BMO Financial Group

Bank of Montreal at Barclays' Global Financial Services Conference

CORPORATE PARTICIPANTS

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By their nature, forward-looking statements require us 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 our 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. We caution readers of this document not to place undue reliance on our forward-looking statements, as a number of factors – many of which are beyond our 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.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: the severity, duration and spread of the COVID-19 pandemic, its impact on local, national or international economies, and its heightening of certain risks that may affect our future results; the possible impact on our business and operations of outbreaks of disease or illness that affect local, national or international economies; general economic and market conditions in the countries in which we operate; information, privacy and cyber security, including the threat of data breaches, hacking, identity theft and corporate espionage, as well as the possibility of denial of service resulting from efforts targeted at causing system failure and service disruption; changes in monetary, fiscal, or economic policy, and tax legislation and interpretation; interest rate and currency value fluctuations, as well as benchmark interest rate reforms; technological changes and technology resiliency; political conditions, including changes relating to or affecting economic or trade matters; the Canadian housing market and consumer leverage; climate change and other environmental and social risks; weak, volatile or illiquid capital or credit markets; the level of competition in the geographic and business areas in which we operate; changes in laws or in supervisory expectations or requirements, including capital, interest rate and liquidity requirements and guidance, and the effect of such changes on funding costs; judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; failure of third parties to comply with their obligations to us; our ability to execute our strategic plans and to complete proposed acquisitions or dispositions, including obtaining regulatory approvals; critical accounting estimates and the effect of changes to accounting standards, rules and interpretations on these estimates; operational and infrastructure risks, including with respect to reliance on third parties; changes to our credit ratings; global capital markets activities; the possible effects on our business of war or terrorist activities; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; and our ability to anticipate and effectively manage risks arising from all of the foregoing factors.

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 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, and the Risk Management section that starts on page 34 of our Third Quarter 2021 Report to Shareholders, 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 18 of BMO's 2020 Annual Report and updated in the Economic Review and Outlook section set forth in our Third Quarter 2021 Report to Shareholders, as well as in the Allowance for Credit Losses section on page 114 of BMO's 2020 Annual Report and the Allowance for Credit Losses section set forth in our Third Quarter 2021 Report to Shareholders. 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, we primarily consider historical economic data, past relationships between economic and financial variables, changes in government policies, and the risks to the domestic and global economy. Please refer to the Economic Review and Outlook and Allowance for Credit Losses sections in our Third Quarter 2021 Report to Shareholders.

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 8 and 10 of BMO's Third Quarter 2021 Report to Shareholders and on pages 17 and 23 of BMO's 2020 Annual Report, all of which are available on our website at www.bmo.com/investorrelations
Examples of non-GAAP amounts or measures include: efficiency and leverage ratios; revenue and other measures presented on a taxable equivalent basis (teb); amounts presented net of applicable taxes; results and measures that exclude the impact of Canadian/U.S. dollar exchange rate movements (i.e. constant currency basis or CCY), adjusted net income, revenues, non-interest expenses, earnings per share, effective tax rate, ROE, efficiency ratio, pre-provision pre-tax earnings and other adjusted measures which exclude the impact of certain items such as acquisition integration costs, amortization of acquisition-related intangible assets, impact of divestitures, reinsurance adjustment and restructuring costs. Bank of Montreal provides supplemental information on combined business segments to facilitate comparisons to peers.

John Aiken – *Barclays Bank PLC, Research Division, Director*

Good morning, everyone. Very happy to have Tayfun Tuzun, BMO's Chief Financial Officer. Tayfun, thank you very much for joining us.

Tayfun Tuzun – *Bank of Montreal – CFO*

Hi, John. Thanks for having me.

John Aiken – *Barclays Bank PLC, Research Division, Director*

Welcome to the Canadian contingent of the conference since you've been doing the U.S. side for a little while.

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes. I've done this for many years with Jason. So I look forward to this new environment and the new world that I'm in today.

