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BMO Financial Group

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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 the Canadian and U.S. governments and their agencies. See the Economic Developments and Outlook section on page 30 of BMO's 2016 Annual MD&A.

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 Fourth Quarter 2016 Earnings Release and on page 33 of BMO's 2016 Annual MD&A 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 and restructuring costs.

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

Darko Mihelic *- RBC Capital Markets - Analyst*

We've got a good picture so far that the U.S. is looking strong and at least with respect to 2016, when I looked at your results, the U.S. business really impressed, so maybe you can talk about your outlook for the U.S. Midwest and maybe focus on the U.S. P&C business segment within that economic outlook.

Bill Downe *- BMO Financial Group - CEO*

Thank you, Darko and thanks for inviting me to your conference. There's no question that, in a global context, the U.S. economy has, over the last six or seven years, really benefited I think from a clear policy framework and we've seen good underlying growth in the commercial marketplace and we are a much larger commercial bank than in any other category. I think our balances are 5X in commercial what they are in personal, which is why we have seen good growth in earnings and we can see an acceleration.

In 2016, things really picked up in the latter half. Clearly, the new administration is leaning towards more fiscal stimulus than was present. The reliance on monetary stimulus is ebbing away and both of those things are good for our clients and the business that they do. So I think the latter half of 2016 was a very good indicator. We benefited in the year because we made a significant acquisition in a segment of the market where we have a lot of experience, equipment finance, but the specialization in over-the-road trucks, Class 8 trucks, we are the market leader in that in North America now and that business added I think 14% - 15% to the overall weighting. The characteristics of it are good and the loss performance, it's really a high-quality franchise so it is consistent with what we do. So I think overall we are very confident in the commercial business.

The wealth management business in the U.S. has continued to expand, making a good contribution and you've asked me the question before about capital markets. We are a mid-cap bank in the capital markets business with a North American focus. We've been building out our U.S. capabilities to serve that market. There's a decade of investment and that investment is really paying off. We see the pipeline of M&A and corporate finance that's being done in that segment has stepped up. That was a big contributor to the strong performance in capital markets for the year and we think it is going to continue into 2017.

Clearly, the new administration is creating an environment in which our clients are much more comfortable in talking about capital investment, about expanding their businesses and there is a lot of political noise, but underneath it I think there is some pretty clear thinking going on in those segments that we serve.

And just one last point, Darko, that we cannot lose track of, our franchise and the BMO name are long-established; over 100 years in the Midwest with clear brand presence, combining Harris Bank and M&I with Bank of Montreal. So we have great brand recognition and we have multi-generational clients in the commercial banking space. So prospects are very good.

Darko Mihelic *- RBC Capital Markets - Analyst*

So we have great business confidence in the U.S. You've had double-digit loan growth in commercial, I think two years running, maybe three in the U.S. Should we get concerned about that? What if rates start to rise, will that dampen commercial loan growth? Do you think, or in this early stage does it matter too much and we should still continue to think of low single digit commercial loan growth as possible for you in the U.S.?

Bill Downe *- BMO Financial Group - CEO*

Post-2009, we saw mid-double-digit loan growth simply because of the withdrawal of many of our domestic competitors in the marketplace. They just pulled their horns in and because we had been I think more prudent in commercial lending in advance of the Great Recession, we didn't have a burden of impaired loans and we had confidence in our discipline. So we were able to grow much faster than the market and that has come down to basically - you say double digit - the 10% level. I will take 8% percent or 9% or 10% top-line growth over a long period of time without too much concern. And when you worry about interest rates rising, a point or two of interest rates on the current level is not enough to impair the appetite people have to grow their business using the appropriate amount

of leverage and I don't think we are going to get into the stratosphere on rates. We are going to get the benefit of a lift in rates, which will translate into higher earnings for the bank virtually across all parts of it, but I don't think it will inhibit our clients at all.

