BMO Financial Group

Q1 2020 Conference Call

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Caution Regarding Forward-Looking Statements

Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbor" provisions of, and are intended to be forward-looking statements under, the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements in this document may include, but are not limited to, statements with respect to our objectives and priorities for fiscal 2020 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price, the regulatory environment in which we operate and the results of or outlook for our operations or for the Canadian, U.S. and international economies, and include statements of our management. Forward-looking statements are typically identified by words such as "will", "would", "should", "believe", "expect", "anticipate", "project", "intend", "estimate", "plan", "goal", "target", "may" and "could."

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature. 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 – many of which are beyond our control and the effects of which can be difficult to predict – 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.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic and market conditions in the countries in which we operate; the Canadian housing market and consumer leverage; weak, volatile or illiquid capital and/or credit markets; interest rate and currency value fluctuations; changes in monetary, fiscal, or economic policy and tax legislation and interpretation; the level of competition in the geographic and business areas in which we operate; changes in laws or in supervisory expectations or requirements, including capital, interest rate and liquidity requirements and guidance, and the effect of such changes on funding costs; judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; failure of third parties to comply with their obligations to us; our ability to execute our strategic plans and to complete and integrate acquisitions, including obtaining regulatory approvals; critical accounting estimates and the effect of changes to accounting standards, rules and interpretations on these estimates; operational and infrastructure risks, including with respect to reliance on third parties; changes to our credit ratings; political conditions, including changes relating to or affecting economic or trade matters; global capital markets activities; the possible effects on our business of war or terrorist activities; outbreaks of disease or illness that affect local, national or international economies; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; technological changes; information, privacy and cyber security, including the threat of data breaches, hacking, identity theft and corporate espionage, as well as the possibility of denial of service resulting from efforts targeted at causing system failure and service disruption; and our ability to anticipate and effectively manage risks arising from all of the foregoing factors.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors and risks could adversely affect our results. For more information, please refer to the discussion in the Risks That May Affect Future Results section, and the sections related to credit and counterparty, market, insurance, liquidity and funding, operational, legal and regulatory, business, strategic, environmental and social, and reputation risk, in the Enterprise-Wide Risk Management section that begins on page 68 of BMO's 2019 Annual Report, and the Risk Management section in BMO's First Quarter 2020 Report to Shareholders, all of which outline certain key factors and risks that may affect our future results. Investors and others should carefully consider these factors and risks, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. We do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented, as well as our strategic priorities and objectives, and may not be appropriate for other purposes.

Material economic assumptions underlying the forward-looking statements contained in this document are set out in the Economic Developments and Outlook section on page 18 of BMO's 2019 Annual Report and updated in the Economic Review and Outlook section set forth in BMO's First Quarter 2020 Report to Shareholders. Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on our business, are material factors we consider when determining our strategic priorities, objectives and expectations for our business. In determining our expectations for economic growth, we primarily consider historical economic data, past relationships between economic and financial variables, changes in government policies, and the risks to the domestic and global economy. Please refer to the Economic Review and Outlook section of BMO's First Quarter 2020 Report to Shareholders.

Non-GAAP Measures

Bank of Montreal uses both GAAP and non-GAAP measures to assess performance. Readers are cautioned that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies. Reconciliations of GAAP to non-GAAP measures, the rationale for their use, as well as the effects of changes in exchange rates on BMO's U.S. segment reported and adjusted results can be found on pages 6 and 7 of BMO's First Quarter 2020 Report to Shareholders and on pages 17 and 23 of BMO's 2019 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 (i.e. constant currency basis or CCY), 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, reinsurance adjustment, restructuring costs, revaluation of U.S. net deferred tax asset as a result of U.S. tax reform and the remeasurement of an employee benefit liability as a result of an amendment to the benefits plan. Bank of Montreal provides supplemental information on combined business segments to facilitate comparisons to peers.

PRESENTATION

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

Thank you. Good morning 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 pre-qualified analysts. To give everyone an opportunity to participate, please keep it to one question. Darryl will then close the call with concluding remarks.

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.

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 2019 Annual Report and our First Quarter 2020 Report to Shareholders.

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

Darryl White – Bank of Montreal – CEO

Thank you, Jill. Good morning everyone.

Today we reported a very strong and balanced Q1 performance with earnings of $1.6 billion, up 5%, including revenue up 8% and pre-provision, pre-tax earnings up 16%. All of our businesses contributed, delivering good performance consistent with business potential, and with clear momentum in key areas of competitive strength. In Q4, we expressed to you confidence going into the new year, with optimism around stabilizing economic environment, overall client sentiment and, of course, our own business plan. Today's report supports that view.

For the quarter, we delivered operating leverage of 4.6%, with every business above 2%. Efficiency improved a significant 270 bps year-over-year, with a strong total bank revenue performance and disciplined expense management. And we remain committed to an expense growth rate of 2% or better for the year.

The strength of our operating performance allowed us to earn through elevated provisions. Overall, portfolio credit quality remains good, with some pressure in two areas, and we expect provisions to come down from this quarter's level. Pat will discuss provisions in more detail in his remarks.

Capital remains strong at 11.4%, even after absorbing regulatory changes in the quarter. Our U.S. segment continues to deliver against healthy expectations. U.S. PPPT was up 10%, with a particularly good contribution from Capital Markets.

This quarter, every one of our businesses contributed to achieving our objective of consistent, long-term financial performance, executing against clear, customer-driven, competitively differentiated strategies.

Starting with Canadian P&C, we had another strong quarter with net income growth of 8% and PPPT growth of 10%. Robust loan and deposit growth contributed to overall strong revenue growth of 7%, resulting in the highest operating leverage for Canadian P&C in the past twelve quarters at 3.6%. We're seeing steady market share gains across almost every product category, including personal deposits, lending and cards, as well as commercial deposits and lending – all consistent with the strategy we outlined at Investor Day.

