

## CORPORATE PARTICIPANTS

**Tayfun Tuzun**  
CFO

## CONFERENCE PARTICIPANTS

**Gabriel Dechaine**  
National Bank Financial

### 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 in this document may include, but are not limited to: statements with respect to our objectives and priorities for fiscal 2024 and beyond; our strategies or future actions; our targets and commitments (including with respect to net zero emissions); expectations for our financial condition, capital position, the regulatory environment in which we operate, the results of, or outlook for, our operations or the Canadian, U.S. and international economies; plans for the combined operations of BMO and Bank of the West; and include statements made by our management. Forward-looking statements are typically identified by words such as "will", "would", "should", "believe", "expect", "anticipate", "project", "intend", "estimate", "plan", "commit", "target", "may", "schedule", "forecast", "outlook", "seek" and "could" or negative or grammatical variations thereof.

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, including labour challenges; the anticipated benefits from acquisitions, including Bank of the West, such as potential synergies and operational efficiencies, are not realized; changes to our credit ratings; the emergence or continuation of widespread health emergencies or pandemics, and their impact on local, national or international economies, as well as their heightening of certain risks that may affect our future results; cyber and cloud 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; technology resiliency; failure of third parties to comply with their obligations to us; political conditions, including changes relating to, or affecting, economic or trade matters; climate change and other environmental and social risks; the Canadian housing market and consumer leverage; inflationary pressures; global supply-chain disruptions; technological innovation and competition; changes in monetary, fiscal or economic policy; changes in laws, including tax legislation and interpretation, or in supervisory expectations or requirements, including capital, interest rate and liquidity requirements and guidance, and the effect of such changes on funding costs and capital requirements; weak, volatile or illiquid capital or credit markets; the level of competition in the geographic and business areas in which we operate; exposure to, and the resolution of, significant litigation or regulatory matters, our ability to successfully appeal adverse outcomes of such matters and the timing, determination and recovery of amounts related to such matters; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; our ability to execute our strategic plans, complete proposed acquisitions or dispositions and integrate acquisitions, including obtaining regulatory approvals; critical accounting estimates and judgments, and the effects of changes in accounting standards, rules and interpretations on these estimates; operational and infrastructure risks, including with respect to reliance on third parties; global capital markets activities; the possible effects on our business of war or terrorist activities; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; and our ability to anticipate and effectively manage risks arising from all of the foregoing factors.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors and risks could adversely affect our results. For more information, please refer to the discussion in the Risks That May Affect Future Results section, and the sections related to credit and counterparty, market, insurance, liquidity and funding, operational non-financial, legal and regulatory, strategic, environmental and social, and reputation risk, in the Enterprise-Wide Risk Management section of BMO's 2023 Annual Report, and the Risk Management section in BMO's First Quarter 2024 Report to Shareholders document, 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 shareholders and analysts 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 include those set out in the Economic Developments and Outlook section of BMO's 2023 Annual Report, as updated in the Economic Developments and Outlook section in our First Quarter 2024 Report to Shareholders, as well as in the Allowance for Credit Losses section of BMO's 2023 Annual Report, as updated in the Allowance for Credit Losses section in our First Quarter 2024 Report to Shareholders. Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on our business, are material factors we consider when determining our strategic priorities, objectives and expectations for our business. Assumptions about our integration plans, the efficiency and duration of integration and the alignment of organizational responsibilities were material factors we considered in estimating pre-tax annualized run rate benefits from Bank of the West cost synergies and operational efficiency initiatives. In determining our expectations for economic growth, we primarily consider historical economic data, past relationships between economic and financial variables, changes in government policies, and the risks to the domestic and global economy.

### Non-GAAP Measures and Other Financial Measures

Results and measures in this document are presented on a GAAP basis. Unless otherwise indicated, all amounts are in Canadian dollars and have been derived from our audited annual consolidated financial statements and our unaudited interim consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS). References to GAAP mean IFRS. We use a number of financial measures to assess our performance, as well as the performance of our operating segments, including amounts, measures and ratios that are presented on a non-GAAP basis, as described below. We believe that these non-GAAP amounts, measures and ratios, read together with our GAAP results, provide readers with a better understanding of how management assesses results.

Management considers both reported and adjusted results and measures useful in assessing underlying ongoing business performance. Adjusted results and measures remove certain specified items from revenue, non-interest expense and income taxes, as detailed on page 38. Adjusted results and measures presented in this document are non-GAAP. Presenting results on both a reported basis and an adjusted basis permits readers to assess the impact of certain items on results for the periods presented, and to better assess results excluding those items that may not be reflective of ongoing business performance. As such, the presentation may facilitate readers' analysis of trends. Except as otherwise noted, management's discussion of changes in reported results in this document applies equally to changes in the corresponding adjusted results.

