

## Bank of Montreal at the RBC Global Financial Institutions Conference

### CORPORATE PARTICIPANTS

**Tayfun Tuzun**

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#### Caution Regarding Forward-Looking Statements

Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbor" provisions of, and are intended to be forward-looking statements under, the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements in this document may include, but are not limited to, statements with respect to our objectives and priorities for fiscal 2022 and beyond, our strategies or future actions, our targets and commitments (including with respect to net zero emissions), expectations for our financial condition, capital position or share price, the regulatory environment in which we operate, the results of, or outlook for, our operations or for the Canadian, U.S. and international economies, the closing of our proposed acquisition of Bank of the West, including plans for the combined operations of BMO and Bank of the West, the financial, operational and capital impacts of the transaction, and the COVID-19 pandemic, 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" and "could" or negative or grammatical variations thereof.

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The future outcomes that relate to forward-looking statements may be influenced by many factors, including, but not limited to: general economic and market conditions in the countries in which we operate, including labour challenges; the severity, duration and spread of the COVID-19 pandemic, and possibly other outbreaks of disease or illness, and its impact on local, national or international economies, as well as its heightening of certain risks that may affect our future results; information, privacy and cyber 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; benchmark interest rate reforms; technological changes and technology resiliency; political conditions, including changes relating to, or affecting, economic or trade matters; climate change and other environmental and social risk; the Canadian housing market and consumer leverage; inflationary pressures; global supply-chain disruptions; changes in monetary, fiscal, or economic policy; changes in laws, including tax legislation and interpretation, or in supervisory expectations or requirements, including capital, interest rate and liquidity requirements and guidance, and the effect of such changes on funding costs; weak, volatile or illiquid capital or credit markets; the level of competition in the geographic and business areas in which we operate; judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; failure of third parties to comply with their obligations to us; our ability to execute our strategic plans and to complete proposed acquisitions or dispositions, including obtaining regulatory approvals; critical accounting estimates and the effects of changes to accounting standards, rules and interpretations on these estimates; operational and infrastructure risks, including with respect to reliance on third parties; the possibility that our proposed acquisition of Bank of the West does not close when expected or at all because required regulatory approvals and other conditions to closing are not received or satisfied on a timely basis or at all or are received subject to adverse conditions or requirements; the anticipated benefits from the proposed acquisition of Bank of the West, such as it creating synergies and operational efficiencies; our ability to perform effective fair value management actions and unforeseen consequences arising from such actions; changes to our credit ratings; global capital markets activities; the possible effects on our business of war or terrorist activities; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; 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 2021 Annual Report, and the Risk Management section in BMO's First Quarter 2022 Report to Shareholders, 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 are set out in the Economic Developments and Outlook section of BMO's 2021 Annual Report and updated in the Economic Developments and Outlook section in BMO's First Quarter 2022 Report to Shareholders, as well as in the Allowance for Credit Losses section of BMO's 2021 Annual Report and updated in the Allowance for Credit Losses section in BMO's First Quarter 2022 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 Bank of the West's balance sheet, product mix and margins, and interest rate sensitivity were material factors we considered in estimating the fair value and goodwill and intangibles amounts at closing, and assumptions about our integration plan, the efficiency and duration of integration and the alignment of organizational responsibilities were material factors we considered in estimating pre-tax cost synergies. In determining our expectations for economic growth, we primarily consider historical economic data, past relationships between economic and financial variables, changes in government policies, and the risks to the domestic and global economy. Please refer to the Economic Developments and Outlook and Allowance for Credit Losses sections in BMO's First Quarter 2022 Report to Shareholders.