In personal, we were extremely proud to receive the top overall score in JD Power's 2020 Canadian Retail Banking Advice Study, marking a major leap forward from our third-place ranking last year. BMO placed first in five of seven categories in the study, which measures customer satisfaction with the advice and guidance they receive from five major Canadian banks. At the same time, the "BMO Performance Plan" was rated best chequing account with a big bank in Canada by MoneySense magazine. On the digital innovation side, we introduced BMO Insights, a personalized, automated solution that uses artificial intelligence to provide actionable insights to help customers manage their day-to-day finances and cash flow.

Canadian commercial also continues to be a core element of our success as we drive above-market performance, in line with our risk appetite, and with no change in our disciplined approach to pricing. Our success is driven by our expertise, our unparalleled industry knowledge and our commitment to going above and beyond for our customers. And increasingly, that's with the support of digital innovation as well. For example, BMO Business Xpress, our industry leading small business lending platform which allows customers to be approved for a loan in just minutes, is on track to surpass $1 billion in new authorizations next month.

Turning to U.S. P&C, we had another good quarter, absorbing the full impact of recent rate decreases while still driving year-over-year constant currency revenue growth of 3% and PPPT growth of 5%. Disciplined expense management helped deliver positive operating leverage of 2.1% and a new low efficiency ratio of 55.2%. NIM remained relatively stable quarter-over-quarter, with the benefit of deposits growing faster than loans, and our expectations for continued stability through the year.

Our U.S. commercial business delivered double-digit year-over-year loan and deposit growth, with some expected quarter-over-quarter moderation in loan growth. This quarter, we announced the opening of our first commercial banking office in Los Angeles, building on an already strong presence in Southern California. As many companies headquartered in California have significant Canadian operations, it's further proof of our commitment to provide our North American customers with unparalleled commercial expertise and value. We look forward to talking to you about this, along with more on our strategy to build on our leading North American commercial presence, at our April 6 Investor Event.

In U.S. personal and business banking, our deposit momentum continues with digitally acquired deposits growing nearly 65% quarter-over-quarter. Digital accounted for just over 20% of total retail deposit growth this quarter in the U.S., with 98% of that growth coming from markets outside Illinois and Wisconsin.

Turning to Wealth Management, with net income growth of 21%, PPPT growth of 24%, and operating leverage of 5.9%, Wealth Management delivered a strong, balanced performance, driven by higher client assets, continued diversification through double-digit loan and deposit growth and the benefit of disciplined expense management.

The business continues to strengthen and streamline with targeted investments in key competitive growth areas. This quarter we launched a suite of seven ESG ETFs that add to our leadership position, and we led the industry on ETF net inflows.

We also recently opened new Private Wealth offices in both Dallas and Atlanta, joining forces with our commercial bankers there. This is a great example of how we're increasing Wealth penetration with our commercial and business banking customers, a key growth segment for BMO.

Capital Markets had a very strong quarter, with positive contributions across businesses and geographies. Net income growth was 38%, with PPPT up 50%. It was a good start to the year, with potential for revenue opportunities greater than we would have expected a quarter ago.

Investments we've made in Capital Markets are proving their return as the business is now more consistently performing in line with earnings potential. Our U.S. Capital Markets business delivered net income above US$100 million, and pipelines across the franchise remain good.

In January, we announced an agreement to acquire Clearpool, a cloud-based electronic trading platform with customizable algorithmic strategies. This acquisition emphasizes our commitment to clients as we provide leading edge innovative trading technology to our global client base and expand our business in areas of opportunity and strength.

Another area of opportunity for us is sustainable finance. This quarter, BMO Capital Markets led the first Canadian sustainability-linked credit facility for a major corporate client. Following on the footsteps of our inaugural sustainability bond, these initiatives are cementing a leadership role for us within the market, one that will help drive long-term, sustainable financial performance.

Looking ahead, we feel confident for 2020 – we have a strong and diversified business, well-executed strategies, and great momentum. Our performance this quarter reflects our disciplined approach and our commitment to our strategy, and we're confident in our ability to build on our performance through the year.

Our success will be determined by the consistency of strategy and performance, as well as consistency of Purpose. Our Purpose, to boldly grow the good in business and life, unites our employees, builds trust and loyalty with our customers and sets a clear path for our future.

Today, we are very proud to be named by the Ethisphere Institute as one of the World's Most Ethical Companies for 2020, a recognition we have now received three years in a row. And, for the second consecutive year, BMO Harris Bank was recently recognized by Forbes Magazine in its annual list of America's Best Employers for Diversity, a recognition that highlights our commitment to encouraging diversity and supporting all our employees.

Diversity, in all its facets, is a cornerstone to our success. Supporting inclusive communities and workplaces is a critical component of that. This quarter, we announced a research partnership with the Centre for Addiction and Mental Health, culminating in a corporate playbook to advance mental health awareness in workplaces. We encourage every corporate leader to take accountability by adopting the playbook, as we firmly believe business performance success is only possible when directly tied to a strong commitment to workplace mental health.

Supporting our customers, our communities and our employees is how BMO will continue to drive long-term sustainable value and strong, relative financial performance.

With that, I'll turn it over to Tom to talk about the first quarter financial results.

Tom Flynn – Bank of Montreal – CFO

Thank you, Darryl, and good morning, everyone.

My comments this morning will start on slide 8. Q1 reported EPS was $2.37, and net income was $1.6 billion. Adjusted EPS was $2.41, up 4% and adjusted net income of $1.6 billion, was up 5%.

As Darryl said, results in the quarter reflect good performance across our businesses, with pre-provision pre-tax earnings growth of 16%, operating leverage of 4.6%, with each operating group above 2%. Good revenue growth and operating leverage helped us comfortably earn through higher credit losses in the quarter.

Adjusting items this quarter are similar to past quarters' and are shown on Slide 25.

Turning now to revenue. Net revenue of $6 billion was up 8% from last year, reflecting strong performance in BMO Capital Markets, Canadian P&C and BMO Wealth Management.

Expenses increased 3%, largely reflecting higher employee-related expenses given strong revenues and higher technology costs, partially offset by benefits from productivity initiatives. We continued to make good progress on efficiency with the total bank efficiency ratio at 60.3% in the quarter.