John Aiken – *Barclays Bank PLC, Research Division, Director*

Fantastic. Would you like to make any opening comments before I start drilling you with my questions?

Tayfun Tuzun – *Bank of Montreal – CFO*

Sure. Clearly, John, this has been an extraordinary year for all of us. And my introduction to BMO could not have come at a better time. We've obviously been -- once we entered COVID environment, we all became aware of what this environment could mean to banking a year ago last year. And the timing of my decision to come to BMO coincided with a significant improvement in the company's performance, some for reasons that started much earlier, including some of our expense management initiatives, others displaying the strength in BMO's scope and scale of four dominant businesses.

I mean, when you look at the year-to-date numbers with over 10% net revenue growth, which is almost more than twice, I think, the peer group average and the PPPT growth over 21%, which is more than 3x the peer group average, those results continue to be very strong. And we've done this also while we continue to execute on previously announced expense initiatives.

Our expense growth -- relative to the 10-plus percent revenue growth, our expense growth was under 3%. And the speed at which we were able to reach some of our targets and the improvement in our efficiency ratio of almost 400 basis points and the return on equity of 16.7% year-to-date, those are very impressive numbers. And we've done that while we also were able to show very benign credit numbers. So when you look at our impaired provision today, year-to-date, it's about 13 basis points, which is below what we had back in 2018 and '19, and we continue to show improving credit metrics, which was a question on BMO going into the COVID crisis. We have proven that we can actually show these types of operating numbers while we keep credit in check.

And the other thing that we feel very good about is where we are today. As we look forward, both in Canada and the U.S., with significantly stronger economies on both sides of the border, we are pretty well positioned now to even go further than that and continue to make improvements, both in our efficiencies and our returns. We've seen some green shoots of loan growth here in the U.S., as we discussed at the end of the quarter, and we are optimistic that we're well placed both with an expanded sales force and the right products and services, capabilities, our market positioning.

So we are quite optimistic about the opportunities over the next sort of 12 to 18 months. And we also are quite pleased that we've been able to produce these results as we work -- as we continue to work very closely, both with our commercial clients as well as personal clients in helping them during the crisis. So I think all in all, both our achievements on the financial side, our partnership with our clients truly sort of shown what BMO can deliver in terms of value.

We continue to invest in the company. We have significantly grown our technology expenses. We feel very good about the next 12 to 18 months about the projects that are in front of us and the improvements that they will make in further helping us with revenue growth and expense management. And all of this has happened while we continue to build our capital base. We're sitting on 13.4% CET1 capital today, obviously, under the OSFI restrictions. But that gives us a tremendous opportunity to return that capital back to our shareholders in one form or another and also to continue to support growth that we expect will come during the next -- sort of this upcoming growth period.

So overall, it's a good picture, not only for the past 3 quarters or so, but it's a very good sort of -- we have the right starting point to be able to take advantage for the upcoming growth opportunities that we see on both sides of the border.

John Aiken – *Barclays Bank PLC, Research Division, Director*

Fantastic. Tayfun, I wanted to start out by congratulating you again on the, I guess, kind of new role. But this is actually quite opportune in terms of asking you what actually attracted you to BMO for this role, considering where you were coming out of your previous role in the U.S.?

Tayfun Tuzun – *Bank of Montreal – CFO*

John, I have spent more than 25 years in the U.S. in the banking sector. Obviously, the last 7 years as a CFO at a regional bank. This was a great opportunity for me to have a new experience at another financial institution with a larger scale and a wider scope. That truly was the professional growth opportunity that I saw here at BMO.

And I will go back to my statement that I made earlier, this was a very early -- this year turned out to be early chance to see that in display, the full power of the scale that we have at BMO and also the scope, both geographically as well as product wise. So I got my answer very early in my career at BMO, and that really drove my decision. I had a great job. I was at a great company, but this was a step-up in terms of my professional growth.

