

## CORPORATE PARTICIPANTS

**Bill Downe** - President & CEO, BMO Financial Group

## CONFERENCE CALL PARTICIPANTS

**Andre Hardy** RBC Capital Markets – Analyst

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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 may involve, but are not limited to, comments with respect to our objectives and priorities for 2013 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price, and the results of or outlook for our operations for the Canadian and U.S. economies.

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

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; weak, volatile or illiquid capital and/or credit markets; interest rate and currency value fluctuations; changes in monetary, fiscal or economic policy; the degree 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; judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; our ability to execute our strategic plans and to complete and integrate acquisitions; critical accounting estimates and the effect of changes to accounting standards, rules and interpretations on these estimates; operational and infrastructure risks; changes to our credit ratings; general political conditions; global capital markets activities; the possible effects on our business of war or terrorist activities; disease or illness that affects local, national or international economies; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; technological changes; and our ability to anticipate and effectively manage risks associated with all of the foregoing factors.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors could adversely affect our results. For more information, please see the discussion on pages 28 and 29 of BMO's 2012 annual MD&A, which outlines in detail certain key factors that may affect Bank of Montreal's future results. When relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Bank of Montreal 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 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.

In calculating the pro-forma impact of Basel III on our regulatory capital, risk-weighted assets (including Counterparty Credit Risk and Market Risk) and regulatory capital ratios, we have assumed that our interpretation of the proposed rules and amendments announced by the Basel Committee on Banking Supervision (BCBS) as of this date, and our models used to assess those requirements, are consistent with the final requirements that will be promulgated by the Office of the Superintendent of Financial Institutions Canada (OSFI). We have also assumed that the proposed changes affecting capital deductions, risk-weighted assets, the regulatory capital treatment for non-common share capital instruments (i.e. grandfathered capital instruments) and the minimum regulatory capital ratios will be adopted by OSFI as proposed by BCBS, unless OSFI has expressly advised otherwise. We have also assumed that existing capital instruments that are non-Basel III compliant but are Basel II compliant can be fully included in the October 31, 2012, pro-forma calculations. The full impact of the Basel III proposals has been quantified based on our financial and risk positions at year end or as close to year end as was practical. In setting out the expectation that we will be able to refinance certain capital instruments in the future, as and when necessary to meet regulatory capital requirements, we have assumed that factors beyond our control, including the state of the economic and capital markets environment, will not impair our ability to do so.

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, both broadly and in the financial services sector, we primarily consider historical economic data provided by the Canadian and U.S. governments and their agencies. See the Economic Developments section on pages 30 of BMO's 2012 annual MD&A. Among the material factors that we considered when establishing our expectation of net interest margin changes in 2013 in the P&C Canada business, were assumptions about growth in and mix of loans and deposits, stable competitive pressures and an interest rate and economic environment as described on page 48 of BMO's 2012 annual MD&A..

#### 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 as well as the rationale for their use can be found in Bank of Montreal's Fourth Quarter 2012 Earnings Release and Bank of Montreal's 2012 Management's Discussion and Analysis, all of which are available on our website at [www.bmo.com/investorrelations](http://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; adjusted net income, revenues, provision for credit losses, specific provision for credit losses, expenses, earnings per share, effective tax rate, ROE, efficiency ratio and other adjusted measures which exclude the impact of certain items such as credit-related items on the acquired M&I performing loans, run-off structured credit activities, hedge costs related to foreign currency risk on purchase of M&I, M&I integration costs, M&I acquisition-related costs, amortization of acquisition-related intangibles, decrease (increase) in collective allowance for credit losses and restructuring costs.

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

## PRESENTATION

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### **Andre Hardy - RBC Capital Markets - Analyst**

Our next participant will be Bill Downe, President and Chief Executive Officer of BMO Financial Group. Before we start, I've been asked to say that Bill's comments may include forward-looking statements. Please refer to BMO's public disclosures for further detail.

So Bill, with that, nice to see you, thank you very much for sharing your time.

One question I'd like to start with is not so much of a softball like I usually start, but I want to start with Canadian retail revenue growth. If we look at recent years, it hasn't kept up with the leading peers. A) How important is that to you? And, B) Will that change? And what are you doing to change that?

