BMO Financial Group

Bank of Montreal at the 2024 RBC Canadian Bank CEO Conference

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Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbor" provisions of, and are intended to be forward-looking statements under, the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements in this document may include, but are not limited to, statements with respect to our objectives and priorities for fiscal 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 the financial, operational and capital impacts of the transaction, and include statements made by our management. Forward-looking statements are typically identified by words such as "will", "would", "should", "believe", "expect", "anticipate", "project", "intend", "estimate", "plan", "goal", "commit", "target", "may", "might", "schedule", "forecast", "outlook", "timeline", "suggest", "seek" and "could" or negative or grammatical variations thereof.

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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, as updated by quarterly reports, all of which outline certain key factors and risks that may affect our future results. Investors and others should carefully consider these factors and risks, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. We do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting shareholders and analysts in understanding our financial position as at and for the periods ended on the dates presented, as well as our strategic priorities and objectives, and may not be appropriate for other purposes.

Material economic assumptions underlying the forward-looking statements contained in this document include those set out in the Economic Developments and Outlook section, and the Allowance for Credit Losses section of BMO's 2023 Annual Report, as updated by quarterly reports. Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on our business, are material factors we consider when determining our strategic priorities, objectives and expectations for our business. Assumptions about 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 generally accepted accounting principles (GAAP) basis. Unless otherwise indicated, all amounts are in Canadian dollars and have been derived from our audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. References to GAAP mean IFRS. We use a number of financial measures to assess our performance, as well as the performance of our operating segments, including amounts, measures and ratios that are presented on a non-GAAP basis. We believe that these non-GAAP amounts, measures and ratios, read together with our GAAP results, provide readers with a better understanding of how management assesses results.

Management considers both reported and adjusted results and measures to be useful in assessing underlying ongoing business performance. Adjusted results and measures remove certain specified items from revenue, non-interest expense and income taxes, as detailed on slide 40. Adjusted results and measures presented in this document are non-GAAP amounts. 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: efficiency, leverage and PCL ratios and growth rates calculated using revenue presented net of CCPB; 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 other adjusted measures which exclude the impact of certain items such as acquisition and integration costs, amortization of acquisition-related intangible assets, impact of divestitures, restructuring costs, 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 December 1, 2023, for the fiscal year ended October 31, 2023 ("2023 Annual MD&A") is incorporated by reference into this document, including the Summary Quarterly Earnings Trend section in the 2023 Annual 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 October 31, 2023, an explanation of how non-GAAP and other financial measures provide useful information to investors and any additional purposes for which management uses such measures, can be found in the Non-GAAP and Other Financial Measures section of the 2023 Annual 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 2023 Annual MD&A. The 2023 Annual MD&A is available on the Canadian Securities Administrators' website at http://www.sedarplus.ca and on our website at www.bmo.com/investorrelations.

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

I'm happy to have Darryl White here, the CEO of Bank of Montreal on stage with me. Darryl, we've been kicking off these sessions pretty much starting with macro, thinking about the rate environment. So, wanted to maybe to kick it off with you in the same sort of vein, thinking about interest rates. Expectations are that they're going to fall; maybe fall aggressively, much more than what we had thought about maybe just six months ago. So, A, your view on the rate path; B, the impact for your NIM and NII, if you can.

Darryl White – *CEO – Bank of Montreal*

All right. More aggressively than we thought six months ago, I think you said. More aggressively than we thought six weeks ago, right?

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

Sure, yeah.

Darryl White – *CEO – Bank of Montreal*

On that I will say that one, the December 13 FOMC Meeting resulting in the exuberance that we saw, i.e., not only are there going to be no more increases, which was effectively said in that meeting, but rate [cuts] are going to come, and they're going to be many, and they're going to be soon. That's a lot, right? Like that's a lot of a pivot. At the same time, I think that the curbing of that enthusiasm that we've seen a little bit since, is appropriate. I'll tell you what my own view is, and we can put a range around it.

