BMO Financial Group

Bank of Montreal at the 2019 Barclays Global Financial Services Conference

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We caution that the foregoing list is not exhaustive of all possible factors. Other factors and risks could adversely affect our results. For more information, please see the discussion in the Risks That May Affect Future Results section on page 79 of BMO's 2018 Annual Report, and the sections related to credit and counterparty, market, insurance, liquidity and funding, operational, model, legal and regulatory, business, strategic, environmental and social, and reputation risk, in the Enterprise-Wide Risk Management section on page 78 of BMO's 2018 Annual Report, and the Risk Management section on page 27 in BMO's Third Quarter 2019 Report to Shareholders, all of which outline certain key factors and risks that may affect our future results. Investors and others should carefully consider these factors and risks, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. We do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented, as well as our strategic priorities and objectives, and may not be appropriate for other purposes.

Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2018 Annual Report under the heading "Economic Developments and Outlook", as updated by the Economic Review and Outlook section set forth in BMO's Third Quarter 2019 Report to Shareholders. Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on our business, are material factors we consider when determining our strategic priorities, objectives and expectations for our business. In determining our expectations for economic growth, both broadly and in the financial services sector, we primarily consider historical economic data provided by governments, historical relationships between economic and financial variables, and the risks to the domestic and global economy. See the Economic Review and Outlook section in BMO's Third Quarter 2019 Report to Shareholders.

Non-GAAP Measures

Bank of Montreal uses both GAAP and non-GAAP measures to assess performance. Readers are cautioned that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies. Reconciliations of GAAP to non-GAAP measures as well as the rationale for their use can be found on page 4 of BMO's Third Quarter 2019 Report to Shareholders and on page 27 of BMO's 2018 Annual Report, all of which are available on our website at www.bmo.com/investorrelations.

Examples of non-GAAP amounts or measures include: efficiency and leverage ratios; revenue and other measures presented on a taxable equivalent basis (teb); amounts presented net of applicable taxes; results and measures that exclude the impact of Canadian/U.S. dollar exchange rate movements, adjusted net income, revenues, non-interest expenses, earnings per share, effective tax rate, ROE, efficiency ratio, pre-provision pre-tax earnings, and other adjusted measures which exclude the impact of certain items such as, acquisition integration costs, amortization of acquisition-related intangible assets, decrease (increase) in collective allowance for credit losses, restructuring costs, revaluation of U.S. net deferred tax asset as a result of U.S. tax reform and the remeasurement of an employee benefit liability as a result of an amendment to the plan.

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

John Aiken - *Director & Senior Analyst - Barclays*

Okay. Ladies and gentlemen, to break up the post-lunch stupor, we're going to carry on with the presentations. Very pleased to have Tom Flynn, Chief Financial Officer of Bank of Montreal, who's apparently a veteran at our conference on these days. Tom, thank you very much for joining us.

Tom Flynn - *CFO - Bank of Montreal*

Thank you for having us. Always good to be here.

John Aiken - *Director & Senior Analyst - Barclays*

Tom, we're actually talking beforehand about the macro, and there's a lot of concern on the macro front these days. Whether it's going to come to fruition or not is up for debate. But I was wondering at the outset, how does BMO manage for contingencies, eventualities…positive or negative, in terms of how do you try to put the platform in best shape? Or what may or may not occur?

Tom Flynn - *CFO - Bank of Montreal*

Yes. So I guess I have things on that front. The first would be, although I totally agree there's lots of concern about the macro picture and uncertainty about the direction of the economy, in part, given the trade discussions, we do think that the underlying economy, based on what we see with our customers, is doing better than markets most days. The outlook feels better than the headlines and the markets seem to anticipate.

And you saw that in our third quarter results, we had 8% and 9% pretax pre-provision growth in our Canadian and U.S. personal and commercial banking businesses, driven by good balance sheet growth. So the underlying economy we think is trucking along.

One oddball factoid that actually struck me as I was heading down to New York and reading some things, but we actually expect higher GDP growth in Canada next year than we expected this year. And it is not higher by much, it's basically a rounding error. But for this year, we're calling for a 1.5% GDP growth; next year, 1.7% growth.

And in the U.S., we think growth will be about 1.8%, down roughly 0.5 points. So we do expect lower growth in the U.S. In Canada, the growth, we think, will be relatively flat.

