BMO Financial Group

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We caution that the foregoing list is not exhaustive of all possible factors. Other factors and risks could adversely affect our results. For more information, please see the discussion in the Risks That May Affect Future Results section on page 79 of BMO's 2018 Annual MD&A, and the sections related to credit and counterparty, market, insurance, liquidity and funding, operational, model, legal and regulatory, business, strategic, environmental and social, and reputation risk, in the Enterprise-Wide Risk Management section on page 87 of BMO's 2018 Annual MD&A, all of which outline certain key factors and risks that may affect our future results. Investors and others should carefully consider these factors and risks, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. We do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented, as well as our strategic priorities and objectives, and may not be appropriate for other purposes.

Material economic assumptions underlying the forward-looking statements contained in this document are set out in the Economic Developments and Outlook section on page 30 of BMO's Annual MD&A. 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 governments, historical relationships between economic and financial variables, 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 as well as the rationale for their use can be found on page 5 of BMO's Fourth Quarter 2018 Earnings Release and on page 27 of BMO's 2018 Annual MD&A 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, 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, decrease (increase) in collective allowance for credit losses, 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 plan.

Bank of Montreal provides supplemental information on combined business segments to facilitate comparisons to peers.restructuring costs and revaluation of U.S. net deferred tax asset as a result of U.S. tax reform.

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

PRESENTATION

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

Thanks for joining us today. I'm going to start with a similar question as I started with Dave, which is significant market volatility in the end of 2018, maybe you can touch on the impact, if any, for your company on 2019 and how we should think about that for your stock.

Darryl White - Bank of Montreal - CEO & Director

Well I can see why you asked both of us the question. It will be the question du jour I'm sure. When you look at the volatility I think it's a very tricky question to dissect at this point in time, because when you look at the volatility in the markets everybody here's an astute student of it. It began in early October and here we are going on a few months now with pretty significant volatility in all asset classes, so were looking across not just equities but all asset classes, and when I look at the attempt to dissect what's behind it most investors tell me that it's a reaction to 10 years of expansion and late cycle and the world is profoundly slowing down and changing. And when you look at some of the macro factors you can understand how that conclusion arrives and if you consider geopolitical factors, if you consider trade tensions, if you consider some emerging market hiccups, and then, of course, everything that we've got going on domestically. You can see how you get there from a macro conclusion perspective, but the question that's harder to get to is the connect between that and the underlying real economy.

One of the great benefits of working at a universal bank is you have a diverse set of businesses and you can see the impact in different ways to different client sets and segments. So if we look at our client segments here in the capital markets area or in the wealth area, I think you know what the conclusions are, that it's a difficult period, and as a consequence there's no question that there will be some revenue softening in those businesses. The question there though is for how long. We've seen this before, we've seen dislocations before, people forget. I've looked at periods of volatility that were in fact more significant than this. Perhaps not as prolonged, but this isn't particularly prolonged, I don't think we should worry too much about it in the long run. I think there's a short run question here with respect to the volatility and the impact to businesses, but you have to look particularly there at what I will call the market-exposed businesses, the wealth businesses or the capital markets businesses, and we've seen time and time again that those businesses will recover as quickly as they are impacted. So from a medium-term perspective, I'm not really concerned.

And then I would say a meaningful juxtaposition to what we're seeing with our clients in the underlying real economy. So effectively, and the dissection is not this simple as you all know. But if you look closely at the behaviour of the customer in the personal business and the small business segment in the commercial business, the environment remains very good. The underlying performance of those companies that we deal with is very good. Credit quality is not being affected to any extent as we look at it today. And spending patterns continue and unemployment continues to decline. So there is a real dichotomy in my mind, and I would say what I've just said in both Canada and in the U.S. So when I talk to investors, and you talk to investors, you start with that comment I made at the beginning of my response, which is - well the world is slowing down - and I think what the markets are having trouble interpreting, understandably so is - well, is the world slowing down to a dead halt or is it slowing down to something that is just in fact a little bit slower than it was last year. And our forecast for U.S. GDP growth this year is 2.4%. Is that slower than it was last year? Yes, it is, but it's also higher than it was in 2017. And in fact, it's higher than most years since the global financial crisis. So when we look at the impact of that growth rate on - particularly, in our case in our underlying U.S. commercial business, for example, we're continuing to see good performance there. And so there is a real disconnect. You know that. I don't know exactly how it plays out, but you have to be very careful to look at the impact on the different business segments. And on the ones that are more impacted, you have to ask yourself the question on sustainability.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

And so one of the early impacts might be that interest rates don't rise? How important is that to you?

