Bank of Montreal at the 2023 National Bank Financial Services Conference

CORPORATE PARTICIPANTS

Piyush Agrawal
CRO, BMO Financial Group

CONFERENCE PARTICIPANTS

Gabriel Dechaine
National Bank Financial

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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 37. 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 February 28, 2023 for the fiscal quarter ended January 31, 2023 ("First Quarter 2023 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 January 31, 2023, an explanation of how non-GAAP and other financial measures provide useful information to investors and any additional purposes for which management uses such measures, can be found in the Non-GAAP and Other Financial Measures section of the First Quarter 2023 MD&A. Further information regarding the composition of our non-GAAP and other financial measures is provided in the "Glossary of Financial Terms" section of the First Quarter 2023 MD&A. The First Quarter 2023 MD&A is available on SEDAR at www.sedar.com and on our website at www.bmo.com/investorrelations.

PRESENTATION

Gabriel Dechaine – *National Bank Financial*

I'd like to welcome our next speaker here, Piyush Agrawal, BMO's Chief Risk Officer. Piyush, thanks for taking the time.

Piyush Agrawal – *Bank of Montreal – CRO*

Thanks, Gabe, it's great to be here.

QUESTIONS AND ANSWERS

Gabriel Dechaine – *National Bank Financial*

Well, I've had a Chief Risk Officer in that chair just prior to you, and I'll start off with the same question. The whole economic outlook and the scenarios you've got that are underpinning your performing provision; we got the comments in Q1. I'm wondering how you're thinking about those outlooks and those scenarios and how they may have changed over the past few weeks. I'm sure it's a fluid situation, to put it mildly, and just maybe let's start off with that.

Piyush Agrawal – *Bank of Montreal – CRO*

Sure, thanks for having me. This is, in my new role as the CRO, my first trip to Montreal, and excited to be here talking to all of you. I think when I step back, three weeks ago we'd be having a different set of discussions overall on the state of the economy and what worries us, versus where we are of the banking industry and what it's going through in this so-called mini-crisis.

I think underpinning the question around where are we headed and therefore how I think about provisions at BMO, we've always taken a very cautious approach in terms of making sure that there is adequate provisioning and it starts with what I call the three big factors: where is your loan growth at the moment, what's happening to loan quality, and then what are the macroeconomic scenarios looking like? And I'd say we've been thoughtful in the sense that when you look at BMO economics, we take a mix of two or three different scenarios, and even our base case, actually still has us in a shallow recession coming up. It's somewhere in the range of 0% GDP and an adverse declining to minus 3%, unemployment probably in a base case of 6% or 6.5%, and we aren't there yet, to almost going north of 9% or 9.5%.

It's very thoughtful in terms of thinking about portfolio movements that can happen. I don't think we've gone away from that, even though we've advocated a very strong weight to our adverse scenario. But these last three or four days, or the last two, three weeks, in fact, I think, might give pause to see is the economic recovery going to get delayed or sooner? Because one of the things, as you're all seeing, is that markets always want but don't have is conviction and so in that you get this turbulence of what's going on.

So portfolio quality, we've been talking about a return to normalization. That's in the works, more pronounced in some versus the others. I think loan growth is muted again because of the economic environment. Client demands are coming down a bit, but we're still targeting mid-single digit loan growth and the economic scenarios, we'll see how things reshape over the next two, three weeks as we get into the end-of-quarter cycle.

Where I stand today, I would say, I am very confident about the $2.5 billion provision we have and the coverage we have either to the last four quarters, which is well over 4x, or even if I look into a tough year when we had losses, 1.5x, I think we are more than adequately provision reserved and the scenarios under shaping that, I think, are not going to get, I would say, significantly worse.

There was, for me, a little bit of hope of more recovery, more an economic improvement. I think that story is still out there, but probably a delayed one depending on how the next few weeks shape up of the markets moving away from the focus, which happens to be banking, back to the fundamental economy.

Gabriel Dechaine – *National Bank Financial*

So soft landing scenario, and we've seen it, I guess, since Q3 or starting last year, banks started adding to the performing provision again, as opposed to reversals prior to that. If suddenly -- it seems more likely that a hard landing as opposed to a soft landing, is that when we start seeing much larger performing provisions?

