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PRESENTATION

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

Good afternoon everyone, thanks for joining us today. Our agenda for today's investor presentation is as follows: we will begin the call with remarks from Darryl White, BMO's CEO; followed by a presentation 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.

We have with us today Cam Fowler from Canadian P&C and Dave Casper from U.S. P&C. Pat Cronin is here from BMO Capital Markets; and Gilles Ouellette is representing BMO 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 its performance on a reported and adjusted basis and considers both to be useful in assessing underlying business performance. Darryl and Tom will be referring to adjusted results in the 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 Darryl.

Darryl White ***Bank of Montreal - CEO***

Thank you, Jill, and good afternoon to everyone on the call.

The strong results we announced today reflect continued positive momentum through the first 9 months of the year. Net income for the third quarter grew 14% from last year to $1.6 billion and earnings per share grew 16% to $2.36. Return on equity improved to 15%.

Performance was driven by good diversified revenue growth and the benefit of ongoing efficiency initiatives that together delivered strong total bank operating leverage of 2.9%, with positive operating leverage contribution from each operating group.

Credit performance continues to be very good, reflecting our well-diversified loan portfolio, deep understanding of our customers and a good economic environment.

We maintained our strong capital position, increasing our CET1 ratio to 11.4%.

Each of our operating groups performed well this quarter.

Canadian P&C is delivering good and steady revenue and earnings growth, driven by momentum in our commercial business, where loans grew 11% and deposits grew 8%. And while the borrowing needs of our retail customers are moderating, we continue to attract new customers and expand relationships, particularly through our digital channels, which account for over 25% of sales this year and where we've seen an increase in mobile users of almost 20%.

U.S. P&C had another strong quarter with earnings up 34% from last year. Pre-Provision, Pre-Tax earnings were also up a strong 15% as we continue to deliver leading commercial loan growth and expand our personal deposit franchise.

Wealth Management had good underlying growth across its diversified businesses and positive operating leverage with particularly strong performance in full-service investing and private banking.

And as expected, we saw resumed momentum in Capital Markets going into the second half of the year, with good growth in client activity in most of our businesses and strong operating leverage of 4%.

Moving now to our overall U.S. segment, where we've been focusing on accelerating our growth. Earnings are up 30% from last year led by U.S. P&C, which year-to-date has increased revenue by 10% and improved efficiency by 370 basis points. Contribution from the U.S. segment has increased to 28% of the bank's total earnings this year, up from 24% in 2017.

This performance is a testament to the strong reputation and trust we have within the U.S. market, built over many years by our outstanding employees who consistently put our customers first. It's a source of great pride that customers ranked BMO Harris Bank second among the 40 largest U.S. banks in the American Bankers’ 2018 Annual Bank Reputation Survey.

On efficiency, another priority we've been focused on, we're making steady progress through the combination of cost reduction and revenue acceleration initiatives. It's a concerted effort that spans businesses and processes in all parts of the bank, coordinated by a central team under the direction of Luke Seabrook.

As we do this, we are optimizing expense and resource allocations including in areas such as procurement and real estate, and making the investments needed to generate growth for the future. Year-to-date, in constant currency, our technology-related expenses have increased at a low double-digit rate, while all other expenses have increased at around 2%.

And there are a number of examples of where these investments are making measurable progress in customer experience and business efficiency, leading to stronger loyalty and revenue opportunities.

So far this year, we've opened 7 Smart Branches in Canada, building on our experience in the United States. They offer smaller square footage, an open concept design and an improved customer service.

For the many customers who call our contact centres every day, we've introduced a voice recognition authentication technology that reduces wait times and is more secure.

In U.S. P&C, we're piloting a completely redesigned digital banking platform, which offers an enhanced desktop and mobile experience and improved functionality. We expect to roll this out for all of our personal customers in the U.S. later this fall.

We're also exploring transformational technologies. Earlier this month, BMO Capital Markets piloted a fixed income issuance transaction using blockchain technology, the first of its kind in the Canadian marketplace.

Across the bank, employees and leaders are mobilized against our strategic priorities. We're committed to doing things differently, positioning ourselves to compete in an evolving ecosystem. The progress we're making is evident in our financial results.

We believe there is significant potential across our markets to leverage our competitive position, our strong reputation and our growing customer base.