As a reminder, expenses in the first quarter of each year include costs related to stock-based compensation for employees who are eligible to retire. This expense was $90 million in Q1. Excluding these costs, the efficiency ratio would have been 58.8% in the quarter.

We are on track to deliver expense savings from our Q4 restructuring charge in-line with prior guidance. As a reminder, we expect run-rate savings in Q4 of this year of approximately $300 million, with full year benefits in the income statement of approximately $200 million. These savings will contribute to achieving our 2% or better expense growth target for the year.

Moving now to slide 9 for capital. The Common Equity Tier 1 Ratio was 11.4%, unchanged from last quarter, with retained earnings growth offset by the impact of regulatory changes and the adoption of IFRS 16, which together had a 16 basis point impact on the ratio, and higher risk weighted assets.

We expect the previously announced acquisition of Clearpool Group to close in the calendar second quarter, with a capital ratio impact of a little less than 10 basis points.

Moving to our Operating Groups and starting on slide 10. Canadian P&C had another strong quarter in Q1. Net income of $700 million, up 8%, and pre-provision pre-tax earnings growth was 10%. Revenue was up 7%, driven by higher balances, higher margins and non-interest revenue. Total loans were up 7%, with commercial loans up 15%. Mortgage growth through proprietary channels, including amortizing HELOCs, was 6%. Deposit growth continued to be very good at 14%. Expenses increased 3% primarily due to higher technology and pension costs. Operating leverage was very good at 3.6% and efficiency improved to 47.3%.

Moving to U.S. P&C on slide 11, and my comments here will speak to the U.S. dollar performance. Net income of $275 million was down from strong performance a year ago due to higher credit provisions, partially offset by higher revenue. As a reminder, credit provisions benefitted from a recovery in Q1 of last year. Pre-provision pre-tax earnings growth was good at 5%. Revenue was up 3%, driven by loan and deposit growth and higher fee income, partially offset by a lower net interest margin. Average loan growth was 12%, with commercial up 13% and personal up 9%. Deposit growth continued to be strong, up 11% from last year. The net interest margin was down just 1 basis point from last quarter. The change in NIM was better than anticipated, reflecting less deposit spread price pressure and strong sequential deposit growth. With expense growth of under 1%, operating leverage was 2.1% in the quarter and efficiency was 55.2%. Provisions for credit losses were up from last year at $113 million; Pat will provide colour on this in his remarks.

Turning to slide 12. BMO Capital Markets had a good quarter with net income of $362 million, up 38%. The U.S. business continued to have strong performance, with net income of US$110 million, up 53% and representing 40% of Capital Markets earnings in the quarter. Revenue was up 20%, with strong growth across both Global Markets and Investment and Corporate Banking. Operating leverage was strong at 13%. Over the last three quarters Capital Markets net income has averaged $320 million, which is reflective of the earnings potential of the business.

Moving to slide 13. Wealth Management net income was $300 million, up 21%. Traditional Wealth net income of $218 million was up 19% reflecting higher revenue and positive operating leverage. Loan and deposit growth continues to be strong, at 14% and 12%, respectively. Insurance net income was $82 million, up 26% primarily due to positive market movements in the quarter. The higher Insurance income in the quarter was offset by costs from stock-based compensation expensed in Q1 and so, in effect, Wealth earnings were in the $300 million level. Expenses were up 2% reflecting higher revenue-based costs and operating leverage was strong at almost 6%.

Turning now to slide 14 for Corporate Services. The net loss was $106 million, compared with a net loss of $76 million a year ago. Results decreased primarily due to lower treasury related revenue and higher expenses.

To conclude, the strong first quarter performance demonstrates continued momentum in our business, consistent delivery against our strategic priorities and the benefits of our diversified business mix.

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

Pat Cronin – Bank of Montreal – CRO

Thank you, Tom, and good morning, everyone.

Starting on Slide 16. The total provision for credit losses this quarter was $349 million or 31 basis points. While our impaired provisions are elevated this quarter, the overall credit quality of our lending books remain sound, and we do not see any indications of broad-based credit weakness. Consequently, based on current business conditions, we expect our loss rate on impaired loans to revert to more normal levels in the coming quarters.

The increase in impaired provisions this quarter was primarily due to higher losses in U.S. Commercial, largely due to normal quarterly loss variability as well as from specific weakness in Transportation Finance. In addition, our corporate lending portfolio has experienced higher losses this quarter, concentrated entirely with oil and gas accounts. Apart from oil and gas lending and Transportation Finance, our other lending portfolios exhibited stable credit metrics and low losses in the quarter.

Turning to the specific credit performance in the businesses, Canadian consumer impaired loan provisions decreased $7 million quarter-over-quarter to $103 million, which, at approximately 26 basis points, is lower both compared to last quarter as well as last year. Also, as shown in the supplementary financial information package, Canadian consumer delinquencies decreased both compared to last quarter and to Q1 of 2019.

Canadian commercial PCL on impaired loans increased to $35 million from $24 million last quarter. There were no specific industry trends or themes observed and, at approximately 16 basis points, this quarter's PCL rate reflects solid credit performance in Canadian commercial, consistent with the long-term average for this business.

U.S. consumer PCL on impaired loans was $16 million, down slightly from the prior quarter. U.S. commercial PCL increased to $116 million due to one larger loss and elevated provisions in Transportation Finance, reflecting continued weak conditions in the U.S. trucking market. This weakness in Transportation Finance and the one larger loss I referred to accounted for approximately 50% of the total PCL in U.S. commercial this quarter. The remainder was a function of the normal variability we see from time to time in commercial portfolios, with no discernible theme.

Capital Markets PCL on impaired loans was $53 million. Consistent with last quarter, the provisions were entirely in the oil and gas sector and predominantly related to U.S. natural gas accounts, where very low commodity prices for natural gas continue to pressure some borrowers in this sector. Switching briefly to Slide 17, our U.S. exploration and development exposure is $4.5 billion, a decline of approximately 4% from the prior quarter. Breaking this sector down further, we estimate gas-weighted gross loans and acceptances represent less than 1% of total business and government lending when measured on the basis of revenue.

