Bank of Montreal at CIBC Eastern Institutional Investor Conference 2018

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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 see the discussion in the Risks That May Affect Future Results section on page 79 of BMO's 2017 Annual MD&A, the sections related to credit and counterparty, market, insurance, liquidity and funding, operational, model, legal and regulatory, business, strategic, environmental and social, and reputation risk, which begin on page 86 of BMO's 2017 Annual MD&A, the discussion in the Critical Accounting Estimates – Income Taxes and Deferred Tax Assets section on page 114 of BMO's 2017 Annual MD&A, and the Risk Management section in this document, all of which outline certain key factors and risks that may affect Bank of Montreal's 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. Bank of Montreal does 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 2017 Annual MD&A under the heading "Economic Developments and Outlook", as updated by the Economic Review and Outlook section set forth in this document. 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, both broadly and in the financial services sector, we primarily consider historical economic data provided by governments, historical relationships between economic and financial variables, and the risks to the domestic and global economy. See the Economic Review and Outlook section of our Third Quarter 2018 Report to Shareholders.

Non-GAAP Measures

Bank of Montreal uses both GAAP and non-GAAP measures to assess performance. Readers are cautioned that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies. Reconciliations of GAAP to non-GAAP measures as well as the rationale for their use can be found on page 5 of BMO's Third Quarter 2018 Report to Shareholders and on page 29 of BMO's 2017 Annual Report all of which are available on our website at www.bmo.com/investorrelations.

Examples of non-GAAP amounts or measures include: efficiency and leverage ratios; revenue and other measures presented on a taxable equivalent basis (teb); amounts presented net of applicable

taxes; results and measures that exclude the impact of Canadian/U.S. dollar exchange rate movements, adjusted net income, revenues, non-interest expenses, earnings per share, effective tax rate, ROE, efficiency ratio, pre-provision pre-tax earnings, and other adjusted measures which exclude the impact of certain items such as, acquisition integration costs, amortization of acquisition-related intangible assets, decrease (increase) in collective allowance for credit losses, restructuring costs and revaluation of U.S. net deferred tax asset as a result of U.S. tax reform.

Bank of Montreal provides supplemental information on combined business segments to facilitate comparisons to peers.

PRESENTATION

Robert Sedran ***CIBC World Markets - Analyst***

Our next guest is Ernie Johannson from BMO. She is the Group Head of US Personal and Business Banking. She has over 20 years of experience in financial services, including the last seven at Bank of Montreal. Prior to her current role, she spent some time as the Head of North American Retail Credit and Chief Risk Officer, as well, in the Canadian side. So recently moved to the US.

So going to open it up for some comments, just opening thoughts, and then we'll get into some Q&A.

Ernie Johannson ***BMO Financial Group - Group Head, US Personal and Business Banking, BMO Harris Bank***

Well, first off, Rob, thanks for the invitation, and thanks to all of you for attending this session to talk a little bit about what's happening in the US. As many of you know, at BMO we're pretty excited about what's happening in the US and the opportunities that exist. So I'll describe a little bit about the business unit that I run, and then talk a little bit about the strategies and some of the assets that we're leveraging and the opportunities going forward.

So the business itself is the Personal and the Business Banking side. And because in the US market, everyone defines business banking in a different way, I thought I'd spend a second just to describe what that is. Business banking is clients who have revenues of $5 million and [below], and/or have lending needs of $1 million and under. And so the reason or the rationale for that is there's a big affinity between that segment and the retail side of the bank in the sense of capital treatments, adjudication, credit, underwriting. And so we believe there are incredible synergies to pull those pieces together.

I also have the privilege of running the North American payments business - so that's a north-south business. And you'll see, in BMO, many of us have roles that straddle in a north-south capability to leverage the synergies that exist, the capabilities, and ensuring we are coming at the marketplace in a consistent manner.

