

Hosted by: Andre Hardy - RBC Capital Markets - Analyst
Guest Speaker: Bill Downe - Bank of Montreal - President, CEO

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Assumptions about the level of asset sales, expected asset sale prices, net funding cost, credit quality and risk of default and losses on default of the underlying assets of the structured investment vehicles were material factors we considered when establishing our expectations regarding the structured investment vehicles discussed in this document, including the amount to be drawn under the BMO liquidity facilities and the expectation that the first-loss protection provided by the subordinate capital notes will exceed future losses. Key assumptions included that assets would continue to be sold with a view to reducing the size of the structured investment vehicles, under various asset price scenarios, and that the level of defaults and losses will be consistent with the credit quality of the underlying assets and our current expectations regarding challenging market conditions continuing.

Assumptions about the level of defaults and losses on defaults were material factors we considered when establishing our expectation of the future performance of the transactions that Apex Trust has entered into. Key assumptions included that the level of defaults and losses on defaults would be consistent with historical experience. Material factors that were taken into account when establishing our expectations of the future risk of credit losses in Apex Trust and risk of loss to BMO included industry diversification in the portfolio, initial credit quality by portfolio, the first-loss protection incorporated into the structure and the hedges that BMO has entered into.

Assumptions about the performance of the Canadian and U.S. economies as well as overall market conditions and their combined effect on the bank's business, including those described under the heading Economic Outlook in our 2009 Annual Report to Shareholders, are material factors we consider when determining our strategic priorities, objectives and outlook for our business. Key assumptions included that the Canadian and U.S. economies will grow moderately in 2010, and that interest rates will remain low. We also assumed that housing markets will strengthen in Canada and the United States. 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.

Andre Hardy - RBC Capital Markets - Analyst

Bill, on behalf of everyone in this room, thanks a lot for participating as usual, and I look forward to the next 40 minutes.

Bill Downe - Bank of Montreal - President, CEO

I am looking forward to it as well, André.

Andre Hardy - RBC Capital Markets - Analyst

A lot has happened since 2007, of course, to Bank of Montreal and to other financial institutions. And I think a good way to start is actually trying to ignore the last few years, and looking at the years that are coming and comparing the Bank of Montreal, of say, 2012 with the Bank of Montreal of 2006.

Bill Downe - Bank of Montreal - President, CEO

That is a good place to start. When I think about what was going on in 2005 and 2006, it's important to reflect on whether that's the benchmark for the environment that we'll see going forward. For our bank, those were two very important years, as that was a period where we really shifted the energy in the bank and I would say moved in a much more aggressive way with respect to our competitive position in the market. And, if you like, stopped defending the net and started to think about where we're going to build the business.

And if you recall, between 2000 and 2006, if you were going to criticize the bank, it would have been the rate of growth. We showed strong return on equity in 2004, '05 and '06, return on equity in excess of 19%. But it was the work we did in 2005 and 2006 that I think set us up for what we believe the next three years have to offer and we're quite optimistic about it.

And it's correct, I think, to take your perspective and say, can we ignore the last three years? One of the things about the last three years that I think is quite striking is there was a lot of work to be done to deal with what was going on in the external environment, but inside the Bank, the energy remained very focused on customers, on building customer loyalty, on rebuilding the brand of the bank which wasn't where we wanted it to be and we've made tremendous advancements in that regard. I think we still have an opportunity to continue to build on it.

But what we've done is changed the momentum in all of our businesses with a customer focus, shift in customer loyalty scores, shift in market share and improved margins. And I've said a couple of times in the last six months, I think we're going into a period in banking that is going to be very attractive for banks that are focused on delivering value to their customers and can express how they are going to do it. So I would expect the difference that I would hope to see over the next two or three years would be a return to higher ROEs, but accompanied by revenue growth.

Andre Hardy - RBC Capital Markets - Analyst

And outside of capital, which I'm sure we'll come back to, loan losses will be a driver of high ROE. Do you foresee margin expansion as well? But where do you see the normalization of returns coming from?

Bill Downe - Bank of Montreal - President, CEO

Well, the relationship between risk and return, and this would, I think pretty well encompass all markets, has gone through a correction and I think it's going to hold for some period of time. The ability to earn an adequate return for risk in 2006 in any market was highly suspect. We talked about that in 2006 and one of the reasons why we saw slowing growth is we had a slowdown in our participation in certain markets. And we started to build liquidity and capital to stronger levels because of that apprehension.

