

**Bank of Montreal at RBC Canadian Bank CEO Conference  
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**CORPORATE PARTICIPANTS**

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**CONFERENCE CALL MODERATOR**

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**Caution Regarding Forward-Looking Statements**

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

Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbor" provisions of, and are intended to be forward-looking statements under, the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements in this document may include, but are not limited to, statements with respect to the bank's objectives and priorities for fiscal 2021 and beyond, its strategies or future actions, its targets, expectations for its financial condition or share price, the regulatory environment in which it operates and the results of or outlook for its operations or for the Canadian, U.S. and international economies, its response to the COVID-19 pandemic and its expected impact on the bank's business, operations, earnings, results, and financial performance and condition, as well as its impact on the bank's customers, competitors, reputation and trading exposures, and include statements of the bank's management. Forward-looking statements are typically identified by words such as "will", "would", "should", "believe", "expect", "anticipate", "project", "intend", "estimate", "plan", "goal", "target", "may" and "could."

By their nature, forward-looking statements require the bank to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that assumptions may not be correct, and that actual results may differ materially from such predictions, forecasts, conclusions or projections. The uncertainty created by the COVID-19 pandemic has heightened this risk given the increased challenge in making assumptions, predictions, forecasts, conclusions or projections. The bank cautions readers of this document not to place undue reliance on forward-looking statements, as a number of factors – many of which are beyond its control and the effects of which can be difficult to predict – could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

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The bank cautions that the foregoing list is not exhaustive of all possible factors. Other factors and risks could adversely affect the bank's results. For more information, please refer to the discussion in the Risks That May Affect Future Results section, and the sections related to credit and counterparty, market, insurance, liquidity and funding, operational, legal and regulatory, strategic, environmental and social, and reputation risk, in the Enterprise-Wide Risk Management section that starts on page 73 of BMO's 2020 Annual Report, all of which outline certain key factors and risks that may affect the bank's future results. Investors and others should carefully consider these factors and risks, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. The bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting shareholders in understanding the bank's financial position as at and for the periods ended on the dates presented, as well as its strategic priorities and objectives, and may not be appropriate for other purposes.

Material economic assumptions underlying the forward-looking statements contained in this document are set out in the Economic Developments and Outlook section on page 18 of BMO's 2020 Annual Report as well as in the Allowance for Credit Losses section on page 114 of BMO's 2020 Annual Report. Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on the bank's business, are material factors the bank considers when determining its strategic priorities, objectives and expectations for its business. In determining expectations for economic growth, the bank primarily considers historical economic data, past relationships between economic and financial variables, changes in government policies, and the risks to the domestic and global economy.

**Non-GAAP Measures**

Bank of Montreal uses both GAAP and non-GAAP measures to assess performance. Readers are cautioned that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies. Reconciliations of GAAP to non-GAAP measures, the rationale for their use, as well as the effects of changes in exchange rates on BMO's U.S. segment reported and adjusted results can be found on pages 6 and 7 of BMO's Fourth Quarter 2020 Earnings Release and on pages 17 and 23 of BMO's 2020 Annual Report, all of which are available on our website at [www.bmo.com/investorrelations](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; results and measures that exclude the impact of Canadian/U.S. dollar exchange rate movements (i.e. constant currency basis or CCY), adjusted net income, revenues, non-interest expenses, earnings per share, effective tax rate, ROE, efficiency ratio, pre-provision pre-tax earnings, and other adjusted measures which exclude the impact of certain items such as, acquisition integration costs, amortization of acquisition-related intangible assets, reinsurance adjustment, restructuring costs, revaluation of U.S. net deferred tax asset as a result of U.S. tax reform and the remeasurement of an employee benefit liability as a result of an amendment to the benefits plan. Bank of Montreal provides supplemental information on combined business segments to facilitate comparisons to peers.

**Darko Mihelic** – RBC Capital Markets, Research Division – MD & Equity Analyst

Welcome back, everyone, to the conference. We're now going to be joined by Darryl White, the CEO of Bank of Montreal. He's been the CEO since 2017. And before we begin, I've been asked to tell you that Darryl's comments today may include forward-looking statements. Actual results could differ materially from forecasts, projections or conclusions in these statements. Listeners can find additional details in the public filings of BMO Financial Group. Darryl, welcome to the conference.

