BMO Financial Group

Q2 2024 Conference Call

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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 Second 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 Second 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 Second 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 May 29, 2024, for the quarter ended April 30, 2024 ("Second Quarter 2024 MD&A") is incorporated by reference into this document, including the Summary Quarterly Earnings Trend section in the Second 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 April 30, 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 Second 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 Second Quarter 2024 MD&A. The Second 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

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

Thank you, and good morning. We will begin the call with remarks from Darryl White, BMO's CEO; followed by Tayfun Tuzun, our Chief Financial Officer; and Piyush Agrawal, our Chief Risk Officer. Also present today to take questions are Ernie Johannson, Head of BMO North American Personal and Business Banking; Nadim Hirji, Head of BMO Commercial Banking; Alan Tannenbaum, Head of BMO Capital Markets; and Deland Kamanga, Head of BMO Wealth Management; and Darrel Hackett, BMO U.S. CEO.

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

I will now turn this call over to Darryl.

Darryl White – *Bank of Montreal- CEO*

Thank you, Christine, and good morning, everyone. Today, we announced adjusted net income of $2 billion and adjusted earnings per share of $2.59, with a $0.04 increase in our dividend, up 5% over last year.

We achieved strong pre-provision pretax earnings growth of 7% from last year, driven by continued momentum in Canadian Personal and Commercial Banking, and strengthening performance in our Capital Markets and Wealth businesses.

Canadian P&C delivered record revenue, up 13% year-over-year with industry-leading growth in customer acquisition, contributing to market share gains. We've seen strong momentum from newcomers to Canada, up 35% compared with last year due to the success of BMO's New Start program, pre-arrival digital tools and advice, all aimed at helping new Canadians make real financial progress. BMO Capital Markets had strong PPPT of $642 million, within the range we have guided to and up 21% from last year, driven by good client activity and record results in debt underwriting.

We met our commitment to positive operating leverage this quarter, which was very strong at 3%. Expenses were down from last year and from last quarter from the achievement of the Bank of the West cost synergies and a large portion of the incremental operational efficiency savings we announced last year. We remain focused on delivering positive operating leverage for the full year.

Credit risk, while elevated from last quarter is well managed in what continues to be a challenging environment for many of our customers, where some individuals and businesses are being impacted by prolonged higher interest rates and a slowing economy. We now expect somewhat fewer and delayed rate cuts this year in both Canada and the U.S., with the Bank of Canada expected to begin lowering rates this summer and the Fed in the fall, at a moderated pace.

Our balance sheet is stronger than ever, with a growing core deposit base, a CET1 ratio of 13.1% and prudent loan loss provisions. Since Q2 of 2023, which was the first quarter after the closing of the Bank of the West acquisition, we have effectively and quickly rebuilt our liquidity and capital positions. During that period, we added $48 billion in customer deposits, kept our liquidity and funding ratios stable and added a full 90 basis points to our CET1 ratio, positioning us very well for capital allocation optionality heading into 2025.

Our U.S. businesses continue to be a key differentiator for BMO, with our U.S. segment contributing 45% to the bank's earnings and a significant driver of long-term growth. We have a strong foundation, building on our position as a top 10 U.S. bank, with a presence in 14 of the top 25 MSAs and a leading market share in businesses like RV/Marine, Equipment Finance and Wine & Spirits, we are competing from a position of strength.

Since March of last year, the U.S. banking industry has experienced more muted loan growth and intensified deposit competition as the Fed continues quantitative tightening. Meanwhile, BMO's strategy hasn't changed. We're building clear competitive advantages in a highly fragmented market structure. And as a result, we've delivered resilient performance ahead of U.S. regional bank competitors, reflecting our deep experience competing in this market, the expanded scale of our business and strong execution of cost savings. Pre-provision pre-tax earnings in our U.S. segment exceeded US$1 billion for the fifth consecutive quarter, growing 7% over last year, well above peer averages. Over the last 4 quarters, we've grown deposits, we've seen stability in commercial lending and we've managed margins.

Brand recognition is strong, having achieved a meaningful share of voice in California and surpassing our targets for awareness and consideration leading to good customer acquisition. In retail in particular, we've improved branch productivity in the new West markets by 17% since the beginning of the fiscal year, complemented by strong digital sales and digital adoption.

March was a record new high for new business generation across the retail and commercial businesses, including record client referrals. In Commercial Banking, we've retained over 90% of our clients post conversion, and we're now building our base with good new client acquisition. We're unlocking cross-sell opportunities and expanding in key verticals. For example, in our Wine & Spirits sector, our combined teams are exporting expertise from the U.S. West Coast to grow and better serve clients in the Canadian winery market, while bringing M&A expertise to our U.S. clients with 5 completed or underway deals.

We're also leveraging our leading North American Treasury Management and Payment Solutions. The capabilities we offer are not easily replicated and continue to be enhanced, including seamless access to FX trading capabilities and cross-border money movement. Clients that bank with us on both sides of the border have deeper relationships with over 10% higher revenue and 30% higher deposits.

While the overall environment may continue to constrain revenue growth in the near term, we continue to invest to build on our early success and capture profitable market share and create value for the long term.

Our digital-first strategy is an important driver of our growth aspirations, and we’ve empowered our teams to develop and deploy leading digital solutions that drive tangible customer and business value. We’re using agile practices to accelerate time to market, deploying increasingly sophisticated data and analytics, including AI,

and leveraging cloud engineering to drive modernization and deliver more, faster with greater quality and security. Cloud computing is a critical enabler for business transformation across BMO, and we're seeing meaningful business benefits. We're modernizing legacy Wealth infrastructure within the cloud and have invested in industry-leading workflow tools in Capital Markets to increase efficiencies and deliver better customer experiences.