Turning back to Slide 16, the provision for credit losses on performing loans was $25 million, mainly reflecting modest credit migration and balance growth.

On Slide 18, formations were $831 million, up modestly from $799 million in the last quarter, with the increase fully attributable to business and government formations. The ratio of gross impaired loans to total loans increased 4 basis points to 62 basis points, driven by the higher formations and lower write-offs relative to recent quarters.

In summary, overall credit quality remains strong, despite the higher provisions in our U.S. commercial portfolio and our natural gas loan book. And although there will be some continued pressure in oil and gas and Transportation Finance, I expect the impaired provision to nonetheless decline over the next few quarters, with loss rates averaging in the mid-20s basis points range.

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

QUESTIONS AND ANSWERS

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

Pat, I just wanted to follow up on the credit side of things. You gave a good detail, but I'm just wondering, more big picture, what gives you confidence that what you're seeing is not the beginning of something more significant? Can you talk about transportation, in particular, and then just overall key indicators that give you confidence in that better outlook for the rest of the year?

Pat Cronin – Bank of Montreal – CRO

Yes, and I would definitely say that this quarter, in our view, is an anomaly. And as I said in my comments, we expect the PCL to normalize, starting in Q2 and then running for the balance of the year. And the reason that we believe that is, when we look across the various portfolios, first of all, starting with the consumer books, in particular, both in Canada and the U.S., consumer books continue to be very solid. I think when you look at the PCL numbers and the delinquency rates, there's no reason for us to conclude that those low losses won't continue for the balance of the year. Canadian commercial at 16 basis points, again, a very solid quarter. We see no sector weakness or underlying decay in the credit metrics. So, we expect Canadian commercial to stay within that range over the balance of the year.

When I look at Capital Markets, the story really is just U.S. natural gas. Outside of nat gas, we had virtually no PCL in any other sector in Capital Markets this quarter. And then with respect to nat gas, we do expect that to moderate over the course of the year. When we look at our portfolios from the bottom-up in both Houston and in Calgary, we see the PCL rates coming down in Q2, Q3 and Q4. They won't be 0, of course. But I think if you look at the two goalposts of 0 and where we were this quarter, somewhere in the middle of that range is probably a pretty good forecast for the balance of the year.

So that really just leaves U.S. commercial, and of course, TF, as I mentioned, is a spot of weakness. But keep in mind, the numbers are relatively small there in terms of total losses, and that's really a cyclical issue, very specific to that sector. I would expect the loss to be somewhat similar next quarter and then declining linearly to the end of the year. And so apart from that, we really had one lumpy loss, as I mentioned, and that plus TF was really 50% of the PCL in U.S. commercial. As we look at all the other sectors, we don't see any reason to think that the rest of the portfolio won't perform fairly consistent with what you saw through most of 2019.

And then when I look at the credit metrics, in particular, for U.S. commercial, I look at the weighted average probability of default in that sector, it actually went down slightly from Q4 and is virtually flat relative to Q1 of last year. So that tells me there's no broad-based deterioration in the portfolio outside of that weakness in TF. And that same trend for the probability of default is similar for the wholesale portfolio in aggregate. And so when I look across the books, when I look at the sectors, when I look at the strength of the consumer portfolio, the strength of Canadian commercial, the strength of Capital Markets, outside of oil and gas, to me, that all adds up to a moderation in the loss rates, again, into that range of the mid-20 basis point range that I talked about in my comments.

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

And just as a follow-up, we've heard from other banks that talked about coronavirus, just saying it's too early to tell, but just to clarify, when you talk about the outlook, you're assuming no issues from that emerging risk, I would say?

Pat Cronin – Bank of Montreal – CRO

Yes. I would say, first and foremost, Meny, that it's probably too early to tell. I think for the moment, our first concern is obviously with the health and safety of our employees in Asia and the other affected regions. We're obviously very focused on business continuity as well to ensure that we've got continuity in all of our regions in the event it gets worse. We are looking very closely at the tail risks within our mark-to-market books, and we're not seeing any short-term impacts there either from COVID-19. We're running things fairly close to home in those books.

And then lastly, in the credit portfolios, that, of course, will take probably longer to play out. It will depend a little bit on how severe it gets and how long it lasts, but when we look at first order effects, we don't see concentration in sectors that would have severe impact. Certainly for things, say, like cruise ships, where we have no exposure at all, that gives us some comfort that the first order impacts are probably relatively minor. Of course, second order impacts from things like supply chain disruption and slowing economic conditions broadly will take longer to play out. And so, we'll probably – it's too early to tell – we would see that as we drift through the balance of the year. And then you might see some of that show up in the performing provision as well. It probably, in the short term, will show up in changes in macroeconomic forecast to the extent that our economics group decides to change that. But longer term, it's probably too early to say.

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

Sticking with Pat, not put too fine a point on it, but you mentioned mid-20s a couple of times, so that is intended to be sort of your thoughts on the full year PCL rate or the remainder of your PCL rate?

Pat Cronin – Bank of Montreal – CRO

No, to be specific, that's for the remainder of the year, and obviously, there can be quarter-to-quarter variability, as you saw this quarter, that's pretty normal. But on average, for the balance of the year, we would expect to see something around that range for the next three quarters.

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

Okay. And it sounds like what we're hearing is there was an idiosyncratic loss. Was it the construction item or the services industry item we see in the provision schedule, and is there any detail you can give us on that, was it fraud related or was it just something else?

Pat Cronin – Bank of Montreal – CRO

No. And you're right, it was in the construction sector. It was not fraud related. It was a client actually that we've had in the bank for many decades in a fairly idiosyncratic part of the construction sector, and so not really something we would see applicable to the rest of the sector. And they just ran into some specific difficulties. We tried to work our way through with them, but unfortunately, that led to a PCL in the quarter. And you see that there's a bit of a spike in GIL in that sector as well. That's really just that one name that I'm talking about. And then we actually exited our exposure there, and so we don't anticipate any further PCL from that, and we would expect that GIL balance to actually go down next quarter.

