Q1 2019 Conference Call

BMO Financial Group

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PRESENTATION

Jill Homenuk ***Bank of Montreal - Head of Investor, Media & Government Relations***

Thank you. Good morning, 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 Darryl White, BMO's CEO; followed by presentations from Tom Flynn, the bank's Chief Financial Officer; and Pat Cronin, our Chief Risk Officer. We have with us today Cam Fowler from Canadian P&C; and Dave Casper from U.S. P&C. Dan Barclay is here for BMO Capital Markets and Joanna Rotenberg is here for BMO Wealth Management.

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 keep it to 1 or 2 questions.

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 those to be useful in assessing underlying business performance. Darryl 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 2018 annual report and our first quarter of 2019 report to shareholders.

With that, I will hand things over to Darryl.

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

Thank you, Jill, and good morning, everyone.

Thank you all for joining us this morning. Today, we announced good first-quarter earnings of $1.54 billion, up 8% from last year and earnings per share of $2.32, which increased 10%, a very good start to the year.

Performance this quarter played out well and as we expected - our North American P&C business has performed very well against solid economic fundamentals and a strong and stable credit environment.

Our diverse business mix across geographies, products and customers continues to produce sustainable earnings power even as the environment in which we operate evolves. That diversity, together with our strong risk and underwriting practices, also leads to consistently good credit performance.

This quarter, earnings growth was driven by particularly strong results across our U.S. platform and in commercial banking broadly where we continue to have good momentum on both sides of the balance sheet. In Canadian P&C, balance growth continued to accelerate.

Expenses were very well managed. Excluding the impact of the stronger U.S. dollar, expenses were up only 2%. We generated positive operating leverage of 1.5% while continuing to invest in technology and strategically growing our businesses.

ROE for the quarter was 13.9% and our capital position remained strong with the CET1 ratio of 11.4%. Today we announced our intention to renew our NCIB as of June 1.

Turning to Slide 5, we've said consistently that growing our U.S. platform is a key strategic focus and a differentiating strength for BMO. Net income and pre-provision pre-tax earnings continued to grow at a strong rate with good contribution from each of our U.S. businesses.

In U.S. P&C, we're building on good performance in our personal and commercial businesses. This quarter we achieved revenue of USD 1 billion in these businesses for the first time, which was up 8% from the prior year, reflecting double-digit loan and deposit growth. Efficiency improved 300 basis points on strong operating leverage.

We've increased momentum in our personal business where revenue was up 14%. We're actively growing and engaging our customer base through initiatives like the launch of our new enhanced online and mobile banking platform. In particular, this will accelerate growth in markets with a lighter branch footprint.

In U.S. capital markets, we had a strong quarter reflecting the benefits of investments we've been making to accelerate growth and good diversification within the business. Earnings increased 33% with positive operating leverage and we've been steadily increasing market share, proving we can compete and win in a highly competitive market.

In U.S. Wealth Management, earnings were also up, including good balance sheet growth as we diversify our business.

We bring deep and unique capabilities to our customers across our entire U.S. footprint, and there is significant potential to continue to leverage our advantaged position in the market for continued growth.

Looking ahead, we expect to meet our financial objectives for the year and we remain committed to the strategic priorities we presented at our Investor Day in the fall.

The North American economy is continuing to grow, although, at a more moderate pace, with very low unemployment and moderate inflation.

In Canada, our clients are investing in innovation to increase productivity, lower costs and compete more effectively, including expanding into the United States. We're adding commercial bankers who specialize in key industry segments such as technology, agriculture and health care as well as more cross-border solutions to help our customers grow and innovate.

In the United States, our team of commercial bankers continues to gain share within and outside of our core Midwest U.S. footprint.
As we highlighted at our Investor Day, the 15 metropolitan areas where we have substantial operations account for about a third of the country's overall GDP, with significant opportunities for continued growth. And as the seventh largest commercial lender in the United States, we bring deep sector expertise to customers across the country, with two-thirds of our new originations coming from these national sectors.

