BMO Financial Group

Q4 2020 Conference Call

CORPORATE PARTICIPANTS

Darryl White
CEO

Tom Flynn
CFO

Pat Cronin
CRO

Ernie Johannson
Group Head, N.A. Personal & Business Banking

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

Dan Barclay
Group Head, BMO Capital Markets

Joanna Rotenberg
Group Head, BMO Wealth Management

CONFERENCE CALL PARTICIPANTS

Darko Mihelic *RBC Capital Markets*

Doug Young *Desjardins Securities*

Ebrahim Poonawala *BofA Merrill Lynch*

Gabriel Dechaine *National Bank Financial*

John Aiken *Barclays*

Mario Mendonca *TD Securities*

Meny Grauman *Scotiabank Global Banking*

Nigel D'Souza *Veritas Investment Research*

Paul Holden *CIBC Capital Markets*

Lemar Persaud *Cormark Securities*

Caution Regarding Forward-Looking Statements

As noted in the following Caution Regarding Forward-Looking Statements, all forward-looking statements and information, by their nature, are subject to inherent risks and uncertainties, both general and specific, which may cause actual results to differ materially from the expectations expressed in any forward-looking statement. The Enterprise-Wide Risk Management section starting on page 73 in BMO's 2020 Annual Report describes a number of risks, including credit and counterparty, market, insurance, liquidity and funding, operational, legal and regulatory, strategic, environmental and social, and reputation risk. Should the bank's risk management framework prove ineffective, there could be a material adverse impact on its financial position and results.

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 the bank's objectives and priorities for fiscal 2021 and beyond, its strategies or future actions, its targets, expectations for its financial condition or share price, the regulatory environment in which it operates and the results of or outlook for its operations or for the Canadian, U.S. and international economies, its response to the COVID-19 pandemic and its expected impact on the bank's business, operations, earnings, results, and financial performance and condition, as well as its impact on the bank's customers, competitors, reputation and trading exposures, and include statements of the bank's 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 the bank 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 assumptions may not be correct, and that actual results may differ materially from such predictions, forecasts, conclusions or projections. The uncertainty created by the COVID-19 pandemic has heightened this risk given the increased challenge in making assumptions, predictions, forecasts, conclusions or projections. The bank cautions readers of this document not to place undue reliance on forward-looking statements, as a number of factors – many of which are beyond its 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.

Future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: the severity, duration and spread of the COVID-19 pandemic, its impact on local, national or international economies, and its heightening of certain risks that may affect the bank's future results; the possible impact on the bank's business and operations of outbreaks of disease or illness that affect local, national or international economies; general economic and market conditions in the countries in which the bank operates; 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; changes in monetary, fiscal, or economic policy, and tax legislation and interpretation; interest rate and currency value fluctuations, as well as benchmark interest rate reforms; technological changes and technology resiliency; political conditions, including changes relating to or affecting economic or trade matters; the Canadian housing market and consumer leverage; climate change and other environmental and social risks; weak, volatile or illiquid capital or credit markets; the level of competition in the geographic and business areas in which the bank operates; 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 the bank obtains with respect to its customers and counterparties; failure of third parties to comply with their obligations to the bank; the bank's ability to execute its strategic plans and to complete proposed acquisitions or dispositions, 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 the bank's credit ratings; global capital markets activities; the possible effects on the bank's business of war or terrorist activities; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; and the bank's ability to anticipate and effectively manage risks arising from all of the foregoing factors.

The bank cautions that the foregoing list is not exhaustive of all possible factors. Other factors and risks could adversely affect the bank's 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, strategic, environmental and social, and reputation risk, in the Enterprise-Wide Risk Management section that starts on page 73 of BMO's 2020 Annual Report, all of which outline certain key factors and risks that may affect the bank's 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. The bank does 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 shareholders in understanding the bank's financial position as at and for the periods ended on the dates presented, as well as its 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 2020 Annual Report as well as in the Allowance for Credit Losses section on page 114 of BMO's 2020 Annual Report. Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on the bank's business, are material factors the bank considers when determining its strategic priorities, objectives and expectations for its business. In determining expectations for economic growth, the bank primarily considers historical economic data, past relationships between economic and financial variables, changes in government policies, and the risks to the domestic and global economy.

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 Fourth Quarter 2020 Earnings Release and on pages 17 and 23 of BMO's 2020 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

Tom Flynn - *Bank of Montreal - CFO*
Okay. Thank you, operator, and good morning, everyone, and thank you for joining. Our agenda for today's investor presentation is as follows: We'll begin the call with remarks from Darryl White, BMO's CEO. I will then provide a review of the bank's financial performance, which will be followed by a presentation by Pat Cronin, our Chief Risk Officer. We have with us today on the call, Ernie Johannson from P&C Canada; Dave Casper from U.S. P&C; Dan Barclay from BMO Capital Markets; and Joanna Rotenberg from BMO Wealth Management. After our presentations, we will have a question-and-answer period for questions from prequalified analysts.

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 for the overall bank. Management assesses performance on a reported and an adjusted basis and considers both to be useful in assessing underlying business performance. Darryl and I will be referring to adjusted results in our 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 2020 annual report and our fourth quarter 2020 earnings release.

And with that, Darryl, over to you.

Darryl White - *Bank of Montreal - CEO*
Thank you, Tom, and thank you all for joining us this morning. Today, we announced another very strong operating quarter with adjusted earnings per share of $2.41 and strong pre-provision pretax earnings of $2.5 billion, up 7% from Q4 of last year. In a year that has seen extraordinary change and challenges that have dramatically impacted global economies and the lives and livelihoods of millions of people, BMO has been on the front line, advancing economic recovery, supporting our customers, communities and employees through uncertainty and hardship. I've been deeply inspired by our employees across the bank who have kept their focus firmly on our customers as we collectively adapted to and executed unparalleled change, acting with courage, empathy and providing stability amid the uncertainty.