#### Non-GAAP Measures and Other Financial Measures

Results and measures in both Management's Discussion and Analysis (MD&A) and this document are presented on an IFRS basis. We use the terms IFRS and Generally Accepted Accounting Principles (GAAP) interchangeably. We use a number of financial measures to assess our performance as described herein, including measures and ratios that are presented on a non-GAAP basis. Readers are cautioned that non-GAAP amounts, measures and ratios do not have standardized meanings. 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 and leverage ratios calculated using revenue presented net of CCPB; revenue and other measures presented on a taxable equivalent basis (teb); pre-provision pre-tax income; amounts presented net of applicable taxes; results and measures that exclude the impact of Canadian/U.S. dollar exchange rate movements (i.e. constant currency basis or CCY), adjusted net income, revenues, non-interest expenses, earnings per share, effective tax rate, ROE, efficiency ratio, and other adjusted measures which exclude the impact of certain items such as acquisition and integration costs, amortization of acquisition-related intangible assets, impact of divestitures, restructuring costs and management of fair value changes on the purchase of Bank of the West. Bank of Montreal provides supplemental information on combined business segments to facilitate comparisons to peers.

Certain information contained in BMO's First Quarter 2022 Management's Discussion and Analysis dated March 1, 2022 for the period ended January 31, 2022 ("First Quarter 2022 MD&A") is incorporated by reference into this document. Quantitative reconciliations of non-GAAP and other financial measures to the most directly comparable financial measures in BMO's financial statements for the period ended January 31, 2022, an explanation of how non-GAAP and other financial measures provide useful information to investors and any additional purposes for which management uses such measures, as well as the effects of changes in exchange rates on BMO's U.S. segment reported and adjusted results, can be found in the Non-GAAP and Other Financial Measures section of BMO's First Quarter 2022 MD&A. Further information regarding the composition of our non-GAAP and other financial measures is provided in the Glossary of Financial Terms section of the First Quarter 2022 MD&A. The First Quarter 2022 MD&A is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**Darko Mihelic** – MD & Equity Analyst, RBC Capital Markets, Research Division

Hello, everybody, and welcome to our session. My name is Darko Mihelic, and I'm happy to be joined by Tayfun Tuzun from Bank of Montreal. He is the Chief Financial Officer. And we're looking forward to a very lively session today. But before we begin, I have been asked to tell you that Tayfun's comments today may include forward-looking statements. Actual results could differ materially from forecasts, projections or conclusions in these statements. Listeners can find additional details in the public filings of BMO Financial Group. So with that out of the way, Tayfun, thank you for joining us today and how are you?

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**Tayfun Tuzun** – Bank of Montreal – CFO

Very well. Thank you. Thank you for inviting us, Darko. I have attended this conference in person for many years, and I look forward to attending again in person next year. But the virtual environment works well these days. So thanks for having us.

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**Darko Mihelic** – MD & Equity Analyst, RBC Capital Markets, Research Division

Yes. And I'm looking forward to in person, for sure. So we get the benefit of you having recently reported results, and you guys gave a pretty good update then. But a lot has happened. It's been a little bit crazy out there, a lot of uncertainty. So I was just wondering if maybe we could step back for a moment and think about your overall outlook for your economic outlook, maybe interest rates, inflation. Has any of it changed since you last reported? Have you got a bit of an update for us? Or is it pretty much been smooth sailing -- well, I shouldn't say smooth sailing, but has anything changed for you since you've reported?

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**Tayfun Tuzun** – Bank of Montreal – CFO

We all need to be very cognizant of the environment. Nobody necessarily expected coming into this year, a tragic geopolitical event impacting global economies as this one has. And I will come back to that. But in general, our expectation going into our earnings call, it was that we would continue to see improving economies, both in Canada as well as in the U.S. Our expectation was that Canada would probably have a step ahead of the U.S. from a real GDP growth perspective and potentially be right around 4%. Maybe the U.S. would be around 3.5% to 4%.

Unemployment rates continuing to inch down. The U.S. hit 3.8% on Friday. We would expect that to go down a little bit more probably towards the mid-3s. The same way we expect unemployment rate to keep coming down in Canada as well. Inflation being a hot topic, we focused a lot on that. We expect again, notwithstanding the current impact of the commodities and energy prices, we were expecting sort of between 4.5% and 5% inflation in Canada, maybe about 1.5 to 2 points higher in the U.S. And our overall expectation was that central banks would march towards normalizing rates.

