BMO Financial Group

Bank of Montreal at the 2023 RBC Canadian Bank CEO Conference

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Caution Regarding Forward-Looking Statements

As noted in the following Caution Regarding Forward-Looking Statements, all forward-looking statements and information, by their nature, are subject to inherent risks and uncertainties, both general and specific, which may cause actual results to differ materially from the expectations expressed in any forward-looking statement. The Enterprise-Wide Risk Management section of BMO's 2022 Annual Report describes a number of risks, including credit and counterparty, market, insurance, liquidity and funding, operational non-financial, legal and regulatory, strategic, environmental and social, and reputation risk. Should our risk management framework prove ineffective, there could be a material adverse impact on our financial position and results.

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 2023 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 or share price, the regulatory environment in which we operate, the results of, or outlook for, our operations or for the Canadian, U.S. and international economies, the closing of our proposed acquisition of Bank of the West, including plans for the combined operations of BMO and Bank of the West and the financial, operational and capital impacts of the transaction, customer growth and support, sustainable lending and underwriting targets, net zero financed emissions targets, reducing operational greenhouse-gas (GHG) emissions and inclusivity and diversity, 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", "goal", "commit", "ambition", "aim to", "target", "may", "might", "schedule", "forecast", "outlook", "timeline", "suggest", "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, projections, targets, commitments, ambitions, plans or goals . 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 severity, duration and spread of the COVID-19 pandemic, and possibly other outbreaks of disease or illness, and their impact on local, national or international economies, as well as their heightening of certain risks that may affect our future results; information, privacy and cybersecurity, 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; benchmark interest rate reforms; technological changes and technology resiliency; political conditions, including changes relating to, or affecting, economic or trade matters; climate change and other environmental and social risk; the Canadian housing market and consumer leverage; inflationary pressures; global supply-chain disruptions; 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; 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; failure of third parties to comply with their obligations to us; 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 to accounting standards, rules and interpretations on these estimates; operational and infrastructure risks, including with respect to reliance on third parties; the possibility that our proposed acquisitions, including our acquisition of Bank of the West, do not close when expected, or at all, because required regulatory approvals and other conditions to closing are not received or satisfied on a timely basis, or at all, or are received subject to adverse conditions or requirements; the anticipated benefits from proposed acquisitions, including Bank of the West, such as potential synergies and operational efficiencies, are not realized; our ability to manage exposure to capital arising from changes in fair value of assets and liabilities between signing and closing; our ability to perform effective fair value management actions and unforeseen consequences arising from such actions; changes to our credit ratings; 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; in respect of sustainability matters, availability of comprehensive and high-quality GHG data, the evolution of our lending portfolios over time, the need for active and continued participation of stakeholders (including enterprises, financial institutions and governmental and non-governmental organizations), the development and deployment of new technologies and industry-specific solutions, international cooperation, the development of regulations internationally, our ability to successfully implement various initiatives under expected time frames, the compliance of various third parties with our policies and procedures and legal requirements and those other factors set out on page 17 of BMO's 2022 Annual Report; and our ability to anticipate and effectively manage risks arising from all of the foregoing factors. In addition, our climate risk analysis and net zero strategy remain under development, and the data underlying our analysis and strategy remain subject to evolution over time, and, as a result, we expect that certain disclosures made in this document are likely to be amended, updated or restated in the future as the quality and completeness of our data and methodologies continue to improve.

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 2022 Annual Report, as updated by quarterly reports, 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 2022 Annual Report, as updated by quarterly reports, as well as in the Allowance for Credit Losses section of BMO's 2022 Annual Report, as updated by quarterly reports,. 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 Bank of the West's balance sheet, product mix and margins, and interest rate sensitivity were material factors we considered in estimating the fair value and goodwill and intangibles amounts at closing, and assumptions about our integration plan, the efficiency and duration of integration and the alignment of organizational responsibilities were material factors we considered in estimating pre-tax cost synergies. 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 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. 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 to be 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 slide 40. 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 result.

