BMO Financial Group

Remarks by

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at

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The following remarks were delivered by BMO Financial Group Chief Executive Officer William Downe to the Greater Milwaukee Committee in Milwaukee, Wisconsin, on November 10, 2014.

(Please check against delivery)

Good afternoon, everyone – and thank you, John, for that generous introduction.

I'm grateful for this opportunity to speak to a group that contributes so much to the economic life and social well-being of Milwaukee. And it's especially gratifying to see so many valued customers of our bank here today.

I am going to bring the perspective of a banker to this discussion, but let me reassure you, I am not planning a 15-minute infomercial, knowing that when the Greater Milwaukee Committee gathers, it's not to listen to speeches but to have thoughtful conversations. I am looking forward to discussing the topics that Ted, Paul, Nick and Peter will raise – and to hearing what else is on your minds during the open discussion.

There's another thing that I suspect is true about the GMC: you became respected leaders by having clear points of view that you are quite prepared to express.

With that as a starting point, I'd like to offer a perspective I know many of you share:

In the long, steady climb back from the events of 2008 and 9, we're probably not even at the halfway point in an extended period of economic expansion – but almost everyone is afraid to believe it.

The advances and reversals of equity markets in 2014 seem disconnected from the knowledge that the underlying fundamentals are strong.

This is an economic recovery that lacks conviction.

What I'm going to suggest today is that the key to restoring confidence lies, first, in recognizing the unique character of regional economies.

We need to drill down through a global economy that's experiencing slower aggregate growth than we're accustomed to – and through a U.S. economy that's expanding at a healthy pace – to the special characteristics that give the Midwest advantage, and the implications of that advantage here in Milwaukee.

This city and the surrounding Great Lakes region have been thriving for more than three centuries as a hub in the movement of goods, services, people and capital.

And speaking from the perspective of a bank that has been here for nearly two centuries: we've evolved into a North American business – with global reach – that's centered in the continental heartland.

And we're here with the knowledge that growth and prosperity first gain traction in local economies – in places like Milwaukee, where regional strength creates global competitiveness, and where leaders understand that overcoming larger challenges begins with focusing your energy on immediate opportunities.

Let me start with some of the good news that gets overshadowed in our national conversation about the future.

Consumer confidence is back up, reaching 94.5 in the latest Conference Board index[1] – a gain of five-and-a-half points since September. Business spending is up as well, as we continue to put more time between us and the recession.

We all know that a decade ago, financial markets were fueled by readily available, sometimes poor-quality credit. Today, U.S. companies are de-levered. Balance sheets are characterized by strong cash reserves and expanded borrowing capacity.

The fiscal story is remarkable. In 2010, the federal deficit was almost 10% of GDP. This year it will be under 3%[2]. There's still plenty more to do – but four years ago, the prognosticators said it could take a decade.

The fundamental health of corporate America – measured by earnings consistency and rising productivity – is unmatched globally. The U.S. has the fastest-growing economy in the developed world[3].

And yet the prevailing mood continues to be wariness, if not outright fear.

Memories run deep over what was lost in 08/09 – from investment portfolios, from the value of people's homes, from their confidence in a secure future for their children.

This concern over what may lie ahead is understandable. The state of humanity is chaotic. It always has been.

Restoring that essential optimism – the confident belief in tomorrow that drives innovators and entrepreneurs – is a responsibility we share, as leaders of companies and institutions.

Our bank recently collaborated with Boston Consulting Group on a study of seven cities that have achieved impressive turnarounds, including Boston, Philadelphia, Pittsburgh and Seattle. The team then produced a set of proposals to revitalize the city of Montreal.

Their work identified the key ingredients for success, including targeted private and public funding, upgrading infrastructure, developing human capital through education – and above all, strong and clear leadership across the local community.

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[1] Source: *Consumer Confidence Survey®* (October 2014)

[2] *An Update to the Budget and Economic Outlook: 2014 to 2024,* Congressional Budget Office (August 2014)

[3] *OECD economic outlook No. 95* (May 2014)

I know that's a principle embraced by the leaders in this room, as many of you take an active role in fueling a similar renaissance in Milwaukee.

