BMO Financial Group

Q3 2017 CONFERENCE CALL

CORPORATE PARTICIPANTS

Jill Homenuk

Head of Investor Relations

Bill Downe

CEO

Tom Flynn

CFO

Surjit Rajpal

CRO

Darryl White

COO

Pat Cronin

Group Head, BMO Capital Markets

Dave Casper

Group Head, U.S. P&C

Cam Fowler

Group Head, Canadian P&C

Gilles Ouellette

Co-Head, BMO Wealth Management

CONFERENCE CALL PARTICIPANTS

Ebrahim Poonawala *BAML*

Sumit Malhotra *Scotiabank*

Steve Theriault *Eight Capital*

Meny Grauman *Cormark Securities*

Robert Sedran *CIBC World Markets*

Gabriel Dechaine *National Bank Financial*

Nick Stogdill *Credit Suisse*

Doug Young *Desjardins*

John Aiken *Barclays*

Scott Chan *Canaccord Genuity*

Mario Mendonca *TD Securities*

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By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

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Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on our business, are material factors we consider when determining our strategic priorities, objectives and expectations for our business. In determining our expectations for economic growth, and financial services, we primarily consider historical economic data provided by governments, historical relationships between economic and financial variables, and the risks to the domestic and global economy. See the Economic Review and Outlook section of our Third Quarter 2017 Report to Shareholders.

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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 2017 Report to Shareholders and on page 33 of BMO's 2016 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 and restructuring costs.

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

PRESENTATION

Jill Homenuk - ***Bank of Montreal - Head of IR***

Thank you. Good afternoon, everyone, and thanks for joining us today.

Our agenda for today's investor presentation is as follows. We will begin the call with remarks from Bill Downe, BMO's CEO, followed by presentations from Tom Flynn, the bank's Chief Financial Officer; and Surjit Rajpal, our Chief Risk Officer. After their presentations, we will have a question-and-answer period where we will take questions from prequalified analysts. To give everyone an opportunity to participate please limit to one or two questions.

We have with us today Darryl White, Chief Operating Officer; Cam Fowler from Canadian P&C; Dave Casper from U.S. P&C; Pat Cronin from BMO Capital Markets; and Gilles Ouellette from Wealth Management.

On behalf of those speaking today, I note that forward-looking statements may be made during this call. Actual results could differ materially from forecasts, projections or conclusions in these statements.

I would also remind listeners that the bank uses non-GAAP financial measures to arrive at adjusted results to assess and measure performance by business and the overall bank. Management assesses performance on a reported and adjusted basis and considers both to be useful in assessing underlying business performance. Bill and Tom will be referring to adjusted results in their remarks, unless otherwise noted as reported. Additional information on adjusting items, the bank's reported results and factors and assumptions related to forward-looking information can be found in our annual report and our third quarter report to shareholders.

With that said, I will hand things over to Bill.

William A. Downe - ***Bank of Montreal - CEO and Executive Director***

Thank you, Jill, and welcome to everyone joining us on the call.

BMO's performance this quarter was driven by strong growth in our Personal and Commercial and Wealth businesses. Earnings per share were $2.03 in the quarter, with net income of $1.4 billion, up 6%. Year-to-date, net income of $4.2 billion reflects strong underlying growth of 10%, 16% if you include the impact of non-strategic assets in the current and prior years. These results demonstrate the continued benefits of our differentiated operating model in an evolving environment. We're generating good and diversified revenue growth as we continue to execute against our strategic priorities, grow our business base and deepen customer relationships.

Credit performance remained strong, reflecting the deep understanding we have of our customers, geographies and industries. We continue to grow our balance sheet responsibly and maintain a strong capital position with a CET1 ratio of 11.2% after the repurchase of 4 million common shares completed near the end of the quarter. ROE improved from the previous quarter to 13.3%.

Turning to Slide 5, I'll touch on a few highlights from our operating groups.

Canadian P&C continued to achieve good loan and deposit growth across commercial and personal products, generating strong net income growth of 9% for the quarter and returning to positive operating leverage as we focus on managing expenses in-line with revenue. Our Canadian banking performance reflects our philosophy and practices with respect to managing risk and risk concentration to deliver consistent performance through the full economic cycle. We're building on our fundamental strength and #2 market share position in Commercial Banking by deepening relationships and expanding segments across industries and geographies. Commercial loans and deposits have grown at an annualized rate of 9% and 7%, respectively, over the last 2 years, and we expect to continue to have good growth as Canada's economy remains robust.

Our personal business has delivered strong deposit growth, averaging 8% over the last 2 years as we've made it easier for both new and existing customers to bank with us. We're proactive in our response to changes in the marketplace and growing demand for digital interactions as we meaningfully transform the business. The percentage of everyday transactions that are banker-assisted now hovers at just 15%, with mobile - a critical sales and service channel - rapidly overtaking online. Our focus is on delivering an experience that seamlessly blends the digital and personal dimensions of our offering with greater personalization across all channels, integrating human and digital advice-based interaction.

In U.S. P&C, commercial loans and deposits increased sequentially, reversing moderate declines last quarter, with loan balances reaching USD 51 billion, and we saw stable credit performance. The business is absorbing the planned reduction in the indirect auto portfolio, delivering underlying year-to-date net income growth of 3% and positive operating leverage.

Across our U.S. footprint, we're recognized as a leading commercial bank and trusted business partner. This is supported by a strong branch presence and retail deposit base that consistently achieves top-tier market share. Our work to optimize process, modernize our physical footprint and build digital capabilities has resulted in net new customer growth and higher mortgage originations. We remain well positioned to take advantage of opportunities within the market.