In terms of the opportunity, a few things that you will probably know about Personal and Business Banking. We have a focus on a mass affluent population in the US. We are really dominant in the Midwest as a player. We have a branch network of about 570 or so branches scattered across eight different states, but largely concentrated in those two markets. And I’ll talk a little bit later on about why we think that that is actually an advantage, the footprint that we have right now in both our core markets, our established markets, and markets that we're planning to expand. And we'll talk a little bit about that as well.

We've just recently, Rob, been awarded from American Bankers, the number two reputational risk rank -- as in strength of our reputation with our customers from a brand perspective -- out of the 40 top banks in the US. And that's a really big win and a kudo for us, because our brand in the US has been extremely strong. We've have great reputation with our existing customers. We've been banking, as you know, we've been offering services for about 170 years or so. And it's a real testament to the brand that has been built over time and the acquisitions that we've made that continue to reinforce this strong reputation. To be number-two after USAA is a pretty powerful place to be as an entity.

The other piece of our strength is obviously our deposit taking. And I know we're going to probably spend a few minutes talking about deposit taking because it is the topic du jour in the US and in Canada. And that is really one of our power bases. We've been a very strong deposit taking entity. You know we have about 60% of the deposits that come into the US business are coming from the retail side, the retail and the business banking side.

So we are a fuel, if I can use that terminology, for our commercial business lending, but we also are a referral engine for our private banking business in our wealth side. And we either refer customers to our private bank, or our wealth colleagues join us in our branches to offer advice and guidance services. So we're an important part of that ecosystem in the US.

As I've come into the role as of February, we've been laying out a strategy that we're going to share in more detail at our investor conference on October 24th, and hope to see many of you there. And we really have four pillars that we are focused on in our business unit.

The first one, as you can well imagine, is around being very clear and ensuring our continued growth in deposits. We are going on what we would call a more aggressive deposit taking strategy. That strategy is going to obviously continue to ensure we're growing at the pace at which we are growing, and we're growing at double-digit growth rates year-over-year in our deposit taking. Relying on our established markets, that strong Midwest where we have number two market share in those two areas, but also leveraging this footprint that I talked about earlier in our expansion markets where we have a light branch network. And the power play for us will be how we leverage that light branch footprint with a digital capability that we're building as we speak. And that is an important fundamental choice that we're making, to say: we believe in the power of using a digital deposit strategy attached to a branch network, a light one; and that's where we think we're going to have a power-play going forward. That's our first strategy.

Our second one is around that Business Banking segment that I spoke to about -- you know our brand is a commercial brand in the US. And so it's a great opportunity to leverage a terrific commercial brand into that lower end of the business segment, and be able to consolidate personal and business relationships in a more integrated manner through a cross-functional strategy of distribution between our digital channels, call centres, branch network, and salesforce. So, for us, that's an opportunity in my mind for a number of reasons: one, because we think it's white space in the marketplace; two, there's a lot of deposits there as well; and, three, this is a critically important segment for our bank, and one that we think we can win at more effectively going forward.

Our third strategy is around consumer lending. And many of you know there's a lot of nuances between the Canadian market and the US. And particularly we're focusing on shifting our mix. We're a highly RESL book right now. We want to shift that more around unsecured credit card and indirect auto. We'll do a little bit of shifting in our mix, and really streamlining our mortgage offering and how we participate in the mortgage business, which is fundamentally different, as I said, than Canada, where most Americans will be purchasing their mortgages not from their primary FI.

As I shift to the last strategy, the fourth pillar, it's really around how do we use digitization and increase our guidance delivery. Most people would never put those words together, digital and guidance and human. And this is an important piece for us because we believe the two come together. We are launching in the US, a new online digital platform, which is kind of a cornerstone of this strategy, because it allows us to have a more robust digital capability for our customers. This will allow us to integrate more cross-selling capabilities, P2P, using Zelle in the US, and being able to provide a more rigorous platform for us as we go out and expand into our -- what we call our expansion markets, which is that light footprint market. Because of this capability, we believe we're going to be able to open up more capacity for conversations with our customers in a human format, whether it be in call centres or whether it be in our branch network. And this play of enhanced guidance delivery is important as we digitize the organization. Last point would be that this is also very cost effective, it also will retool our expense base to be focused on more revenue growth than on the service side. So a really important element that underpins our entire strategy.