At the time when we were preparing for our call, I think we had about four moves on both sides of the border. The last one is, especially in the U.S., was going to come in towards the very end of our fiscal year. So that would have had less of an impact.

Now obviously, stepping back a moment and taking a look at sort of the past ten days or so, there has to be a recognition of what's happening and potential changes in the outlook. Overall, obviously, with the energy prices and commodity prices, that will put more pressure on inflation and inflationary expectations. The central banks at this point, when you look at market expectations, I think depending upon the exact date you pick, we are somewhere between 4.5 to 5.5 moves in Canada and the U.S.

And there is a recognition, you hear the words stagflation more often these days. There is a recognition that aggressive moves from central banks could potentially lower growth expectations in both countries and globally. And that's a very, very fine line that the central bankers are managing. It's a high-wire act. They need to ensure that they take care of inflationary expectations, but while not necessarily dampening growth outlook.

I think for us, it is a little too early to necessarily refresh the expectations beyond that. We will continue to watch the environment in the next couple of weeks. With more data, we probably will be refreshing our expectation and adjusting our forecast going forward. But at the moment, we're sticking with the forecast that we used to build our guidance for our investors last week.

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**Darko Mihelic** – MD & Equity Analyst, RBC Capital Markets, Research Division

Okay. And with that as a backdrop, one of the things that was a little bit out of the ordinary in the first quarter was a gain on a hedge that you guys had placed for the Bank of the West acquisition. And so normally, when -- I've been around a bit and seen some hedges, and you always worry about what can go wrong, like what can cause hedge breakage. And this is a pretty uncertain environment. So maybe you could just speak a little bit about the effectiveness of the hedge and what, if anything, could go wrong with the hedge as we go through a pretty uncertain period of time here and as we get closer to the actual close of the transaction.

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**TayfunTuzun** – *Bank of Montreal – CFO*

Yes. So first of all, we're very happy that we put the hedge in place when we did right after the transaction was announced. In this environment, we were exposed to a lower rate mark associated with Bank of the West's fixed-rate asset portfolio. And as such, the results are actually displaying the effectiveness of the hedge. In terms of the design, we believe that it is a very effective hedge. It's in line with the duration characteristics of Bank of the West's fixed rate portfolio. And we expect it to move in tandem with the rate mark that is going to be part of our purchase accounting when we close the transaction.

What can go wrong? We believe that there is a very minimal exposure, but we continue to refresh the data associated with Bank of the West's balance sheet. And we will make adjustments in the hedge if we see a significant deviation from their balance sheet that we used to announce the transaction, but those are going to be smaller adjustments. So I'm not expecting an exposure that is going to have a meaningful impact on the broader deal economics.

And in addition to the rate mark, hedging the rate mark, as you know, we also hedged our foreign exchange exposure associated with the deal price, but that's a very straightforward hedge that I think our investors have seen this before. This one was a bit more unusual and totally really borne by the necessities of purchase accounting. But I think it preserves -- as we showed on one of our slides, it really preserves the economics of the transaction as we discussed back in December when we announced the deal, which was like almost, I want to say, forty, fifty basis points ago on the 10-year. So even a large move like that did not necessarily make a difference in the economics of the transaction.

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**Darko Mihelic** – *MD & Equity Analyst, RBC Capital Markets, Research Division*

So that leads me to my next question then, which is the discussion in the earnings call was such that, hey, everything seems to be going to plan. But the quarter that you guys posted was quite a bit stronger than what was originally anticipated. And already, I'm seeing consensus earnings forecasts rising. So it begs the question, if you're hedged, you've got stronger-than-anticipated results why not move a little bit off of the idea or the concept that perhaps the equity issue that's required for the acquisition might in fact come in under your original forecast? What's holding you back from saying, "Hey, you know what, it's possible that it comes in under \$2.7 billion?" It sounded like you guys mentioned, hey, no, no, we're still on track. And that's surprising given the strength of the quarter. I mean, the quarter was by far the strongest beat we saw from all of the Canadian banks that reported and certainly high enough to cause like, I think, a 5% increase in consensus estimates since we last looked. So what's holding you back from suggesting that the \$2.7 billion equity raise might come in lower?