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**Darryl White** – Bank of Montreal – CEO

Darko, thank you for having us. It's great to be here, and congratulations to you and your team for carrying on with the show.

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**Darko Mihelic** – RBC Capital Markets, Research Division – MD & Equity Analyst

Yes, it's a tough one in the virtual environment, but we'll get through it, I'm sure. I think in your case today, I think what we'll do is we'll start with credit quality. And my reason for going with credit quality is your bank actually gave pretty good guidance in Q4 on provisions for credit losses. And I thought maybe I'd start here and just ask, why did you think that you needed such good, strong guidance, what were you hoping to accomplish? And has anything changed in the last few weeks here with some of these lockdowns or anything to sort of knock you off of that PCL guidance? And do you think the street is well aware and comfortable with your guidance on PCLs? I think you said high 30s to low 40s. So over to you, Darryl, is the first question on credit quality and PCL guidance.

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**Darryl White** – Bank of Montreal – CEO

Thanks for the question, Darko. And yes, you're quite right, we did, it was our Chief Risk Officer, Pat, who described that outlook on credit quality. I think you're right. I think he said high 30s to low 40s. I think you asked the question, why did we come out and talk about it with that level of precision. The answer to that is actually pretty simple. We were of the view and had been for some months prior that the market was effectively not consistent in its expectations relative to our 30-year history, our current lived experience and most importantly, of course, our view of the future and our expectations. So when we see that sort of disconnect, we think we have a duty to clarify effectively. So that's what we're doing. And it wasn't new. You saw us pretty clearly talking about our outlook on credit, our Q3 earnings, we had an Investor Day in the fall where we had quite a bit of, I think, transparent disclosure on how we think about credit going forward. And then in Q4, we particularized that view, which by the way, was a view for 2021, I think, in its entirety.

So not particularly consistent with what we thought the market expected, but in line with what we saw. So I think the back half of your question though, you asked me, has anything changed since then. No, not really. I mean, as we sit here today, you have to sort of think about very near term and medium term. As I think about the very near term, Darko, next 2 to 4 months, I think there's a difficult period here ahead of us from the perspective of lockdowns, for sure.

But fundamentally, as we look out over the full year, we don't really see a change to that outlook. And in fact, in the near term, we might even see the outlook a little bit better than what we talked about in the fourth quarter because, frankly, we're just not seeing the impaired losses come in at the rate that people would have expected. So that trend of credit quality being better than expected continues. And in fact, it's even a little bit better than we had expected then.

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**Darko Mihelic** – RBC Capital Markets, Research Division – MD & Equity Analyst

And maybe you touched on something there with respect to impairments and gross impaired loans. And as a CEO of the bank, when you think about credit, what is it that you really want to sort of focus on? And what would you like investors to think about with respect to maybe the progression of impairments, your expectations around that? And how do you characterize and how do you think about your reserves in terms of adequacy? Are the metrics that you zero in on as a CEO that might be different from what Pat talks about? Maybe just give us some sort of a flavor for your expectations on impairments and how well reserved you are as the CEO.

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**Darryl White** – Bank of Montreal – CEO

The first thing I would say is I sure hope nobody would have a disconnect between the CEO and the Chief Risk Officer on the metric they use. I spend a lot of time in the marketplace as well. So my lived experience is with our clients. And there, I would say it's entirely consistent with our reserve practices and the reserves that we've taken, Darko.

If you look at the consumer side, as you know, this is no ordinary recession, right? This is a recession that is extraordinarily well supported by government stimulus. So there's a lot better outcome, both on the prospect for losses and exact delinquencies in the market than many would have expected when we went into this 10 months ago. And on the commercial side, it's narrowly focused. We're seeing a lot of difficulty in the

obvious places, in tourism and real estate and in airlines and so on. Those sectors that I just mentioned, by the way, represent 5% of our total loans, 9% of our business loans.

