## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**John Aiken** *Barclays PLC, Research Division - Director and Senior Analyst*

## QUESTIONS AND ANSWERS

**John Aiken** ***Barclays PLC, Research Division - Director and Senior Analyst***
Okay, ladies and gentlemen, I think we'll start our next session. As I mentioned to Tom, he's a veteran of our conference. Tom Flynn is the Chief Financial Officer at BMO Financial Group. Tom, thank you very much for attending.

---

**Thomas E. Flynn** ***Bank of Montreal - CFO***
Always good to be here.

---

**John Aiken** ***Barclays PLC, Research Division - Director and Senior Analyst***
I've been asked to tell you that Tom Flynn's comments today may include forward-looking statements. Actual results could differ materially from forecast projections or conclusions in these statements. Listeners can find additional details in the public filings of BMO Financial Group.

I was hoping that you could start off by just giving us an overview of Bank of Montreal's strategy, how it's evolved and where you think the bank is heading.

---

**Thomas E. Flynn** ***Bank of Montreal - CFO***
So on the strategy, I'll start just very briefly by describing our business, and then I'll go into our strategy. We view ourselves as a North American bank. Roughly 75% of our business is in Canada, and the balance in the U.S. And we have a small non-North American business. But the lion's share of the business is in North America.

And then from a business mix perspective, our Canadian Personal and Commercial banking business represents around 40% of the total group - and these are round numbers - and then our three other operating groups, Capital Markets, U.S. banking and Wealth, each represent around 20%. And so we've got what we view as very good diversification across our different business units. And that provides we think, a more resilient and robust revenue and income stream through time.

Looking at the strategy, our approach to Canada is basically to do all of the good business that we can do. So we're open for business every day across Capital Markets, Wealth and banking. We have good share positions, in particular in commercial banking in Canada, where we're number two with a 19% share. And we continue to focus on growing that business and have had good growth over the year-to-date with 8% loan growth in our most recent quarter.

Our wealth business is strong in Canada as well, stronger than our average personal banking share position from a share perspective. We've had strong performance in the business through the year. And I'm happy to talk about that later.

And then in the U.S., the focus is a little different in that we're more focused than in Canada, where we cover the whole market. In the U.S., our largest business is U.S. banking, represents around 20% of the total group. We're headquartered in Chicago. We've grown that business through time, both organically and through acquisitions. And over time, we would expect to continue to grow that part of the bank. And we'd expect the U.S. business to grow at a higher rate than Canada, which as much as anything is a reflection of the concentrated share positions that we've got in Canada and the greater opportunity for growth from a share perspective that exists in the U.S.
We have invested in our U.S. Capital Markets business over the last five years. We've done that both to

create additional growth in that business and also to make our capital markets business more relevant to our Canadian institutional and corporate clients because they all do business in the U.S. And that business has had good traction. Net income for the year-to-date is actually higher than income for the total year in each of 2015 and 2016. So we've invested in the business. We expect it to drive higher profit growth in the U.S. business and in capital markets overall. And we've seen that coming through over the last year and a half and feel good about that.

And then in wealth in the U.S., we have a focus in private banking and asset management, both good businesses. We make around $100 million a year in that business. And we would expect to continue to grow it as well over time.

---

**John Aiken** ***Barclays PLC, Research Division - Director and Senior Analyst***
Fantastic. Tom, BMO and its peers have consistently talked about residential mortgage housing as not being a key risk. And of course, I'm on side as a homeowner. But I was wondering if you could describe, what are the key risks that Bank of Montreal is facing today, because if we run down the list, domestic operations are performing well. Credit quality on both sides of the border are benign. We saw a touch of a slowdown in Capital Markets, but nothing disastrous. Are we in an exceptionally good operating environment for the banks these days?