Non-GAAP amounts, measures and ratios do not have standardized meanings under GAAP. They are unlikely to be comparable to similar measures presented by other companies and should not be viewed in isolation from, or as a substitute for, GAAP results.

Examples of non-GAAP amounts, measures or ratios include: pre-provision pre-tax income, tangible common equity, amounts presented net of applicable taxes, adjusted net income, revenues, non-interest expenses, provision for credit losses, earnings per share, ROE, and adjusted efficiency, leverage and PCL ratios, growth rates and other measures calculated using adjusted results, which exclude the impact of certain items such as acquisition and integration costs, amortization of acquisition-related intangible assets, impact of divestitures, management of fair value changes on the purchase of Bank of the West, and initial provision for credit losses on Bank of the West purchased loan portfolio. BMO provides supplemental information on combined operating segments to facilitate comparisons to peers.

Certain information contained in BMO's Management's Discussion and Analysis dated February 27, 2024, for the quarter ended January 31, 2024 ("First Quarter 2024 MD&A") is incorporated by reference into this document, including the Summary Quarterly Earnings Trend section in the First Quarter 2024 MD&A. Quantitative reconciliations of non-GAAP and other financial measures to the most directly comparable financial measures in BMO's financial statements for the period ended January 31, 2024, an explanation of how non-GAAP and other financial measures provide useful information to investors and any additional purposes for which management uses such measures, can be found in the Non-GAAP and Other Financial Measures section of the First Quarter 2024 MD&A. Further information regarding the composition of our non-GAAP and other financial measures is provided in the Glossary of Financial Terms section of the First Quarter 2024 MD&A. The First Quarter 2024 MD&A is available on the Canadian Securities Administrators' website at [www.sedarplus.ca](http://www.sedarplus.ca) and BMO's website at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations).

### PRESENTATION

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**Gabriel Dechaine** – *National Bank Financial*

Welcome back to our last presenter before the lunch. And last but certainly not least, Tayfun Tuzun. Welcome to the stage, and nice to meet you in person, finally.

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**Tayfun Tuzun** – *CRO – Bank of Montreal*

Thank you.

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**Gabriel Dechaine** – *National Bank Financial*

Tayfun is the Bank of Montreal's Chief Financial Officer, so we might get a bit more numbers-type questions this session than I have in the past. Lucky you.

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### QUESTIONS AND ANSWERS

**Gabriel Dechaine** – *National Bank Financial*

One thing I do want to start off with, not specific numbers question but numbers, nonetheless. Q1 '24 was a challenging quarter for BMO and your message was this is going to be the low-water mark for revenue performance or growth and then the high-water mark for expenses. What gives you the confidence in that, in Q1 being what it is and the rest of the way is going to be better?

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**Tayfun Tuzun** – *Bank of Montreal - CFO*

Yes, Q1 was a disappointing quarter relative to our expectations, especially coming out of last year. As we observed a better environment in September and October leading into the end of the year, we had higher expectations, especially for our market-facing businesses, Capital Markets being the most important one. And we had a very weak November and December client activity level. Although things picked up in January, it just didn't quite save the quarter.

And we had some idiosyncratic issues in the first quarter, which I don't expect to repeat in coming quarters. One was the transition to IFRS 17 in insurance from IFRS 4. We finished the year under IFRS 4, and then we had to restate our earnings during this transition for '23 and '24, although it's funny because our fourth quarter in insurance under 4 was very similar to our first quarter in insurance under 17. But when you look at the restated numbers, there was a big downward impact on revenues, which related to our preparation at the end of last year for this transition and adjusting our hedge ratios. So that created a dip in our performance, a reasonable dip over \$100 million.

Then the third idiosyncratic part in Q1 was in our corporate segment, and the biggest factor that changed our quarter-over-quarter net income there was our fair market value hedges and the mark-to-market impact on that hedge portfolio resulting from the significant rally in rates during the quarter. That's an accounting phenomenon related to those hedges and by definition, the fair market value moves over the lifetime of those hedges will converge to zero by definition. So there will be some negative quarters. There will be some positive quarters. Q1 just happened to be a big negative impact.

The cumulative impact of some of these market phenomena and these idiosyncratic factors ended up impacting our revenues quite negatively during the quarter. What we have observed towards the end of the quarter, especially in Capital Markets, and what we kept observing in February and into March gives us a more positive outlook in our market-facing businesses.