In each of our businesses, relationships are what matter.

We have a long track record of supporting our diverse customer base in good and in challenging environments with the ultimate goal of creating a stronger, healthier and more resilient and more prosperous society. Most recently, we're proud to support the farmers of PEI with relief programs to help them manage through difficulties from poor weather conditions.

Supporting our clients is an important part of BMO's unique culture, a competitive differentiator that drives our success. Today, we're very proud to be named by the Ethisphere Institute as one of the 2019 World's Most Ethical Companies, a recognition we've received for 2 years in a row.

And now I'll turn it over to Tom to talk about the first quarter financial results.

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

Thank you, Darryl. My comments will start on Slide 8. Q1 reported EPS was $2.28 and net income was $1.5 billion. Adjusted EPS was $2.32, up 10% and adjusted net income was $1.5 billion, up 8%.

As Darryl walked through, results reflect strong performance in our U.S. and commercial businesses and positive operating leverage.

Adjusting items are similar in character to past quarters and are shown on Slide 24.

Net revenue of $5.6 billion was up 6%, or 4% excluding the impact of the stronger U.S. dollar. Expenses increased 5%, or 2% excluding the impact of the stronger U.S. dollar, largely reflecting higher employee-related and technology costs. Net operating leverage was 1.5% in the quarter. As a reminder, in the first quarter of each year, we have higher expenses related to stock-based compensation for employees who are eligible to retire reflected in our results.

The effective tax rate was 20.4%, up approximately 1% from last year. The effective tax rate on a TEB basis was 23.1%, down from 24.7% last year.

Moving to Slide 9. The Common Equity Tier 1 ratio was 11.4%, up approximately 10 basis points from Q4. As shown on the slide, the ratio increase reflects high retained earnings and also higher AOCI from security gains and other smaller items, net of higher risk weighted assets and the impact of regulatory change. We also bought back 1 million common shares in the quarter. Higher risk weighted assets were driven by strong business growth, partially offset by positive methodology and asset quality changes.

Moving to our operating groups and starting on Slide 10. Canadian P&C net income was $648 million, relatively stable compared to the prior year, which benefited from a net gain. Revenue growth was 3% driven by higher balances across most products. Last year's gain from the restructuring of Interac Corporation reduced growth by approximately 2%. Total loans were up 5% with commercial loans up 14%. Mortgage growth through proprietary channels including amortizing HELOC's was 3%. Deposit growth was strong, with commercial balances up 8% and personal up 6%. NIM was down 1 basis point from the prior quarter due to a higher BA rate which narrowed variable lending spreads. Expense growth was 3% and operating leverage was positive. The prior year included a legal provision which impacted expense growth by approximately 2%. The provision for credit losses was $120 million and includes a $6 million provision on performing loans.

Moving now to U.S. P&C on Slide 11. My comments here will speak to the U.S. dollar performance. Net income of $340 million was up 33% from last year. Results were strong with good balance sheet growth, pre-provision pre-tax earnings growth of 15% and strong operating leverage. We also had the benefit of 2 extra months of tax reform compared to last year. Revenue growth was 8%, largely reflecting good commercial loan growth and deposit revenue. Average loan growth was 11% with commercial loans up 13% and personal up 3%. And our continued focus on growing deposits is paying off with double-digit growth in both personal and commercial deposits. Net interest margin was up 2 basis points compared to last quarter. Expenses continued to be well managed and operating leverage was 5.3%. Provisions for credit losses were low this quarter largely due to a $27 million recovery in consumer loans.

Turning to Slide 12. BMO Capital Markets net income was $262 million. Revenue was $1.1 billion and up 4% reflecting good growth in investment and corporate banking partially offset by lower revenue in trading products. Expenses were up 9%, or 6% excluding the impact of the stronger U.S. dollar with the majority of that due to the KGS acquisition. Provisions for credit losses were $15 million.

