BMO Financial Group

Bank of Montreal at the 2024 Scotiabank Financials Summit

CORPORATE PARTICIPANTS

Darryl White
CEO

CONFERENCE PARTICIPANTS

Meny Grauman Scotiabank Global Banking and Markets

Caution Regarding Forward–Looking Statements

Bank of Montreal's public communications often include written or oral forward–looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbor" provisions of, and are intended to be forward–looking statements under, the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward–looking statements in this document may include, but are not limited to: statements with respect to our objectives and priorities for fiscal 2024 and beyond; our strategies or future actions; our targets and commitments (including with respect to net zero emissions); expectations for our financial condition, capital position, the regulatory environment in which we operate, the results of, or outlook for, our operations or the Canadian, U.S. and international economies; plans for the combined operations of BMO and Bank of the West; and include statements made by our management. Forward–looking statements are typically identified by words such as "will", "would", "should", "believe", "expect", "anticipate", "project", "intend", "estimate", "plan", "commit", "target", "may", "schedule", "forecast", "outlook", "seek" and "could" or negative or grammatical variations thereof.

By their nature, forward–looking statements require us to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct, and that actual results may differ materially from such predictions, forecasts, conclusions or projections. We caution readers of this document not to place undue reliance on our forward–looking statements, as a number of factors – many of which are beyond our control and the effects of which can be difficult to predict – could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward–looking statements.

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

We caution that the foregoing list is not exhaustive of all possible factors. Other factors and risks could adversely affect our results. For more information, please refer to the discussion in the Risks That May Affect Future Results section, and the sections related to credit and counterparty, market, insurance, liquidity and funding, operational non–financial, legal and regulatory, strategic, environmental and social, and reputation risk, in the Enterprise–Wide Risk Management section of BMO's 2023 Annual Report, and the Risk Management section in BMO's Third Quarter 2024 Report to Shareholders document, all of which outline certain key factors and risks that may affect our future results. Investors and others should carefully consider these factors and risks, as well as other uncertainties and potential events, and the inherent uncertainty of forward–looking statements. We do not undertake to update any forward–looking statements, whether written or oral, that may be made from time to time by the organization or on its behalf, except as required by law. The forward–looking information contained in this document is presented for the purpose of assisting shareholders and analysts in understanding our financial position as at and for the periods ended on the dates presented, as well as our strategic priorities and objectives, and may not be appropriate for other purposes.

Material economic assumptions underlying the forward–looking statements contained in this document include those set out in the Economic Developments and Outlook section of BMO's 2023 Annual Report, as updated in the Economic Developments and Outlook section in our Third Quarter 2024 Report to Shareholders, as well as in the Allowance for Credit Losses section of BMO's 2023 Annual Report, as updated in the Allowance for Credit Losses section in our Third Quarter 2024 Report to Shareholders. Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on our business, are material factors we consider when determining our strategic priorities, objectives and expectations for our business. Assumptions about our integration plans, the efficiency and duration of integration and the alignment of organizational responsibilities were material factors we considered in estimating pre–tax annualized run rate benefits from Bank of the West cost synergies and operational efficiency initiatives. In determining our expectations for economic growth, we primarily consider historical economic data, past relationships between economic and financial variables, changes in government policies, and the risks to the domestic and global economy.

Non–GAAP Measures and Other Financial Measures

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

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

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

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

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

PRESENTATION

Meny Grauman – *Scotiabank Global Banking and Markets*

I wanted to start off by talking about credit because it is the big question. Probably not a big surprise that we would start here. Just to lay it out here in terms of the big question on investors' minds, is BMO a credit outlier this cycle? I think on the call, you were very clear to say, no, but I want to give you an opportunity here to address that directly and to go into a little more detail in terms of what gives you the confidence to be able to say that. I then have a few follow-ups on that.