Going forward, we have a reverse assignment, being very heavily capitalized and in an environment where the rewards for risk taking are much clearer and superior. I think the opportunity to grow in a healthy way is going to be something like we haven't seen in a long time. So I think margins at their current levels, assuming interest rates at the current levels, are quite robust. We would expect to see a little bit of additional life breathed into margins as interest rates rise. And I think, we'll see resumption in growth where banks that are well capitalized are going to get more than their fair share.

Andre Hardy - RBC Capital Markets - Analyst

And is Canada too concentrated for that to happen here? Does this need to happen outside of Canada where there have been more wounded institutions? And if you disagree with that premise, where in Canada might you take advantage of disruption?

Bill Downe - Bank of Montreal - President, CEO

Well, I think there will always be opportunities for growth in Canada. In particular, for us, regaining market share in retail banking in Canada is clearly something that we believe we can continue to accomplish. And that's not a criticism of the capacity of any of our competitors. But the nature of our relationship with our customers in Canada has dramatically improved in the last three years. If you are a customer of our bank, the tone of communication has changed. If you know someone or a family member who is a customer of the bank, ask them about the experience. That said, outside of Canada, there are clearly very large markets where what was really strong historical competition is going to be sidelined by the need to rebuild capital. And particularly for us in the Midwest of the United States where we have a very strong brand presence, close to a 10% market share in the Chicago market, that's where I think that the relative weakness of competition is going to create opportunity for us.

Andre Hardy - RBC Capital Markets - Analyst

And what are going to be the limits to participating? You have a fairly high capital ratio, but you need to add staff, you need to add branches or it's just waiting for business loan growth to resume in the U.S.?

Bill Downe - Bank of Montreal - President, CEO

No, I think the branch count in the Chicago market for us is a healthy branch count. There are neighborhoods where we don't have representation at the level that we would like to have and I think we'll have a chance to do some infill but not by construction, hopefully by picking up some other people's branches. So on the retail side, Chris McComish runs retail banking for us in the United States, has a very, very clear plan. He has amazingly strong customer loyalty and is back in the market after a period of holding back to see what was going to happen from a consumer debt point of view. And we're seeing strong deposit growth. That strong deposit growth will be followed by loan growth.

Andre Hardy - RBC Capital Markets - Analyst

Bill, is that coming from the national banks that are in the Chicago market or the community banks?

Bill Downe - Bank of Montreal - President, CEO

Well, the national banks in the Chicago market have national problems and retail banking is really community based at every level. And our profile in the community now is that we are the Chicago bank. And so, we've been seeing an erosion of share of the big national players in that market and we're taking advantage of it. And then there is a number of community banks that are just flat out of the capital. And I think, the period where they have been bidding up for bought money for CDs, they are running out of the capacity to do that. So I think that's where we'll look to see the growth in retail.

Commercial banking is an amazing opportunity that is just going to begin to emerge now. If you think back a decade ago, Harris Bank was principally a commercial bank. Since then we've added almost 300 retail branches. That strengthened the retail deposit base. But on a relative basis, commercial now has been

somewhat eclipsed by the growth in retail. And if you look at the Midwestern economy, it's starting to pick up. We may see a GDP growth rate in the Midwest this year of as high as 2.5%, and that's after almost three years of decline. Because remember the Midwest began to decline before the rest of the country. Obviously, the auto industry was a big factor in that in the eastern part of the region.

But our customers and the companies we don't yet bank in the Midwest are starting to think about sources of capital to rebuild their inventories. There has been no capital investment in three years. I think there's going to start to be very significant capital investment. And we're going to take advantage of that opportunity. We've recruited a number of very senior commercial bankers from principally from what was LaSalle Bank. And we're going to take a very, very close look at the structure of both our investment and corporate banking business and the commercial banking business in the Midwest, I think with an opportunity to shift some very significant resources against the commercial market. And that's where I'm looking to take advantage of the opportunity this year.

Andre Hardy - RBC Capital Markets - Analyst

And is pricing high enough in the U.S. commercial lending market that – let's say differently, two, three years ago commercial lending without fee businesses was not attractive at all. Has the pricing improved to a degree where you don't necessarily need the fee-based business to come with it or is it still very much that game?

