BMO Financial Group

Q4 2019 Conference Call

CORPORATE PARTICIPANTS

Jill Homenuk

Head of Investor, Media & Government Relations

Darryl White

CEO

Tom Flynn

CFO

Pat Cronin

CRO

Cam Fowler

President, N.A. Personal & Business Banking

Dave Casper

President & CEO, BMO Harris Bank N.A. and Group Head, Commercial Banking

Dan Barclay

Group Head, BMO Capital Markets

Joanna Rotenberg

Group Head, BMO Wealth Management

CONFERENCE CALL PARTICIPANTS

Darko Mihelic *RBC Capital Markets*

Doug Young *Desjardins Securities*

Gabriel Dechaine *National Bank Financial*

John Aiken *Barclays*

Mario Mendonca *TD Securities*

Meny Grauman *Cormark Securities*

Robert Sedran *CIBC Capital Markets*

Scott Chan *Canaccord Genuity*

Stephen Theriault *Eight Capital*

Sumit Malhotra *Scotiabank Global Banking*

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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. 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: general economic and market conditions in the countries in which we operate; the Canadian housing market; weak, volatile or illiquid capital and/or credit markets; interest rate and currency value fluctuations; changes in monetary, fiscal, or economic policy and tax legislation and interpretation; 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 and integrate acquisitions, 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; political conditions, including changes relating to or affecting economic or trade matters; global capital markets activities; the possible effects on our business of war or terrorist activities; outbreaks of disease or illness that affect local, national or international economies; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; technological changes; 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; 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, business, strategic, environmental and social, and reputation risk, in the Enterprise-Wide Risk Management section that begins on page 69 of BMO's 2019 Annual Report, 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 2019 Annual Report. 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, 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 5 and 7 of BMO's Fourth Quarter 2019 Earnings Release and on pages 17 and 23 of BMO's 2019 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, 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.

PRESENTATION

Jill Homenuk – Bank of Montreal – Head of Investor, Media & Government Relations

Thank you. Good morning and thanks for joining us today. Our agenda for today's investor presentation is as follows.

We will begin the call with remarks from Darryl White, BMO's CEO, followed by presentations from Tom Flynn, the bank's Chief Financial Officer and Pat Cronin, our Chief Risk Officer. Darryl will then provide some outlook comments before we move on to the question and answer period.

We have with us today Cam Fowler from Canadian P&C and Dave Casper from U.S. P&C. Dan Barclay is here for BMO Capital Markets and Joanna Rotenberg is here for BMO Wealth Management.

During the question and answer period we will take questions from pre-qualified analysts. To give everyone an opportunity to participate, please keep it to one question.

On behalf of those speaking today, I note that forward-looking statements may be made during this call. Actual results could differ materially from forecasts, projections or conclusions in these statements.

I would also remind listeners that the Bank uses non-GAAP financial measures to arrive at adjusted results to assess and measure performance by business and the overall Bank. Management assesses performance on a reported and adjusted basis and considers both to be useful in assessing underlying business performance.

Darryl and Tom will be referring to adjusted results in their remarks unless otherwise noted as reported. Additional information on adjusting items, the Bank's reported results and factors and assumptions related to forward-looking information can be found in our 2019 Annual Report and our Fourth Quarter 2019 Earnings Release.

With that said, I will hand things over to Darryl.

Darryl White – Bank of Montreal – CEO

Thanks, Jill. Good morning everyone, and thanks for joining us today.

This morning, we announced earnings for the fourth quarter of $1.6 billion and earnings per share of $2.43, both up 5% from last year. We delivered bank-wide pre-provision, pre-tax earnings growth of 11% in the quarter, with positive operating leverage in every operating group.

Earnings per share for the year of $9.43 were up 5%, reflecting good revenue and income growth across our North American platform.

2019 was a year of strong and consistent delivery across our businesses, with significant progress made against our strategic priorities. Revenue grew 6%, PPPT earnings were up 7%, and expenses were well managed. As expected, expense growth in the second half of the year moderated significantly, with expenses growing at just 2.6%.

All of our businesses are working hard to achieve their priorities.

Canadian P&C ended the year with a particularly strong quarter, with excellent loan and deposit growth in both our personal and commercial franchises. In commercial, we are maintaining a dominant position with a strategic focus, having added targeted capacity that is driving incremental return. We're winning on value – through expertise and understanding of our clients' needs – without sacrificing on our long-term strategy of growth through diversification and prudent risk management.

U.S. P&C continues to benefit from the same strategy. As a top ten commercial lender in the United States, we have a strong brand and offering, an unparalleled understanding of client needs and the ability to compete effectively in every market. We're building relationships for the long-term, with a strategic focus on continuing to diversify our revenue mix, which includes an increasing contribution from our treasury and payment solutions business, and enhancing our return on equity.

Our U.S. personal business has long been the foundation that enables our commercial business to expand and grow. Today, that personal business is successfully growing its deposit base, with the same commitment to diversification and long-term performance. We've opened deposit accounts in all 50 states digitally and, in 2019, almost half of our U.S. deposit growth came from outside of Illinois and Wisconsin, up 10% from the prior year.

In Wealth Management, we have clear momentum in key businesses that positions us for enhanced profitability going forward. In our unified Private Wealth business, we grew our client base and deepened relationships, delivering record levels of net new assets in our full-service brokerage, strong loan and deposit growth in Private Banking, and significant gains in client loyalty. We have a strong track record of providing award-winning products and services, including recognition in the 2019 Thomson Reuters Lipper Fund Awards for four BMO ETFs and three BMO Mutual Funds, and we continue to lead the Canadian ETF market in overall market share and net new asset growth.

Capital Markets had a good year, in an environment that was mixed for many industry players. Revenue was strong, with good contribution from our KGS-Alpha acquisition, but also reflecting the strength of both our business and geographic diversification. At Investor Day, we set a five-year target for revenue from our U.S. business to reach 45-50% of total Capital Markets, which we achieved in Q4 and in 2019.

Our overall U.S. segment continues to deliver above expectations. It now represents 34% of the bank's total net income, up from 28% in 2018 and 24% in 2017. This is another target we achieved ahead of our expectations, having made good strategic choices in a favourable environment. U.S. segment earnings increased 23% in 2019 following an increase of 27% the previous year.