Darko Mihelic ***- RBC Capital Markets - Analyst***

And what about the transportation finance business in a rising rate environment? We've seen a very big impact first year. What is your outlook for this business in 2017 and 2018?

Bill Downe ***- BMO Financial Group - CEO***

Well, 2015 was a peak year for the over-the-road truck market. 2016 sales were down across all the categories. I think this year we'll probably be in about the same territory. I don't think interest rates have an impact; it's really industrial activity. One of the contributing factors to the slowdown in the truck market was oil and gas where capital investment in the oil and gas sector was down. I think that is going to pick back up, so we will probably see a pickup there. That's not a large part of the business, but it was a contributing factor. So I think the prospects for that business are entirely consistent with what we saw when we made the acquisition and pretty much aligned with the rest of our commercial business.

Darko Mihelic ***- RBC Capital Markets - Analyst***

So we have a very strong outlook for commercial, excellent for commercial; let's say strong for transportation finance. There's a bit of a perception that on the retail side the growth is a bit slower in the U.S. It really hasn't been as strong as peers in the U.S. So can you speak to that criticism and what should we expect to see from your retail operations in the U.S. for 2017 and 2018?

Bill Downe ***- BMO Financial Group - CEO***

I like the peer comparison against the U.S. super regionals that we do when we look at the performance of our businesses and our consolidated U.S. business against those super regionals has a competitive expense-to-revenue ratio, return on tangible common equity that is also competitive with the market; the overweighting to commercial has been beneficial.

On the retail banking side, a lot of it has had to do with household formation, new home construction and that has lagged my expectations, but we have continued to invest in both the salesforce and the automation of processes on the retail side. So if we get a pickup in new home construction, which I think is inevitable given the supply/demand balance, I think we will see a pickup, and 2016 really was the inflection point where the runoff of the mortgage portfolios in the acquired book that were outside of our footprint or outside of our risk tolerance no longer will offset the growth of the origination of mortgages.

And remember, we originate mortgages for our balance sheet and then we also put those mortgages into the securitization market, but retain the servicing. And both the servicing book and the retained mortgage book I expect to grow from here going forward and it's really a question of what's going on in the market.

Underlying though the question about home finance in the U.S., you have to recognize that certainly among the Canadian banks we have a somewhat unique position. We have over 600 bank branches. We have just under US$70 billion in deposits and those deposits have been growing at a pretty robust rate depending on the quarter, but we are looking at deposit growth rates of 5%, 6%, or 7%. So we are growing the relationship base at the same time as the consumer in the United States has been reducing their leverage. And I think there will be a pickup in the loan book. I think that will contribute, but that deposit engine is going to continue to gather deposits and we have an enviable number two market position in Wisconsin, in the city of Milwaukee and in Madison. We have a number two market position in Chicago and the surrounding suburbs. That's one of the largest MSAs in the United States and then there are five other cities where we are in a number four position at a minimum and with just a little bit of good execution, I think we could become a firm number three in all those markets.

So that's a pretty enviable franchise and you continue to grow the deposit base at the rate we have and then you get a pickup in lending, I think it's going to be quite flattering to overall earnings even in the context of being primarily a commercial bank.

Darko Mihelic ***- RBC Capital Markets - Analyst***

Your expense growth last year in the U.S. was -- well, there wasn't any if you take out transportation. It was flat. So an amazing achievement. We are going into a year now with stronger confidence, maybe some inflation. How do you keep expense growth low in this environment and should we continue to expect slow expense growth, or should we think about the U.S. maybe now having a bounce back in expenses?

Bill Downe ***- BMO Financial Group - CEO***

Well, we've benefited from process improvement in the U.S. If you look at the scale of our platform in the United States pre-2010, it was operating in a separate framework, separate systems. After the acquisition of M&I, we went to a common platform. So now we are able to take cost out of the U.S. system and bring it closer to Canada because every time we innovate on the product side, every time we make a process change, we are able to do it across the common platform.

