BMO Financial Group

Bank of Montreal at the 2023 Scotiabank Global Banking and Markets Financials Summit

CORPORATE PARTICIPANTS

Darryl White
CEO

CONFERENCE PARTICIPANTS

Meny Grauman Scotiabank, Global Banking and Markets – MD & Analyst

PRESENTATION

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

Good to see you, Darryl.

Darryl White – *Bank of Montreal – CEO*

Thank you.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

Thanks for being here.

Darryl White – *Bank of Montreal – CEO*

Thanks for having us.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

You had a big Labour Day for the company in terms of the full systems conversion of Bank of the West. And I thought start off by just asking how it went. We didn't hear of any problems. I don't think there are any, but wanted to get your perspective on this past weekend, which was definitely a very busy one.

Darryl White – *Bank of Montreal – CEO*

Yes. Look, it's a good day. It's a good day for BMO because -- Meny is quite right -this was what we call CD1 conversion day weekend. And over the course of three days, 83 hours to be specific, three days, four nights. We had a team of 3,000 people, Meny, in various locations, who go through the exercise after three mock trials, one full dress rehearsal, to bring together all of the assets of the company, effectively delivering for the customer under one roof come open of business Tuesday morning. And the punchline is, it's all working. And that's not a foregone conclusion because these are very difficult maneuvers. We had involved 330 system conversions. We began planning for this 625 days ago when we announced the acquisition, 3,000 people going through it. We moved across 2 million customers, almost 3 million accounts. And what you want to have happen at the back end of that is that whether you are in San Diego or you're in Colorado or in Chicago or in Toronto or you're in Halifax, your experience at the BMO channels, portal, looks and feels the same. The log-ins are all working, the wires are transferring. The water is flowing through the pipes. We also converted the signage on all 500 branches over the same period of time.

All of this is an extraordinary feat of logistics and planning and execution by the team. It sounds like I'm giving a shout out to our team for doing a great job. I am, because it's very impressive, and this is the function of the alignment and the preparation and the execution, which is, frankly, exceptional. We also had a little bit of good luck on the way through that weekend in our market in Los Angeles, at BMO Stadium in Los Angeles, Messi showed up. You have got to have some fun in these conversations too, and we ended up having an unbelievable amount of exposure there along the way as we got through our conversion weekend. Look, I'm not declaring victory because we're 24 hours into the customer experience that began yesterday morning. We had a soft launch on Monday night, and then it was very good yesterday morning and through the course of the last 24 hours, it's been very good. And you said you haven't heard anything. That's actually the test because when you hear things, they are usually concerns or problems and when things go well, you don't hear anything. It's a very good day. I'm very excited about how well the teams have performed through this. It's a major, major milestone in converting these acquisitions.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

We talked about Taylor Swift before with Dave and with you, Messi.

Darryl White – *Bank of Montreal – CEO*

Maybe we should put them together.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

Lots of celebrities. Conversion weekend is behind us now. And the business moves ahead. So the real question maybe to start with is what does this allow you to do now? If you could just kind of refresh the strategy here for BMO in the U.S. And maybe if you could touch on the connectivity between the P&C Bank and also the wealth and capital markets businesses in the U.S.? And where you're driving to?

Darryl White – *Bank of Montreal – CEO*

Let's take it step by step. The very next thing that happens now that the conversion is in the rear-view mirror is you're going to see a very substantial reintroduction of the BMO brand, there's a brand launch that is very substantial that's going into market as we speak. Really interestingly, the work that we've been talking to you guys about in terms of the synergies that we've seen on the revenue side and the unleashing of their franchise, that has all been occurring, including, by the way, a 20% lift in the branch productivity before the brand launch. The brand launch starts now, and that's going to be very significant. You're going to see us in the market in California, fifth largest economy in the world. We're going to climb right up to one of the top shares of voice in the entire state. And we're going to do a little bit of this in Colorado as well where we have a new footprint.