Bill Downe - Bank of Montreal - President, CEO

Yes, the pricing has dramatically improved in the large corporate market. But not as much in the small corporate market,. It's a little bit of an irony. But I think that it will catch up in the mid-market and below the mid-market. So we expect to see some margin expansion in that sector.

The reason why we had such a heavy concentration of our commercial coverage in the investment bank for the last seven or eight years is we wanted to bring the skill set of the commercial bankers up, so that they understood how to identify an M&A opportunity, recognizing that many of our clients in the Midwest are privately owned and that there is an emerging market for both debt and equity underwriting and M&A. And our workforce now is, is pretty much across the board, comfortable with all of those products.

By looking at the structure of the business, putting more people on the commercial side, we're going to be originating, I think we're going to have a more efficient platform to generate fee business on the investment banking side, hopefully reducing the cost structure a little bit, which I'm pretty confident we'll be able to do. But more importantly, accelerate growth, bring in more growth opportunities.

And in the commercial banking coverage, the emphasis on operating services has always been a lot higher. And with commercial accounts, if you have the operating business, it balances the capital requirement on the lending side, and I think that's really where the virtue in the business is.

Andre Hardy - RBC Capital Markets - Analyst

You talked about accelerating growth organically, you've also talked about a market with many wounded players, it seems like a market ripe for some acquisitions. And why hasn't the bank made any up to now? What needs to be seen before the bank accelerates that organic potential with some acquisitions?

Bill Downe - Bank of Montreal - President, CEO

Yes, the last 12 months has been a difficult period to conclude any kind of a transaction with a quality company. Most of the transactions that have been done have been confused by FDIC involvement and changing rules. We've been through virtually every transaction that has been done in our market, and what we don't want to do is acquire branches that are in bad locations. We don't want to acquire a commercial bank that has no deposit base built entirely on hot money. And that's really the nature of the transactions that have been concluded so far.

I think going into 2010, the Board of Directors of high quality banks will have had an opportunity to fully absorb the last three years. There's going to be a great deal more clarity around the capital levels that are going to be required and what the cost of having those capital levels will be. Most of them have to rebuild capital in order to stay in business, and that's going to be an expensive thing to do.

So I think that the receptivity to conversations about combining banks is going to be much higher. So I think consolidation is going to start in 2010 and accelerate into 2011. For us, the most important thing is that, it's quality banks that are prepared to have those conversations.

Andre Hardy - RBC Capital Markets - Analyst

And does size really come into play or as long as it's quality, good deposits, decent loan book, that's more what you're looking at?

Bill Downe - Bank of Montreal - President, CEO

Yes, I don't think size is a critical issue. Reflecting back to your question about 2005 and 2006, no one seemed to be particularly interested in medium and small banks at that particular time, it didn't have enough excitement in it. But you can fold medium and small size banks in very quickly. You can re-brand them very quickly, so there's virtue in that. And obviously, there are larger banks, not that many with a high quality franchise and that's a little bit like if it happens, it happens. You can't force one of those.

Andre Hardy - RBC Capital Markets - Analyst

Sure. I wanted to talk about capital for a few minutes. And the first thing that makes the bank unique is its payout ratio target, which is higher than the rest of the sector. Is that something that might change going forward in light of potentially higher capital requirements or is the payout target ratio that the Board will be comfortable with?

Bill Downe - Bank of Montreal - President, CEO

I don't think the payout target ratio is impacted by higher capital requirements globally in the future. I don't think that's an issue. I think the issue is the mix of return that our large shareholders and our retail shareholders tell us is most important to them. The reason why we moved to a higher target payout ratio in the industry is that we saw a great value in the return on capital. We believe that the bank had the capacity to sustain that payout ratio through thick and thin. We didn't think it would be quite as thin as it was last year in an environmental sense.

But I think our confidence in the capacity of the bank has been proven. If there is a re-evaluation of the payout ratio, it would be as a consequence of future earnings growth, the actual payout falling and feedback from institutional holders and retail holders, what their appetite is for the rate of distribution.

As a shareholder myself, I'd like to know that companies have the capacity to increase their dividend and they continue to pay a good dividend. I think, it's a sign of confidence in the business. But really and truly, we'd like to hear from our shareholders on this.