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**TayfunTuzun** – *Bank of Montreal – CFO*

Very good question, and thank you for noticing the outperformance. We were quite pleased with the outcome across all of our business lines. I think we continue to dissect the capital picture as we look forward towards the closing. And we look at different pieces on our capital analysis. We clearly were ahead in terms of the internal capital generation. So that provided a higher support. But at the same time, Darko, we had higher loan growth than we expected, which is a good thing. And we do expect higher loan growth for the remainder of the year.

So those are the two pieces that somewhat are in check and are keeping our current expectations intact with the original expectation. We are a little bit ahead in our DRIP exposure, but not meaningfully enough for us to alter the amount of capital that we would need to close the transaction and keep our Tier 1 ratios, CET1 ratios in check.

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**Darko Mihelic** – *MD & Equity Analyst, RBC Capital Markets, Research Division*

And anything else we should be thinking about, like, I don't know, RWA management or something else on the horizon that we should think about?

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**TayfunTuzun** – *Bank of Montreal – CFO*

Yes. And RWA management was part of our overall plan to execute between now and closing. Which really is about reducing RWA through synthetic risk transfer transactions or securitizations. It's not about selling assets. It's not about reducing our loan growth outlook. It truly is more of a financial overlay and synthetic optimization transactions that will help us minimize the amount of the issuance that we would need for the deal. And that will still take place between now and closing.

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**Darko Mihelic** – *MD & Equity Analyst, RBC Capital Markets, Research Division*

Okay. Now one of the things that you mentioned in the call and you provided a little bit of a list actually in your deck was your integration planning had begun and sort of talked about places where you've identified cost synergies and you're already thinking about not like you don't have your hands on the company yet, but you're already preparing for the eventual close. And so I think that, that makes people feel a little bit better about the cost synergies. But what about the integration risk? We're hearing a lot about that. I have had many investors come back and say, "Look, it's a pretty big expense reduction that they're expecting of the overall base. So you highlighted places where maybe the risk wasn't -- you're on top of it. But what areas would have risk? And how should we think about that in this environment?"

Again, I hate to go back to the environment. But could something change where there might be some risks to the expense synergy forecasts and in your plan to achieve them?

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**Tayfun Tuzun** – *Bank of Montreal – CFO*

Look, I think overall, we spent quite a bit of time doing due diligence to understand their operations, their technology platforms and their processes. And we are also cognizant that we here at BMO, prior to the transaction, invested and built quite a bit of capacity to be able to absorb an operation of a larger size. And the economics of this transaction clearly takes advantage of that.

We feel very good about savings related to the technology overlap. As we stated during the call when we announced the transaction, there is a great overlap between the platforms. We are both heavy FIS users. We also are pretty much bringing the entirety of their technology platforms onto ours. So sometimes, what delays the realization of cost savings is the assessment period between the two platforms, who stays, who goes, what platform will be the new platform? We don't have any of that. We've made the decisions. We're moving forward. So the same thing applies to the product side, the product rollout will pretty much mirror BMO's current product setup in the U.S. So the time period where we have to make those types of investments is probably shorter than other transactions.

Given the overlap in technology platforms, our IT folks are also very familiar with these systems. And as such, we believe that integration risk itself will be lower. A large portion of the savings also will come through corporate shared services. When you look at the company, stepping back for a moment, they are running their company at an efficiency ratio of 62% to 63%. We are running ours in the low 50s, closer to 50%. So that delta gives us confidence that we will be able to bring the costs down in line with our expectations.

The other risks that usually surround these types of transactions involve closing branches, for example, is always a big pain because you lose customers, you lose revenues. We're not closing branches. We are committing to keep the branches open. We're not selling any of their businesses. They're all going to stay open. They are going to be moving onto a more sophisticated treasury management platform.

