

## CORPORATE PARTICIPANTS

Tom Flynn - Bank of Montreal - EVP and CFO

## CONFERENCE CALL PARTICIPANTS

Robert Sedran - CIBC World Markets - Analyst

### Caution Regarding Forward-Looking Statements.

Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbor" provisions of, and are intended to be forward-looking statements under, the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives and priorities for 2012 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price, and the results of or outlook for our operations or for the Canadian and U.S. economies.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. 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 could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

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We caution that the foregoing list is not exhaustive of all possible factors. Other factors could adversely affect our results. For more information, please see the discussion on pages 30 and 31 of BMO's 2011 annual MD&A, which outlines in detail certain key factors that may affect Bank of Montreal's future results. When relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Bank of Montreal does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting 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.

In calculating the pro-forma impact of Basel III on our regulatory capital, risk-weighted assets (including Counterparty Credit Risk and Market Risk) and regulatory capital ratios, we have assumed that our interpretation of the proposed rules and proposals announced by the Basel Committee on Banking Supervision (BCBS) as of this date, and our models used to assess those requirements, are consistent with the final requirements that will be promulgated by the Office of the Superintendent of Financial Institutions Canada (OSFI). We have also assumed that the proposed changes affecting capital deductions, risk-weighted assets, the regulatory capital treatment for non-common share capital instruments (i.e. grandfathered capital instruments) and the minimum regulatory capital ratios are adopted by OSFI as proposed by BCBS, unless OSFI has expressly advised otherwise. We have also assumed that existing capital instruments that are non-Basel III compliant but are Basel II compliant can be fully included in the July 31, 2012, pro-forma calculations. The full impact of the Basel III proposals has been quantified based on our financial and risk positions at quarter end or as close to quarter end as was practical. In setting out the expectation that we will be able to refinance certain capital instruments in the future, as and when necessary to meet regulatory capital requirements, we have assumed that factors beyond our control, including the state of the economic and capital markets environment, will not impair our ability to do so.

Assumptions about the level of asset sales, expected asset sale prices, net funding cost, credit quality, risk of default and losses on default of the underlying assets of the structured investment vehicle were material factors we considered when establishing our expectations regarding the structured investment vehicle discussed in this interim MD&A, including the adequacy of first-loss protection. Key assumptions included that assets will continue to be sold with a view to reducing the size of the structured investment vehicle, under various asset price scenarios, and that the level of default and losses will be consistent with the credit quality of the underlying assets and our current expectations regarding continuing difficult market conditions.

Assumptions about the level of default and losses on default were material factors we considered when establishing our expectations regarding the future performance of the transactions into which our credit protection vehicle has entered. Among the key assumptions were that the level of default and losses on default will be consistent with historical experience. Material factors that were taken into account when establishing our expectations regarding the future risk of credit losses in our credit protection vehicle and risk of loss to BMO included industry diversification in the portfolio, initial credit quality by portfolio, the first-loss protection incorporated into the structure and the hedges that BMO has entered.

In determining the impact of reductions to interchange fees in the U.S. Regulatory Developments section, we have assumed that business volumes remain consistent with our expectations and that certain management actions are implemented that will modestly reduce the impact of the rules on our revenues.

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 the Canadian and U.S. governments and their agencies. See the Economic Outlook and Review section of this interim MD&A.

### Non-GAAP Measures

Bank of Montreal uses both GAAP and non-GAAP measures to assess performance. Readers are cautioned that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies. Reconciliations of GAAP to non-GAAP measures as well as the rationale for their use can be found in Bank of Montreal's Third Quarter 2012 Report to Shareholders and Bank of Montreal's 2011 Management's Discussion and Analysis, all of which are available on our website at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations).

Examples of non-GAAP amounts or measures include: productivity and leverage ratios; revenue and other measures presented on a taxable equivalent basis (teb); amounts presented net of applicable taxes; adjusted net income, revenues, provision for credit losses, expenses, earnings per share, ROE, productivity ratio and other adjusted measures which exclude the impact of certain items such as credit-related items on the acquired M&I performing loans, run-off structured credit activities, hedge costs related to foreign currency risk on purchase of M&I, M&I integration costs, M&I acquisition-related costs, amortization of acquisition-related intangibles, decrease (increase) in collective allowance for credit losses and restructuring costs.