John Aiken – *Barclays Bank PLC, Research Division, Director*

Well, and it's interesting that you stepped into it right in the middle of the pandemic. And can you give us a sense in terms of how dealing with the pandemic has altered BMO's operations? And also any change in approach to how you're helping clients through this?

Tayfun Tuzun – *Bank of Montreal – CFO*

I think there were some things that were already underway going into the crisis that have helped us to navigate this environment probably a bit more efficiently, including tremendous focus that we have here at the company to grow our digital capabilities. The COVID environment presented the best test case. And I think we came out of that test very successfully. We've been able to get very close to our clients even during difficult times, both on the personal side and the commercial side. The capabilities that we have, whether it's in treasury, product management with our commercial clients or personal account management and cards and deposits and investments, those all have proven to be great tools for us to operate at the level we do under COVID.

We have overcome a set of very challenging economic conditions, that applies to utilization rates -lowest utilization rates that I have seen in my own career in commercial banking, the low rate environment that we still are in and the significant decline in consumer activity. They all hit your income statement very quickly, as we all have observed. But despite all of that, we were able to announce results every quarter, quarter after quarter that exceeded the expectations that our investors have for us. So that turned out to be a proof point for the strength of the company as well as for the investment choices that we have made.

We also have made some important decisions to reallocate our resources over the past 8 to 9 months. Some of them include the exits in non-Canadian energy. As you know, we've exited the oil and gas sector in the U.S. in November. We announced the sale of our private bank in Asia. We announced the sale of our GAM EMEA business in April. Those were all decisions that were taken in the middle of the COVID environment.

So I feel quite satisfied that we were able to deliver the results. And now we are furthering our abilities on the digital side as we have seen the proof points, and we've significantly shifted transactional volumes from physical to digital, which is helping us to reallocate service resources into a sales force. We have expanded our AI capabilities, both on the commercial side as well as the personal side. And we delivered 2x sales growth -- digital sales growth relative to our peers in Canada, while we were able to meet all the service requirements that our clients have.

We now have digital U.S. -- a deposit system in the U.S. digitally that we can originate deposits across all 50 states. We have the #2 position in Canada in adviceDirect and SmartFolio products in digital investments. We have an integrated treasury management system across Canada and the U.S. Not many banks have that.

All of those have been investments that either were launched or were finished during this environment, which I think have not only positioned us well for this environment, but I think they're going to further our abilities and continue to help us with expense management. We signed an agreement with AWS that is going to accelerate our migration to cloud. We have established account opening processes in commercial that are going to also lower not only cost of servicing but create better client service activities. So we've been able to do all of that throughout this period, which again feeds the level of optimism that I mentioned during the beginning of my conversation here today.

John Aiken – *Barclays Bank PLC, Research Division, Director*

That's great. And touching on the optimism, coming out of the third quarter, the BMO executive group was actually quite positive on the outlook. And I'd make the argument that probably a little bit more positive than what the market is feeling or looking for. What is giving that level of optimism for your outlook over the next 12 months? I guess where I'm going at is, where do you see strength where you anticipate to see growth coming from that may not be built into the expectations for investors at this stage?

Tayfun Tuzun – *Bank of Montreal – CFO*

We expect to see growth on both sides of the border. Our economic expectations right now for fiscal year '22 in Canada is right around 4.5% of GDP growth. And we're a little under that in the U.S., it's probably more like 3.5%, 4% type. But these growth rates clearly exceed the pre-COVID averages by far. I mean, U.S. has not seen 3.5%, 4% growth in a number of years.

Our conversations with our clients indicate that there is pent-up demand for some fixed capital investments. As labour costs continue to rise, there is a desire to substitute capital for labour, which could create additional opportunities in loan growth. We are clearly not experiencing any uptake these days in our utilization rates, but that leaves unused capacity. As the inventory levels start picking up, we should start seeing utilization rates to move along accordingly.