In retail banking, we've delivered 2 million AI-enabled conversations with BMO Assist and over 80 million BMO Insights to help our customers better manage their finances. As a result, we're not only being recognized with our clients' trust and business, but this quarter, BMO ranked among Fast Company's list of the World's Most Innovative Companies of 2024, the only Canadian or U.S. bank recognized out of more than 600 winning organizations.

At the heart of BMO's culture is our commitment to ethical business practices, including a responsible approach to AI development, that guides the execution of our strategy to strengthen and grow our bank. This quarter, we were again recognized by the Ethisphere Institute as one of the world's most ethical companies for the seventh consecutive year, an important differentiator for our bank.

I'll now turn it over to Tayfun.

Tayfun Tuzun – *Bank of Montreal - CFO*

Thank you, Darryl. Good morning, and thank you for joining us. My comments will start on Slide 10.

Second quarter reported EPS was $2.36 and net income was $1.9 billion. Adjusting items are shown on Slide 38 and included the after-tax impact of the incremental FDIC special assessment of US$50 million. The remainder of my comments will focus on adjusted results.

Adjusted EPS was $2.59, down from $2.89 last year, and net income was $2 billion, down 7%. PPPT increased 7%, driven by strong performance in Canadian P&C, Capital Markets and Wealth Management, partially offset by a decline in U.S. P&C, where loan demand continues to be muted while deposit pricing remains very competitive.

Revenue was up 2% and expenses decreased 1% with good operating leverage of 3%. We delivered on our commitment to positive operating leverage this quarter as the benefit of our efficiency initiatives offset the impact of lower revenue growth. PPPT growth was offset by an increase in PCL, which Piyush will speak to in his remarks.

Moving to Slide 11. Our balance sheet remains well diversified with solid loan and deposit growth. Average loans grew 4% year-over-year, excluding the impact of last quarter's RV loan portfolio sale and the wind down of the indirect auto book. Consumer loans were up 7%, and business and government loans were up 2% with good growth in Canadian P&C and Capital Markets, partially offset by lower commercial lending in U.S. P&C. Average customer deposits increased 6%, primarily from balanced growth in Canadian P&C and Capital Markets.

Turning to Slide 12. On an ex-trading basis, net interest income was down 1% from the prior year due to lower margins and was down 2% sequentially due to the impact of fewer days in the quarter. The decline in trading net interest income was offset in non interest revenue. Compared with last quarter, NIM was modestly lower by 2 basis points.

In Canadian P&C, the impact of lower deposit margins was offset by higher loan margins and favourable balance sheet mix, with NIM up 3 basis points. We expect NIM in Canadian P&C to tighten during the second half of the year due to the BA migration and continued deposit competition. In U.S. P&C, lower deposit margins drove a 10 basis point reduction in NIM. Although we expect deposit competition to continue in the U.S., the quarterly impact on NIM should be more modest.

Although the deposit environment is competitive in both countries and migration to higher rate deposits continues at a decelerating pace, we maintain our expectation of relative full bank margin stability for the remainder of the year.

Moving to Slide 13. Expenses declined, driven by the continued progress on enterprise operational efficiencies we began in the third quarter of last year, and the full realization of Bank of the West cost synergies. While we achieved positive operating leverage this quarter and expect the same for the remaining two quarters of the year and for the full year, we are seeing profitable opportunities to capture market share in both Canada and the U.S. and will invest accordingly.

Turning to Slide 14. Our capital position has strengthened with a CET1 ratio of 13.1%, up 30 basis points from the prior quarter, driven by internal capital generation, the final quarter of common shares issued under the dividend reinvestment plan and lower source currency RWA, as lower market risk was partially offset by higher credit risk. Our capital outlook for the rest of the year remains strong and is likely to remain above our management target.

Moving to the operating groups and starting on Slide 15. Canadian P&C net income was up 7% year-over-year driven by strong PPPT performance, up 17%, partially offset by higher PCLs. Record revenue of $2.8 billion was up 13%, driven by higher net interest income, reflecting both solid balanced growth and improved margins and higher noninterest revenue, including the acquisition of AIR MILES. Expenses were up 9%, reflecting the inclusion of AIR MILES and higher technology costs.

Loans were up 5% with good growth in mortgages and commercial loans, and deposits were up 11%, reflecting continued growth in term products across both consumer and commercial clients.

Moving to U.S. P&C on Slide 16. My comments here will speak to the U.S. dollar performance. Net income was down 25% from the prior year with lower revenue and higher PCLs, partially offset by lower expenses. Revenue was down 7% driven by lower net interest income due to a 23 basis point reduction in margins, which is consistent with industry trends. Noninterest revenue decreased 11% as higher M&A advisory fees in Commercial Banking were offset by lower deposit fees in Personal and Business Banking. Expenses were down 6%, reflecting good expense management, including cost synergies and operational efficiencies.

Loans were up 1%, excluding the impact of the RV loan portfolio sale last quarter. Deposits remained relatively stable, with strong growth in term and money markets, offsetting decreases in noninterest-bearing balances.

Moving to Slide 17. BMO Wealth Management net income was up 33% from last year. Wealth and asset management revenue was up 4%, reflecting good operating performance, with client asset growth and stronger markets offsetting lower net interest income due to lower deposits and margins. Insurance revenue increased from

last year due to changes in portfolio positioning during the transition to IFRS 17 and was up $21 million from last quarter due to the impact of favourable changes in interest rates on investment results. Expense growth of 1% reflected higher revenue-based costs, which were largely offset by the benefit of efficiency initiatives.

Moving to Slide 18. BMO Capital Markets net income was up 23% year-over-year, reflecting strong PPPT performance of $642 million in the quarter, consistent with our guidance, partially offset by higher PCLs. Revenue in Global Markets was up 8%, primarily due to improved market conditions driving higher interest rate trading. Investment in corporate banking revenue was up 1% as strong debt underwriting fees were mostly offset by lower advisory fees. Expenses were down 3% due to a legal provision in the prior year.