Today, the U.S. segment is more broad-based than ever, with contributions across all businesses as they work together to provide a fully integrated client offering.

In all of our businesses, we continue to strengthen our competitive position, including allocating resources to the areas of highest earnings potential and performance, as well as accelerating our delivery against priorities and simplifying the way we do business.

Now, let me turn to the restructuring charge we announced today. This was a decision that was made with serious consideration and it is entirely in line with our strategy and priorities that we've communicated. All areas of the bank contributed to the charge, and there will be ongoing accountability throughout the organization for the decisions that have been made.

The charge is one of a number of initiatives that will help us reach our efficiency target of 58% in 2021, while continuing to optimize efficiency beyond that – without the need for additional charges. We're seeing good energy and determination across the bank in reaching that objective, and we've already made significant progress, having improved our efficiency ratio by 410 basis points since 2015.

We ended the year with an efficiency ratio of 61.4%, even after absorbing the severance expense in Capital Markets, with increasing momentum into the back half of the year as evidenced by efficiency ratios of 59.9% and 60.0% in the last two quarters. On an underlying basis, net of the Capital Markets severance, operating leverage for the year was 1.9% in constant currency.

All groups are contributing to our steadily improving efficiency performance. Canadian P&C ended Q4 below 47%. U.S. P&C continues to better its efficiency with a 470 basis points decrease over the last two years. Wealth is also showing improvement, while Capital Markets remains committed to its Investor Day target of a ratio below 60% by 2023.

While efficiency is an important focus for us, it will not come at the sacrifice of investment.

We continue to make significant progress in digitizing our bank. BMO employs an innovative model where business and technology are completely integrated through our Chief Information Officers. It's a model that drives efficiency, while also encouraging collaboration and a culture that embraces the benefits of technology across the organization.

The result is success stories like BMO QuickPay, an offering that allows customers to pay their bills by email through the use of machine learning capability and optical character recognition. QuickPay recently won the Top Digital Innovation award at the Banking Technology Awards. In another example, our online business banking platform now offers on-the-go authentication and approval with our mobile app and Biometric ID, implementing a faster and more agile infrastructure. This feature was awarded a 2019 Impact Innovation Award from Aite Group.

We also support innovation in our partnerships. Recently, we announced a donation to the University of Toronto for a first-of-its kind program that integrates artificial intelligence with humanities. This will enable us to prepare our workforce for a future where companies win when they meld the best of technology and human creativity.

One of the keys to driving that creativity is our commitment to placing diversity and inclusion at the heart of our interactions with our customers and our employees. This month, we introduced the True Name feature on BMO Harris Mastercard debit cards, meaning transgender and non-binary people can now use their true name on their cards without the need for a legal name change. BMO is the first bank to issue cards under this ground-breaking initiative.

Reinforcing our status as a truly North American bank, we recently received the American Chamber of Commerce in Canada's True North Social Impact award. This award recognizes the bank's meaningful social contributions across North America over the past year. Our work with the United Way, in both Canada and the U.S., is proof of this engagement. We recently announced our support of the Mayor of Chicago's Economic Development Plan, with the first corporate donation through the United Way's Neighbourhood Network initiative. This donation builds on the ground-breaking community partnership work that we've already been doing with the United Way of Greater Toronto.

As always, our team is united in our commitment to be the best and strongest we can be for our customers, our communities and our shareholders – to reflect our simple, powerful statement of purpose: to Boldly Grow the Good in business and in life.

And now I'll turn it over to Tom to talk about the fourth quarter.

Tom Flynn – Bank of Montreal – CFO

Thank you, Darryl, and good morning, everyone.

My comments will focus on the fourth quarter results, and will start on slide 9. Q4 reported EPS was $1.78, and net income was $1.2 billion. Adjusted EPS was $2.43, and adjusted net income was $1.6 billion, both up 5%. Results in the quarter reflect good performance in our flagship P&C businesses, and positive operating leverage in all groups. Pre-provision pre-tax earnings growth was strong at 11%. The lower income growth of 5% reflects higher credit losses and a lower tax rate, given a recovery last year.

Adjusting items this quarter include a restructuring charge of $357 million after-tax related to severance and a small amount of real estate related costs. The charge reflects a bank-wide focus on accelerating the delivery of our agenda, including improving efficiency. Initiatives underway are focused on digitization, organizational redesign and simplification of the way we do business. The charge will impact approximately 5% of our workforce. We expect our initiatives to drive expense savings of approximately $200 million in fiscal 2020 and achieve run-rate savings of approximately $375 million by Q1 2021.

Adjusting items this quarter also include a $25 million after-tax reinsurance adjustment, which I'll speak to later. Adjusting items are shown on slide 26.

Turning now to revenue. Net revenue of $5.8 billion was up 5%, reflecting good performance in our P&C businesses, and increases in Wealth Management and Capital Markets. Expenses increased 1%, reflecting higher technology and employee-related costs, partially offset by lower premises expenses. Operating leverage for the quarter was good at 3.8% and positive, as I said earlier, in each of the operating groups.

One reminder related to the first quarter of next year: in Q1 of each year, we expense deferred compensation granted to employees who are eligible to retire. We expect this number in Q1 to be roughly in-line with the Q1 2019 expense of $115 million.

Moving to slide 10 for capital. The Common Equity Tier 1 Ratio was 11.4%, unchanged from the prior quarter. Retained earnings growth, which absorbed an 11-basis-point impact from the restructuring charge, was offset by higher risk-weighted assets. The higher risk-weighted assets in the quarter were driven by business growth. Today, we announced an increase to our quarterly dividend of 3 cents per share to $1.06, up 6% from last year. As you know, there are some changes coming in the first quarter of fiscal 2020 that will impact the CET 1 ratio. We expect the adoption of IFRS 16, and changes related to credit risk and the securitization framework, to have a combined impact of 15 to 20 basis points on our CET1 ratio in Q1.

