BMO Financial Group

Bank of Montreal at Barclays Global Financial Services Conference

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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 these 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 terrorist activities; outbreaks of disease or illness that affect local, national or international economies; natural disasters and disruptions to public infrastructure, such as transportation, 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; 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

John Aiken ***Barclays Bank PLC, Research Division - Director & Senior Analyst***

Okay, ladies and gentlemen, very pleased to have Tom Flynn - you're a grizzled veteran of the conference - Bank of Montreal's Chief Financial Officer. Tom, thank you very much for joining us.

Thomas E. Flynn ***Bank of Montreal - CFO***

Thank you for having us. It's a great conference, and we're always happy to be here.

John Aiken ***Barclays Bank PLC, Research Division - Director & Senior Analyst***

That's great. Tom I think to kick it off, because your longevity is not just with the bank, but on the executive team as well, you've actually seen the change or the evolution of BMO's business model. I was wondering if you could give us an overview of like what's changed over the past few years? And where do you see the bank heading over the next 3 to 5 years in terms of strategy and what you're trying to accomplish in your role?

Thomas E. Flynn ***Bank of Montreal - CFO***

Okay. Happy to do that. I'll start just with a brief description of the business mix that we've got. In Canada, where we have just under 70% of our business, we're a universal bank, active in all parts of banking, personal banking, commercial banking, wealth management across a spectrum of products and client segments and capital markets. And our market share positions range from about 10% to about 20%. So a big universal bank, a very good profitable market, and we're happy to operate in it. Outside of Canada, most of our business is in the United States, as you know. There, our biggest business is personal and commercial banking. And we have our business headquartered in Chicago, which we have grown through time. But we're also in capital markets and wealth management in the U.S., and we've invested in our capital markets business.

And looking forward, we do think the U.S. business will grow at a higher rate than the Canadian business in part because the Canadian market is mature, it's well-banked. We fight for market share every day, we expect to gain market share, but there is in effect, more whitespace to grow into in the U.S. market. And so sitting here today, the U.S. business represents 28% of our income, that's the number for our year-to-date. Last year, it was 24%. So the U.S. business is growing at a higher rate than the whole. And we'd expect that to continue both in the current environment from an organic perspective, and over time we have grown the U.S. business through acquisitions and it's likely that will continue, although we're disciplined in how we go about executing on that as we look forward.

In addition to that mix, I'd like to highlight our commercial business. We've always been a bank that's strong in commercial lending. And that's true in Canada, where we have a #2 and 19% share in the market and in the U.S. Our U.S. banking business is very much dominated by a really strong commercial lending business, which is run by Dave Casper, who is the CEO of our U.S. Bank. And that business has grown organically from a loan growth perspective at a double-digit rate for, I think, this is our 5th year, if not 5th, it's the 4th year, so 4 to 5 years of double-digit organic loan growth, I think is a great testament to the strength of our business. And this year, we will repeat at that level we expect, and we expect that business to continue to grow and to do well. And we're driving that growth by expanding into new markets, adding capability in different industries. And we've got a really great management team, and so we expect the commercial business in the U.S., in particular, to grow as the U.S. grows as a larger share of our mix overall.

If you roll the tape back 5 to 10 years ago, wealth management has grown as well at a higher rate than the overall bank. The inherent growth rate of the business is somewhat higher, and we've had growth in the upper single digits in the wealth business. The numbers move around year-to-year depending on what markets are doing, but we would expect our wealth management business looking forward 3 to 5 years to grow at a higher rate than the bank overall as well. We've got a great business in Canada, active across a full suite of products. In the U.S., we're more focused on private banking. And asset management we do on a global basis. So we like the wealth business, well run, good growth, and we expect it to continue to grow going forward.

QUESTIONS AND ANSWERS

John Aiken ***Barclays Bank PLC, Research Division - Director & Senior Analyst***

I think one of the interesting factors for the Canadian banks and BMO, particularly, is the revenue headwinds have actually not been nearly as dramatic as the market and myself had been anticipating. But even in that context, BMO has actually done a very good job in terms of managing expenses. Now you're -- it does look like you're on track to meet your operating leverage guidance for the year. Can you discuss the challenges that you face, though, in terms of maintaining cost discipline, while still trying to invest in other factors like technology. Regulatory is easing, but it's still a high inflationary topic.