Piyush Agrawal – *Bank of Montreal – CRO*

It's going to reflect in, again, the portfolio. If I think about the diversification we have in the many portfolios, you're really thinking about the impact of a hard landing to the borrowers of your portfolio and so we've said this, if I look at the residential mortgages or retail broadly, it's a very-high-FICO-score portfolio. If I look at our commercial customers, which is a true world-leading franchise in what we have in Canada and the U.S. I mean, with most of these customers, we are 90% the sole bank or lead, and the risk profile of those is very high.

The difference in the way I would characterize your question is, there might be a potential dichotomy in terms of banks that service, I'd say, the non-prime or the lower end of the credit spectrum versus most of the large Canadian banks in the prime segment. So the impact of a hard landing will have second, third-order impacts. I don't see that as a big direct impact immediately, but again, it depends on how large the hard landing is and what the second, third-order derivative is. Naturally, loan growth will slow and ratings migration will happen but even now, we've been talking about this for four or six quarters and if you look at the quality of what's flowing down into impaired, it's almost nothing and so our impaired portfolios, the new flow rates, is nothing close to what expectation is.

I feel pretty positive and I think the economy is now finding a floor and hopefully it will recover. I think the rate hikes is a big part of what might happen. All of you know this, the Bank of Canada has paused, rightfully, to measure the impact of what the rate hikes were. I think the U.S. Fed is in a similar position, maybe a hike more. They have to fight inflation, they're committed, but I think the impact of that to the rest of the economy takes a time lag and I think that will pause.

I'm feeling good about where we are. Housing prices in Canada, as you're seeing, probably bottoming out, home sales are coming back. There's green shoots. So I'm not in the camp of hard landing. I'm probably in the soft landing to a very shallow recession, I would say.

Gabriel Dechaine – *National Bank Financial*

My next question is about exposure to European and financials and U.S. regional banks. I'm asking that question, but I also want to know like exposure, it's a word I throw out, but where would the exposures be? Am I thinking about the wholesale business where it's counterparty? Is it, probably not direct lending to your competitors, but is it really isolated to that or where else could these exposures be?

Piyush Agrawal – *Bank of Montreal – CRO*

Yeah, I think we've got a very active markets business and a lending business where we work with both regional banks as well as international banks and if you're in the markets business, you're going to be trading with them all of the time and so counterparty risk is a big piece of how you manage this. That is accompanied by what I would say, what I find coming in new is an exceptionally strong risk mindset at BMO.

If you go back in history, say 20 or 30 years and fast forward that, we're actually in a very good spot so when the regional banks came into the news, our first reaction in the last two or three weeks is what exposure do you have? We created our internal watch list. We looked at exposures and I'll tell you today, I feel exceptionally good about our regional bank exposure, where they are in the counterparty risk side because they're well collateralized, collateral is flowing without any issues.

Your larger question around the European banks is, again, some of the banks have been in the news for quite some time. So coming in, taking a fresh pair of eyes, looking at some of the exposures, we began trimming many of those exposures early on in the book and so we're not worried at all about where Credit Suisse today, for example, has landed with UBS, which is a very positive trade for the marketplace to resolve somebody which is in the news regularly and then the other banks in the same boat that their own financial trajectory has improved, but our own risk-acceptance criteria, what we take on, what we do is very high quality. Every week, every day, we get exposures, we see if there are hiccups and there are none.

The banking market generally needs what I call more conviction but there are people out there looking at all sorts of banks and all sorts of exposures and worried about that and I think the one next big step is going to be, I would say, twofold. One, everybody talks about commercial real estate. I'm sure it's a hot topic on your mind. So which banks are more exposed to commercial real estate in what form? Second is the advent of new regulation. So the larger banks obviously have a large degree of regulatory supervision. The smaller banks, as you're hearing and seeing, will get more regulation. The cost of the regulation, the cost of the concentrations they have, the cost of their deposits, I think changes the landscape quite a bit and so I think that's something which is more strategic two, three years, is when you think of south of the border, why do you have 4,000 to 5,000 banks and the purpose of those banks in the new world of everything we're just talking about.

