

This is how we build trust — the foundation of customer loyalty. And it is loyalty that drives sustainable growth.

In 2015, the adjusted revenue¹ of BMO Financial Group was \$18.1 billion, up 8% from the previous year. Adjusted net income was \$4.7 billion, or earnings per share of \$7.00, an increase of 6% over fiscal 2014.

And just a quick reminder that we report financial results in Canadian dollars, but break out U.S. and Canadian dollar revenue and expense to reflect the underlying growth rates in constant currency. The importance of this view has increased with the size of the bank's U.S. business, which now accounts for 32% of our total revenue.

Fiscal 2015: Key Financial Measures (Adjusted)⁽²⁾

		Growth vs 2014
Net Income	\$4,681 MM	5%
Net Revenue ⁽³⁾	\$18,137 MM	8%
Return on Equity	13.3%	-110 bps
Earnings per Share	\$7.00	6.2%
CET1 Ratio	10.7%	+60 bps

In fiscal 2015, we paid common share dividends of \$2.1 billion and repurchased \$600 million of common stock — effectively returning over 60% of earnings to shareholders.

And we contributed almost \$1.7 billion in government levies and taxes.

And lastly, we acquired BMO Transportation Finance — North America's largest provider of truck and trailer financing — with an equity value of \$1.6 billion.

The strong results across the bank's principal operating businesses were delivered against a set of clearly defined strategic priorities.

They demonstrate the benefits of a deliberate approach to risk, backed by solid capital strength — reflected in a Common Equity Tier 1 Ratio of 10.1% at the end of the first quarter.

This past year's performance reinforces two fundamental strengths that differentiate the bank: an advantaged business mix across our diversified North American footprint, and a well-established brand in all of the regions where we do business.

And most significantly, the sustained growth of this bank reflects our deep understanding of what customers need and expect from us. The transformation initiatives I've spoken about today are ultimately aimed at delivering a superior banking experience and growing our customer base. These remain the keys to value creation.

¹ Adjusted net revenue is net of insurance claims, commissions and changes in policy benefit liabilities.

² Reported results (growth % vs. 2014): Net Income \$4,405MM (+1.7%); Net Revenue \$18,135MM (+8.5%); ROE 12.5% (-10.7%); EPS \$6.57 (+2.5%). Adjusted measures are non-GAAP measures. See page 33 of BMO's 2015 Annual Report

³ Net revenue is net of insurance claims, commissions and changes in policy benefit liabilities.

We have grown share of wallet in Canadian Personal Banking for the last six consecutive quarters. Across the bank, we are focused on knowing our existing customers better — converting single-product purchases to banking relationships, which yield higher revenue and generate more referrals.

At the same time, we're targeting those segments that we believe will deliver high value, including small business owners, recent immigrants, and Millennials — who in many cases have yet to forge long-term banking relationships.

Satisfied, confident customers lead to growth in both revenue and net income, delivering the value our shareholders expect.

Transformation isn't something that's happening *to* our bank — we're initiating our own transformation and driving it forward.

At the point where customer experience and efficiency converge, we're meeting customers' changing needs in ways that win their loyalty and reinforce our brand in the digital marketplace.

There are many ways to talk about what lies ahead: Change. Disruption. Opportunity. Growth.

We've gotten closer to our customers. Made banking simpler. Unified our businesses. Expanded our footprint. Invested in new platforms. Embraced a better rulebook. And through it all, delivered consistently strong results.

Now it gets interesting.

Thank you.