So broadly speaking, in the other vast majority of our book, we actually don't see that particular experience. And I think you asked about coverage. When you look underneath it, you think about how do we measure it. We had 68 basis points of allowance in our fourth quarter. And when you consider that relative to, if you want to use a measuring stick, the high 30s, low 40s that Pat guided to, that's 1.5x coverage going forward. So we're covered 50% higher than we actually think we'll see performing losses roll through. And when I think about that as the CEO, I'm very comfortable. And we said repeatedly, we think we're adequately covered. It may be the case that in the fullness of time that we're much more than adequately covered, but we'll have to see. In the meantime, we're really comfortable.

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**Darko Mihelic** – RBC Capital Markets, Research Division – MD & Equity Analyst

So much so, in fact, with the comfort that I think the other thing that you may have stated during the conference call in Q4 was that the build of Stage 2 reserves is sort of over, so which naturally brings us to, well, how do we see them being released into earnings. And we had a similar discussion this morning with Dave. Over to you, but how do you see that progressing? And will it be lumpy in your case? Because I think one of the things is we do view Bank of Montreal as being a little more commercially focused, which tends to be a bit lumpier. So is it also that we should think that your Stage 2 releases might actually be a bit lumpier going forward or do you see it being more of a steady progression of releases throughout the year and into 2022?

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**Darryl White** – Bank of Montreal – CEO

I don't know when we start releasing Darko, to be clear. I know we all know this, but just to ground ourselves, with the performing loan allowance, it takes into consideration the view of the macro outlook as well as the underlying credit migration. And you don't have to look any further than Q2 of last year, where we saw a drastic change in both all at the same time, and we see the big build on the PLA.

And so when I go forward, I think what we'll see is there'll be some mitigations as we look into 2021. We may see a drastically improving environment as we go forward on the economy in the back half of the year. In fact, I think we will. I think that's almost a certainty. But at the same time, there will be the flow-through on some of the migration on the credit.

So when we begin to see releases, is really hard to call. Our view is that we will be cautious on releases. And when we start to see some sustained improvement on both the macro outlook as well as the migration on the underlying, then we'll start to see releases. I don't expect that they would be particularly lumpy or any lumpier for us than they would be for others when that happens, Darko. But we'll see when they come and when they come, I think they'll be pretty clear.

In the meantime, we sort of think about this as the back half of this year, but it's really hard to say. So that's not a forecast. That's a hypothetical at this stage.

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**Darko Mihelic** – RBC Capital Markets, Research Division – MD & Equity Analyst

Okay. And you mentioned something in there that you're expecting a bit of a much more, I think, drastic recovery in the back half of the year. So maybe we can switch over to the theme of recovery and talk a bit about how you view it playing out? And what I'm really interested in, from your perspective is you've got a sizable U.S. business, so maybe you can touch on how you think the recovery will play out in North America and touch on differences between Canada and the U.S., if you might, and how it might impact your bank?

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**Darryl White** – Bank of Montreal – CEO

Look, maybe I'll go broader than that. I'll start with the planet. I think that we're going to see 5%, 5.5% global growth in 2021. It's really fascinating to think about that because we had a contraction on global growth in 2020 of about 4%. The biggest drop that we had seen in the post-war era prior to that was, I think, a dip of 0.1%, just to put that in perspective.

So here, we are down 4%. We'll recover on a global basis, 5%, 5.5%, maybe 6% this year. Inside of that, your question on North America, I actually don't see big differences between Canada and the U.S. There might be some around the margin. Every time I get this question, I remind people that the U.S. purchases 75% of our export products. So it's really never going to be a very big difference over time on the relative performance. And there, we would see something in the neighborhood of 4.5%, maybe 5% growth, Canada, U.S., which I think is a little ahead of consensus, but not much. And it might be related to the really substantial savings that we've seen accumulated in households. And we really don't anticipate too much of a release on those savings until a return to travel or return to density comes around, hopefully, later this year. But when it does, we actually see a very rapid acceleration, both on the consumer side and the business side.