When we look at the puts and takes with the good news that the soft-landing narrative does appear to be a base case, that's great, but we're not there yet on controlling the ultimate outcome on inflation. And if I had to put a pin in on it, our house call, I think, is and will end up being, we'll start to see those cuts begin in the middle of the year; not in March or whatever it is that people were jumping onto when the market rallied in December.

Let's assume that it's mid-year. I think it'll be a little bit earlier, Darko, in Canada than the U.S. and I can talk about why if you find that interesting. We've sort of assumed that we'll see a cut in Canada, the Bank of Canada, maybe around June. We might see the Fed go for the first time in July. In each case, to pick a round number, we'll probably see a 100 basis-point reduction through the balance of the calendar year.

And then if that forecast ends up being right or close to right, the second part of your question I think was, what are the implications for our outlook on NII. The short answer is not much relative to our outlook expectation for 2024. And the reason for that is because, if that's right, you've got the transmission effect from those rate cuts. If there's 100 basis points from Canada and the first rate cut is in June, we're probably only going to see 75 basis points in the fiscal. In the US, if we have 100 basis points that starts in July, we're only going to see 50 basis points in the fiscal. And the transmission is all going to be mostly in the fourth quarter anyway. So there could be some, but relative to our previous base case, not that meaningful.

I will, though, while we're on the question, tell you that I think that an important angle to this question is, what's going on as a result of this rate view in the real economy. Because it’s one thing for markets to position as a result of differential rate views, but I will tell you that in the real economy, I’m still very cautious. I was quite cautious, as you might recall, in the late summer, in the fall.

When I go through this period of time, I look at the spending patterns of the consumer through the holiday season, what you realize is, the fact that a central banker tells you that I'm probably done raising rates and I might cut next year, that's one thing for a certain constituent of the capital markets. But it's quite another for somebody who's deciding whether they're going to put their foot on the gas and spend money and borrow money. Because if you just told me that it's likely going to be cheaper in June or July, then I'm going to wait. And so, I think that's an important point to make because I do wonder sometimes whether people get ahead of themselves and realize that, that full transmission mechanism does take a while. I think we're experiencing that right now.

Another way to put it, I think, some folks’ revenue expectations might be a little bit ahead of things for now. And then I think it picks up probably as we go through the year. In our case, we've anticipated that, we've been working through that. That's why we've put in place some of the self-help programs that we've got running, and I'm highly confident in those as well. But when I pull it all together, that's kind of my view on rates; very little impact on us for the year on our NIM outlook.

And in particular, if I'm right about that, I think what you see happen is, you'll recall, we don't really manage NIM to take positions aggressively. We don't try to hit homeruns and we don't get hit badly either. The proof in that is last year, if I look at the four quarters of 2023, with all of the volatility that there was in the market, the total dispersion on BMO's ex-trading NIM was 11 basis points. Went up a bit, went down a bit; went up a bit, went down a bit, 11 basis points in total on the all-bank NIM.

If I look forward to this year, I think you'll probably see a little bit of compression in the beginning of the year because deposit costs are still high. We haven't seen - the fact that there's a forecast where a rate cut doesn't mean that there's going to be deposit costs easing until a bit later. We’re probably managing to relatively stable for the full year. We probably round trip, give or take, 5 basis points by the end of the year to where we are today.

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

Picking up on that then, this sounds to me like NIM stable, really being impacted late 2024, maybe into 2025. We have a bigger concern on NIM if the rate environment continues to sort of decline. I'm picking up on the sense that, look, loan growth isn't going to be great the beginning part of the year. And specifically, I'm suspecting it's going to be consumer side, which isn't really BMO's jam. When I think of BMO, I think more of a commercial side. So do you see a lot of strength still on the commercial side?

Darryl White – *CEO – Bank of Montreal*

We care about both, the consumer and the commercial side. You're right we are a little bit overweighed on the commercial side. At the end of the day, if I told you that in a transaction that you were considering undertaking, whether it was to upgrade your home or do a renovation or to buy a company, if you're a commercial or a corporate client and you don't need to do it today, and the likelihood is if you do it in six or nine months from now, it's going to be 100 basis points cheaper. What are you going to do? You're going to wait. That's just the natural evolution of what we're going to see in both consumer and corporate behaviour. It doesn't mean nothing's going to happen. I mean it's fine, things are going on in the meantime, but to assume high, high growth rates in loan books off of an adjusted rate forecast of something that's going to happen six months from now, I think, is premature. You're going to see it, but it's going to come later as the year goes on. It's particularly good news if that's right for 2025. Life could get very interesting in 2025 if we're starting to see that sun come out.