So let me stop there, because I've given you a lot in a matter of a few minutes to kind of outline what we're thinking about. You can see how this all comes together. We have an incredible amount of momentum right now. Obviously the US market is strong. We have some benefits of some tax advantages. But this is all wind in our sails to support for further growth as we go forward.

I'll turn it back to you.

QUESTIONS AND ANSWERS

Robert Sedran ***CIBC World Markets - Analyst***

Okay. So we'll open up for questions. And as always, if there's any in the audience, just throw your hand up or wander over to the mic. I'm happy to stop and take yours. I have a bunch of questions. But I think what I'm going to try to do is fold them into your four pillars, and go at it that way.

So maybe we'll start with the deposit franchise, because we've always thought that the branch strategy was integral to the deposit strategy. And so that's where the strength in Chicagoland, that's where the strength in Wisconsin comes from.

Ernie Johannson ***BMO Financial Group - Group Head, US Personal and Business Banking, BMO Harris Bank***

Absolutely.

Robert Sedran ***CIBC World Markets - Analyst***

So, in those other markets, and especially when you start going digital, is it about price? Or is there something else that's going to attract the deposit to Bank of Montreal?

Ernie Johannson ***BMO Financial Group - Group Head, US Personal and Business Banking, BMO Harris Bank***

That's a great question. And our strategy is really a two-prong in that space of deposits. It's about maintaining that number-two market share position and continuing to drive in our core markets where we have our heavy branch network. And that is important, so that continues to be job one.

But at the same time, we have this asset that we know we can get more out of. And by applying the digital capability, introducing that -- we have a brand in these markets, so it's not like we're coming into new space where we have to talk about who in the world is BMO. We have a reputation; we have a brand; we have an ability to service customers if they wanted to come into a branch. Because the reality is, when you put your money into a digital play, you also want to know somehow that there's someone there to help you at some point in time, should you need some help. And the visibility of a light branch framework provides that to consumers. So that's going to be differentiating for us, this notion of being able to see us, hear us, and know our brand, digitally and physically. And also for us to be able to offer up our broader product suite. So yes, it's going to be about deposit gathering. But more importantly, about customer gathering, as in: how do we increase the number of customers that are in that area? Focusing first on deposits, but ultimately with a cross-sell, which this new digital platform will allow us to do more effectively. This is important for us because these markets that we are in have some strong deposit growth. And so using this capability will allow us to take advantage of that in a more accelerated pace.

And the last point I would make is the reality is, we all are learning about how this digital space is going to work on deposit taking. And we will have a better opportunity to do that in some of our expansion markets, and learn and understand as we go forward.

Robert Sedran ***CIBC World Markets - Analyst***

So most of these expansion markets, if I recall correctly, were acquired with the M&I acquisition. And I've wondered, since that time, when the bank might decide to augment their physical presence in these markets via acquisition or organically. It sounds like you don't think you need to. Like, you have enough of a presence in these markets that you can -- you've enough flags planted that people know who you are. And so the idea that you need to infill in these markets is the wrong one. Is that fair?

Ernie Johannson ***BMO Financial Group - Group Head, US Personal and Business Banking, BMO Harris Bank***

I think that's fair to say. I think we need to augment with more marketing, if I can use that terminology, which will have a halo benefit on digital acquisition as well as what walks into the branch organically. And I think over time, we'll be looking at those positions of those branches and saying as we build more customers, perhaps we need to add one or two in that particular market -- Florida, maybe, wherever it may be. So I think that's how we're thinking about it, bring the customers in first, understand where they're located; and understanding, do we need to add another smart branch?