Moving to our operating groups and starting on slide 11. Canadian P&C had a very strong quarter, with net income of $716 million, up 6%. Pre-provision pre-tax earnings growth was strong at 10%. Revenue growth was 7%, driven by higher balances, higher margins and increased non-interest revenue. Total loans were up 7%, with commercial loans up 16%. Mortgage growth through proprietary channels, including amortizing HELOCs, was 5%. Deposit growth continued to be robust at 13%. NIM was up 4 basis points from last quarter, reflecting positive product mix changes, and a benefit from rates. Operating leverage was strong at 2.7% and efficiency ratio improved to 46.6%.

Moving to U.S. P&C on slide 12, and my comments will speak to the U.S. dollar performance. Net income of $305 million was up 4%. Pre-provision pre-tax earnings growth was good at 9%. The difference in these growth rates mainly reflects a low tax rate last year, given a recovery. Revenue growth was good at 4%, reflecting balance growth, net of a lower net interest margin. Average loan growth was 13%, with commercial loans up 15% and personal loans up 6%. Deposit growth continued to be strong at 13%. Net interest margin was down 11 basis points from last quarter due to lower deposit margins as a result of the Fed's interest rate cuts. Expenses were well-managed and relatively unchanged from last year. Investment in the business was largely offset by lower premises costs and an on-going focus on efficiency. Operating leverage was strong at 3.4% and efficiency ratio improved to 57.1%.

Turning to slide 13. BMO Capital Markets net income was $280 million for the quarter. The U.S. business continued to deliver strong performance, with net income of US$94 million, up 60% from last year, and representing 45% of Capital Markets earnings in the quarter. Pre-provision pre-tax earnings were up 5% from the prior year. Revenue was up 4%, with Investment and Corporate Banking revenue down slightly from last year, and Global Markets up 9%. Expenses increased 3% in the quarter. The provision for credit losses was $40 million compared to a small recovery last year.

Moving to slide 14. Wealth Management net income was $301 million, up from $229 million last year. Traditional Wealth net income of $246 million was up 22% from last year, benefiting from higher revenue including the impact of a legal item last year. Average loan growth was

strong again at 14%, and deposits grew at 12% as we continue to diversify our product mix. Insurance net income was $55 million, up $28 million from a relatively low level last year. As mentioned earlier, adjusting items this quarter include a $25 million after-tax net impact from reinsurance claims related to Japanese typhoons that were incurred after our communicated decision to wind down this business. Expenses were down 2%, reflecting below-trend expenses in the current quarter and a legal provision a year ago.

Turning now to slide 15 for Corporate Services. The net loss was above trend at $94 million, compared with a net loss of $65 million a year ago. Results decreased primarily due to lower revenue excluding teb, partially offset by lower expenses.

To conclude, the fourth quarter performance demonstrates good momentum in our businesses and the benefits of our diversified business mix. Heading into 2020, we're focused on continuing to execute on our consistent strategy to grow our North American business, build customer loyalty, leverage technology, and drive efficiency.

And with that, I will turn it over to Pat.

Pat Cronin – Bank of Montreal – CRO

Thank you, Tom, and good morning, everyone.

Starting on slide 17, the total provision for credit losses this quarter was $253 million, or 23 basis points, a decrease of 5 basis points from last quarter. Both provisions on impaired and performing loans were lower this quarter compared with the prior quarter, with PCL on impaired loans down $12 million and provisions on performing loans decreasing $41 million.

Turning to the credit performance in the businesses, Canadian consumer impaired loan provisions decreased $23 million quarter-over-quarter to $110 million. The improved Canadian delinquency rates disclosed in the supplementary financial information package also supports what we are seeing as continuing good underlying loan performance in the Canadian consumer portfolio.

Canadian commercial PCL on impaired loans, at $24 million, is also down from the prior quarter, reflecting a constructive credit environment across most of the portfolio.

U.S. consumer PCL on impaired loans was $17 million, up from a low result of $8 million last quarter but well within our expected range for this portfolio.

U.S. commercial PCL on impaired loans decreased slightly from the prior quarter to $49 million, reflecting the stable credit performance that we saw across most of our commercial portfolios.

Capital Markets PCL on impaired loans was $32 million, the large majority of which was in oil and gas, mostly related to three accounts.

The provision for credit losses on performing loans was $22 million, a decrease of $41 million from the prior quarter. The decrease from the prior quarter reflects somewhat more positive macro-economic variables and modestly lower balance growth versus Q3.

Turning to slide 18, formations were $799 million, as an increase in business and government formations was partially offset by a decrease in consumer formations. The largest increase in formations was in manufacturing, across a range of sectors and geographies with no specific theme, while oil and gas formations were also up from the last quarter, with a few names driving most of the increase. Oil and gas gross impaired loans ended the year at $404 million, of which over 90% is based in the U.S. Our risk approach in the U.S. E&P space is to lend conservatively against proven reserves and that has protected us well against losses in the past. Additional details on our oil and gas portfolio can be found on slide 23 in the appendix.

On gross impaired loans, our ratio of impaired to total loans was 58 basis points, well within our normal range. We continue to see high levels of impairment in the U.S. Agriculture portfolio. However, given the relatively small size of the U.S. Ag portfolio, at $2.1 billion, and the fact that much of the impaired loans are collateralized by land, we remain comfortable that loss rates in this segment will be modest. Our Canadian Agriculture portfolio continues to experience low levels of impairment.

Slide 19 provides an overview of our loan portfolio by consumer product and industry. Overall portfolio growth was 1.6% quarter-over-quarter, consistent with our comments earlier this year that loan growth would moderate.

Looking back at the full year, provisions on impaired loans were $751 million, or 17 basis points, which included the benefit of some larger recoveries in Q1 and Q2, reflecting the strong efforts of our loan work-out team. That rate of 17 basis points compares to a full-year rate of 18 basis points in 2018.

Provisions on performing loans were $121 million in the year, which was within our expectations given loan balance growth and changes in scenario weights during the year. The performing loan provision raised total losses to 20 basis points for the full year, at the low end of past guidance. The performing loan allowance on the balance sheet increased to $1.6 billion in the year, providing 2.1 times coverage of our trailing four-quarter impaired losses, confirming that we are prudently reserved. You will note that in our annual disclosure, we've added a moderate downturn scenario to provide a view of potential credit performance during a more modest recession compared to that in the adverse scenario.

Looking ahead to the next year, based on the current economic forecast and our outlook for loan balance growth, we expect to continue with the loss rates of recent quarters, with a total PCL rate in the low to mid 20's, subject to some quarterly variability.