What does that actually drive in terms of the customer impact and the connectivity as you're getting at, Meny, between the other businesses? It gets pretty interesting because you've got a group of customers who are waking up to -- I'll go on the retail side, and then I'll talk about some of the other businesses. You've got no fee access to 42,000 ATMs. You've got new digital capabilities. You've got new sales leads and overlays and analytics that can help the retail franchise perform at levels that we've seen in other geographies. That's already well in play. Our commercial franchise, which is our biggest business in the U.S. and taken together with our Canadian business is top 4, top 5 on the continent. There we've grown the commercial franchise and scaled a leadership position even further. And where that gets really interesting, to your connectivity point between the businesses, is we've already seen, for example, between commercial and Capital Markets in the United States, I'm just ring-fencing the United States for purposes of these comments. We've already seen hundreds of new accounts, not a few, hundreds of new accounts who are signing on to the capabilities that we've got, whether it's through treasury management, whether it's through global markets transactions, hedges, foreign exchange. And we're -- early days, but we've also got a bunch of what would be traditionally seen as investment banking transactions from that franchise. They're already occurred. They're in the books, they're behind. That's before we get rolling on this brand launch that I talked about earlier.

And then, I guess, I haven't talked about Wealth. Wealth is particularly interesting because we're now in a position where for the mass affluent in the P&BB franchise at Bank of the West, I talked about that earlier. But for Wealth where they need premier banking services, that wasn't actually available to them before. Now we're putting that in place and the commercial / wealth tie-in on the connectivity part of your question can get really interesting because we just look at the data, and we know then in our U.S. commercial bank -- which remember, is equally sized to our Canadian commercial bank, we have about a 30% penetration of the wealth product into the U.S. commercial bank. So 30% of the time, we figured out a way to consume the wealth product. That number should go up, but it's pretty good. At the Bank of the West, it's 10%. What I ask my teams is why would it be the case that -- you got to get people enough lead time and you got to get there. But why would it not be the case that we can get at least to 30% on that product as well. I put it all together and we run an integrated business, right? We've made choices on our model. We don't leave it alone. We integrate it into the way we do our BMO integrated sales model, management model, including the inter-connectivity between the businesses in the U.S., including the cross-border connectivity in Canada, the U.S. Again, early days, but I'm feeling really, really optimistic.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

And you've just outlined some significant opportunities, but I just wanted to highlight that. I think it's correct to assume that when you've provided pretty explicit guidance in terms of revenue synergies. Obviously, expense synergies as well. A lot of this stuff is built into that guidance that you've provided at least in terms of the opportunities?

Darryl White – *Bank of Montreal – CEO*

What I have told you just now in the last few minutes is not new. What's new though is we're real live experiencing what we thought was going to happen. It's occurring on the ground before our eyes. We're validating everything that we thought was going to happen. The metrics that we put out with respect to the expectations on costs and revenues, we did say in our call last week, we're going to update everybody, and we're going to bring it all home and put it in one clean package for you at the end of the next quarter. But the preview is, I think you heard our CFO pretty clearly lay the groundwork for the confidence level we have on the cost side of the synergies is very high. So maybe there's a little more gas in that tank and we'll update you guys at the end of the quarter. That number, as a reminder, is USD 670 million. Really high confidence. We know exactly where it is. We know exactly when to execute it and on what time frame and it gets completed by the last day of the first quarter of fiscal '24, great.

On the revenue side, the composition overall maybe it changes a little bit because we have a softer overall revenue environment in North American banking, and we there said it's a 3- to 5-year program to delivery. If the environment is a little softer, might it take a couple more quarters to get there? Sure. But in the end, what it round trips to is a very high confidence level on the $2 billion of PPPT that we've been talking to all of you about and we're not updating that view. What we're updating for you is the real live on the field validation of the assumptions that we made to that view are happening at least as well as we thought they would.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

Because that was the next part of the question. In terms of that USD 2 billion PTPP. The question was going to be on that $1 billion base before the synergies. And obviously, the U.S. operating environment is tougher than I think what was assumed, especially when you first announced the deal back in late 2021. The question is the confidence level in that underlying $1 billion of PTPP in this kind of environment. I wanted to get your perspective on that.

