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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 Bank of Montreal included industry diversification in the portfolio, initial credit quality by portfolio, the first-loss protection incorporated into the structure and the hedges into which Bank of Montreal has entered.
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 Developments and Outlook section on page 32 of BMO's 2013 annual MD&A.

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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; adjusted net income, revenues, provision for credit losses, specific provision for credit losses, expenses, earnings per share, effective tax rate, ROE, efficiency 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, M&I integration 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.

Darko Mihelic - RBC Capital Markets - Analyst

Okay, so we have Bill Downe from Bank of Montreal with us and as before I'm just going to quickly give us the forward-looking statement cautionary. I've been asked to tell you that Bill's comments today may include forward-looking statements. Actual results could differ materially from forecasts, projections or conclusions in these statements. Listeners can find additional details in the public filings of BMO Financial Group.

So with that out of the way Bill, I'm going to take a different tactic with you this morning. I think one of the things that you left with me at the last conference call was the high degree of confidence to your momentum. It doesn't seem to be shared by the Street, the consensus estimates are low. So maybe we could just start off with a discussion on why you're so confident on the momentum that you've got going into 2014.

Bill Downe - ***Bank of Montreal - CEO***

Okay. Well, thanks for the question, Darko, and thanks for having me here this morning. It's nice to start the year in January with a fresh look at where we've come from and where we're going and I think that question feeds right into it.

I look at 2013 as a full year, as one that was very successful against a pretty clear agenda that we had, and I think that really is the source of confidence.

We had earnings over $4 billion. We increased our retained earnings very significantly. We finished the year with a Tier 1 common equity ratio of 9.9%, which is pretty much best-in-class among the Canadian banks. We returned over 60% of our earnings to shareholders, we announced two dividend increases during the year and we bought back close to 11 million shares. But more fundamentally the businesses that we're in and that are the largest for the bank, really the business mix, I think is perfectly suited to where we are in the cycle. We're overweight commercial banking and I think going into an expansionary phase in the United States, we're going to benefit from continued strong C&I loan growth and I think that's going to spill over into Canada. The Canadian economy has been more dependent on the consumer for the last three or four years than the US economy. The consumer is clearly going to slow down a little bit. And on a relative weighting basis, we're more tilted to Commercial Banking. And I think the investment cycle both in Canada and the United States is going to benefit the market in that way.

The slowdown on the Canadian side in consumer debt formation is a good thing. In essence, it's a shift on the part of the consumer from borrowing and spending, to saving and investing. And I guess that fits in pretty well with our other area of concentration and strength and that's the Wealth Management business, and across all of the potential ways of going to market in Wealth Management. Whether it's the institutional asset management business, which is much bigger today than it was five years ago, because of acquisitions that we've made in the US and outside of North America. Our brokerage business in Canada is very strong, and we've been making continuous change there to adjust that model. It's almost completely now a fee-based model and very profitable. The direct brokerage business is doing very well. Mutual funds, both in Canada and the United States are doing well. And the way the distribution system is working, the retail distribution system is working with wealth is also a very positive attribute.

So there are two sectors of the financial world that are going to show good growth, where we're very well positioned. And I guess the last bit would be if you look at the four operating groups in the bank, the plans are unfolding pretty much as we had hoped they would.

Personal and Commercial Banking in Canada finished the year very strongly, the last two quarters, reflecting very good loan growth and in the concentrations that we have been focused on. Shorter maturity mortgages are better for the consumer and clearly better positioned in the market environment where we could have rising interest rates. Commercial balances in Canada, both loans and deposits, showed good growth. Earnings in the year were up 4%. We had good revenue growth. Expenses were under control. At the same time, we've been investing in the physical distribution. I think we upgraded 75 distribution points in Canada during the year. So we're confident in that business.

The US finished the year pretty much even with the previous year, which really was a consequence of being able to grow balances, notwithstanding the fact that the return that we receive on deposits continues to average down in that market.

Wealth Management, as I said, very strong performance, both in the insurance and in the traditional wealth management businesses. And that was because of two things; growth in net new assets, so very strong asset origination and obviously the market effect. And I think that market effect will benefit us this year, because the market itself rose over the course of the year, it's not averaged in completely yet.