So a large part of this shift from Q1 into the latter part of the year relates to not being subject to some of these unique items, but at the same time, also a pickup in our expectations of revenue improvement. We still have positive impact coming from Bank of the West incrementally as that transaction moves on to the next phase, way post conversion, having captured all of the cost synergies. Now we have the full run rate of the expense savings in our base. Our internal legacy BMO efficiency initiative is also still incrementally helping the expense picture.

When you put it all together, we expect Q1 still to be the low point on revenues and the high point on expenses. We still are keeping that message, which also should move us onto positive operating leverage for the remainder of the year. So again, it is a combination of not repeating some of these idiosyncratic events, but more importantly, probably a lift in the revenue performance.

We provided some guidance to give you a better perspective on this step-up. In Capital Markets, we guided to \$625 million to \$650 million in PPPT, which is, when you think about it, not too far from where we were in Q4. In Q4, we were a little over \$600 million. Then it dipped to \$485 million, \$490 million in Q1. So now we expect back on that trend that we have been building at the end of last year.

We're guiding in corporate to converge back to the net income that we showed in Q4 of last year by the end of this year. In Q4 of last year, we were right around [negative] \$185 million in net income in corporate. We think we will be approaching that by the end of this year, so there's a bit of a convergence back to that level. With continued positive muted, but albeit still a positive environment in our P&C businesses, we think you put it all together should give us better performance for the remainder of the year.

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**Gabriel Dechaine** – *National Bank Financial*

Okay. And then before we get into the P&C business, the Capital Markets had a tough quarter. Embedded in there was the impact of the dividend taxation and the reduction of the reb trading revenues. Wondering how investors should expect that to be, I mean, addressed, for lack of a better term, over the course of time, whether you backfill with new activities and it takes just a while to get back to where you were or is an element of market participants in that particular activity that readjust and higher pricing, presumably, and there'll be a partial return of that business, if you will?

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**Tayfun Tuzun** – *Bank of Montreal - CFO*

I don't have a ready solution for the particular reduction on the dividend side, but the strength in our Capital Markets business and the expected uptick in performance does rely on the diversity of the different parts of that business. I think we are showing some very good strength in the securitized products. We were actually #1 in the U.S. in CMOs in mortgage. We have a very strong mortgage business within Capital Markets. We have a very strong and growing CMBS business in capital markets.

This quarter, leverage finance, DCM, Canadian ECM are showing better trends, and we've been investing in our U.S. rates business. That should also provide a good, strong, diversified revenue stream. I think we will be able to address this particular change in the revenue stream through basically the collective strengthening of other areas.

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**Gabriel Dechaine** – *National Bank Financial*

Now the balance sheet optimization has been an industry theme, but BMO has been the poster child for making some decisions under that umbrella. Credit risk transfers leading up to the Bank of the West closing, the RV and marine business exit, if you will, and the exit of the indirect auto lending in Canada and the U.S. I know you've been asked before. I'll ask it again. Is there more to come from BMO in this regard?

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**Tayfun Tuzun** – *Bank of Montreal - CFO*

Yes, you are right. We've been active in these transactions for the past 6, 7 years. We actually have built a particular expertise in this, and we view these transactions as tools that help us to both create more room for client growth, for balance sheet growth, for risk management and as well as more efficient use of capital.

In some instances, our focus on capital optimization takes the form of getting out of certain businesses. Indirect auto loans were not producing the desired level of returns, and we did not expect that in the long term they would revert back to double-digit returns on ROE. And these are not relationship building businesses, single products, and we got out of it in both the U.S. and in Canada.

In other businesses, these transactions allow us to continue to grow the client base and with the client base without necessarily taking outsized exposures to certain areas. It certainly helps from a risk perspective in downturns because investors are taking first loss exposures. It does help manage provision builds, and while all of that is happening, we have about 45 basis points of our CET1 ratio coming from these transactions. The cumulative notional balance is roughly \$60 billion.

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**Gabriel Dechaine** – *National Bank Financial*

Credit risk transfers?

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**Tayfun Tuzun** – *Bank of Montreal - CFO*

Credit risk transfers. The RV transaction is particularly the large transaction, because it came with Bank of the West. It is an asset type that was attractive to investors, and we were able to execute a large size, about USD \$7 billion. We will continue to look for opportunities, although I don't expect those opportunities to be of that size. This is part of our tool set. We look for these tools to help us get back to the 15% ROE target that we are still maintaining as our medium-term targets while helping us maintain - we're at 12.8% CET1 ratio, we're 130 basis points above the minimum regulatory levels. And we intend to maintain a strong balance sheet.