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

Running full circle then to the sort of the expectations that we have for Bank of Montreal in 2024 is, I get the sort of note of caution on NII, but at the same time, we're expecting some pretty significant expense reductions at Bank of the West almost 20% higher than your original estimate. And so, I guess, that sort of backfills.

But I guess, one of the things that comes up out of this is, so we're going to have tougher NII growth, maybe some expense – or not maybe, but certainly sounds like very certain expense reduction. What about revenue opportunities and revenue synergies? Is that also going to be delayed now because of the rate environment or do you see revenue synergies more on the fee side, or maybe you can just flesh that out for us a little bit?

Darryl White – *CEO – Bank of Montreal*

Yeah, sure. I'll get to your revenue question. I just want to touch on what you mentioned on the cost side. We've got a fair bit going on to, as we call it, self-help. And it's related, right? We did make a call on this environment last summer, and we began our work on the cost. We've got two things going on at the same time.

You referred to it, Darko. To remind people, we upped our synergy target on the Bank of the West cost side from US$670 million to US$800 million. That's a 20% increase. That is pretty much locked and loaded. We're going to have that done by the end of the first quarter, that's three weeks from now. So in three weeks from now, I'm at the point where the full run rate of the US$800 million is actually coming through. It's 98% or 99% of it is actually running through as of the beginning of February.

We also announced back in August a program that'll deliver us about CAD $400 million. Sorry, I'm switching currencies here, but we always did the Bank of the West in USD. That takes the year to sort of start flowing all the way through our P&L. By the end of the year, we think it is as well. Those two things combined, as we move through the year, become pretty powerful mitigants and buffers against what you're probably hearing is a more cautious revenue outlook from me.

Back to the other side of your question, on the revenue side, look, I'm actually very encouraged there. Might there be some delays? I don't know. We've said there might be some delays, but we did say that we have US$450 million to US$550 million of synergies from the Bank of the West franchise in three to five years. Right now, when we look at the activity, the overall market is a little bit tougher. But over the course of three to five years, I'm not going to give you a call on what the market looks like in three to five years. I don't know.

What I do know is in the meantime, everything we thought was going to happen is happening. The branch productivity is going up. The sales-to-service ratios in the branches is going right up. Ernie talked about this a little bit yesterday. We're seeing thousands of transactions from the commercial franchise into the Capital Markets franchise today already. These are occurring as we speak. The conversion that occurred on Labor Day weekend was, by all accounts, absolutely world-class. I'll give a shout out to our team here as well. You look everywhere you can for customer friction through these conversions and there always is. It's not an easy thing to go through. Ours was at the low, low, low end of the scale relative to any benchmark that we can find.

The brand has been unified, all the way from San Diego to Halifax. We're also rebranding everything in the Midwest, by the way, that was formerly BMO Harris. It'll be the same BMO everywhere. I haven't talked about wealth yet, because in wealth, if you look at the penetration of our wealth product into our commercial book in the U.S., which as you know, is a big sizable book, there it's somewhere around 30%. The Bank of the West, it's low, low, low. So, we've got an opportunity to port that technology and those sales techniques there as well. And I'm very encouraged.

When you hear us say, well, it might be a little bit delayed, well, some things delayed a quarter or two in three to five years. Fine. Maybe there'll be something I'll wake up to in a year from now, and I'll say, I'm bringing it back forward a quarter or two. The thesis absolutely holds. And if anything, I'm getting more encouraged by it as we go forward.

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

When I think about the revenue opportunities there, just can you give me a hand on the top one or two opportunities? Is it more the commercial side or is it the consumer side, how do you sort of rank order this, or how do you think of it when you look at the revenue opportunity?