Gabriel Dechaine – *National Bank Financial*

I probably should have started with this one, but you joined BMO from Citibank and were there for several years and you had roles in risk management strategy, as you mentioned to me earlier. Your historical experience and the wars you've been through in your previous employer, how does that translate to what you're doing today at BMO?

Piyush Agrawal – *Bank of Montreal – CRO*

It's been a few months now, so I'm sort of getting more BMO-ized than my earlier experience but it's a great institution. Both of them have been around 200 years. You don't survive 200 years without some of the backbone and the strength. Some of these things have stood out exceptionally well and the training of my 20 or 21 years at Citi clearly come in and help when I joined BMO.

I think BMO's strategy, different from the globality of Citi, but the concentration both within the U.S. and Canada, and the large book, I mean, it's over a $1 trillion balance sheet now at BMO, comes in very handy because all of the risk types at a large institution like at Citi are the risk types we have at BMO and so I think about it in the same way of credit, market, liquidity, reputational, compliance and all of the other things.

They're all coming in to bear and the experiences from the past help you in terms of the present. So we joked internally that this mini banking crisis, as it was starting up, had a PTSD impact to what the financial crisis was when I was there but we're coming out pretty well. I hope this gets mitigated and we move to the next thing but I actually feel very good. BMO itself had such a strong risk culture that I think bringing me in plus probably Darryl's foresight of thinking about a larger U.S. presence, what's happening with Bank of the West coming in and some of the experiences. I'm excited and whatever I'm seeing and doing is very much in line with what I expected.

Gabriel Dechaine – *National Bank Financial*

As far as the deposit business goes, I've asked every presenter today, are you seeing any increase in outflows or whatever? That would be scary if you said yes but I'm more interested in the U.S. trends. Are you actually seeing money coming into the bank because of being a larger/Canadian bank? Is that actually working in your favour?

Piyush Agrawal – *Bank of Montreal – CRO*

I think for the Canada market it is much more benign. We haven't seen large inflows or outflows. It's just the way you expected it in a normal course so that's going very well.

In the U.S., our U.S. business has actually received and has been the beneficiary of deposits and we've also seen in terms of the beneficiary of deposits, and it's not a large amount, it's some of it, is many more account openings. They will get funded over time and we'll be cautious about what money comes in.

As you know, we are already in the process of integrating Bank of the West. It's a single treasury; we manage that as one. Very little, if any, deposit outflow from Bank of the West. I wouldn't say for any particular reason, just a simple course but we saw a lot more inflow coming in at the BMO U.S. business but nothing exceptional, nothing to talk about and say we were a big, huge receiver but I think over time as business models shift, this is going to benefit BMO. So with the integration, when you have the BMO board outside all of our Bank of the West branches and you see the strength of BMO as the top 10 player in the U.S. as a bank, I think there's a new opportunity set for super regionals like us in the U.S. in terms of the opportunity because the large money center banks have their own challenges around RWA and their own challenges around deposit caps and so the next tier of banks have a big benefit. It comes with a cost, but it's a big benefit over time in a market with the size of the U.S. that's looking for much more stability and so I think, increasingly, a pillar of strength to the U.S. banking market.

Gabriel Dechaine – *National Bank Financial*

Another related issue is the securities portfolios and unrealized losses in the held-to-maturity category. We're talking apples to watermelons as far as -- not even apples-to-oranges comparison. Yet BMO's loss position is relatively larger than its Canadian peers. Is that something -- I mean, there's a technical reason for that, I suspect, but should we be concerned?

Piyush Agrawal – *Bank of Montreal – CRO*

I think you've answered the technical and I can go into a longer answer, but the short version I would just say is the trade we put on was an intentional trade to minimize the capital need for closing the acquisition. I think you've seen it in our earnings. We had a $5 billion gain against the loss, the unrealized loss on the HTM. The way the accounting works, we put the securities on, they're held to maturity, we took the gain that minimized the capital need. So that's a huge positive.