In the context of this environment, the bank delivered solid and resilient results this year. Pre-provision pretax earnings for the year of $9.4 billion were up 7%. We achieved above target operating leverage of 2.7% and improved our efficiency ratio to below 60%. We added to our provision for performing loan losses through the year and are very comfortable with our allowance coverage. As we said at our investor event in September, our commitment to superior risk management is a defining characteristic for BMO, and we expect to continue our long track record of outperforming the industry on credit.

Our capital position strengthened and with a CET1 ratio of 11.9%, we remain well positioned for any environment. These results are a testament to the fundamental strengths of the bank that have served us through time and will continue to drive future growth.

These include the benefit of our well-diversified businesses that together produced resilient earnings, the strong operating momentum we had going into the crisis that we've sustained and most importantly, our ability to quickly adapt to the evolving environment while continuing to execute against our strategic priorities.

We're delivering against our commitments to build and strengthen our competitive position, including allocating resources to areas where we are best positioned and to deliver strong returns now and in the future. As part of these efforts, we're winding down our presence in non-Canadian energy markets. Going forward, BMO Capital Markets Energy business will be focused on the Canadian Energy market, where we believe our competitive positioning is strongest and where we will continue our deep and long-standing commitment to supporting clients.

We're also continuing to deliver on our efficiency commitments through a targeted and disciplined approach we held full year expenses stable to last year, accelerating our efforts through the year and improving efficiency by 160 basis points. In the second half of the year, we achieved an efficiency ratio below 58%, the target we set for 2021 at our 2018 Investor Day, and we're committed to doing more over the medium term.

Turning to our operating groups. Each of our businesses demonstrated resilient performance this year, advanced their strategies and deepened customer loyalty. Canadian P&C delivered good relative performance, continuing to grow revenue and expand market share despite a period of lower client activity.

We took action to reduce expenses in the second half of the year and stood by our retail and commercial customers, providing hardship relief to support them through the crisis and positioning us to grow with them through their recovery.

In U.S. P&C, revenue was up with good loan and strong deposit growth, offsetting pressure from lower interest rates. Combined with a continued focus on expense management we delivered strong operating leverage of 4.6% and improved our efficiency ratio to below 55%, another target we achieved ahead of schedule.

Capital Markets responded to meet very strong client activity in light of extraordinary market volatility, delivering record revenue up 12% for the year and focused expense management producing operating leverage of 13%. With an efficiency ratio of 60%, we're well positioned to sustain our momentum into 2021.

In Wealth Management, earnings also increased year-over-year as we grew client assets, loans and deposits, benefited from strong online brokerage revenue and continued to lead the market in Canadian ETF flows. We delivered strong expense management and positive operating leverage while continuing to strategically invest in the business, including enhancing our digital investment solutions.

Our overall U.S. segment remains a key contributor, representing approximately 1/3 of our earnings and delivering strong 14% pre-provision pretax earnings growth for the year. We continue to advance our U.S. platform, leveraging strong integration and collaboration across our retail, commercial, wealth and Capital Markets businesses.

We're staying ahead of the evolving needs of our customers, introducing innovative solutions that improve their financial well-being. For example, in Canadian P&C, we expanded our suite of credit card offerings with two new BMO Eclipse Visa cards that provide customers greater reward flexibility and earnings potential aligned with their lifestyle.

We launched our FamilyBundle checking account option, the first of its kind in Canada, helping families save by grouping separate accounts under one monthly fee. For our U.S. retail and small business customers, we've launched a savings reward program with a monthly cash bonus that helps them build strong savings habits.

We've also continued to advance our digital experience in line with customers' rapidly evolving preferences with solutions that anticipate their needs. We're focused on enabling customers to bank on their terms including enhancements to our digital payment capabilities, evolved lending journeys and the launch of a proprietary AI-powered experience to help customers predict and avoid potential cash shortfalls. This progress extends across all business lines and is part of our broader journey to a more digitally-led operating model that drives customer experience, efficiency, speed and scale.

Looking ahead to 2021, while the path of the pandemic and the economic recovery remains uncertain, we now know that vaccines will be available relatively soon, and there's good reason to be optimistic about the associated economic recovery accelerating as 2021 progresses.

While we expect revenue growth in parts of our business could remain constrained in the near term, we are committed to our financial objectives over the medium term. We've strengthened our competitive and capital position, and we're confident in our opportunities to grow as business investment and consumer spending recover through 2021.

And regardless of the environment, we'll continue our commitment to disciplined expense management and ongoing efficiency improvement. Since 2016, we've improved our efficiency by over 4%, having made permanent changes to our cost base while maintaining strategic investments to fuel business growth. We're aiming to keep expenses stable again next year and again, deliver positive operating leverage.

Clearly, the world is in a much different place today than it was a year ago. Despite the challenges, conditions are in place for real change, and we are acting quickly and decisively to extend our position as a leading North American bank. Our bank has been tested, and we've proven our resilience. We're driving forward, led by our purpose to boldly grow the good in business and life.

We're proud to have been recognized by the Wall Street Journal in its 2020 Ranking of the World's Most Sustainably Managed Companies, which placed BMO first among all banks in the world and 15th among all global companies.

In addition, BMO ranked in the top 10% globally among the most sustainable companies on the Dow Jones Sustainability Index, a recognition of our commitment to accelerate positive change for a sustainable and inclusive future.

Now I'll turn the call back to Tom to discuss the fourth quarter in more detail.

Tom Flynn - *Bank of Montreal - CFO*
Okay. Thank you, Darryl, and good morning, everyone. My comments will focus on the fourth quarter results and start on Slide 9.

The bank's performance remained good in the quarter with pre-provision pretax earnings up 7%, income flat to last year, operating leverage above 2% and a strong capital position. Q4 reported EPS was $2.37 and net income was $1.6 billion. Adjusted EPS was $2.41 and adjusted net income was $1.6 billion, both essentially unchanged from last year. Adjusting items are similar in character to past quarters and are shown on Slide 28.

Turning now to revenue. Fourth quarter net revenue was $6 billion, up 4% from last year. Good revenue performance in Capital Markets and Wealth Management was partially offset by decreases in P&C banking.