---

**Thomas E. Flynn** ***Bank of Montreal - CFO***
Well, it feels like we're in a stable operating environment, which is actually a good and a welcome thing. So we expect growth in Canada at about 3% this year, 2% next year. The U.S. we think will grow at around 2% in both years. And so we've got good solid new normal growth. Interest rates are low. They've moved up a bit, but they're still very low. And so we don't see any pressure from an interest rate perspective. And so as we look forward, we expect the operating environment to be benign. We don't see any imminent threats to that. And the risk is probably more skewed towards some kind of event risk, which none of us have the ability to predict. And we feel good about the core operations of the bank, and aren't feeling vulnerable from a credit perspective in the environment. And our minds are open to the potential for there to be some sort of an event risk event. And if that occurs, again, we'd go back to the robust nature of the business mix and the revenue streams that come off of it, which we think provides us with a good defense against whatever opportunity we face.

---

**John Aiken** ***Barclays PLC, Research Division - Director and Senior Analyst***
Fantastic. You'd mentioned in the preamble the U.S. business. And over the past little while, you've done some acquisitions, including M&I, GE Transportation Finance. You really have consciously increased your exposure to the U.S. How do you see the market evolving over the next three to five years in terms of competitive pressures, pricing, even credit quality on that line of business?

---

**Thomas E. Flynn** ***Bank of Montreal - CFO***
We have grown the business over time, as you say. We basically doubled our U.S. Personal and Commercial banking business with the acquisition of M&I, which closed in the middle of 2011. And we feel good about that acquisition. We contracted for the acquisition in December 2010 at value levels that proved to be favourable, given the recovery that took place after that event. And the doubling of the business gave us more scale and critical mass in our markets. And so we've got a stronger platform by virtue of having made that investment. The Transportation Finance acquisition, which we bought from GE, closed around a year and a half ago. That was a good commercial extension for us. Our business is dominated by the commercial part of the business. It represents close to 75% of our total loan portfolio. And so being able to add the GE portfolio was a nice extension. And it's a strong business. They're number two in their market. They've got good leadership. And both the management team and the

customers have stayed through the transition. So we feel good about how we've moved our business forward through those two transactions.

I'd say right now the number one focus from a growth perspective is on organic growth. And we do think we will be able to continue to grow our business organically. We've produced very strong growth in commercial lending over the last three years. The growth was solidly double digit in the last three-ish years. And year-to-date in the last quarter, we were up 5% year-over-year in commercial banking, 8% quarter-over-quarter if you annualize the numbers. And so those numbers are down from what we've done through time, but that slowdown really reflects I think something that was seen more broadly in the U.S. market in the first half of the year. And it does feel now like people are getting on with business, and our quarter-over-quarter numbers we think were a reflection of that. So looking out, we're focused firstly on organic growth where we've got opportunities to expand.

In the commercial business, our focus is principally on the upper Midwest where our branch network is, but we have been adding people to a number of cities across a broader footprint in the U.S., basically bringing our capability to a larger market. And with that, we think we'll be able to grow at a nice rate. And as well, we're looking to take some of our industry specialization and focus more national. And so in addition to growing in footprint where we do think we've got room to continue to grow, we're expanding selectively outside of it in a few places that we think make sense.

---

**John Aiken** ***Barclays PLC, Research Division - Director and Senior Analyst***
And you had actually mentioned Wealth Management, which I'm now going to bring higher up on my list of questions because it's very interesting that I don't think Bank of Montreal gets enough credit for Wealth Management. Like you said, domestically, you're hitting above your weight against the natural retail side of the business as well as the strength of the business in the U.S. So can you talk about what you have accomplished and, again, where you think growth might be coming from?

---

**Thomas E. Flynn** ***Bank of Montreal - CFO***
I'd love to. And we actually share that view that we think the wealth business is a little underappreciated. It's been a great business for us. It's grown faster than the bank overall for the last five years or 10 years. And year-to-date, our income growth, again, is solidly double digits. I think the number is 15-ish percent. It was 17% in traditional wealth in the most recent quarter. And the business is doing really well for this year, given normal organic growth, pretty good markets overall and then as well a focus that we've had on efficiency in the business over the last year. And that's really driven the operating leverage that we've had. Those efficiency benefits are in part coming from the asset management part of the business where we've rationalized our asset management teams to create centres of excellence across our platform. In asset management, we've got businesses in Europe through the acquisition of F&C Asset Management, which we bought about three years ago, in Chicago and in Toronto. And we've gone through an exercise of basically optimizing and rationalizing the asset management capability, taking out costs through that, we think not at the expense of future revenue growth or sales. And it's contributed nicely to the operating leverage in the business.