Darryl White - Bank of Montreal - CEO & Director

Not that important, because we're at a stage in the cycle where we're passing along more of the beta anyway, as you know. So we've said that if you look at our Canadian business for example, and our Canadian P&C business, if we had a rising rate environment, if you got a couple of rate increases in this year, we might see 1 to 2 basis points of NIM expansion per quarter. And if we don't, it might be, let's say, 0 or 1. So the impact is there, but I would say it's not that significant because of where we are in the cycle.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

You touched on commercial growth in the U.S., which is a big topic, and you've had an incredible year last year in the U.S. bank. Tax reform aside, it's still a very strong year in the U.S. business. Can you talk to what drove that? And what your expectations are for 2019, given what we just talked about with respect to rates and the strength of the U.S. economy and the 2.4% GDP?

Darryl White - Bank of Montreal - CEO & Director

In U.S. commercial, in particular?

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

Yes, please.

Darryl White - Bank of Montreal - CEO & Director

So thank you for putting it in perspective because we indeed did have a good year last year. Our U.S. earnings rose at a rate of about 26% last year, and now we've got 28% of our total bank earnings coming from the U.S. So underneath that what's driving it, and I think what you're getting at is my view on sustainability in the environment that we're now in. I'm very excited about this business and the performance that we've had in this business because if you unpack it -- many of you have paid close attention to this, others of you may be newer to it - you pointed out tax reform. That 26% growth rate that we had in the U.S. last year, if we strip away tax reform, we're still in the mid-to high teens in terms of our PPPT growth. That is a really good story. The question that ought to be answered is why is that happening? And how do we make sure that we continue that into the future? The reason that's happening is if you consider the business that we have in the U.S., which is not an experiment, it's a real commercial business that produces over $1 billion of NIAT at this stage and it's growing at the rate that we've just described. We've got our core footprint in the commercial business of 6 or 7 states in the Midwest and then we've got what we call our national franchises and our expansion. When I dissect and look at the new accounts that we took on last year, almost 2/3 of them are coming outside of the core Midwest footprint. So there is a national expansion, as it were, occurring. And what does that mean? It means good old-fashioned taking of market share in a really big and important market called the United States.

When I look at the market structure in the United States for commercial lending -- this is really important - we haven't talked about this a lot before. In commercial lending in the United States, the Fed data says there is about $4.3 trillion of loans outstanding. When I look at our businesses that are lending into their definition of that market, we have about, using round numbers, $75 billion of loans to that market, so a little less than 2% market share. Then you look at market structure in the U.S. About 25 banks occupy 50% of the market share and the other 50% is occupied by hundreds if not thousands of banks. And so then I say, well, where do we stack up in that hierarchy because it is important to have the expertise and the scale and the spend and the ability to get to market and compete with anybody. We're the seventh largest in that, so you've got the 4 bulge brackets. You got JP and Citi and Wells and BofA. And I think the other 2 that are ahead of us are PNC and UBS, and everybody else has a lower share of market than we do. And then I ask myself the question - how do I like that positioning? I love it, because it's very difficult for those 4 at the top to continue to grow at the rate that we've been growing, and it's very difficult if you're way down in that hierarchy to grow because they are not able to take share because they don't have the investment capabilities. So when I look at where we are, it feels to me like a sweet spot. And when I look at last year having outperformed the market in every quarter, it's not because the benefit of tax reform, it's not because we have crawled up the risk curve, the credit quality remains very consistent, the performance remains very good. And in my mind, there's no reason that we can't continue to accelerate our relative performance in that market going forward as we have in the past. Now if the economy slows down, we'll slow down with it, but the trajectory that we demonstrated is a result of great bankers taking share, not just riding the sales of an attractive market.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

Now some might argue you're taking share by pricing. So let's say, credit quality, no change. Can you talk to pricing spreads in the U.S. in the commercial lending? And speak to commercial real estate as well. I think -- it's something that I often get asked about in terms of your positioning.

