Caution Regarding Forward-Looking Statements

Bank of Montreal’s public communications often include written or oral forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the “safe harbor” provisions of, and are intended to be forward-looking statements under, the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives and priorities for fiscal 2018 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price, and the results of or outlook for our operations or for the Canadian, U.S. and international economies. Forward-looking statements are typically identified by words such as “will”, “should”, “believe”, “expect”, “anticipate”, “intend”, “estimate”, “plan”, “goal”, “target”, “may” and “could”.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct, and that actual results may differ materially from such predictions, forecasts, conclusions or projections. We caution readers of this document not to place undue reliance on our forward-looking statements, as a number of factors – many of which are beyond our control and the effects of which can be difficult to predict – could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic and market conditions in the countries in which we operate; weak, volatile or illiquid capital and/or credit markets; interest rate and currency value fluctuations; changes in monetary, fiscal or economic policy and tax legislation and interpretation; the level of competition in the geographic and business areas in which we operate; changes in laws or in supervisory expectations or requirements, including capital, interest rate and liquidity requirements and guidance, and the effect of such changes on funding costs; judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; our ability to execute our strategic plans and to complete and integrate acquisitions, including obtaining regulatory approvals; critical accounting estimates and the effect of changes to accounting standards, rules and interpretations on those estimates; operational and infrastructure risks; changes to our credit ratings; political conditions, including changes relating to or affecting economic or trade matters; global capital markets activities; the possible effects on our business of war or terrorism activities; outbreaks of disease or illness that affect local, national or international economies; nature, scale and disruption, communications, power or water supply; technological changes; information and cyber security, including the threat of hacking, identity theft and corporate espionage, as well as the possibility of denial of service resulting from efforts targeted at causing system failure and service disruption; and our ability to anticipate and effectively manage risks arising from all of the foregoing factors.

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; and 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.
P R E S E N T A T I O N

Sumit Malhotra Scotiabank - Analyst

We'll welcome to the stage our next guest this morning and that is Mr. Darryl White, Chief Executive Officer of the BMO Financial Group. Darryl joined the Bank in 1994 and assumed the role of CEO just last year at the start of November.

Thanks for joining me and I believe your first visit to the Scotia Financial Summit officially as CEO. So, thank you for being here. And I hope the first of many times for both of us up here.

Darryl White Bank of Montréal - CEO

Terrific, likewise.

Sumit Malhotra Scotiabank - Analyst

So, the way I thought we'd start with you is a lot of times when there is a new President, a new Chief Executive we hear a lot about the accomplishments or the game plan for the first 100 days in office. I missed the 100 days. We have this conference in September; so I think it's more like 300 days. But you've certainly had a chance to talk to shareholders and potential shareholders over the last number of months.

But for the benefit of the audience, and your first time here, would welcome an update from you as you've settled into the role, the key areas of strategic focus for yourself and the management team at BMO. And perhaps on top of that, what are the areas that, when we think where the Bank goes into the future, you see as key areas of improvement?

Darryl White Bank of Montréal - CEO

Okay, so there is a lot in that question. I'm glad you framed it as a 300-day question or so because, just as an aside, I think the 100-day thing is a little bit goofy. Because some things you do in three days, and some things you do in 100, and some things you do in 300, and some things you do in longer time frames than that. So, I'll speak to the last year or so, which I think is important. And I think your question is a good one in terms of informing the agenda and the course that I think we are on at the Bank of Montréal.

The first thing that I did is I said I wanted to spend the majority of my time in the early days very externally focused and a listening tour to figure out where we were working well, and where we had opportunities for improvement. And so, I spent a lot of time with -- as you pointed out -- with shareholders, prospective shareholders, with customers primarily, with employees, with regulators, with community leaders.

And one of the things that to me was very important was to say to all of them -- in addition to the fact that I'm here to learn, what I want to know - - and I asked them all the same question. I said when you look at the performance of how we do in terms of serving you, whichever one of those stakeholder groups you are, how can we think about: unifying, one bank, so simplifying, so making it easier, and accelerating, so delivering better performance at a better pace, whether you are a shareholder, whether you're a customer, across the board.

So I asked that same question - unifying, simplifying, accelerating - everywhere I went. And one of the most profound learnings for me was a collection of what I found to be, and believed to be, really strategic competitive assets for the Bank of Montreal. So I will start there and then I'll tell you where I think we're trying to improve.