Andre Hardy - RBC Capital Markets - Analyst

And when you look at capital more broadly in 2010, given that there is a fair amount of uncertainty as to what the eventual rules will be. Is it the bank's thought that the more the capital we have, the better or is there a thought that, no, we have the highest probable capital ratio of the sector, therefore we can't let that go down if there is opportunities?

Bill Downe - Bank of Montreal - President, CEO

Well, with a strong capital ratio, and you're correct with the tangible common equity to risk-weighted asset ratio of 9.2% at the end of the year and a Tier 1 capital ratio of 12.2. We have ultimate flexibility and I said on a

conference call at the end of the last quarter that I felt we would have some visibility by the end of December, and, in fact, we did. And the interesting opportunities will be most available to the banks that start out well capitalized and to most clearly understand what the evolution of new capital standards are likely to imply, and we have given a great deal of thought to how it's likely to unfold.

The quantitative impact study that's underway, Basel-driven on both liquidity and capital, is going to lead to some very interesting discoveries, I believe, both in the preparation of those QIS submissions, which have to be done by most banks by the end of April. Then they are going to be digested within their home countries by the end of June. Then by next October, the Basel committee is going to be scratching their head about how to set targets.

And when we look at the initial framework that's been put out, we're extremely encouraged because there are two elements. There is quantity of capital and there is quality of capital. And we not only score very well on quantity of capital, André, we score very well on quality of capital. And when we look at, as the standards change around mix, the percentage of Tier 1 capital ratio that will have to be common, we stand very strongly in that area. When we run our own simulations on other banks with respect to the reclassification of certain kinds of assets, the weighting of trading assets, we're pretty confident that we are not going to see a significant reduction in stated ratios, as we know it's going to show up in other banks.

And in some jurisdictions, when they run these quantitative impact studies, they are going to get capital ratios that approach zero. And so, the question is, how long and at what cost are they going to rebuild their capital? And as a consequence of knowing what the entire landscape looks like, how much time is going to be provided. And I think realistically, it's probably two phases by the end of 2012 with respect to many of the standards around capital and liquidity and more likely 2014 with respect to many revisions.

And from our point of view, the knowledge of that is most important around the pricing of risk. If you start with very strong capital, you don't have to redeploy capital, you can start to make decisions around optimizing your portfolio. And that's why having a very, very deep understanding of how the rule makers are talking, how it's likely to unfold will give you competitive advantage and give you the opportunity to maximize the value of the capital that you have.

So in one sense, you might say, well, you go through this analysis, you probably figure out that relative to the rest of the world, you have more capital than you need. Then the question is, how do you turn that to advantage and extract the maximum return for you shareholders from that.

Andre Hardy - RBC Capital Markets - Analyst

While your position relative to others is clear, the position relative to future minimum requirement isn't as clear, because the regulators simply haven't said what those will be. So until you get that clarity, can you make moves that would take your Tier 1 or your tangible equity ratio down?

Bill Downe - Bank of Montreal - President, CEO

I think that you have to look at a timeframe where there is going to be unfolding visibility and you ought to anticipate how that that's going to unfold and take advantage along that timeline. I think in November, if we had this conversation, I would say that it would be reckless to think about deploying capital until there was some visibility. There is very considerable visibility that's come out of the initial requirements around the QIS and you can run that against all the banks. Well, you've done it. I've looked at your analysis and it's actually quite transparent what the impact will be on many banks.

Andre Hardy - RBC Capital Markets - Analyst

You've mentioned earlier, and correct me if I wrong, but you seem to feel like ROEs can look like they used to. And with the tangible equity to risk-weighted assets of nine, that is certainly a higher capital base for the Bank of Montreal than it would have had in the past. Has there been enough margin expansion to offset the impact of holding more capital or to get back to normalized ROEs that capital level needs to come down if you will.

Bill Downe - Bank of Montreal - President, CEO

Yes, I think that realistically, coming out of the events of the last 36 months, the world is thinking in terms of higher capital levels that makes sense. So whether it's regulators or legislators, the efficiency of the capital markets in providing the resources for people to grow their businesses and for families to invest in a new home, the cost of capital is going to be a determining factor. In inefficient markets, restricted growth, reduced standards of living and that balance is going to come into the realization between now and October of 2010 and December 31 of 2012 and then whatever the date is in 2014. So the expectation that capital is going to come down from the current levels for the most strongly capitalized banks in the world, is correct. There's no question about that. But the gap between the best-capitalized banks in the world and the least capitalized banks in the world is gigantic.