I think the more interesting question, frankly, isn't the progression through 2021 necessarily there. I'm convinced we will see a progression. We

can have a healthy debate around the slope of the curve and what happens in Q2 versus Q3 versus Q4. I think in 2022 is the big question. Meaning, do we see a sustained recovery and do we see sustained growth? Remember, coming out of the last recession, the global financial crisis, we saw 8 years of roughly 2% growth, which was interesting, but very different from prior recessions where there would be periods where you'd have 3% or 4% or 5% growth coming out of a recession. And I think we have the possibility of doing that here. I think that in 2022, we could see a sustained growth rate of 3% or 4% into 2022. And that would be really interesting for our bank and for our customers.

It remains to be seen. We'll have to see how inflation plays out underneath that. But if you assume a 1.5% to 2% inflation rate within that same time period, it's very unlikely that we'll see any rate increases through that time period. But it is very likely that we will see, as I say, 5% growth in 2021 and maybe 3.5% or 4% in 2022. Same for Canada and U.S. within a margin.

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**Darko Mihelic** – RBC Capital Markets, Research Division – MD & Equity Analyst

And given that outlook, which yes, admittedly sounds bullish, will your bank do anything visibly different in 2021 or versus 2020? Do you plan any sort of major pivots? And maybe you can touch upon your view. I mean, it sounds similar to the previous speaker in the sense that consumers are waiting in the weeds to spend. Do you view that as being the major part of the recovery? And your bank being commercial, what does that mean for your bank? Or more commercial oriented, I should say, what does that mean for your bank? There's a lot in there.

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**Darryl White** – Bank of Montreal – CEO

So there's a lot in your question. The question on major pivot or, I think, is the way you put it on strategy -- no, I don't think you should expect any major pivot on strategy. I think you should expect, frankly, more of the same in an accelerated way. And what I mean by that is when you think back, Darko, to a couple of years ago when you and I had this conversation at your conference here, we talked about increasing the profitable share of our earnings that came from the U.S. Prior to that, we were around 25%. We went up to about 35% of our earnings coming from the U.S. And we love it where we are now. We're about 1/3. And in the meantime, we grew while improving the profitability of that business. The P&C business in the U.S. today has a 55% efficiency ratio, which is actually better than the average of the rest of the bank. That trajectory, we think as the recovery picks up, should continue.

The other thing we talked about is overall delivery of operating momentum throughout the entire bank. And in the pandemic last year, we reduced our efficiency ratio by 160 basis points, which led our peers. So we're pretty happy with having done what we said we were going to do. As we move into this recovery, I think that you should expect an acceleration of existing priorities. In addition to that, if you're watching closely, you'll have seen that we've started to pivot certain aspects of the portfolio where we weren't satisfied that the returns, either ROE or efficiency or both, were sufficient to be accretive to the overall portfolio objectives and/or we didn't see a path to leadership positions.

So if you go back 1.5 years ago, we started to unwind the reinsurance business. We announced in December of this year that we would be exiting, over time, the non-Canadian Energy business. We announced a week ago that we were selling our private bank in Asia. Individually, these are small. And the only thing they have in common is the most important thing, which is that we're looking to harvest investments where the returns, frankly, just aren't good enough over time, and make sure that we have that capital deployed where they might be better.

So in terms of sort of the next leg of our strategic acceleration, I would add that to the existing performance that we're already proud of, which is that we're putting a really sharp lens on businesses where we think we can retrieve capital and potentially put it into places where we can return better capital over time. And that's not new. We've been doing that for a really long time. As the recovery picks up, particularly through the back half of this year and next year, I think we'll be in an extraordinarily good a position to take advantage of all that because then what you'll have, Darko, I predict, what you'll have is we will continue to be peer-leading on our operating performance. We have been over the last year, 1.5 years. And so we'll lead the peers on operating performance and we'll be better-than-expected on credit performance. And when you put those two things together, I think it's a pretty powerful cocktail for us at the bank.

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**Darko Mihelic** – RBC Capital Markets, Research Division – MD & Equity Analyst

And perhaps one of the things that I get asked the most is my outlook on commercial loan growth, specifically in the U.S. where you had, for a period of time, outpaced the industry. Maybe you could touch a little bit about your expectations for commercial loan growth in the U.S. And maybe tie in also a view on your net interest margin as well.