It reflects the same spirit of optimism that first brought our bank to this region in 1860, alongside many early entrepreneurs. It's why we doubled our footprint three years ago – and why we currently deploy close to 40% of our capital in the Midwest.

That confidence is supported by some strong underlying metrics:

Here in Milwaukee, we've seen cyclical upturns in both housing and factory activity. The benchmark Purchasing Managers Index (PMI) remains well above 50[4] – the magic number that signals continued expansion.

And while the recovery started later in the Midwest, Milwaukee's GDP is projected to grow by 2.5% in 2015 – up significantly from a growth rate of just half a percent in 2013[5]. This suggests opportunity for job creation and business expansion.

Of course, Milwaukee is not an economic island. This city is strategically situated within the region formed by the Great Lakes states and the adjacent provinces of Ontario and Quebec.

With annual output of $5.2 T[6], the Great Lakes economy is a vital engine of North American production, employment and trade – both east-west via the St. Lawrence Seaway, and north-south along the Mississippi.

The region accounts for 28%[7] of combined U.S. and Canadian economic activity, and its total output is greater than that of Germany, France, Brazil or the U.K.

With a population of about 100 million people, the region accounts for nearly a third of all employment in the U.S. and Canada, or about 46 million jobs[8].

Just over 10% of that workforce is focused on manufacturing – down from about 15% a decade ago – as the service sector has expanded[9].

And finally, the region accounts for more than half of all trade between the U.S. and Canada, this country's largest trading partner. Last year, Wisconsin alone shipped some $7.5[10] billion in exports directly to the provinces across the lakes.

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[4] *October PMI Report, Institute for Supply Management* (November 2014)

[5] *Wisconsin and Milwaukee Riding a Stronger U.S. Growth Trend*, BMO Capital Markets Economics (November 2014)

[6] *Great Lakes Region: North America's Economic Engine*, BMO Capital Markets Economics (April 2014)

[7] Ibid.

[8] Ibid.

[9] Ibid.

[10] Ibid.

But to assess this region's global significance, we need to place it in the context of North America – again, defined not by political borders but by the flow of goods and services.

I recently joined a group of business leaders meeting with the U.S. Commerce Secretary and her counterparts from Mexico and Canada. The Mexican Secretary of the Economy presented an interesting analysis of North America's economic advantage, which can be distilled down to three points

First, energy: With the proving-up of U.S. shale gas deposits, and Canada's very long-lived oil and gas reserves, currently estimated at more than 100 years, plus long-overdue policy reforms opening up untapped resources in Mexico – North America is approaching energy self-sufficiency. This gives us the security and competitive advantage of having energy sources and energy consumption close together.

Second, demographics. Mexico's 120 million people are relatively young, with a median age of 27[11] compared to the U.S. at almost 38[12] and Canada at nearly 42[13]. With a combined population nearing 500 million people, the three countries have highly complementary workforces and consumer bases – in an overall population profile that economists see as better suited for growth.

The last key point of North American advantage is flexibility. We don't face the structural impediments of China and India, or the near paralysis that has gripped Europe's economy. We do still have work ahead of us, especially to make labor costs more competitive and help trade flow more smoothly.

But gridlock in Washington may be more mythical than real.

As we've seen with the Dodd-Frank Wall Street Reform and Consumer Protection Act – when legislators put their minds to it, they can implement structural reforms faster than any other country on earth.

This clear sense of continental advantage has defined how we position our bank. Our ability to see beyond borders isn't new; it's shaped us as a company for nearly 200 years.

When the Bank of Montreal opened for business in 1817 – in a rented apartment – the first thing the founders did… well, actually the first thing they did was set up a roller press in a back room and start printing money.

Those were the good old days.

As long as we had the gold to back it up, we were authorized to issue what was in fact the first paper currency in Canada. And those Bank of Montreal notes were circulated broadly in the U.S. Back then money flowed freely without regard for borders, going wherever expanding enterprises were

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[11] *The World Factbook,* Central Intelligence Agency (2014)

[12] Ibid.

[13] Ibid.

doing business.