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### **Bill Downe - President & CEO, BMO Financial Group**

I'm glad you started with that question, Andre, because it's one that's certainly front of mind for me. And I know that in the conversations I've had with major investors, it's prominent as well. And it should be because it's a big contributor to the valuation of the firm.

Let me start with a little bit of context setting in my response to that question. At the end of the fourth quarter when I characterized the year, I talked about being at a pivotal point for the Company. And I think that applies to our Personal and Commercial banking business in Canada, for sure, and as well, of course, to our Personal and Commercial banking business in the United States.

When I reflect on the work that we've been doing in the bank really over the last 5 or 6 years to make certain that we have a clearer position in the market, in 2011 and 2012 we marked time a little bit. And in the case of the US business, we were clearly marking time because of a digestion process that had to go on from the point of announcing a very significant acquisition, the negotiation of things like the repayment of TARP, a long integration process, 6 or 7 months prior to closing, and then a very fast path to conversion. That has taken a lot of energy.

In P&C Canada at the same time, we were responding to what we saw as a fundamental slowdown that was going to take place in the formation rate of consumer debt in Canada. And it was obvious, if you looked at the numbers, that the rate of debt formation was and had been exceeding income growth for the Canadian consumer for quite some time. And in 2011, as we redirected our sales force and redirected our attention to shorter maturity fixed-rate mortgages in the belief that they were better for the consumer and better for us in terms of the mix of risk in our balance sheet, we saw a slowdown ahead of the market in mortgage bookings. And really, that showed up most directly in the last half of 2011.

Going into the first half of 2012, we started to promote the 25-year, 2.99% mortgage with a 5- or 10-year fixed at 3.99%, in the belief that we had to tell the story to the consumers about the value to them of moving to a shorter amortization and the ability to build more principal in their mortgage. And through the course of the first half of the year, and this really preceded the actions of the government of Canada and CMHC in pushing the market in that direction, we invested very heavily in front-line education around this product and in promotion of this product.

And you can see in the latter half of the year that there was a change, that there was really a shift in momentum and we started to see market share growth again -- small in the third quarter, but our personal lending ex-cards in the fourth quarter was quite strong. This is really, I think, a consequence of a market effect. We were ahead of the market. I believe we paid a price for being ahead of the market in terms of share, but it's not something that we regret doing. And I think in

2013, 2014 and 2015, the bank is -- and personal banking in particular is very well positioned to grow and be very competitive. We have a smaller market share than we have distribution points. We have a sales force that has a great deal of confidence. We have high-quality products. We have materially upgraded our branch facilities and we have dramatically improved our online presence in those features.

So I would say that at this point, using the words pivotal is very appropriate for Personal and Commercial banking. The leadership of Personal and Commercial banking is showing a lot of confidence about the coming year. Even though I think what you have pointed to is overall revenue growth in the market which might be 1% again this year, I think we will show stronger growth than that.

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**Andre Hardy - RBC Capital Markets - Analyst**

You mentioned market share of distribution points that is higher than market share of loans and deposits. What do you think will help you close the gap in upcoming years?

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**Bill Downe - President & CEO, BMO Financial Group**

Well, I think the moves we have made, certainly the moves we have made to significantly improve our competitiveness in the online space, is making us more relevant to a younger demographic. The focus on the 25-year mortgage really heavily focused on first-time home buyers who want to build equity in their home. If you have looked at our workforce in 2012, I think we were down between 500 and 600 people in Personal and Commercial banking on a base of about 16,000. We are generating more revenue per salesperson. And whereas between 2006, 2007, 2008, 2009 and 2010, a lot of investment was going into new product, product evolution; a great deal of our investment now is going into workforce productivity. And the objective to that is to increase the capacity of every front-line salesperson by 25%.

So I think the freeing up of the sales force to be more productive in selling high-quality product, and we are going to support that front-line sales force with good advertising and promotion and a lot of reinforcement of the brand.