And so from an investor point of view, trying to work your way through what the implications of that are going to be is the question of the day. My view is starting as one of the best-capitalized banks in the world, if you are paying attention, is the place you want to be.

Andre Hardy - RBC Capital Markets - Analyst

You talked earlier in your answer to the first question about retail in Canada and how the position has improved. But your results were different from other banks last year. Your loan growth was at the low end, but margin expansion was very noticeable throughout the rest of the group. So what are we seeing here? Was it more cautious credit granting and/or a shift in the mix that would lead to higher margins, but lower loan growth?

Bill Downe - Bank of Montreal - President, CEO

Well, there has been a shift in the mix. By definition, the faster growth in personal loans than in mortgages as we rebalance our mortgage distribution much more heavily to our own sales force and we exited the broker channel, that had an impact, no question. We had a view around consumer lending that I think did have an element of caution in it. It's interesting, the discussion that is taking place in the market about, is the Canadian market is a little bit too hot, what's going on in the real estate market, should people be rethinking leverage, is reflected in the way we talk to our customers.

If you look at our customer messaging for the last six months, there's been a very heavy emphasis on consumer education, on thinking about balancing your debt and this whole issue of insured mortgages with 35-year terms and 5% down, which is a very topical subject. I take comfort in the fact that our lenders have been very heavily engaged with the consumer on how much debt is too much. A very small proportion of the loan book is in that 35 year, 5% down. But the portion it is 18 months ago, we stopped automatic approval of related credit in that category. The market has carried on with pre-approved credit. I think it was the right decision to make at the time.

Andre Hardy - RBC Capital Markets - Analyst

So what you are saying here is before you would have given that consumer a credit card or automatically offered one line of credit. Right?

Bill Downe - Bank of Montreal - President, CEO

A Line of credit...And we suspended that 18 months ago because we were concerned. Something in excess of 80%, I think close to 85% of those insured mortgages that we're writing are with a five-year fixed term. So it's clear to me that the front line sales force has done a good job of counseling consumers that if you go into a long amortization with a low down payment, and that's necessary for first time home buyers that you need to protect yourself with a five-year fixed term. So the logic of the brand position of the bank translates itself into the way we talk about risk; with our customers, translates itself, as you said, into a positioning of the loan book through this period that probably had an element of caution in it.

Andre Hardy - RBC Capital Markets - Analyst

And certainly the mortgage growth has been negatively impacted by the runoff of the broker book or third-party broker book. How much longer should we expect growth to be negatively impacted by that runoff book?

Bill Downe - Bank of Montreal - President, CEO

Well, we've had positive growth, which I'm happy with. And the real question is, when do we start to grow share in that segment again and it's entirely sales force dependent. We have to continue to hire and train mortgage specialists in our branch system. In 2009, that program which was underway slowed down a little bit intentionally, because it wasn't clear that we were going to get the pay back that we wanted. But that program has resumed. And over the next two or three years, progressively we're going to have more and more mortgage specialists within the branch system. And somewhere in that time period, we'll see a recovery of share, I'm quite confident.

Andre Hardy - RBC Capital Markets - Analyst

A year-ago at this time, we spent a lot of time on the different off-balance sheet vehicles. A lot of progress has been made, asset values have recovered. How will those or how will the new capital rules or the implementation of IFRS impact those vehicles?

Bill Downe - Bank of Montreal - President, CEO

Well, the impact of IFRS is unknown unlike the capital rules. There's a tremendous amount of uncertainty around both timing and the nature of those, but we do understand what the direction is. And the progress that we've made with respect to off balance sheet has been very timely. We really did take advantage of spreads coming in, in 2009, to dramatically reduce the exposure that we have in a couple of very significant areas, Apex in particular. The SIVs start to amortize at a much more significant rate this year and going into 2011. So I think from my point of view, we needed to use 2009, take advantage of spreads coming in to reduce the risk materially to the point that they were not talking about it all of the time. And then in the intervening period to clarity around IFRS and the implementation of the capital rules, expect to see the runoff of the book to finish the job.