And although the recovery is long in the tooth by most measures, we don't think recovery is end of old age. And so subject to a reasonable resolution - the escalation of the trade discussions, from our perspective, there's no reason to think that the economy is necessarily heading for materially lower growth. And we see reasonable confidence in our consumer business and our commercial business on both sides of the border, and we see people generally carrying on.

And then, in terms of how we manage, a couple things, we feel good about our business mix. We have about 65% of our business in Canada, around 1/3 in the U.S. We like the diversification that we get by virtue of that. We're stronger in commercial banking than we are in personal banking. Our growth has been better there. And market growth has generally been better there, so we think we're in a good place from a market potential

perspective. And we've invested in our U.S. businesses over time, and think they've got room to leverage the platforms that we've invested on.

So we believe we've got the ability to outperform market growth in our banking businesses, our capital markets business and our wealth business in the U.S. And so from a revenue perspective, we think we're in a good place for whatever the environment brings.

And I would say, notwithstanding everything that I've said to date, given the potential for lower growth and the impact of lower rates, we are looking at our expense growth plans as we head into next year. And so one of the levers we have the ability to pull is on the expense side, and we'll be targeting a lower level of expense growth next year than we had this year. And we think that the better starting spot to be in, heading into the year, given the potential for revenue growth, to be a bit lower.

John Aiken - *Director & Senior Analyst - Barclays*

You touched on a whole myriad of topics. Hopefully, we'll be able to dive down on most of them. But BMO actually has a very strong commitment to commercial, like you mentioned, on both sides of the border.

One of the very interesting things that I've noticed was that consumer borrowing has slowed a little bit, probably not as strongly as most had anticipated, but we've seen the continued strength of the commercial, at multiples of GDP growth. Particularly in Canada, what's underpinning that? And what gives you confidence that this level of growth, plus or minus, will be sustainable in the medium term?

Tom Flynn - *CFO - Bank of Montreal*

So we agree with the premise of the question. Commercial loan growth has been running at a high rate relative to GDP growth. We've been running at about 14% to 15% for the last 3 quarters. We've gained share over the last year, and the market is growing at a low double-digit rate.

And we think part of what's been producing the good late cycle growth in Canada is the fact that commercial credit growth was weak in the early part of the recovery. And it was a while ago now, but commercial loan growth typically is, and this is rough-rough, high beta play on GDP growth. And so as you bounce out of a recession, commercial loan growth is typically quite strong, and 2 or 3x GDP growth.

That didn't happen this recovery because the recovery was weak and had low confidence. And the people didn't have that confidence to spend, and that kind of held back. Commercial loan growth coming out of the recession was modest by historical standards.

And so as time has gone on, we think we had extended the investment cycle, which has given rise to strong growth over the last few years. We do have a good business. As we've talked about, we're #2 in the Canadian market, and have a 19% share. It's an area of strength for us.

The growth that we've got is well diversified, and that's a question that we sometimes get. So in the last quarter, growth was about 15%. And we had double-digit growth in 9 sectors that we lend into and 5 regions. So quite broad based, and we feel good about the diversification that gives us.

And for us, we're growing at a rate that's a bit above market. And some of that growth is coming from having a strong business, a good reputation in the market, and a desire to lend to our customers through the cycle.

And then as well we've created capacity in our commercial banking business through technology that we've deployed in the business.

And that technology, in a variety of ways, has freed up our client coverage people to spend more time generating business and more time with our customers as opposed to doing administrative things internally. And that capacity creation is creating some of the growth that we've seen. And we've added bankers in some markets where we were underrepresented, and Toronto is the biggest example of that.

We have a very strong business nationally. We're actually a little underrepresented in the greater Toronto market. We've added people over the last a year or 2 to that market, and that's helped the growth that we've seen.

And so I feel really good about the business and our ability to outperform the market. We do not believe we've changed our risk appetite. We do not believe we're reaching on credit to deliver the growth that we are delivering. And once again, all of that said, 15% growth in today's environment is a pretty good number, and so we do expect growth to come down over the next few quarters. We don't have immediate line of sight of that in Canada. The pipelines look pretty good. But as we go into next year, it's likely that the growth will move towards the 10% plus or minus level. And there, we're assuming again reasonable growth. But we think, although a little bit of moderation from rates that are a pretty strong at the moment.