So we believe in combination both the work that's needed to integrate the two companies as well as the results, the capabilities for the sales force that is currently addressing their existing clients, things will not be as stressful and as risky. And we're giving ourselves, I think, a good amount of time to integrate the two companies. And we're basically forecasting that we will capture 100% of these savings during the first year such that we start year two after closing with 100% run rate. We're quite confident that we'll get there.

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**Darko Mihelic** – *MD & Equity Analyst, RBC Capital Markets, Research Division*

Okay. And some -- like I was just having this experience myself where I had another bank make an acquisition and there's places where you could see revenue synergies. Sometimes a large bank buys a small bank and your lenders get a bigger limit or something like that. But in this case, you're buying it from BNP Paribas. So I wouldn't think they would ever have an issue with more capital or products.

Maybe you can outline a little. I'm not sure if you want to talk dollar amounts, but maybe you can talk about just some opportunities, if any, exists on the revenue side when you combine the two banks? And have you sort of identified them, and I'm not sure if you're willing to talk again dollar amounts here, but does it exist? And if so, where?

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**Tayfun Tuzun** – *Bank of Montreal – CFO*

Yes. So we will be talking about dollar amounts, and we intend to do that fairly soon. We are currently working on identifying these areas. The teams are communicating with each other. We believe that the momentum that we have in the U.S. will actually lift their performance -- overall performance. And it's not just capabilities that BMO brings to the table, but capabilities that they have that we don't. On the ag and food side, they have some verticals that we don't. We have a very strong ag and food business. We will be able to integrate those two businesses. Beverage is another area, more diversified manufacturers and distributors is another area. And vendor leasing is one business that we don't have that will be incremental to our client base.

What we are bringing to them, I'll start with the Commercial side, is obviously the national strength of the business from ABL lending to many financial clients especially in California, expanded manufacturing and diversified industries. And in addition to that, the partnerships that we have created across our businesses, Commercial and Wealth.

Today, 30% of our commercial clients have a Wealth relationship. We are very excited about that opportunity, especially in California. The partnership between Retail and Wealth, the focus on mass affluent segments. And the same type of partnership exists between Commercial and their Personal Banking, Bank at Work that we so successfully executed here at BMO.

So those are truly some deep sources for revenue growth. And on top of that, Darko, I mean we are going to California, which is a very large market, quite excited about the potential, not that Midwest is necessarily holding us back. But at the same time, when you look at the differential growth rates between the two regions in the U.S., in addition to some of the geographies that they have, including some of the Mountain West states that's quite powerful.

And then last not least, definitely, the combination of our national digital platform that we built here in the U.S. for our P&BB business, and the ability to match that with their footprint on the Western part of the U.S. is going to be quite exciting.

I mean I think we are going to get a lot more leverage out of that system for the combined institution than we are getting out of it today.

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**Darko Mihelic** – MD & Equity Analyst, RBC Capital Markets, Research Division

And you touched on geography there, and a lot of clients that I've spoken to have said to me really excited about California, perhaps even Colorado, but that's about it. From your vantage point, what about the other locations outside of, say, California and Colorado in that footprint? Is there anything exciting there? Or maybe you can talk to maybe some overlap or thoughts about the other geographic locales?

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**Tayfun Tuzun** – Bank of Montreal – CFO

Yes, absolutely. I mean we have an overlap in Arizona. We like the Arizona market. It's a growing market. When you look at the U.S., it's the Southeastern part of the U.S. and the Southwest part of the U.S. and the West side. So that's where the growth is coming from. Obviously, as you said, we're quite excited about California, Los Angeles, San Francisco and Sacramento centers, they're all displaying above-average growth rates in household income, Denver. But in addition to that, we are quite excited about the footprint in Mountain West states. There is quite a bit of demographic migration going on to those states, and it's happening at the higher income levels. And our products and services, combining Wealth and personal banking and this digital platform that we have, I think it's going to be quite powerful, and we look forward to actually experiencing the impact of that demographic migration into those states. We've seen that very, very strongly over the COVID period, and I think it's going to continue. It's not a one-time phenomenon.