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**Andre Hardy - RBC Capital Markets - Analyst**

The market share of the bank has improved in a few lending categories in recent quarters, but the margin pressure has been noticeable. To what do you attribute the recent margin pressure? And then maybe it's the same question or a separate question, but with rates being low, just how many more quarters or years of margin pressure do you expect as asset yields come down?

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**Bill Downe - President & CEO, BMO Financial Group**

Well, if you simply do the arithmetic around interest rate roll off in the portfolio, 2013 is the year in which the trajectory changes. So there wasn't much we could do about the rolling rate on interest rates that get attributed to deposits in 2012. I think that in the first and second quarter of this year, you will see the pressure from that particular source abating.

Obviously, one of the things that contributed to it was an increase in mortgage as a proportion of personal lending, and that's simply arithmetic as well. So I think, looking beyond the midpoint of this year I expect that you're going to start to see upward pressure on the rate curve in Canada, simply because you're going to see that in the United States. With the resumption of growth in the US, I think you're going to see upward pressure on interest rates.

I think the period of downward pressure on NIM, which really was the latter half of 2011 and 2012, will have been the period when really there wasn't much you could do about it. And from here on in, I think it ought to be abating and then improving. Interest rates aren't going to stay low forever.

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**Andre Hardy - RBC Capital Markets - Analyst**

If we talk a little bit more about the macro environment and how it affects domestic retail banking, how much of a deceleration are you seeing in your new volumes, from mortgages? And, ultimately, what does that mean for growth in that book in upcoming years?

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**Bill Downe - President & CEO, BMO Financial Group**

Well, the mortgage numbers are actually quite good. They were in the fourth quarter; they continue to be right now. If you had asked me the question six months ago -- what did I think the prospects for Canadian consumers seeing their income growth catch up, if you like with debt formation; I would have been more pessimistic than I am now.

I think that the US economy is going to perform much better in 2013 than people are anticipating. In the Midwest, we are going to move from a 1.8%-1.9% real GDP growth rate to 2.2%-2.3%, assuming a relatively modest uptick in commercial activity. In fact, I think real estate and commercial are going to be much stronger in the US. I think that's going to be a stimulus to the Canadian commercial environment. And where I don't think the Canadian consumer is going to go back to 5%, 6%, 7% growth rates in debt formation, I think we have probably gone past the risk of a collapse, an outright collapse in the market. And in fact, house prices may just stagnate; condominium prices may just stagnate for a couple years, and I guess that's the definition of a soft landing.

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**Andre Hardy - RBC Capital Markets - Analyst**

In your opening remarks you mentioned investment, whether it be advertising -- but at the same time, you mentioned some job reductions in other areas. So when you look at your budgeting for expenses and your outlook for revenues, how realistic is it for us to expect positive operating leverage in 2013 and 2014?

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**Bill Downe - President & CEO, BMO Financial Group**

Well, I think that we had aggressive investment in spending going into 2011. And as revenues slowed, it takes some time for those investment plans to run their course and run through. I think what you'll see in 2013, 2014 and 2015 is revenues picking up and the investment spend and expenses being behind that. And so you will get a positive effect on operating leverage for the next three years. You have seen the reverse pressure in the last couple of years.

So I actually think that the momentum of the business will be supportive of that. And we are keeping a lot of discipline on expenditure decisions in the belief that we ought to get more productivity out of every employee and that we can drive significantly higher revenue through the system without adding a lot of people.

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**Andre Hardy - RBC Capital Markets - Analyst**

And when we think about scale, should we think of BMO as a Canadian bank or as a North American bank? How much benefits are there from systems of purchasing a back office standpoint, from having actually a fairly large footprint, if you combine Canada and the US?

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**Bill Downe - President & CEO, BMO Financial Group**

Yes; I think five years ago, you could talk about north-south synergies, but it was difficult to capture those. We learned an enormous amount in the conversion of almost 400 M&I bank branches in October about what you could do on a north-south basis. And we realigned a number of the big service areas of the bank like call centers, like indirect auto so that we have common management moving to common systems. And what you end up with is the ability to have cross-border backup and redundancies.

So in the conversion of M&I, we were able to take call overflow and handle calls for customers in Minnesota and Wisconsin in Meadowvale, here in Toronto. And that would not have been possible -- the technology would not have allowed you to do that seamlessly five years ago.