John Aiken - *Director & Senior Analyst - Barclays*

Can you touch upon your expectations for the U.S. commercial side?

Tom Flynn - *CFO - Bank of Montreal*

On the U.S. side, a number of similarities, strong businesses as well. U.S. commercial banking is sort of the bedrock of our U.S. personal and commercial banking business, and represents around 75% of our loans. So we're a stronger commercial bank in the U.S. than a personal bank. I believe it's the last 4 years we've guided to commercial loan growth in the upper single digits, and we've done solidly double-digit growth. So we've out-delivered relative to guidance on loan growth on a consistent basis, and have done that off the back of what is a really strong business, with strong leadership under Dave Casper, who runs that business for us, and a really good presence in the upper Midwest market. We've grown some of our businesses from an industry vertical perspective on a national basis, and we've opened offices in some cities as well.

So a range of things producing good growth. And as we look forward, growth in the last quarter was also sort of mid-double digits, 15-ish percent, and we expect that growth to tail down really for similar reasons. So we're very, very confident in our ability to continue to outperform in U.S. commercial lending. But with the rates that we've seen, it's natural to expect a bit of giveback and a move that's closer to the high single digits 10% zone in that business over the next few quarters.

John Aiken - *Director & Senior Analyst - Barclays*

Tom, we're only a couple weeks removed from your third quarter earnings being reported. And I was, honestly, quite surprised with the market's reaction to the results, because a lot of the headwinds that BMO experienced that generated the miss against, admittedly, our expectations seemed to be, by definition,

nonrecurring. When you look at the results of the quarter, what do you think about it in terms of earnings that are repeatable, run rate and your expectations to be able to sustain that on a go-forward basis?

Tom Flynn - *CFO - Bank of Montreal*

So we had what we thought was a good operating quarter in the third quarter. Again, pretax, pre-provision growth in our 2 Personal and Commercial banking businesses, about 8%. Capital Markets had a good quarter, with year-over-year growth, and I'd say, clearly, very good performance compared to our competitors with that outperformance coming from, in particular, strong investment and corporate banking revenues in the U.S., where we've invested. And again, I think we can continue to expand at a higher rate than the market.

And we had positive all-bank operating leverage of 0.5%. So good operating performance. I mentioned the commercial loan share growth. We've also grown share in personal and commercial deposits and in credit cards in Canada. So we feel very good about the operating performance.

And below the pre-tax, pre-provision line, we have credit provisions, and they were elevated in the quarter for a few reasons. And we guided to lower losses going forward. And the losses in the quarter were higher because of a couple of one-off events in our Canadian business.

We put in a new collection system during the quarter. We had a few small hiccups as we put that system in, they've been resolved, but our collections effort wasn't as crisp in the quarter as it normally is, and with that our consumer losses were a little bit higher. And we had a larger commercial credit, which we do think was a one-off and not a canary of any sort, went tilt in the quarter. So the losses were a little elevated there. And we've built our general allowance under IFRS 9 and had about a $60 million build there.

So with that, losses were up. The higher loan losses drove the miss to expectations. And we guided on the call, and our CRO, Pat Cronin, did this to loan losses in the 20 to 25 bps zone for the next few quarters. In Q3, we were 28 bps with those things. And so we do think the loss rate will come down. And otherwise, in the business, it was a pretty normal quarter, I would say.

The Wealth segment earnings were a little bit soft because of Insurance. And offsetting that, our Corporate segment was a little bit strong. And those 2 things, basically, washed at the all-bank level. And so the big outlier item was credit, which we do think was related to specific things at quarter and as Pat guided to, we think the results will be better on that front going forward.

And last point is just as a general matter on credit. As we look at our portfolios in Canada, U.S., commercial, personal - we see credit as being stable. People wonder about where we are in the cycle. None of us know with any high degree of certainty, but the portfolios are not showing significant migration one way or the other. They're not getting better. They're not getting worse. And with rates low, unemployment low and solid, the credit quality picture looks pretty stable at the moment.

John Aiken - *Director & Senior Analyst - Barclays*

Tom, before I open up to the audience, can we start with the first polling question, please.

How do you BMO executing a U.S. acquisition to enhance the next U.S. P&C platform, where the implication to it's valuation? We believe it's likely and it's going to be positive for the valuation, we believe it's likely to be negative for the valuation. We have no idea. Or it's unlikely be positive or unlikely a negative?