I will now turn the call over to Darryl.

Darryl White – Bank of Montreal – CEO

Thanks Pat. Looking ahead to next year, we are going into 2020 with confidence and good momentum in our businesses. It's a general balanced optimism that's shared by our customers. In fact, in the past couple of months, many of them have expressed more confidence to me on general outlook than they did several months ago. We expect the opportunities they are seeing in this somewhat more stable environment will support their propensity to continue to invest and build for future success.

In Canada, we expect macro-economic conditions to remain constructive in 2020, improving modestly from 2019, with stable interest rates and unemployment running at a four-decade low of 5.6%.

In the U.S., we expect economic activity to slow modestly in 2020 in response to trade protectionism. With three interest rate cuts in the past four months, lower interest rates should provide support to the U.S. economy in 2020. We intend to continue to grow by taking market share in this environment.

As we've said before, we anticipate that commercial loan growth will moderate somewhat from the growth rates we've seen for some time, both in Canada and in the U.S.

On credit quality, as you've just heard from our Chief Risk Officer, we are confident in the strong credit quality of our portfolios and we expect to see a relatively stable credit environment in 2020 with PCLs in the low to mid 20's.

Overall, while we anticipate some revenue headwinds in 2020 in a few areas, including absorbing the full impact of three U.S. rate cuts in the early part of the year, we'll continue to grow our business. And we will maintain disciplined expense management, targeting overall expense growth around the 2% level for the year – with each of our operating businesses working to deliver positive operating leverage.

Our financial objectives remain unchanged. Our goals, over the medium-term, are to achieve average earnings per share growth of 7% to 10%, return on equity of 15% or more, and an annual net operating leverage of 2%. While some of these targets may be more challenging in the current environment, we remain committed to them in the longer term.

Our capital position remains strong. With a CET1 ratio of 11.4%, we're well positioned to support long-term performance, while staying alert to opportunities for growth.

To conclude, I'm very proud of what we've accomplished in 2019. We've made good progress on our strategic priorities and I feel good about the clear momentum we have going into 2020. We have energy, resilience, and focus. We see growth potential across all of our businesses. We know where we're heading and we are accelerating how we'll get there. By intensifying our focus on areas of competitive strength, we will continue to grow long-term value for BMO stakeholders.

And now I'll turn the call over to the operator for the question and answer portion of today's presentation.

QUESTIONS AND ANSWERS

Meny Grauman – Cormark Securities Inc., Research Division – MD & Head of Institutional Equity Research

I wanted to ask about the restructuring charges, specifically, if you could talk to how you decide to take restructuring charges. And, specifically, I'm wondering when you took the Q2 charge in Capital Markets, was the plan to take this Q4 charge, or did something change in your outlook and what was that?

Tom Flynn – Bank of Montreal – CFO

I'll firstly deal with your question around the Q2 capital markets charge. When we took that charge, we were not expecting the fourth quarter charge that we took. And, as you know, we absorbed that charge within the Capital Markets results. And the way we think about it, this Q4 charge is different in that it reflects a bank-wide program to, as we've said, accelerate delivery of our priorities, including improving efficiency. So, when we're doing things on a bank-wide basis of this magnitude, we take the approach that we've taken to putting the charge in Corporate and adjusting.

In answer to what might have changed or shifted, as we thought about the year we were in and then looked forward to next year, we wanted to be in a position to continue to drive the efficiency. And although we feel very good about our relative momentum and we feel good about our ability to grow next year, in a couple of places there will be a little bit of pressure. And to, I would say, offset or more than offset that, we wanted to be in a position to drive very low expense growth. And Darryl has talked about the target of 2%, which is what we're shooting for and the charge is an enabler of that and an enabler of us achieving the mid-term efficiency target that we've set of 58%.

Meny Grauman – Cormark Securities Inc., Research Division – MD & Head of Institutional Equity Research

And just as a follow-up, when you talk about the pressure that you foresee, is that primarily margin pressure or is there something else?

Tom Flynn – Bank of Montreal – CFO

No, the margin pressure in the U.S. is a part of it, and you saw that in the U.S. P&C margin in the quarter. There's a little more that we'll roll through next quarter. And GDP growth for the U.S. is projected to be down slightly next year. Our economists actually have Canadian GDP up next year compared to '19. So we're not expecting a big shift in the environment, but there are pockets of pressure and, again, we do feel good about our ability to continue to outperform, which we do think we've done in both of our P&C businesses, in particular, over the last several quarters.

Gabriel Dechaine – National Bank Financial, Inc., Research Division – Analyst

Just a quick follow-up on the restructuring charge of the cost savings that you're expecting, can you give me a sense of how that's going to be split across segments, where am I going to see it? And then I've got a follow-up on U.S. loan growth.

Tom Flynn – Bank of Montreal – CFO

I guess I'd say it's a bank-wide focus and set of initiatives, as we've talked about. I would expect the savings that we've talked about to flow through each of our businesses in a fairly representative way. And it's fair to think about that both by operating group and by geography, it's true on both dimensions.

Gabriel Dechaine – National Bank Financial, Inc., Research Division – Analyst

All right. And the question on the loan growth in the U.S., it's been mid-teens for a few quarters now, and that's a good thing to see, people like growth, but on the other hand, it's generated some concerns that it brought upon additional risk to the bank, because it's an outsized growth versus the industry, and I'm looking at the oil and gas portfolio as one of the drivers in the past few years, it's had phenomenal growth and now we're starting to see losses – hopefully, you can help me frame the oil and gas growth and some of the credit issues we're seeing today.

Pat Cronin – Bank of Montreal – CRO

I'll speak specifically to the oil and gas. The growth has been strong over the course of the last couple of quarters. I think you'll see that the growth is starting to moderate in this quarter, and we would expect that to be the case going forward. The thing we like from a credit perspective in this segment, particularly in the U.S., is that most of that lending is reserve-based. And if you look at the U.S., particularly the U.S. exploration and development segment of the portfolio, 99% of that segment would be reserve-based lending. We would lend pretty conservatively, with fairly reasonable loan-to-value against proven reserves. We think that actually protects us quite well in a downturn. Even though you might see formation rates and GIL rates higher in this segment, we expect the provision for loan losses to be reasonably low. So, you'll see the PCL we took this quarter

relative to the formations, you'll see it's a rate of around 15%-17%. We're pretty comfortable with that profile as we grow the book. It's a sector that we think we have a North American and, arguably, a global franchise. We really have good lending standards and good bankers in the segment. We've been in it for a long time. We understand how the cycles work, and we're good at workout. We're pretty comfortable with the growth rate, especially given the secured nature of the lending that we do there.