Darryl White – *Bank of Montreal – CEO*

Strategically, I think I've taken you guys through the thesis again, we're as convinced as we ever were. By the way, culturally, we're even more convinced than we ever were. We've unleashed something here and that's really exciting. And financially, on your point about the $1 billion of underlying before we get to the revenue synergies, before we get to the cost synergies. Might it be softer today than it was when we made those assumptions? The whole world is softer. Everywhere it is softer. But when we tell you that we're going to get to the $2 billion when we go out 3 to 5 years, we will, there's lots of conservatism built into that, and there will be a rebound at some point in the underlying fundamentals of the economies. I do think though we should all be thinking about 2024 as a softer revenue environment for -- maybe I'm diverting here on you Meny, but for all of our businesses, for everybody who comes through here because, this is why we announced some of the other measures that we announced last week. Because when you look out on the environment, at the end of the day, the macro isn't always the same as the banking macro. The banking macro are affected by higher funding costs, higher capital cost, higher regulatory cost, lower loan demand, higher credit cost. That's real. That's real for us and everybody else.

And overlaying all of that, if we're in a world where -- never mind the recession, no recession conversation, but if we're in a world where we've got 0.5 point or 1 point of GDP growth in 2024, fine, we'll all figure out, and the stronger banks will figure out how to succeed well in that environment. We shouldn't confuse ourselves that that's good. It's just if you go back in time, only in the COVID recession that lasted what felt like 5 minutes and the global financial crisis in 2008, 2009, you have to go back to 1991, before you find a year where there's 1% GDP growth in North America. You can't get away from that. That will put pressure on all of us. That will suppress, pressure on revenue growth. I think there will still be some revenue growth, but it will be suppressed relative to what we've seen in the last 5 years. And that's why we are taking the actions that we're taking, and we've made the choice to say, we've got the USD$670 million that I talked about over here. We're adding to that, the announcement what we made last week with $400 million in the legacy BMO franchise. And when you put those together, as they flow through, through the course of 2024, that becomes a differentiated outcome on our PPPT and our P&L. Tough environment, but real crisp choices.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

You are reflecting that tough environment in your choices on expenses, and as you highlighted, the charges that you took in Q3 and then the guidance in terms of what to expect going forward. I guess the natural question that investors have is, is it going to be enough? What gives you confidence that you've managed -- and you're more aggressive than others. Maybe it's a little bit less relevant, but how do you gauge whether you've done enough here and where do you see the risk that it's not enough?

Darryl White – *Bank of Montreal – CEO*

Look, you don't wake up to these conclusions overnight. You develop a view. We started developing a view on a base case outlook for the revenue environment a couple of quarters ago. Inside of that, the hardest thing I had to do this year was to break the streak of 5 years running of positive operating leverage. You heard me talk a little bit ad nauseam of that over the course of the 5 years, but to wake up in Q2 and say it isn't going to happen this year. I didn't like that. And what we had to do is say, all right, what is it going to take to return to that commitment in 2024, having on 5 for 5 but missing in the sixth year. And when we look at that, we pick what we think is a reasonable outlook on growth for revenues and then we pick what we would need to do to deliver that positive operating leverage. And look, we've been here before. If you look at 2019, the decisions we made then, the choices we made, the rigor with which we execute these playbooks when we made these choices is real. And that's what drove the outperformance in 2021, '22, '23. And it's not like we lost that playbook, right? I didn't throw it out. We know exactly how to do these things. And when we put the 2 programs together, we think it's enough. We think it allows some investment capacity in the business. We're still going to do the things I told you about before on the marketing side, the technology side. And we think it will be enough to deliver us positive operating leverage in '24 and that's the call we've made.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

Just as an aside, the moves in real estate that you highlighted that are going to hit in Q4. Is that tied to permanent work from home trends? Is there something there that's driving that?