We will be providing further updates on our innovation and growth agenda at our Investor Day on October 24, and we look forward to meeting many of you there. I'll now turn it over to Tom to review the quarter's results.

Thomas E. Flynn *Bank of Montreal - CFO*

Thank you, Darryl. My comments will start on Slide 8. Q3 reported EPS was $2.31 and net income was $1.5 billion. Adjusted EPS was $2.36, up 16% from last year and adjusted net income was $1.6 billion, up 14%. Adjusted return on equity was 15% in the quarter.

Strong performance was driven by good revenue growth and positive operating leverage across all businesses.

Adjusting items this quarter are similar to past quarters and are shown on Slide 24.

Turning now to the quarterly results in more detail.

Net revenue of $5.6 billion was up 7% from last year. Net interest income increased 3% and net noninterest revenue was up 10%, with increases across most revenue categories.

Expenses were well managed, up 4% with higher technology investments as the single largest contributor. As Darryl said, excluding technology-related spend, year-to-date expenses were up about 2% in constant currency. The efficiency ratio improved 180 basis points from last year to 60.3%.

Net operating leverage was strong in the quarter at 2.9%, reflecting good revenue growth across businesses and continued focus on expense management, while investing in technology at the same time. The effective tax rate was 22% and was 25% on a teb basis, both modestly lower compared to a year ago.

Moving to Slide 9. The Common Equity Tier 1 ratio was 11.4%, up 10 basis points from Q2. As shown on the slide, higher retained earnings was partially offset by higher risk-weighted assets from good business growth and the impact of share repurchases. We repurchased 1 million common shares during the quarter. And over the past year, we've repurchased a total of 10 million shares while maintaining a strong capital position.

Moving now to our operating groups and starting on Slide 10. Canadian P&C net income was $642 million, up 5%. Revenue growth was 5%, driven by continued momentum in the commercial business and increased noninterest revenue and higher margins. Total loans were up 4%.

Personal loan balances were essentially unchanged from last year, which reflects our decision to reduce participation in the third-party mortgage market. Mortgage growth through proprietary channels was 3%. Commercial lending growth was strong at 11%. Total deposits increased 4%. Personal deposits were up 1%, reflecting 5% growth in chequing account balances and a reduction in broker term deposits. Commercial deposit growth was good at 8%. NIM was up 1 basis point from the last quarter. Expense growth was 4% and operating leverage was positive 1.1% in the quarter. The total provision for credit losses was $137 million and includes a $17 million provision on performing loans.

Moving now to U.S. P&C on Slide 11, and the comments here speak to the U.S. dollar performance. Adjusted net income of $288 million was up 34% from last year. Pre-Provision, pre-tax earnings growth was strong at 15%. Results reflect continued momentum in the business, positive operating leverage and a constructive environment. The benefit from lower U.S. taxes was $31 million in the quarter. Revenue growth was strong at 9%, largely reflecting deposit revenue and loan volumes. Average loan balances increased 12% with strong commercial loan growth of 13%. Personal loan growth largely reflects the mortgage portfolio purchase in Q1. Deposits were up 8%, with growth in personal of 11% and commercial of 2%. Net interest margin was down 6 basis points from last quarter due to loans growing faster than deposits, continued loan spread compression and lower interest recoveries, with these partially offset by improved deposit revenue. Expenses were up 4% and include some items we don't expect to recur. Operating leverage was positive 4.2% in the quarter. Total provisions for credit losses were $31 million and included provisions on impaired loans of $42 million and a recovery on performing loans of $11 million.

Turning now to Slide 12. BMO Capital Markets' net income was $303 million. Revenue of $1.1 billion was up 5% reflecting stronger revenues across both Trading Products and Investment & Corporate Banking. Expenses were up just 1% from last year. Pre-Provision, Pre-tax earnings growth was 12% and operating leverage was positive. The provision for credit losses was $7 million in the quarter.

Moving to Slide 13. Wealth Management net income was $301 million, up 6%. Earnings in traditional wealth of $212 million were up 3% as underlying business growth was partially offset by a legal provision. Excluding the provision, earnings growth would have been double digits with particularly strong contribution from Canadian Wealth Management, which delivered year-over-year revenue growth of 11%. Insurance net income was $89 million, up 15% from last year, reflecting underlying growth and the benefit from market movements. Expenses increased 6%, largely due to higher revenue-based costs and technology investments. Operating leverage was positive 1.1%.

