BMO Financial Group

BMO to Acquire Bank of the West Conference Call

CORPORATE PARTICIPANTS

Christine Viau
Head of Investor Relations

Darryl White
CEO

Tayfun Tuzun
CFO

Pat Cronin
CRO

Dave Casper
CEO, BMO Harris Bank N.A.
and Group Head, N.A. Commercial Banking

Ernie Johannson
Group Head, N.A. Personal & Business Banking

CONFERENCE CALL PARTICIPANTS

Darko Mihelic RBC Capital Markets

Ebrahim Poonawala BofA Securities

Gabriel Dechaine National Bank Financial, Inc.

John Aiken Barclays Bank PLC

Lemar Persaud Cormark Securities Inc.

Mario Mendonca TD Securities

Meny Grauman Scotiabank Global Banking

Paul Holden CIBC Capital Markets

Scott Chan Canaccord Genuity Corp.

Non-GAAP Measures and Other Financial Measures

Results and measures in both Management's Discussion and Analysis (MD&A) and this document are presented on an IFRS basis. We use the terms IFRS and Generally Accepted Accounting Principles (GAAP) interchangeably. We use a number of financial measures to assess our performance as described herein, including measures and ratios that are presented on a non-GAAP basis. Readers are cautioned that non-GAAP amounts, measures and ratios do not have standardized meanings. 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: efficiency and leverage ratios calculated using revenue presented net of CCPB; revenue and other measures presented on a taxable equivalent basis (teb); pre-provision pre-tax income; amounts presented net of applicable taxes; results and measures that exclude the impact of Canadian/U.S. dollar exchange rate movements (i.e. constant currency basis or CCY), adjusted net income, revenues, non-interest expenses, earnings per share, effective tax rate, ROE, efficiency ratio, and other adjusted measures which exclude the impact of certain items such as acquisition integration costs, amortization of acquisition-related intangible assets, impact of divestitures, reinsurance adjustment and restructuring costs. Bank of Montreal provides supplemental information on combined business segments to facilitate comparisons to peers.

Certain information contained in BMO's Management's Discussion and Analysis dated December 3, 2021 for the fiscal year ended October 31, 2021 ("2021 Annual MD&A") is incorporated by reference into this document. Quantitative reconciliations of non-GAAP and other financial measures to the most directly comparable financial measures in BMO's financial statements for the fiscal year ended October 31, 2021, 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, as well as the effects of changes in exchange rates on BMO's U.S. segment reported and adjusted results, can be found in the Non-GAAP and Other Financial Measures section of the 2021 Annual MD&A and BMO's Fourth Quarter 2021 Earnings Release. Further information regarding the composition of our non-GAAP and other financial measures is provided in the Glossary of Financial Terms section of the 2021 Annual MD&A. The 2021 Annual MD&A is available on SEDAR at www.sedar.com.

PRESENTATION

Christine Viau – *Bank of Montreal – Head of Investor Relations*

Thank you. Welcome, everyone, and thank you for joining us today to discuss this morning's announcement. We will begin with remarks from Darryl White, BMO's CEO; followed by Tayfun Tuzun, the bank's Chief Financial Officer. Also present to take questions today are Dave Casper, Ernie Johannson and Pat Cronin. After our comments, we will have a short question and answer period where we will take questions from prequalified analysts. To give everyone an opportunity to participate, please keep it to one question and then requeue.

As noted on Slide 2, forward-looking statements may be made during this call, which involve assumptions that have inherent risks and uncertainties. Actual results could differ materially from these statements. I would remind listeners that the bank uses non-GAAP financial measures to arrive at adjusted results and considers both to be useful in assessing underlying business performance.

I will now turn the call over to Darryl.

Darryl White – *Bank of Montreal – CEO*

Good morning, everyone. And thank you for joining us today on short notice. This morning, we announced an agreement to acquire Bank of the West from BNP Paribas in an all-cash transaction. As you've heard me say consistently, we've been taking deliberate and disciplined actions to allocate capital and resources to areas where we are well positioned to accelerate growth, improve efficiency and returns and deliver sustainable long-term profitability. This acquisition meets each of these objectives. With our strong financial performance and capital position, we have never been better positioned for this next step in our growth strategy.

Strategically, we solidify our position as a leading North American bank, meaningfully increasing our scale and accelerating the growth potential for our high-performing U.S. franchise. In Bank of the West, we've acquired a well-run, well-performing bank with a competitive position in leading U.S. markets complementary to our own, including the highly attractive California market.

Financially, the transaction is immediately accretive on closing, does not require a significant amount of new equity and is a compelling use of capital to fuel future growth.

Culturally, we are extremely well aligned with consistent values, a relationship model focused on building customer loyalty and a strong and disciplined credit culture. We're mutually committed to sustainability, champions of diversity, equity and inclusion and supporting the communities we serve.

On Slide 4, let me review how BMO's and Bank of the West's strong capital position delivers returns and future growth. The purchase price, net of excess capital at Bank of the West is US$13.4 billion. On a Canadian dollar basis, we will fund the transaction primarily by using excess capital of the combined entity at closing, including approximately $3.8 billion from Bank of the West and $9.7 billion in excess capital from BMO as well as capital that we expect to generate between now and closing.

As a result, we expect to raise a modest amount of equity, including through our DRIP and up to an additional $2.7 billion before closing. We will maintain our 40% to 50% dividend payout ratio range, and we expect our CET1 ratio to be 11% or higher in the first quarter post-closing, and we will build thereafter.