We've also done we think a pretty good job at innovating and moving with the market in Wealth Management. So as an example of that, we're the number two ETF player in the Canadian market, the number one bank in ETFs by a wide margin. And we're number one in ETF sales. And we have about a 30% share position. So a number of years ago, five-plus years ago, we sat back, established the belief that ETFs would grow as an asset class, recognized that the fees are lower than in most of our other products, but at the same time thought that it was an asset class that was here to stay, and we wanted to participate. And so we entered the market early and have done very well with that.

Another example is a robo-like product that we've introduced over the last year or so, again the first bank to enter that part of the wealth space. And we like that product in part because it serves a part of the market. And philosophically, in wealth in Canada, we want to serve the market, and we're happy to do business the way our customers want to do business. And in the robo-like product, our value proposition to the client is very different from the value proposition with, say, a full-service brokerage relationship. And the price point is in the order of half for the robo-like product, but the margins are actually not that different because, in full-service brokerage, the higher price point you have pays for the service you get from your advisor. And that advisor provides service and is paid for it through the cost line. So the value proposition for the client is very different from a price point perspective, but our net margins are actually not that different. And to me, it's a great example of, number one, innovating and evolving with the market, but number two, doing business in a new and different way at a different price point to appeal to a part of the market, but not really at a significantly different net margin, which is at the end of the day what matters to us.

---

**John Aiken** ***Barclays PLC, Research Division - Director and Senior Analyst***
That's a real interesting point, Tom, because how scalable then is the robo side of the business that, if, say, you were to double the business, would you actually have expansion on the margins?

---

**Thomas E. Flynn** ***Bank of Montreal - CFO***
It's very scalable. I'm struggling with how to answer that question because I say that this was one of the best business cases I've ever seen because it's largely a fixed cost technology base and then marketing spend. Those are your two expenses. And the technology, in part because we had the ETF products, was quite inexpensive for us to build. And we have an underlying technology architecture that allowed us to set the product up in an efficient way. The underlying assets are in ETFs, and we've got the ETF family. So the infrastructure's very scalable. And the discretionary expense is really the marketing, which you can toggle up or down, depending on what you want to do. The margin doesn't expand massively because it's pretty high to begin with.

---

**John Aiken** ***Barclays PLC, Research Division - Director and Senior Analyst***
Okay. Well, before we throw it out to the audience, can we start with the first polling question? I think we may have just skewed the answer on this one. What's the most undervalued aspect of BMO's operations, U.S. business, domestic retail, Capital Markets, Wealth Management, North American commercial banking?

----------

The domestic retail. Yes, I guess, you did talk about wealth management. The domestic retail operations, I guess, can you talk about -- we've seen some strong growth, but what's the relative advantage that BMO has against the big six?

---

**Thomas E. Flynn** ***Bank of Montreal - CFO***
So our domestic retail business, which we call Personal and Commercial banking, represents around 45% of the bank's income. And by mix, we're somewhat underweight personal lending products. So we have on average a 10% to 12% share position in personal lending products, and we're overweight commercial banking, where we're number two in the market again with about a 19% share position. So we're sort of defined by a strength in commercial, and we're happy to be thought of in that way because we do think that the commercial side of the business will have better growth over the next three to five years, given our economic view and also given consumer leverage in Canada. We've got a good strong, stable and well-underwritten personal business, but consumer leverage has grown over the last 5 to 10 years. And with

that, we think the balances will grow at something like nominal GDP over the next three to five years. And we expect more than that in commercial lending. Given our business mix, we think that should help us drive stronger growth. In the commercial space, we've had strong share positions for a long period of time. We have good industry specialization. We have a team-based approach to serving our clients. And so we feel good about our ability to defend our position and fight to take share. And the business is well-diversified.