Turning now to Slide 14 for Corporate Services. The net loss was $57 million compared to a net loss of $85 million a year ago. Results were somewhat better than trend due to positive items in the quarter, none of which were individually significant.

To conclude, results in the quarter were strong, and we remain focused on achieving our financial targets for the year. 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, the provision for credit losses on impaired loans was $177 million or 18 basis points, flat compared to the prior quarter. The total provision for credit losses was $186 million, which included a $9 million provision for credit losses of performing loans.

In Canadian P&C, PCL on impaired consumer loans decreased $22 million, with lower credit losses across all product categories. As noted last quarter, losses in Q2 were higher due to a one-time adjustment. The PCL on impaired commercial loans increased, reflecting lower recoveries.

PCL on impaired loans for U.S. P&C were down in both the consumer and commercial portfolios. The reduction in consumer loans was largely due to recoveries in the HELOC book. In the commercial portfolio, we saw lower provisions across all business segments.

Capital Markets PCL on impaired loans was $3 million compared to a $16 million PCL recovery last quarter.

The net $9 million provision on performing loans is comprised of a number of factors. We modestly increased the weighting of our downside scenario due to trade concerns, however, the impact of this was offset by model and data adjustments. The remaining factors of volume growth, migration, and updated macroeconomic inputs combined for the $9 million PCL.

Turning to the next slide, the GIL ratio decreased 3 basis points to 53 basis points.

On slide 18, delinquency and loss rates for the Canadian residential mortgage portfolio remained stable.

In summary, our well-diversified credit portfolio continues to benefit from the good economic environment, and I expect our PCL performance to remain strong in the coming year.

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

QUESTIONS AND ANSWERS

Stephen Theriault ***Eight Capital***

A couple for me, maybe starting with the U.S. business for Dave. There's a lot of moving parts with the margin and maybe a bit surprised to see that magnitude of a decline with the higher rates. Could you give us a bit of order of magnitude with respect to the moving parts. And given what you know, a bit of a near-term outlook for the margin, if Q3 is a jumping off point?

David Casper ***BMO Harris Bank President & CEO, Group Head Commercial Banking***

We were down NIM about 6 basis points for the quarter. I would note, we were up 7 the quarter before. So kind of flat for the last 2 quarters. And that just indicates that it does move around a little bit. But the big issue, and we talked about this before, the loans grew at 3% for the quarter and the deposits grew at 1%. So that does have a negative impact on NIM. If I unpack it a little bit more, we had the interest recoveries in the second quarter that we did not in the third quarter. So that actually accounted for half of the diminishment. But there were other things too. The rates helped us. Rates absolutely helped us, but that was offset by larger loans and some diminishing spreads, not significant, but some of that impacted as well. So you put it all together, hopefully that unpacks it for you. As it relates to going forward, I would expect a couple of basis points increase in the next quarter. And that's assuming that we do have an interest rate increase in September. Does that help unpack it for you?

Stephen Theriault ***Eight Capital***

That's helpful. So a rate increase and steady state competition in growth rates?

David Casper ***BMO Harris Bank President & CEO, Group Head Commercial Banking***

Yes.

Stephen Theriault ***Eight Capital***

Okay, thanks for that. And secondly turning to Capital Markets. Definitely a better quarter, a little bit of bounce back quarter there overall. But we're not seeing that come from the U.S. business. The revenue looks a little bit better, expenses shrunk for the first time in a while. So making some headway there. But just wondering if you can talk a little bit about what it will take to turn that momentum around and get it back to the growth rates we were seeing. I think the contribution was up to around CAD 80 million a year ago. You talked about getting it back to those sort of levels, but I was wondering – do you need to go after the expense a little bit more, or is it just that you need revenue tailwinds to help from here?

Pat Cronin ***Bank of Montreal, Group Head BMO CM***

Yes. Thanks for the question. And the short answer is it is definitely a revenue growth story that will get us to the kind of levels you talk about. I mean, at $41 million in net income for the quarter, that was definitely softer than we would want to see. And as you commented, it was partly a revenue story. Revenue was modestly lower than the average of the past 6 quarters. And that was really reflective of a fairly soft M&A environment for us. The overall market was reasonable, but our M&A experience was a little bit weaker this quarter, but it was offset by some pretty good performance in our Trading Products businesses, which we expect to continue.