Wealth Management continues to deliver strong results with double-digit earnings growth for the quarter and year-to-date. Good performance in Traditional Wealth and insurance has been supported by improved equity markets and expense management. We’ve made investments and innovated in our wealth franchise to take advantage of tremendous growth opportunities, and we're consistently recognized for our commitment to provide clients with leading-edge capabilities, products and service. In just under 6 years, we've doubled the assets under management and administration to $878 billion.

And in Capital Markets, our year-to-date performance remained strong, with net income growth of 15% and positive operating leverage. For the quarter, good performance in investment and corporate banking was offset by the impact of markets and lower client activity in Trading Products. We're extending our leadership position in Canada and accelerating growth in the U.S. through focused sector coverage, new and maturing client relationships and a comprehensive product offering. Our strong risk and regulatory position is a source of competitive advantage and will support ongoing growth.

Underpinning the advantages in each of our businesses is our approach to developing deep customer relationships and commitment to loyalty. A real benefit is the relentless focus of BMO's over 45,000 employees who define a great experience for our 12 million customers in Canada, the United States and around the world.

Guiding all of our strategic priorities is a fundamental commitment to sustainability and responsible behavior. Considering social change, financial resilience and community building and environmental impact is integral to a successful strategy and to long-term performance. And we're all proud of our bank's track record, which has been recently confirmed by being awarded the highest ranking for financial services companies worldwide in the 2017 Thomson Reuters best practice ratings. This award highlights some of our accomplishments: maintaining carbon neutrality since 2010, achieving our goal of 40% representation of women in senior leadership roles and maintaining a 30-year track record in responsible investment.

Our businesses are strong, resilient, well diversified and positioned to deliver consistent earnings growth. We're advantaged with respect to opportunities in the current environment and over the long term.

And with that, I'll turn it over to Tom to review our Q3 performance in more detail.

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

Thank You, Bill. I'll start on Slide 8.

Reported EPS for the quarter was $2.05 and net income was $1.4 billion. Adjusted EPS was $2.03, up 4%, and net income was $1.4 billion, 6% higher than last year. Adjusted earnings back out the benefit of a reduction in the collective allowance of $76 million pretax or $54 million after-tax. This and other adjusting items are shown on Slide 25.

Adjusted net revenue of $5.2 billion was up 5% from last year. Quarter-over-quarter growth was 3% or 5% on a constant currency basis.

Net interest income increased 2% year-over-year. Adjusted net non-interest revenue was up 8%, with increases across most areas.

Adjusted expenses were up 7% from last year, driven by higher employee costs, including the impact of FX on deferred compensation as well as higher technology investments and other costs. Relative to the second quarter, expenses were relatively unchanged or up 2% on a constant currency basis.

On a net revenue basis, adjusted operating leverage was negative 1.2% in the quarter, and the adjusted efficiency ratio was 61.9%. On a reported basis, efficiency was 63%. Year-to-date, adjusted operating leverage is good at 3.4% and 1.7% excluding the positive impact of certain non-strategic asset transactions.

The adjusted effective tax rate was 22.5%, up marginally from 22% a year ago, mainly due to lower tax-exempt income from securities, partially offset by a favorable tax item that is reflected in our U.S. segment operations. The adjusted effective tax rate on a TEB basis was 25.1%, down from 26.7% a year ago.

Moving to Slide 9. The Common Equity Tier 1 ratio was 11.2%, down 10 basis points from last quarter. As shown on the slide, capital growth was more than offset by higher source currency risk-weighted assets from business growth and the impact of buying back 4 million shares in the quarter.

Moving to our operating groups and starting on Slide 10. Canadian P&C had good results, with adjusted net income of $615 million, up 9% from a year ago. Performance benefited from our strong commercial business, good deposit growth and our continued prudent approach to the mortgage market. Revenue growth of 5% was driven by higher balances across most products and increased non-interest revenue. Total loans were up 5%. Personal loans were up 4%, including a 4% increase in residential mortgages, and commercial loans were up 8%. Total deposit growth was good at 8%, with personal deposits up 7% and commercial deposits up 9%. NIM increased 5 basis points from last quarter primarily due to improved spreads on lending products and changes in mix. Expense growth was 5% and reflects ongoing investment in the business, including in our sales force and digital strategy. Operating leverage was positive 0.1% in the quarter. Provisions for credit losses declined compared to last year due to lower commercial provisions.

Moving to U.S. P&C on Slide 11. Adjusted net income was $289 million in the quarter. The comments that follow speak to the U.S. dollar performance. Adjusted net income of $223 million was unchanged from a year ago and up 15% from last quarter. Revenue was up 2% as higher deposit revenue was partially offset by loan spread compression. Average loan balances declined by 1%. Commercial loan growth of 5% was offset by the decline in personal loans, which was largely due to the impact of the sale of a portion of our indirect auto portfolio in Q1 of this year. Excluding auto loans, average loans were up 2.5% from the prior year. Net interest margin increased 7 basis points from Q2, benefiting from the higher interest rates in the U.S., net of loan spread compression. Expenses increased 6% year-over-year, reflecting higher employee expenses, technology investments and marketing spend. Credit provisions were relatively stable compared to last year and down from last quarter.