Darryl White – *Bank of Montreal – CEO*

It's the appropriate place to start, naturally. Let me put a little bit of contour around what we had to say on the call. The first place I'll start is to reinforce the fact that at BMO we've prided ourselves for decades on being superior - we write it down, we put it out there - on being superior managers of risk over the long term. And in fact, it's stated as one of our top five strategic priorities. We take it very seriously. That goes to how we think about originating, how we think about underwriting, how we think about portfolio management through the cycle and how we think about workouts over the course of credit cycles. When I look at it, Meny, in the context of the performance that we've exhibited this year, I have to remind us of a couple of things. Over the course of time, and I am going to get, by the way, to the specific outcomes that we've exhibited in the last couple of quarters, but I just want to make sure it's put in the right frame. And it's really important to the conclusion, that I offer on the call and why I'm confident in it, is that when you look at our performance over the course of time measured in decades. In fact, and we disclosed this, over the last 33 years we've outperformed our peers in 29 of them. Not this year. We've had four years where we didn't. This year will be number five.

And in this particular year, difficult as it is, and it has not met our expectations, we've been clear about that, and it hasn't met yours, I just want to put it in perspective, our year-to-date impaired credit losses are 40 basis points and the average of our peer group among the big six is 33. If I were to narrow to the big five it is 36. So it's higher than the peer group. But to put it in perspective, relative to our business mix, which I'm going to get into with wholesale being a higher weighting of our business, it's not that different. Now that doesn't trivialize the outcome that we've had so far this year and definitely we expect better of ourselves.

That brings me to the question of how we got here and where we think we're going, which is effectively the conversation we had on the call. When we look at the concentration, if there is a concentration of where the impairments have presented. We've studied this very carefully and at first, you might think, well, is there a concentration by geography in the United States. Is it in California because you bought a bank or is it in the Midwest or is it somewhere else? And the answer is no. Is there a concentration by industry sector, CRE or otherwise? And the answer is again, no. And you look at various ways to try to identify concentration patterns. What you find is something different from that, which is also very interesting and very instructive, and it helps us inform how we perform going forward, which is, you may have heard us say on the call, that 15 accounts accounted for 50% of all of the wholesale losses that we have in our wholesale portfolio.

So we have tens of thousands of unique accounts within the wholesale portfolio and 15 of them have presented the outcome that is different from our expectations and different from your expectations. What do those have in common if they're not those concentration areas that I talked to. They exhibit, not all but many, of the following characteristics: vintage, some underwriting that occurred in the sort of 2020, 2021 and 2022 pandemic era, they had higher leverage levels at underwriting than were probably sustainable given the fact that there was some artificial fiscal stimulus and richer balance sheets than one would appear. There was some underwriting that occurred against the expectation of consumer preferences that were present during the pandemic that obviously weren't present thereafter. And in some cases, we had higher hold sizes than we probably should have and that's not ideal.

But when I look at that outcome and we asked ourselves, would we have done something differently? The answer is, of course we would have, across that number of names, but it's 15 names in the context of tens of thousands, and our outcomes so far this year would have been better had we done different things, different escalations, whether we were taking the same hold amount upfront for a new customer, stuff like that.

What we then did was we took those learnings, and we said, all right, if I apply that as an algorithm and as a screen against the rest of the portfolio, the next tranche, and the next tranche, what do I see? I don't necessarily see impairments, but I see some accounts where some combination of those factors are present at the same time, in which case what interventions will we take, perhaps earlier than we might have with this set of 15. That can involve moving to the watchlist more quickly. It can involve moving immediately to impairments as well. And so we do that all the way across the portfolio, and we then use that, because I think you also said in your question, how does it give you confidence that this is where you go from here. We then use that to say, we were very clear with the market, to say we don't think this bulge is over yet. We think it probably goes a little bit higher in Q4. And we do think it's temporary because we do see that cycle completing, and I would say to you, probably in the next six months or so, we'll look back and say most of this is behind us because it's been a very diligent exercise to understand it.

So we didn't want to be here. The loss given default outcomes were higher than we would have expected. Some of that is circumstantial, but we understand it very clearly, and we understand how to bind it and we understand how to be able to get to the other side of this cycle. And is it different from peers? It is different from peers because the business mix that we have, which is skewed more heavily to Commercial and more heavily to the U.S. and Commercial, is different from peers and over the long, long, long run has proven to be a pretty good advantage for BMO. But in this more narrow sliver of time, right now for a select number of accounts, it's been more difficult.