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

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**Robert Sedran - CIBC World Markets - Analyst**

Okay, good afternoon everyone. Welcome back to the afternoon session. Our next guest is Tom Flynn from Bank of Montreal. Tom was appointed to his current position of EVP and Chief Financial Officer in March of -- I have of this year, it's been a few years now, hasn't it?

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**Tom Flynn - Bank of Montreal - EVP and CFO**

Last year.

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**Robert Sedran - CIBC World Markets - Analyst**

Last year. He joined BMO in 1992, he went on to serve in a number of roles within BMO Capital Markets businesses, including Head of Financial Services, Investment Banking, which I'm guessing came in handy during some of the M&I negotiations and some of work around there as well. He also served as Chief Risk Officer from 2008 to 2011, which as many people will remember was a particularly risky time. So before we start, I have been asked to tell you that Tom's comments may include forward-looking statements that are subject to certain risks and uncertainties. Listeners should consult BMO's public filings for more information.

So thanks for coming, welcome to Montreal.

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**Tom Flynn - Bank of Montreal - EVP and CFO**

Thank you for having us.

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**Robert Sedran - CIBC World Markets - Analyst**

I want to start and I know it's something you guys talk about regularly, but it's always helpful to get a little bit of color in terms of how the M&I integration is progressing and where we are in terms of the technology integration and how things are looking as we approach the end of the year.

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**Tom Flynn - Bank of Montreal - EVP and CFO**

Sure. So we closed our acquisition of M&I a little over a year ago; announced it in December of 2010. And I would say as we sit here today, we feel very good about the transaction and are happy where we are with the acquisition being behind us from a close perspective and our integration is going well. We have had the good fortune of having the transaction be accretive every quarter since we closed and that's better than the guidance that we gave on announcement and that's partially because synergies are expected to be \$400 million or higher currently compared to \$250 million as the estimate when we announced and we're around halfway there in terms of synergy realization to this point.

And the businesses are coming together in a really good fashion, so we're pleased with how the core operations are coming together. The management team was in place basically day one, and we're seeing good progress in the market on the commercial side where our commercial loan growth is 10% year-to-date through the first three quarters of the year; So good traction in the market, and good traction from a management perspective. The integration is progressing well. As I said, we are working on our systems conversion, which we expect will take place later this year and that is going well and on track. So good news is no big surprises of a really negative or positive nature and we feel good about the transaction.

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**Robert Sedran - CIBC World Markets - Analyst**

Why do these synergy numbers keep treading higher, I mean every time you guys sort of revise it, we find another \$50 million or so. So is there just a bunch of desks with cash stuffed in them that you've unlocked somehow?

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**Tom Flynn - Bank of Montreal - EVP and CFO**

We wish it was that easy. When we came out with the synergy number on announcement, I'd say we were a little bit cautious about the number we put forward because we had only done so much work. And as you know in any M&A transaction, you do detailed due diligence, you talk to management, but you learn a lot more after you announce and get the opportunity to get into the business in even greater depth.

And as we worked through our plan for integrating the business, we found more opportunity to reduce the cost base of the combined companies. And so I'd say the pattern we went through isn't that unusual and that not infrequently estimates where synergies increased through time. The increase here maybe is a little over average, reflects a lot of hard work by people on our teams. And I think if you compare the synergy number that we're talking about now as a percentage of the expense base of M&I pre-transaction, we would be in a zone of what you would expect based on other US bank acquisition transactions.

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**Robert Sedran - CIBC World Markets - Analyst**

When you think about the technology integration, that is I guess the next big step and that is scheduled for later this year, I think you said, right? Is it a question of moving everyone on to the old Harris platform? Is it a question of a brand-new system being implemented throughout both legacy banks or how significant is this? And when you think about these kind of processes, it always seems like they never go completely smoothly. So what kind of contingency are you building in that case as well?