(Voting)

John Aiken - *Director & Senior Analyst - Barclays*

We got a neutral, but we also likely end up positive, so unless you're going to give us a list of targets that you're looking at, can you discuss the capital position of the bank? And what your expectations are for use of excess capital.

Tom Flynn - *CFO - Bank of Montreal*

So our capital position is strong. As you know, our CET1 ratio in the quarter was 11.4%, up 10 basis points, a very strong position. And we've had strong commercial loan growth over the year-to-date. And so with that, we've guided people to expect capital to build at the low end of our normal 10 to 15 basis point build per quarter, which is more or less what we've done. And we always say our best use of capital is organic growth. We say that because we believe it, and the returns are good in that space.

And so we're open for business across our platforms and feel good about our ability to generate organic growth, as we've talked about. And we have grown our business through time, periodically through acquisitions. We don't feel compelled to do something. And if there was an opportunity that met our hurdles around strategic fit and cultural fit and financial fit, we would be open to it.

And so we maintain relationships, we talk to people and we keep our eye open for opportunity. And we stick to our disciplined approach and disciplined standards in evaluating opportunities. And we feel good about our organic ability to compete. So we don't feel compelled to do something. And we'll see if there's an opportunity that arises.

Your question talked about U.S. P&C banking, that has been our biggest area of growth through acquisition over time and not unreasonable to expect over time looking forward that, that would be an area that we would focus on as well.

And as we go into next year, in Q1 of next year, all of the Canadian banks have 2 relatively small, but noticeable, capital changes, one related to a regulatory capital change and the other related to the adoption of a new accounting standard. We've said that those changes will ding our CET1 ratio by 10 to 15 basis points, and so we'll take that in stride, but it will be an item that we'll have in the first quarter.

And we don't really see the need to have the ratio build above the 11.50-ish level. And so we would expect to be active with the buyback if the ratio was, otherwise, going to drift above that level. And you've seen us over time be active with the buyback when the ratio has been strong.

And with the ratio around where it is, we've got enough capital to complete a reasonable size, not too big, not too small, acquisition, in a highly responsive way to opportunity and we like having the capital to do that. And equally, we don't want to carry too much capital because that's inefficient for the shareholders. So that's how we think about it.

John Aiken - *Director & Senior Analyst - Barclays*

As CFO, what level are you willing to take the capital ratio down to with an acquisition, of course, with a plan to grow it back up to? But what's your minimum?

Tom Flynn - *CFO - Bank of Montreal*

Yes. So I'll start with a regulatory minimum. And our regulator, OSFI, has introduced what's called a domestic stability buffer. They've added to that a couple of times. And so with that, their minimum expectation is 10%. And with that in place, we take the ratio, depending on timing and the opportunity, down likely in the range of 10.5 to 10.7. And then, look to build it back up above 11% over time from there.

John Aiken - *Director & Senior Analyst - Barclays*

Do we have any questions in the audience at this stage?

Audience Member

Darryl mentioned growing earnings in the U.S. to be around 1/3. You've gone through that around 35% now. What's the upper range where that could go to?

Tom Flynn - *CFO - Bank of Montreal*

Thanks for the question. It's a good question. We have had the good fortune of hitting a mid-ish term target that we've put out on U.S. earnings contribution sooner than we thought we would. So the U.S. is now contributing about 1/3 of our earnings. We've had very good growth over the last couple of years, partly organic just through growing our customer business, in particular, on the commercial and the deposit side like we've talked about, and partly benefiting from, on the way up, rates and tax reform.

And we haven't come out with a new target, so we're sort of north of 1/3. And I would say we don't see any magic around any particular number. So we think about it more from a fundamental perspective, looking at the growth in the business and where that will take us over time as opposed to having a fixed target. And we do expect, not necessarily in every year, but over time the growth in the U.S. to be higher than the growth in the Canadian business, given that we've got, in effect, more market to grow into, given the size of our businesses there relative to the Canadian market. And M&A is more likely to occur in the U.S. just because the Canadian market is more consolidated.

So over time, not necessarily in every period, I'd expect the U.S. growth rate to continue to be at a higher rate than the overall consolidated bank.