Darryl White – *Bank of Montreal – CEO*

It's tied to the obvious, which is how much capacity do you need in the new world that we're in. It's not 100% of what it was before. And we pulled forward some decisions, some are right here in the GTA, all the banks, you see all our signs and all sorts of buildings and we pull forward some consolidation opportunities. If anybody wants to take a walk around BMO Place that we've built and opened, we've got 375,000 square feet, which is the most modern banking work environment currently on the continent, where we've got people working great tech, great air, great visibility, great working conditions. We got a lot more people in there. We don't have to have a lot of people in a whole bunch of other places. That's the long answer. The short answer to your question is yes, it is a function of how we're reorganizing space to meet the need and where we're doing work and what people we're putting together, and we'll take that in the fourth quarter, and then we'll move on. That will be our choice for the next few years.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

Just want to go back to the U.S. and kind of the big picture here, lots of changes in the U.S. banking market. Prominent U.S. bank analyst had a title that I wish I had come up with, he wrote, when it comes to U.S. banks, Goliath is winning. And so question is, do you agree with that statement? And do you see BMO as a Goliath in the U.S. market? How do you view that?

Darryl White – *Bank of Montreal – CEO*

I'm smiling because this is the first time I've ever seen a bank analyst quote another bank analyst.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

Game recognizes game, so yes.

Darryl White – *Bank of Montreal – CEO*

Do I agree with that? Mostly and the reason I would say mostly is that like there is no question that the scale thesis that we have matters and that scale is more important than it ever has been, this is why we made the acquisition that we made. And when you consider the pressures in a softer environment, when you've got a higher funding cost, tougher regulatory cost, higher capital costs, like these are all fixed, right? The ability to have scale and to be able to drive more volume through a fixed infrastructure is really, really important. Goliath, David, I think you can see evidence that the largest are outperforming the smallest. And the reason I said mostly as opposed to entirely is I don't think it's necessarily though the case that the Goliath always wins and the Davids always lose. There could be some unique mistakes with Goliaths, and there could be some unique mistakes with the Davids. But I got to tell you, it kind of brings me to the -- I've talked about this before, but just to bring people back if you just look at the U.S. market, you've got 5,000 participants — we have to get ourselves out of the Canadian industry structure here — 5,000 participants.

You've got 4 G-SIBs. The analyst you're quoting works for one of them. And then away from the 4 G-SIBs, if you just draw a line of $250 billion of assets up until the G-SIBs, there are only 6 banks, with their just U.S.-only assets, we're one of them. And we're bigger than some of those other 6 in the U.S. in that 6 bank group. I don't know if we're David or Goliath what I do know is that we can continue to grow by acquisition if we want to. We can continue to grow share relative to who? The 5,000 others who are not in that 6. And that's kind of been our story, Meny, because 60% of the growth that we've had in the United States -- some people say, well, you just keep buying stuff. Well, no, 60% of the growth that we've had in the United States over last 20 years has been organic. 40% have been these step functions that we take when it's opportunistic in front of us. I think that the tougher the environment is, the better it is for the ability to continue to take share against those Davids, I guess, who will struggle in general.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

You talked about connectivity within the U.S. for BMO, but I'm curious, from a North American perspective, I mean you're a top 5 commercial lender in North America, and you highlight that. Presumably, there is a strong view within the organization that north-south connectivity is valuable and important. I'd like you to articulate that in terms of what does that mean? Where do you see the connectivity benefit the organization? And where can it go from here? Is there a lot more potential?

Darryl White – *Bank of Montreal – CEO*

It's not new, right? This is the way we run the place. This is the way we've been running it for a very long time. All 4 of our business lines, all 4 are run on a North American basis. Our leaders of those businesses have North American accountabilities. And increasingly, their leaders who work for them have North American accountability. They know both markets. And that's simply Meny a result of the thesis that we have to be a North American bank first. You've seen us redeploy some assets from outside of North America, redeploy them into North America. We believe in that North-South integration story. You talked about commercial banking just now. There, we're the fourth or fifth largest book on the continent about equally sized on either side of the border. If you were to kind of go into our war rooms, you'd see people who have accountability for sectors on both sides of the border, trying to figure out how to synergize the structure of how we deliver, the advice that we deliver to customers, tailored to local markets where you need to. And by the way, that's not just a north-south thing. You have to sometimes tailor different solutions in Halifax than you might in Vancouver, same way you do in Toronto to Chicago.