And that's a really important point. Because it's not -- we're not thinking about new placement of branches being the full piece of the traditional branch franchise. Our smart branches have been demonstrating to us that we are able to use this footprint and be effective in terms of not only the customer experience, but the employee experience. And so that would be the application or the format that we would use.

Robert Sedran ***CIBC World Markets - Analyst***

The branch discussion is an interesting one, particularly in the US, because we've seen some of the smaller banks have been closing branches. And more recently some of the large ones have been opening branches. And, kind of going against that theme, you've been flat in terms of the branch count at BMO. So does that mean you see merits in both sides? Or are you going to be breaking in one direction or the other, in coming years?

Ernie Johannson ***BMO Financial Group - Group Head, US Personal and Business Banking, BMO Harris Bank***

Yes, I'm pretty satisfied with the number, and where we are placed. That will obviously adjust as we see certain markets or communities growing, and we want to put a branch, and we'll do that. I mean, those are the ones and the twos. But fundamentally, I'm satisfied with the footprint, and now it's about getting more out of that footprint that we have by applying the digital capabilities.

Robert Sedran ***CIBC World Markets - Analyst***

Okay. And lastly on deposits, maybe chat a little bit about some of the trends that you're seeing in that core footprint. Because the rising deposit betas is not new. It's been intensifying. And as rates have been rising, deposit betas have been rising faster. The competition for deposits has picked up.

When you think about the impact on your business, both in terms of your ability to gather the deposits and the outlook for the margin, for that matter, maybe talk through some of what you're seeing in those trends in your core market.

Ernie Johannson ***BMO Financial Group - Group Head, US Personal and Business Banking, BMO Harris Bank***

In our core markets, this is important. We have a very established franchise. And that mass affluent skew that we have allows us to hold deposits quite nicely, as in the betas that we are able to provide. I think that is a benefit for us. That's a clear asset that we have. We have been seeing -- and we all have been seeing -- consumers are moving their money into higher-paying vehicles. That is a trend. I've been satisfied with the mix of what we've been able to bring in on chequing accounts and core deposit base, at the same time that we look at CDs which would be more price-sensitive in the marketplace. And I think again that's a function of our skew and customer base as well as our branch network.

I think as we go into more of that digital space we'll see that mix shift, just simply because we're going to have to be a bit more aggressive in our pricing. So, I would say, as we anticipate hopefully another rate increase, more of that is going to be passed on to consumers. That is going to be our reality. I think everybody understands that. The question is, how much and what our mix is going to be from a product perspective that will determine how much we'll actually have to share.

Robert Sedran ***CIBC World Markets - Analyst***

Okay. Let's move onto that consumer lending piece. The mix shift away from RESL and toward the indirect auto and the unsecured lending. How do you accomplish that kind of a mix shift without necessarily moving out -- well, you are kind of moving out the risk curve, just by the nature of the asset that you are shifting towards. How do you make sure the risks are controlled, particularly for where we sit in the cycle right now?

Ernie Johannson ***BMO Financial Group - Group Head, US Personal and Business Banking, BMO Harris Bank***

Great question, and a couple things there. Our strategy is about consolidating with our existing customer base, that's the first point I need to ensure everybody understands, and it's well within our risk appetite. Again, a mass affluent base. We haven't been providing them - for example, our credit card penetration is nowhere near where I would like it to be, and I think there's a great opportunity to do that with our customers, as one example.

Our indirect auto business is starting to generate some very good returns for us, and growth. I'm satisfied with that risk appetite. I think it comes down to where we're focused on and which customer and the prudent strategies we're approaching. And I think because we've been a little lighter in that space, we have an opportunity to get our fair share of our existing customers, who we know we have full data on, full relationships with. We can add an additional product or two to be able to do that.

And on the mortgage side, it's really about focusing in - on the RESL side - focusing in on our home equity product as penetration with our existing customers. So, as housing values improve in the markets that we serve, there are opportunities for us to be able to increase our penetration of home equity with our existing franchise. Again, customers we know.