Andre Hardy - RBC Capital Markets - Analyst

Right. So, I guess the structural investment vehicles will be fairly small by then. But the Apex and Sitka will still be larger, some of the sponsored off balance sheet conduits will still be large enough. Will that surprise us when IFRS comes into place in terms of the potential impact or it's something you feel is manageable?

Bill Downe - Bank of Montreal - President, CEO

You know, I think that our knowledge of how future regulatory or accounting changes will play out gives us comfort that we can take steps going through 2010, 2011, 2012 to manage whatever emerges in that area. So we hope not to surprise. That's not the way we think about managing the situation. There will be some changes in the market that evolve as well. And so I think that what we saw in 2009 was a very clear opportunity to reduce risk on favorable terms. I think in 2010, we'll be able to do a little bit more of that. And by the time there is regulatory change and there's clarity around it that we'll have taken additional steps and will not be an issue.

Andre Hardy - RBC Capital Markets - Analyst

Sure. One competitive advantage you've alluded to is your capital position. That being said, the market has been very quick to recapitalize, many banks around the world now have severe dilution to existing shareholders, but the recapitalizations in many cases have gone by very quickly. Are you concerned that there is a certain window that you have to take advantage of that strong relative capital position and that window might close?

Bill Downe - Bank of Montreal - President, CEO

There is still a lot of capital to be raised. And I think when I go back to both quantity and quality, the issue around quantity of capital is being addressed. The issue around capital mix is going to play out over quite a bit longer time. And I think that the whole question of how big is the concentration of innovative and perhaps in your Tier 1 ratio is going to have to be dealt with and that implies slower growth for institutions, who have been to the market, raised capital once, maybe twice, and their shareholders are starting to show a little fatigue.

So on that score, I don't think the window is going to close too abruptly. And then there's another element, we have two kinds of capital. We have financial capital and we have human capital. And we've been able to build and strengthen human capital in a period of time that many competitors will have seen an erosion in their capital. But more importantly, we've also reinforced the culture of the firm around the things that we did well, the things that we think are most important. And I think there's going to be very, very significant competition for the right kind of talent as we go into an expansion period. And what you don't want to be doing as the market expands is rebuilding your bank with mercenaries. I think that's a challenge that we'll also see as a global phenomenon.

Andre Hardy - RBC Capital Markets - Analyst

Another thing we're not talking about a lot this year compared to last year is credit. And one trend everybody is observing is leading indicators of credit quality have improved across the board. We're not done with credit issues, but the leading indicators have improved. You talked about strong capital. We haven't talked about reserves. And certainly the bank-specific allowances relative to growth imperatives have declined through the years. Is that something that might need to be strengthened in the upcoming years? Or asked differently, what explains the declining coverage levels on impaired loans?

Bill Downe - Bank of Montreal - President, CEO

The coverage on impaired reflects a couple of things. It's historic that the bank has been an early recognizer and the pace of writing off has affected the coverage ratio as well. So if you actually look at the numbers, we've written off very significant loan balances through the cycle. Now, some of those, the characteristics of them, and I would say the homebuilder market is an example, as you liquidate the inventory, the loss is a loss. And some consumer losses, once you write the asset off, the probability of recovery is very low.

But what we have seen on the commercial side in the past, and I've been through three cycles, is that you have recoveries not only on loans that have provisions against them, but loans that have been fully written off. So we're comfortable that that coverage reflects the reality of the loan book. Our historic experience, our confidence in our ability to work those assets and we have almost 70 special asset bankers in our commercial banking business in the United States. They are all very experienced and they are all working accounts, so my belief is that it is actually the other side of it. As we come out what are you going to start to see on the recovery side?

One of the things that I am pretty confident that will change in 2010 versus 2009 and 2008 is that you are going to see impaired loan growth in categories that will ultimately have lower provisions and lower losses as well. So the nature of the losses that were taken early in the cycle and this is particularly in the area of construction and some of the consumer losses particularly in home equity loans, they moved through very quickly. We had high provisioning that went with the impaired loan level. If you look at commercial real estate in the United States, there is no question that you're going to see higher in impaireds across the industry in 2010, you will see lower provisions as a percentage of those impaireds. In our case, what we're contemplating really is that we are on a plateau with respect to provisioning, and the nature and the characteristics of the mix is changing as the provisioning from previous classes of loans runs through. It's a different category coming in now.