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; 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 and integration costs, amortization of acquisition-related intangible assets, impact of divestitures, restructuring costs and management of fair value changes on the purchase of Bank of the West. Bank of Montreal provides supplemental information on combined operating segments to facilitate comparisons to peers.

Certain information contained in BMO's Management's Discussion and Analysis dated December 1, 2022 for the fiscal year ended October 31, 2022 ("2022 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 period ended October 31, 2022, 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 Annual 2022 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 2022 BMO Annual MD&A. The Annual 2022 MD&A are available on SEDAR at www.sedar.com and on our website at www.bmo.com/investorrelations.

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

We'll just dive right into the next session here. I have Darryl White, the CEO of Bank of Montreal.

Darryl, so the discussion we've had all day today, there's a lot of discussion around capital, the change to the DSB widened, increased. And then in your particular instance, you raised capital as a result. So the question that's on everybody's mind is did you raise enough if the DSB is increased later on this summer to the full 4%?

Darryl White – *CEO – Bank of Montreal*

Thanks for having us. The short answer is yes, yes it's enough. The long answer goes something like this. So if you go back, Darko, to when we announced our proposed acquisition of the Bank of the West, which happened to be on December 20, 2021, we said at the time what we would always do when we model acquisitions, which is the pro forma capital ratio that we solved for was above the then-regulatory minimum but inside of the 50 basis points of buffer that you would build as an internal target. So for us at the time, that was between 10.5% and 11%.

Interestingly, as you go through the fullness of 2022, with all of the puts and takes, the things that we didn't see coming, the things that we did see coming, we didn't have the Canada Recovery Dividend. We didn't have priced in the capital provision we took for a lawsuit in November. We, on the other hand, had better business performance, better internal capital generation than we thought. We had really effective risk transfer. We had really effective hedging on our transaction itself.

When we round trip to the end of the year, we were tracking to almost exactly where we said we're going to be i.e., in that range of 10.5% to 11%, should the transaction close in the first quarter. And so that's kind of my way of saying I was very happy with the team's performance on capital management.

Now what changed? OSFI on December 8 announced that they're going to move, and you've heard all about that, I presume, today. So OSFI moved 50 basis points. We responded. We responded, I think, decisively and quickly. I'm glad we did. The alternative might have been, well let's just wait and see, and wait and see is not a very good strategy because who knows what was going to happen over the holidays, over the month? Nobody saw Ukraine coming at this time last year.

So we made that decision. We've locked it in and pro forma that capital raise - to come all the way back to your question, where does it take us? We have said we will be above 11.5% in the second quarter of this year, assuming the transaction is closed. So above 11.5% in the second quarter of this year, and I emphasize above, and then we'll be traveling to 12% through the back end of the year. So I'm pretty comfortable with that trajectory. And I think it's the right plan for us regardless of what comes next from a regulatory perspective.

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

And does this change -- OSFI's decision to make these changes, does it change anything else for you, like the size of your buffer, future acquisitions? How you manage capital return, the dividend payout ratio? Anything else that is altered here now in the wake of that?

Darryl White – *CEO – Bank of Montreal*

Yes, nothing other than the obvious, Darko. I mean, I don't think -- just listening to you and your list of alternatives there on size of the buffer, I don't think you would be responsible stewards for shareholders if you said I'm going to pre-fund some other potential change. I don't think that's the right way to manage the business. But you do need to have the buffer so that you can sort of manage and be agile within whatever might change, whether it's from the regulator or anything else for that matter.

So no, I don't think it changes size of the buffer. The obvious would be if there was a next acquisition on the doorstep and there's not. But if there were, well then, of course, you have to model to the new conclusion, not the old conclusion, and that might make it more difficult to fetch or it might make it more difficult to fetch at the same return. So you have to adjust for that. That's really the only thing I can think of.

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

Okay. In your answer, you mentioned that one of the things, or one of the tools you have to get towards 12% is significant risk transfers. Your bank seems to be using it a bit more than others. Can you maybe talk about the rationale for using them, your use of them? Are there limits? And what are the other impacts of doing these SRTs?