And on the mortgage side, it's how do we streamline the process for mortgages? Canadians will say it's quite a complex conversation to have with a customer, but in the US, it is far more complicated, and the ability to get that streamlined digital process in place is important. And we are launching out at an online application process, mobile app, for mortgages in the US; which is important when you think about who you compete with in the mortgage business in the US, which are highly digital.

Robert Sedran ***CIBC World Markets - Analyst***

We used to be told that Canada is different. You can cross-sell; you can get the depth of client. Americans don't want depth of client with their banks and all the rest. And increasingly when we hear bankers in the US talk, it is more about the depth of client relationship. And I think credit cards were always a monoline product, and mortgages were always a monoline product.

What's changed, has it changed? Is the nature of the market one that is now easier to get those deeper client relationships? Or is this still bucking the trend a little bit of the overall market?

Ernie Johannson ***BMO Financial Group - Group Head, US Personal and Business Banking, BMO Harris Bank***

Well, I think there's certain segments of the population, and I specifically go after the mass affluent, in particular, to say there is an opportunity there because of the established relationship and the one-on-one kind of contact we have with them. But I also believe, our view is that we haven't had the digital capabilities to do this as cost-effectively. So this platform that we're launching out is a key foundational cornerstone to the cross-sell strategy we have, as well as our branch network.

And again, it's about having conversations with customers. And the more you can spend time with customers in a more holistic conversation, we're able to win the business. And it goes back to that number-two brand reputation. When you have that, you can actually earn the right to have a conversation with our customers. Now we just need to have more of them. And that's what we're doing with a combination of the digital capabilities and the guidance conversations.

Robert Sedran ***CIBC World Markets - Analyst***

And you've made a relatively good-sized mortgage portfolio purchase. Is that about just warehousing some loans? Or is that a group of customers that you feel you can deepen customer relationships with? How do you think about that growth in addition to the organic growth that you're putting on?

Ernie Johannson ***BMO Financial Group - Group Head, US Personal and Business Banking, BMO Harris Bank***

It's a good question because the $2.1B that we purchased was really an opportunity in the marketplace that we seized upon. Those will come very rarely, but we took advantage of that one because it had the right economics attached to it, and it had the right customer franchise that we wanted to be able to look at.

We will continue to be in what we call the flow-business in the US, to some degree, but that's not going to be a big source of our growth moving forward. It will be the shift into home equity. It will be the shift into credit cards, indirect auto, and unsecured.

Robert Sedran ***CIBC World Markets - Analyst***

And so, if it's your own customer base, you know them relatively well. And so that definitely mitigates the credit risk you're taking on, but the cycle is the cycle. And who knows where we are in the cycle. But when you think about moving into a more unsecured type of product, even with those customers, is this a measured move that you're comfortable doesn't materially change your positioning? Or should we be thinking about, okay, well, BMO is kind of moving out the risk curve, I wonder where we are in the cycle.

Ernie Johannson ***BMO Financial Group - Group Head, US Personal and Business Banking, BMO Harris Bank***

No, this is not moving out on the risk curve, and we're not looking at audacious growth rates from that perspective. We're looking at moderate growth to consolidate relationships with customers, which is a far different strategy than being aggressive out there in a subprime space. We are in a super-prime, prime space. We are conservative lenders - we've been there. We just haven't been as good at consolidating the relationship in that space, and that's an opportunity for us.

Robert Sedran ***CIBC World Markets - Analyst***

Okay. So the fourth pillar was digitization and the use of technology. And so, it's one of those areas where the banks all talk about how much money they're spending. We don't get as much granularity in how they're spending it and how we should be measuring it. Where do you think you are in terms of where you need to be on that side? Is this, we're spending this money, we're going to see the real benefit of it in 2022? Or is this, things are being rolled out and you're going to see the benefit of it in relatively short order?