Meny Grauman – *Scotiabank Global Banking and Markets*

Because that's the real debate, I think in terms of, okay, if BMO is not an outlier then the next logical question, is it sort of a canary in the coal mine? Are you just showing something that is going to eventually catch up to some of your peers? Because I think it came us across on the call, we're saying here, we appreciate the business mix is different, but we're looking across U.S. banks, Canadian banks and we really don't see these types of issues. You talk about COVID being some of what's sort of to explain some of this, and we're not really hearing that from other management teams. Is there something to explain the timing here at BMO? Is it just we're seeing something sooner and it might catch up later?

Darryl White – *Bank of Montreal – CEO*

It's hard to know. I mean, we do get asked the question. You look at previous credit cycles and we often get asked, BMO seemed to be a little bit earlier to recognize and then earlier to recover on the back end of that. I can't sit here and tell you today that I know that that will be the case.

What I know is that when we see risk we take action quickly. I do know that. You can't be conservative for the sake of being conservative. You have to rely on the data, and we do that. And it is the case that you shouldn't expect all of the other Canadian banks to have exactly the same experience that I described if they don't have the same business mix with respect to, in particular, U.S. wholesale credit. So that is different from the rest of the Canadians. Whether the outcomes that we're exhibiting will end up being different from the U.S. market broadly, let's say when you look at the regionals, time will tell. I can't predict that as I speak today. But what I can predict for you is that we know where we think this is going for our book, and we know that we'll be back to our superior credit performance, which we've exhibited for

34 years, as soon as we get through this belt in the cycle. Credit, always credit is cyclical, and a cycle is temporary. The underpinning performance of the business is enduring.

Meny Grauman – *Scotiabank Global Banking and Markets*

On the call there was some discussion of not having some, I mean, I think you addressed it here, but I just wanted to be clear, on the call it seemed that there was some lack of confidence in the ability to provide guidance in terms of impaired PCL ratios.

Darryl White – *Bank of Montreal – CEO*

It's not so much lack of confidence as it is if you look at it I've tried to describe to you how narrow and short the list is, and even if I add the next few that will present, that we think will present, in that list, it's so small relative to the tens of thousands of credits that it's hard to predict. It's just fundamentally hard to predict and you can have a circumstance that accelerates very quickly. We've talked about some of those that have been fairly public that relative to Q2 and then all of a sudden in Q3 they're in a different circumstance. The model doesn't predict that very well and nobody's model does in wholesale credit.

So it's not so much a lack of confidence. It's just that we certainly didn't want to be in a position to say, we know that shareholders might expect us to or hope that I should say, or analysts might hope that we would say on this date on the calendar, at this minute, it will peak at this level. That's impossible. That's false precision. What we can do is put a range around our expectation and tell you that that's what we would expect. And that's why I have said here today we think that that's complete in terms of most of it being in the rearview mirror within the next six months.

Meny Grauman – *Scotiabank Global Banking and Markets*

And so, the corollary is, the follow-up question really becomes how does this sort of experience impact growth going forward? And you talked about some of the characteristics, the question is does this event mean that you have to scale back growth?

Maybe let's start it at a different spot. I mean, people look at these credit losses and say, okay, like they just, they were too aggressive in their expansion in the U.S. I mean, I think you addressed this is not Bank of the West, but could it just be BMO being more aggressive, that was in hindsight prudent in terms of pushing on commercial and corporate lending in the U.S. in the past few years?

Darryl White – *Bank of Montreal – CEO*

It's a good question. And there's a lot in it because you have to remember, and as managers, you have to be careful that when you tackle an issue that you wished you had done a bit better job on, some of it was in your control and some of it wasn't, that it doesn't become the only issue in the organization. Particularly when you think it's known and time-bound. Because underlying that we need to remind people that if you look at the operating performance of the business, I'll come to the US in a second, Meny, but the operating performance of the business, there are some very, very good signs of health within the overall organization if you're able to put this credit issue over here just for now. At 5.2% operating leverage in the quarter was double our peer average. If you look at our year-to-date deposit gathering, which I view as a key metric for health of organizations, it's best among our peers, and it's above the peer average in the U.S. When I look at U.S. operating metrics, when we look at balance growth, when we look at protecting the downside on NIM, margin, we've got a slide in our presentation that shows that we're beating the regional peers quite well on those sort of generalized health metrics.