Net interest income of $3.5 billion was up 5%. On an ex-trading basis, net interest income increased 1%, with higher balances, largely offset by lower margin. Net noninterest revenue was $2.5 billion, up 2% from last year.

We continue to focus on disciplined expense management. Expenses were up just 1% from last year with operating leverage of 2.1%.

Before moving on, as you know, in Q1 of each year, we expense deferred compensation granted to employees who are eligible to retire. As a reminder, in Q1 of fiscal '20, this expense was $90 million in Q1.

And lastly, for the quarter, the provision for credit losses was $432 million, and Pat will speak to this in his remarks.

Moving to capital on Slide 10. Our capital position strengthened again this quarter. The common equity Tier 1 ratio was 11.9%, up 30 basis points from Q3. As shown on the slide, the increase reflects growth in retained earnings and the issuance of common shares under the DRIP. Risk-weighted assets were flat in the quarter with impacts from lower loans, offsetting model and methodology changes.

Moving to our operating groups and starting on Slide 11. Canadian P&C net income was $648 million compared to $710 million last year, reflecting lower revenue and higher credit provisions. Revenue decreased 2%. Net -- or sorry, noninterest revenue was down primarily driven by lower credit card and deposit fees and net interest income was relatively unchanged as higher balances offset lower margins.

Average loans were up 3% with commercial loans up 4%. Deposit growth continued to be strong, with personal up 11% and commercial up 31%, reflecting higher liquidity retained by customers in this environment.

Net interest margin was up 6 basis points from last quarter, reflecting the benefit of deposits growing faster than loans and higher loan margins partially offset by lower deposit margins.

Expenses were down 1% from last year. The provision for credit losses was $191 million, with the provision on performing $11 million.

Moving to U.S. P&C on Slide 12, and my comments here will speak to the U.S. dollar performance. Net income of $253 million was down from $305 million last year, due to higher credit provisions with lower revenue more than offset by lower expenses.

Pre-provision pretax earnings growth was 3%. Revenue was down 2% as lower deposit margins and noninterest revenue were partially offset by higher deposit balances and loan margins.

On the balance sheet, average commercial loans were up 1% and personal down 2%. Average deposit growth was strong at 28%. Net interest margin was up 3 basis points from last quarter, primarily due to higher loan margins and deposits growth -- deposit growth exceeding loan growth, partially offset by lower deposit margins.

Expenses were down 5%, reflecting lower employee-related costs and our continued focus on expense management. Operating leverage was strong at 3.5%. The provision for credit losses was $135 million, with impaired provisions down from last year and performing up.

Turning to Slide 13. BMO Capital Markets had net income of $387 million, up 38% from last year. Results reflect strong revenue in our trading businesses and good results in investment in Corporate Banking.

Revenue was up 17%. Global Markets revenue increased, driven by strong client activity in interest rate, equities and commodities trading. Investment and corporate banking revenue was up 7% with higher corporate banking-related revenue and higher corporate lending and underwriting fees. Expenses were well-managed and up just 2%.

The provision for credit losses was $64 million with the recovery on performing loans of $41 million.

Moving now to Slide 14. Wealth Management had good results in the quarter with net income of $328 million, up 9% from last year. Traditional wealth net income of $261 million was up 6%, with higher revenue, partially offset by expenses.

Loan and deposit growth continued to be good year-over-year. Insurance net income was $67 million, up from $55 million last year. For the Wealth segment overall, revenue was up 4% and expenses 3% from last year.

Turning now to Slide 15 for Corporate Services. The net loss was $86 million and essentially unchanged from last year.

To conclude, we had good operating performance in the fourth quarter and for the year. We continue to make progress on efficiency and delivered positive operating leverage for the fifth year in a row.

Results demonstrate the benefits of our diversified business mix and active management of the business through the year. And with that, I'll hand it over to Pat.

Pat Cronin - *Bank of Montreal - CRO*
Okay. Thank you, Tom, and good morning, everyone. Overall, our risk performance was strong this quarter, and we saw improvement in most of our key risk metrics. Specifically looking at credit performance, both impaired and performing loan loss provisions came in much lower than recent quarters, underscoring the cautious optimism in the credit outlook that we expressed coming out of Q3 and at our Investor Day in September.

Starting on Slide 17. The total provision for credit losses was $432 million or 38 basis points, down significantly from $1.054 billion or 89 basis points last quarter. The PCL on impaired loans were very good given the current environment with impaired provision of $339 million or 30 basis points, down from 38 basis points in the third quarter.

We also recorded a provision on performing loans of $93 million, which was the result of an improving economic environment, being more than offset by a more severe adverse scenario, which reflects the continued uncertainty of the resurgent virus.

When we look at our actual loss experience over the past few quarters of acute economic stress and our current loss forecast for the next 12 months, we feel quite comfortable that our current allowance provides adequate provisioning against what we expect our impaired loan losses to be in the coming year.

Turning to the impaired loan credit performance in the operating groups, where we saw positive trends in almost all of our business segments. In our consumer businesses, we continue to be encouraged by the resiliency of our retail customers. Canadian consumer provisions on impaired loans were $94 million, a significant decrease from their level last quarter. This decrease was mainly driven by lower 90-day delinquency levels on personal loans including auto loans and personal lines of credit.

U.S. consumer PCL on impaired loans also decreased compared to last quarter, due to lower provisions on mortgages and auto loans, good recoveries, and some benefit from deferrals, which relieved near-term stress for a small proportion of our borrowers.

We would note that the low 90-day delinquency in Canadian consumer was due in part to the payment deferral program, freezing the credit status of a cohort of accounts, some of whom would have otherwise aged 90-day delinquency and impairment. Consequently, now that the vast majority of deferrals have expired, we do expect to see some increase in consumer delinquency and PCL in the coming quarters.

In our commercial businesses, we have seen similarly encouraging credit performance. Provisions for impaired loans in Canadian commercial declined from $127 million or 56 basis points in Q3 to $86 million or 39 basis points this quarter.