Ernie Johannson ***BMO Financial Group - Group Head, US Personal and Business Banking, BMO Harris Bank***

Yes, so a couple things. One is I am thrilled that we belong to a North American player as large as BMO. If what I ran on my own was a regional bank right now, I'd be a little frightened. And the reason for that is because the investments that are needed in digital only come with scale. And that is the advantage of our bank right now, is the ability for us to leverage things on a North American platform. So for us, this digital investment is thought of as a North American play. We'll do that in a few other places, as in build it north-south; build it so that it becomes relevant and differentiated for us as a capability. But I'm also not precluding us from using fintechs as partners. And we've done that in a couple places, where we've said - for example our mortgage application, we have outsourced, not outsourced but we have actually taken a fintech product and brought it into our fold because we believe that that is something that someone else can do far more cost-effectively. And our brilliance, if I can use that terminology, will be in the approval of who we say yes to, how do we service them, and how do we take care of the broader relationship.

So I think the combination of a North American scale player and selective, smart fintech partnerships is going to be key for us moving forward. Because the game and the race is on, and the investment levels that we speak of are in the hundreds of millions of dollars, and that's just in the retail space. And we would not be able to do what we would do if we do not leverage our North American parent.

Robert Sedran ***CIBC World Markets - Analyst***

You mentioned the fintech side, and I've often thought the US was far more vulnerable to a fintech disruption. Size of the prize is larger; it's a far more fragmented business model in the US. Is that a fair assumption? Because I'm hearing you partnering with fintechs. And up here in Canada, certainly, we've heard a lot of -- they'd rather partner with the banks than take them out. Is it still a threat in the United States to your business? Or do you think it's more one of opportunities to partner with these companies?

Ernie Johannson ***BMO Financial Group - Group Head, US Personal and Business Banking, BMO Harris Bank***

I think you have to think of them on both fronts. The second strategy we have is around business banking, that's small end, we can talk a bit about at some point in time, the competition that exists in that space. Because there was white space you saw a number of fintech entries in that space. How I also see using these fintechs is also to augment and partner with us because they actually want to partner with a bank for a whole bunch of reasons: scale, customers, et cetera.

So I think you have to do a two-pronged strategy to be successful. And knowing which strategy do you take a fintech versus build yourself, is really going to be key. And where do you want to be differentiated on? And that's a choice around your strategy. So I come back to: where do you want to be brilliant at?

And I would say, for example, in our Business Banking space, we'll be more inclined to do things homegrown because we want that to be differentiated. And in fact, in our Business Banking side, we'll be building digital capabilities for those clients, but doing it again on a North American basis, taking what our Canadian colleagues are building for that segment and bringing it to the US. That's our plan.

Robert Sedran ***CIBC World Markets - Analyst***

So let's stick with that pillar for a second, the Business Banking side. I think we struggle with it as a market a bit because it's largely invisible to us. We're consumers of the retail bank. We see the commercial and corporate companies that are doing things. The small business, it's a bit different so we don't talk about it as much. So what is it? What are the critical success factors for a bank in that part of the market, and why does BMO have it?

Ernie Johannson ***BMO Financial Group - Group Head, US Personal and Business Banking, BMO Harris Bank***

Great question. So one is, these organizations are looking for a speed of and simplicity in the offering; a real simplified product offering. They are not that complicated that they can actually go into the commercial bank and get all of those tools and capabilities. They're looking for a hybrid, if I can use that language. The best of retail: the convenience, the simplicity, the automation. And then a few of those payment tools that they need, the payment systems that they need that you would normally get in a commercial world. So putting that together is going to be key for us. So automated adjudication, the ability to say yes to a loan in 30 seconds for a small size lending is going to be key.

This group will pay for convenience. So this segment is really focused on, if I can get a loan approved and fast, I'm ready to take the rate that has been presented. So the risk/reward optimization is key in this segment. Speed of execution, and saying yes and no. The ongoing monitoring, the convenience of them being able to use their phone to be able to manage their business is key. And then the understanding that we understand the two sides of these people: they are business people and they are humans - as in they are people - and they have personal finances. And so the ability to bridge those two is going to be key for us. So how do we recognize them as a holistic entity, and as a result of the play that we're talking about, how we're going to measure success is how many of them we're grabbing on the street. And it's hard to measure market share, because as you said, the data is a really light in this space, but growing our number of customers. Our straight-through processing on these customers, how many of them did we automatically adjudicate? How many did we say yes to? How many of them are digitally engaged? These are going to be key factors for us because we want it simple for them.