Another great example is the TPS platform. Years ago, we completed the full build of the TPS platform that is north-south fully integrated, water flows through those pipes every day and the functionality that you then have on top of it for the user experience is increased applications, sophisticated analytics that you can offer the client, mobile you can offer the client, security features that you'd otherwise wouldn't have. That's built North-South. The Capital Markets business, I think you know is completely run North-South. Almost every one of our leaders has agnostic to border accountabilities and the same with Wealth. Wealth is smaller for us in the U.S., but we've still got the leadership set up that way. I'm a big believer in the continental thesis, and we have 2 countries in our thesis, and we're after both of them in equal measure, and we run it that way.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

I want to talk about commercial loan growth in Canada first and then tie it into the U.S., but I'd say you continue to deliver good commercial loan growth 7% year-over-year, but definitely it's slowing, and I would say, slowing more than peers. And the question is, how deliberate is that? Maybe we'll start there.

Darryl White – *Bank of Montreal – CEO*

It's funny, I always wondered when the day would come that I'd be on a stage like this and when people would be saying to me, you only have 7% commercial loan growth. And this off of what I think as successful of a commercial loan growth strategy as we've seen among our peers for a very long time. This doesn't bother me at all just to get to the punch line on your question. I think if you look at the year-over-year numbers, we grew at 7.4%. The peers year-over-year in this particular quarter grew around 10%. I think I have 10% on average. I look at that and I say, well, that's interesting, in an environment where we were prioritizing judicious capital deployment, we were prioritizing deposits over loans, so the LDR improving from a deposit standpoint. What people don't ask is that if you look at the deposits year-over-year, we grew our deposits at 10% and the market grew deposits at 2.9%. Loan 7.5% to market at 10%, deposits 2.9% in the market when we grew at 10%.

We're growing our deposits at 3.5x the market, and we're growing our loans at 70% or 75% of the market in an environment where we're trying to avoid risk. We're trying not to grow the loans too fast, and we're trying to build liquidity. I'll take that all day long. I'm not worried about it. If you look at this over the course of time, you should see us in both countries, when markets are good and expanding and credit risk is declining, we should be taking share in commercial. We've always said grow at market or a little bit more, not gangbusters, not double market, but at market or a little bit more. And when you have an environment like this where there's a premium on deposits and there's a premium on risk, this is a pretty good outcome for us, I think, and our customers and our shareholders.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

You have a pretty privileged place in the market, especially when it comes to commercial loans. Are you seeing anything irrational in the market, specifically in Canada?

Darryl White – *Bank of Montreal – CEO*

Irrational no. I mean there are aggressive periods, there are bursts of aggression in lending markets anywhere on the planet, including here in Canada. Sometimes they're driven by a particular player's interest in growing an asset class or their capital or whatever. And then the market adjusts and they kind of come back to equilibrium and then sometimes you're just kind of in this equilibrium. Sometimes we've been the aggressor, somebody else has been the aggressor, and then the market finds its place. That's the way markets work. We've been in this game for 40, 50, 60 years. We had asked this question about irrational behaviour, I'll answer, well, what's irrational? Somebody wants to go out and offer better terms and conditions, that's a prerogative. We have a choice as to whether we're going to match them. And sometimes we do, sometimes we don't. The worst thing you want as the CEO is your commercial account managers coming into you saying, hey, boss, we win every deal. Well, that's a problem. That's a problem because you've got some adverse selection going on there for sure. We may be in a period right now where there's some more aggression in the market in some parts of the market, that's fine. I don't care. We work in all markets. Sometimes it's aggressive, sometimes less so.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

And speaking about being aggressive, if I look at your card balances, not a huge business for you, but up 7% quarter-over-quarter which stuck out to me in this kind of environment. When I saw that, I thought, okay, do you want to put up that kind of growth in unsecured lending given the uncertainty that we have here. The question is why are we seeing that from BMO? How comfortable are you with that from a credit perspective?