Financially, this transaction is very compelling. In addition to significant cost synergies that Tayfun will outline, we believe the increased scale and better optimization of the two strong businesses brings significant revenue synergies, which are not factored into our forecast.

The transaction is immediately accretive to adjusted earnings at closing is expected to add 10% to EPS in 2024 fiscal and delivers an IRR of 14%. It further supports our clear objective to optimize ROE and efficiency, which we expect to improve by 120 basis points and 150 basis points, respectively. Importantly, it is an optimal use of capital that fuels accelerated growth in a market where we have a strong foundation, and we have a proven track record.

You see this on Slide 5, where we have demonstrated years of consistently strong execution of our U.S. expansion strategy. 60% of our growth has been organic, supplemented by highly successful acquisitions. The addition of M&I in 2011 doubled our footprint and provided the scale to expand and invest across our businesses, creating a leading commercial bank, which was further augmented by the addition of Transportation Finance in 2015. Our more recent addition of KGS meaningfully enhanced our U.S. capital markets business.

Effective integration, coupled with strong organic growth, have been the key drivers of our performance, delivering market share gains across our businesses, significantly improved ROE and efficiency and underpinned by proven excellence in risk management. The U.S. contribution to the bank's earnings has grown from 15% to 36% over the last 10 years and is expected to increase to 44% on a pro forma basis. We've invested along the way in leading digital capabilities, innovative products and exceptional talent, a platform that has been deliberately built for more scale. We intend to apply our proven strength in profitably growing businesses to Bank of the West impressive foundation in order to accelerate growth and returns.

The acquisition of Bank of the West meaningfully increases our scale and reach, extending our U.S. footprint from the Midwest to the West Coast, almost doubling our customer base, bringing 1.8 million customers to BMO and accelerating our commercial banking and wealth expansion.

On a combined basis, with over US$400 billion in assets in the U.S. segment, BMO will again double its footprint, have an active presence in 32 states, a digital presence in all 50 states with a significant presence in high-growth markets, including California, while leveraging our national digital first strategy.

We will gain immediate scale in California, the largest population and economy in the United States with a nominal GDP 1.9x that of Canada. We're already very familiar with this highly attractive and diversified market with well-established commercial, capital markets and wealth offices that successfully compete against a wide range of banks. Our expanded presence will enable us to provide extensive community support, financial focused advice and superior execution.

I'll now turn it over to Tayfun to provide an overview of Bank of the West and the transaction details.

Tayfun Tuzun – *Bank of Montreal – CFO*

Thank you, Darryl. Good morning and thank you for joining us. Moving now to Slide 8. Bank of the West is a low-risk, well-run franchise with a strong brand, loyal customer base, and top 5 position in 24 U.S. markets with strong share in key markets, including San Francisco, Los Angeles, Denver and San Jose. The acquisition expands and diversifies our personal, commercial and wealth portfolios and positions us to build on our strong market-leading commercial franchise with a platform and capabilities built for growth. We are also doubling our branch footprint, building on our leading retail digital banking capabilities and expanding our treasury payments platform to Bank of the West's commercial clients.

Turning to Slide 9. Bank of the West's loan portfolio mix is very complementary with little impact on BMO's overall loan composition and portfolio size, while incrementally enhancing our geographic and revenue diversification.

Turning to Slide 10. Although Bank of the West's loan portfolio size is modest at 15% of BMO's total loans, its impact on BMO's U.S. operation is sizable at 45% of BMO's U.S. loan portfolio. It is comprised of approximately 60% commercial and 40% retail loans and matches well with our U.S. loan portfolio, adding to the scale of both the commercial and personal lending businesses and expands our product offering, enhancing our ability to deepen our client relationships. Bank of the West has a strong credit history reflecting its disciplined credit culture that is well aligned with our own, which was confirmed during the due diligence.

Moving to Slide 11. We have a robust integration plan that will unlock meaningful synergies. Our confidence in achieving these synergies is based on the learnings from the due diligence process that involved over 200 of our colleagues and thousands of hours of reviews of Bank of the West's business and operations.

By adding more scale to our U.S. segment, which is already operating at an efficiency ratio of 55.8% compared to over 60% for Bank of the West, we will be able to enhance the profitability of the combined company. The efficiency gains in part relate to the excess capacity that we've built in our U.S. operations over the years for growth opportunities such as this acquisition.

We have identified cost synergies of C$860 million pretax, representing 35% of Bank of the West's cost base. The majority of these will come from operational and administrative efficiencies. There is a significant vendor overlap between the two firms in technology, including our branch and core retail and core commercial banking platforms and ATM systems. Similarly, both banks utilize the same vendors in corporate areas and in our core infrastructure. Common platforms speak to both confidence in our expense synergies and the low level of integration risk.

In addition to technology platforms, we believe that BMO's existing capacity in our U.S. operations will absorb other operational and administrative expenses without a need for incremental investments. We expect 100% of these efficiencies to be achieved by the end of the first year after closing. We do not have any branch closures in our plan.

We also believe there are significant opportunities for revenue synergies as we leverage our broader product offering, including wealth and capital markets products and solutions and leading retail and commercial digital technology to grow the customer base and deepen existing relationships. The ability to leverage our national digital platform in a significantly expanded and client rich geographic footprint will meaningfully improve our growth trajectory in the United States. These have not been included in our accretion estimates.

Turning to Slide 12. We believe the acquisition will provide significant value to our shareholders.

This is an all-cash fixed price structure valued at $20.95 billion, the equivalent of 1.5x tangible book value at close, with a 14% internal rate of return.