Thomas E. Flynn ***Bank of Montreal - CFO***

So it's a great question. And it's -- all of that is one of the biggest management challenges for the management group. So thankfully revenues have been growing at a higher rate than some had feared they would grow at. We do think the diversified nature of our business is a real positive from a revenue growth and revenue resiliency perspective. So we've got a good capital market business. It's active in different products, different geographies, different industry segments. Wealth management is active in the way that we've talked about in Canada and in the U.S. So that diversification produces, without a doubt to us, just a more resilient revenue stream and helps sustain better growth rates.

And then one interesting factoid - given in part our focus on commercial - Canadian retail lending is actually a smaller business than people intuitively think it would be for a big Canadian bank. And for us, Canadian consumer lending represents under 15% of our revenue. And our share position in Canadian retail ranges from about 10% to about 12%. So that to me is a great stat, just to reinforce the notion that we've really got a very diversified business mix and strong share positions.

We're happy to have some help on the top line as we manage operating leverage and efficiency. Our target is to achieve 2% operating leverage per year, so revenue growth minus expense growth of 2% or better. We've done that in each of the last 2 years. We are aiming to do that again this year. We've got a bit of work to do, but it is within our grasp to achieve the target and we're focused on doing that. And in hitting the 2% operating leverage, we're growing expenses at about 4% a year, constant currency, excluding M&A. And so we've got 6% revenue growth. And within the 4% expense growth, we have a really significant dichotomy. We're growing technology expenses at a double-digit rate and that's true this year, it was true last year as well. And we're growing other expenses at about 2%. And so there is, across the organization, a lot of very hard paddling that goes on beneath the surface and above the surface to contain non-tech expense growth to, give or take, 2%, while you've got revenues growing at about 6%. And that takes a lot of work and a lot of focus, and we've got teams across the company focused on executing initiatives related to driving productivity, managing expenses, digitizing operations wherever we can, thinning out management layers where we don't see the value-add, and looking at how we've got resources allocated across the company. And market opportunities change through time, and we look to be quick to adapt to that. And if the market opportunity in a particular area isn't as great as we thought it would be or it once was, we'll allocate the resources elsewhere and look to do that in a pretty focused and action-oriented way, so that we're getting the returns we want to get on our expense base.

So the technology spend is significant. We have no shortage of good initiatives on the technology side. Many of the initiatives are client-facing and drive to apps that customers interact with, but there's lots of opportunity as well to continue to - what we call - digitize our processes and replace paper with technology, which is a very virtuous thing because you increase turnaround times for ourself from an efficiency perspective, for clients, you reduce error rates because people can't miss a blank in a form because the form won't process electronically. So you reduce error rates, reduce cost, increase turnaround time, and we've invested a lot in that and we think there's more to do.

John Aiken ***Barclays Bank PLC, Research Division - Director & Senior Analyst***

You know there's, obviously, a lot of discussion around technology, and it's not just with banks, it is really on the whole financial services spectrum. But from your standpoint, are the investments in technology, is it just table stakes? Or can you actually have a sustainable competitive advantage by the investments that you're making in technology?

Thomas E. Flynn ***Bank of Montreal - CFO***

Yes, so it's a good question to ask. I think you get different answers to that question when you ask different people. So there is no question it's table stakes. And you need to invest in technology in every business, you need to be doing so actively and you need to find ways to fund that within your capacity by managing other expenses.
On the question whether you can create sustainable competitive advantage, I would say the jury is out from my perspective and that's because the world is a very transparent place. And we all, in all industries, banking and others, watch our competitors. And if someone has a really cool new

mousetrap, others look to follow that. And typically, you have an ability to be a fast follower in areas if you aren't leading in a particular area. And so I actually think it's difficult to create a truly sustained competitive advantage coming out of a traditional banking model, which isn't to say that you're not adding lots of value, enhancing customer relationships, enhancing customer loyalty. I think you do all of those things with technology, but it's competitive and competitors are doing the same thing. So we feel very good about the suite of customer-related apps that we've got.

Notwithstanding the comments I just made around what I'd consider to be sort of the front-end of the technology side, we have invested very significantly over the last 5 years in our underlying technology architecture to basically reconfigure it so that we've got data much more aggregated and the design of the technology system is more elegant and harmonized, so that it's easier to make changes in the system and to drop new applications into it. And our head of technology has said that he believes we have one of the best technology architecture platforms of any bank on the planet. And so we do think we've got an advantage there, given the architecture and the data aggregation that we've done in part as a result of regulatory change. And that advantage kind of manifests itself in an ability to introduce new functionality into the system at lower cost and higher speed because the design is more elegant from a new capability introduction perspective. So that's the place where we actually think we do have an advantage.