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**Darryl White** – Bank of Montreal – CEO

So you're right, there was a period of time where we outpaced the industry when the industry was growing itself, and you saw loan growth in C&I across the U.S. growing pretty rapidly. That period of time stopped about the second quarter of last year, didn't it, when the pandemic came along? So for those who haven't observed as closely, if you go back and look at the 4 to 6 quarters prior to that, the industry grew quite robustly, and we grew about the industry. We've said it a bunch of times, we make no apologies for that. Folks who thought that there would be

a credit concern underneath that growth, I think are already being proven wrong. We'll continue to prove them wrong as we go forward here. So we like to say we accumulated clients, not loans.

And since that period of time when the market has really flattened out on loan growth, you've seen that with us too. So we've flattened out over the last couple of quarters. What do I expect going forward? I'm not here to tell you that we're seeing a pick up in that loan growth yet. It's picked up, I would say, very slightly. So you might call it green shoots, but certainly not at a rate where I could tell you that the loan growth gain is back on in commercial. I absolutely believe at the same time that it will come back on in that period of time that I summarized earlier. We get through these next 2 to 4 months in the winter and we start to see the vaccine overtake the virus, then we're in a period, I think, where loan growth towards the back end of this year can begin to be very substantial. And when it does, we expect to perform well and we expect to perform above market. Why? Because we've shown in the past that we can do that. We can continue to grow our business and drive down our efficiency at the same time when we grow those loans. We're not there yet. I'm super confident, though, of our ability to take advantage when we get there.

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**Darko Mihelic** – RBC Capital Markets, Research Division – MD & Equity Analyst

And just on net interest margins, if you can just touch on that?

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**Darryl White** – Bank of Montreal – CEO

So here, the NIM, it's a fascinating story, really. I would have predicted more net compression in the back half of 2020, Darko, then we saw. I wouldn't be alone in that, lots of people would have. We managed that through the relationships very well. You have to remember in our commercial business, 90% of our relationships are lead or sole relationships. So you're not really beholden to a syndicate. You're beholden to the management of the relationships, both on the loan side and the deposit side.

There isn't much question that the market overall should see some continued NIM softness. I think you're asking about the U.S. in particular, this should be true in Canada, too, by the way. But I guess I would say, with the full flow-through of the rate cuts from last year, we should see increased compression in NIMs in the United States.

I will say to you that we're not seeing it yet. We might see a little bit of compression in the quarter that we're in right now, but not dramatic as we go through the year. I think you should expect a little bit more. If I'm a betting man, I'd say you'll see some, but less than people expect.

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**Darko Mihelic** – RBC Capital Markets, Research Division – MD & Equity Analyst

Thank you for that. I appreciate it. And then what about fees? What about that side of the ledger? And maybe you can weave in Capital Markets. I mean, one of the things that we, myself included, we think capital markets simply cannot reproduce the revenue picture that it did last year. Am I wrong? Is there something that should make me more bullish on the Capital Markets business?

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**Darryl White** – Bank of Montreal – CEO

It's the toughest one to call. You know it well because things can change very quickly in the fee businesses. I will say that in our case, at BMO, let's look to recent history. In Q3, we had an exceptionally strong quarter in Capital Markets. Not sure we and others believed that it would be as strong in Q4, and yet it was. And here we are going through Q1. And I would say to you, it continues to be strong.

Can the full year be as strong as it was last year, we'll see. I mean, at this point, I think you should expect that the fee businesses overall, Capital Markets, Wealth and otherwise, by the way, will do a really nice job in the near term, mitigating that revenue challenge that you've got in the lending businesses that you and I talked about a couple of minutes ago, so that's fantastic. That's the benefit of the universal model. And it's working, like it's really working real time.

And then you have to kind of look portfolio-to-portfolio to judge, one to the next. In our case, we think we have some advantages. We went through, over the last couple of years, some pretty important portfolio moves within our Capital Markets businesses. So think about some of the headcount adjustments we've done, think about the beginning of the wind down of our non-Canadian Energy business, which wasn't getting it done from a return perspective. You think about the additions of businesses that are high return, like KGS and Clearpool, which we've acquired. And so those are replacing earnings that we're displacing.

So net-net, I'm very bullish on the Capital Markets business, Darko. That, of course, assumes ongoing constructive markets. If we have ongoing constructive markets, I think we'll do quite well. And we continue to do quite well as we sit here today.