And then in Capital Markets, our position in Canada continues to be very strong on the corporate finance side, in the underwriting business, in the M&A business, and in the US, the investments that we've been making sequentially for almost a decade, and in people over the last four or five years, is paying off. And in terms of book runner mandates last year, I think we did 185 or 186 in the US, it's about twice as many as we did in the previous year. And the research base in the US is not only very strong, but it's getting league table recognition and I think we had six analysts in 2013 in the US in the Institutional Investor Top Ranking Survey this year.

So all those pieces, because they're tracking to stated intention Darko, is part of the way we think about the future of the business and what gives me confidence that staying the course, being consistent against the strategy and taking advantage of the market positions we have will pay off in superior performance.

Darko Mihelic - ***RBC Capital Markets - Analyst***

So let's drill down a little bit. I mean we had Gord up here speaking about the slowdown in the consumer loan formation. You mentioned it as a good thing, but as an outside observer when I looked at your mortgage growth in the last quarter alone, it was very high double-digit. Your mortgage growth is very different from peers. Can you maybe talk a little bit about your design, how you're attracting the shorter-term mortgages and can that actually continue? Can you continue to have loan growth in mortgages at such a high rate relative to the marketplace and relative to your competitors?

Bill Downe - ***Bank of Montreal - CEO***

Well, I'm confident that we can grow more strongly than the market average if the market slows down, no question, because the consumer will be creating less debt, I think we'll see a moderation, but at a slower rate than competitors and there's a number of reasons why I think that's the case.

First of all, if you think about the footprint of the bank relative to our market share, we have about 15% of the distribution points in the market and our market share is around 10%. So, I think that's point number one.

Point number two, the frontline in our organization, and that would be people who work both in bank branches and on a virtual side, whether it's online or in the call centers, have a lot of conviction about the quality of the product. And I think that's one of the benefits that came from the focus on shorter maturity loans that it's viewed by the people who work in the system as being better for the customers and I believe they have a lot of confidence and I think that helped fuel the superior performance in the year. So the combination of bringing market share closer to what I would consider to be natural share and high quality product that the sales people are proud to sell is a good combination.

Darko Mihelic - ***RBC Capital Markets - Analyst***

One of the things that's come up is -- I mean, Bank of Montreal had exited the broker channel a few years back, but you've been active in purchasing third-party sourced mortgages. How is it any different from being in the broker channel and is it a significant part of that outperformance?

Bill Downe - *Bank of Montreal - CEO*

It isn't a large part of that outperformance, but I think it does contribute to the quality of the mix, because when you acquire in bulk you can target quality, very specifically when you buy mortgages out of a broker origination channel it's very difficult to manage the loan quality and it's more expensive than if you buy in bulk, simply because you have cost associated with the origination process, you have administration.

So, I think Frank Techar and the team in Personal and Commercial banking has been very intelligent in the way they've used that to add to the portfolio, and as I say, I'm pretty confident that they've been able to add high-quality assets opportunistically and sometimes they're there and sometimes they're not, but it was a good opportunity. The growth rate isn't dependent upon that.

Darko Mihelic - *RBC Capital Markets - Analyst*

And then just going back to the product, I mean we can leave this topic really quickly, but why haven't the competitors matched your product? Why have we not seen any of the other Canadian banks come out with a shorter-term maturity mortgage and blast away at that?

Bill Downe - *Bank of Montreal - CEO*

Yes, I think the structure of the whole market has shortened, so anything that is CMHC-insured is coming down to shorter maturities. I don't think that the market has broadly seen that as a growth opportunity and unless you're focused on tying it back to brand attributes, a better mortgage, the whole notion is that we want people in the right home with the right mortgage, has an appeal to a segment of the market, but not to the whole market.

And I think we've tried to adhere to brand conviction and as a consequence, we've probably attracted a segment of the market, because as you know, if you go to a shorter amortization period, the maximum amount of debt comes down on a debt service capability. So, logically, it forces people perhaps into a more conservative decision around home buying and that's a market segment that we really benefited from the expansion.

Darko Mihelic - *RBC Capital Markets - Analyst*

So maybe we'll just switch gears into the US, which is receiving a lot of attention. Maybe I'll ask the question this way, when do you think revenue growth actually turns positive in US P&C Banking and how dependent is it on the Midwest outlook for GDP growth and unemployment? And where I'm going with that is that I mean I see some of your competitors growing their loan books at rates of growth that are well in excess of yours. Wintrust, Associated Bank, and so on. Can you give us some insight into how you are looking at that for 2014, if any of your recent initiatives will help improve that and if you think this could be the year, that 2014 is the year where we see some significant revenue growth out of the US?