And lastly I would say obviously NPS, loyalty. Because when you have one of these customers and they become loyal, they become incredible advocates in the communities that they're connected in. Whether it be the dentists' association to the retail associations, they are huge advocates, and that's important.

Robert Sedran ***CIBC World Markets - Analyst***

Is 30-second adjudication possible because they are retail customers and you know who they are? Like, I've often thought these two businesses are linked because the best business loan is the home equity line of credit. They just take money out of their house and put it into their business. Is that what drives it, you know the customer? Otherwise, it strikes me that that's pretty fast to adjudicate a small credit and a bunch of small credits that way. Technology is in a tougher one, I would have thought, to use on that segment. You're saying no, though.

Ernie Johannson ***BMO Financial Group - Group Head, US Personal and Business Banking, BMO Harris Bank***

The technology is actually the play that's important here, because of a couple things. You are underwriting them based on their credit risk – more their personal credit risk than you are their business. But that said, business scores in the US, as well as personal data, there's a fair amount there that we can underwrite with a few data elements. And I think the banking industry has had a false sense of comfort with financial statements that I like to say are created on Sunday night dinner over a pot roast dinner with uncle Fred, who has somehow had an accounting course in his lifetime and can create a P&L. And we get comfortable if, all of a sudden, we see assets and liabilities versus, I think, there's more comfort in seeing cash flow as being a critical enabler to a business, which we would have as a result of the current account that exists with them.

And also just the data that exists, whether it be their personal bureau score, their business scores, or the industry sector they're in. There's enough data for us to get comfortable around that and underwrite accordingly. Obviously these are small loans, so we're not talking about a $1 million-plus loan. But this is an important segment for us to get right, because I'm not sure how many of you are having conversations with Millennials. Many of them are more entrepreneurial than they are going to be working for big companies. And so this is a key segment for us to get right. And also just in terms of what we can do for them as they migrate into needing commercial banking as well as their personal needs. These are going to be mass affluent and likely private banking customers, in short order, as they're successful.

Robert Sedran ***CIBC World Markets - Analyst***

And so just quickly, we've only got a minute left, but the last time we were down in the US for an Investor Day, it was a while now, but we talked about the importance of those private banking referrals. You mentioned the importance of those private banking referrals earlier. Has it been going well or is it still an opportunity?

Ernie Johannson ***BMO Financial Group - Group Head, US Personal and Business Banking, BMO Harris Bank***

I think it's going well, and I think there's even more opportunity as we go forward. So now, kind of cast your gaze out a couple of years, and we're in a deposit gathering strategy in our expansion markets. That is going to be offering up clients into our private client base as well. So the more customers we drive into our franchise holistically with our value proposition, with our brand, the far better off our private bank will be.

And this is a catalytic effect for the US segment, right? You've got an integrated capital markets working with commercial. We're working with commercial to fund the commercial business. And then we're also sending referrals out to our wealth colleagues who are also connecting with the commercial bank. It's just this catalytic effect that happens. And that's what we're looking forward to seeing accelerate as we go forward.

Robert Sedran ***CIBC World Markets - Analyst***

I'm sure it's harder than it sounds.

Ernie Johannson ***BMO Financial Group - Group Head, US Personal and Business Banking, BMO Harris Bank***

It is.

Robert Sedran ***CIBC World Markets - Analyst***

Okay. We are out of time. Thanks so much, Ernie. It was a very interesting discussion.

Ernie Johannson ***BMO Financial Group - Group Head, US Personal and Business Banking, BMO Harris Bank***

Thank you for the time and the opportunity. Take care.