Turning to Slide 12. BMO Capital Markets adjusted net income was $293 million, down 8% from a year ago. Revenue of $1.1 billion was down 1%. Higher revenue in the investment and corporate banking business benefited from good M&A activity and higher corporate banking-related revenues. Revenue in our Trading Products business was down from the strong levels of a year ago, reflecting markets and lower client activity, including lower activity in our equity derivative business in part due to recent tax law changes. Expense growth of 11% reflects higher employee-related costs, including the FX impact on deferred compensation as well as business growth. Provisions for credit losses were down from last year due to net recoveries in the current quarter.

Moving to Slide 13. Wealth Management adjusted net income was $279 million, up 23% from a year ago. Adjusted earnings in Traditional Wealth were up 17%, reflecting underlying business growth and improved equity markets. Insurance earnings were up 43% due to a modest benefit from favorable market movements in the current quarter relative to unfavorable market movements a year ago. Adjusted expenses increased 5% from a year ago due to higher revenue-based costs and investments in the business. Assets under management and administration were up $15 billion or 2% from a year ago.

Turning now to Slide 14 for Corporate Services. The adjusted net loss was $102 million, largely unchanged from a year ago as higher non-TEB revenue was offset by lower credit recoveries and higher expenses in the current quarter.

To conclude, our performance this quarter demonstrates again the resilience of our diversified business model and our ability to continue to grow earnings.

And with that, I'll hand it over to Surjit.

Surjit S. Rajpal - ***Bank of Montreal - Chief Risk Officer***

Thank you, Tom, and good afternoon, everyone.

Starting on Slide 16. Specific provisions are $210 million or 22 basis points, down from 28 basis points in the prior quarter. The decrease in specific provisions was primarily as a result of lower losses in Capital Markets and U.S. P&C. In addition, we had a $76 million reduction of the collective allowance, resulting in a total PCL of $134 million.

The collective allowance reduction was largely due to positive migration in our wholesale and retail portfolios. Total allowances at about $2 billion, equivalent to 52 basis points, are well above recent loss experience.

Looking at Canadian P&C. Provisions for consumer and commercial were flat in both portfolios.

Provisions in U.S. P&C decreased $11 million quarter-over-quarter due to lower consumer losses.

Capital Markets had low new provisions and recorded a net PCL recovery of $2 million versus a provision of $46 million in the prior quarter, which was the result of 2 accounts.

On Slide 17, formations were $405 million, down significantly from $752 million in Q2, with quarter-over-quarter reductions in most industries. Gross impaired loans decreased by $290 million dollars to $2.1 billion dollars, with all the reduction in the U.S., of which half was due to FX. The GIL rate was 56 basis points, a decrease of 7 basis points compared to Q2.

Turning to Slide 18, our Canadian residential portfolio continues to perform well. Delinquencies decreased slightly and loan losses remain very low. Our GTA and GVA mortgage portfolios continue to demonstrate better loan-to-value, delinquency and bureau scores than our national average.

In summary, we had a good credit quarter with positive migration and lower losses, formations and gross impaired loans.

I'll now turn it over to the operator for the question-and-answer portion of today's presentation.

QUESTION AND ANSWER

Ebrahim Poonawala - ***BofA Merrill Lynch***

I'm sorry if I missed this in your prepared remarks, but just wanted to get some clarity in terms of - when we look at your Slide 9 on capital and the impact from the higher risk-weighted assets - I was wondering if you can talk to in terms of, because it's only excluding the FX impact, how much of it was driven by asset mix shift versus refinement of internal models? And what's your outlook as we look forward in terms of capital build from here?

Thomas E. Flynn - ***Bank of Montreal - Chief Financial Officer***

Okay, thank you for the question. It's Tom Flynn. So firstly, on the currency. The numbers that we are showing, as you point out, are excluding the impact of FX. We show the numbers that way because the FX impact on the ratio is largely hedged. And so it's not a driver of the ratio, and so it's easier to look at the changes excluding that item. The growth in the risk-weighted assets in the quarter in source currency principally reflects business growth that we had across our operations. And so that was the main driver of the growth. And on a go-forward basis, subject to share buybacks, which did reduce the ratio by 13 basis points in this quarter, we would stick with our guidance of expecting to post modest growth in the ratio on a quarter-over-quarter basis. And in the past, we talked about that in a typical quarter, the numbers move around in any quarter, as being in a zone of 10 to 15 basis points per quarter.

Ebrahim Poonawala - ***BofA Merrill Lynch***

Understood. So the 24 basis points seem like it's just what you would classify as typical, driven by business mix change and growth?

Thomas E. Flynn - ***Bank of Montreal - Chief Financial Officer***

Well, business mix. But really, more than that - business growth. And the business is growing. And so with that, the risk-weighted assets grew in the quarter. So it's a combination of mix and the growth.

Ebrahim Poonawala - ***BofA Merrill Lynch***

Got it. And secondly, Tom, if you could just remind us in terms of as we think about operating leverage relative to your 200 basis points year-over-year guidance. Both in Canada and U.S., we saw a pretty decent jump in expenses. How should we think about it in terms of as we think about the efficiency ratio from this point on looking out over the next 12 to 18 months?

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

So I guess a few things on that topic. For the year-to-date, our operating leverage is above 3%. That does include the benefit of some asset sales. And if you take out those kinds of transactions, so one-off asset transactions, the operating leverage is positive 1.7 for the current year-to-date, and last year, we were a little above our 2% target. And for this year, in total, we would expect to be at the current operating leverage for the year-to-date of 1.7 or, more likely, a little bit better. So we're shooting for the 2%. Not quite clear yet at this point if we'll hit it, but we're certainly in the zone this year, and we were better than it last year. Looking forward to next year, I'd say we continue to be focused on the relationship between revenue growth and expense growth, and we will be aiming for the 2% target that we've set for ourselves.