You're also going to see over time as these securities go back to par, the rate cycle, there's also an accretion that we're going to get from the Bank of the West mark. To me, it's a net positive and even though we count the written down value of the securities in our LCR ratio, which is a regulatory published metric, I think over time, this is not part of the core liquidity the way I think about it from a risk management perspective. We've got multiple layers of liquidity, even in a stressed case that these don't get to be used. So you're not crystallizing any loss over here because of that same technical reason of why this portfolio is there in the first place. In fact, if any, now you've got multiple windows open that you can go back and repo those and get par but our intent from a risk management perspective remains very clear of why this was put on; the benefits it's already given us to close Bank of the West and I think there's upside value both in these securities as well as the accretion that's coming.

It's unlike what people are reading and I think that's the part where -- it's good you asked the question because people have to understand when this came about, how this came about, and how we are risk-managing this as we go forward. I actually feel very comfortable about our HTM book, the way we manage this and the way we put on new hedges post-closing of Bank of the West against any other potential increases. So overall, I think it should work out very well for us.

Gabriel Dechaine – *National Bank Financial*

Switching gears to the mortgage business, that's the affordability issue, the payment shock issue when people eventually renew their variable rate mortgages a few hundred dollars a month, $500, whatever, of increased debt servicing costs. How do you think about that from a credit standpoint?

Piyush Agrawal – *Bank of Montreal – CRO*

I think it's an anomaly of the market of the variable rate mortgage and what's happening and so I remind people that as rates go up, rates also go down. So whether you get into a negative amortization space or not is a function of rates. But at the end, it comes down to the health of the Canadian customer and so we've touted our average FICO of 790+ in this book. We run stress tests up and down all the time and feel very good about it. Even during the crisis or other times, customers have been very good. I mean, the delinquency rate is as low as ever.

But I think what's more interesting is that our product, the variable rate mortgage product, doesn't force the customer to pay today. It goes into a pick process, which actually is allowing the customer to decide what his monthly cash flow is and then as we outreach, which there have been several programs towards that, voluntarily, most customers, 20% actually of them, have already come back and said, yeah, I want to change my payment and pay up. When you look at that profile of the customer and then the cash balance that's coming out post-COVID, I think generally I'd say is most Canadian banks, you're hearing the same thing, that we feel very good about the health of the customer and then I'll go into what the LTV is and the LTV right now on an average is probably low 50%. This is refreshed LTV; this is after a 15% decline in home price. So if you look at the amount of cushion or the equity that the owner has, they're not walking away from a home and unlike the U.S., this is a recourse market.

I think there are a lot of safeguards around the residential mortgage book. A lot of our variable rate mortgages, I think almost 80% of that, matures in 2026 and beyond and I think all of you are making your own speculation around rates. I have mine. I think rates are going to change and so all of a sudden, that profile of the customer, in terms of what he has to pay up, will change.

Having said that, we think payment shocks are anywhere from $200 to $400 and I think those are, for what we internally have, our analytics of our customer, it's totally affordable. I'm sure this will be a topic of discussion quarter after quarter, and we'll do that. We are obviously in discussion with regulators and everybody else who looks at this book but I feel very good about the secured part of our portfolio – the residential mortgages. Even when I talk about signs of normalization, there are slower sign of normalization even in that book as compared to some of the other books.

Gabriel Dechaine – *National Bank Financial*

Moving over to the commercial real estate, commercial mortgage side of the business, 10% of your consolidated loan book, on par with your peers, we've heard of several stories in the U.S. and other countries of borrowers freezing payments or renegotiating, defaulting outright. You have a decent sized chunk of that CRE book in the U.S. Are you just in a different sandbox or are you seeing any of those situations develop?

Piyush Agrawal – *Bank of Montreal – CRO*

Well, I'll tell you the 10% of the book that's in CRE, of that, less than 10% or about 10%, are in the areas you're thinking about, like office, which are much more in the news, I would say, rather than automatic stress and the ones that are in the news are for both reasons - these are sort of, when people say, are they COVID overhangs? Yes, this is a COVID overhang. People don't want to go to the office. So utilization rates are changing but that's market dependent and so some of the large funds that may have handed back the keys or are talking, it's part of its structural because it's in the CMBS market first for the bank market and one of the peculiarities of the CMBS market is you've got to not pay to get the arrangement to move from a servicer to a special servicer. Unlike in the bank loan market, where the lead bank can get all the banks and talk to a sponsor or talk to someone else.