On the consumer side, we have seen over the past 4 to 5 months, we have seen steady increases in consumer activity, which will translate both into the fee side through transaction fees on the deposit side and cards as well as loan growth. Clearly, Canadian mortgage has been a strong area where we have seen very strong growth this past year. We expect that to continue, albeit maybe not at the same rate. But both in Canada and the U.S., we see tremendous opportunities on the balance sheet.

On Wealth Management, Capital Markets, we expect to continue to see the results to our investments. In Capital Markets this year has been a huge success. And not only because it's sort of what the market has enabled us to do, but some of the investments that we've made 2, 3 years ago, that includes KGS-Alpha, that includes Clearpool. They truly are producing results, and we are expanding our capabilities even beyond that. And markets will be up, markets will be down. But I do believe that we are elevating the performance of our Capital Markets business above and beyond what we have seen in the past.

In Wealth Management, the amount of progress that we've made in Wealth Management in improving our efficiencies and our return on capital has been tremendous. And our capabilities in Canada, we have the #1 ETF position. We are leading in our ESG investments. We are looking to expand our mutual fund presence. So wherever you look at, whether in the U.S. or in Canada, we see returns to our four businesses continuing to grow with our expectations of a better economy over the next 12 to 18 months.

John Aiken – *Barclays Bank PLC, Research Division, Director*

One of the medium-term headwinds to the top line has been managed margin compression, but we did see some relief in the last quarter. Now I know a lot of it is due to the low interest rate environment, and you provided your sensitivity analysis, which is great. But I guess, outside of the macro factors, what can BMO do to try to manage the margins? And what has your treasury group done over the last little while to try to mitigate some of this pressure?

Tayfun Tuzun – *Bank of Montreal – CFO*

My background is in treasury. So this has been a very interesting experience for me throughout the COVID environment, both before I joined BMO in my previous job, as well as in this new position. What I always look for and try to understand is the institution's philosophy in managing interest rates. And the philosophy here at BMO is to manage interest rate exposures to achieve a stable margin. We don't take positions depending upon our expectations of rate cycles.

I agree with that approach. Taking positions based on your expectations where the interest rates are going to go has not created much value for shareholders in the banking sector in the past.

So when you look at the last few quarters, right before we entered the COVID period, BMO had the lowest sensitivity to down rates. We disclosed these sensitivity tables. So NII at risk to a 100 basis point shift in interest rates. When you look at those numbers, we entered this period with the best position and that's based on our long-term philosophy. And we managed it well throughout the period.

In addition to what we've been able to do at the top of the company, the other thing that has helped us tremendously is the ability in the business, both in Canada and the U.S. in our P&C businesses, to have a bit of a better control over loan spreads. We all know excess liquidity overall has negatively impacted bank NIMs. But in the U.S., our commercial business and -- both in the U.S. and in Canada, we lead 90-plus percent of our commercial relationships. That is a tremendous pricing power that not every bank has in Canada or in the U.S.

And as I have watched for the past 3 quarters, how those loan spreads have moved, I was pretty impressed about that. In addition to that, obviously, we got help in the U.S. from PPP loans over the past 3 quarters as they accelerate and exit our balance sheet. Those fees also get accelerated into NII. And in Canada, mortgage prepayment rates have helped as well. And we've seen some contraction in LOB-based margins, but we were able to compensate for that at the top. We will continue that steady approach. I believe that will serve us well. And we have no expectations in terms of any near-term short rate increases in our outlook. So that will probably come in Canada at the very end of '22. It will not impact the '22 numbers. And in '23, I think both the U.S. as well as Canada will shift to a higher rate environment, which will provide some support for our NIM.

And as the yield curve also, hopefully, will react and potentially get a little bit steeper, we will be able to reinvest the rolling -- the investments that we've made 3, 4 years ago that are now being reinvested to a lower rates, at potentially somewhat higher rates. So we're optimistic. We also think

that the negative impact of some of these excess deposits over the next sort of 6 to 8 months will start showing signs of exits and that currently has a negative 9 basis point impact on our margin. So hopefully, we will see that number reducing into '22.