Bill Downe - *Bank of Montreal - CEO*

I think 2014 certainly is the inflection year. I'm not sure that I would call for significant net growth, certainly in the first half of the year, but I think we'll see a continuation of strong C&I balance growth and that's been a characteristic of the combined platform for the last three years and that would be across the six Midwest states.

The six Midwest states are not all equal. Certainly Illinois has the highest unemployment rate, has had the slowest recovery in homes and there continues to be a broadly elevated level of foreclosures. I think that will abate this year. Wisconsin has shown better employment, better GDP numbers, and in Indiana, Kansas, Missouri and Minnesota better. So all states are not equal, but C&I growth has been very good.

If you look at small business lending, small business lending has really tracked the local economy and we've seen a decline in balances in small business lending sequentially over the last, almost, six years, very gradual decline. But we really put a very significant focus on support of the frontline in small business lending across the Midwest states. And I can see good performance around the calling activity, around new facility pipelines, so very significant improvement. We couldn't promote that business very heavily pre-conversion, because there was going to be a lot of systems adjustment and that's all behind us. And so I think we're going to see small business lending do much better in 2014 and 2015.

The loan run-off from the portfolios that we designated at the outset for run-off, I think at closing they were $4 billion. We ran some off before we got to closing, they're down to about $1.4 billion. So the headwind of the natural attrition of assets that are not consistent with our business model has gone exceptionally well. And so, I think this year that's essentially behind us.

So then that really moves us into retail banking, and in retail banking, I guess there's a couple of ways that you could grow your portfolio. One is you could portfolio mortgages. We don't think in the long run that's a particularly intelligent thing to do. So we've seen continued growth in the service portfolio, but a plateauing of the mortgages on balance sheet.

When you go into this spring cycle, my guess is you're going to see a great deal more home building. The refinance boom is over and we didn't participate to any great extent in the refinance boom. But I think we'll be able to participate more in the new home construction market and the consumer in that Midwest market is in much better shape. Their credit scores, their debt ratios have improved.

So, I think, 2014 is an inflection year. A couple of things will be outside of our control. If you just look at treasury rates, treasury rates are up year-over-year. I think the five-year treasury is almost a point higher than it was this time last year. When I was at this conference last year, I was asked about what was going to happen to the deposit rates and we really thought it was 2015 before you'd see that deposit rate effect abate. I think it's going to be sooner. I think by the middle part of 2014 we'll have a little bit of relief. It all depends on what I think is going to be a steepening of the yield curve, which really is a consequence of the gradual withdrawal of quantitative easing.

And then finally the legislative process in the US has been somewhat painful and that's been discouraging to business investment and I think we've seen a shift in the strategy, where virtually all the work that was being done on the front page of the New York Times is being done in Committee and so it's not unusual now to wake up in the morning and find out that the House of Representatives has crossed another threshold and they are announcing a deal as opposed to negotiating it in the paper.

So I think the whole environment, which we expected to improve going into 2014, because mid-term election years generally are more responsible years. So I think overall that business should go from pretty stiff headwinds, which we were quite confident would abate to a more neutral environment. And at some point in the future there is going to be the benefit of tailwinds.

The one thing I will point out is that we turned the page on October 31, because all of the complications that go with acquisition accounting, conversion cost, which by the way went extremely well, are essentially behind us. So when you look at the performance of the company going forward, the difference between reported and adjusted earnings now should essentially be the amortization of intangibles. So I think there was a lot accomplished in that two to three-year period. And in some ways the delay in the recovery in the Midwest market worked in our favor, because we had a lot of work to do and I would have hated to miss the uptick while we were getting those system alignments done. So that said, I think 2014 ought to be the inflection year and we're looking to 2015 to be very strong; that could come in a little bit.

Darko Mihelic - *RBC Capital Markets - Analyst*

A couple of things actually on that I want to touch on. One is you mentioned the relief possibly from rates on the deposit side. What about deposit growth? I haven't heard much about your deposit market share, whether or not you're actually in the mode of actually grabbing market share.