The quarter-over-quarter decline was even more notable in our U.S. commercial business, where impaired loan provisions declined from $94 million or 35 basis points in Q3 to $46 million or 18 basis points this quarter. Within our U.S. commercial segment, we also saw a decline in provisions for transportation finance as tighter truck capacity and improved spot rates resulted in improvements across all delinquency categories.

Provisions for impaired loans in Capital Markets were $105 million this quarter, up from $79 million in Q3. These elevated provisions continue to be concentrated in oil and gas. However, given the more stable commodity price environment over the past two quarters and the significant drop in oil and gas formations this quarter, we do expect oil and gas provisions to moderate in the coming quarters.

Looking back at the PCL results for the full year, the total provision for credit losses was $2.953 billion or 63 basis points, compared to $872 million or 20 basis points in the prior year. The year-over-year increase was mainly the result of the pandemic, which drove higher provisions on both impaired and performing loans.

On Slide 19, impaired formations declined 62% quarter-over-quarter to $662 million from $1.76 billion in Q3. Formations decreased in both consumer and business lending, with notable declines in COVID-impacted sectors, like services, manufacturing and retail trade.

Gross impaired loans declined by 18% quarter-over-quarter to $3.6 billion or 79 basis points, down from 95 basis points last quarter. The impaired loan decline was primarily driven by lower formations and a higher level of pay downs on impaired loans, the latter largely coming from U.S. commercial and Capital Markets.

On Slide 21, we provide an overview of those sectors where we have seen material COVID impacts on credit quality, which have been concentrated largely in subsegments of services, retail trade and recreation. These segments have experienced higher levels of risk migration and impaired formations since the start of the pandemic and continue to face headwinds given the macro environment. However, it is important to note that notwithstanding the stress being seen in these sectors, our impaired loan losses across all these segments have been quite manageable through fiscal 2020, reflecting strong origination practices and loan structures.

On Page 8 of the quarterly earnings release, we provided additional disclosure on customers with payment deferral arrangements. Approximately 94% of all payment deferral arrangements with our business customers have now expired, with roughly 2% of those expired now delinquent or in default. Approximately 88% of consumer and payment deferral arrangements in Canada and 80% of U.S. consumer arrangements have now expired, with a little more than 2% of those expired now default or in delinquency.

In terms of the outlook, we remain cautiously optimistic. We've been pleased with our overall risk performance given the acute stress and uncertainty caused by the pandemic and expect credit losses through fiscal 2021 to remain manageable.

While there is still considerable uncertainty in the future path of the pandemic and credit conditions can vary from quarter-to-quarter, based on what we see today, we would not expect to add to our performing provision in the coming quarters, and expect our impaired loan loss rate to average in the high 30s to low 40s during the next fiscal year.

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

QUESTIONS AND ANSWERS

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*
Capital ratios are higher-than-expected and continuing to move up, and we have some real wakening in M&A in the U.S. regional banking. So I'm wondering if you could update us on your M&A outlook. How does the recent deal change the way you're looking at M&A and your positioning in the U.S. banking markets? I'll start there.

Darryl White - *Bank of Montreal - CEO*
Thanks, Meny. It's Darryl. So thanks for the question. You're right. Capital levels are strong at 11.9%, where we have more capital than we did before the pandemic. So we feel good about the flexibility that, that provides.

I guess I would say, though, our first priority has been and remains deploying that capital for the use of our organic growth, our clients and the investments that we're making in our people and our growth agenda.

There have been some shifts, you're right in the U.S. landscape, and we always look at it, as I've said to all of you before. But at this time, I would say our posture is really no change from the past. We're interested in that landscape, but the first priority is organic. And really, nothing there has changed despite the strong position that we're in.

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*
And in terms of buybacks, how would you order your preference on buybacks versus investing in the business, and M&A? How would you rank those 3 categories?

Darryl White - *Bank of Montreal - CEO*
Yes. So it's difficult to rank them, Meny, because it depends on the circumstance at the time. As you know, buybacks aren't available to us right now. But if you imagine an environment later this year where they were available, and we don't know when and if that will be the case.

But if you do imagine that environment, I've always said that our first priority is to invest in organic growth. Why? Because it's worked for us. And we've demonstrated that in strong recovery periods, we can, in fact, invest quickly and take share from competitors. So we like our ability to be able to do that at the appropriate time.

If there was an M&A opportunity that was equivalent in all respects to a buyback, we would probably pursue that M&A opportunity, if that helps you. But if there weren't, then we would go to the buyback.

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*
And then just as a follow-up, just in terms of the other side of that divestments, you're getting out of the U.S. oil and gas business. Are there any noncore areas that are still sort of being contemplated? There was some rumor on the wealth management side. I don't know how much you can talk to that, but are there any other noncore businesses that are potentially being discussed?

Darryl White - *Bank of Montreal - CEO*
No. I think at this point, Meny, I would say, we always take a hard look at our portfolio. I think we've signaled to all of you over the last little while that we've been taking a bit of a harder look at our portfolio. Really just looking through the lens of efficiency and returns. So you may see things as time goes on, that would be helpful, but not overly significant on the whole. So net positive, but not overly significant.

Ebrahim Poonawala - *BofA Merrill Lynch, Research Division - Director*
I guess just as we think about potential for a recovery from the pandemic over the course of the next year, talk to us in terms of your expectations around how BMO, in particular, is positioned with commercial loan growth, be it in Canada and the U.S. and your outlook for both markets?

Darryl White - *Bank of Montreal - CEO*
Well, maybe Ebrahim, it's Darryl. I'll start, and then I'll ask Dave on the commercial side to come in. The short answer is, I think, we're very well positioned. We've got lots of capital, as I said a moment ago.

We've shown in moments where there has been strong commercial growth in the market. If you think back to 2019, in particular, and the majority of 2018 that when the commercial market expands, we have an ability to expand at the rate of the market or better. We think we're about as good at that as anybody, and we choose our clients quite carefully as we emphasized at Investor Day and manage our risk. And I think you're seeing the outcomes of that risk management in the impaired provisions that we've shown you in the last couple of quarters.