Ebrahim Poonawala - ***BofA Merrill Lynch***

And just quickly if you can touch upon the expense growth in the U.S. Was there anything one-off in the growth that you saw sequentially or year-over-year? And should we expect that to tick lower going into fourth quarter? Or is this sort of the right run-rate going forward?

David R. Casper - ***Bank of Montreal – Group Head, U.S. P&C***

This is Dave. I would say, to answer your question, we would expect the expense numbers in the fourth quarter to be lower than they were. There were a couple of one time items there, a number of things we talked about, including the compensation and the FX relationship, technology -- higher technology costs, higher marketing costs. But I expect in the fourth quarter we'd get back to a normal range.

Ebrahim Poonawala - ***BofA Merrill Lynch***

And approximately should it be back to Q2 levels or somewhere in between Q2 and Q3?

David R. Casper - ***Bank of Montreal – Group Head, U.S. P&C***

I'll look at the average for the year, and I think we'd be in that range. But certainly lower than the third quarter.

John Aiken - ***Barclays***

Tom, when the bank was considering the reversal in the collective, were there any discussions centering around the upcoming changes to IFRS 9? My understanding is, of course that IFRS 9 really impacts the specific versus collective. But were there any discussions around this? And then should we take this as a positive indication for Bank of Montreal?

Surjit S. Rajpal - ***Bank of Montreal - Chief Risk Officer***

Well, John, this is Surjit. Let me answer that question. IFRS 9 is really a different accounting standard which is yet to be put in place. It comes into effect next year. So the current methodology that we use is under an accounting standard that's different with IAS 39. So the computation we did of our collective this quarter is using the methodology that we've used in the past, and we've stuck with the methodology. It hasn't been governed by what may or may not happen on the IFRS 9. So these are 2 independent things.

John Aiken - ***Barclays***

I appreciate that. And then I guess a quick question for Cam on the domestic commercial borrowing. Can you give us some elaboration in terms of which industries you're seeing the growth coming through and whether or not there's been an aggressive competitive response to the growth that's been happening systemwide?

Cameron Fowler - ***Bank of Montreal – Group Head, Canadian P&C***

Thanks, John. As the second-largest player in the market, we will always feel competition as it comes especially as it increases. And so to your point, diversification is very important for us. We are #1 or #2 in most of the markets in commercial real estate and Ag., and both of those business are performing quite well. 3 or 4 other businesses for us that are supporting lending growth: I would point to retail trade, transportation, tech and probably health care as the ones that are coming up the fastest behind the CRE and the Ag. that I pointed to. I'd say, though, from a vertical perspective and a geography perspective and a pipeline perspective, the momentum's there and we feel good about it. This has been a pretty consistent business for us beyond being a big one, and so the combined effect of modest PCLs and 7 or 8 quarters between 8% and 11% feels good, and we expect it should continue.

John Aiken - ***Barclays***

And Cam, what about the response of your competitors against the growth that you've been showing in terms of pricing.

Cameron Fowler - ***Bank of Montreal – Group Head, Canadian P&C***

John, I would say that you do feel the competition. We haven't felt pricing pressure on the lending side. On the deposit side, there is some in some cases, and where it makes sense in important relationships, we're there; and where it doesn't, we focus on more important operating accounts. But we're still at 9%, so I think we're holding our own.

Steve Theriault – ***Eight Capital***

First, I'd just like to go back to capital for a second. Tom, just a follow-up. I hear you talking about business growth. From what I can tell, I was thinking that it was the Basel I floor, looks like it cost about 20 basis points of CET1. Is that not the right way to look at it? It's hard to tell, I guess, with the currency flipping around a little.

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

I guess a couple of things. First would be the currency really doesn't have a big impact on the ratio given the hedge. Second would be the Basel I floor was up in the quarter. It was up mainly because Basel III risk-weighted assets were down due to positive migration and model changes, and those things aren't reflected in the Basel I risk-weighted assets, and because of growth. And so fundamentally, to me, the RWA are growing because the business is growing, and that's the biggest overall factor, even though a portion of that growth comes through the Basel I RWA as opposed to the Basel III.

Steve Theriault – *Eight Capital*

Okay. And for Cam, if I could. Margin up quite nicely, I'm sure better than you would have expected. So maybe you can touch on your shorter-term outlook with respect to margins. Is there anything in the numbers, the big lift this quarter you'd expect to revert? And if you can speak to your outlook given -- looking at the pipeline, your expectations for mix in the next a little bit, and with the Bank of Canada rate hike.

Cameron Fowler - *Bank of Montreal – Group Head, Canadian P&C*

Sure, okay. So we're stable year-on-year. The 5 points on the quarter is 2 things, mainly. Mix is the biggest; and within mix, we are growing deposits faster than we're growing loans. And within the deposit growth, you're seeing, as was pointed to earlier, quite strong retail deposit growth, including chequing accounts in double digits and commercial growth at good strong 9%. So I think that's the big thing. On the spread side, there is some benefit from pricing and some smaller one time items. But mix is where I would point. With respect to outlook, I think stable, possibly slightly down but quite stable for the next little while based on my view of the pipeline and the mix within the pipeline. There's nothing particularly in these numbers from the Bank of Canada. That will come through over the coming quarters in a modest way.

Steve Theriault – *Eight Capital*

And what was the source of the pricing impact?