Darryl White – *CEO – Bank of Montreal*

So first of all, I don't know if we use them more than others. That's hard to know. I think everybody is in the business to some extent. I can tell you about our track record though, and it's not new. We've been in the business of doing risk transfers for four, five, or six years now so it's a technique that we think is valuable within limits, and I'll go to that in a minute.

So if you think about it, there's different ways you can do these things. You can do outright loan sales, so that's obvious. You can do an outright loan sale from your portfolio, or you could do a synthetic securitization. There, you might be selling the loss, sale on the loss, if there's to be a loss on the loan so it's insurance as it were. The benefit of that is you maintain the customer, you get relief on the RWA and you also get relief on the PCL in the event of loss, right, including in your calculation of performing PCLs. So there's a lot of benefits there but it does come at a cost.

And the cost is some foregone spread revenue. When we've looked at the transfers we've done over the last couple of years on synthetic securitizations, the net of those two has been very positive in terms of the ROE because you release a little bit of capital, you give a little bit of spread, ROE-accretive to our overall agenda, so far, so good. And that's worked pretty well for us. And I'm quite proud of the way our team performs when they need to on that.

Remember, we have an advantage in the size and the scope and the quality of the mix of our commercial and our capital markets loan book. So when you start with that book, which I think I've talked about on this stage many times, so I'll skip it, you actually have a lot of opportunities. So investors like the quality of the portfolio that they can get from us. And so it's worked well for them and for us.

Going forward, are there limits? I mean, naturally, our appetite to do these types of transactions is not unlimited. Neither is the market's appetite to do them. So we'll look at it as the case may be, as the need may be, I should say, as we go forward. But as I look at 2023, for example, I don't think it should be much different from 2022. For example, we don't see any need in our capital plan right now to say we've got to really crank this up and do more and more and more in order to meet those targets that I talked to you about before. No, it's more business as usual now for us.

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

Okay, great. So we touched on Bank of the West. Maybe is there any kind of update you can provide us on, I don't know, whether it be timing or any other thought processes or anything else that may have changed as a result of the equity issue? Or I'll just leave it open ended and let you respond.

Darryl White – *CEO – Bank of Montreal*

Yes. So it's pretty much status quo in terms of what we have said, what we've been saying over the last several, I guess, quarters now. If you go back to December of 2021, when we were in the first quarter of fiscal 2022, we said we thought it was going to take something like a year. Here we are in the first quarter of fiscal 2023, and we're saying we're confident that we'll see a closing in the first calendar quarter of the year. Could that be in the fiscal quarter? Well, time is kind of running out on that but it's getting close.

But it does feel like we're getting pretty close to the finish line is what I would say, and we stand by those comments that we've made before in terms of our expectations of approvals and closing. There's a gap between approval and closing based on the way the M&A contract works, but it's not that wide. So you get your approvals and then not too long later, you're able to close the transaction, so we'll go ahead and do that as soon as we have approvals. The discussions with our regulators are all very positive, and there's nothing I'm aware of that suggests there should be a problem. I can say that. That's different from guaranteeing an approval because, of course, somebody could make one up tomorrow.

But as I look at it today, all is well. And if all of that plays out the way I expect it to, as I've just described now, that will move us in a position to do a conversion. Our conversion date will be in September. And we'll be able to do the full technology conversion and customer conversion then. But make no mistake, on legal day 1, which should be sooner than later, we own the franchise, we have the people, we have the customers, and we're running the business. And we're beginning to execute the integration plan, which we're absolutely ready to do any time.

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

And it seems like the environment has changed quite a bit. It's just amazing what happens in one year. So is there any view or one of the things that I've picked up on has been very subtle is revenue synergies were discussed early last year and sort of faded in the discussion towards the end of the year. I don't have too much concern over expense synergies. Those are a little more straightforward. But what could you tell us on possible revenue synergies? And has anything changed?