Turning now to Slide 19. Corporate Services net loss was $244 million, compared with $63 million in the prior year and $316 million in the prior quarter. The decline in quarter-over-quarter loss was in line with our expectation and the increase relative to last year was driven by the lower net accretion of purchase accounting fair value marks as well as impact of treasury-related activities.

To conclude, this quarter, our revenues improved, and our expenses declined in line with our expectations. The power of our franchise is evident in our ability to deliver positive operating leverage while investing in future growth opportunities. We have built strategic flexibility as a competitive advantage that relies on the strength of our operational resilience and business and geographic diversity, and we expect our financial performance to reflect that strength as we move to a more supportive economic and market environment.

I will now turn it over to Piyush.

Piyush Agrawal – *Bank of Montreal - CRO*

Thank you, Tayfun, and good morning, everyone. Starting on Slide 21. The credit themes we've been seeing over the last several quarters continue to play out as the higher level of interest rates and slowing economic activity are reflected in credit migration and higher impaired loss rates.

The total provision for credit losses was $705 million or 44 basis points, up from 38 basis points last quarter. Impaired provisions were $658 million or 41 basis points, up from 29 basis points last quarter. Given the environment, we continue to manage our portfolios closely as per a long track record of good performance through cycles.

In Canada, the increasing trend in credit card delinquencies and elevated consumer insolvencies over the last number of quarters have resulted in impaired losses of $247 million, up $44 million from prior quarter. We continue to take actions to manage losses within these portfolios, including pre-delinquency engagement with customers who are most vulnerable to payment stress. Our residential portfolio continues to perform well, including renewing customers, and the amount of variable rate loans in negative amortization declined further this quarter, down 34% year-to-date. U.S. retail impaired loan losses was $44 million, down $36 million from prior quarter.

Our commercial portfolio remains well diversified across sectors and geographies. Canadian commercial impaired loan provisions were $48 million, up $14 million from last quarter. U.S. commercial impaired provisions were $244 million, up $141 million. Provisions primarily came from commercial real estate, transportation and services sectors. Commercial real estate, including office, is performing in line with our expectations and we maintain strong coverage. But given the rate environment, we do expect modest provisions going forward. Capital Markets impaired losses were $61 million, primarily driven by one idiosyncratic account in the insurance sector.

On Slide 24, our business and government portfolio continues to be well-structured and well-secured. While the impact of higher rates has resulted in negative credit migration, over half of the portfolio continues to be investment grade with low impairment levels of 1%.

Moving to Slide 22, performing provision for credit losses of $47 million primarily reflected portfolio credit migration and uncertainty in credit conditions, partially offset by an improvement in the macroeconomic outlook. Having added to performing allowances for the last 8 quarters, we are comfortable that our total performing allowance of $3.7 billion continues to provide appropriate coverage over performing loans at 56 basis points.

Turning to Slide 23 on impaired loans and formations. Impaired formations increased to about $2 billion with all of the increase in business and government where high rates are continuing to feed through to higher impairment. Gross impaired loans increased approximately $5.3 billion or 79 basis points, with increases across most industries, most notably in services.

To conclude, we expect that the delay in Central Bank easing of monetary policy and slowing economic activity could keep impaired provisions at around these levels over the next couple of quarters. Given the quality and diversification of our portfolio, allowance coverage and strong risk management capabilities, we remain well positioned to manage the current environment and emerging risks.

I will now turn the call back to the operator for the Q&A portion of this call.

QUESTIONS AND ANSWERS

Ebrahim Poonawala – *Bank of America Securities*

I guess, Piyush, for you, just on the comments around impaired PCLs. So one, impaired PCLs of 41 basis points in the second quarter, should we assume that the guidance, I think it was around low 30s impaired PCLs for the year, that's shifting more into the low 40s?

And then just talk to us around your visibility on credit. I heard you say higher rates. But honestly, we expected higher rates for a while, higher for longer. I'm just trying to understand the risk if we don't get material rate cuts over the next 12 to 18 months, is the risk that impaired PCLs could drift even higher? Just give us a sense of your visibility on credit and your comfort level that where impaired PCLs could peak out absent like a full-blown recession.

Piyush Agrawal – *Bank of Montreal - CRO*

Ebrahim, thank you for the question. When we gave the guidance of lower 30s, it was obviously predicated on our assessment of what monetary policy will be. And if you remember in the same guidance we said, we were expecting two to three rate cuts in both Canada and the U.S. and also said there will be some intra-quarter volatility, just given the business mix we have on business and government. That, of course, has changed with the restrictive monetary policy, which I think is now getting moved out quite a bit. So as Darryl said in his comments, it's probably one, probably zero in the U.S., probably two or three in Canada. That then changes the psychology or the sentiment of the consumer.

What you see today at 41 basis points, we are guiding around the same range for a couple of reasons. I can break it down. You're going to see -- you've seen unemployment pick up about 5.3% same time last year to around 6.3%, going up to 6.5% in Canada. And so that is going to have an impact, especially on our unsecured portfolios in Canada. I think the mortgage consumer is very resilient. That continues, while there'll be an uptick in delinquencies, HPI is strong. And so we're figuring out or taking into account what unemployment will do to the unsecured portfolio. And then you have the exogenous factor of Canadian insolvencies or proposals that have been and continue to be surprisingly higher than general expectation.