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**Tom Flynn - Bank of Montreal - EVP and CFO**

Well, a few comments on that. First, we're not doing anything that hasn't been done many times before. So systems conversions are big events that require lots of work. But they happen all the time and there is nothing about this conversion that makes it unusually difficult. It's not a single conversion. So there are different systems within the platform that run to varying degrees independently. And so the approach we're taking varies by sort of component of the overall systems architecture in the operation.

And for some of the parts of the technology platform, we're moving to the legacy Harris platform. In a few instances although not as many, we're moving to parts of the M&I platform and in some cases, we're moving to a new platform that will give us greater capacity to deal with the larger volumes that we've got from the two banks and also more scalability going forward if we had volumes through time. And we think it will go well and they're big undertakings, they're complicated. We've got a really good team of people focused on it internally and we've also got good support from a couple of firms that are helping us and have worked with other clients through time. So we're not expecting any big surprises as we work through the remainder of the work.

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**Robert Sedran - CIBC World Markets - Analyst**

Okay. So that's the expense story. When you think about the revenue opportunity in the US and how things are progressing against what you would have hoped or planned for, those are two different things presumably. I'm guessing that the economic recovery is perhaps not as robust as you would have hoped for into 2012 is when you actually announced the deal. So progressing against what you would have planned for in the top line, is revenue coming in as you would have hoped as well?

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**Tom Flynn - Bank of Montreal - EVP and CFO**

More or less, yes, and I say more or less because you have to tell the story in the parts. On the commercial banking side, we're happy with the performance that we've had in the core C&I portfolio, up 10% year-to-date as I talked about earlier and benefiting from a really strong capability that results from putting two banks that were good in that area together. The commercial real estate portfolio we have talked about as being an area where we're reducing it in places, so we're running

off some of the higher risk commercial real estate that M&I had. We announced that plan at the time that we announced the transaction and have talked about it since.

And what we're finding there is that the portfolio is running off more quickly than we expected and that's a good news and a bad news story. The good news is that we're getting to the risk position we want to get to more quickly and that's a positive. The bad news is that there is a revenue consequence from that. And so we're behind where we thought we'd be on that portfolio from a revenue perspective, but not unhappy overall given the positive on the risk side.

The growth expectations that we had on the personal side of the business were pretty modest given the state of US consumer leverage and also the state of the housing market. And so there we're pretty much performing in line with expectations and no big surprises.

So overall, the revenue picture is in line with what we would have expected. And the most important part of the revenue picture we think is what's going on on the commercial side because that's where we expect the growth to occur, and we're pleased with how things are going there.

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**Robert Sedran - CIBC World Markets - Analyst**

And when you think about the Midwest, I guess it has been knocked a bit sideways lately by some of the drought conditions that persisted through the summer. Is there any lasting impact on the region or is this more of a headline grabber or not much of an impact on your business?

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**Tom Flynn - Bank of Montreal - EVP and CFO**

I think it's a headline grabber, and we don't expect a significant impact on the business. The drought is absolutely having consequences for people in the agricultural business, but a good portion of the crops that are affected are insured and I think the number is, about 70% of the core crops in Illinois and Wisconsin are insured. And so the harvest levels are down, but people are covered by the insurance, and we don't think as a result, as we talked about in some detail on our Q3 conference call that there would be a significant credit consequence from the drought.

And the agricultural portfolio for us is one that is meaningful. It's a good part of our business. We've got a good capability there. So growth might be down a little bit, but we think that it's a transitory kind of a thing, and in the industry you have droughts from time to time and they impact the business for a year. But we don't think this will have more significant consequences.

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**Robert Sedran - CIBC World Markets - Analyst**

Okay. So it seems to me, the track record of M&I so far is that you've bought very well, and the integration is all progressing very well. So maybe it's a little early to ask this question, but in terms of the overall footprint, as you're sort of approaching the full integration, how do you define scale in the US?