The strategic competitive assets for the Bank of Montréal started with the employee base. The employee base, our employee engagement performance is -- and I've said this before -- is off the charts. It's as good as any FI we have found in North America and, in fact, in the world. And that's a really important starting point when we think about the trust that we're trying to build in the communities, the trust we're trying to build with our customers. And it is differentiated, it's truly differentiated.

Then I looked at the risk performance, and we've come to the conclusion that we have best-in-class risk performance across just about any measure. The numbers speak for themselves. We looked at the technology stack, particularly at the core, the investment that we have got in the core in the middle of the bank and the architecture around that, and came to the conclusion that that's also a competitive advantage. And then we had a hard look at the strategy. And when you look at the strategy and you consider the backdrop of the environment that we've been in and were in a year ago and we continue to be in now - skew commercial, skew United States - that felt like a pretty good lineup to me.
But then we said our objective needs to be to take that collection of assets that are strategically differentiated and figure out how to accelerate our performance and effectively monetize those assets better. And how do we do that? How do we get more efficient, more streamlined, and quicker to market? We looked at a few things.

And one of the things that we wanted to do early on -- and this was I would say more than a year ago. I did spend a year in the Chief Operating Officer chair working hard and thinking about a lot of these things. One of them was to focus on accelerating our US performance. Another one was to focus on improving our efficiency overall at the enterprise level. I'm not just talking about the United States, I'm talking about the overall enterprise level. And another one was to focus on not just the architecture and the technology stack at the core, but on the deployment of technology and the releases at better rates and more reliability. We spent a lot of time focusing on those three areas.

When I stop, look and listen today and I think about where we are on the journey, we've made progress. We've made progress and we have work to do. When I look at the progress, you think about our United States performance. Our earnings in the United States are up just about 30% year-to-date relative to last year. We used to say our earnings are up in the United States off of small numbers, by the way. Our year-to-date net income from our US business is USD957 million. So it's not an experiment. These are real numbers. We'll be well through $1 billion of profitability from our US operations this year. And that 30% growth rate is not entirely dependent on tax cuts. If we look at the pre-provision, pre-tax growth rate it's 14% or 15%. So it's really good growth in the US.

On the overall efficiency agenda we have work to do. We had a commitment three years ago of 2% operating leverage. We hit it in 2016. We hit it in 2017 and we'll hit it in 2018 and that's progress; that's taken about 350 basis points off of our efficiency ratio at the enterprise level and we've got work to do. So that's a place where I would say journey - work in progress.

And then on the technology deployment I talked about a few minutes ago, we increased our technology spend in 2017 at a rate of 13%. We are increasing it again this year at a double-digit rate and I like the mix. Meaning we've got work to do, we are deploying faster. We believe we are well beyond an efficient frontier in terms of how much you need to spend to get to the customer expectations and the shareholder expectations. And we are at a point where the Bank's total expense growth, having delivered the 2.9% operating leverage that you saw in the quarter, is really interesting. Because we are spending over 10% growth on our technology spend but only 2% on all other expenses. So the blend is right and one is helping fuel the other. And to me that sets us on the right course as we go forward.

So, I think back to the last, as you put it Sumit, 300 days -- a lot of progress but an interesting point for us because a lot of work still to do and the momentum is good in the meantime.

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**Sumit Malhotra Scotiabank - Analyst**

Thank you for that. There's a few things we are going to touch on here. And I want to start with what's seemingly emerged as a recurring theme here this morning, and that's that interplay between efficiency and technology.

So we've had some differing views on what's the right level of investment spend that the business requires. And that's obviously going to be something that's difficult from the outside to measure. So technology spend, I think you said growing at a mid-teens rate, and obviously there's offsets for that in other areas of the expense base.

But how are you measuring the return that the Bank is receiving on these technology investments? I think as Chief Executive you don't want it to be an arms race to say he's spending X, I'm spending Y. How do shareholders look at these investments and what's the best way to measure the success, the return we are receiving on technology?

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**Darryl White Bank of Montréal - CEO**

Well, just to make sure that we are clear on record, we are not spending mid-teens growth rate on technology but we are through 10% and that's an important difference. I just want to make sure that that was clear to the audience. But as I think about your question, I have no idea what the others have said this morning, but I don't think about it as a choice. I don't know why, when you make an investment in these businesses, why you should expect there to be a choice between operating leverage and appropriate tech spend, assuming the investment you're making is in an entity that is beyond an efficient frontier. And I would argue that almost everybody that you are having up on this stage is beyond an efficient frontier.