Cameron Fowler - *Bank of Montreal – Group Head, Canadian P&C*

What was the source of the pricing impact? Just it was good discipline on the lending side.

Steve Theriault – *Eight Capital*

Okay. And then lastly for me, going to Capital Markets for Pat. Just wanted to ask is the total return swap run-off all in the numbers now in Q3. Or has that continued to eke its way in Q4?

Pat Cronin - *Bank of Montreal – Group Head, BMO Capital Markets*

Well, thanks for the question. I would say the impact of the Canadian budget change was very much in line with our expectations this quarter, very much in line as well with the guidance that we previously provided. And we have been executing on our mitigation strategies. So all of that would suggest that it mostly is in the run-rate that you're now seeing. You should expect a similar impact in Q4 and then, obviously, a full year impact in F '18. But for the most part, the impact is in the run-rate that you're seeing right now.

Gabriel Dechaine – *National Bank Financial*

Just a quick numbers one and then another on the U.S. commercial lending trends. So on the tax rate, your tax rate spiked this quarter a little bit. You talked about some reduction in tax-exempt income but also a benefit from the recovery in the U.S., I guess. What was the size of that U.S. recovery? And what should we expect for your tax rate going forward given the TRS trades going away?

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

Yes, so it's Tom. So in terms of the tax rate going forward, we expect to have an effective tax rate in the 22% to 24% zone, a little more likely to be in the upper half of that range than the lower half of the range. And the favorable tax item, which was sprinkled through our different U.S. businesses, was about a point and a half on the tax rate. And as it happens, it was largely offset by the impact of FX on our deferred comp. So those 2 items in the overall P&L were pretty close to a wash.

Gabriel Dechaine – *National Bank Financial*

Okay. My follow-up is on the U.S. business, and we've seen the trend in the industry, the commercial lending slowdown, that's continuing. And I believe in your comments you said margins were up because of the Fed rate hike, but that something that ate into that expansion was spread compression - I assume that meant competitive intensity. My question is, as commercial loan growth is weakening or weak in the U.S., and banks are flush with capital and hungry for growth, do you think there's additional pressure that the pricing becomes such that it eats into future Fed hikes? And we're seeing it, I guess, in the Fed loan officer surveys, there's some slackening of terms.

David R. Casper - ***Bank of Montreal – Group Head, U.S. P&C***

So, this is Dave. A couple of points to just level set. We have had pretty flat for 2 quarters commercial loan growth. This quarter, we had a pretty good and strong commercial growth, 2% for the quarter, so 8% annualized. And going into the fourth quarter, we really have, I think, pretty good momentum and good pipelines. So that said, to your point, there is -- I've been in the business a long time -- there has always been competition, and there continues to be. We have a couple points that I think position us well. We have a very diverse commercial loan offering, and we have very strong market shares in a number of our businesses. We compete hard, but we don't always compete on price. In fact, that's usually the last thing we do. And given the fact that we've been in this business as long as we have and we've seen these clients through the cycle, that positions us well. So I don't see big diminution in loan spreads, and I just think we're going to continue to grow and build the business. Does that answer your question or anything else?

Gabriel Dechaine – ***National Bank Financial***

Yes, it does. Excellent. Are you doing any more -- is there any greater participation in syndicated deals?

David R. Casper - ***Bank of Montreal – Group Head, U.S. P&C***

No greater than what we would do in the past. We lead a number of syndications, and we continue to try to lead as many as possible. And that's a good business for us.

Robert Sedran – ***CIBC World Markets***

Thanks and good afternoon. I actually want to follow up on Gabe's line of questioning but maybe flip to the other side of the balance sheet. I want to understand a little bit more the interplay between interest rates, the margin and the deposit performance. Have you been holding pricing to protect the margin on deposits? Or is there something else going on in that front?

David R. Casper - ***Bank of Montreal – Group Head, U.S. P&C***

We're basically following the rest of the U.S. banks as we look at our deposits. There's probably more competition and we expect that on the commercial side. A great percentage of the deposits on the commercial side are there to support services that we provide for them. On the retail side, we continue to do very well. We have good growth in our non-interest-bearing checking, and we have decent growth in our interest bearing. And we continue to grow the deposits on the commercial side and the retail side with the exception of, there's some institutional deposits on the commercial side which we've lost over the last couple of quarters, which we expected to just as rates move up, and institutions - we don't pay the rate that they can get - and these are large institutions, so they leave. So all in all, I'd say we've done a very good job of protecting as much as we can on the deposit side the interest rate increases, as have most of the U.S. banks.

Robert Sedran – ***CIBC World Markets***

Is that institutional business largely done now, Dave? And just as a follow-up to the comment on pricing, are deposit betas basically performing as you would have expected? Or are they rising a little sooner than you might have expected?

David R. Casper - ***Bank of Montreal – Group Head, U.S. P&C***

I'd say they're performing about as we expected. As I said, we expected that there would be a little bit more give on the commercial side, and there has. But overall, I would say they've performed as we expected. And as far as institutional, there are still some deposits that we would view as institutional that have stayed in the bank. But over time, I would expect as rates go, we'll lose some of those. We are replacing those, though, with core deposits as we continue to add new clients where there are more core deposits, not excess deposits.