On the personal side of the business, it's well diversified across product categories. We are investing in technology. We've had good adoption rates for new technology, and we've been both investing in technology in ways that introduce client-facing apps so that it's easier for people to do business with us, but also investing in our underlying technology architecture, which will make it easier for us to innovate through time, we think, because we've designed the underlying architecture in a way that allows you to drop new products and features onto it at lower cost because you need to connect new things to fewer parts of the existing system. So we think we're in a good place from a technology perspective. And our brand and go-to-market approach is based on providing advice and, quote, “being here to help”. So we have a relationship-based client-focused approach to the market, which we do think serves us well.

And I guess last point I'd make is the Canadian banking business is a really great business. It's highly profitable, the ROEs are strong, it's resilient through time. People wondered how we'd perform as an industry through the little bit of pressure we had around oil and gas. And we motored through that. And the diversification of the business we think is a source of strength for us.

---

**John Aiken** ***Barclays PLC, Research Division - Director and Senior Analyst***
Great. At this stage, do we have any questions from the audience? Can we grab a mic down to the front, please?

---

**Unidentified Audience Participant**
Just as outside analysts looking at the U.S. business, your efficiency ratio in the U.S. is higher than your Canadian ratio. And trying to understand the platform. How do you visualize it, in terms of asset growth and metrics that we can kind of track your progress in the U.S.?

---

**Thomas E. Flynn** ***Bank of Montreal - CFO***
Okay. Sure. So I guess two points, the efficiency is higher in the U.S. banking business than the Canadian banking business. Some of that does reflect the attractive features of the Canadian banking industry. So we don't think that the U.S. returns or efficiency will move to Canada, just because the Canadian market has a good structure and is very attractive. In the U.S., the Personal and Commercial banking business is operating with an efficiency around 60%. And we have moved that down through time, including with the acquisition of M&I, which did give us additional scale in the business. And we're focused on moving it down by growing revenue and managing expenses.

If you look at our expense growth over the last three years, we've been running at the low single-digit level. And you need to take out the impact of Transportation Finance last year, which added about 15% to the revenues and expenses of the P&C U.S. business. And when you do that year-to-date and last two years before that, running at the low single-digit level, so managing expenses in a disciplined way.

And on the revenue side, I'll split it between commercial and personal. Commercial, year-to-date our loans are up 5%. The revenue growth has been somewhat lower because we have had a pretty competitive environment in commercial loan pricing in the US. We're hopeful that we're into the late innings of that. We actually think we are, but time will tell if that's the case. And looking forward over the next year / year and a bit, we'd expect growth on the commercial side sort of in the upper single digits, so 7%, 8% kind of thing for commercial loan growth. And that's based on the belief that the economy will continue to grow. And we think, at that level, we'll be doing relatively well.

Our personal business has had a slight decline in loans over the last couple of years. It's, again, the smaller part of the portfolio, representing around 25% of our total U.S. loan portfolio. Some of that reflects the environment. Aggregate U.S. consumer credit growth, as you would know, has been pretty low, and we've had some declines in some higher risk parts of the portfolio and in our HELOC portfolio, where we've got a balloon structure that's sort of working through its tail. So I would hope that we'll see some modest growth in the mortgage portfolio over the next year. And in the HELOC portfolio, I think we'll have a little bit of continued decline for the next year, and then we should stabilize and start to grow, so relatively modest growth on the personal side for the next year, in part just as we finish working through a re-underwriting of the HELOC portfolio and then modest growth.

When you look at our consolidated loans in the U.S., they do reflect a Q1 sale of a part of our indirect auto portfolio. And that portfolio is a lower return, lower spread portfolio. And so we sold about $2 billion of loans in the first quarter as part of our funding strategy for the GE Transportation Finance acquisition. And we basically traded out of a low-return, low-spread asset into a higher spread, higher return asset. And so that does impact the total year-over-year growth numbers that you see in the portfolio.