So the punchline is, we really like our position as the economy recovers. I've said before, I do believe that we're going to see a business led recovery. And we will see that, I don't know when, but we'll see that accelerate at some point through 2021, and our position within that is really quite good.

Dave, would you complement that in any way?

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

Yes. I think I agree with what you said. And I guess I don't think we can underestimate the power of the news of this vaccine has had in the last couple of weeks, just in terms of when we talk to our clients on both sides of the border. There's less uncertainty as a result of this. There's more -- as bad as things are right now, they're thinking forward. They're thinking more about how they build up their inventories. Most of our clients have had some sort of supply chain issues. Those are now starting to correct themselves.

In all of our businesses where they've contracted just because of the decline in receivables and inventory, that's coming back. People are thinking again about acquisitions. They're thinking again about capital expenditures. So I'm more positive. I've always been positive, but I'm more positive that things could turn around a little bit faster than what we would have initially thought. Our pipelines are up, not as strong as they were a year ago, but up quarter-over-quarter.

Business activity is still up. And just from our standpoint, I think we're pretty front-footed in terms of spending our time with our clients and our prospective clients getting ready for this.

As Darryl said, this is a time when we generally show pretty well in terms of how we get out into the market, whether we've seen them in person or whether we're seeing them over Teams we're out there. So I'm pretty positive. I hope that helps give you a little bit more color.

Ebrahim Poonawala - *BofA Merrill Lynch, Research Division - Director*

That's a good perspective. And if I can just sneak in a follow-up, Darryl, to your comments earlier around, it does feel like under the surface, the exit of the energy, sort of non-Canadian Energy business, you acquired that portfolio at the end of 2018, news about potentially selling your non-Canada asset management business, Tayfun coming on board as CFO.

It feels like there's a few things that are changing, which might kind of reposition the bank as we think about strategically the outlook over the next few years. Just talk to us in terms of -- are you thinking about things differently on a more accelerated time line as it comes down to sharpening the business focus in terms of where you can be, in terms of ROE and efficiency relative to the group?

Darryl White - *Bank of Montreal - CEO*

Yes. I think, Ebrahim, I think the last part of what you said is important. I mean, the focus on ROE and efficiency is accelerating. But none of that is a new notion. We've accelerated our focus on efficiency quite successfully, frankly. We've had a 4% improvement over the last 4, 5 years.

We're continuing to see more opportunities for improvement. Just a slight correction. We didn't acquire the entire non-Canadian energy portfolio in 2018. That was just a small portion of it. And so there, it's the same lens that we're looking through, ROE and efficiency.

And as I said a moment ago, as you look forward, you may see things you may not. But overall, I wouldn't describe them as overly significant in the haul, in the grand scheme of the bank, but net positive with an accelerated focus.

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

A quick question on the decline on the impaired loan balances. In the commercial category, in particular, there's a nearly $1 billion reduction to GILs in the commercial category. Wondering how much of that is accounts that returned to performing? Or did you sell any loans or anything like that?

Pat Cronin - *Bank of Montreal - CRO*

Yes. Yes, thanks for the question. It's Pat. The short answer is no, we didn't sell any loans. It's really a combination, as you know, very, very low formations this quarter.

And in the U.S. commercial business, in particular, formations were extremely low. And then we did have some paydowns from impaired loans. So I think we've talked about this in the prior couple of quarters.

There had been some chunkier loans that had gone into the impaired bucket. We didn't expect to take PCL. We expect it to get paid down and some of that happened this quarter as well. And then just the improving economy broadly. And then just some of the more improving trends we're seeing in some of the harder hit segments caused some of that -- those impaired loans to move back up into performing status. So it was really the combination of those 3 things, not loan sales.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*
Okay. Then a follow-up to the commercial lending outlook there. In Canada and the U.S., do you expect that you could return to positive growth in commercial lending in the next few quarters? Or is that more -- you're optimistic, but it's going to take a while to rebound? Because I look at the U.S. in particular, you got -- if I back out the nearly $5 billion of Paycheck Protection Program loans, that's -- we're getting into some pretty steep declines here.

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

Yes. It's Dave. Let me take a shot at that. You're right. And when the economy does what it does here, particularly in our book, which is probably a little bit more skewed to financing working capital assets. It comes down pretty quickly. But on the upside, as I talked, I think, it will come back pretty quickly as well. So I think it's going to be a couple of tough quarters year-over-year. But I feel pretty confident that when we get in -- by the time we get to the fourth quarter of '21, we'll be looking at loan growth again. You got to take the PPP out of it. But loan growth, again, that's mid-single digits. So I think that would be -- that's kind of where I see it happening. And I just -- it's hard to tell exactly when that will turn. But I think by the end of the year, we'll be looking at positive loan growth again.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*
Okay. And any big revenue impact from the energy business that you're exiting?

Darryl White - *Bank of Montreal - CEO*
No. Gabe, it's Darryl. It's not material, and it takes time to go through it. Sorry, Dan. Gabe, so you know we're not in the same room. We're trying to be careful here. I think I heard your voice trying to get in Dan.

Scott Chan - *Canaccord Genuity Corp., Research Division - Director of Research of Financials & Financial Services Analyst*
Maybe going back to Dave on the U.S. side. Your NII or spread income has been a lot more resilient than kind of peers that we track. You kind of talked about commercial growth, but maybe you can kind of talk about the margin in the quarter and perhaps the outlook on that line item in 2021?

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

Sure. So you're talking about basically our NIM, which was really quite good during the quarter and frankly, for the year, better than a couple of things that caused that, much better deposit growth than we had seen in the past. Better loan spreads frankly than we had seen as we've been -- we try to be very disciplined and continue to support clients.

And then the offset is just the lower rates, but we did pretty well to offset that this quarter. And I think to your question going forward, I don't see a big change. Over time, we may see some deposits leak away as they actually get back into investing in businesses with our clients. But I don't see a big change as we go through the year.