So I think one of the big contributors to the flat expense in the U.S. has been that we had a higher expense base relative to our revenues. We are becoming much more efficient, in-line with the rest of the bank and that's really driven really outstanding operating leverage. If you look at 2016, as you said, expenses were flat ex-Transportation Finance and the top line was up almost 6 points more than that in terms of improving the productivity.

In 2017 and beyond, I think we are going to see faster revenue growth in some parts of the business than we have and I would expect expense growth to return, but as long as we maintain that discipline of growing revenue faster than expenses, I think there's a combination there were we should be able to grow the expense line. We have been supplementing the salesforce. We've added a good number of mortgage specialists in the Chicago market in the last six months faster than we thought we were going to be able to and I think that positions us well certainly for the spring.

So in answer to your question, flat expenses aren't necessary to generate operating leverage. If we get good revenue growth, we can grow the expenses and we will just maintain the same discipline that we have. If you look at the strategic priorities of the Bank, which are very clearly laid out, the customer is number one. We have obsessed over the customer and that has really paid off in terms of brand loyalty and our ability to sell, but our number two area of prioritization is to make the bank more efficient and if we do those two things at the same time, we will be able to generate good operating leverage in the U.S. and still grow expenses.

Darko Mihelic ***- RBC Capital Markets - Analyst***

So big expectations for the U.S. How about Canada? Let's turn our attention back to Canada. What is your outlook for the Canadian economy and maybe we can just focus on the P&C business segment for now.

Bill Downe ***- BMO Financial Group - CEO***

The Canadian economy is going to move in lockstep with the U.S. economy. The pickup in growth rates that we are expecting -- and we are expecting 2.5% GDP growth, just under 2.5% -- I think that may be conservative -- in 2017 in the U.S. I think that is going to pull the Canadian economy to a higher growth rate, 2%. So overall a growing economy is good for all of the businesses in Canada.

I think your real question, Darko, is what do you think about Canadian housing because for almost a decade mortgage growth was the engine of earnings growth for many Canadian banks. We are smaller in the mortgage market relative to the size of the bank than our

peers, but you asked me the same question this time last year and I said, well, if you can generate 5% revenue growth and you control your expenses to 3% in the personal business in Canada, you should be able to generate earnings growth that is in the 6% to 7% range. Our target is 7% for the bank as a whole.

I think the growth rate will be a little bit below that in 2017. I think the retraction of the market in Vancouver has been a contributing factor. We are basically at the limit of tolerance for household debt to disposable income. So not unreasonable to say mortgage growth could be 4% or 5%. The way we are dealing with that is we are looking at the other areas of the bank that are growing faster and saying we can tolerate given the smaller size of residential lending in our portfolio and we really have to concentrate on increasing the number of retail banking clients who consider BMO to be their primary bank and that's really where Cam Fowler and his management team have shown real progress in the last couple of years.

So once again, I will point to deposits where we are seeing deposit growth rate 1.5% to 2.5% higher than loan growth and that is really a reflection of us becoming the principal bank to more of our Canadian retail customers than historically has been the case. And we have about 15% of the retail distribution points in Canada and our retail share is in the 11% area.

So if we just keep mining those clients, have a conservative view about what growth rate we need in order to achieve our consolidated objectives, I'm really happy with the scenario that we've set up for the year and I think for banks that are more reliant on the Canadian residential market, it may imply more pressure.

Darko Mihelic ***- RBC Capital Markets - Analyst***

And embedded in that conversation of a good outlook is presumably a good outlook on provisions for credit losses. We really haven't seen much of an impact from low oil on your business, particularly on the retail side in terms of indirect impacts. What is your outlook there and should we think of 2017 as really being another year of very steady provisions for credit losses?

Bill Downe ***- BMO Financial Group - CEO***

We had a pretty good view of what the impact of the decline in crude oil prices should be both on the provisioning in the capital markets portfolio -- we are not a lender to the oil and gas sector on the production side in commercial banking, and if anything, you've seen provisions below what we had anticipated and would have been comfortable with.

