

BANK OF MONTREAL

# ANNUAL MEETING OF SHAREHOLDERS

**BMO**



Address delivered by

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BMO Financial Group

April 5, 2018

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Thank you, Chairman — and good morning.

To everyone here at the BMO Institute for Learning — and to all of you who are joining us via webcast — welcome. It's a pleasure and a privilege to speak to the annual meeting of shareholders for the first time as CEO.

In my 24 years with the bank, I've been part of many shareholder events, both as a BMO employee and as a shareholder myself. I have to say, from speaking with people since arriving this morning, there's a clear sense of anticipation this year.

It's the same feeling I've encountered over the past few months in meetings and conversations across BMO, and also in my conversations with customers — which I hope many of you are.

There's enthusiasm and confidence, and at the same time, eagerness — even impatience — to push ahead with the initiatives we've been working on.

This morning I'd like to share a few thoughts on how we're moving forward. But first let me take a moment to express my appreciation to our Chairman, Rob Prichard, and to the bank's Board of Directors. The support and counsel you provide to the senior management team are invaluable.

Let me add: the entire BMO team I'm fortunate to work with every day rivals, in my view, the very best in the industry.

2017 was a year of transition. But more importantly — it was a year of continuing transformation. I doubt this organization has ever been more clear about what we're achieving together.

A few years ago, we spent a lot of time — like most consumer-facing companies — talking about how the world is changing.

## Now our focus is on how we're changing.

BMO is on the move. And this morning, I'd like to share my thoughts on three main points:

- **Our record** — where the bank is today and the advantages that set us apart.
- **How we're building on those advantages** — the primary areas of focus on our agenda right now.
- **How we're positioning BMO for accelerated growth** in a modern marketplace.

## As the Chairman just outlined, BMO maintained strong momentum throughout 2017, once again achieving record results.

We achieved those numbers while hitting our target for operating leverage of 2%. And at the same time, we increased our technology spend by 13%.

### Fiscal 2017: Key Financial Measures (Adjusted)<sup>(1)</sup>

		Growth vs. 2016
Net Income	\$5,508 MM	10%
Revenue, net of CCPB <sup>(2)</sup>	\$20,722 MM	6%
Return on Equity	13.7%	+60 bps
Earnings per Share (diluted)	\$8.16	9%
CET1 Ratio	11.4%	+130 bps

We once again raised the bank's dividend — by 6% in the past year. Our strong capital position, with a Common Equity Tier 1 ratio of 11.4%, gives us flexibility in how we choose to continue to grow.

In the first quarter of the current fiscal year, the bank delivered adjusted net income of \$1.4 billion and earnings per share of \$2.12. Underlying performance remains on track, as our operating businesses continue to deliver robust earnings growth and build long-term value for shareholders.

Many factors contribute to this strength. A few are worth highlighting, such as diversification — of our business mix in the customer segments we serve, and in our geographical footprint. We continue to see especially good momentum in our U.S. operating businesses. They now generate over 25% of total profits — and they'll continue to grow faster than the rest of the bank.

At the same time, BMO is a standard-setter when it comes to recruiting talent and developing future leaders. We've always been clear on what ultimately delivers value to our customers and shareholders: it's people.

<sup>(1)</sup> Reported results (growth % vs. 2016): Net Income \$5,350MM (+16%); Net Revenue \$20,722MM (+6%); ROE 13.3% (+120 bps); EPS \$7.92 (+14%). Adjusted measures are non-GAAP measures. See page 29 of BMO's 2017 Annual Report.

<sup>(2)</sup> Net of insurance claims, commissions and changes in policy benefit liabilities (CCPB).

## Underpinning every management decision, and every customer interaction, is BMO's unique culture.

Our workplaces are open and collaborative. Our people respect and support one another, and they rightly take pride when we're recognized.

This bank maintains the highest ethical standards. We're one of only two companies in Canada — and only four banks worldwide — to be named recently among the World's Most Ethical Companies by the Ethisphere Institute.

Our commitment to acting responsibly is articulated through the bank's sustainability principles, which focus on social change, financial resilience, community-building, and environmental impact. These principles matter to us, and they're reflected in how we go to market.

At a time when trust in some institutions is being tested, our stakeholders know what they can expect from us.

BMO's culture and defining values are a fundamental source of strength, and they sharpen our focus as we continue to transform the bank.

Turning to how we build on these advantages, I want to underline that the bank's strategy remains consistent. We're confident that our five strategic priorities are the right ones. Effectively implemented, they're foundational to the bank's continued success.

### With that as a framework, let me briefly recap the areas where we're focusing our efforts, right now.

**Growth in the U.S.**, which continues to be a key differentiator. Our U.S. businesses contributed \$1.43 billion to the bottom line in 2017 — and as I said, are growing faster than the rest of the bank.

Our business mix is well matched to the constructive economic environment in the U.S. In Personal and Commercial Banking, we've seen steady growth as we take advantage of rising customer confidence and the effects of lower taxes. Our strong U.S. Commercial Banking business continues to expand its footprint, and at the same time, we're delivering higher returns from the investment we've made in our U.S. Capital Markets business.

BMO's total U.S. segment has delivered compound annual income growth of 12% over the past two years, and there's much more opportunity to grow.

With each improvement in our U.S. business, we become that much more relevant to our Canadian customers.

BMO has the expertise and resources to help customers in all segments simplify the complexities of banking across the Canada-U.S. border. We have a distinct competitive advantage.

We've been in the United States since 1818. We helped finance trade and infrastructure that fuelled continental growth. Having grown our own business on both sides of the border, we're uniquely positioned to help our customers do the same, to help them navigate whatever changes lie ahead.

Right now there's uncertainty over how NAFTA may evolve.