Darryl White - Bank of Montreal - CEO & Director

Yes, good question. So pricing is not at the heart of our strategy. So if you look at the commercial banking business in the U.S., the heart of the strategy is the relationship business. Sometimes it's passed on over generations. It's a relationship where the banker is the first call on most of the activity that goes with respect to the client. And in many cases, it's a bilateral relationship. And so it's not a market share gain for pricing. The new customer acquisitions when we dissect it and we look at new customers versus existing customers, we don't see that we are attracting particularly on price. We are attracting on service and professionalism and delivery and the full product shelf that some of those smaller players that I talked about earlier can't get to. And you asked about CRE, and for us, I don't think CRE is the story. We've got growth in CRE for sure. But for us when we look across our books, Canada and the U.S., CRE is less than 25% of the bank. We've been arguably under share in CRE, so there has been a little bit of a catch up there, but we remain a little bit underweighted relative to the peer set. So it hasn't been the core focus of the growth strategy. If you look at the growth strategy, it's across segments, particularly in the U.S., it's across segments and it's really diversified.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

So my interpretation, it sounds like you're still excited on the U.S. in terms of the commercial side. Touch on the retail side, if you can, on the U.S. business? And we're seeing a bit of a turnaround. I hate to use that word, but maybe you can touch on your outlook for 2019 on the retail side?

Darryl White - Bank of Montreal - CEO & Director

You can use that word. We are seeing a turnaround. In fact, I would say 2018 was a turnaround year for us in the U.S. retail business. We started to emphasize our go-to-market strategy on deposits, in particular, our personal deposits including the broker channel we're up 9% last year. We've got an amazing franchise on the deposit side and we started to think hard about where we want to participate more versus less as opposed to on versus off, but more versus less on the lending side. So I think what you're seeing is more small business, a little less on the mortgage side. We're not pushing as hard as we would have there. It's very difficult to compete and have a profitable product in the mortgage and jumbo mortgage. But for our clients who are interested, we're there for them and we'll stand by them in that product. So you're seeing a bit of a shift in the mix on the lending side and a really attractive, aggressive push on the deposit side. And in the meantime -- and you wouldn't have seen the benefits of this yet - we relaunched our online banking platform in the fall of last year. So that's in the process of rollout right now and the early returns on that are really good. So when you break it down, the numbers are small in terms of the contribution to the whole, but they're positive and the turnaround is really attractive to us. And those deposits are really important by the way because otherwise, I can't fuel the commercial growth that I talked about 2 minutes ago.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

So let's switch gears and head back to Canada and think about the Canadian business here. We can dive into a bunch of different topics, but let's just start with overall results last year. In 2018, relative to peers, I think your revenues are a bit lighter than peers last year. And we typically see Bank of Montreal is really, in the Canada P&C space, as really being relatively smaller sort of exposures. What are your plans and aspirations for this segment in 2019? And specifically, maybe touch on the mortgage side of the business and then the commercial side?

Darryl White - Bank of Montreal - CEO & Director

Yes. So I think 2018 was an interesting year for us in the Canadian P&C business. And so a bit of a different story from our U.S. story because we've -- we spent 2018 really investing and you might have heard Cam talk about this yesterday, really investing in the business and making some decisions in terms of how we're going to accelerate, in particular, on digital. If you see the results now in terms of our digital sales and adoption, they're at or pretty close to the top of the charts in almost every category and then the returns do follow after that. You asked about the mortgage business. We don't participate as aggressively as some do, in particular, in the broker channel and third-party. That's a decision that we made 2 or 3 years ago and we haven't changed our view on that. The margins aren't where we'd like them to be. Unless the economics change, I don't think you'll see a pivot from us in that particular area.

But in the personal business overall in Canada, I think you'll see us this year accelerating our ability to take share in that business, in particular, because we're investing more heavily and we have invested in the digital agenda and now we're also investing more heavily in the front line agenda. So with respect to our front line staff, our sales, we're hiring aggressively and we're putting people in place to take advantage of the dual offering and meeting the client anywhere they want to be met. So I'm particularly excited about that and all of that leaves behind the market-leading positions that we continue to have in the commercial segment in Canada. We sometimes forget at Bank of Montreal to talk about the commercial segment in Canada because we talk so much about it in the U.S. and we talk about the personal in Canada. But for a bank of our size to have the #2 market share in commercial lending in Canada and having defended that against a pretty aggressive push by some of our competitors is also something that we're pretty proud of and I think that will continue as well.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

And what's the view on the commercial side in Canada? Again, the question is, its late cycle, is now the time to be growing this book aggressively? Do you refute that and just say, look, the economy is strong, we're the #2 player in commercial in Canada and it's just drive on and continue with double-digit growth in commercial in Canada?