So when we say we commit to 2% operating leverage, we don't say that's in lieu of 10% or 13% tech spend; we say it is, and, with a 10% or 13% tech spend. We don't say we are going to have 10% or 13% tech spend but we won't give you operating leverage for a couple years. I don't think it should be framed as a choice as long as you are comfortable that you're not exposing yourself to gaps relative to competitors or more importantly, relative to your customer expectations.
And we don't see that one bit; we don't see that one bit in the operation of our deployment. And I feel very good about that mix. That's why we were pretty deliberate last week about talking about the difference in the spend. When you look at an overall growth in spend of around 4%, where does it come from? If it's 2% everywhere else and it's 10% in technology, that's probably a good mix. But I don't think it's actually a great mix if you're not delivering operating leverage at the same time. So, it's hard to do both, but we hold ourselves accountable at our management table in a pretty disciplined way for both of those things.

**Sumit Malhotra Scotiabank - Analyst**

And before we move on to other topics, just a couple of related points here. I don't know if looking at all bank efficiency levels in absolute terms is that useful as much as, as you point out, the trend and the operating leverage that's driving it because there are structural differences in each business.

US capital markets is a business that you are quite familiar with in your time with the Bank, and I think that's been one of the reasons that BMO's wholesale efficiency ratios have been higher. Do you feel that that platform is now at sufficient scale and working well with your on-the-ground commercial operations that the level of expense growth and the generation of operating leverage will be more consistent? Why don't I start with that one first?

**Darryl White Bank of Montréal - CEO**

Yes, I think it's a work in progress. By the way, I agree with your proposition at the beginning that total bank efficiency ratios have to consider the business mix and the strategy. And in our case, we do skew more commercial, and more capital markets in the US at least.

And in the US capital markets business, just to go to the nut of your question, the answer is no. I don't think we are at end of job there. I think that if you look at the performance --- you really have to dig for this, but you can find it in our supp pack -- Just look at the net income performance of our US capital markets business over the last take eight quarters, take 12 quarters. And you will see that we've been able to produce up to $70 million or $80 million of NIAT in a particular quarter in US dollars. And then you will see in the last quarter where we produced $40 million of NIAT in the quarter. And that's circumstantial; it depends on the markets that you are participating in at the time and whether there is activity and whether you are taking the share that you have to take.

I would say the $80 million level is more commensurate for what we built the franchise for than the $40 million, so we believe the $40 million is temporary. And we believe that we are integrating it better with the rest of the Bank, not just the commercial business but the wealth management business as well. But we have work to do there. And our teams are really at work on that in terms of making sure the integration is making sense.

And we are growing that business in a disciplined, responsible way. The costs have been higher in the last five to seven years very deliberately as we built out that franchise, but we haven't changed the strategy one bit. We've had no identity crisis. And we know that we can get the returns out of that business because, in those quarters that I talked about where we were at the $80 million level, it's a very acceptable return to the shareholders.

So I think that's what you should expect going forward. We closed an acquisition in that business yesterday. We press released the close yesterday. That was four months from announcement to close. It's not huge but it's really strategic and it's a great example of how we can extend our reach into the markets where we are participating, in that case particularly in the US fixed income securitization market. And we've got great expectations for our US capital markets business and the trajectory to me is really good.

**Sumit Malhotra Scotiabank - Analyst**

Lastly on this, it's an area where there's been a lot of conversations in the investment community over the last four years, and that's on the concept of restructuring charges. In my mind I've thought of them somewhat like goodwill on acquisition. It's the upfront cost you pay for future improvements in the business down the road. And I think the market has put more of a focus on efficiency and operating leverage as a result of these charges. It does seem like after an initial wave in 2015/2016 things have been quieter on that front. You are a new Chief Executive relatively early in your tenure. You did an active restructuring charge. Philosophically do you expect this to be a recurring event at BMO in order to support that 2% operating leverage goal? Or can you make efficiency improvements while still investing in technology without the upfront charge every four to eight quarters?
Darryl White  Bank of Montréal - CEO

It's a good question. When we looked at this, and we were operating with our efficiency in the low 60s, and shareholders said to us pretty clearly that they'd like to see improvement on that. We took it pretty seriously and we think that's the right question for shareholders to ask. So, we took it very seriously and the ability to improve on that - I think we've shown an ability to improve on that. I think we have taken it down by about 340 – 350 basis points over the last three years.