Scott Chan - *Canaccord Genuity Corp., Research Division - Director of Research of Financials & Financial Services Analyst*
And just lastly, on the deposits. Commercial was up 54%. Maybe kind of talk about that and the outlook there?

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

Well, yes, we were 50-some percent growth, and this is in the U.S., but Commercial in Canada had strong growth as well. I think it's just a reflection of the clients have paid down their debt. They've backed up cash. We've added an awful lot of clients. But unlike in past years, a lot of the clients that we had aren't coming over with loans. They're coming over with deposits.

BMO is viewed as a very safe place to put their money and a good place to hold it until we start growing again. So I think it's really -- and lastly, one other thing that's -- I wouldn't want to underemphasize, we have a very strong, basically leading business in our treasury and payments business, which is basically the managing of cash for our commercial clients. We've invested a lot in that. And so that also has attracted more and more operating business over the last 4 or 5 years. All of that is added up to peer-leading growth on the commercial deposit side on both sides of the border.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*
Just for Pat, just going back to, I think, in Capital Markets, you had a recovery for performing loans of $41 million. Hoping you can just maybe unpack what drove that. And then I think you mentioned in your remarks that the performing loan ACL reflected an improved economic environment or potentially forward looking indicators, but then you put a more of a weighting towards your pessimistic scenario. Hoping you can maybe just talk a little bit about some of the moving pieces that went into the calculation of the performing loan ACL? And any management related and whatnot?

Pat Cronin - *Bank of Montreal - CRO*
Sure. Thank you for the question, Doug. So just, first of all, with respect to the Capital Markets decline in the performing provision, that was principally driven by a better outlook for impaired losses over the course of the next 12 months for oil and gas. I think, as you know, we have actually added significantly to that provision over the course of fiscal '20. We've recognized a lot of that impairment now. So that helps drive that down. But secondly, we're -- our forecast for the next 12 months is for significantly lower impairment and PCL in that sector than we would have seen in F'20. We've seen a dramatic slowdown in negative migration for the oil and gas sector in Q4. Obviously, you can see a material decline in formations and GIL balances and the PCL this quarter. Really was driven much more by some incremental provisions we took on some prior formations and not formations related to this quarter. So all of that is good news.

We also, of course, expect the book to decline over the course of the next year. The price environment has been pretty stable over the past couple of quarters. So when we looked at what we had in terms of that performing provision for oil and gas within Capital Markets, it felt like there was room for us to release some of that.

In terms of the moving parts in the overall provision, you pretty much got both of them right. Really the macroeconomic outlook got better this quarter, quarter-over-quarter, and that otherwise would have drove a reasonable release in the provision. And our base case has really not changed over the course of Q3-Q4. It's a little bit better in line with consensus. What really changed then is we moved from an adverse to a recession scenario in our downside case, and that's really to reflect just a wider range of potential outcomes in that downside case.

Clearly, we're seeing a resurgence of COVID and more talk of lockdown. And so we thought we'd like to reflect a little more uncertainty in terms of what that downside case could look like. And that more or less offset that benefit that we would have got from economic changes.

Balance growth would have been a small reduction to the provision this quarter. So those were really the main moving pieces.

And then when we look at our overall coverage, we had $1.5 billion of impaired loan loss provisions this quarter or this year in fiscal '20, we've now got a little over $3 billion of allowance set aside for performing loans. And we'd like to believe that some of the more difficult quarters are behind us.

So we think with that kind of coverage, we're very well positioned, and we really didn't need to do much more than a bit of tweaking this quarter in terms of that aggregate balance.

So hopefully, that helps.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*
Yes, just a qualification. Like so you didn't increase your weighting to the downside. You just changed your downside scenario to be more of a recession. Is that correct?

Pat Cronin - *Bank of Montreal - CRO*
No. We did make some very minor adjustments quarter-over-quarter to the weighting, and we don't generally disclose those, but it was a slight change quarter-over-quarter, nothing meaningful.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*
And so when I listen to just the outlook on the commercial side and more of the optimistic outlook in terms of the vaccine and whatnot. And then I listen to you being a little more conservative, I guess, on the performing loan ACL. How much of this is kind of just management overlay? maybe the question is really, what would it take you to kind of move in the other direction? Like do you have to see peak loss rates charge-offs hit, like what makes you move instead of moving more pessimistic towards being more optimistic?

Pat Cronin - *Bank of Montreal - CRO*
I would say, I guess, principally a reduction in uncertainty. Like I said, we're still comfortable with our base case, and we think the economy is going to continue to improve. We're seeing lots of positive trends, particularly underlying wholesale business but also consumer. So nothing has really

changed from that perspective. But we think until we see a reduction in uncertainty, which really means case numbers getting back under control. Maybe another quarter of the same stable or improving trends we're seeing in consumer and business. And then maybe a little bit more clarity on vaccine timing. All of those things will weigh into our thinking around the provision.

And then maybe some continued improvement in some of the sectors more uniquely hit by COVID. And that's typically where you see that -- those overlays come in. We have a fairly disciplined process around overlays. And just unfortunately, loss models have a harder time understanding some of the very unique impacts of COVID on sectors. And that's where we've been applying that management discretion. It hasn't been broad. It's been much more targeted like that.

so again, as we see continued improvement in some of those sectors, continuation of the positive economic trends we're seeing, you're likely to see some of that provision start to come back out again inside some point over the course of the next 12 months.

Lemar Persaud - *Cormark Securities Inc., Research Division - Research Analyst*
My questions, I think, most appropriate for Tom. Tom, can you unpack the movement in margins quarter-over-quarter at the all-bank level? How much of it was due to deposits outgrowing loans, higher loan margins? Then can you offer an outlook going forward? It just seems like the 6 basis points sequential increase seems a bit high to me.

Tom Flynn - *Bank of Montreal - CFO*
Yes. So I'll say a few things. At the group level, so for the two P&C businesses, the drivers were similar, and they included deposits growing at a higher rate than loans, higher loan spreads, and we have been working on improving loan spreads for a number of months, and that's benefiting the margin. And then on the negative side, lower deposit spreads. And so that blend has produced for the two P&C businesses on the quarter, margins net up.