Darryl White - Bank of Montreal - CEO & Director

Yes. I think you have to look at your credit quality. And when we look at the credit quality and the debt service ratios, we're not seeing a change in the book, for the time being. I think what might slow us down, Darko, if anything will, it would be that we have a concern on credit quality and we decided to tap the brakes. At this point, that's not our position. Despite the fact that we have a #2 market share in the country, there are still areas of opportunity. There are still areas that we're underpenetrated and those could be in some cases geographically, in other cases it could be in sectors where historically we haven't been pushing as hard as others. Technology, healthcare would be examples where we've got real investments and we're excited about growing in those areas. So at this stage, there isn't a change in strategy or our go-to-market thrust because the market is clearly in demand of the product and we're doing a good job with it without bending the credit curve.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

And pricing spreads in that business?

Darryl White - Bank of Montreal - CEO & Director

Pretty stable.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

Okay. And then maybe just switching gears then because you talked about credit quality just gently there. Last year was the first year under IFRS 9 and here we are today seeing some volatility. Perhaps, you're going to get economists lowering forecasts in Q1 and Q2 and going forward. So my initial thought was stage 1 and stage 2 losses will have to rise in 2019. What's your view on that? Do you think that starting in Q1, we should see higher provisions for credit losses just simply because of the economic outlook or is there something else fundamentally here that we should be thinking about?

Darryl White - Bank of Montreal - CEO & Director

I think you're going to have a very tricky time sorting out the answer to that question because, just being blunt, I think when you have a new accounting policy that takes effect and then it takes effect initially in a benign environment and then you start to see the disclosure in an environment that is, let's say, not so benign relative to the volatility question that we had earlier, I think it's really hard because then you're going to have your clients who are going to start looking at the performing. And I think there's a couple of challenges that will occur. In the case of the IFRS 9 guidance on performing, there's a lot of assumptions that go into what falls into performing and it could be anything from your assessment of volatility to credit migration to probability of recession to oil, and different institutions might have different inputs and they might have different weightings. And so you will end up with a comparability challenge and that challenge will be rectified over time, I think, because -- then you have a baseline from every institution and then you assume quarter after quarter after quarter they use the same judgments. I think you'll be able to look back and decide whether you want to use that as a forward-looking indicator of credit turn, but my caution would be -- my instinct tells me I would be pretty careful to not use what you'll see in the first quarter from the banks at large as a forward-looking indicator of credit because it's dropping unfortunately at a point in time where the assumptions are so variable and the assumptions may not be consistent from one place to the other. I would pay attention to it after you've got a few quarters in the book and see if there's variability, but I think it will be pretty hard out of the gate.

I would be more comfortable guiding people to continue paying attention to specifics because at the end of the day, you've got an accounting policy on performing that is not changing the ultimate outcome of any particular credit, right? It's an accounting policy. On specifics, you've got specific occurrences and you know exactly what's going on in the book. And on that, I'll take it as an opportunity to remind people one of the things that I worry a little bit less about than perhaps some, if we are getting later in the credit cycle, is we've done a lot of work on looking at our performance. And over the last 30-plus years, we've had a lower PCL on specifics than all of our peers. In fact, we've averaged about 39 basis points over that period of time, 30-plus years of data relative to a peer average that I think is about 53 or 55, and it's true in almost every single year. So if we are heading into a more difficult credit cycle in 6 months or 12 months or 18 months from now and I'm not saying we necessarily are, I feel pretty good about our ability to perform in that environment as well. I wouldn't get too distracted by IFRS 9 performing in the meantime.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

And that does open the door, to sort of a follow-on question, which is - excellent performance historically. We can't refute that. Function of underwriting mix perhaps, but IFRS 9 does sort of introduce the ability for a management team to create overlays. And so we can sit back and we can look at the management team and we say, aha, bank number one, looks like this management team is getting cautious and bank number two over here isn't looking so cautious going forward into 2019. Is that a fair way to think of it?