John Aiken ***Barclays Bank PLC, Research Division - Director & Senior Analyst***

That's great, Tom, thank you. Before I open it up to the audience, can we start off with our first polling question? How do you think Bank of Montreal will perform against its Canadian bank peers over the next 12 months? Significantly outperform, modestly outperform, in-line, modestly underperform, or significantly underperform? We know what your response is going to be.

That is interesting. Definitely weighted towards the outperform.

Thomas E. Flynn ***Bank of Montreal - CFO***

Outperform. Yes, we'll take that.

John Aiken ***Barclays Bank PLC, Research Division - Director & Senior Analyst***

Tom, you talked about in your preamble, but what differentiates Bank of Montreal against the Canadian peer group really is the U.S. franchise with a focus on commercial. You touched on it, but can you talk about what you expect in terms of growth on both sides of the balance sheet for commercial?

Thomas E. Flynn ***Bank of Montreal - CFO***

Yes. So I think the answers to the questions that you asked does to a degree reflect our business mix. We're overweight relative to the average Canadian bank in the U.S. market at 28% of earnings, and we've had success, and we've been there for a long time. So it's not a new undertaking. We've been in the U.S. for 190 years and we acquired Harris Bank, which is our main platform in Chicago in the early '80s. So we've been at it for a long time. We've had good success. And in Canada and the U.S., the commercial focus, we think gives an advantage from a growth perspective, given consumer leverage in both countries and so we feel good about that.

From an outlook perspective, this year, our commercial loan growth year-to-date is about 13% year-over-year in the U.S. In Canada, commercial loans were up 11% in the last quarter. And we expect continued good growth. The growth can move around quarter-to-quarter, but we would expect high single-digit, low double-digit kind of growth rates off the back of an environment that we think will continue to be conducive to good performance. And in Canada and the U.S. environment feels really good, so we're optimistic and we think the current performance will carry through into next year.

On the deposit side of the business in commercial, we split the business in the U.S. into 2 parts, and we do have a portion of the deposits in our commercial business in the U.S. that come from counterparties who are more price-sensitive. And when I say counterparty, it’s really customers, but some of those deposits have flown into market products that have higher yields as the Fed has raised rates. And so our growth rate in commercial deposits over the last couple of quarters has been modest because that flow has been putting a dampener on our growth. We did not use those deposits to fund our loans, we basically held that cash at the Fed because we expected that this would happen. And those deposits have basically run their course and exited off the balance sheet. They were not that significant to begin with, but they impacted the growth rate.

And in terms of core growth on commercial deposits, we have a big focus on that in Canada and U.S. We have a very good, what we call, treasury management capability, which connects our payment capability to our clients electronically. We're expecting good solid commercial deposit growth in the U.S. in the mid-ish single-digit zone in the U.S. And in Canada, in the last quarter, I think we were 8%. And so 8% deposit growth

in commercial in Canada is very good and reflects a lot of focus on growing both the deposit side of the business and the loan side of the business. And in the U.S., although our lending business is commercially dominated, we do have a very good retail deposit base. And that deposit base funds the majority of the commercial loans that we've got.

John Aiken ***Barclays Bank PLC, Research Division - Director & Senior Analyst***

And then just before I pass it along, on the commercial side, given the positive success that you've had and the strong growth, what are you seeing on a competitive front because particularly in Canada we hear your competitors, everybody is talking about commercial and that's where the growth comes from. Are you seeing heightened competition? Is the business as usual? Are you seeing anything that might actually be a little bit less than economical choices starting?

Thomas E. Flynn ***Bank of Montreal - CFO***

I would say, there’s robust competition, there always is, with the expectation that growth might be a little lower on the personal side. There's probably some incremental competition on commercial as people have naturally gravitated there to some degree. We aren't seeing that manifest itself in a significantly tougher pricing environment or in an environment that is changing credit or underwriting terms in a meaningful way. And we have seen some increase in the number of people focused on the sector. We have added a significant number of commercial bankers to some of the markets that we serve. And although we're #2 in the market in Canada overall, there are some markets where we're under that share and below where we'd like to be. The Greater Toronto market is actually one of those markets for us, so in Toronto, we've added, 30-odd bankers over the last year, and that's giving us more feet on the street and helping to fuel good growth. So I'd say bigger picture, it's certainly competitive. It doesn't feel, I would say, consequentially more competitive, but you need to go out there every day and earn the business.