Bill Downe - *Bank of Montreal - CEO*

Well, we've certainly done well in market share over the last three or four years. The core deposit share numbers are very good. We've been able to run off some relatively expensive funding that came with the acquisition and I think that's obviously been positive for the business.

But the core deposit business, you know, really does require you to open new accounts, and on the commercial side, on the C&I side, the large commercial side, we have had deposit growth that has been about half of the rate of the loan growth, which from my perspective is probably not bad. I think that next year we'll probably not see 15-16% loan growth, but maybe a little bit less, but we should probably see stronger deposit growth.

Where I would expect that the focus on the market will pay off is in small businesses. As you open those small business accounts, that should lead to deposit growth. And then I think we're going to be able to be in the market more aggressively from a promotion and advertising perspective in support of retail banking in 2014 and 2015. And as the consumer wakes up, I'm pretty optimistic.

If you look at that market, we're either the number one, number two or number three competitor in virtually each of the big urban centers. Those are big cities and within those cities the brand of the bank, the history of the bank and the reputation of the bank has a lot of traction. So from a competitive position I don't think you could ask for more.

Darko Mihelic - *RBC Capital Markets - Analyst*

You mentioned you turned the page on expenses and a lot of the initiatives that you've been working on the last couple of years. And now you've introduced Frank Techar as COO in a North/South initiative, can you give us an idea of: a) where can your efficiency ratio go; and b) what it is that Frank's going to be doing for that reduction in cost or improvement in sales?

Bill Downe - *Bank of Montreal - CEO*

I think consistency across all of retail and commercial banking in North America will have a number of benefits. Certainly from a customer growth perspective, it will allow us to be more focused in our investment and consistency of brand really does have some benefits cross border.

Many of our Canadian clients do business in the United States, and the reverse, many of our Midwest clients look at the Great Lakes economy as the driver of a big portion of their business and Canada plays a part in that. So I think we'll certainly get some brand efficiency and that means that every advertising dollar, I think, will have just a little more traction.

It's really, though, the refinement of systems and simplifying the work of the frontline bankers and the mid-office bankers where I think we'll get productivity improvement. And it's really the ability to grow revenue and grow the customer base without having the expense base grow faster and that's really where I think the operating leverage in the business exists. And without question, retail banking in the US can benefit from the application of many of the things that we've been doing in Canada; the application of that mindset.

I think as Chief Operating Officer, he has the benefit of having been the President of Harris Bank for four years, he knows that market exceptionally well, understands what's common and what has to be done in a different way. But I also think it sends a signal to many other parts of the bank about consistency on both sides of the border. So all of the control functions, which historically may have been aligned separately are going to have to run against one playbook, North and South. That means that the signals to the bankers will be consistent, everyone will understand that that the playbook operates in the same way.

So I'm very excited that both the revenue growth opportunities and the ability to do that without driving cost up and it's going to inject energy into both sides of the business. We have almost 1,700 [sic] bank branches now. That gives us the Number 2 retail distribution footprint of the Canadian banks in Canada and the United States. We haven't achieved the scale advantage of that today. And we had to get the integration and conversion behind us before we could do that, but we're now running many things on common platforms that historically we wouldn't have been able to do.

And then I think the last part, Darko, is the behavior of consumers around the purchase and consumption of financial services is changing. Many of the devices that we all use to communicate, make it much easier to do your banking from anywhere. And what we can see is great enthusiasm on the part of our customers to control transactions using digital media and e-commerce type tools. And what that's doing is freeing up more time for the guidance and advice part of the business. And I think the retooling of the retail stores within our distribution footprint is a big passion that Frank brings to the equation. And I think being able to do that across the whole distribution system at once and not have it done in Canada one way and in the United States another way is going to be an advantage that's really going to pay off.

Darko Mihelic - *RBC Capital Markets - Analyst*

All of it doesn't sound like it's a 2014 event, though. It sounds like these initiatives that are underway really are for 2015 and beyond. Would that be a fair statement?