So you do have to be careful in your question to say, as a result of making sure that we put our arms tightly around a credit outcome that we weren't particularly happy with, that we spoil that momentum because there's very real momentum that we want to continue on. I think I made the point on the call that when we ask ourselves the question, well, it's pretty simple, realistic to say did we grow too fast, and therefore, it's as simple as the blunt instrument that therefore the chickens come home to roost. Well, when we look at in U.S. Commercial, U.S. Wholesale, where the growth was faster than market and where it wasn't, the places where we took share, in some cases very well and quite aggressively, included ABL, sponsor finance, sponsor lending, vendor, dealer finance, some of our specialized businesses, that is not where the losses are presenting. So the conclusion isn't you're getting what you paid for there. The losses are actually presenting in the sectors where we are kind of growing much closer to market, and therefore, the reasons that I discussed earlier. I could put it all together, and assuming we're right about the trajectory of that curve going forward, when I get myself a quarter or two, or three out, our mandate is to continue to deliver that operating performance that we know we're good at because it's happening below the surface, and then have the tailwind of those credit outcomes behind us.

Meny Grauman – *Scotiabank Global Banking and Markets*

Maybe to ask it a different way, have you made any changes to the way you underwrite in the U.S.?

Darryl White – *Bank of Montreal – CEO*

When you have an outcome like this, you have to figure out whether there's changes that you made. You also have to be careful that you don't swipe the entire page with one brush. because I just told you that the vast, vast, vast majority of credits and for the vast majority of sectors, we're not actually experiencing losses that surprised us or surprised the markets. Where we have, we are looking at things like should single name hold limits in the instance of initial underwriting be a little lower than they are. Are there certain dynamics around the credit underwriting that ought to trigger an escalation in terms of approvals. Making changes that apply to treating the particular circumstance as opposed to trying to treat the entirety of a portfolio and risking, to the question that you asked me earlier, slowing down the momentum, is what we're doing. It's quite surgical.

Meny Grauman – *Scotiabank Global Banking and Markets*

I think that's an important point. Just to highlight that you're highlighting a problem that is in your confidence is very specific. This is not a broader issue?

Darryl White – *Bank of Montreal – CEO*

That's exactly right.

Meny Grauman – *Scotiabank Global Banking and Markets*

Okay. And then talking about the U.S. this credit issue came up in Q2 and then extended into Q3. Q1 we weren't talking about credit, but we were talking about if the ability to execute on Bank of the West was slower than what you initially had expected on the revenue side? And for the obvious reasons, we've seen the rate situation play out in the U.S. and obviously you do a deal when you do a deal. You need a little bit of luck there and maybe you didn't have it this time.

Just to highlight that again, putting credit aside, provide an update on your outlook for the U.S. business. It feels like many Canadian investors are souring on U.S. exposure. Help us get a little bit more balance here, like where are we making a mistake in terms of going down that road?

Darryl White – *Bank of Montreal – CEO*

So fair question. Maybe what I'll do if it's helpful is reframe the U.S. thesis because that's a question I realize is in the water., And then I can come back to where are we on the Bank of the West execution because it's part of it for us of course.

When you step back and look at the core strategy to have a strong, profitable, very competitive Canadian bank that generates excess returns, and then makes decisions as to where to invest those excess returns, and in our case, for the most part, we believe that's the United States. We absolutely continue to believe that's intact. And this is a long-run strategy. This is a long-term strategy. It's a coincidence that we're sitting here today, to the day, on the 40th anniversary of the day that we closed the acquisition of the Harris Bank in 1984. When we closed that acquisition, we were the 32nd largest bank in the United States. We had $8 billion of assets. Today, we are the 10th largest, and we have $450 billion in assets. And over the course of the long run, we believe that has paid well and will continue to pay well. And when we look at the growth that we've employed over that period of time, about 60% of it has been organic, i.e., take share from banks that don't have the same capabilities, and about 40% of it has been the acquisitions that you see. I'll come to the one you've got in a minute.