At the all-bank level, excluding trading, we were up 7 basis points quarter-over-quarter. By group, P&C Canada helped by a couple of basis points; Capital Markets, same thing; and corporate was better as well. And corporate helped the all-bank margin by 4 basis points quarter-over-quarter. And that was in part because Q3 was a soft revenue quarter for Corporate, and we had a bounce back in Q4. And Q4 was a little better than average, Q3 worse than average, and so that helped at the all-bank level.

And then looking out to next year, we expect a bit of pressure on the margin as we go through the year, kind of a gradual impact from low rates. And to some degree, we think we'll get a benefit to the margin from the excess liquidity that we're holding running off through the course of this year.

And as we talked about last quarter, the excess liquidity that we're holding earns a lower margin. And so that is depressing NIM, all else equal. And in the quarter, the excess liquidity is about negative 9 basis points to the margin. And so through next year, as the excess liquidity that's in the system, drains out we expect a bit of a positive to margin. But net-net, we think will be down slightly through the course of the year.

Lemar Persaud - *Cormark Securities Inc., Research Division - Research Analyst*
So just a quick follow-up. On the negative 9, what would that go to in your best estimate through the year? Like could it go down to a 5-basis point drag, flat?

Tom Flynn - *Bank of Montreal - CFO*
It's one of the sort of the interesting questions that's out there. There's a lot of liquidity in the system. We do think as the economy improves, the liquidity will be put to work. You've heard Dave talk about that. And so hard to say, but I think our expectation would be that it's down by at least half. And there's going to be a range around it, but it should be down by at least half.

Paul David Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*
I want to go back to the conversation on loan loss allowances. And I guess my question is specific to some of the announcements that came out of the Canadian federal government last night and those specifically targeted at COVID-impacted industries. Wondering what your initial impressions of those measures are? And if those are a potential catalyst for seeing more optimistic assumptions for your allowances?

Pat Cronin - *Bank of Montreal - CRO*
Sure. Thanks for the question, Paul. It's Pat. I guess, first of all, we're definitely encouraged by what we saw last night and look forward to working with the government on organizing the details of that program. I would say, definitely a positive, although at the moment, what we're seeing is loan sizes capped at $1 million, which will be primarily beneficial for the small business segment.

I think pretty obvious to say that there are definitely stressed sectors that they're focused on, hotels, restaurants, entertainment and leisure. So we think the government is spot on with the targeted approach that they're taking.

Our small business portfolio in aggregate, really isn't that big. It's about 5% of our business and government loans. And so we think it will be beneficial clearly and beneficial for the broader economy and beneficial to employment, certainly in those sectors, so we're highly encouraged.

But in terms of material impact on the performing provision, I guess, probably too early to say. And if -- and I suspect, probably not a big amount.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*
My questions are for Pat Cronin. Pat, I'm looking at the loans past due, not impaired. And I wanted to clarify your discussion with respect to deferrals and frozen. Can you let me know if you've come off of a deferral and you have not made your first payment, are you captured in this table?

Pat Cronin - *Bank of Montreal - CRO*
Well, I think, Darko, I think what you're seeing, too, you're seeing an uptick there. This is probably the origin of your question, you're seeing a bit of an uptick in loans past due and not impaired. And really, what that is, it's a bit of a technical anomaly that you're seeing there.

Interestingly, the last day of the quarter fell on a weekend. what that means is some of the payments for loans, particularly in our consumer division, don't get processed actually until the Monday. And so they show as actually past due but not impaired.

and that's almost all of the elevation you're seeing in that number. It doesn't happen very often. We actually saw this, I think, maybe Q2, back in 2017, with almost the exact same dollar value phenomenon there. So I wouldn't read too much into that loans due or loans past due, not impaired number.

Maybe broadly, though, with respect to consumer deferrals, I think, you've seen a pretty significant decline. We're seeing pretty encouraging trends with delinquency. We're more focused on ones that have expired and cycled, so have gone through a payment cycle. Some pretty encouraging trends there.

the ones that are going current tend to be making full payment as opposed to partial, almost the vast majority of them are full payment. We're finding if they're current after one month, they're highly likely to be current after two. So seeing some definite positive trends there. We'll continue to watch that segment closely. But that's, I guess, all I have to say on that.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*
And then just a follow-up on that, Pat. So what is the -- I mean, it's difficult to find the numbers. It's difficult to back into 1, 2. So what I'm really just curious about is, how many people have come off of a deferral and have not made their first payment, like what is the dollar amounts that we're talking about? And what is the assumption with respect to whether or not these people actually go all the way to impaired status?

Pat Cronin - *Bank of Montreal - CRO*
Yes. So I can tell you about 2 -- with consumer loans, when we look at -- well, first of all, about -- like I said in my opening remarks, about almost 90% have now expired. And the delinquency rate of those that have expired is about 2%. It's a little less in Canada, quite a bit higher in the U.S., but mostly because the percentage that was delinquent going in was higher in the U.S. than Canada. So that kind of gives you a perspective of what delinquency looks like right now.

And then we've got about 60% of that population that have actually gone through a full cycle of payment, and the delinquency rates tend to be about the same, still sitting in and around that 2%, maybe just slightly lower.

The vast majority of what's left on deferral is mortgages. So I don't expect those delinquency numbers to actually change a whole lot. I mean we'll watch it carefully as we go. But so far, we're seeing pretty good signs on delinquency.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*
So just so when I calculate, when you say 2% are delinquent, do you mean 2% of the peak amount of loans that were in deferral?