Bill Downe - *Bank of Montreal - CEO*

You know what? No, I think it's incremental. We did things in 2011 that paid off in 2013, did a lot of things in 2012 that will pay off in 2014, and I don't think you want to signal that the bank was going in this direction, it's going to go in a different direction, and that's going to pay off. We started the process of making the adjustments quite some time ago. And I think it's one of the reasons why you've seen revenue growth a little bit ahead of expense growth. But not a big drop in the expense-to-revenue ratio, because we continue to invest. And I think that process now -- I think we're on a virtuous curve where we can continue to invest at the level we've been investing and get revenue gains that accompany it. Much of the work that underlies the ability to change your response to consumers' consumption is architectural and we've made some fairly significant changes in the underlying architecture of the bank in the last four, five years, to allow us to do things at the point of customer contact on a much more efficient framework, and it doesn't require us to re-platform, if you like, the whole bank.

Darko Mihelic - *RBC Capital Markets - Analyst*

Okay. Maybe just switching gears as well, turning to the capital side, you mentioned you had a high Common Equity Tier 1 ratio of 9.9%. I see impacts coming in the new year, it will bring it down a little bit, perhaps not material. So from a standpoint of capital, it looks like you're at a very good spot. Maybe just to reinforce this, I want to ask how you look on the Basel III leverage ratio, are there any issues there? And if not, what do you do with the capital? I thought that the signal was one of organic growth in the US, but would you actually think about making some tuck-in acquisitions or using some of your capital to further enhance the US business?

Bill Downe - *Bank of Montreal - CEO*

Well, the capital position, as you said, is a source of advantage, there is no question about that. There will be some phase-in adjustments across the system in Q1 that will affect all banks, I think relatively moderate impact.

The news on the leverage ratio I think continues to be constructive. The US decision to allow Europe to get to a conclusion around things like netting certain categories of assets, how they would be treated in the leverage calculation and confirmation, if you like, that the 3% minimum on the leverage ratio is a good starting point, obviously the numbers will be higher, are very consistent with the view that we've had around where it would play out. And we've managed, though, the leverage of the bank in anticipation of that. We are very comfortable that the progress in Europe, the signals from the US and the likely response from Canada will be entirely consistent with our view.

So that's not going to be an inhibitor to the ability to grow the business. I think the first use of capital is, as you said, has got to be the ability to meet organic demand in the US market. I do think we're going to see a pickup in 2014 and 2015 and we don't want to have to add capital in order to meet that demand.

We were able to use the buyback very effectively in 2013 and have the ability to do it again in 2014, if we're generating surplus capital faster than the absorption ability. And I think acquisitions remain as they always have been, an option that is entirely dependent upon the quality of any property that would be available.

So what we found over the last decade is that if we're constantly developing and building relationships with entities that would be highly complementary to our business, it's impossible to predict. And my guess is that you're not going to see a lot of activity in 2014. There's a belief system that I've mentioned before among the shareholders of companies that would be attractive, that they're going to get a higher value a year from now than they will.

I think after a certain point, the opposite pressure, which is the constantly increasing burden of compliance that all of the smaller entities are facing is going to be the opposing force. And I think there is a point at which the optimism that their firms will be worth more is going to be pretty much negated by the pessimism that they won't be able to keep up with the really more complicated compliance requirements that small regionals and many of the community banks are facing.

The structure of the US market is going to change. The 7,000 entities that are competing for deposits and the loan business clearly is going to contract. Some of it is going to simply contract from people going out of business and then some of it maybe going out of business slowly. That will allow our organic growth to be stronger and then at some point I think there will be some capitulation.

So I think the long way around is that we have good options for the use of the capital of the bank is generating, organic growth being the highest return, the option of share buybacks, which we have both the willingness and the ability to do, and then we're prepared if by some chance the right acquisition opportunities presented themselves, and particularly, where we can increment the business areas where we see the potential to be the greatest.

I mentioned in response to your first question that we had been investing in Wealth Management very consistently since the downturn and the businesses that we have in Europe, the distribution of wealth that we have now in the Middle East, the strength of the business in Mainland China and Hong Kong, in Singapore, all ties into a much better global wealth platform than I think many people appreciate.

So I think there are acquisition opportunities that are going to be attendant to the wealth business and ultimately I think there will be in retail banking within our footprint in the US. And that's pretty obvious that there are states adjacent to Wisconsin and Illinois, where we can grow our market share by growing our footprint.

Darko Mihelic - *RBC Capital Markets - Analyst*

Okay. With that, I think I'll leave it there. Thanks very much, Bill.

Bill Downe - *Bank of Montreal - CEO*

Thanks very much for having me. Great discussion. Thank you.