We think we have more work to do. We are on that journey - the 2%, 2%, 2% operating leverage that I talked about is real for us. It's part of our management ethos, I would say. The restructuring charge that we took in the second quarter of this year is part of the delivery of that, it's not the entirety of the delivery. We've got a lot of initiatives that are underway right now. When you look at the centralized work that we are doing in our EI3 group for operating leverage creation, it's really valuable and it's sustained and it's long-term. And so, there is a part that does come from the restructuring that we do through the course of taking a charge.

And by the way, when we do that we make commitments, we execute against it with speed, with the discipline that we said we were going to execute on and we follow through. I think the grand bargain would not be acceptable if you saw us take the restructuring charge and then either not spend on the technology agenda or not deliver the operating leverage that you and I have been talking about. That's not the deal. The deal is we do deliver.

You want me to answer the question will we ever do it again, and the answer to that question is we don't know. I think there will be a point where we will say the lion's share of the work that is reliant upon restructuring charge is done. I can't say that today, but I think there will be a moment at which we will say that, and I'm not prepared at this point to answer the question will there be one more. We'll just have to see as we go along. In the meantime, we've got lots of good work going on in both of the categories that tied to the charge and otherwise.

Sumit Malhotra  Scotiabank - Analyst

Last two on this before we move to the US. And they are a little bit disparate, but, again, as a new Chief Executive it will be interesting to get your thoughts on this. First one, what are the circumstances under which the investment spend that BMO makes in the business would be materially higher? Would it be if something goes wrong like a data or security breach, or a loss of market share that causes you to step up your customer procurement efforts? So that is part A.

Part B completely different. You've been with the Bank more than 20 years, your whole career in financial services. At progressively senior levels of the organization -- and frankly maybe not even progressively senior -- how different is the hiring pool that you're looking at now compared to what it was even 10 years ago at this time. Is it many, let's say, non-traditional financial services entrants?

Darryl White  Bank of Montréal - CEO

So those are two very different questions. On the first one, there's actually nothing I can see on the horizon that would cause us to drastically adjust our spend agenda. I think I've defined it pretty crisply for you and I've talked to you and we have been quite transparent about where we are spending and where we are not spending. So we have made choices in terms of how we fuel the spend agenda.

The evolution of the preparedness of the Bank from a regulatory perspective, from a cyber perspective - it's a journey, but most of the unknowns are starting to be known, I would say. So there might be some events that we haven't thought about in which case we've got lots of flexibility to react, we've got excess capital and we could increase the spend if we needed to. But at this point we've thought pretty carefully about it and we have a pretty good view of where the spend is.

By the way the 2%/10% that I talked about before on the non-tech and the tech kind of blends for us to around 4%. So, we are not out saying that the right number is 2% on an overall basis, nor is it 5% or 6%. We think we are in the right zone. And to finish off your question, I don't see anything material that would change our course. We'd have to see if there are surprises out there and if there are we're ready and we're flexible.

Your second question is interesting. On the talent pool I would say over the course of the last 10 years I've seen a profound evolution in terms of the attraction of talent and the maintenance of talent. Some of it is the skills that are required to deliver. So you look at the technical skills, you look at the skills that are required of a data scientist, an engineer. The coding has become a lot more sophisticated and faster than it ever was before.

So there are places where you've had profound differences in skills, like the ones I've just described, like the sophistication that we've delivered on the regulatory agenda. You take AML professionals or compliance professionals and you compare it to a pre-global financial crisis regime, for example, and you've got a skill set that is very highly evolved today relative to what it might have been then.
So, I think there have been pockets where the talent pool has evolved very rapidly. And then there are other pockets where it hasn't because it's more a craft than it is a science. And when I look at commercial banking -- I was asked earlier today about our success and our confidence level in ongoing success in commercial banking. And the commercial bankers are enabled by tools that they didn't have 10 years ago for sure. But absent their experience, their skill, their underwriting, their knowledge, taking disciplined risk decisions through the cycle with customers, that's not a new skill; that's an old skill and it takes decades to develop in my view. Similarly in other parts of the wholesale business.

So, to me it all comes back to the customer, and how you are servicing the customer in many ways has changed profoundly, particularly low-touch high-volume customer interactions. But when you go to advice and guidance, which is where we've prided ourselves for decades and decades, the talent pool, the investment that you make in that talent pool is really important.