Pat Cronin - *Bank of Montreal - CRO*
2% of what has now expired.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*
(technical difficulty)

Darryl White – Bank of Montreal - CEO
Hey Mario, your line is kind of coming in and out

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*
Okay. I will. Give me a second. As I reflect on your pretax provision earnings in this year and in this quarter, there are a number of areas where it looks like BMO probably outperformed the peers. But the one in particular that I wanted to highlight was just in the fee income, I'm excluding Capital Markets from this. There are a number of areas where BMO just seemed like it's been a bit more resilient. The fees, deposit and payment fees. Some of those big broad categories, do you speak to why those line items, not seeing the sort of affects the declines that we're seeing across the peer group? Is there something specific to BMO that I may be missing?

Tom Flynn - *Bank of Montreal - CFO*
It's Tom. I can take a crack at that. Others can feel free to add in. So we have a very diversified noninterest revenue stream. And some things through the course of the year were up, others down and when you look at our mix compared to others, on the credit card business side, the year was generally pretty tough and balances were down, fees were down. And our exposure to that part of the market is not bad, but a little below some others. And so some others would have been more impacted by negative results on that front.

And our commercial business maybe is helping a little bit. And we obviously skew somewhat to the commercial side. We've been active in managing that business. Dave has talked about that. So that might have helped us a bit.

And I'd say as we look out to next year, we are seeing a rebound in consumer spending, we're expecting an uptick in M&A activity in Capital Markets, fee streams in the Wealth business, given reasonably resilient equity markets are likely to be in good shape. And so we're reasonably optimistic about what that line looks like in total for the next year.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*
Okay. Just a quick follow-up then. So I totally understand the reference to cards, I can see that fairly clearly as I look at my own numbers. Would BMO's better performance in, say, deposit and payment services, could that be connected to the overweight in commercial?

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

I was -- sorry, Tom, I was going in.

Tom Flynn - *Bank of Montreal - CFO*
Yes, go ahead.

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

Definitely a positive. You can see it not only in our deposit growth but in our treasury management fees, and that's been a -- it's been over 4 or 5 years as you continue to grow clients and you have their operating business, that's a positive on both sides of the border.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*
And the same would be true for credit and lending fees. The overweight in commercial would also help that line presumably?

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

Well, yes. But to the extent that your loans are down, there wouldn't be as much in fees there. So I think we've worked through that. So I think the point you're making is positive, and it's maybe in spite of lower loans than we've had in the past. So just more of a -- as loans continue to grow and start growing again, I think that's just more positive down the road.

Mike Rizvanovic - *Crédit Suisse AG, Research Division - Research Analyst*
I wanted to talk a bit about expenses. So I'm looking at your pretax pre-provision earnings on an adjusted basis, down actually quite a bit from last quarter. I think it's down about 5%. And I'm wondering, in this age of COVID-19, I'm imagining that you're seeing probably the same things that all your peers are seeing with respect to just how much more quickly, people are turning to digital channels?

And if you can -- maybe best question for Ernie or for Dave. But in your Canadian and U.S. businesses, the P&C banking side. Is this something that could be an opportunity with respect to maybe a bit more aggressive on the branch cutting? I think you had a little bit of closures on a net basis in Canada, not much in the U.S. The last couple of quarters. If you can talk to that, that would be helpful.

Ernie Johannson - *Bank of Montreal - Group Head of North American Personal Banking & U.S. Business Banking*
Thanks, Mike, it's Ernie. Thanks for the question. Yes, you're spot on. We're seeing an increase in both service transactions and sales through our digital channels. And we're also seeing a return back to slightly normal levels in reality in the branch network. But that said, we're constantly looking at the footprint and saying, are there opportunities for us to pull back to create a different operating model, whether they be our service capabilities. So that is what we are looking at, and we'll continue to focus on it as COVID ebbs and flows, we're managing that accordingly now. And we've got a lot of learning through the pandemic on how to really optimize between our branches, our call center and our digital channels.

So really, there's a good momentum going forward for us in the business overall. And cost management is key to it. And we've already demonstrated that this year, and we'll continue to accelerate on that agenda into next.

Mike Rizvanovic - *Crédit Suisse AG, Research Division - Research Analyst*
Okay. And then curious with respect to future cost cutting, is BMO going to stick to the previous methodology of onetime adjustments, taking restructuring charges? Or is it going to gravitate to more sort of just within the regular run rate of earnings?

Darryl White - *Bank of Montreal - CEO*
It's Darryl, Mike. The latter is the answer. A year ago, I said so, I think, pretty definitively that if we are to go after cost-cutting measures, it would be taken in the normal course, in the lines of business without taking a charge at the top of the house. There was, in fact, even a little bit of that in the quarter that we've just announced and not enough to matter, so we don't even call it out in particular. So going forward, the model is very much the latter.

And with that, operator, I think we're going to have to wrap.

So I'm just going to grab the mic here and thank everyone. As you've heard today, and as I said last quarter, there are 4 key drivers of our performance and our outlook that I'd like to highlight: Number one, we're building on clear and top-tier operating momentum and proven strengths. Among them are strong customer focus and loyalty, and we see clear longer-term opportunities for growth in our targeted areas of focus.

Number two, we are appropriately provisioned and have an enduring commitment to superior risk management that sets us up for continued outperformance in the industry on credit, defining strength for BMO.

Number three, we have strong capital and liquidity positions that give us the capability to absorb any remaining uncertainty and the flexibility to invest and grow.

Number four, we're delivering on our expense and efficiency commitments with strategies in place to do more.

And when I roll it all up, our diversified model, I would say, has been tested and proven resilient. And I'm confident in the continued execution of our strategy to drive leading performance as the recovery accelerates through 2021.

And before I close, I want to acknowledge the tremendous impact that Tom has made at BMO. It's almost impossible to overstate it. He served in a number of critical areas for the bank as your Treasurer, Chief Risk Officer; and, of course, CFO, helping to lead the bank through the global financial crisis, successive acquisitions and now a global pandemic. I know he's developed very strong relationships with many of you on the call, many investors and analysts. And as one of my most deeply valued partners, I will miss his contributions at this particular table. I look forward at the same time to welcoming our incoming CFO, Tayfun Tuzun, at our Q1 call.

I wish you all a safe holiday season, and I look forward to talking to you again in the New Year. Thank you