Yes, there will be some pressures, I think, remaining on margin. But overall, we are well positioned to not only sort of manage this down rate environment, but we're also pretty positively exposed to higher rates. And based on sort of our analysis, we appear to be right in the middle of the pack relative to our Canadian peers. So we have the downside protection and also a good idea, in my mind, the upside exposure to rates.

John Aiken – *Barclays Bank PLC, Research Division, Director*

Tayfun, I just want to drill down on the excess liquidity. As you mentioned that it is a headwind to the margins. This is a very unusual environment, something that I don't think we've ever seen before. And you mentioned that you do expect that to roll off, but how sticky do you expect deposits to be? And are you guys -- are you looking for differences between the two geographic regions?

Tayfun Tuzun – *Bank of Montreal – CFO*

That's a $64,000 question, John. We have continued to revise our outlook. I think early on -- and not just BMO, but I think the rest of the banking sector sort of expected these deposits, as economic growth started showing up, we expected our clients to start using these deposits, but that hasn't happened. Every month, when we analyze the numbers, not only deposits are growing, but the life of these deposits are also extending.

And there's a sense that maybe after -- the same thing happened after the 2008 and '09 crisis. Coming out of that crisis, we have seen rising levels of corporate liquidity. So it was a risk preference that sort of kept -- that kept staying way past the 2008 and '09 crisis. Maybe the same thing is happening here. Maybe we are seeing a different risk appetite, and we may see these liquidity levels continue. They may not necessarily stay at these levels, but I think personally that we will keep a larger share of these excess deposits on our balance sheet for longer.

There are differences between the U.S. and Canada. And I think in the U.S., our experience is that the deposit rates will be a bit stickier at the beginning when the Fed starts rising the short rates, and they tend to sort of lag, which gives us obviously an opportunity to earn that difference. We expect in Canada deposit rates to move fairly in line with the Canadian short rates. So that's going to create a difference. And I also believe that excess deposits in the U.S. may stick a little bit longer into potentially '23, whereas in Canada, we will be able to probably use more of those deposits to support a fairly strong loan growth in Canada starting in '22.

John Aiken – *Barclays Bank PLC, Research Division, Director*

When we look at the results that BMO has posted through the pandemic, I mean it's hard to argue the biggest swing factor has been credit. And ironically enough, though, that biggest factor is actually being a noncash charge on the income statement. And BMO historically has had very strong credit adjudication. We've seen a little bit of the releases of the Stage 1 and 2 allowances. But honestly, a lot of it is being kept. What is -- what's the outlook for that, if we actually are generally positive on the outlook? When can we expect those allowances to be released? And how much of this will be driven by the model and how much of this is actually the management overlay?

Tayfun Tuzun – *Bank of Montreal – CFO*

You're describing it well. When we look at our numbers, as of the third quarter results, we released a little over 20% of the build from the COVID environment, and we have the lowest release across our competitors. That's been a combination both the internal models, but also, I think, a justifiably cautious approach by management.

When you think about the first quarter when we were right in the middle of the second or third wave, now I forget the count, and then into the second quarter when the Delta variant started showing up across the globe, in India first into Europe and other places, we have maintained a rational sense of caution in the way we have overlaid some judgment factors. And that's despite the fact that the underlying credit factors continue to improve. Our COVID-related industries have done well in general, and we've maintained that into the third quarter. There are certain sectors that we still keep a very close eye on, that includes commercial real estate, whether it's in office or retail sectors.

So as we look forward here, the health care situation clearly will still colour our approach. But at the same time, I do believe that as the credit factors, formations are low, the gross impaired loan percentages are very low and they're still moving in a positive direction. We will reflect that in our analysis. And because we are behind in terms of the release, maybe we will sort of have a little bit of a catch-up period over the next few quarters, but it is a quarter-by-quarter analysis. And given the twists and turns in the health care environment, it's hard to predict today as to when we will be able to get back to a more normalized coverage level.