You clearly have it in Canada, do you have it in the US market and do you see it as a moving target? In other words, as competitors grow, scale gets redefined higher, or are you big enough to be at the point where you are now, where acquisitions are more of a nice to have rather than a need to have?

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**Tom Flynn - Bank of Montreal - EVP and CFO**

I'd say we're at the point now where acquisitions are more of a nice to have than a need to have, and we did think before the M&I acquisition that it was important to add to the scale of our US banking business and had been on the record for a few years saying that we wanted to meaningfully increase the size of that business. The M&I acquisition roughly doubles the banking business we've got in the Midwest.

We define our markets as being mainly in the Midwest. And in the Midwest states where we compete, we've got good positions. We're number three in those states overall from a deposit share perspective. We're number two in Chicago and we're number one in Wisconsin. So we've got a good position now in the market. Don't think that we need meaningful incremental scale to compete effectively in that market, and don't define our ambitions more broadly. So we'll look at smaller acquisitions that help us in local markets, but don't have a focus now on doing larger transactions like we did with M&I.

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**Robert Sedran - CIBC World Markets - Analyst**

Why do you think the M&A environment has not been hotter? There's no question that the benefits of scale are certainly there. The regulatory environment is making it difficult for the smaller guys to operate. The carry trade maybe comes back someday, but it's certainly not there now, and I guess the bid-ask spreads still too wide. Are the seller's expectations still not rational?

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**Tom Flynn - Bank of Montreal - EVP and CFO**

I would say sellers have expectations that are higher than buyers. That's always a case to a degree, but I think it's particularly a problem when valuation levels are relatively low. And US banks trade at low multiples of tangible book. And I think in many cases, bank management teams and bank boards believe that it's better to hold out for a better price in the future, then sell at the current low valuation multiples and that may well be the right thing for them to do. And so I think a bid-ask spread is a contributor to the low level of M&A activity that we've had. And as well the economic uncertainty that exists has contributed to it as well. So we've got a situation in Europe that has been a source of uncertainty for everyone an overhang on activity, and the US is in the election cycle and that creates some uncertainty as well. And so those things have contributed to the lower level of activity, I think.

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**Robert Sedran - CIBC World Markets - Analyst**

So it doesn't feel like anything is going to -- there's no M&A catalyst that are picking up in the markets?

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**Tom Flynn - Bank of Montreal - EVP and CFO**

I don't think so.

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**Robert Sedran - CIBC World Markets - Analyst**

And you're perfectly happy to just keep integrating M&I and keep bringing the synergies out of there and not too focused on the M&A market right now.

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**Tom Flynn - Bank of Montreal - EVP and CFO**

Correct.

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**Robert Sedran - CIBC World Markets - Analyst**

Okay. I want to move to the Canadian P&C business for a bit and the margins have gotten almost, not too much, but it's certainly gotten a lot of focus in terms of the margin for the industry and where things are going. Do you think there's been too much focus on the margin in the business and the underlying trends are still positive or is it the right place to be focused right now?

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**Tom Flynn - Bank of Montreal - EVP and CFO**

I think it's a right place to focus amongst others. So the margin is an important driver of revenue growth and income growth and it is moving. So it's fair for analysts and shareholders to look at the trends and to ask about what's going on. That said, I think the focus has probably been a little disproportionate recently.

And to me, there are a few fundamental things going on, one is that rates are low, they've been low for a while and through time low rates have a negative impact on spread. We've seen that in our results and the industry is seeing that in the results generally. And so there's kind of not a lot of news in the fact that there is margin pressure, and point number two would be quarter to quarter the margin can move around.

And I think there's probably a little too much focus on the quarter to quarter noise that exists in the margins, and don't know that all of that discussion is all that informative for people. But I absolutely think that keeping an eye on the longer-term trend is an important thing for people to look at. And we've said that we expect there will continue to be some pressure on the margins into next year, view that as being driven mainly by the impact of low rates as opposed to competition and we'd expect trends that aren't that dissimilar from what we've seen over the course of the last year for the industry.