Darryl White – *CEO – Bank of Montreal*

So what I'll tell you on revenue synergies and just about anything else, is what we're going to do is once we own the asset for a little period of time, we will come back to you, to the market to give you an update on everything. Do we stand by all of the assumptions that we put into the model when we told you what we told you on synergies, on accretion, on revenue or cost synergies? I'd like to do that in a very fulsome way having lived with it for a little bit of a period -- not a long period of time, a couple or a few months. And then we'll give a very fulsome update to investors.

As I sit here today, if I'm a betting man, I think we're going to round trip pretty closely to where we've been. We did say when we announced the transaction that we thought it was in the range of 10% earnings accretive. That was based only on the cost synergies, by the way, reminder. That was cost synergies, revenue synergies, not in. We did come out a few weeks, a couple of months later, and we did declare our view of revenue synergies. That wasn't a number that was based on some average of precedents or anything like that. That was absolutely bottoms-up as we went through all of the business opportunities. So we'll rescrub that when we do the assessment of the business when we own it.

While it might have faded into the background, Darko, that's probably just because we haven't been talking about it very much. It's not because we have any less confidence in it. It's -- we'll look at it again. We think those opportunities are going to be real. They take a little longer to get to. Cost synergies come quickly. Revenue synergies take 3 to 5 years until you can fully mature them. If anything, I might have a hunch today that they'll be even better than we thought. But hold that thought and we'll come back to everybody once we own the asset for a couple of months.

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

Okay, great. We've had some discussion up here about the vulnerabilities in Canada with respect to mortgages. We know you're a little more commercial-oriented but you still have a mortgage book. So happy to dive into just asking your view on the vulnerabilities in Canada, and specifically, how you see it through your mortgage book. Can you provide us some statistics to give us comfort that these higher mortgage payments that people are making are a) not excessively higher, and b) not going to impact and create an impaired scenario defaults and/or losses in the mortgage book?

Darryl White – *CEO – Bank of Montreal*

So thank you for recognizing that we do have a mortgage book. Our folks who are running our retail business in Canada would be quite excited to hear me say what I am going to say right now, which is that by our math, over the last seven quarters consecutively, we have actually had the highest revenue growth. I didn't say mortgage, all products together in Canadian retail banking. BMO, highest revenue growth, seven quarters running in Canadian retail banking. So I'm very proud of our team on that.

Now let me come to your question. On mortgage growth -- pardon me, on mortgage risk and vulnerabilities, look, I don't know what everybody else has said when they've come on the stage. I suspect it's been well answered. And here, I might not say something that's particularly different. When you look at the layers of protection that are available, as you know, Darko, they're pretty substantial. And everything from not only the savings that are still, we think about 30% higher than they were pre-COVID, the structure of the market, the structure of the books, the loan to value, the insured component, you start to get down to exposure levels that are, we think, for a period of time here, like a year, pretty small.

And we look at triggers as well. I'm happy to talk about that if you want. But when we go through that assessment, sometimes people ask me, all right, well, you get through all those layers of protection, there's always a tail. And of course, yes, there's always a tail. And the way we define the tail, just to sort of drive home the point here is when we say, where are the people who are most vulnerable? Well, if you're uninsured, if you have a FICO score of 680 or less and if you have a loan-to-value of 70% or higher, well, you're obviously most exposed. That is about 1% of the book.

And when you layer on another criteria and say, how many of those are actually maturing in the next year? It's so de minimis, it's laughable, I had to check the number. It's like $20 million. $20 million in mortgages. And so once you get there, the world is in a very bad place, admittedly. So you have to think about what would be going on in the world to get into the pain that's happening.

But for the rest of the book, it takes a lot to get through those layers of protection. I'm not suggesting at all, I don't want you to get me wrong, that we're not going to see any delinquencies. We're not going to see any insolvencies. What I can say is we don't see them today. We're stable today as we were last quarter. And as I look through most of 2023, I think we'll be pretty stable, and you might see a little bit of creep up as we go into the late part of '23 and '24. But based on that Pareto that I just took you through, I don't think it's that significant.