The second piece I would say is around the wholesale. And if I back up to where we are in this quarter, there are two or three underlying trends that I would probably call out. One, loan growth has remained muted. And this is not unique to BMO. This is, in fact, a market phenomena. And so you get about, I would say, a headwind into that impaired portfolio by 2 or 3 basis points when loan growth is muted. And then as I was going through the results you saw, we also have 2 or 3 large credits, one especially, I called out in Capital Markets. And to put that in context, $16 million or $17 million of impaired can give you a basis point. So when you get $50 million or $60 million in Capital Markets, that's 3 or 4 basis points. So you take the 3, 4 basis points there in the loan growth, you would really get down from 41 to 35, which is just, again, a starting point of giving you a sense of how we performed this quarter.

So we did expect rates -- the impact to go up. And that's how we've landed here. But unemployment continues to tick up. We're going to see a little bit of cyclical businesses in our mix of wholesale that may have higher losses, transportation finance being one of them. And I can get into more detail, but just to give you the perspective of why we are guiding in the similar range, again, with that caveat that there will be volatility because two or three large names can move that number around by three or four basis points.

So I hope that's helpful. Of course, going forward, much longer term, I think we'll revert back to our longer-term averages. But that's something we have to see rather than speculate on the rate cycle when that happens, and we'll provide you more guidance as we go along.

Ebrahim Poonawala – *Bank of America Securities*

Sure. And I'll follow up offline. And just one question for Darryl. Adjusted ROE, 10.9%, absent any improvement in the macro. Can BMO do better than 11% return on equity anytime soon?

Darryl White – *Bank of Montreal - CEO*

Ebrahim, the short answer is, yes, I do remind folks that the ROTCE is an important metric for us as well, which is substantially higher than that. But you did hear Tayfun and I talk about continuing to push on positive operating leverage as we go forward. So assuming we can do that, and assuming no change in the macro, I think we can continue to improve on where we are right now. And if there is a change in the macro to the positive, obviously, we think we can do even better.

Matthew Lee – *Canaccord Genuity Corp.*

When we look at GIL formation, it feels a bit of a step-up from the U.S. service industry, some CRE and wholesale trade. Can you maybe talk to one, if that expansion is discrete, identifiable clients or if it's more of a broad-based weakness in those industries?

Piyush Agrawal – *Bank of Montreal - CRO*

So Matthew, I don't think this is a systemic weakness. In fact, we've been assessing many of these sectors for quite some time. Some of the weakness I talked about was, for example, I'm just probably expanding on the point on transportation. For the last 18 months, you've seen freight rates have remained at an all-time low, volumes haven't picked up. If you look at the American tonnage index, that's been at a low point. And resale values, because of oversupply, have also been impacted. But a business like transportation, we've been in for 40, 50 years. We've been through several cycles. We managed through several cycles, and we are beginning to see some recovery or flattening out of delinquencies out there.

To your other question around commercial real estate, it's a sector we're focused on. There was one large name this time around in our impairment. I'm actually optimistic to get back a partial recovery over the next few quarters even on that because it's a book we manage. So it wasn't a surprise in our small watch list of names that we've been tracking more closely even after reappraising them every few months, this name was within our expectation.

So it is a couple of names and a couple of cyclical sectors in a diversified business, but it's not systemic to anything that I would call out for you.

Doug Young – *Desjardins Securities Inc.*

Darryl, I just I want to go back to some of the points you made in your opening comment. You emphasized strong capital and liquidity position. And you stated that BMO is positioned well for capital allocation optionality going into 2025. And I'm just hoping, you can dig into what you're trying to say or what you mean by that statement.

Darryl White – *Bank of Montreal - CEO*

Thanks Doug. Listen, what I mean by it isn't anything more than what you heard. And when I say that, I look back to a year ago at the end of the quarter after we closed the Bank of the West, I also advised in my opening comments that we've since built 90 basis points on the CET1 ratio. We've built almost $50 billion of deposits on our liquidity. You heard us last quarter announce that we were going to turn the DRIP off and you saw us today consistent on dividend expectations.

And as I look forward, Doug, over the next couple of quarters, we just see those trends at least stable, if not continuing to improve, and so setting us up for 2025. We feel like we're in a good position in terms of capital allocation. Optionality is exactly the word I used, and that's what I meant, and that goes to all the things we always talk to you about. We'll have, we think, a differentiated position from a capital availability perspective in the U.S., in particular, relative to many of the names we compete against there. And in Canada, we'll be with some of our peers and have lots of optionality to first serve our clients and then to consider other options if the capital continues to accrete beyond our base levels.

So that's a good place to be in, and we think at least an impressive track record of progress on those metrics relative to a year ago after completing a large acquisition. That was the point I was trying to make. Is that helpful?

Doug Young – *Desjardins Securities Inc.*

It is. I was just trying to kind of maybe fine a point on it. Is it meaning that you are at a position to do further M&A? Or would you be more inclined to be more active on buybacks, given the flexibility on the capital side?

Darryl White – *Bank of Montreal - CEO*

It's a good question, Doug, and it's hard to be particular in the answer because, as you know, it depends on the circumstance. And as we look at the environment, it continues to be, as we've outlined in our opening comments, a softer environment. In that environment, you're less likely, I think, to pursue M&A relative to having a world view that says the clouds are parting, so that would be an important factor at the time. And it also goes to strategic attractiveness and price and all of the rest of it that we always talk about.

So subject to that -- that's kind of my way of saying the M&A environment has to be helpful and constructive. We think when it is helpful and constructive, we are an attractive alternative for many potential candidates, but that doesn't mean you go ahead and do something. You go ahead and do something because it makes sense for shareholders in the aggregate. And if we get to a point where we've got excess capital in '25 and we're not pursuing because things don't make sense, then, of course, buybacks are on the table at some point as we go through '25.

Doug Young – *Desjardins Securities Inc.*

Okay. And then second, just, I think, in your opening remarks, you talked about positive operating leverage, you both talked about positive operating leverage.