---

**Unidentified Audience Participant**
A trend on the calls maybe about 18 months ago to two years ago in Canada was this digitalization or investing in digital in Canada. The last quarter, I think you had a little bit of negative operating leverage in Canada, negative 2% or something like that. What was that? What is that related to specifically, and where are you in this investment cycle in Canada?

---

**Thomas E. Flynn *Bank of Montreal - CFO***
Yes, so I'll give the consolidated bank numbers and then the Canadian banking numbers just to get them out. So for the year-to-date, our operating leverage for the bank is above 3%. That includes the benefit of some asset sales. And if you take those out, we're at about 1.7% consolidated bank year-to-date. And we were about 2% last year. So we have been both investing in the business and driving positive operating leverage.

In the Canadian banking business, for this year, operating leverage has been modest. We were slightly negative in Q2. We were actually positive slightly in Q3 in Canadian banking. And we expect to have positive operating leverage in the fourth quarter and into next year, but relatively modest, so below our total bank 2% level. And that reflects really running a balance of looking to again manage expenses in a reasonable way, which means focusing on efficiency and believing that we need to continue investing in technology, which we have been doing. And so as we look at the total bank numbers, we stay focused on our 2% target. We're looking to basically offset what has been a higher level of tech investment through finding efficiencies in other ways. And as part of that, over the last three years, we've taken a couple of restructuring charges, one about two years ago and then one a year before that. And those restructuring charges reflect work going on across the organization to lean out management structures where we can, to move resources to where they've got the highest opportunity and also to reflect the fact that, in places, we're displacing labour with technology. And I would expect all of that work to continue as we go forward. And I think you asked, where are we in this investment cycle? I'd say it's hard to tell because the technology continues to change. We think we're doing a good job changing with the market. And as you look ahead, it's clear that there are more opportunities for us to continue to introduce technology into the business. And we think that drives good customer loyalty and also good economics through time. And we want to do that while, at the same time, keeping positive operating leverage.

---

**John Aiken** ***Barclays PLC, Research Division - Director and Senior Analyst***
Tom, when you're looking at the investments that BMO's making in technology and trying to advance the customer experience, does the bank view this as table stakes, or do you view this actually as a competitive advantage that may be sustainable over certain period of time?

---

**Thomas E. Flynn** ***Bank of Montreal - CFO***
Yes, so it's absolutely table stakes. Like you need to be in the game is our view, and you need to be competitive and to invest in order for that to be the case. And in terms of whether you can drive a competitive advantage, as a finance person, I would say I sometimes probe on how exactly we will do that in a world where our competitors are investing as well. So from a client-facing app perspective, or if you look at the utility package that clients interface with, I think it's pretty hard to drive sustained competitive advantage because everyone tracks what everyone does, and you look to keep up and to be offering your clients a really good product and service.

Where I do think we've got a competitive advantage is in the infrastructure. And this is a harder thing to describe and a harder thing still for people to see. But I alluded earlier to how we've been investing in making our underlying technology architecture more efficient and kind of elegantly designed. And we've invested a lot in aggregating our data. And some of the work that we've done in those areas we did off the back of regulatory requirements, where you needed to aggregate data for regulatory reasons. And we invested incrementally by an amount to do a broader job and pull our data together so that we're with that better able to drive sales leads through automated prompts that go to our individuals who are interfacing with customers in real time.

And so I do think that we've got an advantage on the underlying tech infrastructure side related to system design, which again lets you introduce new things at lower cost and more quickly. And in a bank that's been around for 200 years, it often costs more to connect a new application to these systems than to build the application functionality itself because the architecture is complicated. And so having a more elegantly designed infrastructure we think is a powerful thing. And the data we do think is helping us and will continue to.