Darryl White – *CEO – Bank of Montreal*

It is both. Let's just start on the commercial side. If you look at the overlap in the businesses, we've got, in many cases, very similar businesses, but we don't have the customer overlap. You take Food and Ag, for example, where we have a very strong Midwestern-based Food and Ag business. They have a very strong Western-based Food and Ag business and a very high, one or two market share, for example, in the wine industry, we didn't have that. So, totally complementary but the same overall sector. You can drive synergies and better customer conversations. Then you can help with the technologies and the sales practices that we have, and the brand unification - just kind of lift up the ambition effectively for the whole franchise. I could scale that comment to hundreds of examples across the commercial franchise.

Then in the retail franchise, the franchise at the Bank of the West in retail was a good franchise. It was about 40% retail, 60% commercial. And it was good, it was sticky long-term customers, but the incentive on the sales side and the sales-to-service ratio in the branches, the amount of work that was being done in-branch that had to do with servicing and fraud detection, that doesn't need to be done in branch. We've pulled that into the way we do our system. We've given them analytics that we use for lead engines and proper customer conversations.

We're already seeing the productivity in that branch network now go up 2 to 3 times relative to what it was. Then, you layer on the digital and then the customer acquisition that's happening digitally. You put it all together, and the revenue opportunities are going to be real on both sides of the business. I know that because we're already seeing it. It's already coming through.

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

Let me just quickly circle back on expenses, though. We've had the program in Canada. You mentioned CAD $400 million of expenses. Does that get harder now going forward? Are we in a new paradigm? Is it tougher to keep costs under control again?

Darryl White – *CEO – Bank of Montreal*

Labour costs are tough. That's where we have to acknowledge -- what's the average across your comp universe? 55%, 60% of the total cost structure of the banks is in people, right? And so, when you have that as your base, and you've got an environment where voluntary turnover has come down, way down, from the peak in Q2 of 2022. There's a more manageable labour market from the perspective of how tight it is and being able to keep and retain good people. We're in a much better place than we were then. But it's not like we're giving back the wage increases. Those are there, and they're there to stay.

What you're asking is sort of a structural cost question as we go forward and forward and forward in the next, say, three to five years. The answer there is going to be increased, increased, increased digitization. The better one can do on reducing manual work and increasing the automation of that work, the more you're going to see structural cost takeout. That's a big part of our play over the next few years.

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

Structural cost takeout, but without the use of further restructuring charges, I guess, that's where a lot of people are kind of trying…

Darryl White – *CEO – Bank of Montreal*

A bunch of us had these over the course of the last few months. I remember saying to you years ago when we did a restructuring charge, I hope to not have to do this again. But that was at a time when we had been serial users of the technique and it was five years. The technique that we used, at least, I can't really speak for others, this time, was very different because the cost was borne in the businesses. We didn't do this., we'll take it at corporate, you get a free pass and you get to reload your cost base. Then, good for you; you get operating leverage. It's all shell game, if that's what you're doing.

If you're saying to a business, look, if you want to go through resetting the cost base on the employee side of your business and you want to actually take the charge in your business, including the implication that that has for your incentive and your compensation, then we can have that conversation. We're not having any of those conversations right now, I should declare, because I feel like we actually have it right for the foreseeable future.

But if we decide that the environment shifts and there's a reset needed, we could do that. But when we do it, I will say, Darko, we do it with a view that you got to get it done, you bear the cost of the business, people understand the implications of it and you don't have an expectation that you're going to come back and do this regularly. That would be my view.

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

To shift the discussion to capital for a moment, it was a pretty big concern in 2023. Built capital up, once Q1 sort of passes by and you sort of see where your capital ratio lands, with the expense synergies coming through, I kind of see a situation where your bank can generate more capital per quarter than in the past. And so, it naturally leads us to think about a couple of things with you. One is your commitment to removing the discount from the DRIP and issuing shares from Treasury. I've

modelled Q4. But tell me, could it be earlier? What's your thinking on capital?