Dave Casper – Bank of Montreal – President & CEO, BMO Harris Bank N.A. and Group Head, Commercial Banking

Let me just add a little bit to your question on the U.S. loan growth, which, on the commercial side, would not include oil and gas, but was high, and I think you mentioned 15%. I would expect in the next year that it would moderate from that. The growth has really come from adding new customers throughout the United States, where we still have a lot of white space. We have not, in any way, compromised on the risk appetite that we've had. It continues to be the same. And I'm very comfortable with the growth we've had. But I would expect, just for some of the reasons we talked about before, there would be some moderation in 2020. Does that help?

Gabriel Dechaine – National Bank Financial, Inc., Research Division – Analyst

It does. Thank you.

John Aiken – Barclays Bank – Director & Senior Analyst

Pat, just carrying on from Gabriel's question, we've seen the gross impaired loan ratio ticking up. Now, I completely get, with the underlying security, how you can have provisions falling when formations are going up, but this has been a trend for the last three, four quarters, where we've seen greater amounts of formations. How comfortable are you that this is going to ease off, or expectations that we're going to see continued impaired formations going through for 2020 at a similar pace?

Pat Cronin – Bank of Montreal – CRO

Yes, and I think we've been flagging for a while that we expected the impaired loan and the PCL rate to drift up from a really benign level that you would have seen in 2018 and 2019. If you look back at Q4 '18, the gross impaired loan rate in the portfolio was the lowest we saw in a decade. There's just logically going to be some upward drift in that. At 58 basis points, just to put that into context for you, the average GIL rate over the past three years was 56 and the past five years was 59, so I actually see that rate in more or less of a normal zone for where we are in the cycle. I'll split it though into two pieces. Consumer, I would say, is actually quite strong. Wholesale is a little bit towards the higher end of the range and, as we've noted, that's really being driven much more by some sector-specific issues related to oil and gas and agriculture. Those two sectors make up 40% of our total gross impaired loan portfolio right now. And as we've talked about in the past, we expect loss rates to be low there because the oil lending is secured against reserves and the Ag lending is secured against land. So, I'm not uncomfortable with where we are, I think we've been expecting a drift upward in the loss rate and I would expect it to stabilize at this level going forward, given a fairly stable economic environment that we're seeing and fairly modest GIL rates in many of the other sectors that we're growing in business and government.

John Aiken – Barclays Bank – Director & Senior Analyst

That's great. But when we take a look at the U.S. business formations, I understand that you can take a look at oil and gas and even on the Ag side as being a little bit more, I guess, specific, but we actually are seeing inflation in some of the others like manufacturing, even though you said it was broad-based. Is the fact that we're seeing hot spots to varying degrees in different segments, is this concerning or are you still quite confident that, like you said, leveling off at 58 basis points is the expectation going forward?

Pat Cronin – Bank of Montreal – CRO

Yes, I would say it's not concerning. I'll deal with manufacturing specifically because that was one of the bigger formations this quarter. Formations, as I'm sure you've seen in the past, can be quite lumpy. And, if you look at manufacturing in particular, you look back at formations and GIL rates over the course of the last two years, you'll actually see they've been running low, including even in Q3 of this year. So, this is quite specific to this quarter and, to me, reflects the normal lumpiness that you see in a big segment like manufacturing. That really reflects four names, one in Canada,

three in the U.S., no theme to them, from completely different subsectors. If your question is, am I seeing systemic themes within the portfolio reflected by those kinds of formation rates, the answer is no.

Stephen Theriault – Eight Capital, Research Division – Principal & Co-Head of Research

If I could just start with a follow-up on capital, Tom, based on year-end in the 15 to 20 basis points of headwind for Q1, it looks like, with normal accretion, you could be below that 11.5% level through much and maybe all of 2020. So, wondering, is there anything you're looking at or aware of that might provide some upside to the CET1? I guess I'm asking in the context of prior indications that the buyback is on pause here until you get above 11.5%?

Tom Flynn – Bank of Montreal – CFO

Yes. So, a few things. In Q1, we will have, as others will, the adjustment. Our impact for that is in the 15 to 20 basis points level. And, we talked normally about the ratio going up by 10 to 15 basis points per quarter. That continues to be our expectation. And as we've said for the last few years, given the strong commercial and corporate loan growth we've had, we're more likely to be at the lower end of that range than the upper end of the range. In terms of buybacks, the focus on that, from our perspective, goes up, I'd say, as we approach the 11.5% ratio on the CET1. As we look forward, there's some potential for activity in the middle-ish of the year. And exactly where we land will be a function of the loan growth that we've got, but we think there's a reasonable chance that mid-ish year – could be Q2, could be Q3 – there's some activity under the buyback, as we approach that 11.5% level.

Stephen Theriault – Eight Capital, Research Division – Principal & Co-Head of Research

That's helpful. And then, I did want to ask on the U.S. capital markets, very strong even with the oil and gas provision. If we look through that credit charge, it looks like earnings would be, in U.S. dollar terms, well over $100 million and pretty close to double run rate from last year. Dan or Tom, maybe you can talk a bit about the sustainability there and how much of that lift is due to the KGS acquisition this year.

Dan Barclay – Bank of Montreal – Group Head, BMO Capital Markets

Well, thanks for noticing that. Yes, we had a very strong performance in the U.S. this year. As we've talked about for a while, we've been making good investments in people and in the KGS acquisition, so that platform will be scalable and allow us to continue to grow. I think, as we looked at it this year, we wanted to get over the next five years somewhere between 45% and 50% of our revenues out of the U.S. – we've achieved that target now and are bullish that we can increase beyond that. We are working towards our other targets – to double market share as we go forward – and so all of those are building to what I think is a relatively robust U.S. outlook and very sustainable from where we are today.