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

And do you think there's any substantial changes coming? I mean -- so we're suspecting that house prices could fall a little further. Resale activity is declining. Is there anything that you see in the horizon in the next year or so that would create or could possibly create a problem for the overall economy that really stems from these high payments and the consumer, basically, a big chunk of their payments going to paying your mortgage and not discretionary spending?

So I'm dovetailing this into a discussion on credit reserves because one of the things that we see is in your forward-looking indicators, we don't see a big jump in unemployment. There's no expectation there. And you actually have an expectation of pretty decent GDP growth actually. So the question then is, these risks exist but your bank doesn't seem to have a negative outlook. Can you maybe square that for me? I mean, from your point of view as the CEO, do you kind of push people to adopt a more conservative view and build reserves from here? Or do you think the economy is fine, and we don't need to build reserves from where we already have them?

Darryl White – *CEO – Bank of Montreal*

Yes. So let me just clarify. We're not out here saying we have a super rose-colored glasses view of the world, and we have a positive outlook. I think our house view, by the way, on economic growth in North America this year is 0, so it's neither positive nor negative. It's sort of right on the fence. That might mean you have a couple of quarters of slight negative GDP growth, and you might have a couple of quarters of positive GDP growth, for example.

And then when we price into our reserve builds, you know how the process works. We've been talking about it for three years now. It's a very rigorous process. And the fundamental linchpin in the decision-making as you go through relative to where you were before, is relative to when you made your last formal audited governed decision, has your view on the outlook fundamentally changed? What was it then? What was it now?

And when you look at the weightings, when you look how we increased through the course of 2022, our weightings on probability of recessions, up they went, up they went, up they went. So we actually have a pretty conservative outlook, I think, already in our forecasting. Now you started this question asking about the consumer and the risk of exacerbating, I think, or procyclically getting an economic downturn, should they be having trouble making their mortgage payments? We don't think that they actually start having trouble making their mortgage payments until you might get unemployment up to considerably higher than where it is today.

I mean, it is the trigger. We put 7% in one of our scenarios. Personally, I think it might even have to be higher than that. In the meantime, they make their mortgage payments. But if you look at the Bank of Canada data and you look at the higher cost for a lot of borrowers, and let's say a borrower is paying $5,000 more a year in mortgage payments than they were paying before, now remember, that hasn't clicked in for most people yet because most of the book is fixed. But for those that are affected and the variable, if the average Canadian household is paying $5,000 more than they were before, that's 5% of household net income. I think that's significant. It's not going to tip over the mortgage payment. It's not going to tip over the losses in any bank, but it is money that's not being spent on something else.

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

So do I hear from you then that there's a potential that you may push for -- I mean, we got -- we've received your PCL guidance for the year. But I think it was more around impaired losses. So do you adopt a view going forward that you build reserves from here a bit more because there is a concern of the vulnerability?

Darryl White – *CEO – Bank of Montreal*

No, I'm not going to say that. I'm actually -- it's convenient that we're having this conversation where we're not pregnant with the decision-making process. That happens in a few weeks from now. But the linchpin, as I said, in that is, do we have a fundamental view that the outlook is either, on the weighting or the severity of the scenarios chosen, is materially worse than it was the last time we made that decision, which was only two months ago.

We had a pretty conservative view on the outlook at that point in time. If I were the only vote and I'm not the only vote, by the way. It's a very, very interesting process. If I were the only vote and that decision were being made today, I would say I don't have a very different view on the outlook than I did two months ago. And therefore, why would I have a very different view on whether or not we're going to build until that changes? And it can change quick, right? We all know that. We sat here a year ago, and we didn't see Ukraine coming. So that could change quick, but that would be my view as of this minute today.

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

And so given that PCLs are rising, there's a lot of moving parts for BMO, especially since you're going to be adding a bank here hopefully in the first calendar quarter of this year. Consensus estimates have you at about 3.3% EPS growth, well below your medium-term target. How do you think about that? And what's the message that you want to tell shareholders with respect to kind of the EPS growth expectations? And what could swing that materially higher or lower apart from credit?