The impact on the province of Alberta, yes, the unemployment rate has risen, but in the last two reporting periods, job formation in Alberta has actually been quite a bit stronger. The unemployment rate is starting to come back down. The delinquency numbers that we've seen in Alberta have really been below expectations. So I think that probably says you will see some moderation from expectation in 2017.

But our provisioning last year I think was 23 basis points and that's in the context of the last 30 years, we've averaged about 38, 39 basis points of loss. I think our Canadian peers have been 3 or 4 basis points above that in the low 40s, 42, 43, 44. I think our U.S. peers have been plus 50 and that 23 basis point loss of provisioning level is below expected loss and it's because we were in a relatively benign period of economic expansion. I think in 2017, if anything, we are going to have a continuation of that -- a continuation of good performance.

The leverage finance business, which was showing some stress two or three years ago across the market, has pulled back in. The banking sector is not exposed to the riskiest credits in that sector. So I think a continuation -- I think Surjit Rajpal, he talks about the mid-20s, and that would be 25 basis points with plus or minus 2 or 3 on either side -- is not an unreasonable expectation. And when you come out of a period when you've taken significant provisions, which we did in 2007, 2008 and 2009 in the U.S. and we are unique among the Canadian banks because we had a much bigger U.S. lending business, you still have the prospect of reversals continuing to work their way back into the portfolio; and it is very gradual. You really can't see much of that effect on a transaction by transaction, but that is what is pushing back on the provision levels. And so once again, a relatively benign environment that I think will continue.

Now, the businesses feel as though they have a headwind because provisions are higher in 2016 than they were in 2015, but we've been able to offset that higher provision level with stronger revenue growth and pre-provision earnings. And as provisions revert to the mean, let's say over the next four or five years, I think the same thing will happen, that the growth rate will offset it.

Darko Mihelic ***- RBC Capital Markets - Analyst***

You mentioned in the opening remarks about the economy, the strength in your cap markets business. I want to maybe return to that a little bit because we ended 2016 in a very strong way. I realize it's been a long build in the U.S. cap markets business, but has there been any real change recently in the philosophy of how you run cap markets, or is it just a combination of great markets and a long build in the U.S. business?

Bill Downe ***- BMO Financial Group - CEO***

Well, when you are in a build phase, there's always challenges around cost discipline because not everything you do -- there's a fair amount of trial and error in some of the recruitment, building out teams. You are not sure which segments, which have historically performed well, are going to continue to perform well. I would say that in 2016 we were able to bring a cost discipline, an operating cost discipline to the business that really did make a difference. You saw very strong operating leverage and really bringing ourselves back into -- closer to the range of where our competitors were operating. We had been willing to tolerate heavy investment in the U.S. over a period of time because we knew it would pay off. I think the value of our Canadian investment banking business is much higher because of the strength of both our origination and distribution capacity in the U.S.

Our M&A business benefits enormously from the U.S. capability. I think we do more M&A revenue in Canada because of the U.S. capability and the U.S. will be much bigger in time on the corporate finance side simply because of the size of the market. And we are operating in a segment of the market that is slightly away from where the bulge brackets can be most efficient. The European banks have withdrawn from segments of that market and the U.S. boutique investment dealers, we are moving away from them in terms of marketshare. Our marketshare is above almost all of them and the reason is we are much more efficient. We have systems efficiency. We are able to manage risk more efficiently and then we have the balance sheet capability to provide credit at the same time as we do the corporate finance business.

So I think it's playing out according to plan. I would have preferred that it played out according to plan three or four years sooner, but I also would've preferred there wasn't a Great Recession. So I think in the grand scheme of things, what we are seeing is what we had hoped and expected to see.

Darko Mihelic ***- RBC Capital Markets - Analyst***

And a similar level of commitment to growing the loan book there in the U.S.? Do you think we can look for high growth in the corporate business for 2017?