John Aiken - *Director & Senior Analyst - Barclays*

Tom, in your commentary today and also in the quarter, you used the phrase pre-tax, pre-provision. Is this just in response to the situation that occurred in the third quarter earnings? Or is this a subtle messaging that even though credit is stable at this stage in the game, we are expecting provisions to increase at a higher rate than the pre-tax, pre-provision earnings?

Tom Flynn - *CFO - Bank of Montreal*

I would say it's really 2 things. Firstly, we look at it all the time. And so when we look at our businesses internally, we probably don't look at it quite as much as income, but we look at it close to as much. Simply because it's a more pure representation of how the operating business is doing. And so we think it's an important measure to gauge the success you're having in growing your business.

And we talk about it pretty regularly. And I would say, it's fair to say that we amped it up a little bit in the third quarter because the numbers were so good and reflected that we really did think it was a good operating performance. And we had kind of the inconvenience of the higher credit losses, which we saw as one-off in the quarter. So we didn't amp it up a bit in anticipation of future of higher losses. We were trying to say the underlying business is doing pretty well, and we expect credit to behave in a better fashion over the next quarter or two. And so we thought it was actually the more relevant number to look at in thinking about the performance of the business.

John Aiken - *Director & Senior Analyst - Barclays*

We touched upon the commercial growth, but the other side for the top line is margins. There was obviously a lot of talk about margin this quarter. But it's also fascinating to see how the environment, at least when you look at the environment, is drastically different today than it was at the start of the year. Can you give us a rehash of your summary of expectations and margins in Canada and the U.S.?

Tom Flynn - *CFO - Bank of Montreal*

Yes, I'll give you the rundown on what we're thinking. And it is a bit of a different picture in the two jurisdictions, so I'll start in Canada.

In Canada, the Bank of Canada just made its interest rate announcement, and didn't move and had a pretty neutral stance. So we think it's likely we'll have one move from the Bank of Canada in the next 6 months, but a pretty stable situation. So we think our Canadian margin will be flattish for Q4 and into the first bit of next year.

I should caveat that all the margin comments and you know this, but there are a lot of variables, obviously, on the balance sheet and then there's customer behavior and there's a competitive dynamic around that. So there's a lot of uncertainty in all of these numbers, and people should take them as directional.

So Canada, we think, stable-ish given the rate environment that we've got. And also the amount of short-term exposure we've got versus longer term exposure. And the longer-term exposure reprices that 15 to 20% a year clip, and so the impacts aren't as immediate.

In the U.S., for the fourth quarter, we said there would be pressure from the Fed cut that we've had and a bit of pressure coming from loans likely growing at a higher rate than deposits, which we saw in the last quarter as well. And so the margins likely down sort of an upper single-digit number, given those two things. And then into next year, assuming we have additional Fed cuts, there's likely to be some manageable level of margin pressure as well in the U.S.

And we'll see what the tightening or easing cycle looks like in the U.S. But on the way up, we obviously saw banks benefiting more early days and less later in the hiking cycle. And so we think the impacts from cuts will be most pronounced early and the impact will be lesser as the number of cuts goes on if it does. So our hope would be that if there's series of cuts, later cuts aren't as impactful as the first few, which is the way it worked when the trend was going up versus down. A little more fun when that goes up and down.

John Aiken - *Director & Senior Analyst - Barclays*

One of the things you talked about, the sensitivity which was imposed on operating expenses and you're talking about lower growth going forward. How do you balance the need to spend on new initiatives like technology or anything else like that, versus trying to pull back and manage in an environment where your revenue growth may not be as strong as it has been in the past?

Tom Flynn - *CFO - Bank of Montreal*

So balance is a good word, and you used it in the question, and you try to strike out a reasonable balance between delivering good and competitive financial performance and investing in the areas where you see opportunity and you believe you need to invest for the long term.

And so as we think about our business plan for the coming year, we think revenue growth is likely to be a little lower than the current year. With that, we would expect a lower rate of the expense growth. And we think we can achieve that while adding to our expenses in certain areas. And we'll do that by having lower expense growth in other areas.

One of the bigger expense buckets that we've got in the bank, and that has increased significantly over the last 5 years, is technology. And we've talked about growing our tech budget by a double-digit rate for the last 3 years.

With that, we've delivered a huge amount of utility to our customers on both the retail and the consumer side. We've strengthened the underlying architecture of our platform. We have responded to a significant amount of regulatory change. And so that scenario we're given the building capability that we've seen, we don't see the need to invest at the same rate. The growth there will continue to be above the overall bank level of expense growth, but at a more moderate rate given the investments we've made than we've had over the last few years.