So I think we have gone from having a 300-branch network in the United States, which I don't think had sufficient scale to be really efficient, and a 900-branch system in Canada, to having 1600 branches that are adjacent to each other that are going to share many common support resources. Our mainframe network now services the whole network as one; that is going to drive down cost.

I think there's another dimension that we are only just exploring at the very initial stages, and that is we know we are going to capture a lot of expense synergy north-south. We are starting to identify areas where we can make meaningful differences to our commercial customers who do business on both sides of the border and basically eliminating the duplication of systems for them that they have had to have. Our newest treasury workstation, which we rolled out in Canada in the last year, was built with the desire to be able to serve customers on both sides of the border invisibly.

So I think there's going to be very significant benefits to us from the size of our branch network -- we are now the second-largest Canadian bank in Canada and the US, in terms of number of bank branches. And they are starting to integrate very nicely.

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**Andre Hardy - RBC Capital Markets - Analyst**

So if you look at either your expense base today or your efficiency ratio today, how much more is there to come from further integrating on a north-south basis?

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**Bill Downe - President & CEO, BMO Financial Group**

I think there's a great deal more to come. When you look at where Harris Bank's expense-to-revenue ratio was running above 70% perennially, it was very difficult to get it below 70%, I think the fourth quarter the combined business was around 60% or 61%. Canada, the expense revenue ratio, I think, was between 51% and 52%. In both markets, we know we can drive that expense-to-revenue ratio down very significantly by having the benefits of the larger platform and the common platform.

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**Andre Hardy - RBC Capital Markets - Analyst**

There's a few things I want to talk about Canada still, but since we are touching on the US, let's start with the postmortem on the M&I acquisition. What has gone well, what has not? And where does the combined franchise go from here?

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**Bill Downe - President & CEO, BMO Financial Group**

Well, what has gone well is the customer and employee side -- without question, the customer loyalty numbers have held up extremely well. I continue to call in the market. The last day before the holiday break, I was in western Wisconsin with Mark Furlong, calling on the largest clients, doing a little bit of a postmortem around the impact the conversion might have had on them. And I would say that without question, we had assumed that we would have very significant customer

challenges in the conversion process, they have been far less. And employee morale and commitment has also been very strong.

I think the key to the integration's success was really the first six months, when we brought the management teams together, because we ended up with a really good balance of people from both organizations and there was a good cultural fit. So that part of it has gone extraordinarily well.

On the numbers side, it has also gone extraordinarily well. The loan portfolio has performed better, in better circumstances than we had projected. The economy has been stronger, the unemployment rate has been lower. We've had great success in integrating the special assets teams. And whereas, prior to the transaction, M&I was selling loans really motivated by capital rebuild, we have been able to take a very close look at that portfolio and maximize the recovery value without the pressure of having the capital build as a big motivation. And that has really contributed to loan-loss recoveries and revaluation of the performing loan portfolio.

And I think I would say, it's a happy coincidence that when you look at the size of the conversion and the full integration costs, they have essentially been paid for by the, the improvement in the valuation of the portfolio. It's not often that you can do a major acquisition and, in essence, pay for the conversion from the work that you do while you are doing the conversion.

Surprisingly, we have been able to materially improve the Harris platform in the process as well. So our existing customers are getting a much more responsive system. The front-line people have much better tools to work with than they previously did. And the bank is perfectly positioned for recovery in home building, consumer debt picking back up to more normalized levels and particularly to commercial loan growth in the Midwest, which is very strong. And we are seeing mid-double-digit C&I loan growth now.

So I would say we thought the economy was going to be stronger in 2011 and 2012 than it turned out to be. We did better, despite that, and we think 2013, 2014 and 2015 are going to be much stronger than were in our original plans. So that has gone exceptionally well.