And I think one of the most important things that I think about is, because there are so many other pockets of the talent pool that have evolved so profoundly, yes, of course you have to think about your hiring and your retention differently than you did 10 years ago. You can't neglect the bread and butter while you’re doing that; you have to do both.

It's kind of my answer earlier to you about not having to make a choice between efficiency ratio and tech spend. This is what shareholders should expect of us. We should be in a position as leading financial services companies in the world to be able to invest in both agendas at the same time.

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**Sumit Malhotra Scotiabank - Analyst**

Thank you for that and I've been of the view for quite some time, you and I have discussed it. I feel like the two key drivers of sentiment towards BMO shares are the trends in efficiency and the US platform. So, we're going to spend most of our time on those two. Let's switch over to the US. Let's -- before we get strategic let's start nuts and bolts.

Commercial lending, as you mentioned, has always been one of the major focuses of the Bank on both sides of the border. Your commercial loan growth has been quite strong in a backdrop where the industry hasn't necessarily been so. So the first question would be maybe it's some of these tools you just talked about for commercial bankers, but why is your growth outpacing the industry when we look at the Fed data, by such a significant margin?

And related to that, a lot more conversation around deposit beta. And your US franchise does have more loans than deposits. I know from personal experience that a lot of things go into NIM every quarter, but this quarter we did see a NIM decline. How do we square those two in that your loan growth is quite fast, deposit growth not necessarily keeping pace?

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**Darryl White Bank of Montréal - CEO**

Okay, so in order to answer your question well we have to nerd out on the details a little bit.

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**Sumit Malhotra Scotiabank - Analyst**

You've got a very sophisticated audience here.

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**Darryl White Bank of Montréal - CEO**

I know that, so we're going to have to go with each other here. So, in the United States in our commercial business, we have about $77 billion of loans outstanding. And your point is right, it has been growing at a rate that is faster than the market since the market started to pick up post -- let's call it post presidential election, leading up to, post, and then tax reform and we've seen loan growth.

So I talked about our US performance in our US P&C business up 30% year-to-date. That's up 15% away from tax reform. So, it is very healthy growth. In fact we think it is market-leading. Your question is why and how do you do that and I think you're really asking me is it sustainable.

When we look at what's underneath it, you have to unpack it. If you look at the market shares that we've got first of all in core markets -- number one in Wisconsin, number two in Illinois. And in Illinois having gone from four to three to two completely organically; so there's no M&A in what I've described here. And that's what I was talking about earlier. That is the craft of commercial banking. We have been at it since 1984 in that market.
And the people who are executing it are outstanding from a first line perspective, a second line perspective. The customer relationships are sticky. We've been growing, we've been taking share in core markets. Now you have to go to the places we've said. That's probably not enough. We are as good at this as anybody is in the market. We go into growth markets. So think about Minneapolis, Indianapolis, St. Louis, Kansas City, Dallas, Atlanta. In Dallas we have an adjacency to the transportation finance business that we bought from GE a few years ago. And when we do that and we go into those growth markets, we don't say we are here to be a one trick pony. We have a full service offering. So we have the commercial lending, we have the real estate, we have the ABL, we have the equipment finance, we have the dealer finance, we have the deposits. And then we do it in the other cities as well.

So that enhances what I would say would be the natural fair market share growth in the core markets. I go to the growth markets. And then the third leg of that stool is the national businesses that we have. So when you talk about ABL or equipment finance, sponsored lending, dealer finance, transportation finance across the board, those are national franchises.

So, the strategy has evolved, if you think about those as concentric rings, over time, that's delivered the growth that we've delivered not by crawling up the risk curve -- by staying where we have been on the risk curve, adding customers and adding growth as we've gone through. That I think is the first part of your question. The second part of your question was the deposit beta.

Sumit Malhotra Scotiabank - Analyst

Deposit beta and deposits in aggregate.

Darryl White Bank of Montréal - CEO

Yes. So we've got to go a little bit deep on this too as well. $77 billion of loans in the personal and commercial business, $70 billion of deposits. So the gap is there but it's not a chasm; it's a gap, $77 billion, $70 billion. Within that $70 billion it's really important to recognize that $47 billion, so 65%-68% of it is in the retail business.