The transaction will be primarily funded by utilizing excess capital of the combined entity at closing, including the projected excess capital on Bank of the West's balance sheet at closing of US$2.9 billion. The current $9.7 billion excess capital on BMO's balance sheet, including the impact of the EMEA sale and capital that we expect to generate between now and closing, which together totaled $17 billion.

We also expect to introduce a 2% discount on shares issued under the DRIP, which will contribute $1 billion and anticipate an additional common equity raise of approximately $2.7 billion between signing and closing of the transaction. The size of the equity raise could be impacted by management actions and internal capital generation.

We don't anticipate any buybacks until after the transaction closes. Consistent with our historical trend, we will maintain our commitment to our 40% to 50% dividend payout range.

Cost synergies are estimated at $860 million pretax, transaction and integration costs of approximately $1.7 billion pretax will be incurred 30% at close, 45% in year 1, 15% in year 2, and 10% in year 3.

The purchase accounting impacts include an estimated gross credit mark of $992 million or 126 basis points of loans that will be accreted into earnings. We will establish an allowance on close of $684 million or 87 basis points of loans, which will be excluded from adjusted net income.

A core deposit intangible of 50 basis points will be established and the estimated pretax fair value mark of $218 million will be accreted into earnings.

We anticipate closing the transaction by the end of calendar 2022, subject to customary regulatory approvals. Given the absence of overlaps, our relative size in the United States, the risk factors related to the transaction, the enhanced banking products and services that we bring to a wide segment of banking clients, including those who are currently underserved and the commitment to our communities that both companies have demonstrated consistently, we believe the transaction satisfies the applicable criteria for approval.

Turning to Slide 13, with earnings momentum across our businesses and the strongest balance sheet and capital position that we've had in our history, BMO is very well positioned to execute on this great opportunity.

Overall, this is a financially compelling transaction that represents an attractive use of excess capital, improves our financial performance and will be immediately accretive to earnings on close while delivering long-term growth and advancing our strategic objectives.

I will now turn it back to Darryl.

Darryl White – *Bank of Montreal – CEO*

Thank you, Tayfun. We have a proven winning formula that will drive significant growth across the organization. We intend to leverage our integrated North-South, One Bank approach across these expanded markets to drive real opportunities in each business.

As the fourth largest commercial lender in North America, we have a playbook to extend industry verticals across our client base and geographies and also offer Bank of the West clients differentiated capital markets, wealth management and private banking services.

Our digital platforms have been deliberately built for more scale. We have proven success in combining branch-lite footprints with leading digital capabilities, marketing and data-driven offers to provide clients advice where they are, helping them make real financial progress.

Our team has a strong integration track record supported by culturally aligned companies with deep relationships, loyalty, employee engagement and community involvement.

Both of our strategies are grounded in purpose and aligned around the commitments to build a thriving economy, a sustainable future and an inclusive society. Both banks are recognized with outstanding Community Reinvestment Act ratings for real action that support our communities. We will continue to advance programs such as BMO EMpower, our $5 billion commitment aimed at breaking down barriers to inclusion.

We are both recognized leaders in sustainability and progressive climate ambitions with key strengths in sustainable finance that support clients as their lead adviser in their transition to a net zero world.

BMO and Bank of the West have strong reputations as inclusive employers committed to diversity and equality, both named as leading U.S. employers by Forbes and committed to creating purpose-driven workplace cultures.

We have always viewed Bank of the West as a strong competitor and a community leader, and we look forward to welcoming their customers and the great people and teams who serve them to BMO.

In summary, this acquisition presents a unique opportunity for BMO, our customers, employees and shareholders and further establishes BMO as a leading North American bank by adding a premium U.S. franchise with complementary footprint and capabilities, aligned purpose-driven cultures and customer focus.

I'll now turn it over to the operator for the question-and-answer session.

QUESTIONS AND ANSWERS

Ebrahim Poonawala – *BofA Securities*

I guess just maybe a question for you, Tayfun. I'm just trying to make sure we have the numbers right. On Slide 5, you have net income from Bank of the West at $941 million, you add the cost savings of about $536 million, gets to about $1.5 billion in earnings.

We are paying $16.3 billion for this deal, around 9% ROE. I'm just making sure I have the math right that 1.5x price to tangible book is the deal price for picking up a 9% to 10% ROE? Or is there anything that we should be kind of adjusting there?

Tayfun Tuzun – *Bank of Montreal – CFO*

Just a reminder, Ebrahim, the ROE calculation is based on their current capital position, which has excess capital. So if you adjust the capital to the 11% number, that's the 13% ROTCE that we are showing you on the line. Your numbers are correct. We are paying 1.5x based on the ending capital position. But the current ROE numbers, if that's what you're looking at, are a little bit understated because they're sitting on more capital than they need.

Ebrahim Poonawala – *BofA Securities*

And just tied to that Tayfun, it looks like by the end of '23, you should have all the expense savings in the run rate. I'm just wondering what is the differential between the 10% '24 earnings accretion, which if I look at consensus implies about $900 million in earnings. And then you also call out from 2025 EPS and ROE accretion. So what's going to be pending coming out of '25, that's not going to be fully effective Jan 1, 2024?

Tayfun Tuzun – *Bank of Montreal – CFO*

Are you asking about the transient items?

Ebrahim Poonawala – *BofA Securities*

Yes. I mean I'm just wondering as we get to December 31, '23, will we have full -- the 100% synergies that you expect from the deal on the expense side and the regular run rate? Or is that something that's going to happen in '24, so we get to the eventual more fully run rate kind of ROE in '25?