As we all know, OSFI still has an option to add another 50 basis points. We have 2 more years of an adjustment in the floor factor related to the Basel III calendar. We want to make sure that we leave ourselves enough room to support our clients and to grow our balance sheet while we manage our risk exposures. We view that these tools will continue to help us along those lines. As you said, although we were the only ones maybe 5, 6, 7 years ago, now almost all Canadian banks and a good portion of the U.S. banks are using and utilizing these transactions.

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**Gabriel Dechaine** – *National Bank Financial*

So as far as the individual portfolios and not so much the synthetic stuff, but I look at smaller parts of the BMO bank, mortgages in the U.S., and then there's maybe the life insurance business. Maybe talk about those two as far as how could they contribute to your portfolio optimization strategy, if at all.

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**Tayfun Tuzun** – *Bank of Montreal - CFO*

We don't have any plans to exit the life insurance business. I think incrementally, they are accretive. They're contributing to returns and revenue growth, so at the moment, we have no plans to exit that business. The U.S. mortgage business overall is in a much different place compared to the Canadian mortgage business because a large chunk of mortgage production is not funded on balance sheet. The part of mortgages that we fund on balance sheet is either the jumbo mortgages or more tailored mortgages for our high-net-worth clients. We want to make sure that we maintain our relationships with these, especially the wealth management clients where we can build a relationship around them.

In our personal banking, it's no different than Canada. Our goal is not to have a mortgage business that solely relies on single product relationships but building a bigger relationship. Other than that though, we want to make sure that we maintain a very efficient use of balance sheet space for mortgages, but we have no plans to exit at the moment. I think the U.S. side tends to have more flexibility in utilizing less balance sheet space than Canada because in Canada, we don't have as many options to move mortgages out. We intend to remain in the mortgage business in both countries in just a little bit of a different way.

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**Gabriel Dechaine** – *National Bank Financial*

And last one on balance sheet optimization. You indicated or stated that these are ROE accretive transactions but there is a timing gap between when you execute on a transaction, free up the capital and redeploy it. What's your expectation of timing before putting it back to work? Is it over the course of a year, or is it going to take us longer? Because these are smaller transactions, but dispositions are sometimes good. But then how do you get the earnings back that you've just disposed?

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**Tayfun Tuzun** – *Bank of Montreal - CFO*

I think that issue becomes a bit more challenging when you execute these transactions infrequently. For example, today, we are enjoying the capacity that the previous transactions created in maintaining the growth rates on our balance sheet, loan growth, customer growth. I understand the question, and I agree with you that sometimes discrete transactions may just sort of create a bit of a hole and then you grow into it. But right now, we have a portfolio of these transactions. As they come due, we will most likely roll them. As such, it creates a continuity, and I think the disruption becomes less meaningful.

In '23, there was a bit of an uptick because '22 was quite a busy year, pre-Bank of the West. So that did impact the revenue streams. Going forward, I don't expect a similar type of disruption. For example, in our RV transaction, this was not a transaction where we gave up a chunk of the earnings because we actually provided the leverage to the buyer. We took off \$7 billion of loans, but we put on about \$6 billion of the security that will leverage that transaction, so the earnings give up was rather small.

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**Gabriel Dechaine** – *National Bank Financial*

Okay. Then speaking of timing lags, and this is clarify if I misunderstood, but Piyush on the last call made it sound like the timing gap between when rates are cut and when credit risk deflates essentially is very short. BMO is not the only bank to indicate this, but Q4, there's an expectation that will be peak losses and it will start to decline in 2025. Is that still the message? How come it could be so short as far as rate cuts leading to a benefit?

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**Tayfun Tuzun** – *Bank of Montreal - CFO*

Yes, so our guidance, he guided to low 30s for the year. That guidance relies on a base case outlook for rate cuts in Canada and the U.S., probably 2 to 3 in the calendar year during the second half of 2024. We came in below guidance in Q1, which would suggest that there could be a few quarters where we may show some uptick in impaired losses but still staying within that guidance for the full year in the low 30s. He's the expert. I don't like to counter my CRO's views.

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**Gabriel Dechaine** – *National Bank Financial*

Stay in your lane...

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**Tayfun Tuzun** – *Bank of Montreal - CFO*

But at the same time, I think that the consumer portfolio and the commercial portfolio may show different timing patterns. I think in the consumer portfolio, it's tough to expect a significant abrupt decline in the credit losses as a result of rate changes because you have roll rates, your delinquency buckets. And there is a predictable pattern to consumer losses. I suspect that there is going to be a bit of a gap between the first few rate cuts and when maybe potential credit pressures coming down.