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

Okay. And then, Tom, if I could, you talked through the margin in the U.S. and, obviously, good news that the margin only being down one basis point, but you talked about strong deposit growth, you talked about competition, the deposit growth actually looks a little weaker than the last few quarters. So was it that deposit growth was coming off or was it more the mix of the deposit growth? Maybe just some colour there.

Tom Flynn – Bank of Montreal – CFO

Yes, sure. So I'd say we are very happy with the margin in our U.S. P&C business. We had guided on our last call to a decline in the upper single digits, and in fact, we came in at down one. And the big drivers there were sort of a better pricing environment in the market. And when I say better, better than what we had seen off of the earlier Fed cut. And then as well, we had our loans growing at a higher rate of deposits. So on the margin, the relative rate of growth is important, and deposit growth exceeded loan growth, and that helped the margin. And those were the big two drivers. And looking forward for the balance of the year, we do expect to be in a better place than we had thought, and so, give or take, we think the better margin holds through the balance of the year.

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

That's helpful. Thank you.

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

Just sticking to the U.S. side. I see loan growth was pretty strong, up 12% in total. Are you still sticking to your high single-digit loan growth target in fiscal 2020, and if you are, maybe talk about why we think there's going to be deceleration throughout the year?

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

Yes, I think we would still stick to that. I think I said at the last quarter, high single digit. I also said I thought it would probably exceed – it has in the past – exceed the market as we continue to grow in the areas that we have not been in the past, so I expect that to continue. I don't see any variance from that. We were off a little bit in the first quarter, still growing, but not as much, but I see that continuing to pick up in the rest of the year.

Ebrahim Poonawala – BofA Merrill Lynch, Research Division – Director

First, just wanted to follow up, Pat, very quickly on the oil and gas portfolio. I'm sorry if I missed it, have you disclosed how much of the book is nat gas-related versus oil?

Pat Cronin – Bank of Montreal – CRO

Yes. We estimate that you can work off roughly a little less than 1% of total business in government loans comes from U.S. natural gas, and you can measure it on the basis of revenue or production – that's revenue and that's a pretty good estimate.

Ebrahim Poonawala – BofA Merrill Lynch, Research Division – Director

Got it. And just in terms of when you talk to a lot of banks exposed to the shale sector in Texas energy space, it feels like we're going to see maybe 12 to 24 months of just cleanup going on as kind of the capital sources for some of these companies have dried up. Is your comfort around that book a function of you've done a deep dive and you don't expect any one-off lumpiness over the next few quarters, what's driving that? Because when I hear some of your peers in the U.S., they kind of talk about potential for more volatility, at least over the next year, as some of this flows through the pipe.

Pat Cronin – Bank of Montreal – CRO

Yes. So we're certainly not forecasting, when we think about loss rates or prospects for the sector, increases in natural gas prices. There's likely to be some upward migration on that price, but fairly modest over the course of the next couple of years, so I think we're consistent there. Our view on losses coming out of the U.S. natural gas book in the next couple of quarters is, as I said, based on a bottom-up analysis of our book. And so we look at not just the cash flow of our various clients, but their ability to liquidate assets in the event of a bankruptcy process and look at our asset coverage relative to loan value. And so it's a fairly detailed analysis. Obviously, there can be surprises in there, but the number that I gave you, that range that I gave you earlier, is our best estimate at this time based on a reasonably detailed bottom-up analysis of that U.S. book.

Ebrahim Poonawala – BofA Merrill Lynch, Research Division – Director

Understood. And I guess, just a separate question, Tom, around, I think you said – Capital Markets last four quarters, the average being $320 million, and that's kind of what you view as the earnings power for that business. Does that imply that you don't expect quarters like what we saw last year like a sub-$300 million quarter, was that the message in there? I just want to make sure I understand that correctly.

Tom Flynn – Bank of Montreal – CFO

Yes. I'll say something briefly, and then I'll hand it over to Dan Barclay. So, we do see the $320 million as just being reflective of the earnings potential of the business. We've invested in the business over time, and, yes, we've had very strong performance in the U.S. And so we're comfortable at that level. But I'll hand it over to Dan to give a little colour to that.

Dan Barclay – Bank of Montreal – Group Head, BMO Capital Markets

Sure. Thanks, Tom. And I appreciate the question. As we look forward, I think Tom has highlighted the key piece. As we have made the investments across the U.S. as well as adjusted on some of our cost structure, what you see is that move up into the next level of earning potential. As Tom mentioned, the last three quarters average works out to be about $320 million. We obviously had a very strong quarter this quarter above that at $362 million. And so that's what we see going forward, strength in most of the businesses in the U.S., both on the market side and the banking side and the corporate lending side, all client driven. When we look at the pipelines and what we've seen to date, that continued on to Q2. And so yes, I think we're confident that's where we can see the business going forward.

Ebrahim Poonawala – BofA Merrill Lynch, Research Division – Director

Got it. And just since we have you, Dan, is the U.S. business where you want it to be, like just if you can maybe briefly talk about any investment spend or market share opportunity that you're looking at actively, given some of the retrenchment of maybe the European players, just how do you think about the U.S. business where it stands today?

Dan Barclay – Bank of Montreal – Group Head, BMO Capital Markets

Yes. I think consistent with where we've been at the quarter and at this quarter, last quarter, and at Investor Day last year, we continue to push forward to drive and double our market share in the U.S. We've made all the substantial investments, and so now it's into the scaling process around that. We do have multiple investments in most of our product lines, both people and banking. You saw the acquisition we made in Clearpool this quarter. You'll remember the KGS acquisition we made 18 months ago. All of those are investments that are continuing to grow and will bear fruit over time. And so I do have good confidence in our U.S. business and the growth that we see there.