Moving to Slide 13. Wealth Management net income was $249 million. Earnings in Traditional Wealth of $184 million were down 6% as business growth was more than offset by the impact of weaker global equity markets and lower transaction volumes. Insurance net income was $65 million down from an above-trend level a year ago. Expenses were relatively flat year-over-year with investments in the business offset by lower revenue-based costs and expense management.

Turning now to Slide 14 for Corporate Services. The net loss was $75 million compared to a net loss of $92 million a year ago. Adjusted results increased mainly due to higher revenue excluding TEB, partially offset by higher expenses.

To conclude, the first quarter results reflect good performance to kick off the year. Our ability to earn through a softer revenue environment in Wealth and Capital Markets businesses demonstrates again the benefit of our diversified business model.

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

Patrick Cronin Bank of Montreal - CRO

Thank you, Tom, and good morning, everyone.

The main risks of the bank continue to evolve in-line with our stated strategy and risk appetite, and we remain comfortable with the risk levels in our various businesses. While the financial markets have been more volatile in Q1, underlying economic conditions were stable and the performance of our credit portfolios remained strong.

Starting on Slide 16, the provision for credit losses on impaired loans was $127 million, a decrease of $50 million from last quarter as we had strong credit performance across our major business lines and particularly in our Canadian and U.S. P&C businesses. In addition, our impaired provisions benefited, as Tom said, from a relatively large U.S. consumer recovery.

The provision for credit losses on performing loans was $10 million, resulting in a total provision of $137 million for the quarter.

Turning to each of the businesses. In Canadian P&C, total PCL was broadly unchanged as lower commercial losses were mostly offset by marginally higher consumer losses.

PCL on impaired loans for U.S. P&C decreased $46 million largely due to lower commercial losses and a CAD 36 million recovery on legacy consumer loans related to an insurance settlement.

Capital Markets PCL had a net loss of a $1 million versus a net recovery of $3 million in the prior quarter and Wealth Management losses were flat quarter-over-quarter at $2 million.

The $10 million provision on performing loans in the quarter was the net effect of increases caused by more uncertain financial market conditions, a reduced benign scenario weight and portfolio growth, which was largely offset by a decrease due to improved credit quality in the portfolio. While there was little quarter-over-quarter change in the GDP or unemployment forecast, the quarter did have higher allowances due to variables such as loan spreads that are reflecting more uncertain financial markets and due to a reduction in the benign scenario weight, again, given the more uncertain environment. Overall, performing loan allowances this quarter reflected a more cautious economic outlook that was largely offset by the continuing improvement in portfolio performance.

Turning to Slide 17. Formations remained very low at $467 million, while gross impaired loans increased modestly by $83 million to just over $2 billion for the quarter. The ratio of gross impaired loans to total loans remained flat at 48 basis points.

As seen in the next slide, we saw strong diversified growth in the business and government portfolio, spread across a range of industries and clients in both Canada and the U.S. While we have been more active in the market, our risk appetite has not changed, nor has the type of structures and borrowers that we fund.

Specifically, with respect to the commercial real estate portfolio, quarter-over-quarter growth was largely in line with growth in our overall business and government portfolio. Over 2/3 of the quarter’s CRE growth was in REITs, a sector that has historically performed well compared to other CRE sectors. In addition, over 60% of the growth was with investment grade borrowers. The CRE portfolio represents 8% of our total loan book, unchanged from the prior quarter and up only 1% compared to 2 years ago.

In summary, we had a good quarter from a risk perspective. Taking out the one-time item of the U.S. consumer recovery still leaves a total PCL of 17 basis points, which is lower than recent trend. The result was due to both good economic conditions through the quarter, and to strong credit discipline over time.

Looking ahead, there will be quarter-to-quarter variability, including things like the one-time item we saw this quarter, but over the longer term, we expect to see losses moving to the levels I described last quarter.