The other driver of the softer number this quarter was PCL. I'm sure you noticed that we had USD 13 million of PCL in the quarter, which is above average relative to when you look at the past 6 or 8 quarters. So that's skewing a little bit of that comparison you're looking at.

And then lastly, as you pointed out, expenses are running a little bit higher than you would expect, given the revenue line. But some of that is us continuing to invest in growth in that business. We're still seeing opportunities to acquire talent, particularly in our Investment & Corporate Banking side of the business. And that's a long-term growth story and lots of potential there, so we're going to continue to invest there.

In terms of how that's going to turn around, we look at the pipeline, certainly for M&A and for ECM, at least for us, in Q4 and beyond, has actually been quite strong, and we would expect to see revenue growth materially pick up from there. So in terms of getting back - CAD 80 million certainly was a high watermark for us in the recent past - but I think you should expect to see a range in the kind of 60 to 80 zone going forward for the next few quarters.

And I would point out though, that overall, despite the fact that the U.S. Investment & Corporate Banking business was a little bit weak, the Canadian side of the business was exceptionally strong. So overall, we don't expect all the cylinders to be firing at any one given time, and that's why we have a nice diversified business mix with some really great contribution from the Canadian side of that business driving, what we thought, was actually a pretty good quarter overall.

Robert Sedran ***CIBC Capital Markets***

Cam, you've spoken in the past about participation choices, I guess as Tom noted in his prepared remarks as well, the deemphasizing the third party channels. And I'm wondering if you can give us a little more colour about how you look at the earnings and volume growth against that backdrop relative to, sort of, expectations. And more on the personal side, the commercial side is less affected by that and also doing quite well at the moment. More on the personal side. How you're thinking about volume and how you're thinking about the way forward.

Cameron Fowler ***Bank of Montreal - President of North American Personal & Business Banking***

Sure. Thanks, Rob. As you know it's a commercial driven strategy, and on the personal side, strong emphasis on primary customer growth. And so sometimes when you put those 2 things together, commercial focus and primary customers, we do end up making choices at the margin, third party you referenced and indirect auto is another one, where we sometimes pull back a touch. In terms of the growth in the business, it's a primary customer focus emphasis in 3 areas for us right now; number one is on deposit growth; number two cards; number three mortgage, and RESL more broadly. And in each of those categories, to be sure, the focus is on gaining market share. And I think you can see in the market share performance of chequing, on ROD, we've got some gains in market share -- primarily driven by increased marketing on some offers we have.

On the card side again, there was modest market share gain, again driven primarily due to again marketing, digital, yield enhancing products as well with our small business launch this quarter. And on the RESL side, if you put together the focus we have on branch originated, which we do primarily because the margins are thinner on the third party and because there isn't a primary customer option for us there, we're actually in line with the market now. And when you put the amortizing HELOC in with that, and that's up about 4%, which is in line with market and guidance, or 1% on the quarter, which would have us probably a little close to the front of the pack. So the focus is on share gains in those 3 areas that I pointed to.

I'm optimistic that performance we're seeing this quarter in those areas has us in a good position. I think a couple more quarters like this and you'll start to see the year-on-year improvement that we expect and will bring us more in line with what you're seeing on the commercial side in terms of relative performance. I hope that helps.

Robert Sedran ***CIBC Capital Markets***

It does. I might have thought with that kind of focus, that you might be seeing a bit more of a drift higher in the net interest margin. And over the last 4 quarters, it's been relatively stable, which I guess, when you're transitioning the business, maybe not a bad result. Am I wrong in thinking the margin should be following that same trend here going forward?

Cameron Fowler ***Bank of Montreal - President of North American Personal & Business Banking***

I think the margin will. And we are up 6 on the year, 1 in the quarter only. But we've also been doing well in cards and commercial lending, which is contributing to the 1 basis point. But I would expect, as you say, if we keep it up with the deposits, in particular on the chequing, that you'll see 2 to 3 basis point gains next quarter, and I expect that type of quarterly trend to continue into '19 as well.

Meny Grauman ***Cormark Securities Inc.***

Just a question on the legal provision this quarter in Wealth. Hoping to get a bit more colour on the nature of that provision?

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

If you normalize for this, the results in the U.S. are very good. But this is kind of an ongoing legacy matter. And there's not much more to say other than the fact that it's not material.