**Darko Mihelic** – RBC Capital Markets, Research Division – MD & Equity Analyst

And are you more bullish on Canada cap markets or in the U.S. capital markets?

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**Darryl White** – Bank of Montreal – CEO

Both. I think in Canada, we have not yet seen the same pickup in the M&A fee stream. Although, the pipeline is building very substantially. The pipeline is as healthy as I've seen it in a long time. We have seen pretty robust performance in our markets businesses in Canada. We were very proud to be the #1 equity underwriter in the league tables last year, so we see ongoing strength there. And in the U.S., where I remember saying to you and others a couple of years ago, if we were able to produce \$70 million of NIAT in a quarter in our U.S. Capital Markets business, that would be a pretty good day. And here we are way, way, way through that in the most recent performance, and I would expect that to continue as well.

So again, markets can take this whole story sideways very quickly because you could see a dry up of client activity. But in the meantime, so long as the markets continue to perform, I think the job the team has done to reposition this business is just really, frankly, fantastic. And I haven't even mentioned within that expense control, which has been peer-leading as well.

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**Darko Mihelic** – RBC Capital Markets, Research Division – MD & Equity Analyst

And so maybe switching gears now over to the capital side of the equation. One of the things that we're thinking about is that right now, it seems as though the banks can generate more capital than they can actually deploy. And we're thinking about 2021, where there are some restrictions in place. So do you believe that to be the case for your bank? Are you in a situation where you cannot organically deploy as much capital as you are actually generating? And we used to get some sort of numbers from the banks in the past. Are you willing to talk about how much capital you think you could generate in 2021? And maybe, I'll stop there and let you sort of tackle that before I dive into the second part of that question.

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**Darryl White** – Bank of Montreal – CEO

It will be interesting to see, I guess, is what I'd say through 2021, Darko. So currently, the theme that you're talking about is correct. We are generating more capital than we can deploy. When you have a circumstance where you're restricted from deploying in your traditional manners, where we can't buy back or we can increase our dividend, that's going to happen as long as you're continuing to earn money on the NIAT side and build without excess deployment of RWA when the loan growth dries up. That's just a natural outcome.

We're scratching at 12% CET1 right now. And I would expect that ratio to continue to get stronger for the early part of the year. As we move into the back half of the year, we'll have to see what happens with respect to capital distribution restrictions. I guess you'll hear more about that from your keynote speaker at lunch time, so I'll leave that there. But as we go through the year, you have to remember, we've got a pretty convicted view that we're going to see a pick-up in demand for the lending product in the back of the year. And when that comes, we're there for it as a first priority in terms of how we deploy that capital.

And if other opportunities are there at the same time, then we'll consider them then. But I do think you should expect that over the next couple of quarters, you'll see a continued build of capital. The release of that capital as and when it's available to do that, we'll have to see how that plays out. But that will be a couple more quarters.

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**Darko Mihelic** – RBC Capital Markets, Research Division – MD & Equity Analyst

And one of the questions that I often get surrounding your bank is inorganic opportunities. For some reason, your bank is singled out more than others with respect to maybe perhaps a perceived desire to do something inorganic. So as we think about that, what is your focus in 2021, 2022? And I'm giving a long timeframe here because deals don't happen overnight, and sometimes, they can't happen.

Is your focus on earnings per share growth? Is it ROE? Maybe you can talk a little bit about which of the two you favor? And that should give us a window into the thought process around deploying that capital.

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**Darryl White** – Bank of Montreal – CEO

So Darko, for the most part, that conversation isn't really a trade-off because usually, the circumstances that something that helps you with your EPS growth also helps you with your ROE. It's not always a trade-off. So I guess I would start there.

I think what's more important to us is when we consider inorganic growth, we first look at compulsion. And I've said this a lot of times over the last few years, we don't feel a compulsion to transact. And the reason for that is we think we've got sufficient scale. We don't feel like we have a scale disadvantage, and we're able to continue to grow that business, particularly in the U.S. when markets are good at a faster rate than market. Why? Because market structure is really quite interesting. When you're competing with 5,000 banks, 50 or 100 of them are pretty good, and a lot of them just don't have the resources to compete with you. You can take share, and we're going to continue to do that.