Darryl White – *CEO – Bank of Montreal*

I think if you go through the decomposition of the P&L, the first thing I would point out is that you heard us on our fourth quarter call, after five years running of having positive operating leverage and having 7% PPPT growth last year, which we think is a track record that is unique so we don't mind talking about that. We asked ourselves a question, are we going to recommit to positive operating leverage in 2023 going for six years in a row, given the environment has changed? And we came to the conclusion that we will.

And it might be a tougher putt, but we're going to commit to positive operating leverage. That won't be the case in Q1, by the way, because if you look at Q1, we've got our seasonal effects on our employee. And we've also got -- last year's Q1 was an all-world capital markets quarter for everyone, but it was particularly strong in our case. So growing over that, it's not going to happen mathematically in the first quarter. But notwithstanding that, we still believe, Darko, that we'll get to the positive operating leverage for the full year. So if you put that in your model and then you go down to the PCLs, look, we said in our fourth quarter call that we expected normalization on PCLs. At some point in time, you could almost just replay the tape, right? Like we've said it for the last -- everybody said it for the last eight quarters.

And I would tell you that we're not there yet. I talked earlier about the performing, but on the impaired, it's still very benign. It's still very benign on the impaired. So we'll just have to see as the year rolls on. And then for us, it will get a little bit noisy admittedly because at some point in the year, hopefully by the end of the calendar first quarter, we're going to be adding the earnings from the Bank of the West. So when you put all that together, I think it actually adds up to a very good outcome for us and probably a differentiated outcome because we're able to get the benefit of the acquisition when we do.

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

Fair enough. So maybe just tying a little bit, you talked about net interest income there for a moment or the revenue environment. We've seen spectacular NIM -- well, let's say, we've seen good NIM expansion, spectacular net interest income growth. And so would you caution against us thinking about net interest income growth in double digit for this year, excluding Bank of the West, of course?

Darryl White – *CEO – Bank of Montreal*

Yes. Yes. So this is a really good question. I'm glad you focused on net interest income growth because at the end of the day, I've said before, NIM is an output. We run the business to try to produce the NII growth. If you look at us in 2022, our NII growth was 27%, pretty good. We had the benefit of both, as you know well, really good - did you say spectacular NIM? We had really good NIM expansion. And we had really good loan growth, and we had 27% NII as a result of it.

What's that going to look like this year? Well, let's break it down into the component parts. I think we will still see positive NIM expansion, not to the rate that we saw last year, but it will probably be flattish as we begin the year and it will pick up as we go on through the year. Probably rounds to something in the high single digits on NIM expansion. So not as good as last year but pretty good. And we will probably see a similar high single-digits loan growth for our bank as we go through the year. So when I put those two factors together, come back to NII, I'm probably mid-teens.

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

Yes, okay. Great. And before I turn to questions from the audience, hopefully. Before we hit that, just one last question. I mean, from my perspective, one of the things that's differentiated your bank over the years is you've expanded your footprint in the U.S. You've made it bigger. And the question now is, will it evolve? Now that you've got Bank of West coming, what's your intention there? And what are your U.S. Capital Markets aspirations in a world where your U.S. business is just much bigger because of Bank of the West?

Darryl White – *CEO – Bank of Montreal*

So do you want me to talk about U.S. businesses broadly or Capital Markets specifically?

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

Capital Markets, I think, in particular, is what I'm more interested in.

Darryl White – *CEO – Bank of Montreal*

Okay. So before I do, I just want to, very quickly though, remind that if you look at the composition of our U.S. business today, I remember being here a few years ago and saying, here's the challenge for us. We've got a faster-growing business in the U.S. than we do in Canada but it's lower return. It has lower ROE and it has higher efficiency. And my challenge is to get it to match the Canadian's efficiency and ROE. And therefore, when we're growing it faster, it's just pure accretion. We've done that, we proved that through the course of 2020, 2021.

And so what does that mean as I come around to your question, the composition of that U.S. business that we have today, which is sort of mid-30s, 35%, 36% of our PPPT is about 17%, 18%, 19% Capital Markets. So let's keep in mind that the strength of the franchise is yes, Capital Markets, but we've got really good performance in our commercial and our personal and business banking businesses as well, and they're the largest share of the pie.