But Tayfun, you also talked about making investments because you see profitable opportunities to take market share in Canada and the U.S. And I don't think you would make those investments that would take you away from positive operating leverage. I think you've been clear on that. But I'm just curious as to -- I'm just trying to make sure we're not surprised by something. Like can you dig into what those opportunities are? Can you kind of talk about what those investments might be and what that impact that might have on the expense line?

Tayfun Tuzun – *Bank of Montreal - CFO*

Yes. It's nothing more than a reference to a number of businesses who are taking market share profitably, both in Canada and then a number of opportunities that we have, including our newly expanded franchise in the U.S., and there will always be pockets where we think that combining our balance sheet strength, capital and liquidity, with the ability to take market share, we'll take advantage of those opportunities. But we believe we can do those even within the guidance of positive operating leverage. That may mean that the expenses may tick up a little bit. But as long as we deliver positive operating leverage, we're quite comfortable leveraging our growth opportunities with smart investments.

Doug Young – *Desjardins Securities Inc.*

And so there wasn't any one or two particular opportunities that you wanted to point out?

Tayfun Tuzun – *Bank of Montreal - CFO*

No.

Meny Grauman – *Scotiabank Global Banking and Markets*

Piyush, I think it's very clear and you highlighted it that the higher for longer rate environment is definitely putting upward pressure on the impaired PCL ratio. But I'm wondering if there are any other factors here worth considering. One factor that I wanted to specifically get your comment on is just collections. How is that tracking relative to expectations? Is there anything there that would explain some of the upward pressure on impaired PCLs as well?

Piyush Agrawal – *Bank of Montreal - CRO*

So higher for longer, I think everybody is talking about, it's a new normal. And so customers are adjusting to a new normal of higher for longer, all this takes time, and you're seeing some of that come through over here.

Specifically on collections, I wouldn't say that collections is getting impacted because of that. The obvious two or three points is when you haven't lost money in the past, you can't collect enough. So impairments are beginning now and that's going to build the collection inventory for the future. But the second part, which is a challenge for the industry is when it comes through insolvencies or proposals, it's going to take a longer window for collect because you can't collect for the first four or five years, those are just the way the rules are. So that does have an impact on collections. Other than that, in the normal write-offs, I think our collection window of one or two years remains as robust as it was even before. I don't know if Ernie would like to add something here.

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

I was just going to add that we've been very successful in proactive contact to customers, getting in front of the situation for them and helping them navigate, whether that be mortgages or credit cards or any unsecured lending. And what we're finding is the receptivity has been very strong and the performance of those contracts have been very helpful to the customers and ultimately in us being able to navigate and reduce losses. And I think that will continue as the market -- as we talked about earlier, macro environment, interest rates, higher for longer and consumers are facing more cash flow efforts. But efforts are good, and they will continue over the course of the next probably a year as we go forward.

Meny Grauman – *Scotiabank Global Banking and Markets*

And then maybe just a question for Darryl. Just given the environment, are you seeing any increased regulatory scrutiny on AML processes for BMO, especially in the U.S.? And I, guess sort of a related question, is there a risk of material increase in spending relative to plan because of that?

Darryl White – *Bank of Montreal - CEO*

Meny, I get it. The short answer is no. Regulatory scrutiny is pretty continuous rather than episodic, I would say. A couple of thoughts come to mind. We've been -- you mentioned in the U.S., we've been operating in the U.S. continuously for decades. We're coming up as it turns out on our 40-year anniversary of the acquisition of the Harris Bank. And all the way through, we've built risk and governance and control infrastructure that would be appropriate for the size of the operations at the time. And now, as we talked to you about before, our programs are subject to ongoing reviews. So when I say it's continuous, that's exactly what it is in the jurisdictions that we operate, including in the U.S., where we transitioned to a Category III bank. So there was no surprise there.

And just as we believe our AML program is mature and it's effective through that piece, we, of course, remain vigilant. And this goes to your question, I guess, on investment. Risks are elevated, criminals are more sophisticated, as we know and we, therefore, continue to invest and strengthen our practices. But all of that happens, whether it's AML fraud, advanced technologies that we introduced, with the oversight and with the spending envelope that Tayfun outlined earlier in terms of how we look at our business planning. So nothing -- like nothing particularly unusual relative to the environmental factors that I think you're referring to.

Meny Grauman – *Scotiabank Global Banking and Markets*

Nothing additional relative to what you've been doing before?

Darryl White – *Bank of Montreal - CEO*

Correct. It’s all in the plan.

John Aiken – *Jefferies LLC.*

Just wanted to focus on U.S. deposit growth, given the environment where you've highlighted that it's very competitive. Can you discuss the strategy or the tactics of continuing to pursue the deposit growth in an environment where it is compressing your margins? Is this by bringing in deposits that will hopefully then expand the customer base and be able to build more products? And secondarily, can you talk to how much of that growth was actually driven by your digital platform?

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

It's Ernie. I'll answer that question, John. So a couple of things. One I would say, first of all -- I'll do the Personal and Business Banking side, and then I'll turn it to Nadim. But on the Personal and Business Banking side, we have been successful in terms of growing overall deposits relative to the market. You've probably been noticing. The industry has been negative in growth. We have actually had positive growth and really lead in this position.

It's a function of a couple of things. The mix, the blend that we have happening between, as you stated, new customer growth into the franchise, and we've been particularly pleased with what we've been seeing in our new Western market, and that's driven through a combination of our branches and our digital capabilities, as you referred to.

We have digital capabilities that are on the BMO enterprise banking capability. And in our new markets, in particular, we've been extremely pleased with how we've been performing. About 40% of our sales have been coming in through those on checking and savings accounts, the core franchise as well. So that's a big component of it as well as our attraction factor of acquiring mass affluent customers into our, what we call our premier banking offer in the U.S. That allows us to build full relationships and refer to our wealth colleagues.