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

QUESTIONS AND ANSWERS

Robert Sedran - CIBC Capital Markets, Research Division - MD & Head of Research

I wanted to ask about deposit and margin trends in the United States, a focus on deposit gathering but double-digit deposit growth was also sequential, a pretty big increase in the commercial side on a quarter-over-quarter basis and I'm wondering if there's something unusual in those numbers, if maybe some of it is a temporary spike in deposits or if there's something more substantial going on.

And then the interplay on that was the margin guidance, which was better than what I thought Tom had suggested last quarter and I'm curious if I'm remembering that correctly, and then if you can update that view on the outlook for the U.S. margin?

Dave Casper - President & CEO, BMO Harris Bank N.A. and Group Head, Commercial Banking

Robert, this is Dave. I'll take the second part first, you actually aren't remembering correctly. You're remembering correctly on the guidance but I gave you the guidance on the NIM. So let's go back to the first part. The deposits on both the personal and the commercial side have grown really well and we've said over the last couple of years that our deposit growth has actually - up until about 2 years ago - had not grown as fast as our loan growth, and over time we've always been pretty balanced between personal and commercial. So we have absolutely gone after commercial deposits largely from our existing customers where we do all their operating business but sometimes we had not gotten all their liquid balances and we've made a push to do that, and also with new customers as well. So I don't think that it's temporary. There's always some fluctuation between the quarters but you should expect that. And we've said that our deposit growth will at least equal our loan growth over the long term and we expect that to happen.

Going back to your NIM question, the guidance was a little bit lower. We were really happy with what happened in the quarter. Our loan spreads actually came in a little bit better, we also saw our deposit costs come in a little bit lower, and we had some interest recoveries again in this quarter which helped a little bit. I'll stop there and just see if that helps you, or if you need anything else?

Robert Sedran - CIBC Capital Markets, Research Division - MD & Head of Research

It does but the 12% sequential growth on deposits is clearly not something you would expect to continue at that pace. It sounds like better than what it has been?

Dave Casper - President & CEO, BMO Harris Bank N.A. and Group Head, Commercial Banking

Yes, it absolutely has. And as I said, over the long term, we expect the deposit growth to be at least as good as the loan growth. In the quarter, there were a couple of big deposits but nothing really unusual, and remember there was a year-end in there and sometimes that takes deposits for a little bit that then go off. I wouldn't expect it would be 12% every quarter, but I would expect, and we should expect in our commercial business and in our retail business to continue to grow good long-term deposits for the long term from our customers.

Ebrahim Poonawala - BofA Merrill Lynch, Research Division - Director

I was wondering if you can talk to when I look at year-over-year operating leverage it feels like the majority of that was driven by the U.S. segment this quarter. When we think through the rest of the year, Darryl or Tom, how should we think about some of the biggest drivers of operating leverage across the 4 segments - where do you expect operating leverage to pick up as the year progresses versus flattening out from here?

Thomas E. Flynn - Bank of Montreal - CFO

It's Tom. Thanks for the question. I would say in the quarter, we felt good about the operating leverage coming in at 1.5% in a quarter that did have some softness, for at least part of it, in Wealth and Capital Markets. The expense growth was we think very good in the quarter, in constant currency expenses were up about 2% year-over-year and that continues to be a focus. And in this quarter, we did have particularly strong performance in our U.S. segment and that was true of the income growth across businesses and was also true of the operating leverage. And I'd say as we go through the year, we expect continued good performance in the U.S. but contributions from all of the groups as well. So the numbers will very quarter-to-quarter and by group but I would expect positive operating leverage through the year to come from all of the groups.

Ebrahim Poonawala - BofA Merrill Lynch, Research Division - Director

And just tied to that, Tom, following up - When you look at expense growth in every segment, is there any pickup or moderation that we should expect tied to investment cycles, be it on technology et cetera?