Darryl White – *Bank of Montreal – CEO*

It's a good question. 7% year over year, you have to remember where we came from in cards, your point, smaller base. Let me just answer your card question, but I want to widen the circle on the question to something that I think is even more important and something we probably don't talk about enough. On the cards, if you look at: a) smaller base b) real investment, digital capabilities, sales capability, leading digital sales in cards; and what we probably don't talk about enough because people sort of forget it, is that it was almost 3 years ago now that we launched the Visa Eclipse product. Remember, we were not a dual issuer. I think we're the only ones left that weren't the dual issuer and so we launched the Visa in addition to the MasterCard, so you start to build the profile of the overall cards business. When you're putting that type of investment in, you should outperform the market because that was a desired outcome from a place where we were arguably underweight in the market.

The real interesting point for me, though, is that this is not a card story. This is a story of how we're trying to build the growth in market share of personal retail banking in Canada and it's succeeding. It was on this stage last year, Meny, that I said for the first time when you and I were sitting here, that at that point in time, in 7 of the 9 quarters that had preceded that moment in time, we had the leading revenue growth in personal retail banking in Canada. People said, BMO? I said, go check, 7 out of 9. Today, 4 quarters later, it's 11 out of 13 in retail revenue growth in Canada, number one. And the reason for that is not cards. The reason for that is cards, plus mortgages, plus deposits, #1 growth in retail deposits this quarter, year-over-year, #1 in commercial as well, by the way. But when you put cards, mortgages, personal lines, retail products together, that's been a very deliberate strategy that is a result of the investments we made 5 years ago on everything from sales force to digital to marketing to drive those outcomes from what was then, I would say, an underweight part of our portfolio to one that's starting to perform best-in-class in all of those respects. It doesn't make us the biggest, but it's performing and taking share as every day goes on.

And the reason it really exciting for me is because people used to ask me at conferences like this, well, I guess what you need for torque is U.S. commercial. Well, we're actually winning in Canadian retail and Canadian commercial. And when you get a lift, when the sun comes out on the growth in the C&I market in the U.S., we're even better positioned for that than we were before. And then the last piece of the puzzle or the triangle I guess, is when those savings start coming through that

I talked to you about at the beginning of this conversation, that's a completely differentiated outcome for BMO relative, we think, to most of our peers today and certainly relative to the BMO of a few years ago. Sorry, you asked a cards question, but this is not about cards. This is about full relationship. And last point on cards. The reason I know it's true, is because 85% of the account openings that we've seen in cards and the cards growth are multiproduct relationships. So it's real.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

I wanted to talk about contrast U.S. and Canada from a commercial loan growth perspective, what you were just talking about kind of triggered that in terms of we're commercial loan growth -- notwithstanding sort of some banks being maybe more aggressive, some banks less. Commercial loan growth in Canada is holding up quite a bit better and trying to understand why that's the case. Is it because the economy is just more resilient than we appreciate? And contrast that with the U.S., where we're definitely seeing more pressure, and you're in a good position to speak to the U.S. side as well. And how do we understand the dynamics on both sides?

Darryl White – *Bank of Montreal – CEO*

It's a very hard question to understand. I had a conversation with somebody this morning on this. It's going to take a couple more quarters here to figure out whether we're just in an anomalous period these last 3, 6 months in terms of why the difference exists. And I'll tell you why, when you look at the U.S. banking environment, you go back to March, you look at SVB, the knock-on effect there, the ripple effect through the economy, capital markets are much more developed. The alternative for the mid-market borrower to go to term product through the capital markets is more available, more open in the United States. And you definitely, at the same time, saw a lot of corporates say, my gosh, are we going to have a bank crisis? And therefore, should we pull back on spending? Is the borrowing not going to be available? It's a weird period that I'm starting to see some adjustment into right now because folks have said, all right, everything feels settled, it feels normal. We can actually run back to our capital plans.