---

**John Aiken** ***Barclays PLC, Research Division - Director and Senior Analyst***
That's great. We'll let you have another drink break. Can we cue up the second polling question, please? How do you think the Canadian bank operations perform against their U.S. peers over the next 12 months, significant outperform, modestly outperform, in line, modestly underperform, significantly underperform? You can choose Canadian dollar or U.S. dollar terms.

That's interesting, a little bit skewed to the positive side.

It's funny. I think that this is more my job than it is yours, but if we had polled this at the beginning of the year, it would've been drastically different I think, but we've seen some changes in expected policy from both governments. And we've seen the Fed not be as aggressive as people had originally anticipated. And we've actually seen some pretty hawkish -- well, reasonably hawkish moves by the Bank of Canada. Do you mind commenting on the impact of the Canadian rate hikes and the -- I guess the potential impact of the lack of Fed moves on your U.S. operations?

---

**Thomas E. Flynn** ***Bank of Montreal - CFO***
Sure. So I'll do that. We do think the Fed will move, although maybe not as quickly as we and others

thought six months ago. On the move that we had by the Bank of Canada by 25 basis points, that should drive revenue in the order of $35 million over the next year for our Canadian business. And that's spread over both the banking business and the Wealth Management business. Wealth benefits basically because we have clients with excess cash sitting in brokerage accounts and private banking accounts, and those deposits aren't particularly rate sensitive. We're earning more on the float at the current time. So that's roughly the benefit from the move in Canada. And as you know, all of the comments people make about rate sensitivity involve many, many assumptions about how markets reprice and how consumers behave. And so there's a degree of uncertainty that necessarily goes with the subject matter, and that is why you had your well-timed comment at the beginning.

On the U.S. side, we have benefited from the moves that have occurred, which is great. The benefits are in our run rate. We have fortunately kept more of the benefit than we thought we might. So the industry in the U.S. has really been quite disciplined, which we do think makes sense, given the low level rates are at and the ROEs in the industry. And we're hopeful that we will have some additional moves out of the Fed as we go through the next year, timing obviously a little bit up in the air, and things aren't looking quite as bullish as they were six months ago.

---

**John Aiken** ***Barclays PLC, Research Division - Director and Senior Analyst***
We'll open it up. Do we have any questions from the audience?

---

**Unidentified Audience Participant**
Just interested in your comments on the NAFTA renegotiations. And are you worried about that at all in terms of putting the Canadian economy at a disadvantage, given the huge trade flows between the USA and Canada?

---

**Thomas E. Flynn** ***Bank of Montreal - CFO***
I would say we're optimistic that the negotiations will lead to a good outcome for the North American economies. And the key point to us is that the Canada-U.S. trade relationship is a very balanced one. So it's not skewed significantly from an import-export perspective for either Canada's benefit or the U.S. benefit. And with that, we think both economies are benefiting from the good things that come from trade, and it's balanced. And given that balance, it's a two-way relationship. Canada represents the largest export market for 30-plus U.S. states, so we're a big important market for those states, the biggest single market outside of the U.S. And similarly, Canadian provinces, Canadian companies have an important relationship in the U.S. And so we think, given the balanced nature of the trade, the good things that do flow with a balanced relationship, given trade, we should have an outcome that isn't high impact for the Canadian economy.

I would say, if you go back three or six months ago, we had a little bit of concern about whether the uncertainty about how NAFTA would play out, about whether that uncertainty could cause a bit of a pause in activity on the corporate and commercial side in Canada. And we have not seen that. And as you probably know, the most recent economic numbers out of Canada have been better than people expected. And our commercial loan growth continues to be good. It was running at 8% year-over-year. And so we were more worried about a little bit of a short-term pause than the long-term outcome of the negotiations. And it looks like even that worry isn't playing out.

---

**John Aiken** ***Barclays PLC, Research Division - Director and Senior Analyst***
Tom, the question that I'm going to ask you is on the domestic credit card portfolio because you're reasonably agnostic in terms of the changes coming along with Air Canada breaking away from its loyalty program. Can you tell me what you're seeing in the credit card portfolio and whether or not you see this

disruption as anything that may be a significant advantage for you?