John Aiken - *Director & Senior Analyst - Barclays*

And do you think that's going to be system-wide? Or do you think that there is a risk to slow down the technology spending, even though it's still quite high, can that put you at a competitive disadvantage?

Tom Flynn - *CFO - Bank of Montreal*

I would say we're not worried about being at a competitive disadvantage. We think we're in a good place from a capability perspective now. A couple examples of that, in the U.S, our online banking platform for consumers has one of the top ratings in the app store, and our rating in Canada is also high.

So we've got, for sure, a competitive capability of products across capabilities. And we're not at the top everywhere, but we think we've got a good mix. And then there are cycles to things. And we've gone through a big cycle around tech investment, it has room to run for sure, and the expenses will continue to grow at a higher rate than the overall expense growth.

But our assessment would be, although the returns are good, the number of opportunities to invest or great returns aren't as high as they once were, and so it makes sense after a lot of spend by the industry for a number of years that the expense growth comes down a bit. Again, still running at a level above the overall level of expense growth.

And that's just a sign of greater maturity and a bit of a cycle. And when you're running a business and you know this, you manage to a degree, your expense line based on the cover that you have from your revenue line. So when revenue growth is lower, you manage expenses in a tighter way. When the opposite is true, you do have some incremental ability to invest. We're pretty sure we're not unique in that. So we would expect the general trend of the industry to be in a similar direction.

John Aiken - *Director & Senior Analyst - Barclays*

I'll give you a chance to have another drink if we can have the second polling question, please.

Where can BMO deploy capital to achieve the greatest valuation impact: Expand U.S. retail banking, broaden Wealth Management, greater diversification through other revenues, aggressive share buybacks, dividend payout ratio above 50%, build capital levels.

Tom Flynn - *CFO - Bank of Montreal*

That should be interesting.

(Voting)

John Aiken - *Director & Senior Analyst - Barclays*

Expand U.S. retail banking beyond the footprint.

So I guess it dovetails in with the first. You talk to being open to acquisitions. How willing are to continue to expand the footprint? Or are we looking more end market?

Tom Flynn - *CFO - Bank of Montreal*

Our principal current footprint for the personal and commercial banking business is the Upper Midwest. And across that footprint, we've got a strong business. We're #4 in the market from a deposit share perspective, and it's a big market. It's equal in population and GDP to Canada. So it's a big market for us to grow in. And so all that is to say, good market, lots of room to grow and we'd be happy to grow organically and then inorganically. And then as well, over time, we do want to expand our footprint from a geographic perspective. And our focus in the broadest sense when we talk about it is kind of on the middle-ish of the country.

So given our concentration now in the Upper Midwest, we think it makes sense to extend that and grow sort of in the adjacent areas in the middle of the country and south. And given that focus, we don't think it makes sense to go to either coast because they're big competitive markets, and we think we'd be spreading ourselves too thin if we were to try to compete on either coasts.

So expanding beyond the upper Midwest footprint is a possibility over time. Again, we don't feel compelled to do an acquisition, we feel good about our ability to outperform and grow organically, given the business that we've got, but we're open to opportunity to expand a bit.

John Aiken - *Director & Senior Analyst - Barclays*

And because we're discussing mainly the retail banking operations, is there any desire to inorganically expand in some of your other operations, Wealth Management does come up…

Tom Flynn - *CFO - Bank of Montreal*

The M&A question typically focuses on U.S. banking as it has here, and it's not uncommon. We do often add that we would look at opportunities in Wealth Management, and we have done transactions in Wealth Management over time. And there, the focus would mainly be on sort of personal service wealth businesses. So we have a big private bank or high net worth business in both Canada and the U.S.

Depending on the year, we're ranked either #1 or #2 in private banking in the Canadian market. And Harris Bank as its legacy, was a big trust custodian bank and a commercial lending bank. So we've got a good private banking business, but it's actually active across the U.S. We're in, I think it’s 12 U.S. cities coast-to-coast in the private banking business. So that is something that we would look at and consider.

You need to be careful with business fit when you're looking at acquisitions on the wealth side and make sure that the business model that would be acquired fits with your vision for how you want to run the company.