I think that what you tend to see over time as these markets come into balance and if you kind of look forward, our call for 2024, while we have fairly muted growth in both Canada and the U.S. 1% growth in GDP in the U.S. but it might be kind of 0.5% in Canada, it might be that the U.S. will outperform a little bit next year. That's our house view from our economics folks. You should see that even out is the point I'm making. And the last point I would make is you've got to go back and remember the structure of the U.S. market, right? In that period of time, where you're seeing flattish growth, you actually have many, many players who are at the lower end of the hierarchy in terms of their scale capabilities, and just didn't have the capital to deploy.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

I want to talk about capital. And maybe first question, just in terms of refreshing your views in terms of where do you feel is appropriate now to be from a CET1 ratio. There's potential for the DSP buffer to move up again, Peter Routledge is here tomorrow. I don't know if he'll give us a sneak preview. Something tells me he won't. And to ask it another way, what kind of buffer to whatever minimum capital ratios are set, do you feel is appropriate?

Darryl White – *Bank of Montreal – CEO*

We're pretty clear on this. We said last week at the quarterly call that we think the range for us is 12% to 12.5%, probably trending closer to 12.5%. What defines where we ideally would like to live in that range? We always look at the regulatory environment, the capital opportunities that we've got for internal growth and we look at the peers and then we come to a point of view as to where we think we optimally should live in that range. That's defined very simply though, Meny, because right now you got a 3.5% DSB on top of the 8% so we're 11.5%, you've got add something for your internal buffer. That says 12%. We're at 12.3% today. Which by the way, I've got to tell you, to be at 12.3% today after having closed 3 acquisitions, not one, we closed the acquisition of Radicle on December 1, the acquisition of Bank of the West on February 1, and then we closed the acquisition of Air Miles on June 1. And we're at 12.3% which is up from Q2. If I had to throw a dart a year ago and say where would I like it to land, it would be at 12.3% and it's not that easy throwing a dart. We're at 12.3%, if the DSB buffer moved up another 50 basis points, our view would be 12.5% would be the right number and we should operate there. If it doesn't, then somewhere in the 12% to 12.5% range feels more optimal to us.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

And taking into account all of that, how confident are you that you can deliver an ROE at 15% plus over the medium term, given all of these pressures, capital headwinds?

Darryl White – *Bank of Montreal – CEO*

Mathematically, when you increase capital levels and nothing else changes, it's harder to deliver the same ROE. We delivered almost a 19% ROE in Q1 of 2022. The first place I go to is to say, we've got that trick in our bag, we know how to do that. We need some environmental help to get there, but I think we're going to get it. And we need the controlled dynamic management that we have, taking advantage of what we can control and the expense actions that I talked to you about at the beginning of this conversation. I put all that together and we'll stick to our view in the medium term, we can get back to the 15%, I think we can. And we also look very carefully at ROTCE, which doesn't get as much attention, as you know better than most, here in Canada because you don't have a lot of goodwill that's built up through acquisitions over time. But in the U.S. market, it's a primary feature of the conversations we have and so we look at those two things in combination and I think we can get there in the medium term.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

And then finally, we have just a little bit of time left, less than a minute. Just if you could remind us in terms of changing capital rules in the U.S. and the impact on BMO. Is there anything there that we should be aware of? Could it create opportunities maybe?

Darryl White – *Bank of Montreal – CEO*

The Basel III end game is still, I would say, early stages. First and foremost, our attachment point on how we run the capital levels of the company are driven by the OSFI regime. And so if you look at our U.S. subsidiaries, we're fine with respect to our capital levels. We don't have a capital challenge. We do participate in the CCAR tests in the United States. We're in good shape there as well, and it's kind of buoyed up by the overall capital requirements of the company. You can't have a 12% or 12.5% CET ratio at the parent company and run your U.S. subsidiary at 9%. It doesn't work. The math will never work. We're in good shape there. I do think there's opportunities, though, because if you look across the sphere of banks that we compete with and fairly successfully take share from over time, their capital levels are a lot lower than ours in the U.S. The pressure will be on them, and that should, all things equal, provide us with some advantages.

Meny Grauman – Scotiabank, Global Banking and Markets - MD & Analyst

We'll end on that positive note. Thanks so much. Always great speaking to you. Thanks, Darryl.

Darryl White – *Bank of Montreal – CEO*

Okay, thanks, Meny.