Meny Grauman ***Cormark Securities Inc.***

Okay. And then just, it caught my eye, on Slide 6, the digital engagement numbers and wondering if you could talk to where you're steering in terms of those 3 areas that you highlighted in terms of sales for digital channels, active digital users and growth in mobile users? Is there a particular number target that you're steering towards?

Cameron Fowler ***Bank of Montreal - President of North American Personal & Business Banking***

Sure. It's Cam Fowler speaking. I would say that with respect to digital sales, you'll see that we've moved from 18% to 25% last year to this year. We set a public aspiration of 30%. We thought it would take us a couple of more years to get there. I actually expect that it will probably cross that threshold going into next year at some point. And so we may well decide to go beyond 30%, but 30% is the goal that we set. Digital active users, we'd like to see that number in the mid-to high 60s in the relatively near term. And the growth in active users, it's actually linked to the point above. And if we can continue to see high double-digit growth in usage, that's a 90-day active user number, then I think all will be well.

Underneath your question, I think, is what are you doing to affect that type of activity? For us, digital strategy has been core to distribution in North American personal and business banking for a while. We feel that we're in a very good position given the size and distribution, with an urban leaning to our branches. We may have fewer, but they are well positioned. And if we can do very well through digital account openings, card sales through digital, et cetera, we think we can grow at or ahead of market, and we're starting to see some of that come through.

Gabriel Dechaine ***National Bank Financial, Inc.***

I just want to follow-up on the U.S. margin topic and then I have a follow-up for Cam on the Canadian deposit commentary. First, on U.S., the loan growth outpacing deposit growth, you're citing as the bigger issue. We're seeing that for quite a while now. I'm just wondering, is there a strategy in place to accelerate commercial deposit growth or something kind of off the wall that you are exploring to address your funding gap there? Your wholesale funding exposure is growing quite steadily over time.

David Casper ***BMO Harris Bank President & CEO, Group Head Commercial Banking***

It's Dave. You're right in that we have had really good solid loan growth. And we've actually had good deposit growth too, while it has not kept up with the loan growth. But to just take you back and to remind you, the way our business works, the retail business has been and continues to be a very significant source of our deposit growth. And it continues to be. We have a very strong retail franchise in the United States. It's growing -- we grew deposits by 8% this year, and it will continue to grow. And as Darryl mentioned in his earlier comments, we have more coming down the road in terms of our digital capabilities in the United States on the retail side, which is run by my partner Ernie, and you'll hear more about that in our Investor Day. But your other question on the deposit side for commercial - we absolutely do. We probably - over the past - have not grown the commercial deposits as fast as the loans, and we will definitely move to do more. But in the future, we have strategies in place in terms of different industries that are more deposit heavy than they are loan heavy. So we will do that. But we have no concerns to round this out, that we won't be able to adequately fund ourselves going forward and continue the momentum.

Gabriel Dechaine ***National Bank Financial, Inc.***

We're at a $14 billion wholesale funding figure here. Is there a sort of a max that you want to get to?

David Casper ***BMO Harris Bank President & CEO, Group Head Commercial Banking***

I'm not sure what you're looking at. Is that in the U.S?

Gabriel Dechaine ***National Bank Financial, Inc.***

Yes. Actually, it's probably less than that because I've got the managed mortgages.

David Casper ***BMO Harris Bank President & CEO, Group Head Commercial Banking***

Yes. It's probably about 7. In US dollars, our deposits are around 70 or so and our loans are about 77. Yes because I think you're looking at the mortgages that we service.

Gabriel Dechaine ***National Bank Financial, Inc.***

Yes.

Okay. And then on the commercial -- the quarter-over-quarter decline in the commercial deposit balances, that doesn't sound like you willingly let some of those go. Because we're hearing a lot about competitive pricing in that market. Higher betas and what not.

David Casper ***BMO Harris Bank President & CEO, Group Head Commercial Banking***

Yes. On the commercial side it has been more competitive. I think the deposit growth is expected to continue on both sides. But we should have better deposit growth in the commercial side in the next quarter, and we'll continue to focus on that as well.

Gabriel Dechaine ***National Bank Financial, Inc.***

Okay. And then the Canadian business for Cam. You said deposit business is your number 1 priority, I've heard that from pretty much all the banks. And I get that, I'm just wondering what kind of strategies do you find are working, which ones aren't? Because I get all the offers, do this and get $100, set up a chequing account or whatever and then various forms of that. Where do you see yourselves playing?