The last point that I would make, Andre, is that when we announced the transaction I think our B3 common equity ratio on a pro forma basis was around 8.7%. And we took it down into the mid-6s at a time when very few banks were willing to do a major acquisition. In fact, I think there has only been two healthy bank transactions done since 2008 in the US, and ours clearly stands out as the largest. What is most interesting about it is we have rebuilt the capital in 24 months. And that means now that the same level, if you like, of book value increase that we have been able to demonstrate and book value increase per share that we have been able to demonstrate over the last eight quarters is going to be available to support organic growth. And I think that's really -- I will come back to the notion of at a pivotal time in the market. I think the capacity that we have is going to be perfectly matched by a pickup in organic growth rates in North America.

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**Andre Hardy - RBC Capital Markets - Analyst**

You are clearly very happy with how things have gone. So does that embolden the bank to look at further acquisitions in the US with the capital not being rebuilt as well?

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**Bill Downe - President & CEO, BMO Financial Group**

You know, I'd say prior to 2005, we did as much infill branch opening and building as we did acquisition. We have clearly done one very significant acquisition, and it has created organic and infill opportunities that are very significant. So on the acquisition side, I am hopeful that we will be able to do, hopefully, a significant number of both tuck-ins and de novo openings within that footprint. And that, I believe, will drive very significant organic growth. I think the opportunity to do a large acquisition in the US, in the political environment, is very low, and I don't think it would really justify the energy it would take to seek an approval.

In wealth management, we have had success in the US making acquisitions. In our US wealth management business, which was very small, a good private bank and a good asset management business prior to acquiring M&I now has critical mass. And BMO asset management has CAD110 billion plus of AUM, and we have now a global sales force for that business, and the US private bank is much larger and very profitable. So I think there are opportunities to do wealth management acquisitions that would be complementary over time.

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**Andre Hardy - RBC Capital Markets - Analyst**

This would be primarily US focused; or, again, you might look at some things in Europe and Asia, as you have done in the past?

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**Bill Downe - President & CEO, BMO Financial Group**

Yes, I think we have to have a broader view to wealth management because as part of an integrated system, you know, a decade ago we ran wealth management in very strict geographic pillars. Today, the wealth management business runs much more globally.

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**Andre Hardy - RBC Capital Markets - Analyst**

Going back to the US, you see this when you look at senior loan officer surveys; you hear it on many US bank conference calls. A lot of signs are pointing to easing in corporate lending standards relative to what they were. Now, if you were to compare the lending standards versus pre-crisis, are we still have levels that are more benign or safer, I should say ...

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**Bill Downe - President & CEO, BMO Financial Group**

Yes, they are much safer.

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**Andre Hardy - RBC Capital Markets - Analyst**

...in spite of the recent tightening?

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**Bill Downe - President & CEO, BMO Financial Group**

I think one of the hallmarks of Bank of Montreal has been that our credit standards stayed very consistent through the cycle. And we are competitive today operating at the credit standards around documentation, covenants, collateral, repayment coverage that we consider to be appropriate for lending. We are very competitive in the market. So I think that where you have seen more aggressive lending has been in the high-yield space, and there has been a little bit of that. But I think for traditional commercial loans, mid-market C&I companies, the conditions are fair to the borrower, but they are good from a credit risk and return perspective for us.

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**Andre Hardy - RBC Capital Markets - Analyst**

Lastly on the US, there is a lot of noise in the aggregate loan growth figures. There's very good C&I loan growth, there's a runoff book, there's more difficult growth from a macro perspective in other areas. When you look at your book, at what point do you think we will start seeing positive loan growth in your US franchises?

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**Bill Downe - President & CEO, BMO Financial Group**

Yes, I think this year. I wouldn't call it in the first or second quarter, although the last two calendar months of 2012 were interesting because a lot of people were doing transactions -- privately-owned companies were doing transactions that required financing that were tied to anticipation around tax changes in the US. So November and December were good months across the board, I think, everywhere in the United States. And I think we are very close there to the inflection point, where the portion of the portfolio that had characteristics that really didn't fit our traditional taste for risk have essentially been run down to the point that we are comfortable with them, a little bit more to go, but not much. And that through the course of 2013, even with current growth rates, I think we will see balanced growth start to move into the positive area. And if we get a more robust economy, even better.