Darryl White - Bank of Montreal - CEO & Director

I can see why you would go there. The short answer is we'll see. I think your forensics would have to be so clear that you would have to be able to juxtapose bank 1 versus 2 versus 3 versus 4 and say what was your process to arrive at this conclusion on volatility? And this conclusion on credit migration? And this conclusion on recession risk or oil? And what was yours? And what was yours? And then how did you weight them one by one by one by one? Is that necessarily an indication that one was taking a more cautious view than another? I actually think it's going to be pretty hard, Darko, I'd say. I can see why people will focus on it, but I'd be cautious on it because I think it could be more of a distraction than it's worth.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

Fair enough. So switching gears. Overall, big theme from the last couple of years, especially with Bank of Montreal, given so much restructuring charges, has been efficiency, operating leverage, if you allow that term, as well as technology spend. It actually was very interesting last night at the tech demo. So maybe you can touch on tech spending, trying to be efficient going into 2019 and some of the levers you can pull and some of the levers that you can't pull to help get to your targeted earnings?

Darryl White - Bank of Montreal - CEO & Director

Yes. I think we've been really clear on this. We've said that this question is really core to our agenda. You've put the pieces together that matter. For us, the way those pieces add up, we looked at -- and I'll use your example of 2018. In 2018, we said we were going to increase our tech spend in the range of 10%. We increased it right around 10%, the year prior by the way it was about 13%. And so we did that. And in the meantime, over the course of the last 3 years, we've been committed to a medium-term target of 2% operating leverage. So how do you do that? The way you do that -- and by the way in 2016, we have 2% operating leverage. In 2017, we had 2% operating leverage. We fell a little bit short of that in 2018. But if it weren't for the market movements at the end of the year and some marks in our insurance book, we would have been darn close. So we're on the same trajectory going forward and we've committed our efficiency ratio to get to 58% by the end of 2021.

How you do that when you've increased your tech spend the way we have is the cost control everywhere else. So if you keep your overall costs -- our overall costs grew at a total bank constant currency level around 4% last year while our tech spend was at 10%. That means everything else is growing around 2% and that's a really important discipline. And in some cases, it's growing a lot higher than 2% because you're making investments. In other places, you have to make choices as a management team - that's what we're meant to do and that's the playbook going forward. So that's not going to change. If we have to make toggles to any of those as we go forward because the environment changes, we'll do that. But in a consistent constructive environment, that's what we're going to continue to do. And our commitment to shareholders was to get a $1 billion of productivity out by the end of our program. We're well on our way to doing that. We're on track and we'll be giving you updates as we go through the course of this year.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

It was interesting yesterday at the tech demo we had Brett here giving us some demonstrations. And then during that, there was an announcement of financial crimes unit being set up at your bank. Maybe you can touch on that? And why do we have that? And what are we supposed to think about that?

Darryl White - Bank of Montreal - CEO & Director

Yes. I'm actually pretty excited about this. I'm excited about financial crimes. The reason I'm excited about it is when we look back at what is most people would agree is probably the biggest threat to banks, to our bank, to the industry, if it's not #1, it's #2. If you look at anybody's disclosure, it's the evolution of the cyber threat. And if you look at the way financial institutions have been historically set up - we began studying this question in the middle of last year in the summer time and we had a view that we had to understand how the threat was evolving and how the institution was set up in order to capture the threat as it came along. And we made a decision that there was a mismatch. And I think, frankly, there's a bit of a mismatch in the industry and it will evolve as we go forward. And the mismatch is the following. If you consider how the threat evolves and you look at physical security, you look at cybersecurity and you look at fraud, you're seeing a complete migration where those are conflating from the perspective of the threat actors.

So 10 years ago, most fraud, probably 90% of fraud, was not cyber. Somebody figured out a way to get your credit card at the restaurant. Today, 90% of fraud is cyber. Physical security was something that was thought of just guards in branches. If you look at the world at large, physical security today meets cyber everywhere you go. The fires in California - insurance fraud because people are phishing for your information. People are scoping around north Toronto with devices that can get your key fob out of your kitchen without coming in the door and taking your car and driving away. So physical meets cyber, cyber meets fraud. Yet, when you look at the way the financial institutions are generally set up, you've got fraud over here, you've got physical over here and you've got cyber somewhere in the middle. And what you sometimes also have is internal fraud teams and external fraud teams as if they're 2 different things, because most of the time they're connected.