John Aiken ***Barclays Bank PLC, Research Division - Director & Senior Analyst***

Fantastic. I'll pause here to see if there's any questions in the audience.

Audience Participant

I wonder if you could expand a bit on the retail business, specifically in the U.S.? The areas that you serve, do you have the density and the scale to compete with the larger players, even in a market like Chicago that is still fairly fragmented? And if one were to be looking to be for acquisitions, historically it has been a pretty darned expensive market to buy in. What are you seeing in terms of seller expectations or what the banks are or is it worth it what you think they're worth?

Thomas E. Flynn ***Bank of Montreal - CFO***

Okay. So on the first question, we have a strong retail or personal business in the U.S. We've got good share positions. We are #2 in the Chicago market from a share perspective. We are #4 from a deposit share perspective in the Upper Midwest states that we compete in overall. And so we don't feel compelled to do a transaction to add scale, given the scale that we've currently got. And we've got a good branch network, good brand in the market, good loyalty scores. And so we're confident in our ability to continue to compete on the retail side. We're, obviously, not as big as the big money centre banks, but we've got a strong enough presence in those markets to compete in a very effective way. And we've done that through time and we expect to continue doing that.

On the second part of your question, we've grown our U.S. business organically through time, we've grown it from time to time through acquisitions. We take a disciplined approach to acquisition, and run transactions in a meaningful way through 3 screens - Does it fit strategically? Does it fit from a financial perspective? And does it fit culturally? And that sounds really simple and kind of trite, but those are the key things that we look at when we think about things we might do from a transaction perspective. And they guide us in thinking about what makes sense for us. On the value side, a year, year and a half ago, there was a greater divergence in multiples between Canadian banks and U.S. banks. That was because U.S. was anticipating tax reform and higher Fed rates and those things were baked in to some degree, into the multiples, and the gap was at a point where we didn't think you could make the math work, in effect, and we talked about not looking to rush into doing anything while that gap existed. Sitting here today, from a relative value perspective, the relationship between Canadian bank multiples and U.S. bank multiples isn't far off the normal historical relationship. So with that, if there was an opportunity that hit our screen, and subject to all the due diligence you would do around a transaction, we would consider adding to the business. But again, we do it in a disciplined way looking to make sure we're creating value for our shareholders.

Audience Participant

Just a follow-up on the M&A discussion. Would the bank be more inclined to -- within the U.S. franchise to buy -- contiguous to it's existing footprint? Or would -- I mean, you've made the comment that you have the scale you need within the Chicago market. There have been many sources that have indicated BMO as one of the finalists in the MB Financial transaction - so just - to fit in with your comments about being comfortable with the scale that you already have.

Thomas E. Flynn ***Bank of Montreal - CFO***

In the Chicago market, we've got a very strong position. So again, we're #2 in the market from a deposit perspective, which is where the data is best. The data on the commercial side isn't as clear, but we would be in the top 2 or 3 on the commercial side. And so we've got a very good, very strong business. We are focused in the math, on continuing to grow the business organically, and we've done a good job of that through time. I mentioned the double-digit commercial loan growth being something that we've run for 4 to 5 years. We expect to continue growing at a very good rate. And at the same time, if there are opportunities to advance our agenda, add to our capabilities and create value, we'd consider that. And go back to the 3 dimensions I talked about earlier, strategic, cultural and financial fit, and those things could potentially take us to a transaction in our footprint and potentially around our footprint. So either could be possible, but we'd be grounded in the fundamentals of what we think makes sense for the business.

John Aiken ***Barclays Bank PLC, Research Division - Director & Senior Analyst***

If we can actually go over the second polling question please, we'll transition in.

What's the most undervalued aspect of BMO's operations? 1 is U.S. business, 2 is Domestic Retail, 3, Capital Markets, 4, Wealth Management, and 5, the overall North American commercial banking.

U.S. Business and Capital Markets.

Actually it was not Capital Markets where I was heading, but this is actually quite interesting because Bank of Montreal, when clients talk about capital markets exposure, Bank of Montreal is not typically listed in the top, but when you look at by revenue, capital markets versus others, actually is very high for Bank of Montreal. What is the strategy in capital markets? It is truly a North American franchise, but I don't think you get very much credit on the U.S. side?