Robert Sedran – CIBC World Markets – MD & Head of Research

I just wanted to start with a follow-up on the restructuring charge, and it's, I guess, for Darryl. I mean, you mentioned this is probably the last one. But there's been one every year for a number of years. I'm curious, what gives you the confidence and what should give your shareholders the confidence that this is truly the last one for the foreseeable future?

Darryl White – Bank of Montreal – CEO

Yes. Thanks, Rob. It's a good question. Let me give you a little bit of context. If I go back over the last couple of years, you'd have noticed that I've been asked in some conferences, might we take another charge, and my response has been, we don't know, but if we do, it's very probable that we will say that we will not need to do it in the foreseeable future. So that's exactly what we did today. And unpacking that, when I think about your question, there are a few things that are going on that are different. The first is, as you've seen, this is a sizable move. This is 5% of the bank's global population that's in scope. The second is, you heard me say and you heard Tom say quite clearly, we're holding the line a lot more tightly in the normal course on expense growth. You saw us at 2.6% expense growth in the third and fourth quarter of this year. That was not benefiting from this restructuring charge. So, we're on a new path as far as a continuous improvement of the operating efficiency of the bank, and this charge is designed to accelerate that path as we go forward. And it's also the case, Rob, that if you think about the management through the spine of the organization and you look to the discipline that we expect from managers, and this is, I would say, an important change in terms of how we're looking for people to make operating decisions every day, we're looking for people to invest in areas where we have opportunities for growth and slowdown in areas where we don't, without reliance on this technique and the assist of a charge. And so that's a very sort of clear message to

the entire organization in terms of how we expect to manage ourselves going forward. So, when I put all those together, in addition to the real benefits that we're starting to see from technology and digitization, we're confident in telling you that we'll retire this play from our playbook.

Robert Sedran – CIBC World Markets – MD & Head of Research

Okay. And just a quick question for Cam. I guess the margin has been up 4 basis points in each of the last two quarters. I can imagine that, that is the rate environment. So, is it business mix, or is there something else going on, and how sustainable do you think this level of net interest margin is for you?

Cam Fowler – Bank of Montreal – President of North American Personal & Business Banking

It's a combined effect of mix and some flow-through of the longer rates. Primarily on the mix side, though, you can see the deposit growth in there, and where we're seeing growth in other areas, they are in the higher-margin areas that we've not been as good, in particular, in cards. So that, with commercial lending, I think, is helping. With respect to outlook, I'd say we sustain it. It will be broadly flat through '20, what my expectation is.

Doug Young – Desjardins Securities – Diversified Financials and Insurance Analyst

Just wanted to go back to the restructuring charge that you took in capital markets in Q2. When I look at what you said then in terms of guiding to it, but I think it was in, correct me if I'm wrong, $40 million of savings this year, $80 million next year, I'm surprised we haven't seen more of a drop in the capital market expenses. I'm hoping you can unpack that. And is that $40 million of savings this year, has that been achieved, and should we still be expecting $80 million next year? So just hoping to get a little more detail on that.

Dan Barclay – Bank of Montreal – Group Head, BMO Capital Markets

Sure. In terms of the performance this year, yes, we have saved the $40 million that we advertised. The run rate is going to be $75 million versus the $80 million we talked about in Q2, and that's just really a slight change in people that we've looked at. And obviously, with our participation here in corporate-wide charge, we expect higher savings next year. As we go forward, I think that number you're using around $75 million for next year is a good number.

Doug Young – Desjardins Securities – Diversified Financials and Insurance Analyst

And is there a reason why we haven't seen more of an expense reduction overall over the last few quarters in capital markets, is there something sticky in there?

Dan Barclay – Bank of Montreal – Group Head, BMO Capital Markets

I think the expenses have come down materially. If you look at it on a full year basis, I think the gross number is up 14%, 13.5%. But if you take out the acquisition of KGS, and you take out the restructuring charge we took in Q2, that's about 2% for the year.

Doug Young – Desjardins Securities – Diversified Financials and Insurance Analyst

I look at the NIX ratio being just over 67% in Q4 this year, thinking it was the same last year, I was just a little confused by that.

Dan Barclay – Bank of Montreal – Group Head, BMO Capital Markets

Just one question there for you, I think I see it a little bit tighter than that, but we delivered positive operating leverage this quarter, which is the first quarter this year. And, as we look forward, we expect to deliver meaningful operating leverage next year.

Doug Young – Desjardins Securities – Diversified Financials and Insurance Analyst

Okay. And then Tom, just on the reinsurance business, can you remind us how long the tail is on this, I mean, when does that risk roll off?

Tom Flynn – Bank of Montreal – CFO

Yes, the tail is pretty short. So, by the middle of next year, it's basically gone – it's not entirely gone, but it's very small at that point.

Doug Young – Desjardins Securities – Diversified Financials and Insurance Analyst

So middle of fiscal '20?

Tom Flynn – Bank of Montreal – CFO

Yes.

Sumit Malhotra – Scotiabank Global Banking and Markets, Research Division – MD of Canadian Financial Services

I'll start with Tom. The statement that expense growth in 2020 will be in the range of 2%, that's not overly different from what we saw in the second half of this year and, frankly, not that different from where I see expectations for the bank before this charge was announced. So, is the benefit that you're deriving from these savings, that you're talking to us about, having to be reinvested in other areas of the business? Because I know you look at these numbers very carefully as well. It just doesn't seem like that targeted expense growth is that different than we otherwise would have had.

Tom Flynn – Bank of Montreal – CFO

I guess a few things. Firstly, we absolutely do continue to invest in areas of the business where we think there are good growth opportunities. We've been doing that for the last three years, and we continue to do that. And, I'd say, we're pushing ourselves to differentiate more in terms of how we allocate resources, so where we see opportunities, we're dedicating resources and, where the reverse is true, we're going in the other direction. And then, there is a bit of a timing issue here. I talked about in my comments how the benefits from the charge in fiscal '20 would be $200 million, and by Q1 of '21, the annualized run rate would be more like around $375 million. And so, the timing factor is part of the picture as well.