Capital Markets has been growing quite a bit as well, both organically and through some tuck-in acquisitions. We did the Clearpool acquisition. We did the KGS acquisition a few years ago. Those have really, really worked out well. So when we put it together, Darko, I would say I love the position. I like the positioning a lot of our U.S. Capital Markets business today because really, if you look at the share gains that have been made, when I look at it, it's quite remarkable. And some U.S. rates trading, for example, where we began to invest a few years ago, we've gone from about 4% of the market to 8% of the market. If you look at top 10 book-runner status in agency CMBS, if you look at inflation trading, we're the #1 inflation trader in the market in the United States.

And so the business is very well rounded and very diversified. And we've made investments in some of the acquisitions I talked about, in sponsor, in tech, in health care. And it's a business that now is clearly showing the result because it's 50% of our revenues, 50% of our capital markets revenues come from the U.S. 40% of our NIAT comes from the U.S. Over 50% of our people are in the U.S. So I think as you look at it, it's got a lot of room to grow because now it's not outsized relative to the size of our U.S. business at all.

In fact, one of the things I think we're excited about is if you look at the Bank of the West's sort of core footprint through California, the Pacific Northwest and Denver, those aren't places where we've significantly trafficked in Capital Markets in the past. We've had some but arguably not enough. I think that just gives us more opportunity as we look at that franchise, this goes to the revenue synergy point that we talked about earlier. So I put it all together, and I think what you should expect from our Capital Markets business is more of the same. Why? Because it's working.

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

But not necessarily a more -- I mean, I guess where I was going with it was with Bank of the West coming in, there's just sort of two things simultaneously occurring. There's a bigger amount of earnings from commercial lending and retail in the U.S. At the same time, regulatory capital change creates tension. My immediate thought process was, well, with a bigger footprint, you can make your cap markets business big. But is there a capital constraint.

Darryl White – *CEO – Bank of Montreal*

Yes, but I don't need to necessarily. I understand the math you're solving for. It gives more space to grow Capital Markets faster if you're in the camp of there's a limit to how much Capital Markets should represent of the whole. For sure, mathematically, that's true. But it doesn't mean you want to go in and do things that you wouldn't otherwise do. If we see smart opportunities to grow it, we'll do it as we always have.

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

Okay. Let's turn to some of these questions we've got coming up here. So first question, interesting. How much higher would your provisions be without synthetic risk transfers? Is it material?

Darryl White – *CEO – Bank of Montreal*

To provisions?

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

Yes, PCLs.

Darryl White – *CEO – Bank of Montreal*

No, I can't give you a number but it's not material. It's a -- I would say, a marginal helpful benefit.

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

Okay. Next question is, how much of your NIM expansion is attributable to deposit mix, deposit betas and rising interest rates? And how would these forces change if interest rates fall?

Darryl White – *CEO – Bank of Montreal*

Well, I think the team has done a very good job managing deposit betas, particularly in the U.S. We've stuck a little bit longer than we thought we would, so I think there's a good story going on there. And by the way, when the deposits tend to run off, what we're seeing is another good story, which is they don't all leave the bank. A lot of them get put into term product and you might find them in our wealth business or somewhere else. So that's a pretty good story.

The question, I think, had a tag on to say where does it go going forward? Look, we're all subject to the same trend in the industry so we're going to see runoff in deposits. We'll all try to maintain as many of them as we can in the house. In our case, I think what's a little bit different as you look at the Canadian franchise, it will be similar to others in the U.S. franchise. Remember, we compete against 5,000 banks in the U.S. And we have capabilities, given that we're one of the larger ones, that others don't. And so when you look at P&C banking in the U.S., we talk often about commercial when we're on this theme, but the reality is if you go to the deposit side of retail, we have a digital retail bank that we built just before the pandemic, completely built, and we didn't need it because you didn't need to go and chase transactions or deposits.