And I can't help but recall the spring of 2007, because in the spring of 2007, the world was still very optimistic about economic growth. And when we looked at the home lending market in January, February and March of 2007, we could see that the brakes were on right across the market. And it's usually in that spring selling season that you get a surprise one way or the other. And I think that this spring, the revival in the US housing market is going to be surprising. Right now, we are seeing good volumes. And of course, for us the number we really want to watch around mortgage formation for us is the servicing portfolio plus the on-balance sheet because the economics to us of originating and retaining the servicing and selling the loan are about the same as booking the loan and putting it on our balance sheet -- a little different structure than the Canadian market. And that number has been moving up sequentially for 5 or 6 quarters.

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**Andre Hardy - RBC Capital Markets - Analyst**

Shifting gears and talking about regulation and capital a little bit, you mentioned having rebuilt your Tier 1 common ratio on a Basel III pro forma basis. Where do you see that ratio going with the 7% minimum ratio, plus a SIFI buffer, presumably?

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**Bill Downe - President & CEO, BMO Financial Group**

Well, I think that at this point, we have reestablished our capital at a level that we are comfortable with and that the earnings above distributions are available to grow the business in one way or another. And, obviously, at some point we have reactivated our normal course issuer bid. There will be opportunity for share buybacks and subsequently for dividend increases.

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**Andre Hardy - RBC Capital Markets - Analyst**

How important is it to you to be active on that buyback? Is it something that's there just in case you run out of things to do with the capital? Or it's something that you want to do on a consistent basis?

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**Bill Downe - President & CEO, BMO Financial Group**

Well, I don't think it was necessary at all to have in place in 2011. I think it expired in 2010 and we didn't reactivate it simply because we were in a capital build. But now, I think it's a very useful tool to balance the capital. Certainly, I believe that the organic growth opportunities are going to absorb a lot of capital, but it's important to have it in place. And I'm very satisfied that we have brought the dividend payout down into a range that's comparable now to our peer banks and we have reestablished a range that's comparable to our peer banks. So from this point, I think a balanced philosophy around growing the dividend commensurate with the growth in after-tax net income, using the buyback judiciously to absorb



surplus capital where organic growth hasn't been picking it up and then being very aggressive in pursuing organic growth within what I think is probably one of the most attractive footprints in banking anywhere in the world.

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**Andre Hardy - RBC Capital Markets - Analyst**

Shifting from Basel capital to Basel liquidity, there were pretty meaningful changes made on Sunday to liquidity coverage rules. Is it too early for you to tell us whether the bank needs these new rules with its current balance sheet?

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**Bill Downe - President & CEO, BMO Financial Group**

I guess I would say that it has reduced the uncertainty for banks that are in a good liquidity position around future changes, and that I think the Canadian system was quick to rebuild liquidity. We obviously had a lot of inherent benefits in our system that allowed us to access liquidity during the challenging times, but I think it looks to me as though these roles basically signaled that in aggregate, the Canadian banks are in good balance and that the need to build additional liquidity is essentially behind us.

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**Andre Hardy - RBC Capital Markets - Analyst**

And what do the changes that the Fed is proposing with regard to holding capital in the US mean to the bank? Is the bank already holding the capital in the US to support US risks, or will there need to be some internal changes to [comply]?

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**Bill Downe - President & CEO, BMO Financial Group**

No; our historic pattern -- and recognize our business in the US was established in 1819 -- we have long had a US holding company, and the majority of the businesses are run under the umbrella of the US holding company. The US holding company always operated within the parameters of both leverage ratio and capital that applied to domestic US banks. So if anything, I think BMO stands out in the United States as having the holding company structure in place, a high-quality independent US board well known to the Fed and the OCC. And the bank itself has very strong capitalization. So both the holding company and the bank are well-capitalized, the structure is in the right position.

And I think that this whole discussion somewhat confuses the notion that banks would be put at a disadvantage because if you run your bank responsibly, if you run your bank in the US the same way as you run your bank in Canada, you will be well-capitalized, you will have a holding company, you will have a balance both on available capital and on leverage. And in our case, I think it's a positive thing for us because we maintained that structure for a long time and now the rest of the market will conform to the same standards.