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**Robert Sedran - CIBC World Markets - Analyst**

Is it as simple as 25-50 basis points of rate increases and we should start to see some of that pressure ease? Is there a magic level we need to get to or is it the shape of the curve? Because I think the general assumption is that rates aren't going anywhere materially for a while, but that there's a potential into next year that the Bank of Canada may decide to start moving rates. Is it just that short-term rate providing a little bit of relief?

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**Tom Flynn - Bank of Montreal - EVP and CFO**

It's a combination of a few things and it varies based on different parts of the business. And so, we and other banks match our interest rate risk in the banking book and in essence we have interest rate expense that's floating against floating-rate assets and fixed against fixed-rate assets. And fixed means that we're paying a cost of funds that has about a two-and-a-half year duration. And so if short rates start to move up, that will help parts of the business, won't impact others.

And in general, a parallel shift up in the yield curve is a good thing for the core banking business. If the market believes that the Bank of Canada is going to move into a tightening phase and that will go through a period of time where rates will move up through time, you can get some compression in spread as a near-term phenomenon because BA rates will rise more quickly than the official rate and that can cause a little bit of what we call prime to BA compression, but I think that's not an important issue from a longer-term perspective. And in general, higher rates are a good thing for profitability and that will be true across the yield curve.

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**Robert Sedran - CIBC World Markets - Analyst**

We talked a fair bit about the housing market this morning in a few of the sessions and I guess one of the surprising features has been the pace at which loan growth continues to expand, it's slowing, but it continues to expand, I think, faster than what seem to be sustainable rates. Has the pace of growth been surprising to you and is there a danger that we are actually inflating a bubble with some of the growth or are you comfortable with the housing market in particular in Canada?

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**Tom Flynn - Bank of Montreal - EVP and CFO**

We're comfortable with the housing market in Canada. We think that there is a balance of supply and demand and affordability is just fine given low rates, even though price has gone up. That said, we have been supportive of the

measures that the government has taken to cool the market, and we think that a cooler market would be a healthy thing for the economy.

So our hope is actually that things cool somewhat and that's more of a volume comment than a price comment. And it looks like we're seeing early signs of that and we have been a little surprised by the growth that we've seen in the last couple of quarters, it's been higher than we expected, and our expectation is that growth will go down somewhat over the course of the next year and we think that that's good for the health of the market.

We're not expecting any kind of a significant contraction from a volume perspective or a price perspective. And reading the paper today, it was kind of funny to me that there was sort of a, "Oh My God" headline about signs that the housing market is cooling, because in fact people generally want the housing market to cool and the hope would be that as we see signs of that, there isn't alarm, but it's a sort of confirmation of the trends that people want to see and it's viewed in that kind of a light.

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**Robert Sedran - CIBC World Markets - Analyst**

A sign of relief more than getting concerned. Have you changed at all the adjudication standards or the credit standards? I know that the bank has been early or was certainly pushing much more on the 25-year AM product, which is fundamentally a healthier product for the consumer. But beyond that one product, have you been tightening standards across the credit channels as consumer debt has been rising, or is it still the Canadian consumer looks like they're okay, there's more doubt, but we think it's okay, we're going to continue to write business? What changes have you made to the process in terms of keeping the risk down?

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**Tom Flynn - Bank of Montreal - EVP and CFO**

So I'd say we've done a few things on the personal side and some on the commercial side as well. On the personal side, over the last two to three years, we have tightened in places as we look at our loan underwriting. As examples of that, as short rates have come down, we've underwritten variable rate mortgages off of a debt service capacity that's based on longer-term fixed rate, which would be higher and would result in people having less capacity to pay their mortgage. So we've sort of strengthened our disciplines around that over the last few years and we've stuck to what we think are good prudent underwriting standards generally.

We had been a promoter of 25-year mortgages and we were early in doing that in the market. We can't tell, but we believe a bigger portion of our book has a 25-year AM than would be average and we think that's a good product for consumers in a low rate environment because they're able to pay off their mortgage more quickly, given low rates and become debt free. So we've promoted that product as something that we think is good from a brand perspective, good from a customer perspective and we've been supportive of the government's measures to move in that kind of a direction.