Bill Downe ***- BMO Financial Group - CEO***

We've balanced the loan growth to ensure that we were lending to the companies that we were providing advice to. We were lending to the companies that we were taking to the public market, but we haven't run that book up because the challenge with the large corporate book is it will earn about the cost of capital of the industry over time and so I think you have to be quite constrained in not allowing that investment-grade book to get too big. It has to be large enough to cover a lot of the overhead in the business, but it can't get much bigger than that without running the risk of driving down your ROE.

Darko Mihelic *- RBC Capital Markets - Analyst*

Right. And then so maybe just shifting gears to capital because that is a capital intensive business, I think and so a bit of a segue into -- or could have been capital-intensive; maybe it won't be. But maybe speaking to capital, this past year, your Company didn't calculate the risk-weighted assets correctly. You had a bit of a restatement. So can you speak to that issue and, perhaps more importantly, what have you done as a result of that issue to prevent any further capital calculation errors?

Bill Downe *- BMO Financial Group - CEO*

Well, the principal measure of capital has been and the focus has been on the B3 ratio for a long time. The generation of capital by the bank has been very strong and the B3 calculation today would be sitting at about 10.7%. We finished the year at 10.1% because of the B1 floor and I think that the lower risk balance sheet that you run, the more tension you have between the B3 calculation and the B1 calculation. It hadn't been an operative factor in the last six or seven years. I think it was simply a matter of the disciplines around tracking on the standardized basis were not as strong as they needed to be and we strengthened them.

It is essentially a secondary capital measure and we are expecting in the next iteration of the Basel regime that the very blunt standardized measure will go away. It will be replaced by revised standardized floors around asset classes. We are not expecting that to be as constraining to the bank as the current ratio is, and finally there was some adjustment in interpretation of rules that applied to the whole industry in 2016 that put some pressure on that ratio as well.

So I think to me the most important thing is we identified in a very short period of time that we were not comfortable with the disciplines around that B1 ratio. We self-disclosed. We went to the regulator, explained the situation. We satisfied them. We disclosed to the Street immediately and in a year where we made a very significant acquisition, we've rebuilt our capital and we will continue to rebuild our capital. So I think it was, from my perspective, it was an unfortunate event in the third quarter. We have moved beyond it.

Darko Mihelic *- RBC Capital Markets - Analyst*

Now that you are at 10.1%, where do you think you would like to be even with the floor and how much do you think you can generate in a year in terms of capital?

Bill Downe *- BMO Financial Group - CEO*

I think we can generate between 15 and 20 basis points of capital just going straight ahead a quarter. I think the history is the greatest indicator if you want of where we are. When our capital has been at the 10.6%, 10.7%, 10.8% level, we've been in a position to either buy back stock or make acquisitions. You've seen we made a number of acquisitions in the last five years that have fit right into that. With the exception of the acquisition of M&I, we've been able to fund that from retained earnings and that's really the frame you want to look at it in. We want the flexibility of having a higher capital ratio, so if opportunities present themselves, we can capitalize on them. And I think through the course of 2017, we move back into that position.

Darko Mihelic *- RBC Capital Markets - Analyst*

I have a couple questions here from the audience. We're going to kick these in. This one here -- please discuss the negative impact to your credit card platform from the Air Miles devaluation of points that will happen in 2017 per the program.

Bill Downe *- BMO Financial Group - CEO*

It will be modest. I think we've diversified our loyalty programs, so we are obviously prominent as an Air Miles point provider in some of our products, but we have other options. We've moved into the premium card space with our own loyalty program and I'm not really challenged by that. I think in that particular case, it was a question of Air Miles itself communicating effectively with customers who

accumulate those miles, but it will not have a material impact, I don't think, on either the quality of the portfolio or the growth prospects of it.