And in the meantime, we are enjoying a very benign impaired performance, 6 basis points. It was extremely low number in the third quarter. I mean that will not stay at that level forever. I think Pat's guidance was that he expects us to get back to sort of the low 20s type of impaired picture. But he said also that we will not get there in the next couple of quarters. So it's going to be sort of gradual normalization, if you want to call that. So I think combined between the impaired and performing provision, the outlook continues to be quite favorable on the credit side.

John Aiken – *Barclays Bank PLC, Research Division, Director*

And then just one final point on the credit side is that the government support programs have worked wonderfully in terms of making sure that we're not seeing the defaults in the bankruptcies. But ultimately, the support programs will end, and that's when everyone is anticipating a little bit of a spike, nothing dangerous. But I guess as the government support continues to get pushed out, is that actually better or worse for what that ultimate uptick will look like?

Tayfun Tuzun – *Bank of Montreal – CFO*

We continue to look at all the details, all the information that we have on our clients. And we can observe the activity that we are recording in our deposit accounts. So that gives us a good perspective on how stressed they are from a cash flow perspective because there's not -- we don't have large sections of our clients that are still accessing government support programs. So that exit does not worry us much at the moment. The combination of low formations and the combination of the fundamental data pointing out to not much stress in the system currently. At the moment, we sort of interpret those two signs as helpful to transition us to a fairly benign outcome even after all these programs and so there are no red flags that we see today in the system.

John Aiken – *Barclays Bank PLC, Research Division, Director*

Great. You mentioned earlier the progress that BMO has made on expenses, and this was a strong point in the quarter as well as a couple of leading up to that. And I'm not going to hold you to 7% operating leverage every quarter. But what I actually found quite interesting with BMO was the confidence that the management team had that positive operating leverage was going to continue. And can you talk to where you sit with the programs that are in place and what the ongoing cost management programs are going to look like?

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes. Look, I mean, I think the expense management programs, as I mentioned, have been put in place a while ago. When management discussed this back in 2018, I think we were close to 700 basis points off in our efficiency ratio. And we made some structural decisions. At the end of 2019, we executed a large restructuring program. And that clearly has helped us to right-size the workforce. And at the same time, we have a system in place that sort of is not only relying on these sorts of one-time adjustments, because in the past, not only at BMO, but these types of expense initiatives get announced, you take a charge, for a while there your expense numbers behave very well and then expenses start creeping up. We have been able to set up monitoring systems.

And I have to say that all my peers have been extremely focused on continuous improvement. Some of it also has to do with the resource allocation decisions that we have made. We are exiting high-efficiency businesses, perfectly displayed with our Wealth Management exits. So that will continue to support our low expense base and then sort of the continuous focus on digitization across the company, not only in customer-facing functions, but also middle office and back office options.

I am looking myself at sort of the opportunities that I have in my own group, and all the staff functions are looking at the same thing. Despite the fact that we've made so much progress, we still have not quite matched the peer average. And so there is still room left in our mind. We're under 200 basis points. So I don't think that we are -- as you just said, we are not going to see the same type of steep gain. But Darryl's goal and the entire team's goal is to continue to show positive operating leverage. There will be some quarters depending upon the revenue environment where we may not have it, but I think overall, we believe that we still have room to go. And therefore, our outlook and our plans, they all have this constraint, achieving positive operating leverage.

And with the revenue growth that we also expect, I think we'll be able to do that. And we have done that, John, while we have significantly upped the investments back into our company. If you look at our technology investments, on a year-over-year basis, our technology spend is up nearly 8%. Our sales force has grown almost 15% on a year-over-year. We are hiring in all four businesses. Our marketing expenses are up 100%, albeit from a lower level. But these are all indications that we've been able to lower our efficiency ratio not by holding back investments, which we do not want to do because ultimately, growth is the name of the game. But we've been able to reduce the efficiency ratio such that we can achieve that growth by enabling ourselves to have more of the revenue growth fall to the bottom line. And we're quite confident that we can continue to do that.