Sumit Malhotra – Scotiabank Global Banking and Markets, Research Division – MD of Canadian Financial Services

Then certainly, I think when you've announced these charges over the years, it's always been that you will build into a greater level of savings. So, I think what you're saying is, the savings or the expense growth in 2020 may not be that different than we were expecting, but perhaps it lowers the 2021 and beyond level of increase that the bank will achieve.

Darryl White – Bank of Montreal – CEO

The answer to your question, Sumit, is yes. The additional point I wanted to make is, when you look at 2%-ish for 2020, another way to think about it is that, as you guys know, you've got certain expenses that are much higher than that, and you've got some that are much lower than that, as you decompose the expense base of a bank. For example, you'll have certain costs that you're locked into contractually. You'll have pension. You'll have real estate. You'll have certain things that will increase at a mid-single-digit expense rate. You'll have technology that, as we've told you, we've invested above the 10% level for the last three years. That will moderate a little bit into the mid- to high single digits as we go into next year. So you have a whole bunch of things that pull the weighted average expense growth up and then you have a whole bunch of others – and this is where the impact of the charge will come in – we're looking at direct controllable expenses across functions and groups that will be negative. When you bring all that together, you get to the number that we're giving you at 2%-ish. And I think the way you might think about it is that, relative to the past couple of years, when you think about the expense rate of the bank growing at 3.5% or 4%, or a little over 4%, that comparable relative to 2% is, in our mind, a pretty big difference in a commitment to shareholders.

Sumit Malhotra – Scotiabank Global Banking and Markets, Research Division – MD of Canadian Financial Services

The fact that this charge wasn't contemplated as recently as six months ago from what we heard, Darryl, did you decide that the 2021 NIX target of 58% or maybe even the 7%-plus EPS growth that you target, I know that's more medium term, did you make the determination that those targets would be unable to be achieved without a restructuring charge of this magnitude?

Darryl White – Bank of Montreal – CEO

Yes. I think the way to think about it is that this accelerates our ability to get there sooner. And we're investing in this now, we don't expect to do it again. And for sure, Sumit, in the last half of the year, you saw things that we didn't see in the first half of the year, including three rate cuts in the last four months. Whether that was in everybody's forecast or not four months ago, five months ago – here we are today, and that will have some impact as we talked about for us and everybody else, as you guys have shown in your modeling on the revenue side. I'd say it's a combination of all those things.

Scott Chan – Canaccord Genuity Limited, Research Division – Director of Research of Financials & Financial Services Analyst

I just had a follow-up question to Meny's question on U.S. margin. Tom, you talked about fiscal Q1 getting impacted. Again, can you kind of just clarify the comment, are you talking about a higher sequential decline in margin in fiscal Q1?

Tom Flynn – Bank of Montreal – CFO

In Q1, we'll just have some of the roll-through from the Fed cuts that we've already had. They're not fully in our numbers. We think that will result in the Q1 NIM being down about 10 basis points, so down a similar amount in Q1 compared to Q4. And then after that, we're expecting more stability. And we don't think the Fed moves again. We'll see how that plays out, but on the assumption that they don't move, and given the expectation that there will be some moderation in loan growth, we think that the margin is going to be more stable after the Q1 point. And then, in Canada, we do think, as Cam said, that the margin will be fairly stable through the course of the year.

Scott Chan – Canaccord Genuity Limited, Research Division – Director of Research of Financials & Financial Services Analyst

Okay. And if I can just dig in one more on the Canadian loan portfolio, I see that consumer and other personal continues to kind of increase, and we're kind of seeing, obviously, higher leverage from consumers and some de-levering, I think, across some of your peers. What's driving that incremental growth in those portfolios for BMO?

Cam Fowler – Bank of Montreal – President of North American Personal & Business Banking

I heard you say what's driving the consumer lending growth in Canada, so I'd say, a couple of things. On the bigger change side of things, we have quite strong card growth, you can see that's been the result of a battery of activities linked to stronger use of digital and data around our portfolio management, and most of that is actually focused on doing more with our existing customer. In addition to that, in the cards line, you'll see more activity on the small business side, which is the result of two things: a new product suite that came out in recent quarters, as well as improved product capabilities that are more digital in nature linked to line of credit. So that's what I'd say on the card side. On the similar set of capabilities that are actually driving the line of credit side on the personal, in the last several quarters, we've seen stronger growth in that regard. Again, more around digital and data capabilities with existing customers is underneath that. And then, finally, on the RESL side, we've said that we would expect to be at or just above the market here, that we focus on the proprietary channels, and with respect to that, I think the combined effect of some sales force adjustments that we've made by region, as well as offering and digital capabilities, are driving some strength there at 5%. So, there's no one thing here, which I think is what we should be looking for. I think to your point at the beginning, about where the Canadian consumer is at, I think it's conceivable that some of that activity does slow in the market modestly over the next several quarters, which probably isn't a bad thing. I would expect our capabilities and momentum will likely continue about where we are, because we still have opportunity with our existing base. And I would say also that the housing market is a little stronger probably than most people thought a couple of quarters ago, and that will be to the good.

Scott Chan – Canaccord Genuity Limited, Research Division – Director of Research of Financials & Financial Services Analyst

Great. Appreciate the context. Thank you.

Mario Mendonca – TD Securities Equity Research – MD & Research Analyst

First, maybe for Tom: outside of the domestic P&C and U.S. P&C, did you see any meaningful change in margins that the bank generated in the quarter?

Tom Flynn – Bank of Montreal – CFO

I guess the only other thing I'd highlight, looking at the all-bank quarter-over-quarter ex-trading margin, is that we did have some pressure in the corporate segment, and that came through as a result of holding higher levels of liquid assets. So, that was a contributor to the all-bank ex-trading quarter-over-quarter move.

Mario Mendonca – TD Securities Equity Research – MD & Research Analyst

But anything specific, ignoring the mix?

Tom Flynn – Bank of Montreal – CFO

No, no. The changes really, I would say, were driven by mix and the Fed cuts in the U.S., and so, other than the higher level of liquidity in corporate, there was nothing at all unusual.