Thomas E. Flynn - Bank of Montreal - CFO

For the year, we will be focusing on our expense growth and I will expect the growth rate that we reported [last] year [4% in constant currency] to be not that far off overall. So for the [quarter], actual expense growth was 4.5%, [2% in constant currency], as we do continue to invest in technology. Technology growth this quarter was again double-digit and other expense growth was basically flat in the quarter and we've talked about that trend of investing in technology and managing other expenses tightly, and we've done that over the last couple of years and that's the plan forward this year as well.

John Aiken - Barclays Bank PLC, Research Division - Director & Senior Analyst

In-line with the strong commercial loan growth that we saw on both sides of the border, can you talk to the competitive response that you're seeing? Are you seeing any price aggression or any change of the terms that are being offered that may impair your growth rate or the profitability on a go-forward basis?

Dave Casper - President & CEO, BMO Harris Bank N.A. and Group Head, Commercial Banking

This is Dave. I would say nothing really out of the ordinary or the unexpected. We're 9 years into a recovery and with that there's always some efforts to be a little more aggressive. I feel really good we're holding a line on the commercial side, on both sides of the border and continuing to grow but doing it wisely. And we're really not impacted by what any one competitor would do. We pretty much stick to what we've done over the long period of time. That's what I've got at this point unless you have any other questions.

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

John, it's Cam. I'll just add for the Canadian market, very similar answer to what Dave has said. I think given the geographic and industry and product diversity we have, we're not feeling compression or disproportionate competitive pressure anywhere, in pockets certainly we do but it hasn't caused us to yield at all in terms of price, return and if anything, we're I think building strength by vertical and by quarter.

Gabriel Dechaine - National Bank Financial, Inc., Research Division - Analyst

Just want to follow-up on the operating leverage comments. Tom, you indicated you expect the expense growth to stay flat in and around the 5% level, so that would imply revenue growth acceleration from what we saw this quarter, and granted markets were tough and all that, but is that really what you're signaling? And by extension does that mean that we might not see a material outperformance versus that 2% target this year?

Thomas E. Flynn - Bank of Montreal - CFO

I would say that broadly at a high level, the shape of the [revenue] growth in the current quarter isn't that far off what we would expect for the year. And the economic backdrop, we think, is constructive to our businesses. Revenue growth this quarter was 6%, and we think that's a reasonable number give or take for the year. And as you pointed out, that did reflect softness in market-related businesses. And on the expense side, the number that we've posted this quarter is likely to be in the zone of the number for the year. But the year-over-year growth numbers in any quarter can move around a little bit, but broadly we think this quarter is in-line with what we'd expect for the year.

Gabriel Dechaine - National Bank Financial, Inc., Research Division - Analyst

So 2% is still your goal for the year?

Thomas E. Flynn - Bank of Montreal - CFO

Yes, 2% is the goal, has been the goal, we're focused on that. As well as, we talked about at our Investor Day, we're focused on making progress on the efficiency ratio and the goal there is to have a ratio of 58% in 2021.

Gabriel Dechaine - National Bank Financial, Inc., Research Division - Analyst

Switching gears to M&A, hard to ignore the activity that's been taking place in the U.S. the last year and weeks. In the past, particularly with M&I, that was more of an opportunistic credit cycle acquisition where you got a lot of recoveries on conservative marks. In your own expense base, do you view yourself as sub-scale whereby a deal becomes increasingly important to drive your efficiency lower? Because that's what we're hearing as a motivation for other deals.

Darryl White - Bank of Montreal - CEO

It's Darryl. Maybe I can help you with that. Thanks for the question. So you've done a nice job tracing back some of the work we've done, M&I and otherwise. And I think that's an important place to think about the question because when we look at the strategy and the question of scale and in particular in the United States and we talked about on this call -- we've got strong growth from our U.S. segment. If you look at the compound annual growth rate of our U.S. businesses since 2015 it's been 17% and most of that is in fact not -- I picked the date intentionally well past M&I - most of that growth is not through M&A. There have been some smaller tuck-in acquisitions but most of that growth is organic and as of today 30% of the bank’s earnings based on the last 12 months rolling are coming from the United States.