John Aiken – *Barclays Bank PLC, Research Division, Director*

Tayfun, you also mentioned one of BMO strengths was the accumulation of capital. Your CET1 ratio is well above the regulatory minimum, yet we've still got a constraint from the regulator, not allowing you to return capital. And based on our calculations, BMO sits very well on both sides of the spectrum in terms of dividend increase potential based on payout ratio as well as however you want to calculate what excess capital is. But at this stage in the game, assuming restrictions are not lifted, how do you manage the capital ratio? Are you okay with it just continuing to build? And does ROE have a factor today in your thinking because you're not able to manage the "E" component as much as you might want?

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes, John, you articulated the discussion well in your research piece from a couple of weeks ago for the Canadian banking sector. We are sitting on 13.4%. On a quarterly basis, our organic capital generation is almost twice as high as it was two years ago before COVID environment. We were more in the sort of 20, 25 basis point type organic capital generation. Now we're actually over 45 basis points. And the credit environment clearly has helped the outcome.

So when we normalize, you probably should normalize to get to a standard return calculation. We should normalize the credit piece as well as the capital piece. When we do that, we're still ahead of the game. I think today, on a quarterly basis, if you just look at the third quarter, the number was higher than this. But on a year-to-date basis, I think there's a 150 basis point plus impact on ROE because our target is closer to 11% than the 13.4% that we are showing. And remember, we still have the EMEA sale impact into the fourth quarter, assuming that we close that transaction, then you're going to see another step-up on top of what we also will be building in Q4 organically. So these numbers continue to accumulate. The investors should be cognizant of the underlying strength that is even beyond what we are showing for ROE today, which would have been over 20% in Q3.

Look, I mean, OSFI will make decisions coming out of the elections and we'll wait for their decision, but we are quite optimistic for our investors that we will be able to get back on track with our dividend payout ratio. We feel very comfortable to do that. The Board needs to decide on that, and they're very closely monitoring the environment.

It could take 1 or 2 moves, but it will be a quick catch-up period. And dividends alone will not get us back to the targeted capital ratios. So there's clearly going to be some buybacks associated with it. And it will take a while, but we also feel very good about where we are with capital because we have fairly healthy expectation on loan growth. So we do need the capital to also support that expected loan growth. So I think we'll be able to reward the investors both through growth on our balance sheet as well as return of the capital that belongs to them ultimately.

John Aiken – *Barclays Bank PLC, Research Division, Director*

We're bumping up against time, but I want to dive into that last point because it really fascinates me in terms of the -- you talked about the normalization of the internally generated capital because of the credit environment everything else like that. But as we move forward if growth expectations fall broadly in line with where we're headed, should we expect risk-weighted asset growth to accelerate and maybe actually reduce the level of internally generated capital moving forward and that might eat into some of, I guess, the accumulation of capital not necessarily draw down? Is that a fair characterization?

Tayfun Tuzun – *Bank of Montreal – CFO*

It is a good question, John. I think there's going to be two factors that will have an impact on the quarterly progress of RWA growth. One is we have benefited every quarter this quarter from improving credit metrics inside our portfolios, that helps the RWA calculations and growth has been relatively muted.

So as we now normalize in terms of credit, there's probably still more room for those metrics to get a little bit better, but there will come a point when the credit metrics will stabilize. So on a quarter-by-quarter basis, you probably will not see the benefit of the credit migration. It will normalize. It will stabilize. And then as loan growth picks up, you will likely see a change in the direction of the RWAs, and you may see more accelerated numbers. And that all is going to be really a function of the loan growth environment. But I mean, I think ultimately, those are positives in my mind, to support earnings growth for us and for the rest of the industry into '22.

John Aiken – *Barclays Bank PLC, Research Division, Director*

Tayfun, that was a great discussion. And, once again, welcome to the Great White North.

Tayfun Tuzun – *Bank of Montreal – CFO*

Thank you. Thank you for inviting us, John. We appreciate it.