Cameron Fowler ***Bank of Montreal - President of North American Personal & Business Banking***

Okay. Thanks. The first thing I'd say is that the number at 1.2% looks not as strong relatively. That's got term decline in it and as you know the broker channel is a little thin and a little more competitive. I expect that would come up a little bit over the next little while. But the underlying chequing account, which I think is the one you're mainly focused on, is performing, I think, well against the market. It is a priority and I'm not at all surprised to hear you say that others are focusing on it as a priority. I'd probably go back to the comment I made with respect to the digital channels, and we made a commitment a couple of years ago to make sure that beyond cards, everyday banking and savings accounts could be opened on a mobile phone in a matter of minutes. And that coupled with, I would say, a 50% increase in marketing spend in that area, has been really helpful to us in achieving the double-digit primary customer growth we've had in the past year. But relative to other markets like the United States, I would say it's maybe perhaps not as competitive and there is still room to grow here for the right offer and for the right branch network that's prepared. But I think it's fair to say that competition for these accounts and these deposits will grow through time.

Gabriel Dechaine ***National Bank Financial, Inc.***

And that maybe competitive offering or promotional stuff you might do is factored into that margin comment you made earlier?

Cameron Fowler ***Bank of Montreal - President of North American Personal & Business Banking***

It is. Yes.

Sumit Malhotra ***Scotiabank Global Banking and Markets***

First, probably a couple of numbers ones for Tom. When you took the restructuring charge last quarter, you had indicated that the expectation was about $185 million in expense savings over the coming year on a run-rate basis. Especially when I look at your corporate segment this quarter, it seems like you had a pretty quick decline in expenses. It was indicated that maybe all of that wasn't run rate. So I just wanted to ask you, of that $185 million, how much you think we've seen so far? And specifically is that the drop we're seeing in corporate?

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

Thanks for the question. We did guide to a number of around $185 million, which we'll achieve in the middle of next year. In the current quarter, on an annualized basis, the number would be more like $85 million to $90 million. And it will build from that number up to the $185 million sort of Q2, Q3 of next year. In terms of corporate, the corporate results were better than average by around $30 million. A number of things contributed to that, none of them individually that significant. On the expense side, we had some benefit from restructuring, but we also had a real estate gain in the number that helped on the expense side. And on the revenue side, treasury was a little better than usual and we also had a higher level of security gains. So that combination produced better overall corporate results.

Sumit Malhotra ***Scotiabank Global Banking and Markets***

But the expense drop is some of the benefit of the restructuring?

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

It is. And also the real estate.

Sumit Malhotra ***Scotiabank Global Banking and Markets***

Okay. And this one's probably for you too because it's kind of esoteric and that's usually the CFO’s job. Page 11 of your supplement, the trading revenue by product, the column you call the mysterious other column is up $40 million sequentially and you talk about run off of structured credit and hedging exposures. I don't think there's any structured credit run off these days. So what exactly is this? And why was it such a decent sized move in the quarter?

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

There isn't any structured credit. That is a legacy comment. We did have some larger mark-to-market items related to our treasury operation that I think are in that line. And that is what's contributing to the stronger performance there. Some of that is offset because it's a hedge. So the bump you're seeing there doesn't flow to the bottom line for the most part because there's an offset. But it's treasury that's really driving that in the quarter.

Sumit Malhotra ***Scotiabank Global Banking and Markets***

So that some of the corporate segment revenue?

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

That's correct.

Sumit Malhotra ***Scotiabank Global Banking and Markets***

And I guess you can update note 3 to take over the structured credit comment.

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

We will take a look at that. It could be that in the farther back comparable periods, it's still relevant. But we will check it.

Sumit Malhotra ***Scotiabank Global Banking and Markets***

Okay. Last one for me and this probably is for Darryl. It wasn't that long ago that - at least for a few years - I was wondering whether that 15% ROE objective for BMO was going to have to be adjusted lower because it's been a while since we've seen it. You got there this quarter. And the obvious question comes to sustainability. But so far in this call, we've heard your management team talk about higher NIM in Canada, higher NIM in U.S., credit in check, expenses in check. U.S. Capital Markets earnings going higher. Really I think the question that's more in my mind is what do you see as the impediments to that 15% ROE objective that you hit this quarter not being achieved in the near term? Is there something in the way of investment spend, or maybe I just leave it to you? Is getting there this quarter the start of what you expect will be 15% plus for BMO as a run rate level going forward?