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

Thanks, Pat, for your thoroughness in the explanation of this quarter's credit trend, but one of the frequent pushbacks I get from investors on the bank's growth in the past few years in the commercial book is 15% type growth. It's good on one hand, but the worry is about the credit quality down the road. What kind of confidence do you have or that what we see this quarter, described as idiosyncratic losses or one-offs or whatever, won't start popping up a year or so from now, following this strong period of the commercial growth we've had in the bank, both in Canada and the U.S.? And if Dave or Cam want to pipe in, that's great, too.

Pat Cronin – Bank of Montreal – CRO

Well, thanks for the question, and I'll start and then Dave and Cam can jump in. And it's a good question. I understand the concern. The growth rates in 2019 were clearly high. I can tell you that the PCL you're seeing this quarter in U.S. commercial, I would say, virtually none of that came from any account that was added in 2019. The majority were vintages, including that lumpy loss that I talked about, that are quite a bit older. That one goes back decades. And so in our view, it's not correlated. I'll give you just one other stat. We look quite closely at the weighted average probability of default of new additions to the U.S. commercial loan book and compare it to the weighted average probability of default in the broader portfolio. And in every quarter, going back to Q1 of last year, new additions have been significantly better credit quality than the average in the portfolio. And so on that basis, would not expect to see PCLs – certainly haven't seen it this quarter in terms of it being from recent vintage and would not expect it over the course of the next 12 to 24 months.

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

So let me just add to that. This is Dave. It's a great question on the U.S., and it's a natural question with the growth we've had. Let me say a couple of things. Number one, the growth has been pretty deliberate over a 10-year period and has largely been in areas where we haven't been in the past, where we know the business, and most of the business that we're doing is where you've got assets behind it. I feel really good about the growth and would never apologize for it.

On this quarter, this was a particularly lousy quarter for PCL, and trust me, our team does two things really well. They take care of their clients and they win new business, they're really good at that. They hate losing money and they absolutely are beating themselves up a little bit this quarter, as we all are, because it's a tough quarter, especially when you lose a 40-year customer that you've supported for a long time. That's tough. But as I look forward, as I look into the next quarter and the rest of the year, I've got the under on where Pat's got his PCL. I think we're going to do very well, as we generally do, and we'll see.

You're right to be skeptical. We're going to prove you wrong, as we have. I think it's just a really good business. It continues to be a good business. And I'll stop there. Cam may want to add a little bit on the commercial side.

Cam Fowler – Bank of Montreal – President of North American Personal & Business Banking

It's Cam speaking. I'll just say on the Canadian commercial side, I'll remind you on this call, we've talked about a strategy that's focused on capacity creation and on diversification. So it's important to remember, like one of the big drivers of the strong growth that we're seeing in Canada is we have so much more capacity out there, either in terms of hires we've made, particularly in GTA, or in the capacity we've created through the digital tools, where Darryl mentioned earlier, we've now put $1 billion through our automated lending platform. So, a lot more capacity being deployed towards existing customers and prospects.

And two reasons I'd say around the confidence side. Number one, it's 7 sectors in 5 regions where we're seeing strength, by strength, I mean, double digit. So that's as broad and diverse as I think you can be in our country, number one. And number two, further to Pat's comments, on both spread and weighted average probability of default, the newer business we're putting on is stronger than the existing book. So for those reasons, we're feeling confident.

Pat Cronin – Bank of Montreal – CRO

And Gabriel, it's Pat, just one more time. We'll hit this issue head on as well in the investor event that we're holding that I'm sure you're aware of coming up. It will be a combination event between the commercial segments and risk to walk you through exactly why we've been comfortable with growth rates and why the risk profile of the portfolio remains consistent with our appetite over the course of the last few years.

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

I look forward to that. I think there's a lot of people wondering how – when most, if not all, banks are finding it hard to grow – but you're doing so and improving credit quality at the same time.

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

First question is for Tom, I think it's for Tom. Just to go back to your transportation finance purchase, it was about five years ago now. Not to put you on the spot, I know when you bought this portfolio, it was about $12 billion. I don't think it's all housed in the transportation section of your loan book breakout. Do you know approximately where this portfolio size is now, a number of years after that purchase?

Tom Flynn – Bank of Montreal – CFO

Yes. The portfolio now is about $12.8 billion. And I haven't looked at this number for a while, but I think at the time of purchase, it was closer to $10 billion than to $12 billion. So it's grown at a gradual rate over time, and we didn't expect it to be a fast grower. It's a mature business and a good one from an ROE perspective. And so, it's performed largely in line with expectations. We're happy with business. And I could go on here, but I'm looking at Dave, and so maybe I'll let him add a few comments.

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

Yes. The only thing I would add to it, I think those numbers are right, and the business is largely housed in our commercial business in the U.S. and probably 10% of it in our commercial business in Canada. I would say, and I think you've seen this before, this team is by far the most experienced team in the industry. That's what we've liked the most about it. They've been through the cycles, they've seen the cycles, they generally can predict the cycles. And in times like this – this, I think, will be a shorter cycle – but a number of our competitors get in when things are really good and get out quickly. And we've seen that recently, a couple have gotten out, and that just makes it better for us. We've got the best team to run this through the cycles, and I'm very, very happy with it.

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

And this is more of an industry question, it's probably for you, Dave. I mean, as you said, you're not going to apologize for the loan growth. And sequentially, it does seem to be a bit normal, not to put too much emphasis on three months. We also have seen a decelerating trend in the Fed data when it comes to C&I loan growth in the U.S. In your opinion, is that a reflection of the industry margin trends, or has there been perhaps some deceleration in commercial activity in aggregate across the U.S.?

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

Yes. I do think there's been, particularly maybe in the last quarter, last fiscal quarter, a little bit of a slowness, a little bit of concern on uncertainty on a whole number of fronts, we could go through them all. I've actually seen that – put the coronavirus aside – I've seen that actually pick up of late. There seems to be a little bit more certainty in the U.S. as far as a number of issues that have worked their way through. So I don't expect that to continue, and I expect the economy will probably pick up, and we'll do as well. So that Fed data is good to watch, but I would expect it to be a little bit better. That's my own personal view.