Darryl White – *CEO – Bank of Montreal*

It could be. I'll unpack it for you, though. We're 12.5% on our CET1 at the end of Q4. Our current published number is 12.5%. We've declared that there's some stuff going on in Q1 with respect to the FDIC assessment and other regulatory change. Lots of people have these in Q1. I think Tayfun has explained that that's probably worth somewhere in the neighborhood of 25 basis points to the negative.

We've also, on the other hand, got some risk transfer transactions that – we did an RV transaction that you might have seen in December, that probably give me back mid-teens, call it 15%, for argument's sake, to the positive. So if nothing else changes from a jump off point, 12.5% is 12.4%, and I build from there as I go through Q1, Q2. How are we going to think about this question on the DRIP? It's an important question. We get it from shareholders all the time. I don't like it. I would want to have it off as soon as you could do it. You have to be sensitive to the overall environment and then the regulatory overlay.

And there, to me, it's actually pretty simple. If I saw an outlook that said, we were going to operate at 12.5% comfortably or higher for the foreseeable quarters, not for next week or next month, but for quarters, because you certainly don't want to undo a decision like this, and we had comfort that we were going to stay there without needing the DRIP to keep it there, we'll take it off.

And so, is that going to be earlier than Q4? There's a pretty good chance of that from what we see in our forecast, but we can't make that decision today. We'll be a lot smarter - Q1's baked, so we can have that conversation for the first time in Q2. When we look at Q2, we'll say where are we today? What's our expectation on the regulatory side? What's our expectation on our forecast and capital? And if it feels like I've satisfied that condition that I just told you about, we'll take it off. We have it. We'll wait another quarter.

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

Okay, fair enough. And I'm just trying to contemplate in your answer there what kind of condition would there be in the marketplace that you would need the DRIP to keep your capital ratio 12.5%? Is this just a PCL? We'll get to the credit quality in a moment.

Darryl White – *CEO – Bank of Montreal*

That's a good question. I think it's pretty likely that the forecast is sustainably above 12.5%. But as we know, we never know. You could have various outcomes on the macro, exogenous events, if there is a sense that the regulator is going to move again. I don't have that sense today. But all of those things will bake into our calculus at the time. But there isn't anything particular that I have in mind that's dissuading me at this point.

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

And so, maybe just switching over to credit quality then. One of the things that we've noticed across the board is banks barely moved the goalposts on the increase in provisions for credit losses in guidance for 2024. In fact, when I look at your guidance for 2024, it still looks like it might end up being lower than the longer-term averages.

And so, the question is twofold, maybe help me understand why it's not rising faster, why it's normalizing so slow, and is there something specific in there for BMO that I'm just maybe not spending enough time on, because I think of commercial real estate losses potentially coming. I see consumer losses coming in, and again, I understand your business mix. But maybe just walk us through your guidance for 2024 and, essentially, the low level that we're seeing. What gives you confidence in that?

Darryl White – *CEO – Bank of Montreal*

I doubt there are many things you're not spending enough time on, by the way. I would say, you referred to maybe we didn't move the goalpost very much. Depends when you start. If you look at what we said at the end of Q4 of 2022, we said, we were guiding to high-teens, low-20s. A year later, we're guiding to low-30s. So, that 10 basis points move is pretty material. You're probably thinking about what we said in Q4 relative to what we said in Q3; wasn't too much of a move.

I'm pretty comfortable with what our CRO has said. To remind people, he said we think that we're traveling towards a little bit more negative as we go forward; probably in the low-30s on our impaired PCLs. I think you referenced that's better than averages. We've always been better than averages. Our mix and the way we've done our underwriting has been better than our peers for the better part of 30 or 40 years. So, I would expect that to be the case.

One of the most important things is what was not said, which is that we don't see a forecast where we're going up into the 40s or 50s. To be clear, that's not what we're experiencing and it's not what's in our forecast. I bet you, what we'll see is it'll go with my theme in the economy, my theme on the rate cuts, my theme on the growth in the economy. We'll continue to see some increases in the impaired PCLs. If I'm a betting man. I'd say, at some point, this year, we'll actually see the peak, and we'll start to see them come down a little bit, maybe towards the end of the year as rates come down and you kind of get the pig through the python. We're very comfortable with that forecast.