I never begin or end a day without reminding myself that the U.S. has a $35 trillion GDP, Canada is $2.7 trillion and California is, where we put a stake in the ground, is $3.2 trillion. And so, when we look at that against the backdrop of the way we have set up our bank, which has been very deliberate over the course of 40 years. We've now got a circumstance where we're operative in two or three of the five largest MSAs in the country, in 14 of the 25 largest MSAs in the country, in 32 states. And by the way, in the 14 of those 25 MSAs, just that without even looking at the rest of the country, is 10 times the GDP of Canada. So the question I really ought to ask myself and my team and my board is are we set up over the long run to be really competitive in a market that overall I would not bet against, the United States. There are probably financial institutions who will say, that's a tough putt, right?

But when I look at the setup that we've got and the way we've built it over the course of those 40 years, and the way we continue to invest in times that are muted growth, like we've had in the U.S. banking market over the last year, where we're adding capacity, we're adding teams, we're adding the capability to when the market is more constructive to bring on revenue, while when you don't have to then bring on much cost to bring that revenue. I'm very satisfied with it. And the reality is it's almost half our bank's income, and it's completely integrated. So I acknowledge the popularity index on investment in the U.S. is not very high right now, but I think you have to be very careful to not paint that with one brush. And done right, which we think we have for the most part, and we'll continue to do over the course of time, we think it's a very sound strategy.

Now to your, I think you were asking the update on the Bank of the West question that's sort of buried within all of that. I've said this before. We sat here on the stage exactly a year ago today on the day after we had completed the technical integration and that was a success, we won a Celent award for the success of that integration. The technology teams know what they're doing. The branding teams know what they are doing. If you've been in California, we flooded the market. The recognition and the consideration for us has gone up, and we started to add customers after that period where you have attrition post-acquisition. We're now seeing the inflection point. So all of that is very exciting and it's going very well. And we've kept all of the top talent that we wanted to keep. Where are the challenges and what hasn't yet gone according to expectations? They are around the revenue side. And there, you are right, sometimes you get unlucky on timing.

We closed that acquisition on February 1, 2023 and six weeks later, Silicon Valley Bank tipped over and First Republic and on it went, and the destabilization impact of that over the entire market has gotten better today, but it persisted for over a year because you had the confluence of higher deposit costs, materially higher than you would have expected at the time. You had funding costs that were impacting a bit your lending margins. Then you also had this flattening of demand that is flat, flat, flat over the [commercial] business over the course of the last 18 months when the long-term average is 4% or 5%. So we've been living with an environment that the revenue pie has been pretty significantly depressed in the market overall relative to what we thought it was going to be.

If you were betting that will be the U.S. banking market to the end of time, that will be a difficult outcome for us. That's not our bet. The number of clients that are telling us that this waiting period that they're in, for two things, for the rate cut cycle to begin, which I think we're on the precipice of, as well as the U.S. election, which is really quite something within the U.S. commercial market we find relative to what happens through the course of Canadian elections. We saw in 2016, this pent-up, I'm going to wait, I'm going to wait, I just want to know what the outcome is. I want to know what the policy outcome is of an election one way or another before I get back into the business of capital formation and demand for banking products. That's the phase that we're still in right now.

So as we come out of that phase, my expectation is we're going to be able to deliver on those revenue promises without having to materially increase the cost base. i.e., more leverage. And we've said before, we think that the consequence of all that is we will get there. Nothing's changed on our expectations and nothing's changed in our confidence level, it's a timing issue. Therefore, we pushed out our expectation of that full delivery of the revenues from the end of 2025 to the end of 2026.

Meny Grauman – *Scotiabank Global Banking and Markets*

So that's right. I think that's an important point. In terms of you're confident that it's still timing, there's nothing more structural going on here as the quarter has gone. Nothing is telling you that that thesis is still not going to play at all?

Darryl White – *Bank of Montreal – CEO*

All the health metrics we look at, branch productivity, the increasing cross-sell of the products into Commercial and into Wealth, those numbers are ticking up as every day goes by. And therefore, the answer to your question is, yes. There's nothing that's fundamentally changed in terms of our expectations other than we pushed out the

timetable. Not on the cost synergies by the way. They're done. We exceeded those, they are in the bag. On the revenue side, we've got some work to do to make sure that we get all that done as well, and we'll get there.