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**Darko Mihelic** – MD & Equity Analyst, RBC Capital Markets, Research Division

Okay. I don't want to make this all about your acquisition. So maybe we'll switch gears and talk about other parts of the business. One that comes to mind, and I've been getting some questions on lately is your Capital Markets business. You guys provided some pretty helpful discussion on it during your conference call, suggesting, hey, look, we went through the initial phase of all this uncertainty with Russia invading Ukraine and felt good about the business and there weren't any trading losses.

But here I sit and I think to myself, what about the other part of the business? What about fees? Market activity surely must be tougher now, tougher to get deals done. So what about like M&A fees and new issues? Should we be expecting a significant slowdown? And will trading be elevated enough to help compensate for that if this were to continue right on through this quarter and into the next?

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**Tayfun Tuzun** – Bank of Montreal – CFO

I think we're quite proud of Capital Markets results this quarter and all year last year, to be honest with you, it's been a phenomenal year for them. And it's also a testament to the results of our investments in that business two, three years ago. We bought KGS. We bought Clearpool. Those two have been integrated into our business. We have invested in them, expanded their capabilities, especially on asset securitization, structured products. They all have been phenomenal over the past four or five quarters. I also want to confirm that we feel very good about how we are positioned in this current environment with market volatilities where they are. We already had a defensive posture coming into the first quarter of the year, carried that on to the second quarter, maybe even at a higher level. So I think that was a wise decision. We didn't quite expect the geopolitical environment that we're living through right now, but we were concerned about the broader impact of the central bank moves and the higher inflation expectation. So we're faring well here.

Now I think our expectation, as Dan laid out during the call, don't multiply our first quarter results by four and call it a year. That's probably not going to happen. But at the same time, his guidance was a pre-provision, pretax range between, let's say, \$650 million and \$700 million. That's quite a lift from a couple of years ago. What do we expect now having seen the last ten days, a couple of weeks, I believe it's a bit early to draw any conclusions. We were quite positive about the environment. We said it's constructive, and the trading business should do well. I think we're managing our risks very well. We also thought that there was a lot of sponsor activity towards the end of last year. That should be positive and conducive for the equity markets, for the advisory businesses. But obviously, look, I mean, we all need to make sure that we understand what's going on and the impact. But the U.S. economy and the Canadian economy, they're still healthy, right. There's still activity that we expect will take place.

Yes, we need to go through this period and manage it well. But at the moment, as I said at the beginning, I don't think that overall, we have necessarily changed our broader expectations. One always needs to be careful. These are very volatile periods, and we may see a much different picture. And if we do see a much different picture, then we will update our investors appropriately.

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**Darko Mihelic** – MD & Equity Analyst, RBC Capital Markets, Research Division

And one of the things that we saw in the quarter was an interesting sort of divergence. We had the loans actually decline a little bit. I think energy, as you guys talked about, energy loans ran off a little bit. But at the same time, your risk-weighted assets increased presumably because of the volatility and market risk. So as I think about that going forward, if we turn the corner and we're actually going to get loan growth and if this volatility continues, could we see a situation where the capital requirement for the Capital Markets business would rise and RWAs would rise? And at what point do you get comfortable with that? Like at what point do you say to yourself, risk-weighted assets as a percentage of total assets for this business or total Capital Markets, however you want to think about it, at what point do you guys think about that?

And I realize that as soon as you get Bank of the West, it will give you more room to grow your Cap Markets business, but I wonder if you could think about it that way. Do you think about the overall capital required for this business? And what's your early thoughts on the capital increasing here during a period of volatility?