The second thing that our founders did was to take a carriage and head to New York to establish a U.S. agency. From that point, as the economy expanded westward through the course of the 19th century, we followed – on both sides of the border.

As you know, M&I's roots are similarly entrepreneurial.

In 1847, Samuel Marshall founded his small exchange brokerage in one half of a cobbler's shop in Milwaukee. Six years later, he partnered with Charles Ilsley to form Wisconsin's first chartered bank.

In no time, M&I was contributing significantly to the growth of this city, from the financing of gas street-lighting to vital support for the Milwaukee Public Library and other new institutions.

During the Civil War, M&I handled Wisconsin's wartime loans, while the Bank of Montreal – whose Chicago agency the newspapers described as "one of the most reliable banking institutions in the U.S." – was a major provider of gold-denominated loans to the U.S. government.

Between us, we spearheaded investment in landmark ventures like the Milwaukee Iron Company and the Canadian Pacific Railway. A century later, we pioneered innovations such as automated check handling and multi-branch banking.

And three years ago, when we combined M&I with Harris bank – which had long been serving commercial clients in neighboring states – it was the next step in a strategic evolution.

This was not an accident of geography. It was all about geography.

Of course, it certainly helped that the banks had complementary strengths in both capabilities and business mix. We also shared a deep understanding of local economies, recognizing that we'd been most successful when our businesses were closely connected to the communities we served.

But what cemented that combination of strengths – and will define our future success – was the alignment of our two cultures around a resolute commitment to the customer and our belief that the best predictor of business growth resides in longstanding relationships of trust.

To deliver on that commitment, our strategy is focused not just on where we compete, but how we compete.

And that leads me to a closing thought:

The world we live in today is quite different than it was a decade ago. We can all see it in our own businesses – and it may have less to do with having survived the Great Recession than with the impact of changing demographics and the digitization of everything.

Our customers want to move forward – to buy their first homes, to fund their education or their children's education, or to expand their businesses. We often speak about the building blocks of a secure financial future: growing savings, controlling spending, borrowing intelligently and investing wisely.

For most people, making the right financial choices requires confidence, being able to make a personal connection when it really matters, and having a simple and intuitive way to get things done.

We know that real life doesn't follow a script – and we understand that as the needs of our customers change, all parts of our bank have to act as one, anticipating what those needs will be.

In the coming months you'll see this expressed more explicitly, as our tagline evolves from *Making money make sense* to an even simpler statement: *We're here to help*.

Bringing our brand to life requires employees who are skilled bankers, but who are people first – people who understand that money is personal, and a bank should be, too.

To that end, the most valuable capital we have is talent. In Wisconsin alone, BMO Harris Bank employs more than 5,000 people, which places us among the state's largest employers.

Our combined workforce now has expanded opportunities for growth and career advancement. As just one example of our top talent, I can point to Brad Chapin, whom you know well.

Brad is an exceptional banker who rose through the ranks to lead M&I's consumer banking division and now heads up our business banking segment in the U.S. He is also the market leader for all divisions of the bank in Wisconsin.

And as you're likely aware, Brad contributes tremendously to the life of this city through his efforts on behalf of the United Way and other causes.

I should also point out that four of the 12 directors on our board are from the Milwaukee area. Joining John Daniels in this group of very active board members are David Lubar, John Shiely and Michael Van Handel.

I started this conversation by suggesting that in many instances the rate of economic recovery is still heavily impacted by apprehension, or even fear.

It would not be reasonable to expect those feelings to simply evaporate.

Of course the savings rate will stay high for some time – and this is not a bad thing.

Individuals and families will continue to strengthen their personal balance sheets to increase their independence in retirement.

Companies will continue to be prudent, investing where they believe they can earn a solid economic return.

But when we talk about the future, we need to couch it in the belief – in the conviction – that the signs of strength we can clearly see are at least as important as the shadows that are slowly dissipating.

I know I speak for all of our directors when I say that the soundness of our decision in 2010 to double the size of a business centered in the Midwest has been confirmed by a growing optimism within the bank that this state – and this city – are very well positioned for economic growth.

Thank you.