Meny Grauman – *Scotiabank Global Banking and Markets*

Wanted to stick to the U.S. but talk about Capital Markets. Maybe you can also touch on Wealth, but you have a sizable presence in the U.S. Capital Markets business you built that out. This quarter, there was a lot of talk about the upsurge in deal-making in the U.S. Obviously, we can see Goldman Sachs share price as a proxy for that. Moving to results, we didn't really see a lot of that excitement to come through in terms of your U.S. Capital Markets business. The question is why that is and what lessons do you draw from that?

Darryl White – *Bank of Montreal – CEO*

We're not trying to be Goldman Sachs in the United States. And so, just to remind people of what we are trying to be is we've got a really competitive Capital Markets business in Canada that I think can be even more competitive than it is. And we've got lots of plays that we're investing in to make that true. And our U.S. business, which is about half of our overall Capital Markets business, you kind of have to look at where we've chosen to play.

If you look at the results you saw from the U.S. banks, and somebody told me, I haven't checked this, but somebody told me if you look at year-to-date M&A volumes, you are basically up 25% in absolute deal volumes, but you're down 25% in number of deals. So it's the year of the mega-deal. That's not the space we play. We play more into that upper middle market. When that market is active, we play a lot better. And in the meantime, the businesses that we've chosen to build, i.e., we're not going to chase that business and have the capital that you need and the expense that you need to chase that business, but the places we've chosen to build in that mid-market are running pretty well. And when I look at, for example, investments that we made, and we think we've come to the end of an investment cycle and now we're going to be in a harvest cycle for a while in the Capital Markets business, it gets pretty interesting because you look at the rates business for example, five years ago rate securitization, we weren't very prominent. Right now, we're top three in rates. We were number one ranked in rate strategy and institutional investor in the United States. If you look at the securitization business across CMBS and otherwise, we've got a top three position there. When those markets are active, you'll see an uptick in performance from us that you might not from others.

So what you saw is certain markets uptick that we are not big participants in. When you see these businesses where we've taken very clear leadership positions uptick, you will see outperformance from us. In the end, we made a commitment to shareholders that we wanted to get the PPPT of our Capital Markets business to be a) at $625 million per quarter or better and b) consistent. We don't like the notion of really big swings, and of course, you are going to have some swings in Capital Markets business. And that's actually what we've done. If you look at the last few quarters, we've put out there a pretty tight band and we've stayed within it in terms of managing the volatility in that business and I think there's upside from there.

Meny Grauman – *Scotiabank Global Banking and Markets*

It's very clear. I want to talk about something we don't normally talk about, guidance. If I look at EPS revisions, consensus EPS revisions for BMO both '24 and '25, definitely BMO looks like an outlier in terms of the magnitude of the downward revisions. So we came into the year very, very clearly overly positive in terms of the earnings power of the bank and the expectations for '25. And we've had to revise that number down, maybe dramatically overstating it, but we have to revise down more than others. The question is what happened here? How much of the blame do you put on me?

Darryl White – *Bank of Montreal – CEO*

None of it's on you. So I saw the chart you put out yesterday. I think it's a good chart. I don't blame you. The numbers are accurate. I looked at the decline from, I think you drew it from the beginning of Q2, the end of Q1, and that's a pretty appropriate time to drive because there was an inflection point from there for us, particularly on credit. And I looked at the revision from then to now, and I came to the conclusion that not quite but almost 100% of the revision is due to credit. Almost 100% of the revision is due to the credit outcomes that we have had that wouldn't have been in neither our guidance nor in your models at the end of Q1.

And so, the flip side of that is that the operating performance, the PPPT delivery and the operating leverage that we committed to at the end of Q1 when we had negative operating leverage in Q1, and we said we would be positive for the rest of the year. We were positive in Q2, we were positive in Q3, and we think we're going to be positive in Q4, is in line.

So I don't mean to oversimplify your question, but the numbers don't lie. The entirety of the downward revision in those estimates, consensus estimates you and all of your colleagues, is credit. And we are being very clear here today that we don't think that's over. But we do think that it does come to a closure point sometime in the next six months.