Why do I say that? Because when we look at the question of scale, I would say we have sufficient scale in the United States to succeed and we benefit from our global scale. When we talk about the resources that we bring to bear in United States, it's the resources of the Bank and the efficiencies that we get from our ability to spend, whether it's technology, regulatory, or marketing. And the evidence of that is in several places where, as I said earlier, we're the seventh largest lender in the United States in commercial lending and our loan growth has outperformed the market in the last 4 years. We've got a really very strong Midwest footprint as you know, but one of the comments that I've made from time to time that I think has surprised some of our shareholders is that 2/3 of our new originations are coming from outside of our core U.S. Midwest footprint. And then you've heard the conversation earlier on deposit gathering. Deposit gathering is one of the challenges of those who are subscale and we're not experiencing that as a challenge.

So I don't come to that conclusion - I think the way you phrased your question is that we feel that we have to grow as a consequence of scale - we don't feel a compulsion. We have a very interesting place in the market in that we're able to continue to gain share off of the platform that I’ve just described and there's lots of available market share for us because we don't have a huge market share in some of those businesses despite the strength and momentum that we have. So there's lots of continued opportunity to take share, so no compulsion on acquisition.

Having said that, I'll say to you what I've said before, which is we're active, we look at things and for the most part, all of the work that we do and the things that come across that don't meet our thresholds, and our thresholds are disciplined because our organic strategy, frankly, is working. So does that help you with your question?

Gabriel Dechaine - National Bank Financial, Inc., Research Division - Analyst

Yes. So if I interpret your comments I shouldn't look at U.S. P&C and say, "oh, they’re subscale versus the super-regionals and hence, they're motivated or ultra-motivated to do something." The global consolidated picture is what's more important and therefore I shouldn't read too much into that?

Darryl White - Bank of Montreal - CEO

Well, I can tell you, and you can ask them, that some of the U.S. super-regionals would say to us it must be luxurious to have the benefit of the balance sheet and size and scale that you have globally as we seek to compete with you in the U.S.

Sumit Malhotra - Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services

First question is going to be for Dan in the wholesale results. Dan, your revenue trends were better than we've seen from most of the group so far, overall top-line loan growth looked very good. One of the issues we discussed last quarter was the outlook for improved operating leverage. So particularly, when we look in the U.S., we're still seeing expense growth at a very healthy clip. So I guess my question to you more directly would be, even with the revenue trend as solid as it was this quarter, we didn't really see that op leverage follow through. What are some of the pieces that have to align for the overall revenue expense dynamic to improve, especially, in your U.S. business?

Dan Barclay - Group Head, BMO Capital Markets

Thanks for the question. I think as you saw from the results, we had a great outcome in the U.S. this quarter where we did deliver positive operating leverage in the U.S., so very strong. The drivers of that in the U.S. as you know, in the expense growth was KGS on a year-over-year. They also created obviously some benefit as we went through it. As we look forward to the year with a softer quarter overall, and yes, we had good revenue outcomes, but we looked at it as having relatively soft capital market outputs for the investments that we'd made. We do expect to continue to drive increased revenue as we look out for the rest of year and that should drive our operating leverage overall to positive for the year.

Sumit Malhotra - Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services

And thanks for information on KGS. I think that's probably the biggest factor, and I'm looking only at your U.S. piece here, on the loan increase we see, so average loans were up about $3 billion. So both for that franchise and then also just in your core business in the U.S., how are you measuring your success in cross-selling some of the corporate credit you've been able to extend to customers? Is it products per customer? Is there a fee target you had in terms of extending credit? Just wondering a little bit how you think about that mix going forward?