And the commercial market, the investor-owned commercial market and the owner-occupied commercial market, is not going to be as abrupt in the way that real estate is digested, because the rate of maturing loans

is going to define the rate of impaireds and so just the characteristics are different. I'm comfortable that the philosophy, the consistent philosophy we have around recognition that's reflected in those ratios is the right one.

Andre Hardy - RBC Capital Markets - Analyst

If we take a step back for a second, obviously the world is much better today than a year ago. What areas do you find that investors don't spend enough time thinking about, or said differently, what do you look at in the next 18, 24 months as potential issues that might negatively impact returns or profitability?

Bill Downe - Bank of Montreal - President, CEO

Gosh, that's an interesting question. I think that the backdrop of regulatory burden is an important thing for all of us to keep an eye on. And it's just not the cost of higher FDIC or CDIC premiums or one-time assessments and those kinds of charges. I think that you can expect the regulatory burden on the system to be higher and figuring out what the manpower cost is to respond to that, then reporting expense that is necessary. I think very clearly a learning of 2007, '08 and '09 was that being able to sum up your risk positions very quickly was a strategic advantage. And so, I think a necessity is going to be higher investment in management information systems, because some banks really had a serious problem in figuring out what their exposures were, what their liquid assets were, what their access to recourse or non-recourse was. And so, I think that whole area of understanding what the higher cost of doing business is, that's obviously going to be something that plays on the market. And the scenario where I think being aggressive in looking for answers will give you advantage and that's why we spend as much time as we do thinking about what the future will look like.

Andre Hardy - RBC Capital Markets - Analyst

And what about, I mean, you don't operate much in the U.K., but in the U.S. you have a material platform, and what we read recently is that politicians want to have a special levy to recover fees on a program that's actually made enough money. As a bank that hasn't taken TARP money. Do you feel like you might be still subject to fees that might be levied against the industry?

Bill Downe - Bank of Montreal - President, CEO

Well, there is a cost of doing business in whatever region you compete, and it is what it is and, there is not a lot of future in railing against it. What you want to do is optimize your business around it. I wouldn't dismiss either public anger or the focus of legislators, and I think it is quite legitimate. If you sit down one-on-one and talk to the Chairman of the Finance Committee of the House about what has transpired, there has to be a change in the environment. And I think it is quite realistic and my own view is that the politicians are going to get to a reasonable place. There is rhetoric. But then there is a need for fundamental change and there is a cost of doing business in the market. And we see ourselves as a domestic bank in the U.S. We're viewed as a domestic bank in the U.S. by both the regulator and our customers and we abide by the rules of the market.

And if we believe that the trend and some elements of the trend are actually good for business in the long run, then we ought to say that. And that's my own feeling that if there were excesses in the market, they need to be corrected and the cost of the correction of those will fall on all participants, equally.

Andre Hardy - RBC Capital Markets - Analyst

We didn't talk a lot about your capital markets business and we're almost out of time. So perhaps, the one question I'll ask is your trading business did very, very well last year and I think the bank has alluded to the fact that it might not be as good going forward. Is there enough upside or juice in the advisory businesses, in the lending business to offset what might be a decline in trading revenues going forward?

Bill Downe - Bank of Montreal - President, CEO

Yes, I think the emergence of the economic growth is going to drive corporate finance. And there is no question that that will be a mitigant to the fact that just the coming in of spreads and the bid-ask margin was

very wide in 2009. But don't forget our business is research-driven. We have the strongest research platform that I am aware of in the mid market in North America. And when I say mid market in North America that includes most of large corporate Canada. And we cover almost 900 issuers, 480 in the U.S., 580 if you include inter-listed. We have 60 analysts, 31 of them I believe are U.S. based. And our corporate finance business is going to benefit from the return to growth. And the investment that we've made in the last seven years to double the size of our research platform and build a research platform in the U.S. it's equal to Canada and run it as a single research platform. So it has sector coverage, I think is going to provide plenty of fuel to the capital markets business and the anchor in research assures me that it's a client-focused business and that's quality earnings.

Andre Hardy - RBC Capital Markets - Analyst

Bill, thank you very much for your time.

Bill Downe - Bank of Montreal - President, CEO

Thanks, André.