And now it's quite interesting. So we've turned that on in the last couple of months, and we're already seeing 50-state capability on deposit gathering. And that will get interesting as the chase for deposits increases, I think, through the course of '23, '24. And it's an advantage we have that, frankly, most of our -- the large G-SIBs, of course, they have this. Some of the regionals don't, but most of the smaller players don't. So it's an opportunity for us to take share, price the beta and probably, in some cases, build relationships.

When I think of the Bank of the West franchise, they've got approximately 500 branches, but they don't have this capability in the way we do, so we can bring that to them as well and put the whole machine together. So it gets interesting. Most themes are similar for everybody. This one is particularly interesting competitively for us.

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

And I guess the other little tag-on there was if interest rates fall was the tag-on part of that question. So does anything -- I mean, we could sit here and speculate on anything, but I mean, let's just pretend that rates fall aggressively in the back half of this year.

Darryl White – *CEO – Bank of Montreal*

Well, I don't think that's going to happen. But if it -- let's say -- let's imagine it was in the next year or the next year. And I think we're -- I would say we have all of the same tools on the way down that we have on the way up as we've disclosed our sensitivity in all of our disclosures.

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

And so that -- I do want to dive into that at some point a little bit more about the deposit machine that you've sort of turned on in the U.S. Sounds to me like it's just a high-interest savings account, but maybe you can expand a little on that.

Darryl White – *CEO – Bank of Montreal*

Well, I think it starts there because the aggregators will all try to figure out every day where they can get the best rate. So you're not really going on for a relationship in the first instance. You're going in for the best rate. But you've got a technology, you've got some marketing dollars. You can get yourself to the top of the list, and we can turn it on. Just being able to turn it on, even if it was just a price tool, is a competitive advantage in an environment like this, and I argue will continue to be a competitive advantage.

Just in the last couple of months as we turned it on, we got a couple of hundred million dollars of deposits just like that. So we know it works. The question is, can you then transition it into become part of your full offering, particularly out of branch footprint. And for us, that gets really interesting now that our footprint is most of the United States, including the Bank of the West. So more to come on this. I wouldn't go and change your thesis on us just because of this. But I do argue, and I think in the course of the next year or two, it's going to be a differentiating factor more than at the margin.

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

Okay, great. That's an interesting insight. Okay. So we're coming up to the end of our time together, where I turn it over to you and I say, Darryl, what are the key messages you want shareholders and investors to take away today?

Darryl White – *CEO – Bank of Montreal*

Look, I think, Darko, our story is pretty simple. We've got a lot of keep-doing-what-we're-doing, going on. I mentioned before, we've got five years running of positive operating leverage, which we think is differentiated. We did 7% PPPT growth last year off of 19% the year before, so it wasn't easy off of a pretty high growth rate to continue growing. We did it. I told you what our commitments are on our BAU for this particular year. And when I unpack that into our businesses, it looks good all the way through.

Now there may be some softening for the economy in some of the businesses, everybody will have that. But we've got a powerhouse commercial franchise that's one of the largest commercial banks in North America. Our capital markets business, we've talked about it today. I won't repeat it. I told you about our P&BB franchise having the highest revenue growth in Canada. And our wealth franchise, which we haven't had time to talk about is fundamentally repositioned because we've sold businesses that we didn't think we're getting it done. We've repositioned the franchise for growth, and we've got really good management driving a really good agenda in there.

So when I wrap it all together, I say we've got great BAU through those four franchises that we ask them to continue to do a lot of the great things that we've done over the last 4 or 5 years. And then we add the Bank of the West to all that, and we're ready to go. And then to me, what really gets interesting for us is 2024 because we're going to go through this transition, Bank of the West in '23, but then we're going to be run-rating in '24. Who knows, we could spend all day speculating what the environment will be like in '24. But to me, then it really starts to get interesting for us. And that's what we're building for.

Darko Mihelic – *Managing Director – RBC Capital Markets – Research Division*

Okay. That's an excellent wrap-up for us. Thank you. We'll end the session here. Darryl, thank you for attending.