Thomas E. Flynn ***Bank of Montreal - CFO***

No. We think we have a lot of upside in our Capital Market business coming from the U.S. So Capital Markets represents, depending on the time period, 20% to 25% of our net income. We like it at that kind of a level where it's a significant contributor, but not the dominant business or a dominant business.

The business now exists, at a super high level, in 3 parts: We have a strong Canadian business, which is, obviously, the anchor. It's active in all parts of capital markets, and I would describe it as a Canadian bulge bracket firm. In the U.S., we've invested significantly over the last 5-or-so years in creating a strong mid-market focused or mid-cap-focused capability. And we focus on a set of industry verticals, we cover the waterfront in those verticals, so investment banking, sales and trading, corporate lending. And the way I think of it from a financial perspective is, we've invested in a platform that's capable of driving more revenue. And so we expect to continue to have success with growth in the U.S. Capital Markets business. And given the investments we've made and the platform that we've got, we think that growth will produce very good operating leverage through time because you need to be competitive in how you're setup at a point in time, and there's no question that the platform we've got can drive more revenue. So from a growth perspective, we're quite bullish on the U.S. Capital Markets business through time, given the infrastructure we've got in place. And then as well the U.S. presence, which represents around 1/3 of our Capital Markets business, is important to the Canadian business because any Canadian corporate client or investing client of size does business in the U.S. And so our U.S. Capital Markets capability makes us more relevant to our Canadian clients because we're able to talk to them in an informed way about what's going on in the U.S. and opportunities for them in the U.S. So the strategy is both offense, from a growth perspective, and defense, in terms of making sure we continue to be highly relevant to our Canadian clients. And the Capital Markets business, as everyone in the room knows, goes up and down in any quarter. But we have had good success over the last few years in growing the U.S. This year, it's been a little slower, mainly because of market dynamics, but we do think into next year, we'll continue to do well.

And then just so I don't miss it, I talked about our Capital Market business at the beginning as having 3 parts, mainly Canada, the U.S. is about 1/3 and then we also have capability in Europe and a smaller capability in Asia. And those businesses really focus on the distribution of North American securities and cross-border M&A. And they're a good complement to the North American business.

John Aiken ***Barclays Bank PLC, Research Division - Director & Senior Analyst***

It's interesting, and that's great. The one actually I did want to touch on was Wealth Management. And in your opening remarks, you did touch on that briefly. Would love you to expand upon the strategy because, as you said, the U.S. is different from Canada. One thing, in particular, I'd like to ask you is, BMO has done a very different strategy within Canada leading on ETF manufacturing and distribution. And I was wondering what are you seeing in the ETF marketplace in Canada relative to the U.S. where we're now seeing the race to 0 in terms of fees, do you see that pressure in Canada? What do you think is likely to happen? And also I know that your products are a little bit differentiated between that. Is that going to be enough to defend pricing pressures?

Thomas E. Flynn ***Bank of Montreal - CFO***

Yes. So I'm happy to talk about wealth. I don't know if wealth is the most undervalued aspect of our operations, but I personally don't think it gets the focus that it deserves, in the sense that it has been a business that has really grown at a nice clip through time and we expect that to continue. And we used to say that we targeted low double-digit growth rates from a revenue perspective in the business. As the business has grown and the markets have matured, we've moved that down to a mid-single digit number, somewhere between 5 and 10%, and the income growth we'd expect is closer to 10%. And so it's been a business that has grown at a very nice rate. We think that will continue in Canada. It's a really strong business across literally the full suite of Wealth Management products. And in the U.S., it's focused in a way that I described earlier. We do think we've got a really good record of innovating in the wealth business. And the mindset is that we want to serve the wealth management market in Canada in the way that different client segments want to be served. And so we do have a big mutual fund business, we've a big full service brokerage business, big private banking business.

But when ETFs started to emerge, a decade ago, give or take, even though the fees were lower, we made the decision to get into the business in a big way because it was clear that the product was a good product for a segment of the market. And our underlying philosophy was to serve the market, and so we wanted to participate in the growth of that segment. We're now the #2 player in ETFs in Canada, #1 from a sales perspective, and so it's been a great growth story. We also -- just by the way, we're the first Canadian bank to introduce a robo product capability. And there, again, that functionality is a good one for a certain segment of the market. We want to cover the market, and so we innovated to move into the space before other competitors so that we could be a leader there in an evolving part of the market. And so we feel good about our ability to reinvent, innovate and keep up with the market.