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

I'll just add one thing to that. We did have on the personal side a planned decline in a small brokered CD deposit book that we have. And it's a small part of our deposit base, only about $1.5 billion, but it was down quarter-over-quarter. And so that in part might be what you're looking at. And away from that, our checking deposits were up and our money market deposits were up 5% year-over-year. And as Dave said, I think there's a general expectation that as rates in the U.S. move up, some portion of the more institutionally oriented commercial deposits will flow into money market instruments and out of the banking system. And those are very low-spread deposits for us and, in a sense, excess deposits. So we're not troubled by that. It's in-line with our expectations and with what other banks with similar balance sheets are seeing.

Robert Sedran – *CIBC World Markets*

And Tom, that brokered deposit business is running to zero?

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

It won't run to zero. We use it as a bit of a toggle, and we dialed it up a little bit around the time of the Transportation Finance acquisition. That was a $10 billion acquisition. So we took on a few more deposits. And so we'll maintain that. But when we don't need to grow it, it's our highest cost of retail deposits, so we let it drip down. But it will continue to be around, but it is a small part of the overall deposit funding.

Nick Stogdill – *Credit Suisse*

My first question is for Tom. You called out the impact of foreign currency translation on the deferred comp this quarter. How much of a drag was that at the consolidated level? And was this is a regular expense but was only called out because of FX this quarter?

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

So it is a regular expense, but it's normally very small. And so we haven't talked about it before. It hasn't been a consequential item before. But we did have the Canadian dollar strengthen by $0.12 against the U.S. dollar and the pound in the quarter, so big move in the currency. And with that, the Canadian dollar share-based deferred comp liability of our U.S. entities inflated, and it was close to $30 million on a pretax basis for us. So meaningful enough that we thought we'd mention it. And going forward, I wouldn't expect to talk about it. And again, we're doing it really this quarter just given the size of the move in the currency quarter-over-quarter.

Nick Stogdill – *Credit Suisse*

Okay. So an extra kind of $30 million this quarter. Got it. Thank you. And my second question for Cam, just on the operating leverage in Canada. It improved this quarter from the second quarter. That was mostly driven by better revenue growth. What should we expect for Q4 and into next year? And should we still expect some improvement from here?

Cameron Fowler – *Bank of Montreal – Group Head, Canadian P&C*

Thanks. As I said last quarter and have said in quarters prior, we've got a multiyear transformation going on in this business. The philosophy of the work is that we take cost out before we put cost in. In most quarters, 6 of the last 7, we've been able to keep the relationship correct between revenue and expense. I'd expect that – and this number at 4.7% is a productive and thoughtful 4.7%, I would say, and that almost 2/3 of that is advice-based sales folks in our distribution system or digital spend, which is focused on self-service or digital sales. So I would expect in Q4 the number to moderate slightly. I am expecting positive operating leverage in the fourth quarter, and I expect we travel into '18 with the same focus.

Meny Grauman – *Cormark Securities*

I just want to go back to U.S. commercial loan growth. And big picture, definitely people have talked about what's driving the slowdown, and policy uncertainty seems to be the consensus here. So I'm wondering, from your perspective, do you agree with that? Are there other things going on here that maybe are more long lasting? And if you could just talk about a little bit more granularity in terms of what you're seeing in the commercial loan side in terms of sectors, what's working, what's not.

David R. Casper – *Bank of Montreal – Group Head, U.S. P&C*

Okay, this is Dave. The first part of the question, it's hard to tell in the U.S. – throughout the U.S. - what is driving it. I would say, again, we probably did better this quarter than the industry in terms of kicking back up on the commercial side. The uncertainty is definitely having an impact on taxes, somewhat offset by what has already been some lessening of regulation which has, in some cases, encouraged some of our manufacturing clients. As you go sector by sector, we've had pretty good growth across all the sectors, whether it's automotive, whether it's diversified in Wisconsin or even Illinois, whether it's our businesses that relate to some of our services industry. So I wouldn't say that there's any specific area where it's been negative. And I actually think -- and when I spend time with clients, most of them would say the economy in the U.S. is pretty good. They expect it to continue, and they expect some of the uncertainty to wane as we move forward. Does that help?

Scott Chan – *Canaccord Genuity*

Just sticking with the U.S. side. There's been a lot of questions on commercial. But trying to put it all together in terms of expectations for earnings, if I look at your U.S. mid-cap commercial comps over the next 18 months, they've got double-digit earnings expectations. Is that a reasonable kind of target for BMO medium term? And what would be the factors, the main factors to watch for to drive it?

David R. Casper - *Bank of Montreal – Group Head, U.S. P&C*

Well, I don't want to commit to any specific numbers based on what you're saying. I would say I think we have pretty good prospects throughout our commercial and improving prospects in our personal business. And certainly I would expect that to translate into improved earnings going forward. We'll have more modest expense growth than we certainly did in the third quarter and increased revenue growth. And our PCLs should do pretty well vis-à-vis this quarter and even next. So I think all the components are pretty good. If you look at our pre-provision, pretax in each of the quarters in the U.S., it's been up $20 million to $25 million each quarter sequentially. I think that bodes well for our future. And I think with potentially some rate hikes, which we expect there should be some over that 18-month period, that would be an added plus for us.

Scott Chan – *Canaccord Genuity*

Okay, that's helpful. And just quickly on Capital Markets, Pat. I noticed that full-time employees were up 100 or 4% sequentially, which seems contrary to peers. What's it related to? And is that going to impact future operating leverage?