Darryl White ***Bank of Montreal - CEO***

Sumit, thank for the question. We did set that 15% target some time ago. I'm not sure how to react to your confidence level in us achieving it at one point in time, but I'll skip past that and go straight to the forward part of your question. This is what we set out to do. The businesses are operating well. They're operating against the agenda that we set with the 2.9% operating leverage that I talked about earlier and all 4 of our business groups contributing to that operating leverage with all of the details behind it that you're hearing from the management team in this call. The short answer to your question as we look forward to the future is that if the markets remain constructive, I don't really see anything that will stand in the way of us delivering that 15%. Of course, markets do change. If the credit environment changed dramatically, we'll have a different conversation. But assuming the market that we're in right now, the execution that we're prosecuting right now against the pipelines that we have, I don't see anything in particular because if you consider the spend -- you've asked a good question on spend, if you consider the spend that is included in the 15%, I mentioned it in my remarks, but in case it was missed, we've got a double-digit spend on the technology agenda growth year-over-year but approximately 2% in constant currency of our all other expenses. So you would expect something like that, give or take, to continue into the future. And assuming the markets are as constructive as they are right now, I don't see why we would falter on our 15% over time. There might be a quarterly variation on that. But as I look out the next little while, I would say that to be a number that we're going to shoot for.

Scott Chan ***Canaccord Genuity***

I just want to go back to the Canadian margin or NIM. If you look at the past 4 quarters, it's been pretty flattish. And I don't know if I kind of caught it, but is the outlook stable or is it increasing on the margin side in Canada?

Cameron Fowler ***Bank of Montreal - President of North American Personal & Business Banking***

It's stable to increasing. I think it'll be up a couple of points in Quarter 4 and would continue in a similar trajectory through 2019.

Scott Chan ***Canaccord Genuity Limited***

Okay. Great. And perhaps for Darryl, just with the excess capital, a lot of talk about U.S. P&C but what about Wealth? Is that an area of interest, considering your competitors are pretty aggressive the space recently?

Darryl White ***Bank of Montreal - CEO***

Yes, those are both areas of interest, Scott. I mean, we're looking at growing the bank. And you all do a good job of asking us this question from time to time and I might bore you with the response, but we don't comment on any specific situation, as you know. We're looking to grow the bank. Those are 2 areas in particular where we're looking to grow the bank. So with that, I'll just remind you that we take a pretty disciplined approach to everything that we look at, and we'll deploy capital as the opportunities meet the criteria.

Nigel D'Souza ***Veritas Investment Research Corporation***

I had two questions for you. So first if I could refer you to Page 23 of your supplement, I had a question on the commercial loan balances. So sequentially, your commercial loan book is up about $6.5 billion relative to Q2. And when I look at the industry breakdown, it appears that the financial segment, particularly non-bank financial services is driving a fair bit of the increase, nearly half, with non-bank financial loan balances up about $4 billion sequentially. So is there something particularly that your seeing -- and I assume this is that is out of U.S., but is there something particularly your seeing drive that growth and how sustainable do you think that is going forward?

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

Yes. This is Surjit. I'll answer your question. That financial segment sector that you see there has a number of subsectors. And one of the sectors that you had higher drawings in this last quarter, and by the way those drawings were investment grade and of a short-term nature. But this is not unusual. That's happened in the past. But, generally, there's been an offsetting reduction somewhere else, because there's so many sectors, so many moving parts. And this time, it didn't go that way, so you've seen a large increase. But there’s nothing there that points to anything that would indicate that a particular segment that's gone up or there’s a change in strategy.

Nigel D'Souza ***Veritas Investment Research Corporation***

Okay. So we should expect more of a run rate that's in line with your historical basis and not take this recent sequential increase as more of a trend going forward for that specific sector?

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

That is correct. From time to time there will be drawings though that would cause the numbers to change. And as I said, it just happened that this time there was not much to offset the increase in that particular subsector.

Nigel D'Souza ***Veritas Investment Research Corporation***

Okay. Great. And the second question is related to a comment made earlier and I wanted to make sure I heard it correctly. There was a comment on amortizing HELOC, and is it accurate to state that the comment was, including amortizing HELOC in your growth rate the RESL mortgage book would be up 4% versus the current growth rate of roughly 1%? Is that right?