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**Andre Hardy - RBC Capital Markets - Analyst**

The bank was early relative to its peers at making investments in Asia. There's a few investments that have been made through the years. Are we likely to see something more meaningful in upcoming years either from a revenue contribution or an investment standpoint, or is that something that will stay small for awhile?

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**Bill Downe - President & CEO, BMO Financial Group**

No, I think from a revenue contribution standpoint, we should see good growth over time. Whether there are opportunities to make complementary investments will depend really on the market itself. But China is the heart of our Asian business. The fact that we have been operating in modern China for almost 3 decades; our history in China goes back pre-

revolution; but in modern China for three decades, our established branch system in mainland China, in Guangzhou and Shanghai and Beijing; a very good business on commercial interest rates, currencies, trade finance and certainly on the investment banking side, and very good flow of advisory mandates. And these are global advisory mandates. We are working with a number of quasi-state or privately-owned Chinese companies on their global investment plans. So there's good advisory revenue flow there.

The wealth management business is the one, Andre, where I think that the growth opportunities are going to be very significant. We have an established private bank in Hong Kong with operations in Singapore that tie in very nicely to our operations in mainland China and in Taiwan. We have an extension of our global asset management business in Lloyd George Asset Management in Hong Kong and in India. And this whole region of the world is showing a very significant increase in both middle class and higher-earning individuals, where private banking and asset management are complementary.

So I think that the investment, the patient investment that we have made over time is going to pay off. It's starting to pay off now. We are seeing black numbers printed in all those businesses and I expect them to grow. And hopefully, there will be good investment opportunities over time.

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**Andre Hardy - RBC Capital Markets - Analyst**

We're almost out of time, but one question that I wanted to ask you, given that your bank lived through 2007 to 2010 in the US, and your bank, like any bank there, had exposure to construction and impairments. When you look at the construction, particularly the condo market in Canada, what are some of the differences that you see here versus what you saw in the markets that you were in, in the US? And what signs are you watching as potential signs of more impairments or of any impairments in the Canadian condo market? Because we really haven't seen much up to now.

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**Bill Downe - President & CEO, BMO Financial Group**

Well, I think one of the fundamental differences between the Canadian and the US market is the way that Canada Mortgage Corporation functions versus the way that Fannie and Freddie operated in the US. The real problem with the housing market in the United States is that you had housing agencies that were funding themselves at the government rate, competing directly with banks as opposed to supporting the formation of the housing stock. And they moved from insuring loans into making loans into buying mortgage-backed securities. And that really distorted the market, and they had no motivation to stand in the path of a market that was overheated.

In direct contrast, Canada Mortgage Corporation has a public policy objective of supporting the formation of the housing stock, allowing people to enter the housing market for the first time with high ratio mortgages but with very sound underwriting characteristics. I think that just the underwriting of loans has been stronger through the piece, but the fact that from a government intervention perspective, the brakes have gone on as opposed to continuing to encourage an overheated market.

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**Andre Hardy - RBC Capital Markets - Analyst**

But specific to construction of condos, what are some of the learnings that you had in the US that you could take up here to say, hey, here are some of the signs you need to watch before we start having problems (multiple speakers)?

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**Bill Downe - President & CEO, BMO Financial Group**

Well, in the US, we didn't have a condo-specific issue in the market. Condos actually form a smaller portion of the housing stock. What we found in our US builder-developer book was companies that had been in business for 40 or 50 years with

very stable management who had survived previous down cycles simply couldn't withstand the drop in housing prices that occurred. And that really affected our thinking in 2011 and 2012 in Canada as we restricted our commercial real estate lending.

So we paid close attention to the experience that we had in 2007 and 2008, because that's when we saw the emergence in the US. And that's really what influenced our thinking in 2011 and 2012. And our exposure to the condo market in Canada is modest in terms of the construction side; I think there's less than \$700 million in loans. That's not an accident. We did take note of what happened in the construction market in the US.

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**Andre Hardy - RBC *Capital Markets* - Analyst**

Well, Bill, thank you very much for your time, as usual.

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**Bill Downe - President & CEO, BMO Financial Group**

Great, alright, thanks.