Dan Barclay - Group Head, BMO Capital Markets

Sure. So let's make sure we're clear on the loan growth, that's not coming out of KGS is in our trading business overall. We had very strong loan growth across all of our industry groups. That loan growth was both acquiring new clients, doing new business with the firm as well as existing clients expanding their relationships with us. As you know we do drive a universal bank model relationship with those clients and so we look to add product capability across the spectrum, whether that's investment banking, whether its Trading Products, whether it's another nature of the relationship where we can be helpful.

When you look at our revenue production over the first quarter in the U.S., it was actually quite broad-based, some was from corporate banking and the expanded loan base but also diversified across the business mix. We had a decent result in FICC - rates were down, KGS was up - but we also had good performance in our commodities and FX business. We also had good performance in our underwriting businesses. They were relatively flat in what was a challenging market environment. So quite encouraged.

Sumit Malhotra - Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services

Thank you. And I'll keep it tight, hopefully, for Cam. There was a question asked earlier in the U.S. about margins and deposit mix. I wanted to bring that one to you. I feel like when the rate hike cycle started in Canada, your segment had relatively quick pick-up when it came to net interest margin. That flattened out over the last little while. Even though your commercial loan growth has been good and your deposit gathering has been strong, factors I would've thought would've helped NIM. So more to the point, going forward, how are you thinking about the net interest margin outlook for your business and did those 2 factors commercial growth and deposit not suggest that margin should get better from here?

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

Thanks, it's Cam. It's 3 to 5 bps for the year, that's what we're anticipating in terms of improvement on NIM, and I do agree with your point that the quality of the growth in those 2 areas are additive from a mixed perspective and in this particular quarter pressure on prime-BA was a little bit greater and that's why we're down, that's relatively stable. But yes, I would say 3 to 5 for the year, the combined effect of the balance momentum in the areas you point out and the stabilization of the prime-BA will support that.

Sumit Malhotra - Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services

Do you need any more rate hikes for that to happen?

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

No.

Meny Grauman - Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research

Pat, you gave some good colour on the PCL on performing loans, but just a follow-up question there and that's, do you have the ability to be more conservative when it comes to that line specifically?

Pat Cronin - Bank of Montreal - CRO

Well, I would say we have a very well-defined process for determining performing loan provisions and we would have followed that exact same process this quarter. I think when you look at the number of $10 million, that may seem like a modest provision if I understand where you're coming from, but if you unpack the $10 million there was a fairly large amount of movement underneath that number. And specifically, we did make changes - I think I alluded to this in my opening comments - to reflect a more uncertain forecast going forward. And so, in particular, some of the market-related variables - as I mentioned, loan spreads - did drive a fairly large underlying increase in the provision. And that, along with loan growth would have seen the provision increase and I would put it in a relatively meaningful amount. But as I said, we did have an offset in the portfolio as we just had positive credit performance. And you would get that from migration between stages or rating improvements of our credits and some of that can be lumpy, particularly in the wholesale book. And so we did definitely take steps to try and reflect a more uncertain environment but in the spot market, the credit performance was very good and that offset some of that.

Meny Grauman - Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research

And just a follow-up in terms of the scenario analysis, is it correct you used 3 scenarios? And then the question would be, could you expand that and would you consider expanding that on an annual basis, or how often would you look at that?

Pat Cronin - Bank of Montreal - CRO

Yes, so we would look at the weightings of our scenarios every quarter and as I mentioned, we did make some very modest adjustments again to reflect a more uncertain environment in the quarter. And as you know, we use 3 scenarios right now, benign, base and adverse. We're very comfortable with the construction of those scenarios as well as the number and so I wouldn't anticipate us adding any further scenarios in the coming quarters.

Stephen Theriault - Eight Capital, Research Division - Principal & Co-Head of Research

Back to expenses for a moment. Operating leverage 1.5%, as you mentioned pretty good given the softness. But Cam can we talk about your division for a second -- 0.2% operating leverage, can you talk about the likelihood of getting to that 2% target for the full year and then maybe if you could layer in that we normally see seasonality in Q2, so Q2 efficiency ratio higher than Q1, that would translate into pretty normal operating leverage for the Q2. So is it really a back-end loaded story in terms of expenses for you this year? Some colour would be great.