On the pricing side, per se, we use, obviously, a number of tactics to be able to optimize. But what we're finding is, as you can imagine, more price competition in general in the U.S. marketplace. But overall, we're seeing the growth in our new customer base as well as just our real focus on full conversations with our customers to ensure that we're also migrating them proactively in some cases to our CD products so that we're, at the whole, keeping our deposit franchise growing. And as I said, it is growing relative to the marketplace.

And I'll turn it over to Nadim to talk about commercial deposits in the U.S.

Nadim Hirji – *Bank of Montreal – Group Head, BMO Commercial Banking*

What I would say on the commercial side is that we've had significant focus on growing deposits overall, and you see that in our Canadian balance sheet. The U.S. is a bit more challenged with the way the macro environment is there, where we see a significantly higher mix shift.

What I will say is that, that mix shift has been going at a decelerating pace in the last few months. And so over the last 3 months, month-over-month, we have seen a deceleration of that mix shift, which is positive. Now with the rates where they are, I still see margin pressure on deposits, it's still a competitive environment. But I do, as Tayfun mentioned, see the level of margin compression dissipating and the mix shift dissipating, which will be a positive to the overall deposit book.

In terms of where we're focusing, one of the things I will say is that we are highly focused on simplifying our Treasury business, making it easier for clients to onboard, making it simpler for our employees to sell the Treasury products, creating bundled pricing, which makes it easier for clients to sign up with us and focusing a lot more on our, what I'll call, the emerging mid-market space, clients with good operating deposits, sole/lead relationships, strong ROE, good loan-to-deposit ratio type portfolio. And so we are allocating our resources, capital and focus, onto businesses where we can gain that kind of traction. And frankly, beyond deposits gaining opportunities for our Wealth business as well.

Gabriel Dechaine – *National Bank Financial*

I want to look at the performing loan book for a minute here, specifically the Stage 2 classifications. So they were around about 11.5%, that your loans were classified as Stage 2 last quarter. That jumped up to 16% this quarter. I'm just wondering what the process is? What's involved in moving loans from Stage 1 to Stage 2? I know technically how it works. But what do you do specifically? Do you think you've gone with a fine-tooth comb and identified which commercial borrowers are on the brink or whatever because of higher rates and that we should see that balance be stable from here on out because that's where the bulk of formations should be emanating from, right?

Piyush Agrawal – *Bank of Montreal - CRO*

Yes, Gabe. Thanks for the question. So we're always making a dynamic assessment of our borrowers and even for people who continue to be paying, the assessment really is, is there a change in the credit conditions that may affect future performance? And so our risk team working with the business, as they continue to evaluate customers, both on the retail side and wholesale side, are making the determination. And then based on that, we move customers from Stage 1 to Stage 2. And the impact, as you know, is you go from a one year to a lifetime loss. So the performing provision picks that up.

I think this process has been going on for the last 1.5 years with the rate change cycle that's happened. Both the impact of rates and inflation that affects our clients' earnings has a material impact on where final ratings might be. And so I think this will continue. This should be a dynamic process. No change in the risk management practice as we go forward.

My expectation is if we go into the higher for longer, we will continue to evaluate what that means for our clients and book provisions. And where we are today, having built for eight quarters, I think we have prudently provisioned the coverage ratios, as you look through different metrics when we compare ourselves in the context of our peers, we feel very good about that.

Gabriel Dechaine – *National Bank Financial*

I guess the other question I had is, last quarter, you had a pretty large performing provision on a smaller increase in Stage 2 classifications and this quarter was a smaller increase. I get there's some netting effect going on as you release some of those because of some of those Stage 2 going to Stage 3.

Are you messaging that the buildup in performing provisions is more or less done for you over the – in anticipation of what you're seeing in the market today?

Piyush Agrawal – *Bank of Montreal - CRO*

Yes, that's a hard question because performing provisions is a quarterly decision based on many factors. And so macro economy and how that moves, the quality of our portfolios and the size of the portfolios, all of those will have an impact on what the final number is. And as you know, while we rely on models, we also sprinkle human judgment at the end just to understand what the models may not be saying.

So until we see a peak in the impaired portfolio or we see a change around in the economy. I think there'll continue to be small builds. I don't know how small or how -- what the size is. I don't expect releases anytime soon. But the reason we feel good about this is performing provisions are supposed to precede impaired provisions. That's why you've seen the build over the last few quarters. And over the next 1 or 2 quarters, looking at the shape and size of our portfolios, we will give you better guidance on what the direction of performing will be.

Gabriel Dechaine – *National Bank Financial*

Okay. And then just the last one for Tayfun. I missed it because I was distracted. But the outlook for U.S. P&C NIM, big compression this quarter. Can you remind me of that? And what the assumptions or moving pieces there?

Tayfun Tuzun – *Bank of Montreal - CFO*

Yes. My comment was that the biggest impact on this quarter's NIM was the deposit pricing competition and reduced spreads for deposits. But I said that I do not expect that phenomenon, although competition will continue, that it will impact quarterly NIM as much as it did this quarter. I suspect that there is a little bit more contraction left in the U.S., but we probably will not see a quarter-over-quarter compression similar to what we just saw in Q2. So a bit more down, but more stable outlook, I should say.

Lemar Persaud – *Cormark Securities Inc.*

Just sticking along the Gabe's line of questioning there. I think I heard that you guys are expecting stable -- kind of stablish or flattish NIM at the all bank level. So correct me if I'm wrong, how do you guys get there? Because I think I heard that we should expect some pressure in domestic retail and less pressure in U.S. retail. So how do you get flattish at the all-bank result? Or did I just hear that wrong?