So what we said is, no, there has to be a unit that is combined and all 3 of those things are combined. So the core at the centre of it is cyber. We said, number one, cyber at the core. Number two, complete integration, so colocation, one team acting together. And number three, world-class leadership. And we went out and sought a fellow by the name of Larry Zelvin, who was the Director of Cybersecurity for Citibank and had built the fusion centres for the U.S. government in the White House. And he's starting with us on Monday to lead that unit that I've just described. So I'm pretty excited about it.

Nobody should ever stand up and say a financial institution is bulletproof because the threat is a global threat and it will continue to escalate every day. Our job to protect our customers. That's what this is all about is protecting our customers and the data is to make sure that we're responding to that threat with something that is world-class and that's what we're trying to build.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

Okay. Fair. And that would -- I mean, this sort of leads to -- over to the regulator. I mean, I'm not sure. We rarely hear from OSFI about cyber threats and we know they're present. We know they're in the background sort of watching over your shoulder. But we never really know what push or shove OSFI is giving you on the cyber side. But one thing we do see from OSFI is the pushing and shoving on the capital side. So we saw them increase the buffer by 25 basis points in December. And I'd just like your thoughts on the buffer whether or not it changes anything for Bank of Montreal and when would it change? For example, if they change it again in June, up or down, how does it change the way you approach managing your capital?

Darryl White - Bank of Montreal - CEO & Director

Well, first of all, I just want to say that the folks at OSFI do a good job with all of us on cyber. And I will say what we announced yesterday was not OSFI induced. It was entirely our initiative, which we're very proud of.

On the buffer, look, the short answer Darko is I don't see any impact in terms of how we manage the business. The distance between the buffer and how we look at our capital ratios and then how we look at allocation going forward, whether it be internal, external opportunities in terms of how we invest the capital, for the time being I would say no impact. I think this is a short story.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

And when does it impact your bank? How do you think you will react when you see OSFI reduce the buffer?

Darryl White - Bank of Montreal - CEO & Director

If we saw OSFI reduce the buffer, I also would say there'd be no impact because we wouldn't chase them down, just because there is a buffer at a lower level. We make our decisions as to where it's prudent to manage capital based on regulatory guidance, yes, but also where we think we should be allocating capital for shareholders and for clients. So I don't think it would make any difference either way.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

Which leads to the U.S. business, which we get a lot of questions on with respect to -- you've got great growth prospects. We talked about it earlier. Commercial and retail both turning in the U.S., but often the question goes back to, well, do you -- especially given the current market volatility and reduction in valuations, do you look at that as an opportunity to deploy capital in the U.S. and add on to your bank?

Darryl White - Bank of Montreal - CEO & Director

You're asking the M&A question?

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

Absolutely, in a covert way.

Darryl White - Bank of Montreal - CEO & Director

Look, I'm sorry, I'm going to bore you with the answer. We're always on alert and we look at opportunities, they come in. Valuations have really moved around a lot. If you look at the valuations, particularly in the U.S. market since before the presidential election, we all know what's happened. And then now we've seen a bit of a round-trip. So valuations are one part of the equation, but the bigger part of the equation has always been, and we have been consistent to say this, has been whether something is on strategy and whether there's a cultural fit and whether we can integrate. And we don't move at all and we certainly don't move very quickly if something doesn't check all of those boxes. So I would say there's nothing imminent at this point. We're always interested in looking at the acquisition file.

The acquisitions we've done, we've been very proud of. I wouldn't have undone anything that we've done in the U.S. If you look at the acquisition of Marshall & Ilsley, we doubled our branch plant, we were able to build the commercial franchise outside the Midwest that I talked about a moment ago. The acquisition of the Transportation Finance business in Dallas has been a great acquisition for us. So things like that, if they come along. But they have - I mean it when I say this, I don't mean to bore people - but they really do have to fit those criteria. When and if they do, we'll update you. But in the meantime, we carry on and the majority of the capital is allocated to organic growth.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

Okay. At this stage, I'm going to turn to some of the questions from the audience. First question that's been voted up is when should we expect annual restructuring charges to subside?