The retail business is a really important business for us in the United States because in our ecosystem you've got two-thirds of the deposits of the US P&C business in retail and 25% of the lending book. And that is a really nice complement to what we're doing on the commercial side. And on the commercial side we think we can do better on deposits.

That's in the P&C segmented results that you will see. If you look at legal entity in the US, we are self-funded in the US, deposits to loans. So self-funded in the US. And then I look at places like our capital markets business in the US. In the capital markets business we have about a $15 billion loan balance and a $50 billion deposit balance. And then we've got access to the wholesale markets, as you know, and they are very easily accessible for us.

So when I look at the picture from a matching perspective in the United States, we feel like we are in a place that's just fine for us for the medium-term. We have got lots of access to capital and those deposits are growing. You asked about them generally. The personal deposits in the third quarter grew at 11% year-over-year. So we have got defined strategies to do that. And we think we can do better on the commercial side as far as deposit gathering is concerned. And when I roll it all up, it's a very good mix for us as we think about our agenda to grow that business in the future.

Sumit Malhotra Scotiabank - Analyst

Just to be clear, you said in the P&C segment we see, I'm seeing more loans than deposits, but the legal entity is self-funded. What's the disconnect there?

Darryl White Bank of Montréal - CEO

So, we report our P&C business as the personal and commercial business. If you roll up into the legal entity you look at the portions of the capital markets business and the wealth business that aren't in the P&C business. You look at the holding company legal entity -- self-funded.
Sumit Malhotra Scotiabank - Analyst

Okay. So that's the nuts and bolts. Let's move in our last few minutes together on more the strategic piece. I'll put it pretty bluntly here. I've had this conversation with people that, hey, the US results have been quite good. Take out tax reform you've got double-digit pretax pre-provision. And one of the things that we've seen with BMO over the years in the US is that there have been windows, there have been other moments in time where the US P&C bank shows good operating momentum and they haven't necessarily been sustained for a long period of time. It sounds like you don't disagree with that statement historically. So why is this time different?

Do you feel that the investments -- and I think you touched on some of it -- do you feel that the investments that the Bank has made in the US have created a platform that's now in a position to sustain probably not 30% growth, but solid high single-digit earnings growth even in a competitive environment for balance sheet growth in the US?

Darryl White Bank of Montréal - CEO

Yes, it's the right question. And I agree with the thesis that says this has been a bit of fits and starts over time. But the fits and starts, you have to consider what was going on during the fits and starts.

During a phase where you're building businesses out you're going to have fits and starts because there could be moments in time where your investment profile is ahead of your revenue profile. There could be other moments in time where you have a global financial crisis at the heart of the build out. There could be other moments in time where you make acquisitions which cause you to increase your investment spend on either integration or technology or both.

All of those things have been present in the journey that we're talking about if I go back long enough. I could go back to 1984 but I don't need to; I could just go back to about 12 years ago, and everything that I've just said would fit into that 12-year horizon.

Where we are today, if you look at the power of the franchise relative to any point in history, it's everything I talked about before where we are now cusping up on well through $1 billion of annual NIAT from that business. And it represents almost 30% of the Bank of Montréal's earnings.

So the franchise I would say to you is profoundly different today from where it was at the different points in time where you've seen quick growth rates and flattening out, and then quick growth rates and flattening out. To the point where I would say to you, coming all the way around to the backend of your question, I'm very confident in the sustainability of the growth.

In won't be 30%, but to be able to continue to do what I'm talking about with a commercial led strategy supported by the deposits with the capital markets having upside that I talked about earlier that you didn't see in the last quarter in the wealth management business in the US -- and by the way, we have an asset management business in the US that has room to grow and we have a private banking business in the US that has lots of room to grow.

So, when I put that together as a package I think about the future of that collection of assets that are now operating as a collection of assets with one brand, one strategy. I think the days ahead of us are profoundly different from the days behind us. We've had to make some tough choices with patience along the way to say we're going to stick with it. And it does take a long time. It takes a long time to arrive at the place that we are at. We've got lots more to do; we haven't arrived at our destiny. But if you stick with it and you get to the point where you've got the critical mass, the brand, the franchise, the investment profile, you can set on a course that's different from when you get swung around a little bit more violently from some of the external factors that I've talked about before.

The efficiency ratio in our US P&C business is 59% today. Total bank efficiency ratio is a little over 60%. So we've got a really nice balance in the overall equation that gives me a lot of confidence.