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes, there are some transient items that are related to the transaction, including the accretion of the fair value mark that is tied to rates, including the accretion of the credit mark. I will quote those to you in terms of the accretion numbers.

It has about a 2% impact on accretion. So excluding the transient items in 2025, the accretion number is above 10%. And we can get you the impact on the ROE as well. I don't have those right in front of me, but I can get those for you as well.

Darryl White – *Bank of Montreal – CEO*

I think a simpler way -- it's Darryl, Ebrahim, to think about it as just thinking about Tayfun's description to you here is that in 2024, your accretion is 10%, including the transient items. And in 2025, it's 10%, excluding the transient items.

Scott Chan – *Canaccord Genuity Corp.*

So just in terms of the expansion out West, you kind of talked about new verticals, specifically on the commercial side. And I was wondering if you can maybe comment on some of the specialty sectors that Bank of the West provides.

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

This is David Casper. I think I got part of it. Is the question what do they bring? Was that it?

Scott Chan – *Canaccord Genuity Corp.*

Yes, sorry about that. On the commercial side, what does Bank of the West bring outside of the specialty kind of components that you had at BMO? Like, maybe agriculture or farming or anything else?

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

Sure. They bring a lot to us as we do with them and the combined business, as Darryl says, brings us to the fourth largest commercial bank in North America. So they have a very strong food and agri business as we do, but theirs is centered more on the West Coast, and ours is more in the Midwest.

And it's complementary as theirs is probably more protein and ours is more grain, very strong reputation in that market. Very strong in the wine business; they have a world-class wine sector.

They bring us more technology. We have a good technology business sector that's both Canada and the United States. But given where they're located, right in California, they will add and together, will add a lot in that space. They have a strong leasing business, and they have a vendor leasing program, which we have on a much more limited basis.

But the biggest thing they bring -- and I could talk for an hour, so I will try to limit this -- they bring us the geography. So we've been in California for over 100 years on the commercial space, but not with the scale that they have. They have scale that we don't have, not only in California, but into the Pacific Northwest, into Denver.

So our combination of these two businesses, our sector specialties and theirs and some that are complementary together, bring us really, I think, what will be the world-class national commercial bank. And I think our customers see that already. I think their customers see that.

So together, this is really a game changer for us. I've been interrupted, just as I hear some noise on your background, I've been interrupted all morning by our bankers, that obviously didn't know anything about this that are so excited about this opportunity, so excited for the bank's customers, Bank of the West customers, the employees.

This is an early Christmas present for our bankers. And I hope it will be for the Bank of the West bankers as well. They'll see this as a great combination. They're coming from a great bank, and they're going to a really great bank. So I'll stop there. And, hopefully, I answered your question.

Gabriel Dechaine – *National Bank Financial, Inc.*

You're saying no revenue synergies [modelled], which is fine, but can you give us a number on NII upside with rate hikes, stand-alone Bank of the West?

Tayfun Tuzun – *Bank of Montreal – CFO*

NII without the rate hikes?

Gabriel Dechaine – *National Bank Financial, Inc.*

With.

Tayfun Tuzun – *Bank of Montreal – CFO*

With the rate hikes. So you're asking about the rate sensitivity?

Gabriel Dechaine – *National Bank Financial, Inc.*

Exactly, I should have asked that way.

Tayfun Tuzun – *Bank of Montreal – CFO*

Their rate sensitivity is similar to ours. But they have an extremely valuable transaction deposit base. And as you know, in the U.S., the dynamic nature of deposit betas are very helpful in terms of creating asset sensitivity when rate hikes occur. We have not made any assumptions related to a faster rate move in the U.S. in terms of the financials that we laid out for you.

Gabriel Dechaine – *National Bank Financial, Inc.*

So yours is around -- in your U.S. business, they're around US$90 million per 25bps. Is it around the same?

Tayfun Tuzun – *Bank of Montreal – CFO*

We're probably going to have to adjust it for the difference in the deposit composition, and they do have a little bit more fixed rate assets. But overall, I think it's a similar position.

Gabriel Dechaine – *National Bank Financial, Inc.*

Okay. Is there any potential that you sell any part of the business that you're acquiring, like in the Pacific Northwest or any of the branch network?

Darryl White – *Bank of Montreal – CEO*

Gabe, it's Darryl. The answer today is probably not. It's not our intention to sell any of the assets. That could change over time. But as we look at it today, we like what we're getting.

Gabriel Dechaine – *National Bank Financial, Inc.*

And you're locked in with the price. So what about the break fee if the administration rejects it?

Darryl White – *Bank of Montreal – CEO*

Yes Gabe, you're absolutely right. It's a fixed price transaction, and we are locked into each other with respect to the transaction. So there isn't any notion of break fee or interloper in this particular transaction because it's a private sale.

Paul Holden – *CIBC Capital Markets*

Yes. So clearly, one of the strategic points you've emphasized a lot during this call is the ability to accelerate growth at the Bank of the West. So just wondering in terms of the specific capabilities in terms of how you go about writing and growing the commercial business? Like, what is it that you can bring to the Bank of the West to accelerate that piece of the business?

Darryl White – *Bank of Montreal – CEO*

Paul, it's Darryl. I think that you're picking up on an important thread here. We really do believe this is an opportunity to grow the combined business off of the platforms that we put together. I think you mentioned commercial. I think I'll bring Dave back in to answer your question, but then I'd like Ernie to come in as well because this is a fairly balanced portfolio, sort of 60-40 commercial and personal and business banking. And in each case, we've got some pretty advanced ideas as to how we think we'll advance the growth. So Dave, why don't you come in? And then, Ernie, you can follow on as well, please?