Darryl White - Bank of Montreal - CEO & Director

All right. I have to be consistent. I was asked this question at one of your competitors' conferences in the fall. And I'll say here what I said then, which is you should expect them to subside, but I won't go so far as to say never again. We've got a lot of work going on right now. We had some catch-up relative to our peers. I freely have admitted that with respect to our efficiency agenda, we've lagged our peers for too long, and we're investing in catch-up pretty aggressively right now. We may or may not come back for a restructuring charge. If we do, I think we'd be pretty close to saying you won't see this happen in a very long time. There's nothing imminent, but if we did, it would be in that context. And on that, I don't have much more to offer. That's what I've been on the record saying and that's what I'll be consistent with.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

So let's go to number two then. What areas in Canada does BMO feel it can more aggressively grow? Asset Management, mortgages, credit cards, et cetera?

Darryl White - Bank of Montreal - CEO & Director

If you look at the Canadian market, it is difficult to pick an asset class and say you can grow there when you're one of the big 4, big 5 banks because we all have high shares in almost all products. And I would say to you when we look at the asset management business as asked in the question that you just asked, we have over 20% market share in ETFs in Canada. We're going to try our best to grow that, but I can't say outsized growth relative to our competitors because we're #1 in the market. In the commercial business, we're #2 in the market. So could we increase our share faster than others in some of our personal lending businesses? I think we could. So that's an area that you could look to. And then in our Traditional Wealth Management, I think you can look at opportunities there as well because we've got fantastic opportunities. This question was raised in Canada. So if you look at our full service brokerage, if you look at our discount brokerage, if you look at our private banking offerings and then you look at the interlocks between them and you look at the interlocks between them and our commercial bank, what you conclude is they're great businesses. They don't have enough cross referral and they don't have enough opportunities as between them, and those teams are starting to work together like never before. And I'm pretty excited about that too. So I think you'll see us capture some share in Canada there as well. But as we all know, it's pretty hard to have step function share capture in the Canadian businesses when, to be fair to my competitors, everybody is pretty well equipped, but those would be some places, Darko, that we're leaning in.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

And just as I think about that question, you've come out with a goal of adding 1 million primary customers. So presumably, that would be like chequing -- the deposit side would be an area where...

Darryl White - Bank of Montreal - CEO & Director

Yes. So that goal -- I'm glad you recognized it as primary customers. I had somebody else ask me if they were 1 million commercial customers - that would be quite something. Yes, it's on the personal side. And if you think about that 1 million, somebody asked me - boy, that seems like an audacious goal. Well, there are about 2 million in play every year. In the personal business in Canada. That could be new Canadians; it could be new adults; it could be switchers from bank to bank. And we said 1 million over 5 years. So there's 10 million in play over the course of 5 years and we've said we want to capture that. We've got real defined strategies. It's not just a number that we've pulled out of the air. We've got our defense community that we're working really hard on. We've got bank at work and we've got new Canadians and our business in China is a great feeder stock to new Canadians, in particular. So when we look at the complement of skills where we differentiate relative to the marketplace relative to that million primary customer goal, I feel pretty good about it, I feel pretty confident.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

So I’ll turn it back over to you for some last key messages and thoughts for investors as we leave here today.

Darryl White - Bank of Montreal - CEO & Director

I guess I would finish back where we started, which is investors would be right to pay attention to the volatility in the markets. I think that what we’ll find as we look forward and we look into the medium term, is nothing we're seeing in the markets is changing the way we're managing our businesses. I'm excited about the platform. We've really invested over the last 2 to 3 years in the platform that we've got, in the talent that we've got and the technology that we've got. And what we talk about at our bank, and we started talking about in the middle of last year, you heard it at our Investor Day in the fourth quarter, is how do we accelerate that performance in many of our businesses. And we're continuing with that as a focus. The market overlay will be something that will have some impact, hopefully, short term. But in the medium to long term, I feel really good about the trajectory of our businesses and the strategy that we've set. And it's all about execution, really, it is. There isn't a new mouse trap here, it's about really good execution against that asset stack that I've talked about in every one of these meetings.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

All right. Thank you very much, Darryl, for your participation.