Meny Grauman – *Scotiabank Global Banking and Markets*

I wanted to talk about ROE. It's something I'm talking to all your peers about in terms of medium-term ROE targets and how you get there and the building blocks of that. You have an ROE target of 15%+. The question really is over a period of undershooting that do you still have confidence that you're able to get there? Is that still a valid target and how do you get there?

Darryl White – *Bank of Montreal – CEO*

That's the right question. I actually think it's the most important question. So undershooting, yes, a portion of that undershooting is the same answer we keep coming back to is the credit, but not all of it. And so, what you need to hear from me is that I actually have a plan, and I have a line of sight as opposed to we think that's a reasonable target and we'll probably get there. So I'm telling you we have a plan and we have a line of sight to get to 15% ROE.

What does it include and what do you have to deliver on, not just believe. It includes a normalization of credit. It includes delivering 2% operating leverage in the business. Taking the efficiency ratio, which we have improved over the last year by 300 basis points down to 57%, it includes bringing it to 55%. It includes improving the ROE and the performance in the U.S. business, which is not just PCL. It's that revenue delivery that I won't revisit it all, but that we talked about earlier in this conversation. And it includes the work that we're always doing on how we look at capital recycle.

And so, when we do that, we believe, and we believe it with conviction, that over the medium term we get the 15% ROE that we've held out there. It's not just something we put out and we hope to get to. It's something that we have a clear plan to address. Now, could the environment swing us again? I suppose. But based on our outlook on the environment, that's the formula we know that we need to execute against to get there. And there's pretty significant value creation as you know, if you look at the difference between an 11% ROE and a 15% ROE. We've been there before. We got to the 15% across all of our U.S. businesses in 2022, for example. It wasn't long ago. We've got the toolbox.

Meny Grauman – *Scotiabank Global Banking and Markets*

I wanted to talk about the outlook for commercial loan growth on both sides of the border. Obviously, you're very well-positioned to speak to that. In the U.S., the question often comes up, the role of the U.S. presidential election, do we need to get beyond November to see a material improvement?

Darryl White – *Bank of Montreal – CEO*

I think we do. I think we definitely do. It's not 20% of the conversations I have with U.S. borrowers, it's 80% or 90% of the conversations I have with them, will say yes to your question that we do. And I think then, and that's why we withhold our generalized guidance on things like loan growth outlook until the end of our fourth quarter, because then when we're talking to you all in the first week of December, we've got the election behind us. We've got those conversations with our clients. We can understand how much of the pent-up demand we think is going to be released. We assess the competition vector from private credit in particular, and then we come to a view.

Having come from flat for the last 18 months, I'll go way out on a limb and say to you today, I don't think it's going to be flat. It's going to grow with all of those things coming in our favour, including almost certainly by then, some of the beginning of the rate cut cycle with the Fed. But I can't yet tell you whether I think it's going to be 1% or 2% or 8% next year. We'll clarify that for you at the end of the fourth quarter, but I do expect some expansion.

Meny Grauman – *Scotiabank Global Banking and Markets*

And then in terms of Canada, where we've been a lot more resilient, what are you hearing from your customers?

Darryl White – *Bank of Montreal – CEO*

Generally, confident. I would say generally the Canadian customer on the commercial side remains confident. There are some tails in the areas where folks are more concerned than others. Generally confident. If there's a but to it, it's whether or not the rate cycle in Canada has been soon enough to catch that kind of tail end of consumer that was levered and had run out of the excess liquidity from the pandemic. And then is the rate cut today just too late for some of those? Because as we know the impact and the transmission effect of the rate cycle in Canada is faster generally than it is in the U.S. because of short-term mortgage impact. So that's good. That's generally good.

But I do think we're going to see some uptick in unemployment in Canada. And I think the governor was clear about the rate decision today to say that the balance of risk has shifted to that, has shifted to too much impact on inflation and we don't protect the unemployment picture enough. So we do hear, coming back to the commercial borrower question that you asked, we hear that from our commercial customers saying if they're exposed to that consumer segment that they're worried about. But I'll come back to the beginning of my question. In general terms, with appropriate caution, there's a general level of confidence.

Meny Grauman – *Scotiabank Global Banking and Markets*

I think that's all the time we have. It was great speaking to you, Darryl. Thanks so much.

Darryl White – *Bank of Montreal – CEO*
Thanks.