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

Okay. Thanks, Paul. So as you know, BMO's U.S. commercial business has grown largely, but certainly over the last six years, organically at double digit. We've been able to do that by convincing our clients and convincing our bankers that bringing these companies onto our platform has been great for them and great for the long term for our customers. And when I say platform, as you may know, we have very, very strong loan platform, which we use North and South.

We have an excellent world-class treasury platform that we use North-South. We've invested hundreds of millions of dollars in that. And so when we bring -- this is kind of like the poster child for a scaled entry into a market. So we bring these clients into this. We have very strong growth. And when we can bring the local presence that we have with Bank of the West, which has had good growth, but bring it with even more products, more services combined. That's where the growth is.

Now we don't have that -- we don't have any of that in our model. But I believe that's going to be one of the -- taking a very strong commercial bank that we have today, adding the West Coast presence, I think that's really where the game changer is and where the real opportunity is, opportunities to sell into Ernie’s world through Bank at Work, opportunities to sell into Dan Barclay’s world on capital markets and a huge opportunity in wealth.

With 1.8 million clients, a lot of those -- not 1.8 million, but a lot of them are commercial clients. We have a really good track record to date of selling into the wealth business as well. So that's why I think it's going to be such a substantial opportunity for the bank. So I'm going to turn it over to Ernie, who is equally as excited.

Ernie Johannson – *Bank of Montreal – Group Head, N.A. Personal & Business Banking*

Great. Thanks, Darryl, and thank you, Dave, for passing the question. Paul, a really great question on the retail side. We've been looking at the Bank of the West for a while, looking at their purpose, their culture, their team, their effectiveness in the marketplace and see a lot of alignment between who they are and what they do, how they do it with what our model is all about.

And so we think the combined assets pulled together are going to really accelerate our collective momentum. As you know, in the retail franchise, scale is important, really critical in the marketplace. We've been -- I would use the term punching above our weight in the U.S. by focusing in on those digital-first capabilities, having digital capabilities for our customers to transact with us, service with us. And combining that with marketing and that's driven by data and analytics and also equipping our bankers with tools that allow them to have great financial conversations with our customers.

That model that we've created, that chassis, as I like to call it, is really, and has been, built for more. And so the ability to apply the 1.5 million customers on to that, to be able to leverage that strong loyalty that Bank of the West has been able to do with their customers, create with their customers and the attractive markets that they are in, that we can -- even though we've been acquiring in 50 states, we know having that lite branch footprint, it's just going to elevate our acquisition. And it's also going to elevate our ability to cross-sell into that customer base, other financial products. You've heard about our wealth offering that we think there's lots of potential. We also believe there's opportunities in home financing and payments across that retail franchise and in the small business space.

So from our perspective, we see this as an accelerant. We are in the right time in the marketplace to do this. And it's a unique opportunity, and we're pretty excited and jazzed for the next little while as to what's going to be possible together. So I think this is definitely a one plus one equals something greater than two. So with that, I'll turn it back to Darryl or anyone else who wants to add anything.

Darryl White – *Bank of Montreal – CEO*

I think we'll go back to the operator.

Meny Grauman – *Scotiabank Global Banking*

The question is more strategic. For a while that we've heard you talk about branch-lite strategy, and in fact, on the call, you've talked about it. I'm trying to understand if you've changed your view or if the market may be misunderstood, you were saying -- given that you've just added a whole bunch of branches. And furthermore, when I look at look the slide on -- when I look Slide 6, I see a lot of shading in Texas, for example, Georgia, Florida, other places.

Like, is it inevitable that in order to maximize your business in those areas that you'll need to acquire branches that, you'll need to do something more than the current strategy in terms of just having no branch presence effectively in those other areas in the United States?

Darryl White – *Bank of Montreal – CEO*

Meny, it's Darryl. Thanks for the question. I think the way you should think about it is that this is actually entirely consistent with the branch-lite strategy as Ernie was describing it a few minutes ago. So we are picking up a little over 500 branches. We are able to then run our branch-lite model through that system and use our digital banking capabilities and our data, which I think, as you know, is capable of taking deposits and in fact, doing that in all 50 states. So to us, it's a pretty clear hand-in-glove fit on the branch-lite strategy.

And let's remember, the deposits here aren't trivial. There's US$90 billion of deposits that are coming with this acquisition. And we may not be in a world today where that sounds like a necessity, but we all know because we've been doing this for a long time that those times come. And when those times come, I think we're going to be in an even better position, probably a better position than we've ever been from a funding perspective.

Your question about do we need to fill in with more branches, not necessarily is the answer. I mean, if we, over time, saw something else that was interesting, that would be one thing. But we certainly don't feel like we need to fill in, in those other states with branches because those are places where we're already doing business on the commercial side or the capital market side or the wealth side. And if we're able to just keep doing that with them using the branch-lite strategy and the digital strategy on the deposit side, it all fits together.

Meny Grauman – *Scotiabank Global Banking*

And just as a follow-up. Thanks for that Darryl. Is there something unique about California in particular versus other areas of the country where you do business in terms of -- I know this deal came up and it happens to be centered in California, but is there something unique there that if you had the opportunity to add deposits in other parts of the country that it wouldn't make the same kind of strategic sense?