Darko Mihelic ***- RBC Capital Markets - Analyst***

And sticking with the Canadian consumer, leverage is at an all-time high as a percentage of net worth tied to housing, so what is the impact when consumers mark-to-market their actual worth as house prices stop going up or down like in Vancouver and they are specifically looking for impact on loan growth, consumer spending and wealth products as the savings rate is very low? So a lot of questions embedded in there. Effectively what do you think the impact will be as housing prices decline?

Bill Downe ***- BMO Financial Group - CEO***

Well, history is a good guide to that. What we are seeing is a slowing in the growth of mortgage volumes and the largest banks have slowed faster than the market, so there must be some source of growth out there that is continuing to run, but I think you would see that reigned in first. We know from some detailed work that the U.S. Federal Reserve did that homeowners didn't walk away from their mortgages in the United States unless they lost their job or had a divorce -- those are the two triggers for default on home lending -- until the value of the home fell to 60% of the outstanding mortgage balance.

So from a protection of capital perspective, 56% of our mortgage book is insured. The loan-to-value ratio on the uninsured book is 54%, so there is an awful lot of equity in the housing stock that we finance and the propensity for the borrower to stay in their home -- if it is their home -- is very, very high. So I think what happens is it squeezes the household budget. People feel less wealthy. Consumer spending falls when people feel less wealthy. We certainly saw that in the United States and the savings rate, which in Canada has been lagging the U.S. now for five years, the savings rate picks up and that's how you get back into rebalance.

So the real impact is the phenomenon that we've just described around slow growth in housing finance, home equity and mortgage in Canada. Maybe it's even slower. And simply a reliance on population growth and immigration to increase the demand for housing.

One of the things that is still unanswered is why is the demand for housing continuing to increase faster than the supply in the biggest MSAs in the country. And Ontario had inbound migration from other provinces -- Toronto, in fact -- of 12,000 households last year. So there's a movement into the biggest MSAs that is requiring a larger housing stock than exists and I think one of the big question marks is what impact does that have on the balance in the housing market.

Darko Mihelic ***- RBC Capital Markets - Analyst***

So maybe just shifting gears because I want to get to FinTech before we pass it over to you and the reason why we do, Bill -- and I have never told you this -- but last year I went to the FinTech conference. I had a really good time there, but I was shocked how prominent BMO was at this conference. Every second exhibitor that I talked to told me some interesting things about what your Company was doing on the FinTech side. So I just thought it would be fun to throw this out at you. What do you think the most disruptive thing will be in Canadian banking or even North America from a FinTech perspective in the next couple of years let's say?

Bill Downe ***- BMO Financial Group - CEO***

I think the biggest challenge in the space is going to be, as we make it easier for our customers to do things for themselves that used to require intervention in mobile devices, whether it's a smartphone or a tablet, are making it much easier to do things that you used to have a little bit of help from a human being. I think the big challenge is going to be to be maintaining relationship because our brand is driven by trust. We put a heavy emphasis on advice and guidance in everything that we do.

So we are going to continue to evolve the platform so that we can invest in mobility, the use of mobility, but we have to at the same time retain the immediacy of human contact, and I think that's the big challenge, figuring out how to do that. How do I default to human when

human is what I want and the big benefit that we've seen so far is the liberation of human time to be responsive to customers who need help in the moment.

And the real question is can you get the intermediation of that, whether it's the telephone, or push to talk or chat online or FaceTime or any of those things, to work in a way that the customer is equally comfortable with because people are very comfortable with paying their bills, checking their balance. You can now open an account in less than seven minutes on a smartphone at the Bank of Montreal. That has driven down the opening time in branch, but it's really the intermediation of human contact when human contact is required to me is the most interesting part of the whole equation.

On the technology side, I think the reason why you've maybe heard more about us is I think we were -- perhaps because of a big acquisition we made and some platform transformation, we were ahead in saying that you have to create an underlying platform that allows you to slide innovation, new product and new services on and off in a way that reuses software, reuses hardware and so a lot of the work we've done in the last eight years has been on architecture itself and that has really paid off.