Margins don't necessarily vary as fees change. And so typically where you've got fee structures that are lower, the cost to create the product is meaningfully lower as well. And in the robo space, that's certainly true. And the underlying products in our robo product are our ETFs, and so the manufacturing cost of that product is very low. And our net margins between the robo business and the full-service brokerage business are about the same, even though the proposition to the client, and it's a different value proposition, both are good value and make sense for the respective parts of the market, but the price points are quite different. And so financially, the consequences aren't necessarily as different as you might think, given the top-line.

On the question related to fees, I would say, to date, the Canadian market hasn't been in the race that you described. A lot of our products are differentiated in some way, and so they are not simple index products. They've got added dimensions related to various factors or yield enhancement alternatives. And so that value-add dimension helps maintain margins at a higher level. And I would say, we'll go where the market goes, but the hope would be, and the expectation would be, that we don't end up in a situation where products that have value or priced in a way that runs counter to that.

John Aiken ***Barclays Bank PLC, Research Division - Director & Senior Analyst***

You're not paid for your work.

Thomas E. Flynn ***Bank of Montreal - CFO***

No.

John Aiken ***Barclays Bank PLC, Research Division - Director & Senior Analyst***

Any questions from the audience?

I'll carry on. Tom, I know that we've had 3 full quarters now of IFRS 9, and I'm sure we've all settled down as to figuring what's going on. But in terms of the change in accounting, have you seen or has this had any impact in terms of how the bank manages its risk or its business? And if we look further afield, I've said many times, this is probably the perfect time to implement accounting change because credit costs are so low on a historic basis. From your standpoint, do you actually believe that this is going to increase the volatility of provisioning? Do you think that this is highly procyclical? What -- I mean, not pinning down for BMO, but for the sector as a whole, what is the outlook that IFRS 9 is going to have on the reporting?

Thomas E. Flynn ***Bank of Montreal - CFO***

Okay. So good question, interesting topic. And for those who aren't as close to it, the Canadian banks adapted IFRS 9 in the current fiscal year. Under IFRS 9, your credit provision reflects your incurred loss in the period and your expected future losses. The old model was an incurred loss model, where your provision reflected losses that you had actually incurred as opposed to those you expected. The introduction was much anticipated. There was a lot of hype, a lot of excitement about the accounting change. And as you said, it's been pretty low key in its introduction to date. And that is for sure in part due to the environment. We're living in a benign environment from a credit perspective, economic outlooks haven't really changed that much. And so with that, there hasn't been a lot of IFRS 9 consequence to the P&L. And I agree with you that it's good for everyone to get used to the new accounting method in a pretty stable, benign environment, so that when that changes, we've got to a decent foundation of understanding.

It is likely, and probably more than likely, that IFRS 9 will make credit provisioning more cyclical. And that's because, again, you book expected credit losses, so we will book credit losses earlier in the cycle, and the key thing to watch would be forecast around economic growth. So we're currently expecting economic growth in Canada to be about 2%, and in the U.S. the high 2s. If those numbers went to 4% and 4%, then we would expect to have lower credit losses over the next 1, 2, 3, 4 years, and we would reduce our allowance accordingly. If the reverse was true, and the growth expectation came down meaningfully, then our modeled expected loss would go up and we would record that provision. As economic outlooks change, you'll see provisions go up or down. In time, I think to state the obvious, you lose what you lose. And so the economic loss doesn't change, the total provisions booked through the cycle won't change. But the provisions will come earlier and we'll get used to that. I don't think it will be something that will be problematic or highly volatile, but the provision line for sure will be more variable. And to me, Canadian bank provisioning might look a little bit more like U.S. bank provisioning. And U.S. banks, I think, it's fair to say have had a more variable PCL line through time than Canadian banks. And so my expectation is we'll look directionally more like the U.S. banks as we live with IFRS 9.

John Aiken ***Barclays Bank PLC, Research Division - Director & Senior Analyst***

And hopefully that also means the multiples will start going up like U.S. banks.

Thomas E. Flynn ***Bank of Montreal - CFO***

That's good. I like the thinking.

John Aiken ***Barclays Bank PLC, Research Division - Director & Senior Analyst***

Well, Tom, we're out of time to keep everyone on schedule. I appreciate it. Thank you very much.

Thomas E. Flynn ***Bank of Montreal - CFO***

Thank you very much.