Darryl White – *Bank of Montreal – CEO*

Yes. Well, let me just kind of pick on one thing you said, Meny. This deal came up. I want to be clear that we've been interested in this particular asset for a very long time, for years, in fact. And so it wasn't one of these things that just showed up on our radar. It's been on our radar for a long time. As far as California is concerned, it's one of the greatest markets on the planet to do a lot of things, including banking. It's got a population that's bigger than Canada. It's got a GDP that's almost 2x Canada.

And we've got a scaled entry here in addition to the fact that we already have businesses in California, we've been doing business continuously in California since about 1864 or 1874. And so for us to participate in that market today in a small way and be able to take advantage of our existing assets and our existing plans in California add the fact that we've got -- in this case, the deposit base is just a little over 70%, Meny, in California. But it's not just about the deposit base. It's a pretty attractive, sticky deposit base, yes. But it's absolutely about the ability to enhance our commercial franchise, as you heard from Dave before and get at the wealth opportunity and the capital markets opportunities as well in what is one of the best markets that we've been able to study anywhere where we've considered expansion.

Mario Mendonca – *TD Securities*

Darryl can you just clarify something? You said that there were no break fees involved in this. Does that mean that there would be no financial implications to BNP Paribas in 2022, they've got a significantly better offer, they could back out of this without consequences?

Darryl White – *Bank of Montreal – CEO*

No, they cannot. They cannot.

Mario Mendonca – *TD Securities*

So what are the consequences if there's no break fee? How do you motivate them not to if there was a big offer made?

Darryl White – *Bank of Montreal – CEO*

So we have a contract, Mario, where they are obligated to deliver the asset to us on closing and should they not do that, it would be a breach of the contract. It's not the same as a public deal, where you might see that there's a break fee to account for that possibility. That possibility is not contemplated by us or them, nor is it legally permissible.

Mario Mendonca – *TD Securities*

The reason why it's confusing because in every transaction, whether it's public or not, there's always a contract, but people find ways out of contract. And that's why I'm a little confused. Anyway, I'll probably follow up a little bit.

Let me go back to another type of question then. In terms of the capital -- excess capital generated over a year, it does look like you're talking about capital generated before the close. Let's say we take that through the end of 2022. The $3.8 billion, are you contemplating doing anything with risk-weighted assets, doing anything to sort of reduce the required capital to get to $3.8 billion because just based on the way BMO has accreted capital in the past, it's hard to come up with $3.8 billion. So is there something more to it that I'm missing?

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

Mario, we always look at capital optimizing strategies. And from time to time, we have executed those. We are looking at potentially some additional actions very, very similar to what we have done in the past. So nothing new, but we may be looking at some potentially synthetic capital generations or securitizations, but nothing -- any different actions than what we've executed in the past.

Mario Mendonca – *TD Securities*

But no sale of business? …

Darryl White – *Bank of Montreal – CEO*

There are no sales.

Mario Mendonca – *TD Securities*

Okay. And then finally, would it be appropriate for us to assume that the buybacks of the bank had previously announced are off the table now until further notice?

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

That's correct. Until after we close the transaction, there will be no buybacks.

John Aiken – *Barclays Bank PLC*

With the bulk of the cost synergies coming from the overhead and shared services. I apologize if I missed this, but can you give us some sense as to what the plans are for the current Bank of the West management team? What are the executive committee are you anticipating to hold on to? And what is the decision in terms of the cost savings from what could be considered that overhead versus the institutional knowledge that exists with that team?

Darryl White – *Bank of Montreal – CEO*

Yes, sure. I'll start with your question, John, and I might ask Tayfun to come in and particularize the synergy story a little bit more because there are sort of two -- there are two related issues, but they're very different in my mind.

As far as the leadership team, as you alluded to, we spent a lot of time with the leadership team. I've spent a lot of time with Nandita, herself, and her team. And I would say in this team, we've got a great banker, a great leader, a great CEO, Nandita. She, therefore, has a great team that's built a great company.

They're going to run this business between now and when they close, and we expect and hope that many of them will be working with us post-close. So the synergy story is not about the senior leadership team necessarily. We've got a history, by the way, I would point out, of in partnerships and acquisitions that we've done, whether you look at our insurance business, M&I, Transportation Finance, KGS, where senior leaders who are highly talented, have become some of the most senior leaders in our enterprise.

And it's early to say exactly what will happen here, John, but we've got a playbook and we intend to follow that type of a playbook. So when you look to the synergies, now I'm going to turn to Tayfun to particularize the synergies a little bit more for you.

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

Thanks, Darryl. I have been involved in a number of M&A transactions, some consummated, some not consummated over my career. This came across as a much more straightforward synergy analysis. As I mentioned, there is a significant overlap on the technology side between the systems that we are using in our core business and theirs. And even at corporate functions, we have that overlap. So in a sense, it hits two buttons. One is obviously the ability and the confidence level that we have in achieving those synergies. And then second, it really is the integration risk. And so we took all of that into account on top of our BMO U.S.'s ability to absorb additional expense base that we've built over the years.

It gives us actually a very good confidence on both counts, as I said, the synergy amount as well as the integration risk. And we've done a lot of due diligence on this. As I said, over 200 of our colleagues have been involved, and we have a very detailed plan, and we look forward to connecting with their side and preparing for that integration process.

Darko Mihelic – *RBC Capital Markets*

I just have a couple of questions as well. I wanted to return back to the capital situation in terms of generation as well as Bank of the West. Tayfun, maybe we can get a little bit more detailed here. Prior to the pandemic, you were growing risk-weighted assets, almost double digits and sometimes this last year, it was down -- So first, the question is, what are your RWA assumptions for 2022 in terms of growth at Bank of Montreal?