On the commercial real estate side, we've exercised some caution and in that part of our business, we haven't been growing at the same rate that some of our competitors are and in areas we're not growing at all and we're comfortable with our exposures, but we think given the environment that they're at the right kind of a level and we haven't looked to increase those exposures.

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**Robert Sedran - CIBC World Markets - Analyst**

Is there a particular segment of the CRE market that concerns you?

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**Tom Flynn - Bank of Montreal - EVP and CFO**

I wouldn't say we have concerns so much as that we think it makes sense to be prudent given the overall state of the market and some more general sort of macro view versus any particular part of the market.

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**Robert Sedran - CIBC World Markets - Analyst**

Okay. So the expense picture for the bank as a whole is obviously clouded by the synergies that are coming in. So if you can kind of strip out the M&I impact on the bank overall, are expenses still a potential upside as we look into 2013 in terms of the ability to secure some operating leverage or are you expecting to have to reinvest still in the Canadian branch network and to reinvest in the Capital Markets franchises and so operating leverage can be tough for next year? We keep waiting for expenses to be the theme, and it seems always to be the next year as opposed to this year, what do you think about the outlook in 2013?

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**Tom Flynn - Bank of Montreal - EVP and CFO**

Well, we think we're doing pretty well in 2012. So in our third quarter, stripping out the impact of acquisitions and also the impact of a stronger US dollar, our expenses were down quarter over quarter and were basically flat year-over-year. And so we have been focusing on what we call productivity at Bank of Montreal and have a formal effort underway to do that and think that that focus contributed to what we saw as good expense growth numbers quarter over quarter and year over year.

And our expectation is that revenue growth in parts of the business over the next year or two will be lower than we've seen over the last three to five years and with that it will make sense to focus on expense and productivity, part of which is driving revenue in different ways and we're very much focused on that and think that it will be a part of the story for next year and I think that there's opportunity for us there.

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**Robert Sedran - CIBC World Markets - Analyst**

Is there an element of project spending that is easy enough to -- not turn off and on, but to slow and accelerate that you can actually manage the expense outlook a little bit more aggressively if you think things are slowing or are these projects or is there spending going on that it's just stuff that has to happen because you're sort of spending now for growth in 2015, 2016 and beyond?

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**Tom Flynn - Bank of Montreal - EVP and CFO**

Yes. It's a bit of both. So we have a large program of IT spend. We manage it as a portfolio and our experience has been that once you decide to do something and you've started to do it, you're best to keep on going because if you slow it down, you end up spending more money ultimately to finish the project than you otherwise would and it's disruptive to the employee base because you're stepping on the accelerator and the gas.

So once we commit to doing something, we tend to keep on going. We do manage the size of the portfolio based on the outlook. So in places where growth expectations slowed, we would reduce our project spend, on the margin from a new project spend perspective.

What we're trying to do though is not cut discretionary IT spending and in fact, as we've looked at our budgets, we don't want to do that because the returns on that spend typically are quite high and we're trying to, as we look at our cost base, look at just how we can manage the bank in a more efficient manner.

We're looking at the big core processes that exist in the operations. So for example, the processes that we would have supporting the on-boarding and servicing of mortgages and we're dissecting those processes to try to make them more lean and more automated, and with that to lower our cost base. So we're trying to get at the fundamental drivers of the cost base and to lower those as opposed to just cutting expenses that are more discretionary at the margin.



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**Robert Sedran - CIBC World Markets - Analyst**

Do you think that the retail, like the P&C bank efficiency ratio can get into the mid 40's or is 50% kind of the level as far as you can push that thing, I mean there's a level at which I guess you have to spend, right?

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**Tom Flynn - Bank of Montreal - EVP and CFO**

Well, there's absolutely a level at which you have to spend. We're running sort of 50%, 51% year-to-date in our personal and commercial banking business in Canada and we would absolutely expect that number to move into the 40s, aren't expecting it to move into the mid-40s in the near term, but we want to manage that number down through time.