Tayfun Tuzun – *Bank of Montreal – CFO*

You did hear that we are expecting stability in our all-bank NIM, and that is largely related to the 5- to 7-year rates remaining where they are today because our reinvestments are continuing to provide good support against deposit price competition. And then at the sort of – in Canada, the phenomenon of BAs going away is really -- is neutral at the bank level. It does not impact the bank's NIM.

Lemar Persaud – *Cormark Securities Inc.*

So you could see the dynamic where some pressure in the U.S. retail less than we saw this quarter and some pressure in the domestic business and still have flat all bank. So then it's at the corporate level. Like just help me understand those pieces, like how you get to flat at the consolidated with pressure on retail?

Tayfun Tuzun – *Bank of Montreal - CFO*

Yes, the quarter-over-quarter impact of the corporate side should provide some support for the broader bank NIM.

Lemar Persaud – *Cormark Securities Inc.*

Okay. And then if I may, Gabriel is kind of going along the lines that I'm thinking in terms of his performing question there. Wondering if you could just talk about why shouldn't we see performing PCLs move materially higher, just given these trends in formations and higher unemployment and longer -- higher for longer rates? Like if I look at your coverage ratio, it's only up 2 basis points since the end of 2023.

Piyush Agrawal – *Bank of Montreal – CRO*

I'd say that under performing, again, similar to the way I answered, there're so many things that go into a performing provision as you think about -- so we've obviously considered the macro economy in our forecast. We've considered things around higher unemployment, and that's why within the performing provision, you'll see a higher allocation towards Canadian retail. We felt our coverages there need to be higher, and we've done that. So that, I think, continues as we go forward.

The other thing I would say is, if we look at trends and you talked about the impaired portfolio, on our impaired portfolio, we've historically had a 15% to 20% reservation. This quarter was a bit higher. But we look for trends with the formation of what it's telling us and then dynamically adjust where we can in terms of allocation of our capital, of our portfolio mix. And don't forget, we also have a very large synthetic portfolio or a credit insurance outlined. And so some of the losses as we move forward, we think will get covered also through insurance protection.

So there are several ins and outs that go in. And that's why I feel, we will grow our performing provisions. We just don't see it grow sizably as we had last quarter, which was really the impact of a one-time model impact, as we go forward.

Nigel D'Souza – *Veritas Investment Research Corp.*

I just wanted to quickly follow up on impaired provisions. And last time you had significant impaired formations. I think you mentioned a loss rate of 12% around there, and you mentioned it's higher this quarter. So any details on what the loss rate was this quarter? It looks like you've seen higher loss rates in manufacturing, retail trade and commercial real estate given the context that the macroeconomic environment has not deteriorated substantially and policy rates have not changed. What's driving the increase in loss rate?

Piyush Agrawal – *Bank of Montreal - CRO*

So there's a couple of factors that go in. There's obviously client behaviour. And so as you've seen supply of credit change, especially in the U.S. with what's happening with the regional banks, refinancing for many of our clients gets more limited. And those who had postponed refinancing, hoping rates will come down sooner are finally -- as they hit a maturity wall, they're coming to us. So we work with these clients extensively. In fact, that's a huge relationship trade for us, is working with our clients over cycles. We continue to do that.

In the impairment provision rate, which I was answering the previous question, which is in the 15%, 20% range, it can move around a bit depending on the cycle of the sector that's in the impaired book. Transportation finance, I said, was higher. We had a large CRE loss. We also had a large Capital Markets loss. And so when you've got larger cash flow unsecured, you may have a higher loss in that quarter. But at the end, it's such a diversified book. There're no concentrations that come up that I feel pretty confident that going forward, the trends should come back to where we've been over the last few years.

Nigel D'Souza – *Veritas Investment Research Corp.*

And sorry, just to follow up on a point you made there on the extension of maturities in commercial real estate, the 2023 maturities we know across the industry, bulk of that was extended to 2024 and we haven't seen the rate cuts provide relief. So could you just provide some colour on how active BMO has been? You mentioned your special account management team, but how active have you been in renegotiating, modifying or extending maturities over the last year? And what could the impact from that action be going forward in terms of maturities in the pipeline?

Piyush Agrawal – *Bank of Montreal – CRO*

So you'll see that in our watch list, you'll see that in our impaired formation. Our commercial real estate impaired formations are still, I would say, compared to the market, lower. So we've actually done better. But we haven't taken our eyes off it. We've said in calls before, we've looked at every large loan in the office space, which is where most of the stress has been in the U.S. market. And we only have a handful and we've been working with our borrowers. In fact, over the last few quarters, several borrowers have refinanced, several of the loans which we had on our watch list were paid off. And the one large loan this quarter where we've taken the impairment, I've also added that I'm confident over the next few quarters as we work with our sponsors and buyers, and we may get a partial recovery even on that.

Now there is stress in the sector, you read about this, but again, it depends city to city, property to property. And again, the assessment has been very good. We continue to reappraise. So this is going to continue, and we'll keep reporting back to you as you see through our results on any of these events.

Mario Mendonca – *TD Cowen*

I want to take the credit question, but maybe from a more positive perspective. Now it's been my experience over the years that BMO has, in the past, impaired PCLs a little sooner, taken some pretty big provisions. And then a year or so later, we get these really unusually outsized recoveries that continue for some time. So the nature of my question is, has anything changed relative to the past in BMO's impairment disciplines, provisioning disciplines? Or is there anything different about this cycle that would cause us to rethink that historical trend, the trend where elevated provisions, elevated impairments relative to peers and then elevated recoveries a year or so or two years later?

Darryl White – *Bank of Montreal - CEO*

Mario, it's Darryl. I might try and help you with that. And while I have the mic, operator, I think what we'll do is we'll extend the call for five more minutes because we've got a few people in the queue, and I'll ask people to try to stick to the one question, and I'll ask my team to try to stick to quick answers so we can get to all of you, and I'll try to lead by example here.