Pat Cronin - *Bank of Montreal – Group Head, BMO Capital Markets*

Well, thanks for the question. It was driven by a couple of things. One, you're seeing, to some extent, the addition of Greene Holcomb and Fisher, the acquisition that we did in Q4 of last year. So in year-over-year, that wouldn't have been there. So that added some. We have been increasing for a while now our front office staff that are focused on regulatory and control-related areas. And so that was a good part of it as well. And the rest of it is really just normal business growth in both Trading Products and Investment and Corporate Banking as we continue to roll out new initiatives and growth objectives in both Canada and the United States. And it's nothing unusual in the FTE growth rate. I think it's commensurate with the revenue growth that you're seeing, certainly in the year-to-date versus year-to-date, and commensurate with our objectives for 2018.

Sumit Malhotra – *Scotiabank*

First question is for Surjit on credit quality. I think earlier this year, you were very specific in reminding us that there could be some fluctuations in the loan loss level. We saw that in Q2 and certainly migrated lower this quarter. Maybe leaving the exact number aside, when I look at your underlying credit metrics, your new formations are down pretty sharply, to the lowest level we've seen in a few years. Overall, gross impaired loans balances down pretty sharply as well. Is there any reason that we couldn't see loan losses remain in the lower 20 range? Or are there parts of the portfolio that you feel are running at levels that you see as unsustainably good right now?

Surjit S. Rajpal - *Bank of Montreal - Chief Risk Officer*

No, I think the portfolio overall, as you mentioned, is of high quality and is doing well. There are always portfolios that we look at a bit more closely than others, and there's a bit of that we have as well, but they're always small. And just to give you a sense of what I'm looking at specifically, the agricultural sector in the U.S. is a little strained relative to the other sectors. Our Transportation Finance business has finished going through a cyclical low and it would have come back up. And so you always focus on those sectors a little bit. But I think to conclude, to have -- overall, in a benign environment, and that's how I would define the environment, to have it in the low to mid-20s, to have a PCL in that range is pretty reasonable. The thing I always caution on these calls is, that there can be variability quarter-over-quarter. And I'm always surprised at the reaction I get when there's a blip in one particular quarter. But I do believe that I have the confidence that this -- the economic conditions are extremely good and serving us well in both the geographies, and there's no particular portfolio of concern. We had the oil and gas story, which is behind us.

Sumit Malhotra – *Scotiabank*

So yes, I think that's pretty consistent with what we've seen from the group this quarter. It almost seems like we've seen a step-down or further improvement in credit, and that's consistent with what you're messaging to us.

The second question I have is for Cam, and it's on residential mortgages domestically. I never really think of this as BMO's issue. You've talked about the fact that you've got lower exposure here. Q3 is usually a seasonally good quarter, and it doesn't look like BMO participated as much in the faster growth we've seen in Q3. First off, is that your – this is some of the numbers we see on the outside - is that your view as well, that you've ceded some market share in resi mortgages? And if so, is that a conscious decision on your part to let to some of the growth go?

Cameron Fowler - ***Bank of Montreal – Group Head, Canadian P&C***

There has been some moderation. So from a number between 5% and 6% to a number between 4% and 5%. And that's pretty much in line with what we'd expect. We've been making choices quarter by quarter as we move along over the last couple of years, and that's true where we sit here right now, and I'd expect we'd make them as we go forward. We're pretty happy with where we are right now. We are seeing a bit of moderation in the market. But we continue to strengthen our business and invest in resources where we think there are opportunities, and we're doing that now. And then I go back to the old refrain, which is we are undersized nationally, we are undersized in Toronto. So there are still opportunities for us, and we're by no means pulling out of this market.

Sumit Malhotra – ***Scotiabank***

And that's really the rub. So as we go into the fall months, maybe as some of the impact of the changes we heard about back in the spring starts to have a bigger impact on balances, are you expecting another leg down from that, as you put it, 4% to 5% now? Or do you think, because you're undersized, there are pockets of growth for you to remain in that kind of growth range?

Cameron Fowler - ***Bank of Montreal – Group Head, Canadian P&C***

I think it's probably a little bit more the latter. There could be moderation. But as a smaller player in the market in absolute and with this as a relatively smaller part of my total loan book and the bank's loan book, it’s therefore a smaller part of revenue. So I'm not anticipating feeling a meaningful impact on this in '18. But I think your point about us looking for opportunities elsewhere to balance out in a range that's similar to where we are now is the right way to think about it.

Mario Mendonca –***TD Securities***

Before I go to Surjit, Tom, could you just help me think through the operating leverage guidance you offered? I think it was on a total bank basis. And the way you described it was year-to-date, 1.7%, excluding the Moneris gain in Q1. And you'd expect the full year to also be 1.7% excluding the Moneris gain?

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

Directionally, that's what I said. So we're 1.7% year-to-date excluding the net gain. And based on what we see in the fourth quarter, we're expecting expense growth in the fourth quarter to be very low and for us to have good positive operating leverage at or potentially slightly better than the year-to-date number.

Mario Mendonca –***TD Securities***

Okay, I get it. That's what you're suggesting for the Q4. So that makes sense, and I think I get it. Let me go on Transportation Finance then. Surjit, could you just talk about the size of that portfolio? Just help me think through how big this is. I remember that there's USD 8.7 billion or so that was purchased. But the overall size of this portfolio now, where the loss levels are at and where you'd expect them to be going forward.

Surjit S. Rajpal - ***Bank of Montreal - Chief Risk Officer***

So the size is a little smaller than it was, and I'll give you the exact number in a little bit. It is about $7.1 billion right now.

Mario Mendonca –***TD Securities***

U.S., right?