**Thomas E. Flynn** ***Bank of Montreal - CFO***
Sure. So our credit card portfolio is around $8 billion in size. We have different cards that appeal to different parts of the market. Our largest card is called an Air Miles card - we have a loyalty relationship with the firm called Air Miles. They run the largest loyalty program in Canada, and we're the exclusive Canadian bank partner to that program. So we're happy with our program. It's got a great acceptance rate in the Canadian market. It's been a good relationship for us and for Air Miles through time. And I'd say our focus is more on just continuing to drive the organic growth in that business across the suite of products we've got, again, because different people like different loyalty programs. Our largest program is the Air Miles, but we also have a more upper-market World Elite MasterCard, which is a very good product offering, and we have some cashback cards. And if there is a transfer of a portfolio, our expectation would be that you'd have some number of clients sort of up for play or up for grabs and in play for a period of time as they have an active decision to make around whether or not they want to switch branded credit cards. And so in the past, when that's occurred, we've upped our marketing into that market opportunity to look to take advantage of it. And I would expect our reaction here would be the same.

**John Aiken** ***Barclays PLC, Research Division - Director and Senior Analyst***
Great. We're under the five-minute mark. Is there any final question from the audience? No? Then I'll take the opportunity, Tom, in terms of capital. We've seen the Canadian banking group now moderating to a range, call it around 10.5%-11%. As CFO, what's your personal view on comfort level for capital ratios that will encompass not only the ongoing business risk, but also the potential for regulatory change that may or may not be coming down the pipeline?

**Thomas E. Flynn** ***Bank of Montreal - CFO***
So I guess first thing is we feel good about our capital position. We were at 11.2% in the quarter. We bought back 4 million shares last quarter, so we're active with the buyback program, given the strength of the ratio. And at 11.2%, we think we've got capital for acquisitions. And we do think it makes sense to have a capital level that is strong and allows us to complete acquisitions of a decent size without raising capital. And we've done that through time. And so ordinary course away from a transaction, I think we'd expect to be running above 10.5%. And if we did a transaction, I think we could take the ratio down somewhat below that level, but we would look to remain above 10%. Our pattern has been that we run with the level of capital, again, that provides the ability to do acquisitions. We then draw the ratio down, which we did with GE, we did before that with the F&C acquisition. At the time we did the GE transaction, we said we would bring the ratio down to about 9.9%. And I think, if we were doing a similar transaction today, we'd say around 10%. So maybe you're erring on the upper side of 10% versus the lower side. But still, we've got meaningful room to move the bank forward with acquisitions if we want. And that would go with an assumption that we would build the capital ratio back up through time. And ordinary course away from that sort of accordion build, we would expect to run above 10.5%.

**John Aiken** ***Barclays PLC, Research Division - Director and Senior Analyst***
And then in terms of acquisition, what's the focus in terms of priorities for businesses?

**Thomas E. Flynn** ***Bank of Montreal - CFO***
Well, in Canada, the business is quite concentrated across our different products, as you would know, and so there isn't that much to buy. And with that, our focus has been mainly on the U.S. We happen to agree with your audience when we think about relative valuation. And at present, U.S. banks, which we do continue to look at from a growth opportunity as we have through time, have relatively high multiples

compared to Canadians. That we think is based on some assumption about higher interest rates, lower taxes, lower regulation and maybe better economic growth. And so we think the earnings will grow into the stocks or not, but the relative gap between Canadian and U.S. banks will narrow over not too long a period of time. And that would make U.S. M&A a little more attractive.

We have grown the wealth business through time through acquisition, and we continue to look there. And again, the wealth business represents about 20% of our net income. It's had good growth, it's well-managed. We're happy with the acquisition of F&C. And so we would look there as well in the personal wealth or high net worth space and potentially for add-ons in our asset management business that make sense.

---

**John Aiken *Barclays PLC, Research Division - Director and Senior Analyst***
Great. Well, Tom, we'll leave it there. Thank you very much.

---

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

---