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**Tayfun Tuzun** – Bank of Montreal – CFO

So Darko, the one thing that I would point out is it's a bit misleading to look at the average loan growth rates which quarter-over-quarter, it was down. But RWA is more of a function of end of period as-at balances. And just as a reminder, the very last day of the year last year, we moved one of our securitization vehicles, we deconsolidated it. That was a \$5 billion decrease in the last day of the year. So when you sort of look at as-at balances, loan growth is actually close to 9% to 10%. I think somewhere between 65% and 70% of our RWA growth came directly from loan growth. So the rest were smaller splits between market risk and derivatives, et cetera. So we're not necessarily seeing a significant expansion in RWA away from loans at the moment. The team has been very judicious in how they utilize allocated capital in the Global Markets business, and I'm sure they will continue to be so.

So at the moment, I don't see a conflict between their capital needs and growing capital needs to support loan growth. I don't believe that there's going to be a significant expansion in Capital Markets' RWA away from loan growth. And in terms of loan growth, we're quite happy to extend capital to support balance sheet growth in that form. But in terms of the broader Capital Markets activities, I don't anticipate a significant increase in capital in place.

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**Darko Mihelic** – MD & Equity Analyst, RBC Capital Markets, Research Division

And do you think of it in terms of governing the -- I mean, now that again, when Bank of the West closes, do you think of it in terms of, well, yes, well, this means that overall, the mix of capital towards Commercial is x, and therefore, from a Capital Markets perspective, they would have even more room to grow, and we'd be happily throwing more capital at Capital Markets business as well? Is that how we think of it? Should I think of it as capital being somewhat a non-existent or a barrier that really isn't much of a barrier knowing that you're going to close Bank of the West shortly?

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**Tayfun Tuzun** – Bank of Montreal – CFO

We basically allocate capital on the merits of each individual business, returns, profitability levels, et cetera. So as such, I don't think that the first metric is going to be the new composition of our balance sheet and RWA and suddenly giving ourselves the ability to allocate more to Capital Markets. We will allocate to Capital Markets if it merits more capital allocation. They have done a very good job with their existing capital. And if we need to make different decisions, we will. At the moment, I don't see capital as necessarily a constraint. We are generating very strong capital internally. We're managing risk very well. So as long as we continue to do that, there should be an abundance of capital to support growth in all of our businesses.

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**Darko Mihelic** – MD & Equity Analyst, RBC Capital Markets, Research Division

And so the last question that I have because I've just realized we were running out of time here. Interest rates moved finally. We saw the Bank of Canada move. Expectations, as you mentioned earlier on, maybe rising a little bit there. Maybe a bit of a reminder, the impact and maybe can you blend in some thoughts real quick on Bank of the West in this rising rate environment?

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**Tayfun Tuzun** – Bank of Montreal – CFO

So in terms of current BMO positions, we actually updated our asset sensitivity tables this quarter. And we decided because all of our peers are adding their surge balances in their analysis, we captured a portion, just a portion of those surge balances. So we're showing, I think, about \$560 million of exposure to 100 basis point move and 2/3 of that is on the short end. I think a 25 basis point move by itself, it's probably around \$150 million, \$160 million of positive impact. And we guided to a modestly expanding NIM in the second half of the year. That compares to more of a flat outlook earlier. So the more moves we see, I believe we will continue to benefit from that. The team has done an excellent job in managing the downside during the past eight, nine quarters since COVID. We have the, I think, best NIM picture among our peers. And we also left ourselves room on the upside.

In terms of Bank of the West, their balance sheet is similar. They have a very, very strong managed deposit portfolio, which should have healthy sort of beta and I'm sure they are doing this analysis right now themselves. They're a little bit longer on the asset side. But as we have modeled their earnings progress post closing, I think we will manage the two institutions in a very similar way to what BMO looks like today. So the goal always is NIM stability first and then leave upside and leave some asset sensitivity in this type of an environment. And we'll manage the combined company in a very similar fashion.

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**Darko Mihelic** – *MD & Equity Analyst, RBC Capital Markets, Research Division*

Well, thank you for that. I've got a bunch of questions here I never got to. As always, I could have done this for an hour, but we are running up against the time limit. So Tayfun, thank you very much for joining us and looking forward to doing this in person next year.

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**Tayfun Tuzun** – *Bank of Montreal – CFO*

Yes. Thank you for inviting us. Darko. I appreciate it.

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