Surjit S. Rajpal - ***Bank of Montreal - Chief Risk Officer***

Yes. USD 7.1 billion in U.S. loans. And as I mentioned in my earlier comments in response to Sumit, this is a cyclical business, and it has gone through the bottom of the cycle. We are seeing phenomenal improvement. The economic conditions are really good. Spot prices have edged up and are now quite stable and are at the levels that these spot prices are. So the truckers are making good money. Their capacity -- now that's what, at the heart of the issue this time was capacity. It wasn't the economic conditions. The last downturn that the sector experienced was because of economic conditions. This time, it was because of excess capacity. That capacity is slowly getting reduced, in fact will get a little tighter because some of the new changes that have been made with respect to what's called the e-log mandate that is coming into existence at the end of the current year. Basically, what every driver is required to do now is to, not manually but actually electronically, enter the hours they drive, because people have been driving longer hours than they expected to drive, and that's something that's technically against the law. So i think that's going to move some of the spot prices in the right direction from my perspective. What we've seen in our own portfolio is an improvement in the delinquencies. The delinquency rate, both early stage and late stage, have improved. And our loss rate -- the old delinquencies have to go through -- the late-stage delinquencies have to go through a process, but we've seen those getting arrested as well. So I'm very positive in terms of I think that we've seen the worst of it, and the economic environment is going to take care of the rest. It's a good environment to be in this business right now. Having said that, you're seeing other evidences as well. And that is the prices at which you're selling some of the trucks that we need for that for instance, we have seen that those are improving as well. So all -- everything is pointing in the right direction, and that's why I say this is out of the low end of the cycle into an area where we've seen improvement. So I hope that gives you some flavour for that portfolio.

Mario Mendonca –*TD Securities*

Yes. Have you seen...

Surjit S. Rajpal - *Bank of Montreal - Chief Risk Officer*

The portfolio, we knew all along, would be a cyclical portfolio. And we bought it at a time in the cycle when losses were sub-20 basis points or so. And we knew that, that was not sustainable. So this was not unexpected at all. The question is how soon will this turn around, and we feel that, that time has come and we will see it turn around.

Mario Mendonca –*TD Securities*

So delinquencies better, loan losses lower, utilization moving higher. And how about, just to be clear, residual values, the sale, the amounts you're actually realizing on sale? Are you saying that's turned the corner as well?

Surjit S. Rajpal - *Bank of Montreal - Chief Risk Officer*

Yes, we are seeing better residual value in these prices.

Doug Young –*Desjardins Securities*

Just on the positive migration was mentioned a few times, obviously, related to the collective release and then the risk-weighted assets. Just want to delve -- or can you delve into a little bit about what's going on around positive migration? Where would I see this in the supplement? Is it just shift in your internal ratings? And why did it occur this quarter? Just trying to get a little bit more detail around that.

Surjit S. Rajpal - *Bank of Montreal - Chief Risk Officer*

The positive migration on the commercial side was broad based, as I mentioned. Some of it also has to do with oil and gas. There was a fair bit of migration on the oil and gas side. And so that you will not notice in any one sector, but you can notice it in terms of what you're seeing as emerging as formations. So the fact that the formations are down is an indication that obviously, the portfolio is getting better, that there are fewer formations coming our way. So when you triangulate, you should conclude that it's easy to understand why we say that our migration is positive. Now I have obviously a lot more granular data portfolio by portfolio, and that's how we calculate our collective allowance. Our collective allowance process requires you to look at each portfolio with fair amount of granularity, and then look at what the expected loss is going to be. And then there was a little bit of judgment as well that's used. That's the current IAS 39 methodology that we use. So when we did it on that basis, the number that we came back with was an improvement of $76 million. And I did give you some flavour of where that was. It was a little over -- 60% of it was in commercial, and then there was a little bit of it in consumer as well. And in consumer, we also back-tested some of our assumptions that we make with respect to the judgment factors that we use.

Doug Young –*Desjardins Securities*

Okay, so that provides a little colour. I may follow up on a few other things on that side. And then just lastly, on Traditional Wealth Management, I'm struggling a little bit. I know the earnings were up 17% on an adjusted basis, but AUM/AUA was up 1% or 3%. And so I can imagine it's related to FX. So maybe the average balances were a lot higher through the quarter. Or is there some additional items that positively impacted the results?

Gilles Ouellette - *Bank of Montreal – Co-Head, BMO Wealth Management*

In the revenue line, there are 2 lines, there`s the NII line and the NIR. And you'd expect that the assets under management will impact the NIR line and not the NII line. And in this quarter, the NII line grew quite a bit faster than the NIR line. That's one reason. And the second reason is FX. I think we show 2% asset growth, but actually after FX it's more like 5%. And so the difference between the NIR growth and the asset growth is only about 1%, but that can be accounted for by commissions and also direct investments that we have that aren't impacted by the market. So it's largely the growth in NII which is faster than NIR and FX.

William A. Downe - ***Bank of Montreal – Chief Executive Officer***

As this is my last call, I want to take a moment to express my personal appreciation for the support of the many stakeholders of the bank over the last decade. And I'll start by thanking the analysts and portfolio managers who regularly participate in these calls for both your engagement and candid feedback that you provide us.

To the bank's employees, who put our brand and values in action every day, our bank's ability to adapt, renew and grow in relevance everywhere we do business is a direct reflection of your commitment to our customers.

I'd also like to recognize the strength of our executive team and, in particular, Darryl White, who have proven their ability to deliver results. It's been a great honour and privilege to lead this organization. I have every confidence that under Darryl's leadership, the bank will build on our track record of success in service to our customers. Thanks very much, and goodbye.