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

Yes. That's good. I was going to switch over to Cam Fowler, if that's okay. I mean, for as strong the momentum in your business is, you probably don't get enough questions. One of the factors that I think has really been helping your outperformance on revenue the last couple of quarters has been the favorable trend on net interest margin compared to some of your peers. I could go into some of the factors, I think, that's driving it, mix deposits, but I'd rather hear from you maybe from a pure business perspective, is there something in the way that your business and your team has approached growth across your product base that is driving that outperformance in margin, which seems to be pretty significant again this quarter?

Cam Fowler – Bank of Montreal – President of North American Personal & Business Banking

Thanks for the question. Thanks for the chance to chat for a little while as well. I think you've probably answered it for me. In Investor Day in '18, we talked really specifically about the Canadian P&C business and we talked about outsized growth in deposits, in payments and in commercial. And you can see, roughly two years on, we are taking market share in all of those categories. And so to me, that mix and the quality of mix point is the single biggest driver. It is really important that deposits are moving like that. It's really important that payments are moving like that. So that, to me, is the biggest driver.

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

Last one for you. Have you seen any change in the competitive environment in commercial? Because there does seem to be some difference in tone from the individual banks as to where their outlook on commercial loan growth in 2020 lies.

Cam Fowler – Bank of Montreal – President of North American Personal & Business Banking

I would say that it's a little different by region and by sector. And to the point I made earlier about the diversification of our growth, it does feel a little different everywhere. I would say, on the whole, that we would expect some moderation towards the back half of the year, like in Q3 and Q4. And that's an absolute comment. From a relative perspective, I would expect us to be firmly in front.

Robert Sedran – CIBC World Markets – MD & Head of Research

Just sticking with the Canadian business, I wanted to ask about the payments on the credit card side. And I'm not sure if it's for Cam or for Tom, or perhaps for both. But you do see good outstanding growth in the credit card business, but I see the card fee line is down in the supplemental at the all bank level. So I guess, for Cam, which cards or which category of cards are the ones that are doing best for you, that are performing best for you? And then perhaps some explanation as to why that card fee line is down, please.

Cam Fowler – Bank of Montreal – President of North American Personal & Business Banking

Sure. That card fee line will come back. Two things that are at play, I think, in this quarter are: a little bit on the interchange pressure side and a little bit on the Québec legislation side. But I do expect things to improve on the back half of the year. Our best performing – it's a pretty well-rounded performance on the card side in that the entire book's moving as we expected it would, based on some investments we've made on marketing, proposition and data. Where I'm maybe most pleased of late has been the growth on the small business suite that we launched just a little over a year ago, four, five new cards and capabilities, which has been a smaller base but fastest-growing within the book. But all around, I think it's stronger across the entire book, and I would expect the NIR to be a little better in the back.

Robert Sedran – CIBC World Markets – MD & Head of Research

I was under the impression that we were going to see some pressure on the card fee line in the second half of the year, but I guess, for you, you're saying that's not the case?

Cam Fowler – Bank of Montreal – President of North American Personal & Business Banking

I think that there will be different forms of pressure, I just think that we have momentum that will see us through it.

Mario Mendonca – TD Securities Equity Research – MD & Research Analyst

Pat, just first, just a quick clarification. You referred to the the Canadian commercial PCLs ratio at about 16 basis points, is that right?

Pat Cronin – Bank of Montreal – CRO

That's correct.

Mario Mendonca – TD Securities Equity Research – MD & Research Analyst

And then I think you also said that was consistent with your long-term average. And the reason I'm asking is, I would get a very different number when I look at the industry. And so what I'm curious about is what time period are you looking, have you taken into account the periods when the commercial real estate was a problem?

Pat Cronin – Bank of Montreal – CRO

Yes. Certainly, I'm not going back to the financial crisis. I think our books are quite a bit different. And in particular, commercial real estate is quite a bit different in terms of our mix, at least here at BMO versus what it was then. When you look at that level, I would say it's relatively consistent with what you would have seen through kind of '16, '17 and early '18. We went into a very strong credit period, as you know, late 2018 and 2019. And that was as about as good as credit conditions can get for commercial portfolios, and we saw that both in Canadian and U.S. commercial. And so I think we've been flagging for a while that we're likely to drift up from those very benign points that we saw then. But drifting up to a 16 basis point level, to me, is very consistent with what you would expect to see from a reasonably well-diversified commercial portfolio with the size of ours.

Mario Mendonca – TD Securities Equity Research – MD & Research Analyst

And so the long-term average that I would come up, I imagine others would see something similar, would be something closer to 50 basis points, but that's including some very, very rough times in commercial real estate. Is your point here that you would look at those periods and say they're not representative of BMO's current business mix and practices?

Pat Cronin – Bank of Montreal – CRO

Yes. I guess, maybe I wouldn't read too much into the consistent with long-term averages. We could debate on what the right long-term average is. My main point was, at 16 basis points, that's a really good number from a loss rate. Whether you look at versus really rough times or even relatively benign times, that's a really good loss rate for a commercial portfolio. And clearly, in really rough times, like a financial crisis, it can get worse, but I don't expect that to occur in the next year, which is why I'm comfortable that we'll see that kind of a level continue for the next three or four quarters.

Mario Mendonca – TD Securities Equity Research – MD & Research Analyst

Okay. And then real quickly, going back to COVID-19, when I look at your loan mix, there are a number of categories here, like manufacturing, transportation finance. What I think of as some of the largest categories in your loan book, when you stress test, I imagine you've started doing some stress testing for COVID-19, would it be fair to say that a lot of your largest categories would be sort of in the crosshairs of a meaningful slowdown in this type of growth cross-border?

Pat Cronin – Bank of Montreal – CRO

First of all, I would say, it's really hard to tell, and it's far too early to say. Secondly, I don't know that I would even agree with that assertion because those segments, as you say, are quite large. They're also extremely diverse, and particularly, manufacturing and services, as you mentioned, those encompass so many sub-verticals, some of which, as you point out, might be in the crosshairs, many others will not. And so you're really seeing a large sector that's a collection of a lot of subsectors, and it's an unfortunate way that we have to group it, but I think it doesn't lend itself to the characterization that you're making.