And then less of a focus, we did this year close in our Capital Market business, the acquisition of a firm that focused on U.S. agency and debt securities, and that transaction has gone very well. We feel good about the team that has come on board. They've got lot of good ideas. They run a very good business. And so we

wouldn't do something larger, but for some acquisitions there where we could accelerate an existing strategy, we would be open to looking at opportunities.

John Aiken - *Director & Senior Analyst - Barclays*

And coming back into Canada, on the Wealth Management front, BMO actually has a bit of a differentiated strategy in being one of the early movers in terms of the passive. Can you talk about your strategy for Wealth Management? And what you expect to see industry-wide over the next 5 years or so?

Tom Flynn - *CFO - Bank of Montreal*

We have what I describe as a full-service Wealth Management business in Canada. We're active in first full-service brokerage, online brokerage, private banking, mutual funds, institutional asset management. And we have a big ETF business, which you're asking about. We were the first bank to introduce our robo product. So it's got a good history of innovating.

On the ETF side, we're #1 in the market on sales, #2 in the market on assets. It's been a great business for us and obviously, we've ridden the trend to passives. But we were early in the market, and we identified that as an opportunity in early days.

When there's innovation, you always debate moving into a new part of the market, which might have a different value proposition for customers, because early days can be a risk of cannibalizing your existing revenues. And we think that example, together with our robo example, are good examples of innovating in a way that has resulted in the business growing over time. And we've captured share through that innovation.

So we feel good about the outlook for growth there. The business in Canada, overall, and this is a market comment as much as a Bank of Montreal comment, is more matured today than it was 10 years ago. And so the growth rate we expect will be above the growth rate of the bank overall and lower than it would've been 5 to 10 years ago, just given the greater maturity.

There has been fee pressure in parts of the Asset Management business, which people in this room would be familiar with. And for us, we're happy to have, in effect, the ETF hedge that we've got against that pressure. And so that's helped to keep our overall revenue growth going at a good clip.

And we also think with the baby-boomer demographic aging and generational turnover, that there will be a big ongoing opportunity related to Wealth Management and helping people manage their wealth. And we've got a very strong, sort of, what I call, high net worth business in Canada, both through our private bank and our full-service brokerage business. And they do a really good job around estate planning, tax planning, and I think those areas of focus will serve us well over the next 5 to 10 years.

John Aiken - *Director & Senior Analyst - Barclays*

And if you just finish up by touching on the global parts of your Asset Management business?

Tom Flynn - *CFO - Bank of Montreal*

So on the global side, I'd say we have had good investment performance in our business, in both the U.S. and Europe.

And the business has experienced fee pressure in our business and has been true of the industry. So we feel good about our ability to deliver investment returns for our customers. We feel good about our ability to distribute. We have worked to sort of cross-fertilize our distribution so that our distribution in Canada is distributing product we manufacture in the U.S. or in Europe. And that's something we've worked on for a few years, and we feel good about the traction that we've got.

And broadly, we're looking to move our exposure to alternatives and to continue to grow the path of the part of the business in the Canadian market. And like others, we've had some impact from the fee compression that has occurred in the industry.

John Aiken - *Director & Senior Analyst - Barclays*

Just in closing, my final question for you, started out with talking about the macro pressures and everything else with that. From your seat, what's the first thing that you look to in the business pages in the morning to find out about? What's your biggest concern, even if you don't think it's high probability of happening? But what's out there in the macro front?

Tom Flynn - *CFO - Bank of Montreal*

So again, our base case is for stable, moderate growth. And we'll see how that plays out, but that's our base case. And then I'd say the biggest macro concern I have, and it's not one that I'm alone in having, just as it relates to the ability of the official sector to respond to the next downturn, given how low rates already are and where the current budget deficit is and where the debt levels are. And so the amount of ammunition to fight the next downturn feels like it's lower than it's been in the past. And that might give rise to either a weaker response or a response that involves a higher degree of creativity and where that will bring us will, by definition, likely, if that's the case, be less certain.

John Aiken - *Director & Senior Analyst - Barclays*

But we'll continue to focus on the base case.

Tom Flynn - *CFO - Bank of Montreal*

All right. That works for me.

John Aiken - *Director & Senior Analyst - Barclays*

Well, thank you very much.

Tom Flynn - *CFO - Bank of Montreal*

Thanks for having us.