We haven't had any of those situations and so I've spent time with the team, with the business on our top exposures, and get a sense, including what we're bringing in from Bank of the West and I'll tell you, they're very high quality. In fact, the two biggest office properties, I joke with our U.S. CEO, Dave, and he says that the biggest tenant is us. BMO is a tenant in two of our largest exposures in Chicago and Milwaukee, and I'm sure we will pay.

Gabriel Dechaine – *National Bank Financial*

You're good for it?

Piyush Agrawal – *Bank of Montreal – CRO*

We're good for it, so that works. If I step back and give you all the broader sense, these aren't new relationships of the last 90 days or a year. Some of these go back 20- or 30-year repeat properties. The large ones that I'm talking about, over two-thirds of the book, remains investment grade and the things we've acquired in the last two or three years, the quality of that book, the new book, is as good as the back book so the underwriting wasn't loosened to chase loan growth.

The underwriting criteria remains as tight as ever, which is what you would expect and so we stress test that every day, see where issues are and we're beginning to see some ratings migration, but the ratings migration is not going from investment-grade to impaired. It's just falling down the cliff by one or two notches because the operating cash flow will change when interest rates change.

So things will evolve as you go. The book, the demands come down because transactions have come down in the marketplace but there is a strength of the overall diversification in the CRE book, including the office space at the moment.

Gabriel Dechaine – *National Bank Financial*

Credit risk transfers have been very topical. I know I've asked a lot of questions about it. Looks like you've credit risk-transferred about $50 billion of loans over the past year or so.

One, what is the residual risk of these transactions if the counterparty goes bust and then two, I think you're signaling less of it going forward, but how does it change your origination strategy? Do you become less judicious, I guess, because you know you're going to transfer the risk anyway and I mean, it could create some bad incentives.

Piyush Agrawal – *Bank of Montreal – CRO*

I'll take the second one first, just so everybody sees and understands. We book everything as if we are holding it. There is zero change in our risk appetite or risk underwriting because somebody thinks we're going to securitize. In fact, when you originate the loan, we don't tell our banker that this loan is going into a securitization of any form, so everything we underwrite is as if this is BMO's and so that is the strength of our franchise and risk management end-to-end because that then conveys an interest on the behalf of investors to come to us. And it's both ways - we look to securitize, but they're looking to pick up some of our portfolios as investors. So that's the first part.

The second piece I'll say is, we've done about $55 billion. It's not new. Coming in from a large U.S. bank, this and many forms of risk mitigation are exactly what you would do in any portfolio. You are hedging it in some form or fashion. So we are hedging this through this perspective of synthetics, which has gotten a lot of attention.

But I think it's a net positive because the structure is such that we are not dependent on our counterparty to perform. Just to give you a sense of these structures, there is cash in escrow for the first-loss protection completely. So that allows you, therefore, to upgrade the risk rating profile, which gives you the RWA benefit. It gives us, in this environment, the benefit towards provisions because your first loss is protected here in some of these portfolios, including in real estate, by the way. We talked about commercial real estate as part of that; it creates capital to recycle as we go forward and new opportunities. So I think it's a net-net positive and this is one of the many tools around risk mitigation, risk management we're using.

The speed of that will go down as we go. Again, it's depending on what the cost is at any given point of time. But we have other tools and so, I'm excited about what we've done and so when they roll off, and those are four years, five years, seven years, 10 years or as they come in, it's our option to decide to redo them or bring them back on.

Gabriel Dechaine – *National Bank Financial*

And a typical counterparty is what, a pension fund?

Piyush Agrawal – *Bank of Montreal – CRO*

It could be a pension fund, alternative asset funds, anybody who's interested in BMO's asset quality will come to us and take it on.

Gabriel Dechaine – *National Bank Financial*

Sounds like an advertisement. Well, thank you, Piyush. It's nice meeting you in person. And well, we'll call it a wrap.

Piyush Agrawal – *Bank of Montreal – CRO*

Thanks very much. Thank you.