And then as we look to the prospect of inorganic growth, here I think more about the strategic benefit to growing the platform. Is the strategic benefit over the long run scale and the effect of synergy, which is interesting? But it becomes more interesting if you start to think about the ability to add more and more customers and more and more capabilities. And perhaps, if the right circumstance came along, something that's out of the core footprint, so you can start to attach yourself to a broader swath of customers across the continent.

And when we look at that, I always like to remind people that currently, we're thought of as a Midwest bank in the United States, the United States itself, representing 1/3 of our earnings. 50% of our revenues in the United States comes from outside of the Midwest today. And so I think we've got an opportunity as we think about M&A to be focused on what does the strategic map look like for the long run.

We're in this for the long run. It's a long game. And if we see something that makes sense that grows our bank and serves us with more customers over time in growing markets, we'll have a hard look at it, but we'll always look first to serving our existing customers and growing organically.

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**Darko Mihelic** – RBC Capital Markets, Research Division – MD & Equity Analyst

And you mentioned that we have the keynote speaker here today. I certainly intend to ask him about the restrictions. I'm not sure that he'll give me an answer. But what about you, would you want the restrictions lifted right now? As a CEO of a Canadian bank, would you hope for the restriction to be lifted tomorrow?

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**Darryl White** – Bank of Montreal – CEO

Look, I think the banks are all very well capitalized, Darko. And I think that if the restrictions were lifted, we would all make prudent decisions as to how we deploy that capital. In the meantime, I can absolutely understand, it's an uncertain world, particularly with the revamp of the shutdowns that we've seen in the last couple of weeks, and we might see over the next few weeks.

So I'm sympathetic to a longer period of restrictions. You always have to remember that the bank investor in Canada has enjoyed more returns over time from dividends than they have from buybacks, which isn't really the same in the United States, as you know, where the restrictions are going to be lifted faster. So there, they continue to enjoy the dividends. And I think it's fair to say that when you lift restrictions, the dividend question is different from the buyback question because buybacks get turned on and off pretty easily, but dividend increases don't get reversed particularly easily.

So I think investors should keep that in mind as well. I'll leave it to the regulators to decide when it's appropriate. We'll be ready when it's appropriate. I think they're doing a reasonable job right now.

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**Darko Mihelic** – RBC Capital Markets, Research Division – MD & Equity Analyst

Okay. And with that, I'm going to switch over to questions from the audience and looking at the top questions. And the first one is an interesting one, given that we talked a little bit about exiting the oil and gas business. So what prompted your decision to exit the U.S. oil and gas? And why just the U.S. and not Canada? In other words, what is bad in the U.S. that is not similar in Canada? And I guess, obviously, with U.S. oil and gas.

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**Darryl White** – Bank of Montreal – CEO

It's the right question. Thank you for the question. I think the way you should think about it is what prompted the decision is exactly the same analysis that prompted the decision two years ago to begin to unwind our reinsurance business. It's exactly the criteria that prompted the decision to sell our private bank in Asia, which you might have seen we announced last week, which is that when we look at it and we decompose and deaverage our portfolio, the returns that we were generating, the return on equity, the efficiency that it was generating was just not accretive to the overall ambition, and it wasn't on a path to get there. Meaning, we didn't see a path to leadership in that particular business.

So it didn't really matter where the business was located. It didn't really matter what client segment it was servicing. We looked at it through the lens of return to shareholders, and we said that there would be a better use for that capital over time, and therefore we'll make that decision. What's different from Canada, is that we, in fact, do have those returns. We have very good returns. We have long-standing relationships. We have leadership positions in those businesses. And we're able to drive returns that we think make sense for shareholders. It's as simple as that.

**Darko Mihelic** – RBC Capital Markets, Research Division – MD & Equity Analyst

And what's the major factor there? The difference? Is it just the credit loss situation? Is it the spreads are too narrow? Is there something that you can point to specifically that creates a much bigger difference or is it just the leadership and scale?