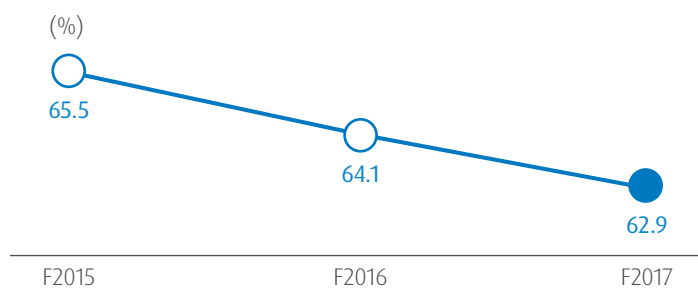
## But we believe all parties see the benefits that flow from the freer movement of goods, services, people and investment. Free trade has created growth opportunities for our Canadian and U.S. customers.

We're confident that the value of this balanced and successful trading relationship will be reflected in a positive conclusion to the negotiations. All of BMO's businesses — personal and commercial banking, capital markets, wealth and asset management — are led from a North American perspective.

Our integrated understanding of these two markets is unmatched. Customers tell us what they're trying to achieve, and at BMO it all comes together — quickly and simply. For the bank, it also happens cost-effectively: over the past two years, our U.S. businesses have improved their combined expense-to-revenue ratio by more than 6%, reflecting the significant leverage in our platform investments. This leads into the next area I'll highlight: **efficiency**.

This continues to be a top priority in every area of the bank, and shareholders who follow us closely recognize that we've made headway. We achieved our objective of 2% adjusted net operating leverage — a key measure of efficiency — through 2016 and 2017. In the current year, we expect to deliver our 2% target once again.

### Adjusted Efficiency Ratio<sup>(1)</sup> (Net of CCPB)<sup>(2)</sup>



<sup>(1)</sup> The reported efficiency ratios (net of CCPB) for 2015, 2016 and 2017 were 67.5%, 66.7% and 64.3% respectively.

<sup>(2)</sup> Net of insurance claims, commissions and changes in policy benefit liabilities (CCPB).

It's clear we're making progress. But we also know it's not enough. I'd like our expense-to-revenue ratio to improve even faster — with an emphasis on expenses and revenue. This will not be a revelation to anyone who sees the value our bank is built to deliver. Lightening our structure will help.

Since November, we've been taking a closer look at how BMO is organized and how work gets done — making sure all roles are in line with the market opportunity. The effort continues. Of course, any adjustments we may consider are in the context of a bank that has averaged more than 7,000 new hires in each of the last two years — while keeping overall headcount flat.

As we continue moving with pace to increase efficiency, we're freeing up resources and dollars that we can reinvest in new capabilities — to the benefit of BMO's customers.

Last month, we unveiled what we see as the workplace of the future: the BMO Campus, in the heart of Toronto. This will be a 350,000-square-foot workspace designed from day one to help employees be more innovative, agile and productive — a place where flexible, multidisciplinary teams work together to create smarter, simpler, more personalized experiences for our clients.

Across the bank, we're focusing all of our efforts on delivering an industry-leading **customer experience**. We do it through two distinct but interrelated loyalty models:

- First, we're already industry-leading in our relationship-managed businesses, where customers value our advice and guidance.
- Second, we're strengthening our capabilities in high-volume, lower-touch transactions — where our customers value convenience, speed and simplicity.

We're looking at the entire customer journey, from first interaction — opening a bank account, or applying for a credit card — to long-term loyalty. At every step, what allows us to create smarter, simpler, more personalized experiences is **technology**.

Over the past several years, we've invested significantly in a central architecture that's strong, flexible and purpose-built for the future. We continue to spend over \$2 billion a year as our focus shifts from building the underlying platform to expanding what it enables: technology deployment.

We're automating more processes to put the customer in control — to make transactions faster, easier and more integrated for them, and more cost-efficient for us.

But here's what we also know — new features on apps don't amount to much if they're not actually adopted. Real competitive advantage, of course, comes through engaging and growing with your customers.

When we explore new applications — like voice services, which we've launched for Amazon Alexa — what gives us confidence is that more than half of our Canadian banking customers already engage with BMO digitally.

Our banking teams are well-versed and ready to help. Our branches support how customers like to bank. Our contact centres are integrated into the master plan, and our whole organization is designed for digital engagement. The app comes with human help and advice.

This was our focus early on, and now we're seeing the payoff in both originations and product penetration. Today, over 25% of our retail products and services are acquired through digital channels. That puts BMO in the top tier among Canadian banks.

**We're generating new primary customers — digitally — and once you gain a primary customer, you can really start to build a relationship.**

Of course, first you have to get the technology right — and BMO has, with a solid platform and effective scale. But having customers who are fully engaged with our newer channels and tools — that's what really counts.

And as we use analytics to become even better at thinking like our customers, we respect and protect their privacy — and work to secure their information against cyber threats. These are top priorities, and speak once again to trust as the bedrock of customer loyalty — which is the key to growing our business.

**Everything I've talked about this morning reflects the broader transformation we've embarked on, as we position BMO for accelerated growth.**

What do I see when I look ahead?  
A bank that's leaner, faster, more unified than ever.

We're activating BMO's unique culture, and we're thinking more and more like our customers — because they lead our bank. We can't imagine working for anyone else. As their world changes, we are quickly changing alongside them — even one step ahead.

Through any changes that may lie ahead, we remain committed to achieving our business goals responsibly and sustainably.

We're confident in our outlook, and in the targets we've set for ourselves. We believe in this bank's inherent strengths, and we know we're built for more.

BMO has a plan. We have momentum. And as we said in our annual report... tomorrow starts today.

We aren't waiting for the future to arrive. We're creating it.

Thank you.