So Mario, I think the short answer is no, nothing has changed. Our appetite hasn't changed, our underwriting practices haven't changed. The composition, particularly in the wholesale side of the business, where, as we told you before, 90% of the relationships are sole or lead relationships, haven't changed. So our ability to work through as opposed to be at the end of the line in credit negotiations as we work out is, in the end of the day, advantaged relative to some, I would say. And to your question, unchanged.

Now I can't necessarily extrapolate that and say that, that will result in accelerated recoveries as compared to others. As you point out, that has happened in the past. It might happen. But what I can tell you, and I've sat around this table for a long time, looking at these cycles, is that the way we approach the business, the way we're looking at the diversification of the business and where these particular impairments are coming from right now isn't a particular surprise relative to prior peaks and valleys that I've seen. And so the scenario that you outlined is certainly possible. I can't go so far as to say it's probable, but it's certainly possible because there isn't anything underlying that's suggested otherwise. Is that helpful?

Mike Rizvanovic – *KBW Inc.*

Just a quick one for Piyush. Just not sure if you can delineate or if there is a difference at all, but have you seen more noise from existing legacy relationships, longer-term relationships in that commercial lending book versus the new ones that you would have acquired a few quarters ago with Bank of the West? Just trying to understand if there's a specific source in terms of client base between legacy and new clients that drove that PCL to more than double in the quarter sequentially?

Piyush Agrawal – *Bank of Montreal – CRO*

Mike, thanks for that. The short answer is no, just in the interest of time, I'll just add one more sentence. We've actually fully integrated Bank of the West. It's one BMO portfolio. And so we look at it end-to-end, like any other practice, all of our policies, processes, everything is the same. But going back to the beginning, it's the same U.S. performance across Bank of the West and our legacy book.

Darko Mihelic – *RBC Capital Markets*

Piyush, I'm going to follow that same line of questioning from Mike, but I'm going to do it a little differently. When I compare your impaired experience in the quarter versus your U.S. peers, it's worse. And so possibly, there's a timing impact here, meaning your quarter ends in April and the U.S. banks ended in March. So part of this perhaps could be explained if there were a lot of files that went impaired in April. And then secondarily, when I compare you to TD, where there is no difference in timing, it's also significantly more impairments, which perhaps may not necessarily see Bank of the West, but might suggest Midwest to the West Coast of USA. So I

wonder if you can just comment on whether or not those observations lead to that conclusion that there were a lot of impairments in April from the Midwest out to the West?

Piyush Agrawal – *Bank of Montreal – CRO*

Darko, I wouldn't say it is a Midwest or California or any other geographic question. If I were to just peel it back for you on the U.S. commercial side, -- or the U.S. side, there's two or three big reasons. One is you've got to back out the idiosyncratic loans, like the larger files are not a regular feature. They'll come idiosyncratically, which is exactly what happened. So that's one piece. We've never lost money-- close to almost never, on the financial sector, and this is the one loan we had in Capital Markets that was large.

Second is within our wholesale book, we have the transportation business. That's a very cyclical business compared to the rest of the industry. It's much more, I would say, small truckers, less than $10 million, when you compare the small business delinquency index in the U.S. and compare our performance, not only have we been better than the delinquency index, we are better over 40 years. And so I think this quarter, we took the higher impairment on that. We feel good about that performance because with the summer, tonnage is picking up, freight rates shall move up. And I think as supply goes down, they should do well.

And then the third is, you've got borrowers in different sectors that were just, with higher leverage, or feeling the heat from inflation, and then the higher interest rate coming to us and working out a solution. And so that's why it's a little bit more, this quarter, this may, like I said, continue if rates don't change. But there's nothing unique, I would say, on the overall portfolio that is system-wide. It's just these one-off events that add up to our U.S. performance.

On the other side, momentum is really good. Risk appetite continues to be strong. And I think Nadim has touched on this, where if I look at pipelines and activity, I actually think both loan growth and client engagement will result in just a better overall mix of revenue to overcome these losses.

Paul Holden – *CIBC Capital Markets*

I want to ask a question quickly on your U.S. mid-market private equity lending business, if that's adding any noise to the impairments? And then two, if that's adding any noise to the revenue line for those mark-to-market positions? I guess, the LP positions you take in some of those funds.

Piyush Agrawal – *Bank of Montreal – CRO*

So we've got a very good, strong presence with our private equity partners. The private equity, I think you're referring to the call program or the sponsor funds lending has been an exceptional strength. So I don't see any losses from that, that's not the impairment. There'll be small names of operating companies that we take very granular positions in. Those are part of the regular higher risk profile that we've always known. But in general, I think it's -- the market activity is muted on the revenue side.

Let me hand it over to Nadim because I know they have a regular discussion on pipeline, and the pipelines are very rich. And some of those are probably waiting for the election cycle in the U.S.

Nadim Hirji – *Bank of Montreal – Group Head, BMO Commercial Banking*

Yes, thanks, Piyush. I'll just say activity has been muted. So that's definitely dampened our ability to grow within that space. But we are seeing as capital markets activities increasing, we are seeing M&A starting to increase. There are M&A transactions waiting for the election to see if policy changes will change their mind about the transaction or not. So things are delayed for a little bit longer, specifically in the U.S., than we'd like it to be. But to your question, no, we haven't had significant FMV type losses in that book that are contributing to the numbers you're talking about.

Darryl White – *Bank of Montreal - CEO*

Thank you all for your questions. I'll just close by saying that we remain confident in the growth opportunities across our businesses. And importantly, as I said earlier, the power of the integrated North American franchise, we're clearly building competitive advantages in a highly fragmented U.S. market. Our strategy isn't changing, and we are poised to press those advantages. So thank you all for your time today, and we look forward to speaking to you again in August.