I know residential mortgages is not a big business for us relative to what it is for others, but still an important business for us. If you just look at the performance there, you've got a business that lots of people are asking us about renewals. 70% of the book renews in 2026 or beyond. 68% of the book is fixed. The FICO scores in the

book today are better than they were in 2019. The renewal pattern on the portion that is renewing now is going well. The neg- am is coming down. It came down Q3 to Q4. It's going to come down at an even faster rate in Q1 than it did in Q2. So, the consumer behaviour is in part the answer to your question in terms of how they're reacting to the environment and the rate challenges that they have.

And it's similar in commercial and corporate. We went into this environment with pretty good credit positioning. I don't necessarily mean just us as a bank. We did as a bank, but our customer base, capital structures were arguably under levered, there's a lot of cash. And so, there's a fair bit of cushion to work through this. We could end up being wrong. If we're wrong, though, it'll be because there was a more idiosyncratic event in a large credit here or there that causes a spike. I don't think we'll be wrong because of a systemic miss that we had because we didn't think about a particular stress case in a particular sector because we're doing that all the time and re-underwriting, in fact, the portfolio.

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

And maybe on that point, I mean, I think the one thing that with the Bank of the West on the balance sheet and sort of churning through, do you see a significant difference North to South? Do you see, especially in commercial, I'm very interested in your view on this. Do you see a difference in credit quality or capacity to whether what might be a bit weaker?

Darryl White – *CEO – Bank of Montreal*

This is going to frustrate you, because this is one hand and the other hand. On the one hand, the average credit quality in terms of the average credit rating in our U.S. book is slightly lower than the Canadian book. Meaning, it's slightly higher credit risk but not much, and the underwriting standards and the businesses run, as you know, on a cross-border basis. So, on the one hand, there's that.

But on the other hand, I'm actually a bigger bull on the U.S. economy in the next year or two than I am on the Canadian economy. The prospects for those customers on the demand side of their equation is on balance - these are big, big average statements that I'm making - but over the course of a big book, they do matter. I think that that will be a mitigant. In terms of the U.S., the productivity that you're seeing in the US economy, the likelihood that the US economy does even better than a soft landing and comes through with 1.5% GDP growth or something like that in 2024 is very good. I actually do think it's very good, despite all of the noise around what's going on in the U.S.

Whereas in Canada, we've got a lot of work to do to get through the impact on the consumer of, yes, I'm going to pay my mortgage. Yes, I'm going to feed my kids, but, boy, I've got to pull back on a lot of discretionary spending. We don't have that, given the structure of the mortgage market in the US. There'll be a pretty big difference.

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

Okay, great. I'm going to turn to some of the questions from the audience. What is the longer-term plan for the AIR MILES program? Could we see any changes or new partnerships announced in 2024?

Darryl White – *CEO – Bank of Montreal*

I'm glad you asked, whoever it was that asked. And what I'm going to do is just put a plant in. We're going to start talking about this more actively probably in about a quarter from now. Just a reminder to folks, we bought the AIR MILES program out of bankruptcy, and we closed it on June 1, 2023. We're working through it right now. We're super encouraged.

That program has, ready for it, 10 million active Canadian users. You probably think of it as a sleepy program. It might be in your wallet or in your spouse's wallet and you haven't used it in a long time. There's 10 million active users. We are adding new technology. We're reviving the brand. We are putting new partnerships in place. So that's an important part of the question. We've announced some of them. We've got more to come.

I'm very excited about it. We haven't talked about it a lot because we've been focusing in these conversations on other things like Bank of the West. But we're going to start putting more light on that program as we go through the next couple of quarters. The signs are very, very good. To have a proprietary program that we can run, integrate, own and bring to our customers is really exciting, particularly given the price we paid, given the circumstance itself as they came through the restructuring.

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

That's the question, right? You bought it out of – I mean, it didn't perform well. So what's going to be the big – and this sounds expensive, right? It just sounds like, if you want to make this a cornerstone of your credit card strategy, it sounds like you have to shoulder this all on your own and build out the AIR MILES Reward program. Am I seeing that wrong? What am I missing? It sounds like it's going to be an expensive endeavor if you really want to move the dial.