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**Darryl White** – Bank of Montreal – CEO

It's all of those things, Darko. When you have a leadership position and you're a top 3 player in the market, you've got a lot better chance of taking in a greater share of the client wallet. And the clients have a very healthy respect for the ecosystem for folks who have supported them, and support them with lots of capital and advice and the provision of all sorts of services over time. And when you are further down in the hierarchy of preference, that's just a harder thing to do.

Occasionally, you find places where you can say, all right, that's fine, but I have a clear path to leadership over time, in which case, I'm going to continue to follow that path. But in the case of our energy business, U.S. versus Canada, it was a pretty stark comparison. And we decided it was better to focus on Canada, where we had good returns and good relationships over time.

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**Darko Mihelic** – RBC Capital Markets, Research Division – MD & Equity Analyst

Okay. The next question is, based on what was said earlier, does this mean that Capital Markets is trending similar to Q4 or is it better than Q4?

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**Darryl White** – Bank of Montreal – CEO

Is it trending similar to Q4 or is it better to Q4? Look, that's a tough corner to put ourselves into because we're not even halfway through the quarter. But based on what we've seen so far in Q4, the returns are really good, and they continue to be very, very strong. We'll have to see what happens in the back half of the quarter.

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**Darko Mihelic** – RBC Capital Markets, Research Division – MD & Equity Analyst

Okay. I've got time to sneak one last one in here. It's an interesting question. What should investors expect from BMO's new CFO versus the prior CFO? And what are strengths and weaknesses of Tayfun?

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**Darryl White** – Bank of Montreal – CEO

That's a good question. So you'll get to spend some time with him. He'll be on our Q1 call, and he's doing some IR at the conference here today. And I think what you'll see is that we'll go from strength to strength. We've had a CFO in role for longer than a decade, helping me through two crises, and he's just done a fantastic job. When we decided to go to market and consider alternatives, Tayfun popped up as the strongest alternative by far. We were really excited about his experience overall, his ability to bring to us an analytical frame as well as a strategic frame. So I don't think you should anticipate in the role of the CFO much different. We think we've been really, really, really leading in this space. And I would expect that we'll just go from strength to strength. And you'll get to know him, as I said, as the year goes on quite well.

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**Darko Mihelic** – RBC Capital Markets, Research Division – MD & Equity Analyst

I look forward to that. Thanks. And so we're now at the stage where I'm going to pass the floor over to you for your last remarks and key messages for shareholders this morning.

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**Darryl White** – Bank of Montreal – CEO

So I think I can be pretty straightforward on this, Darko. I'm net pretty bullish on the outlook. And I'm particularly bullish on how we are set up with our agenda within that outlook. And here, I would say, you have to kind of think about two timeframes. Over the next 2 to 4 months, we're going to witness the race between the vaccine and the virus, and that will be a difficult race. And I think we're all braced for perhaps a tough winter on the revenue growth side, on the lending products. But there, we have it mitigated, as I said earlier, pretty well with the fee side. So I'm pretty comfortable over the next 2 to 4 months.

And then beyond that, my confidence just continues to increase because when we see loan growth pick up, we're very well-positioned to take



advantage of that. We're very focused on our North American businesses. What's different from before, we're pivoting our portfolio a little bit to take advantage of higher-return businesses.

And my expectation, when you roll that up, is that we will, in the near term, despite the revenue pressures, see positive PPPT growth. We'll see operating leverage despite the revenue pressures in the near term. And then in the longer term, when we do start to see the balance sheet businesses take off, I get even more confident as time goes on.

So as I said earlier, you couple that with the full-year flow-through of our expense management program, which we really didn't start to see until the back half of last year. I get really bullish on the end of 2021 and 2022 because we have an opportunity to continue to outperform on the operating side relative to our peers and to continue to outperform relative to expectations on the credit side.

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**Darko Mihelic** – *RBC Capital Markets, Research Division – MD & Equity Analyst*

All right. Well, with that, I thank you very much for your participation, Darryl. It's been a good conversation. Thanks very much.

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**Darryl White** – *Bank of Montreal – CEO*

Okay. Thanks, Darko. Good luck.

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**Darko Mihelic** – *RBC Capital Markets, Research Division – MD & Equity Analyst*

And with that, we'll end this session. Thank you.

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