But also as well, how do we know that the excess capital at Bank of the West is there too? What is the assumption around RWAs there? Is it possible, for example, credit cards balloon during a strong economic recovery and RWA growth is well beyond what you've modeled? So maybe you can just give us some ideas of what your RWA growth estimates are for both entities and how you intend to hit that $3.8 billion on both Bank of the West, if there's any guardrails there, and at your own bank?

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

Sure. Our own RWA projections are very -- we've shared our expectations with you when we had our earnings call. So in terms of RWA growth, we are keeping those firm. In terms of their RWA growth, again, similar assumptions overall, obviously, cognizant of the economic environment.

There is one thing that I'd like to point out to you though, there are differences in the way the standardized approach works in the U.S. versus in Canada. So as you look to build an RWA progress in your model, those will be an important factor that you're going to include.

We're happy to share those with you. So when those -- when their assets, which are predominantly standardized, come on to ours, there is going to be a reduction in the RWA because of the translation. As to unexpected growth in -- on their balance sheet with respect to credit cards or any other loan portfolio, we would welcome that because that's more earnings power, and we will be very comfortable with that. We are very comfortable with respect to their existing forecast.

So both our capital build at BMO as well as their capital build at Bank of the West, we're pretty comfortable with those assumptions.

Darko Mihelic – *RBC Capital Markets*

Okay. I'm working from home. I don't recall the RWA projection. What was the -- so you're saying it's the same as Q4, what was that RWA growth expectation at BMO?

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

We can get back to you with those assumptions. We gave some loan growth expectations. We may not have given precise RWA forecast, but we can share those with you.

Darko Mihelic – *RBC Capital Markets*

Okay. And my second question is with respect to Slide 12. The purchase accounting impacts. Can you convert that to like an IFRS 9 language for me?

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes. So let me go through those because...

Darryl White – *Bank of Montreal – CEO*

How much time do you have?

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes. So let's start with the integration costs. We're expecting about $1.7 billion in restructuring charges. And as I said, those will be phased in 30% at close, 45% in year 2, 15% in year 3 and 10% in the last year. And that's basically signage, branch integration, P&L integration, et cetera, retention bonuses. So that's that number. There is a credit mark taken.

The gross credit mark is US$772 million, C$992 million. And I will come back to that on how it sort of amortizes. There's also a fair value mark, and that fair value mark is about US$170 million pretax discount. So that will also be accreted. So in total, the loans are basically recorded at fair value on acquisition and reflecting both adjustments for credit and rates, and they will amortize to net interest income over the expected term of the loans. And then the last piece that I will mention is that there is a core deposit intangible, which is 50 basis points of their deposit base, and that will be amortized over about seven years.

So those are the items from an accounting perspective. The total goodwill is going to be about C$7.8-$7.9 billion, That -- and then actually, that includes -- so it's goodwill plus intangibles, it's C$7.8-$7.9 billion.

So those are the sort of IFRS accounting entries and happy to help you how that would sort of project itself onto the forecast after the call.

Darko Mihelic – *RBC Capital Markets*

Yes, that would be great. I just want to help around your Stage 1, Stage 2 allowances after the fact, I recognize that they're on a different sort of accounting method. And so clearly, I guess, within such a high bar set for capital generation, I guess it's proper to assume that throughout 2022, unless something really extreme were to occur, your Stage 2 allowances are likely to come down significantly. Would that be a fair assumption in your capital generation?

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes, it could be, depending upon the environment. In terms of the provision that I want to remind you, and here's the trick, on day 2, we sort of rebuild -- we take a credit mark. And then day 2 we build that reserve back, that's the accounting for it. So in a sense, you can think about that as a double reserve position against their loan portfolio as a result of the accounting methodology that we are using. We're happy to share our expectations with you in more detail.

Darko Mihelic – *RBC Capital Markets*

Yes, I'd like to just go through that a little bit after the call. That would be great.

Lemar Persaud – *Cormark Securities Inc.*

You guys mentioned that you didn't include any of the revenue synergies, but there was some discussion that it could be significant. Can you help us -- I'm not sure if you can, but can you help us think about how substantial these revenue synergies could be?

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes. I think usually, in these types of transactions, the revenue synergies are shared with the investors following the transaction announcement. We're working on quantifying them for you. They are strong, right. When you think about what Dave just mentioned, what Ernie just mentioned, the ability to leverage our existing products and capabilities onto their platforms, we expect will actually produce meaningful revenue synergies. But in the coming days and weeks, we will be sharing those with you in more detail.

Ebrahim Poonawala – *BofA Securities*

Just another follow-up. We talked a little bit about terms around deal termination. Darryl addressed the regulatory risk, like we're spending a lot of time, I guess, speculating whether some of the larger transactions in the U.S. that have been announced will get delayed because of everything that's going on at the agencies. How did you get comfort around that? And remind us who the regulators in the U.S. are that you need the approval from?

Darryl White – *Bank of Montreal – CEO*

Yes. So thanks for the question, Ebrahim. It's obviously topical. I will point out that a number of transactions got approved on Friday of last week by the Federal Reserve. So that feels to us like a decent sign. But more fundamentally for us, I would say that we think the transaction meets all of the requirements for regulatory approval, not just because that would be convenient, but because the facts are helpful. There is no deposit concentration. There are no competition issues. There are no financial stability concerns. Our U.S. operations as we go into it have strong capital and liquidity positions, and they'll continue to do so after the transaction. Both entities, as I said in my prepared remarks, have outstanding "CRA ratings" and robust commitments to the communities.