Cameron Fowler ***Bank of Montreal - President of North American Personal & Business Banking***

It's Cam speaking. Yes, it would be about 4%, but that would be compared to the 3% if you don't include the HELOC. So the 1% is where we are on a quarter-on-quarter basis if you take branch originated mortgages plus the amortizing HELOC. So it's a 1% quarter-on-quarter and a 4% year-on-year with the 2 together. And if you're just looking at the branch originated with no HELOC, it's 3% year-on-year and 0.7% quarter-on-quarter.

Nigel D'Souza ***Veritas Investment Research Corporation***

Okay. Got it. And then just a quick follow-up to that, are you seeing any acceleration in the conversions for amortizing HELOCs or to amortizing HELOCs for your retail customers? Or is that run rate roughly the same as it has been the last few quarters?

Cameron Fowler ***Bank of Montreal - President of North American Personal & Business Banking***

It's stronger this quarter than the last quarter but that's what we expect in Q3. If you look at it over 4 or 8 quarters, it's in line.

Mario Mendonca ***TD Securities***

Tom, can you go back to the restructuring charge taken last quarter, the $260 million. Did you provide a schedule outlining how that's been used so far or how much has been used in the first quarter since the charge?

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

I can update you on that. So the charge was $260 million. About 85% of that related to severance, and we have left accrued of the $260 million, about $190 million.

Mario Mendonca ***TD Securities***

I see you've gone through, I guess, $70 million would be a fair statement then?

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

Yes. That's right.

Mario Mendonca ***TD Securities***

When do you expect to be through it all?

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

We'll be through it all by Q2 of next year. So we're basically at full run rate as we exit Q2. So the accrual should be gone by that point.

Mario Mendonca ***TD Securities***

That make sense. Another similar question, probably for you, Tom. And I try not to look at this quarter-to-quarter because I know it can bounce around. Referring to the fairly substantial growth in liquid assets, so I'm referring to repos, cash versus securities ex-trading, the increase there over the last 3 quarters, Q1, Q2 and Q3 has been material. And I'm trying to understand what's driving this? Because it is having an effect on the all-bank margin, it’s coming in. And I get it, I understand why that would be the case, why the margin would be coming in. And we all calculate NIM on all bank basis differently. I don't suspect anyone on this call does it precisely the same way. But maybe, Tom, you could talk about why we’re seeing this, it's been for 3 straight quarters now.

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

It's a fair question. We have had higher growth in liquid assets over the last 3 quarters in the overall balance sheet, and the growth is good in the overall balance sheet. That really has been the factor that's moved the total bank NIM down quarter-over-quarter and that's because the spreads are lower. I'd say 3 factors contributing to the growth. One is just client activity in our capital markets business. Providing liquidity to clients is a core service. We've seen good client flows and that drives a part of the increase. We have increased the amount of supplemental liquidity we’re holding as a bank, that’s done through our treasury group and has been a contributor. And the last point is we will have closing in the fourth quarter, the U.S. capital markets acquisition that we disclosed a little while ago. And that's a broker-dealer focused on particularly mortgage-backed and asset-backed securities in the U.S. The name is KGS. And kind of to glide into that acquisition we did increase some of our participation in the market in advance of that. So you won't see as much of a pop with the acquisition, but we front-end loaded some of the balance sheet associated with it.

Mario Mendonca ***TD Securities***

Tom, what were you referring in the second point when you said supplemental liquidity has increased?

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

That's liquidity we hold for a rainy day. So it's just excess liquidity we keep from a risk management perspective.

Mario Mendonca ***TD Securities***

Are you done doing so?

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

I wouldn't expect that to grow at a higher rate than the overall balance sheet going forward.

Darryl White ***Bank of Montreal - CEO***

Thank you, operator, and thank you all for your questions. I will close with a quick comment to reinforce the confidence that we've got the momentum in all of our businesses.

The bank is strong, diversified and growing. And as you've heard today, we're executing against the strategies that position us to grow in our target markets, which is leading to accelerated growth and improving efficiency. So we're on track to achieve the financial targets we set out at the beginning of the year and sustainable growth over the longer term.

Thank you, everyone, for your time on the call today. We look forward to speaking to you again at our Investor Day in October.