Darryl White – *CEO – Bank of Montreal*

What you're potentially missing is, first of all, we bought it for pennies on the dollar because we were the founding partner of the program, and we had a renewal coming up. Any other potential buyer who would approach the creditors would have to call us and say, do you intend to renew? It really knocked everybody off the

field. There's nobody else who could buy it other than us. We went in and we were able to negotiate a very good transaction relative to what it would have cost us a year or two before. It was a tiny, tiny fraction.

And the investment dollars that we have to put into it are very consistent with the investment dollars that we put into our consumer programs in the first place, so there's a lot of overlap. The technology is already there. The technology is pretty good. We have to do some things to tune it up and make sure that there were the right compliance and cyber defenses and all the rest of it. But it's actually not that expensive to lift the program up in the context of the big bank's expense base. The benefit of lifting it up and the integration that it has with the rest of your consumer program is going to far outweigh the spend. I'm very encouraged about this to the point where I've been encouraging our teams to start getting ready to talk about this more because we've been keeping it a little bit in the back closet. We're going to talk about it more as we go through 2024

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

Okay, great. Thank you. Another question from the audience. Is there any impact on your capital when you extend mortgages to 30-year-plus amortization or just a near-term cash flow impact from lower cash flows?

Darryl White *– CEO – Bank of Montreal*

Is there any impact on capital, is that the question?

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

Yeah. I guess, the question would be, if you're in a situation where you have to extend amortization to keep the person – sort of lower the payment, is there an RWA impact and/or isn't there and is it just a near-term cash flow sort of situation where you would have been expecting a mortgage payment of CAD $3,000 and it's now CAD $2,500?

Darryl White *– CEO – Bank of Montreal*

It's near-term cash flow. Any capital impacts are absolutely de minimis.

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

Very de minimis. Okay. Very good. One more because I saw another question in here, but this is interesting. Is the bigger risk higher-for-longer rates or lower rates causing inflation to reignite?

Darryl White *– CEO – Bank of Montreal*

Well, they're both risks. It's hard to say what the bigger one is because I think the likelihood of the second is pretty low, because I think that the walk down – if you're a central banker, that's a mistake that you just can't make,. the walk down on rates too quickly to cause inflation to spike. This is why I'm of the view that it's probably going to take a little bit longer to get to the rate cut. And the rate cuts are probably going to come a little slower than other people might think.

I think the bigger risk is higher for longer. I've been talking in this conversation about the impact on the consumer. The lag effect of that impact on the consumer was long. It's starting to be more real today than it was three months ago or six months ago when we were in the heat of the rate increases. So, if there's a higher for longer environment, if we were to stay at this level or higher for the next two or three years, frankly, we'd then be having a different conversation about the renewals on the mortgage book and all sorts of asset classes. That's the bigger risk.

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

Okay. Great. We're approaching the end of our time together, Darryl. This is usually the time when I turn it over and say, what are your key messages for shareholders and investors.

Darryl White – *CEO – Bank of Montreal*

Darko, this year in particular, it's really straightforward. Our story is clean, it's simple, it's consistent, it hasn't changed. The environment is not that. I think the environment is going to be tricky for a little bit while longer. We're going to have higher deposit costs. We're going to have subdued loan demand. We're going to have regulatory cost challenges; we, meaning, the whole industry, and the capital question that you asked.

But from our perspective, we're just staring straight ahead with a very simple execution strategy. We're not distracted by choices that we have to make. We're not pivoting. We're staying very clear on executing the things that I've been talking to you and others about for the last year. And if we execute really well through all of that, regardless of the environment, we will disproportionally create operating leverage relative to our peers this year and set ourselves up in the best place for 2025 and beyond. It's just simplicity. Complexity is the enemy in an environment like this, and we're just focusing on the opposite of that.

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

Okay. Great. That's a great wrap up for our last session before lunch. Thank you again, Darryl.

Darryl White – *CEO – Bank of Montreal*

Thank you.