And on a combined basis, the total assets of the entity in the United States don't appear to us to be sufficient to get the type of attention that you might be worried about. So when we put it all together, there's no sensible reason from a regulatory perspective that we wouldn't get approval is our our current analysis.

Ebrahim Poonawala – *BofA Securities*

And who are the agencies from which -- from whom you need the approval, Darryl?

Darryl White – *Bank of Montreal – CEO*

We think the key agencies, Ebrahim, will be -- in the U.S. will be the OCC and the Fed.

Ebrahim Poonawala – *BofA Securities*

Got it. And if I may, one follow-up, Tayfun, to the initial question around the $941 million in earnings. Bank of the West had like a $70 million securities gain, I think, in the first quarter of '21. Is that included in the $941 million? And how big of a deal is that when we think about the true earnings power of the franchise?

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

Yes. I mean there are many gives and takes. That's one item, Ebrahim. But in terms of our projections, we obviously don't run rate onetime items in the way we project earnings. So our future assumptions are more run rate based.

Paul Holden – *CIBC Capital Markets*

I had a follow-up question regarding the credit reserve position you're putting up and the amortization of that over time. Is that included in your EPS accretion expectations?

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

Yes. So Darryl actually just earlier referred to that. The 10% 2024 accretion number does include those transient items. So if you exclude the transient items, you go over 10% accretion in 2025.

Gabriel Dechaine – *National Bank Financial, Inc.*

On the equity that you're planning to issue, the $2.7 billion, the timing of that, is there -- is it on close? Could it be interim? And what are the contingencies that will affect the size of that issue?

Darryl White – *Bank of Montreal – CEO*

Yes. So Gabriel, it's Darryl. On timing, look, at $2.7 billion, it's about 3% of our market cap. So it's not something that we're necessarily in a rush to do. So I think you'd probably look to us to do it if I had to guess today in the back half of the year in fiscal 2022. It's not a large deal relative to our outstanding, what are the contingencies around it. You saw the capital chart, the assumptions on capital generation and/or if we take actions, which we haven't modeled into that capital generation chart, that's why we're saying it could be up to $2.7 billion. It could be less than that. It could be 0. It could be a little bit more if, in fact, the capital assumptions that we've got on the capital build turn out to be less robust than we've got in there.

Gabriel Dechaine – *National Bank Financial, Inc.*

And you're immediately accretive at close, looks like a Jan 1 close, let's say, Jan 1 -- or sorry, November?

Darryl White – *Bank of Montreal – CEO*

Yes, That's about right. We're saying we think it's dependent, of course, on approvals. So it's hard to be really precise, but I think that's a good enough assumption, the one you made, we're saying first quarter of 2023. And to be clear, in the calculation of the accretion that Tayfun took you through, we're assuming the $2.7 billion of equity raise.

Gabriel Dechaine – *National Bank Financial, Inc.*

And we've asked about regulatory approvals in the U.S. for obvious reasons. But the 11% core Tier 1, I think that's fine. It's just like we're in a different world now that you ran that by OSFI, I imagine?

Darryl White – *Bank of Montreal – CEO*

We talked to OSFI in the same way we talked to our shareholders, Gabe. So, we've had preliminary conversations with them. We don't see any showstoppers. The approvals by the way, in Canada are OSFI and Finance.

Gabriel Dechaine – *National Bank Financial, Inc*

Okay. All right. Any FX hedging required on this?

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes, we will be obviously taking some hedging action here.

Gabriel Dechaine – *National Bank Financial, Inc*

Okay. What happens if the U.S. dollar goes up a lot?

Tayfun Tuzun – *Bank of Montreal – CFO*

We will be hedging our exposure.

Mario Mendonca – *TD Securities*

I want to make sure I'm not missing something. Price paid nearly C$21 billion, you talk about a fully synergized P/E of 10.7, a good amount of earnings, like approaching almost $2 billion, just do the math pretty simply there. But the number of shares issued doesn't look like a very large number, whether when you add in the DRIP, add in the common equity you're proposing, it's less than 30 million shares issued.

So I guess what I'm getting at is why is this not a lot more than 10% accretive? Because the numbers would imply something greater than that, like a fair bit greater than that. So I feel like I'm missing certain pieces, like is it revenue attrition? Is it the cost of excess capital that's being taken out of the organization? So help me think through that.

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes, absolutely. Look, I mean we have made assumptions that we are comfortable with. There's a range of outcomes that we've looked at, whether it's on the revenue side or the expense side, there are a number of assumptions built into cost of capital. As you know, Mario, it's a pretty complex analysis. But at the end, we felt like we needed to establish a level that we're comfortable with, and that's what we're presenting to you.

Mario Mendonca – *TD Securities*

So there are a bunch of other parts then that are not obvious from the presentation, like revenue synergies, cost of the equity.

Tayfun Tuzun – *Bank of Montreal – CFO*

Revenue synergies are not in this.

Mario Mendonca – *TD Securities*

Revenue attrition. There are other things going on here that bring it down to 10% accretion that -- in fact, like just on the surface, you wouldn't quarrel with my estimate that it would be a fair bit greater than 10% because I'm missing certain things that aren't clear here, is that true?

Tayfun Tuzun – *Bank of Montreal – CFO*

That's -- yes. I mean, clearly, we're not necessarily -- it takes a long time to discuss all the assumptions that go into this, but you are correct.