Mario Mendonca – TD Securities Equity Research – MD & Research Analyst

Okay, that's very fair. And then just finally, when you talk about margins in the U.S. and looking for stability in margins in the U.S., presumably, you're not contemplating any rate cuts, and the reason I'm asking it this way – because, again, going back to this virus issue, there are a number of economists out there calling for the U.S. to get more aggressive on rate cuts to – sort of as an insurance policy against the slowdown caused by COVID. So what I'm asking here is: you're not contemplating anything of that nature when you're referring to stable margins in the U.S.?

Tom Flynn – Bank of Montreal – CFO

Mario, it's Tom. Two things. Number one, that's correct. So the outlook of stable-ish assumed no cuts. And then second point, if we did have another Fed cut, the impact would be in the zone of a couple of bps.

Darko Mihelic – RBC Dominion Securities, Research Division – Financials Analyst

My questions are for Pat. Pat, when I hear you speak about Transportation Finance and the natural gas segment, it sounds to me like there's been a significant increase in credit risk. And therefore, what we should see is movement into stage 2, a lifetime loss recognized against it. And then going forward, if they do fall into impaired, well, we'll see a stage 3, but the net impact should be much less in the future. I can't tell. When I look at page 28 of your supplemental, it doesn't look to me like that's occurred, so I'm confused a little bit, and perhaps you can also help me understand a little bit with respect to what happened this quarter. So in other words, how many of the files that hit this quarter came immediately from stage 1 into stage 3, and how many of them were actually in stage 2 last quarter?

Pat Cronin – Bank of Montreal – CRO

Yes. I guess, we probably don't have enough time to go into a file-by-file decomposition. I would say, you did see some of the stage 1 and 2 migration this quarter. And I can tell you of those balance increases in both stage 1 and stage 2, roughly about 60% was credit migration, 40% was balance growth. But from 1 to 2, there was a concentration in that migration in oil and gas and Transportation Finance and then a bit in some of the other sectors as well. And so it's certainly not broad-based. What you might have seen this quarter in provisions as well, keep in mind that some of those PCLs can come from things that are already in stage 3, where we took a provision in a prior quarter and then that provision was increased in this quarter due to factors like we've gone a long way through a liquidation process and the outcome turned out to be slightly worse than we thought. And that was the case this quarter as well. We actually saw some PCLs coming out of stage 3, and then as well some that went from stage 1 and into 3.

Darko Mihelic – RBC Dominion Securities, Research Division – Financials Analyst

So is it fair to say that you have already migrated a significant proportion of these accounts into stage 2, and that is what gives you comfort going forward that even if they fall into stage 3, you've already got a significant reserve against natural gas and Transportation Finance, or is that not the case?

Pat Cronin – Bank of Montreal – CRO

No, that is the case. And I look at something like, say, the watch list in the oil and gas space. The watch list in oil and gas actually went down in this quarter versus Q4. So to your point, that is because we moved it into impaired status and took the provisions that we thought. It doesn't guarantee, as I said earlier, that we don't see further provisions coming. There is potential for more migration. It will be concentrated in U.S. gas, but things are fairly stressed there. But outside of that, as I said, we don't see a lot, and that's what gives me some comfort around the guidance that I've given for the next couple of quarters on what those losses could look like.

Darko Mihelic – RBC Dominion Securities, Research Division – Financials Analyst

And last question then, can you maybe provide a bit of a quantum in terms of, if I have a stage 2 provision against a natural gas or a Transportation Finance and it were to migrate to stage 3, what's the quantum of difference, is it that the increase in the PCL once it hits stage 3 would be another 10%, would it be 50%, do you have any sort of rough idea – what we've seen so far is, perhaps looking at the historical, an you give us an idea? I mean, that ultimately is what's going to give us comfort that the future provisions really should be light given the fact that you're going from stage 2 to stage 3, and the difference between the 2 – is nominal, or is it not nominal?

Pat Cronin – Bank of Montreal – CRO

Yes. It's really going to be case-by-case, as you would imagine. Stage 2 tends to be quite a bit more formulaic in terms of the provision. When it gets to stage 3, we actually start to look through the details of asset value, asset coverage, sale valuations and things like that for that particular name. And so, it's hard to draw a parallel the way you're looking for.

Darko Mihelic – RBC Dominion Securities, Research Division – Financials Analyst

But your experience so far, do you have any kind of insight you can share?

Pat Cronin – Bank of Montreal – CRO

Yes. Generally speaking, I would say, the provision that we take in stage 2 is probably not that dissimilar to what you might see, on average, over the longer term, for the provision will ultimately take in stage – once it gets into impaired.

Darryl White – Bank of Montreal – CEO

In summary – I want to come back to where I started – this was a very good quarter for BMO, at 4.6% operating leverage. And when I look across all of our businesses, all of our businesses performed well, closer to their longer-term potential. We're seeing new levels, as you heard through the call, of earnings run rate expectations, particularly from our Wealth and Capital Markets businesses. You also heard that PCL was elevated, but we earned through it, and we expect it to come down next quarter and for the balance of the year. We're investing and driving revenue in key competitive growth areas, while maintaining our commitment to 2% or less expense growth for the year, with continued progress on our efficiency ratio. Everyone at BMO understands that being more efficient makes us more competitive and even better positioned to drive long-term strong, relative financial performance.

Our commitment to our clients and our Purpose is unwavering. Recently, we sadly lost one of the greatest champions of that Purpose. So on behalf of all of us at BMO, I want to take a moment to formally acknowledge the passing of a great friend, a great business leader and a true statesman, Monsieur Jacques Ménard. He was an architect of the Canadian broker-dealer industry, a figure-head for our bank in its home province of Québec and a model of purpose-driven leadership for all. He will be greatly missed.

Thank you all for participating in today's call. We look forward to speaking to you again in May. Thank you.