I think the reason why we've been able to do some really interesting things on the application side is we got the foundation right first and I'm looking forward to the next generation of banking relationship where we can redeploy people who may have been concentrated in bank branches or in call centres with a different kind of interface so that if you are looking at an interactive screen -- it doesn't matter really what the device is; it could be on a personal computer as well -- and you need to talk to me, I will know that and you'll be able to reach me. I think to me, that's going to be the big differentiator.

And that's always been the case. If you look at how we compete in the United States, we've been able to drive customer loyalty scores right up to the level of unit banks where the president of the bank sits in the lobby and knows all the customers and the big network banks have lagged by 10, 12, 15 points of customer loyalty. We think we can do the same thing in the convergence of mobility and direct contact with human beings and we've been building new smart branches in a number of locations. We have four in Chicago that we've talked about where we have been able to mix the technology with human contact so that you can go into a bank branch in one of these new locations and there are no tellers, but the bank machine has a human face the same size as yours.

And an intervention by a human being at that last step if you have a question about a mortgage or something else is just being facilitated and the four or five people who work in those smart branches are equipped to deal with much more complex issues like I am moving from Canada to the United States; I'm moving from New York to Chicago, I need to get re-established. We are going to buy a home. I'm trying to find schools for my kids. All of these things, the bankers become much more of a coach, much more prepared to provide advice, guidance. If I were you, this is how I would think about it. You are new to the neighborhood; here, we have some resources we can help you figure out -- we can even help you figure out where the schools, where the real estate agents, how you pay your taxes, all of those things. They are part of the relationship package.

Darko Mihelic ***- RBC Capital Markets - Analyst***

So, Bill, we are at the end of our time. I was going to do this with all the speakers today. I'm going to throw it back to you for last key messages that you would like to leave here today with investors.

Bill Downe ***- BMO Financial Group - CEO***

Thank you for that. 2016 was a year where the performance of the bank was indicative of the capabilities that we've been developing. We were able to drive top-line growth of 8%. We controlled our expenses. We had 2% operating leverage. Even with higher provisions, we had EPS growth above 7%, NIAT growth above 7% and that's really the range where we think the bank should be performing. Capital and liquidity remain strong and advances on customer loyalty continue to just march ahead.

The strategy of the bank is very straightforward, and it's very clear. It's written down and we've been operating against that same framework for a considerable period of time. You can see the manifestation of that -- being very strong in commercial banking; continuing to grow deposits because a strong deposit base is going to just become more and more valuable and we know that a 1% parallel shift in the interest rate curve is worth a couple hundred million dollars in earnings to us, $150 million of that in the United

States. And as the interest rate book matures, those numbers go up, so the value of the firm goes up. And I think the prospects for the coming year around all of those dimensions remain very good.

The retail business in Canada is going to continue to improve in terms of mix and our share of the primary relationships, even in a slower growth market. We have a unique capability in the United States and, as I said, a $70 billion U.S. deposit base, which is very significant and many distribution points. The capital markets business on a North American-wide basis is going to really benefit, I believe, from higher levels of investment due to fiscal stimulus, both in Canada and the United States. And wealth management, which we haven't talked about, is an extraordinarily good business. We have about $870 billion of AUA and AUM. That makes us a clear number two in the Canadian market, but on an AUM basis, over $400 billion of AUM, we are very close to number one in terms of the size of the wealth business.

In 2016, we absorbed a number of headwinds, some relating to interest rates, some relating to the divestiture of a subsidiary and I'm expecting much stronger growth in wealth in 2017 and a recognition that we are a market leader in this business.

So overall, I think the confidence that people running the businesses have is high. We believe the environment is going to be conducive to growing the bank and we think the reputation and brand positioning of BMO is just exactly where we would like to have it.

Darko Mihelic ***- RBC Capital Markets - Analyst***

Okay. With that, thank you very much, Bill.

Bill Downe ***- BMO Financial Group - CEO***

Thanks for having me.