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On the commercial side, clearly, some of the pressures related to higher rates will ease fairly quickly, which may not necessarily alter the impaired provisions as quickly, but it certainly will help negative credit migrations to plateau faster because negative credit migrations are forward-looking, and they do take into account the impact of the rate pressures. So maybe the variables that impact performing provision may act sooner than the variables that impact impaired provision, which may lag a few quarters.

In performing provision, my expectation is that we will continue to see negative credit migration for a few more quarters, normal based on the base case outlook, but we expect them to plateau, which will lessen the pressure on performing build. You may see modest builds for the remainder of the year, but we had a rather large build in Q1, which may not quite repeat during the remainder of the year. This all depends upon the macro outlook. If there's abrupt change in the macro outlook, this may shift a little bit.

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**Gabriel Dechaine** – *National Bank Financial*

As far as last one on credit, impaired loan formations over the past 2 quarters have been pretty substantial. Is there anything unusual that took place in Q4 and Q1.

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**Tayfun Tuzun** – *Bank of Montreal - CFO*

I think impaired formation came down in Q1, but I mean I think it's in line with the environment. It really is in line with the macro trends that we are seeing. We are predominantly a collateralized lender, and we continuously focus on the loss content of these movements. So far, all of that is included in our guidance. As I said, as I look at the rest of the year, impaired provisions, although they may tick up a little bit very incrementally, I think they are going to stay within the range that we've guided for.

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**Gabriel Dechaine** – *National Bank Financial*

Switching to Bank of the West, and I'm going to draw a line between the M&I experience and then what I may or may not expect to see in the Bank of the West situation. BMO seemed to plug in a strong sales culture system, and this is post M&I acquisition. It was generating industry-leading growth almost to a point where people were getting concerned. Didn't turn out to be a problem, thankfully. But I'm wondering if when the economy stabilizes, is there an outlook for reviving, my words, Bank of the West sales culture and growth prospects that you're implementing now?

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**Tayfun Tuzun** – *Bank of Montreal - CFO*

Yes, I certainly hope that we are doing that now. I think we are seeing that in our performance. In our personal banking business, we have seen their branch productivity lifting up. We are aggressively converting their service personnel to sales personnel in the branches, which already is contributing to both client growth, lower attrition and higher revenue growth, higher deposit growth. We're already seeing that, and we intend to share some of that with you guys, so you can follow with us.

In commercial banking, similarly, we are now seeing growth in clients. With conversion behind us, net growth becomes a bit easier to attain. You are correct that I was not here when M&I was acquired, but I have seen now the transition in the way we manage these teams, that we manage the sales targets across the organization, clients, segmentation and wallet share growth between personal banking, wealth management and commercial banking. We are very encouraged. As you know, we have set for ourselves some ambitious targets for PPPT. We're still keeping those targets despite the fact that macro conditions are weaker today than we anticipated in the early parts of this transaction. We still are expecting a good lift across all four businesses, so the level of optimism around this transaction is truly maintained. There's no change there.

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**Gabriel Dechaine** – *National Bank Financial*

And the California part of Bank of the West is obviously the largest, but are you expecting other parts of that footprint to be earlier to respond, I guess, to stimulus?

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**Tayfun Tuzun** – *Bank of Montreal - CFO*

California is still the biggest. I mean I think that's the economy that drives the U.S. significantly, and that's part of the big strategic purpose behind this transaction, was our entry to California, and that will be the driver for that franchise.

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**Gabriel Dechaine** – *National Bank Financial*

Okay. Last one quickly on margins. You're guiding to modest increases this year. What kind of rate cut activity is underpinning that guidance? Would you expect loans to reprice faster than deposits or vice versa?

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**Tayfun Tuzun** – *Bank of Montreal - CFO*

We're guiding for stability. I think deposit pricing pressures and term migration has continued a bit longer than we expected but I think looking now into the second part of the year, the base case scenario is that we would see, I think, three rate cuts in the calendar year. I think it's two within the fiscal year, so it does rely on that rate outlook. We have a modest exposure to lower short rates, but that modest exposure is balanced by the impact, the benefit of the rolling investments.

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**Gabriel Dechaine** – *National Bank Financial*

The securities?

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**Tayfun Tuzun** – *Bank of Montreal - CFO*

Yes, the securities. So that gives us a pretty good level of confidence that we will maintain the margins within a very tight range from here.

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**Gabriel Dechaine** – *National Bank Financial*

That's a wrap. Thank you.

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**Tayfun Tuzun** – *Bank of Montreal - CFO*

Thank you.