Sumit Malhotra Scotiabank - Analyst

History will show buying a US regional bank in December 2010 was a very good value creating move. The purchase of the GE transportation finance business was one of the few that I can remember in the seat that, at least upfront, was positive from what I call a NAV, a net asset value perspective in terms of the impact on capital versus the pickup in earnings.

So, now when you think about this strengthened US franchise that you have that's better positioned to compete and win through cycles, using your strong capital position as the base, what would be the acquisition criteria that you would consider as Chief Executive in terms of putting additional shareholder capital to work in the United States from an acquisition perspective?
Darryl White  Bank of Montréal - CEO

It's a complicated formula because we can talk about the criteria, and I will in a moment. But I would say the more important thing is M&A is as circumstantial as it is formulaic. And the circumstances have to be right in a lot of areas. And if they are not -- I think one of the reasons that the success has been what it has been when you described those two transactions is because we have been really disciplined. The M&I transaction doubled our branch footprint coming out of the global financial crisis and we bought the business at one times book value. The GE transportation finance was completely different. It gave us a leading market share, a number one market share in North America in truck finance overnight. And we were able to do that because we are studying the landscape, we had the relationships and we were able to move at the time when it was right.

So when I think about the future and you are asking about what we think about; we talk about it all the time. People get a little bit bored of the answer when we talk about cultural fit, strategic fit and financial fit. That hasn't changed; it has been successful in the past and we put everything through the same filter today.

And on the financial fit, the discipline around pricing is really important. Timing is important but price is very important. And our criteria is high. We look for double-digit IRR and we look for accretion within the first two years. That doesn't mean we will never do something that falls outside of those criteria, but it does mean that it would have to be very strategically important for other reasons.

And so, I don't have a different view on how we consider growing the Bank inorganically than we have in the past. I think it has worked in the past. We do have capital and flexibility to act should something come along that falls into all those slots. But a lot of the things we look at just don't for one reason or another.

Sumit Malhotra  Scotiabank - Analyst

And as a double-digit IRR in two years in an environment where, even though it's been a good year for BMO shareholders, I think the stock is trading somewhere around 11 times. Most of your US Midwest peers, if that was the area you are looking, are materially higher than that. Is valuation right now the governing factor around an acquisition more than anything else?

Darryl White  Bank of Montréal - CEO

Valuation is one factor, I would not say it is the governing factor. If you look at how multiples have behaved, Canadian bank stocks, US bank stocks, what you've actually seen is a compression of the gap since, let's say, since the presidential election.

So, if you think Canadian banks trading a little over 11x, the US regional banks were trading at probably a 5 point gap relative to the Canadian banks then, it's down to 2 or 3 points depending on what you look at. You have to look at a basket, everybody looks at different baskets. So, I would say that equation is better right now from a financial perspective in terms of the fit, but it's not the only factor. The other factors matter a lot in terms of strategic fit and availability and it has to meet all the criteria.

Sumit Malhotra  Scotiabank - Analyst

And that is where we will leave it now. Actually, if I'm not mistaken, your background was as a mergers and acquisitions banker. So you've done one or two of these before. But maybe a little different viewpoint right now. So, let's end off here, last thing separating the audience from lunch is going to be this question.

So, more strategically, we talked a little bit about the deposit and loans. The last major transaction, GE was effectively a portfolio purchase. As you think about what you want the next step or the wish list for BMO's US franchise to be, is it geographic expansion? You are big in a couple states, not as much in the other. Or is it a specific book of business that you would be targeting?

Darryl White  Bank of Montréal - CEO

Again, people get frustrated with the answer. We don't get dogmatic about it has to be one of those two things. Because if you do that -- you know, the world of M&A is very complicated. You could spend a lot of time saying it has to be one of those two things and you could spend the next five years trying to execute on that choice because you said there was a fork in the road and I took it and I'm sticking with it. And you could make a very bad decision as a consequence of saying it had to be A and not B.
And so, the circumstances are different. You talked earlier about M&I and transportation finance. Very different choices. Each of them really good choices. So, it could be one of those things, it could be the other. But the last thing I would say is remember everything I said about discipline. We've talked a little bit about M&A in the last five minutes here, but discipline is really important and we're not in a rush, we don't feel compelled.

Sumit Malhotra Scotiabank - Analyst

Well it's been a good start to your tenure. And as I say, look forward to doing this many more times in the years to come.

Darryl White Bank of Montréal - CEO

Terrific. Thanks for having me.