We don't think we'll be a low-cost producer in that business because our model is somewhat more service oriented than some of the other banks. We think that makes sense from a customer perspective and from a revenue perspective, but with that comes some costs, and so we aren't targeting to be at the level that the lowest-cost banks would get.

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**Robert Sedran - CIBC World Markets - Analyst**

I want to ask a question about the insurance business. I have to assume that you probably could not have foreseen the level of interest rates that we actually got when you purchased the AIG Life business in Canada. But, so leaving aside the fact that profitability has probably been not what you'd hoped for, how good has been the ability to cross-sell that product and to cross-sell that business into the advisor network? And can you talk a little bit operationally about how it works within the bank? Is it the uptake and how it's working out from an operational perspective?

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**Tom Flynn - Bank of Montreal - EVP and CFO**

So we're very happy with the acquisition overall, bought the AIG business at just a little bit over book at a good time, and so it was a well-priced acquisition. We did not foresee the rate environment and so we've taken some hits on the rate side. The returns were still positive, and away from the impact of rates, the income is meaningfully ahead of the business case that we had at the time that we did the acquisition. And we found a few sources of sort of synergy, which isn't quite the right word on the revenue side.

Firstly, we are selling the product through our distribution channels, including our investment advisor channel, and have had very good success at increasing the percentage of insurance that we sell overall coming from our own product. And it's still an open shelf and a competitive shelf, but we're getting a bigger share of the pie with a very competitive offering and we've seen good take-up on that and we're pleased with that.

And we've also found that in both the direct part of that business and the insurance brokerage part of that business, people have welcomed the sort of stability that comes from the bank brand. And so at a time when there was some question about the health of the financial system having a large Canadian bank branded product has been a positive in both of those markets. So the sales have been better than expected and we feel very good about the transaction and how the business is performing.

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**Robert Sedran - CIBC World Markets - Analyst**

Okay, we've got about a minute left, which is a tough time in which to just address one topic, I did want to talk about was the commercial lending side of the business. It feels like as much as it's a more optimistic take on loan growth on that side, it also feels like competition is picking up as well. Is it more on price or is it more on the terms that people are willing to lend at, that you see in the competition and does it concern you?

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**Tom Flynn - *Bank of Montreal - EVP and CFO***

So the market is competitive, has been competitive and I think the general view is that growth will be better on the commercial side and so people are naturally focusing there. And from what we've seen over most of this year, there is not significant competition that would impact margin and terms from sort of a credit risk perspective have largely hung in.

So we're not seeing a meaningful erosion of credit terms and so I think it's just -- people are putting resources against the opportunity, competing with FTE and marketing support and technology, but not competing in other ways, that would have a negative consequence to the profitability of the overall industry and I would say we're not concerned, but we're very focused.

We have a strength in commercial banking, we're number two in the market with a 20% share and we feel good about our ability to compete and are doing fine from a share perspective. And so we're very focused, confident in our ability to compete and don't think that we'll see a fundamental change to the nature of the competition in the market.

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**Robert Sedran - *CIBC World Markets - Analyst***

And is the optimism on that business line still warranted, in terms of the feel?

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**Tom Flynn - *Bank of Montreal - EVP and CFO***

I think it is. I think the growth on the commercial side should be higher than on the personal side. I would say the commercial growth has been lower than you would have expected typically coming out of a downturn and that's because this recovery has been weaker than most are and we've had issues to worry about from a tail risk perspective with Europe and the fiscal issues in the US. But assuming we've got a continuation of the low growth recovery and Europe continues to settle down, we think we'll have better growth than personal and sort of 7%, 8% growth is not unreasonable we think heading into next year.

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**Robert Sedran - *CIBC World Markets - Analyst***

We're out of time. Thanks, Tom, so much for your time. It was a great half-hour; really appreciate your participation in the conference.

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**Tom Flynn - *Bank of Montreal - EVP and CFO***

Thank you very much.