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

Thank you. I would say that this is a good start to the year for us and our business performance will grow through the year. And to the question I answered previously, prime-BA stabilization coupled with the strength we're seeing on the balance sheet in personal and commercial and in particular the quarterly results gives us confidence that there's revenue improvement through the year, so that's one point, expect the balances to continue. And NIX, I expect to be similar to down. We did through Q4 and Q1 invest in the areas of focus I highlighted at our Investor Day, which is an increase in sales force capacity, 100 new relationship managers on our commercial business and 50-odd financial planners as well, strategically located by geography. And we put those in more of a front-loaded manner such that we can get productivity through those resources through the course of the year. But in general, I would say, the performance improves quarter-on-quarter and revenue will be up a little bit and NIX should be flat to down, and NIM up 3 to 5 bps.

Stephen Theriault - Eight Capital, Research Division - Principal & Co-Head of Research

And does that translate, if all goes well, into close to 2% for the year in terms of operating leverage?

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

In the range, I would expect us to build in Q2 and build again in Q3 and Q4. We'll see where the averages come out but I'd certainly expect to be between 1% and 2% in the back-half of the year and we'll see where we go from there.

Stephen Theriault - Eight Capital, Research Division - Principal & Co-Head of Research

And then a quick one if I could. Over to Dan, I look at the league tables, it looks like the underwriting volumes are down, looks like advisory numbers are down, for everyone, inclusive of BMO. But the underwriting number looks quite strong, I think up year-on-year. So anything in terms of timing of revenue recognition? Any colour there would be great. You’re certainly a positive outlier versus what we've seen elsewhere this quarter.

Dan Barclay - Group Head, BMO Capital Markets

Sure. I think the predominance of the outperformance that category is around the M&A business and our advisory. We had a very strong outing both in Canada and the U.S. on a year-over-year basis. Obviously in that business there can be some larger fees, so lumpy when you look quarter-over-quarter, year-over-year, but it's paying off on the investments that we've made over the last while. On the underwriting side, you're correct, the equity business, in particular, has had very challenging underwriting conditions, was challenging last year, and very challenging in this quarter. We think that outlook is getting much better. We'll see it come back to what we hope to is normal run-rates for the balance of the year. And then on the debt side, we've actually had some good performance. And so on that side, I think of it is as flattish but in the marketplace that we were in, I think that's an exceptional outcome.

Scott Chan - Canaccord Genuity Limited, Research Division - Director of Research of Financials & Financial Services Analyst

Maybe going back to Dave, on U.S. side. Appreciate the margin guidance in Canada and I was wondering Dave, if you could provide margin guidance in U.S. for fiscal '19?

Dave Casper - President & CEO, BMO Harris Bank N.A. and Group Head, Commercial Banking

As I said, we had better performance than expected in the quarter. But as I said at the end of last year, I thought we’d dip down a little bit and basically stay flat for 2019, and I still think that's the case. We have some things that move around, interest recoveries et cetra, but the range we have, I would say, we'll stay in that range for the year, a little bit up and down over the year, but pretty stable.

Scott Chan - Canaccord Genuity Limited, Research Division - Director of Research of Financials & Financial Services Analyst

That helps and does that guidance include any Fed rate hikes or does that assume no rate hikes?

Dave Casper - President & CEO, BMO Harris Bank N.A. and Group Head, Commercial Banking

That assumes no rate hikes.

Darryl White - Bank of Montreal - CEO

All right. Thank you, operator. In summary, we are pleased with the good start to the year and a positive outlook as you've heard through the call, consistent with the strategies that we outlined for you back at our Investor Day in the fall. So with that, I'll thank all of you for joining and we'll see you at our AGM.