Mario Mendonca – TD Securities Equity Research – MD & Research Analyst

Okay. Just a quick follow-up, and maybe not a quick follow-up, actually. I'm looking at the improvement in the bank's efficiency ratio since 2015, and it's been meaningful. It looks like a solid, maybe a little under 300 basis points, maybe 270 basis points, and maybe a little more, it's probably over 300 basis points. In that time period, the bank has had some meaningful restructuring charges as well, about $600 million pre-tax. Your outlook over the next two years would imply another, say, 300-basis-point improvement in the NIX ratio from where it stands today, I think – yes, that's about right. With, call it, $[484] million pre-tax in restructuring charges – and the reason I'm going through the numbers here is, it seems to me like the next two years, the revenue environment is going to be more challenging than the last five years – but yet you're looking for as meaningful an improvement in the efficiency ratio over a much shorter period of time. All of this to really get a… I mean, what is your level of confidence in this 58%?

Tom Flynn – Bank of Montreal – CFO

I would say we are focused on the delivery of the 58%. I won't quibble with your numbers, but I will say ours are a little different. Since 2015, the adjusted efficiency ratio is down 410 basis points. You might cut the numbers slightly differently, but the adjusted number is down by 410 since 2015. And as we look forward, we're going to be focused on growing the business, investing where we see opportunity and being very aggressive on expenses elsewhere. That will drive the low expense growth that we've talked about for next year. And then, over the last three years, we and others have had a very significant level of investment in technology. And our tech spend, as we've talked about, has been growing at a double-digit rate on a base that's north of $2 billion. We expect that level of spend to moderate as we go forward and that's because we've got good capabilities in place, we've made lots of investments, and we think we can afford to, with that, dial down the growth a little bit, which will help. But some of the savings that we generated from efficiencies absolutely went to funding, in effect, that technology spend.

And you hear us talking about our diversified business mix. We do like the mix we've got. It's roughly 40% P&C Canada, 20% across U.S. banking, wealth and capital markets. And we do think we've got upside in the Capital Markets business, coming from the investments that we've made in the U.S. We think our wealth business will have good growth as we look into next year, and good operating leverage. And as we look at relative performance in the P&C businesses, we feel good about heading into next year. So, I wouldn't say the target is an easy target, but we think with all of the things that we've got underway, it's one that is – with a lot of hard work – achievable.

Mario Mendonca – TD Securities Equity Research – MD & Research Analyst

And the top line, to get to that efficiency ratio, you're not suggesting anything special about the top line, just sort of your standard, maybe 5% top line growth – you're suggesting would be sufficient.

Tom Flynn – Bank of Montreal – CFO

That's correct. Like mid-ish single digits top line.

Darko Mihelic – RBC Dominion Securities, Research Division – Financials Analyst

I just wanted to revisit the Capital Markets business, and I'm looking specifically at your supplemental, and I'm looking at page 11 in the supp pack. And what I'm looking at there is the trading component. And if you look at line 20, it's bouncing around all over the place this year from $81 million, $294 million, $122 million, $203 million. I'm just wondering – I don't get this granular in my model, but I am looking at this overall and I'm wondering – is this KGS-Alpha, what's causing the volatility, and how should I think about trading going forward from here, is this like the new run rate, the new normal, or should we expect significant growth here on the interest rate side and overall total trading?

Dan Barclay – Bank of Montreal – Group Head, BMO Capital Markets

Yes, I think the dynamic, when you take a look at some of those quarter-over-quarter numbers, there's an impact in what we call our structured note business. And that structured note business, when we look at the way we trade, sometimes shows up in equity, sometimes shows up in interest rates. And so, that's what's driving a lot of that quarterly volatility. As we look forward, I think an average over those quarters is probably the right way to look at it. And we do anticipate growth. We have made the investment in KGS, our securitized products business, we continue to make investments in that and do see meaningful growth coming from it over the next 24 to 36 months.

Darko Mihelic – RBC Dominion Securities, Research Division – Financials Analyst

Okay. Meaningful growth, how would you characterize meaningful growth?

Dan Barclay – Bank of Montreal – Group Head, BMO Capital Markets

I think for us, as we've talked about on Investor Day, we're looking for a U.S. platform to grow at kind of a 10% revenue CAGR, and I think that would be consistent with that.

Darko Mihelic – RBC Dominion Securities, Research Division – Financials Analyst

Okay. Quick question, last one, I promise it will be fast, going to the U.S. P&C business. Dave, what might help us is, just going back to Gabe's question about loan growth, because I understand that your business is really in about eight core states and then you have some specialty sectors, what would be great to know is the growth that's happening, say, outside of a couple of core states. So, if I were to say core states for you, I would always think of Illinois and Wisconsin. And, if I think about this over a 5-year period, how much growth has come from the other states and/or the specialty sector? I don't expect you to have these numbers at your fingertips, but it'd be very helpful to know kind of what's driving that growth. And then the question circling back is, why does it moderate. If you are growing in specialty in these other states, why does it actually have to moderate?

Dave Casper – Bank of Montreal – President & CEO, BMO Harris Bank N.A. and Group Head, Commercial Banking

So, good questions, Darko. The first part is, the growth has been really a national business for a long period of time. We absolutely do business in those core states on the commercial side that we have, and we have for the last 20 years, despite where our people may be and all these specialized groups in geography. We're out in the marketplace all the time. I would say well over 50%, well over 50% of where the loans are actually booked, where the clients are, is outside of that core business, and has been, and continues to grow. And, for example, our asset-based lending business or a dealer finance business or our food and consumer business, that's a national business and continues to grow. The reason I don't think it will subside because we've exhausted all of our opportunities. I think it will subside to some extent, if it does, just based on the general economic view. So, not a slowdown from our standpoint, other than just what I think would be slower economic growth in the U.S. Does that help?

Darko Mihelic – RBC Dominion Securities, Research Division – Financials Analyst

Yes, it does. Thanks.

Darryl White – Bank of Montreal – CEO

Thank you, operator, and thank you, to all of you for your questions.

In conclusion, as I mentioned earlier, we are going into 2020 with good momentum in all our businesses. Our commitment to our strategic priorities and key areas of focus will continue to guide us as we build on the decisions we've made, and the foundation we've established to the position that brings the bank forward with continued good performance. All of our employees are united in our ability to compete effectively, serving our customers, shareholders and communities well.

Thank you for joining the call today. We wish all of you the very best for the holiday season and a successful year ahead.